3.

China Capital flows have increased significantly in the past few years. More specifically, China equities, bonds and other investment has shown a lot of increase in terms of capital inflow. Result show implication as China engage in further reform in its domestic financial system and greater integration with the world financial system. As the US-China rivalry continues, China accelerates its effort to attract capital inflow by opening its capital market. As China economy has recovered over the past month, I believe its inclusion in the investment benchmark indices will attract more capital inflow in the following year; mainly due to its positive economic outlook, zero-interest rate environment and weak US dollar. Yet, still challenges remain ahead when it comes to business environment and dispute.

Since its yuan-denominated bonds inclusion in the Bloomberg Barclays Global-aggregate index in 2017, the bond market held by foreign investor has tripled up to 2.84 trillion yuan. In 2019, China has freshly attracted US$43.5 billion in fresh foreign capital and is expected to see an increase flow of US$20 billion in the bond market. This shows significance inflow for the last couple of years. Furthermore, the capital inflow is not what we use to call "hot money”; capital flow for short term profit. This capital flow is view as a strategic allocation of international investor on the positive outlook of China. China’s GDP has increase 4.9% in the 3rd quarter, export rise 9.9%year and is forecasted to be the only country to grow this year. Given, other country maintenance of a near zero-interest rate or even negative, China 10-year bond positive yield at 3.2% will attract much more capital for long term investment. Given this positive outlook, FTSE Russell announce to add the Chinese gov bond to its WGI (World Government Bond Index), paving way for more capital inflow to the economy around 2021.

Aside from the economy. Inclusion of the China A-shares in the MSCI index also shows positive sentiment towards fund and buy side managers. The inclusion will allow them to satisfy investor demand for exposure towards the China economy and build strategy in the most dominant trend of the asset management. More importantly, the larger difference between onshore and offshore RMB interest rates also encourage capital inflows that are dominated to seasonal trend as China’s foreign exchange reserves remain balanced after April 2020.

With eyes on liberating the financial system, China will likely continue to attract international capital flow in the long term as it has been proven successful in the past years after its inclusion in benchmark indexes. We might be seeing a global financial sector integration in the next decade. However, the caveat is excessive capital inflow might induce downward pressure on the yuan currency and cause unprecedented effects. Dispute with United States and uncertainty over monetary policy might reduce China capital inflow. In particular, the rise in United States interest rate, might cause negative effect to the China capital market as outflow would be inevitable.

4.

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