Trap or Opportunity: The Impact of Belt and Road Initiative Loans on Recipient Countries' Development

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Abstract

This paper investigates the impact of loans associated with the Belt and Road Initiative (BRI) on the growth and development of recipient countries. While the BRI holds potential for enhancing economic development in underdeveloped regions, concerns have been raised regarding the effects of BRI loans on overall recipient country development. Existing studies on the economic impacts of these loans are limited, and findings have been mixed. To analyze the effects of BRI-related loans on economic growth and human development, this study employs a novel framework and research design. It hypothesizes that recipient countries with higher amounts of BRI-related loans will exhibit higher levels of corruption and lower levels of foreign investment. The findings of this study provide new insights into the Belt and Road Initiative, shedding light on its effectiveness and underlying motivations. By assessing the economic impacts of BRI loans, this study contributes to the ongoing debate on the potential benefits and drawbacks of the initiative. Ultimately, the paper aims to inform policymakers and scholars about China's role in global economic governance and the implications of its foreign policies for the development of recipient countries.

Introduction

Since the Global Financial Crisis, China has become a major lender of developing countries and is often viewed as a challenge to the global economic order with the push of the Belt and Road Initiative. The Belt and Road Initiative (BRI) is a global infrastructure development project launched by China in 2013. The initiative aims to promote economic growth and connectivity among participating countries through funding and building infrastructure projects, such as ports, railways, and highways. One of the key features of the BRI is the provision of loans to recipient countries to finance these projects. The agreement encompasses a broad range of projects across six economic corridors (OECD, 2018) and promotes the idea of a mutually beneficial relationship between China and BRI countries where recipient countries can also promote economic development through various projects funded by Chinese loans. With the emphasis on “win-win” cooperation, China’s state-to-state lending has become an important issue to study. There’s also evidence that Chinese lending, through policy banks, is more likely to give preferential loan terms to BRI countries such as lowering the barriers to borrowing and extending maturity for loans (Chen et al., 2022). While the BRI has been praised for its potential to enhance economic development in underdeveloped regions, there are concerns about the impact of BRI loans on the recipient countries' economies. Specifically, it is unclear whether the loans provided under the BRI have a positive or negative effect on the growth of development of the recipient countries. As a part of the BRI, recipient countries are expecting to see some benefits in return so it presents a unique gap since debt-growth literature view loans as a negative impact on economic growth but the BRI focuses on a win-win scenario for both parties, especially through economic gains. However, the majority of Western countries view China as a “rogue donor” and perpetuate the “Debt-trap” narrative (Dreher and Fuchs, 2015). “Debt-trap diplomacy" suggests that China intentionally provides unsustainable loans to developing countries which leads them into a debt trap. This narrative portrays China as exploiting vulnerable economies and exerting undue influence over recipient countries' policies and resources. The narrative is further exacerbated by concerns about human rights and transparency in Chinese lending practices.

However, scholars like Dreher have attempted to debunk the myth and provide more insight into Chinese lending practices and characteristics. What sets China apart from Western donors is the heavy emphasis placed on self-reliance. This is why China is rarely interested in monitoring how recipient countries use the funds allocated whereas Western lenders use one solution for all developing countries as seen through the Washington Consensus. This stark difference has led to much debate when it comes to Chinese state-to-state lending under the BRI. Current studies have started to examine Chinese lending practices through the BRI but much of it remains unexplored among scholars. Much debate surrounds whether BRI brings in more benefits than risks for developing countries. Despite the importance of this question, there is a notable gap in the literature on the economic effects of BRI-related loans. The majority of the current literature focuses on establishing baselines for Chinese development financing and various practices used to promote the BRI. Many scholars have primarily focused on the strategic and political motivations behind the BRI along with the economic impacts of the loans themselves. None fully addresses the question of how it affects the development and growth of the recipient through other indicators such as governance. Furthermore, the limited research that has been conducted on the topic has produced mixed findings, with some studies suggesting a positive impact on economic growth, while others find negative effects.

Meanwhile, loans and foreign debt have continued to be an important subject within development finance and much of the literature has focused on examining the relationship between foreign debt and economic growth in various countries. Much discussion has been done on the question of whether the foreign debt has an impact on economic growth and whether that impact is negative or positive. However, China's growing portfolio of loans related to the Belt and Road Initiative (BRI) presents a unique, unexplored question on whether these loans differ from traditional Western loans and what effects they bring to the recipient country. This puzzle forms the central research question of this paper: do BRI-related loans affect the growth of development in recipient countries? This question is particularly relevant given the substantial financial resources allocated to the BRI and its potential implications for recipient countries' economic development and global economic governance. This paper aims to address these gaps in the literature by examining the economic effects of BRI-related loans on recipient countries. Through a comprehensive review of existing literature and the use of empirical data, I aim to shed light on the mechanisms through which BRI loans may affect economic growth and assess their overall impact.

Literature Review

The relationship between Chinese loans and economic growth in countries participating in the Belt and Road Initiative (BRI) has been a subject of interest and debate in the literature. While existing studies have explored the effects of debt on economic growth, they often fail to specifically examine the impact of Chinese loans within the unique context of the BRI. Therefore, there is a need to delve into the existing literature to determine what is already known, what remains unknown, and why this topic is important.

Chinese loans within the BRI exhibit certain distinct characteristics that have garnered attention in the literature. One notable concern is the concept of a "debt trap," which refers to the potential for recipient countries to become heavily indebted to China, leading to economic and political vulnerabilities. Scholars such as Dreher and Fuchs (2015) and Lai et al. (2020) have discussed the debt-trap hypothesis, highlighting the risks associated with Chinese loans and the potential challenges faced by countries in servicing their debt obligations. These studies shed light on the need to consider the long-term sustainability and potential consequences of high debt burdens within the BRI framework.

Another characteristic of Chinese loans is their perceived lack of conditionality. Unlike loans from traditional international financial institutions, such as the World Bank or the International Monetary Fund, Chinese loans are often criticized for their unconditional nature. Mattlin and Nojonen (2015) and Broich (2017) have explored this aspect, emphasizing the absence of strict policy conditions typically attached to loans provided by Western lenders. This lack of conditionality raises questions about the governance, transparency, and long-term sustainability of projects financed by Chinese loans. Understanding these characteristics is crucial for comprehending the potential implications of Chinese loans on economic growth and development within the BRI framework.

However, it is important to note that the existing debt literature, which encompasses theories such as the Nonlinear Effect Theory or Threshold Theory and the Debt Overhang Theory, may not directly apply to the example of BRI loans. These theories suggest that there are critical thresholds or levels of debt beyond which economic growth tends to decline or debt becomes a burden on the economy. Scholars such as Reinhart and Rogoff (2010), Patillo et al. (2011), and Hadhek and Mrad (2014) have supported these theories by identifying the negative impact of debt on economic growth. However, the unique characteristics of BRI loans, such as the involvement of Chinese state-owned enterprises (SOEs) and the specific objectives of the BRI initiative, introduce complexities that may differentiate them from traditional debt scenarios. Factors such as the strategic motivations behind BRI projects, the geopolitical considerations of China, and the potential non-financial benefits associated with BRI participation could influence the outcomes. Therefore, while the theories offer valuable insights into debt-growth relationships, further research is needed to specifically examine the implications of BRI loans and determine if they align with or deviate from the established theoretical frameworks.

Within the BRI literature, scholars have explored the relationship between BRI participation and economic growth. For example, Ma (2022) found a positive correlation between local economic growth and BRI participation, with a significant increase in per capita income. The study also revealed that the growth effects of the BRI tend to strengthen over time, becoming most pronounced after two years. Similarly, Yu et al. (2020) and Wang and Tian (2022) investigated the impact of the BRI on trade and export. Both studies found a substantial increase in trade and export following the initiation of the BRI, with significant growth in export potential in Central Asia, ASEAN, and West Asia. Furthermore, Yu et al. (2022) assessed the benefits of BRI participation for member states in terms of export capacity. They discovered that BRI strengthened trade linkages and export capacities among member states, leading to increased total investment due to spillover effects in infrastructure and private investments. These studies provide valuable insights into the effects of BRI participation on economic growth, particularly in terms of trade, export, and other economic factors.

While studies such as Ma (2022), Yu et al. (2020), and Wang and Tian (2022) have provided valuable insights into the effects of BRI participation on economic growth, there are certain critiques and gaps in the literature. These studies often have a limited time frame of analysis, which may not capture the long-term consequences and sustainability of BRI projects. Additionally, they tend to focus on positive outcomes such as increased trade and export, without adequately addressing the potential negative consequences of the BRI. Considering aspects such as the environmental impact, debt burdens, lack of transparency, and potential increase in corruption levels associated with BRI projects is crucial for a comprehensive analysis of the initiative's effects on economic growth and development.

In conclusion, the literature on the relationship between Chinese loans and economic growth within the BRI provides valuable insights into the distinct characteristics of BRI loans, such as the debt-trap hypothesis and the lack of conditionality. However, there is a need for further research specifically focusing on the impact of BRI loans on various indicators of growth and development within the recipient countries. The existing debt literature, which highlights the negative impact of debt on economic growth, raises important questions regarding the implications of Chinese loans within the BRI. It is crucial to address the potential negative consequences of BRI, such as environmental impact, debt burdens, lack of transparency, and corruption, to provide a comprehensive analysis of the effects of BRI on economic growth.

Theory:

After reviewing previous literature on the relationship between foreign debt and economic growth and the effects of the Belt and Road Initiative on development, the question of whether Chinese loans associated with the BRI increases development in recipient countries can be better answered through a novel theoretical framework. Despite BRI’s attempt at regional integration, there are several mechanisms that prevent recipient countries from significant growth in development in the long run.

Nonlinear Effect Theory/Threshold Theory:

The nonlinear effect theory, or the threshold theory, is the concept that the effect of debt on economic growth is not a linear relationship, but rather one that changes as the level of debt increases. Essentially, the theory suggests that at low levels of debt, there is a positive or neutral impact due to the initial impact of growth from the expansion upon receiving the capital at first. However, as the ratio of debt to GDP increases and reaches a threshold level, the effects of loans will slow down and turn into a negative effect on economic growth (Reinhart & Rogoff, 2010; Patillo et al., 2011; Hadhek & Mrad, 2014). Similar to the effects of the debt overhang theory, when debt reaches the threshold level, it can lead to higher borrowing costs, reduce investors, and decrease economic growth. While BRI participation does stimulate some economic growth in member states through regional integration (Ma, 2022), the effects are only significant in certain regions as seen through other economic indicators such as exports and bilateral trade (Wang and Tian, 2022; Yu et al., 2020; Chen et al., 2022). The BRI works towards improving the connectivity between Asia, the Middle East, Central and Eastern Europe, and Africa through major infrastructure projects and investments. These projects also go on to create economic zones, trade agreements, and more (Huang, 2016; Wang and Chen, 2020). However, these studies only measure economic growth as a short-term effect and do not examine the consequences of these effects on human development. Therefore, I propose my first hypothesis:

H1: Recipient countries with higher levels of debt/total amount of Belt and Road-related loans are more likely to see lower levels of human and economic development after receiving loans.

For instance, the sustainability and fairness of loans provided by China remain to be a concern that hinders the overall economic development of recipient countries which only appears when we view the long-term effects of the BRI and is very much overlooked in prior literature.

BRI projects are mostly financed by Chinese entities such as Chinese policy banks and state-owned banks. There have also been recurring concerns regarding the transparency in the procurement of contracts by Chinese state-owned enterprises (Ghossein et al., 2021). The majority of BRI projects are awarded to Chinese SOEs without much competition due to the lack of transparency along with underlying concessions made by recipient countries in exchange for funding from Chinese state-owned banks (de Mesquita and Smith, 2007; Whang et al., 2019). Similar to foreign aid, loans associated with the BRI ultimately stem from the interests of China and remain strategic in nature. So despite the fact that the BRI has elements of regional integration that should improve economic development, recipient countries end up seeing less development growth due to the economic and policy concessions they must make in order to obtain funding through Chinese loans.

Moving away from the economic and policy concessions, another factor that may hinder the economic development of a BRI recipient country is the total amount of loans held by the country. Another debt-growth theory places heavy emphasis on the amount of debt that is taken out and how it affects the development of a recipient country.

Debt Overhang Theory:

Debt overhang is the concept of how excessive amounts of debt can hinder economic development in the long run because it creates uncertainty in investors and reduces investment within a country which leads to potential capital flight and debt crisis. This creates a vicious cycle in which low investments result in a slower economy and makes it difficult for the country to repay its debt and further scare off investors. For many of the BRI loan recipient countries, they don’t have enough domestic resources or face external shocks and circumstances that make it difficult to fulfill investments, therefore, they must use more loans to sustain their economy

(Bulow and Rogoff, 1990; Levy-Livermore and Chowdhury, 1998; Arslanalp and Henry, 2004; Abdullahi, 2016). While BRI loan recipient countries still see some investment from Chinese firms, it's also worth asking whether they are losing out on other investors because of their involvement with China. In conjunction with the transparency issue described above, Chinese loans are often less transparent and require less disclosure from recipients, which makes it "easier" for recipients to fulfill compared to Western loans that require more transparency and regulation (Brautigam, 2020; Bunte, 2019; Cormier, 2022). This has led to significant issues with corruption in recipient countries, which further hinders economic development through governance issues. Thus, this leads to my second hypothesis:

H2: Recipient countries with more Belt and Road Initiative-related loans are more likely to see a decrease in foreign investments aside from Chinese investments.

As discussed above, one of the issues that hinder economic development in BRI countries is the fairness and sustainability of loans associated with the projects. Chinese-funded BRI projects typically face little to no competition when it comes to bidding due to the economic policy concessions made by the recipient countries. While on the surface level, these loans provided to recipient countries are positively associated with increased levels of exports and bilateral trade, the process of securing these loans also comes along with concessions that must be made by recipient countries. Essentially, to receive the funding, recipients must give into Chinese terms and conditions which results in more contracts and projects being rewarded to Chinese firms over local firms. This means that Chinese loans that are given end up going back to Chinese SOEs and local companies are unable to capitalize on the loan to provide new job opportunities in recipient countries. Thus, this ends up being more detrimental to the recipient countries' economies because they are taking out loans and losing the opportunity to stimulate their own economy. However, if recipient countries are able to negotiate and include local firms in projects, it would help stimulate their economy by providing job opportunities to the local population as well as improving living standards through the project itself. With these concessions, recipient countries are also more likely to see a decrease in foreign investment because potential investors are concerned about the recipient's ability to protect their own interests over China's. These recipient countries may protect China's interest over other investors' interest due to the high amount of loans they hold over the country.

Aside from the conflicting interests, recipient countries must also consider the other negative consequences associated with BRI that hinder human development growth. Some scholars have begun to explore the effects of Chinese financing on its recipient countries. While the Chinese government explicitly condones "conditionality" and interference with other states' sovereignty, the loans associated with the BRI are often associated with less aid conditionality than traditional loans from the IMF. Aid conditionality refers to the act of linking policy requirements to the allocation of aid. Donors belonging to the Development Assistance Committee (DAC) usually impose certain conditions on aid, such as demands for institutional reform, fiscal transparency, and economic policies that aim to better enhance the benefits of foreign aid. Scholars such as Watkins have found a new trend in which countries receiving development assistance from China are more likely to see a decrease in dependence on Development Assistance Committee (DAC) donors (Watkins, 2021; Kaplan, 2016). Recipient countries are more likely to choose China over DAC donors because conditional policy reforms and economic transparency are costly to maintain. However, due to the lack of conditionality and regulation that comes along with the loans, there's a lack of transparency that leads to corruption within the local governance which leads to my third hypothesis:

H3: Recipient countries with more Belt and Road Initiative-related loans are more likely to see an increased level of corruption and poor governance

Countries that take on BRI loans with less transparency and conditionality are more likely to see corruption due to the lack of regulation put in place to ensure the funds are properly used. Development projects in general are complex and difficult to monitor on the local level and in combination with the lack of transparency, Chinese loans are more likely to promote local corruption (Brazys et al., 2017). With an increased level of corruption and overall debt, foreign investors are more likely to pull capital away from recipient states, which results in the vicious cycle of debt overhang.

Although prior literature has attempted to examine the relationship between BRI participation and overall growth along with the relationship between debt levels and economic growth, no research has fully encapsulated the relationship between BRI loans and development growth. This novel framework serves as a baseline for conceptualizing the relationship between BRI loans and their effects on the economic growth and development of recipient countries.

Research Design

Unit of Analysis:

The selection of the unit of analysis is a crucial decision in any research project, as it determines the scope and level of analysis of the study. In the case of examining the impact of Chinese loans associated with the Belt and Road Initiative (BRI) on economic development, the most appropriate unit of analysis is the individual recipient countries. This is because the study aims to investigate the effect of Chinese loans on economic development in each country separately. By focusing on individual countries over a period of time, it is possible to analyze the differences in economic development before and after the loans were received, as well as the impact of loans on specific economic sectors within the country.

Moreover, selecting the country-year level as the unit of analysis is appropriate for this study as it allows for a more comprehensive analysis of the impact of Chinese loans on economic development. The state-level analysis allows for comparisons across different countries, which can help to identify similarities and differences in the impact of Chinese loans on economic development in various contexts. Therefore, focusing on the country-year level as the unit of analysis for this study is the appropriate choice that allows for a detailed examination of the impact of Chinese loans on economic development in recipient countries.

Independent Variable:

The independent variable in my study is the Chinese loans associated with the Belt and Road Initiative (BRI). This variable represents the number of loans that each recipient country has received from China for infrastructure, energy, or other projects related to the BRI along with the number of loans provided. To operationalize the independent variable, I will use AidData's Global Chinese Development Finance Dataset, Version 2.0. This dataset provides detailed information on the amount and type of Chinese financing for each recipient country, including loans, grants, and other forms of development finance. I plan on using the dataset to extract the total amount of money received by each country in percentage of the GDP as well as the number of loans given to each country participating in the BRI. I plan on looking at loans provided by the China Development Bank, Export-Import Bank of China, and state-owned commercial banks within the dataset.

Dependent Variable:

There are three primary dependent variables in this study: the amount of Foreign direct investment (FDI) and the Human Development Index (HDI), and the Corruption Perceptions Index (CPI). Foreign Direct Investment (FDI) is a widely used measure of investment inflows from foreign entities to a recipient country. In this study, FDI net inflows will be used as a continuous variable, measured in US dollars and I'll be using the World Bank's World Development Indicators (WDI) dataset. FDI is an important factor in economic development, as it stimulates economic growth, brings in new technology, and creates jobs. This will allow me to test my hypothesis regarding whether the presence of BRI loans will act as a signal to third-party states and change the flow of FDI in the recipient country.

The Human Development Index (HDI) is a composite index that measures a country's overall level of human development based on factors such as life expectancy, education, and income. HDI is a continuous variable that ranges from 0 to 1, with higher values indicating more significant levels of development. In this study, the HDI will be used as a measure of the economic and social development of the recipient countries. The HDI data will be obtained from the United Nations Development Programme (UNDP), which regularly publishes the HDI rankings for countries across the world. Unlike previous studies, I decided to use HDI over GDP to measure economic development to better reflect the overall changes brought by the BRI loans. This will also allow me to test my hypothesis on whether BRI loans will improve economic growth in recipients aside from purely economic growth.

The Corruption Perception Index (CPI) is another important measure that will capture the level of corruption and governance within a country. This continuous variable will range from 0 to 100, with lower values indicating more corruption. The Corruption Index will be obtained from the Transparency International dataset. This particular dataset utilizes 13 other data sources such as the World Justice Project Rule of Law Index to construct the measure of CPI so it encapsulates the entire picture of governance within a recipient country. This will allow us to fully examine the effects of BRI on a recipient country's development in terms of governance.

Control Variables:

Within my study, I'd also like to include several variables that may be confounding the relationship between the independent variable and the dependent variables. First, the presence of natural resources may be a confounding variable in which potential investors are more likely to be drawn to a recipient country regardless of their closeness to China and the high level of debt. Natural resources such as oil and natural gas are essential and highly sought after by other countries so if a recipient country has these resources, it's likely that they will see an increased level of foreign investment regardless of their level of debt and their relationship with China. Therefore, it is important for this study to control for the presence of natural resources through a continuous variable with values from the UNCTAD dataset.

Second, regime type may also be a confounding factor within my study. Based on my hypothesis, BRI loans may serve as a signal to foreign investors which affects the amount of FDI given to a recipient country. However, FDI may also be affected by regime types since investors like the United States often encourage higher levels of democracy and are less inclined to invest in authoritarian states. Thus, regime type will be accounted for within my study. It will be classified as a categorical variable, with categories such as democratic, authoritarian, or hybrid regimes based on the Polity IV dataset, which ranges from -10 to 10, with higher values indicating greater democracy. The control variable for regime type can help account for the potential impact of political institutions on the relationship between BRI loans and FDI and HDI in recipient countries. This variable reflects the section on the Debt Overhang Theory in which countries with democratic regimes may have more transparent and accountable governance, which can make them more attractive to foreign investors, while countries with authoritarian regimes may have less transparency and greater political risk, which could make them less attractive to foreign investors. By including regime type as a control variable, we can account for the potential influence of political institutions on the relationship between BRI loans, FDI, and HDI in recipient countries.

Last but not least, the Gross Domestic Product (GDP) may also be a confounding variable within my study. Controlling for GDP in the analysis can help isolate the impact of BRI loans on economic growth by controlling for other factors that may influence economic growth, such as the size of a country's economy. For example, when BRI loans have a positive impact on economic growth in recipient countries, it is possible that this effect is partially driven by the fact that BRI loans are being provided to countries with already strong economies. By controlling for GDP, the study can better assess the impact of BRI loans on economic growth in recipient countries independent of their overall economic size. It'll be used as a continuous variable and the data will come from the World Bank's WDI dataset. Overall, including GDP as a control variable is important for ensuring that the study is able to accurately estimate the causal effect of BRI loans on economic growth in recipient countries while accounting for other factors that may influence economic growth.

Estimation/Model:

To analyze the data, I plan on using a panel data regression model to examine the relationship between BRI loans, FDI, HDI, and CPI in the recipient countries. I decided to deploy this model because it would allow me to look at multiple observations for each country over time while controlling for other factors such as corruption and regime type that may influence economic development. By using panel data regression, I'll be able to look at accurate estimates of the impact of BRI loans on FDI and HDI in recipient countries over a period of time.

I will also use a difference-in-differences (DID) model to compare the effects of BRI loans between countries that received them and those that did not. A DID model will allow me to compare changes in an outcome variable (like FDI or HDI) between two groups: countries that received loans and countries that did not receive any loans. By comparing how the outcome variable changes over time in both groups, I can estimate how much of the change is due to the treatment. By comparing changes in FDI, HDI, and CPI between the treatment and control groups before and after the BRI loans were implemented, I can examine the causal effect of BRI loans on economic development outcomes. This model will serve as my robustness check since it'll allow me to isolate the effect of the treatment (BRI loans) on the dependent variables aside from other confounding factors that may affect economic development, such as changes in global economic conditions, regime types, and more. If the results of the panel data regression and the DID model are consistent, this will prove that my hypothesis is correct and that there is a negative causal relationship between BRI loans and development.

Empirical Challenges:

Several challenges may arise while I'm conducting this study. First, it will be difficult to fully capture the causal relationship between BRI loans and economic development. Despite my control variables and robustness check, it is likely that other factors such as global economic conditions may play a role in the economic development of a recipient country. Thus, it is difficult to fully capture the causal relationship along with the issue of reverse causality. With reverse causality, countries with higher levels of economic development may be more likely to receive BRI loans in the first place, so the effects of the BRI may not be correlated with changes in the economic development of recipient countries.

Endogeneity is also a big problem since many other factors affect a recipient country's economic development. As I've mentioned earlier, the relationship between BRI loans and economic development may be influenced by other factors that are not directly included in the analysis. For example, it may be the case that countries that receive BRI loans are already experiencing higher levels of economic growth and development before receiving the loans. This could make it appear as though the BRI loans are causing economic development when in fact they are just coinciding with it.

Last but not least, another challenge with the design is the difference in the level of loans. As stated above, I attempt to address whether there is a causal relationship between BRI loans and development through a DiD model. While the model does examine countries with no loans and those with loans, it is important to note that there are fundamental differences in the countries with no loans. I attempted to capture this difference but the DiD model does not fully encapsulate the fact that there is a selection process that determines which countries receive the loans.

Conclusion

China's Belt and Road Initiative (BRI) has become one of the most prominent global initiatives aimed at promoting economic development and integration among developing countries. Since its launch in 2013, the BRI has led to a significant increase in China's investment in infrastructure projects in developing countries. This has resulted in a surge in the number of infrastructure projects in recipient countries and has generated intense interest and debate among scholars and policymakers regarding the effectiveness of these loans in promoting growth. China’s emergence as a major contributor to global development finance and the growing influence of the Belt and Road initiative also leaves the question of how effective are the loans associated with the BRI in terms of cultivating growth in development for its recipient countries. This paper addresses the disconnect between Belt and Road Initiative and debt literature and aims to provide several implications for scholars and policymakers.

First, it addresses a critical gap in the literature by examining the impact of BRI loans on economic growth in recipient countries beyond the measure of GDP. While previous studies have focused on GDP as the main indicator of economic growth, this study considers other economic indicators that provide a more comprehensive picture of the impact of BRI loans on both economic and human development. Second, the study provides insights into the effectiveness of Chinese aid and loans in promoting economic growth in recipient countries. As China continues to increase its economic engagement in developing countries, it is crucial to evaluate the impact of its development assistance to ensure it is achieving its intended goals. Third, the study sheds light on the ongoing discussion about the role of developing countries in the global economy. The BRI aims to promote economic development and integration among developing countries, and this study offers insights into the opportunities and challenges faced by these countries in the global economic system.

This study makes several contributions to both theory and policy. First, it contributes to the ongoing debate about the benefits and risks of the BRI. While the BRI has been praised for its potential to enhance economic development in underdeveloped regions, there are concerns about the impact of BRI loans on the recipient countries' economies and governance. This study examines several economic and development indicators that were previously unexplored to better assess the benefits and risks of the BRI.

Second, the study offers insights into the effectiveness of Chinese aid and loans in promoting economic growth in recipient countries. While BRI loans are effective in improving the GDP of recipient countries, it is also important to consider some risks that come along with the benefit. An increase in corruption in governance and a decrease in foreign investment may outweigh the short-term economic benefits these loans bring. These findings have important implications for policy-makers in recipient countries and donor countries. For example, policymakers in recipient countries should carefully evaluate the risks and benefits of BRI loans before accepting them, and donor countries should provide technical assistance and capacity-building support to help recipient countries manage their debt.

Third, the study contributes to the debt literature by examining the impact of BRI loans on recipient countries' debt sustainability. The majority of current literature on debt sustainability has focused on traditional loans from multilateral institutions and Western countries. However, BRI loans present an entirely different question and require further exploration since they do not fit the theoretical framework of previous studies. While this study does not fully capture the overall effect of the Belt and Road Initiative, this paper provides a more comprehensive view of the effects of Belt and Road Initiative-related loans on development growth for recipient countries and presents a new perspective on how effective these loans are.

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