

Analysis on the Effect of Regional Economic Integration on Economic Growth

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Abstract: This essay investigates how the "One Belt and One Road" Initiative (OBOR) fosters economic growth and regional connectivity. The signing of free trade agreements, the encouragement of infrastructural development, and the strengthening of industrial cooperation are only a few of the impressive tangible outcomes of the OBOR since its inception in 2013. Regarding trade effects, the initiative has boosted the process of regional economic integration by lowering trade barriers and other measures, optimized the trade structure, increased the complementarity of regional economies, and encouraged the steady growth of trade and investment. In terms of investment effects, foreign direct investment (FDI) inflows into China have a positive impact on capital accumulation, job creation, export expansion, and technology transfer; At the same time, China has been increasing its foreign direct investment (FDI) outflows to nations along the route, supporting the development of infrastructure in these nations and fostering their export potential and regional economic integration. In summary, the OBOR has boosted economic growth in the nations that are part of its path, strengthened economic relations, made the best use of available resources, contributed to the creation of a global community with a shared future for all people, and played a significant role in the advancement of the world economy.

Keywords: One Belt One Road, regional economic integration, trade, foreign direct investment.

1. Introduction

With an unstoppable momentum, global regional economic integration is changing the current global economic landscape in the framework of globalization. From traditional trade agreements to emerging digital economic cooperation, from close alliances between neighboring countries to extensive cross-continental collaboration, the trend of regional economic integration is becoming increasingly obvious, profoundly affecting the development direction of the economies of various countries. At the same time, the "One Belt and One Road" Initiative (OBOR) has given international regional economic cooperation new life thanks to its distinctive history and ambitious goals. It was born at a time when the global economic landscape is undergoing profound adjustments and the need for international cooperation is becoming increasingly urgent. In addition to fostering the shared prosperity and progress of the nations along the route, it seeks to construct a bridge that will connect

the East and the West. The OBOR, which has its historical roots in the old Silk Road, has a new goal, revitalizes the global economy, and ushers in a new era of regional cooperation.

Regional economic integration has many potential impacts on economic growth. On the one hand, it significantly fosters international investment and trade as well as the effective advancement of trade liberalization. According to Professor Ma, trade liberalization may be seen as a successful strategy for influencing economic growth since it has promoted regional and international economic integration by reducing investment and tariff barriers and boosting trade and investment between member nations [1]. By removing trade restrictions among its member states, the EU has succeeded in achieving the free movement of capital, labor, goods, and services. This enables companies to allocate resources in a larger market, reduce production costs and improve production efficiency. For example, German automakers can more easily purchase parts in other EU countries, expand production scale, and thus enhance their competitiveness.

On the other hand, regional economic integration strengthens economic ties and cooperation among member countries, creating favorable conditions for technological innovation and industrial upgrading. Countries can jointly carry out scientific research projects, share technological achievements, speed up the spread of technology, and gain economic benefits at the same time. For example, China and ASEAN nations have collaborated in the areas of software development and electronic product manufacture since the creation of the China-ASEAN Free Trade Area. China's leading technology companies such as Huawei and Xiaomi have invested in and set up factories in Southeast Asian countries, and at the same time cooperated with local companies in technology research and development and talent training. This not only improves the level of the electronic information industry in ASEAN countries but also expands overseas markets for Chinese companies.

Thus, this research will begin with the OBOR, a successful model of regional economic integration, and thoroughly examine its unique implications on economic growth. At the same time, it will explore how regional economic integration can promote trade exchanges, optimize resource allocation, and encourage industrial upgrading and technical innovation among OBOR member nations, offering strong theoretical backing and useful guidance for the economic growth of nations along the route.

2. Regional Economic Integration Practice under the OBOR

2.1. The Proposal and Development History of the OBOR

The OBOR, also known as the "Silk Road Economic Belt" and "the 21st Century Maritime Silk Road," is a significant project that China has put out to encourage international economic collaboration and shared growth. It has both practical and extensive historical relevance. The OBOR has a long history. Through commercial routes and cross-cultural interactions, the historic Silk Road linked the great civilizations of Asia, the Middle East, Europe, and Africa for thousands of years. Chinese officials claim that the OBOR initiative fosters regional growth and prosperity and reflects the principles of the former Silk Road, which include cooperation, openness, and mutual advantage [2]. However, given the state of the international economy now, traditional trade protectionism is growing, global economic development is slow, and there are many unknowns. Although emerging economies are rising rapidly, the global economic governance system has failed to fully reflect their development needs. At the same time, after years of rapid development, the Chinese economy is also facing the challenge of transformation and upgrading. It needs to expand external markets to achieve sustainable development, and there is a demand for excess capacity output and resource acquisition.

Therefore, to overcome the current slow rate of global economic growth and promote regional economic integration and global governance founded on intricate international political systems, China suggested reviving the essence of the ancient Silk Road [2]. During his 2013 tour of Central and Southeast Asian nations, President Xi Jinping put forth the significant plans to jointly construct

the "21st Century Maritime Silk Road" and the "Silk Road Economic Belt." The former seeks to improve the infrastructure for international trade on land, while the latter seeks to accomplish the same over the ocean [3]. With this, China's opening up and foreign collaboration enter a new era.

In the early development stage of the OBOR (2013-2015), its core concept was widely disseminated internationally and won positive responses from many countries. Some early cooperation projects began to be launched. For example, in terms of infrastructure construction, road connection projects between some countries entered the planning stage. At the same time, trade cooperation pilot projects were gradually launched to accumulate experience for subsequent large-scale cooperation.

From 2016 to 2018, the OBOR has been steadily advancing. A growing number of nations have signed a number of cooperation agreements and actively engaged. Large-scale project construction has advanced significantly. For instance, the building of the China-Laos Railway has improved connection between China and Southeast Asian nations and opened up new avenues for Laos' economic growth; the building of Gwadar Port has improved Pakistan's standing in regional commerce. The Asian Infrastructure Investment Bank's operations have facilitated the construction of infrastructure and regional economic growth while offering significant financial assistance for the OBOR projects.

Since 2019, the OBOR has kept growing and deepening. China has introduced the notion of high-quality development and given greater consideration to projects' sustainability and green development. In its construction, it actively promotes cooperation in green energy, the environmental protection industry and other fields. Simultaneously, the digital economy's explosive growth has created new opportunities for collaboration in e-commerce, smart logistics, digital trade, and other fields. It has proven to be resilient and innovative in the face of significant obstacles like the worldwide COVID-19 epidemic, and via telemedicine collaboration, medical supply aid, and other ways, it has strengthened relationships and collaboration amongst nations along the path.

In summary, since its founding, the OBOR has expanded and developed, giving regional cooperation and global economic progress new impetuses. It will continue to be crucial in encouraging the world economy to grow in a more balanced, inclusive, open, and inclusive manner in the future.

2.2. Regional Economic Integration Practices in Countries along the Route

With its numerous precedents in free trade agreements, infrastructure development, and industrial collaboration, the OBOR offers a significant chance for the regional economic integration of the nations along its path. Regarding free trade agreements, China aggressively encourages trade cooperation with nations that are part of the route: With nations along the B&R, China has already inked seven free trade agreements. Numerous types of economic cooperation, including seven free trade area agreements, are being negotiated [4]. For instance, a free trade agreement between China and ASEAN reduced trade restrictions and encouraged the free movement of products and services between the two regions. This improved regional economic relations in addition to increasing the volume of commerce between the two parties. However, China has not negotiated any free trade agreements with Russia and India, two significant Asian countries, because of geopolitics and the intricacy of periphery interests [4]. There is still a lot of space for economic cooperation in the Asia-Pacific region, which is home to many small and medium-sized economies [4].

Infrastructure construction is the key to regional economic integration along the OBOR. Through organizations like the Silk Road Fund and the Asian Infrastructure Investment Bank, China offers financial assistance to nations along the route to help construct ports, railroads, highways, and energy pipelines. For example, the China-Laos Railway's construction has strengthened transportation links

between China and Laos, promoted the flow of people and goods, and laid the foundation for regional economic integration.

Industrial cooperation is also an important practice of regional economic integration in countries along the route. China has worked closely with countries along the route in industry, agriculture, energy, and other areas. For example, China and Kazakhstan cooperate in the field of energy. Chinese companies invest in and build oil and gas projects in Kazakhstan, and Kazakhstan supplies energy resources to China, attaining win-win outcomes and mutual benefit. In addition, Pakistan and China have also produced impressive outcomes in the fields of manufacturing and agriculture. Chinese companies have invested in and built factories in Pakistan to help Pakistan improve its manufacturing level. At the same time, China also imports agricultural products from Pakistan, which promotes the development of Pakistan's agriculture.

3. An Examination of how Regional Economic Integration Affects Economic Growth

3.1. Trade Effect Analysis

3.1.1. Trade Scale Analysis

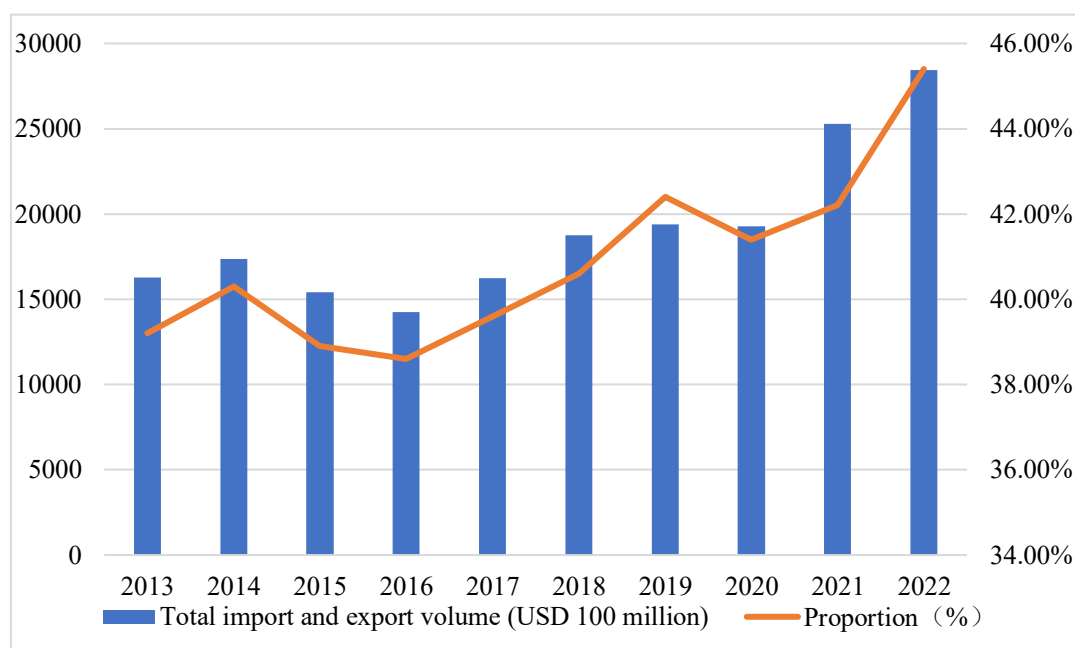


Figure 1: 2013-2022 Total imports and exports of China and co-built countries and their proportion in China's foreign trade

Figure 1 shows the 2013-2022 total imports and exports of China and co-built countries and their proportion in China's foreign trade. Cooperation in trade and investment is crucial to the OBOR's collaborative building. The scope of trade and investment has gradually increased because of the collaboration and strategies outlined in the initiative. The total value of imports and exports between China and BRI partners reached US\$19.1 trillion between 2013 and 2022, growing at an average annual pace of 6.4 percent [5]. The amount of import and export commerce between China and the nations along the route had a variable growth tendency between 2013 and 2022, according to statistics from the State Council of the People's Republic of China. The volume of trade climbed from US\$162.906 billion in 2013 to US\$284.464 billion in 2022, demonstrating the OBOR's progress in strengthening trade cooperation. The trade volume reached a peak of US\$173.537 billion in 2014,

then declined in 2015, and further decreased to US\$142.415 billion in 2016, and then rebounded year by year, reaching a peak of US\$252.941 billion in 2021. The proportion of trade volume increased from 0.392% in 2013 to 0.454% in 2022, demonstrating that China's economic relationships with the nations along the Belt and Road have become stronger as the share of these nations in China's international commerce has grown annually. These data reflect the positive impact of the OBOR on promoting regional economic integration and trade growth.

3.1.2. Analysis of Trade Structure and Complementarity

The OBOR has promoted the complementary trade structures of countries along the route. The OBOR spans the Eurasian-African continent by connecting a flourishing East Asian and an established European economic circle with the sizable inland countries in the center that have tremendous potential for economic expansion [6]. Because the nations along the OBOR have various natural resources, their competitive advantages are unique and occasionally complementary [6]. This means that trade in different regions has different focuses, and the existence of complementarity helps to form a more optimized trade structure. For example, the Middle East and Central Asia have a large share of primary product exports such as energy; Southeast Asia has relatively active trade in agricultural products and industrial products; Eastern Europe has certain trade advantages in areas such as machinery manufacturing.

From the standpoint of commodity categories, primary items including energy, minerals, and agricultural products dominated commerce in the early stages of the initiative's implementation. As cooperation gradually deepened, the proportion of trade in industrial manufactured products gradually increased, including machinery and equipment, electronic equipment, textiles, etc.

At the same time, the complementarity of resources and advantages is also playing a role. Major manufacturing countries such as China export many industrial manufactured products to countries along the path. Several nations along the path are also developing their manufacturing industries while exporting raw materials, and the export of industrial manufactured products has increased. With the joint development of economy and technology, while the traditional trade volume of goods continues to grow, new trade channels like international e-commerce are developing, adding new elements to the trade structure.

Overall, the initiative's execution has aided in the process of optimizing the trade structure by fostering economic growth and industrial upgrading in the nations along the route and fully using the complementary nature of each region's resources and manufacturing sectors.

3.1.3. The way that Regional Economic Integration Affects OBOR Commerce and Economic Expansion

Geographical economic integration can result in long-term increases in economic growth because it expands the market and makes goods and services more readily available, which lowers trade costs and boosts efficiencies that raise purchasing power [7]. By lowering trade barriers, increasing two-way commerce, and raising the level of trade liberalization in the area, it has facilitated trade, sped up the process of facilitating investments, and broadened the scope of mutual investment. This improves trade connections and opens up a larger market for China and the nations along the route.

Furthermore, by enhancing the infrastructure of the countries along the route, including roads, railroads, shipping, and aviation, the OBOR has significantly decreased the transaction costs of capital, information, technology, and goods between regions. It has also successfully encouraged the efficient distribution and orderly flow of cross-regional resource parameters.

Moreover, regional economic integration reduces trade costs and increases the purchasing power and economic value of countries. Based on studies conducted by the World Bank's relevant divisions,

the OBOR can significantly reduce the transportation time and trade costs of economies along the route, with a reduction of 3.2% and 2.8% respectively. The initiative has also had a significant impact on the transportation time and trade costs of the entire world, specifically reducing the world's transportation time by up to 2.5% and trade costs by up to 2.2%. The stable growth of the global economy is also strongly supported by this, in addition to increasing the effectiveness of international commerce.

3.2. Investment Effect Analysis

3.2.1. Analysis from the Perspective of FDI Inflow

Foreign direct investment (FDI) has been a key component of China's economic reform and global growth. Capital formation, job creation, export growth, technology transfer, and China's economic development and structural changes have all been significantly impacted by the significant FDI inflows [8].

In terms of capital formation, the substantial quantity of cash provided by FDI is essential for the development of infrastructure and other projects along the route. In addition to improving connectivity and fostering commerce, this cash infusion aids in funding major infrastructure projects like ports, railroads, and energy facilities.

In terms of job creation, many jobs are created as a result of FDI, which also helps current businesses grow and start new ones. This not only reduces unemployment but also helps raise the workforce's skill level because these businesses often implement cutting-edge management and training methods.

For export growth, FDI enterprises help expand China's exports. They bring advanced technology and production processes, increasing the competitiveness of Chinese goods on the global market. In addition, FDI enterprises usually have extensive global marketing networks that can help Chinese products reach more destinations along the route.

In terms of technology transfer, the primary means of bringing cutting-edge technology and management know-how is through foreign direct investment. When foreign companies invest in China, they often transfer their technology and knowledge to local partners or employees. This promotes technological innovation and upgrading of Chinese industries and improves Chinese industries' sustainability and competitiveness within the framework of the OBOR.

3.2.2. Analysis of FDI Outflow under the OBOR

This national plan is driven by the pressing need to modernize the industry structure, particularly for sectors with excess capacity in China, namely those involved in infrastructure development [9]. The Chinese government thinks that because many OBOR nations have inadequate infrastructure and supplemental industrial structures, they will be good channels for transferring surplus output and fostering trade [9].

Countries on the route have profited greatly from the OBOR's point of view. Chinese businesses invested US\$40.71 billion in the nations that jointly constructed the OBOR, up 31.5% from the previous year and making up 23% of the outward direct investment flow in 2023, according to the People's Republic of China's Ministry of Commerce's 2023 China Outward Direct Investment Statistical Bulletin. Countries along the path have benefited greatly from this. For instance, Chinese businesses have contributed to the construction of ports, bridges, and other infrastructure in Southeast Asian nations, such as the Jakarta-Bandung High-Speed Railway and the Cambodia-King Kong Expressway. Large capital investment is needed for these projects, and China's FDI inflows give them crucial financial assistance, which lessens the economic strain on the nations along the route and aids in the development of local infrastructure. Furthermore, through their participation in the global

supply chain, these investment projects will assist boost the export capability of nations along the route, as well as the number and diversity of export products and their added value. In addition to giving local economic development new impetus and establishing favorable conditions for it, these investment projects have also sped up the growth of regional economic integration, progressively lowered trade and investment barriers, and encouraged trade and investment facilitation—all of which have contributed to a virtuous circle.

4. Conclusion

The OBOR has emerged as a major driver of regional economic integration in the era of globalization, contributing significantly to the economic development of the nations that make up the route. The effort has produced impressive outcomes from a trade standpoint. With an average annual growth rate of 6.4%, commerce between China and the nation along the route is still growing in size, and its share of the total volume of trade has grown considerably. The trading structure has undergone constant optimization, the proportion of industrially manufactured products has increased, and the trade complementarity of various regions has been highlighted. Cross-border e-commerce and other new trade models have thrived. Infrastructure improvements have reduced trade costs, and the degree of trade liberalization has increased. Economic growth has been successfully stimulated by the significant reduction in trade costs and transit time, according to World Bank study. In the field of investment, remarkable results have also been achieved. FDI inflows into China have brought many benefits to the Chinese economy, such as capital formation to help with infrastructure construction, establishing job possibilities to raise labor standards, encouraging export expansion, and technology transfer to promote industrial upgrading. FDI inflows from China to nations along the OBOR are also expanding; in 2023, investment flows increased by 31.5%. The funds facilitate the development of infrastructure in the nations along the route, improve hardware conditions, increase export capacity, integrate into the global supply chain, encourage regional economic integration, and create a positive feedback loop that facilitates trade and investment.

In summary, the OBOR has strengthened economic relations between nations along the route, increased commerce and investment, and otherwise benefited the countries along the route, optimizing resource allocation, promoting industrial upgrading and transformation, and strengthening the process of regional economic integration. Looking ahead, as the OBOR continues to advance, it will undoubtedly contribute more to the expansion of the world economy, provide a strong basis for creating a community with a shared future for all people, and evolve into a significant force for advancing wealth and development on a worldwide scale.

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