Chinese A shares Finally Get MSCI Inclusion – All You Need To Know

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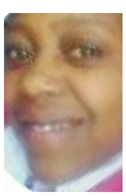

More than 200 Chinese companies are about to get a significant flow of investments all thanks to their inclusion in the MSCI Emerging Markets Index. Most of these companies are large cap domestic corporations. Many analysts see the MSCI inclusion as a stamp of credibility for the so called A shares. The shares were previously available only to local Chinese investors.

MSCI is a New York based provider of financial tools that track major global financial markets around the world. MSCI had rejected previous bids by China to be included in the Emerging Market Index. It seems though that finally China has met the required criteria.

Why Did MSCI Finally Agree To Include China In Its Emerging Markets Index?

China has been attempting to get included in the MSCI Indices for 3 years. Beijing had failed in all its attempts until now. So, what has changed? First, there is strong belief among investors and analysts that the government in Beijing is loosening its control of the financial market. In addition to this, Beijing has also warmed up to the idea of offering market access to foreign investors. This has allowed asset managers to buy the stocks of local Chinese companies both in Shenzhen and Hong Kong.

These achievements may appear basic from an investor used to the liberal markets around the world. But it's a big deal. China has remained one of the most controlled economies and the financial market has not been any different. However, in recent years Beijing has been moving towards liberalization gradually. The inclusion of A shares in the MSCI index could be the beginning of greater things to come in the future.

Why Does The Inclusion Really Matter?

There are a number of things. First, the MSCI is the biggest index complier in the world. It has roughly about $12 trillion in assets benchmarked to its products. With this kind of pedigree, inclusion into any MSCI indices is an important mark of approval. As a result, it is very likely that with time the move will trigger massive flows of investments and capital into Chinese financial markets.

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Citigroup is in fact estimating that the inclusion will lead to annual investment flows into listed A shares of up to $48 billion. The MSCI itself has noted that the inclusion will channel around $17 billion in passive funds towards Chinese A shares. The figure is expected to hit $35 billion in a few years.

How Will the MSCI Inclusion Impact Chinese Stocks

Well, at first the impact of this inclusion on Chinese stocks will be very modest. After all, only 5% of the total market capitalization in China is being added on the Emerging Markets Index. However, the inclusion is more of a symbolic achievement than a financial one.

China is finally opening up and even though these are still initial steps, it's an indication that Beijing is ready to expose its markets to foreign capital. This is good news for investors. We also believe that while the MSCI inclusion will be an attractive prospect for institutional global investors, the Chinese financial markets will continue to be dominated by retail investors.

Investing In Chinese A – Shares

In case you'd wish to invest in Chinese A shares the Asia Pacific Fund is offering you a chance to do so. The Fund invests in equity securities of companies in the Asia Pacific region other than Japan. Chinese companies too are part of its portfolio. The Asia Pacific Fund is available on the NYSE under the ticker symbol APB.