Chinese Policy Bank Loans and the Rapid Build out of the 21st Century Maritime Routes (2013 – 2015)

In light of the recent press regarding Chinese credit expansion, we decided to expand our May 2015 policy loan study to include all Chinese Government backed loans made during 2013-2015. This time period was selected since it occurred under the current leadership, took place during the launch of One Belt One Road (OBOR), now renamed Belt and Road Initiative ("BRI") and prior to commitments from several other Chinese based funds which are expected to become active lenders/investors (AIIB, Silk Road Fund, Chinese Insurance Infrastructure Fund) soon.

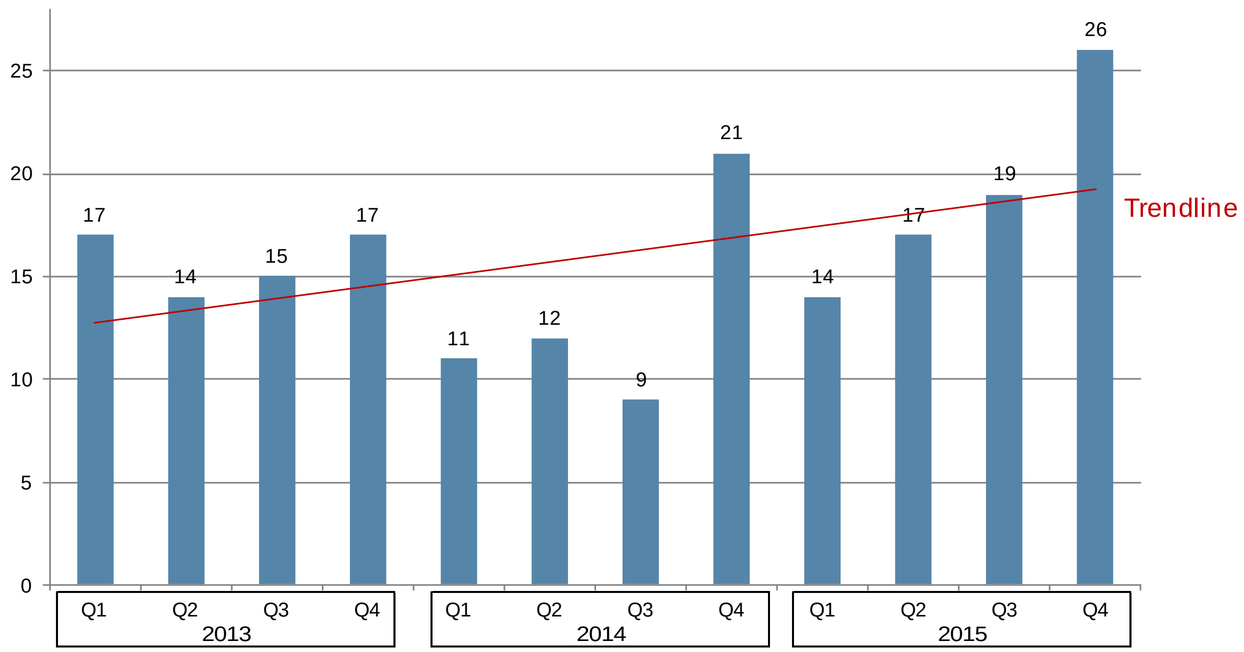
During this time period, we analysed and reconciled public information on 192 such loans/commitments, representing around $135 billion aggregate amounts. In order to be included in this analysis, there needed to be proof that the loan actually was signed/committed by the Chinese Government institution, and validation (in most cases) by the Ministry of Finance from the recipient country. Since we could not track actual loan drawdowns (nor can this be done in credit facilities for corporates), we used the above metric[(1)(2)].

While our analysis shows consistently increasing loan/commitments throughout the period, virtually all of these were made to countries along the BRI, especially infrastructure loans for projects, typically involving Chinese corporates, along the rapidly developing maritime routes.

Table 1 sets out the volume of Chinese policy bank loans/commitments by quarter during the past 12 quarters. As shown, average quarterly volume throughout the period was 16, increasing to 19 over the past 5 quarters. Growth, as measured in CAGR, was 17% across all 12 quarters and 24% the last 5 quarters. This trend is consistent with current public perception.

Table 1

Loan Volume by Quarter



[1] The Q3 $3 billion Indonesian bank loans saw drawdown in Q1 2016
[2] The 2014 Zimbabwe CEXIM loans were not drawn at year end 2015

Table 2 below plots countries which received aggregate loan amounts over $1 billion during this period. This map differs significantly from the March 2015 *Xinhua* OBOR map (denoted by solid red lines), due to the rapid build out of various Maritime components of BRI.

Table 2

Countries with aggregate loan/commitment amounts over $1 billion

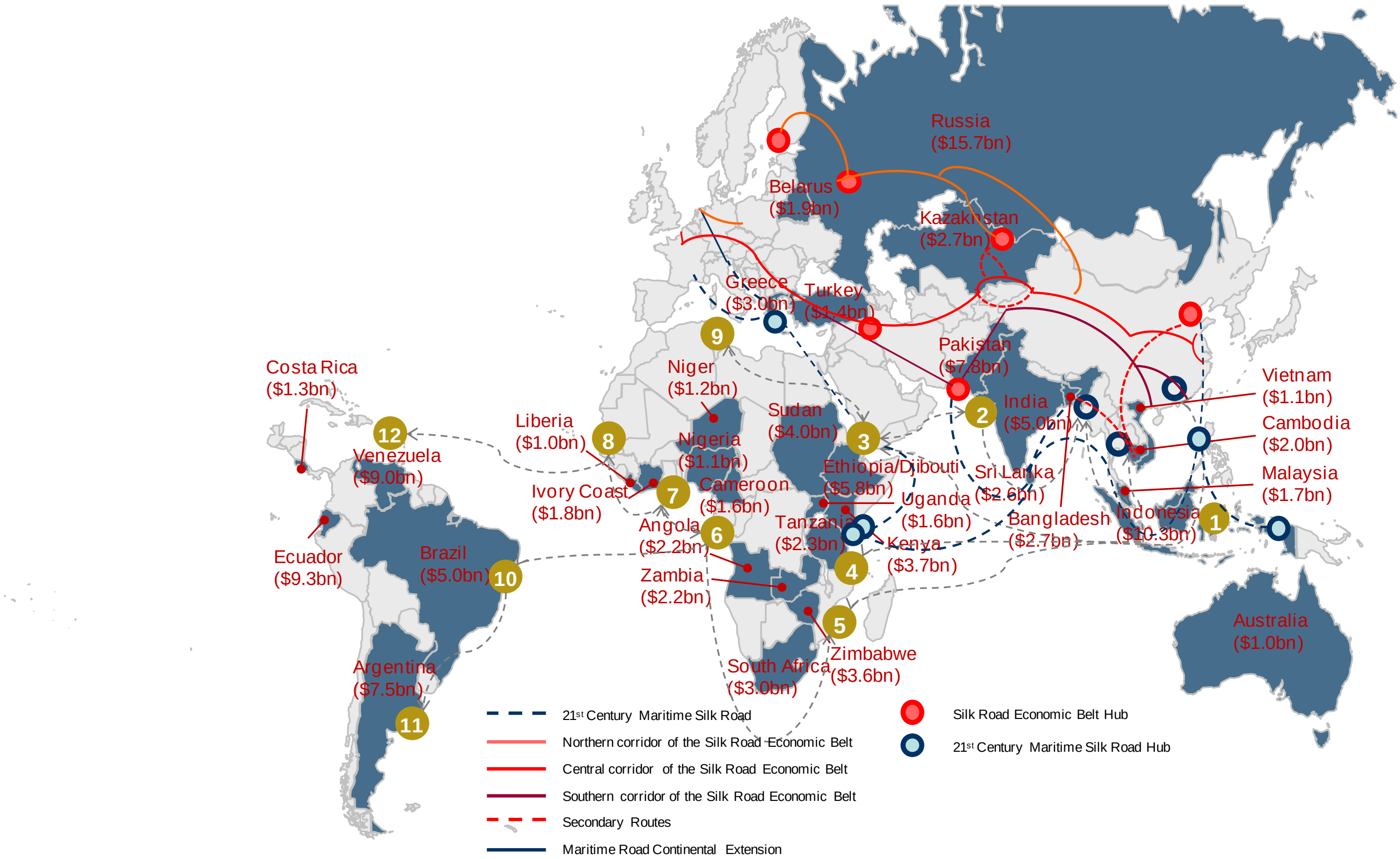


Table 3 below sets out details on the top 20 country recipients by volume. Collectively, these countries represent 64% of total loan volume. As seen in this table, 80% of the largest volume country recipients in this table are located along the maritime portions of the BRI. The other 20% were Russia, Belarus, Greece and Kazakhstan, all countries along the original overland portions of OBOR. It is important to note that outside of infrastructure loans, which represented the majority, the Russian and Belarus facilities were focussed on trade finance with stipulations that circa 50% of such commitments are used to fund purchases of Chinese exports.

Table 3

Volume to 20 leading Countries

Country	Loans	Country	Loans
Russia	15	India	5
Zimbabwe	10	Kazakhstan	5
Belarus	9	Bangladesh	5
Indonesia	8	Sudan	4
Greece	8	Tanzania	4
Pakistan	7	Zambia	4
Cameroon	7	Cambodia	4
Sri Lanka	6	Ivory Coast	4
Ecuador	5	Costa Rica	4
Ethiopia	5	Vietnam	4
% of Total Volume: 64%			

Table 4 below demonstrates the shift in Chinese geographic priorities which transpired over the past three years. As shown, the volume of such loans to Europe more than doubled during the period. Similarly, volume to Asia was up by 61%. Overall volume to the African continent fell by 38% while volume to Central/Latin America fell by 55%. Conversely, as will be shown in the aggregate commitments analysis, specific coastal countries in these two continents saw substantially increased amounts.

Table 4

Volume of Loans by Continent

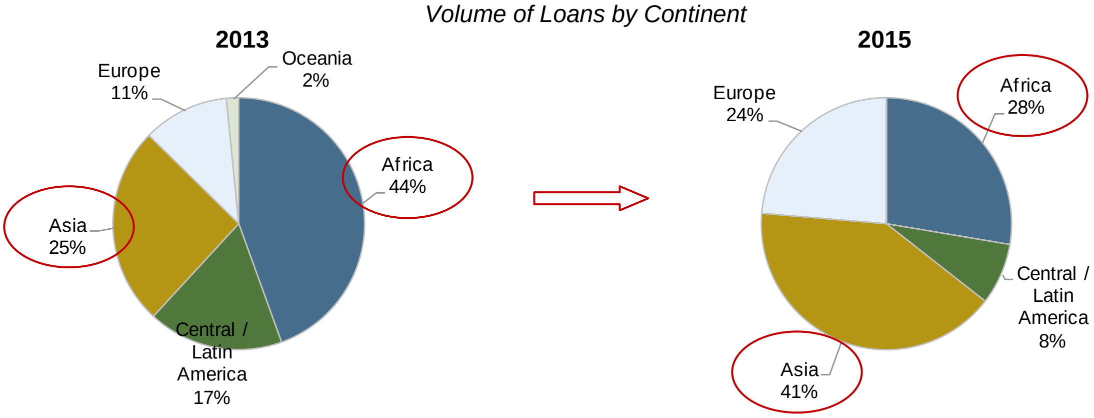


Table 5 below sets out the top 20 recipient countries of such loans. As shown, loans/commitments to these countries represented nearly 78% of aggregate loan amounts over the past 3 years. As such, by commitments, the top 20 countries received disproportionate amounts relative to loan volumes.

Russia led with nearly $16 billion of loans/commitments, or 12% of global aggregate commitments. This is not a great surprise in that President Xi chose Russia as his initial international trip as Chinese President. Since this initial trip, he and President Putin have met more than a dozen times. It is also not a surprise in light of Russia's international sanctions, combined with the strong price decreases in energy and commodity prices during this period.

Table 5

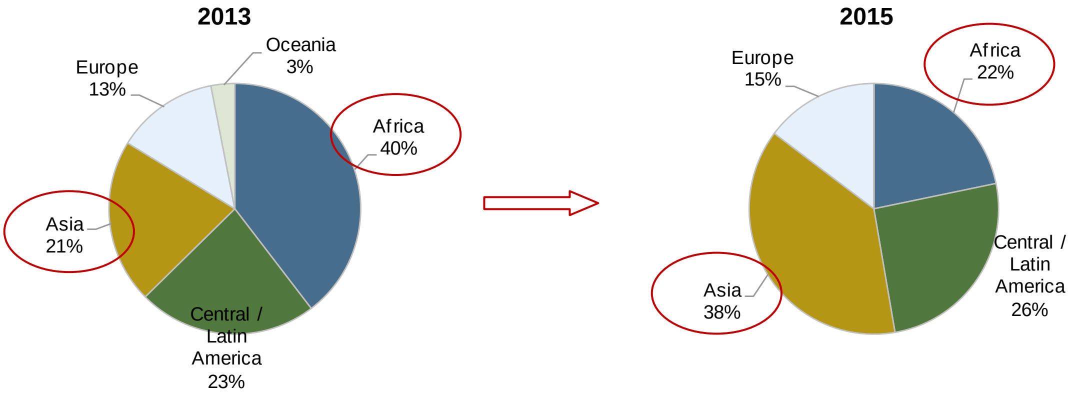
Aggregate amount to 20 leading Countries

Country	Amount ($ bn)	Country	Amount ($ bn)
Russia	15.7	Zimbabwe	3.6
Indonesia	10.3	South Africa	3.0
Ecuador	9.3	Greece	3.0
Venezuela	9.0	Sudan	3.0
Pakistan	7.8	Kazakhstan	2.7
Argentina	7.5	Bangladesh	2.7
Ethiopia	5.2	Sri Lanka	2.6
India	5.0	Tanzania	2.3
Brazil	5.0	Zambia	2.2
Kenya	3.7	Angola	2.2
% of Total Aggregate Amount: 78%			

Table 6 below shows the shifts in percentages between continents over the past 3 years. The largest shifts in aggregate commitments show a substantial decrease into Africa (40% declining to 22%) and an increase into Asia (21% increasing to 38%). At the continent level, there was only a slight increase (23% to 26%) in Central/ Latin America. However, the declines in Africa and slight increase in Central/Latin America actually demonstrate significant shifts within these two continents. For example, 8 of the top 20 countries ranked by aggregate commitments were African; Ethiopia, Kenya, Zimbabwe, South Africa, Sudan, Tanzania, Zambia and Angola. All 8 countries, which are located along the African coast, received 67% of African continent commitments and nearly 19% global amounts during this period. The same shift of focus was seen in Central/Latin America where Ecuador, Venezuela and Argentina combined for $25.8 total policy bank commitments during this period representing nearly 20% of all Chinese policy bank committed loan amounts globally.

Table 6

Aggregate Amounts by Continent



Thus, while Chinese policy bank loans continued to increase in both volume and committed amounts throughout the past 3 years, this data shows that the Chinese Government has become even more focussed on directing such loans towards specific countries/projects, often built by Chinese corporates- which are considered to be vital to build out the maritime portions of the BRI.