

Infrastructures of Power: Index Providers and the Politics of China's Financial Globalization

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Master's Thesis – Master in Economics
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June 2, 2025

Abstract

The paper investigates the evolving relationship between global index providers, particularly MSCI, and China within the context of financial globalization and infrastructural power. The rise of passive investing has transformed index providers into powerful private authorities capable of steering capital flows by determining how investment is allocated through their indices. Traditionally, index inclusion has been associated with the diffusion of liberal standards, incentivizing countries to liberalize their financial markets in exchange for greater capital inflows. However, the case of China demonstrates a more complex dynamic: one marked by negotiations and mutual concessions. China strategically engages with index providers to attract foreign capital without compromising state control over its financial system. It has instrumentalized its financial infrastructure—such as Stock Connect and domestic indices like the CSI 300—to stabilize markets, professionalize its financial sector, and internationalize the renminbi. At the same time, index providers have accommodated China's constraints in order to satisfy investor demand and preserve market relevance. The findings suggest that rather than a top-down diffusion of liberal norms, China's financial integration reflects a process of negotiated globalization.

Acknowledgements

I would like to express my gratitude to Dr. Tom Duterme for his guidance, critical insights, and continuous support throughout the development of this thesis.

I am also thankful to Dr. Johannes Petry for kindly agreeing to share his time and expertise through an in-depth interview. His reflections and research have informed the core arguments of this thesis.

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1 Introduction

Traditionally, finance has been viewed as a facilitator of production, as a system that allocates capital to support the creation of goods and services. However, recent work by [Braun and Koddenbrock \(2022\)](#) reconceptualizes finance as the exercise of power over future value. They define financial claims, such as stocks, bonds, or derivatives, as “forward-looking claims on future resources,” emphasizing their nature as contractual rights to future value. This definition shifts attention away from “who creates value” to “who controls access to future value,” introducing the idea of finance as a system of authority rather than a neutral intermediary.

Within this framework, attention is given to index providers, such as the famous S&P Dow Jones, MSCI, and FTSE Russel, that [Braun and Koddenbrock \(2022\)](#) describe as exercising infrastructural power, as these actors do not directly own or manage financial assets, but instead offer the services that enable them to create, hold, or trade financial claims. Rather than neutral reflectors of markets, index providers actively structure capital flows and impose norms about what is considered “investment-worthy.” As highlighted by several scholars—including Petry, whose work will be discussed further below—the rise of passive investing has elevated indices from mere benchmarks to gatekeepers of capital allocation, as trillions of dollars are now managed through index-tracking funds. Understanding how indices operate, and who controls them, is therefore essential for grasping the political economy of contemporary finance.

This thesis mobilizes the concept of infrastructural power to explore how index providers interact with the People’s Republic of China’s (hereafter referred to as “China”). China’s state-capitalist system presents a unique challenge to the logic embedded in global financial indices, which often promote transparency, market liberalization, and investor accessibility. This case is particularly relevant given China’s recent efforts to integrate into international financial markets, a process that lags behind its earlier integration in global trade and production since the 1980s.

It asks: To what extent has China been able to shape the rules of its financial market integration, particularly through its interactions with global index providers? And how does this challenge dominant narratives about the authority of index providers in global finance? My core argument is that China represents a unique case of negotiated financial globalization, in which the typical power asymmetry between emerging markets and index providers is nuanced, and at times reversed. Their evolving relationship thus provides a critical perspective for studying power dynamics in global finance.

The research engages with a topic that remains underexplored in the existing literature. It contributes by drawing on a wide range of disparate sources, which are reassembled through the specific analytical lens of the relationship between global index providers and China, and the interests that underlie this interaction. Rather than simply compiling existing research, the thesis constructs a framework suited to the central question by proposing interpretations that recontextualize existing literature. It challenges the dominant narrative that financial globalization inevitably leads to liberal convergence by examining how China has instrumentalized its domestic financial infrastructure, particularly Stock Connect and indices such as the CSI 300, to serve its own interests. In parallel, it also offers original empirical and analytical contributions that help address dimensions of the topic scarcely explored in the literature. These include a study of capital allocation to China, comparing funds tracking domestic Chinese indices with those tracking global indices such as MSCI. It also examines the methodological foundations of these indices—a dimension overlooked in the literature—by engaging with the sociology of quantification to highlight how seemingly technical index design decisions embed political choices.

This thesis aims to adopt an International Political Economy (IPE) framework, while drawing on insights from the sociology of quantification. Together, these approaches make it possible to connect the normative assumptions underlying index construction with the material outcomes they produce through capital allocation shaped by index-tracking funds. Engaging with these perspectives allows the thesis to move beyond a purely economic analysis and situate index inclusion within questions of authority and sovereignty.

The empirical analysis draws on a wide range of academic literature concerning index providers, financial globalization, and China’s financial reforms. It also incorporates publicly available data from international institutions such as the IMF, World Bank, and the People’s Bank of China. Fund-level data were retrieved from the Bloomberg Terminal at the BSPO Library in Louvain-la-Neuve to analyze capital flows. Finally, the research uses an interview with Johannes Petry, whose work on the political power of index providers and China’s financial integration plays an important role in this thesis.

This research is structured into two main parts. Part I provides the conceptual and empirical foundation for the analysis, based on existing literature. It begins by examining the emergence of financial indices, the rise of passive investing and the growing influence of asset managers, before turning to the infrastructural power of index providers and the politics embedded in index construction. It then explores China’s gradual integration into global financial markets, by tracing the evolution of China’s capital market reforms, the selective opening of its financial system, focusing on mechanisms such as Stock Connect and the QFII/RQFII programs, which have enabled foreign access while preserving state control. Part II focuses on the power dynamics between China and global index providers. It begins by analyzing the motivations, constraints and strategies of both index providers and China, and how these shape their relationship, illustrated through cases involving offshore derivatives, capital flows and index inclusion. The last section offers a comparative analysis of the methodologies of domestic (CSI 300) and global (MSCI) indices, analyzing their normative logics.

Part 1 - The Rise of Index Power and China’s Financial Integration

2 Stock Market Indices, Asset Manager Capitalism and the Rise of Passive Investing

2.1 The Evolution of Stock Market Indices: From Informational Tools to Market-Shaping Instruments

Stock market indices represent “a subset of the broader stock market, and are used to measure and track the performance of that specific subset” ([Tastytrade, 2025](#)). They are used as benchmarks for comparing investment performance and evaluate the health of global markets. Well known examples are the S&P 500, the Dow Jones Industrial Average, the NASDAQ Composite, and the FTSE 100. In earlier periods, indices mainly played an informational role, functioning as reference points for analysts assessing stock performance. Over time, however, they have evolved into central benchmarks and powerful instruments that not only reflect market trends but increasingly shape them ([Petry et al., 2021](#)).

To understand how indices came to occupy such a central role in financial markets, it is useful to trace their historical origins. [Hautcoeur \(2006\)](#)’s and [Duterme \(2023\)](#)’s socio-

logical and historical investigations highlights how quantification (e.g. indices) co-evolves with the social world it aims to describe. Stock market indices were initially developed by journalists in the late 19th century, such as Dow Jones in 1884. They gradually attracted the attention of a wide range of actors with different interests, each seeking to influence the ‘engineering of indices’ to steer their effects in ways that align with their own interest (Hautcoeur, 2006; Duterme, 2023). Following this journalistic origin, indices were appropriated by macroeconomists in the early twentieth century, especially those studying business cycles (Duterme, 2023). As Hautcoeur (2006) observes, “the actual origin of stock market indices . . . and the rise of a more scientific attitude in the construction and use of such indices. . . must be traced to the emergence of macroeconomics more than to the development of financial markets and practices.” Their purpose was to measure macroeconomic dynamics and the structure of the economy, not investor sentiments.

Early stock market indices, and their intended function as macroeconomic indicators, were calculated as weighted averages of selected stock prices (Duterme, 2023). Rooted in the logic of business cycle analysis, these indices were designed to represent the overall structure of the economy by being broad and selecting companies from all important sectors, with a periodical restructuring—roughly every decade—to reflect industrial evolutions (Hautcoeur, 2006). During the interwar period, their political relevance increased significantly, as “government intervention, economic theory, public sensitivity to business and price fluctuations, and the development of statistics reinforced each other” (Hautcoeur, 2006). As state involvement in the economy increased, a quantified representation of the economic reality was needed. Indices evolved into more than mere signals, but evidence, used to justify policies.

The social actors shaping stock index construction have not remained constant over time. Duterme (2021) studies how different publics have shaped the construction of stock indices in the Belgian context. In the early 20th century, indices were designed for financial elites, prioritizing readability and ease of appropriation by the reader. In the postwar period, statisticians took over, operating at a distance from stock market pressures. These indices were designed to be used as macroeconomic tools within a Keynesian framework. These standardized, internationally comparable aggregates aimed to inform public policy and support growth. From the 1980s onward, under financial globalization and neoliberal reforms, indices were reconfigured to attract international capital. The rise of retail investors and passive investing shifted focus toward returns, tradability, and liquidity. As Duterme notes, while publics shape indices, indices in turn shape their publics, by encouraging them to recognize themselves in the way they engage with the index.

Index construction has never been a neutral technical task. From their inception, the construction of stock market indices has involved methodological choices and challenges, including which stocks to include, how to weight them, and how frequently to update the sample. These decisions have always been shaped by the intended function of the index, the norms that dominate, and the availability of data (Hautcoeur, 2006). As modern finance developed, weighting by market capitalization became standard, offering a more accurate benchmark for portfolio managers (Hautcoeur, 2006). The rise of financial derivatives in the 1980s further reinforced the importance of indices. From that point on, index values began to serve as the ‘source’ of the value of other products (Duterme, 2023).

These historical developments illustrate how performativity underpins the evolution of financial indices. Rather than just observing the market, indices have come to shape the reality they were meant to measure. Duterme (2023) explains how various actors contest the engineering of indices, precisely because of its performative capacity—its ability to produce effects aligned with their own interests. This awareness is not new. Hautcoeur

(2006) notes that “the risks involved in using them [indices] indifferently for any purpose was clearly understood in the interwar period, maybe more than today.” At the time, actors were already conscious of how methodological choices in index design could lead to misinterpretation or misuse. Braun (2016) frames index investing as a performative practice, through which financial theories, such as the Capital Asset Pricing Model (CAPM), are materialized into reality. CAPM, developed in the 1950s, required a proxy for the idealized “market portfolio,” and indices filled that role. As one of these financial theories that outpaced the empirical data needed for their validation (Hautcoeur, 2006), CAPM contributed to the transformation of indices into prescriptive tools, as proxies for “the market” within financial theory.

The Brownian “random walk” model is another example of a performative theory that contributed to the importance of stock market indices, by shaping how markets were understood (Duterte, 2023). It stems from the observation that financial asset prices appear to fluctuate in an erratic and seemingly patternless way, based on the assumption that all new information—also random in nature—is immediately incorporated into prices. As a result, price variations and returns are independent over time, reflected in the random walk. Fama (1970) formalized this idea within the efficient market hypothesis, which also assumes that prices reflect all available information. This means there are no profit opportunities from “undervalued” securities, as information is shared across market participants. If outperforming the market becomes statistically improbable, the need arises of a concrete index to represent “the market” for empirical testing. As Duterte (2023) notes, “indices were therefore set up as official representatives of ‘the market’, as ultimate benchmarks against which the performance of any fund manager was assessed.”

2.2 The Rise of Passive Investing

Active and passive investing represent two distinct approaches to asset management. Active investing involves managers who strategically select stocks with the goal of ‘beating’ or outperforming the market. In contrast, passive investing consists of replicating the composition of benchmark indices by holding a portfolio that mirrors their structure (Coggan, 2024; Fichtner et al., 2022). This is typically done through financial products such as exchange-traded funds (ETFs) or mutual funds. As Petry et al. (2021) note, we have entered “the age of passive asset management”, as active managers have been outcompeted by passive managers (Coggan, 2024). Following the 2008 global financial crisis, a growing share of capital began flowing into index funds (Petry et al., 2021).

Graph 1 illustrates this trend by showing the evolution of market share between actively and passively managed assets in both the U.S. and the world¹. A turning point was reached at the end of 2023, when passive held assets surpassed active funds in the U.S. A similar shift can be observed in the globally, with passive management steadily gaining ground, although less strongly.

A key factor behind this massive shift since the global financial crisis, has been cost efficiency: passive managers charge small fees, and offer stable returns that follow the market average (Coggan, 2024). In contrast, active funds often fail to justify their higher cost: as Aylott (2025) notes, only 14.2% of active managers outperformed passive managers over the past decade. These developments signal a deeper transformation in the way global capital is managed and allocated (Fichtner et al., 2022).

¹The data includes ETFs and mutual funds, but excludes funds of funds, collective investment trusts, and separate accounts. It also does not capture passive strategies that are not registered as fund structures, such as so-called “index huggers” (funds labeled as active but closely mimic benchmarks), which means that the full extent of index-based investing is likely underestimated.

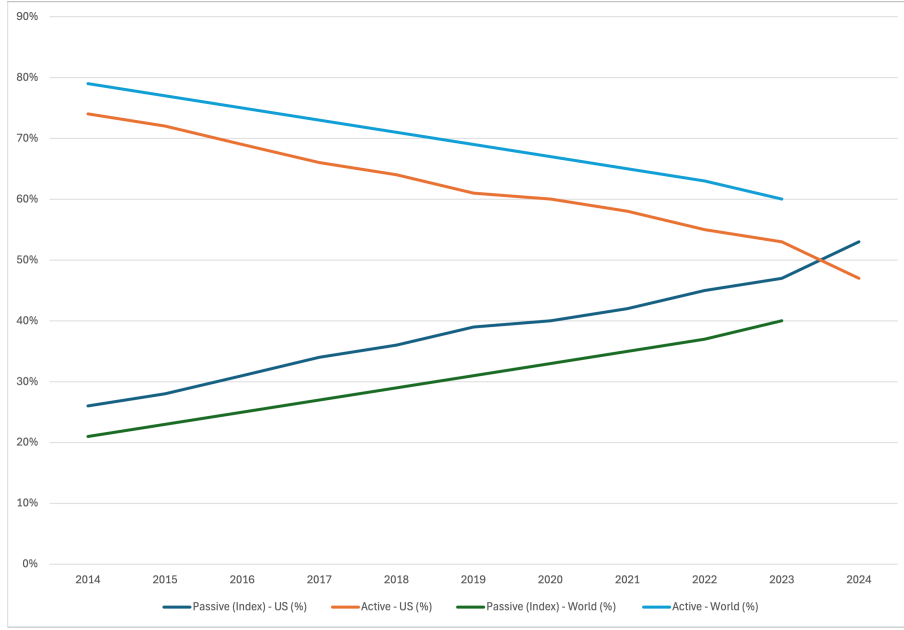


Figure 1: Active vs. Passive Assets Under Management in the US and the World (% of Market share)

Source: Morningstar and PWLCapital

2.3 The Big Three and the Age of Asset Manager Capitalism

The rise of passive investing has gone hand in hand with the growing dominance of a small group of asset managers. Just three firms—BlackRock, Vanguard, and State Street—now dominate this sector (Bas et al., 2023). Together, they manage trillions in assets and hold substantial ownership stakes in nearly every major publicly listed company worldwide. For instance, Backus et al. (2021) found that the Big Three collectively held around 6% of the average S&P 500 firm in 2000, a share that increased to 21% by 2017. This concentration is described by Braun (2021) as “asset manager capitalism.”

This shift introduces a new form of financial power. Under the earlier model of shareholder primacy, the focus was on increasing the market value of individual firms. In contrast, passive asset managers operate as so-called “universal owners” or exercise “common ownership”, by holding significant stakes in multiple firms, often within the same industry and across different sectors (Braun, 2021; Bas et al., 2023). As a result, they are particularly exposed to systemic risks like climate change, pandemics, or financial crises. Unlike traditional shareholders, the stability and profitability of entire sectors are in their interest, as they “lack direct economic interest in the performance of individual portfolio companies.” Their revenues don’t depend on just one company winning but on the volume of assets under management (Braun, 2021).

This structural shift has been theorized through the common ownership hypothesis. If corporate decisions reflect investor interests, and those investors hold stakes in competing firms, then companies may no longer aim to maximize only their own profits. Instead, universal owners aim to maximize returns at the portfolio level, as opposed to maximizing profits of a single firm (Azar et al., 2018). They may thus begin to take into account the profitability of their rivals as well, potentially leading to oligopolistic behavior (Backus et al., 2021). This aligns with Braun’s claim that ownership no longer implies pressure for firm-specific performance, but rather systemic stability and profit pooling. Azar et al. (2018) further argue that when ‘lazy investors’—who don’t pressure firms to grow ag-

gressively—dominate the market, managers can enjoy the ‘quiet life’, avoiding risky or competitive strategies. If such passivity is widespread, this can lead to reduced output and inflated profit margins, consistent with Cournot models of imperfect competition.

This transformation in ownership structure has been the subject of empirical research. [Azar et al. \(2018\)](#) find that common ownership reduces competitive pressure in the airline industry, resulting in lower output and ticket prices that are 3% to 7% higher than they would have been in a more competitive environment. They also show that firms with greater levels of common ownership exhibit lower sensitivity between top managers’ compensation and firm performance, suggesting that CEOs are less financially rewarded for outperforming peers. [Braun \(2021\)](#) highlights how this shift can even position passive asset managers as de facto policymakers. For example, during the pandemic, they encouraged pharmaceutical companies to prioritize collaboration over competition in vaccine development. At the same time, the findings of [Bas et al. \(2023\)](#) suggest that the presence of the Big Three is associated with increased firm-level productivity, particularly when overall institutional ownership is high. They interpret this as evidence that firms with more presence of the Big Three are more incentivized to invest in innovation, as broadly exposed investors are better able to withstand poor performance in a single firm.

Despite their concentrated ownership, passive asset managers are structurally unable to exercise the traditional shareholder tool of “exit”—selling shares in sign of disapproval—since their business model requires them to hold all the companies included in the indices they track ([Braun, 2021](#)). As Braun argues, “exit is no longer the main mechanism underpinning the structural power of finance... control has largely replaced it.” This creates a paradox: passive managers have enormous ownership power, but very limited ability—or incentive—to act like traditional shareholders. Nevertheless, [Azar et al. \(2018\)](#) suggest that passive managers still engage in soft forms of governance, primarily by having their say in private engagement meetings. They also note that boards increasingly seek the approval of major shareholders when selecting director candidates. Similarly, [Bas et al. \(2023\)](#) argue that even without direct oversight, large investors can still exert strong influence through market signaling, as reducing their stakes may be seen as a negative signal by other participants. While passive funds cannot exit by design, asset managers may still signal disapproval through their active fund, by choosing which indices to track, or by reallocating weights.

This structural passivity implies that asset managers do not make investment decisions themselves, but instead delegate them to the index providers whose benchmarks they follow ([Petry et al., 2021](#)). This has created a separation between the ownership and management of financial assets. Big asset managers may hold these assets on behalf of end-investors, but the actual investment decisions are increasingly taken by index providers acting in their place. The shift from active to passive investing has thus been a catalyst for the growing infrastructural power of index providers ([Fichtner et al., 2022](#)). This trend also supports findings by [Backus et al. \(2021\)](#), who show that the rise in common ownership is primarily driven by the spread of indexing, and less by the expansion of the specific large asset managers—demonstrated by isolating the effects of indexing behavior from the identity of the investors involved.

3 The Role of Index Providers in Global Finance

This section draws heavily on the work of Johannes Petry, whose research on the growing private authority of index providers fills a gap in the literature on the political economy of global capital flows. It builds on section 2.1, which traced the historical evolution of stock

market indices, by turning attention to their current position in today’s financial markets.

3.1 The Rise and Consolidation of the Index Industry

Alongside the dominance of asset managers, the index industry is similarly concentrated. Just three firms—MSCI, S&P Dow Jones Indices, and FTSE Russell—each account for roughly 26% of global index industry revenues, while Bloomberg is a key actor in the bond industry (Fichtner et al., 2022). As Petry et al. (2021) argue, this industry operates under oligopolistic conditions: it is highly profitable—with MSCI reporting profit margins over 60%—and protected by high barriers to entry. Attempts to introduce competition have largely failed. Smaller entrants often lack the brand recognition, historical legacy, and are often acquired by the big index providers if they come up with a new idea. While asset managers with strong brands (such as BlackRock) could theoretically build their own benchmarks (known as self-indexing), doing so raises concerns over conflicts of interest. If firms manage both the index and the funds tracking it, investors may question the neutrality of the index, which is supposed to be an objective representation of the market (Petry et al., 2021).

This growing dominance of a few index providers is closely tied to broader transformations in the role of indices themselves. Before the rise of passive investing, indices were useful but not central to the functioning of financial markets. They guided investment decisions from active asset managers indirectly, since deviating from an index was seen as a risk indicator. The goal of active managers was, by design, to diverge from the index in order to beat it (Petry et al., 2021). This dynamic shifted after the global financial crisis, which marked the beginning of two trends (as outlined above): the concentration of the index industry and a large-scale shift of capital toward passive investment strategies. They have now become powerful actors capable of shaping corporate governance norms and steering capital flows. This growing influence within the passive investment industry has also extended index providers’ steering power over actively managed funds. Increasingly, indices serve as direct benchmarks for active managers. When passive funds drive up the price of stocks in an index due to their automatic buying, active managers feel pressure to follow suit to avoid the risk of underperforming their benchmark (Petry et al., 2021).

3.2 The Politics of Index Construction

Petry et al. (2021) argue that constructing an index is not a “purely technical or neutral task”, but one that reflects underlying normative assumptions—particularly about what constitutes a ‘free’ market that should be open to international investors, and what qualifies ‘good’ corporate governance. Index providers tend to promote the practices and ideologies typical of liberal market economies. As cited in Petry et al. (2021), standard-setting is inherently political. Even industry sources acknowledge this discretionary nature. The Investment Company Institute (2021), while adopting a less critical tone, concedes that “index construction and administration often involve a significant number of assumptions, inputs, rules, and methodological choices. No single way exists to measure the performance of, or even define, a ‘market’.” It further notes that index methodology allows for some flexibility by adding new components or making exceptions to existing rules.

Even when indices are largely rule-based, they are supported by formal procedures that allow index providers to change the rules, typically in consultation with market participants (Investment Company Institute, 2021). Fichtner et al. (2022), writing from an international political economy perspective, emphasize that this discretionary power applies not only to company inclusion in indices but also to entire economies, through classification such as ‘emerging’ or ‘developed’, in MSCI benchmarks. These classifica-

tions set out the criteria countries must meet to gain inclusion, shaping domestic financial regulation, investor access, and international capital flows.

A striking illustration of the discretionary nature of index classifications, given by [Fichtner et al. \(2022\)](#), is the contrast between Portugal and South Korea. Despite Portugal’s much smaller and less developed financial market—representing 36% of its GDP—it is classified as a ‘developed market’ by major index providers. In contrast, South Korea, with a much larger and more advanced financial system (133% of GDP), remains labelled ‘emerging’. This stems from Korea’s restrictions on offshore trading: the Korea Exchange, does not license its index for offshore derivatives trading, making it difficult for foreign investors to hedge or speculate on Korean stocks outside of Korea. Additionally, investors face cumbersome registration procedures and the Korean won is not freely tradable offshore. These barriers conflict with MSCI’s emphasis on unrestricted investor access—the decisive factor in determining a country’s market status.

While country inclusion or exclusion is the most visible expression of index providers’ power, a more subtle yet even more effective tool is the use of watchlists. These serve both as incentives and as disciplinary mechanisms. Countries considered for an upgrade—such as from ‘frontier’ to ‘emerging’—are incentivized to stay on a reform path, while those falling short of expectations risk being placed on a watchlist for potential downgrade. The prospect of reclassification can trigger market anxiety and lead to premature capital outflows among active investors—further increasing pressure to comply with index providers’ standards ([Petry et al., 2021](#)).

Beyond classification, index providers exert discretion through the design of their methodologies. A telling case is the S&P 500, which underwent more than eight methodological changes in three years ([Petry et al., 2021](#)). In 2000, MSCI, S&P Dow Jones Indices, and FTSE revised their index methodologies by shifting from weighting companies based on total market capitalization to using free-float-adjusted market capitalization. This meant that only publicly tradable shares were counted, penalizing firms with significant state ownership or concentrated family holdings ([Petry et al., 2021](#)). Countries like Japan, France, the BRICs, and other emerging economies, as well as sectors with heavy state ownership, tend to have relatively low weights in free-float-adjusted indices ([Norges Bank Investment Management, 2014](#)).

MSCI classifies shareholdings as either free float or non-free float by categorizing investor types as non-strategic or strategic, respectively. Passive asset managers—despite holding large stakes over long time horizons—are considered non-strategic because their shares remain available on public markets. More broadly, weighting companies by market capitalization reflects the underlying assumption that it is the most accurate measure of a firm’s value. This means companies with higher expected profits in the future, and therefore a higher share price, get more weight in the index. This reinforces a profit-oriented logic ([Petry et al., 2021](#)).

Finally, index methodologies also carry hidden political and economic implications. For instance, with the inclusion of companies in the S&P 500—the flagship representation of the U.S. stock market—that are legally domiciled in offshore jurisdictions. Many of these are tax havens known for financial secrecy, and their presence in the index supports and legitimizes tax avoidance strategies by multinationals ([Petry et al., 2021](#)). Beyond tax practices, index inclusion also involves political and ethical considerations. Decisions to include companies linked to the Chinese military or involved in controversial weapons production are not purely technical ([MacMillan and Stein, 2020](#)).

Petry’s analysis converges with insights from the sociology of quantification, which emphasizes that shifts in methodology are linked with political evolutions and the type of public it is meant to serve. As [Hautcoeur \(2006\)](#) notes, differences in purpose, theoretical foundations, and prevailing norms have led to the development of divergent indices. This recalls Duterme’s (2021) historical account, which shows how shifts in index methodology have historically followed changes in the dominant public, each bringing its own priorities and reshaping both the form and function of indices.

[Duterme \(2023\)](#), in his study of the BEL 20, shows how index construction involves a series of methodological dilemmas, each reflecting normative choices shaped by the public it is designed to serve. One example is Euronext’s shift from historical consistency to index continuity: historically, indices were reset to a standard value (e.g. 1000) when their composition changed, but they now preserve their value to remain compatible with financial derivatives, which require uninterrupted index values. Today’s financial community “attaches a lot of importance to this stability which increases the credibility of the index”. More broadly, exchanges like Euronext tend to adopt index designs that cater to the preferences of traders: fewer stocks—easier to hedge and including more liquid companies—high overall liquidity, and index stability, for instance by applying more lenient selection criteria to stocks already included in the index. This favoring of traders over companies reflects traders’ perceived higher mobility and influence, whereas companies tend to advocate for broader indices that increase their chances of inclusion.

Changes in how shares are weighted in indices reflect shifts in the public these indices are built to serve. Historically, when indices were reappropriated by investors, weighting by market capitalization became the norm, replacing earlier methods such as arithmetic averages. This approach mirrors the actual distribution of capital and adjusts weights automatically as prices change, unlike indices used by macroeconomists, who sought to capture broad economic patterns rather than track the performance of a few dominant firms ([Hautcoeur, 2006](#)). Today, indices primarily cater to passive asset managers, and their perspectives are reflected in the design. [Norges Bank Investment Management \(2014\)](#) finds a positive correlation between liquidity and free float weighting, explaining that the shift to free float-adjusted indices allowed exposure to more liquid stocks. In contrast, “an index that treats restricted shares as part of the available supply may prove difficult and costly to replicate” ([Norges Bank Investment Management, 2014](#)), especially for passive funds which are obligated to buy shares in proportion to index weights, even when those shares are illiquid—and thus expensive—or not publicly available. Moreover, calculating free-float-adjusted capitalization can be imprecise, arbitrary, and can lack transparency: “reliable shareholder data are not always available; there is no consensus on free float definitions across index providers; and precise free float calculations for individual companies are rarely disclosed in detail” ([Norges Bank Investment Management, 2014](#)). The classification of passive asset managers as free float can also be questioned, given their long-term, concentrated positions.

3.3 Steering Capital Through Market Infrastructure

[Braun and Koddenbrock \(2022\)](#) propose a typology of financial power that includes three forms:

- Leverage power, exercised by actors capable of expanding their balance sheets by securing low-cost borrowing to acquire high-return assets.
- Enforcement power, exerted through legal frameworks and international institutions such as the IMF

- Infrastructural power

The latter is held by actors who do not directly create, hold, or trade financial claims, but instead offer the services that enable these activities. This includes financial infrastructure providers such as index providers, exchanges, and payment systems, whose business models are typically based on fees.

Today, index providers exercise infrastructural power by steering capital flows. The inclusion or exclusion of a company or country in an index can trigger massive automatic inflows or outflows, sometimes amounting billions of US dollars (Petry et al., 2021). Their views on good corporate governance and on attractive investment conditions determine which firms and countries attract capital, as illustrated previously. In this way, they define is considered ‘investment-worthy’, thus shaping the hierarchy in global financial markets (Fichtner et al., 2022). This infrastructural role becomes particularly relevant when examining China’s strategic interaction with global index providers, as will be explored in Part 2.

3.4 The Foundations of Index Providers’ Authority

Petry et al. (2021) argue that index providers have acquired growing private authority, drawing on Cutler et al.’s (1999) definition of private authority as “when a [non-governmental] individual or organization has decision-making power over a particular issue area and is regarded as exercising that power legitimately”. They identify three conditions underpinning this authority. First, technical expertise to build an index is essential, but not sufficient on its own. The second—and arguably most important—condition is brand recognition, meaning the trust that the international investment community puts in providers’ brands. This reflects the socially constructed nature of authority, which ultimately rests on reputation. The third condition relates to network externalities: the more people use an index, the more valuable and powerful it becomes, creating a self-reinforcing cycle that makes it harder to switch to a different index.

Despite this authority, index providers do not operate without constraints. Their indices must be perceived by the investment community as credible and legitimate since their business model depends on widespread adoption and licensing. As a result, they frequently engage with asset managers to discuss potential modifications but insist on retaining final decision-making authority to preserve their independence. Petry et al. (2021) describe the major index providers as “consensus-building agents that aggregate their own interests with those of asset managers from developed economies”. Similarly, Fichtner et al. (2022) describe index providers as central counterparts to states, acting on behalf of the investment community they ‘represent’. These dynamics create a relationship of mutual dependence: asset managers delegate significant power to index providers by relying on their benchmarks, yet index providers remain reliant on those same asset managers, who are, in fact, their clients.

4 China’s Integration into Financial Globalization

The previous section examined the rise of index providers as powerful financial infrastructures capable of shaping global capital flows and embedding liberal norms into the architecture of financial globalization. This section provides the necessary foundations for analyzing China’s evolving interaction with these actors by unpacking the functioning of its domestic financial system. It explores the structure and role of China’s capital markets, its evolving relationship with foreign capital—through both foreign direct investment (FDI) and portfolio investment—and the mechanisms through which China selectively opens its market, such as the (R)QFII and Stock Connect programs. Together, these elements

reveal a model of integration that is cautious, state-led, and designed to attract capital without giving up control.

4.1 Structure and Logic of China’s Financial Markets

After 1978, China initiated a series of reforms to transition from a centrally planned economy to a more hybrid model, referred to as a ‘socialist market economy’, marked by significant market liberalization. As part of this shift, capital markets were introduced with the aim of improving the efficiency of state-owned enterprises (SOEs), which were facing growing difficulties adapting to the evolving economic landscape ([Meketa Investment Group, 2019](#); [Petry, 2020a](#)). In 1990, the Chinese government established the Shanghai (SHSE) and the Shenzhen (SZSE) Stock Exchanges to provide a domestic platform for trading shares of Chinese firms. In Western economies, stock exchanges typically operate as neoliberal corporations, shaped by market logics and are profit-oriented to maximize shareholder value ([Petry, 2020a](#)). In contrast, China’s exchanges are state-owned institutions designed as regulated spaces that allow for government oversight and intervention ([Gruin, 2019](#); [Petry, 2020a](#); [Meketa Investment Group, 2019](#)). These divergent institutional foundations shape how markets are organized in China.

Thus, the initial role of capital markets in China was to support the reform, rather than to create a market-driven open market with funding as its primary role, as seen in more liberal markets ([Petry, 2020a](#)). China’s financial system is bank-based and dominated by state ownership of commercial banks—known as State-Owned Banks (SOBs) ([van der Linden and Lasak, 2023](#)). Since the global financial crisis, the Chinese banking sector has more than quadrupled, becoming the largest in the world. Notably, the four largest banks globally by assets are all Chinese and state-owned, a stark contrast to the more market-oriented systems in the West, particularly in the United States. As [van der Linden and Lasak \(2023\)](#) argue, this dominance has hindered the development of the country’s domestic stock and bond markets. While China’s capital markets have grown rapidly, they continue to function primarily as a complement to the banking system. The vast majority of corporate financing still comes from state-owned banks rather than equity markets. This divergence is also evident in scale: as of 2024, the total market capitalization of listed U.S. companies was nearly nine times greater than that of their Chinese counterparts ([Statista, 2024](#)).

The strengthening of China’s capital markets is also linked to broader national development goals. First, the “Going Global Strategy,” introduced in 1999 to encourage Chinese enterprises to invest abroad, took off in the aftermath of the global financial crisis. Second, China’s ambition to climb up the value chain, transitioning from low-cost, labor-intensive manufacturing to more sophisticated, capital- and technology-driven production of high-value goods. Capital markets have played a key role for funding these two objectives ([Petry, 2021](#)).

To finance these two objectives, the capital mobilized on Chinese exchanges has remained largely domestic. Prior to 2015, foreign ownership in Chinese equities was below 1.5% (see below). While the presence of institutional investors is increasing, retail investors continue to represent a major component of the Chinese market landscape, with more than 160 million trading accounts and accounting for 70-90% of equity trading activity as of 2020 ([Petry, 2020a](#)).

The development of capital markets in China raises a fundamental question: can elements of a market-based economy be integrated into a socialist system without undermining it? [Gruin \(2019\)](#) addresses this tension by quoting Deng Xiaoping who argues that financial markets represent a natural extension of the Chinese model and reframes

the issue by asking “Does capital itself have to be capitalist?” [Petry et al. \(2021\)](#) offer a perspective that can be seen as a response to this question, by arguing that the key distinction between liberal and state-capitalist models lies not in the existence of capital markets, but in the foundational principles that govern them. In China, capital markets operate according to a different institutional logic: rather than prioritizing private profit and the free flow of capital—as in liberal systems—they are structured to maintain state control and serve national development objectives. This state control is maintained even when opening up financial markets to foreign investment because, since this control is built into the infrastructure itself (see below). [van der Linden and Lasak \(2023\)](#) describe this model as a “state-capitalist financial market”, and recall Xi Jinping’s statement that the financial sector’s role is “to better serve the real economy, containing financial risks and deepening financial reforms”.



Figure 2: CSI 300 Performance (July 2009 - May 2025)
Source: Investing.com

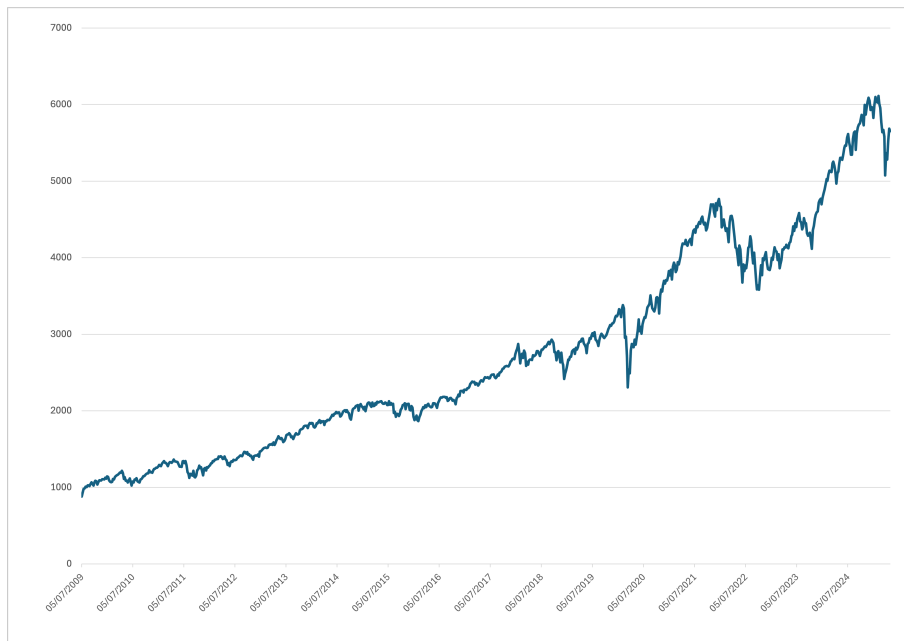


Figure 3: S&P 500 Performance (July 2009 - May 2025)
Source: Investing.com

Figures 2 and 3 emerged from an observation made during the development of this section. I was struck by the stark contrast between the performance of the S&P 500 and that of the CSI 300, the benchmark index for China’s domestic equity market, which tracks the top 300 stocks listed on the Shanghai and Shenzhen stock exchanges. Over the past fifteen years, the CSI 300 has increased by only 12.07%, staying largely stagnant except for the 2015 bubble. In contrast, the S&P 500 has surged by 542.77% over the same period. This stark difference is particularly striking when compared to GDP growth: over the same period, China’s GDP expanded by 264.71%, while the U.S. GDP grew by 101.24% (World Bank, 2024). In both cases, there is a disconnect between stock market performance and the underlying economy—but in opposite directions. In the U.S., stock markets have significantly outpaced GDP growth, while in China, the stock market has lagged behind robust economic expansion. This contrast led me to consider whether it might serve as a concrete illustration of the institutional divergence in how stock markets function in each country, as outlined above. The interpretation that follows identifies several structural features that may help explain these divergent patterns.

Many U.S. corporations, especially large-cap firms, benefit significantly from their international operations. This global exposure allows them to grow earnings beyond the pace of domestic GDP growth. To illustrate, S&P 500 companies deriving more than 50% of their sales from international markets reported earnings growth of 20.8%, compared to 14.4% for other firms (Butters, 2025). China, in comparison, has less international exposure.

In the U.S., additional financial mechanisms have contributed to inflated stock prices without necessarily reflecting the state of the real economy. As Foroohar (2016) highlights, corporate share buybacks—often financed through cheap debt—reduce the number of shares in circulation, artificially boosting earnings per share, while neglecting long-term investments such as R&D or workforce development. This practice aligns with a corporate governance model centered on maximizing shareholder value, at the expense of productive investments. Meanwhile, monetary policies like near-zero interest rates and quantitative easing—where the central bank buys financial assets on the secondary market—were supposed to “help the little guy” by inflating asset values and encouraging spending. However, as Foroohar (2016) note, wealthier individuals, who benefit most from rising asset values, tend to reinvest their gains in financial markets rather than in the real economy.

The relatively weak performance of China’s stock market can be attributed to structural and institutional features. Chinese companies—particularly state-owned enterprises (SOEs)—primarily rely on financing from state-owned banks rather than raising capital through equity markets. As a result, share prices are weakly tied to firm fundamentals and are not a major concern for the growth of the corporate sector or a policy objective. SOEs often prioritize policy objectives over profitability, which helps explain the stock market’s underperformance relative to the country’s rapid economic growth. Borst (2019) finds that “state-owned enterprises are less efficient than private firms in China” with a return on assets (ROA) less than half that of their private counterparts, reflecting broader issues of limited transparency and weaker efficiency.

In addition to the dominance of SOEs, political connections further distort the functioning of privately owned enterprises. According to Zhou and Li (2015), nearly three-quarters of privately owned enterprises listed on China’s domestic stock exchanges are politically-connected. Such a connection may involve former government or Communist Party officials as top managers, minority ownership by state-owned entities, or politically linked early investors. These firms “are significantly less likely to be punished by regulatory authority... tend to under-perform firms without political connections”. Initial

Public Offerings (IPOs) are more likely to be approved based on connections rather than on solid fundamentals, reducing their incentive to operate efficiently, innovate, or maintain strong governance.

Furthermore, the China Securities Regulatory Commission (CSRC) maintains significant control over market activities. Trading is tightly regulated: A-shares and B-shares are subject to a $\pm 10\%$ daily price limit based on the previous closing price, and mechanisms for temporary trading suspensions are also in place to contain volatility ([Shanghai Stock Exchange, 2025a](#)). Short selling is permitted but under strict regulations ([Morah, 2023](#)), and the underdeveloped derivatives market limits hedging strategies that could otherwise influence price movements. This regulatory framework and strong capital controls can constrain the possibility of large booms, contributing to the stock market’s overall stagnation.

[van der Linden and Lasak \(2023\)](#) further illustrate this divergence by noting that in Western banking systems, banks shifted their strategy from increasing total assets on their balance sheet to increasing shareholder value, boosting market capitalization. In contrast, Chinese banks, at least up until the Global Financial Crisis, remained focused on asset growth, emphasizing financing the real economy. This distinction reflects the deeper structural contrast between China’s state-led, bank-based financial system and the United States’ market-based model.

4.2 International Investment Position

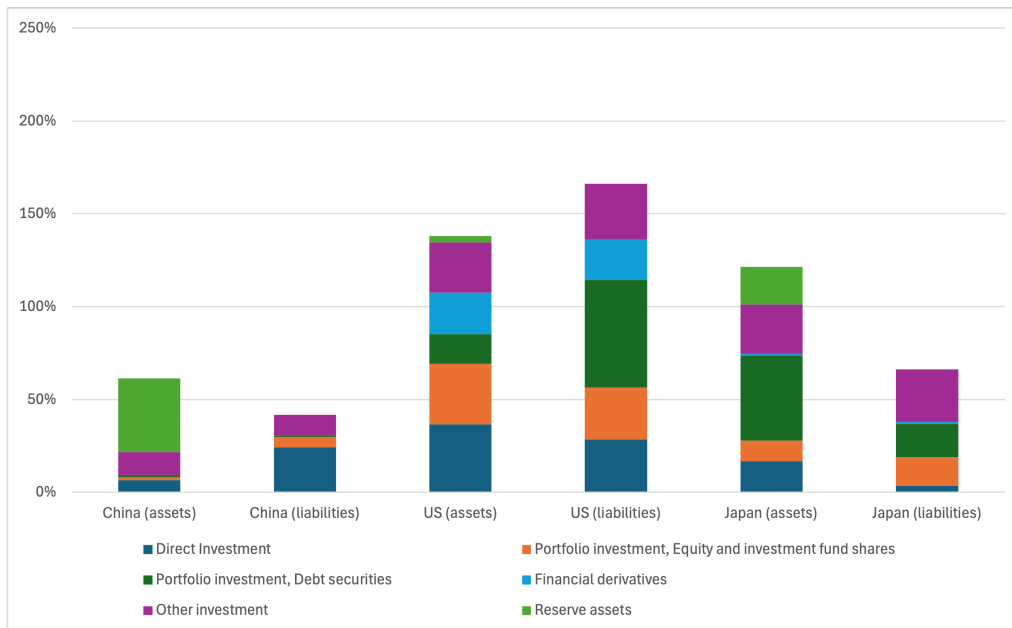
The net international investment position (NIIP) represents the difference between a country’s total foreign assets and foreign-held assets from that country. In essence, it functions as a country’s balance sheet vis-à-vis the rest of the world ([Ganti, 2024](#)). As a stock variable, the NIIP captures the value of these positions at a specific point in time, offering a snapshot of what the country owes and owns abroad. It thus provides insight into the structure of the country’s external financial integration and its degree of dependence on foreign investment.

Figure 4 provides a comparative snapshot of the international investment positions of China, the United States, and Japan in 2012 and 2023. The figure presents gross assets and liabilities as percentages of GDP—providing information about the size and structure of a country’s international exposure, and its net international investment position (NIIP)—the difference between liabilities and assets. While gross values inform us about financial openness and potential vulnerability to external shocks, the NIIP reflects the balance of financial power with the rest of the world.

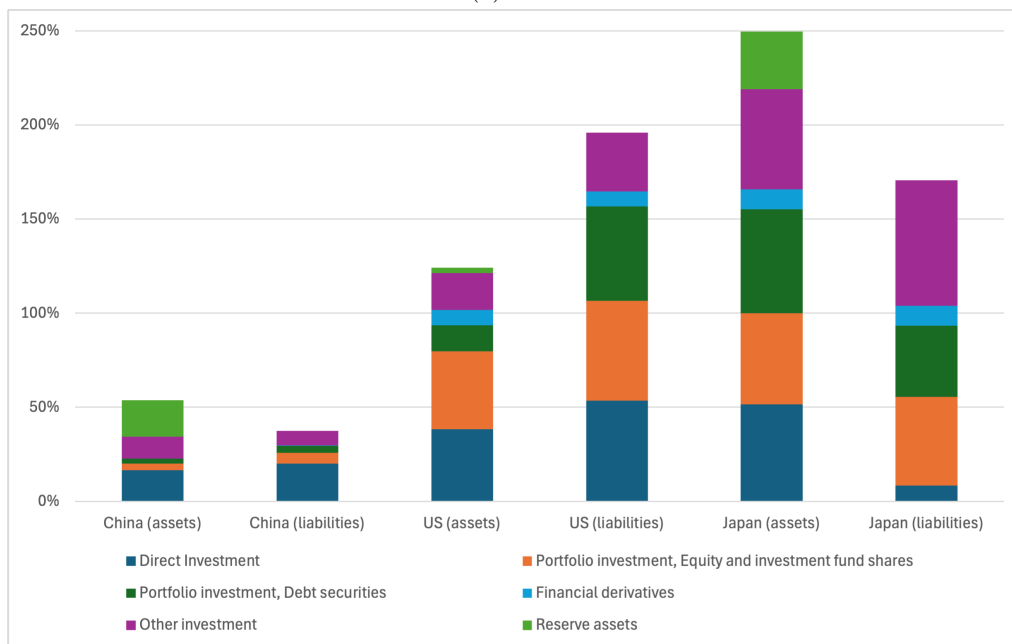
China’s international investment profile is relatively low in both assets and liabilities compared with the US and Japan. This position has slightly decreased over time, suggesting that China’s external exposure has remained contained. However, this interpretation changes when viewed in absolute terms as China’s GDP has doubled during the time period. In contrast, both the US and Japan show very high levels of external exposure. This exposure has grown considerably, particularly for Japan, reaching 250% of GDP for its external assets. For the US, the gap between assets and liabilities has widened, reflecting a deteriorating NIIP that remains negative due to its persistent current account deficits, sustained by global demand for dollar assets. Japan and China with their positive NIIP, by contrast, are net creditors.

Looking at the composition of both assets and liabilities, several trends emerge. China’s reserve assets have declined over time but continue to dominate its external assets. This reflects China’s historical strategy, which accumulated massive foreign exchange reserves, especially US Treasuries, to keep the renminbi undervalued by increasing its supply, to

support exports. Since the mid-2010s, it has started a rebalancing strategy, aiming to shift from export-led to domestic consumption-led growth, reducing its reliance on foreign reserves (Roach, 2024; EveryCRSReport, 2013). Meanwhile, Foreign Direct Investment (FDI) outflows from China have increased and portfolio equity investments have remained stable.



(a) 2012



(b) 2023

Figure 4: International Investment Position (% of GDP)

Source: Author's own calculations based on IMF and World Bank data

To build on this, the following sections will first examine China's foreign direct investment patterns, and then explore in greater detail its foreign equity investments and the broader process of capital market opening.

4.3 Role of Foreign Direct Investment

Foreign Direct Investment (FDI)—characterized by its long-term, stable nature and the significant control it grants to foreign investors—has played a central role in China’s economic development. This importance of FDI as a financing source is also evident in Figure 4 from the previous section, which shows that it accounted for more than half of China’s external liabilities in both 2012 and 2023.

As illustrated in Figure 5, which displays net FDI inflows as a percentage of GDP across several regions, China emerged in the 1990s as one of the world’s leading FDI destinations. These large inflows provided China with essential capital, advanced technology, and managerial expertise, aligning with national development goals and significantly contributing to the country’s economic growth (Zhang and Corrie, 2018). In the graph, China stands out with the highest FDI-to-GDP ratio among major and relatively open economies. By 1993, it had surpassed the United States to become the top global destination for FDI (Zhang and Corrie, 2018). This trajectory was enabled by a gradual loosening of centralized state control as it became evident that foreign-invested enterprises were effective in utilizing foreign capital and technology, and were more efficient than domestic firms (Buckley, 2010).

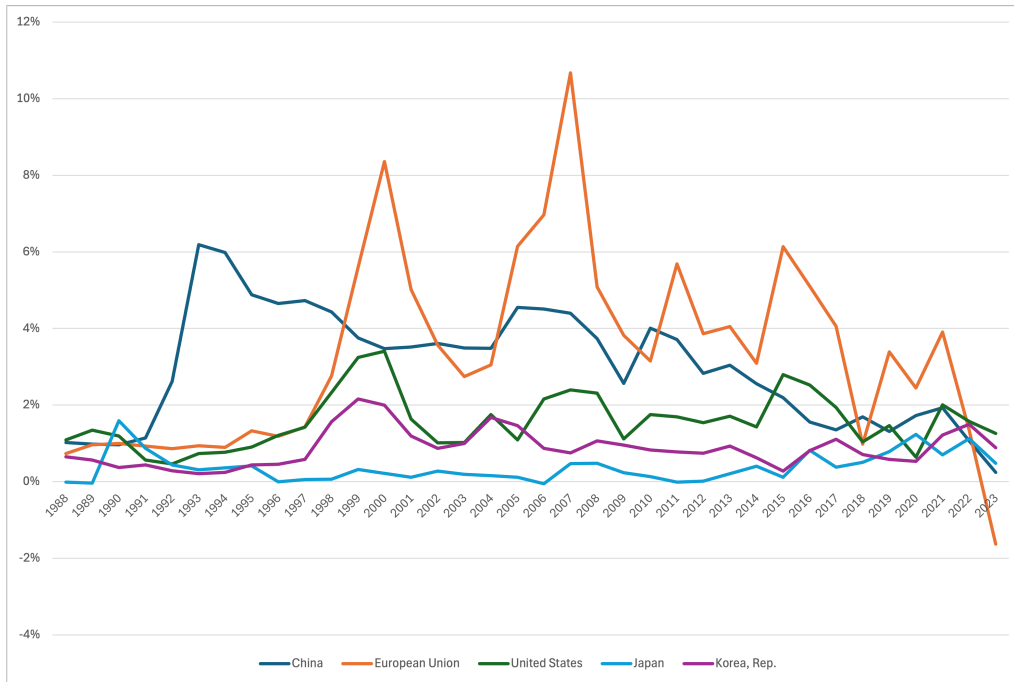


Figure 5: Foreign Direct Investment, Net Inflows (% of GDP)
Source: World Bank

According to China’s Statistical Yearbook in Zhang and Corrie (2018), between 1992 and 2014, Hong Kong accounted for about half of all FDI into mainland China, approximately \$732.6 billion. Other major contributors included the Virgin Islands (9.5%), Japan (6.4%), the United States (4.9%), Singapore (4.8%), Taiwan (4%), South Korea (4%), while Germany, the United Kingdom and France together made up around 3.7% of total inflows. These figures highlight the predominance of Asian capital—and particularly ethnic Chinese investment—in shaping China’s FDI landscape during this period.

It is important to examine those FDI figures, as they obscure the realities behind investment origins. While official data from China’s Statistical Yearbook consistently lists Hong Kong as the leading source of FDI, it is worth questioning why such a large share appears to originate there. Buckley (2010) notes that, although some of this capital comes

from genuine Hong Kong investors, an important portion reflects data distortion, due to a phenomenon known as round-tripping. This occurs when domestic Chinese capital is routed through Hong Kong or other offshore jurisdictions and then reinvested in China as foreign direct investment, in order to benefit from tax breaks and preferential treatment reserved for foreign capital. Estimates from the World Bank suggest that round-tripping may have accounted for 20-30% of China's total FDI inflows (Buckley, 2010).

Beyond round-tripping, Hong Kong's role as a financial hub, with important capital markets and openness to global finance, also helps explain its prominence in China's FDI statistics. It serves as a key gateway for international investors seeking access to Mainland China. For instance, Taiwanese capital often enters China through Taiwanese companies' affiliates based in Hong Kong. Buckley (2010) notes that while some of the FDI figures may be inflated, it still includes important capital from Multinational Enterprises (MNEs) headquartered in other countries that route their investments through Hong Kong. In the years leading up to China's accession to the World Trade Organization (WTO) in 2001, FDI inflows into Hong Kong increased fourfold. This rise was not necessarily aimed at Hong Kong itself, but reflected foreign companies' capital "being 'parked on the doorstep' of mainland China in anticipation of emerging opportunities post-WTO" (Buckley, 2010). Regarding the Virgin Islands, which ranks as China's second-largest reported FDI source, this likely also reflects either round-tripping of Chinese capital or the use of offshore jurisdictions by MNEs seeking tax advantages.

Over time, however, China's FDI-to-GDP ratio began to decline, converging toward the levels observed in advanced or semi-advanced economies like South Korea, the EU, and the U.S. As Zhang and Corrie (2018) note, the period from 2010 onward marked a stabilization in both the number of new FDI projects and the volume of utilized foreign capital. Figure 6 illustrates this dual trend: the blue line shows the substantial rise in absolute FDI inflows throughout the 2000s, followed by stagnation in the 2010s, while the red line shows a consistent decline in FDI's share relative to GDP. This divergence suggests that even though China continued receiving large FDI inflows, its economy grew even faster, making FDI a less central part of GDP over time. This possibly reflects China's transition toward a more self-sufficient and domestically driven model.

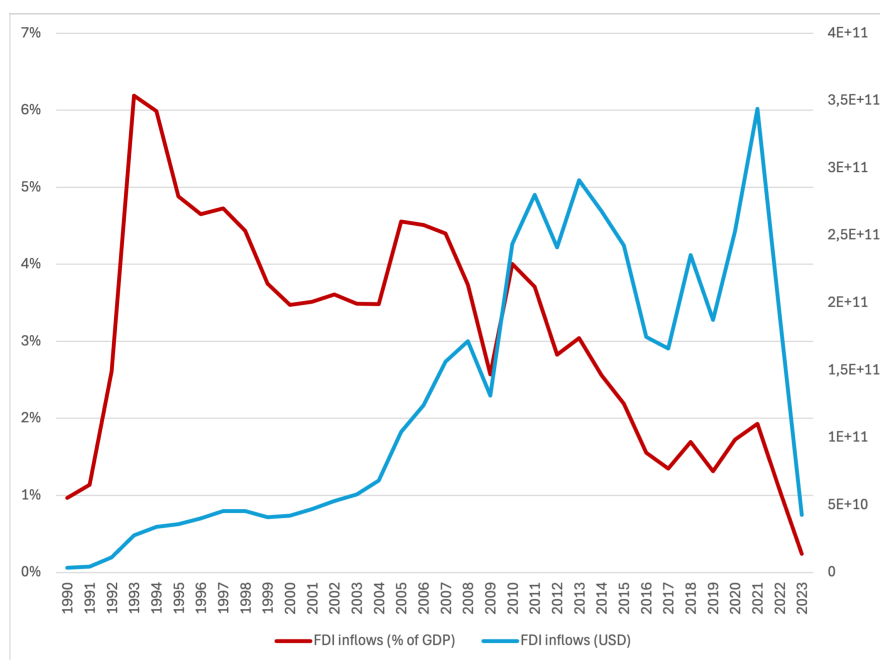


Figure 6: Foreign Direct Investment in China, Net Inflows
Source: World Bank

China’s approach to FDI has never been one of passive liberalization but one of selective opening with tight control. China has always promoted joint ventures—which accounted for 51% of contracted FDI in 1991 (Buckley, 2010)—while restricting traditional mergers and acquisitions. This compels foreign investors to transfer technology and intellectual property to Chinese partners (European Commission, 2019).

The establishment of Special Economic Zones (SEZs) allowed China to experiment with liberal market mechanisms within tightly controlled geographic areas. These zones function as regulatory exceptions, enabling China to attract FDI while maintaining its broader state-capitalist model (Slobodian, 2025).

During the 1990s, Chinese authorities classified sectors into three categories regarding their openness to FDI: “encouraged”—often in export-driven, high-tech, or import-substitution sectors—, “restricted”, and “forbidden” (Buckley, 2010). This logic persists today through China’s “Negative List”, which categorizes sectors as “prohibited”, “restricted” or “open” to FDI, sometimes coupled with strategic incentives to attract investment in targeted sectors (ICLG, 2024).

As Buckley (2010) notes on the incremental nature of China’s opening to FDI: “viewed in retrospect, each policy phase represents a cautious, pragmatic and staged opening of China’s economy to foreign investors.”

4.4 China’s Capital Market Opening

This strategic approach to foreign investment extended beyond FDI into other areas of China’s financial system—most notably, its capital markets. As China gradually integrated into the global economy, it also began reforming its stock exchanges and expanding access for foreign investors. As China’s economy grew, authorities began prioritizing other ways of mobilizing capital, such as the stock market, which they could regulate more directly. While the country moved relatively quickly to liberalize FDI flows in the 1990s and early 2000s, the opening of China’s capital markets has proceeded far more cautiously and slowly.

Since their founding, China’s stock exchanges have undergone rapid and sustained growth. Their launch marked the beginning of the A-shares market, RMB-denominated equity shares issued by China-based companies and traded on the Shanghai and Shenzhen Stock Exchanges. Initially, however, these A-shares were not accessible to foreign investors (Meketa Investment Group, 2019). Instead of pursuing a “Big Bang” type of liberalization, Chinese authorities adopted a controlled opening aimed at attracting long-term global investors over speculative short-term capital (Petry, 2020a).

This controlled opening served multiple objectives: global investors could help professionalize and modernize China’s capital markets, aligning with China’s aims to emerge as a leading global financial center. It also helped stabilize the market by encouraging the presence of “real money” investors, as opposed to more volatile “hot money” flows. Yet, as Petry (2020a) notes, this process involves a fundamental tension: “with respect to this global integration, it’s absolutely a love and hate story, they love the money, love the stability, hate giving up control”.

To balance openness with control, Chinese authorities introduced additional share classes, designed for international investors, and traded on foreign exchanges such as those in Hong Kong, the United States, and Singapore. These instruments, illustrated in Figure 7, enabled foreign investors to gain exposure to Chinese firms. However, A-Shares remain the dominant form, representing the bulk of China’s domestic equity market (Meketa

Investment Group, 2019).

Share Class	Country of Incorporation	Country of Listing	Trading Currency	% of China's equity mkt cap
A Share	China	China	CNY	71
B Share	China	China	USD / HKD	0
H Share	China	Hong Kong	HKD	7
Red Chip	Outside China (SOE firms only)	Hong Kong	HKD	6
P Chip	Outside China (Non SOE firms)	Hong Kong	HKD	9
N Share	Outside China	United States	USD	7

Figure 7: China's Stock Market Structure
Source: Drakopoulos et al. (2019): IMF

This growing foreign exposure to Chinese financial markets is illustrated in Figure 8, which presents the evolution of all foreign-held Chinese equities and bonds. The data reflects holdings across both onshore and offshore instruments, but mainly non-A-shares. Both asset classes have increased in absolute terms over time. Equities have consistently attracted more foreign capital than debt throughout the entire period, surpassing 1 trillion USD of foreign hold stocks by 2020. The sharp rise in foreign bond holdings after 2016 aligns with the launch of the Bond Connect program.

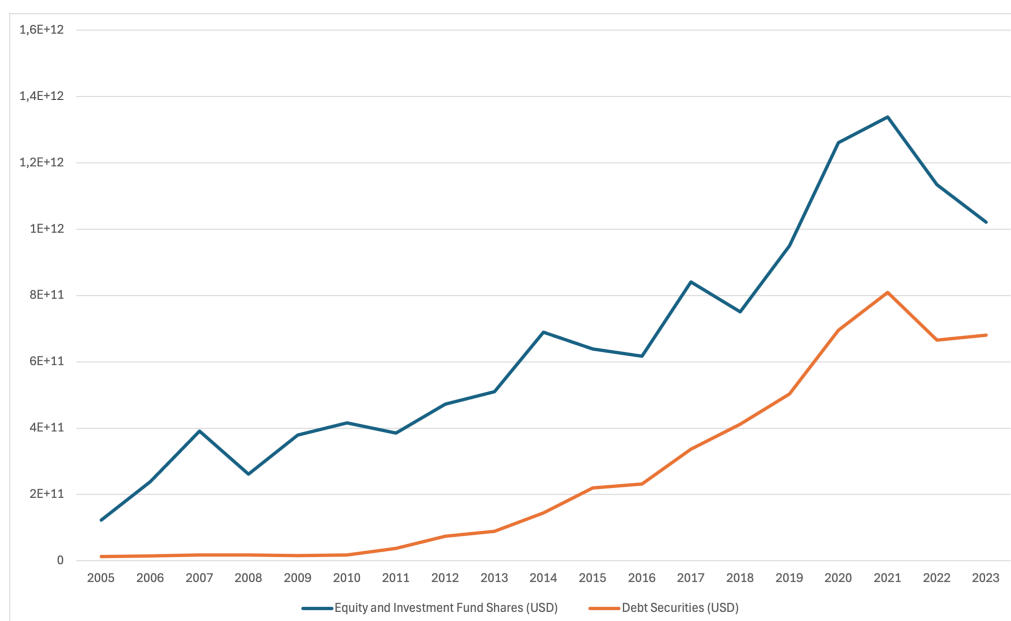


Figure 8: Foreign Holdings of Chinese Equities and Bonds
Source: IMF

As will be discussed later, China's interest in attracting foreign capital lies less in funding needs and more in stabilizing its highly volatile, retail-driven market through passive investment flows. These inflows also help professionalize the market and enhance the global visibility of Chinese firms. At the same time, China retains control by imposing ownership limits and regulating access through mechanisms such as (R)QFII and the Connect schemes.

4.4.1 QFII and RQFII

Before 2001, A-shares—China’s mainland-listed shares—were not available to foreign investors. This began to change with the introduction of the Qualified Foreign Institutional Investor (QFII) program in 2002 and the Renminbi Qualified Foreign Institutional Investor (RQFII) program in 2011. This was the beginning of China’s commitment to expanding foreign access to its A-share market ([Meketa Investment Group, 2019](#)).

Under the QFII program, approved international institutional investors could invest in A-shares using the onshore renminbi (CNY), while the RQFII program allowed them to invest using the offshore renminbi (CNH) ([Meketa Investment Group, 2019](#)). The CNH is freely traded in global markets like Hong Kong, while the CNY is only available within mainland China and is tightly controlled by Chinese authorities. The use of CNH under RQFII therefore made access easier and more flexible for foreign investors.

However, participation remained limited. Access to these programs depended on bilateral agreements between China and foreign governments, and only investors from those approved countries could participate. Each country received a quota—a limited amount they were allowed to invest. These channels enabled limited foreign participation in domestic markets, while maintaining state oversight over capital inflows and granting international investors minimal influence in shaping the rules in China’s mainland markets ([Chen and Pan, 2021](#)).

In parallel, the Qualified Domestic Institutional Investor (QDII) program was launched in 2006, allowing selected Chinese investors to invest abroad. Together, these mechanisms gave Chinese authorities tight control over cross-border transactions ([Petry, 2020a](#)).

4.4.2 The Connect Schemes

The introduction of the Shanghai–Hong Kong Stock Connect in 2014 and the Shenzhen–Hong Kong Stock Connect in 2016 marked a major milestone in the reform of China’s equity markets. These programs allow international investors to access China’s stock markets without needing prior approval from domestic regulators, increasing accessibility ([Meketa Investment Group, 2019](#); [van der Linden and Lasak, 2023](#)). Investors can place orders via familiar platforms, such as Bloomberg, which are directed to designated offshore hubs like Hong Kong. There, China’s offshore infrastructure—such as Stock Connect—converts them into domestic transactions ([Chen and Pan, 2021](#)). Similarly, the Bond Connect was launched in 2017 to complement Stock Connect, allowing foreign investors to trade Chinese interbank bonds.

Figure 9 illustrates the value in USD of Chinese domestic renminbi bonds and equities (i.e., A-shares) held by overseas entities. It shows the significant impact of the Connect schemes. Following their implementation, foreign holdings increased dramatically, with the total amount of domestic bonds and equities held by foreign investors quadrupling between 2015 and 2021.

However, key barriers persist, including frequent government intervention in markets, concerns about corporate governance, and China’s political system. Due to a combination of factors—such as state ownership, executive and employee stakes, quota systems, and foreign ownership caps of 30% per company—only 24% of the A-share market is truly accessible to international investors ([Meketa Investment Group, 2019](#)).

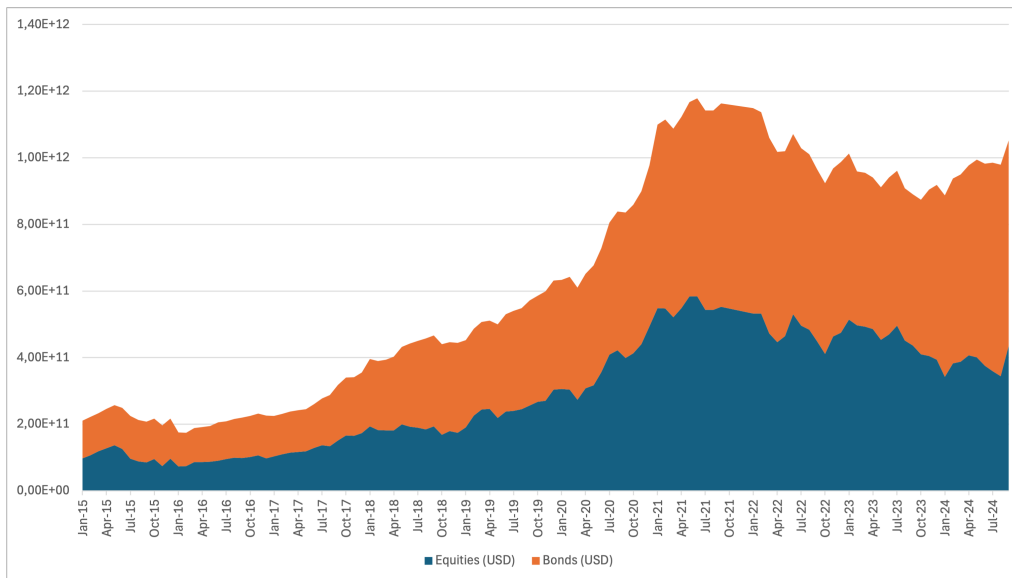


Figure 9: Foreign Holdings of Chinese Domestic Renminbi Equities and Bonds (USD)
Source: Author's own calculation based on People's Bank of China and World Bank data

In comparison with Figure 8, it becomes clear that foreign portfolio investment into mainland China remains relatively modest. This disparity between the two figures also reflects the composition of foreign holdings, which contain relatively few A-shares, further highlighting the restrictions on foreign participation.

Today, around 70 percent of cross-border equity investments and half of cross-border bond investments are funneled through the Stock Connect and Bond Connect schemes, respectively. Although these schemes make it seem like China has opened its markets like other liberalized economies, they actually work quite differently. Rather than sending capital directly into mainland China, foreign investment flows happen through a single, centralized channel that links China's domestic financial markets with offshore markets via Hong-Kong. This mechanism is indirectly controlled by a joint venture of China's central bank. Only the net amount of money—after trades are matched—is settled each day and enters mainland China ([Chen and Pan, 2021](#)).

[Chen and Pan \(2021\)](#) describe this system as a “closed-loop”. Portfolio investments and their returns made through the Connect schemes are strictly prohibited from entering China's real economy or being reinvested in other financial products beyond the scope of the Connect programs. Once a trade is completed, both the initial capital and any earnings must be returned to the same offshore account, never mixing with the rest of the economy, in order to limit the impact of a sudden capital flight ([Chen and Pan, 2021](#)).

Investors cannot bypass this system, unlike in fully liberalized markets where capital can move more freely. The structure and functioning of Stock Connect continue to reflect a state-capitalist logic ([Petry, 2020a](#)).

Part 2

Before studying the interactions between index providers and Chinese authorities, it is important to first consider the rationale guiding each of them.

5 How Index Providers Navigate the China Challenge

Index providers found themselves navigating unfamiliar terrain in their engagement with China—a market too large and too full of potential to ignore, yet governed by a logic that does not align with their own. This section explores the competing rationales that shape index providers’ engagement with China, including investor pressure, commitments to liberal standards of transparency and accessibility, and structural constraints related to China’s state-controlled financial data infrastructure.

5.1 Pressure from Investors

Although index providers wield significant authority in determining index composition and methodology, they have to be accountable to their clients—mainly institutional investors—by designing indices that will be recognized as an accurate representation of ‘the market’ (Fichtner et al., 2022). As such they can be viewed as ‘consensus-building agents’, who balance their own interests with those of asset managers primarily based in developed markets (Petry et al., 2021). As Petry noted in [personal communication](#) (2025), “some of the large asset managers such as BlackRock really wanted MSCI to include China because basically BlackRock’s clients wanted to allocate money to China”. Among these clients are major institutional actors like pension funds—which we will explore in the following section.

5.1.1 Pension Funds

The Chinese aging population—particularly due to the one-child policy—poses a challenge to the sustainability of the Chinese pension system. As China’s old-age dependency ratio increases, fewer working-age people are available to support retirees. This puts pressure on the current pay-as-you go state pension system and marks a shift from past models of care, where “old people... were pretty much all taken care of inside the family” (Hale, 2022; Zhou, 2024).

To address this problem, China expanded the pension architecture to include individual private schemes, similar to those found in the U.S. and the U.K. Since 2022, employees have been allowed to contribute to these private schemes and benefit from tax incentives (Hale, 2022; Hale and Cumbo, 2022). As illustrated in Figure 10, pension fund assets in China accounted for just 2.2% of GDP in 2021, compared to 170% in the United States. This contrast signals enormous growth potential, making this market particularly attractive to global asset managers. Major players such as BlackRock and Goldman Sachs Asset Management have been quick to act to get a slice of this growing pie, by forming partnerships with mainland Chinese banks (Hale and Cumbo, 2022; Hale, 2022). As Petry noted in [personal communication](#) (2025), “the potential for the Chinese pension is massive. And this is also one of the reasons why asset managers really want to be in China”.

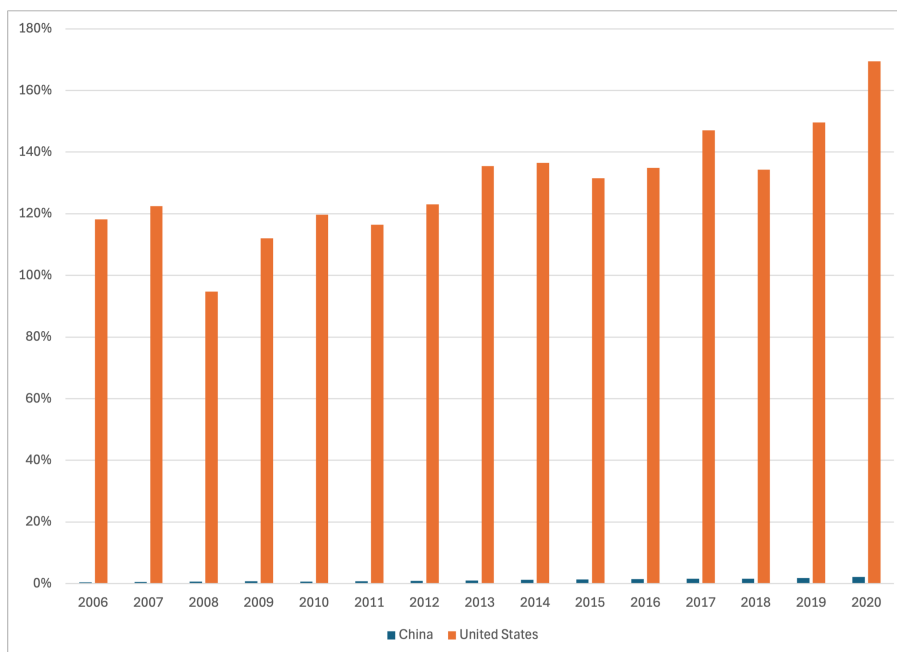


Figure 10: Pension Funds Assets (% of GDP)
Source: World Bank

5.2 Liberal Standards

Index providers publicly uphold liberal norms such as free-float methodology, market accessibility, transparency, and standardized classifications. Such norms are key to their credibility and legitimacy in the eyes of Western investors—their clients—who historically prefer them. These consensus-building agents balance their own interests with those of asset managers primarily based in developed markets, mainly from Anglo-American countries (Petry et al., 2021).

As previously discussed, the private authority of index providers rests primarily on brand recognition. To preserve their reputation, they must design attractive indices that appeal to investors, while covering broad market segments in order to expand their client base. This means responding to investor demand; if they fail to do so, their indices risk being sidelined, as network externalities tend to reinforce the dominance of widely used benchmarks. One key investor demand has historically been market accessibility. This is especially evident in the treatment of emerging markets, where, historically, “investor access is the dealmaker/breaker,” and most inclusion decisions hinge on whether international investors can easily enter and exit the market (Petry et al., 2021). This reflects how closely index construction has been aligned with investor expectations.

Yet this logic creates a structural tension. While index providers aim to uphold liberal standards to maintain ideological legitimacy, they also face pressure from investors looking for returns and thus seeking exposure to growing markets—even less liberal ones, like China. In doing so, they are caught between reinforcing the liberal norms that underpin their authority and accommodating the commercial imperatives that ensure their continued dominance in global finance.

5.3 Dependence on Chinese Data

Access to reliable market data is a fundamental prerequisite for informed investment decisions and effective risk assessment in financial markets. Because they operate most organized financial markets, stock exchanges hold exclusive control over the data produced on their trading platforms, which they monetize by selling to market participants.

This control over data grants them significant power over other actors in the financial system (Petry, 2020a).

In China, market data is freely accessible for local end-users and is provided as 'snapshots'. However, all users must register on an exchange-operated platform to allow the exchange to monitor who accesses what data and when. Unlike Western financial systems—where up to 40% of trading takes place via alternative trading systems or dark pools—China mandates that all transactions occur on official exchanges. This allows the exchanges to maintain complete oversight of market activity, which helped avoid the opacity issues that contributed to the financial crisis in the West: “we see everything that happens in the market” (Petry, 2020a).

The SSE offers both real-time Level-1 and Level-2 market data, with Level-2 providing more detailed information. Non-mainland entities are only permitted to redistribute this data after obtaining a license from China Investment Information Services Limited (CIIS). CIIS is a subsidiary of the SSE and provides the infrastructure for overseas data vendors to access Chinese market data, and vice versa. Licensing fees for Level-1 and Level-2 data range from \$30,000 to \$60,000 per year, with additional monthly subscriber fees (CIIS, 2025). Level-2 data, primarily intended for institutional use, is designed to improve transparency, reduce irrational price swings, encourage more active market participation, and aligns more closely with international standards (Shanghai Stock Exchange, 2025b).

Index providers rely on domestic data to construct their indices, while China can use that dependence as leverage. In this context, data access becomes a geopolitical issue.

6 China's perspective

Understanding how Chinese authorities approach and strategically manage financial openness and foreign investment is essential to understand how they position themselves in relation to index providers. This section examines why and how Chinese authorities have strategically opened segments of their financial system to serve domestic goals, such as market stability, global visibility and professionalization, and currency internationalization.

6.1 China's Financial Autonomy



Figure 11: Foreign Ownership Ratio (% of total market capitalization)
Source: Author's own calculations based on PBoC and World Bank

China’s exposure and dependence on foreign capital remains relatively low. A combination of its position as net external creditors—as illustrated in Figure 4—and its high national savings rate combined with capital controls, support abundant domestic liquidity and help retain capital within the country. These factors reduce China’s need for external financing, especially when compared to many other emerging economies.

Although foreign ownership of Chinese equities rose rapidly between 2015 and 2022 (see Figure 11), it still accounts for less than 4% of the total A-share market capitalization. This is strikingly low compared to other major economies: in 2017, foreign ownership ratios stood at 32.9% in Korea, 34.8% the United States, and 16.2% in India (Cerutti and Obstfeld, 2018). As Petry notes in [personal communication \(2025\)](#), “I don’t think that there’s a certain kind of dependence on foreign capital in that respect [from a financing perspective]”.

While China does not rely heavily on foreign capital as a source of financing, it nonetheless has strategic reasons to attract it—as explored in the following section.

6.2 Stabilizing Markets Without Losing Control

According to the Shanghai Stock Exchange’s annual report, retail investors are responsible for around 85% of the exchange’s daily trading activity, whereas institutional investors account for just 15% (Jones et al., 2022). In contrast, institutional investors account for approximately 80% of the trading volume on the New York Stock Exchange (Palmer, 2024). The presence of inexperienced retail investors has earned China’s equity market the comparisons to a casino, as trading is often driven by speculation and short-term gains. Rather than mirroring real economic conditions, market movements tend to follow rumors and herding behavior, contributing to greater market volatility, fueling bubbles and crashes (Yang and Ferrer, 2023; Wu, 2022). This instability is visible in volatility data: the average volatility (measured by the standard deviation) of the CSI 300 index is 23.92%, compared to 15.20% for the S&P 500 (Curvo, 2025). This is also visually apparent in Figures 2 and 3, where the CSI 300 exhibits more pronounced fluctuations.

To reduce this volatility, China needs to attract more stable, long-term capital. In principle, this could be achieved by expanding the role of domestic institutional and passive investors, who typically invest based on fundamentals, trade less frequently, and invest over longer horizons. Petry (2020a) shows that institutional investors exhibit significantly lower market velocity than retail investors, indicating a more stable presence. While institutional investors still represent a minority, their share of total assets has grown from 10% in 2016 to 19% in 2025 (Jones et al., 2022; Shen and Ranganathan, 2025). However, retail investors continue to dominate trading activity, and remain a major source of volatility. In parallel, passive investment has expanded, with passive strategies representing about half of all domestic equity fund assets as of 2024 (Bloomberg News, 2024). While passive funds are “passive” by design, they can be used in a speculative way, undermining their stabilizing effect. The extent to which they are used for long-term investment versus short-term trading remains unclear.

In this context, Petry (2021) argues that foreign institutional passive capital emerges as an important source of stability for China. Foreign institutional investors widely use passive investment strategies, bringing stable and long-term, index-based capital inflows, without giving up control. As Petry noted in [personal communication \(2025\)](#), “Passive investors were, are quite risk averse... They were uneasy with having capital trapped in mainland China, so they did not really access the market. These first schemes [QFII and RQFII] were often used by less risk averse investors... What index inclusion did for China was that it allowed passive funds to allocate money to China, which basically helped

to stabilize the market. China is quite happy to have passive investors in their market because exactly they don't want the hot money going in". Empirical data supports this narrative. [Wu \(2022\)](#) found that before MSCI inclusion, A-shares had high stock price synchronization, meaning prices moved in line with the overall market due to herding behavior or reactions to government policies rather than on firm-specific fundamentals. After inclusion, synchronization decreased, reflecting the goal of the Chinese government to decrease volatility.

In sum, both China and foreign institutional investors, such as passive asset managers and pension funds, share a reciprocal interest in facilitating these stable flows into China. As such, passive capital is a form of investment that doesn't give up much of control. Passive investors buy shares in a company because it is part of an index, not for strategic reasons. This form of investment allows China to open its markets on its own terms—without ceding political control. Even when entering the Chinese capital markets, foreign investors face a cap that limits their ownership to 30% of a company's outstanding shares, preventing foreign dominance or influence over corporate control ([Meketa Investment Group, 2019](#)).

6.3 Professionalizing Markets and Elevating Firm Visibility

As noted by Petry in [personal communication \(2025\)](#), "index inclusion matters in so far that it definitely raises the profile of these companies". Index inclusion and the opening of China's financial markets to foreign capital play a key role in professionalizing the financial sector and enhancing the visibility of Chinese companies. Being listed in global indices requires firms to meet certain standards and adopt internationally recognized corporate governance practices, supported by know-how from international investors. This increased visibility places Chinese companies on the radar of foreign and institutional investors, increasing their global market awareness and credibility ([Drakopoulos et al., 2019](#); [Petry, 2020a](#); [Dong et al., 2023](#)). This process of professionalization and institutional strengthening aligns with the Chinese government's strategy of building a robust domestic financial sector as a foundation for becoming a global financial power ([Petry et al., 2021](#)).

6.4 State-Led, Market-Driven: Strategic Tools for Renminbi Internationalization

[Chen and Pan \(2021\)](#) argue that index inclusion has enabled China to go from a state-to-state to a state-to-market logic in its pursuit of renminbi internationalisation. Prior to 2015, China mainly used bilateral diplomacy, allocating RQFII quotas to selected countries through political agreements. RQFII did not reflect market demand for Chinese assets, but rather political negotiations: only investors from approved countries through bilateral agreements with China could use RQFII and each country received a quota—a limited amount they were allowed to invest. After 2015, however, China strategically engaged index providers directly. This engagement has allowed China to leverage the authority of index providers within global finance, in its pursue of renminbi internationalization. The latter is increasingly being driven by market-based mechanisms rather than geopolitical arrangements, "state-led yet market-driven".

While political constraints can still influence index providers, the shift toward market-driven internationalisation has given China greater flexibility to bypass geopolitical tensions. As [Chen and Pan \(2021\)](#) note, index inclusion offers a way "to detour around potential roadblocks that hostile or competing states may impose to curtail China's access to global portfolio capital", since capital increasingly flows through index inclusion rather than through diplomatic agreements. For instance, despite U.S.–China political tensions in 2019 (Trump officially labelled China a "currency manipulator"), MSCI still increased

China’s index weighting ([Chen and Pan, 2021](#)), showing how financial decisions can follow market logic rather than geopolitical pressure.

This internationalization and liberalization of China’s financial markets are carried out on China’s own terms. As discussed earlier, China’s financial infrastructure—such as the Connect schemes—enables the state to ensure that foreign investors access its markets through channels it has designed and controls. A central feature of this system is the required use of renminbi in cross-border transactions. When foreign investors want to use Connect schemes to buy Chinese stocks or bonds, they must use either the offshore (CNH) or the onshore (CNY) renminbi rate—both of which must be acquired offshore. This approach contrasts with that of most other emerging economies, which typically allow capital to flow using fully convertible international currencies. This system increases demand for renminbi in international markets and helps limit volatility in the onshore exchange rate, since the currency conversion occurs offshore ([Chen and Pan, 2021](#)).

7 Power Dynamics at Play: China’s Evolving Role in Global Index Governance

This section explores China’s evolving relationship with financial indices and global index providers, a topic understudied in the existing literature. As financial indices have become central infrastructures in the global economy, their expansion into China’s state-capitalist system has generated both tensions and adaptations. While China initially engaged with index providers from a position of asymmetry, relying on their expertise and legitimacy, it has increasingly developed its own index infrastructure.

By tracing concrete episodes of contestation and negotiation between China and global index providers—particularly MSCI—this section interrogates the balance of power between state sovereignty and private authority. Drawing on case studies, empirical data and methodological comparisons, the analysis highlights how China’s financial integration is not a story of passive convergence, but one of negotiation and adaptation.

7.1 China’s Shifting Power in Index Development

7.1.1 The FTSE/Xinhua Joint Venture

In the early 2000s, China’s financial sector was still underdeveloped and far from meeting expectations of international investors. Loretta Fredy Bush, CEO of Xinhua Finance, saw an opportunity in this gap and envisioned her company as a bridge between Chinese markets and international investors, a “Chinese Bloomberg” as Petry described ([personal communication, 2025](#)). She wanted to bring the international and liberal standards investors relied on—financial news, market indices and credit ratings—to confidently invest in China ([Makepeace and Ashton, 2020](#)).

The FTSE Group and Xinhua Finance launched a joint venture creating the first Chinese stock indices specifically designed for global financial use, applying global indexing standards. Having Xinhua News Agency, China’s official state media, as a partner allowed the joint venture to secure access to market data from Shanghai and Shenzhen stock exchanges. The indices applied liberal logics, notably by market-driven data using free-float weighting, a method very new to China at the time, which excluded state-owned shares and reflected only those available for public trading. China’s acceptance of the joint venture can be attributed to its desire to gain knowledge in the development of financial indices and to address the volatility of its markets, driven by retail investors ([Makepeace and Ashton, 2020](#); [Petry, 2020a](#)).

The joint venture launched the FTSE China A50 Index in 2003, featuring the 50 largest Chinese A-share companies listed on the Shanghai and Shenzhen stock exchanges (FTSE Russell, 2023).

7.1.2 The A50 Futures

FTSE/ Xinhua attempted to introduce futures trading in mainland China, but the government intervened, deeming this form of trading too risky. As a result, they struck a deal with the Singapore Stock Exchange (SGX) and successfully launched the SGX FTSE China A50 Index futures in 2006 (Makepeace and Ashton, 2020; Singapore Exchange, 2025). This was done without the Chinese authorities knowing and they simply omitted clauses on derivatives in the data-sharing agreement (Petry, 2020a). According to SGX, the futures marked the first time international investors could access a product tied to a Chinese A-share index. It was promoted as an efficient and affordable tool for gaining exposure to China’s domestic equities, serving as both a portfolio management tool and a means to benefit from China’s economic rise at a time when capital controls restricted direct investment in Chinese markets (Wright, 2006; Torchia, 2007).

Over time, offshore trading of the A50 futures in Singapore increasingly exerted influence on the pricing of Chinese stocks. This illustrates how movement in futures markets significantly influences the valuation of the underlying assets enabling, in Petry (2020a)’s terms, “speculation from afar”, applying a neoliberal logic of market organization. In doing so, these instruments allow investors to bypass the state-capitalist logic that underpins Chinese stock markets. Hostility toward such externally regulated financial instruments is rooted in concerns over the loss of state control, the rise of speculative practices that are not perceived as contributing to the real economy, and market instability—fears reinforced by traumas such as the bond futures scandal of the 1990s (Petry, 2020a).

These growing tensions eventually led SSE Infonet, a data-management company 90% owned by the Shanghai Stock Exchange, to take FTSE/ Xinhua to court. The lawsuit claimed that FTSE/ Xinhua had breached its contract by supplying price information for the creation of futures, which Chinese authorities viewed as a violation of China’s intellectual property. SSE claimed that FTSE/ Xinhua had the right to use SSE data for index construction but not to make derivatives (Torchia, 2007; Wright, 2006; Wall Street Journal, 2006). Fredy Bush defended the company by asserting that licenses had previously been signed with both the Shanghai and Shenzhen exchanges granting permission to use their price data and that, under international market norms, prices became public property once disseminated (Makepeace and Ashton, 2020). Nevertheless, FTSE/ Xinhua ended up paying a modest fine but the case wasn’t brought to international court—perhaps due to the sensitivity of FTSE-Xinhua having China’s state-run Xinhua News Agency as support. The joint venture was formally dissolved in 2010. FTSE has since retained sole ownership of the A50 index license and the SGX futures trading persisted (Petry, 2020a). This illustrates the clash between the neoliberal and the state-capitalist paradigms, in which Western financial norms are not only universalized but also implicitly imposed on other economic models.

7.1.3 Reclaiming Sovereignty: The CSI 300 Futures

According to Wright (2006), although the judgment did not revoke FTSE’s access to Chinese market data, it prompted Chinese authorities to accelerate the development of their own financial futures infrastructure through the creation of the China Financial Futures Exchange (CFFEX), a joint venture between the major Chinese exchanges. This reflects China’s discomfort with the prospect of Chinese stock-based derivatives being

traded abroad beyond the control of the People’s Republic. In 2010, CFFEX launched the CSI 300 futures contract, based on the CSI 300 index introduced in 2005 to track the 300 largest A-share companies ([TIOmarkets, 2024](#)). While the CSI 300 futures were not intended to replace offshore instruments—given they are inaccessible to foreign investors—they successfully redirected domestic investor attention away from the A50. As Petry noted in [personal communication \(2025\)](#), the CSI 300 was “a much better representation of the stock market at the time.” By shifting domestic liquidity toward this new benchmark, Chinese authorities diminished the relevance of A50 futures’ offshore pricing power within mainland China. Through CFFEX, the state reasserted authority over financial markets by controlling contract specifications, trading rules, market surveillance, and the sanctioning of irregular or speculative activities ([Torchia, 2007](#); [Petry, 2020a](#)).

As Petry noted ([personal communication, 2025](#)), “the A50 is basically a dirty hedge by now, it’s still used, but it’s not quite as important. It doesn’t have the same influence... This was kind of the deliberate attempt to reduce the power of foreign index providers”. China’s strategy wasn’t to eliminate the A50, but to shift dominance: from being the main futures contract for China exposure to being a secondary tool. To this day, CSI has refrained from granting index licenses to foreign exchanges, despite the fact that launching futures on these indices is highly coveted. In the current landscape, no financial institution is willing to launch such a product without China’s explicit consent. This reflects a shift in how China engages with global markets, having reasserted control and compelled international actors to conform to the logic of its state-capitalist model ([Petry, 2020a](#)).

The creation of the CSI 300 futures in response to the offshore success of the A50 futures illustrates a significant shift in power dynamics between China and global financial actors. Initially, China profited from its partnership with FTSE to gain international legitimacy and professionalize its financial markets. However, the moment these tools began to undermine state control, Chinese authorities shifted power dynamics, using the very mechanisms they had once benefited from to reconfigure the rules of the game. This fight can be seen as a struggle over price discovery, where China gets to shape perceptions of Chinese market value. China claims its sovereignty over its data, compared to liberal markets where market data is seen as a public good. This illustrates how China reclaimed control over its financial infrastructure, making sure they are integrated into state-capitalist structures to ensure they support national development.

7.2 Hong Kong’s MSCI A50 Futures

The episode from the FTSE China A50 futures traded in Singapore pushed China not to reject international collaboration but rather to engage selectively with global actors, ensuring that cooperation remained embedded in its own financial infrastructure. An example of this shift is the launch, in 2021, of the MSCI China A 50 Connect Index Futures, developed through a partnership between MSCI and the Hong Kong exchange (HKEX). The product is based on the MSCI China A 50 Connect Index, which includes 50 of the largest A-share companies accessible via Stock Connect ([HKEX, 2021](#)).

The launch of this futures contract provides a useful risk management tool for offshore investors participating in China’s A-shares market ([Yiu, 2021](#)). It also creates direct competition with the FTSE China A50 futures traded on the Singapore Exchange (SGX), which have held a monopoly since 2006. According to [Yiu \(2021\)](#), “those previously trading A-shares index futures in Singapore are now expected to do so through Hong Kong”. However, as [Mookerjee and Cheng \(2022\)](#) note, “Singapore still rules the market, although its Asian rival is making inroads... Hong Kong gains share in China A50 index futures, but Singapore is far ahead”. This illustrates how the entrenched position of the FTSE-

based futures persists, yet is increasingly challenged by the Hong Kong’s product.

What differentiates the MSCI A50 Connect futures are their full alignment with China’s regulatory and political priorities. As [Yiu \(2021\)](#) reports, “The CSRC will work with the SFC [Securities and Futures Commission of Hong Kong] to enhance cross-border regulatory cooperation... including the sharing of supervisory information and enforcement help, to crack down on misconduct in cross-border trading,” signaling close coordination between Chinese and Hong Kong regulators, under China’s political oversight. The futures are entirely composed of Stock Connect-eligible securities, and as Petry observed in [personal communication \(2025\)](#), the futures are created “in ways that are congruent with what the Chinese authorities want. And they will exclude companies when they meet that 30% threshold and then include them again... to kind of comply with what the authorities want them to do.”

This contrasts with the FTSE A50 futures, which were introduced without the permission of Chinese authorities and is based purely on market capitalization. In contrast, the MSCI A50 Connect is a sector-balanced index that includes at least two companies per sector ([MSCI, 2024](#); [HKEX, 2021](#)), which avoids overexposure to some sectors and reflects a more diversified view of China’s ‘real economy’.

7.3 China’s A-shares Inclusion into MSCI Emerging Market Index

7.3.1 The Inclusion Process

In June 2017, MSCI announced the gradual inclusion of China A-shares in its Emerging Markets (EM) Index, which serves as a benchmark for approximately US\$1.8 trillion in global investments ([Petry et al., 2021](#)). In the months that followed, several other influential global indices, including FTSE Russell’s Global Equity Index Series, Bloomberg Barclays’ Global Aggregate Index, JP Morgan’s Emerging Market Government Bond Index, and FTSE Russell’s World Government Bond Index, also included Chinese assets in their portfolios ([Chen and Pan, 2021](#)). In early 2019, MSCI further expanded the weighting of A-shares in its index, increasing their share to 20%. This means that 20% of the full market capitalization of eligible A-share is counted in the index calculation. By May 2020, index inclusion had already driven at least US\$180 billion in passive and active capital into China’s stock market, with long-term foreign inflows projected to reach around US\$400 billion over the following decade ([Petry et al., 2021](#); [Fichtner et al., 2022](#)).

The prospect of including China A-shares in global benchmark indices began to emerge in recent years, largely driven by three key changes: the growth of China’s stock market, enhancements in regulatory frameworks, and improved access for foreign investors ([Pong et al., 2014](#)). In response, MSCI conducted four consultations before deciding to include A-shares. The first two consultations did not lead to inclusion due to concerns over investor quotas, restrictions on capital mobility, unclear capital gains tax rules, and ambiguity around beneficial ownership—particularly whether foreign investors using intermediaries were recognized as the legal owners of their securities ([Meketa Investment Group, 2019](#)).

In MSCI’s third consultation in 2016, the main obstacle became the frequent use of stock suspensions, which halted trading of shares. In response, Chinese regulators implemented stricter rules to limit the latter and suspended the circuit breaker system—which halted trading during sharp market declines, but had increased panic instead of calming markets during the 2015 stock market crash. These adjustments, along with clarifications on earlier concerns and the introduction of Stock Connect, led MSCI to move forward with inclusion after its fourth consultation in 2017 ([Meketa Investment Group, 2019](#)). Stock Connect, in particular, increased the willingness of international investors to engage with

Chinese markets, especially as China’s size and influence in global finance made it increasingly difficult to ignore (Petry, 2021).

Even if the index inclusion represents a major milestone in China’s opening up of its financial markets, the 2019 inclusion only increased the value of A-shares in the MSCI EM Index to 3.3% of the index, while other share classes represent approximately 30%. A full inclusion scenario would significantly raise China’s weight in the Emerging Markets Index—up to around 40%, with A shares alone comprising 15%. However, such full inclusion remains unlikely in the short term, as further reforms are still required in the A-share market (Meketa Investment Group, 2019).

Importantly, the steps taken by Chinese exchanges to support index inclusion did not contradict the principles of state capitalism. Rather, they aligned with broader national goals of promoting professionalization, institutionalization, and reducing market volatility in domestic markets, while maintaining regulatory oversight (Petry, 2021).

7.3.2 2019 Onward

Following the 2019 inclusion, the initial expectation was that MSCI would continue increasing the inclusion factor over time—potentially moving toward full 100% inclusion. However, the share of eligible A-shares in the MSCI EM Index has remained unchanged since then (Oliver, 2021).

Since the inclusion, MSCI has added 22 companies and removed 72, of which 60 were Chinese firms. These removals were primarily due to trading suspensions—considered by MSCI a violation of market accessibility standards—as well as minimum market capitalization and public share float requirements (Northern Trust, 2024; Petry et al., 2021). As of 2024, India’s share in the MSCI Emerging Markets Index has risen sharply, reaching 20%—up from just 8% in 2020—while China’s overall weighting has steadily declined to 24%, down from a peak of approximately 40% in the same year. Petry noted in [personal communication](#) (2025) that the two reasons why companies were removed are “because companies are on the sanctions list by the U.S. . . . but the main reason I think is that the stock market really crashed in China”.

Despite the lack of further inclusion announcements, Oliver (2021) argues that institutional investors have continued to increase their exposure to A-shares. As can be observed in Figure 9, foreign holdings of domestic Chinese equities have grown steadily after 2019, independent of any new announcement from MSCI. A further sign of this growing interest is the number of Special Segregated Accounts (SPSAs)—a prerequisite for trading A-shares through the Shanghai and Shenzhen Stock Connect via Hong Kong—which have increased from 1,000 before inclusion to more than 10,000 afterwards (Oliver, 2021). This trend reflects a growing recognition among global institutions of the investment opportunities in China’s A-share market, beyond the scope of index-driven allocations.

7.3.3 Who sets the Rules? MSCI’s Inclusion of China

This section interrogates the power dynamics underlying China’s inclusion in the MSCI EM Index. The dominant narrative suggests that China, like other emerging countries, had to conform to MSCI’s standards. However, this thesis argues that China constitutes an exception, in that it represents a case of negotiated adaptation, leveraging its structural position to shape the terms of its inclusion.

On one hand, China did make several concessions to MSCI to be included into their index, as discussed previously. MSCI has maintained close engagement with Chinese au-

thorities, offering guidance on facilitating investor access to China’s capital markets and on how to align with its corporate governance criteria (Fichtner et al., 2022). According to one interview cited by Fichtner et al. (2022), “MSCI have actually accomplished quite a lot by the inclusion. It’s amazing that it was an external, private organization that suddenly gets CSRC and government officials to bend and to agree to things that they would have never agreed to in any other circumstances.” For instance, MSCI delisted Chinese companies that suspended trading activity because it violated accessibility standards.

On the other hand, China’s position in the global financial system gave it a distinctive degree of leverage. As Petry noted in [personal communication \(2025\)](#), “When it comes to China, it is probably the only country other than the US that can do that [pressure MSCI], in that the power lies with China rather than with MSCI”. Several structural factors suggest that China possesses the leverage necessary to pressure MSCI: its limited reliance on foreign portfolio capital, its control over domestic financial infrastructure, its status as the world’s second-largest economy, and its monopoly over domestic financial data (as discussed above). In this context, the Wall Street Journal reported that during the inclusion process, collaboration discussions were halted with MSCI, while the Shanghai and Shenzhen stock exchanges warned they might revoke MSCI’s access to domestic market data if the shares were not included in the index (Bird, 2019). As J. Petry observed in [personal communication \(2025\)](#), “they need a certain size and an amount of state or regulatory capacity to orchestrate that resistance.”

At the same time, MSCI faces its own constraints. As outlined earlier, index providers are accountable to institutional investors, who increasingly sought exposure to China’s fast-growing markets. The commercial pressure to accommodate this demand likely pushed MSCI to be more flexible than usual. Petry argues that “MSCI did a lot of concessions to China, when it came to inclusion... the decisive factor was the Stock Connect... But that actually does not correspond with MSCI’s market access classification scheme. If other countries would have done that, they wouldn’t have accepted it.” ([personal communication, 2025](#))

Although China has taken steps to align more closely with international standards, these reforms have not altered the architecture of its financial markets. As Petry (2020b) notes, the concessions made by Chinese authorities “do not represent a break with the pre-existing path” and remain fully compatible with a state-capitalist logic. Tools like Stock Connect and Chinese-built indices have allowed integration in global markets while preserving state control. Meanwhile, measures like improved English disclosures and stricter delisting rules served to strengthen corporate governance (Petry, 2020b). As Fichtner et al. (2022) observe, “this unprecedented inflow of foreign capital will take place according to rules set out by the Chinese state, including a level of surveillance, intervention and market guidance unthinkable in Western markets”. This reflects a broader strategy in which financial infrastructure and index inclusion is designed to preserve sovereignty.

However, this dynamic should not be interpreted as a case of complete asymmetry or MSCI being entirely at China’s mercy. Instead, the relationship reflects a mutual dependence, in which both actors made concessions. For MSCI, adapting to China’s system ensured its continued relevance in global markets. For China, index inclusion brought greater professionalization, stability and international recognition. As Chen and Pan (2021) note, MSCI “seldom exercised its power to drag China into sensitive policy debates on fundamental reforms towards capital account liberalisation.” They further argue that, rather than forcing China to liberalize fully, “through periodic reviews and consultative surveys, MSCI proposed solutions to tackle the technical obstacles, as Beijing evaluated and implemented possible adjustments”. In the words of Petry ([personal communication,](#)

2025)), “MSCI in China said, well we kind of adapt and that’s helpful for our business.” Ultimately, China’s inclusion reflects a mutual adaptation, where MSCI worked within the system and bent more than it usually would—an unusual dynamic.

7.4 Index Independence: Tracking Capital Flows

To further explore the infrastructural (in)dependence of China on index providers, this section examines the role of capital flows through both international and domestic indices. It focuses on how foreign and domestic capital is allocated through the Chinese domestic index ecosystem, embedded within a state-capitalist framework and methodology or through global benchmarks, which are grounded in liberal methodologies.

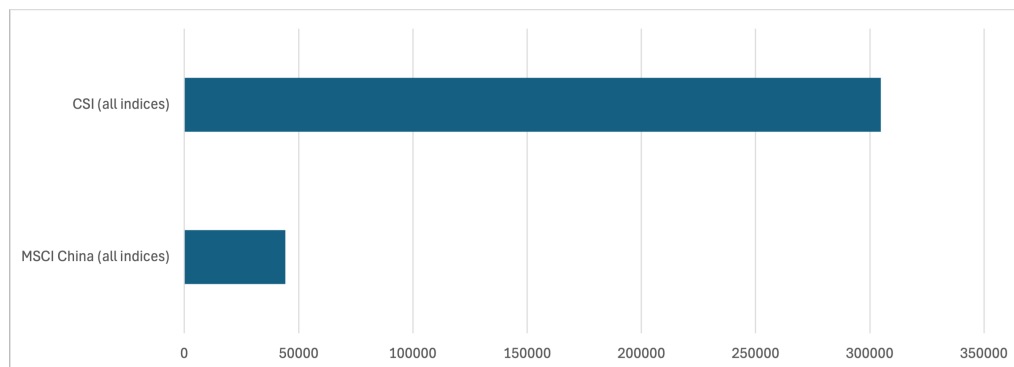


Figure 12: Total Fund Assets across ETFs tracking CSI, MSCI China and MSCI Emerging Market index (M USD)

Source: Author’s own calculations based on Bloomberg data

The bar chart, based on data retrieved from the Bloomberg Terminal at UCL, shows the distribution of total fund assets across two categories of ETFs, each grouped by the underlying index they track: CSI indices and MSCI China indices. The disparity in capital allocation is striking. As of April 2025, ETFs tracking CSI indices accounted for approximately \$304.71 billion compared to \$44.23 billion for MSCI China indices. This highlights the dominant role of domestic indices in shaping investment flows within China.

It is important to note that this comparison reflects two structurally different index ecosystems. CSI indices are composed exclusively of renminbi-denominated A-shares listed on the Shanghai and Shenzhen stock exchanges, and are primarily designed for domestic investors. In contrast, MSCI China indices include a broader mix of share classes (varying by sub-index), and primarily serve foreign investors seeking exposure to Chinese equities. This reveals that the bulk of index-based capital allocation in Chinese equity markets occurs through domestic investors, and that the latter rarely invest through MSCI indices (both onshore and offshore).

The dominance of CSI-based funds reflects how China has successfully built a strong financial infrastructure capable of sustaining large capital flows through domestic benchmarks, rather than relying on international index providers. As Petry noted in [personal communication \(2025\)](#), “the passive market within China is growing, but it’s a kind of Chinese asset manager system... by now I think I did around 200 interviews around China’s capital markets... when it comes to... domestic performance, it’s the CSI 300 that matters as a benchmark.”

Beyond the limited relevance of foreign-built indices for domestic investors, another reason Chinese authorities appear relatively unbothered by their presence is that these indices offer only a narrow and curated exposure to the Chinese market: they only include

companies accessible through Stock Connect. Meanwhile, indices like the CSI 300 for domestic investors allows them to benefit from the full range of listed companies, reflecting the domestic market in its entirety.

These trends suggest that China may be a rare exception: a country that has managed to expand its presence in global capital markets without becoming dependent on financial infrastructures that are rooted in liberal, external standards.

7.5 Index Methodology Comparison

Indices are powerful devices that shape how markets are perceived by investors. In the case of Chinese equities, multiple benchmark providers offer representations of what constitutes 'the Chinese market'. Comparing the methodologies of MSCI, a foreign-owned private index provider that includes all investable Chinese shares and is accountable to global investors, and CSI, a state-affiliated entity that focuses solely on mainland-listed A-shares for domestic investors, opens a window into the sociology of index construction.

This comparison is not merely a technical exercise but may also highlight the tensions between global financial norms and a state-capitalist approach. To the best of my knowledge, a comparative analysis of the index methodologies of CSI 300 (or any other Chinese index) and indices rooted in liberal financial traditions has not yet been undertaken. This section explores, based on the “CSI 300 Index methodology” ([China Securities Index, 2016](#)) and the “MSCI Global Investable Market Indexes Methodology” ([MSCI, 2025](#)), how index construction differs (or aligns) between them, and how these methodological choices could reflect political and institutional logics.

7.5.1 Eligibility and Selection Criteria of Stocks

Both the CSI 300 and MSCI indices exclude stocks that are under Special Treatment or at risk of delisting (the so-called ST or *ST stocks), as well as those suspended from trading. For the CSI 300, a stock must have been listed for at least three months before becoming eligible, unless its full market capitalization (referred to as daily average total market value) ranks among the top 30 of all A-shares. This likely favors large state-owned enterprises. For ChiNext-listed stocks [Chinese Nasdaq-style sub-market], however, the requirement is stricter: they must have been publicly traded for at least three years, likely because they are considered inherently riskier. Similarly, in the case of MSCI, an IPO (initial public offering) must have been trading for at least three months to be considered for inclusion. However, MSCI also allows early inclusion after the 10th trading day for IPOs that are deemed large and accessible: the IPO must exceed 1.8 times half the Market Size Segment Cutoff (as explained below) ([China Securities Index, 2016](#); [MSCI, 2025](#)).

The criteria for stock selection based on full market capitalization, free-float, and liquidity for MSCI China are based primarily on the criteria to be included in the Market Investable Equity Universe, which is a necessary condition for all MSCI indices. Then, additional, stricter rules apply for MSCI China ([MSCI, 2025](#)).

The Equity Universe Minimum Size Requirement refers to the minimum full market capitalization a company must meet to be eligible for inclusion in the MSCI investable universe. This cutoff is determined by first ranking all companies in developed markets (DM) by full market capitalization in descending order. The cutoff is then placed where the free-float float-adjusted market capitalization reaches 99% of its total. The value of the full market capitalization of the company at the cutoff becomes the minimum size requirement, applicable for all markets. For example, as of the February 2025 Index Review,

this threshold was set at USD 443 million (MSCI, 2025).

The Minimum Float-Adjusted Market Capitalization at the individual security level must be at least 50% of the Equity Universe Minimum Size Requirement. This means that both the full market capitalization and the free float-adjusted market cap thresholds are defined as absolute values. As a result, a company can meet the eligibility criteria even if its free float is relatively low compared to its total size (MSCI, 2025).

The Emerging Market Liquidity Requirement at the individual security level requires an Annualized Traded Value Ratio (ATVR) of at least 15% over the past 12 months, as well as a minimum of 15% ATVR over each of the last four 3-month periods (annualized per quarter). Additionally, the stock must have been traded on at least 80% of trading days in each of the last four quarters (MSCI, 2025).

The Foreign Inclusion Factor (FIF) represents the percentage of a company’s outstanding shares that are both publicly available and accessible to international investors. It thus takes into account the company’s free float as well as foreign ownership restrictions. To qualify for inclusion in the Market Investable Equity Universe, a security must have a FIF of at least 15% (MSCI, 2025).

Additional rules apply to Chinese securities. Chinese A shares that are not currently included in the MSCI China Index and are classified as Large or Mid cap must have a FIF-adjusted market capitalization of at least 50% of the Standard Cutoff. An exception is made for Chinese securities with a FIF below 15%, which can still be included if their FIF-adjusted market cap is at least $1.8 \times 0.5 \times$ the Standard Cutoff, a much larger threshold than the standard cutoff. Additional China-specific constraints include the exclusion of securities suspended on the price cutoff date of the index review or that have been suspended for more than 50 consecutive business days within the past year (MSCI, 2025).

In comparison, the CSI 300 Index selects its constituents from the eligible universe through a two-step process. First, it ranks all stocks based on their daily average trading value (i.e., liquidity) over the most recent year and eliminates the bottom 50%. Then, from the remaining pool, it selects the 300 stocks with the highest A-share daily average market value (i.e., full market cap) as index constituents. Notably, free-float adjustments are applied only after selection, for the purpose of weighting, meaning free float does not determine eligibility for inclusion (China Securities Index, 2016). While MSCI applies free-float considerations both in the selection and weighting phases, making its approach somewhat stricter, the difference remains limited.

7.5.2 Mechanisms of Index Stability

Both MSCI China and the CSI 300 actively manage stability, sometimes prioritizing continuity over a strict reflection of market dynamics. Both indices apply rounding rules to their free float-adjusted market capitalization ratios, referred to as the Category-Weighted Method in the CSI 300 and the Free Float-Adjustment Factor in MSCI. These mechanisms ensure index stability by converting free float percentages into predefined bands (e.g. 18.3% would be rounded up to 20% for index weighting purposes) (China Securities Index, 2016; MSCI, 2025).

Another rule that reflects CSI’s emphasis on stability and tighter control, is the limitation on constituents turnover at each periodical review: no more than 10% of index members can change. This may limit the index ability to reflect current market dynamics by prioritizing continuity over representativeness (China Securities Index, 2016).

Both CSI and MSCI implement mechanisms that grant more lenient rules for existing constituents compared to new constituents. If a current constituent falls within a defined buffer zone, they may remain in the index rather than being automatically downgraded or deleted. These measures are designed to preserve index continuity, by reflecting long-term market structure and not short-term fluctuations, and reduce index turnover ([China Securities Index, 2016](#); [MSCI, 2025](#)).

If existing CSI 300 constituents rank top 60% in terms of average daily trading value (an updated threshold from the standard 50%) they remain eligible for the next stage. After being ranked by full market capitalization, a buffer zone mechanism applies: existing constituents that still rank in the top 360 are given priority to remain in the index, while new constituents ranked within the top 240 are prioritized for inclusion ([China Securities Index, 2016](#)).

In the case of MSCI, including its China indices, existing constituents are allowed to remain in the index or in their current size segment (Large, Mid, or Small cap) if they fall within a buffer zone of at least 2/3 of the required full market capitalization or free float-adjusted market capitalization. The same logic applies for liquidity: for Emerging Markets, existing constituents are permitted to meet only 2/3 of the 15% minimum ATVR, i.e. 10%, along with a 3-month ATVR of at least 5% and 3-month trading frequency of at least 70%. Furthermore, for existing constituents, the FIF must be at least 15% for Small Cap, while Mid and Large Cap constituents may fall below if their free float-adjusted market capitalization meets 2/3 of the $1.8 \times$ the minimum free float-adjusted market capitalization ([MSCI, 2025](#)).

7.5.3 CSI’s Discretionary Approach vs MSCI’s Rule-Based Model

CSI adopts a more flexible approach than MSCI regarding suspension periods triggering index exclusion. Under MSCI rules, stocks are automatically excluded if they have been suspended for at least 50 consecutive trading days within the past year, or if it is suspended on the index review’s price cutoff date. In contrast, CSI applies a more discretionary process: securities suspended for three months or more are flagged as candidate deletion. Those suspended for nearly three months are submitted to the Index Advisory Committee, who will decide whether these stocks should be marked for candidate deletion. If a stock has resumed trading by the time of the review, it remains in the index regardless of the prior suspension length.

An additional section from the CSI 300 Index Methodology clarifies that CSI may intervene between periodic reviews if a stock is suspended from trading: “If a constituent is suspended from trading, CSI will determine whether to delete it from the index or not according to different suspension reasons”. This gives CSI discretionary authority, as it has the right to decide whether to remove a stock from the index ([China Securities Index, 2016](#); [MSCI, 2025](#)).

The strongest example of discretionary power built into the CSI 300 methodology is the fact that stocks that report financial losses are generally excluded from the index during periodic reviews, unless they are deemed essential for the representativeness of the index ([China Securities Index, 2016](#)).

CSI retains discretionary power when predefined rules are insufficient or ambiguous. For instance, its methodology states: “Whenever the Committee or CSI realizes that it is necessary to amend or complement index methodology due to changes of market and feedbacks from clients, the potential change should be submitted to the Index Advisory Committee”. This indicates that CSI grants itself the discretion to determine when exist-

ing rules are no longer sufficient. Another example of this discretionary approach lies in the selection criteria for CSI 300 constituents, which must demonstrate “good performance without serious financial problems nor regulations breaking events and with no large price volatility that shows strong evidence of manipulation”, language that relies on vague and subjective thresholds, leaving room for interpretive judgement.

Furthermore, CSI’s documents indicate that methodology changes are not subject to public consultations. In contrast, MSCI reports that several updates to its methodology are explicitly attributed to client consultations, such as “new sections/ clarifications/ new appendix added following consultation”. MSCI also adheres to fully rule-based criteria, avoiding reliance on discretionary judgment, even though discretionary components may still be embedded in how the rules are designed ([China Securities Index, 2016](#); [MSCI, 2025](#)).

7.5.4 Liberal Tools in State Hands?

One could have expected China to build a distinct index model, one that breaks from the liberal norms that dominate global finance, and instead prioritizes national development goals. Yet, the CSI 300 index methodology adopts many of these international norms: free-float adjustment, liquidity and size screening, market-cap weighting, periodic rebalancing mechanisms, and is closely aligned with the MSCI Global Investable Market Index framework. This paradox raises questions: Why would China adopt an index methodology shaped by ideologies that diverge from its own? And if its sovereign indices so closely resemble international models, to what extent is the pursuit of index sovereignty meaningful?

One interpretation is that this convergence reflects the homogenization of financial infrastructures globally and the need for China to strategically integrate global finance by following these international standards. Another interpretation lies in the ecosystem in which the CSI 300 finds itself: one of capital controls, data monopoly, regulatory control. Access to CSI licenses is tightly managed. This suggests that this liberal financial infrastructure does not pose a threat to China’s overall system, precisely because it is embedded within that system.

Yet this liberalization built into the index methodology remains partial. Subtle forms of discretionary power are embedded in the CSI 300 methodology, allowing room to support domestic stability, protect strategic sectors, or prevent certain firms from being excluded from the index. In contrast, MSCI—accountable to global investors—has no obligation to align with Chinese policy priorities when constructing or revising indices. The existence of a sovereign index offers China a degree of autonomy, enabling it to avoid exposure to decisions taken by an external entity. These risks include elements such as stock delistings triggered by U.S. sanctions or the exclusion of politically sensitive firms, which reflect foreign interests rather than its own.

8 Prospects for the Future

China has demonstrated that it can selectively integrate into global capital markets without relinquishing control over the core infrastructures of its financial system. However, as [Chen and Pan \(2021\)](#) note, the lack of political resistance from Western governments to China’s growing ties with private financial actors, such as asset managers and index providers, may have been intentional or just neglect. Yet, this phase of relative tolerance may not persist. Today, half of the world’s largest portfolio investors are based in the United States, and another quarter in Europe. As geopolitical tensions deepen, China may no longer enjoy the same passive or permissive environment from Western policy-

makers.

In terms of broader financial integration, the [Atlantic Council GeoEconomics Center and Rhodium Group \(2024\)](#) observe that “much of the global investor community had expected continued, even if gradual, convergence with global financial norms. That assumption increasingly looks misplaced.” Figures 6, 8, 9, and 11 also support this observation, showing that China’s integration into global finance has clearly decelerated since 2021, diverging from earlier trends.

The precise causes of this slowdown are difficult to pinpoint, but a combination of factors has likely contributed. The global pandemic generated economic uncertainty, while Xi Jinping placed increased emphasis on national security. Geopolitical tensions have increased, particularly the U.S.–China trade war initiated by Trump’s tariffs. Investor confidence has been shaken by the stock market downturn and a broader economic slowdown, largely driven by the real estate crisis following the collapse of Evergrande. At the same time, China’s renewed focus on advanced manufacturing has sparked concerns abroad about a potential second “China trade shock.” Meanwhile, the resurgence of state-owned enterprises (SOEs), reflected in their growing share of total market capitalization, signals a shift away from market liberalization ([Dawson and Clark, 2025](#); [Lockett, 2024](#); [Atlantic Council GeoEconomics Center and Rhodium Group, 2024](#)).

9 Conclusion

While many expected China’s deeper integration into global financial markets to promote convergence with liberal norms, this thesis has shown that the reality is far more complex. The research sought to explore the evolving power dynamics between index providers, whose infrastructural power over capital allocation continues to grow, and China, which seeks financial integration while resisting liberal norms. Specifically, I asked whether China has been able to shape the rules of its financial globalization, particularly through its interactions with index providers, and what this reveals about the broader distribution of authority in global finance.

The findings suggest that, although index providers are often portrayed as powerful private authorities shaping global capital flows through seemingly neutral infrastructures, the case of China demonstrates that this authority is far from absolute. China’s integration into global finance reflects a process of negotiated adaptation and mutual concessions, embedding global norms within a regulatory framework that maintains state control. To understand this dynamic, I examined how both actors position themselves in relation to one another, and what their underlying interests are.

For index providers, interacting with China allows them to retain access to one of the world’s largest and fastest-growing economies and meet the demands of institutional investors seeking exposure to Chinese assets, and to remain relevant in global finance. From China’s perspective, cooperation with global index providers, while not essential in terms of capital dependence, may offer other benefits. Petry argues that this cooperation provides stable capital without relinquishing too much control. While this may hold, the relatively low volume of passive foreign capital entering China and the concurrent rise of domestic institutional and passive investors capable of providing stability suggest that this ‘stabilizing’ function may be less important than assumed. Nonetheless, such cooperation brings other benefits, including enhanced market visibility, greater professionalization, a degree of international legitimacy, and, potentially, valuable technology transfers.

These tensions and motivations help explain the mutual concessions observed. On

the side of index providers, particularly MSCI, concessions included accepting regulatory arrangements—like the Stock Connect scheme—that would not have qualified under their usual market access criteria. China, in turn, made several reforms in response to MSCI’s consultations, including improved disclosure practices, reduced trading suspensions, and improved transparency. However, many of these reforms did not go against state-capitalist logic but fit within the existing financial infrastructure. Mechanisms like the CSI 300 index and Stock Connect exemplify how China’s financial infrastructure is under sovereign control while enabling financial openness. The sharp contrast between domestic reliance on CSI-based indices and the limited role played by foreign-built benchmarks in China’s capital markets further supports this. The result is a rebalancing: one in which private financial authority is forced to coexist and negotiate with a rising state that does not subscribe to the liberal norms traditionally embedded in financial globalization.

Determining exactly where the power equilibrium lies between these actors remains difficult. This thesis aimed to identify and interpret the many elements that may influence this balance, but the conclusions drawn unavoidably reflect my own analytical lens. The outcome is contingent on numerous factors—many of which are opaque, context-dependent, or simply inaccessible. In attempting to construct meaning from this evolving relationship, I recognize that some aspects may resist explanation.

This research was conducted in a field that remains relatively underexplored, situated at the frontier of both published academic work and available empirical data. While certain technical facts are documented in the literature, the more analytical and political dimensions of China’s financial integration are far less developed. While this posed clear challenges, it also made the topic all the more interesting to study. With more time, this research could be expanded into a broader investigation, including archival research or interviews with key actors such as the architects of Chinese indices. This opacity is itself a reflection of the broader dynamics analyzed in this thesis—where control over information, infrastructure, and access is deeply political.

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