

# Analysis: Chinese lessors driving One Belt One Road

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Chinese leasing companies have been expanding their aircraft leasing businesses at an unprecedented rate over the past few years, taking advantage of the demand for new aircraft to feed the region's air travel boom. The Chinese government has taken note of this, and is using it as an opportunity to develop the aviation aspect of its One Belt, One Road (OBOR) initiative.

The One Belt, One Road (一带一路) policy was proposed by Chinese premier Xi Jinping in 2013. It consists of the land-based Silk Road Economic Belt and the ocean-focused Maritime Silk Road. Xi set up a \$40 billion Silk Road infrastructure fund to kick-start the project, which involves 65 countries on three continents, including Kazakhstan, Uzbekistan, Russia, Thailand, Malaysia and Indonesia, according to Hong Kong newspaper South China Morning Post.

"The only way to get to a lot of these places on the Silk Road is by air. Opening new routes is very important, and the most important thing for an air route is the aircraft. Since the Chinese have a lot of aircraft to lease, I think the government will be nudging some of these state-owned companies to lease aircraft to these countries," says Dewey Yee, special adviser to the board of Irish lessor Aergo Capital.

Yee has been working with Chinese aircraft lessors since the late 1980s and says there has always been a government influence – at least on the top executives – though only now is it being used to promote the development of OBOR.

"These guys are members of the Communist Party, so they have to toe the line. It's not that obvious to most people, but if your President [Xi Jinping] tells you that OBOR is really important, you are going to jump on the bandwagon and help," he says.

CDB Leasing, which listed in Hong Kong last year, formerly had an aircraft leasing business based in the southern Chinese city of Shenzhen, but last year rebranded that business to CDB Aviation and moved it to Hong Kong and Ireland. Though a company spokesperson told Airfinance Journal it is an "international" not "Chinese" lessor, it is still explicitly supporting the OBOR agenda of the Chinese government. In its 2016 annual report, the company states that setting up its Irish platform – which will let it take advantage of double tax treaties with several OBOR countries – is intended to "the national strategy of the 'Belt and Road Initiatives'".

Since its listing, CDB Leasing – via CDB Aviation – has placed several Airbus aircraft into Nepal, an OBOR country, with a carrier called Himalaya Airlines. Beijing-based ICBC Financial Leasing, one of the biggest financial leasing companies in China, has also placed aircraft with this airline.

The founding of Himalaya Airlines itself is part of the OBOR project. The airline is a joint venture between Tibet Airlines and two Nepali companies. The livery of Himalaya Airlines' first A320 was painted with a slogan saying "China and Nepal flying together" to suggest friendship between the two countries.

"The PRC government's investment in the OBOR countries has neatly opened up opportunities for leasing companies to ride on their coattails so as to expand their offering to airlines and lessees in OBOR countries," says Tejaswi Nimmagadda, counsel at King & Wood Mallesons in Hong Kong.

In February this year, a little-known new leasing company incorporated into Tianjin's free trade zone called Xin Silu Zulin (the company has no English name but this translates to 'New Silk Road Leasing') placed three Boeing 737 aircraft into Pakistan with a start-up airline called Serene Air. The deal is unusual because a new aircraft leasing company would not normally place its aircraft into such a high-risk jurisdiction as Pakistan for a first-time deal.

"I think the most important reason is to support the government strategy," says Jordan Yang, a partner at Allbright Law Offices in Beijing who acts for Chinese leasing companies.

"That has to be the motive or intention to do this deal, because there is a lot of political risk and even military risk in Pakistan, and also the economic risk because it's a poor country – but at the same time it has a lot of support from China and a very good relationship with China."

He adds that the deal likely has strong guarantees either from the Pakistani government or Chinese guarantor The Export-Import Bank of China, so Xin Silu Zulin will probably not be taking on significant economic risk.

The managing director of one new aircraft leasing company in China says that for large lessors like ICBC Financial Leasing, there may be some political pressure for them to do deals in Silk Road jurisdictions. However, these deals typically involve just a few aircraft and so will not have much impact on the company's overall portfolio strategy.

The person stressed that even if there is political pressure to do deals that benefit the OBOR initiative, leasing companies still need to be accountable to shareholders and would not enter into deals solely because the government tells them to.

"If they cannot make any money from a deal, they will get questions from their shareholders," the person says.

Nonetheless, these deals can offer potentially good returns for the leasing companies, and the state-owned companies entering new markets on the Silk Road could pave the way for private companies to follow in their wake.

"We have seen SOE [state-owned enterprise] leasing companies complete the first deal, particularly following a governmental level agreement, then followed by the myriad of private leasing companies who seek to emulate the SOEs," says King & Wood Mallesons' Nimmagadda.

"We have heard private leasing companies saying that they have heard that an SOE has executed so-and-so deal in so-and-so country and 'now we want to go in too'."

He adds: "Private companies don't necessarily want to be the first ones doing it, particularly if it doesn't go well, but the government action provides the necessary impetus, and that is to be commended."

Johnny Lau, CEO of Hong Kong-based consultancy Astro Aircraft Leasing, says that Chinese state-owned banks are loosening their restrictions on lending to leasing companies that are doing business in OBOR jurisdictions, potentially paving the way for more deals of this nature in future.

He says: "In the past, you would give the banks certain names and discussions would be a non-starter, but now One Belt One Road is the magic phrase."