Inclusion of China in Major Global Investment Indices

The extent of China's inclusion in investment indices:

**MSCI**
Composition of Chinese A-shares in the MSCI-EM Index

<table>
<thead>
<tr>
<th>Feb 2019</th>
<th>By Nov 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap</td>
<td>235</td>
</tr>
<tr>
<td>Mid cap</td>
<td>0.7%</td>
</tr>
<tr>
<td>China Aud</td>
<td>100</td>
</tr>
</tbody>
</table>

**FTSE Russell**
5.7% of FTSE-EM made of Chinese A-stocks by Mar 2020

**Bloomberg**
6.1% of Bloomberg Barclays Global Aggregate Bond (BBGAB) Index by Dec 2020

Reallocation of capital throughout ASEAN+3 economies

- China
  - Addition of USD 104 billion and USD 107.2 billion to its domestic equity and bond markets
  - Foreign holdings of China's A-shares from 6.7% to 8%
  - Outflows of USD 39 billion from the offshore equity market

- Thailand
  - Influx of USD 17.8 billion, -3.4% of market capitalization into its equity market

- Korea
  - Outflows estimated at almost USD 16.3 billion, 1% of market capitalization

- Malaysia
  - Relatively small projected equity outflows, at between USD 1.5–3.1 billion, or less than 1% of their respective stock market capitalization
  - Value of bond outflows are even smaller
  - Possible significant short-term price fluctuations

- Philippines

- Indonesia

Implications and Conclusion

- China's asset markets become more important to global investors
- Possible volatility introduced to regional capital flows, asset prices, and foreign exchange rates
- The gradual inclusion of China in investment indices will mitigate the effect; a conducive macro-financial environment can help offset the capital outflows from some economies to a large extent
- Temporary and large capital outflows could potentially be supported by regional buffers, such as the CMIM, to ensure financial stability

Source: The Inclusion of China in Major Global Investment Indices: Implications for Regional Capital Flows
www.amro-wea.org