

The Impact of Digital Trade on Common Prosperity —From the Perspective of Fiscal Decentralization

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Abstract. The rise of digital trade has injected strong impetus into economic transformation, yet its logical impact and mediating paths on common prosperity remain to be further explored. Based on provincial-level micro-observations in China from 2013 to 2023, this paper adopts the perspective of fiscal decentralization and empirically evaluates the actual effect of digital trade on common prosperity through fixed-effect and mediating-effect tests. The econometric results show that digital trade has a clear positive promoting effect on common prosperity, and this process mainly relies on the institutional link of fiscal expenditure decentralization. In addition, such driving effect exhibits spatial heterogeneity, with highly significant promotion effects observed in the central and eastern regions, presenting distinct geographical differentiation. In view of this, coordinated efforts should be made in accelerating the construction of digital infrastructure, optimizing central-local fiscal expenditure responsibilities, and implementing differentiated regional policies to better unleash the potential of digital trade in empowering common prosperity.

Keywords: Digital trade, Common prosperity, Fiscal decentralization

1. Introduction

Amid the sweeping wave of global digital transformation, international trade is striding into a new era led by data. Relying on cutting-edge new productive forces such as artificial intelligence and massive data, digital trade has become an increasingly prominent strategic engine for foreign trade. According to estimates by the World Trade Organization, the share of global trade in services will usher in a new round of growth by 2040. In line with this trend of the times, the strategic plans of the 20th National Congress of the Communist Party of China clearly outline the grand blueprint of "promoting the development of digital trade and accelerating the building of a strong trading nation". Subsequently, the Outline of the 15th Five-Year Plan elevates the innovative development of digital trade to a national strategic level, emphasizing the gradual expansion of digital market openness and the all-round empowerment of emerging business forms such as cross-border e-commerce. It can be said that digital trade has evolved into a core lever for restructuring China's trade pattern and empowering the economy to advance toward high-quality development. At the same time, after successfully accomplishing the historic tasks of building a moderately prosperous society in all respects and winning the battle against poverty, China is firmly advancing on a new journey toward common prosperity for all people. The report to the 20th National Congress of the

Communist Party of China further places "common prosperity for all people" at the core of the process of Chinese-style modernization, clearly stating that efforts from all sectors must be pooled to implement the promotion of shared development and common prosperity.

As a key extension of the digital economy in the field of international trade, digital trade, characterized by low thresholds, wide coverage and high efficiency, improves the efficiency of cross-regional resource allocation by reducing information asymmetry and circulation costs in cross-border transactions, thereby contributing to the growth of the total economic volume. Its inclusive nature enables small and medium-sized enterprises and underdeveloped regions to gain more opportunities to participate in the international division of labor, showing unique advantages in narrowing the development gap between regions and groups. However, the role of digital trade in common prosperity is deeply embedded in the national institutional environment. In recent years, China has actively adopted the fiscal decentralization system to grant local governments greater fiscal autonomy, encouraging them to develop digital trade in light of local conditions and improve the equalization of public services, so as to better release the growth dividends and sharing effects of digital trade. Therefore, this paper analyzes the impact of digital trade on common prosperity and its transmission paths from the perspective of fiscal decentralization.

2. Literature review

2.1. Digital trade and common prosperity

Digital trade represents an advanced stage of international trade. Unlike trade in final goods and intermediate goods in the traditional sense, it is carried out through digital networks and information platforms with digital technologies as the core means of transaction [1].

In studies on how digital trade affects common prosperity, scholars have mostly focused on the positive promoting effect of trade on common prosperity, and have revealed the internal mechanism from various perspectives such as industrial structure upgrading, innovation, entrepreneurship, and productivity improvement. A large number of empirical studies have confirmed that digital trade exerts a significant positive influence on both "common" development and "prosperity" [2]. Further research finds that digital trade can not only raise the level of common prosperity in the local region, but also boost that of neighboring areas via spatial spillover effects in the pattern of "advanced regions helping backward regions" [3]. Various scholars have explored the transmission channels through which digital trade drives common prosperity, including industrial structure upgrading, enhanced innovation, entrepreneurship and employment, productivity growth, and human capital accumulation [4-6]. Nevertheless, some scholars have put forward different views based on research on the digital economy. The digital divide, platform monopoly, and mismatched income distribution may widen the gap between the rich and the poor. As an important component of the digital economy, digital trade may also hinder the achievement of common prosperity [7].

2.2. Fiscal decentralization and common prosperity

The realization of common prosperity relies on high-quality and balanced economic growth. As a fundamental institutional arrangement reshaping the fiscal distribution between the central and local governments, the mechanism of fiscal decentralization affecting common prosperity has drawn extensive discussion. Mainstream academic consensus affirms the positive driving effect of fiscal decentralization on common prosperity. Specifically, using dynamic panel data at the provincial and municipal levels, researchers have conducted analyses from multiple dimensions including

government fiscal behavior, digital economic development, and infrastructure investment. The results confirm that moderate fiscal autonomy can inject impetus into common prosperity through multiple channels such as accelerating the construction of digital infrastructure, optimizing the structure of public expenditure, and unlocking the potential of the digital industry. However, such a dividend effect may have boundaries. Some marginal studies indicate that there is in fact a nonlinear inverted U-shaped relationship between the two [8]. The root cause lies in that the central and local governments form an interdependent entity. Excessive concentration of power on either side will break the equilibrium between them. Overly high decentralization weakens the central government's ability of redistribution and coordination, while insufficient decentralization restricts local fiscal capacity and information advantages, both of which are unfavorable to common prosperity. This suggests that the promoting effect is subject to applicable scopes and conditional constraints. In terms of functional mechanisms, existing studies have identified channels including equalization of public services, promotion of rural revitalization, and reform of fiscal and taxation systems [9-11]. In addition, the heterogeneity and spatial spillover effects of fiscal decentralization lead to stronger positive impacts on common prosperity in eastern and central regions. The promoting effect is more pronounced in areas with higher levels of common prosperity, and fiscal decentralization also generates positive spatial spillover effects on adjacent regions [12].

Scholars have conducted a series of studies on the impacts and mechanisms of digital trade and fiscal decentralization, yet the above research still has limitations. Previous studies have mainly focused on traditional foreign trade rather than digital trade, and measured common prosperity merely by urban-rural income gap, which is a relatively single dimension. Different from existing literature that only examines pairwise relationships among digital trade, common prosperity and fiscal decentralization, this paper not only integrates the three into a unified analytical framework, but also takes fiscal decentralization as a moderating variable and institutional perspective to examine its moderating role in the process of digital trade affecting common prosperity.

3. Theoretical mechanism and research hypotheses

First, digital trade platforms can display and deliver a huge volume of commodities at near-zero marginal cost, breaking such constraints. In cross-border trade, cross-border e-commerce platforms match fragmented, mobile and personalized demand with the flexible supply chains of small and medium-sized enterprises, enabling connections with global buyers. Second, digital trade greatly dilutes fixed costs such as overseas channel development and compliance certification, while digital customs clearance, electronic authentication and online payment reduce transaction costs. Finally, as a key factor of production, data is non-rivalrous and features increasing marginal returns [13]. Cross-border data flows in digital trade not only directly drive the international exchange of digital products and services, but also force the digital transformation of domestic industries through technology spillovers, raising total factor productivity and providing a solid material foundation for common prosperity. Based on the above analysis, this paper puts forward Hypothesis 1.

H1: The higher the development level of digital trade, the more it can promote the improvement of common prosperity.

As a basic institutional arrangement of central-local fiscal relations, fiscal decentralization determines local governments' fiscal autonomy and expenditure responsibilities. In terms of fiscal expenditure decentralization, digital trade is expected to improve the efficiency of local government fiscal expenditure and drive the optimization of fiscal expenditure structure [14]. Digital trade also encourages local governments to increase investment in digital infrastructure. According to the new economic growth theory, knowledge, technological progress and specialized human capital are

endogenous drivers of increasing returns. In terms of fiscal revenue decentralization, the virtual and mobile nature of digital trade objectively brings the risk of tax revenue loss [15]. Meanwhile, against the background of digital trade development, the introduction of various tax incentives may make local governments more inclined to support enterprise development by reducing corporate taxes, further weakening the effect of fiscal revenue decentralization on raising tax burdens. Based on the above theoretical analysis, this paper proposes Hypothesis 2.

H2: Digital trade indirectly affects common prosperity by acting on fiscal decentralization.

The strength of the promoting effect of digital trade on common prosperity may vary with regional development conditions. Developed regions have sound digital infrastructure, high-skilled human capital, mature industrial clusters and a favorable institutional environment, which provide necessary support for the efficient operation of digital trade. Metcalfe's Law reveals that the value of a digital trade platform increases with the number of participants. Relying on their large market size and dense groups of enterprises and consumers, developed regions are more likely to trigger such a positive feedback loop, allowing the positive network externalities to benefit a wider range of people and industries through knowledge spillovers, technology diffusion and demand pull, thus strongly promoting common prosperity. Accordingly, this paper puts forward Hypothesis 3.

H3: The promoting effect of digital trade on common prosperity is constrained by regional development conditions, and its impact varies across regions.

4. Model construction and variable description

4.1. Model construction

To examine the impact of digital trade on common prosperity, the baseline fixed-effects model is constructed as follows:

$$Compro_{it} = \beta_0 + \beta_1 Digtra_{it} + \theta Control_{it} + \mu_i + \varepsilon_{it} \quad (1)$$

In Equation (1), i and t denote province and year respectively. $Compro_{it}$ represents the level of common prosperity in province i in year t ; $Digtra_{it}$ denotes the development level of digital trade in province i in year t ; $Control_{it}$ is a set of provincial-level control variables; μ_i is the provincial fixed effect; and ε_{it} is the random error term.

$$Mediator_{it} = \beta_0 + \beta_1 Digtra_{it} + \theta Control_{it} + \mu_i + \varepsilon_{it} \quad (2)$$

To test the mechanism through which digital trade promotes common prosperity, this paper constructs a mechanism test model as shown in Equation (2) by following the method of Jiang Ting [16]. Here, $Mediator_{it}$ is the mechanism variable, and the settings of other variables are consistent with those in the baseline model. This paper takes fiscal decentralization as the core mechanism variable, mainly because digital trade may affect the degree of fiscal decentralization by expanding local tax sources and enhancing local fiscal autonomy, and fiscal decentralization in turn can encourage local governments to optimize resource allocation and improve public services, thereby promoting the level of common prosperity. To explore this transmission mechanism in greater detail, this paper further conducts tests from the two dimensions of revenue decentralization and expenditure decentralization, reflecting local governments' ability to control their own fiscal resources and their responsibility for public services.

4.2. Variable description

The dependent variable is common prosperity (Compro). Referring to the research methods of Yang Renfa and Li Zixin [17], Yang Shuigen and Wang Ji [18], a three-dimensional comprehensive evaluation index system is established, covering prosperity level, sharing degree and sustainability. This originates from the understanding of common prosperity in three aspects: in content, common prosperity includes both material life and spiritual life; in realization path, common prosperity is not egalitarianism or simultaneous affluence, but the pattern in which advanced regions help backward regions; in advancement rhythm, common prosperity proceeds step by step in line with the development stage and pursues sustainable development.

Table 1. Indicator system of common prosperity

Primary Indicator	Secondary Indicator	Specific Measurement Indicator	Attribute
Common Prosperity	Material Prosperity	GDP per capita	+
		Number of hospital beds per 10,000 people	+
		Government expenditure on education	+
	Public Services and Infrastructure	Green space area	+
		Government expenditure on culture, sports, and media	+
		Public library holdings per capita	+
		Urban road area per capita	+
		Ratio of per capita consumption expenditure of urban and rural residents	-
	Urban–Rural Gap	Ratio of Engel coefficients of urban and rural residents	+
		Gini coefficient	-
		Employment status of residents	+
	Coordinated Development	Air quality (PM2.5 concentration)	-
		Urban wastewater treatment capacity	+
	Ecological Welfare		

The independent variable is digital trade (Digtra). The OECD defines digital trade as digital goods and services delivered digitally or physically. Focusing on the impact of digital trade on common prosperity, this paper draws on the construction idea of the digital trade system proposed by Gao Xiaoyu [19] et al., subdivides 13 sub-indices under four dimensions—digital trade potential,

digital infrastructure, digital trade environment and digital trade security—to construct an evaluation index system for the development level of digital trade, which is measured by the entropy method.

Table 2. Indicator system of digital trade

Primary Indicator	Secondary Indicator	Specific Measurement Indicator	Attribute
Digital Trade	Trade Structure	GDP per capita	+
	Digital Trade Potential	Trade Scale	+
		Consumption Potential	+
	Digital Infrastructure	Information and Communication Infrastructure	+
		Internet Infrastructure	+
	Digital Trade Talent	Number of employees in information transmission, computer services, and software industries	+
	Logistics Development	Express delivery service revenue	+
	Digital Trade Environment	Whether designated as a Pilot Free Trade Zone	+
	Policy Support	Whether designated as a Cross-Border E-commerce Comprehensive Pilot Zone	+
		Government attention to digital trade	+
Digital Trade Security	Cybersecurity Protection Level	Public security expenditure	+
	Intellectual Property Protection Level	Number of authorized patent applications	+

The moderating variable is fiscal decentralization, which is subdivided into fiscal revenue decentralization (FD_r) and fiscal expenditure decentralization (FD_e). At present, there are three main measurement methods of fiscal decentralization in academic circles: fiscal revenue decentralization, fiscal expenditure decentralization and fiscal self-sufficiency. Fiscal revenue decentralization can measure local governments' ability to independently control fiscal resources, which determines whether local governments have sufficient funds to support supporting investment such as digital infrastructure. Fiscal expenditure decentralization can measure the extent to which local governments undertake public service responsibilities, that is, whether local governments have the incentive to transform digital trade dividends into people's livelihood welfare. Therefore, this

paper examines both dimensions and measures them separately by referring to the measurement method of Tang Yiqiu and Shi Jie [20].

$$FD_r = \frac{\frac{Rev_p}{Pop_p}}{\frac{Rev_p}{Pop_p} + \frac{Rev_c}{Pop_n}} \times \left(1 - \frac{GDP_p}{GDP_n}\right) \quad (3)$$

$$FD_e = \frac{\frac{Exp_p}{Pop_p}}{\frac{Exp_p}{Pop_p} + \frac{Exp_c}{Pop_n}} \times \left(1 - \frac{GDP_p}{GDP_n}\right) \quad (4)$$

$$FD = \prod_{m=1}^2 \left[\frac{F_m}{\max(F_m)} \right]^{\frac{1}{2}} \quad F_1 = FD_r, F_2 = FD_e \quad (5)$$

Equation (3) is the calculation formula for revenue decentralization, Equation (4) for expenditure decentralization, and Equation (5) for comprehensive fiscal decentralization. Specifically, p, c and n represent provincial, central and national levels respectively; Pop denotes population; Rev denotes fiscal budget revenue; and Exp denotes fiscal budget expenditure.

To control the influence of other factors, this paper also controls for population aging (old), human capital (hc, measured by the number of students in regular institutions of higher education, in hundreds of thousands), and foreign direct investment (lnfdi, measured by the proportion of actual foreign direct investment utilized in each province in regional GDP, converted at the annual average exchange rate).

4.3. Data sources and descriptive statistics of variables

This paper selects data from 31 provinces in China from 2013 to 2023. The data are obtained from the *China Statistical Yearbook*, as well as statistical yearbooks and statistical bulletins of each province from the National Bureau of Statistics. Descriptive statistics of each variable are shown in Table 3.

Table 3. Descriptive statistics of variables (N=341)

Variable	Mean	Std. Dev.	Min	Max
Compro	0.234	0.127	0.031	0.767
Digtra	0.132	0.135	0.002	0.692
lnfdi	16.229	1.600	11.783	20.698
hc	9.727	6.227	0.335	29.562
Old	11.764	3.203	4.984	21.058
FD _r	0.643	0.086	0.504	0.885
FD _e	0.500	0.109	0.325	0.802
FD	0.670	0.102	0.494	0.942

5. Empirical analysis

5.1. Analysis of baseline regression results

The baseline regression results of the impact of digital trade on the development of common prosperity are shown in Table 4. Column (1) only controls the core explanatory variable, while columns (2) to (4) add control variables step by step. The results show that digital trade consistently improves the level of common prosperity, verifying Hypothesis 1.

In terms of control variables, the estimated coefficients of foreign direct investment (lnfdi), human capital (hc) and population aging (old) are all significantly positive, indicating that all three exert positive effects on common prosperity. Foreign direct investment promotes the sharing of development achievements through technology spillovers and industrial driving effects. Human capital accumulation helps narrow the income gap on the basis of raising the overall education level. The degree of aging highlights the role of an improved social security and public service system in advancing common prosperity.

Table 4. Baseline regression results (N=341)

VARIABLES	(1)	(2)	(3)	(4)
Digtra	0.211*** (0.036)	0.133*** (0.034)	0.070*** (0.017)	0.061*** (0.016)
lnfdi		0.046*** (0.012)	0.015*** (0.004)	0.007*** (0.002)
hc			0.026*** (0.003)	0.020*** (0.004)
Old				0.010*** (0.002)
Constant	0.206*** (0.005)	-0.525*** (0.189)	-0.268*** (0.058)	-0.194*** (0.039)
Province Fixed			Yes	
R-squared	0.120	0.483	0.826	0.877

Note: ***, **, * indicate significance at the 1%, 5% and 10% levels respectively. Standard errors are in parentheses. The same applies to the following tables.

5.2. Robustness checks

Table 5 reports the robustness test results obtained by changing the sample time window, eliminating abnormal observations and performing extreme value processing, so as to ensure the reliability of the baseline regression findings. First, adjust the time interval. Considering the acyclical shock to market, economic and trade operations caused by sudden changes in the external environment in 2020, data for 2020 are excluded and reintroduced into the model. Second, remove differentiated regions. In view of the unique characteristics of Beijing, Shanghai, Tianjin and Chongqing in terms of economic size, policy dividends and urban status, these four sample points are removed at the

interprovincial level to avoid distorting the overall estimation. Finally, since extreme measured values may cause the least squares estimation to deviate from the real trend, all relevant variables are winsorized at the upper and lower 1% levels. After the above three types of robustness tests, the estimated coefficient of the core explanatory variable digital trade is still significantly positive at the statistical level.

Table 5. Robustness test results

	(1)	(2)	(3)
VARIABLES	Excluding 2020	Excluding municipalities	Winsorization
Digtra	0.055***(0.019)	0.061***(0.018)	0.058***(0.017)
Constant	-0.194***(0.039)	-0.196***(0.040)	-0.195***(0.041)
Controls		Yes	
Province Fixed		Yes	
N	310	297	341
R-squared	0.877	0.880	0.888

5.3. Mechanism analysis

As shown in Table 6, digital trade has no significant effect on fiscal revenue decentralization or comprehensive fiscal decentralization. In contrast, its promoting effect on expenditure decentralization is highly significant at the 1% level. This indicates that digital trade boosts common prosperity mainly by expanding local governments' autonomy in fiscal expenditure, which verifies Hypothesis 2.

Table 6. Mechanism test results

	(1)	(2)	(3)
	FD _r	FD _e	FD
Digtra	-0.003(0.013)	0.026***(0.009)	0.010(0.012)
Constant	0.527***(0.035)	0.652***(0.015)	0.693***(0.031)
Controls		Yes	
Province Fixed		Yes	
N	341	341	341
R-squared	0.039	0.082	0.049

5.4. Heterogeneity analysis

Given the large gaps among Chinese regions in development level, policy environment, resource conditions and digital infrastructure, this paper divides the full sample into eastern, central, western and northeastern regions for grouped estimation. The detailed results are presented in Table 7. The regression shows that the driving effect of digital trade presents obvious geographical differentiation. The estimated coefficients are significantly positive in the eastern and central groups,

whereas the coefficients fail the significance test in the western and northeastern regions. The coefficient in the eastern region is notably larger than that in the central region, suggesting that the promoting effect of digital trade on common prosperity is most prominent in the east, followed by the central region. The eastern region provides favorable conditions for digital trade to empower common prosperity with sound digital infrastructure, complete transportation and logistics networks, natural geographical advantages, abundant human resources and pilot policy priorities. In the central region, the positive role of digital trade has initially emerged thanks to active industrial transfer and accelerated digital transformation in recent years. However, insufficient economic vitality, relatively backward development and inadequate industrial chain support in the western and northeastern regions result in no significant promoting effect of digital trade on common prosperity. Therefore, Hypothesis 3 is supported.

Table 7. Heterogeneity analysis results

	(1)	(2)	(3)	(4)
VARIABLES	Eastern	Middle	Western	North-east
Digtra	0.088*** (0.023)	0.030** (0.009)	0.026 (0.019)	0.009 (0.020)
Constant	-0.239** (0.097)	-0.326** (0.125)	-0.180*** (0.035)	0.022 (0.021)
Controls			Yes	
Province Fixed			Yes	
N	110	66	132	33
R-squared	0.878	0.972	0.889	0.955

6. Conclusions and policy recommendations

Using panel data of 31 provinces in China from 2013 to 2023, this study examines how digital trade affects common prosperity and analyzes the role of fiscal decentralization in this process. The core findings are as follows: First, digital trade can significantly improve the level of common prosperity. Second, fiscal decentralization serves as a key transmission link, and such dividends are mainly realized through local expenditure autonomy. Third, this driving effect shows obvious regional differences, with particularly strong benefits in the eastern and central regions, while no substantial changes are observed in the western and northeastern regions.

To unlock the dividends of digital trade for common prosperity, this paper proposes the following countermeasures: The top priority is to improve the quality and efficiency of digital trade to consolidate the economic foundation for common prosperity. First, the government should accelerate the deployment of new digital infrastructure and remove institutional and technical barriers for micro, small and medium-sized enterprises to integrate into digital commerce, while market entities themselves should keep pace with trends. Second, optimize the institutional design of fiscal decentralization and strengthen the transmission function of expenditure decentralization. On the premise of maintaining fiscal stability, local governments' autonomy in fiscal expenditure should be appropriately enhanced to encourage them to effectively allocate gains from digital trade to public services. Third, implement differentiated regional development strategies. The eastern and

central regions should leverage their advantages in technology, talent and infrastructure to deepen the integration of digital trade with high-end manufacturing and modern services, while sharing experience with the western and northeastern regions to narrow regional gaps in common prosperity.

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