

BRI Pulse

Alternatives/Theories (Blue Dot Network, “Debt Trap”) Versus Q4 Reality (Grants/Donations, B2B structures, BRI Central Bank Testimonial)

Alternatives/Theories

Blue Dot Network

In November, the USA, Australia, and Japan announced a “Blue Dot Network” to help develop infrastructure “in the Indo-Pacific and around the world based upon... respect for transparency and accountability, sovereignty of property and resources, local labour”... clearly designed to slow or counter the rapid growth of the China-led BRI.

Two funding sources were cited – OPIC (USA) and JICA (Japan). OPIC has a \$9 billion capital base and produced operating losses of circa \$200 million/year in 2017 and 2018. The USA is already running a \$1+ trillion annual deficit (up 26% from 2018). In its 2018 accounts, JICA had net equity of \$22 billion. (it is unclear what % of this equity is excess to current requirements). How these two entities can compete with the \$8 trillion China-led BRI (Refinitiv’s BRI database, on which our firm advised, calculates that BRI investment to date in excess of \$3.5 trillion) does not seem to have been addressed by any financial press.

Debt Trap

There continue to be many instances of the global press levelling this charge, which are too numerous to list here. I also experienced these charges in person in virtually every presentation I made during Q4 globally.

Reality

Grants/Donations

In Q4, we have already seen the following grants/donations issued by the Chinese Government.

- El Salvador – In early December, at a meeting between President Xi and Salvadoran President Nayib Bukele, China agreed gift a new modern national stadium, a new library, two water supply projects and to upgrade the pier to increase tourism in El Salvador as part of an overall infrastructure package. These were all confirmed as donations, not loans.
- Ghana – In November, as part of a \$2 billion loan pledge/MoU signed during 2018, China offered a 300 million yuan (\$42.7 million) grant and a debt write off of 250 million yuan.
- Tajikistan – In November, the Tajikistan Government ratified an agreement approving a grant from China worth \$360 million to upgrade a highway from Kulob to Bokhtar and to rebuild a cross-country stretch of road linking Dushanbe to Kulma, which is on the Chinese border.

B2B Project Structures Minimising Recipient BRI Government Risk

- Nigeria – Lekki Port – the \$1.6 billion project was signed in October. CDB agreed to provide a \$629 million loan to CHEC which will also invest \$230 million equity for a controlling stake. Upon closing, Tolaram Group (Singapore) will hold a 22.5% equity stake. Nigeria’s first deep sea port will have capacity for 1.2m TEUs to be expanded to 2.7m in the future making it a trans-shipment hub for sub Saharan Africa.
- Nigeria – In October, Nigeria awarded a \$3.9 billion PPP contract for the Abuja-Itakpe-Lokoja rail line to China Railway Construction Corporation (CRCC), with a 30 BOT provision. Funding is via a SPV, which sees 15% of the funding by Nigeria, 10% by CRCC and 75% (\$2.92 billion) debt. Nigerian officials stated that they will provide a sovereign guarantee but that the SPV will provide a performance bond that protects Nigeria’s sovereign guarantee.

Central Bank Governor Testimonial

- Sri Lanka – In October, during an interview Sri Lanka’s Deputy Central Bank Governor P. Nadalal Weerasinghe stated “the perception that we (Sri Lanka) are in a debt trap is just complete rubbish. It’s all rubbish. We’re not in a Chinese or any other debt trap.”

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