

# DISCUSSION OF

# CHINA'S OVERSEA LENDING AND DEBT RESTRUCTURING

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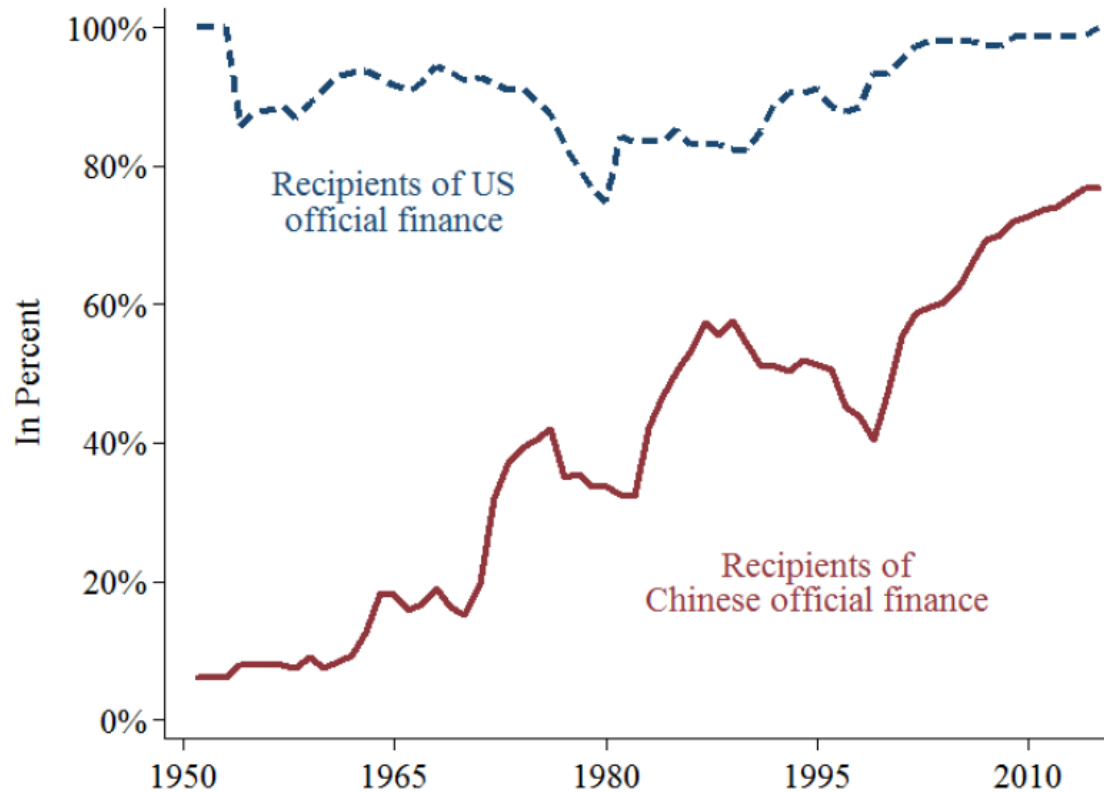
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BUSINESS; AND NBER**



The University of Chicago Booth School of Business

# HORN-REINHART-TREBESCH

Figure 4. China vs the US – global reach of direct lending



*Note:* Share of developing and emerging countries that have received Chinese or US official funds during the past five years. The data on US official lending is from the USAID Greenbook.

# HIDDEN DEBT

## ❖ METHOD

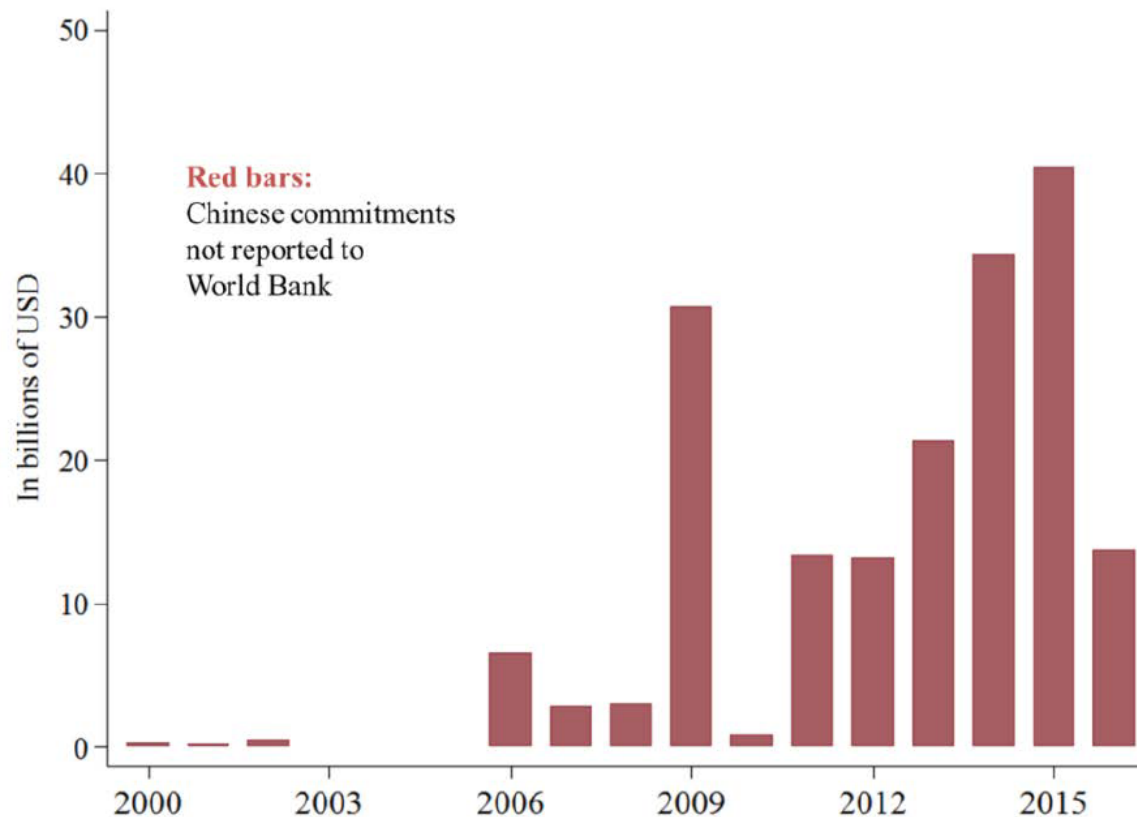
- ❖ Take the authors' comprehensive sample, disclosed by Creditor (China)
  - ❖ *Presumably, only lending to government*
- ❖ Summing over Debtor' reports from DRS (Debt Reporting System)
  - ❖ *Specifically, our subset of the DRS data aggregates all loans extended by China to public and publicly guaranteed recipients, including the central government*
- ❖ **Sum of Creditors < Sum of Debtors**

## ❖ WHAT KIND OF DEBTORS ARE MISSING?

- ❖ State-owned enterprises, government agencies, public-private partnerships; Energy and infrastructure sector
- ❖ *Due to the confidential nature of almost all of the underlying agreements, it is difficult to know whether explicit state guarantees have been granted for the loans and project contracts or not*

# HIDDEN DEBT

Figure 11. “Hidden” Chinese loans to the developing world: total non-reported flows



*Note:* “Hidden” Chinese lending flows connected to public and publicly guaranteed debt (PPG). We compare aggregated flows from our loan-level dataset to the aggregate commitments in the World Bank’s DRS database.



# WHY UNDERREPORT?

## ❖ CIRCULAR LENDING

- ❖ *One potential explanation for some of the reporting gaps, is that China uses a “circular” lending strategy that minimizes the risk of default on its loans. For risky debtors, China’s state-owned policy banks often choose not to transfer any money to accounts controlled by the recipient government. Instead, the loans are disbursed directly to the Chinese contractor firm that implements the construction project abroad – a closed circle.*

## ❖ PROJECT FINANCING

- ❖ Optimal contracting; mitigating the risk

## ❖ OTHER REASONS

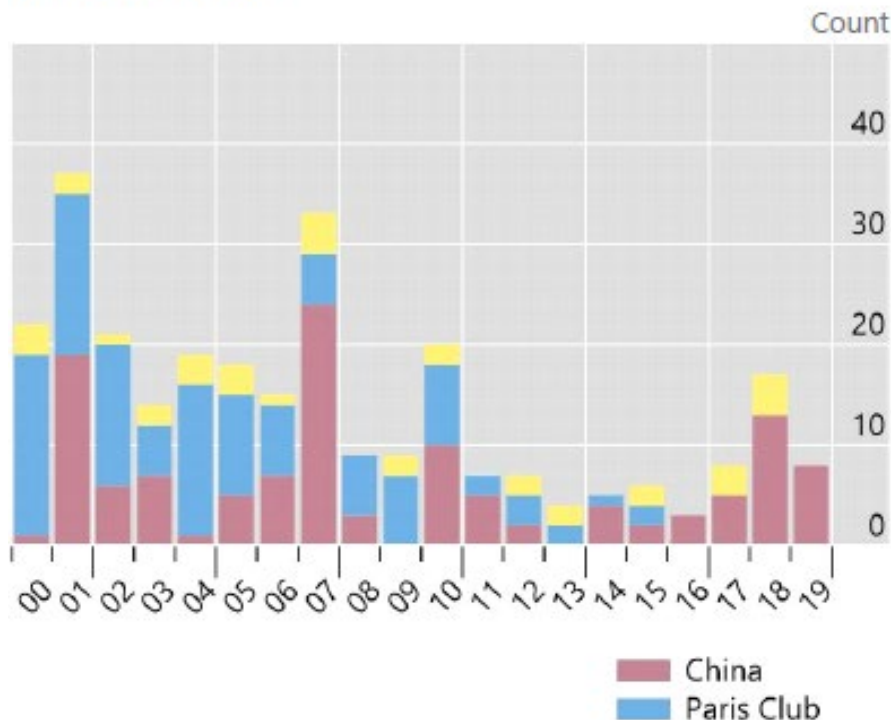
- ❖ It seems quite natural for China’s MoF not to report these loans, as most of them are not Government-to-Government
- ❖ Can you repeat the same analysis for other countries like USA and see the discrepancy?
  - ❖ Vulture fund Paul Singer Argentina default case

# BON AND CHENG

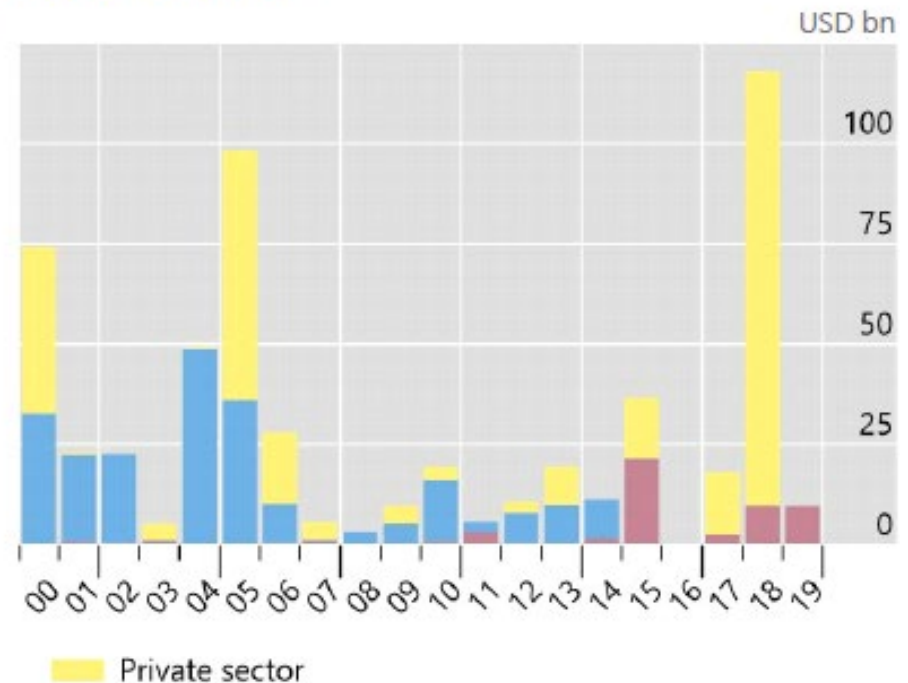
Interaction between China, Paris Club creditors and private creditors

Graph 4

Number of relief



Total debt treated



## ❖ QUESTIONS

- ❖ Why did the Paris Club stop forgiving loans after 2015?
- ❖ Are all the debtors in your China's debt relief samples members of the Paris Club?



# RCOM CASE (1)

- ❖ **MOST OF ONE BELT ONE ROAD PROGRAM ARE “PRIVATE” LOANS**
- ❖ **ONE SUCH EXAMPLE**
  - ❖ China: Huawei, ZTE
  - ❖ India: Reliance Communications (RCOM)
- ❖ **CHINESE LENDERS:**
  - ❖ China Development Bank (CDB), Export Import Bank of China (CHEXIM), Industrial and Commercial Bank of China (ICBC)
  - ❖ One of the loans: 750 million USD, 10 years, Libor plus 80 bps
  - ❖ Recent COVID-19 Main Street program by U.S. Treasury & Fed: Libor plus 300 bps, close to the typical prime loan rate
- ❖ **2016, RCOM BANKRUPTED**
  - ❖ About 40 lenders form Committee of Creditors (CoC), including
    - ❖ State Bank of India, a state-owned commercial bank in India
    - ❖ CDB and ICBC

# RCOM CASE (2)

## ❖ **ON MARCH 4, 2020, COC VOTED**

- ❖ 38 lenders recovered 70% of face value
- ❖ But Chinese lenders only recovered 50%!
  - ❖ CDB, ICBC, and CHEXIM
  - ❖ Even with personal guarantee from RCOM's owner, **Anil Ambani**

## ❖ **CHINESE LENDERS SUED IN A UK COURT**

- ❖ May 22, 2020, the High Court of England and Wales ordered Ambani to pay \$717 million to three Chinese banks
- ❖ Ruling that a personal guarantee which the Indian businessman had disputed was binding
- ❖ Ambani's defense:
  - ❖ The guarantee on the basis of which the claim was made was not signed by Ambani
  - ❖ Ambani had only signed a power of attorney limited to executing a non-binding letter of comfort to Chinese Banks