6C-2

The Impact of Hot Money on House Market: Empircal Evidence from the Belt and Road Initiative in China.

Powen She[1], Yi-Jyun Lin[2], and Congmin Peng[3]

Introduction

In 2013, the Belt and Road Initiative (BRI) is proposed in China, and it is composed of the "Silk Road Economic Belt" and the "Maritime Silk Road of the 21st Century." China established the Silk Road Fund and the Asian Infrastructure Investment Bank to help countries along the routes develop infrastructure and cooperate economically in 2014 and 2016. China's government released "Vision and Actions for Promoting the Construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road" ("Vision and Actions") in March 2015, the first official document on the BRI in China. As a result, we view this time as the formal BRI implementation period and the cities listed in "Vision and Actions" as the principal cities joining the BRI.

As China's top-level design opens up to the world, the BRI helps grow China's economy, promotes international trade, and brings in hot money. However, the money it creates and brings in may flow into the property market, raising house prices to unsustainable levels. It is worth noting that hot money has a lot to do with the uncertainty of a country. If foreign investors perceive a high level of uncertainty in a country, they may withdraw their investments, leading to a decrease in hot money

---

[1] Department of Finance, National Sun Yat-sen University, Taiwan. Department of Land Economy, Unviersity of Cambridge, UK

[2] Department of Finance, National Sun Yat-sen University, Taiwan.

[3] Department of Business Management, National Sun Yat-sen University, Taiwan.

flowing into the country. Consequently, the study considers "Hot Money" as an important variable representing China's uncertainty.

Motivation

The existing papers primarily explore the effects of the BRI on China's economic development and that of its neighbors. It is confirmed the BRI's positive significance from various angles, especially in terms of economic growth. The BRI does not just develop an overseas expansion. Moreover, all provinces benefit since it combines with domestic investment. In the blueprint of the BRI, China needs to build an interconnected transportation network, so it has already built convenient transportation infrastructure in various regions of China. However, there is not enough research into how the BRI affects house prices in China. Therefore, this study examines and analyzes how the BRI has affected housing prices along the routes.

This study's primary objective is to examine the impact of the BRI on housing price index in the key cities along China's path. This study examine the the house price indexes (HPI) for Newly Constructed Commercial Residential Buildings (New) and Second-hand Residential Buildings (Second-hand) across the 70 LM cities.

This helps readers understand how the BRI affects house prices. Additionally, this study helps the government figure out how to deal with rising housing costs and shed light on how globalization affects the rise in house prices.

Data and Methodology

We use the data sample collected from January 2011 to December 2020. We collect data from the National Bureau of Statistics of China (NBS), the RESSET Database, the State Administration of Foreign Exchange of China (SAFE), and the Wind Database.

The dependent variable was the house prices in 70 Large and Medium-Sized Cities. And the house prices comprise four different sizes of newly constructed commercial residential buildings and second-hand residential buildings. Independent variables included real GDP (GDP), Producer Price Index (PPI), Hot Money (HM), Balance of Trade (BOT), and Non-deliverable forward contracts (NDF).

Depending on "Vision and Actions," the BRI consists of 25 inland and coastal cities. And the 25 cities will constitute the treatment group in our study, while the remaining 45 cities in 70 Large and Medium-Sized Cities not mentioned will constitute the control group.

Findings

This study uses the difference-in-differences (DID) model to examine the BRI's impact on house prices. The regression results show that house prices in cities along the BRI have increased significantly compared to the cities not along the BRI. Besides, real GDP, Hot Money, Producer Price Index, Non-deliverable forward contracts, and Balance of Trade also positively impact house prices. These results indicate that the BRI has been implemented successfully. Based on this, we conduct a robustness test. We use placebo tests to validate the validity of our findings, and the heterogeneity analysis reveals significant differences in impact across cities in China.

Conclusion

As China's main investment plan to help its economy grow, the Belt and Road Initiative has become a stepping stone for rising home prices. More investment will flow into China through infrastructure investment, which will drive up house prices.

The empirical results show that the BRI program has a strongly positive effect on the growth of house prices for any type of house in our sample. For other control variables, we find that real GDP, Producer Price Index, Hot Money, Balance of Trade, and Non-deliverable forward contracts significantly contributed to house price growth. Notably, Hot Money, which serves as an indicator of uncertainty in the country, also exerts a positive influence on house price indexes. These findings suggest that the level of uncertainty is an important factor affecting the housing market in China.

Suggestions

Based on the findings above, the policy suggestions of this study are as follows: First, we find that the cities that join the BRI have significantly higher growth rates in house prices than those not joining the BRI. The policymakers should pay attention to avoid the serious gap between BRI and non-BRI cities' infrastructure and economic development to prevent the problem of imbalance in regional development. Second, the real estate bubble might develop because the BRI brings more capital from global trade or other countries' foreign indirect investment. Policymakers should pay attention to preventing real estate bubbles in the BRI cities to ensure the sustainable development of China.