Renminbi-denominated Inward Direct Investment Gets Underway in China

Eiichi Sekine
Senior Analyst,
Nomura Institute of Capital Markets Research

I. New source of direct investment in China

1. Growing direct investment in China

Foreign direct investment in the emerging economies has continued because of their continuing high rate of economic growth and despite the global financial crisis that started in 2008 and the European debt crisis that started in 2011. In particular, direct investment in China, which declined in 2009 to $90.0 billion as a result of the fallout from the collapse of Lehman Brothers after reaching $92.4 billion in 2008, increased to $105.7 billion in 2010 and reached $95.0 billion in the first 10 months of 2011 (Figure 1)[1].

Japanese direct investment in China has also increased, from $4.1 billion in 2009, to $4.2 billion in 2010 and $5.5 billion in the first 10 months of 2011, making Japan the third-largest direct investor in China after Hong Kong and Taiwan (Figure 1). According to Japanese (balance of payments) statistics (from the Ministry of Finance and the Bank of Japan), Japanese (net) direct investment in China reached ¥205.2 billion in Jan–Mar 2011 and ¥223.7 billion in Apr–Jun 2011, a total of ¥428.9 billion. When compared with the figures for the first half of 2010 (¥87.2 billion in Jan–Mar and ¥137.5 billion in Apr–Jun, a total of ¥224.7 billion), this shows how strong the momentum of growth was in 2011.

2. Renminbi-denominated direct investment in China

Companies investing directly in China were traditionally subject to investment limits and minimum capital requirements for each investment as well as having to remit foreign exchange (e.g., yen or US dollars) that they then had to convert to renminbi in China. However, having to convert foreign exchange entails not only administrative inconvenience and costs but also risk. In order to avoid this, foreign companies could, in theory, issue renminbi shares or bonds on mainland Chinese capital markets. In practice, however, the only non-residents allowed to do this are

1 In November 2011 inward direct investment in China declined by 9.8% year on year to $8.76 billion in the first year-on-year decline since July 2009. The figure for Jan–Nov 2011 was $103.8 billion.

Figure 1: Geographical breakdown of inward direct investment in China

2009				2010				2011 (Jan–Oct)			
Ranking	Country/region	Actual investment		Ranking	Country/region	Actual investment		Ranking	Country/region	Actual investment	
		$mn	Share (%)			$mn	Share (%)			$mn	Share (%)
1	Hong Kong	53,993	60.0	1	Hong Kong	67,474	63.8	1	Hong Kong	62,363	65.6
2	Taiwan	6,563	7.3	2	Taiwan	6,701	6.3	2	Taiwan	5,852	6.2
3	Japan	4,117	4.6	3	Singapore	5,657	5.3	3	Japan	5,482	5.8
4	Singapore	3,886	4.3	4	Japan	4,242	4.0	4	Singapore	4,763	5.0
5	US	3,576	4.0	5	US	4,052	3.8	5	US	2,567	2.7
6	Korea	2,703	3.0	6	Korea	2,693	2.5	6	Korea	2,186	2.3
7	UK	1,469	1.6	7	UK	1,642	1.6	7	UK	1,477	1.6
8	Germany	1,227	1.4	8	France	1,239	1.2	8	Germany	998	1.1
9	Macau	1,000	1.1	9	Netherlands	952	0.9	9	France	724	0.8
10	Canada	959	1.1	10	Germany	933	0.9	10	Netherlands	668	0.7
(cf.)	EU	5,952	6.6	(cf.)	EU	6,589	6.2	(cf.)	EU	5,508	5.8
	Global total	90,033	100.0		Global total	105,740	100.0		Global total	95,012	100.0

Note: 1. Ranking is by actual investment.
2. Inward direct investment from Hong Kong and tax havens includes round trip investment.
3. The EU has 27 members.

Source: Nomura Institute of Capital Markets Research, from Chinese Ministry of Commerce data

international financial organizations, while the only residents are a limited number of locally incorporated financial institutions.

As a result, there has been considerable interest in the possibility of raising capital on Hong Kong's offshore renminbi market and remitting the proceeds to mainland China: in other words, in renminbi-denominated inward direct investment. The rest of this report deals with the rules governing this and examples of it as well as with Hong Kong as a source of renminbi funds and the role Japanese financial institutions could play in this.

II. Lifting of ban on inward direct investment in renminbi

1. Trial period for inward direct investment in renminbi

1) Obtaining permission from local authorities to open a non-resident's renminbi account

The Chinese authorities first allowed the renminbi to be used to settle trade transactions on a limited scale in July 2009. At that stage the scheme was limited to Shanghai and four cities in Guangdong on the Chinese side, and to trade with Hong Kong, Macau, and ASEAN on the other. Later, in 2009, as the demand grew to invest renminbi acquired outside mainland China otherwise than as a result of trade, Shanghai and Guangdong announced rules governing the opening of renminbi accounts by non-residents to enable such renminbi to be invested directly in China.

2) Announcement of rules by three government organizations

The Ministry of Commerce (MOFCOM) is responsible for regulating the formation of companies as a result of direct investment in China. However, in the absence of any central government rules governing inward direct investment in renminbi, MOFCOM announced a *Notice on the Work of Administration of Foreign Investments* on 25 February 2011 to clarify the position regarding inward direct investment in renminbi.

The responsibility for regulating cross-border capital transactions in renminbi between mainland China and other countries now lies with the People's Bank of China (PBOC), while the State Administration of Foreign Exchange (SAFE) is responsible for regulating mainland Chinese bank accounts funded by cross-border renminbi transactions. Following the aforementioned notice, SAFE's General Affairs Department issued a *Notice on Issues Related to the Standardization of the Business Operations of Cross Border Renminbi Capital Account Items* on 7 April 2011, while the PBOC issued a *Circular on Clarifying Relevant Issues Regarding Cross-Border RMB Business* on 3 June 2011.

3) Different application of rules by local authorities

Each of the above three notices gives clear instructions on how to proceed in order to open a renminbi transaction account for inward direct investment, be it in the form of an equity stake, a capital increase, M&A or a parent/subsidiary loan). However, as this was still officially a trial period for inward direct investment in renminbi, there were differences in the way the notices were interpreted and applied by the local offices of the government departments concerned when foreign companies actually applied to open accounts. In some cases, it was unclear whether an application would be accepted or, even if it was, how long the application might take.

Because of the significance of inward direct investment in renminbi as a means of both enabling renminbi to be repatriated, especially from Hong Kong, and promoting the development of Hong Kong's offshore renminbi market, a subject touched on in Vice Premier Li Keqiang's Hong Kong speech on 16 August 2011[2], it has given rise to a series of new rules and regulations.

4) New rules and regulations

The first of these was a draft *Notice on Issues Concerning Cross-Border Renminbi for Foreign Direct Investment*, issued by MOFCOM for public comment on 22 August 2011. This was followed on 12 October 2011 by a final version of the same notice ("MOFCOM's notice"), while, on 13 October, the PBOC announced *Measures for the*

---

2 See Sekine, Eiichi, "Honkon Kin'yuu Saabisugyou no Shinkou o Hakaru Chuugoku Kokumuin Li Kokkyou Fukusouri no Supiichi" (Vice Premier Li Keqiang's Hong Kong Speech as a Move to Stimulate Hong Kong's Financial Services Industry), Kikan Chuugoku Shihon Shijou Kenkyuu, 2011 Autumn edition, Tokyo Club Foundation for Global Studies (in Japanese).

Administration of Renminbi Settlement Matters Relating to Foreign Direct Investment ("PBOC's administrative measures"). Both sets of rules were promulgated on 14 October 2011 with immediate effect. They mark the transition of inward direct investment in renminbi from trial status to normal status.

2. Main features of new rules and regulations

The main features of MOFCOM's notice and the PBOC's administrative measures are as follows.

1) Definition of "inward direct investment in renminbi"

MOFCOM's notice refers to "inward direct investment in renminbi" as "cross-border foreign direct investment in renminbi" and defines it as "direct investment made by foreign investors according to Chinese law using offshore renminbi funds legitimately obtained."

Companies formed in mainland China by foreign companies are known as "foreign-invested enterprises" in China. The direct investment referred to in MOFCOM's notice includes the formation of, and capital increases by, such enterprises as well as acquisitions of Chinese companies and the acquisition of Chinese equity in cooperative joint ventures.

2) Source of renminbi used in inward direct investment

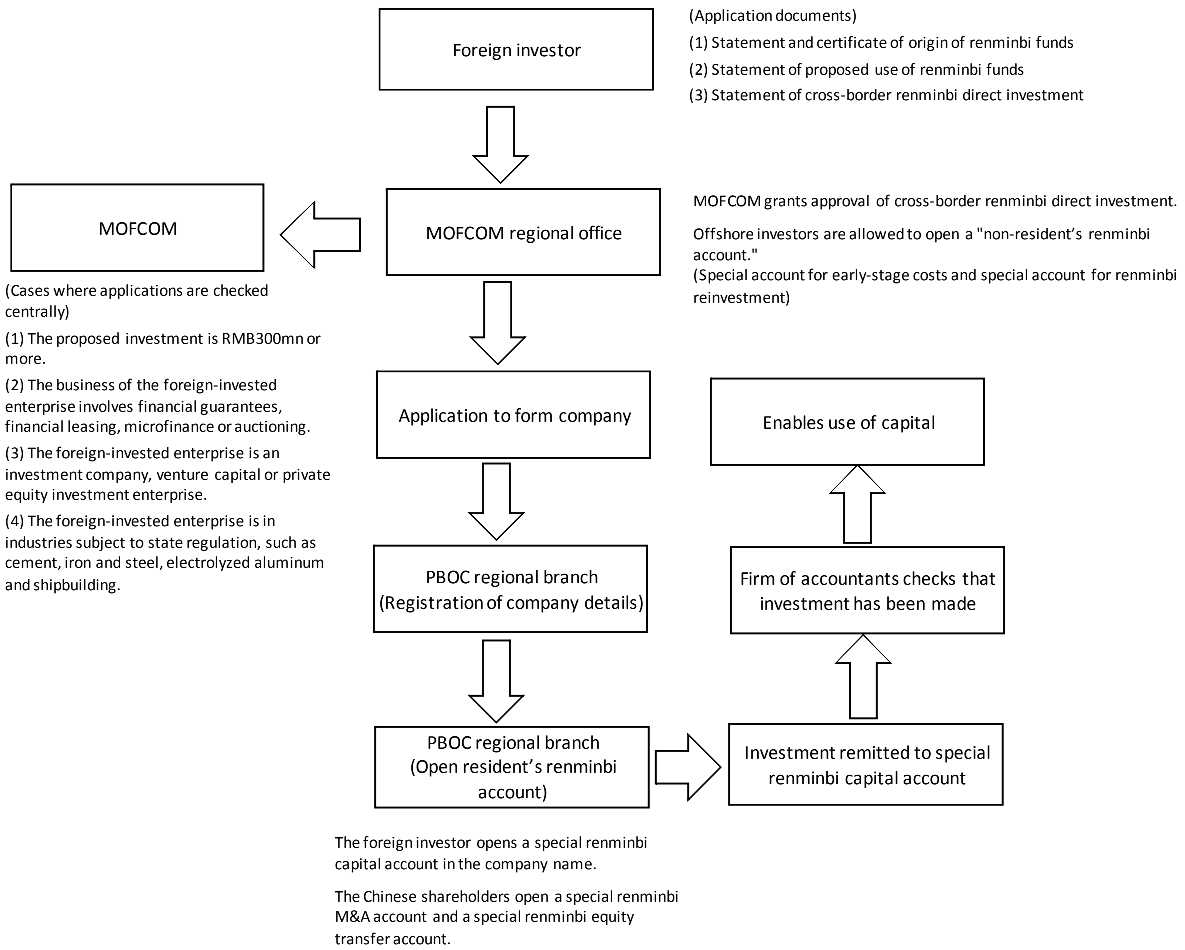
MOFCOM's notice defines "offshore renminbi funds" as follows.

The first definition is renminbi funds obtained offshore by foreign investors, including (1) renminbi payments for cross-border trade transactions and (2) renminbi funds received legitimately from profits distributed by foreign-invested enterprises and repatriated by foreign investors; renminbi payments received by foreign investors from transfers of their equity/share holdings in such enterprises; renminbi repayments from a reduction in the registered capital of such enterprises; asset liquidation proceeds in renminbi from such enterprises; and investments recouped in renminbi by foreign investors ahead of the Chinese investors from Sino-foreign cooperative joint ventures.

The second definition includes, non-exhaustively, legitimately obtained proceeds from offshore issuance of renminbi bonds or shares.

MOFCOM's notice says the rules are intended to "facilitate" inward direct investment using renminbi obtained legitimately, be it on shore or off shore. Another feature of these rules, as we will see, is that they would allow not only *dim sum* bonds (i.e., renminbi bonds issued in Hong Kong, see below) but also renminbi loans made in Hong Kong to be used to fund such inward direct investment.

Figure 2: Procedure for checking applications to invest directly in China using renminbi



Source: Nomura Institute of Capital Markets Research, from MOFCOM and PBOC data

3) Procedure for checking applications to invest directly in China using renminbi

The fact that MOFCOM's notice and the PBOC's administrative measures both stipulate the procedure that foreign investors must follow from forming a company to opening an account is an indication of the Chinese authorities' desire to "facilitate" inward direct investment (Figure 2).

First, foreign investors have to apply to their local MOFCOM office to be allowed to invest directly using renminbi. If the local MOFCOM office grants approval, the foreign investors use the approval document to apply to set up the company.

Second, once a business license has been granted and the (foreign-invested) company formed, the foreign investors have to register the details of their company at their local PBOC branch. With the approval of their local PBOC branch the foreign investors can now open a special renminbi capital account in the company name at their bank.

Third, once the foreign investors have remitted renminbi from an offshore account to their special renminbi capital account and had the remittance certified by an accountant as a payment of equity, they can access the renminbi in the account.

4) Points to note about use of renminbi in inward direct investment

Although, as we have seen, the above procedures facilitate the use of renminbi in inward direct investment, there are certain restrictions on how the funds may be used.

First, the restrictions on how the funds may be used. MOFCOM's notice prohibits the use of inward direct investment using renminbi for (1) investing, directly or indirectly, in either securities or financial derivatives and for (2) lending via banks. As the rules assume that the direct investment will be used for non-speculative purposes, these are perfectly reasonable restrictions.

Second, in some cases, approval must be obtained from MOFCOM in Beijing rather than one of its local offices. There are four such cases: (1) when the investment is RMB300 million or more; (2) when the business of the foreign-invested enterprise involves financial guarantees, financial leasing, microfinance or auctioning; (3) when the foreign-invested enterprise is an investment company, venture capital or private equity investment enterprise; and (4) when the foreign-invested enterprise is in industries subject to state regulation, such as cement, iron and steel, electrolyzed aluminum and shipbuilding. MOFCOM's desire to scrutinize cases involving large projects, finance, regional headquarters, or companies in overheated industries is apparent.

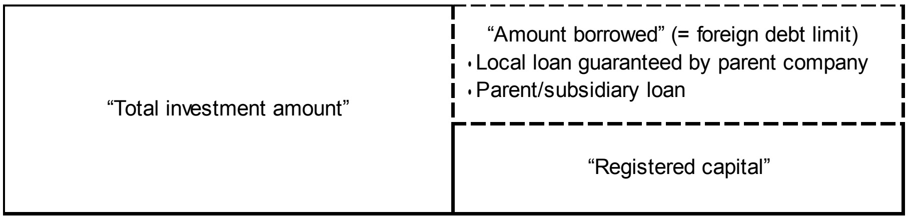
With regard to the real estate sector, sometimes taken as an example of an overheated industry, MOFCOM's notice says that "cross-border renminbi direct investment in the real estate industry should be done in accordance with the administrative regulations governing foreign investment currently in force." We take this to mean that MOFCOM in Beijing still also has the discretion to decide on matters regarding real estate.

3. Registration of "foreign debt" also required for inward direct investment using renminbi

1）Rules governing foreign-invested enterprises' borrowing limits

Capital transactions in China are still subject to certain restrictions, including restrictions on the size of foreign-invested companies in China and the sectors in which they may operate. As far as the former (company size) is concerned, foreign-invested enterprises need to meet the requirements for "total investment amount" (the total of the shareholders' equity, or capital, needed to start up a locally incorporated company and that company's debt) (Figure 3).

Figure 3: Schematic diagram of rules governing total investment amount and foreign debt



Note: 1. Total investment amount - registered capital = amount borrowed (i.e., foreign debt limit).
2. Foreign debt limit = short-term (12 months or less) outstanding foreign debt + medium-term (more than 12 months) cumulative accrued foreign debt.
3. Loans from a local financial institution guaranteed by a borrower's parent company are regarded as foreign debt when they are repaid.

Source: Nomura Institute of Capital Markets Research, from a variety of sources

Figure 4: Minimum capital requirements for foreign-invested enterprises

Total investment amount	Minimum ratio of registered capital to total investment	Provisos
$3mn or less	70%	–
$3–10mn	50%	However, minimum registered capital of $2.1 million required if total investment $4.2 million or less
$10–30mn	40%	However, minimum registered capital of $5.0 million required if total investment $12.5 million or less
More than $30mn	One-third or more	However, minimum registered capital of $12.0 million required if total investment $36.0 million or less

Source: Nomura Institute of Capital Markets Research, from a variety of sources

Furthermore, foreign-invested enterprises have to meet certain minimum capital requirements that depend on their total investment amount (Figure 4). Once a company's total investment amount and capital have been decided, the difference between them is its "debt." Any liabilities that a company incurs must not exceed its borrowing limit.

2) Requirement for a foreign-invested enterprise to register its "foreign debt"

If a foreign-invested enterprise's debt is funded by means of a parent/subsidiary loan from an offshore parent company, it is regarded as "foreign debt." In China, foreign debt (i.e., foreign currency owed to non-residents by Chinese organizations) is monitored by a number of authorities (the State Development and Reform Commission, the Ministry of Finance or SAFE), depending on the borrower.

Foreign-invested enterprises are required to register any foreign debt with their SAFE branch within 15 days of signing a loan agreement. In addition, foreign-invested enterprises' foreign debt is subject to the following restrictions (Figure 4).

(1) Foreign debt incurred by foreign-invested enterprises must not normally exceed the difference between their officially approved total investment amount and registered capital (i.e., their borrowing limit).

(2) Medium- and long-term foreign debt (with a maturity of more than 12 months) is calculated on a cumulative accrual basis. Short-term foreign debt (with a maturity of not more than 12 months) is calculated in terms of balances.

(3) Loans from a local financial institution (including local Chinese branches of Japanese banks) guaranteed by a borrower's parent company are regarded as foreign debt when they are repaid.

(4) If a foreign-invested enterprise borrows more than the difference between its total investment amount and its registered capital, the agency that originally approved it must reassess its total project investment amount.

3) Registration of foreign debt in the case of inward direct investment using renminbi

During the aforementioned trial period for inward direct investment in renminbi, foreign debt in the form, for example, of parent/subsidiary renminbi loans also had to be registered. Initially, SAFE's Shanghai bureau issued a notice on the subject on 14 January 2011.

Then, on 7 April 2011 (see above), SAFE's General Affairs Department issued a *Notice on Issues Related to the Standardization of the Business Operations of Cross Border Renminbi Capital Account Items*. This confirmed that renminbi-denominated foreign debt would be dealt with according to the existing rules on foreign debt.

Under MOFCOM's notice and the PBOC's administrative measures, both of October 2011, the approval that had to be sought from the PBOC for renminbi foreign debt during the trial period was no longer required, and renminbi foreign debt was allowed to be registered in the same way as foreign currency foreign debt. However, because neither SAFE, MOFCOM, nor the PBOC issued any new regulations, foreign-invested enterprises still need to obtain the approval of their local SAFE office under the April 2011 notice.

III. Hong Kong's offshore renminbi market as a source of funds

1. Issuing renminbi bonds in Hong Kong

The renminbi deposit accounts that provide the funds for Hong Kong's offshore renminbi market have been available to tourists from the Chinese mainland since 2004. Since July 2009, when it first became possible to use renminbi to settle trade transactions, these deposits have risen sharply, from RMB55.9 billion as of end-July

Figure 5: Issuance of *dim sum* bonds and diversification of issuers

Year	Issuers		Issue amount (RMB100mn)
	Residents	Non-residents	
2007	Policy banks (China Development Bank, Export-Import Bank of China) State-owned commercial banks (Bank of China, etc.)	—	100
2008	Policy banks, state-owned commercial banks	—	120
2009	Chinese government (Ministry of Finance) Policy banks, state-owned commercial banks Foreign banks (HSBC, Bank of East Asia)	—	160
2010	Chinese government (Ministry of Finance) Policy banks, state-owned commercial banks	Non-financial companies (Hopewell Holdings, McDonald's, etc.) Financial institutions (UBS, ANZ)	357.6
2011	Chinese government (Ministry of Finance) Policy banks, state-owned commercial banks Non-financial companies (Baosteel Group)	International financial organizations (World Bank, IFC, Asian Development Bank) Government-backed financial institutions (Korea EximBank) Non-financial companies (YFY, Volkswagen, etc.) Financial institutions (ICBC Asia)	868

Note: Data for 2011 to 8 December.
Source: Nomura Institute of Capital Markets Research, based on data from the Securities and Futures Commission of Hong Kong and other sources

2009 to RMB622.2 billion as of end-September 2011. (As of end-October 2011 they stood at RMB618.5 billion, down RMB3.7 billion from the previous month.)

One of the possible investments for these funds is the renminbi bonds that mainland Chinese entities have been allowed to issue on Hong Kong's offshore renminbi market since 2007 (Figure 5). In October 2009 China's Ministry of Finance issued its first renminbi bond in Hong Kong. In addition, since a July 2010 agreement between mainland China and Hong Kong to increase the use of the renminbi for settling trade transactions, non-Chinese companies and financial institutions have also been allowed to issued renminbi bonds there.

Called "Euroyuan bonds" by some, these bonds have tended to be affectionately called *dim sum* bonds ever since the US fast food group McDonald's issued such a bond in August 2010. Issuance of renminbi bonds in Hong Kong, including *dim sum* bonds, grew from RMB10.0 billion in 2007 to RMB12.0 billion in 2008 and RMB16.0 billion in 2009. However, after the Chinese authorities allowed the renminbi to be used for settling trade transactions in 2009, issuance increased to RMB35.8 billion in 2010 and RMB86.8 billion as of 8 December 2011.

2. Issuance of *dim sum* bonds by Japanese companies

A number of Japanese companies have also begun to issue *dim sum* bonds. The first was Orix, which was followed by Mitsubishi UFJ Lease & Finance, Tokyo Century Lease, and Sumitomo Mitsui Finance & Leasing (Figure 6). A number of Japanese financial institutions have also been involved in underwriting *dim sum* bonds, whether issued by mainland Chinese or foreign, including Japanese, companies.

We attribute the fact that most of the Japanese companies issuing *dim sum* bonds have been financial leasing companies to their need to raise renminbi funds in line

Figure 6: Noteworthy issuers and Japanese companies/financial institutions involved in issue of *dim sum* bonds

1. *Dim sum* bonds: issuance by Japanese companies and underwriting by Japanese financial institutions

Issuer	Issue date	Redemption date	Duration (Years)	Maximum issue amount (RMB100mn)	Actual issue amount (RMB100mn)	Coupon (%)	Bookrunners
Orix	15 March 2011	24 March 2014	3	4	4	2.00	ANZ, Mizuho Securities, Standard Chartered Bank, BNP Paribas, Boom Securities
Mitsubishi UFJ Lease & Finance	8 April 2011	8 April 2013	2	2	2	1.65	n.a
Tokyo Century Lease	28 April 2011	29 April 2014	3	2	2	2.70	Mizuho Securities, UBS
Intime Department Store	8 July 2011	8 July 2014	3	10	10	4.65	Nomura Securities, Citi, ICBC Asia
Sumitomo Mitsui Finance & Leasing	12 September 2011	12 September 2013	2	2	2	2.50	Goldman Sachs, SMBC Nikko Securities (Hong Kong)
	12 September 2011	16 September 2014	3	3	3	3.00	
Korea EximBank	1 November 2011	1 November 2012	1	2	2	2.10	Nomura Securities
Lafarge Shui ON Cement	14 November 2011	14 November 2014	3	15	15	9.00	Citi, HSBC, Mitsubishi UFJ Securities (Hong Kong), Standard Chartered Bank
Orix	22 November 2011	18 November 2014	3	5	5	4.00	Standard Chartered Bank, BNP Paribas, ANZ, Credit Agricole, Daiwa Securities Capital Markets, Mizuho Securities

2. Noteworthy *dim sum* bond issues since Vice Premier Li Keqiang's Hong Kong speech

Issuer	Issue date	Redemption date	Duration (Years)	Maximum issue amount (RMB100mn)	Actual issue amount (RMB100mn)	Coupon (%)	Bookrunners
ICBC Asia	4 November 2011	4 November 2021	10	15	15	6.00	HSBC, ICBC International, Bank of China (Hong Kong)
Baosteel Group	28 November 2011	28 November 2013	2	10	10	3.13	HSBC, Deutsche Bank
	28 November 2011	28 November 2014	3	21	21	3.50	
	28 November 2011	28 November 2016	5	5	5	4.38	

Source: Nomura Institute of Capital Markets Research, from a variety of sources

with the turnover of their renminbi assets in mainland China. In each case, the bonds have been issued for 2–3 years, and it will be interesting to see how easily they can be refinanced when they are redeemed. Furthermore, if they can be refinanced without too much difficulty, we may also see Japanese manufacturing companies, which normally have a slightly longer payback period, issuing *dim sum* bonds.

3. Issuance of *dim sum* bonds since Vice Premier Li Keqiang's Hong Kong speech

In a speech he gave in Hong Kong in August 2011, Vice Premier Li Keqiang announced that mainland Chinese companies would also be allowed to issue renminbi bonds in Hong Kong in order to increase the opportunities for raising capital there. He also announced that, as one of the ways of repatriating renminbi from Hong Kong to mainland China, the Chinese government would encourage direct investment in China using renminbi from Hong Kong and would allow foreign banks to raise capital in mainland China using renminbi for a trial period. We have seen the first results of these announcements.

First, the issuance of *dim sum* bonds by mainland Chinese companies. The first example was an RMB6.5 billion issue by Baosteel Group, which was approved by the State Council and then the State Development and Reform Commission in October 2011. The issue itself took place in November 2011, and the proceeds are reported to have been used to increase the capital of one of the group's overseas subsidiaries[3].

Second, ICBC Asia, the Hong Kong subsidiary of Industrial and Commercial Bank of China, issued a *dim sum* bond later the same month. The proceeds were used to take a stake in Chinese Mercantile Bank, a mainland Chinese bank. HSBC also raised capital in Hong Kong in November 2011 and used the RMB2.8 billion proceeds to increase the capital of its Chinese subsidiary[4].

Third, a number of foreign companies took out renminbi loans in Hong Kong to finance their operations in mainland China. United Asia Finance, an equity-method affiliate of Itochu based in Hong Kong, was the first company to use a renminbi syndicate loan originated offshore by a group of Japanese banks[5]. The loan, for roughly RMB400 million, was in a combination of renminbi and Hong Kong dollars. Mabuchi Motor raised RMB165 million in Hong Kong, also by means of a Japanese syndicate loan, and used the proceeds to increase the capital of its Jiangxi subsidiary[6].

Between the implementation of the aforementioned MOFCOM notice and PBOC administrative measures on 14 October 2011 and 14 December 2011, MOFCOM received 78 applications for approval of inward direct investment using renminbi raised offshore, including in Hong Kong. Of these, it approved 74, according to Huang Feng, Vice Chairman of the Department of Foreign Investment Administration[7]. These 74 direct investment projects were worth a total of RMB16,530 million, and 70% of them in value terms was initiated in Hong Kong. Of these, 61 were approved by local MOFCOM offices and 13 by MOFCOM in Beijing. The reason some of the applications were checked by MOFCOM in Beijing is that they were either for investments of RMB300 million or more or involved an industry subject to state regulation. Furthermore, these 74 projects were funded either by loans or by the proceeds of *dim sum* bond issues.

It is perhaps worth noting in this context that, although not all the renminbi that is borrowed in Hong Kong is repatriated to the mainland, the amount outstanding rose from RMB2.0 billion at the beginning of 2011 to RMB11.0 billion at the end of June 2011 and RMB19.0 billion at the end of September 2011[8]. If companies are allowed to make initial public offerings in renminbi in Hong Kong, a matter currently under review, and the amount of renminbi available increases, we expect the amount of inward direct investment to increase further.

3 See Japanese edition of www.people.com.cn., 22 November 2011.
4 See Nihon Keizai Shimbun, 25 November 2011.
5 See Nihon Keizai Shimbun, 1 November 2011.
6 See Nihon Keizai Shimbun, 25 November 2011.
7 See 21st Century Business Herald, 15 December 2011.
8 See Xinhua News Agency Beijing, 25 November 2011

IV. Opportunities for Japanese financial institutions

Of the amount of renminbi raised by *dim sum* bond issues in Hong Kong in 2011, about 30% was underwritten by Hong Kong-based banks: 20.4% by HSBC and 10.5% by Standard Chartered Bank (Figure 7). In view of the administrative burden of repatriating renminbi to invest in mainland China (e.g., the need to open a special account) and the need to check everything with the authorities, one would imagine that this process would be easier for mainland Chinese banks with domestic branch networks and close links to the Chinese authorities. These underwriting figures are therefore a credit to the Hong Kong-based banks concerned.

Looking to the future and the likely increase in Japanese direct investment in China, we would expect Japanese financial institutions, with close ties to Japanese companies, to identify Japanese entities with an interest in issuing *dim sum* bonds. We would also expect Japanese commercial banks to seek to appeal to potential Japanese issuers of *dim sum* bonds on the basis of their branch operations (account opening, loans/deposits, forex, settlement) in China, and investment banks to seek to appeal on the basis of their access to investors in Hong Kong and other offshore markets.

We expect the issuance of renminbi bonds and the availability of renminbi loans in Hong Kong to continue to go hand in hand with inward direct investment using renminbi. For this to happen and for Hong Kong's *dim sum* bond market to expand, we think investors will have to expect the renminbi to appreciate gradually in order to offset the lower interest rates available in Hong Kong compared to mainland China. The outlook for and predictability of Chinese economic, monetary and foreign exchange policy are therefore likely to be very important in 2012.

Figure 7: *Dim sum* bond bookrunner ranking (2011, top 10 institutions)

Ranking	Bookrunner	Underwriting amount ($mn)	Underwriting share (%)	Deals underwritten	2010 ranking
1	HSBC	2,792	20.4	32	3
2	Standard Chartered Bank	1,438	10.5	20	4
3	Bank of China	1,285	9.4	16	1
4	Deutsche Bank	1,117	8.1	13	8
5	Industrial and Commercial Bank of China	820	6.0	12	5
6	Agricultural Bank of China	577	4.2	6	-
7	Goldman Sachs	570	4.2	8	6
8	Citigroup	529	3.9	7	-
9	China International Capital Corporation (CICC)	461	3.4	5	7
10	DBS	442	3.2	9	-
Total for top 10 institutions		**10,031**	**73.1**	**69**	**-**
Overall total		**13,715**	**100.0**	**80**	**-**
(converted to renminbi)		**RMB86.8bn**	**-**	**-**	**-**

Note: 1. Original data from Dealogic as of 8 December 2011.
2. Conversion to renminbi at mid-rate as of 8 December 2011 ($1 = RMB6.3319).
Source: Nomura Institute of Capital Markets Research, from Asiamoney data