Belt and Road Countries Can Finance Their Own Progress—Five Ways To Do It!

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While exposing the truth behind claims of Chinese "debt-trap diplomacy" is important, as we did in our previous analysis, the most pressing challenge is finding ways to finance infrastructure in the Global South as the Belt and Road Initiative (BRI) enters its second decade.

In the first decade of the BRI, China invested about $1 trillion, mostly in infrastructure projects, including transport, logistics, power, telecommunications, and water management. Although the BRI has seen significant milestones, China alone can't finance or build all the infrastructure needed to help Global South nations transition from poverty to modernization.

The Asian Development Bank (ADB) estimated in 2017 that its 45 developing member countries would need to invest $26 trillion between 2016 and 2030—about $1.7 trillion annually—to bridge Asia's infrastructure financing gap. The African Development Bank (AfDB) estimates Africa needs $130 billion to $170 billion annually for infrastructure financing—a conservative figure that still amounts to a potential $1.5 trillion in the next decade.

Infrastructure as a Public Good

The major question is: Where could the above-mentioned financing come from?

Financial credit is issued to governments, agencies or businesses with the intention of contributing to specific future improvements in productivity, technological progress and well-being of the people. In other words, credit is a debt that will be "paid back" with "interest" through the overall productivity of future generations. Essentially, growing future productivity is the security for credit issuance.

Thus, infrastructure is a public good that should and must be backed by the state in its capacity as representative of both current and future populations. Private investors cannot provide long-term strategic financing because they focus on short-term profitability and "bankability." The term "financial sustainability" is used repeatedly in the G7's proposed Build Back Better World (B3W) and the EU's Global Gateway, implying that the private sector and market must generate the financial sources. This is why these initiatives fail to progress. Even public-private partnerships, despite their popularity, are problematic. They require significant government support through subsidies, tax breaks and land rights, while profits go to investors rather than infrastructure maintenance or reinvestment.

Five Ways To Generate Infrastructure Financing

Ironically, developing countries and BRI partner countries need to increase, not decrease, their infrastructure borrowing—but through repayment plans that must be long term (20-25 years) with low interest rates (2-3%). The economic growth rate of any country must stay ahead of interest rates, but this can only be guaranteed by productivity generated from new investments.

However, it is important to note that borrowing from foreign entities (China, multilateral lenders, or commercial markets) should not be considered the only source of infrastructure financing. Much of the duty lies with the individual countries involved. We divide it into responsibilities at the national, regional, bilateral, continental and global levels.

1. National Development Banks

Individual nation-states must assert sovereignty over their finances and manage financial resources

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according to long-term national development goals. There are many precedents for this method, although not all the institutions were called "banks."

For example, the Reconstruction Finance Corporation played a key role in financing President Franklin D. Roosevelt's New Deal economic recovery in the 1930s and in the United States' post-World War II reconstruction, and Germany's "economic miracle" was enabled by the Kreditanstalt für Wiederaufbau (KfW). The KfW was initially capitalized by the German government and acted as a re-lending vehicle for low-interest dollar loans from the U.S. Marshall Plan.

The state-owned Korean Development Bank (KDB) played a similar role in South Korea's industrialization and the emergence of industrial giants (chaebols) like Samsung and Hyundai in the 1960s and 1970s. In recent decades, China's policy banks—including the Export-Import Bank of China, the China Development Bank and the Agricultural Development Bank of China—have demonstrated this approach. They issue credit backed by the People's Bank of China loans, using foreign exchange reserves earned through the country's production and exports.

Many nations in the Global South have domestic financial resources, which are unused or misused. Nations with abundant natural resources could set aside a percentage of export revenues to create capital for such national banks. Public pension funds could be an additional source of capital. Establishing national development banks with such resources, backed by both the state and friendly foreign economic powers—as the U.S. did with Germany and South Korea—is a key element in providing financing for national projects.

2. Regional Development Banks

We have an example to illustrate this point. In their 2017 book *Extending the New Silk Road to West Asia and Africa*, Askary and his colleagues propose creating a West Asia Development Bank led by the region's financially stronger nations like the Gulf Cooperation Council (GCC) members. The GCC's sovereign wealth funds' foreign reserves amount to $4 trillion. This proposed bank could include other major regional economies like Egypt, Türkiye, Iran, Ethiopia, Iraq and Syria. Its purpose would be to create credit for BRI infrastructure projects, with regional nations either buying shares or issuing bonds based on their financial capacity. With a proposed baseline of $100 billion in combined equity and borrowed capital, the bank would issue loans exclusively to designated infrastructure agencies—whether local government bodies or project-specific entities.

3. Bilateral 'Commodity-for-Construction' Funds

Nations with abundant natural resources could leverage such to generate credit for construction of infrastructure and technology transfer.

A key example is the China-Iraq "Oil for Reconstruction" agreement of September 2019, though political events later blocked its implementation. The plan was straightforward: Of Iraq's 4 million barrels per day in oil exports, China imports 1 million. Under the agreement, revenue from 100,000 barrels daily (10% of China's imports) would go into a special fund. For every $1.5 billion of Iraqi oil money, Chinese banks would add $8.5 billion, creating a $10 billion fund for Chinese-built infrastructure projects in Iraq. With China Export & Credit Insurance Corporation (SINOSURE) insuring these loans, Iraq could repay its debt through just 2.5% of its oil exports.

This "sinking fund" model could work for China's dealings with any resource-rich nation, and other major importers like Japan, South Korea, India and Germany could establish similar arrangements. The system benefits both sides: creditors secure long-term access to raw materials, while debtors receive infrastructure financing and technology transfer without straining their finances.

Other bilateral funds can be generated through issuing Panda bonds and similar instruments in the Chinese capital market.

4. Continental Development Banks

Geographic proximity naturally drives nations to strengthen regional connections, promoting trade, technology transfer, economic cooperation, and security. Continental development banks like the AfDB and ADB provide collective financing for these regional initiatives. However, these banks need greater independence in decision-making and more ambitious goals for large-scale infrastructure financing. Why is it so?

The admission of non-regional members has allowed powerful nations like the U.S., UK and other European countries to gain significant influence over these institutions. For example, in the African Development Fund—the AfDB's financing arm—the former colonial power Britain remains the largest shareholder at 14%, followed by the U.S. (6.5%) and Japan (5.4%). Though African nations hold the majority of AfDB votes, they must consider non-African contributors' interests, limiting the bank's ambition.

This has prevented financing for transformative projects like the very important 40-gigawatt Grand Inga Hydroelectric Project in the Democratic Republic of the Congo or major transcontinental transport networks. Instead, like the World Bank, the AfDB focuses mainly on smaller projects. When it does support larger initiatives, such as the $3.2 billion Burundi-Tanzania railway, it typically participates only as a minority stakeholder—contributing over $690 million in this case.

5. International Development Banks

The Global South needs strong, independent international development banks guided by development-focused principles rather than Western political or economic ideologies. The Asian Infrastructure Investment Bank and BRICS New Development Bank have shown promise, each with a capital of $100 billion and a healthy focus on infrastructure development. However, broader reform and a new institution are needed globally. While the World Bank and the International Monetary Fund should move beyond Washington Consensus policies to better serve East-West and North-South cooperation, an alternative solution could be creating a new International Development Bank. This institution would pool global resources to achieve universal development goals.

In conclusion, in the BRI's second decade, the best response to so-called Chinese "debt-trap diplomacy" should go beyond mere debunking. Working closely with China under the BRI, the Global South should act to fund its own growth and actively participate in building a global community of shared future.

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