

# A Study of the Interaction Between Global Value Chain Embeddedness and China's Financial Stability State

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## **Abstract**

The rapid development of global value chains (GVC) has become one of the main features of today's global economy. As an important player in the global economy, China plays a key role in GVCs. However, the evolution of this role has not only had a profound impact on China's economy, but also posed new challenges to the stability of its financial system. The GVC production network has become an important channel for risk aggregation, conduction and diffusion, which spreads risks outside the country to domestic enterprises and industries at all levels, leading to the simultaneous shrinkage and risk resonance of multiple enterprises and industries, which in turn creates systemic financial risks and adversely affects China's financial stability. With the impact of the epidemic and the rise of trade protectionism in recent years, economic globalization has suffered an unprecedented crisis, and the vulnerability of the global value chain structure has increased the possibility of the outbreak of financial crises, and finding ways to prevent and resolve financial risks has become a new requirement to ensure the sound operation of the economy. At the same time, this also urgently requires China to take the initiative to respond to the challenges and adjust its economic development model with the times. In this paper, based on the existing literature, combined with China's national conditions, this paper improves the composite index of financial stability to make up for the shortcomings of the relevant indicators in the selection of variables and the determination of weights, and establishes the PVAR model and the impulse response function by using the newly compiled index system to further study the dynamic bidirectional relationship between the embeddedness of global value chains (GVCs) and financial stability, and analyses the specific conduction paths of GVCs to financial stability. Finally, the theory and practice are combined to draw relevant empirical conclusions and policy recommendations. Through theoretical and empirical analyses, this paper concludes that GVC embeddedness and financial stability are highly coupled, and the degree of coupling coordination has been increasing year by year; both of them have the phenomenon of relying on their own inertia to develop; GVC embeddedness has a sustained positive impact on financial stability, and vice versa; however, the impact of global value chain embeddedness on financial stability is greater than the impact of financial stability on global value chain embeddedness.

## **Keywords**

Financial Stability Index, Global Value Chain Embedding, Coupled Coordination, PVAR Model