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## **#43 Chinese Development Finance in a Shifting Global Order**

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### **Key Takeaways**

- CDF is framed as a BRI-extension and South-South cooperation tool.
- Governance is fragmented despite strong top-level strategic coordination.
- Overseas the focus is on commercial, infrastructure-heavy, debt-based projects.
- CDF is in a post-peak phase, shifting towards green, digital and PPP models.
- Outcomes depend heavily on borrower capacity and institutions.

### **Policy Implications for European Engagement with Chinese Development Finance**

1. Balance constructive engagement with strategic caution.
2. Recognize the institutional diversity within CDF.
3. Rebuild trust with partners that have turned towards China by addressing historical grievances.
4. Strengthen borrower capacity, promote country ownership and ensure meaningful participation.
5. Build complementary partnerships to advance the SDGs.
6. Deepen engagement through regional and multilateral platforms.
7. Offer finance that matches CDF's most attractive features without diluting safeguards.
8. Leverage strategic opportunities in co-financing.
9. Embed quality finance standards that are SDGs-driven and fiscally responsible.

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## **Executive Summary**

Some twenty years after the first major incursions of Chinese policy banks into the developing world, what some scholars once termed “patient capital” appears to have become, in many respects, less patient. A development finance model that initially stood apart has, in notable ways, converged with some forms of commercial finance it once contrasted with. At the same time, traditional donors and development lenders have selectively incorporated elements of the Chinese approach, particularly the idea that development finance should generate mutual benefits within a market-based framework.

Yet Chinese Development Finance (CDF) still differs in its stated aims, delivery, and perception as both a real and imagined alternative to dominant models. As some traditional donors increasingly demand commercial returns, and others have retreated from ideals of international solidarity, many in the Global South view China as a pragmatic partner, while others remain sceptical of its profit orientation and infrastructure focus.

After two decades of implementation and transformation, this is a critical moment to reassess what CDF is becoming and how it supports countries seeking to meet the Sustainable Development Goals (SDGs) by 2030. This report provides an integrated account of CDF, highlighting its evolution, opportunities, constraints, and tensions in balancing commercial imperatives with ambitions.

In Chinese official discourse, overseas development finance is framed as an extension of the domestic model and a pillar of the Belt and Road Initiative and South–South cooperation. In response to criticism, Chinese actors stress shared responsibility for debt outcomes, voluntary participation, and absence of political conditionality, while advocating “small and beautiful” projects with high social impact.

CDF’s institutional architecture is extensive but fragmented. Policy banks and state-owned commercial banks finance most projects, while state-owned enterprises dominate implementation. Strategic coordination is strong, but institutional rivalries and overlapping mandates challenge coherence.

The scope of CDF differs sharply between domestic and international arenas. Abroad, the focus narrows to commercially bankable, capital-intensive infrastructure, with limited engagement in social sectors. Financing remains overwhelmingly debt-based, with standardised, lender-protective contracts that reduce risks but constrain borrower flexibility.

CDF has entered a “post-peak” phase, marked by reduced sovereign lending, expanded public–private partnerships, and growing focus on green finance and digital infrastructure. Borrower agency varies, while debt sustainability remains a concern requiring transparency, rigorous appraisal, and improved coordination.

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In sum, CDF operates as a hybrid model: state-led yet market-sensitive, commercially oriented yet framed as partnership. Its future depends on balancing commercial discipline with developmental ambition and on borrowers' capacity to engage strategically.