



Product Profile | Equities

# Investing in China: Does the opportunity outweigh the risk?

The rationale for the FTSE China A50  
and FTSE China 50 ecosystem

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## Key points

### Exploring investment opportunities in China's new era

- After years of fast expansion, China is shifting towards high-quality development
- China's equity market is constantly evolving, growing and diversifying across sectors and industries
- Through a series of supportive policies, China's government are setting the groundwork for further opening of the country's capital market
- China's equity market offers diversification with reasonable growth adjusted valuations

### Unravelling the path to investing in China via the FTSE ecosystem

- The FTSE China A50 Index transparently reflects the development of China's onshore market
- The FTSE China 50 Index represents China's offshore market and is complementary to China's onshore market
- The FTSE China A50 and the FTSE China 50 offer exposure to the complete Chinese equity market

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## Introduction

As one of the fastest growing economies in the world, China is too important to ignore, posing unique challenges for investors. In response to the Chinese government's liberalisation of the Chinese capital markets, FTSE Russell added China A-shares to the FTSE Global Equity Index Series (GEIS) in June 2019, as part of a three-stage plan which finished in June 2020. In October 2021, FTSE Russell began a three-year programme to add onshore Chinese government bonds to the FTSE World Government Bond Index (WGBI). Both inclusions and similar changes to competitor products provide investors access into China's huge capital market. This indicates China can no longer be ignored by investors. However, investing in China is not simple. Low financial transparency, regulatory risk, geographical risk and high volatility are among the major headwinds. In the last couple of years, the real-estate crisis and the tech crackdown have led to major regulatory developments.

Debate over whether China remains a safe place for investing has recently emerged. Despite the negative sentiment, most of the investment community is keeping an open mind to investing in China. There have been recent positive developments that continue to make a case for investing in the country. In this paper, we analyse the reasons for investing in China through the lens of the latest economic reforms, capital market expansion and opening-up to foreign investors, and the potential for equity market diversification benefits. Then, we introduce a new, flexible investment route to capture the dynamic Chinese equity market exposure. This two-fold approach provides a foundational understanding of the evolving Chinese market, and the tools available to international investors.

## Exploring investment opportunities in China's new era

### More sustainable future growth: China shifting from high-speed production to high-quality development

International investors often worry about policy risk when investing in China. Most policies are designed to support the goals set by the government, generally to make China stronger economically in the longer term. By understanding China's current stage of development, as well as the medium and long-term goals set by the government, we can better understand recent policies and identify investment opportunities.

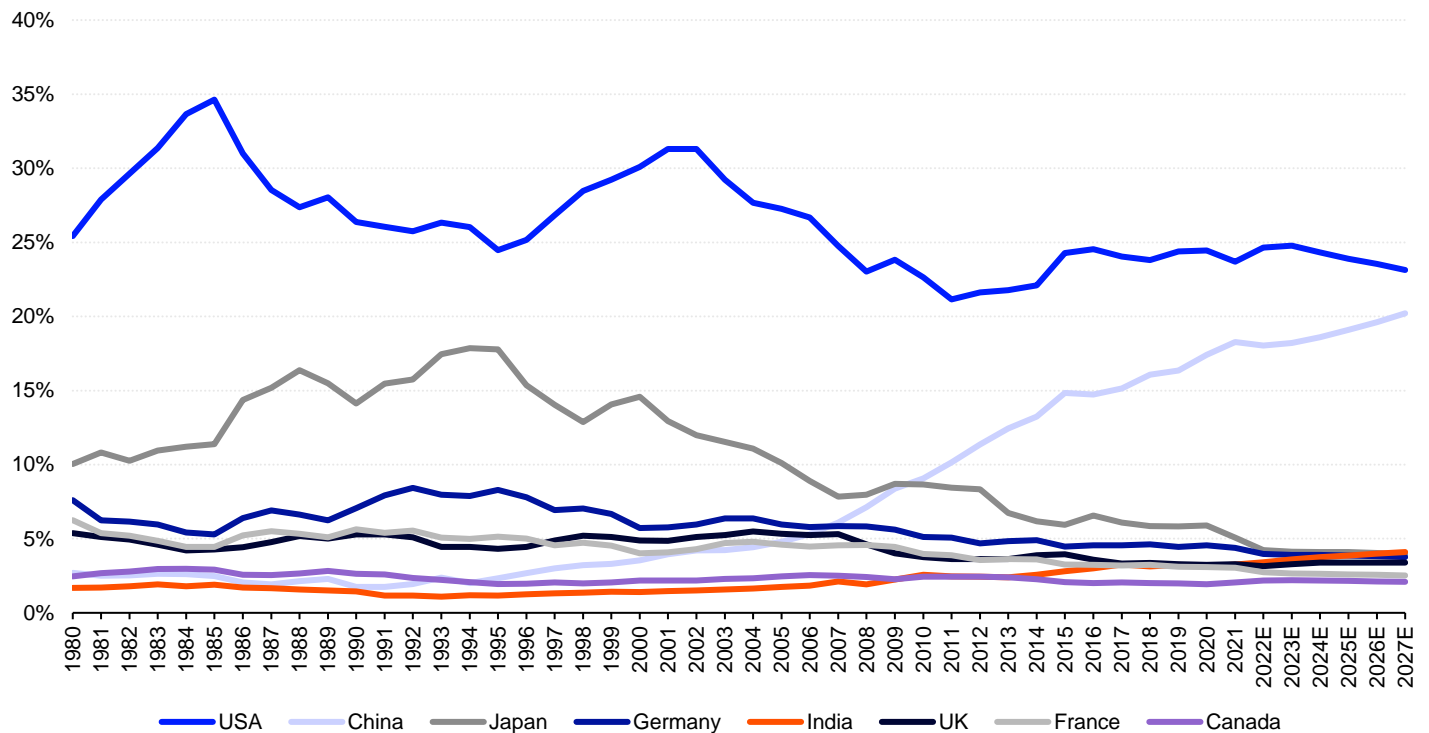
China's fast-growing economy has caught the world's attention since its economic reform and opening-up in 1979. With an average growth rate of over 9% in the past 40 years, its nominal GDP rose from \$303 billion in 1980 to \$18.32 trillion in 2022 (est.). China now ranks the second largest economy after the US in terms of nominal GDP (chart 1). On a purchasing power parity basis, China has already overtaken the US and become the largest economy<sup>1</sup>. Per-capita nominal GDP saw a 41-fold growth from \$312 in 1980 to \$12,741 in 2022 (est.), lifting hundreds of millions of people out of poverty.<sup>2</sup>

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<sup>1</sup> [Tracking GDP in PPP terms shows rapid rise of China and India \(worldbank.org\)](#)

<sup>2</sup> [Historical GDP of China - Wikipedia](#)

**Chart 1: Proportion of world nominal GDP in USD for countries (2021 Top 8)**



Source: International Monetary Fund, World Economic Outlook Database (October 2022), from 1980 to 2021 with IMF projections until 2027

After four decades of rapid economic expansion, China has reached a turning point where its development is transitioning from a focus on 'high-speed' towards high-quality, reflected in the goals of the latest five-year plan<sup>3</sup>. Unlike previous plans, the 14th Five-Year Plan (2021–2025) did not set a quantitative hard target on the GDP growth; instead, it emphasises quality, efficiency, and sustainability. The key elements<sup>4</sup> include:

## Research and development (R&D)

Innovation is the core for modernisation and will keep playing a main role in China's high-quality development. R&D spending is to be increased by more than 7% annually and the development of real-world applications is strongly supported. Specifically, the priority list encompasses quantum information and computing, brain science, semiconductors, seed industry, genetic research, regenerative medicine, biotechnology, clinical medicine and health; and deep space, deep sea, and polar exploration<sup>5</sup>. These high-tech industries are significant to ensure China's greater self-sufficiency in critical technologies.

China's R&D investments rank second globally and are catching up to the US.<sup>6</sup> China's strong efforts in innovation and industrial upgrading can be illustrated by the clear uptrend of the proportion of R&D investments in high-tech industries in recent years (chart 2).

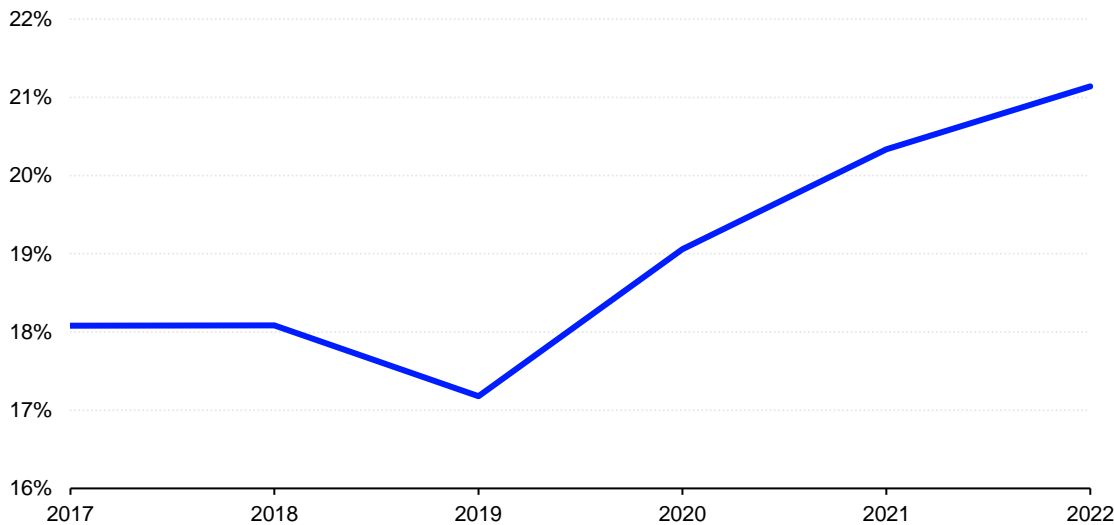
<sup>3</sup> The five-year plans, which are a series of medium-to-long term social and economic development initiatives issued by the Chinese Communist Party, are always used as fundamental guidelines when the government sets goals and policies.

<sup>4</sup> [Outline of the 14th Five-Year Plan \(2021-2025\) for National Economic and Social Development and Vision 2035 of the People's Republic of China - News](#)

<sup>5</sup> [Fourteenth five-year plan \(China\) - Wikipedia](#)

<sup>6</sup> [The rise of China tech | FTSE Russell](#)

**Chart 2: R&D Investments % of high-tech industry (Manufacturing)**



Source: National Bureau of Statistics of China, R&D Investments % of high-tech industry (Manufacturing) = R&D Investments of high-tech industry (Manufacturing)/ R&D Total Investments. According to China's National Economic Industry Classification, high-tech industry in manufacturing refers to the industries with relatively higher R&D investments intensity, including 1) pharmaceutical manufacturing, 2) aviation and spacecraft equipment manufacturing, 3) electronic and communication equipment manufacturing, 4) computer and office equipment manufacturing, 5) medical equipment manufacturing and 6) informational chemicals manufacturing, December 31, 2022.

## "Domestic-international dual circulation"

China heavily relied on the "great international circulation" for its past developments – an economic growth strategy based on exports. Against the backdrop of increasing uncertainties in the external environment and the impact of the Covid-19 epidemic, the concept of "dual circulation" was proposed in 2020<sup>7</sup>. Different from the export-oriented model, dual circulation has two sides. "Internal circulation" is the mainstay of the new strategy, and it aims to increase domestic consumption through innovation and higher-end manufacturing and services. To build a smooth internal circulation, a unified national market needs to be built by encouraging cooperation and complementarity among regions and breaking down local protection and market segmentation barriers. On the other side, the "External circulation" ensures China's sustained involvement in international competition, a motivator to maintain high-quality output. The internal and external circulations are expected to reinforce each other. The "Belt and Road" initiative, a global infrastructure development strategy, is a good example of the interaction that creates the dual circulation: the internal industrial upgrading and high-quality development provide the basic power, while production capacity and supply chain cooperation systems with other nations are built externally.

## Green development

Being the world's largest emitter of greenhouse gases, China continues to make clean energy investments in a bid to reach the "Dual Carbon" goal of achieving Carbon emissions peak by the end of the 2020s and reaching carbon neutrality by no later than 2060. In the past 10 years, China's renewable energy investment has maintained a double-digit annual growth rate, ranking first worldwide in total investment from 2010 to 2021<sup>8</sup>. In the meantime, China has become the world's leader in renewables manufacturing in term of the installed capacity of hydropower, wind power and solar photovoltaic power generation.<sup>9</sup> Moreover, China is the world's largest producer and market for new energy vehicles. The electric vehicle exports are expected to continue the strong momentum in the coming years.<sup>10</sup>

<sup>7</sup> [Dual circulation - Wikipedia](#)

<sup>8</sup> [China Energy News \(Version 06, 06 February 2023\)](#)

<sup>9</sup> [China leads in renewable energy growth \(english.www.gov.cn\)](#)

<sup>10</sup> [Chinese new energy vehicle industry speeds up innovation \(en.people.cn\)](#)

## Digital economy

In 2022, the scale of China's digital economy reached 50.2 trillion yuan, ranking second in the world (accounting for 41.5% of GDP in 2022)<sup>11</sup>. The integration of digital technology and the real economy achieved remarkable results. For example, big data, cloud computing, and artificial intelligence have accelerated their penetration in various industries such as online education, online medical care, online payment, and smart factories, providing strong support for the development of China's economy. The next generation of digital infrastructure such as 5G networks and data centres will continue to be improved and upgraded. As of June 2021, the number of internet users in China reached 1.01 billion and the internet penetration rate reached 71.6%.<sup>12</sup> The scale advantage of internet users provides a huge potential for the development of China's digital economy.

## A high-standard market system

### SOE reforms

The systematic reform of China's state-owned enterprises helped optimise asset structures and improve market oriented operating mechanisms. The current round of reform pays more attention to scientific and technological innovation and industrial upgrading.<sup>13</sup> Thus, the reforms will expedite innovation.

SOE reforms so far have witnessed some achievements. The stock price of state-owned enterprises showed an upward trend in 2022 and 2023, which reflects investors' optimism towards the reforms.

### Development of private enterprises

The legal, policy and market environment aims to be further improved and the restrictions on market access will be relaxed for private enterprises. Tax incentives and credit supports will be provided to small, medium, and micro enterprises and individual business.<sup>14</sup> Innovation and high-quality development in private enterprises are strongly encouraged.

Despite trying to mitigate the impacts of the escalating local property crisis and navigating geopolitical tensions at present, China, as an emerging market economy, still holds substantial growth potential. By entering a new phase of development, China is expected to eliminate bottlenecks in its economic evolution and achieve more sustainable future growth in the long-term.

## Large capital market with more diversified structure

Concurrent with the growth of the Chinese economy has been the expansion of its equity market, which has now grown to a size that is too large to ignore. Moreover, the industry structure of this market is more diversified with various market entities flourishing.

The Chinese equity market includes the Chinese companies listed in the mainland (onshore, includes A-shares and B shares), and the ones listed in other markets (offshore), such as Hong Kong (H share, P chip and red chip), US (N share), and Singapore (S chip).<sup>15</sup> According to FTSE All Cap indices, the onshore and offshore market accounts for around 72.3% and 27.7% of the overall Chinese market as of end of December 2022, respectively. As of the end of 2022, the total market capitalisation of China's onshore equity market is around 85 trillion RMB, with more than 5100 companies listed (chart 3). Compared with other major markets, the China onshore equity market is the second largest after the US market (chart 4).

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<sup>11</sup> [China Digital Economy Development Report \(2022\)](#)

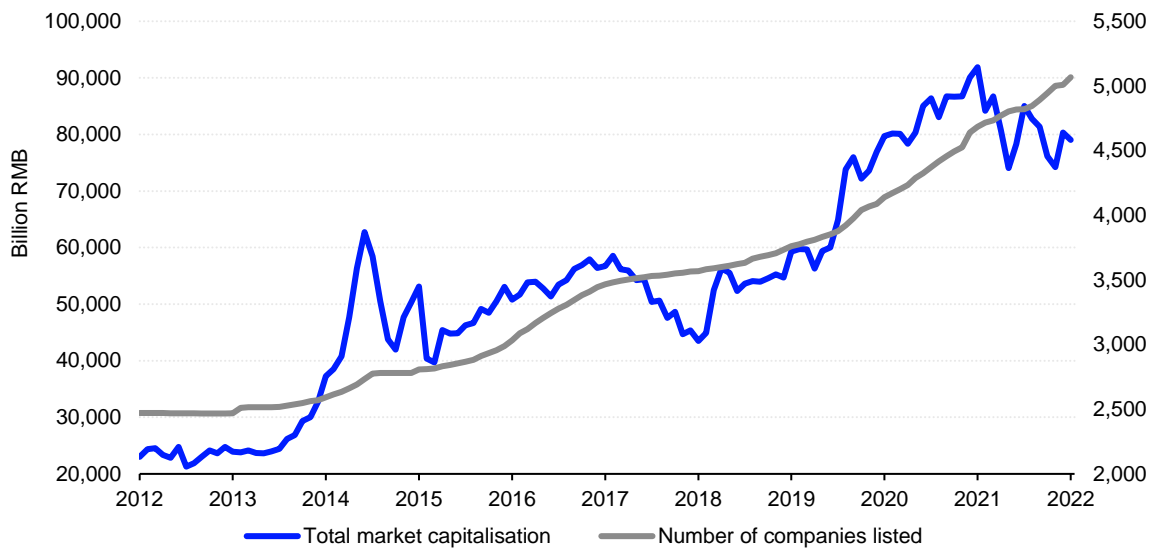
<sup>12</sup> [The 48<sup>th</sup> "Statistical Report on China's Internet Development"](#)

<sup>13</sup> [SOE reforms key to smooth recovery - Chinadaily.com.cn](#)

<sup>14</sup> Chapter 19 Market Dynamism [Outline of the 14th Five-Year Plan \(2021-2025\) for National Economic and Social Development and Vision 2035 of the People's Republic of China - News](#)

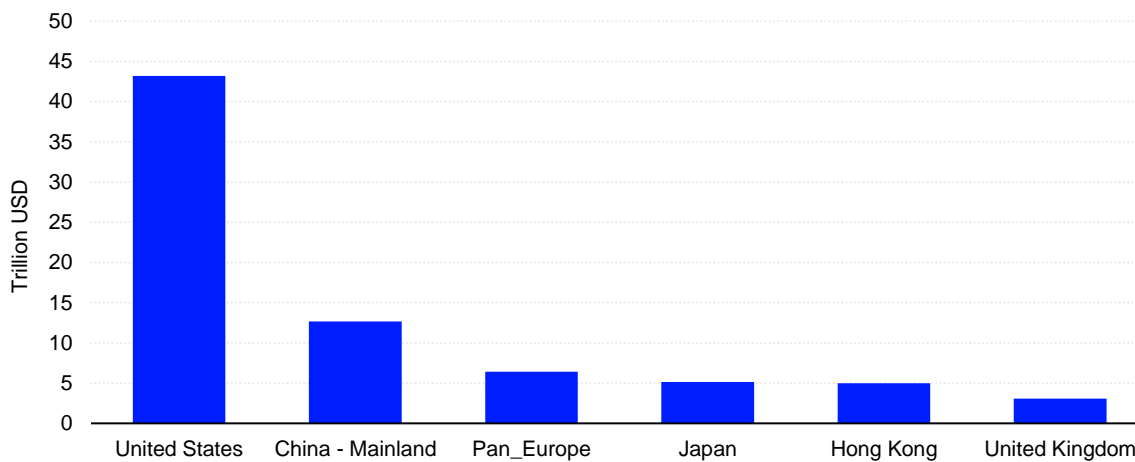
<sup>15</sup> For more information about the different share classes of Chinese stocks, please refer to [China through the mosaic of its share classes \(ftserussell.com\)](#) and [embracing-china\\_s-economic-shift-through-the-total-china-concept-final.pdf \(ftserussell.com\)](#)

**Chart 3: China onshore equity market size**



Source: Wind; as of December 2022

**Chart 4: Equity market cap of major markets**



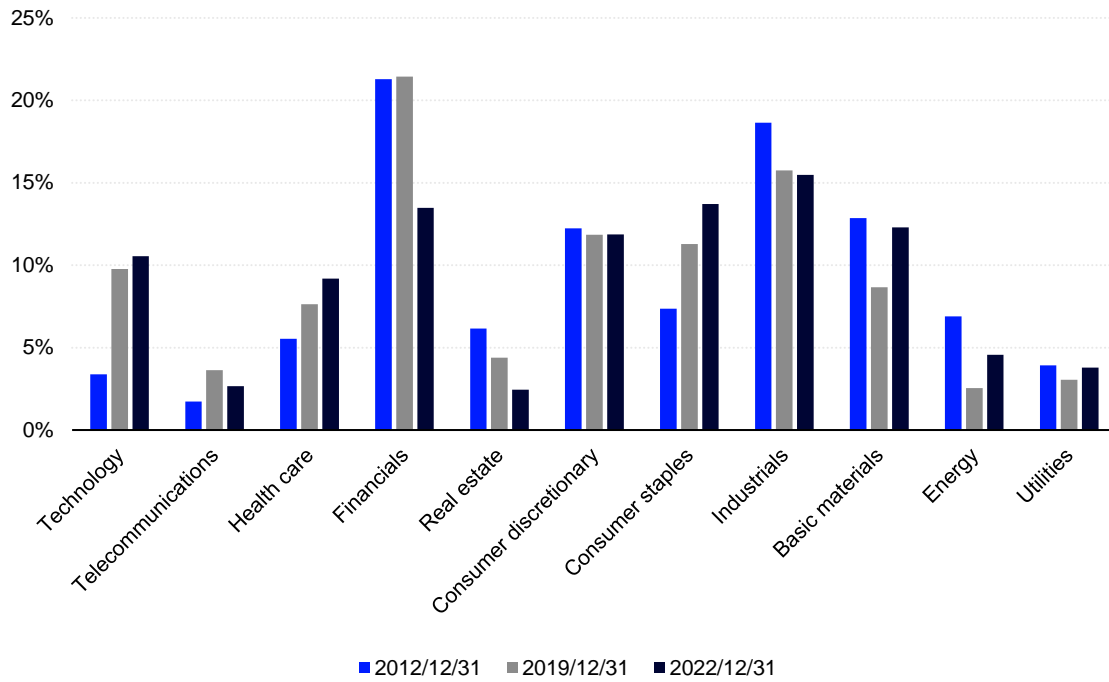
Source: Statista; as of June 2022

Alongside this growth, the industry structure of China's A-share market has become more diversified in concert with China's ongoing economic reforms. The market is no longer dominated by financial and traditional manufacturing industries, new economy industries such as technology, healthcare and consumer staples are accounting for higher weights compared to 10 years ago (chart 5).

In chart 5, 'traditional' industries such as basic materials and energy have regained market share in recent years, but they are not what they were in terms of their sector profile. The sector distribution within the energy industry was mainly coal 10 years ago; today it is more diversified with renewable energy equipment taking up the highest proportion (chart 6). This mirrors the goals in green development of the 14<sup>th</sup> Five-year plan.

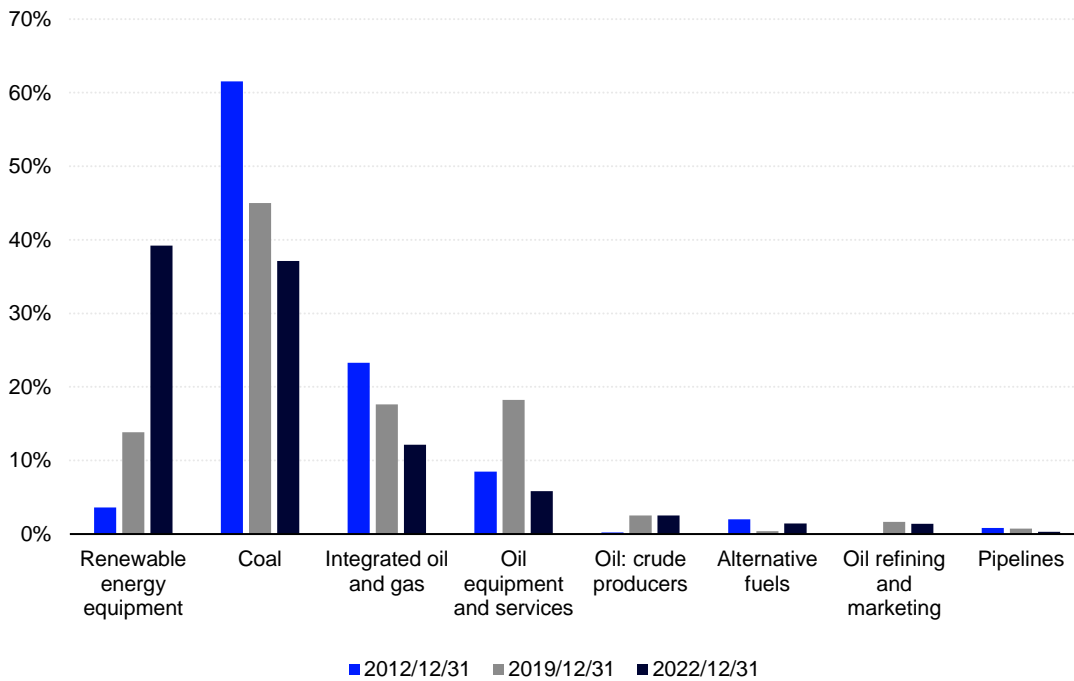


**Chart 5: Industry weight of the A-share market over time**



Source: FTSE Russell, represents industry/sector weights of FTSE China A All Cap Index

**Chart 6: Sector weights within Energy industry**



Source: FTSE Russell, represents industry/sector weights of FTSE China A All Cap Index

In addition to economic reforms, regulatory reforms also contributed to the diversification of industry exposures in the A-share market. The most significant one in recent years is the registration-based IPO reform. Instead of having to show sustained profitability to get approval from the regulator, companies are allowed to go public if they disclose required information about their business under the new IPO system. The listing process is more efficient and market oriented. Companies at the growth stage will be given the chance to raise funds from the capital market at a relatively lower cost, which can in turn be used for R&D purposes and to drive innovation. This new registration-based IPO rule has been adopted by the STAR market in 2019, the ChiNext market in 2020, the BSE in 2021 and was implemented across the entire A-share market in 2023.

Another point worth noting is that the development of private enterprises has injected new vitality into the A-share market. The last ten years saw a quadrupling of the total number of private enterprises in China. The private sector now plays a significant role in the country, contributing to over 50% of taxation, 60% of GDP, 70% of technological innovations, 80% of urban employment and 90% of the number of market entities in China.<sup>16</sup> Many private enterprises expanded dramatically in recent years by pioneering new industrial technologies. Quite a few of them have also participated in the construction of major national projects and innovation platforms. They are important members of China's strategic scientific and technological forces. With the ongoing IPO reform, it is expected that more promising private enterprises will participate in the A-share market in the near future.

## The continuous opening up of China's capital market

Due to the limited access to the onshore market, the offshore market was the main channel for international investors to participate in China's growth for a long time. However, with the continuous growth of China's capital market paving the way for the opening-up of the onshore market, the financial environment is rapidly changing.

China is engaged in ongoing and concerted efforts to open its capital market to foreign investors. A series of policies are in place to make it easier for foreign investors to access China's domestic market, such as the stock connect programs and the removal of QFII and RQFII investment quota restrictions. Some recent updates on the Shanghai-London Stock Connect and Shenzhen-London Stock Connect Schemes link one of the world's largest domestic capital markets with the leading international markets. The mainland-Hong Kong stock connect program has also seen some important updates. At the end of 2022, it was given approval to further expand the scope of eligible securities under this program.<sup>17</sup>

In addition to the opening of the onshore equity market, the onshore rate market is undergoing similar liberalisation. The recent launch of China-Hong Kong Swap Connect enables investors to easily access the onshore rate market and better manage their interest rate risks. It is believed that the Swap Connect is beneficial to the Bond Connect programs and will greatly facilitate the further opening-up of China's onshore bond market. Collectively, these policies enable an unprecedented level of access to Chinese capital markets.

China's efforts were recognised by international investors and the broader financial community. The FTSE Global Equity Index Series completed its first phase of the China A-share inclusion in June 2020, featuring an inclusion factor of 25%. FTSE Russell maintains active engagement with China authorities on the progress of further opening developments.

Along with the opening-up of the capital market and the inclusion of China A-shares into major global indices, international investors have increased allocations to China onshore equity market over the past years. As of end of December 2022, market cap of onshore equities held by international investors is around 3.2 trillion RMB.<sup>18</sup> The weight of onshore equities held by international investors increased from 2.6% to 4.8% in the past five years ending in 2022. If fully included, it is expected that A-shares account for 2.7% and 22.0% of global market and emerging market universes, respectively (chart 7).

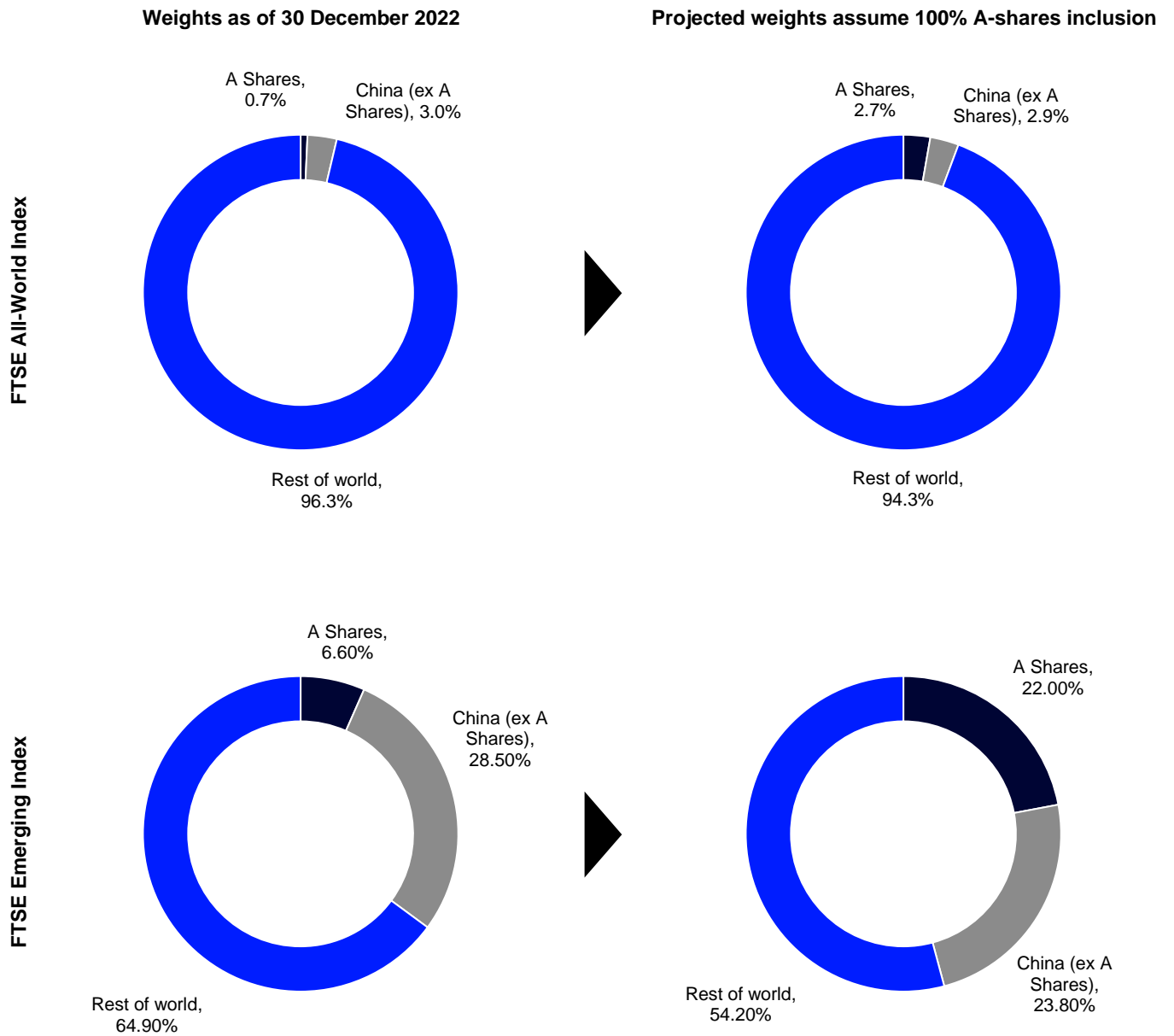
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<sup>16</sup> [China's private enterprises quadruple in last 10 years | english.scio.gov.cn](https://english.scio.gov.cn)

<sup>17</sup> [Ignites Asia - HK, China expand Stock Connect to boost onshore access to overseas companies](https://www.ftserussell.com/press-releases/2022/12/ignites-asia-hk-china-expand-stock-connect-to-boost-onshore-access-to-overseas-companies)

<sup>18</sup> From PBoC

**Chart 7: China weights in indices**

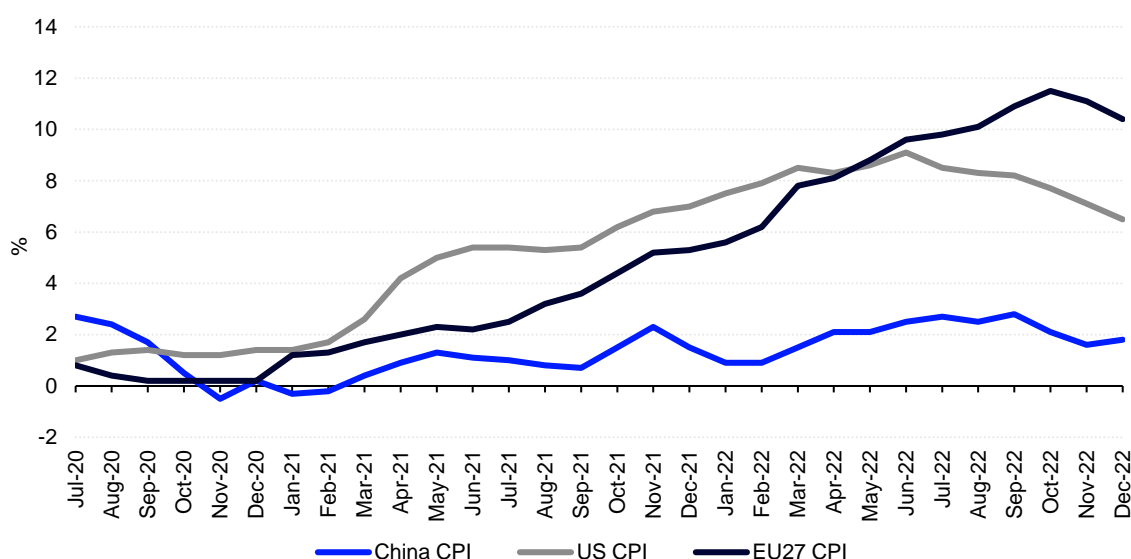


Source: FTSE Russell, as of December 31, 2022. China (ex A Shares) includes B, H, N Shares and P, Red, S Chips. Projected weights assume 100% A-shares inclusion using prices and constituents as of 31 December 2022.

## The Chinese equity market is a natural diversification tool for international investors

China's business cycle and inflation cycle can be atypical when compared to developed markets, particularly in recent years (chart 8), where we witnessed unsynchronised monetary and fiscal policies. While the US and EU have tightened monetary policies to control spiralling inflation since 2022, China was at the bottom of the cycle and pursued fiscal and monetary easing to boost its economy and promote internal demand. Differing monetary policies and regulatory environment have contributed to the low correlation between the Chinese and other markets (table 1) and have provided investment diversification to global investors.

Chart 8: CPI (YoY)



Source: Wind, as at December 31, 2022

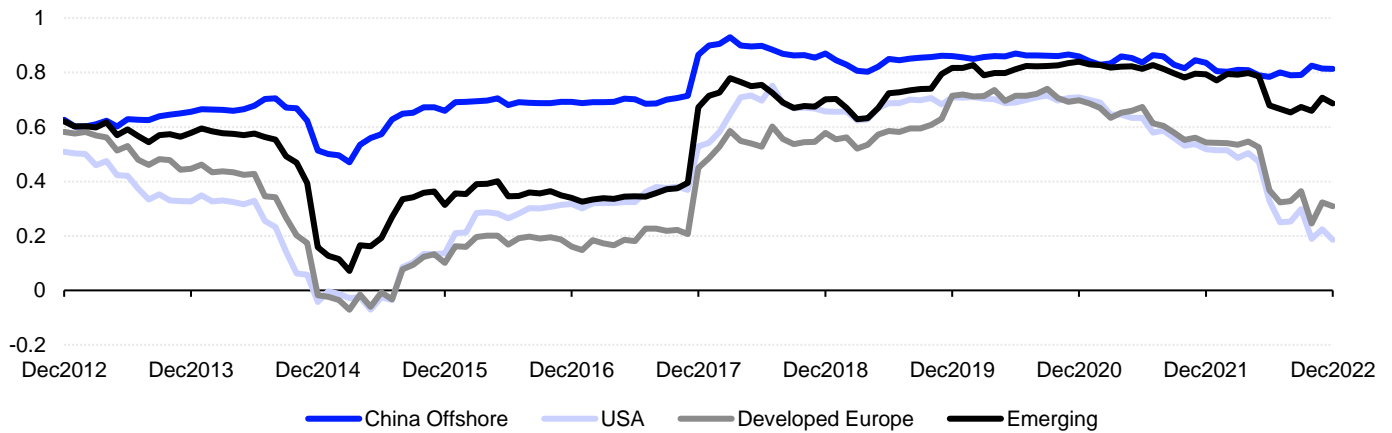
Table 1: Correlations between different markets

	China A	China Offshore	USA	Developed Europe	Emerging
China A					
China Offshore	74.5%				
USA	28.8%	36.7%			
Developed Europe	32.0%	46.4%	84.7%		
Emerging	55.4%	78.7%	65.3%	72.2%	

Source: FTSE Russell, December 31, 2012 – December 31, 2022, monthly return in USD, each represented by its corresponding FTSE Index. China A and China Offshore are represented by the FTSE China A50 Index and the FTSE China 50 Index respectively

Low correlation between the China A-share market and other markets is helpful during times of global market stress when correlations among asset classes tend to increase. In 2022, when the global market suffered a significant drawdown, the correlations between the China A-share market and other markets were low (chart 9).

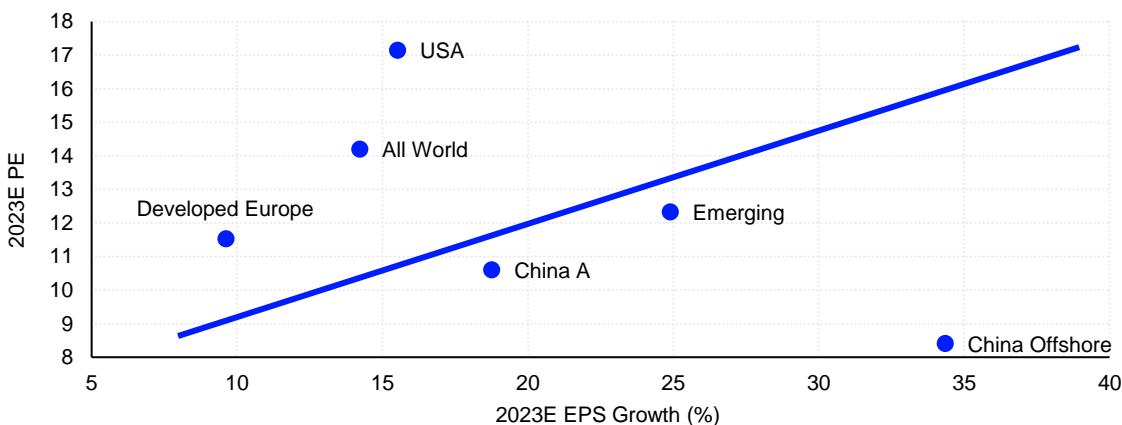
**Chart 9: Correlation between the FTSE China A50 Index and other markets**



Source: FTSE Russell, December 31, 2012 – December 31, 2022. Monthly total return in USD, rolling 3-year, each represented by its corresponding FTSE Index. China A and China Offshore are represented by the FTSE China A50 Index and the FTSE China 50 Index respectively

In addition to the diversification benefit, when comparing its valuation with other regions the Chinese market looks attractive, especially when taking growth opportunities into account (chart 10). Based on the FTSE China A50 and FTSE China 50 constituents as of end of 2022, PE ratios for the forward 12-month period are 10.6x and 8.4x, respectively. This contrasts with global market benchmarks, with the PE ratio for the FTSE All-World index at 14.2x and the FTSE USA Index at 17.1x, signifying comparatively lower valuations within the Chinese market. Furthermore, in terms of expected forward one-year Earnings Per Share (EPS) growth rates, the onshore and offshore Chinese markets exhibit promising figures of 18.8% and 34.3%, respectively. These figures surpass the global average of 14.2% for the All-World Index and the 15.5% rate for the FTSE USA Index. Factors contributing to this prognosis include increased investment in R&D, the burgeoning green and digital sectors, systematic reformation of SOEs and favourable conditions for private enterprises.

**Chart 10: Equity markets EPS growth (forward 12M) vs. PE (forward 12M) across regions globally**



Source: FTSE Russell, as of December 31, 2022. Each represented by its corresponding FTSE Index, China A and China Offshore are represented by the FTSE China A50 Index and the FTSE China 50 Index respectively

No market is without risk, a more informed understanding of the nature of policies underpinning China’s next stage of growth, the degree of maturity and openness of its capital market and the performance

characteristics of its equity market offers a constructive view for assessing Chinese investment opportunities.

## Unravelling the path to investing in China via FTSE

China A and HK listed stocks account for 95% of China's equity market and represent almost the entire equity market in China, especially with the recent return listings and future policy support of the HK market. Both China A-shares and HK listed stocks are not new to investors, as HK listed stocks used to be the primary vehicle for international investors to access the Chinese market. China A stocks were considered the ultimate China exposure and indeed dominate the Chinese equity market in terms of capitalisation. Considering the recent financial reforms, both markets are worthy of examination when it comes to a full exposure to China. FTSE Russell has a long history of offering access to China's capital market and has built an ecosystem around China A and HK listed stocks to enable greater flexibility in this ever-changing market.<sup>19</sup>

### The FTSE China A50 Index: Transparently reflecting the development of China's onshore market

The FTSE China A50 Index was launched in 2003, and 2023 marks its 20<sup>th</sup> anniversary. The index comprises the largest 50 China A-share companies and is market cap weighted, representing the Chinese onshore market in a transparent way.

The financial industry was the main component of the index historically, with its weight exceeding 50%. At the end of 2012, among the top ten constituents of the index, seven were financial companies and two were from real estate (chart 11). Traditionally, large Chinese companies were mostly financial companies such as banks, insurers and securities companies and past economic development relied heavily on real estate.

In recent years, however, traditional financial and real estate industries no longer dominate the market. The industry distribution of the China A50 index is becoming more diversified with an increasing proportion of new economy industries. At the end of 2022, the number of financial companies in the top ten list dropped to three and real estate companies fell from the rankings altogether. Consumer Discretionary and Consumer Staples replace Financials & Real Estate in accounting for the highest weight in the index (grew from 8.8% at the end of 2013 to 47.2% by the close 2022; chart 12). The rapid shift is due to factors including economic transformation from an export-oriented economy to one driven by domestic consumption, development in the new energy sector particularly in EVs and battery technology, regulatory changes affecting the financial sector, market dynamics and index methodology upgrades<sup>20</sup>.

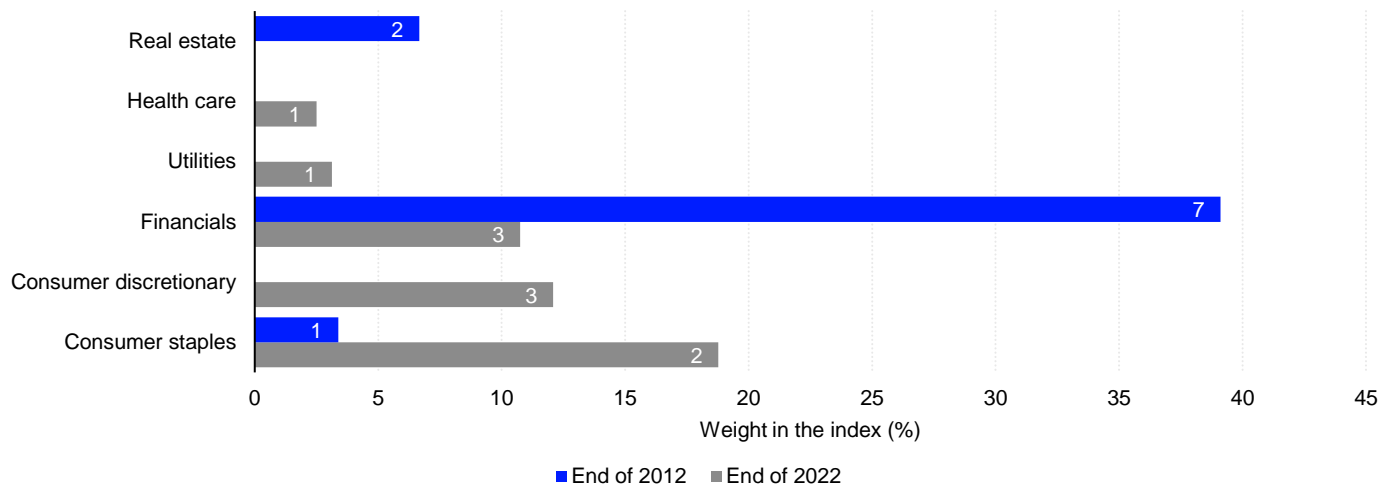
The transparent market cap weighted approach is particularly pertinent when considering its capacity to effectively capture the upgrading of industry structure. The FTSE China A50 Index provides a dynamic representation of the evolution in the economy.

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<sup>19</sup> [China onshore vs. offshore equity: understanding their unique exposure | FTSE Russell](#)

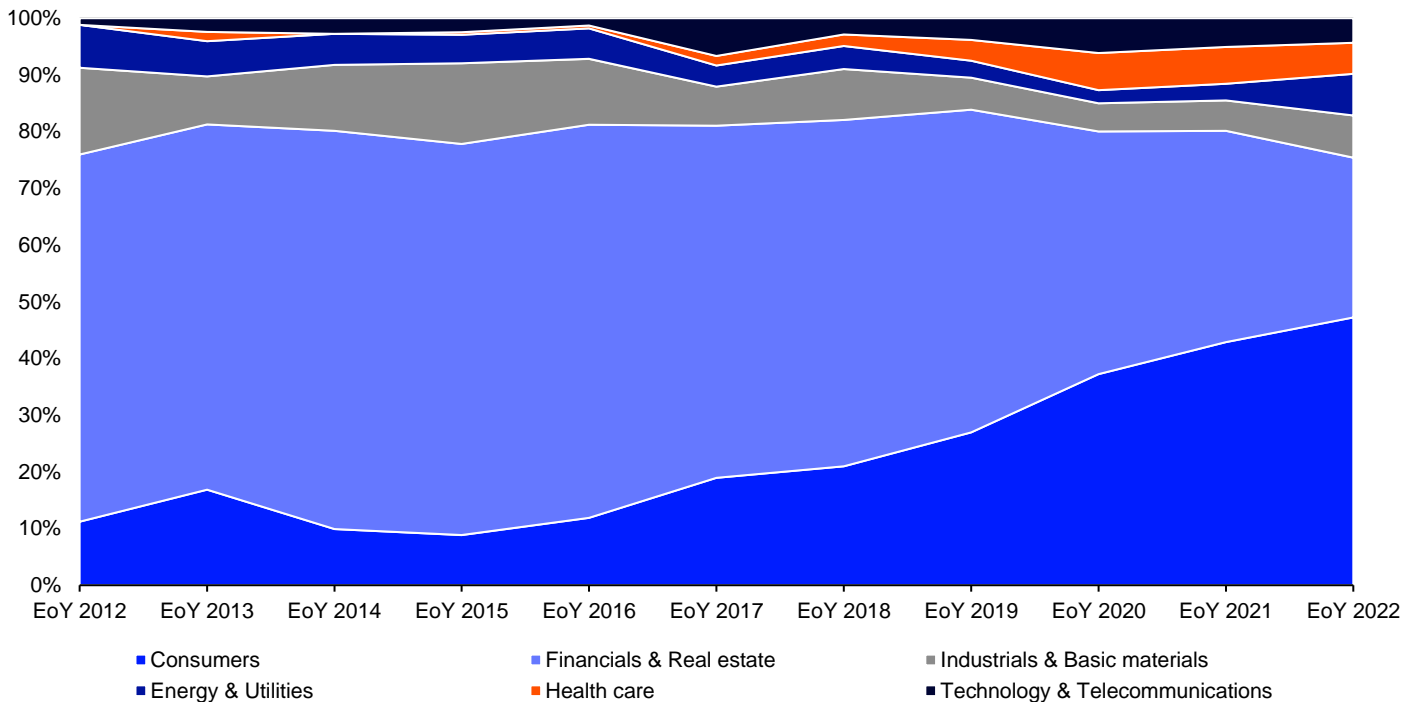
<sup>20</sup> Starting with the March 2022 index review, a 28% FOL has been consistently applied, which resulted in the extra benefit of a better industry diversification of the index (<https://www.ftserussell.com/blogs/pping-game-ftse-china-a50>).

**Chart 11: Industry exposure of the top 10 constituents in the FTSE China A50 Index**



Source: FTSE Russell, as of December 31, 2022. Figures in the chart represent the number of top 10 constituents in the respective industry

**Chart 12: Industry exposure of the FTSE China A50 Index**

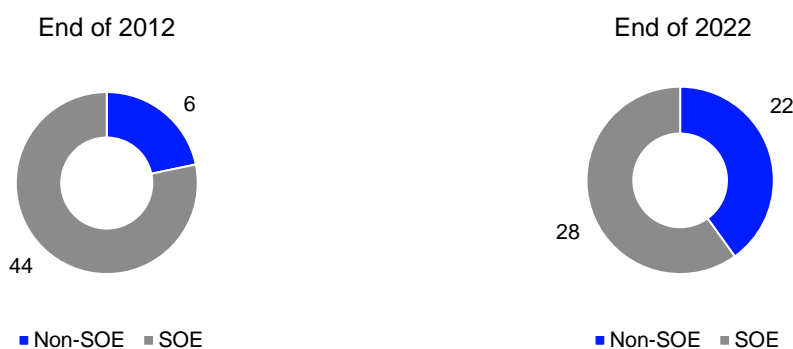


Source: FTSE Russell, December 31, 2012 – December 31, 2022, industry weights are calculated at year ends. Consumers include Consumer Discretionary and Consumer Staples.

We can also observe China’s economic development via the changes to the ownership of companies listed on the China A50 Index. Ten years ago, the Index constituents were mainly state-owned enterprises, with only six non-state-owned firms, accounting for about 21% of the overall Index. The state-owned enterprises made up the bulk of the Index and were an indispensable pillar of China’s economic development, and historically the growth of private enterprises lagged far behind. In recent

years, the government has issued a series of policies to support the development of the private sector, breaking down obstacles and barriers that restrict market competition, and granting preferential taxation and loans to encourage private company growth. Collectively, these actions have fostered the rapid development of private enterprises. Similar trends can be observed in the China A50 Index: As of the end of 2022, the number of private companies in the constituent stocks increased to 22, accounting for 40% of the total weight (chart 13). These private companies are mostly from new energy vehicles and batteries, photovoltaics, healthcare, semiconductors and consumer staples which are important forces in China’s transformation to high-quality development. Meanwhile, state-owned enterprises are also undergoing a series of reforms to embrace higher efficiency and innovation and have achieved positive feedback. The market’s enthusiasm for state-owned enterprises continued to rise in 2023. As the state-owned enterprises still occupy a relatively high weight in the China A50 Index, the Index can effectively satisfy demand.

**Chart 13: SOE and non-SOE breakdown of the FTSE China A50 Index**



Source: FTSE Russell, as of December 31, 2022. Figures in the chart represents number of 10 constituents in respective category.

## FTSE China 50 Index: Complementary to China onshore market

Shares listed in Hong Kong are the largest part of the offshore Chinese market. The FTSE China 50 Index, which was launched in 2001, comprises 50 of the largest and most liquid Chinese stocks (H Shares, Red Chips and P Chips) listed and trading on the Hong Kong Exchange (HKEX). As of December 2022, the AUM of passive assets tracking the index was US\$7.0 billion. Its correlation with the Hong Kong listed broader market was more than 0.95 over the past ten years<sup>21</sup>.

New economy industries like consumers and technology account for a much higher ratio in terms of market capitalisation in the FTSE China 50 Index in recent years (chart 14). This is partly due to the important reforms launched by HKEX in 2018, welcoming listings from new economy companies with weighted-voting rights (WVR) and pre-revenue biotech companies, as well as secondary listings of overseas-listed Mainland companies.<sup>22</sup> Meanwhile, due to the uncertainties and tensions between the US and China, N shares are returning to Hong Kong. Between 2018 to 2022, 30 N-share companies have listed on HKEX<sup>23</sup>.

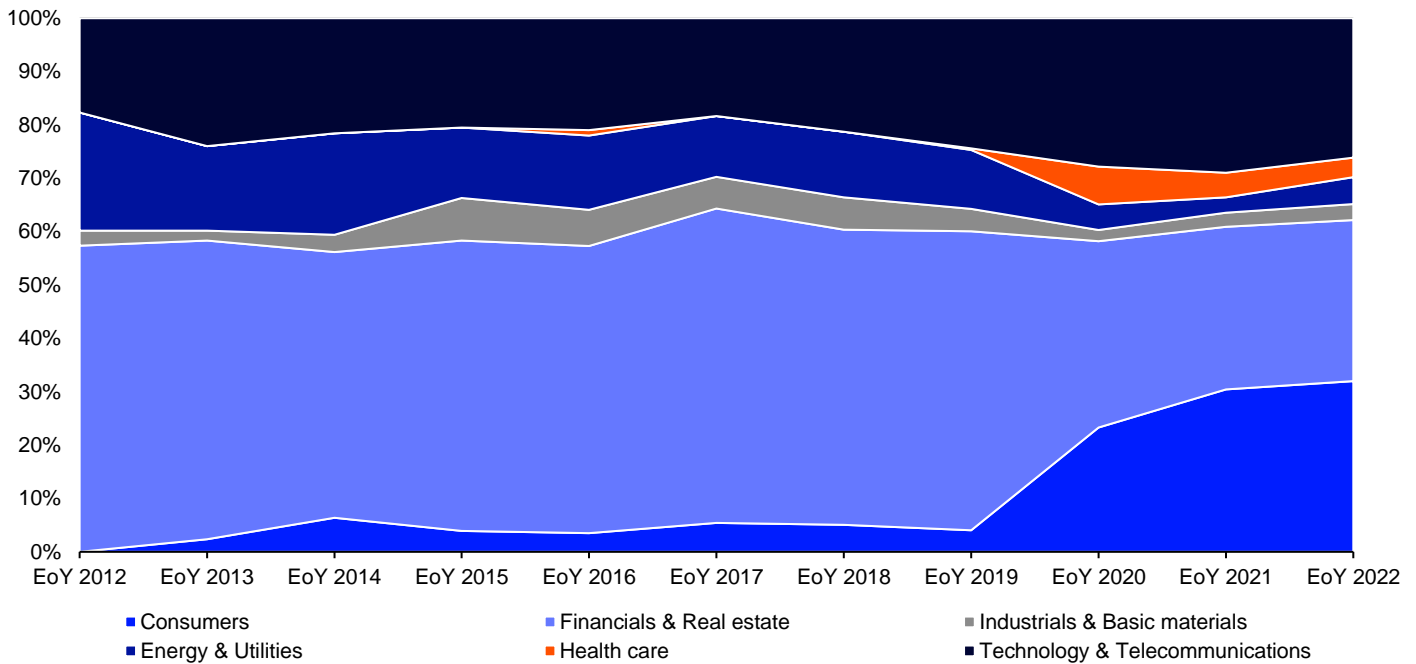
<sup>21</sup> Monthly return, correlation between FTSE China 50 Index and FTSE China – HK listed shares.

<sup>22</sup> [Hong Kong's Listing Regime Enters New Era, Featuring Emerging and Innovative Firms \(hkex.com.hk\)](https://www.hkex.com.hk)

<sup>23</sup> Wind



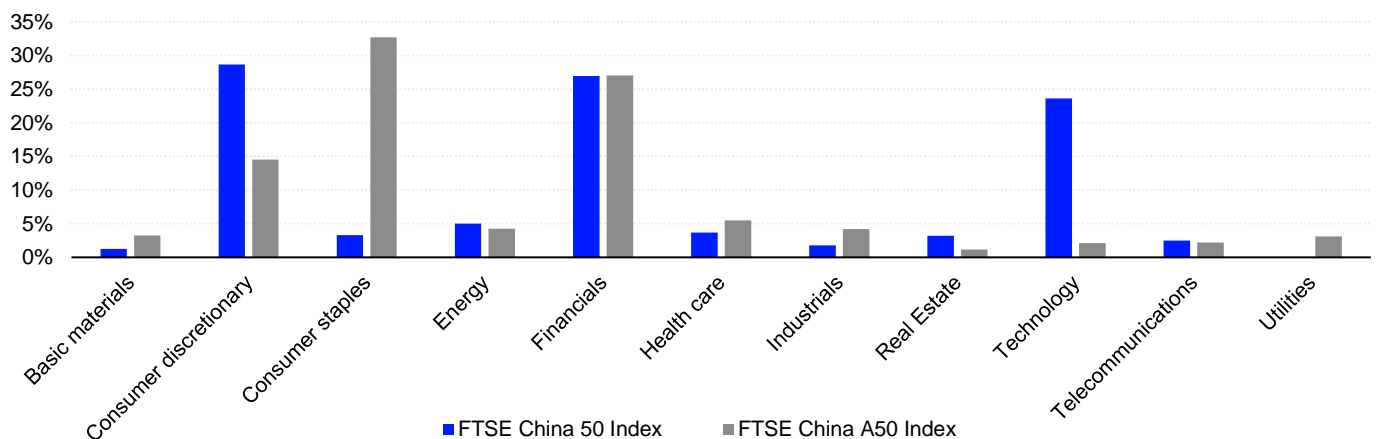
**Chart 14: Industry exposure of the FTSE China 50 Index**



Source: FTSE Russell, December 31, 2012 – December 31, 2022, industry weights are calculated at year ends. Consumers include Consumer Discretionary and Consumer Staples.

Market structures are quite different between Chinese companies listed in the onshore market and offshore markets. Offshore markets have much higher exposures to Technology and Consumer Discretionary (chart 15). Major technology companies such as Tencent, Meituan, Baidu and Kuaishou are listed in HKEX and included in the FTSE China 50 Index. For consumer discretionary, FTSE China 50 Index includes the most popular online shopping platforms in mainland China, Alibaba and JD.com. With the China’s 14<sup>th</sup> Five-Year Plan aiming to build Hong Kong into an international innovation and technology centre and expand domestic consumer demand<sup>24</sup>, the HK-listed shares may complement the on-shore A-share market to participate in China’s future growth.

**Chart 15: Industry exposure of the FTSE China A50 Index and FTSE China 50 Index**



Source: FTSE Russell, as of December 31, 2022

<sup>24</sup> Chapter 61 Lasting Prosperity and Stability in Hong Kong and Macao [Outline of the 14th Five-Year Plan \(2021-2025\) for National Economic and Social Development and Vision 2035 of the People's Republic of China - News](#)

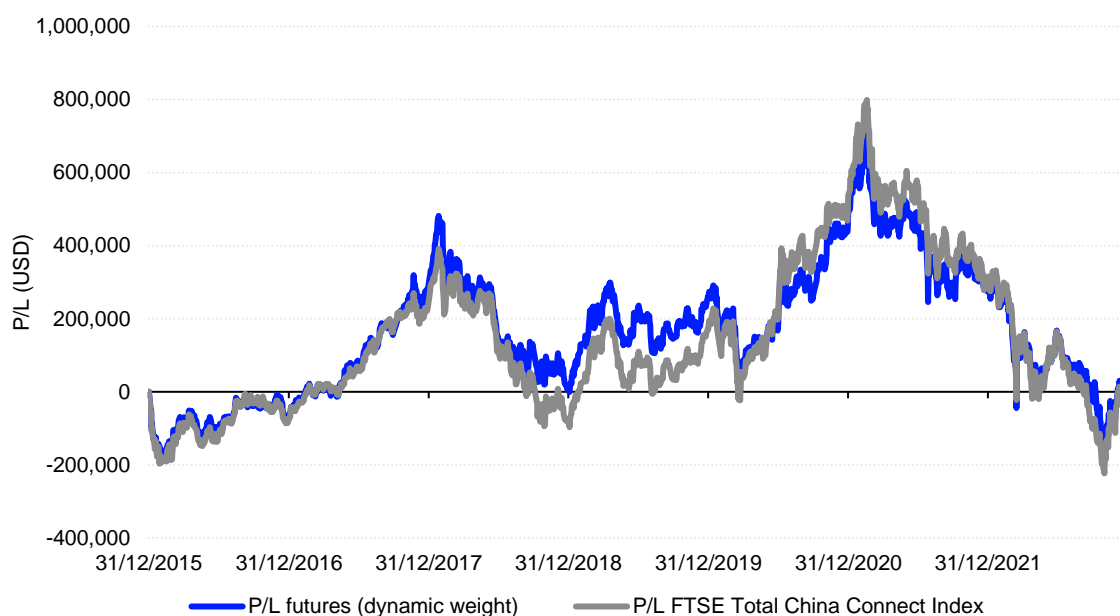
## FTSE China A50 and FTSE China 50 ecosystem: A tradable way to gain complete and flexible China exposure

Investors can gain access to China’s complete market via the index-linked products and index derivatives based on the FTSE China A50 Index and FTSE China 50 Index. For example, index futures contracts tracking both indices are listed on the Singapore Stock Exchange (SGX).

The case study below was conducted to test how well a combination of China A50 and China 50 futures tracks the overall Chinese equity market. We simulated a dynamic composite portfolio consisting of China A50 and China 50 futures and compare its risk return profile with the FTSE Total China Connect Index, which includes large and mid-cap Chinese companies listed onshore and offshore, with full inclusion of A-shares. The portfolio rolls the futures contracts on a monthly basis and is rebalanced monthly to reflect the actual relative weights between A-shares and HK listed shares in the FTSE Total China Connect Index.

The futures-based portfolio closely tracks the broad market benchmark with a correlation of 0.96. The risk and return profiles are also very similar (chart 16). The industry exposures as shown in chart 17 are more diversified compared with single market exposures. Furthermore, the strategy also offers a flexible solution to control the relative weights between A-shares and HK listed shares in a customised way, which enables different risk and return profiles from the Chinese equity market.

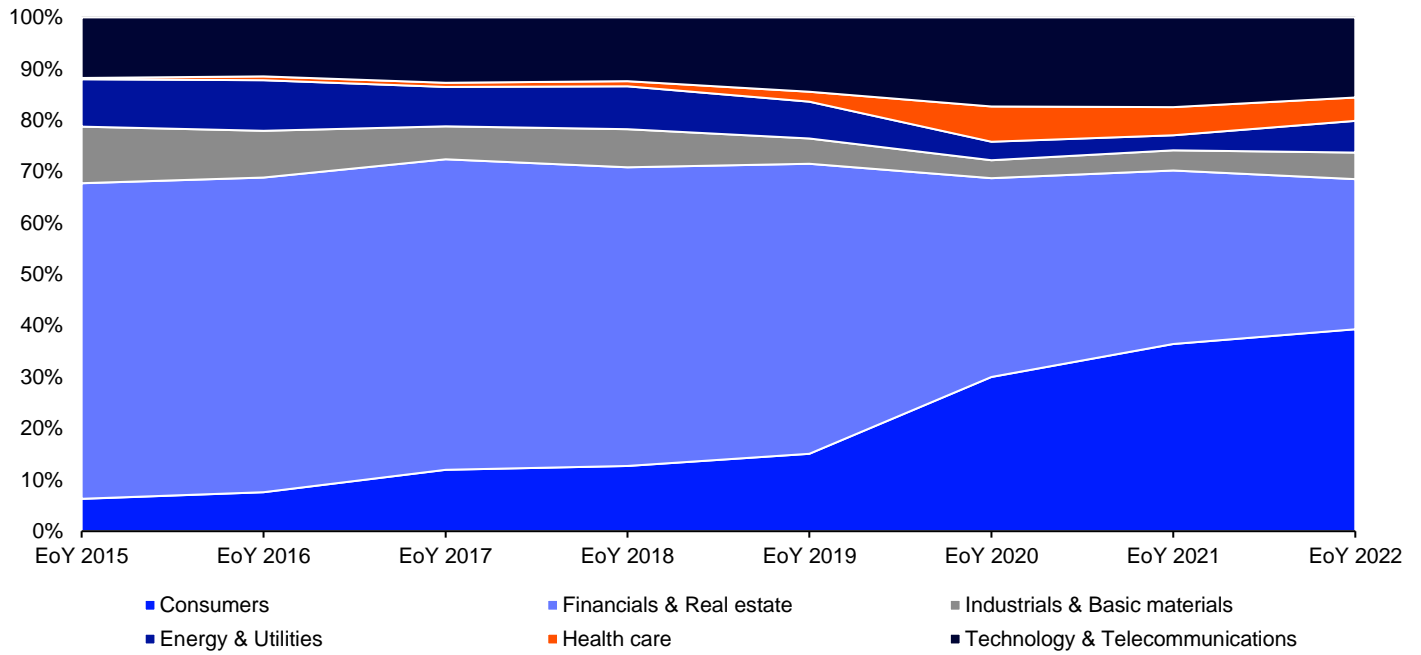
**Chart 16: Performance of future strategy**



	Annualised return	Annualised volatility
<b>Future strategy</b>	0.18%	21.37%
<b>FTSE Total China Connect Index</b>	-0.18%	21.18%

Source: Workspace, FTSE Russell, December 31, 2015 - December 31, 2022, in USD. Initial notional amount is 1 million USD, profits are reinvested. For history prior to Nov. 2020, performance of the FTSE China 50 index was used as the proxy for China 50 future.

**Chart 17: Industry exposure of the futures strategy**



Source: FTSE Russell, December 31, 2012 – December 31, 2022, industry weights are calculated at year ends.

## Conclusion

China is undergoing a transformational period to maintain sustainable growth after years of rapid expansion. The new development strategy focuses on quality instead of the speed of growth with technology and innovation playing major roles. New opportunities for investment are unfolding in various industries.

Meanwhile, China's equity market is advancing quickly and maturing from several different perspectives. Not only did the market size grow significantly, but the industry structure and market entities have become more diversified. Additionally, the opening up of China's capital market has entered a new era with firm policy support.

Looking back at the historical performance of China's equity market, we can see that it offers considerable diversification due to its unique policy and regulatory environment. The correlation between China's equity market and others remains low, which is especially valuable during economic downturns in developed markets. Moreover, when compared with other major markets, the forward-looking growth rate of China's equity market is relatively high while the current valuation is in the 'cheap' range.

FTSE Russell provides a new tradable way for investors to gain full exposure to China through the FTSE China A50 Index and FTSE China 50 ecosystem. Both the FTSE China A50 and FTSE China 50 have extensive histories and provide an effective representation of the China A-share market and offshore markets. With differing industry exposure profiles in the A-share and offshore markets, the two indices complement each other to provide a complete model of China's financial landscape. Investors can gain access to China via the index-linked products and index derivatives based on the FTSE China A50 Index and FTSE China 50 Index. The case study in the final section showed that a combination of China A50 and China 50 futures track the overall Chinese equity market well. Just as the Chinese economy is undergoing a fundamental transition, so are the means for international investors to access this next stage of growth.

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