

# Research on the Interaction Mechanism of Financial Development and International Trade

Bingjie Xu, Jixian Zhu

Shandong University of Science and Technology, Jinan, 250000, China

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## Abstract

Under the influence of economic globalization, the relationship between finance and trade has become increasingly close, and the influence of each other has been further strengthened. Financial development will affect the development level of international trade, and the development level of international trade will also affect financial development. This paper expounds the relationship between financial development and international trade, and increases the understanding of theoretical definitions. Secondly, analyze the relationship between financial development and international trade. Thirdly, it discusses the mutual influence of financial development and international trade, and constructs the influence mechanism of financial development and international trade from two aspects. Finally, the optimization countermeasures of the interaction mechanism between financial development and international trade are proposed.

## Keywords

Financial Development; International Trade; Influence Mechanisms; Measures.

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## 1. Relationship between Financial Development and International Trade

International trade, also known as trade, refers to the trading of goods between countries. This activity includes export trade and import trade. Therefore, it is also called import and export trade and world trade. Among them, import and export trade is to introduce the goods and services of other countries into the domestic market for sale; world trade is to export the goods and services of this country to the markets of different countries around the world for sale [1]. The development of international trade activities is conducive to the exchange and communication between various countries, to realize the sharing of resources, to establish a global commodity trade and service cooperation relationship, to realize the effective allocation of resources, and to accelerate the development of various countries, which is beneficial to Promote the development of economic globalization [2]. However, it should be noted that during international trade, various tasks such as inspection and manifest management must be carried out according to relevant trade procedures, so as to avoid increasing risks in world trade cooperation, safeguard the interests of various entities, and safeguard trade. smoothly [3].

Economy and finance show a close relationship and influence each other. Financial development is not only a problem faced by developing countries, but also a problem faced by the development of other countries around the world [4]. Studying the relationship between finance and trade from the perspective of financial function can more clearly realize the important position of finance in economic development, and can also help people to see more clearly that the essence of financial development is the expansion of financial functions, and ultimately promote the development of the world economy.

## 2. Relationship between Financial Development and International Trade

Financial development is reflected in the change of financial structure, which includes various contents, such as changes in flow and time in internal transactions. For international trade, what is symbolized is an act of commerce on a large scale. During this period of trade acquisition, domestic and foreign trade is on an equal footing. Combining the above analysis and research, we can see that there is no obvious connection between financial development and international trade in terms of theoretical definitions [5]. However, this does not affect the direct promotion of international trade to the development of financial markets; in addition, from the actual situation of international trade, the intensive transactions in the financial markets of various countries have become the weather vane of the international trade situation between countries. It can be seen that international trade and financial development are relatively important parts of their respective development, and international trade and financial development will affect and intersect with each other.

The development of the financial industry can promote the flow of international trade to a certain extent, and the development of international trade can also effectively promote the maturity of the financial industry [6]. This also proves once again that there is an interrelationship between financial trade and international development. Especially in the context of the current rapid development of economic globalization, the relationship between the two is closer, and the impact is further deepened. Therefore, we must pay attention to the connection between financial development and international trade, and promote their mutual cooperation and common development.

## 3. Interaction of Financial Development and International Trade

### 3.1 The Impact of Financial Development on International Trade

First of all, financial development is the key to the development of the socialist market economy with Chinese characteristics, which has received much attention from relevant state departments. The state's emphasis on financial development has created more favorable conditions for financial development, accelerated the pace of financial development, and expanded the scale of financial development [7]. The continuous expansion of the scale of financial development has brought a positive impact on the national economy. In detail, the role of financial development in promoting my country's economy mainly includes the following points:

- (1) Financial development is conducive to the cohesion and concentration of my country's capital, and is conducive to my country's development towards modernization and large-scale production and operation, and enhances the actual benefits of economies of scale;
- (2) Financial development can improve the application efficiency of resources, change the problem of low resource application efficiency in the past, and improve the economic benefits of society;
- (3) Financial development also drives the rational application of financial assets, which is conducive to improving the overall quality of social investment.

In addition, financial development can also drive the development of the national economy and improve the level of national economic development in our country, which indirectly promotes international trade. At the same time, during the development of the international financial market, in order to simultaneously improve the development quality of my country's financial market, we should also pay attention to the role of talents in the era of knowledge economy, pay attention to the training of financial talents, establish cooperation with various universities, and improve the training of such talents in colleges and universities. To ensure that financial talents have better skills and advanced concepts, and to reserve high-quality compound talents for the development of my country's international trade and the innovation of the financial industry.

### 3.2 The Influence of International Trade on Financial Development

A country is greatly affected by international trade in its financial development. For example, international trade can adjust the supply and demand relationship in the domestic market, promote

social reproduction, and improve the applicability of production factors [8]. International trade can upgrade and optimize the industrial structure, facilitate the establishment of connections between countries, realize industrial exchanges and cooperation, and drive the economic development of various countries. At the same time, after in-depth research, some scholars also pointed out that international trade is the embodiment of free trade, and the development of international trade activities is conducive to the innovation and development of the financial market, can effectively control the economic expenditure of financial intermediaries, and add new vitality to the financial market. and vitality, creating favorable conditions for the development of the financial market, which is conducive to its stable, efficient and long-term development [9]. Finally, from the perspective of the world, international trade activities can speed up the process of economic globalization, and many multinational enterprises are established in the process of development. Under the pull and influence of multinational enterprises, the trade cooperation of the world economy and the development of economic globalization can be accelerated process.

## **4. Financial Development and International Trade Influence Mechanism**

### **4.1 The Mechanism of Financial Development on International Trade**

#### **4.1.1. Cost Mechanism**

Finance mainly affects international trade through the availability of financing and the ease of transactions. In terms of financing, the establishment, development and expansion of foreign trade enterprises are inseparable from funds, but the accumulation of funds within the enterprise is very slow, and external financing is also required. The impact of financial development on external financing is different, mainly in terms of time cost and opportunity cost. In the case of a developed financial market, there are abundant financial institutions and sufficient funds, which can improve financing efficiency and reduce unnecessary costs such as time. In the case of an underdeveloped financial market, companies need to pay extra time costs in addition to their normal costs. In terms of transaction convenience, there are time spans in international trade transactions, which will cause problems such as information asymmetry and block settlement, and a series of procedures such as qualification review will bring additional expenses to enterprises. The cross-border payment and settlement system composed of banks and other financial institutions can provide financial services, simplify and secure international trade, greatly improve transaction efficiency and reduce enterprise costs.

#### **4.1.2. Risk Diversification Mechanism**

There will be certain risks in the process of international trade transactions, mainly including commercial risks, currency exchange risks, etc. These risks will cause economic losses. The diversity of financial markets and the innovation of products reduce the risks brought by foreign trade enterprises in international trade transactions. For example, banks, insurance companies and other institutions can purchase insurance, which can reduce commercial risks such as importers rejecting goods; financial derivatives innovation can help enterprises reduce currency exchange risks under different exchange rate systems when conducting international trade; financial service products provided by insurance institutions can Effectively avoid losses caused by political risks such as trade protection. In the context of the continuous development of international trade, financial institutions continue to innovate their own products and improve service quality, which can reduce the problems existing in trade, reduce the risks of international trade, ensure the smooth progress of international trade, and promote the development of international trade.

#### **4.1.3. Industrial Structure Upgrading Mechanism**

A developed financial system can effectively realize resource allocation and optimize resource allocation. Investing more financial capital into the foreign trade industry sector with promising development prospects can bring certain economic benefits and promote the upgrading of the industrial structure. With the development of the financial market, financial products have been continuously enriched, financial instruments have been continuously improved, and the financial

system's ability to screen foreign trade departments has become stronger, thereby promoting foreign trade industry departments to innovate, improve their competitive advantages, and obtain greater support. On the contrary, the immutable foreign trade industry sector cannot adapt to the market and will be eliminated by the market. The fittest survive, the unfit are eliminated, and finally the structural upgrading of the foreign trade industry is realized. The upgrading of the foreign trade industry structure can improve the core competitiveness of international trade products, and the entire industry structure will be more optimized and scientific.

#### **4.2 The Mechanism of International Trade's Effect on Financial Development**

International trade activities help product circulation, accelerate capital flow, and bring in a large number of payment and settlement services, thereby driving the continuous development of the financial industry. International trade has certain risks, which will increase the volatility of "permanent income" in the economy. Therefore, it is necessary to diversify risks through an optimized combination of financial instruments and financial products. This provides a driving force for the development of innovative products of financial institutions, and provides a "venue" for existing products to play. At the same time, the development of international trade has raised the income level of residents, increased the diversity of residents' investment, and promoted the development of the financial industry service industry. International trade requires investment, and enterprises need to purchase a large amount of technology and equipment, which provides strong support for the loan business of financial institutions. The loan business of financial institutions has broadened the choice of funds for enterprises. For enterprises, with the help of relevant financial institutions, enterprises have obtained the necessary funds for business development and new opportunities for transformation and development. Financial institutions and enterprises achieve a win-win effect.

### **5. Optimizing Countermeasures for the Interaction Mechanism of Financial Development and International Trade**

#### **5.1 Reduce Trade Barriers Through Financial Risk Diversification Mechanisms**

In the process of financial and international trade development, in order to reduce financial risks and trade barriers, it is necessary to create a professional, centralized and effective financial decentralized management system according to the needs of national financial development and actual development conditions. To reduce the adverse impact of international trade barriers on the domestic economy, so as to better promote the trade communication between countries. In the development process of the financial market, if there is financial risk, it will block the trade between itself and other production sectors. In order to avoid the adverse impact of this development, it is necessary to choose different import and export products according to the speed of national financial development. Countries with faster and higher levels of financial development can export risky products; countries with lower levels of financial development can export non-risk products. In the process of financial trade development, in order to further avoid risks, the state can also formulate scientific and reasonable trade restriction measures according to the actual situation of trade exchanges, and truly implement the risk dispersion mechanism.

#### **5.2 Formulate Scientific and Reasonable Trade Protection Policies**

Under the situation of in-depth development of economic globalization, the trade development of each country is inevitably affected by international trade. Countries with relatively backward economic development levels will be at a disadvantage in the context of economic globalization. The activity of products and services of other countries in the domestic market will impact the domestic market to a certain extent, making it difficult for the products and services of the entire country to be sold smoothly, and even more detrimental to the development of the domestic economy. In order to better promote the development of domestic trade, it is necessary to formulate trade protection policies according to local conditions, and implement necessary subsidies and preferential tax policies for domestic products after the formulation of trade protection policies. The implementation of trade

protection policies can protect domestic products from the interference and impact of the external environment to a certain extent, but trade protection policies are not conducive to the realization of financial and international trade exchanges.

### 5.3 Grasp the Sequence of Financial Openness and Trade Openness

In the study of economic theory, the research on finance and trade has always been in a state of separation, but in fact, finance and trade are often in a closely related and inseparable relationship. In order to better promote financial development and trade openness, it is necessary to achieve precise positioning of the sequence of financial openness and trade openness, and to deeply understand that financial development is to some extent the embodiment of trade liberalization; trade liberalization will also affect financial development itself. Have a profound impact, financial opening and trade development are in a state of interaction.

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