MELİKE METİNTAŞ

THE MUTUALLY TRANSFORMING EFFECT: A COMPARATIVE STUDY EFFECT:
A COMPARATIVE STUDY ON EUROPEAN AND CHINESE DEVELOPMENT FINANCE IN
CENTRAL AND EASTERN EUROPE

BİLKENT UNIVERSITY 2022

THE MUTUALLY TRANSFORMING EFFECT: A COMPARATIVE STUDY ON EUROPEAN AND CHINESE DEVELOPMENT FINANCE IN CENTRAL AND EASTERN EUROPE

A Master's Thesis

by
MELİKE METİNTAŞ

Department of
International Relations
İhsan Doğramacı Bilkent University
Ankara
July 2022

Beni her zaman destekleyen annem ve babama...

THE MUTUALLY TRANSFORMING EFFECT: A COMPARATIVE STUDY ON EUROPEAN AND CHINESE DEVELOPMENT FINANCE IN CENTRAL AND EASTERN EUROPE

The Graduate School of Economics and Social Sciences
of
İhsan Doğramacı Bilkent University

by

Melike METİNTAŞ

In Partial Fulfillment of the Requirements for the Degree of
MASTER OF ARTS IN INTERNATIONAL RELATIONS

THE DEPARTMENT OF
INTERNATIONAL RELATIONS
İHSAN DOĞRAMACI BİLKENT UNIVERSITY
ANKARA

July 2022

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations

---

Seçkin Köstem

Supervisor

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations

---- - -

Efe Tokdemir

Examining Committee Member

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations

Derya Göçer

Examining Committee Member

Approval of the Graduate School of Economics and Social Sciences

----

Refet Soykan Gürkaynak

Director

ABSTRACT

THE MUTUALLY TRANSFORMING EFFECT: A COMPARATIVE STUDY ON EUROPEAN AND CHINESE DEVELOPMENT FINANCE IN CENTRAL AND EASTERN EUROPE

Metintaş, Melike

M.A., Department of International Relations

Supervisor: Asst. Prof. Dr. Seçkin Köstem

July 2022

The 21st century has witnessed a profound transition in global development finance after emerging powers have become important creditors for the developing world. Explaining these actors of global development finance and the factors shaping their financing behavior has been widely discussed in the scholarly literature. With its large amount of overseas financing and alternative economic growth model, China has emerged as the top creditor amongst traditional financial actors. Therefore, diversification and competition between traditional Western and Chinese creditors have become the main focus of scholars and policymakers. Yet, current changes in the global development finance show that the likelihood of convergence and cooperation are increasing between Western and China-led development finance. While China is integrating more into multilateral cooperation and abiding by international standards, Western actors have begun to change their financing policies by looking at nations' needs rather than structural adjustments first. This thesis examines the interactions between Chinese (CDB and CHEXIM) and traditional European (EIB and EBRD) development banks in Central and Eastern Europe. By doing so, this thesis argues that a 'mutually transforming effect' exists between Chinese and European development finance as a result of their interactions. While Chinese banks cooperate more with European banks and the EU's financial mechanisms to fulfill their structural weaknesses, the European banks provide more credits on riskier infrastructure projects and state-owned enterprises in the CEE region.

Keywords: Development Finance, China, European Union, Development Banks

ÖZET

KARŞILIKLI DÖNÜŞTÜRÜCÜ ETKİ: ORTA VE DOĞU AVRUPA'DA AVRUPA VE ÇİN KALKINMA FİNANSMANI ÜZERİNE KARŞILAŞTIRMALI BİR ÇALIŞMA

Metintaş, Melike

Yüksek Lisans, Uluslararası İlişkiler Bölümü

Tez Danışmanı: Dr. Öğretim Üyesi Seçkin Köstem

Temmuz 2022

21. yüzyıl, yükselen güçlerin gelişmekte olan dünya için önemli kreditörler haline gelmesinin ardından küresel kalkınma finansmanında önemli bir geçişe tanık olmaktadır. Küresel kalkınma finansmanındaki bu geçiş ve aktörlerin finansman davranışlarını şekillendiren faktörlerin açıklanması akademik literatürde kapsamlı bir şekilde tartışılmaktadır. Çin, sahip olduğu büyük miktardaki denizaşırı finansmanı ve geliştirdiği alternatif ekonomik büyüme modeli ile diğer finansal aktörler arasında en güçlü finansör ülke konumuna gelmiştir. Bu nedenle, Batılı ve Çinli kalkınma finansmanı aktörleri arasındaki farklılık ve rekabet, akademi ve politika yapıcıları arasında ana ilgi odağı haline gelmiştir. Bunun yansıra, küresel kalkınma finansmanındaki güncel değişimler, Batı ve Çin liderliğindeki kalkınma finansmanı arasındaki benzerliklerin ve iş birliği olasılıklarının da arttığını göstermektedir. Çin, çok taraflı iş birliklerine daha fazla entegre olur ve uluslararası standartlara uyarken, Batılı aktörler finansman politikalarını yapısal düzenlemelerden ziyade ulusların ihtiyaçlarına göre değiştirmeye başlamışlardır. Bu tez, Orta ve Doğu Avrupa'daki Çin kalkınma bankları ile geleneksel Avrupa kalkınma bankaları arasındaki etkileşimleri incelemektedir. Tezin argümanı, Çin ve Avrupa kalkınma finansmanı arasındaki etkileşimlerinin bir sonucu olarak ortaya çıkan bir 'karşılıklı dönüştürücü etkinin' var olduğunu savunmaktadır. Çin bankaları, yapısal zayıflıklarını gidermek için Avrupa bankaları ve Avrupa Birliği'nin mali mekanizmalarıyla daha fazla iş birliği yaparken, Avrupa bankaları Orta ve Doğu Avrupa bölgesindeki riskli altyapı projelerine ve kamuya ait kurum ve şirketlere daha fazla kredi sağlamaktadır.

Anahtar Kelimeler: Kalkınma Finansmanı, Çin, Avrupa Birliği, Kalkınma Bankaları

ACKNOWLEDGEMENTS

First and foremost, I would like to express my gratitude to my thesis supervisor Asst. Prof. Seçkin Köstem for his continued guidance, insightful feedbacks, patience, and encouragement. He provided me with his motivation and constructive attitude to complete this thesis and support to carry my academic career further. I feel privileged to work with him whom I see as my role model in academia.

I would also like to thank Asst. Prof. Dr. Efe Tokdemir for his helpful and valuable comments in my thesis committee. Beyond this, I have always felt his support during my graduate studies at Bilkent. He listened to me whenever I need, guided me to sharpen my thinking, and brought my studies to a higher level with his comments. I would also like to thank Asst. Prof. Derya Göçer for accepting to join my thesis committee and for her insightful comments and suggestions regarding my thesis and my future studies at the Ph.D. level.

I extend my thanks to Prof. Bahri Yılmaz for his all-time support during my academic career. He guided me to clarify my academic interests and area of study.

I must also state that I am grateful for all encouragement, experience, and endless love I have received from my family. I dedicated this thesis to my parents. Without their advice, and unconditional support I wouldn't be able to complete this thesis. I would like to thank my mother, Selma Metintaş who has always encouraged me to better and guided me with her knowledge during this process; and to my father Muzaffer Metintaş for always supporting me to pursue my dreams and inspiring me with his tremendous experience for working harder.

I also thank my grandmother Zekiye Metintaş and my aunt Zehra Bozer for their emotional support. Special thanks to my brilliant big brother Oğuzhan whom I always feel his pure love. He always brings joy and happiness to my life. Knowing that I will have these people will always be on my side as the biggest power in life.

Last but not least, I am deeply thankful to all my dear friends for supporting me during this process and making me laugh when I needed it most. I am grateful to have all of them in my life. May our bond last forever!

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

Development finance has been widely mentioned and applied since the 1950s when it began as an emerging mechanism to restructure European nations in the aftermath of the Second World War. During this process, most industrialized nations, primarily the United States (US) and Western European countries, have structured development strategies for the world and pioneered the establishment of multilateral institutions.

The Bretton Woods institutions, the International Monetary Fund (IMF), and the International Bank of Reconstruction and Development (IRBD) – known as the World Bank (WB) – were established in 1944. These institutions first aimed at reconstructing European economies, and later, their interests shifted to developing nations for providing financial support, technical assistance, and policy advice concerning social, political, and economic development.

Later on, The WB and IMF focused on common rules and values for development worldwide, functioning with the motto of 'neoliberal development.' This refers to influence over the economic structure of the nations that turned to them for support and made access to their capital resources conditional on market privatization, extensive policy reforms, and change in the provision of social services (Babb & Kentikelenis, 2018, p. 16). In the 1980s, these ideas have become the main mechanisms of these institutions, also referred to as the Washington Consensus.

Following the WB and IMF's establishment, development finance in the global realm has also varied in time with the proliferation of new institutions and actors. For example, the European Investment Bank (EIB) was established in 1958 to reconstruct European economies by working on the ground of economic and monetary union. One year later, Inter-American Development Bank was established for the economic and political development of Latin American and Caribbean countries. After the end of the Cold War, the European Bank of Reconstruction and Development (EBRD) was established in Europe to provide financial assistance to of post-Soviet countries for their transition from centrally planned to market-oriented economies and further their integration into the European Union (EU) (Dinan, 1999, p. 54). These development finance institutions have followed the same path as the IMF and WB in terms of the idea of neoliberal development. Therefore, since they had pioneered development finance, all these institutions are also called traditional actors of global development finance.

All of this development during the 20th century indicate that developed countries, mainly Western Europeans and the US, and the idea of neoliberalism on financing had shaped and monopolized global development finance and international financial institutions (IFIs) at that time. This trend has begun to change in the 2000s with the emergence of new economic powers such as China, Turkey, Brazil, Russia, and India. Most of these novel actors were aid and credit recipients of Western donors during the 20th century, and even now, some of them still maintain this situation. Aside from the idea of neoliberal development, these countries pursued their economic model for their growth. Their model has put rapid growth in the center by focusing more on mega investments in energy and infrastructure and improvements in human capital rather than reforms in political and economic realms. (Saccone, 2016, p. 801). Through this model, they gained rapid economic growth in contrast to advanced economies of the West and established their own IFIs towards traditional actors of global finance. Their institutions have adhered to principles for their financing practices such as non-interference in domestic affairs, limited level of conditionality, and respect for the financial and political sovereignty of recipient countries. They have increasingly diverged themselves from intrusive traditional donors' conditionality and structural reforms. (Dreher, Nunnenkamp & Thiele, 2011, p. 1951).

This led them to present themselves as emerging financiers in the international development finance regime. These countries and their development institutions have become the new centers of economic growth and development at a time of power shift in the global economy from Western-led neoliberal development to new rising models.

With its remarkable volumes of overseas finance flow, China and its institutions have become the most important rising actor in global development finance in the last two decades. By 2017, its total financial commitments reached USD 843.1 billion, and operations expanded over 165 countries worldwide (AidData, n.d.). Chinese development finance has increased in several regions after it announced its national project in 2013; the Belt and Road Initiative (BRI). It is an expanding global network that seeks to open up new energy and trade routes, provide new market opportunities for Chinese firms and increase the country's global influence by financing several infrastructure projects across the world (Benard, 2020, p. 58; Miller 2017). Since the launch of this national objective, China has increased its capital flow to different regions and many countries by targeting to provide finance on mega infrastructure projects such as the web of airports, deep water ports, fiber optic networks, highways, railways, oil and gas pipelines (Scheck, 2016).

The rise of Chinese development finance has been widely researched and discussed from various perspectives. Western policymakers and scholars often claim that Chinese development finance is less altruistic and development-oriented than Western actors (Dreher et al., 2018, p. 184). By contrast, a more pro-Chinese perspective argues that Chinese development finance is inclusive and beneficial by offering less conditional and eligible credits to developing nations to close their infrastructure gaps. The literature has long been analyzing the divergent characteristics of Chinese and Western-led development finance in terms of their financial practices, norms, and competition. Several studies in the literature on international political economy shed further light on this issue by asking about how China led to a transition in international development finance, how its lending practices can be categorized based on international standards, and how it defines 'development' in comparison to others? (Bräutigam, 2011; Gallagher et al., 2018; Chen, 2020; Wang, 2021).

Nevertheless, the literature falls short of answering the following questions: How does Chinese development finance interact with and influence its Western counterparts in different regions and sectors? How does it tailor its overseas financing accordingly? Despite some important studies covering this question through cooperation and convergence between China and Western financiers, they also remain limited to particular regions and sectors (Skalamera Groce & Köstem, 2021; Chin, 2012).

In that sense, I stress that the interaction and convergence between Western and Chinese development finance is noteworthy to address how each side influences each other's practices. This thesis aims to provide an answer to the following research question: How do Western and Chinese development finance influence each other, and how do their interaction shape each other's lending behavior and development policies? By answering this question, this thesis seeks to find the main reason behind the current changes in Chinese and Western creditors' development finance agenda. In order to answer the given research question, this study focuses on examining mutual interaction and influence between Chinese and Western creditors' financing activities in the Central and Eastern European (CEE) region by comparing the financial operations of EBRD and EIB and China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM).

The CEE region provides abundant evidence of the lending behavior of EBRD and EIB and possible changes since this region receives a large number of loans for different purposes from the end of the Cold War to today. These institutions of the European development finance have sought to expand the traditional Western-led model of development across the CEE countries. They adopted the neoliberal idea of development by following the common set of principles of the WB and IMF on safeguards, interest rates, and loan types. Their development approach is based on rule-based, and steady development, and thus, EBRD and EIB provide credits to these countries expecting conditional reforms within countries' fiscal, economic and political structures. Besides the global standards, they have taken a role upon CEE countries to actualize their transition from centrally planned post-Soviet economies to market economies by providing loans for privatization, institutional development, and other policy reforms. Since the EU has also pioneered these countries' liberalization and democratization process, the EBRD and EIB also provide credits through EU channels and region-specific programs.

In parallel to the neoliberal characteristics of their financing, they allocate more credits to private sectors. Thus, their sectoral focus in the CEE region is mostly on assisting fiscal reforms for transition, stability, institutional development, and democratization which also bolster the Union's strategic priorities on the continent as stability, peacebuilding, open and common market, and democratic consolidation.

Besides, their infrastructure and energy investments have also increased in their portfolio over time with the aim of economic recovery, regional development, transport connectivity between the Western and Eastern parts of the European continent, and the need for reducing energy dependence and boosting green solutions. In their infrastructure financing, they seek their main interest by focusing more on private sectors, following standards for credit amounts and portfolio, and offering guidance and institutional support to recipient countries in the context of risk management, and solvency.

On the other hand, despite the share of Chinese development finance being relatively lower than in other parts of the world, the number of credits provided by the CHEXIM and CDB has been growing. Unlike European-led development finance actors, Chinese banks have adopted their own model of development financing. Chinese development finance in the CEE region seeks the idea of rapid growth rather than tackling strict rules on general standards, therefore compared to European Banks they are more able to provide a large number of credits with less conditional measures to their recipients. The primary focus of these development banks is financing the BRI projects and China's investment policies overseas. As emerging actors in the global development finance regime, they do not completely bind the global rules and regulations and often follow their own standards on safeguarding, interest rate, and loan portfolio. Thus, Chinese development finance is assessed as a 'single player' in many countries in terms of financing foreign investments. They mostly allocate their credits for direct financing the government or state-led companies. In that way, it could offer big packages of loans to the CEE countries with large amounts to boost mega infrastructure investments in energy and transportation.

Moreover, Chinese development finance has also flowed through forums and cooperation mechanisms which are mostly led by China. China adopts a forum linking approach for further cooperation with its recipients. These mechanisms enable China to flow its financial credits with institutional channels which adopt the Chinese set of strategic priorities and standards. 16+1Forum also known as China-CEE cooperation is also a forum linking mechanism of China. Many financial activities of the CHEXIM and CDB are driven within this forum. In terms of mega projects, this region has become one of the central routes within China's BRI map, and thus both the CDB and CHEXIM have increased financing activities on infrastructure there in the recent period. This brings the question that why the CEE region has become important for destination Chinese development finance.

As being a gate to accessing the Western European market and high-tech, investing the transportation to the CEE region would fulfill one of the main aims of the BRI project. Connecting Europe under the BRI network would allow China to easily deliver its products to Western European markets. Additionally, maybe, more importantly, investing in the CEE countries would favor China's *Go Global* strategy which the aim was to incentivize investment and participation of Chinese enterprises in the global market by boosting their competitiveness through the delivering advanced technology and know-how from Western companies (Pavlicevic, 2022, pp. 80-81). Indeed, the Chinese government has declared this objective through several strategic policy documents. (Ye, 2020, p. 5) Therefore, expanding development finance activities of Chinese banks in the CEE region have been interpreted as to access Europe's high-value assets and technology.

<table>
<tr><td colspan="2">The general characteristics and sectoral focus of
European & Chinese development finance in the CEE region</td></tr>
<tr><td colspan="2">General Characteristics</td></tr>
<tr><td>European-led Development Finance
EBRD & EIB</td><td>Chinese Development Finance
CDB & CHEXIM</td></tr>
<tr><td>• Adopting the neoliberal idea of development.
• Following rule-based and steady development.
• Reform-based development finance.
• Conditional
• Emphasizing structural reforms and institutional development.
• Primary focus is on European economies.
• Following global standards on safeguards, interest rate, loan types, and amounts for their lending.
• Providing financial assistance for transition for building up liberal market economies, opening privatization, the configuration of political stabilization, and democratization.
• Allocating more credit for private sector investment in their share.
• Open more for multilateral cooperation in development finance. Cooperating with MDBs.
• Delivering on key EU policy priorities</td><td>• Adopting their model of development as an emerging creditor.
• Following rapid growth.
• Infrastructure-intensive development finance.
• Less conditional.
• Emphasizing financing to the infrastructure needs of the countries.
• Primary focus is financing the BRI and other Chinese companies' infrastructure projects overseas.
• Mostly following national standards for safeguards, interest rate, loan types, and amounts.
• Providing financial assistance for boosting infrastructure.
• Allocation of most of their credits to the SOEs and direct lending to governments.
• Single player: less interested in participating in international coordinating mechanisms and cooperating with other MDBs.
• Delivering on China's state policy priorities.</td></tr>
<tr><td colspan="2">Sectoral Focus</td></tr>
<tr><td>European-led Development Finance
EBRD & EIB</td><td>Chinese Development Finance
CDB & CHEXIM</td></tr>
<tr><td>• Assisting fiscal reforms for transition and stability.
• Improvement of governance and rule of law.
• Financing the European Commission's economic, investment, and political programs for the CEE.
• Energy and Power: Green Energy Transition.
• Transportation Infrastructure.</td><td>• BRI-related mega investments.
• Financing China's specific funds and programs for the CEE.
• Transportation: regional ports, railway, and highway structure.
• Energy and Power Infrastructure: ranged from coal-based thermal power plants to nuclear and renewables. Pipeline connectivity.</td></tr>
</table>

Table 1: The General Characteristics and Sectoral Focus of European & Chinese Development Finance in the CEE Region. The table created by the author.

Since both sides have considerable interests in the CEE region in terms of development finance, I argue that the interaction and influence between European and Chinese actors would shape each other's policies and financial operations. Therefore, by analyzing policies and financial activities of Chinese and traditional European creditors in the infrastructure and energy sectors of the CEE region, this thesis argues that a 'mutually transforming effect' exists in the interaction between Chinese and European-led development actors in the CEE region. While Chinese actors have become more eager to cooperate and joint financing in the region than a single player, the European creditors are responding more to the regions' infrastructure needs by increasing their finance on riskier projects and state-owned enterprises (SOEs). I argue that multiple issues having by both sides such as structural weaknesses, policy changes, and the varied needs of the region have led to them recalibrating their policies and financial activities.

Mutually Transforming Effect	
Chinese Development Finance	**European Development Finance**
• More open to cooperate and co-financing with traditional actors. • Adopting more global standards: transparency, risk management, loan types, interests' rate and recipient countries economic situation.	• Increasing cooperation with China on investing mega-projects. • More credits for infrastructure and region need. • Providing credits also SOEs in the CEE.

Table 2: Mutually Transforming Effect on European & Chinese Development Finance in the CEE Region. The table created by the author.

However, the argument of this thesis does not claim that the mutually transforming effect between Chinese and traditional actors occurs in the same way and degree in all sectors, actors, and regions of development finance in the world. Rather, it aims to reveal why current changes in the global development finance can be better explained with cooperation, interaction, and convergence rather than competition and divergence between European and Chinese actors. Also, it is important to note that the mutually transforming effect that is observed in the empirical cases of this thesis does not refer to a complete transformation of policies and financial activities; instead, I suggest that both actors increasingly learn from each other’s rules, norms, and practices while they are expanding their activities in the CEE region.

1.1 Methodology and Case Selection

The main aim of this research is to examine the interaction between traditional European and Chinese development finance by exploring the likelihood of changes in their financing behavior and policies of their Banks in the CEE region. This analysis uses two comparative cases to make an in-depth analysis of how traditional and emerging creditors influence each other's financial practices and policies. This thesis adopts process-tracing as a methodology in two specific cases by intending to reveal how and why financial practices, policies, and relations of two divergent actors have changed over time. Process-tracing would provide detailed tracing of the causal process between two sides to uncover how the transformation effect has first existed in their financial agenda (Bennet & George, 2007, p. 348).

In this thesis, comparative cases are presented as the activities and policies of the European-led and Chinese development banks in CEE. The EBRD and EIB as European development banks are one part of this research. The CDB and CHEXIM from China are the other part. In that scope, the possible changes in their credit patterns, sectoral focus, basic principles, lending behavior, and relations after their interaction with each other in the CEE countries are analyzed to present empirical results. Drawing on these development banks' agreements, projects, credits by country, and loan types in the CEE region after 2008, this thesis demonstrates how both sides influence each other's lending practices.

The reason for focusing on the CEE region and the mentioned development banks is threefold. First, as mentioned above, EBRD and EIB have represented the European side of neoliberal financing and have been long-lasting financiers of CEE countries. The CEE countries have received many loans with different purposes from the end of the Cold War to today, such as liberalizing post-Soviet economies, the EU accession, macro-economic stability, or economic recovery. Since the CEE region has had a strong partnership with the EBRD and EIB from the past to today, it might be useful to demonstrate how Western-led development finance has changed within this region over time.

Second, the literature on Western versus Chinese development finance has largely clustered on African, Asian, and Latin American regions and the main theoretical discussion has built on these regions (Gallager et al., 2012; Gallagher et al., 2018; Katada & Liao, 2020). Studies on CEE remain limited. Yet, recent studies have shown China's growing interest in the region (Kratz et al., 2021, p. 4). Due to its geostrategic location, which connects the West Europe of Eurasia and Middle Eastern regions, CEE is one of the central regions in the BRI route. Therefore, this study attempts to contribute to the literature and theoretical discussion on the interaction between Western and Chinese development finance actors by looking at financial practices in the CEE region.

Third, since some of the countries in the CEE region have EU membership and the rest are going through the accession process, the EU as an institutional body has played an essential role in constituting rules and regulations in the financial realm. Thus, unlike other developing regions and countries, I argue that China in CEE might be following a more transformative agenda to overcome the critiques mentioned above since various investment and financial lending are pursued based on EU *acquis* and other related mechanisms. Along with the 16+1 Cooperation between China and the 16 CEE countries, China has begun to expand its regional multilateralism to this region (Jakóbowski, 2018, p. 660). In parallel, China has boosted its financial credits under this cooperation mechanism with its development banks. Therefore, I argue that the European development banks and other EU-led financial institutions might meet with the new regional integration and financial cooperation types through Chinese networks. This might open a way for the EU and European financial institutions to develop better cooperation networks with CEE countries.

On the other hand, since the scope of this thesis also covers analyzing the EU effect on Chinese development finance, Balkan countries within CEE matter more. Since the Balkan countries are either EU membership accession process or in potential candidate status, are not similarly binding to the EU rules and standards in terms of investments and fiscal policies. Therefore, Chinese development finance among these non-EU members has expanded more, specifically. Aside from the BRI map and 16+1 Forum, situations of Balkan countries have opened a new cooperation mechanism to Chinese development finance. As of late 2020, China has increased its major investments in infrastructure and energy for this region in the CEE (Zakić, 2022, p. 229). The problem with accessing the EU funds for members, and participation in European infrastructure projects allows Chinese actors to present more in this region.

However, the CHEXIM and CDB have encountered major problems such as solvency problems, risk management, or environmental issues mostly in these countries, and it led them to transform their financial agenda and cooperate with their European counterparts. In this case, since the Balkan countries provide more evidence about large Chinese investments and the non-EU experience, is analyzed as a sub-region in this thesis, specifically for the case of Chinese development.

By analyzing two cases, this study employs both qualitative and quantitative resources. The qualitative evidence used in this research consists of primary and secondary sources such as statements of executives, governments' official documents, financial institutions, and other organizations' documents, reports, and press releases. I also use the official statistics of banks on financing and countries' economic parameters regarding quantitative sources. One of the main problems of Chinese development finance is missing and unrecorded data. Thus, I also use data from AidData's Global Chinese Development Finance Dataset and Boston University's Dataset on Chinese development finance. I also collect other secondary sources from various institutions to support my analysis.

1.2 Organization of the Thesis

This thesis is divided into five chapters. Following this introductory chapter, Chapter 2 reviews the relevant literature on development finance and lays out the study's theoretical framework. The chapter first presents a theoretical basis for the current transformation of the global development finance regime or the nexus between traditional and emerging actors. It later focuses on characterizing traditional Western-led development finance by explaining how it existed and altered over time. The historical process of the neoliberal actors and development finance, along with certain peculiarities, are elaborated. It then moves on to unpack the Chinese-led development finance as an emerging power in the development finance regime by examining the similar framework with the traditional actors.

Further on, prominent ideas in the development finance literature are elaborated on. Following this, main studies on Chinese development finance are analyzed. Then, the systematic understanding of the conceptualization of two-way interaction between traditional and Chinese development finance actors is discussed through relevant literature. This chapter concludes with a discussion on how traditional development finance actors meet with the new Chinese-led financing and how both sides possibly influence each other.

The third and fourth chapters present the empirical parts of this thesis, which explain how mutually transforming effect works upon Chinese and European-led development actors after interacting with each other in the CEE region. Chapter three analyzes the mutually transforming effect on CDB and CHEXIM by asking how European-led institutions influence Chinese banks in the CEE region. To grasp a better understanding of these banks' characteristics, it starts by explaining their general background in overseas financing. It then focuses on their financial activities and cooperation in the CEE region. This would also allow us to emphasize why Chinese development finance in the CEE region is important for European development finance on the ground of its policy and financing reforms. Before concluding, the chapter discusses the mutually transforming effect on Chinese banks by bringing causal explanations through 'how' and 'why' questions. Moreover, the EU effect on the CEE countries and how Chinese actors are exposed to it are also elaborated on in this section which provides insights into why components of mutually transforming effect.

Chapter four traces the European development finance and its interaction with the Chinese actors. The chapter begins by providing the historical background of the EBRD and EIB from their establishment to today. Also, it discusses how European-led development finance diverges from other traditional multilateral development banks (MDBs). It argues for regional development and the importance of the transition of the CEE countries to a market economy as well. Afterward, it explains how the EBRD, and EIB financing have altered over time in the CEE region. In the light of the historical background and Chinese presence in the region previously presented, the mutually transforming effect was discussed in the EBRD and EIB.

The fifth chapter concludes the thesis with a brief analysis of the main points, findings, and summary of the two empirical cases. It also discusses the limitations of the argument and presents suggestions for further studies in the development finance literature.

CHAPTER 2

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Current transformations in the global finance regime and the proliferation of new actors and institutions in international development cooperation show that development finance is an essential area for the study of international political economy (IPE). As such, academic interests have been steadily growing in the transformation of the global development finance regime or the nexus between traditional and emerging actors. The origins of development finance take roots in the 1950s at a time the goal of the development agenda was to rebuild the nations that were destroyed in World War II (Carvalho et al., 2019, p. 473). Thereafter, new sources, financial actors, institutions, and sectors were added to the development finance and aid scope over time based on the international agenda and nations' needs. Since that period, development finance and financial assistance to nations in need have evolved into an academic debate in IPE.

This thesis focuses on the interaction and convergence between traditional and emerging financial actors in global development finance, amongst other debates in the literature. Before examining the existing literature on the dynamics of development finance, analyzing how development finance and its creditors have transformed over time and how motivations and perceptions of traditional and emerging actors in development finance have formed are essential for this research.

2.1. Western-led Development Finance: Analyzing the Neoliberal Approach

The period from the late 1970s to the 1990s witnessed a major upsurge in the implementation of neoliberal ideas in terms of development among countries. This shift in the global economy represented a reaction to the crisis in the Keynesian model that was dominant during the period from the end of the Second World War to the 1970s, in which the state had played an active role in the process of development (Öniş & Şenses, 2005, p. 264). During this period, the structural adjustment approach had begun to be supported under the neoliberal development model (Best, 2014, p. 4). The new model targeted much wider away countries' domestic policies, including encouraging privatization, minimizing state intervention, promoting the primacy of market-friendly orientation to the countries' economic policies, and liberalizing international investment, trade, and labor. These principal targets in the neoliberal model had merged in the context of a policy paradigm that John Williamson famously coined the term "Washington Consensus" in 1989 (Best, 2014, p. 50). The central tenet of the Washington Consensus was an associated set of conditionality measures, including privatizing state-owned industries, removing trade barriers, and decreasing state intervention in development (Babb, 2013, p. 268).

Powerful ideas on development then tend to be institutionalized and transmitted to the periphery over time through leading international organizations (Öniş & Şenses, 2005, p. 265). The major Western-led institutions in global finance, mainly the International Monetary Fund (IMF) and the World Bank (WB), have practiced neoliberal principles within the set of policy prescriptions of the Washington Consensus and became leading financial mechanisms to maintain this model. During the period when structural adjustment and strict conditionality were dominant approaches in international development finance, both the IMF and the WB had scaled up their lending to more low-income countries in the world (Best, 2014, p. 48). These backward nations lacked to formulate effective policies and programs to manage this money for their development. In this regard, besides their creditor role -as the representative institutions of the Washington Consensus- the IMF and WB had conveyed sets of ideas and adjustments measures to the developing country context (Gavin & Rodrik, 1995, p. 332). This gradual expansion to the world by the WB and IMF was underpinned by the idea that implementing structural adjustments and conditionalities can be universally applicable.

Although both the IMF and WB have worked under such principles as twin institutions, and their policy practices have shown similar trends, the WB has become the prominent institution in financing the development of nations with structural adjustment loans. The subsequent regional development banks and institutions have implemented the WB's norms and practices.In the course of its action, the WB has been deeply involved in almost every facet of development and became a prominent actor in supporting and building a partnership with developing countries worldwide. In the 1950s and 1960s, the WB had played a central role in providing infrastructure loans to the poorer countries for their industrialization process. By the later 1970s and onwards, as mentioned above, the WB had begun to focus on economic policy reforms for secure growth and privatization (Miller-Adams, 1999, p. 2). Several countries in this realm had expanded these reforms in their domestic economies while receiving loans from the WB. Through that mechanism, the expansion of trade and investment liberalization reforms helped the countries foster their economic development from abroad.

Meanwhile, the number of Western-led financial institutions s have proliferated over time. Several regional banks and financial institutions have been established in different regions with different targets. Most of them imitated the neoliberal norms and rules as of the IMF and WB have practiced. The establishment of the European Bank of Reconstruction and Development (EBRD) and the European Investment Bank (EIB) are the two major institutions in that context. Firstly, the EBRD was formally established on May 29, 1990, and became operational on April 15, 1991. The main target of this institution was providing loans, reform programs, and policies for the economic integration of the post-Soviet space into the liberal market economy (Shields, 2020, p. 231). In the later periods, the Bank enlarged its activities by focusing on more European economies.

The priority areas of the EBRD operations were laid out in its founding constitution. *Article 1* of the Banks' constitution indicated that "In contributing to economic progress and reconstruction, the purpose of the Bank shall be a foster transition towards open-market oriented economies and to promote the private and entrepreneurial initiative in the Central and Eastern Europe countries committed and applying the principles of multiparty democracy, pluralism and market economics" (EBRD, 2013). This overlaps considerably with the WB and the IMF by following principles of the Washington Consensus. However, it is also distinct from these international bodies as the first pan-European institution linking the Eastern European countries to Western Europe and mandating to facilitate democratic political change (Shields, 2021, p. 171; Shields, 2020, p. 239).

Secondly, the EIB is the European Union's development bank which was established in 1957 under the Treaty of Rome to meet the needs of European states' cross-border investments, development, and integration after the Second World War, where the international institutions' contributions were not adequate (Clifton, Diaz-Fuentes, & Gomez, 2021, p. 99). Like the EBRD, the EIB had expanded its activities beyond Europe under neoliberal realms and described itself as the EU's leading financing institution (The EIB, 2005).

Nevertheless, neoliberal dominance in global development finance has not always given a successful result for countries' economic clout. Even some scholars argued that heavy adjustment measures of multilateral financial institutions provoked several economic crises in the world, such as the 1997-1998 Asian crises and 2008 global economic crisis and reduced the growth and development process of developing countries (Babb, 2013, p. 270). Of course, it would be an exaggeration to say that all issues struggled by developing nations during this process were due to the neoliberal model of development and traditional institutional policies. Some of these problems had existed long before the neoliberal model was becoming dominant; yet the implementation of these reforms has not solved the problems, but rather aggravated them (Öniş & Şenses, 2005, p. 272).

The neo-liberal policies that were both implemented by the WB and the IMF, and other Western regional institutions hit the poorest nations most. These countries were committed by the Western institutions that the new economic model would bring them unprecedented success in their economic growth. Yet, it brought unprecedented poverty (Stiglitz, 2002, p. 6). These institutions pushed poorer nations to internationalize their market, but it volatilized their capital income. While they had imported products more Western economies but deprived to export income due to their limited instruments, technological development, and production capacities (Krugman, 2007, p. 2)

The overall growth remained insufficient than expected for many developing countries. Also, the degree of inequality among advanced and developing countries had increased and in parallel, to it, poverty had become a serious problem for most of these countries. The WB announced that the number of people in the world living on less than a dollar per day had remained almost the same and the global poverty rate had slightly decreased from 28.3 percent to 23.3 percent between 1987-1999 (Fischer, 2003, p. 8). The long-lasting Western-led neoliberal financial structure resulted in almost two billion people in danger of becoming marginal to the world economy (Collier & Dollar, 2001, p. 10).

These problems and major economies crises have challenged the legitimacy of the existing international system and its institutional bodies. Both the G20 and G7 officials, in that sense, bring international regulatory reforms to the table, mainly based on widened bodies and institutional set-ups (Helleiner, 2010, p. 622). In parallel to the reform agenda, the announcement of Millennium Development Goals (MDGs) first and later Sustainable Development Goals (SDGs) were potentially powerful signals to demonstrate a shift in the global economic agenda of Western-led finance institutions (Sachs, 2015, p. 231).

Meanwhile, regional banks such as the EBRD and EIB had opened several policy changes during and after the 2008 and 2011 economic crises to restructure the vulnerability of several European countries' economies. These crises plunged many Central and Eastern European Countries (CEEC) into a deep recession (Shields, 2022, p. 264). In parallel to it, the EBRD and EIB had been closely involved in the recovery of these economies by bringing new reform and policy agendas. Adhering to the neoliberal principles, these institutions were committed to being a part of the solution. The 2008 Annual Report of the EBRD indicated,

> "Finding and financing worthwhile projects will be more difficult in a region affected by the crisis and a reduction of FDI flows. At the same time, the crisis brings opportunities to accelerate change and support structural reforms required to foster transition and take advantage of the return to growth. Most countries are demonstrating continuing market reforms and democratic processes. A crisis can lead to reversals but can also create new opportunities in healthier and stronger systems. The EBRD is committed to being a catalyst in this process" (EBRD, 2008).

After the crisis period, Jean-Claude Juncker was elected to the European Commission (EC). With his attempts, the Investment Plan of Europe and the European Fund for Strategic Investment was announced to bolster economic recovery (Mertens & Thiemann, 2019, p. 24). The EIB had taken a leading role in these plans by leveraging funds from the EU budget to mobilize private investments across Europe.

Despite the growing emphasis on reforms within the international structure in the global development finance regime and efforts of the Western-led regional banks to recover vulnerable economies with new programs and policies, the idea that actualization of growth and development through the neoliberal economic model has weakened its validity among developing countries. The continuing problems of the model's low-level economic growth, poverty, and market inequality were the main reasons behind this outcome. Yet, the rise of new actors and institutions and the success of their economic development, poverty reduction, and international trade have weakened the idea that actualization of growth and development through the neoliberal economic model.

These emerging economies do not fully follow the neoliberal path but, rather, prefer mixed economies. This situation opens a door for emerging economies to expand their influence in global development finance. As a leading actor in that process, China has presented an alternative model to global development finance.

2.2. Characterizing Chinese Development Finance

Since traditional actors within the global development regime have been questioned in the aftermath of economic crises, with its divergent lending and development agenda, China has expanded its presence worldwide. Since the 2008 global financial crisis, Chinese multilateral banks, mainly the Exim Bank of China (CHEXIM), the China Development Bank (CDB), and the Asian Infrastructure Investment Bank (AIIB), have become the most prominent Chinese lenders all around the world, and actively participated in the recovery process of the post-crisis era. Indeed, as of 2015, China's two national policy banks (CDB and CHEXIM) have allocated more financing loans to emerging market and developing countries than all Western-backed development finance institutions combined (Chin & Gallagher, 2019, p. 246). In that sense, Chinese development finance has become a growing competitor for Western-led traditional financial institutions.

Beyond the number of financial loans to the developing world, differences in policy tools, concepts, principles, and lending practices also differentiate Chinese development finance from the traditional understanding. China's focus on development finance is mainly on infrastructure lending and rapid industrialization, contrary to the practices of traditional actors. The divergent nature of tools and norms in Chinese development finance is based on a reflection of the country's perspective on international development and self-interests. China's development finance on infrastructure projects is officially depicted to achieve *win-win* cooperation and mutual benefit in the context of creditor-recipient relations. In his speech at "Asia's Community of Common Destiny" forum in 2015, President Xi Jinping spelled these concepts by demonstrating China's main targets for development and finance relationships:

> "All these sayings speak to one same truth, that is, only through win-win cooperation can we make big and sustainable achievements that are beneficial to all. The old mindset of zero-sum game should give way to a new approach of win-win and all-win cooperation. The interests of others must be accommodated while pursuing one's own interests, and common development must be promoted while seeking one's own development" (Ministry of Foreign Affairs of the People's Republic of China, 2015).

The prior area of Chinese development finance thus, has shifted to the BRI (Jones & Zeng, 2019, p. 1416). Several projects under the BRI network are mega infrastructure projects. Besides the loans of prominent Chinese development finance institutions, China has allocated more than 20 special funds to finance the BRI abroad (Liu et al., 2020, p. 5).

Yet, some scholars argue that even though the developing world is welcoming investments in the mega infrastructure projects from Chinese financial institutions, the loans provided by Chinese banks often contribute more to the Chinese economy than the recipient side (Miller, 2019, p. 49). By lending to developing countries, China expands its sphere of influence in the global economy and accelerates to amplifying of its economic clout.

Additionally, Chinese national development banks, the CDB and CHEXIM, are considered malevolent state policy tools surging into the developing nations across the World in a context that defied the norms and rules of their Western counterparts

(Sun, 2014). This criticism is related to the diverging characteristics of the Chinese development finance and policy implementations of its financial institutions.

Financial credits of Chinese development banks' offer fewer conditionalities to the recipient states in contrast to traditional international financial institutions. China claims that it does not attach any political preconditions for providing financial assistance or loans under the non-interference principle and does not push states to the heavy burden on domestic structural reforms in their economies (Jin, 2012). Besides, there is no clear separation between foreign aid and development financing in China's case. The aid and development finance programs of traditional actors can easily be assessed since these programs well-structured under the global standards and focused targeted cases and fields. In this context, foreign aid can easily be assessed in the Western countries' policies as a policy tool applied with the aim of fostering their hard and soft power on recipient countries (Tokdemir, 2017, p. 819). The development finance actives are considered to promote neoliberal development abroad. However, this distinction is not clear in the China case. The bulk of Chinese financing to different regions falls under the category of development finance, not a foreign assistance (Sun, 2014). Chinese policymakers and financial institutions blur this distinction by offering different types of loans, financing and aid programs which are not parallel with the Organization for Economic Co-operation and Development (OECD) definition of aid and development finance. This means that Chinese-led development financing contrasts in many aspects with the neoliberal model enshrined in the Washington Consensus.

Another important characteristic of Chinese development finance is that China builds its relations through bilateral channels during the lending process, mainly with local governments than multilateral channels. Also, Chinese financing is usually driven by the request-based model which recipient countries demand loans for their self-interests and needs (Dreher et al., 2019, p. 48). However, some scholars argued that China's financing strategy on bilateral relations, loans, and unconditionality policy, might harm the Western attempt to provide good governance and stability and exacerbate states' authoritarian tendency (Naim, 2007). Chinese loans or financial aid delivery through bilateral relations and request-based systems overlook a thread of corruption, and it may give recipient countries' governments a possibility to use the funds to favor patronage networks (Isaksson & Kotsadam, 2018, 147).

Having mentioned the general framework of Chinese-led development finance, it is further important to demonstrate the main characteristics of Chinese financial institutions. During the 1994 reforms of financial structure in China, the government established the CDB and CHEXIM as two of the policy banks. These policy banks often overlap with the definition of a financial institution established and guaranteed by the government and bear the responsibility to offer economic and financial policies (Junda, Gallagher, & Ma, 2018, pp. 2-3). In other words, these institutions provide financing for policy-oriented projects constituted by the government concerning development plans or industrial policies (Lardy, 1998).

The CDB and the CHEXIM have different responsibilities. The CDB is lending strategic development areas laid out in the government's Five-Year Plans, including transportation, electricity, water resources, civil aviation, and urbanization (CDB, 2020). The CDB has also increased its overseas financing over time, mainly under the BRI framework. In contrast, CHEXIM achieves Chinese government objectives by providing loans to overseas infrastructure and investment and using export credits and concessional loans (Walter & Howie, 2021, p. 53).

The AIIB was created in 2015 by signing a Memorandum of Understanding by the leadership of China and 56 nations (Chin, 2016, p. 13). The primary purpose of the Bank indicated in the first article of the Bank's Articles of Agreement is "(I) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors. (II) promote regional collaboration with other multilateral and bilateral development institutions" (AIIB, 2016). The AIIB was first established to support infrastructure and development across the Asian region, but later, its launch expanded worldwide (Chin & Gallagher, 2019). By June 2018, the AIIB had reached 86 members from different continents (Chin, 2017). Diversly from the CDB and CHEXIM, the AIIB is considered among the multilateral development banks (MDBs) by sharing similar features with its Western counterparts. The Bank only lends in dollars and forms its policies on project financing (Chin & Gallagher, 2019, p. 246). However, despite similar characteristics shared with the Western-led MDBs, some sources reported that the AIIB does not implement general norms and rules of the traditional development finance. The AIIB requires projects to be legally transparent but does not ask recipient countries to alter their domestic financial structure with relevant reforms for loans (Qing, 2015).

In sum, Chinese development finance and its financial institutions offer an alternative path and sectoral focus to the borrower countries and open a way for their industrial and infrastructure development. However, although some scholars and policymakers might consider this way of financing as a complementary part of the neoliberal traditional development finance, severe criticism concerning China's lending behavior and principles has become essential among scholars and policymakers.

On the other hand, neoliberal forms of development financing have not reached a consensus on how to provide better institutional standards and sector-specific loans. At that point, as a primary scope of this study, it is essential to build a theoretical framework associated with mutual interaction between Western-led and Chinese ways of financing to offer better policies and loans to the developing nations.

2.3. Background Analysis of Changing International Development Finance: The Role of Chinese and Traditional Actors

The existing literature that explains the current changes in international development finance is vast. It involves debates regarding policymaking, institutional structures, sectors, cooperation, loan types, and effectiveness. China has been widely researched with various perspectives, as the country has become one of the main drivers of development finance in the new millennium. Preliminarily, Naim (2007) characterized Chinese development assistance as *'rogue aid.'* After his argument, various studies in the literature have examined Chinese development finance and lending practices with different positions: hazardous and uncertain or beneficial and complementary.

Similar to general debates in the international development finance literature, studies on China's role and impact on the existing global financial structure have addressed multiple issues. Mainly, debates in the literature have revolved around these main questions: (1) What is Chinese development finance, and how can it be defined and categorized? (2) How does the growing Chinese position affect the global development finance structure? And does it complement or undermine the traditional creditors and institutions' lending practices and principles? (3) What are the main shortcomings of Chinese development finance? (4)

2.3.1. Main Issues about Chinese Development Finance in the Literature

As an emerging actor in global development finance, China has become one of the leading creditors with its large volume of aid and loans and its distinct financial characteristics. Several studies have examined Chinese types of financing and new institutions in the literature, yet there is no consensus among scholars on categorizing, examining, and defining them. Besides, its efficacy and potential risks have also been contested in the literature.

Chellaney (2017), who coined the term 'debt-trap' diplomacy for Chinese development finance worldwide, emphasizes that Chinese lending practices are based on extending unsustainable heavy loans that borrower countries struggle to repay. These loans are often intended not to support countries' development or support the domestic economy. Instead, Chinese loans caused a heavy debt burden on recipient states' governments, and they are becoming vulnerable to China's sphere of influence.

Adverse outcomes of the Chinese financing have not solely been discussed through the bilateral, state to state relations. Hopewell (2019, p. 635) examines the state-backed export credits, which are one of the key tools of Chinese development finance. She asserts that the disruptive effects of the Chinese government's subsidization on export credits erode the efficacy of exiting global rules and the competitive spiral of international trade.

On the other hand, some scholars have supported Chinese state-backed development finance by claiming that it corrects the failures of the traditional way of development finance. For example, Chen (2020, p. 437) assesses state involvement in Chinese development finance and highlights that state involvement in financial activities and institutions is altering. The state is not directly channeling capital; instead, it enhances the capability of projects with indirect support. In that way, fiscal capability and infrastructure financing problems can be solved.

Similarly, Liu et al. (2020, p. 4) analyze the Chinese financing of mega infrastructure projects in several countries in the world under the BRI and argue that development finance with Chinese characteristics adheres to win-win cooperation and mutual benefit principles. Through that way, it distinguishes itself from the traditional Official Development Assistance (ODA) or Other Official Flows (OOF) model featuring a donor-recipient relationship, and thus, Chinese-led development finance offers mutually beneficial cooperation to the countries with equal footing relationship in development finance.

Moreover, Chin and Gallagher (2019, p.245) investigate distinct parameters of Chinese development finance. They contend that Chinese development finance has significantly diverged from Western counterparts along with three parameters— the scale and business model, the composition and approach of the lending portfolio, and the governance of financial institutions. These differences can be considered complements of the traditional financial actors and institutions given that much of Chinese foreign aid and financial loans have flowed into the sectors that Western counterparts have ventured to a lesser extent. At the same time, Chin and Gallagher coined a term in their article to explain the international diffusion of Chinese development finance as ‘coordinated credit spaces,’ and they argued this model contrasts with the traditional creditors and institutions’ business models, governance, and lending practices, and might trigger rivalry among traditional and emerging actors in international development.

Another contested topic on Chinese development finance is how its foreign aid and financial lending practices can be categorized based on the OECD’s official definitions and classifications, Official Development Assistance (ODA) or Other Official Flows (OOF). Bräutigam (2009, p. 162) presents an alternative concept concerning this issue. She concludes that comparing traditional finance institutions (mainly the World Bank) and Chinese (especially China Exim Bank) in the African continent is like comparing apples and lychees. Moreover, in her further study, she used the same terminology as comparing ‘apples’ and ‘oranges’ to identify Chinese development finance based on the OECD’s ODA categorizations. She argues that China’s export credits, non-concessional state-backed loans, or aid practices might be developmental, but these financial practices cannot be categorized within the ODA practices (Bräutigam, 2011, p. 755).

Dreher et al. (2018, p.184) have joined this debate by using ‘apples’ and ‘dragon fruits’ as an alternative concept. Using a new dataset on Chinese official financial flow in Africa, they argue that China provides both ODA as grants and financial loans, but with different purposes. ODA is used chiefly for foreign policy goals, while official financial loans follow the economic interests of China. Underreported data and the lack of transparency in Chinese development finance have also been met by concern in the literature. Some scholars have highlighted the importance of more complete and accurate data on China’s lending practices to track better the quality and effectiveness of development finance (Dreher et al., 2017, p. 3). In that respect, several studies in the literature have focused on demonstrating the amount of Chinese development finance worldwide. By creating various new dates and discussing methods, these studies attempt to complete missing data in the official records of China's financial loans and aid (Dreher et al., 2018; Strenge et al., 2017; Brautigam & Gallagher, 2014).

2.3.2. Conceptualization of Two-way Interaction: The Literature on Western vs. Chinese Development Finance

During the last two decades, the boundaries of Bretton Woods institutions and their core policy paradigms, rules, and norms have changed over time and place in response to emerging actors and current dynamics in the global economy (Held & Schmidtke, 2019, p. 1169; Ban & Blyth, 2013, p. 241). Precipitating causes of the reforms in the traditional institutions and actors in the global development finance are based on the growing presence of the newly established institutions and emerging actors, which have divergent policy paradigms, rules, and practices in terms of financing. Indeed, the most significant part of these debates was generated through the sprawling influence of China's role in global finance.

Some scholars asserted that although Western multilateral development actors have changed their rules and structure in line with current dynamics in the global economy, they still have been lagging in response to China's ascending dominance in the global economy (Skalamera Groce & Köstem, 2021, p. 2). China and other emerging actors have been long displeased with the existing structure of traditional global finance institutions, which favors Western countries even though their influence has been declined (Owen, 2020, p. 265). Traditional institutions' reluctance to grant China and other emerging actors with equal chances and voting share within their framework has resulted in the establishment of Chinese-led international finance institutions to seek its model of development, which involves a preference of bilateral relations, more flexible agreements with the recipient states and alternative lending practices.

In the light of the extensive body of research on multilateral institutions and actors in global development finance, it can be argued that the divide between neoliberal Western-backed development finance versus the growing influence of China’s emerging state-capitalist model of financing in the international financial regime is the key focus of these studies. Are China-led development finance and state-driven institutions significantly different from traditional lending practices and standards? Does Chinese development finance complement Western-backed institutions or undermine global finance's core norms and rules with its diverse characteristics? Scholars have unpacked these sets of questions and issues by contributing to the development finance literature with a set of different perspectives.

In fact, a large part of global development finance is taking place amidst a growing interaction between two distinct models and institutions. Therefore, it is likely to expect that both sides have influenced each other in their transformative development finance agenda. Several studies, in this case, have focused on how traditional Western-backed and emerging Chinese models of development finance influence and transform each other. Unlike the underlying emphasis of Bräutigam (2009 p. 161; 2011, p. 756) and Dreher et al., (2018, p. 181) on the definition and categorization of Chinese development finance in the global economy, many studies in the literature predominantly focus on the process of interaction between Western and Chinese rules, structure, lending practices, and sectoral focus.

In a leading study, Chin (2012, pp. 211-212) points out that unlike the conditions of 1980 to 2000, when China had experienced “one-way of socialization” by internalizing the norms and rules of the World Bank (WB), today we are going through a phase of weakening the U.S. hegemonic leadership under the multilateral financial institutions; so, China also shapes the norms, rules, and practices on global institutions. In that case, he argues that in such a scenario, the conceptual framework of the relationship between the WB and China can be defined as a ‘two-way socialization’ such that both sides have contributed to their transformation in development finance. China has internalized the norms and practices of the Bretton Woods institutions during the 1980s and 1990s; Chin suggests, however, that since the 2000s, China is no longer only learning from these institutions; instead, it has actively involved the WB’s reforms on existed norms and practices (Chin, 2012, p. 213).

Katada and Liao's (2020, p. 450) work parallels Chin’s approach. They examine a similar standpoint by comparing Chinese and Japanese finance policies on infrastructure development in Asia. Despite the presence of a significant rivalry and competition among their financial practices and institutions, they find that “development norm convergence” has performed under such rivalry. Accordingly, while China has emulated Japan’s development norms and practices, at the same time, Japan has also altered its infrastructure lending in Asia.

Moreover, convergence and mutual transformation can also be seen in sector and region-specific cases. In that sense, another study on the mutual transformation between traditional and Chinese-led development finance has focused on the energy sector in the post-Soviet region. Skalamera Groce and Köstem (2021, p. 3) investigate Chinese and Western Multilateral Development Banks in the energy sector in Central Asia and the Caucasus. They argue that a “dual transformation” is underway; the WB and EBRD have begun working with local stakeholders and are now more invested in the reform effort, while China has integrated some of Western MDB's market principles and environmental targets in its development agenda.

On the other hand, the literature on how traditional and Chinese development finance has affected each other is not solely discussed through mutual transformation. In this respect, some other scholars have emphasized that China, as the most considerable provider and rule-maker in the global economy, is altering traditional understanding of global development finance and, in several instances due to the newly established institutions in global finance (Zeits; 2021, p. 266; Chin & Gallagher, 2019 p. 247; Dollar, 2018, p. 284).

Vazquez and Chin (2019, p. 595) examine the AIIB's position to invest in sustainable infrastructure. In a particular finding, they point out that through an argument of "hybrid layered approach," the Bank is following the "do not harm" pathway of the traditional way of development finance by using safeguards, but with a more innovative and transformative agenda to generate positive developmental spillovers. Moreover, Zeitz (2021, p. 268) finds that within a competitive structure, the rise of China changes the type and understanding of the development among traditional donors. Since Chinese development finance is mainly targeted at mega infrastructure projects, she suggested that traditional donors might emulate the Chinese approach to development by allocating more room to the infrastructure sectors and other areas where China invests more.

Although Chinese financing has brought a new wave of understanding to develop and pushed traditional institutions and actors to renew their lending patterns and rules, critical arguments have also existed in the literature. For example, Kragelund's (2015, pp. 247-248) study on Africa argues that although African governments have gained more policy space which provides them a choice among development partners after the revival of China's development finance, this does not fundamentally change the relations between African countries and their traditional lenders. As the trend currently is about convergence and cooperation between China and DAC donors, and not divergence and competition. Since China and other emerging donors such as Mexico, Turkey, and South Africa are increasingly playing DAC rules in Africa, it diminishes the likelihood of playing out one actor against the other.

Moreover, Dollar (2018) accepts that China's development finance is different from the traditional norms and rules, especially in terms of transparency, safeguards, and debt sustainability, but he added that this difference is not a challenge to the existing global economic order. Instead, there is specific sign that China is evolving in the direction of international rules and norms. In a more recent study, Held and Schmidtke (2019, p.1161) bring an alternative approach to the table by showing that despite institutional proliferation and new understandings, the existing traditional regime, which consists of Bretton Woods institutions as well as the Washington Consensus as a policy paradigm, continues to shape global development finance regime. They claim that the WB has transformed in some respects but not displaced its core features. Also, the emerging MDBs such as the AIIB and the NDB do not challenge the traditional development finance; they instead attempt to cooperate with it.

Overall, these multiple bodies of works in the literature have provided a powerful path for grasping the main logic behind convergence and divergence between traditional Western-led and Chinese development finance and the process of how both sides have transformed their norms, rules, and lending behavior over time. These main approaches in the literature on the changing nature of development finance between traditional and emerging actors assume that no single account can explain the *West vs. China* dichotomy in the case of development finance.

Accordingly, the current transformation in the development finance agenda is the outcome of a process contingent upon various dynamics. It would not be wrong to argue that traditional versus Chinese-led development finance and their role in the global economy cannot solely be explained through contestation or contradiction. Instead, a two-way influence and interaction can be found in several instances to develop better policies and lending mechanisms. Thus, in this thesis, I develop my argument based on this perspective by testing how the Chinese and Western-led multilateral development banks have interacted in Central and Eastern Europe and how their policy agenda on development finance has changed over time.

The CEE countries have been receiving different development finance practices from different financial actors since many of them became independent after the dissolution of the Soviet Union. In the transition from a socialist economy model to market economics, this region first received large amounts of credit from the Western-led European Banks concerning structural and political change. That period presented a profound structural transformation in these countries (Berglof, 2015, p. 120). Therefore, it provides abundant evidence of the traditional form of lending behavior of the European Development Banks since these banks gave a large number of loans to this region. During the 2008-2011 era, the CEEC had experienced a dramatic economic downturn, and the number of investments in this region had decreased. The neoliberal structural reforms promoted by the European development banks had become questioned among these states.

Meanwhile, ever since Chinese development finance has expanded worldwide with its unique characteristics, the CEE region has begun to receive large amounts of mega infrastructure loans in different sectors such as transportation, energy, and technology from different Chinese-led development finance institutions. Given the development and financing history of the CEE region, I argue that this region would offer evidence to understand how the traditional way of development finance meets with the new Chinese-led financing and how both parts influence each other.

The following chapter provides an empirical study on Chinese development finance in the CEE countries. It starts by analyzing the financial activities of the mentioned Chinese banks in detail. Afterward, the chapter details how Chinese-led development finance has changed its norms and practices after interacting with Europe's traditional development finance institutions.

CHAPTER 3

CHINESE-LED DEVELOPMENT FINANCE IN THE CEE REGION: INCREASING PRESENCE OF AN EMERGING CREDITOR

The world's second-largest economy and foreign investor, China's presence have permeated the economic agenda of Central and Eastern Europe since the 2000s. The share of Chinese financial loans, FDI, and economic agreements that have flowed to this region within overall European investment is striking. Chinese economic and financial integration in this region has gained momentum after Hu Jintao visited the region in 2004 and during the crises between 2008-2011. This process has been supported by both creditor and recipient sides. While the CEE countries have started to search for new opportunities for their growth and economic recovery, China, in parallel, has sought to expand overseas opportunities to raise its prevalence in the world economy and become one of the dominant actors in the international development regime.

Simultaneous with the rise of Chinese investments in the CEE, there has also been an observed fact that Chinese development finance has experienced a profound transition in its structure concerning financial practices and credit patterns. While Chinese development finance has come to this region, it has also inevitably encountered traditional Western-led development finance actors, especially European development banks and in the political realm, the EU. In almost all processes of financing the projects across the CEE region, Chinese development institutions encounter Western-led institutions' neoliberal rules and procedures.

A close inspection of the two actors' financing behavior in CEE countries reveals that it is no stretch to argue that although both sides of development finance have divergent characteristics to some degree, they are mutually influencing each other and absorbing their practices. Once a mutually transforming effect between the traditional and Chinese models of development finance is observed in the CEE region, an essential question remains as to how China alters its lending practices and project finance over time.

To explain how Chinese development finance has evolved in the CEE region, it is essential to emphasize its interactions with the traditional European development finance actors. Analyzing the scope, types, and process of learning and interaction of Chinese development finance with traditional actors is the main focus of this chapter. In this way, I aim to bring more structural accounts to the main reasons behind the mutually transforming effect between Chinese and Western-led development finance.

This chapter unfolds the nature of Chinese development finance in the CEE region and how it alters over time after interacting with the region's traditional creditors. Before moving on with Chinese development finance in the CEE and the process affected by its Western peers, the first section provides the background of Chinese development finance on the global scale. The second section explains the relationship and types of financing programs between China and the CEE countries in terms of economic and financial cooperation. The following section analyzes the learning and transformation process of Chinese development finance. The final section concludes with the main argument of the thesis on the process of Chinese interaction with traditional creditors and its changing nature in the CEE region.

3.1. China as a Provider of Development Finance

The Chinese government and its development finance institutions have lent to low and middle-income countries since the early 2000s. Until today, Chinese loans and financial assistance have grown, making China one of the world's prominent actors in global development finance. Beijing has achieved being the lender of first resort for many countries globally. Before the 2000s, China adopted a *Going Global* strategy to encourage domestic financial institutions and companies to do business overseas in anticipation to deal with slower growth at home. Through this aim, Chinese policymakers have intended to reduce transporting goods to other countries, increase external demand for Chinese goods and services, acquire advanced technologies from developed nations, and get secure energy and raw materials (Dreher et al., 2022, p. 11). Former President Jiang Zemin stated that "Regions like Africa, the Middle East, Central Asia, and South America with large developing countries have very big markets and abundant resources; we should take advantage of the opportunity to get in" (Chen, 2009, p. 33).

Beijing's primary focus has been upholding economic growth at home. China was accumulating vast foreign exchange reserves through its annual trade surpluses, which it had gained from its overproduction and supply of manufacturing goods during the first two decades of its economic opening. The country's foreign exchange reserves soared roughly from USD 212 billion in 2001 to USD 2.9 trillion in 2010 (Park, 2016, p. 13). Yet it caused a risk that if the government allowed these foreign exchange reserves to enter the domestic market, it would trigger high rates of inflation (Zhang, 2011, p. 2). Chinese policymakers tacitly acknowledged that motivation to engage in lending mega projects overseas was related to the boom in its foreign exchange reserves and overproduction within the domestic realm. To address this problem, the going out strategy sought to shrink domestic market supply and increase global demand (Dreher et al., 2022, p. 4). In 2009, the Former premier of State Council Wen Jiabao, stated that “We should hasten the implementation of our ‘going out strategy and combine the utilization of foreign exchange reserves with the ‘going out of our enterprises” (Anderlini, 2009).

Meanwhile, Chinese outward financial investment (OFDI) flows increased from nearly zero to USD 120 billion in 2014 (Guerrero, 2017, p. 8). Beyond the efforts to reduce the heavy burden of foreign exchange reserves within the domestic market, China’s going out strategy also catapulted the country’s role in the global development finance; China has gradually become a dominant actor in infrastructure financing worldwide. For funding OFDI flows to different countries, Chinese state-owned development banks have offered concessional and non-concessional forms of loans and export credits in various different regions of the global economy such as Latin America, Sub-Saharan Africa, and Southeast Asia.

Much of the controversy among all these developments is about China’s forms of overseas development spending. There is no clear separation between project finance with grants and low-interest loans (foreign assistance) and credits at market rate (development finance). Starting from the 2000s and China’s going out program, the country has provided mostly financial debt rather than aid. Only 23 percent of overseas spending in China between 2000-2014 meet the OECD definition of ODA (Dreher et al., 2022, p. 26). Indeed, a Chinese form of aid is defined way more different than the traditional donor perspective in its official documents.

In 2014 White Paper on China’s foreign aid indicated that “In light of the economic development of different countries, China arranges grants, interest-free loans and concessional loans in a well-proportioned manner to help recipient countries with the much-needed infrastructure construction” (The State Council of People's Republic of China, 2014). Therefore, the blurring of the distinction between Chinese foreign aid and development credits received many critics from its Western peers by saying Chinese development finance institutions have divergent purposes than development: exploiting natural resources, winning the loyalty of authoritarian regimes, and pursuing unfair competition in the global market (Dreher et al., 2018, p. 183).

Another major source of critics among scholars and policymakers is Beijing’s financing of risky projects that would not be funded by Western MDBs and development finance institutions. In 2017, The Economist argued that “this China seems to be repeating many of the mistakes made by Western donors and investors in the 1970s when money flowed into big African infrastructure projects that never produced the expected economic gains” (The Economist, 2017). However, some scholars argue that such a stepwise increase in the global development finance regime has arrived just in time, as many the countries have struggled with infrastructure, technology, telecommunication, and energy gaps where the Western-led development finance has been remaining behind (Gallagher et al., 2018, p. 313).

As mentioned in the previous chapter, infrastructure-intensive development finance, and foreign aid are funded by mainly Chinese policy banks and MDBs. The bulk of export credits, grants, and concessional and non-concessional loans are provided by CHEXIM and CDB. These are the leading funding banks for China’s expansion within overseas investments and global financial structure (Bräutigam, 2009, p. 80). According to Boston University Global Development Policy Center’s China’s Overseas Development Finance Database, from 2008 to 2019, CHEXIM and CDP overseas financing amounted to around USD 462 billion. More than half of it was spent on large-scale infrastructure projects (Ray & Simmons, n.d.). These banks are effective state tools that apply Chinese-led development finance norms besides their creditor role. Both development institutions have reached more than 90 countries for their financial operations over time.

CHEXIM is among the world's largest policy banks and export credit agencies. The Bank often provides loans to energy and infrastructure projects across the world. It is a specified export credit agency dedicated to encouraging exports and investments for Chinese companies, mainly in the energy and infrastructure sectors. CDB, on the other hand, is defined as the state policy's financial institution. As of 2016, the Bank has become the world's largest development finance institution and the largest Bank in China in terms of overseas finance, with its assets totaling USD2.24 trillion. The Bank exports financing for mega-development projects overseas and assists other Chinese banks in their global operations (Junda, Gallagher, & Ma, 2018, pp. 2-3).

The CHEXIM, CDB, and other Chinese commercial banks have followed a divergent model from their Western counterparts for financing development worldwide. China and Western-led development finance institutions often prioritize different sectors of the economy. Western-led institutions focus on multiple sectors, including providing healthcare, combating climate change, protecting human rights, and political stability. Chinese development banks, by comparison, prioritize economic and social infrastructure to address neglected development problems across the various regions of the world (Dreher et al., 2022 p. 8; Chin & Gallagher, 2019 p., 267). Unlike traditional creditors' project-by-project basis, China prefers to take a portfolio approach that includes packages of projects aligned with recipient countries' national development needs (Xu & Carey, 2015, p. 857). Together with the portfolio approach, the CDP and CHEXIM, at home and abroad, finance what they signify to as ‘strategic credit spaces’ where bundles of loans and export credits are allocated for coordinating projects (Chin & Gallagher, 2019, p. 256).

While the Western-led development finance actors and MDBs insist on following international standards of safeguards for their projects, Chinese development finance institutions often follow national standards for safeguards which are not as robust as global standards as they do not have strict monitoring and evaluation procedures (Parks, 2019). Beijing expressed little interest in participating in several international coordinating and sharing mechanisms of development finance.

However, although China seems to favor its go-it-alone approach, at one point, its development finance might be deadlocked. Several countries, global forums, and traditional development finance institutions have taken a trust deficit position towards China. It has isolated the country from the global economy and international development regime. After the BRI was launched in 2013, Chinese development institutions recognized that their projects needed global coordination with Western-led actors and harmonization with global and regional standards. The Chinese authorities have signaled preliminary interest in developing their structure of development finance by modernizing their monitoring and evaluation systems and strengthening their procurement guidelines and safeguards (Aamir, 2018).

It should be noted that this development does not mean that Chinese development finance institutions will accept all traditional Western-led standards for their projects; instead, it cooperates and coordinates with these actors to harmonize its structure and demonstrate that it is a credible creditor. Chinese development finance has a divergent characteristic in several ways from traditional development finance. Yet, its existing standards and characteristics limit its financing activities due to the mistrust of several states and actors globally. Also, China is now a shareholder of several Western-led MDBs and development finance institutions, including the WB, EBRD, and EIB, to increase its voice and voting share within these institutions (Chin & Gallagher, 2019, p. 262).

However, China might still lag behind without complementing basic standards and reforms. Chinese-led development finance, thus, needs to reform its structure in many ways and needs guidance for it. The best solution for Chinese development finance can be learned through traditional development finance institutions' practices, standards, and policies. Gradually, China has taken a step in different realms to build cooperation and coordination with traditional actors in the global development finance regime. In this context, the Central and Eastern European region is the one where China's development finance is most likely to interact with traditional Western actors. Given the ongoing economic development and political stabilization activities of the EU and European regional development banks in the region since the early 1990s, it can be argued that Chinese state-owned banks, as newcomers in this region, would be exposed to EU influence, and interact with traditional European creditors.

3.2. Emerging Creditor: Chinese-led Development Finance in the CEE

When people talk about China-European economic relationships, they are more likely to refer to China's relationship with the EU and the developed European countries, located chiefly in Western Europe. This stereotypical perception results from the long-lasting political and economic relationships between Western Europe and China dating back to China's beginning of economic reforms and open-up policies in the 1970s. Indeed, recently, the most significant part of China's economic and financial activities have been held in Western Europe. According to Metrics and Rhodium Groups' dataset on Chinese FDI in Europe, EUR 10.6 billion of Chinese investments flowed to Europe, and almost half of it was received by the most developed nations in the region respectively, Netherlands, Germany, France, and the United Kingdom in 2021 (Kratz et al., 2022, p. 5).

However, due to its intention to discover new markets among developing countries and developments in the global financial structure, several significant developments have been noted between China and the CEECs. China had gradually begun to recognize the significance of the CEECs concerning their geostrategic position, financial opportunities, and political positions from the early 2000s onwards when the EU established the eastward enlargement process. For example, in 2004, Chinese President Hu Jintao visited Poland, Hungary, and Romania. During his visit, he emphasized the importance of developing China-CEE relations by increasing mutual benefit, boosting financial and economic cooperation, and strengthening bilateral relations (The Embassy of People's Republic of China, 2004). China’s strategic attention towards the CEECs began with China’s new foreign policy perspective by seeing this region as a window of opportunity as part of a larger Europe strategy (Song, 2018, p. 3). On the other side, although the share of the CEE region within the Chinese overall development finance is relatively lower than other regions, China’s investments generate one of the largest shares of countries’ investment export.

The willingness to speed up economic and financial integration to the CEE region did not only belong to the Chinese side. At the first sight, for the countries of CEE, maintaining political and economic relations with China was not a strategic priority in the 1990s. Rather, their primary foreign policy goal was to join the European Union or receive aid and loans from Western institutions as soon as possible to ensure their economic development (Turai, 2018, p. 2).

Nevertheless, starting with the 2000s, the CEE countries had also accepted the importance of Chinese economic and financial presence in their region. After the crisis period between 2008 and 2010, both CEECs and China had increased their motivation to expand their economic relations and strengthen cooperation. At that time, the European and Western-led development finance actors considered that new investments in the CEE region would be challenging when the global economy was weak, and the global capital scarcer compared to the pre-crisis level (Mirow, 2010).

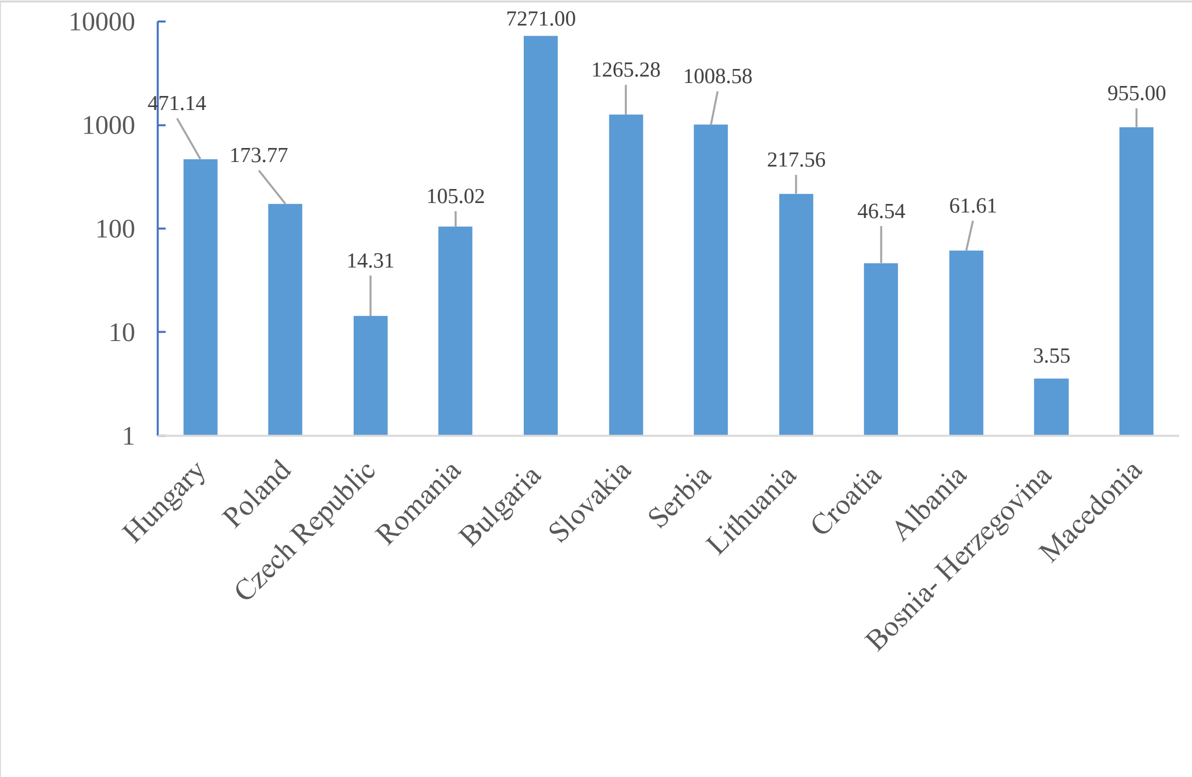

Figure 1: Percentage Growth of Chinese Investments in Selected CEE Countries between 2008-2014. *Source: (Stanzel & ECFR, 2016*). The table is created by the author. Note: Demonstrated with the logarithmic scale.

The CEE region was seen as a potential and substantial market for Chinese investments and a bridge to access Western Europe for the Chinese side. (Song, 2018, p. 7) Cooperation with the CEE, particularly in providing finance for the region's transportation and main hubs infrastructure, would empower connectivity and promote economic integration between China and Europe (Pavlićević, 2018). For the countries of the CEE region, on the other hand, after a long dependence and reliance on the

Western-led support for their economic growth and development, China was considered an alternative economic partner amongst many to recover their economies and enhance economic growth. Chinese investments in the CEE region have gradually increased, and its development finance institutions have taken more incentives in the region in the past two decades.

In addition to increasing the level of investments and activities of financial institutions, the Chinese government also took steps to institutionalize economic and political ties with the CEEC governments. By 2012, institutionalizing steps led to the establishment of the 16+1 cooperation among China and 16 CEE countries, including 11 EU states (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and five Western Balkan countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia), each was also negotiating its accession to the EU (Devonshire-Ellis, 2017).

The "16+1 cooperation" is one of the innovations in Chinese diplomacy toward CEE countries. Although the cooperation was only launched in 2012, its content has been constantly expanded. It has played an essential role in promoting cooperation between China and CEE countries and developing China-EU relations (Liu, 2018, pp. 29-30). For the 16+1 forum, in multilateral international development finance governance, China's central strategy has been 'forum linking,' which comprises efforts to connect and integrate different forums by proposing a common normative framework that applies to all other forums (Morin & Orsini, 2013, p. 41).

This strategy is described as Chinese-led multilateralism. Forum on China-Africa Cooperation (FOCAC) and Latin America and the Caribbean (China-CELAC Forum) are other samples of this mechanism. Through this, China has developed a worldwide network of multilateral cooperations and dialogues with developing countries. The forum linking approach is not referred only to regular summits or regional forums. The economic relations with countries are overwhelmingly conducted within the complex body of these forums including sectoral cooperation, sub-forums, fund programs, and cooperation mechanisms in trade, investment, tourism, and education (Jakóbowski, 2018, p. 660).

In parallel to China's strategic perspective on the CEEC as a ‘bridge’ to reach Western European markets and forum linking approach, the improvement of 16+1 cooperation has evolved from a regional initiative between China and the CEE countries to one of the driving forces of the BRI.

While China and the CEE countries have put forward various multi-level cooperation mechanisms through the 16+1 and BRI frameworks, Chinese development finance has also enhanced its sectoral focus and institutional presence in the region and generated a series of project financing in different countries. A series of financial support tools have been formed to promote financial support to the CEECs. China has introduced various financial arrangements, including providing loans by the CDB and the CHEXIM, launching the Silk Road Fund and China-CEEC Investment Fund, and determining special credit lines (Liu, 2018, p. 37; Zuokui & YIi, 2019, p. 258). Through these mechanisms, Chinese development finance has been integrating into the CEE region by supporting the infrastructure of different sectors under the 16+1 and BRI frameworks.

Similarly, with the general characteristics of Chinese development finance in the global scope, China aims to pursue bilateral relations and local cooperation within the CEE coutnries, and several amounts of financial loans have been provided in that way. However, since the countries in CEE have substantial and more prolonged ties with the EU and Western-led traditional development finance actors, China is aware that cooperating with third parties certainly plays a crucial role in maintaining its financial projects across the region (Liu, 2018, p. 33).

Starting from 2015, this issue has been emphasized in several summit documents, and press releases as “The Participants welcome the potential involvement of observers and other third countries and institutions on the basis of prior consultations and consensus by all Participants” (China-CEEC Fund, 2015). As mentioned above, China needs profound reforms to improve the quality of its development finance to gain trust and international legitimacy in the eyes of countries and Western-led institutions. It needs guidance from traditional actors of the global development finance regime. This could be more tangible when it comes to financing infrastructure projects in the CEE region. China needs to manage its projects and financing mechanisms with the cooperation of stakeholders in the CEEC, including European development banks, the EU, and other traditional development finance institutions. Since the EU and other European financial actors have long been maintaining substantial economic and political ties and providing financial support to the development of CEECs, this argument can be analyzed through this region.

3.2.1. Main Tools of Chinese Development Finance in the CEE Region

In 2012, China announced 12 measures to promote friendly cooperation with CEE countries covering such fields as economic cooperation, financing infrastructure, cultural exchange, education, tourism, and think tanks (Yuzhen, 2021). These measures include two primary programs of Chinese development finance in the CEE region – particularly for the 16+1framework – consisting of the Special Credit Line and China-CEEC Investment cooperation fund (China-CEEC Customs Information Center, 2021).

The special credit line adopted by China for the CEECs, allocated USD 10 billion in loans, focusing on financing projects in transportation infrastructure, construction, high technology, and other relevant sectors. Like the general features of Chinese credit, this program works on the basis of packages of projects with a certain amount of finance provided to a specific region. There are strict requirements for using Chinese favorable loans in this program, including a preferential lending rate of around 1%-3%, the project's location should be within CEE countries, and only Chinese contractor companies should be included in the projects. Moreover, all projects within the special credit line should be put forward to the CDB and CHEXIM (Zuokui & YIi, 2019, pp. 258-259).

The China-CEEC Investment Cooperation Fund, on the other hand, covers highly competitive and eligible projects within the 16+1 framework. The Fund is prepared for investments to ensure stable cash flow to the Chinese economy and robust risk management (Gu, 2017). Unlike a special credit line program, the requirements of this Fund do not include regional limitations. They are open to third-party integrations, like co-financing with local banks, other European development banks or participation of local firms in the recipient country. The first phase of the fund became operational with USD 435 million in 2014 (Yuzhen, 2021). In 2018, the second phase of the fund had announced with USD 1 billion (China-CEE Fund, 2018). The partners of the program are CHEXIM and Hungarian Export-Import Bank. Since this program relies on financing highly competitive and valuable projects, Chinese development finance in this program mostly goes into the EU member states where the business environment is eligible, and solvency capacity is high.

The importance attached to these countries by Chinese development finance actors via Investment Cooperation Fund is worth considering. It can be argued that the more robust financial and institutional structure of these countries with the EU influence would benefit Chinese creditors. This can be interpreted as these countries being less risky in terms of solvency and having stable political environments that make them eligible for sustained investment relations. Knowing that the EBRD and CDB have long been cooperating with these countries, one could assume that these countries would provide a better environment for co-financing projects and cooperation with Chinese actors with their traditional counterparts.

Separating from region-specific programs, the Silk Road Fund (SRF) also focuses on the CEE region as one of the major parts of the BRI. This fund was launched in 2014 to foster infrastructure projects on connectivity, energy and natural resources, and commercial cooperation in the BRI route (Liu et al., 2020, p. 139). As well as other programs, this fund receives financial revenues from the CHEXIM and CDB.

3.2.2. Balkans as a Sub-region in Chinese Development Finance

Even though the 16+1 Format presents China's forum linking approach by bringing many CEE countries together for cooperation, its policy tools and associated countries' attitude within the mechanism have clearly revealed a divide along the lines of EU members and non-EU ones. In the five countries – called Balkan states, - the Chinese type of funding has been practiced launching more than dozen of projects and programs worth a total of more than EUR 6 billion (EBRD, 2017). These projects include mega infrastructure projects mainly energy and transportation. As such Table

3 shows these include the construction of coal-fired power stations in Kostolac (Serbia), Tuzla, motorways in Bosnia & Herzegovina and Serbia, and other related projects.

The concentration of many Chinese-led mega investments and the use of loans from CDB and CHEXIM into these five Balkan countries is due to the lack of attractive alternative creditors and sources for financing the investment needs of these countries. (Jakóbowski & Kaczmarski, 2017, p. 3). This fact is also related to their relations with the EU itself. Since none of them are EU members, they cannot utilize the attractive fund and infrastructure programs and credits that the EU and EIB endow to its members. They are limited to pre-accession funds from the EU. Also, Chinese development banks offering to these countries often beat the alternative creditors such as the EBRD and other traditional creditors which are often linked to conditionality measures.

On the other hand, in the rest of the 11 countries within the 16+1 forum, the EU members are not as willing as the Balkan countries to get Chinese bank credits. Firstly, the Chinese offer is just one among many options on the table for these countries, which are offered by European development finance institutions and the EU itself. The EU programs specifically on the transportation and energy construction offered to them make Chinese ones automatically unfavorable. Moreover, as stated above the Chinese model of financing is incompatible with the EU law in the context of safeguards, without open tender for appointments, loan amount, and transparency of the whole financing process. This restrains China to flow its development finance to these countries.

All of this divide is considered by experts as 16+1 is divided as 11+5, and these five Balkan countries have become a sub-region for Chinese development finance since China can maintain its model at its will. (Jakóbowski & Kaczmarski, 2017, p.3). However, since each of the CEE countries is essential for China to Access under the BRI and 16+1, it should offer eligible credits and projects to the rest of these countries. Thus, the transforming effect here gains importance for China to reform its financing.

Country Name	Project Title	Sector	Lender Institution	Date of start	Status	Project cost USD	Chinese Institutions' Finance USD	Source
Albania	Bushat Hydropower Station*	Energy	CHEXIM	2001	Cancelled	USD 275 million	USD 126 million	BU GEF Dataset
Bulgaria	Bulgarian Infrastructure Investment	Multi sector	CHEXIM	n.d.	Pledge	USD 10 billion	USD 10 billion	Aiddata
Bosnia & Herzegovina	Stanari Thermal Power Plant Project	Energy	CDB	2011	Completion	USD 519.64 million	EUR 350 million	Aiddata
Bosnia & Herzegovina	Banja Luka-Doboj Motorway*	Transportation	CHEXIM	2011	Pledge	USD 576 million	USD 490 million	Aiddata
Bosnia & Herzegovina	Tuzla 7 Lignite Power Plant	Energy	CHEXIM	2011	Active	USD 882 million	USD 732 million	BU GEF Dataset
Hungary	Belgrade-Budapest rail link	Transportation	CHEXIM	2014	Active	USD 1.9 billion	USD 1.9 billion	BU Dataset
Montonegro	Construction of Bar-Boljare Motorway	Transportation	CHEXIM	2014	Active	USD 912 million	USD 912 million	BU Dataset
N. Macadonia	Miladinovci-Štip Motorway Construction Project	Transportation	CHEXIM	2014	Completion	USD 278.3 million	USD 278.3 million	AidData
N. Macadonia	Kicevo-Ohrid Motorway Construction Project	Transportation	CHEXIM	2014	Active	USD 505 million	USD 505 million	AidData
Romania	Mireasa 1 Wind Park Project	Energy	CDB	2015	Active	USD 43 million	USD 46.89 million	AidData
Serbia	Belgrade-Stara Pazoca Section of Hungarian-Serbian Railway Project	Transportation	CHEXIM	2017	Active	USD 297.6 million	USD 297.6 million	AidData
Serbia	Loznica Thermal Power Station Project	Energy	CDB	2017	Pledge	USD 732 million	USD 260.73 million	BU GEF Dataset

Serbia	Corridor 11 Highway Construction	Trans portation	CHEXIM	2015	Completi on	USD 301 million	n.a.	BU Dataset
Serbia	Phase 2 of the Kostolac B Power Plant Project	Energy	CHEXIM	2017	Active	USD 608.26 million	USD 715.60 million	AidData
Serbia	Phase 1 of the Kostolac B Power Plant Projetc	Energy	CHEXIM	2011	Completi on	USD 312.93 million	USD 293 million	AidData
Regional (16+1)	Credit line for investments in the CEE countries	Multi sector	CHEXIM	2012	Pledge	USD 10.19 billion	USD 10.19 billion	AidData

Table 3: Main Financial Projects of the Chinese Development Finance in the CEE. The table is created by the author.

3.3. Development Finance under Mutually Transforming Effect: Process of Learning and Interaction from the Traditional Actors

Different from other regions where Chinese development finance are highly active, the European financial institutions and the EU-level control mechanisms are more influential in these countries than in Chinese development programs in the CEE. In this case, while examining Chinese development finance in the CEE, the EU effect and long-lasting ascendency of Western-led development finance cannot be overlooked.

The mutually transforming effect has multiple sources. The reasons why Chinese development has begun to integrate learning and interaction processes from traditional European creditors are based on both China's structural weaknesses and obligations. Since 2016, the Chinese number of investments and project financing has shown a downward trend in the CEE region and other parts of Europe (Merics, 2021). Apart from the adverse impacts of the COVID-19 outbreak on the Chinese economy, the major reason behind this fall is the mistrust of the European side and the divergent nature of the Chinese development finance from the traditional perspective. To overcome these shortcomings, Chinese development finance actors in the European region have been in a situation in which they must reform their structure by increasing cooperation and communication with their European counterparts and the EU itself.

As mentioned in the previous chapter, the mutually transforming effect does not refer to a sole transformation of practices of Chinese development finance from state-capitalism to neoliberal norms. Rather, it argues that both sides are influenced by their practices to improve their credits, projects, and policies in the CEE area. In this sense, while examining Chinese development finance actors' practices, emphasizing this fact is crucial to demonstrate changes in its structure. By focusing on the structural weaknesses of the Chinese actors and the situation in which they have faced the obligations in the CEE, the learning and interaction process of Chinese development finance institutions with traditional European creditors can be analyzed through a multi-level perspective; national, institutional, and regional levels.

Firstly, while Chinese investments are considered an economic risk due to the high level of debt by the regional countries, there are also major problems for the Chinese banks. Chinese project financing across the CEE region has been funded mainly by the CHEXIM and CDB. Larger loans present larger risks for both recipient and creditor. The above-mentioned credit and fund programs for the infrastructure investments within the CEECs have integrated into the financial system of these banks. Indeed, many credits have been exported from these banks, but repayment feasibility to recipient countries does not calculate successfully. The CDB and CHEXIM do not attach overt political conditionalities to the borrowing country governments as a principle of China's non-interference policy. They often discuss and reach a consensus on project payment strategy (Chin & Gallagher, 2019, p. 254).

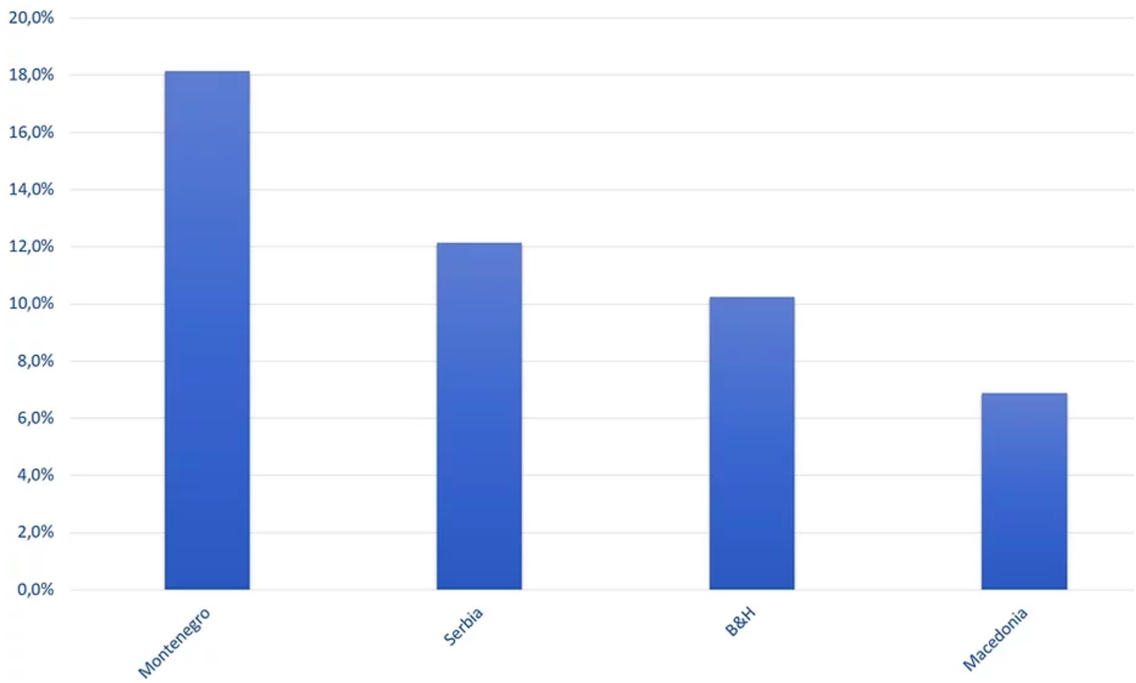

Figure 2: The value of infrastructure projects as a percentage of GDP. Source: (CEECAS, 2021)

However, actors of Chinese development finance are engaged with CEE region's developing countries with higher risk regarding their economic situation, which are vulnerable to economic downturns and solvency of large-scale loans. Most of the costs of infrastructure projects financed by the CDB and CHEXIM at the CEE countries have reached a higher amount than the shares of these countries' GDPs, especially non-EU members. As figure 2 shows, the level of loans offered by China has reached around 18% of the GDP in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina and 7% in North Macedonia.

For example, as shown in Table 3, the small Balkan republic Montenegro has long been struggling to repay the construction project of the Bar-Boljare Motorway, which connects the port of Bar to the Serbian border. Prior to project implementation, the European-based and multilateral Western development finance institutions were opposed to it due to the weak solvency capacity of Montenegro's economy. The WB withdrew USD 50 million in budget support to the country in response to CHEXIM's credit (AidData, n.d.). Indeed, as of 2021, the project was still not complete. The Montenegro government called for help from the EU's financial institutions to repay the credit, but the Commission and the EIB rejected by saying, "EU would not repay loans from third parties but can on financing very favorable conditions" (Strupczewski, 2021).

With regards to the institutional level, the EU has always been a dominant actor in the CEE countries concerning economic and political issues of the region. One of the major reasons to observe the transformation of Chinese development finance in this region is highly related to the EU effect. In the context of the 16+1 forum, in several cases, countries of the CEE region could maintain their relations with China under the EU umbrella. Indeed, in the 2014 Belgrade Summit, Poland was absent, which to an important extent was due to the EU pressure. Also, Lithuania withdrew from the 16+1 in 2022 due to the independence case of Taiwan, which the EU has always stressed (Lau, 2021).

Besides the political effect of the EU, since several countries of the CEE are the members of the EU and the rest of them are in the accession process, Chinese development finance has always been encountering the EU regulations and measures. There have always been large bottlenecks for investment and financing infrastructure projects for China due to the EU regulations and limitations on debt for not exceeding a certain amount among the CEE countries (Liu, 2018, p. 49). Particularly, the EU member states in the region stick by the EU financial rules. The sovereign guarantee for them is only possible if the level of debt in the share of their GDP will not exceed the EU standards.

Apart from the financial regulations, the EU rules also cover other transparency, environmental, sustainable development, strategic assets, natural sources, and security standards. Projects funded by the Chinese financial institutions need to be able also these standards. At this point, the energy infrastructure in the CEE region is the case. It is known that the CEE countries have still lagged from Western Europe, replacing their energy sources from coal to renewables. Almost half of the coal consumption in Europe is taken up by CEE countries (Eurostat, 2022).

In addition, despite the long-term strategy to emphasize green energy transition, due to faster profit turnout and cheaper technology Chinese development finance for the BRI energy projects has favored the current predicament in energy by maintaining investments in coal energy. Yet, here the restrictions for Chinese development finance come from the EU rules and standards for the case of CEE countries (Göçer & Ergenç, 2022, p. 102).

For instance, Kostolac B3 in Serbia and Tuzla 7 in Bosnia-Herzegovina have been financed by the CHEXIM as coal power plants which produced meet the large electricity needs of these countries. The first phase of both projects was not in line with the EU standards on carbon emissions (Wang, 2018). Chinese development finance institutions, in this regard, have provided new financial credits to the countries for the second phase of these projects which was aimed at expanding the power plants and replacing older and less efficient coal unit of these power plants. Although this upgrading attempt seems to be more compatible with the environmental standards of the EU, irregularities relating to the environment are still on the table (Prtoric, 2022).

Furthermore, in the last few years, China's position changed from partnership to systematic competitor or even systemic rival in assessing European policymakers, business federations, and EU institutions (Ghiretti, 2021). Such adverse change in perceptions of the European side has been related to divergent characteristics of Chinese development finance, which is seen as a threat to the European economies and businesses (Babic & Dixon, 2022, p. 2). One crucial course of action has become available to utilize from existing instruments and practices for protection across the EU area; the FDI Screening Mechanism.

The EU framework for screening foreign direct investment was fully operational in October 2020. The screening mechanism allows information and opinion sharing amongst member states and Brussels but has no authority to directly block any investments coming from outside (Ghiretti, 2021). The main aims are to gather information about investment activities within member states, build effective coordination between member states and the Union on financial activities, and preserve Europe's strategic interests and economy while keeping the EU market open to investment from outside (European Commission, 2020). When a member state receives investment from outside, it must report it to the European Commission, where the investment is evaluated based on this state's national and economic security and the Union itself. After that, the Commission gives an opinion about investment to the recipient state. According to the EU side, the investment screening mechanism does not harm the open market and neoliberal adjustments across Europe; rather, they argued that mapping FDI helps to eliminate blind spots about investments within the

EU market, increases transparency, and offers a level playing field among different creditors (Ghiretti, 2021).

Executive Vice-President of the European Commission for Economy Valdis Dombrovskis said:

> "The EU is and will remain open to foreign investment. But this openness is not unconditional. To respond to today's economic challenges, safeguard key European assets and protect collective security, EU Member States and the Commission need to be working closely together. If we want to achieve an open strategic autonomy, having an efficient EU-wide investment screening cooperation is essential. We are now well equipped for that" (European Commission, 2020).

Chinese financial practices and investments are now double-checked by the European side through the investment screening mechanism since 2020. Also, as one of the general problems of Chinese development finance, lack of transparency and scarce data on financing projects would be eliminated through this framework across the EU area.

At the regional level, although China expands its relations with its regional cooperation mechanism, bilateral projects, and financing programs, almost all countries within CEE have a long-lasting relationship with the EBRD and EIB, and local development banks have worked in cooperation with these traditional actors. Since these actors have long been incorporating the EBRD and EIB for their development goals, a newcomer Chinese development institution needs to understand these recipient countries' financial mechanisms and local policies on receiving projects and loans.

Having analyzed why Chinese development finance has undergone a transformation in CEE, this chapter argues that structural drawbacks on risk management, transparency, operational practices, and obligations set by the EU and traditional European actors are the casual factors behind this process. A mutually transforming effect works for China upon cooperation and joint financing attempts between Chinese-led and traditional development finance institutions to overcome these factors. The long-standing financing experience between CEE countries and traditional European creditors has provided fruitful insights to China for shaping its development finance.

To reduce the risk that Chinese banks have accumulated in the CEE region and improve the quality of their credits, they have attempted to shift the composition of their project financing through cooperation with the EBRD and EIB. Moreover, co-financing with the Western peers helps the Chinese actors align the safeguards, risk mitigation, and financing practices to global standards. Through this, Chinese investments and finance in the CEE region would be safer and more eligible for borrower countries. It would also help to solve Chinese development finance's transparency and data accessibility problem.

Mainly projects that Chinese development banks fund has not co-financed with traditional actors much (Table 1 above). However, it can be argued that the Chinese government's participation in shareholder mechanisms of European development banks and the EU investment plans for the CEE region has shown that Chinese actors are eager for further cooperation and joint financing with traditional actors.

Recent developments in co-financing and cooperation between Chines and European banks support this fact. The EBRD and CHEXIM agreement on boosting cooperation and joint projects with a memorandum of understanding between the two institutions was signed in 2015. According to the document:

> "The two organizations will explore opportunities to work together in power and renewable energy, natural resources, transport, infrastructure, telecommunications, and information technology. The Silk Road Fund and the EBRD agree to boost cooperation at an

> institutional level and inform each other of potential co-investment opportunities in their common regions of operations" (Rosca, 2015).

This cooperation also covers the EBRD's integration into the Chinese programs, the Silk Road Fund, and the BRI, which includes various infrastructure projects across the CEE region funded by the CHEXIM and CDB (Pyrkalo, 2016). Moreover, the EU's initiative European Investment Fund, which EIB financially supports, has also signed a memorandum of understanding with the Silk Road Fund to build a new way of strategic cooperation to support equity investment across Europe (EIB, 2017).

Through these cooperation mechanisms, China aims to mitigate risks over loans and takes up its development finance structure to the global standards to be more eligible creditors among CEE countries. Also, this cooperation would open up new opportunities to expand the area of cooperation in financing developing nations. In that sense, co-financing with the Western-led institutions would be a complementary part of the weaknesses of Chinese development finance. While the EU regulations and rules are the main drivers of financing the CEE countries, co-financing and cooperation with the European Banks also increased trust in Chinese development finance. Besides, since both the EIB and EBRD are long-standing development finance institutions, collaborating with such neoliberal traditional actors might boost public and institutional trust within the CEECs.

Furthermore, apart from the cooperation with European development institutions, China has developed initiatives and policies for the CEE region which resemble the EU and European Banks' framework. In response to European development finance institutions' strong positions and financing operations in the CEE countries, China and its financial bodies have initiated to financing network with local banks of the CEE countries. Similar to the EU's Banking Union logic[1], in the Budapest Guidelines for Cooperation between China and Central and Eastern European Countries, the establishment of the China-CEEC Inter-Bank Association was proposed by the CEE countries and China (Ministry of Foreign Affairs of the People's Republic of China, 2017)

The China-CEE Interbank Consortium was officially launched in November 2017. So far, there are 14 member banks, including CHEXIM, CDB, and domestic development banks of the CEE. Like the EU's Banking Union mechanism, this cooperation aims to expand investment in the region as well as provide information, risk management and supervision among the member banks (YIi & Zuokui, 2019, p. 261).

3.4. Conclusion

This chapter has examined China's the transformation of development finance in Central and Eastern Europe. In the region, China's development finance follows similar and different characteristics in line with the general finance practices it applies globally. As shown above, the driving forces behind the transformation of Chinese development finance in the CEEC are related both to its structural weaknesses and the obligations that China encounters, particularly confronted in this region due to the strong EU effect as well as the role of traditional creditors.

On the first side, China has remained behind the traditional European development finance institutions regarding weak debt management, lack of experience in financial operations, limited rules and regulations, lack of transparency, excessive

[1] The EU's Banking Union was established in 2012, in response to global financial crises. It is considered an essential step for the Economic and Monetary Union. It provides application of the common banking rules across the EU area by participating EU banks and domestic banks. The Banking Union aims to help to create a more transparent, unified, and safer investment environment for member banks. (European Central Bank, n.d.)

decentralization of financial credits, and less effective execution process. These problems limit its capacity for sustainable financing across the region. Also, it reduces public, institutional and government support for Chinese development projects.

The European Union’s rules and procedures and European banks' role in the CEE countries have also restrained China, which does not encounter such obligations in other regions such as Africa, Latin America, and Asia. The analysis of Chinese development finance and its prominent institutions in the CEE region shows that these issues push China to reforms more than the global level. In other words, the transforming effect on Chinese development finance is more observable in the CEE region than in other parts of the world.

Moreover, Chinese actors’ have increasingly embraced multilateralism by cooperating with their Western counterparts in different fields rather than reflecting a ‘single actor’ attitude. This would reduce adversarial reflection among the Western-led actors and European countries. In this case, it can be argued that the mutually transforming effect stands out as effective on Chinese development finance in the CEE region; the goal is to increase cooperation for adopting international rules for financing and solving certain problems. Despite the growing actions on cooperation and co-finance, China is still far from the neo-liberal development standards. It caused the lessen joint actions on financing the development in CEE.

China needs to learn and interact with its European counterparts to boost its investments and yield economic gain by abiding by the region's specific features and needs. Co-financing and cooperation, in this process, are the most conspicuous way of China's interaction and learning process from traditional creditors. Despite the eligible environment, the number of co-financing operations of Chinese and traditional creditors is smaller than in other regions. Yet, several agreements and integrations of investment plans of the EU and development banks indicate that cooperation and co-finance activity in CEE region will increase in the future.

The following chapter turns to investigate European development banks' operations as traditional creditors in the global development finance regime. A more in-depth discussion on how Western development finance influenced the Chinese side and how mutually transforming effects occurs for them is provided.

CHAPTER 4

WESTERN-LED DEVELOPMENT FINANCE IN THE CEE REGION: LONG-LASTING RELATIONSHIP WITH NEOLIBERAL DEVELOPMENT

Western-led development finance to CEE began through multilateral channels during the 1990s when it got involved in fostering reforms for transition to market-economy in post-communist countries. Through this early appearance in the development scene of this region, the CEE countries had become conversant with Western-led development finance and its neoliberal norms and rules. The rise of the neoliberal structure was introduced as a new political economy perspective to this region that challenged the idea of a 'benign state' which would serve public interests and replaced it with the idea that minimized state intervention and spending by putting at the core of structural alteration for development with universally accepted reforms (Öniş & Şenses, 2005, p. 264). At the time, though, recommendations streaming from Bretton Woods institutions on market liberalization, macroeconomic stabilization, and privatization, these countries had adopted neoliberal reforms for their economic transition and this structure secured its position in their domestic economies in time (Gevorkyan, 2018, pp. 123-124).

Despite the leading role of the IMF and WB in promoting neoliberal reforms worldwide, the CEE countries had also received larger support from the European development institutions. These institutions also supported neoliberal norms and relevant structural adjustment measures but with more focus on European economies. Both the EIB and EBRD's priority areas in the early 1990s were developing domestic economies of the CEE countries through technical assistance by supporting the establishment of new financial institutions, developing infrastructure facilities in key sectors, supporting small and medium-sized enterprises, and promoting democratization. In this context, analyzing European development institutions as traditional and neoliberal actors within the global development finance regime is substantial to understand how their policies have been shaped based on the region's needs. At the same time, this thesis examines only the activities of the regional financial actors amongst these institutions rather than political bodies of the EU or national development institutions. As a result, it analyses the particular policies and programs of the EIB and EBRD to uncover the mutually transforming effect explored above.

As the Union's main financial institution, EIB has developed certain policies and programs for preparing CEECs to join economic integration in the EU area. Working together with the EU institutional bodies, EIB drew up programs to financially assist countries in the region in moving toward market economies and democratic consolidation (Unwin, 1997, p. 20). On the other side, the initial formation of the EBRD was configuring neoliberal transformation in a particular way within the CEE region. The Western development finance actors set up this institution to cope with challenge to transform the centrally planned economies in the CEE region into market economies (Jakobeit, 1992, p. 120). The European policymakers envisioned the Bank as playing a decisive role in reconstructing this region's economies by investing in key sectors and providing programs for structural reforms (Wold & Zaelke, 1992, p. 559).

As the political and economic atmosphere in the global realm has begun to change through the participation of emerging actors in the global development finance regime and economic downturns on the international scale, the EIB and EBRD's role as a traditional Western-led development finance bodies within the CEE region have altered over time. The countries in the CEE went through two major financial crises amid the continuous process of implementing neoliberal reforms for the economic transition from 2008 to 2011. Following these major financial crises associated with weakening the idea that neoliberalism is a single and universal solution for development, the EIB and EBRD began to take a more active role in the region for economic recovery and vitalization of trade and investments.

In the aftermath of crises, these Western-led development finance actors in the CEE region have still encouraged neoliberal norms. At the time, it was hoped that the internalizing of neoliberal norms and implementation of the reforms in the financial sector would bring about financial recovery and stability to the CEE countries' domestic economies and boost regional development. Yet, despite efforts of both the EU itself and European development banks, the neoliberal focus failed to provide desired results.

Following the 2008-2011 crises, when the responsiveness and responsibility of traditional actors with neoliberal solutions had become even more criticized and questioned by developing nations in the region, China which is at the forefront in terms of the amount and geographical scope of development finance, has become a competitor for traditional actors of development finance in the region by offering novel policies, programs, and credits for financial support to the region.

All of these developments created an uneven playing field for the traditional development finance actors. They pushed them toward a recalculation of their policies and programs and toward embracing new ideas and solutions coming from emerging creditors of development finance to both catch up with development in the world and offer better solutions and programs to the CEE region for their regional and national development. Thus, the EIB and EBRD have recalibrated their financial activities, credit patterns, sectoral focus, and development programs. There is a growing rift between China and the Western actors in the global development regime regarding divergent characteristics of financing the development and criticism of Western-led actors to Chinese activities. Yet, a closer inspection of the EBRD and EIB's financial activities would reveal the changes in their neoliberal programs and the incorporation of Chinese patterns of development finance into their policies over the years.

As the thesis unearths below, traditional actors of European development finance are stronger in some areas where the Chinese development finance has not achieved similar outcomes yet. In which case, then, have traditional actors of Europe undergone a mutually transforming effect in CEE? This chapter traces the nature of European traditional development finance in CEE region and how it changes over time after experiencing a shift in the global development regime and interacting with China as an emerging financier. Firstly, it overviews European development finance institutions' general patterns and structures as traditional actors of the global development finance regime. The following section provides background for EIB and EBRD's activities in the CEE region. The third section explores how these traditional development finance institutions interact and influence Chinese development finance in the region by detailing how and why mutually transforming effects work on the traditional actors. The final section concludes with a general process of interaction and learning between Chinese and European-led development finance.

4.1 Beyond the Global Multilaterals: European Development Finance Institutions

Multilateral institutions are often associated with seeking universally accepted ideas that they see as an essential step for developing and growing countries and regions. The worldwide multilaterals such as the IMF and WB work through that mechanism. However, regional development finance institutions can follow the same path as these institutions but with a limited scope of membership and goals (Bøås & McNeill, 2004, p. 3).

In postwar Europe, along with the efforts of the European policymakers on the establishment of economic and political community, rapid economic recovery and growth were implemented through development institutions whose scope was mainly Europe at first sight. Growth requires more than just markets and trade; institutional bodies to address problems in recovering economies, encourage industrial development, rebuild the capital stock, and increase productive capacity are important for it (Eichengreen, 2007, p. 2). European policymakers encouraged development banks across the region to achieve development goals from the time of postwar to today. In that way, development banks and Europe's institutional bodies established a long-lasting financial relationship to fulfill the regions' development needs.

Since the 1950s, Europe's financial architecture has been characterized by a multitude of actors and institutions under the EU's expertise. This diversity requires strong governance and coordination mechanisms to ensure that the nations across the region present a clear and coherent image in terms of development (Erforth & Kaplan, 2019, p. 2). European development finance institutions, whose primary focus is on

Europe, are the stepping stones on the path to the continent's development, which produces a different route than one taken by other development finance institutions in the world.

Unlike the decentralized characteristics of Chinese development finance, European-led development finance keeps its institutional scope limited to certain banks. As mentioned before, the main banks in the European-led development finance are the EBRD and EIB. The countries mainly apply credits to them, and co-financing and cooperation activities revolve around these institutions. The configuration around the lesser number of institutions provides more transparent and coordinated financial operations among the banks and recipient nations compared to the Chinese practices.

Firstly, The EIB describes itself as 'the EU's financing institution' (EIB, 2005). Indeed, all shareholders are the European Commission and the EU's member states. Its position within the EU mechanism is a leading financial institution that regulates all financial activities and other institutions to seek the member states and regions' development goals and expand these goals to other regions. The EIB has a hybrid entity composed of both Bank and bureaucracy, and thereby as much subject to the financial practices and institutional standards as to considerations of political actors qua the member states delegates on the board of directors and the ministries of those countries on the board of governors, and the EU policymakers (Mertens & Thiemann, 2022, p. 143). From that time on today, the principal mission of the Bank has been to finance capital investment that further promoted stable economic development, economic integration, and coherent policies under the single market principle of the EU member states. It grants loans for European countries' development under the EU institutional umbrella.

Initially, the Bank's impact was not significant in the period between 1959 and 1970; average lending by the EIB was EUR 34 million to EUR 354 million (Robinson, 2005, p. 653). However, since the mid-1970s, the Bank's lending and global influence have grown exponentially, such that it has become the largest multilateral financial Bank, with its annual lending volume exceeding that of the WB since 1993 (Lankowski, 2000, pp. 202-203). In 1994, The European Investment Bank Group was established by participating European Investment Fund (EIF) in the Bank's mechanism. This increased the Bank's lending to the EU's policies on the public and encouraged local development banks to cooperate with the Union. The EIB and EIF lay down to follow the main Statutes and Rules of Procedure to the other European private and public financial institutions who are the shareholders of the Fund and the Bank (European Investment Bank, n.d.). The main task of the EIB is stated in Article 309 of the Treaty on the Functioning of the European Union (TFEU) as:

> "The task of the EIB shall be to contribute by having resources to the capital market and utilizing its resources to balance a steady development of the internal market in the interests of the Union. For this purpose, the Bank shall, operating on a non-profit making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:
>
> - Projects for developing less developed regions;
>
> - Projects for modernizing or converting undertakings or for developing new activities called for by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual member states;
>
> - Projects of common interests to several Member states which are of such a size or nature that they cannot be entirely financed by the various means available in the individual member states." (EUR-Lex, 2012)

Even though the EIB deploys only around ten percent of its financing outside the Union, the EIB is the biggest multilateral financial lender in the world by operating on several continents (European Investment Bank, n.d.). It contributes to the promotion of the Union's development policy worldwide. According to Article 175 of TFEU, "EIB supports the EU's implementation of measures and structural loans outside of the EU" (EUR-Lex, 2012). Also, its financial support to different regions has expanded by year. In 2010, the EIB lending totaled EUR 72 bn, of which EUR 63bn in the EU area and EUR 9bn outside of the EU (EIB, 2010). By contrast, in 2021, the European Investment Bank Group signed a total of €94.89 billions of financing. Of the total financing, €86.74 billion went to projects among the EU members, while €8.14 billion went to projects around the world (EIB, 2021). In almost 60 years, its financial loans have reached 160 countries (EIB, 2018).

Moreover, due to the EU's long-standing economic, political, and historical ties with neighboring regions, the EIB focus has expanded, especially after the 1990s, including the CEE (Erforth & Kaplan, 2019, p. 3; Unwin, 1997, p. 22). Mainly, EIB has targeted the economic and political integration of the neighboring regions to the West and made them able to transition to market economies and take part in global competition. Together with the EU mechanism, the EIB offers several types of financial programs and credits for economic structural adjustments and democratic consolidation of these nations. Collective action between the Union and EIB is not only solely taken in the European continent but also at the global level. This marks the EU as an alternative venue amongst other development finance actors and institutions. This leads the Union to bypass some rules and procedures of other Western-led actors, namely, Bretton Woods institutions, by specifying its development standards and financing mechanisms. In that sense, it can be argued that the EIB's role in the Union has made it a central actor in the facilitation of EU integration objectives and development goals (Mertens & Thieman, 2019, p. 25).

Both Honohan's (1995, p. 317) and Robinson's (2009, p. 654) studies argued that the EIB enables a less economic but more political perspective on European development finance in the framework of multilevel governance of the Union. In that context, while the EIB as a traditional actor in the development finance, meets with the Chinese development finance, it is highly expected that this interaction would influence the EU's development programs and standards as well.

On the other hand, unlike the EIB, the EBRD is an autonomous development bank and not a part of the EU institutional mechanism. Other countries such as the US, Japan, Russia, and China are amongst its shareholders. The EU owns three percent of the EBRD's capital. The EIB and the EU member states combines 54 percent of the Bank's capital (EBRD, n.d.) Currently, The Bank is owned by 69 countries (EBRD, 2020). Like EIB, it is also open to working alongside the OECD, IMF, and WB and their related agencies to support global development (Shields, 2022, p. 267).

The EBRD's goal was based on the aforementioned belief that investing post-communist space of CEE countries in developing a competitive business environment, infrastructure in key areas, and private sector activities. According to Smith (2002, p. 653), occasionally, the EBRD is a part of broader regionalization in CEE.

The EBRD had three distinct tasks; developing, and expecting commitment for democratic change, opening the private sector, and encouraging the transition to liberal market economics. However, along with these three essential tasks, the EBRD is considered as the first pan-European institution linking the CEE states to the West in both political and economic manners (Shields, 2015, p. 173; Weber, 1994, p. 2; Wold & Zealke, 1992, p. 560). However, although it is a major contributor to fostering development and market transition in the CEE, it has expanded its geographical scope by getting involved the Middle East and North Africa, especially after the Arab Spring. Also, its capital was increased in different regions in the world after 2009 in the light of the global financial crisis, and emerging creditors have joined as donors to the global development regime (Park, 2021, p. 90).

The EBRD's financial mechanism differs from other regional development banks (RDBs) and is considered amongst multilateral traditional development finance institutions. According to Ben-Artzi (2016, p. 85), the EBRD supports financial projects strategically which are compatible with the process of democratization and transition of market economics. Although it is more financially prides itself on banking-business professionalism, the Bank takes a political stand in its main rules and targets. The EBRD differs from other regional development banks in its political disposition, and its lending practices and creditor position diverges. It does not provide loans with low-interest rates; only lends at market rates. (Ben-Artzi, 2016, p. 86).

Based on its lending practices, the EBRD is at the forefront of the neoliberal development idea that development can be done through private sector investment rather than state's public investments (Carroll & Jarvis, 2015, p. 283). As a stage for compromise, the institution proportion of investment is up to 40 percent, which could go to the public sector to support infrastructure that would further promote private investments. In comparison, the remaining 60 percent have flowed directly to the private sector (Weber, 1994, p. 19). The Bank maintains this policy up until the current period. According to the 2018 Financial Report of the Bank, 59 percent of the institution's investments were directed toward the private sector, while the remaining 41 percent flowed to public sectors indented sectors respectively on energy, financial institutions, industry, commerce, agriculture, and infrastructure (EBRD, 2018).

Alongside its financing activities, the EBRD publishes a number of reports on risk management, benchmarking criteria, rankings, law and regulation evaluations, indicators of regulatory progress, and guidance for the transition of economies. One of the remarkable and distinctive reports of the Bank is EBRD's Annual Transition Reports which evaluates the overall financial activities of the Bank on the CEE's economic transition and the region's achievements (Dumała, 2018, p. 148). Moreover, following the Transition Report, the EBRD has also developed a methodology for tracking progress in transition. This new methodology investigates the development through six qualities of maintenance of the market economy in the CEE region; competitive, well-governed, green, inclusive, resilient, and integrated (EBRD, n.d.).

The initial formation of the EBRD was an opportunity to spread norms and practices of neoliberal development by reasserting its common political and economic sense and configuring market economy transition in a particular way. Therefore, the financial activities and institutional mechanisms of the Bank represents both a consolidation of neoliberal norms in the global development finance by imposing the ideas about the appropriate route for the transition to take and closure around what constituted legitimate intervention within the CEE region (Shields, 2015, p. 174).

As mentioned before, unlike EIB, the EBRD is not an official part of the EU. However, it pursues similar economic and political interests, which creates a global-scale influence and identifies standards of European-led development finance. Although their financial practices, institutional bodies, and programs diverged, it can be argued that there is an organic link between their norms and rules in terms of development. Taken together, since they represent European interests and neoliberal development globally, both banks have a political and economic impact in different parts of the world. Since their financing activities and amount of investment are overwhelmingly important in the global development finance structure, they have a huge impact on developing nations concerning the alteration of their political structure or open-market transition of their economies. In addition, it is known that CEE is the most open playing field for these institutions since the region is the *raison d'etre* of the EBRD, and EIB given these institutions' focus on transition. Therefore, in order to attain the best analysis of these institutions' interaction with the Chinese development finance, investigating their activities in the CEE region perhaps produces the best plausible explanation for the mutually transforming effect.

4.2. The EIB and EBRD in the CEE Region

Since many financing programs, and policies are generated there, the CEE region is an important area for study to understand European development finance under the Western-led neoliberal framework. Neoliberal ideas have a long history within the development of the CEE countries. Both the EBRD and EIB made important policy interventions under neoliberal ideas to the political economy of the CEECs since they gained their independence after the dissolution of the Soviet Union.

During the 1990s, European development finance focused on the economic and political transition of CEE countries. Both the EBRD and EIB activities as neoliberal common sense focused on the CEE countries' post-communist construction of the market after a long period of experience of centrally planned economies. The main targets at that time can be sorted as 1) construction of an open market, 2) configuration of political stabilization and institutional development 3) promotion of neoliberal formulations for development. Specifically, in the first phase of the transition of the

CEE countries, these banks encouraged privatization, liberalization, and deregulation to establish a market economy (Shields, 2021, p. 169).

As noted above, unlike the other regional banks, both the EBRD and EIB were not coy about expressing their commitments to economic and political interests; as stated, reforms' political and economic dimensions were closely interlinked (EBRD 1991, p. 25). Just after its establishment, in the 1991 Annual Report, EBRD acknowledged its targets by underlying challenges in the region at that time as

> "The CEE countries face a formidable array of complex problems that need to be tackled urgently but will take many years to overcome fully. This poses a major challenge: to create a new economic framework, while simultaneously changing the political system, behavior, and even the attitudes of the people involved, without creating intolerable social conditions which could seriously endanger their societies and threaten those nearby" (EBRD, 1991, p. 24).

Although both of these traditional development finance institutions worked closely in that process, the EBRD had taken a greater role in following the achievements of CEE countries. As mentioned above, the institution's Transition reports had explained the overall process of these countries. In the transition process, the Banks considered that concerns on strengthening institutional mechanisms and legal structure are vital to promoting further investments in the region:

> "The countries of [ECE] have shown themselves determined to create new democratic market economies. The linkage between the changes' political, economic, and social components has become increasingly clear. A market economy requires an adequate legal and democratic political framework to foster the spirit of enterprise, individual rights, and institutional stability necessary for a sound investment" (EBRD, 1991, p. 25).

Nevertheless, even though both the EIB and EBRD spent most of their time producing policies and programs for the urgent response needs of the CEE countries, such developments had not been achieved instantly. The transition was a long and difficult process for most of these countries. As the millennium got closer, there were still institutional and political drawbacks highlighted by the Banks, and major investments flowed into areas. This was demonstrated in the EBRD's 1999 Ten Years on Transition Report's assertion that "Building institutions that support markets and private enterprise remains a fundamental challenge of transition, but establishing the appropriate laws and regulations is insufficient." The report also highlighted the general solutions for these countries by underlying particular importance as "(i) the experiences of liberalization and privatization, (ii) the demands for good governance from entrepreneurs and civil society, and (iii) the forces of competition" (EBRD, 1999, pp. 9-10).

However, these institutions' financial practices, which are highly constituted through neoliberal norms and rules, are sometimes considered the route cause for the region's backwardness. Shields (2015, p. 173) argued that while Western-led development finance had maintained across the CEE countries, governments of these nations built up their strategies through neoliberalism had predominantly focused on comparative advantage, underpinned by capital from the EU institutions that acknowledged the scarcity of technology and infrastructure, while FDI substituted for agreement expertise and technological backwardness. From 1995 to 2004, when the largest EU enlargement was on the way for the CEE countries, EIB and EBRD lending had shifted more to these nations' political and economic integration into the EU. The EBRD and EIB extended their programs and credits towards countries' structural reforms during their EU accession process.

Throughout the 2004 enlargement, loans have started to be redistributed according to countries' overall capital share, albeit integration and transition had remained positioned as an underlying factor behind a considerable amount of loans and financial programs. Thus, particularly for the EIB, the largest share of money no longer flowed to the least developed CEE countries, and the system has started to work as you get what you give (Clifton, Díaz-Fuente, & Lara, 2021, p. 109). In fact, this approach has been criticized for having escalated economic disparities between East and West (Shields, 2015, p. 177).

In the era of global financial crises between 2008 to 2011, the CEE was one of the regions that was the worst affected by the crisis in the world economy. Amid their continuous transition process and fragile domestic economies, the CEE nations went through several economic problems, including unemployment, absence of capital flows, and destabilization. The agendas of European development finance actors had urgently shifted to the recovery of these countries in the aftermath of financial crises. The overall plan of the EIB and EBRD had maintained neoliberal reforms in this process but with the readjustment of their programs, policies, and financial loans. As traditional actors in the development finance regime, both the EIB and EBRD considered this process an economic crisis that could open a door for a number of opportunities to renew their neoliberal programs.

The EBRD'S Chief Economist Erik Berglof indicated in the 2008 Annual Report that:

> "Finding and financing worthwhile projects will be more difficult in a region affected by the crisis and a reduction of FDI flows. At the same time, the crisis brings opportunities to accelerate change and to support the structural reforms required to foster transition and take advantage" (EBRD, 2008).

He also pursued his stance on the Eurozone crises by urging the CEE regions "Complacency would threaten recovery and long-term growth. There can be no return to the region's pre-crisis dynamism without new reform" (EBRD, 2010, p. 4).

Meanwhile, together with the World Bank, the EBRD and EIB declared joint cooperation to support CEE countries during and after the financial crises by lending EUR 24.5 billion in recovery funds to the business and banking sectors of the region. Then, EBRD President Thomas Mirow announced that

> “The WB, EBRD, and EIB were working together to find practical, efficient, and timely solutions to the crisis in eastern Europe. We are acting because we have a special responsibility for the region and because it makes economic sense. For many years the growing integration of Europe has been a source of prosperity and mutual benefit, and we must not allow this process to be reversed”

The EIB President Philippe Maystadt added this statement; "This joint action plan will help speed up the delivery of vital finance through the banks to support the real economy of hard-hit countries in Central, Eastern, and Southern Europe, and particularly to help small businesses survive in these turbulent times" (European Commission, 2009).

Moreover, the Vienna Initiative was coordinated by the EBRD, EIB, WB, and European Commission to prevent escalating crises in the CEE. This initiative is important to demonstrate how the traditional development finance institutions recalibrate the neoliberal form of financing. This initiative aimed to coordinate recipients and creditors to prevent the vacation of development banks' funds and loans to the CEECs. The experience from the Vienna Initiative suggests that development finance institutions can play a constructive role in helping to mitigate adverse impacts of economic crises in the vulnerable regions (Berglof, 2012, pp. 214-215). It is a coordinated crisis management mechanism that limits the withdrawals of development banks' financial activities and programs in the region (Shields, 2021, p. 184). Although it seems an open intervention to the autonomous banking system, it is presented as a renewal of the neoliberal mainstream as an opportunity to prevent the backsliding of reforms.

As mentioned in the previous chapter, simultaneously with the EBRD and EIB's changing roles within the CEE over time, China, an emerging donor in the global development finance regime has strengthened its financial activities and initiatives within the region. Since EBRD and EIB have undergone a profound transition of their programs regarding the region's needs and recalibrated their neoliberal rules and norms to address the region's problems better, it is worth examining how it exposed to the transforming effect of the Chinese development finance.

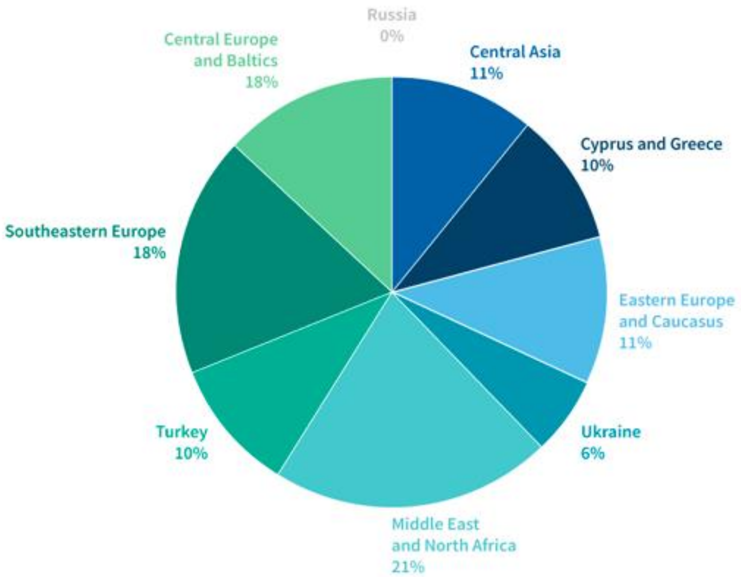

Figure 3: The EBRD's Portfolio by Geographic Focus in 2018. Source: *(CSIS, 2019).*

4.3. Traditional Creditors Meet with the Chinese Development Finance: Mutually Transforming Effect on the EIB and EBRD

The European Development finance institutions had already existed in coordination and interaction with the other traditional actors like the WB and IMF. They shared the common sense on universally accepted neoliberal development. After the global economic crisis of 2008-09, when the emerging actors have become more influential in addressing the needs of developing nations' economic recovery, European institutions have also realized they had to build mechanisms of cooperation with them. However, unlike coordination with other traditional and Western-led institutions, emerging donors pose a major challenge for the European side. Besides responding to and criticizing major challenges and divergencies, it would be interesting to investigate how traditional European actors shape their practices according to Chinese development finance.

Before moving on to examine how interaction and influence exist in the Western side of the development finance in CEE, it should be noted that the mutually transforming effect occurs dissimilarly in traditional actors of development finance than it does in Chinese development finance. It emerges in the different scope and areas of interaction with regard to European development institutions.

First and foremost, it can be argued that similar to the aforementioned literature on the changing nature of the global development finance, which focuses this framework on different parts of the world, cooperation, interaction, and learning process is expected in the CEE region as well. Yet, CEE distinguishes itself from other regions in the context of traditional development finance. While the traditional European actors of development finance have maintained their activities since CEE countries gained their independence, most of these countries are highly familiar with the Western-led development financing and neoliberal norms for their development. Distinct from other regions where the Western-led development finance actors have less experience in terms of financing and communicating with the authoritarian and low-income states, CEE has a strong tradition regarding the activities of these countries both in the economic and political sense. Instead, China has less integration in this part of the world compared to other regions.

Secondly, in contrast with the drawbacks of Chinese development finance, as scholars argued in several studies similar to the other Western-led development finance actors, the European institutions are crucial actors for the marketization, democratization, fighting corruption, and stabilization of the CEE region (Obydenkova, Rodrigues & Tosun, 2021, p. 2; Tosun, 2013, p. 39; Kolk & Weij, 1998, pp. 53-54).

Moreover, in terms of data accessibility and transparency, where the Chinese development finance still lags, the EBRD and EIB found their mechanisms to provide accurate and timely information regarding their operational activities and follow internationally accepted standards on safeguards, data accessibility, and loan interest rate and amounts. In their official statements, both development actors shared their concrete concerns and interests regarding this issue. This particular issue has also been reflected in their activities in the CEE countries. On the basis of transparency and openness, it can be argued that European institutions are following and even determining the international standards in their financial practices.

After the financial crisis hit the CEE region, the European development institutions and the EU policymakers attempted to scale up investments in the region when Chinese investment gained momentum under different frameworks. Chinese investments, of course, are not the only reason that the EU and European banks have made changes to their development and finance policies. The growing presence of China through mega investments that are attempted to close the aperture of the EU and European banks on infrastructure investments, has brought along to question the success of European development finance. Especially, the non-EU states has become more center issue.

Serbia is one of the top destinations for Chinese investments and the BRI in the region is the case of this fact. Serbian officials indicated that the EU and European development institutions criticize the country to cooperate with China and receiving large cash, but they are not willing to provide concrete alternatives to fulfill our needs (Birnbaum, 2021).

While sprawling Chinese influence among the CEE countries has increased through a high amount of mega infrastructure projects, and many CEE countries were welcoming them without calculating possible risks; the EU developed its programs to expand investments and control outward investment there. With regards to projects financing infrastructure, European and Chinese development finance institutions have found ways to work together in shaping the development of the CEE in a cooperative and interactive manner. They have cooperated in different areas including sustainable development, energy, transportation, and telecommunication. In the context of European development finance, the mutually transforming effect occurs in multiple dimensions.

The first visible attempt was started when European-led development finance institutions and the EU persuades China to participate joint programs. At the end of November 2014, the Investment Plan for Europe – also called the *Juncker Plan* – was released by the European Union to increase the attractiveness of Europe for investment flows after the financial crisis. The fund was established as a managed account within the European Investment Bank (EIB) in 2015 and aims to mobilize around EUR 315 billion in private and public investments by focusing the three key targets: boosting investments, increasing competitiveness, and supporting long-term economic growth in the Union (European Council, n.d.).

During the Chinese Premier Li Keqiang's visit to Brussels in June 2015, Chinese and European sides declared integration of the BRI into the Plan, and China became the first non-EU country to announce its participation in the Juncker Plan (Wei & Siying, 2019, p. 464). This mechanism opens a way to increase cooperation and interaction between European and Chinese development finance institutions. For instance, in 2020 EU-China Strategic Agenda for Cooperation included founding cooperation between the EIB and China (European Commission, 2020). European Investment Fund under the EIB and Silk Road Fund under the BRI signed a memorandum of understanding that outlined new strategic cooperations to support investment in strategic sectors across Europe. Once it becomes operational, the China-EU Co-investment Fund is expected to flow EUR 500 million for different investments, mainly in the CEE region (EIB, 2017).

Furthermore, the European Commission and the Chinese government signed another memorandum of understanding on the EU-China Connectivity Platform by gathering up two sides' transportation projects, the BRI, and Trans-European Transport Network policy (TEN-T), to increase connectivity between the Eastern and Western parts of Europe (European Commission, 2015). These projects also created new co-financing opportunities for Chinese development banks, EIB, and EBRD.

The BRI and the Juncker Plan primarily focus on infrastructure and cross-border energy and transportation connections. Currently, both Plans are extending several parts of the CEE countries concerning transportation and energy routes. Thus, Juncker Plan's projects which are funded mainly by EIB and EBRD, could link up with the projects of BRI. For example, while CHEXIM provided USD 297.6 million credit to the Belgrade-Stara Pazoca Section of the Hungarian-Serbian Railway Project, under the 16+1 initiative (Table 1 above), in the same year, EBRD and EIB provided a total of EUR 205 million to Serbian Railways Corridor X – II under the core projects of TEN-T.[2] This proves that even though co-financing is still limited between European and Chinese actors in development finance, investment plans, and relevant funds would overlap in the CEE which opens a way for further cooperations.

On the other hand, the transforming effect does not only reflect growing cooperation but also includes a 'change' component: while large infrastructure projects at the CEE were in the second plan for European development finance before the financial crises, the new programs and financial activities indicate that both the EBRD and EIB are more proactive than before. Similar to their Chinese counterparts, together with the Juncker Plan, the EBRD and EIB have taken riskier projects in the CEE region than before since the plan covers mega infrastructure operations. As the Commission stated: "The Commission hopes to unlock investment over the next years, offering low scale guarantees and loans from the EU budget and the European Investment Bank and leveraging further financing from other sources" (European Commission, 2019).

[2] EBRD Project Finder: https://www.ebrd.com/work-with-us/projects/psd/serbian-railways-corridor-x-ii.html

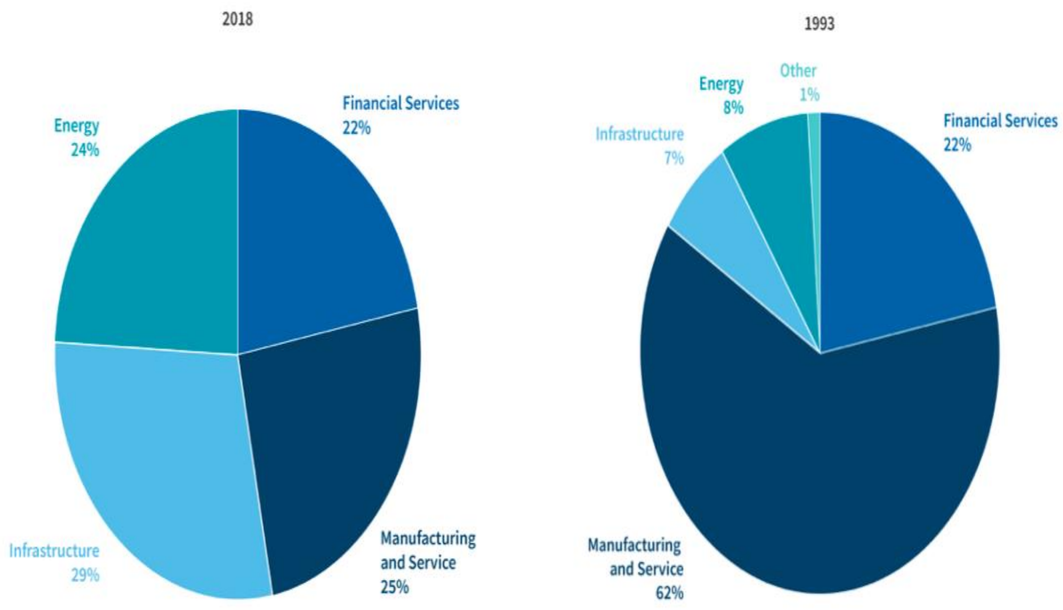

Figure 4: The EBRD's Sectoral Focus in 2018-1993. *Source: (CSIS, 2019 & EBRD 2018)*

Moreover, since the new plans of the European development finance cover large-scale investments across the CEE region in strategic sectors, the credit channel has shifted from private enterprises to SOEs, where Chinese development finance is mainly interested. Despite the continuous transition efforts to the market economy, many CEE countries still have considerable SOEs, especially in infrastructure. A large amount of development financing receives by these firms. For instance, in Serbia and Croatia, a large amount of countries' debt is held by a handful of state-controlled firms. In Croatia, three road companies hold USD 5.6 billion of debt. In Serbia, 60 percent of all SOEs debt is held by the energy and transportation sector (Borkovic & Tabak, 2020, p. 17).

Since the European development finance has shifted its financial focus to mentioned sector more than before after the financial crises, the share of EBRD and EIB loans has flowed to these SOEs. For instance, Mostar North to Mostar South Motorway which has begun to be considered by the EBRD in 2022, was carried out by Bosnia and Herzegovina's infrastructure SOE, Motorways of the Federation of Bosnia and Herzegovina Ltd.[3] Likewise, Montenegro Railways III which was planned to fund by the EIB was under the responsibility of the country's larger state-owned railroad company.[4]

Considering all these developments, it can be argued that although co-financing projects and joint actions are a highly regular processes for the European development finance when the EBRD, EIB, and national development banks always act cooperatively, working with Chinese counterparts has recently emerged as an alternative phenomenon for Europe. Even though the Chinese mass and fast financing mechanism was criticized many times, co-financing and cooperation with this actor would pave the way for infrastructure investments in Europe and financing of European development institutions. Thus, interaction with the Chinese development finance in the CEE would make traditional actors better able to scale up investments in different sectors such as energy and transportation. Moreover, cooperation with the Chinese banks with great experience financing mega infrastructure projects under the BRI would develop the EIB and EBRD's infrastructure financing.

4.4. Conclusion

From the moment they integrated into CEE, the EBRD and EIB, as traditional actors of development finance in the Europe, embarked on a quest to build liberal market economies based on an open market, competitiveness, and neoliberal development. However, the strong reliance on the neoliberal tradition has altered over time due to global and regional changes and economic crises. Together with the EU,

---

[3] EBRD Project Finder: https://www.ebrd.com/work-with-us/projects/psd/51593.html
[4] EIB Project Finder: https://www.eib.org/en/projects/all/20150811

these institutions recalibrated their financial programs, policies, and focus. As shown above, the driving forces behind the search for an alternative way in European development finance in CEE are related to expanding their lending programs with a strong partner.

However, divergent from the Chinese side, the root cause for such interaction and change is not related to the institutional weaknesses or inability to adopt international standards. Rather as a long-lasting and dominant traditional development finance actor, both the EIB and EBRD have a strong structure and internalize international standards in their programs and lending practices. The problem for European development finance actors stems from low-level investment and capital mobilization in the CEE region after the era of global financial crises. While it established its mechanisms, it needed a strong partner as having a large amount of capital and experience in infrastructure projects.

Pragmatic willingness to adopt co-financing and joint mechanisms in key sectors with the Chinese counterparts would enable these institutions to scale up their projects and learn massive, fast financing from Chinese development finance actors. Regardless, both the EIB and EBRD are learning such investments from Chinese development finance but still keep preserving main targets as neoliberal reforms, democratization, and adjustments measures for effective growth.

Facilitating these analyses of European development actors in the CEE region shows that, similarly to the Chinese side, the mutually transforming effect is observable upon traditional creditors. However, it does not refer to any complete change or transition. Instead, they take advantage of the Chinese development finance by learning about rapid financing of the infrastructure process and simultaneously preserve their common sense on structural reforms and international standards.

The next chapter concludes the theses and discusses general issues about mutually transforming effect in the development finance issue for future studies.

CHAPTER 5

CONCLUSION

Explaining the actors of global development finance and the factors shaping their financing behavior has been widely discussed in the scholarly literature. Since their establishment, the Bretton Woods institutions have pioneered development finance as a flagship of a common set of norms and rules. They have strategically diffused these norms and rules to other countries via the imposition of conditionality on market privatization and industrial and domestic reforms. These institutions and their new partners in the global development finance were entitled to traditional creditors who followed the neoliberal path for encouraging development in the developing nations. These institutions have developed centralized and unified financial operations and policies over time. They have put a particular emphasis on neoliberal rhetoric through their financing processes by supporting structural adjustment approaches for developing countries.

Nevertheless, the 21st century has witnessed a striking change in the global development finance regime where the emerging economies have become the new actors. They offered an alternative way of growth for the developing world by keeping the conditionalities and expectations much lower than Western actors. They have mainly flowed credits to mega infrastructure projects in key sectors such as energy, transportation, and telecommunication. However, the pursuit of emerging creditors in the global development finance still dominates from neoliberal ideas comes with difficulties and dilemmas.

While a changing global context and popular grievances with neoliberal development model around the world allowed emerging creditors to take advantage of these circumstances and employ their divergent approaches, traditional actors still strive to be dominant and thus, continue to challenge and constrain them. This escalated the competition and further divergence between traditional and emerging actors in development finance. Therefore, academic debates in IPE have mostly focused on this diversion and contestation between Chinese and traditional creditors.

Nevertheless, the growing competition between the Chinese and traditional creditors has also brought new developments. Both Western and China-led development finance strategies and policies have become more nuanced under such competition. As shown in this thesis and other studies in the literature, while China increasingly integrates itself into multilateral cooperation by accepting certain rules and regulations of the general standards of the global finance regime, the Western IFIs have begun to invest based more on developing nations' needs and demands and take riskier finances into their agenda. However, as noted above, this argument does not refer to a complete transition, and both sides maintained their model preponderantly. Instead, it represents a process where these actors' interactions with each other would pave the way to further increase of convergent areas and cooperation.

This thesis examined the interaction between China-led and traditional actors of development finance in the CEE region by looking at both sides' financial operations, policies, and cooperation between them as two main cases of this study. In this thesis, the major focus was on Chinese policy banks, the CDB and CHEXIM, and their interactions with the European-led development banks, the EBRD and EIB. The reason behind analyzing these banks and their interactions in the CEE region was twofold. First, while the CEE region has a long-lasting relationship with the European-led actors regarding development finance, Chinese actors have increased their presence in the region after the BRI was announced. This led both sides to interact and cooperate in the CEE region concerning development finance. Second, the EU influences the CEE countries in political, social, and economic realms. Thus, this thesis also argued that this relationship is further influenced and reshaped China's development finance. According to the in-depth analysis of both sides' financial behavior and policies in the CEE region, this thesis argues that a mutually transforming effect has started due to the interaction process of Chinese and European-led banks in the CEE region.

The case of Chinese development finance actors presented a divergent pattern in the CEE region than in other parts of the world when it interacts with the European financiers. This is not only related to these banks' specific interests in the region but also the European institutions' dominance across these nations. China has been exposed to the EU effect and interacted more with traditional creditors. This demonstrated that the transforming effect on Chinese development finance is more noticeable in the CEE region than in other parts of the world.

Chinese development finance actors in the CEE regions have shaped their financial practices and policies based on the BRI objectives in the region and mainly flowed their credit to transportation and energy SOEs in these countries under the 16+1 framework. However, some drawbacks to Chinese development finance in the CEE region led its actors to transform their practices and policies. Since it interacts more with the EU and European-led development institutions, it must be more transparent and follow a set of financial rules while providing finance to CEE countries. Also, due to its limited risk management, transparency policies, and financing experience, Chinese creditors need particular reforms to strengthen these issues, and these reforms would be learned through their European counterparts.

When it comes to mutually transforming effect, these structural weaknesses and the obligations are the main reasons Chinese actors recalibrate their policies and financial operations. These reasons were discussed in the literature with a multi-level perspective in this part; national, institutional, and regional levels. To answer how the mutually transforming effect works on Chinese creditors, this thesis argued that incremental attempts of Chinese actors to cooperate more with the EU, EBRD, and EIB and several agreements would allow China to emulate traditional actors’ policies and operations to fulfill its reforms. Alongside the cooperation, Chinese banks have also attempted to build their mechanisms resembling the models of European development banks. The China-CEEC Inter-Bank Association was a relevant example of this. Regarding empirical discussion here, I argued that the mutually transforming effect has begun to start on Chinese creditors in the CEE region.

In the case of the European creditors as traditional actors of the development, a mutually transforming effect occurs in parallel to international contexts and their concerns on the CEE countries’ increasing presence of the Chinese financing in strategic sectors. In this part of the thesis, the European Banks as traditional financiers and their heavy influence and support across the CEE countries were presented. As this thesis demonstrated, both the EBRD and EIB have specific targets in the CEE region. Their financial credits were not only spent for economic growth but also covered their democratizations and market-oriented transition after their independence from the Soviet Union. The EBRD and EIB have pursued a strict neoliberal agenda for CEE countries' development and transition.

However, after the global financial crisis, these banks scale up their investments in response to economic recovery and investment needs. Also, they took responsibility for fulfilling the financial needs of the Union's Juncker Plan. The problem of the European creditors stems from low-level investment and capital mobilization for large infrastructure projects. Thus, the mutually transforming effect is observed for the EIB and EBRD to address this challenge. Elaborating on the cooperation with Chinese actors under the Juncker Plan, Silk Road Fund, and other related initiatives indicates that the likelihood of co-financing would allow the European creditors to finance mega projects in the CEE region.

Besides, the transforming effect also existed in terms of altering the policies and financial credits of the CEE region. Similar to the Chinese development finance strategy, after the financial crises, both the EIB and the EBRD had allocated their credits for riskier projects in the region. Also, since many infrastructure companies are SOEs in the CEE countries, European Banks have increased their financing to these enterprises despite the supporting rhetoric of privatization. The growing cooperation between Chinese and European development finance actors and changing policies and financial behavior of the EIB and EBRD proved that the mutually transforming effect has also underway for the traditional actors of the development finance.

This study's main contributions have been to the literature on IPE, development finance, and the political economy of traditional and Chinese development banks. By focusing on the CEE region, the thesis has shown that while Chinese development finance is less constrained in the other regions from the traditional actors, its policies and financial operations are influenced by the European banks and the EU itself. Therefore, this study presented an understanding of how Chinese development actors have acted in the regions where traditional actors have more voice. This thesis also showed that even though a larger share of Chinese development finance flowed into the other regions and scholarly attention has focused more on those regions to examine relations between traditional and Chinese development finance, the CEE is also a strategic region to observe certain policy and financing shift in both the traditional and Chinese institutions.

With regards to study's limitations, firstly, the mutually transforming effect that this thesis has uncovered is currently in its nascent form for both Chinese and traditional actors' development policy agendas. This means there is limited evidence to prove the transforming effect on their financing. Yet, I argue that a greater level of interaction, such as expanding co-financing projects or actualization of joint plans in the future, would strengthen the argument of this thesis.

Future research can also investigate the transforming effect and interaction between emerging and traditional creditors in global development finance. While the thesis primarily focuses on the CEE region, I argue that a similarly transforming effect can be studied in the other parts of the regions and actors. Despite the multiple differences across regions and development actors, a similar argument can be examined, for example, through the conflict regions or other sectors such as renewables. This would give rise to the question of to what extent traditional and emerging creditors' policies and financial activities converge and emulate each other's strategies globally.

Moreover, since this study focused on the CEE region where traditional actors have a long-lasting presence and dominant influence on countries and measured Chinese financial practices under this environment; similar research on mutually transforming effects can be conducted in the areas where China has more dominance and presence than the traditional actors such as Asia. This would bring another question how traditional actors calculate their financing strategies where emerging actors have more influence.

REFERENCES

Aamir, A. (2018, June 14). *China's Belt and Road Plans Dismay Pakistan's Poorest Province*. Retrieved May 19, 2022, from Financial Times: www.ft.com/content/c4b78fe0- 5399-11e8-84f4-43d65af59d43

AIIB. (2016). *Asian Infrastructure Investment Bank - Articles of Agreement.* Retrieved April 20, 2022, from AIIB: https://www.aiib.org/en/about-aiib/basic-documents/_download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf

AidData. (n.d.). *AidData's Global Chinese Development Finance Dataset, Version 2.0*. Retrieved from AidData: https://china.aiddata.org

AidData. (n.d.). *AidData's Global Chinese Development Finance*. Report. Retrieved June 18, 2022, from AidData: https://china.aiddata.org

AidData. (n.d.). *China Eximbank provides $943.9 million preferential buyer's credit for Phase 1 of Bar-Boljare Highway Project (Linked to Project ID#42328)*. Retrieved June 15, 2022, from AidData: https://china.aiddata.org/projects/42330/

Anderlini, J. (2009, July 21). *China to deploy foreign reserves*. Retrieved April 29, 2022, from Financial Times:

A., Zenglein, M.J., & Sebastian, G. (2020*). Chinese FDI in Europe: 2020 update*. Mercator Institute for China Studies, Report.

Babb, S. (2013). The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor. *Review of International Political Economy*, *20*(2), 268-297

Babb, S. L., & Kentikelenis, A. E. (2018). International financial institutions as agents of neoliberalism. The SAGE handbook of neoliberalism, 16-27.

Babić, M., & Dixon, A. D. (2022). Is the China Effect Real? Ideational Change and the Political Contestation of Chinese State-Led Investment in Europe. *The Chinese Journal of International Politics*, *15*(2), 111-139.

Ban, C., & Blyth, M. (2013). The BRICs and the Washington consensus: An introduction. *Review of international political economy*, *20*(2), 241-255.

Benard, M. (2020). Infrastructure and the Belt and Road Initiative. In J. A. Berlie (Ed.), *China’s globalization and the Belt and Road initiative* (pp. 57–76). Springer.

Ben-Artzi, R. (2016). *Regional development banks in comparison: Banking strategies versus development goals*. Cambridge University Press.

Berglof, E. (2012). Filling the Gaps—the Vienna Initiative and the Role of International Financial Institutions in Crisis Management and Resolution. In The Global Macro Economy and Finance (pp. 211-223). Palgrave Macmillan, London

Berglof, E. (2015). New structural economics meets European transition. *Journal of Economic Policy Reform* 18(2): 114–130.

Best, J. (2014). *Governing failure: Provisional expertise and the transformation of global development finance*. Cambridge University Press.

Birnbaum, M. (2021, April). *Montenegro mortgaged itself to China. Now it wants Europe’s help to cut it free.* Retrieved April 15, 2022, from Washington Post: https://www.washingtonpost.com/world/europe/china-montenegro-highway-nato-europe/2021/04/17/99a745b4-9ebb-11eb-b2f5-7d2f0182750d_story.html

Borkovic , S., & Tabak, P. (2020). *Economic performance of state-owned enterprises in emerging economies: A cross-country study.* Retrieved June 25, 2022, from EBRD: https://www.ebrd.com/what-we-do/economic-research-and-data/cse-economists/economic-performance-soes-in-emerging-economies.html

Bøås , M., & McNeill, D. (2004). Introduction: power and ideas in multilateral institutions: towards an interpretative framework. In M. Bøås , & D. McNeill, Global Institutions and Development Framing the world? (pp. 1-13). New York: Routledge.

Boston University Global Development Policy Center. (n.d.). *China's Global Energy Finance China Development Bank (CDB) and Export-Import Bank of China (CHEXIM)* . Retrieved from Boston University Global Development Policy Center: https://www.bu.edu/cgef/#/intro

Boston University Global Development Policy Center. (n.d.). *China’s Overseas Development Finance: Geospatial Data for Analysis of Biodiversity and Indigenous Lands*. Retrieved from Boston University Global Development Policy Center: https://china.aiddata.org

Brautigam, D. (2009). *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press.

Bräutigam D. (2011). Aid 'With Chinese characteristics': Chinese Foreign Aid and Development Finance Meet the OECD-DAC Aid Regime. *Journal of International Development,* 23: 752–764.

Carroll, T., & Jarvis, D. S. (2015). The new politics of development: Citizens, civil society, and the evolution of neoliberal development policy. Globalizations, 12(3), 281-304.

Carvalho, F. C., Kregel, J., de Castro, L. B., & Studart, R. (2019). Development finance: theory and practice. In, *The Palgrave Handbook of Development Economics: Critical Reflections on Globalisation and Development*, 471.

CDB. (2020). *Annual Report 2020.* Retrieved April 11, 2022, from the CDB: http://www.cdb.com.cn/English/bgxz/ndbg/ndbg2020/

Chen, M. (2020). Beyond donation: China's policy banks and the reshaping of development finance. *Studies in Comparative International Development*, *55*(4), 436-459.

Chen, Y. (2009). 'The Shape and Significance of Jiang Zemin's "Going Abroad" Policy', *Liter- ature of the Chinese Communist Party (Dangde Wenxian)* 9(1): 31–54.

Chellaney, Brahma. (2017). "China's Debt-Trap Diplomacy | by Brahma Chellaney." *Project Syndicate*. January 23. https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt- by-brahma-chellaney-2017-01.

Chin, G. T. (2016). Asian Infrastructure Investment Bank: governance innovation and prospects. *Global Governance,* 22, 11-26.

Chin, G. T. (2017). 'EGG Commentary — Hong Kong, the AIIB and the Evolving Geography of Finance; A World Financial Center in the Making?', *Global Policy*. www.globalpolicyjournal.com/blog/19/07/2017/hong-kong-aiib-and-evolving-geography- finance-world-financial-center-making

Chin, G. T., & Gallagher, K. P. (2019). Coordinated credit spaces: The globalization of Chinese development finance. *Development and change*, *50*(1), 245-274.

China-CEEC Customs Information Center. (2021, April 7). *China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries*. Retrieved May 11, 2022, from China-CEEC Customs Information Center: http://cceeccic.org/698126153.html

China-CEEC Fund. (2015, November 1). *The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries*. Retrieved May

22, 2022, from China-CEEC: http://www.china-ceec.org/eng/zywj/ldrhhcgwj/202112/t20211222_10474159.htm

China-CEE Fund. (2018, Feburary 22). *The Establishment of China-Central and Eastern European Cooperation Cooperation Fund II*. Retrieved May 12, 2022, from China-CEE Fund: http://china-ceefund.com/Template/news_list_12_165.html

Clifton, J., Diaz-Fuentes, D., & Gomez, A. (2021). The European Investment Bank: From Development, Integration and Investment to 'You Get What You Give'. In J. Clifton, D. Díaz Fuentes, & D. Howarth, *Regional development banks in the world economy* (pp. 97-115). Oxford: Oxford University Press.

Collier, P., & Dollar, D. (2001). *Globalization, growth, and poverty: Building an inclusive world economy.* World Bank.

Devonshire-Ellis, C. (2017, June 14). *China Targets, Funds, and Incentivizes Eastern Europe as Bilateral Trade Potential Intensifies*. Retrieved May 17, 2022, from Silk Road Briefing: https://www.silkroadbriefing.com/news/2017/07/12/china-targets-funds-incentivizes-eastern-europe-bilateral-trade-potential-intensifies/

Dinnan, D. (1999). *Encyclopedia of the European Union*. Macmillan.

Dollar, D. (2018). Is China’s development finance a challenge to the international order? *Asian Economic Policy Review*, *13*(2), 283-298.

Dreher, A., Nunnenkamp, P., & Thiele, R. (2011). Are ‘new’donors different? Comparing the allocation of bilateral aid between nonDAC and DAC donor countries. *World Development*, *39*(11), 1950-1968.

Dreher, A., Fuchs, A., Parks, B., Strange, A., & Tierney, M. J. (2017). *Aid, China, and Growth: Evidence from a New Global Development Finance Dataset*. AidData Working Paper #46. Williamsburg, VA: AidData.

Dreher, A., Fuchs, A., Parks, B., Strange, A. M., & Tierney, M. J. (2018). Apples and dragon fruits: The determinants of aid and other forms of state financing from China to Africa. *International Studies Quarterly*, *62*(1), 182-194.

Dreher, A., Fuchs, A., Hodler, R., Parks, B. C., Raschky, P. A., & Tierney, M. J. (2019). African leaders and the geography of China's foreign assistance. *Journal of Development Economics*, *140*, 44-71.

Dreher, A., Fuchs, A., Parks, B., Strange, A., & Tierney, M. J. (2022). *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge University Press.

EBRD. (1991, December 31). 1991 EBRD Annual Report. Retrieved June 2, 2022, from EBRD: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwikjvGK6pz4AhUySvEDHdr_AGAQFnoECAgQAQ&url=https%3A%2F%2Fwww.ebrd.com%2Fpublications%2Fannual-report-1991-english.pdf&usg=AOvVaw0PlCAQVSz9U5j8y_Caowrk

EBRD. (1999). *Transition Report 1999*. Retrieved June 3, 2022, from EBRD: https://www.ebrd.com/downloads/research/transition/TR99.pdf

EBRD (2008, December 31). *Annual Report, 2008.* Retrieved April 22, 2022, from the EBRD:https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ve=2ahUKEwiolL6K7T3AhXvS_EDHXTZAbYQFnoECAcQAQ&url=https%3A%2F%2Fwww.ebrd.com%2Fdocuments%2Fcomms-and-bis%2Fpdf-annual-report-2008-english.pdf&usg=AOvVaw3iHs_qeAVsKKUnnguMEkyF

EBRD. (2010). *2010 Transition Report*. Retrieved June 4, 2022, from EBRD: https://www.ebrd.com/downloads/research/transition/tr10.pdf

EBRD. (2013, September 30). *Basic documents of the EBRD*. Retrieved 1 June, 2022, from EBRD: https://www.ebrd.com/news/publications/institutional-documents/basic-documents-of-the-ebrd.html

EBRD. (2017, July). Report prepared by Dr Jens Bastian for the European Bank for Reconstruction and Development: Funding from the Central European Initiative. From EBRD: https://www.ebrd.com/find?keywords=china%20balkan&content-all=true&dates-all=true&search-type=search-all&page=1&order-by-date=false

EBRD. (2018, May 8). *Annual Review 2018*. Retrieved May 30, 2022, from EBRD: https://www.ebrd.com/news/publications/annual-report/annual-review-2018.html

EBRD. (2020*). EBRDs 2020 Financial Report.* Retrieved May 31, 2022, from EBRD: https://www.ebrd.com/news/publications/financial-report/financial-report-2020.html

EBRD. (n.d.). *How we assess transition qualities.* Retrieved May 30, 2022, from EBRD: https://www.ebrd.com/economic-research-and-data/transition-qualities-asses.html

EBRD. (n.d.). *EU: EBRD shareholder profile.* Retrieved May 28, 2022, from EBRD: https://www.ebrd.com/who-we-are/structure-and-management/shareholders/european-union.html

EBRD. (n.d.). *Project Finder*. Retrieved from EBRD: https://www.ebrd.com/project-finder

EIB. (2005). *EIB - Corporate Responsibility* Report. Retrieved May 28, 2022, from EIB: https://www.eib.org/attachments/general/crr2005_en.pdf

EIB. (2010). *Financial Report - Annual Report* 2010. Retrieved May 27, 2022, from European Investment Bank Group: https://www.eib.org/attachments/general/reports/fr2010en.pdf

EIB. (2017, June). *EIB Group cooperation with China to be strengthened with new EUR 500 million Silk Road Fund equity investment initiative*. Retrieved May 17, 2022, from EIB: https://www.eib.org/en/press/all/2017-138-eib-group-cooperation-with-china-to-be-strengthened-with-new-eur-500-million-silk-road-fund-equity-investment-initiative

EIB. (2018). *The EU bank at a glance*. Retrieved May 27, 2022, from EIB: https://www.eib.org/attachments/60-anniversary-eib-infographic-en.pdf

EIB. (2021). *The EIB in numbers.* Retrieved May 27, 2022, from EIB: https://www.eib.org/en/about/key-figures/index.htm

European Investment Bank. (n.d.). *All Projects*. Retrieved from European Investment Bank: https://www.eib.org/en/projects/all/index.htm?q=&sortColumn=statusDate&sortDir=desc&pageNumber=0&itemPerPage=25&pageable=true&language=EN&defaultLanguage=EN&=&or=true&yearFrom=1959&yearTo=2022&orStatus=true&orRegions=true&orCountries=true&orSectors=true

Eichengreen, B. J. (2007). *The European Economy Since 1945* . Woodstock, Oxfordshire: Princeton University Press.

European Central Bank. (n.d.). *Banking union*. Retrieved June 24, 2022, from European Central Bank: https://www.bankingsupervision.europa.eu/about/bankingunion/html/index.en.html

European Commission. (2009, Feburary 27). EBRD, EIB and World Bank Group join forces to support Central and Eastern Europe. Retrieved May 31, 2022, from European Commission: https://ec.europa.eu/commission/presscorner/detail/en/BEI_09_29

European Commission. (2015, September). *Investment Plan for Europe goes global: China announces its contribution to #investEU.* Retrieved June 6, 2022, from European Commission: https://ec.europa.eu/commission/presscorner/detail/it/IP_15_5723

European Commission. (2019). *Juncker Plan has made major impact on EU jobs and growth.* Retrieved June 25, 2022, from European Commission: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6119

European Commission. (2020). *EU-China 2020 Strategic Agenda for Cooperation. Retrieved June 5, 2022, from European Commission:* https://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf

European Commission. (2020, October 9). *EU foreign investment screening mechanism becomes fully operational*. Retrieved May 20, 2022, from European Commission: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867

European Council. (n.d.). *Investment plan for Europe*. Retrieved June 3, 2022, from Council of the European Union: https://www.consilium.europa.eu/en/policies/investment-plan/

European Investment Bank. (n.d.*). European Investment Bank The Governance*. Retrieved May 27, 2022, from European Investment Bank: https://www01.eib.org/attachments/general/governance_of_the_eib_en.pdf

EUR-Lex. (2012, 10 26*). Consolidated Version of The Treaty on the Functioning of the European Union.* Retrieved 05 27, 2022, from EUR-Lex: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN

Eurostat. (2022, May). *Coal production and consumption see rebound in 2021*. Retrieved June 21, 2022, from Eurostat: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20220502-2

Ergenç, C., & Göçer, D. (2022). BRI Engagement and State Transformation in the Middle East: A Case Study on Turkey. In *The China Question* (pp. 93-112). Palgrave Macmillan, Singapore.

Erforth, B., & Kaplan, L. (2019). *The future of European development finance: Institutional reforms for sustainable solutions*. Bonn: Econstor & German Development Institute.

Fischer, S. (2003). Globalization and its challenges. *American Economic Review*, *93*(2), 1-30.

Gallagher, K. P., Irwin, A., & Koleski, K. (2012). *The new banks in town: Chinese finance in Latin America.* Inter-American Dialogue, Report.

Gavin, M., & Rodrik, D. (1995). The World Bank in historical perspective. *The American Economic Review*, 85(2), 329-334.

Gallagher, K. P., Kamal, R., Jin, J., Chen, Y., & Ma, X. (2018). Energizing development finance? The benefits and risks of China's development finance in the global energy sector. *Energy policy*, *122*, 313-321.

Gavin, M., & Rodrik, D. (1995). The World Bank in historical perspective. *The American Economic Review,* 85(2), 329-334.

George, A. L., & Bennett, A. (2007). *Case Studies and Theory Development İn The Social Sciences*. MIT Press.

Gevorkyan, A. V. (2018). *Transition economies: Transformation, development, and society in Eastern Europe and the former Soviet Union*. Routledge.

Ghiretti, F. (2021, October 14). *Screening foreign investment in the EU – the first year*. Retrieved 23 2022, from Merics: https://merics.org/en/short-analysis/screening-foreign-investment-eu-first-year

Gu, H. (2017). Overcome the Collective Action Problems in Providing International Public Goods: An Evaluation of China-CEE Funds. *UACES 47th Annual Conference* (pp. 1-26). Krakow, Poland: Jagiellonian University.

Guerrero, D. (2017). Chinese Investment in Europe in the Age of Brexit and Trump. Working Paper. Amsterdam, Netherlands: Transnational Institute. Accessed at www.tni.org/en/publication/chinese-investment-in-europe-in-the- age-of-brexit-and-trump.

Heldt, E. C., & Schmidtke, H. (2019). Explaining coherence in international regime complexes: How the World Bank shapes the field of multilateral development finance. *Review of International Political Economy*, *26*(6), 1160-1186.
Helleiner, E. (2010). A Bretton Woods moment? The 2007–2008 crisis and the future of global finance. *International affairs*, *86*(3), 619-636.

Hopewell, K. (2019). Power transitions and global trade governance: the impact of a rising China on the export credit regime. *Regulation and Governance, 15*(3), 634-652.

Honohan, P. (1995). The public policy role of the European Investment Bank within the EU. JCMS: Journal of Common Market Studies, 33(3), 315-330.

Isaksson, A.-S., & Kotsadam, A. (2018). Chinese aid and local corruption. Journal of Public Economics, 159, 146–159. https://doi.org/10.1016/j.jpubeco.2018.01.002

Jakobeit, C. (1992). The EBRD: Redundant, or an important factor in the transformation of Eastern Europe?. *Intereconomics*, 27(3), 119-123.

Jakobowski, J. & Kaczmarski, M. (2017). Beijing's mistaken offer: the '16+1' and China's policy towards the European Union. OSW Commentary. Report.

Jakobowski, J. (2018). Chinese-led Regional Multilateralism in Central and Eastern Europe, Africa and Latin America: 16 + 1, FOCAC, and CCF. *Journal of Contemporary China*, *113*(27), 659-673.

Jin, X. (2012, January). *Conditionality in China's Aid Model*. Retrieved February 14, 2022, from Carnegie Endowment For International Peace: https://carnegieendowment.org/2012/01/10/conditionality-in-china-s-aid-model-event-4024

Jones, L., & Zeng, J. (2019). Understanding China's 'Belt and Road Initiative': beyond 'grand strategy' to a state transformation analysis. *Third World Quarterly, 40*(8), 1415-1439.

Junda, J., Gallagher, K., & Ma, X. (2018). *China's Global Development Finance: A Guidance Note for Global Development Policy Center Databases.* Boston: Boston University Global Development Center - Database Coding Manual.

Kolk, A., & Van Der Weij, E. (1998). Financing Environmental Policy in East Central Europe. Environmental Politics, 7(1), 53-68.

Kragelund, P. (2015). Towards convergence and cooperation in the global development finance regime: closing Africa's policy space?. *Cambridge Review of International Affairs*, *28*(2), 246-262.

Kratz Katada, S. N., & Liao, J. (2020). China and Japan in pursuit of infrastructure investment leadership in Asia: Competition or convergence? *Global Governance: A Review of Multilateralism and International Organizations, 26*(3), 449-472.

Kratz, A., Zenglein, M., Sebastian, G., & Witzke, M. (2022, April 27). *Chinese FDI in Europe: 2021 Update*. Retrieved May 22, 2022, from Merics: https://merics.org/en/report/chinese-fdi-europe-2021-update

Krugman, P. (2007). Is there a post-Washington consensus? *Initiative for Policy Dialogue Working Paper Series*.

Lankowski, C. (2000). *'European Investment Bank'*. In Dinan, D. (ed.) Encyclopedia of the European Union: Updated Edition (Basingstoke: Macmillan).

Lardy, N. R. (1998*). China's Unfinished Economic Revolution*. Brookings Institution Press.
Kolk, A., & Van Der Weij, E. (1998). Financing Environmental Policy in East Central Europe. Environmental Politics, 7(1), 53-68.

Lau, S. (2021, 21 May). *Lithuania pulls out of China's '17+1' bloc in Eastern Europe*. Retrieved May 12, 2022, from Politico: https://www.politico.eu/article/lithuania-pulls-out-china-17-1-bloc-eastern-central-europe-foreign-minister-gabrielius-landsbergis/

Liu, H., Xu, Y., & Fan, X. (2020). Development finance with Chinese characteristics: Financing the Belt and Road Initiative. *Revista Brasileira de Política Internacional,* 63(2), 1–15. https://doi.org/10.1590/00347329202000208

Liu, W., Zhang, Y., & Xiong, W. (2020). Financing the Belt and Road initiative. *Eurasian Geography and Economics, 61*(2), 137-145.

Liu, Z. (2018). The "16 + 1 Cooperation" under the "Belt and Road" initiative . In W. Song, *China's Relations with Central and Eastern Europe From "Old Comrades" to New Partners* (pp. 29-48). New York: Routledge.

Matura, T. (2021, April). *Chinese Investment in Central and Eastern Europe A reality check.* Budapest: Central and Eastern European Center for Asian Studies.

Mertens, D., & Thiemann, M. (2019). Building a hidden investment state? The European Investment Bank, national development banks and European economic governance. *Journal of European public policy*, 26(1), 23-43.

Mertens, D., & Thiemann, M. (2022). *The politicization of the European Investment Bank: Managing hybridity and resource dependence in European economic governance.* In Deciphering the European Investment Bank (pp. 140-164). Routledge.

Miller-Adams, M. (1999). *The World Bank: new agendas in a changing world*. Routledge.

Miller, T. (2019). *China's Asian dream: Empire building along the new silk road*. Bloomsbury Publishing.

Ministry of Foreign Affairs of the People's Republic of China. (2015, March 28). *Full text of Chinese President's speech at Boao Forum for Asia*. Retrieved Feburary 18, 2022, from China.org.cn:https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/201503/t20150331_678290.html

Ministry of Foreign Affairs of the People's Republic of China. (2017, November). *The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries*. Retrieved June 22, 2022, from Ministry of Foreign Affairs of the People's Republic of China: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/201711/t20171128_679509.html

Mirow, T. (2010, June 14). *Eastern Europe grapples with business challenges*. Retrieved May 19, 2022, from Financial Times: https://www.ft.com/content/e8b4fe48-76ff-11df-ba79-00144feabdc0

Morin, J. F. and Orsini, A. (2013). Regime Complexity and Policy Coherency: Introducing a Co-adjustments Model, *Global Governance*, 19 (1), pp. 41–51.

Naim, M. (2007). *Rogue aid*. Foreign policy, (159), 95-96. https://foreignpolicy.com/2009/10/15/rogue-aid/

Obydenkova, A., Rodrigues Vieira, V. G., & Tosun, J. (2021). The impact of new actors in global environmental politics: the European Bank for Reconstruction and Development meets China. *Post-Communist Economies*, 1-21.

Owen, C. (2020). The Belt and Road Initiative's Central Asian Contradictions. *Current History*, 119(819), 264-269.

Öniş, Z., & Şenses, F. (2005). Rethinking the emerging post-Washington consensus. *Development and Change*, 36(2), 263–290. https://doi.org/10.1111/j.0012-155X.2005.00411.x

Parks, B. (2019). *Chinese Leadership and the Future of BRI: What Key Decisions Lie Ahead?* CGD Note. Washington, DC: Center for Global Development.

Park, S. (2021). Policy Norms, the Development Finance Regime Complex, and Holding the European Bank for Reconstruction and Development to Account. *Global Policy,* 12, 90-100.

Park, S. (2016). China's RMB internationalization strategy: its rationales, state of play, prospects and implications. *M-RCBG Associate Working Paper Series*, *63*, 1-187.

Pavlićević, D. (2018, June 16). *China in Central and Eastern Europe: 4 Myths Debunking four myths about China's "16+1" platform with Central and Eastern Europe.* Retrieved May 19, 2022, from The Diplomat: https://thediplomat.com/2016/06/china-in-central-and-eastern-europe-4-myths/

Pavlićević, D. (2022). Contesting China in Europe: Contextual Shift in China-EU Relations and the Role of "China Threat". In *The China Question* (pp. 67-92). Palgrave Macmillan, Singapore.

Prtoric, J. (2022, Feburary). *China's pledge to end overseas coal support yields mixed results in Serbia and Bosnia*. Retrieved June 21, 2022, from China Dialogue: https://chinadialogue.net/en/energy/chinas-overseas-coal-pledge-yields-mixed-results-in-serbia-and-bosnia/

Pyrkalo, S. (2016, June). *EBRD, Silk Road Fund agree to cooperate*. Retrieved May 15, 2022, from EBRD: https://www.ebrd.com/news/2016/ebrd-silk-road-fund-agree-to-cooperate.html

Ray , R., & Simmons, B. (n.d.). *Tracking China's Overseas Development Finance*. Retrieved May 18, 2022, from Boston University Global Development Policy Center: https://www.bu.edu/gdp/2020/12/07/tracking-chinas-overseas-development-finance/s

Robinson, N. (2009). The European Investment Bank: the EU's neglected institution. JCMS: *Journal of Common Market Studies*, 47(3), 651-673.
Sachs, J. D. (2015). *The age of sustainable development*. Columbia University Press.

Rosca, O. (2015, May). *EBRD and Export-Import Bank of Republic of China join forces*. Retrieved April 29, 2022, from EBRD: https://www.ebrd.com/news/2015/ebrd-and-exportimport-bank-of-republic-of-china-join-forces.html

Runde, D. (2019, December). *Reinvention or Restoration? The Future of the European Bank for Reconstruction and Development.* Report. Retrieved May 9, 2022, from CSIS: https://www.csis.org/analysis/reinvention-or-restoration
Saccone, D. (2017). Economic growth in emerging economies: what, who and why. *Applied Economics Letters*, *24*(11), 800-803.

Scheck, Martin. (2016). *Speech* Accessed June, 15 2022. http://www.media-out-reach.com/release.php/View/2593/Silk-Road-Bond-Bridging-the- Financing-Needs-of-Belt-and-Road-Countries.html.

Shields, S. (2015). "*The European Bank for Reconstruction and Development as organic intellectual of neoliberal common sense in post-communist transition*. In Global Economic Governance and the Development Practices of the Multilateral Development Banks (pp. 191-210). Routledge.

Shields, S. (2020). The EBRD, Fail Forward Neoliberalism and The Construction of The European Periphery. *The Economic and Labor Relations Review,* 31(2), 230-248.

Shields, S. (2021). *The EBRD.* In J. Clifton, F. Daniel Díaz , & D. Howarth, Regional Development Banks in the World Economy (pp. 168-193). Oxford: Oxfor University Press.

Shields, S. (2022). *Never waste a crisis: The European Bank for reconstruction and development, the European Investment Bank, and the European Bank coordination initiative.* In Deciphering the European Investment Bank, (pp. 263-277). Routledge.

Song, W. (2018). *China's Relations with Central and Eastern Europe From "Old Comrades" to New Partners.* New York: Routledge.

Skalamera Groce, M., & Köstem, S. (2021). The dual transformation in development finance: western multilateral development banks and China in post-Soviet energy. *Review of International Political Economy*, 1-25.

Smith, A. (2002). Imagining geographies of the 'new Europe': geo-economic power and the new European architecture of integration. *Political Geography*, 21(5), 647-670.

Sitglitz, J. E. (2002). *Globalization and its Discontents.* W.W. Norton &: Company. New York.

Stanzel, A. (2016). *China's Investment in Influence: The Future of 16+1 Cooperation*. China Analysis. From European Council on Foreign Relations. (ECFR): https://ecfr.eu/wp-content/uploads/China_Analysis_Sixteen_Plus_One.pdf

Strange, A. M., Dreher, A., Fuchs, A., Parks, B., & Tierney, M. J. (2017). Tracking underreported financial flows: China’s development finance and the aid–conflict nexus revisited. *Journal of Conflict Resolution*, *61*(5), 935-963.

Strupczewski, J. (2021, April 12). *EU says it can't help Montenegro on China loan but can on financing*. Retrieved June 15, 2022, from Reuters: https://www.reuters.com/article/us-montenegro-china-debt-eu-idINKBN2BZ22Q

Sun, Y. (2014, Feburary). *China’s Aid to Africa: Monster or Messiah?* Retrieved March 19, 2022, from Brookings: https://www.brookings.edu/opinions/chinas-aid-to-africa-monster-or-messiah/

Tokdemir, E. (2017). Winning hearts & minds (!) The dilemma of foreign aid in anti-Americanism. *Journal of Peace Research*, *54*(6), 819-832.

The Economist. (2017, July 20). *A thousand golden stars; China goes to Africa*. Retrieved May 11, 2022, from The Economist: https://www.economist.com/middle-east-and-africa/2017/07/20/china-goes-to-africa

The Embassy of People's Republic of China. (2004, June 20). *President Hu ends 'fruitful' 4-nation tour*. Retrieved May 12, 2022, from The Embassy of the People's Republic of China New Zealand: https://www.mfa.gov.cn/ce/cenz//eng/xw/t140172.htm

The State Council of People's Republic of China. (2014, July 10). *China’s Foreign Aid (2014)*. Retrieved April 28, 2022, from The State Council of People's Republic of China: http://english.www.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm

Tosun, J. (2013). *Environmental policy change in emerging market democracies.* In Environmental Policy Change in Emerging Market Democracies. University of Toronto Press

Turai, Z. (2018). *China in Central and Eastern Europe.* Center for European Policy Analysis (CEPA).

Unwin, B. (1997). The European investment bank's activities in central and eastern Europe. *European Business Journal,* 9(1), 19-26. Retrieved from https://www.proquest.com/scholarly-journals/european-investment-banks-activities-central/docview/205275745/se-2?accountid=8623

Qing, K. G. (2015, September). *Exclusive: China's AIIB to offer loans with fewer strings attached - sources*. Retrieved April 14, 2022, from Reuters: https://www.reuters.com/article/us-aiib-china-loans-idUSKCN0R14UB20150901

Walter, C. and F. Howie. (2012). *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise.* Hoboken, NJ: Wiley.

Wang, W. (2018, May). *China, the Western Balkans and the EU: Can three tango*. Retrieved June 21, 2022, from Euroactiv: https://www.euractiv.com/section/energy/opinion/china-the-western-balkans-and-the-eu-can-three-tango/

Weber, S. (1994). Origins of the European bank for reconstruction and development. *International Organization*, *48*(1), 01-38.

Wei, L., & Siying, W. (2019*). China–EU Connectivity Platform (Juncker Plan) with the Belt and Road Initiative.* In Routledge Handbook of the Belt and Road (pp. 462-466). Routledge.

Wold, C. A., & Zaelke, D. (1992). Promoting sustainable development and democracy in central and eastern Europe: the role of the European bank for reconstruction & development. *American University Journal of International Law and Policy*, 7(3), 559-604.

Vazquez, K. C., & Chin, G. T. (2019). The AIIB and sustainable infrastructure: A hybrid layered approach. *Global Policy*, 10(4), 593–603. https://doi.org/10.1111/1758-5899.12771

Xu, J. & Carey R. (2015). 'Post-2015 Global Governance of Official Development Finance: Harnessing the Renaissance of Public Entrepreneurship', *Journal of International Development* 27: 856–80.

Yee, Herbert, and Ian Storey. (2002). *The China Threat: Perceptions, Myths and Reality*. London: Routledge Curzon.

Yli, J., & Zuokui, L. (2019). Financial cooperation between China and CEEC: development and prospective. *Global Economic Observer*, *7*(1), 258-268.

Yuzhen, H. (2021, Feburary). *The China-CEEC Summit Opens a New Chapter in China-CEEC Cooperation*. Retrieved May 10, 2022, from Chinese People's Intitute of Foreign Affairs: http://www.cpifa.org/en/cms/book/322

Yuzhen, H. (2021, Feburary). *The China-CEEC Summit Opens a New Chapter in China-CEEC Cooperation*. Retrieved May 10, 2022, from Chinese People's Intitute of Foreign Affairs: http://www.cpifa.org/en/cms/book/322

Zakić, K. (2022) Economic connectivity within the BRI: China and the Western Balkans. In *The Connectivity Cooperation Between China and Europe* (pp. 216-236). Routledge.

Zhang, C. (2011). Sterilization in China: Effectiveness and Cost. *The Wharton School, Finance Department, University of Pennsylvania.* Accessed at https://faculty.wharton.upenn.edu/wp-content/uploads/2012/04/SterilizationJun1.pdf.

Zeitz, A. O. (2021). Emulate or differentiate? Chinese development finance, competition, and World Bank infrastructure funding. *The Review of International Organizations*, 16(2), 265–292. https://doi.org/10.1007/s11558-020-09377-y