# What Borrowers Want: Borrower Agency, Economic Ideology, and Institutional Adaptation under Development Finance Competition

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**Abstract**

How do international institutions adapt during periods of great power competition? The rise of Chinese official development finance has challenged the dominance of US-backed economic institutions, including Western multilateral development banks (MDBs) such as the World Bank. Existing studies emphasize how MDBs respond to competition based on US interests or organizational concerns. Yet, competition creates opportunities for borrowing countries to exercise agency and influence institutional change. Drawing on Cold War history, I theorize that borrowers leverage competition based on their economic ideology about state versus market control over capital. State-capitalist borrowers use Chinese finance to negotiate larger loans and less conditionality from Western MDBs in key areas, whilst free-market borrowers embrace conditionality and avoid larger public debt. Using two-way fixed effects models and a novel economic ideology index, I find that MDBs do not increase funding for state-capitalist borrowers. Instead, they alter the composition of conditions, reducing trade liberalization as well as financial and privatization reforms that constrain state intervention while increasing legal codification reforms to manage the risks of these adjustments. By offering a borrower-centered account of institutional change in development finance, this study sheds light on institutional elasticity and the drivers of international economic order during great power competition.

> "World Bank used to be like a cool guy, rich, sitting at the far corner of the room and just waiting for the girls to hit on him. But right now, the girls also make their own money and they also have other guys to talk to too. And that's why the guy has to stand up, make a move…to make yourself more attractive."
>
> — Western MDB Staff Member

# 1 Introduction

Western multilateral development banks (MDBs) like the World Bank play an important role providing affordable, long-term loans to Global South countries in need of capital for development.[1] MDBs also attach policy conditions to some loans, which require borrowers to liberalize trade and investment, cut government spending, and privatize state-owned enterprises (SOEs) in exchange for funds (Babb 2009; Wade 2002).[2] For example, a 2001 loan to Tajikistan required that the government privatize 100 SOEs. From the end of the Cold War until the early 2000s, Global South governments had little choice but to accept conditionality and its controversial effects on the relationship between states and markets due to the lack of viable alternative lenders. However, the content of conditionality has changed significantly over this period (Figure 1). Between 1990 and 2016, liberalization and privatization reforms fell from 59 percent of all World Bank conditions to 9 percent, while governance and legal codification conditions filled this space. Meanwhile, the World Bank

[1]The grouping of Western MDBs includes the Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IDB), and European Bank for Reconstruction and Development (EBRD). Despite its nomenclature, the ADB is dominated by the US and Japan, which are the largest contributing shareholders and vote holders (Babb 2009, 137–38), while the AfDB follows World Bank practices. I do not include the Asian Infrastructure Investment Bank as a Western MDB given that it is backed by China, although it does adhere to Western MDB practices.

[2]MDB lending falls into three broad categories, (i) project loans for specific expenditures (e.g. infrastructure), (ii) budget support loans for reforms that I examine in this paper, and (iii) loans for results which tie funds to simple outcomes but can include policy reforms. Between 1990 to 2024, 91 percent of all borrowers received at least one budget support loan. Budget support loans as a share of all lending dollars averages at about 30 percent of all World Bank lending. Calculations from World Bank project data and the Development Policy Actions Database.

has become more publicly amenable to state intervention, for example publishing reports highlighting the positive effects that SOEs can have on employment (World Bank 2023).

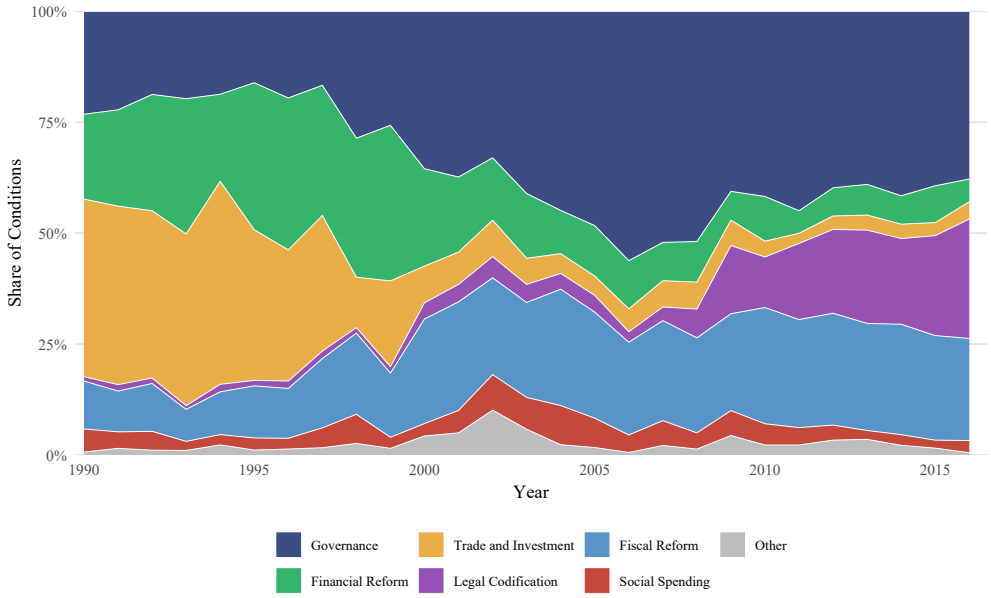



**Figure 1:** Composition of World Bank Conditionality Over Time

Two perspectives dominate existing explanations of how international institutions including MDBs change during great power competition. The first views adaptation as epiphenomenal to great power interests (Gilpin 1981; Mearsheimer 1994; Krasner 1991; Gruber 2000; Lipscy 2017; Broz et al. 2020; Wang 2018; Qian et al. 2023, 2025). The second explains institutional change as a response by their bureaucracies to organizational concerns about preserving their influence and organizational survival (Zeitz 2021; Hernandez 2017). Neither of these can account for the above shift in reforms.[3] The US and its core Western allies, which are the largest MDB shareholders, have not pressed for these changes but rather continued to

[3]Other major theoretical schools argue that institutions adapt to the particular cooperation problem they face (Koremenos et al. 2001; Goldstein et al. 2000), that feedback and sequencing creates institutional path dependency that hinders adaptation (Pierson 2000; Fioretos 2011; Helleiner 2016), that global normative and cultural factors shape change (Finnemore 1996; Weaver 2008), or that institutions manage their position in regime complexes that may be exploited by great powers or smaller states (Green 2022). None of these perspectives address small-state agency and motivations directly.

advance the free-market Washington Consensus during this period. Neither is China the source of this change, given that it still holds a disproportionately small share of voting power in traditional Western MDBs even after reforms.[4] While organizational perspectives predict broad shifts towards larger loans or less conditionality to remain relevant with borrowers vis-à-vis China, they struggle to explain the specific changes in types of conditions or report contents. What varies is not only how much MDBs concede, but what they concede and to what type of borrower.

The rise of Chinese official development finance in the early 2000s reshaped the global funding landscape. Chinese policy banks provide large loans free of policy conditionality to Global South borrowers and overtook the World Bank in lending volume in 2006 (Figure 2). This is not the first time borrowers have possessed a major alternative source of development finance. In the Cold War, governments used Soviet finance to extract better terms from Western lenders including the World Bank (Laron 2013; Dinkel 2019). During periods of great power competition, Global South countries have an outside option that provides them with space to exercise their agency and negotiate with lending institutions.

Surprisingly, not all borrowers choose to leverage this outside option. In interviews, government and MDB officials in Cambodia noted how the country has not used its substantial Chinese finance flows to bargain with Western MDBs.[5] In Indonesia, however, the government has raised Chinese financing in negotiations with Western MDBs. I argue that whether borrowers use this option, and to what ends, depends on their economic ideology: the

[4]For example, China holds approximately 6 percent of total voting power in the World Bank and 5.5 percent in the Asian Development Bank compared to the US's 15 percent and 13 percent. US allies such as Japan, which vote very similarly, also have significant voting power.

[5]Quotations throughout this paper are drawn from over 50 semi-structured elite interviews conducted in Indonesia, Thailand, Cambodia, and the Philippines between 2025 and 2026 with government officials, Western MDB staff, and policy experts under George Washington University IRB approval.

beliefs that governing elites (party politicians and their appointees, such as finance and economic planning ministers) hold about whether the state or markets should guide capital. State-capitalist governments use state ownership, subsidized credit, and industrial policy to guide investment and economic activity (Alami and Dixon 2024, 23; Wright et al. 2021, 3). These are the types of policies that MDB conditionality targets for change towards greater market orientation. These borrowers therefore are likely to use Chinese development finance as leverage to reduce these reforms and increase the size of loans that fund state initiatives. By contrast, free-market governments are already aligned with MDB prescriptions and are averse to servicing larger debts, so are less likely to use Chinese finance to bargain with MDBs even with a strong outside option. Borrowers rarely embrace a fully state-led or market-led model but rather fall along a continuum of mixed-market models, so these behaviors become more likely among those towards each end of that spectrum.

I test my argument using a panel of 2,488 country-year observations across 117 countries in which a borrower received at least one Western MDB loan in the previous five years. My independent variable is Chinese development finance measured both as logged volume and as major projects of 500 million USD or more. I use two dependent variables that represent the two types of adjustment that state-capitalist borrowers should bargain for: a) Western MDB (World Bank, ADB, AfDB, IDB, and EBRD) lending volume from the World Bank's International Debt Statistics and b) the composition of World Bank conditions across six policy areas from Cormier and Manger (2022). To measure economic ideology, I construct an original index from three indicators of state guidance of capital that correspond to specific levers of state capitalism: state ownership of assets, state ownership of banks, and government investment. The index covers 163 countries from 1990 to 2023 (see Appendix B

for further information). I estimate two-way fixed effects models, interacting Chinese finance with economic ideology. Additional models test the alternative geopolitical alignment and regime type hypotheses.

My results show that MDBs do adapt specifically to state-capitalist borrowers by reshaping conditionality, but not loan sizes. While the volume of Western MDB funding does not change for state-capitalist borrowers with Chinese development finance, they receive fewer reforms that constrain state involvement in the economy. At the most state-capitalist end of the index, an increase from a typical 230 million USD to 620 million USD is associated with a 6 percent reduction in trade and investment liberalization conditions (those like a 2021 World Bank requirement that Indonesia open more industries to foreign direct investment) relative to the mean share of these conditions. For each major Chinese project of 500 million USD or larger, these borrowers receive 45 percent fewer financial reform and privatization conditions (those like a 2004 World Bank requirement that Vietnam equitize two state-owned banks), also relative to the mean.[6] The timing of the results, interviews, and geopolitical alignment all point to the role of borrower agency rather than proactive measures by MDBs.

Yet, the World Bank does not simply concede but rather offsets the risks of these concessions with more legal codification conditions, which ensure borrower commitments to implementing reforms in other areas (although these increases are less robust than the reductions in financial reform conditions). What borrowers obtain is therefore not less but different conditionality, which represents a new compromise with borrowers that have state-guided economic models. I find little support for the regime type hypothesis and limited

[6]The sample median of major Chinese projects is 741 million USD and mean is 1.4 billion USD (constant 2023 USD) in the conditionality-share sample, compared to a median of 78 million and mean of 246 million USD across all Chinese loans in that sample.

support for geopolitical alignment.

First, this paper challenges the perspective that Global South borrowers are objects of institutional evolution during periods of great power competition by demonstrating how they actively shape change according to specific economic motivations. My findings highlight economic ideology as the driver of change, opening up further research on other agendas that may drive small-state influence on international organizations. Second, my findings illustrate how the rules of the global economy are being renegotiated to accommodate mixed-market economies, driven by borrowing countries rather than only China. MDBs are managing their quest for relevance through compromises that raise the bar in commitments to other reforms, while becoming more accommodating of state intervention. Finally, this paper contributes an original, theory-driven measure of economic ideology that places 163 countries on a continuum from free market to state capitalist between 1990 and 2023. To my knowledge, this is the first cross-national measure of governments' commitment to state versus market control over capital built from indicators of these levers.

# 2 Theory

## 2.1 Borrower Agency and Great Power Competition

MDBs believe that the best way for borrowers to maximize development impact, repay their loans, and become less risky to private lenders is by implementing market-friendly policies (Gavin and Rodrik 1995, 332; Babb 2013; Wade 2002, 205). This 'Washington Consensus' broadly prescribes balanced government budgets, economic liberalization, and privatization

for borrowers (Cormier and Manger 2022, 403). MDBs began attaching policy conditions to development loans in the 1980s, which require borrowers to enact market-friendly reforms in exchange for funds. MDBs attach these conditions to budget support loans, which fund a government's general budget in return for policy reforms rather than a specific project, and which 91 percent of all borrowing countries have received from the World Bank since 1990. In doing so, these institutions promote long-term structural shifts in the economies of borrowers, which must enact laws and other major policy changes to comply with conditionality. Global South borrowers were forced to accept these reforms to access this crucial source of funding.

However, Western MDBs have since faced unprecedented disruptions from the rise of Chinese official lending in the early 2000s, which created a new borrowing context for Global South states by extending large, condition-free loans to Global South borrowers (Broz et al. 2020; Cooley and Nexon 2020). China's two bilateral policy banks, the Export-Import Bank (EXIM) and China Development Bank (CDB), provide the bulk of these loans, including Belt and Road Initiative (BRI) funding. Figure 2 shows how Chinese official development flows overtook the World Bank in 2006 and US bilateral lending earlier in 2005.[7] This surge accompanied a broader shift to an environment of US-China great power competition that challenged the US hegemonic system and associated institutions, including MDBs. Washington's rhetoric shifted to one of competition and rivalry in the 2010s. The 2017 US National Security Strategy famously declared the return of great power competition and specifically raised the threat of China targeting its "investments in the developing world to expand influence and gain competitive advantages against the United States" (*National*

[7]This figure uses the William and Mary AidData Chinese Loans to Low and Middle Income Countries dataset, with grants, regional projects not attached to a single country, currency swaps, and projects co-funded with multilateral institutions excluded.

*Security Strategy of the United States of America* 2017, 27, 38).

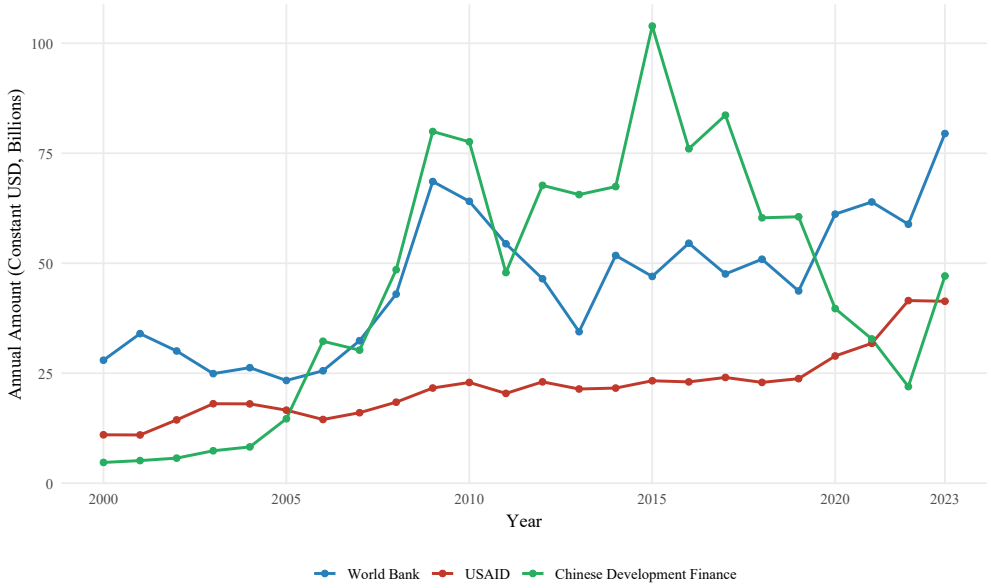



**Figure 2:** Official Development Finance Flows to Low and Middle-income Countries by Source (2000-2023)

Unlike Western MDBs, China does not impose policy conditions on borrowers in its bilateral loans and takes a demand-driven approach based on the requests of recipients (Dreher et al. 2019, 47).[8] China's approach reflects its commitment to non-interference and respect for sovereignty in foreign assistance (Kaplan 2021b; Dreher et al. 2019, 47). Chinese official financers are also willing to disburse much higher loan amounts than Western MDBs, which would deem such large projects as a threat to fiscal discipline and repayment. Both Western MDBs and Chinese bilateral financers fund infrastructure and green/climate projects, which are key areas of competition. There is also complementarity, as Chinese financers have much lower involvement in education, health, and other social projects but are more willing

[8]Not all of China's financing offers an alternative to Western lending. Chinese bilateral loans via EXIM and the CDB adhere to non-conditionality. By contrast, the standards and governance structure of the Chinese-backed multilateral Asian Infrastructure Investment Bank (AIIB) closely resembles Western lending practices (Heldt and Schmidtke 2019). Nonetheless, the total amount of Chinese bilateral financing far outstrips the AIIB—roughly 800 billion USD vs 60 billion—and poses a challenge to Western lenders that face a tough choice about how to respond.

to fund profit-generating (less developmentally focused) ones like toll roads. Nonetheless, larger amounts of funding overall provide governments with greater flexibility and fallback options, including by freeing up government spending and relaxing fiscal targets (Kaplan 2021a, 101).

How do MDBs adapt to this challenge by Chinese lenders amidst great power competition? I argue that, while great power competition produces the impetus for institutional change among Western MDBs, borrowers shape the type and patterns of response through bargaining with the institutions for specific ends. Which borrowers bargain, and what they bargain for, depends on their economic ideology regarding state versus market control over capital.

Whether and how Western MDBs adapt to Chinese development finance is a question of institutional change in international relations.[9] Existing approaches locate institutional change in the cooperation problems they address (Koremenos et al. 2001; Goldstein et al. 2000), path dependence (Pierson 2000; Fioretos 2011), shifting global norms (Finnemore 1996; Weaver 2008), or regime complexity (Pratt 2018; Green 2022). None of these approaches address how the agency or preferences of smaller member states that use these institutions shape these processes.

A dominant perspective, particularly as it relates to change during great power competition, is that international institutions primarily evolve according to the number and preferences of great powers (Gilpin 1981; Mearsheimer 1994; Krasner 1991; Lipscy 2017; Drezner 2008).

[9]My theory seeks to explain patterns of adaptation by Western official MDBs. I do not include Western bilateral lenders like the former USAID and equivalent bodies from Japan, the UK, and Germany as I focus on how competition places pressure on multilateral international institutions to adapt. Bilateral lenders are offices of their respective governments and respond directly to the political priorities of their respective governments instead of multiple state shareholders (Milner and Tingley 2013). In addition, I do not include the IMF, which caters to countries experiencing balance of payments issues rather than for longer-term development purposes.

Smaller states and institutions themselves have little to no influence over these patterns, which are determined by great powers and their struggle against one another. A number of studies argue that Chinese financing (both bilateral and via the AIIB) represents China's challenge to US international economic order (Broz et al. 2020; Wang 2018; Qian et al. 2023). Studies which emphasize the influence of the US in these institutions argue that Western MDBs are tools for its geopolitical interests (Vadlamannati et al. 2023). Qian et al., for example, find that the US punishes its partners for joining the AIIB by voting to withhold funding for these countries in the World Bank (Qian et al. 2025).

Another body of literature argues that Western MDBs seek to preserve their organizational influence with borrowers vis-à-vis China, separate from the interests of their shareholders. For example, Hernandez posits that because Chinese financing provides an attractive, condition-free alternative, the World Bank has "to offer a competitive level of conditionality…if it is interested in keeping its presence in the country in question" (Hernandez 2017, 531). Similarly, Zeitz argues that the World Bank emulates Chinese infrastructure funding to compete for influence over borrower policies and fulfill its internal need to disburse funds (Zeitz 2021, 273–74). Once again, the way these institutions adapt is theorized separately from the influence and preferences of the countries over which they are competing.

These paradigms overlook how great power rivalry also provides a structural opportunity for these smaller states to shape the way institutions adapt. During periods of hegemony when the institutions backed by a single power dominate development finance, it is difficult for countries to avoid reliance on those lenders given that there are no major alternatives. Borrowers therefore have limited bargaining leverage with few credible outside options. This can be observed from the end of the Cold War until the early 2000s, when countries were

dependent on the US-backed MDBs for development finance. When previously hegemonic institutions face competition from a new great power, they must counter the challenger's influence by maintaining the participation and loyalty of their member states. This empowers these smaller member states to extract benefits from these institutions in exchange for their loyalty vis-à-vis the other great power.

Interviews with MDB and government officials in Indonesia illustrate this bargaining in practice. The Ministry of National Development Planning (Bappenas) and Ministry of Finance prepare a list of priority projects for external funding and consult several lenders in parallel before choosing among them. A government official confirmed that, "The availability of financing from China and Gulf countries has strengthened [our] bargaining position in negotiations with Western lenders. It has enabled the government to shape loan schemes and modalities more proactively…and engage in consolidated or collaborative financing, including with state-owned enterprises." Another official explained that "most of the reforms from the investment side are coming from our office," and that when it comes to green financing, "The World Bank or ADB is basically following us." Outside options make these demands credible. An MDB official noted that, compared to a decade ago, the government can now say that "the reform is too difficult to achieve, then I will not just choose you. I will choose another lender or I will issue another bond."

We can observe these dynamics during contemporary US-China competition as well as the Cold War, another period of great power competition in MDB history where countries in dire need of development capital faced great powers struggling for global influence using economic assistance. During this period, many Global South countries successfully leveraged US-Soviet competition for their own gains (Dinkel 2019, 93; Hong 2015, 43; Cooper 2010, 52).

This structural change from hegemony to competition therefore endows borrowers with the bargaining leverage to exercise agency, defined as "the capacity…to set agendas, negotiate, and act in accordance with their specific interests and goals" (Links 2025, 115). Modern borrowers should be even more empowered than their Cold War counterparts: China and the US occupy and compete within the same global economic system that makes it easier for countries to engage both and leverage this without endangering their standing in either, and borrowers have greater experience and institutional tools to negotiate with lenders.

Bargaining dynamics between MDBs and their member states are highly salient during competitive periods because borrowers can access finance from both powers simultaneously. Figure 3 shows how the proportion of countries receiving development finance from both Chinese and Western MDB sources rose from 16 percent in 2000 to 45 percent between 2016 and 2019. Borrowers therefore have a credible outside option that increases their bargaining power in the form of a reversion point in the case of bargaining failure.

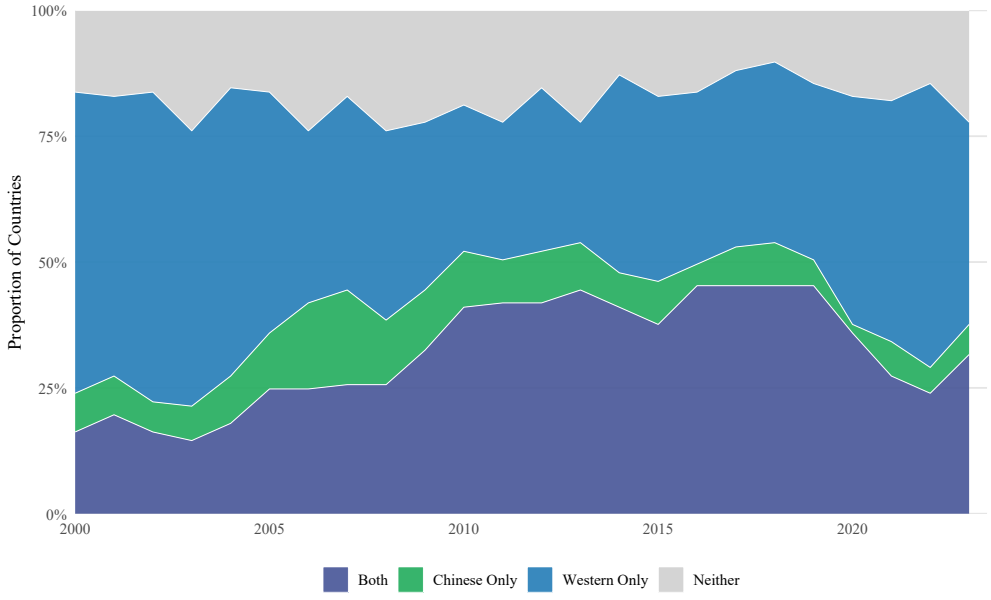



**Figure 3:** Proportion of Countries Receiving Both Chinese and Western Development Finance (2000-2023)

A growing body of work highlights how modern borrowers exercise agency in their dealings with large official lenders, including both Western MDBs and Chinese financiers (Calabrese and Cao 2021; Hernandez 2017; Zeitz 2025; Hwang 2021; Chipaike and Bischoff 2018). For example, Hwang shows how Liberia has used its administrative capacity to obtain more interest-free loan elements amidst competition between Chinese and Western lenders (Hwang 2021, 211). The World Bank also observed in 2009 that because middle-income countries "have access to alternative sources of finance and have the analytic and technical capacity to design and implement programs, they are increasingly selective about the program areas in which they invite Bank engagement" (Bank 2009). Yet, the motivations of borrowers as an important source of variation in bargaining behavior are under-theorized in these existing studies. Broader research on US-China development finance competition either argues that Western lenders adapt to Chinese finance regardless of the preferences of borrowers themselves, or assumes all borrowers want larger and less conditional loans from Western MDBs (Zeitz 2021; Hernandez 2017; Zeitz 2025).

## 2.2 Economic Ideology and Borrower Bargaining Preferences

Insights from the Cold War further shed light on the motivations of borrowers. Despite the zero-sum nature of US-Soviet competition and their limited capacity, some Global South states successfully played the great powers off one another for a specific economic rationale: To obtain funds for government-sponsored industrialization projects. A host of countries eschewed market-led strategies advocated by the US in favor of using loans for state-planned development (Laron 2013, 194). Many exploited US-Soviet competition for these agendas, not

failing to "switch sides if one camp was no longer willing to support their major projects or industrialization" (Dinkel 2019, 93). For example, Indian Prime Minister Jawaharlal Nehru originally secured World Bank assistance to expand steel production through private-sector activity in 1952 before announcing a low-interest loan and technical support from the Soviets in 1955 to shift production to the public sector (Engerman 2013, 73–74). These dynamics suggest that economic ideas about the role of the state in economic activity are an important driver of borrower bargaining behavior during periods of great power competition.

I focus on the economic ideas of government elites as key actors who make decisions about development finance. These elites comprise party politicians and appointees that would forfeit their position in government with a change in party. Previous research shows that these actors strongly influence sovereign debt policies, particularly in the Global South, because borrowing is an important and large source of government revenue (Cormier 2024, 42; Rudra and Tobin 2017). I therefore expect that the ideas of these government elites drive decisions about negotiations with Western MDBs in the presence of alternative sources of financing from China.

Much like governments in the Cold War period, I argue that the economic ideology of government elites regarding state versus market control over capital shapes whether borrowers use Chinese finance to bargain with Western MDBs and for what ends. In contrast with the more extreme planned economic systems of the Cold War, contemporary countries occupy a spectrum ranging from market to state-oriented, as depicted in Figure 4. Borrowers rarely embrace a fully market or state-led economic paradigm. Rather, governments blend both types of policies in mixed-market models with differing emphasis on either the market or state. The heart of the difference between borrowers located on different sides of this spectrum is

the extent to which they favor private market forces or the state in guiding capital.[10]

State-oriented borrowers on the left-hand side of the figure can be characterized as state capitalist, an economic ideology in which the state plays an important role promoting, owning, and supervising capital to protect strategic sectors while also maintaining a level of openness to global trade and capital flows (Alami and Dixon 2024, 23; Wright et al. 2021, 3). These governments help local companies and industries diversify and grow in a way that would not be possible purely through the market, where they for example may be dominated by foreign competitors. State capitalism has traditionally involved direct ownership and management of state-owned enterprises. Over time, however, this model has evolved to include governments holding majority equity positions in companies and, crucially, using state financial institutions to extend special benefits such as subsidized credit to a range of firms (Musacchio and Lazzarini 2014, 2–4).

On the far left of Figure 4 are governments that strongly prioritize state guidance of capital while also allowing for some market-based policies. The role of the state diminishes as the continuum moves right and reverses in favor of market-allocation of capital among countries where elites have a free-market economic ideology. Most free-market borrowers also exercise some degree of selective guidance over capital but ultimately allow private market forces to determine patterns of investment (Musacchio and Lazzarini 2014, 2).

Since development finance is an important source of government revenue, I argue that

[10]Partisanship could be correlated with economic ideology as left-leaning governments often guide capital to protect labor constituents while right-leaning governments embrace market governance to protect business constituents (Cormier 2023). However, partisanship does not map well onto many Global South countries as highlighted by Rudra and Tobin (Rudra and Tobin 2017) and parties sometimes abandon their partisan platforms after being elected into office (Stokes 2001). It is more important to examine the ideology of elites, who have an outsized influence on government policy. Moreover, partisanship is a blunt and multidimensional concept that encompasses many policies such as welfare spending, which Western lenders became supportive of in the 1990s.

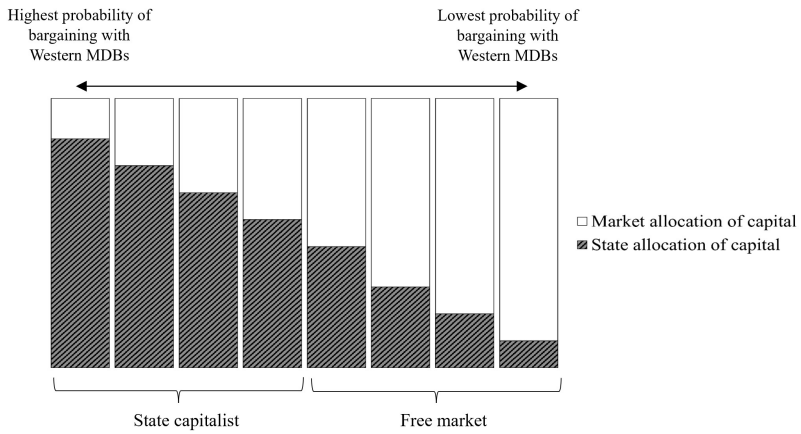



**Figure 4:** Relationship Between Borrower Economic Ideology and Bargaining Preferences

borrowers should prefer loans that align with and enable their domestic economic models. In this respect, each borrower has an ideal point for loan characteristics associated with their economic ideology that is further or closer to Western lending practices as depicted in Figure 5. While there are a number of different elements of a loan, I focus on conditionality and loan size as my dependent variables, since they are the more flexible elements of loans and main opportunities for bargaining. By contrast, Western MDBs have rigid policies about interest rates and maturities, which are tied to the currency of the loan and income level of borrowers.

Borrowers will vary in whether they use Chinese finance to shift Western loans closer towards their ideal point depending on the distance between their ideal point and Western MDBs. Market-oriented borrowers hold similar ideas to MDBs about the importance of facilitating private economic activity for development, while MDBs diverge from state-capitalist borrowers regarding state involvement in the economy and actively seek to reduce this through reforms. On this basis, state-capitalist governments on the left-hand side of Figure 5 are more likely to use Chinese finance to bargain for less conditionality and larger

loans from Western MDBs to bring this funding closer to their ideal point. Bargaining likelihood increases (decreases) the further left (right) borrowers are on the continuum. Rather than take condition-free financing from China and end their borrowing relationship with Western MDBs, these government elites have the chance to keep Chinese loans and use them to bargain for Western loans that are more friendly to their economic ideology.

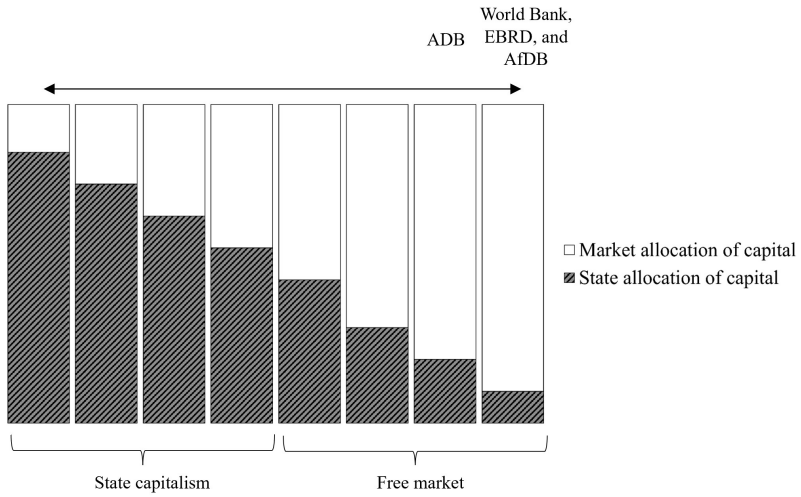



**Figure 5:** MDB Loans on the Economic Ideology Continuum

Among the six broad areas targeted by Western MDBs,[11] state-capitalist governments should use Chinese finance to bargain for less conditionality in two specific categories that influence which actors own and direct capital: trade and investment liberalization, and financial reform and privatization. MDBs have traditionally viewed state ownership as highly inefficient and as crowding out private activity, and protection as an impediment to growth (World Bank 1985, 51, 61–62). Western MDBs use these reforms to nudge state-capitalist governments towards greater market orientation by shifting firms and financial institutions to

[11] Governance (e.g. auditing, accounting, and transparency), trade and investment liberalization (e.g. tariff reduction, capital controls reduction), fiscal reform (e.g. improving tax collection and managing debt burden), financial sector reform and privatization (e.g. privatizing state-owned enterprises and banks), social spending (e.g. implementing social safety nets), and legal codification (e.g. implementing reforms via legal decree and publishing government reports on reforms).

private ownership and opening up their economies to trade and investment flows. These are the types of conditions state-capitalist borrowers are most likely to bargain over (compared to other areas, as discussed below) because they weaken the instruments these borrowers use to guide capital in key sectors: state-owned firms, state-owned banks, and selective protection.

First, trade and investment liberalization includes tariff reduction, removal of investment restrictions, and elimination of government subsidies in order to make borrowers more attractive to private lenders and investors (Gilbert et al. 2006, 56). These conditions directly interfere with state-capitalist governments that use selective tariffs to protect key sectors, and investment restrictions to maintain their ownership stakes in these areas. Second, financial sector reform and privatization conditions require recipients to reform state-owned companies and financial institutions. Such reforms limit government ownership, which is a cornerstone of state capitalism, and the use of financial institutions to extend subsidies and other benefits to important firms. Cormier and Manger (2022, 416) find exploratory evidence from their conditionality share data that borrowers with Chinese finance receive a smaller share of financial reform and privatization conditions, but do not attribute this to specific types of borrowers (e.g. state capitalist).

State-capitalist countries should have little incentive to lessen other types of conditions. First, governance conditions that improve borrower transparency and institutions are generally beneficial and strengthen state capacity. Second, fiscal conditions provide greater tax revenue to direct towards state-capitalist government priorities. Third, MDBs introduced conditions aimed at reducing poverty and increasing social safety nets in the early 2000s, which do not constrain state involvement in firms and can reinforce the legitimacy of state-led development. Finally, legal codification conditions are not substantive but rather relate to reforms being

enacted and documented through the government's own legal instruments (e.g. gazette notices, presidential decrees).

State-capitalist governments will also use Chinese development finance to negotiate larger loans from MDBs. Access to larger official loans provides material resources that these governments can channel to key firms and industries, for example through infrastructure and on-lending of funds. Indonesia, for instance, obtained a 50 million USD loan from ADB in 2023 for its state-owned bus operator Perusahaan Umum DAMRI to transition public transportation to electric buses (Asian Development Bank 2025).

By contrast, free-market borrowers on the right-hand side of the figure embrace a market-governance agenda and have little reason to renegotiate the terms of their funding from Western lenders since they are ideologically aligned. In fact, these free-market elites may use conditionality as an opportunity to 'tie their hands' in implementing unpopular reforms among resistant domestic actors (Vreeland 2003; Putnam 1988). For example, Ministry of Finance and MDB officials in Cambodia explained in interviews that the government uses MDB reforms to force changes at lower levels of government ministries. In addition, free-market elites should be ambivalent about increasing the size of loans from Western lenders, as they view larger sovereign debt levels as a poor substitute for facilitating investment from more efficient private sources. These governments must also service higher levels of debt with interest payments that increase government spending.

The staff of Western MDBs should be responsive in adjusting loans based on the above economic ideology of borrowers for two reasons. First, MDB staff have incentive to ensure borrowers are satisfied with and supportive of the US-led economic order because they depend on the financial resources of the US and its allies that seek to use MDB loans as inducements

to compete with China (Humphrey 2022b; 2014, 618). This trend has been exacerbated by growing globalization backlash in the last decade (Humphrey 2022c, 84; Vries et al. 2021).[12] The best way to do this is to offer borrowers carrots that match their preferences, in this case based on their economic ideology. MDB staff have almost perfect information on these preferences as they have worked with borrowing governments for decades and government officials from borrowing countries serve in temporary MDB positions before rotating back to their home governments (Kaplan 2017).

Second, MDBs can manage the financial risks of providing concessions to borrowers by only offering them when absolutely necessary. Western lenders should therefore adjust conditionality only in response to agential actions by borrowers. This also implies that the scale of the competitive threat matters. Because concessions on conditionality are risky and alternative finance is by definition widespread, staff have the most motivation to grant them when a borrower secures larger, more visible Chinese finance. I do not predict whether MDBs respond to this risk by simply conceding or by offsetting conditionality concessions with other measures, which I return to in the findings.

The theory can be visually depicted as per Figure 6 below. I hypothesize how MDBs adapt to Chinese financing based on the variation in borrower economic ideology:

> ***Economic ideology hypothesis A:*** *State-capitalist borrowers with Chinese development finance will receive less conditionality in the areas of i) trade and investment and ii) financial reforms and privatization compared to free-market borrowers.*

[12]Western shareholders may not directly compel these lenders to serve their interests (although they sometimes do), but rather staff anticipate and proactively operate according to the interests of these states (Clark and Dolan 2021; Babb 2009).

***Economic ideology hypothesis B:*** *State-capitalist borrowers with Chinese development finance will receive larger loans from Western MDBs compared to free-market borrowers.*

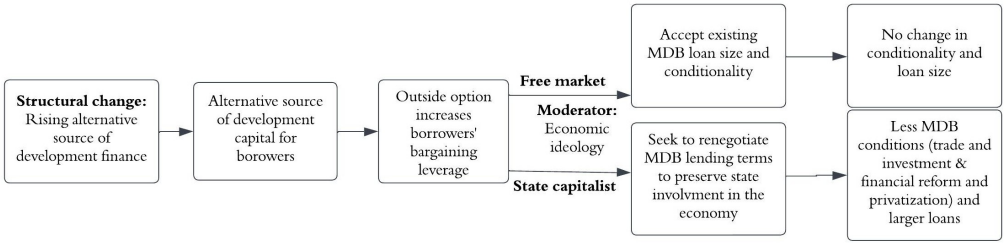



**Figure 6:** Causal Mechanism of Borrower-driven MDB Adjustment

Existing studies argue that economic ideology conditions whether countries are more likely to borrow from China but do not examine bargaining dynamics (Albright 2025; Zeitz 2021, 276). On this basis I test for associations between economic ideology and Chinese lending in my empirical section.[13]

I argue that variation in state versus market guidance of capital is the most salient influence on the bargaining behavior of borrowers, compared to regime type or geopolitical alignment. First, democratic governments might use Chinese finance to obtain larger loans from Western lenders to cater to a relatively larger winning coalition (i.e. the public) than autocracies (i.e. ruling elites).[14] I test my economic ideology hypothesis against this alternative:

***Regime hypothesis:*** *Democratic borrowers with Chinese development finance*

[13]Research shows that the economic ideology of donors shapes how they deliver foreign aid. Specifically, in poorly governed recipient countries, market-oriented donors are more likely to disburse funds through non-governmental organizations, bypassing governments, while state-oriented donors are more likely to distribute funds to governments directly because of their differing beliefs about how involved the state should be in development (Dietrich 2016).

[14]Following the logic of Bueno De Mesquita and Smith (2009).

*will receive larger loans from Western MDBs compared to autocratic borrowers.*

Second, geopolitical alignment could also influence bargaining preferences, with mixed predictions about which countries would be more likely to use Chinese finance to bargain with Western lenders. US partners or those wary of China's influence may hesitate to leverage Chinese financing out of fear of jeopardizing their relationship with the US or increasing dependence on Beijing. At the same time, they may recognize their importance to the US-led system and attempt to use this position to extract favorable loans from MDBs. Conversely, countries with closer ties to China might be more (or less) willing to bargain with Western MDBs if they believe their alignment makes them more (or less) valuable to Western lenders. I test a generalized version of this alternative explanation:

> ***Geopolitical alignment hypothesis:*** *Borrowers that are aligned with the US are more (or less) likely to receive changes in conditionality and loan size from Western MDBs than China-aligned borrowers.*

# 3 Data, Measurement, and Empirical Approach

My independent variable is Chinese development finance, using AidData's Chinese Loans to Low and Middle-Income Countries dataset spanning 23,816 projects across 142 countries from 2000-2023 (Parks et al. 2025). I remove grants, currency swaps, regional projects, and projects co-financed with multilateral institutions from the dataset. In addition to using both a binary and continuous log measure of Chinese development finance, I construct a binary and count measure of 'major' Chinese projects 500 million USD or higher from the dataset. These very large loans are likely to catch the attention of Western MDBs in terms

of their size and therefore may trigger a larger adjustment (see Appendix A for descriptive statistics). Major projects are just over double the mean Chinese loan size of 230 million USD (median 76 million) and represent just under 10 percent of all Chinese loans, providing a representative measure of large loans. I use a 1 billion 'megaproject' and a 250 million threshold as robustness checks (Flyvbjerg 2014).

I use two main dependent variables. The first is Western MDB lending volume, using the World Bank's International Debt Statistics (IDS). I add annual commitments between 2000-2023 from the World Bank, AfDB, ADB, IDB, and EBRD for each borrower. Second, to examine potential changes to the types of MDB conditions, I use Cormier and Manger (2022)'s text classification of World Bank prior action conditions introduced in the theory section.[15] The authors use a latent Dirichlet allocation model of conditionality texts to identify words and topics associated with each condition area and then a keyword-assisted topic model to classify the condition texts into these areas. The six shares sum to approximately one within each observation and are available from 1990 to 2017. Given the 2017 end, my estimates capture a period where Chinese lending became a significant outside option rather than the entire period of competition. If MDB adaptation intensified after 2017, my results understate this potentially more extreme response. For robustness, I also include an overall conditionality count as a third dependent variable using the number of binding prior action conditions from the World Bank's Development Policy Actions Database (DPAD) of budget support loans

[15]Governance (e.g. auditing, accounting, and transparency), trade and investment liberalization (e.g. tariff reduction, capital controls reduction), fiscal reform (e.g. improving tax collection and managing debt burden), financial sector reform and privatization (e.g. privatizing state-owned enterprises and banks), social spending (e.g. implementing social safety nets), and legal codification (e.g. enacting reforms by decree and publishing them in the official gazette). Cormier and Manger (2022) originally label this category borrower ownership. I refer to it as legal codification as it is characterized by how a borrower enacts and documents reforms in other areas through its own legal instruments.

spanning 2005 to 2024.

As the ideas of elites cannot be directly observed, I measure the policy commitments that express ideology about state versus market control over capital for my moderating variable. I construct a novel index of economic ideology using three variables in the Fraser Institute Economic Freedom of the World (EFOTW) database available from 1990-2023: degree of state ownership of assets, ownership of banks as a percentage of private deposits, and government investment as a share of total investment.[16] These variables correspond to key aspects of government involvement in investment and capital guidance in the economy. First, state ownership of assets captures direct government control over industry, for example through state-owned enterprises in key sectors. Second, ownership of banks represents an important channel through which governments can channel funding to both majority and minority-controlled firms as well as those without government ownership. Finally, government investment captures overall capital flows from the state into the economy as a proportional share of all investment, which encompasses support for a variety of firms in terms of ownership structures as well as any investment that does not take place via banks.

I equally weight and take the z-scored average of the three selected variables to produce a continuous index, where higher scores are more state capitalist and lower scores are more free market. After undertaking limited imputation for missingness,[17] the economic ideology

[16]Fraser Institute aggregates and standardizes various economic indicators from sources including the World Bank, OECD, and IMF (Gwartney et al. 2025).

[17]Given that this index is slow moving within countries, I proximity-fill missing observations with the nearest observation within a three-year window. This means that each missing value is filled with the nearest non-missing value (forward or backward) but only if it is within three years of the missing observation, with the earlier observation preferred if they are equally distant. Within a small group of countries missing entire variables, I average over the available items as long as the country has two out of the three index items. In addition, I impute Cambodia's missing bank ownership data to illustrate its position in the ranking figure among Southeast Asian countries. I assign a score of 7.5 for 2000-2005 when the Foreign Trade Bank (FTB) was still partly state-owned and 9.0 for 2006–2021 post-FTB privatization when foreign and private banks have become dominant. Nineteen countries are missing one or more index items, most often bank ownership,

index features 4,185 observations across 163 countries from 1990 to 2023, with a range of -1.17 (most free market) to 3.09 (most state capitalist), median of -0.12, and mean of 0.059. Figure 5 in Appendix B shows the distribution of country-year observations in my dataset across my index, showing the skew with countries clustering around the free-market end and slightly free-market median. Figure 7 ranks the average score of the G20 members and my Southeast Asian cases on the index as examples, with the full ranking in Figure 6 in Appendix B. The figure correctly ranks Singapore, Thailand, and Indonesia (which are state-capitalist economies) as more state capitalist than Cambodia and the Philippines (which are free-market economies).[18] These scores are fairly stable over the study period, with a within-country standard deviation of 0.28 (compared to the between-country standard deviation of 0.73). Because the index has a long state-capitalist tail with few observations, I estimate all models on country-years with index scores between $-1$ and 1, where there is sufficient common support across the index (Appendix C).

This theory-informed index represents an innovation in measuring economic ideology. International political economy studies often take a qualitative approach to measuring state capitalism (e.g. Kurlantzick 2016; Alami and Dixon 2024), use data with limited time and country coverage such as stock market listings (e.g. Musacchio and Lazzarini 2014; Carney 2018), or prefer broader measures of partisanship. One study in the international business literature uses unsupervised factor analysis to categorize and score countries' economic ideologies, for example to distinguish between state capitalism, statism, and institutional quality (Wright et al. 2021). Table 3 in Appendix B shows discriminant validity measures

and the two with only one of the three items (Brunei and Somalia) are dropped.

[18]By contrast, the robustness index described in Appendix B ranks Thailand as more free market than Cambodia and the Philippines when it should be more state capitalist, and only correlates moderately with the main index at 0.550.

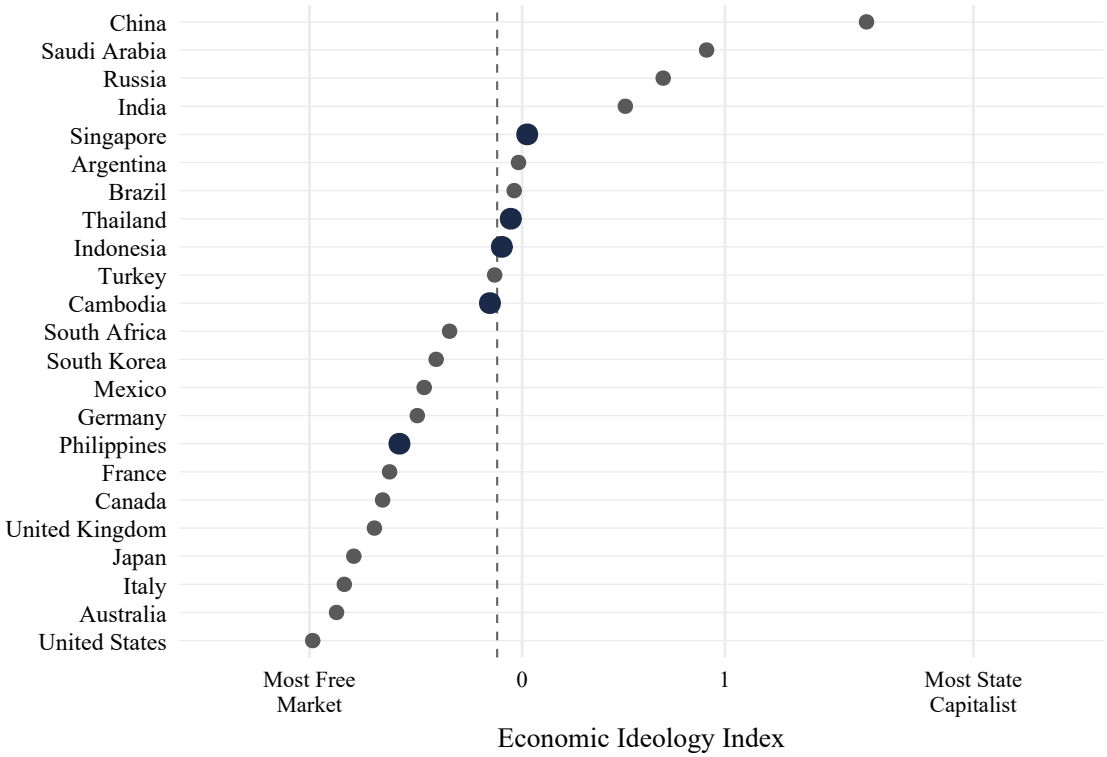



**Figure 7:** Country Ranking on the Economic Ideology Index (G20 Members and Southeast Asian Cases)

between my economic ideology index and a group of other variables, with low Pearson correlation values across the board.

I include logged GDP per capita, GDP growth, and population from the World Bank Data Bank (all spanning 1990-2024) as well as a binary measure of financial crisis (available 1990-2017) as base controls (Laeven and Valencia 2012). I also control for World Trade Organization (or GATT pre 1995) membership, which commits countries to liberalization that could substitute for World Bank conditions, as well as for whether a country has an IMF program (Kentikelenis and Stubbs 2023), which involves conditions and often happens alongside World Bank budget support. To test the regime hypothesis, I use the V-Dem participatory component index (v2x_partip) (v16 with coverage to 2024), which measures

the degree of involvement by citizens in both electoral and non-electoral processes.[19] For the alignment hypothesis I use alignment with US voting in the United Nations General Assembly from Fjelstul et al. (2026), which covers votes up until 2023. I do not include a separate China-voting alignment variable as the two have an inverse correlation of -0.90.[20] See Appendix A for a table of summary statistics for all variables used in my analysis.

Importantly, the sample includes only country-years where the borrower received at least one loan from any Western MDB (World Bank, AfDB, ADB, IDB, or EBRD) in the previous five years. This is because I argue that countries with existing Western MDB financing have the leverage of this relationship to reshape funding terms depending on their economic ideology. After restricting my panel to these country-years, there are 2,488 country-year observations across 117 countries.

I use a two-way fixed effects (TWFE) model estimated with country and year fixed effects and standard errors clustered at the country level. Country fixed effects absorb time-invariant unobserved heterogeneity (e.g., geography, colonial history, institutional features), while year fixed effects absorb global shocks common to all countries (e.g., the 2008 financial crisis, shifts in US foreign policy, any institution-wide change in MDB lending practices). Clustering standard errors at the country level accounts for serial correlation within countries. All models include an interaction term between Chinese development finance and the continuous economic ideology index, while additional models include interaction terms for regime and

[19]This indicator captures pressure on the government to cater to their selectorate (given that suffrage is almost universal in most countries with elections). In comparison, the broader V-Dem polyarchy indicator of democracy captures unrelated variables such as freedom of association and expression. As per the V-Dem methodology, "This index is formed by averaging the following indices: civil society participation (v2x_cspart), elected local government power (v2xel_locelec) or elected regional government power (v2xel_regelec) — whichever has higher score — and direct popular vote (v2xdd_dd)" (Coppedge et al. 2026, 54).

[20]Pearson R correlation, country means.

alignment as the alternative hypotheses. I estimate the conditionality shares using a fractional logit model, since they are bounded proportions. For Western MDB lending volume and condition count outcomes, I use Poisson pseudo-maximum likelihood, as there are years with zero lending, and scale MDB lending by population to prevent the largest borrowers from skewing the results. Table 10 in Appendix E shows that the forbidden comparisons that recent difference-in-differences estimators are designed to address are small for both broad Chinese development finance and major projects (Goodman-Bacon 2021; de Chaisemartin and D'Haultfœuille 2020). Appendix C shows common support and approximately linear effects across the economic ideology index for the key interactions (Hainmueller et al. 2019).

My models are as follows:

1) Economic ideology and any Chinese development finance (log):

$$Y_{it} = \beta_1 \text{CDF}_{it} + \beta_2 \text{EI}_{it} + \beta_3 (\text{CDF} \times \text{EI})_{it} + \gamma \mathbf{X}_{it} + \alpha_i + \delta_t + \varepsilon_{it}$$

2) Economic ideology and major Chinese project:

$$Y_{it} = \beta_1 \text{Major}_{it} + \beta_2 \text{EI}_{it} + \beta_3 (\text{Major} \times \text{EI})_{it} + \gamma \mathbf{X}_{it} + \alpha_i + \delta_t + \varepsilon_{it}$$

3) Alternative hypotheses (adding): $\beta_4 \text{Partip}_{it} + \beta_5 (\text{CDF} \times \text{Partip})_{it}$, and $\beta_6 \text{Align}_{it} + \beta_7 (\text{CDF} \times \text{Align})_{it}$.

where CDF is Chinese development finance (binary or logged amount), Major is the contemporaneous major Chinese project measure (binary or count), EI is the economic ideology index restricted to $[-1, 1]$, $\mathbf{X}$ is the control vector (logged GDP per capita, logged population, GDP growth, financial crisis, WTO membership, IMF program), $\alpha_i$ are country fixed effects, and $\delta_t$ are year fixed effects.

# 4 Findings and Discussion

To test economic ideology hypothesis A regarding specific reductions in both trade and investment as well as financial reform and privatization conditions for state-capitalist borrowers, Table 1 reports fractional-logit estimates for the share of World Bank conditions falling in each of six categories. The table displays the effect of both binary and logged Chinese development finance, conditional on economic ideology, on the share of each condition. For the logged treatment, the economic ideology interaction is negative and significant for trade and investment (-0.055, $p < 0.05$). In addition, in a pattern not predicted by my theory, the interaction is positive and significant for governance (+0.018, $p < 0.05$). The other four categories are not significant.

As borrowers become more state-capitalist, Chinese finance is associated with a lower share of trade and investment liberalization conditions, providing support for the hypothesis, although there is no effect on financial reform conditions. However, the higher governance share suggests that the World Bank may compensate with more governance-related conditions such as transparency and audit requirements. Both interactions remain significant (and for trade and investment strengthen in significance) for the binary treatment (see the binary rows of Table 1), indicating that it may be the presence of any type of Chinese development finance rather than the aggregate amount that triggers adjustment in both condition areas by MDBs.

In addition, the coefficient for economic ideology alone is positive and weakly significant at the $p = 0.10$ level for trade and investment condition share, meaning that state-capitalist borrowers that do not have Chinese development finance actually receive a larger share of

these conditions. In this respect, Chinese development finance offsets this positive effect and reverses the sign.

As the substantive magnitude of interaction terms cannot be read from the above estimates, the below figures show the marginal effects of Chinese development finance on the significant conditionality shares across different levels of economic ideology. Importantly, each figure features an additional y-axis on the right-hand side that allows for interpreting the proportional change in that outcome relative to the mean.[21] Table 2 shows the mean and median for each conditionality share and number of prior actions.

Figure 8 shows that the marginal effect of Chinese development finance on the trade and investment condition share is significant for state-capitalist borrowers. For each one-unit increase in logged Chinese development finance, this represents an approximately six percent decrease at the state-capitalist end. Figure 9a in Appendix D shows that governance is not significant for free-market borrowers but reaches a positive, significant effect for state-capitalists. Against the much larger mean governance share, however, this is a very small change of about one percent for the same one-unit increase. While this could indicate that Western MDBs undertake modest risk management when responding to these borrowers by strengthening accounting systems, auditing, monitoring, and other systems, further analysis below shows that this result is fragile.

Table 3 reports the conditional effects of Chinese development finance on Western MDB commitments per capita to test economic ideology hypothesis B as well as the robustness effect on overall count of World Bank prior actions. The interaction between Chinese development

[21] Because several conditionality categories are right-skewed, with a small share of loans carrying most of their conditions, the median share for the less common categories is only about half the mean and is a very small denominator, inflating the proportional effects past 100 percent of a typical share. The mean provides a larger and more stable reference, keeping the proportion-of-mean magnitudes interpretable.

**Table 1:** Chinese Development Finance and Economic Ideology across Conditionality Categories

| | Trade and Investment | | Governance | | Financial Reform | | Fiscal Reform | | Social Spending | | Legal Codification | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| CDF (Log Amount) | −0.008 | −0.007 | 0.007 | 0.007 | 0.000 | −0.000 | −0.001 | 0.000 | 0.000 | 0.003 | −0.007 | −0.014* |
| | (0.008) | (0.009) | (0.004) | (0.004) | (0.009) | (0.008) | (0.006) | (0.005) | (0.011) | (0.011) | (0.008) | (0.007) |
| CDF (Binary) | −0.166 | −0.136 | 0.135* | 0.141* | −0.009 | −0.018 | 0.031 | 0.049 | 0.019 | 0.060 | −0.186 | −0.302** |
| | (0.153) | (0.162) | (0.077) | (0.079) | (0.158) | (0.154) | (0.109) | (0.099) | (0.196) | (0.190) | (0.144) | (0.144) |
| Economic Ideology Index | 0.659 | 0.766* | 0.002 | 0.041 | −0.226 | −0.132 | −0.311* | −0.281* | −0.224 | −0.283 | 0.282 | 0.333 |
| | (0.427) | (0.424) | (0.204) | (0.204) | (0.308) | (0.306) | (0.160) | (0.165) | (0.485) | (0.444) | (0.310) | (0.285) |
| CDF (Log) × EI | −0.049** | −0.055** | 0.020** | 0.018** | −0.020 | −0.024 | 0.011 | 0.010 | 0.032 | 0.030 | −0.010 | −0.017 |
| | (0.020) | (0.021) | (0.008) | (0.008) | (0.019) | (0.019) | (0.011) | (0.012) | (0.019) | (0.019) | (0.016) | (0.017) |
| CDF (Binary) × EI | −1.018*** | −1.131*** | 0.407*** | 0.376** | −0.342 | −0.408 | 0.261 | 0.236 | 0.578 | 0.505 | −0.280 | −0.412 |
| | (0.374) | (0.403) | (0.151) | (0.152) | (0.371) | (0.359) | (0.215) | (0.228) | (0.368) | (0.363) | (0.285) | (0.328) |
| GDP per Capita (Log) | | 0.319 | | −0.080 | | 0.870 | | 0.263 | | −1.470 | | −0.161 |
| | | (0.922) | | (0.421) | | (0.788) | | (0.483) | | (1.586) | | (0.990) |
| Population (Log) | | 1.192 | | 0.971 | | 2.093* | | 0.964 | | −2.354 | | −0.590 |
| | | (1.379) | | (0.789) | | (1.199) | | (1.000) | | (2.438) | | (1.731) |
| GDP Growth | | −0.004 | | 0.012 | | −0.037* | | 0.005 | | −0.039 | | 0.011 |
| | | (0.021) | | (0.010) | | (0.022) | | (0.011) | | (0.033) | | (0.019) |
| Financial Crisis | | 0.207 | | −0.173 | | 0.161 | | −0.121 | | 0.371 | | −0.021 |
| | | (0.383) | | (0.131) | | (0.325) | | (0.155) | | (0.464) | | (0.230) |
| World Trade Organization Member | | 0.250 | | 0.069 | | −0.125 | | 0.113 | | −0.067 | | 0.474 |
| | | (0.346) | | (0.133) | | (0.446) | | (0.309) | | (0.933) | | (0.433) |
| International Monetary Fund Program | | 0.133 | | 0.120 | | 0.008 | | 0.129 | | 0.195 | | −0.503*** |
| | | (0.201) | | (0.091) | | (0.164) | | (0.106) | | (0.272) | | (0.179) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 |
| Pseudo $R^2$ | 0.414 | 0.422 | 0.602 | 0.613 | 0.529 | 0.547 | 0.410 | 0.418 | 0.404 | 0.425 | 0.730 | 0.745 |

**Table 2:** Means and Medians of Outcome Areas

| Outcome | Mean | Median | Observations |
|---|---|---|---|
| Trade and Investment | 4.95 | 2.21 | 417 |
| Governance | 42.83 | 43.08 | 417 |
| Financial Reform | 9.46 | 6.05 | 417 |
| Fiscal Reform | 22.77 | 20.46 | 417 |
| Social Spending | 4.87 | 1.23 | 417 |
| Legal Codification | 12.36 | 5.75 | 417 |
| Prior Actions (count) | 11.73 | 9.00 | 608 |

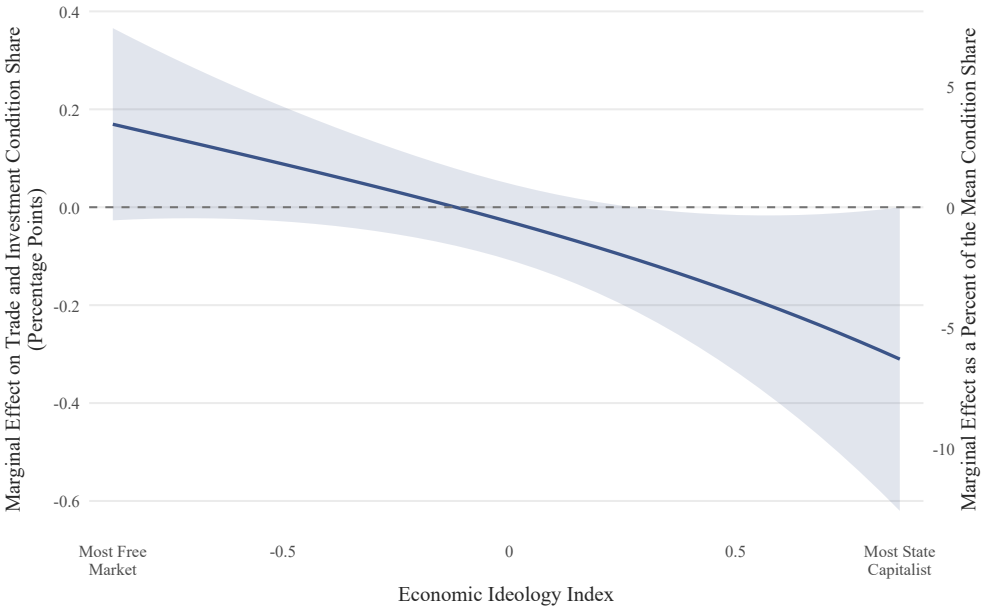



**Figure 8:** Marginal Effect of Chinese Development Finance on the Trade and Investment Conditionality Share across Economic Ideology.

finance and economic ideology is null for Western MDB commitments, providing evidence against the hypothesis that state-capitalist borrowers should be more likely to use Chinese finance to bargain for and receive higher levels of MDB funding. The results below suggest that borrowers obtain changes in the terms attached to funding rather than in its quantity. This is consistent with lending headroom constraining how far MDBs can vary loan size relative to how far they can vary conditions, something that I revisit in the conclusion. The prior actions count shows no consistent pattern: the interaction is weakly significant for

broad Chinese finance and points toward fewer prior actions for state-capitalist borrowers, while major projects are associated with fewer prior actions for free-market borrowers (Figure 9b in Appendix D), and neither marginal effect is significant at the opposite end.

**Table 3:** Chinese Development Finance and Economic Ideology: Western MDB Commitments and Prior Actions

| | Western MDB Commitments per Capita (Poisson) | | Prior Actions (Poisson) | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| CDF (Log Amount) | 0.001 | −0.000 | −0.001 | −0.002 |
| | (0.004) | (0.004) | (0.004) | (0.004) |
| CDF (Binary) | 0.003 | −0.021 | −0.010 | −0.019 |
| | (0.076) | (0.080) | (0.070) | (0.070) |
| Economic Ideology Index | 0.022 | 0.071 | 0.190 | 0.195* |
| | (0.166) | (0.158) | (0.116) | (0.106) |
| CDF (Log) × EI | −0.001 | −0.006 | −0.009 | −0.011* |
| | (0.009) | (0.009) | (0.007) | (0.007) |
| CDF (Binary) × EI | −0.003 | −0.087 | −0.187 | −0.225* |
| | (0.153) | (0.152) | (0.131) | (0.123) |
| GDP per Capita (Log) | | 0.859*** | | 0.525 |
| | | (0.257) | | (0.426) |
| Population (Log) | | −0.057 | | −0.235 |
| | | (0.495) | | (0.428) |
| GDP Growth | | −0.011** | | 0.011 |
| | | (0.005) | | (0.008) |
| Financial Crisis | | −0.250 | | 0.105 |
| | | (0.237) | | (0.291) |
| World Trade Organization Member | | −0.101 | | 0.406*** |
| | | (0.229) | | (0.153) |
| International Monetary Fund Program | | 0.304*** | | 0.025 |
| | | (0.051) | | (0.067) |
| Controls | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 1,852 | 1,852 | 602 | 602 |
| Pseudo $R^2$ | 0.510 | 0.524 | 0.197 | 0.204 |

Table 4 shows results using the count of major Chinese projects (single Chinese loans of at least 500 million US dollars) as the treatment, given that large Chinese projects may uniquely trigger a response from MDBs to borrower bargaining efforts in an environment where many countries receive some amount of Chinese finance. In contrast with broader Chinese finance,

the interaction is strongly negative for financial reform (-0.703, $p < 0.01$) and positive for legal codification (+0.554, $p < 0.05$), while trade and investment and governance are not significant.[22] More state-capitalist borrowers with major Chinese projects have a smaller share of financial sector reform and privatization conditions, which interfere with efforts to channel capital to key industries, in support of economic ideology hypothesis A. This finding extends the pattern that Cormier and Manger (2022, 416) find across all borrowers by demonstrating that a shrinking share of these conditions is unique to a certain type of borrower: state-capitalist countries with large Chinese projects.

These findings suggest that borrower agency is responsible for these changes rather than proactive adjustments by MDBs. Government officials describe these changes as borrower-initiated. Asked who initiated changes to the policy content of loans, an Indonesian official explained that "the initiative come[s] from Indonesia, … so they [are] more flexible [and] can accommodate that kind of thing." Both the alternative explanations and robustness sections below support this: the ideology interactions hold with alignment included, and appear in the year Chinese finance is received rather than in proactive anticipation.

Yet, in a pattern similar to but far stronger than the governance finding above, state-capitalist borrowers also receive more legal codification conditions. Legal codification conditions are a new reform area that became common around 2008. These involve borrower commitment and 'buy in' through enacting reforms in the other five substantive areas through their legal systems and publicizing these in government media (Cormier and Manger 2022, 403–4, 411). By connecting other conditions to this legally codified form, the World Bank

[22]With a binary measure of major projects, the governance interaction is negative and weakly significant (-0.37, $p < 0.10$, see the binary rows of Table 4), the opposite sign to the broad Chinese development finance result.

may be able to concede on the financial reform and privatization reforms while still securing a verifiable commitment to remaining conditions. This may be an effort to prevent moral hazard and signal to borrowers that concessions in one area do not amount to an overall softening of the bank's agenda, which it expects countries to commit to implementing.

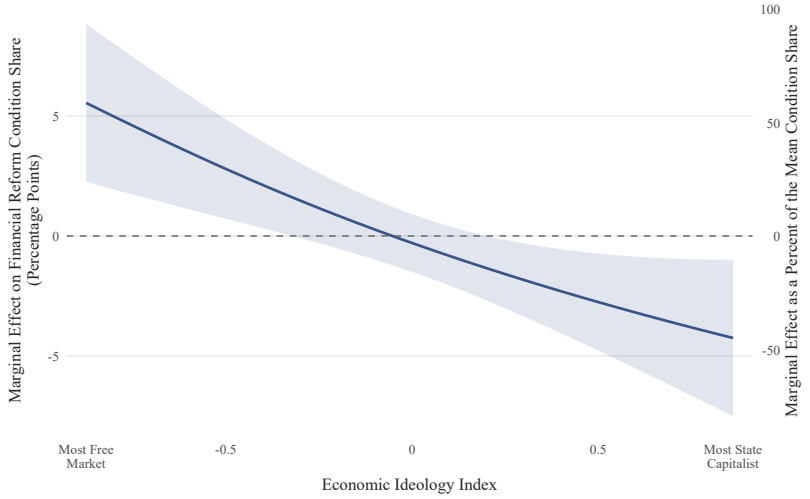
Because the treatment is a count, both results strengthen with each additional major project. Financial reform also holds under a binary coding of major projects (see the binary rows of Table 4), while the legal codification result is specific to the count coding. This indicates that changes in legal codification condition share are a cumulative dynamic in which the World Bank shifts toward these conditions as borrowers take on multiple large Chinese projects.

The figures below display these as marginal effects across economic ideology. Figure 9a shows a steep gradient for financial reform. Each additional major project raises the financial reform share for the most free-market borrowers and lowers it strongly for the most state-capitalist borrowers, both at a highly significant level. These are large proportional shifts, as each additional major project decreases the financial reform share by about 45 percent of its mean for the most state-capitalist borrowers and increases it by about 59 percent for the most free-market borrowers. Figure 9b shows the opposite pattern in the legal codification condition share, with an increase of about 46 percent at the state-capitalist end.

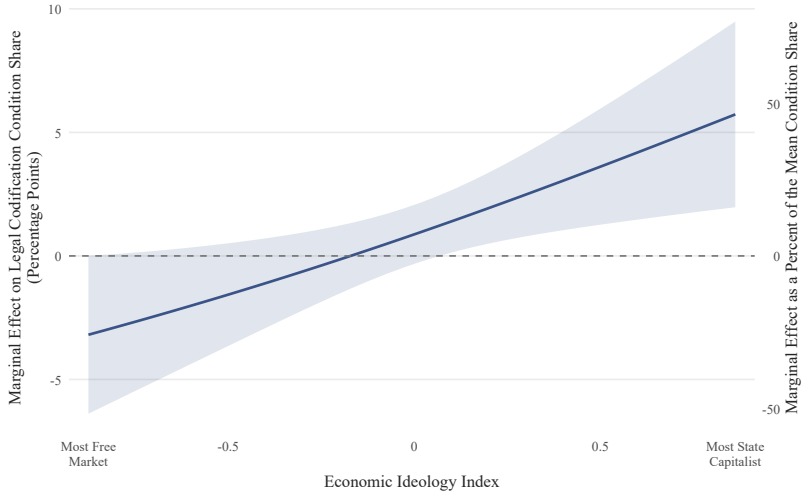
Table 5 shows that, as with the broader measure of Chinese development finance, the ideology interaction is null for MDB lending volume, further indicating that even major projects do not shift the overall amount of lending for state-capitalist borrowers.

**Table 4:** Major Chinese Projects and Economic Ideology across Conditionality Categories

| | Trade and Investment | | Governance | | Financial Reform | | Fiscal Reform | | Social Spending | | Legal Codification | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Major Chinese Project (Count) | 0.144 | 0.147 | −0.055 | −0.042 | −0.011 | −0.037 | −0.054 | −0.048 | −0.153 | −0.168 | 0.126* | 0.095 |
| | (0.103) | (0.099) | (0.044) | (0.052) | (0.079) | (0.078) | (0.117) | (0.107) | (0.191) | (0.178) | (0.064) | (0.066) |
| Major Chinese Project (Binary) | 0.418** | 0.443** | −0.001 | 0.022 | −0.032 | −0.062 | −0.243 | −0.234 | −0.573* | −0.564* | 0.277 | 0.205 |
| | (0.207) | (0.203) | (0.100) | (0.110) | (0.154) | (0.155) | (0.164) | (0.157) | (0.315) | (0.307) | (0.184) | (0.174) |
| Economic Ideology Index | 0.280 | 0.323 | 0.153 | 0.188 | −0.273 | −0.178 | −0.239 | −0.208 | −0.033 | −0.114 | 0.121 | 0.117 |
| | (0.393) | (0.377) | (0.181) | (0.178) | (0.264) | (0.255) | (0.171) | (0.167) | (0.454) | (0.420) | (0.310) | (0.283) |
| Major Chinese Project (Count) × EI | −0.146 | −0.176 | −0.138 | −0.141 | −0.580*** | −0.703*** | −0.040 | −0.071 | −0.031 | 0.028 | 0.589** | 0.554** |
| | (0.294) | (0.347) | (0.110) | (0.119) | (0.168) | (0.192) | (0.127) | (0.137) | (0.415) | (0.533) | (0.233) | (0.209) |
| Major Chinese Project (Binary) × EI | −0.505 | −0.555 | −0.340* | −0.368* | −0.720*** | −0.905*** | 0.154 | 0.098 | 0.313 | 0.433 | 0.773 | 0.732 |
| | (0.395) | (0.435) | (0.172) | (0.187) | (0.266) | (0.294) | (0.205) | (0.226) | (0.534) | (0.686) | (0.492) | (0.475) |
| GDP per Capita (Log) | | 0.228 | | −0.074 | | 0.972 | | 0.270 | | −1.558 | | −0.318 |
| | | (0.954) | | (0.436) | | (0.802) | | (0.493) | | (1.595) | | (0.953) |
| Population (Log) | | 0.924 | | 1.160 | | 2.312* | | 1.054 | | −2.173 | | −0.970 |
| | | (1.423) | | (0.813) | | (1.190) | | (0.982) | | (2.489) | | (1.818) |
| GDP Growth | | −0.003 | | 0.012 | | −0.039* | | 0.005 | | −0.040 | | 0.010 |
| | | (0.021) | | (0.010) | | (0.022) | | (0.011) | | (0.033) | | (0.019) |
| Financial Crisis | | 0.091 | | −0.172 | | 0.184 | | −0.111 | | 0.403 | | −0.056 |
| | | (0.407) | | (0.129) | | (0.317) | | (0.150) | | (0.462) | | (0.204) |
| World Trade Organization Member | | 0.139 | | 0.135 | | −0.039 | | 0.156 | | 0.057 | | 0.354 |
| | | (0.404) | | (0.143) | | (0.441) | | (0.310) | | (1.108) | | (0.410) |
| International Monetary Fund Program | | 0.128 | | 0.097 | | −0.037 | | 0.131 | | 0.224 | | −0.416** |
| | | (0.196) | | (0.093) | | (0.155) | | (0.109) | | (0.262) | | (0.183) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 | 405 |
| Pseudo $R^2$ | 0.404 | 0.408 | 0.596 | 0.608 | 0.537 | 0.557 | 0.408 | 0.417 | 0.396 | 0.421 | 0.733 | 0.742 |




**(a)** Financial Reform




**(b)** Legal Codification

**Figure 9:** Marginal Effect of the Major Chinese Project Count on the Financial Reform and Legal Codification Conditionality Shares across Economic Ideology.

## 4.1 Robustness

A number of tests suggest that the above results are unlikely to reflect selection or omitted variables. First, the change is compositional rather than a shift in the overall number of conditions, which is at most weakly significant for broad Chinese development finance ($p = 0.09$ logged measure) or major projects ($p = 0.15$). State-capitalist borrowers therefore do not receive a meaningful change in the number of conditions in the presence of Chinese finance,

**Table 5:** Major Chinese Projects and Economic Ideology: Western MDB Commitments and Prior Actions

| | Western MDB Commitments per Capita (Poisson) | | Prior Actions (Poisson) | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Major Chinese Project (Count) | 0.021 | 0.026 | −0.052* | −0.048 |
| | (0.059) | (0.055) | (0.028) | (0.032) |
| Major Chinese Project (Binary) | 0.026 | 0.038 | −0.106 | −0.088 |
| | (0.106) | (0.105) | (0.075) | (0.077) |
| Economic Ideology Index | 0.013 | 0.034 | 0.081 | 0.078 |
| | (0.154) | (0.148) | (0.105) | (0.097) |
| Major Chinese Project (Count) × EI | 0.005 | 0.016 | 0.159* | 0.146 |
| | (0.138) | (0.140) | (0.088) | (0.101) |
| Major Chinese Project (Binary) × EI | −0.039 | −0.034 | 0.290* | 0.294 |
| | (0.273) | (0.282) | (0.175) | (0.188) |
| GDP per Capita (Log) | | 0.835*** | | 0.452 |
| | | (0.256) | | (0.386) |
| Population (Log) | | −0.045 | | −0.272 |
| | | (0.493) | | (0.405) |
| GDP Growth | | −0.011** | | 0.011 |
| | | (0.005) | | (0.008) |
| Financial Crisis | | −0.251 | | 0.124 |
| | | (0.240) | | (0.285) |
| World Trade Organization Member | | −0.100 | | 0.353** |
| | | (0.224) | | (0.145) |
| International Monetary Fund Program | | 0.304*** | | 0.033 |
| | | (0.051) | | (0.062) |
| Controls | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 1,852 | 1,852 | 602 | 602 |
| Pseudo $R^2$ | 0.510 | 0.523 | 0.200 | 0.206 |

but a different mix of them. If an omitted factor was making the World Bank uniformly tougher or more lenient, it would more plausibly shift the total number.

Second, Table 13 in Appendix E suggests that the timing of the relationship is not consistent with reverse causality or anticipation. The interaction appears in the year Chinese finance is received and then decays, and neither the one-year nor the two-year lead approaches significance (the smallest p-value among the four main outcomes is 0.30). Because the treatment switches on and off, these null pre-treatment coefficients play the role that a test

for parallel trends plays in a DiD design. A joint estimate of all leads and lags (Figure 11, Appendix E) finds no evidence of pre-trends for trade and investment and financial reform (joint pre-trend tests p = 0.27 and p = 0.48), but an upward pre-trend for governance significant at the 0.05 level (p = 0.046), so the governance result should be read as fragile.[23] In the reverse direction, the previous year's conditionality composition (Table 14 in Appendix E) does not predict Chinese finance in combination with economic ideology (p = 0.47). This suggests that the composition of conditions is responding to Chinese lending rather than attracting it in a way that depends on borrower ideology.

Third, because TWFE rests on within-country variation over time, the concern is whether the treatment might correlate with borrower ideology. Table 11 in Appendix E shows that treated country-years differ mainly in terms of being larger and richer while imbalance on economic ideology is small. Table 12 in Appendix E regresses broad Chinese finance and major projects on the ideology index to test selection into Chinese finance. The table shows that state-capitalist country-years weakly attract more major projects within countries (+0.060, p = 0.05), so there is selection on the level of the moderator. However, the interaction absorbs this selection through its constituent terms, and the null pre-treatment leads in Table 13 and Figure 11 in Appendix E show there is no differential pre-trend in conditionality, with the exception of governance discussed above.

Fourth, because conditionality could impact economic ideology in the treatment year, I measure ideology one and two years earlier (Table 16 in Appendix E). The major project results hold for financial reform and legal codification, but the trade and investment and

[23] Using the Rambachan and Roth (2023) HonestDiD test, the trade and investment and governance effects remain significant even if the bias from parallel trends violations after treatment is half as large as the largest change between pre-treatment years. Financial reform holds only up to a quarter, which reflects its imprecise leads rather than a pre-trend.

governance interactions weaken. I also find that economic ideology does not respond to conditionality itself: none of the condition shares predict a change in a borrower's economic ideology one or two years later (Table 17 in Appendix E).

Fifth, using Cinelli and Hazlett (2020)'s approach, I calculate how much of the unexplained variation in both the treatment and the outcome an unobserved confounder would need to account for to drive the estimate to zero for each of the main interaction terms. These are much higher than the explanatory power of covariates such as GDP per capita (Table 15 in Appendix E), meaning a confounder would have to be substantially stronger than anything I measure to overturn the findings. Sixth, for an omitted variable to bias the interaction between Chinese development finance and economic ideology, it must be correlated with the product of the two, not with either term alone, a substantially stronger requirement than the one needed to bias a main effect (Nizalova and Murtazashvili 2012). Consistent with this, my results hold when WTO membership and IMF programs are interacted with economic ideology (Table 19 in Appendix E).

Table 8 and Table 9 in Appendix E re-estimate the major Chinese project models under alternative size thresholds, defining a major Chinese project at 250 million and 1 billion USD. The financial reform result is specific to large absolute loans, losing significance at the 250 million threshold and growing larger at 1 billion. The legal codification result holds at 250 million but not 1 billion, while MDB funding is not significant at either threshold. Prior actions are significant only at 1 billion (0.317, $p < 0.05$), where under the count coding major projects are associated with fewer prior actions for free-market borrowers. Splitting the results by IBRD (middle-income borrower) and IDA (low-income borrower) lending windows shows that the results are not driven by either group: the financial reform result is negative

for both, while the legal codification result is concentrated among IDA borrowers, and the trade and investment result among IBRD borrowers (Table 18 in Appendix E).[24]

## 4.2 Alternative Explanations

To test the two alternative hypotheses related to regime type and geopolitical alignment, the tables in Appendix D add participatory democracy and US alignment, each interacted with the treatments. For broad Chinese finance, the economic ideology interactions are essentially unchanged: trade and investment (-0.053, $p < 0.05$) and governance (+0.017, $p < 0.10$) retain their sign and significance (Table 5 in Appendix D), as does the binary treatment (trade and investment -1.09, governance +0.34). The economic ideology interactions for MDB funding and prior actions are not significant (Table 4 in Appendix D), and neither the democracy nor the alignment interaction is significant for any conditionality share. The exception is that more US-aligned borrowers with Chinese development finance receive more prior actions (0.035, $p < 0.10$), although this is weak and not robust to the binary specification with controls.

The major Chinese project results are similar. Financial reform (-0.857, $p < 0.01$) and legal codification (+0.617, $p < 0.05$) survive the addition of the democracy and alignment interactions (Table 6 in Appendix D), MDB commitments remain null (Table 7 in Appendix D), and neither alternative moderator absorbs these effects. Financial reform survives under a binary specification while legal codification remains specific to the count coding. However, some interesting patterns emerge from the two additional interaction terms. First, less

[24]The economic ideology interaction is not significant in either window for Western MDB commitments per capita or the prior-actions count (Table 18, Appendix E).

participatory countries with major Chinese projects receive more MDB funding (-0.585, $p < 0.01$). This operates in the opposite direction to the regime type hypothesis. It may instead be the case that Chinese funds are sufficient to serve selectorates, especially because Chinese funding is more useful for political purposes as shown by Dreher et al. (2019). Second, countries with major Chinese projects that also are more closely aligned with the US receive a larger share of trade and investment conditions (1.832, $p < 0.05$) under the count specification. Finally, more participatory countries with major Chinese projects receive fewer trade and investment conditions (-2.211, $p < 0.05$), although this is not robust to the binary specification.

Figures 10a and 10b in Appendix D show that the effect of major projects on the trade and investment condition share is positive and significant for less participatory borrowers and narrowly significant for slightly more US-aligned ones but not at the more extreme ends of either scale. Each additional major Chinese project raises the trade and investment share by up to 2.5 percentage points (or 50 percent of the mean) for both less participatory and more US-aligned borrowers. The economic ideology results remain significant throughout, but regime type and geopolitical alignment shape their own changes in conditionality and MDB funding in a way that is not mutually exclusive.

# 5 Conclusion

In this paper, I have argued that Global South borrowers shape how Western MDBs adapt during periods of great power competition. The economic ideology of government elites, whether they favor state or market guidance of capital, shapes their bargaining preferences

with Western MDBs when Chinese development finance provides an outside option. I hypothesize that state-capitalist borrowers are more likely to use Chinese finance to negotiate for less conditionality that restricts state involvement in the economy and more funding from Western MDBs for state-guided programs. By contrast, free-market borrowers embrace market-oriented reforms and do not want to service larger debts so are less likely to do so. I find that state-capitalist borrowers that receive Chinese development finance do not obtain more funding from Western MDBs. Instead, the composition of conditions shifts in ways that are consistent with my theory. State-capitalist borrowers with Chinese finance receive fewer trade and investment liberalization conditions and, when they take on major Chinese projects of 500 million USD or more, fewer financial reform and privatization conditions. At the same time, the World Bank places more legal codification conditions on these countries. In this way, it adjusts conditionality by enabling the state-capitalist agendas of borrowers that might otherwise move toward China while using legal codification conditions to prevent moral hazard.

These findings speak to two important debates in international relations. First, this study contributes to the literature on institutional change during great power competition. Rather than viewing MDB adaptation as epiphenomenal to the interests of the US and its allies or purely internal organizational concerns, I have shown that borrowers co-constitute the way international institutions evolve. In doing so, this study contributes a novel perspective on global economic order that centers the agency of Global South countries in a literature that has largely treated them as passive recipients of great power politics. By demonstrating how economic ideology drives borrower bargaining behavior, I go beyond existing work on agency by highlighting that the preferences of these countries matter and are not homogeneous.

State-capitalist and free-market borrowers engage with the opportunities presented by Chinese finance in fundamentally different ways, which in turn shapes the nature of institutional change. Economic ideology about capital guidance may be only one of many different agendas that borrowers pursue in an environment that enables their autonomy, something that can be explored in future work in this area.

Second, this paper sheds light on the elasticity of institutions in how they adapt to stay competitive in the face of competition and pressure from members. My findings show that the World Bank does not simply reduce conditionality, perhaps as doing so would introduce risks to its operations and undermine its foundational market governance principles. Nor can MDBs boost loan sizes under a constrained lending 'headroom' that limits how much they can increase loans based on their internal articles of agreement, solvency guidelines, and the difficulty of increasing capital contributions from member states (Humphrey 2022a, 34). What these organizations can do is adjust the makeup of conditions to retain borrowers that now have Chinese alternatives. MDBs appear to increase legal codification conditions, potentially because they help manage moral hazard, while reducing conditions that hurt state-capitalist borrowers the most.

In addition, this paper contributes a valuable cross-national measure of economic ideology that is useful to other researchers and in fields beyond political science, including international business. Because the levers of state capitalism that I capture in the index are embedded in laws and institutions, the index moves slowly within countries, which makes it suited to studying how state-capitalist models interact with external pressures over time. This measure could shed light on how state capitalism shapes engagement with other international organizations, trade and investment agreements, and Chinese lending itself.

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# Appendix: What Borrowers Want

## A Data and Summary Statistics

Table 1 reports summary statistics for the key variables in the analysis sample.

Table 1: Summary Statistics of Key Variables

| Variable | N | Mean | SD | Median | Min | Max | Years |
|---|---|---|---|---|---|---|---|
| Chinese Development Finance (log) | 2,488 | 7.853 | 9.539 | 0.000 | 0.000 | 23.562 | 2000-2023 |
| Chinese Development Finance (binary) | 2,488 | 0.408 | 0.491 | 0.000 | 0.000 | 1.000 | 2000-2023 |
| Major Chinese Project, 500 million USD (binary) | 2,488 | 0.092 | 0.290 | 0.000 | 0.000 | 1.000 | 2000-2023 |
| Western MDB Funding per Capita (USD) | 2,488 | 32.804 | 64.407 | 14.126 | 0.000 | 893.848 | 1990-2024 |
| Prior Actions Count | 745 | 11.313 | 7.046 | 9.000 | 0.000 | 57.000 | 2005-2024 |
| Governance Conditionality Share | 500 | 0.431 | 0.169 | 0.427 | 0.006 | 0.821 | 1990-2017 |
| Trade and Investment Conditionality Share | 500 | 0.050 | 0.070 | 0.021 | 0.001 | 0.656 | 1990-2017 |
| Fiscal Reform Conditionality Share | 500 | 0.229 | 0.116 | 0.208 | 0.005 | 0.740 | 1990-2017 |
| Financial Reform Conditionality Share | 500 | 0.094 | 0.103 | 0.061 | 0.001 | 0.561 | 1990-2017 |
| Social Spending Conditionality Share | 500 | 0.046 | 0.073 | 0.012 | 0.001 | 0.655 | 1990-2017 |
| Legal Codification Conditionality Share | 500 | 0.119 | 0.149 | 0.055 | 0.001 | 0.757 | 1990-2017 |
| Economic Ideology Index (3-item) | 2,212 | 0.126 | 0.739 | -0.025 | -1.152 | 2.512 | 1990-2023 |
| V-Dem Participatory Component Index | 2,304 | 0.462 | 0.156 | 0.517 | 0.021 | 0.810 | 1990-2024 |
| US Alignment | 2,457 | 0.370 | 0.112 | 0.365 | 0.115 | 0.838 | 1990-2023 |
| GDP per capita (log) | 2,472 | 11.684 | 2.481 | 11.597 | 5.650 | 20.573 | 1990-2024 |
| Population (log) | 2,488 | 15.948 | 1.980 | 16.094 | 11.105 | 21.087 | 1990-2024 |
| GDP Growth (annual percent) | 2,472 | 4.048 | 4.976 | 4.266 | -36.392 | 63.335 | 1990-2024 |
| Financial Crisis (binary) | 2,488 | 0.027 | 0.161 | 0.000 | 0.000 | 1.000 | 1990-2017 |
| World Trade Organization Member (binary) | 2,488 | 0.826 | 0.380 | 1.000 | 0.000 | 1.000 | 1990-2024 |
| International Monetary Fund Program (binary) | 2,488 | 0.383 | 0.486 | 0.000 | 0.000 | 1.000 | 1990-2024 |

International Monetary Fund program: IMF Monitor (Kentikelenis and Stubbs 2023) through 2019, IMF Monitoring of Fund Arrangements (MONA) database from 2020.




Figure 1: Treatment Distribution of Any Chinese Development Finance

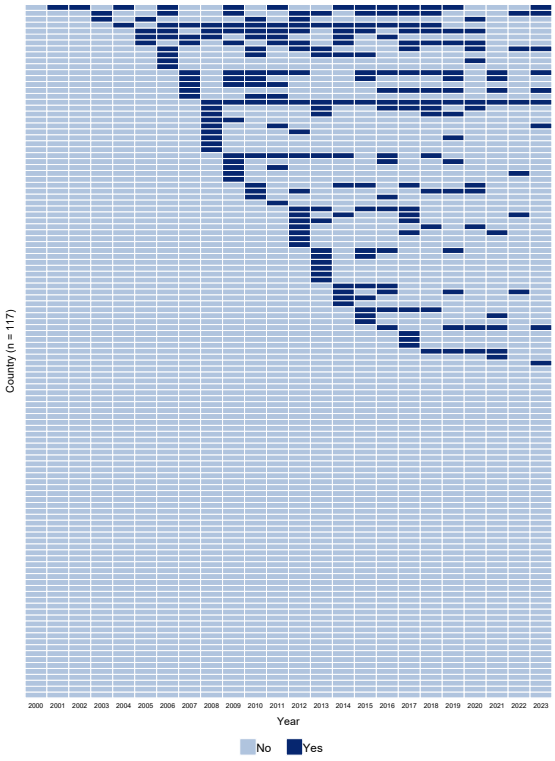



Figure 2: Treatment Distribution of Major Chinese Development Finance Projects (over 500 Million US Dollars)

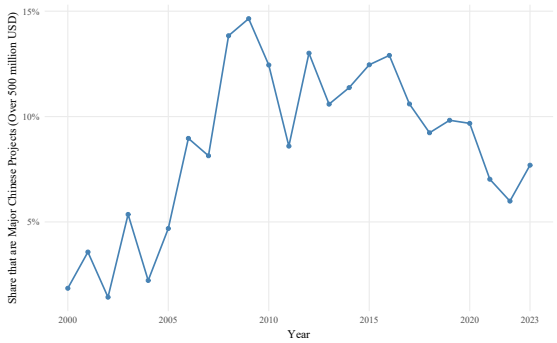



Figure 3: Major Chinese Projects as a Share of All Chinese Projects

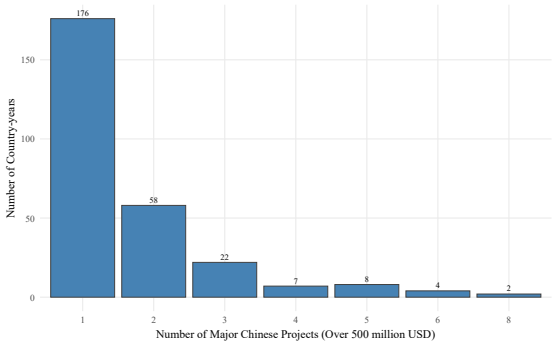



Figure 4: Major Chinese Project Count Distribution

# B The Economic Ideology Index

Table 2: Summary Statistics of Key Variables in Economic Ideology Index

| Group | Item | N | % Missing | Mean | SD | Within-country SD | Min | Max |
|---|---|---|---|---|---|---|---|---|
| Core | Government Investment | 3838 | 3.1% | 7.01 | 3.29 | 1.53 | 0.00 | 10.00 |
| Core | State Ownership | 3888 | 1.8% | 6.77 | 1.54 | 0.34 | 1.67 | 9.54 |
| Core | Bank Ownership | 3398 | 14.2% | 7.40 | 2.90 | 0.87 | 0.00 | 10.00 |
| Rejected | Protection of Foreign Assets | 3817 | 3.6% | 6.13 | 2.04 | 0.63 | 0.00 | 10.00 |
| Rejected | Financial Openness | 3889 | 1.8% | 5.77 | 3.20 | 0.78 | 0.00 | 10.00 |
| Rejected | Standard Deviation of Tariff Rates | 3457 | 12.7% | 6.00 | 2.08 | 0.80 | 0.00 | 10.00 |
| Rejected | Capital Controls | 3551 | 10.3% | 3.69 | 2.95 | 0.88 | 0.00 | 10.00 |
| Rejected | Market Openness | 3960 | 0.0% | 5.62 | 2.00 | 0.52 | 0.29 | 10.00 |
| Rejected | Private Sector Credit | 3870 | 2.3% | 7.98 | 2.53 | 1.55 | 0.00 | 10.00 |

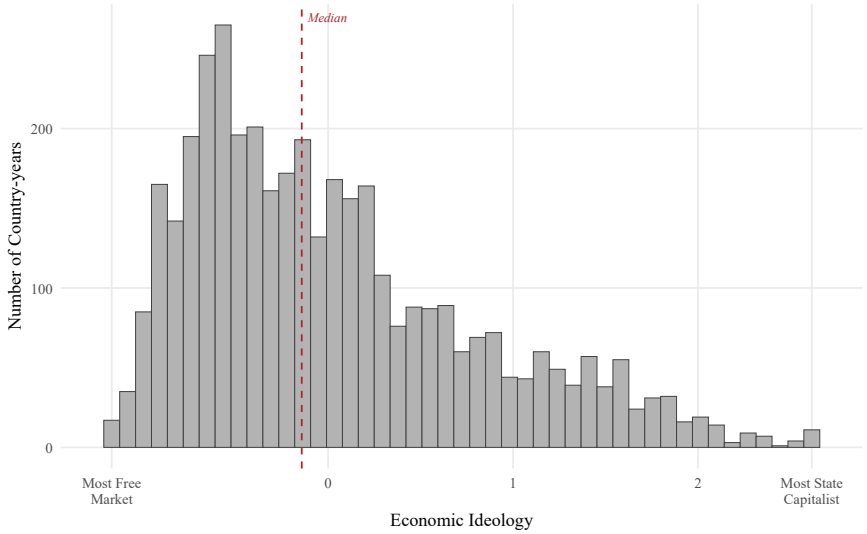



Figure 5: Distribution of Country-year Observations across Economic Ideology Index

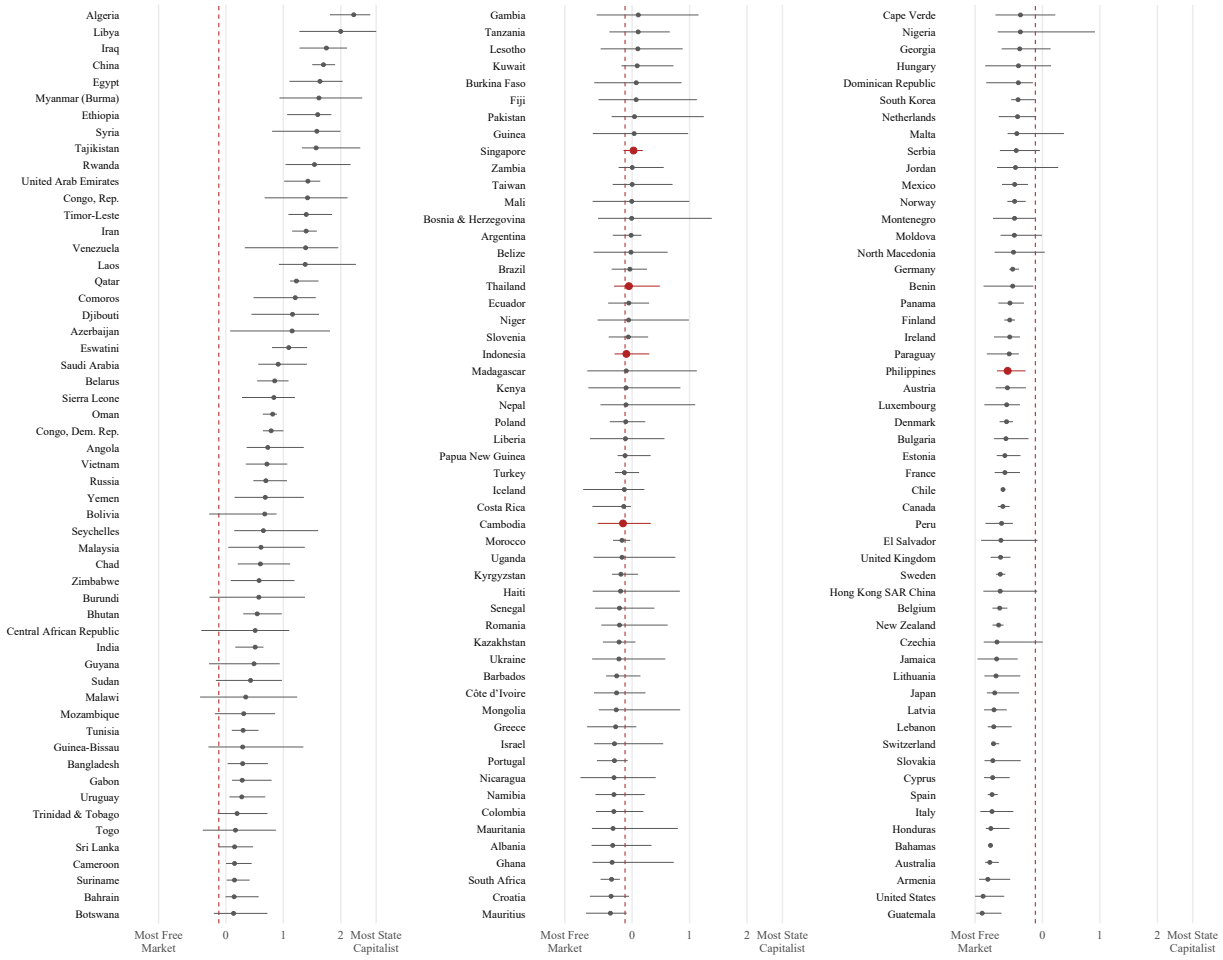



Figure 6: Country Ranking on the Economic Ideology Index with Range Tails

A number of other variables are proximate to but do not reflect economic ideology. For example, private sector credit measures government fiscal deficit which does not reflect guidance of capital (China and Singapore being highly fiscally disciplined, despite channeling credit through state-owned banks). Market openness, capital controls, financial openness, and tariffs also reflect broad trade barriers rather than targeted protection of individual sectors and firms. However, these variables, together with protection of foreign assets, are useful as a six-item robustness index, as they should not influence the dependent variables in the same way as the economic ideology index.

Table 3: Correlations Between Economic Ideology Index and Other Variables

| Variable | Correlation |
|---|---|
| V-Dem Participatory Component Index | −0.615 |
| World Bank Government Effectiveness | −0.509 |
| Log GDP per capita | +0.010 |
| Fraser Institute Economic Freedom (overall) | −0.630 |
| Fraser Institute Area 1: Size of Government | +0.107 |
| Fraser Institute Area 2: Legal System and Property Rights | −0.502 |
| Fraser Institute Area 3: Sound Money | −0.550 |
| Fraser Institute Area 4: Freedom to Trade Internationally | −0.614 |
| Fraser Institute Area 5: Regulation | −0.544 |
| 6-item Rejected Economic Ideology Index | +0.550 |

# C Common Support and Linearity

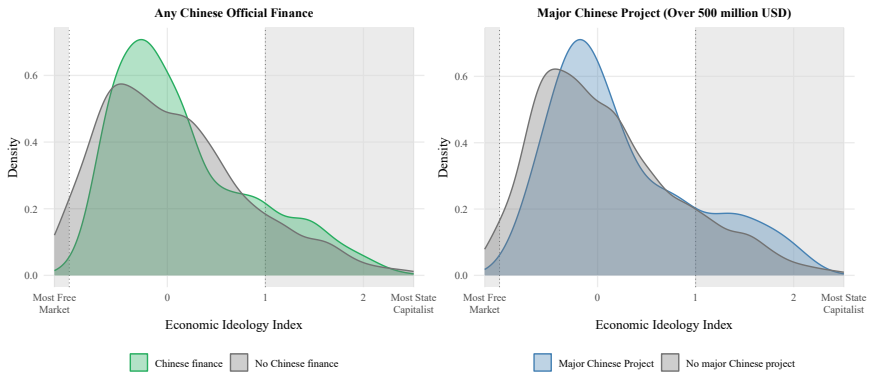
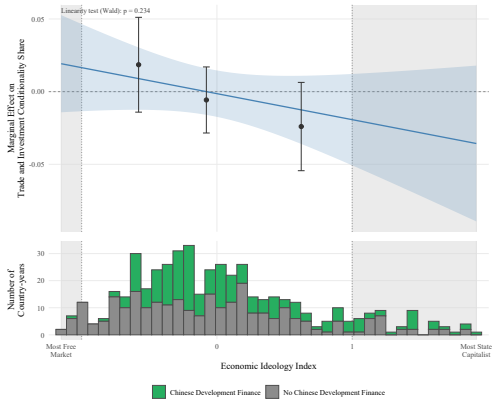
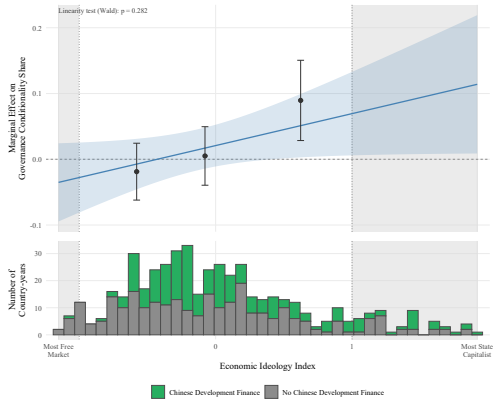


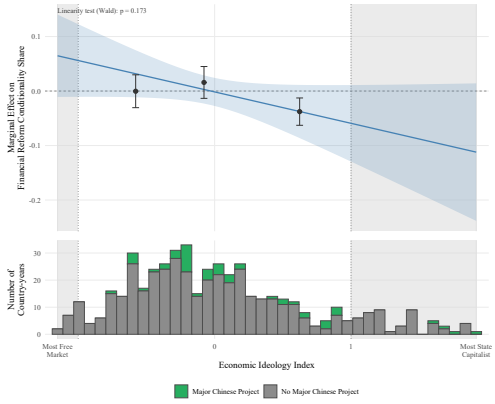

Figure 7: Common Support of Economic Ideology Index by Treatment Status




(a) Trade and Investment




(b) Governance




(c) Financial Reform (Major Projects)

Figure 8: Common Support and Linearity of the Key Interactions across Economic Ideology

# D Additional Results

Table 4: Chinese Development Finance and Economic Ideology with Alternative Explanations: Western MDB Commitments and Prior Actions

| | Western MDB Commitments per Capita (Poisson) | | Prior Actions (Poisson) | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| CDF (Log Amount) | 0.006 | −0.007 | −0.019 | −0.021 |
| | (0.020) | (0.017) | (0.015) | (0.015) |
| CDF (Binary) | −0.016 | −0.249 | −0.323 | −0.346 |
| | (0.362) | (0.308) | (0.279) | (0.281) |
| Economic Ideology Index | 0.064 | 0.094 | 0.143 | 0.152 |
| | (0.162) | (0.163) | (0.116) | (0.111) |
| CDF (Log) × EI | −0.000 | −0.003 | −0.006 | −0.007 |
| | (0.009) | (0.009) | (0.008) | (0.007) |
| CDF (Binary) × EI | 0.027 | −0.038 | −0.120 | −0.153 |
| | (0.154) | (0.148) | (0.146) | (0.134) |
| Participatory Democracy | 1.905** | 1.458* | 1.437** | 1.413** |
| | (0.878) | (0.788) | (0.682) | (0.645) |
| CDF (Log Amount) × Participatory Democracy | −0.015 | 0.005 | 0.005 | 0.012 |
| | (0.034) | (0.031) | (0.029) | (0.028) |
| CDF (Binary) × Participatory Democracy | −0.133 | 0.245 | 0.129 | 0.237 |
| | (0.605) | (0.542) | (0.531) | (0.522) |
| US Alignment | 0.959 | 1.009 | 0.624 | 0.620 |
| | (1.049) | (1.044) | (1.075) | (1.095) |
| CDF (Log Amount) × US Alignment | 0.011 | 0.011 | 0.040** | 0.035* |
| | (0.030) | (0.028) | (0.020) | (0.020) |
| CDF (Binary) × US Alignment | 0.271 | 0.281 | 0.666* | 0.556 |
| | (0.573) | (0.531) | (0.376) | (0.370) |
| GDP per Capita (Log) | | 0.865*** | | 0.624 |
| | | (0.275) | | (0.435) |
| Population (Log) | | 0.105 | | 0.057 |
| | | (0.527) | | (0.474) |
| GDP Growth | | −0.012** | | 0.010 |
| | | (0.005) | | (0.009) |
| Financial Crisis | | −0.112 | | 0.077 |
| | | (0.182) | | (0.293) |
| World Trade Organization Member | | −0.127 | | 0.400** |
| | | (0.225) | | (0.170) |
| International Monetary Fund Program | | 0.291*** | | 0.011 |
| | | (0.055) | | (0.064) |
| Controls | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 1,800 | 1,800 | 593 | 593 |
| Pseudo $R^2$ | 0.519 | 0.530 | 0.205 | 0.212 |

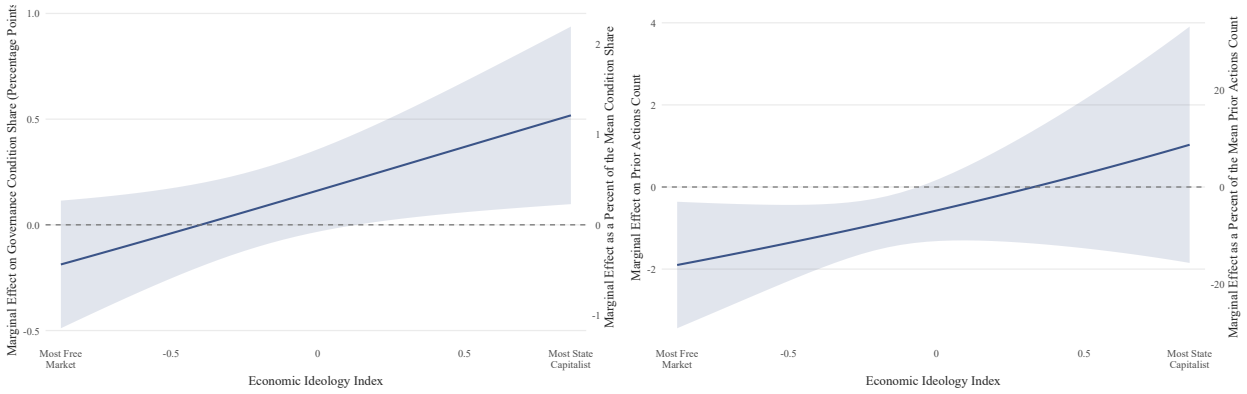
Table 5: Chinese Development Finance and Economic Ideology with Alternative Explanations across Conditionality Categories

| | Trade and Investment | | Governance | | Financial Reform | | Fiscal Reform | | Social Spending | | Legal Codification | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| CDF (Log Amount) | −0.050 | −0.053 | 0.032 | 0.032 | −0.028 | −0.020 | 0.012 | 0.011 | 0.018 | 0.008 | −0.019 | −0.018 |
| | (0.043) | (0.043) | (0.027) | (0.029) | (0.041) | (0.042) | (0.033) | (0.033) | (0.071) | (0.071) | (0.038) | (0.038) |
| CDF (Binary) | −1.033 | −1.075 | 0.606 | 0.619 | −0.537 | −0.365 | 0.040 | 0.032 | 0.577 | 0.378 | −0.218 | −0.223 |
| | (0.749) | (0.755) | (0.513) | (0.557) | (0.739) | (0.749) | (0.586) | (0.593) | (1.349) | (1.370) | (0.714) | (0.743) |
| Economic Ideology Index | 0.708 | 0.786* | 0.055 | 0.081 | −0.101 | −0.048 | −0.305* | −0.286 | −0.225 | −0.317 | 0.119 | 0.218 |
| | (0.425) | (0.433) | (0.218) | (0.223) | (0.323) | (0.319) | (0.173) | (0.176) | (0.544) | (0.478) | (0.313) | (0.307) |
| CDF (Log) × EI | −0.048** | −0.053** | 0.018** | 0.017* | −0.024 | −0.027 | 0.009 | 0.008 | 0.028 | 0.027 | −0.004 | −0.014 |
| | (0.020) | (0.022) | (0.008) | (0.009) | (0.021) | (0.020) | (0.013) | (0.013) | (0.022) | (0.021) | (0.019) | (0.021) |
| CDF (Binary) × EI | −1.005** | −1.087** | 0.368** | 0.339** | −0.396 | −0.446 | 0.240 | 0.218 | 0.509 | 0.452 | −0.202 | −0.366 |
| | (0.382) | (0.411) | (0.159) | (0.164) | (0.400) | (0.382) | (0.254) | (0.264) | (0.412) | (0.405) | (0.340) | (0.384) |
| Participatory Democracy | 0.116 | 0.335 | −0.687 | −0.707 | −0.465 | −0.147 | 0.215 | 0.124 | 5.343 | 5.773* | −0.899 | 0.359 |
| | (2.619) | (2.660) | (1.306) | (1.281) | (2.497) | (2.758) | (1.504) | (1.473) | (3.516) | (3.422) | (2.669) | (2.368) |
| CDF (Log Amount) × Participatory Democracy | 0.096 | 0.101 | −0.077 | −0.074 | 0.055 | 0.030 | −0.011 | −0.005 | 0.049 | 0.056 | −0.002 | −0.016 |
| | (0.095) | (0.095) | (0.046) | (0.050) | (0.067) | (0.071) | (0.062) | (0.060) | (0.131) | (0.125) | (0.070) | (0.072) |
| CDF (Binary) × Participatory Democracy | 2.176 | 2.236 | −1.435 | −1.415 | 0.945 | 0.434 | 0.190 | 0.299 | 0.489 | 0.657 | −0.271 | −0.481 |
| | (1.716) | (1.708) | (0.886) | (0.948) | (1.228) | (1.303) | (1.088) | (1.076) | (2.536) | (2.413) | (1.378) | (1.425) |
| US Alignment | 1.814 | 1.636 | −0.827 | −0.766 | 0.895 | 0.798 | −0.761 | −0.597 | 3.362 | 2.519 | −0.921 | −0.766 |
| | (2.575) | (2.833) | (1.108) | (1.128) | (2.272) | (2.110) | (1.079) | (1.066) | (3.291) | (3.278) | (2.304) | (2.206) |
| CDF (Log Amount) × US Alignment | −0.026 | −0.020 | 0.043 | 0.042 | 0.003 | 0.020 | −0.020 | −0.025 | −0.138 | −0.114 | 0.033 | 0.031 |
| | (0.072) | (0.075) | (0.035) | (0.034) | (0.053) | (0.054) | (0.031) | (0.031) | (0.092) | (0.094) | (0.057) | (0.058) |
| CDF (Binary) × US Alignment | −0.839 | −0.710 | 0.836 | 0.790 | 0.185 | 0.494 | −0.336 | −0.420 | −2.567 | −2.138 | 0.465 | 0.448 |
| | (1.373) | (1.443) | (0.646) | (0.637) | (1.000) | (1.018) | (0.636) | (0.623) | (1.727) | (1.769) | (1.062) | (1.072) |
| GDP per Capita (Log) | | 0.669 | | −0.129 | | 0.867 | | 0.183 | | −1.794 | | −0.026 |
| | | (0.975) | | (0.440) | | (0.811) | | (0.498) | | (1.700) | | (1.092) |
| Population (Log) | | 0.866 | | 0.987 | | 1.942 | | 0.963 | | −2.883 | | 0.129 |
| | | (1.432) | | (0.817) | | (1.352) | | (1.076) | | (2.378) | | (2.023) |
| GDP Growth | | 0.002 | | 0.009 | | −0.034 | | 0.006 | | −0.029 | | 0.006 |
| | | (0.022) | | (0.010) | | (0.022) | | (0.011) | | (0.034) | | (0.020) |
| Financial Crisis | | 0.190 | | −0.149 | | 0.175 | | −0.119 | | 0.326 | | −0.028 |
| | | (0.391) | | (0.139) | | (0.354) | | (0.163) | | (0.491) | | (0.241) |
| World Trade Organization Member | | 0.244 | | 0.052 | | −0.095 | | 0.124 | | 0.003 | | 0.447 |
| | | (0.367) | | (0.142) | | (0.445) | | (0.307) | | (1.018) | | (0.448) |
| International Monetary Fund Program | | 0.140 | | 0.114 | | 0.037 | | 0.121 | | 0.189 | | −0.491** |
| | | (0.206) | | (0.092) | | (0.180) | | (0.103) | | (0.246) | | (0.186) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 |
| Pseudo $R^2$ | 0.424 | 0.431 | 0.611 | 0.621 | 0.537 | 0.549 | 0.417 | 0.424 | 0.434 | 0.450 | 0.734 | 0.749 |

| | Trade and Investment | | Governance | | Financial Reform | | Fiscal Reform | | Social Spending | | Legal Codification | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Major Chinese Project (Count) | 0.814 | 0.733 | −0.063 | −0.181 | 0.069 | 0.054 | 1.001 | 0.896 | −1.071 | −1.035 | −0.313 | −0.249 |
| | (0.622) | (0.633) | (0.290) | (0.327) | (0.472) | (0.474) | (0.654) | (0.583) | (1.427) | (1.198) | (0.528) | (0.490) |
| Major Chinese Project (Binary) | 0.520 | 0.412 | 0.128 | 0.054 | −0.312 | −0.474 | 0.467 | 0.386 | −1.203 | −1.262 | 0.196 | 0.368 |
| | (1.376) | (1.324) | (0.481) | (0.514) | (0.807) | (0.823) | (0.790) | (0.694) | (1.733) | (1.694) | (0.758) | (0.735) |
| Economic Ideology Index | 0.344 | 0.384 | 0.178 | 0.192 | −0.142 | −0.085 | −0.227 | −0.211 | −0.072 | −0.166 | −0.025 | 0.004 |
| | (0.410) | (0.398) | (0.188) | (0.186) | (0.275) | (0.260) | (0.178) | (0.171) | (0.479) | (0.434) | (0.316) | (0.306) |
| Major Chinese Project (Count) × EI | 0.043 | 0.044 | −0.162 | −0.153 | −0.753*** | −0.857*** | −0.077 | −0.092 | −0.057 | 0.022 | 0.692*** | 0.617** |
| | (0.314) | (0.406) | (0.116) | (0.127) | (0.183) | (0.176) | (0.134) | (0.140) | (0.517) | (0.653) | (0.260) | (0.236) |
| Major Chinese Project (Binary) × EI | −0.282 | −0.311 | −0.366* | −0.383* | −0.964*** | −1.093*** | 0.200 | 0.155 | 0.272 | 0.444 | 0.841 | 0.745 |
| | (0.422) | (0.475) | (0.183) | (0.197) | (0.280) | (0.284) | (0.206) | (0.208) | (0.604) | (0.763) | (0.606) | (0.566) |
| Participatory Democracy | 2.502 | 2.684 | −1.598 | −1.539 | 0.246 | 0.443 | 0.179 | 0.207 | 5.709* | 6.209** | −1.596 | −0.874 |
| | (2.267) | (2.366) | (1.234) | (1.208) | (2.180) | (2.224) | (1.316) | (1.319) | (3.084) | (2.821) | (2.638) | (2.540) |
| Major Chinese Project (Count) × Participatory Democracy | −2.281** | −2.211** | 0.161 | 0.319 | 0.522 | 0.472 | −1.480 | −1.347 | 1.507 | 1.272 | 0.355 | 0.307 |
| | (1.045) | (1.089) | (0.434) | (0.464) | (0.748) | (0.764) | (0.907) | (0.809) | (1.896) | (1.746) | (0.677) | (0.674) |
| Major Chinese Project (Binary) × Participatory Democracy | −1.793 | −1.695 | −0.081 | 0.030 | 1.466 | 1.574 | −1.404 | −1.286 | 1.348 | 1.056 | 0.203 | −0.107 |
| | (2.517) | (2.471) | (0.813) | (0.831) | (1.211) | (1.286) | (1.289) | (1.142) | (2.746) | (2.762) | (1.091) | (1.196) |
| US Alignment | 2.366 | 2.318 | −0.740 | −0.714 | 1.575 | 1.651 | −0.941 | −0.923 | 2.167 | 1.247 | −0.181 | 0.131 |
| | (2.508) | (2.676) | (1.136) | (1.141) | (2.275) | (2.154) | (1.082) | (1.062) | (3.035) | (2.910) | (1.885) | (1.814) |
| Major Chinese Project (Count) × US Alignment | 1.699** | 1.832** | −0.243 | −0.133 | −1.072 | −1.018 | −0.564 | −0.480 | 0.191 | 0.405 | 0.529 | 0.384 |
| | (0.702) | (0.702) | (0.323) | (0.367) | (0.885) | (0.881) | (0.513) | (0.499) | (2.084) | (1.791) | (0.638) | (0.670) |
| Major Chinese Project (Binary) × US Alignment | 2.479* | 2.710* | −0.228 | −0.137 | −1.485 | −1.296 | 0.201 | 0.267 | −0.424 | 0.226 | −0.115 | −0.271 |
| | (1.433) | (1.412) | (0.637) | (0.721) | (1.405) | (1.425) | (1.024) | (1.063) | (2.633) | (2.589) | (1.630) | (1.683) |
| GDP per Capita (Log) | | 0.171 | | −0.071 | | 0.988 | | 0.092 | | −1.763 | | −0.127 |
| | | (1.004) | | (0.453) | | (0.821) | | (0.493) | | (1.748) | | (1.072) |
| Population (Log) | | 0.820 | | 1.032 | | 2.110 | | 0.811 | | −2.451 | | −0.101 |
| | | (1.576) | | (0.880) | | (1.280) | | (0.985) | | (2.461) | | (2.089) |
| GDP Growth | | 0.005 | | 0.012 | | −0.036* | | 0.006 | | −0.036 | | 0.005 |
| | | (0.021) | | (0.011) | | (0.022) | | (0.011) | | (0.034) | | (0.021) |
| Financial Crisis | | 0.147 | | −0.186 | | 0.169 | | −0.070 | | 0.353 | | −0.071 |
| | | (0.404) | | (0.130) | | (0.340) | | (0.144) | | (0.474) | | (0.216) |
| World Trade Organization Member | | 0.063 | | 0.139 | | −0.058 | | 0.162 | | 0.167 | | 0.304 |
| | | (0.420) | | (0.152) | | (0.417) | | (0.314) | | (1.157) | | (0.427) |
| International Monetary Fund Program | | 0.119 | | 0.106 | | −0.058 | | 0.108 | | 0.224 | | −0.387** |
| | | (0.197) | | (0.089) | | (0.153) | | (0.097) | | (0.231) | | (0.189) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 | 398 |
| Pseudo $R^2$ | 0.427 | 0.430 | 0.600 | 0.611 | 0.543 | 0.559 | 0.429 | 0.434 | 0.415 | 0.440 | 0.737 | 0.745 |

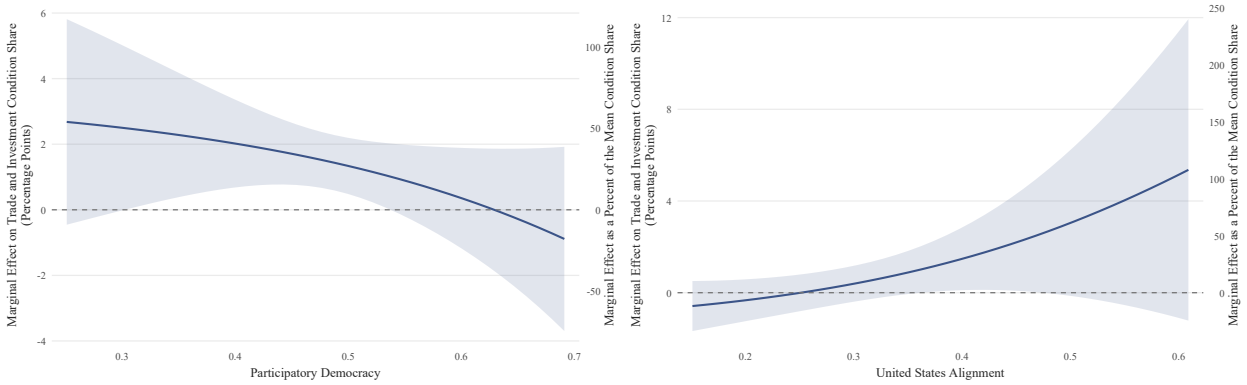
Table 7: Major Chinese Projects and Economic Ideology with Alternative Explanations: Western MDB Commitments and Prior Actions

| | Western MDB Commitments per Capita (Poisson) | | Prior Actions (Poisson) | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Major Chinese Project (Count) | 0.413*** | 0.380*** | −0.089 | −0.107 |
| | (0.109) | (0.111) | (0.143) | (0.144) |
| Major Chinese Project (Binary) | 0.840** | 0.738** | −0.483 | −0.452 |
| | (0.336) | (0.352) | (0.440) | (0.441) |
| Economic Ideology Index | 0.067 | 0.079 | 0.064 | 0.070 |
| | (0.147) | (0.151) | (0.106) | (0.101) |
| Major Chinese Project (Count) × EI | −0.105 | −0.081 | 0.165* | 0.155 |
| | (0.156) | (0.163) | (0.087) | (0.098) |
| Major Chinese Project (Binary) × EI | −0.103 | −0.079 | 0.329** | 0.325* |
| | (0.273) | (0.284) | (0.164) | (0.169) |
| Participatory Democracy | 1.868** | 1.624** | 1.401** | 1.434** |
| | (0.812) | (0.731) | (0.622) | (0.572) |
| Major Chinese Project (Count) × Participatory Democracy | −0.664*** | −0.585*** | −0.189 | −0.089 |
| | (0.212) | (0.220) | (0.219) | (0.192) |
| Major Chinese Project (Binary) × Participatory Democracy | −1.695*** | −1.431** | 0.132 | 0.276 |
| | (0.606) | (0.607) | (0.601) | (0.511) |
| US Alignment | 1.024 | 1.052 | 0.921 | 0.889 |
| | (0.987) | (0.982) | (1.099) | (1.124) |
| Major Chinese Project (Count) × US Alignment | −0.282 | −0.281 | 0.406 | 0.324 |
| | (0.319) | (0.316) | (0.333) | (0.334) |
| Major Chinese Project (Binary) × US Alignment | 0.123 | 0.060 | 0.839 | 0.593 |
| | (0.792) | (0.798) | (0.837) | (0.894) |
| GDP per Capita (Log) | | 0.831*** | | 0.533 |
| | | (0.282) | | (0.382) |
| Population (Log) | | 0.117 | | 0.012 |
| | | (0.522) | | (0.427) |
| GDP Growth | | −0.011** | | 0.010 |
| | | (0.005) | | (0.008) |
| Financial Crisis | | −0.107 | | 0.095 |
| | | (0.182) | | (0.285) |
| World Trade Organization Member | | −0.091 | | 0.347** |
| | | (0.212) | | (0.159) |
| International Monetary Fund Program | | 0.283*** | | 0.019 |
| | | (0.054) | | (0.061) |
| Controls | No | Yes | No | Yes |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 1,800 | 1,800 | 593 | 593 |
| Pseudo $R^2$ | 0.522 | 0.532 | 0.207 | 0.213 |

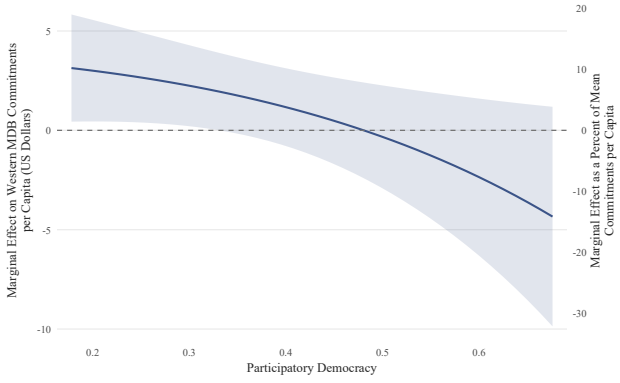



(a) Governance (Chinese Development Finance, Log) (b) Prior Actions (Major Chinese Project Count)

Figure 9: Marginal Effects on the Governance Conditionality Share and the Prior Actions Count across Economic Ideology




(a) Trade and Investment across Participatory Democracy (b) Trade and Investment across US Alignment




(c) Western MDB Commitments per Capita across Participatory Democracy

Figure 10: Marginal Effects of the Major Chinese Project Count across Participatory Democracy and US Alignment

# E Robustness Checks

Table 8: Major Chinese Projects and Economic Ideology at Alternative Size Thresholds: Conditionality Shares

| | Trade and Investment | Governance | Financial Reform | Fiscal Reform | Social Spending | Legal Codification |
|---|---|---|---|---|---|---|
| Single loan at least 250 million US dollars | | | | | | |
| Count × EI, no controls | −0.039 | −0.066* | −0.101 | −0.059 | −0.043 | 0.245*** |
| | (0.076) | (0.034) | (0.091) | (0.055) | (0.124) | (0.043) |
| Count × EI, with controls | −0.054 | −0.075** | −0.118 | −0.083 | −0.004 | 0.240*** |
| | (0.098) | (0.036) | (0.092) | (0.056) | (0.178) | (0.041) |
| Binary × EI, no controls | −0.673** | −0.239 | −0.160 | 0.031 | 0.776* | 0.616* |
| | (0.336) | (0.194) | (0.369) | (0.163) | (0.430) | (0.350) |
| Binary × EI, with controls | −0.812** | −0.283 | −0.210 | −0.031 | 0.960* | 0.480 |
| | (0.397) | (0.189) | (0.359) | (0.183) | (0.492) | (0.334) |
| Single loan at least 1 billion US dollars | | | | | | |
| Count × EI, no controls | 0.438 | −0.197 | −0.788** | −0.015 | 0.470 | 0.121 |
| | (0.856) | (0.170) | (0.354) | (0.326) | (0.589) | (0.391) |
| Count × EI, with controls | 0.409 | −0.228 | −0.886** | −0.052 | 0.553 | 0.126 |
| | (0.914) | (0.196) | (0.377) | (0.312) | (0.671) | (0.363) |
| Binary × EI, no controls | 0.063 | −0.300 | −0.626* | 0.294 | 0.666 | −0.034 |
| | (0.943) | (0.215) | (0.355) | (0.287) | (0.632) | (0.343) |
| Binary × EI, with controls | 0.017 | −0.360 | −0.702* | 0.236 | 0.834 | −0.024 |
| | (0.999) | (0.238) | (0.383) | (0.287) | (0.773) | (0.325) |
| Country and Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 405 | 405 | 405 | 405 | 405 | 405 |

Table 9: Major Chinese Projects and Economic Ideology at Alternative Size Thresholds: Western MDB Commitments and Prior Actions

| | Western MDB Commitments per Capita (Poisson) | Prior Actions (Poisson) |
|---|---|---|
| Single loan at least 250 million US dollars | | |
| Count × EI, no controls | −0.043 | 0.019 |
| | (0.074) | (0.037) |
| Count × EI, with controls | −0.043 | 0.008 |
| | (0.076) | (0.037) |
| Binary × EI, no controls | −0.247 | 0.098 |
| | (0.282) | (0.134) |
| Binary × EI, with controls | −0.274 | 0.076 |
| | (0.293) | (0.155) |
| Single loan at least 1 billion US dollars | | |
| Count × EI, no controls | −0.186 | 0.347** |
| | (0.240) | (0.139) |
| Count × EI, with controls | −0.175 | 0.317** |
| | (0.249) | (0.151) |
| Binary × EI, no controls | −0.229 | 0.438* |
| | (0.308) | (0.239) |
| Binary × EI, with controls | −0.251 | 0.411* |
| | (0.323) | (0.239) |
| Country and Year Fixed Effects | Yes | Yes |
| Observations | 1,852 | 602 |

## E.1 Forbidden Comparisons and Negative Weighting

Two-way fixed effects can become biased when treatment effects are heterogeneous, because already-treated units serve as controls for later-treated ones. These are 'forbidden comparisons' that partially motivate the recent DiD literature (Goodman-Bacon 2021). I use a switching treatment diagnostic (de Chaisemartin and D'Haultfœuille 2020), which reports negative weights. Around a quarter of treated cells receive negative weights, but their combined weight is small (0 to 4 percent of the total), so forbidden comparisons are not a meaningful threat to my results.

Table 10: Negative-weight Diagnostic for the Treatment by Economic Ideology Interaction

| Treatment | Treated Cells | Negative-weight Cells (Share) | Sum of Negative Weights |
|---|---|---|---|
| Broad Chinese Development Finance (Binary) | 192 | 46 (24%) | −0.029 |
| Broad Chinese Development Finance (Log) | 192 | 43 (22%) | −0.038 |
| Major Chinese Project (Binary) | 48 | 3 (6%) | −0.001 |
| Major Chinese Project (Count) | 48 | 13 (27%) | −0.022 |

## E.2 Selection into Treatment

One concern is that borrowers do not receive Chinese finance at random, so that the estimated associations reflect who is treated rather than how conditionality responds to treatment. Because TWFE rests on within-country variation over time, the issue is whether the treatment switches on in ways correlated with borrower ideology. Table 11 reports normalized differences between treated and untreated country-years in the sample. Treated country-years differ mainly in scale: recipients of Chinese finance (especially major projects) are larger and richer. This makes sense given that larger economies have larger financing needs. These characteristics are held constant by the country fixed effects and the controls. Imbalance on economic ideology is small, and the two alternative moderators, participatory democracy and US alignment, are well balanced.

Table 11: Balance Between Treated and Untreated Country-years

| Variable | Broad Chinese Finance | | | Major Chinese Project | | |
|---|---|---|---|---|---|---|
| | Treated | Control | Normalized Difference | Treated | Control | Normalized Difference |
| Economic Ideology Index | −0.03 | −0.09 | 0.11 | 0.02 | −0.08 | 0.20 |
| GDP per Capita (Log) | 12.05 | 11.58 | 0.20 | 12.31 | 11.72 | 0.24 |
| Population (Log) | 16.79 | 15.86 | 0.61 | 17.53 | 16.12 | 0.98 |
| GDP Growth | 4.58 | 4.17 | 0.11 | 4.40 | 4.34 | 0.02 |
| Financial Crisis | 0.04 | 0.04 | −0.02 | 0.07 | 0.04 | 0.13 |
| Participatory Democracy | 0.50 | 0.49 | 0.09 | 0.50 | 0.49 | 0.05 |
| US Alignment | 0.36 | 0.36 | −0.06 | 0.36 | 0.36 | 0.04 |

Table 12 examines ideological selection directly, regressing Chinese finance on the economic ideology index and controls. Across countries, with year fixed effects only, more state-capitalist borrowers are slightly more likely to receive both broad Chinese finance and major projects. Once country fixed effects isolate within-country variation needed for TWFE, economic ideology no longer predicts the receipt of broad Chinese finance but does major projects, i.e. more state-capitalist years attract more large loans. This shapes which borrowers appear in the treated group but is not likely responsible for the changes in conditionality composition conditional on ideology.

Table 12: Ideological Selection into Treatment (Economic Ideology Coefficient)

| Treatment | Year Fixed Effects | Country and Year Fixed Effects |
|---|---|---|
| Broad Chinese Finance | 0.088 (.06) | −0.005 (.91) |
| Major Chinese Project | 0.047 (.07) | 0.060 (.05) |

### E.3 Timing of the Effects

The relationships found in my models take place simultaneously at the time of treatment. Table 13 re-estimates each interaction with the treatment shifted, reporting one and two-year leads (future treatment), which test anticipation and reverse causality, alongside one and two-year lags (past treatment), which test persistence. Every pre-treatment lead is statistically

indistinguishable from zero.

Table 13: Dynamics, Anticipation, and Reverse Causality (Lead and Lag Specifications)

| | Anticipation and Reverse Causality | | Baseline | Persistence and Feedback | |
|---|---|---|---|---|---|
| Outcome | $t+2$ | $t+1$ | $t$ | $t-1$ | $t-2$ |
| Headline Interactions | | | | | |
| Trade and Investment | 0.019 (.31) | 0.004 (.85) | −0.055 (.01) | −0.027 (.17) | 0.027 (.21) |
| Governance | −0.011 (.31) | −0.001 (.93) | 0.018 (.03) | −0.002 (.79) | −0.010 (.22) |
| Financial Reform | −0.105 (.65) | 0.191 (.30) | −0.703 (.00) | −0.277 (.31) | −0.061 (.88) |
| Legal Codification | −0.047 (.76) | −0.039 (.86) | 0.554 (.01) | −0.008 (.98) | 0.074 (.68) |
| Placebo Outcomes | | | | | |
| Social Spending | 0.043 (.11) | 0.009 (.72) | 0.030 (.13) | 0.033 (.15) | 0.001 (.97) |
| Fiscal Reform | 0.015 (.30) | 0.006 (.60) | 0.010 (.40) | −0.007 (.51) | −0.004 (.69) |

Table 14 regresses Chinese finance on the previous year's conditionality composition. Only the financial reform share weakly predicts a subsequent major project (p = 0.06), and not in interaction with economic ideology (p = 0.47). Figure 11 estimates all leads and lags jointly, with the year before treatment as the reference, using the binary treatments in a linear model. There is no evidence of a pre-trend for trade and investment or financial reform (joint tests p = 0.27 and p = 0.48), but a significant pre-trend for governance (p = 0.046). Legal codification is not significant here because its result is specific to the major project count. Using Rambachan and Roth (2023), the trade and investment, governance, and financial reform estimates remain significant unless post-treatment departures from parallel trends exceed 0.5, 0.5, and 0.25 times the largest pre-treatment departure. As with any test of parallel trends, the absence of a significant pre-trend is necessary but not sufficient evidence for the assumption, and such tests can be underpowered (Roth et al. 2023). At the sample sizes here, these pre-treatment tests are the best available check and should be read alongside the sensitivity analysis reported below, particularly for governance.

Table 14: Relationship Between Lagged Conditionality Composition and Subsequent Chinese Finance

| Conditionality Share $(t-1)$ | Finance Predicted | Composition | Composition × Ideology |
|---|---|---|---|
| Trade and Investment | Broad Chinese Finance | 0.189 (.51) | 0.006 (.99) |
| Governance | Broad Chinese Finance | −0.107 (.57) | 0.157 (.60) |
| Financial Reform | Major Project | 0.263 (.06) | 0.152 (.47) |
| Legal Codification | Major Project | −0.118 (.59) | −0.411 (.22) |

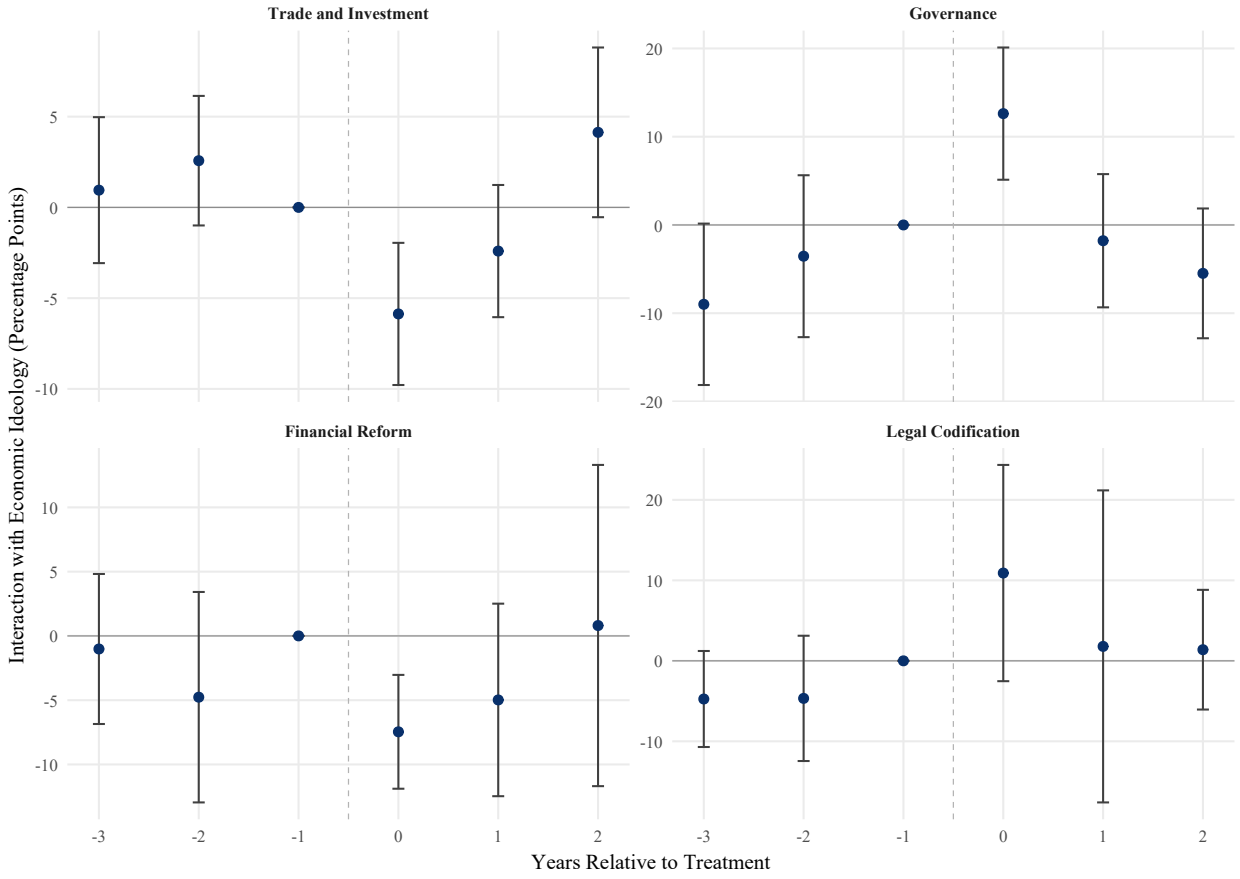



Figure 11: Dynamic Estimates of the Treatment by Economic Ideology Interaction

## E.4 Sensitivity to Unobserved Confounding

As a formal check on omitted-variable bias, I calculate the robustness value of Cinelli and Hazlett (2020) for each key interaction, which is the proportion of residual variation in both the treatment and the outcome that an unobserved confounder would have to explain to

reduce the estimate to zero. Table 15 shows the values range from 0.22 to 0.38, which is much higher than the explanatory power of the covariates, meaning a confounder would have to be much more powerful than any variable in the model to change the result. I compute the values on the linear specification, using the interaction term and the country-clustered t statistic with degrees of freedom set to the number of countries, a conservative adaptation of the original single-treatment version.

Table 15: Sensitivity to Unobserved Confounding (Cinelli-Hazlett Robustness Values)

| Outcome | Robustness Value | Interaction Partial $R^2$ | GDP per Capita Partial $R^2$ |
|---|---|---|---|
| Trade and Investment | 0.23 | 0.065 | 0.001 |
| Governance | 0.22 | 0.059 | 0.002 |
| Financial Reform | 0.38 | 0.193 | 0.020 |
| Legal Codification | 0.25 | 0.079 | 0.022 |

Table 16: Economic Ideology Measured One and Two Years Earlier

| | Same Year | One Year Earlier | Two Years Earlier |
|---|---|---|---|
| Trade and Investment (Chinese Development Finance, Log) | $-0.055^{**}$ | $-0.023$ | $-0.031^{*}$ |
| | (0.021) | (0.018) | (0.019) |
| Governance (Chinese Development Finance, Log) | $0.018^{**}$ | 0.007 | $-0.002$ |
| | (0.008) | (0.008) | (0.007) |
| Financial Reform (Major Chinese Project, Count) | $-0.703^{***}$ | $-0.761^{***}$ | $-0.722^{***}$ |
| | (0.192) | (0.277) | (0.192) |
| Legal Codification (Major Chinese Project, Count) | $0.554^{**}$ | $0.523^{**}$ | $0.669^{***}$ |
| | (0.209) | (0.196) | (0.207) |
| Controls and Country and Year Fixed Effects | Yes | Yes | Yes |
| Observations | 405 | 392 | 376 |

Table 17: Conditionality and the Subsequent Change in Economic Ideology

| | Change after One Year | Change after Two Years |
|---|---|---|
| Trade and Investment Share | 0.025 | 0.245 |
| | (0.172) | (0.202) |
| Governance Share | −0.065 | −0.130 |
| | (0.097) | (0.124) |
| Financial Reform Share | −0.047 | 0.117 |
| | (0.110) | (0.139) |
| Fiscal Reform Share | 0.037 | 0.157 |
| | (0.093) | (0.141) |
| Social Spending Share | −0.110 | −0.038 |
| | (0.132) | (0.180) |
| Legal Codification Share | 0.019 | −0.154 |
| | (0.099) | (0.127) |
| Prior Actions (Count) | −0.0002 | 0.0002 |
| | (0.0010) | (0.0011) |
| Controls and Country and Year Fixed Effects | Yes | Yes |
| Observations, Condition Shares | 405 | 405 |
| Observations, Prior Actions | 380 | 380 |

Table 18: Results by World Bank Lending Window

| | Chinese Development Finance (Log) | | | Major Chinese Project (Count) | | |
|---|---|---|---|---|---|---|
| | IBRD | IDA | Difference (p-value) | IBRD | IDA | Difference (p-value) |
| Condition Shares (Fractional Logit) | | | | | | |
| Trade and Investment | −0.101* | −0.008 | 0.09 | −0.667 | −0.419 | 0.79 |
| Governance | 0.031* | 0.019 | 0.74 | 0.123 | −0.065 | 0.92 |
| Financial Reform | −0.032 | −0.074*** | 0.40 | −0.996** | −0.767*** | 0.23 |
| Fiscal Reform | −0.014 | 0.018 | 0.27 | −0.065 | 0.048 | 0.78 |
| Social Spending | 0.039 | 0.040 | 0.87 | 2.328** | −0.016 | 0.05 |
| Legal Codification | −0.032 | −0.014 | 0.64 | −0.185 | 0.980** | 0.02 |
| Observations | 160 | 220 | | 160 | 220 | |
| Lending and Prior Actions (Poisson) | | | | | | |
| Western MDB Commitments per Capita | −0.002 | 0.001 | 0.64 | −0.184 | 0.162 | 0.33 |
| Observations | 1,131 | 1,339 | | 1,131 | 1,339 | |
| Prior Actions (Count) | −0.005 | −0.005 | 0.99 | 0.214 | 0.072 | 0.26 |
| Observations | 245 | 332 | | 245 | 332 | |
| Controls and Country and Year Fixed Effects | Yes | Yes | | Yes | Yes | |

## E.5 World Trade Organization Membership and International Monetary Fund Programs

Table 19: World Trade Organization Membership and International Monetary Fund Program Interactions

| Outcome | Chinese Development Finance (log) | | Major Projects (count) | |
|---|---|---|---|---|
| | Main Specification | With Control Interactions | Main Specification | With Control Interactions |
| Trade and Investment | −0.055** | −0.055** | −0.176 | −0.161 |
| | (0.021) | (0.022) | (0.347) | (0.413) |
| Governance | 0.018** | 0.018** | −0.141 | −0.158 |
| | (0.008) | (0.009) | (0.119) | (0.135) |
| Financial Reform | −0.024 | −0.020 | −0.703*** | −0.616*** |
| | (0.019) | (0.019) | (0.192) | (0.213) |
| Fiscal Reform | 0.010 | 0.011 | −0.071 | −0.077 |
| | (0.012) | (0.013) | (0.137) | (0.136) |
| Social Spending | 0.030 | 0.029 | 0.028 | −0.061 |
| | (0.019) | (0.019) | (0.533) | (0.666) |
| Legal Codification | −0.017 | −0.023 | 0.554** | 0.511** |
| | (0.017) | (0.018) | (0.209) | (0.212) |
| Western MDB Funding per Capita | −0.006 | −0.007 | 0.016 | 0.006 |
| | (0.009) | (0.009) | (0.140) | (0.140) |
| Prior Actions | −0.011* | −0.012* | 0.146 | 0.142 |
| | (0.007) | (0.007) | (0.101) | (0.102) |
| Controls and Country and Year Fixed Effects | Yes | Yes | Yes | Yes |