

UNLOCKING CHINA:

How South African Investors
Can Access Chinese Equity Markets



China is not directly accessible to South African investors due to stringent regulatory requirements and foreign investment controls imposed by both countries. South Africa mandates adherence to foreign investment limits, while China's capital markets often require approvals and partnerships with local entities, creating additional barriers for foreign individuals and institutions.

Historical Overview

In the late 20th century, China embarked on significant economic reforms under Deng Xiaoping's leadership. The introduction of market-oriented policies in 1978 marked the beginning of an era of rapid economic expansion. Between 1980 and 2020, China experienced average annual GDP growth rates exceeding 9%, transforming it into the world's second-largest economy, trailing only the United States.

Recent Trends

Over the last decade, China's GDP growth has moderated, transitioning from double-digit growth to a more sustainable pace. From 2012 to 2022, annual growth rates ranged between 6% and 7%. This shift reflects structural adjustments in the economy, including:

- **Focus on Domestic Consumption:** China has aimed to reduce reliance on exports by encouraging domestic consumption and service-based industries.
- **Technological Innovation:** Investments in AI, 5G technology, and renewable energy are driving China's economic modernization.
- **Environmental Initiatives:** Efforts to curb pollution and shift toward green energy have altered industrial priorities.

China's GDP growth faces several challenges, however, there are opportunities, as China continues to innovate, expand its consumer base, and strengthen its role in global markets.

Benefits and Risks

Investing in ETFs with exposure to China offers benefits such as diversification and access to a dynamic economy characterized by rapid innovation and growth. However, it is essential to consider risks, including geopolitical tensions, regulatory changes, and market volatility.

Understanding Chinese Market Exposure

Exposure to China within South African-listed ETFs is typically achieved through indices that include Chinese companies. These indices might focus on emerging markets, BRICS nations, or even global equities, where Chinese stocks form a significant component. ETFs that track such indices allow South African investors to indirectly access major Chinese firms listed on international exchanges.

Popular Indices Featuring Chinese Stocks

Some of the key indices often tracked by ETFs with exposure to China include:

- MSCI Emerging Markets Index
- FTSE Emerging Index
- MSCI All Country World Index (ACWI)
- SATRIX MSCI China ETF

These indices include companies from China due to its prominence in global and emerging markets.

Due to the limited Rand based investment exposure outside the ETF universe, many of clients seek alternative solutions that give broader Chinese equity exposure like the Standard Bank China Multiplier Structured Product. The China Multiplier is an Index linked investment referencing the performance of the MSCI China Top 50 companies like BYD, Alibaba etc.

Conclusion

For South African investors interested in accessing the potential of China's economy, structured products capital guaranteed solutions provide a convenient and diversified pathway. If you are an advisor and interested in accessing these solutions for client portfolio diversification, please contact Standard Bank: gmsrp@standardbank.co.za

