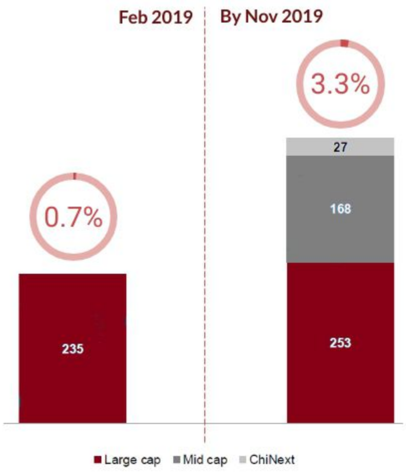
Inclusion of China in Major Global Investment Indices

-Implications for ASEAN+3 Regional Capital Flows-

The extent of China's inclusion in investment indices:

MSCI

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



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 **Philippines** **Indonesia**

- 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**

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

AMRO

Source: The Inclusion of China in Major Global Investment Indices: Implications for Regional Capital Flows

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