The Impact Of Financial Development On International Trade

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Abstract: With the advancement of the times, financial development and international trade have become a hot topic, and people are increasingly concerned about financial development and international trade. In the field of economic theory, however, the research of financial development and international trade are separate, relevant datas provided by experts are all about financial theory and practice research, which did not put the two together for further discussion. The author analyzes the relationship between financial development and international trade and focuses on the influence of financial development on international trade.

Key words: financial development, international trade, foreign trade, financial repression.

At present, with the rapid development of economy, it is not difficult to find the relationship between financial development and international trade. According to various data studies, when the development of national financial market is relatively restrained, the international trade will be disturbed accordingly. Similarly, when countries are less open to foreign trade, their economies are unlikely to grow. Many economists, however, do not attach particular importance to the relationship between them, and always separate them from each other and ignore the internal relations between them. Therefore, the author analyzes the various related issues between financial development and international trade, and focuses on the influence of financial development on international trade.

1. The relationship between financial development and international trade

International trade means the exchange of goods and services between different countries, it mainly reflects the economic dependency relationships from all over the world, every country is also contacted through the international trade on the basis of international division; The main point of economic development is financial development, they are interdependent, not only the developing countries have the problem of financial development, all countries in economic development can not avoid the problem of financial development. We study the development of finance through the function of finance, and can see the importance of financial development in the economy more clearly, and also discover the significance of developing finance. Lots of datas show that the function of finance in the development stage can be continuously improved and enhanced, and accordingly promote economic growth, in other words, finance and international trade are closely related. Combined with the economic development of china in recent years, one of the most prominent achievements is that the foreign trade is growing fast, which is higher than the overall growth of the economy, even more faster than the development of world economy. With the development of international trade, China's finance is developing rapidly, and the total amount of finance is increasing, which has exceeded the development speed of some developed countries. However, compared with most developed countries, China's financial institutions need to improve so as to promote the development of trade. For now, China mainly participate in international competition based on the advantage of low labor costs, our trade structure is labor-intensive products, which is restricting the development of international trade, and bad for the economic growth.
2. The impact of financial development on international trade

2.1 Financial repression directly affects the structure of international trade

First, under the condition of financial repression, the risk of inflation will increase, national relevant personnels lower nominal interest rate deliberately, thus causing the market interest rate is much higher than the actual interest rate, real interest rates may be negative sometimes. People in such cases would be easy to improve their marginal propensity to consume, in other words, this will reduce financial assets yield, and the yield in financial assets is not stable. From the perspective of trade, financial repression reduces the exports of goods in one country, increases the imported rate of foreign goods, so that the country's competitive advantage will be lower and upset the balance of payments in the country, which affects the structure of the international trade directly. Second, when the country steps into national financial restrain condition, the corresponding financial industry will also appear a lot of restrictions, such as reducing bank deposit rates, so that will reduce the banks' earnings, and the lending rates is no longer regulated by bank, then the bank won't develop some new risky lending activities.

2.2 Financial repression directly affects the model of international trade

Under the circumstances of financial repression, the national government will take some measures to finance the limited financial situation. The most important measure is the subsidized loan. So-called subsidized loan means that the government lends money to certain businesses and pays the interests. It can reflect the source orientation of government financial resources. However, this arbitrary reduction in the use of funds and lending rates will push savings to capital-intensive products. As a result, the companies that are covered will produce casually regardless of its own advantages, and waste the country's capital excessively. Then, What the country exports is some products that have no advantage, but imports Semi-finished products and unprocessed products, distorting the country's trade model completely and losing the country's productive advantage heavily.

2.3 Financial repression led to the emergence of trade protection policies

In the case of financial repression, the inflation rate will increase and the corresponding domestic prices will increase too. This price change will also guide the constant fluctuations in the real exchange rate, which can lead to an increase in foreign exchange risk in the economy. It's very hard for investors to accept such big risk. So, the government will do something to protect this kind of investors, like quotas, it can be relatively easy to protect domestic producers from the impact of exchange rate movements. In general, in the economic conditions of financial repression, international trade policy will also change accordingly.

2.4 Financial development has a good driving effect on improving the international trade model

Financial development can efficiently gather all kinds of society capital, and provide stable financial support to improve the production technology conditions. Enterprises can effectively improve the production efficiency by raising production technology, thus speeding up the ability of transferring science and technology into productivity, improving the economic condition of enterprises, reducing the production cost, and can provide stable products support for the development of enterprises' international trade, and promote the development and progress of science and technology.

2.5 Financial development promotes the improvement of international trade structure

As a kind of financial promotion means, financial development plays a good role in promoting technical conditions of the enterprise and international trade structure, the relationship between
financial system and international trade is very delicate. The financial system includes the functions of reducing the risk of capital, rational and efficient allocation, convenient transaction and reasonable supervision, and the financial development promotes the international trade. The convenience of a country gaining capital that is the comparative advantage of a country's financial development is becoming the key point for a country to have the strength to participate in international competition.

2.6 Financial development affects the enterprises’ competitiveness in international trade

Through the observation of the effect between financial development and international trade, the country's financial development is smooth or not, can directly reflect on the international trade. The high quality of financial services will retain more customers and enhance credibility, good financial services reputation is the beginning of all economic activity and the stable guarantee to carry out the subsequent financial activities. Financial development is deeply constraining the competitiveness of international trade and has an irreplaceable role, especially in the case of world economic integration. Such as the United States economic crisis in 2008, it produced bigger impact to the world of international trade system, the financial development of some places has not yet fully recovered, forcing them to build good financial reputation to enhance its international competition ability.

3. The interaction between financial development and international trade

3.1 Financial services restrict the efficient development of international trade

Compared with domestic trade, international trade has more uncertainty, it exists a lot of risk, and has high cost. In the activities of the international trade, however, each link has financial services. In recent years, the development of international trade is rapidly, the scale and amount are expanding rapidly, the categories and trade ways of trade products are changing toward the diversification direction and international trade activities have become more complex, many uncertainties such as the competitive environment, the reliability of the buyers and sellers, all bring a lot of risks and challenges to the international trade activities. Even if the export target is developed countries, it cannot avoid the loss of export. However, with the development of finance, financial services can better meet the various requirements in international trade activities, also can provide good system environment for trade activities, such as export credit insurance, international trade financing tools, so this can avoid some risk in the trade activities, which is advantageous to the smooth of trade activities.

3.2 Financial development affects the liberalization of international trade

Every country carries on corresponding countermeasure in the aspect of import and export trade is foreign trade, and foreign trade at the same time is also an important part of each national economic policy, so at the time of developing trade policy, it's important to consider the country's economic structure and the advantage of trade situation, domestic prices situation and employment rate, the country's competitiveness in international market, the cooperation with other countries on trade and the rights and obligations an economy in the international market should undertake. At present, a policy of free trade has been the development trend of international trade, however, there are many constraints affecting the liberalization of international trade, such as financial development level, so only countries raise the level of financial development can ensure the liberalization of international trade.

3.3 The rapid development of finance influences the development mode of international trade

In the present international trade, the main reason influencing the formation of the international division of labor and all kinds of industry is intra-industry trade, and is also a core of the country's
foreign trade competition, the so-called intra-industry trade is that the input and output activities of the product happened in the same industry. The formation of the international trade pattern mainly depends on the scale of the enterprise, in this way, even if the both sides of the transaction have same interests in the production and consumers’ love, the differences of capital cost can cause some trade benefits. In domestic, the development of financial markets and financial intermediaries often will reduce the financing cost of enterprises, offering many shortcuts for the enterprise to finance. Although this is beneficial to the development of domestic industries, but for those industries with economies of scale, there are more benefits, because they are more in need of foreign financing aid and support. Financial development, therefore, has a direct impact on the international trade pattern, only increase the financial development speed can make the industry trade of enterprises with scale economy be more active, and make the development of international trade get faster.

4. Conclusion

It can be seen that the efficient financial development system is the basis of the state's foreign trade, and they have mutual influence and restriction. Financial development directly influences the speed of the nation's foreign trade, only finance get rapid development, can maintain the coordination of finance and international trade, and ensure a sustained rise in the level of economic development. In order to get a better development of the country's foreign trade, national related personnel must make a reasonable financial development scheme, only in this way can meet the requirements that international trade supports financial development, and make finance and international trade have a better future, thus ensure the sustainable development of the country.

References


