Reframing China: Why It's Time to Rethink China Exposure as "AllChina"

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One Country, One Market, One Financial System

For decades, global investors have treated China as a fragmented market: Mainland China as emerging, Hong Kong as developed, and Macau as too small to matter. This divide reflected the 1997 "one country, two systems" framework that granted Hong Kong a high degree of autonomy. But that separation is increasingly obsolete.

Major developments over the past five years, including the implementation of Hong Kong's National Security Law and Article 23, have cemented Hong Kong's integration into China's centralized governance model. Mandarin is now the language of finance in Central; Chinese banks dominate deal flow; and nearly 80% of Hong Kong's market capitalization is now linked to Mainland enterprises[i]. In 2025, over two-thirds of IPOs on the Hong Kong Exchange (HKEX) were cross-listings from Chinese companies, a stark contrast to just 2% a few years earlier.

At the same time, multilateral policies now treat Hong Kong, Macau, and Mainland China as a single entity. U.S. investment restrictions, export controls, and sanctions no longer differentiate between them. In practice, China operates as one capital market under a unified system. Yet global benchmarks and portfolios continue to divide exposures, creating structural underweights and distorting investor allocations.

A Structural Shift in Capital Markets

Hong Kong's stock market capitalization now stands at 1,117% of its GDP, by far the highest globally. But this is not due to the size of local listings[ii]. It reflects Hong Kong's evolution into the external listing hub for Mainland Chinese firms, driven by A-to-H listings, strategic relocation, and policy alignment. Over 75% of HKEX market capitalization now comes from companies with substantial mainland operations or ownership.

At the same time, U.S. capital markets have become less accessible for Chinese issuers. Firms like Didi Global, China Telecom, and China Unicom have been delisted or blocked from listing in the U.S. due to national security and data concerns. Others, like Singapore-based, Shein is now exploring relocation back to the mainland to gain Hong Kong IPO approval, underscoring how even global-facing Chinese firms must align with domestic oversight.

These developments reflect a profound shift: market access is increasingly tied to political geography, and Hong Kong's role has moved from global intermediary to mainland financial outpost.

China Is Not Uninvestable, But It Is Undervalued

Despite being the world's second-largest equity market by both total and float-adjusted capitalization, China remains underrepresented in most global portfolios. Investor sentiment has been weighed down by property market weakness, regulatory crackdowns, and geopolitical risk. Fears of escalating U.S.-China tensions and unpredictability around tech regulation led numerous commentators to declare China "uninvestable."

But this view is fading. Valuations have reset. As of mid-2025, China's CSI 300 trades at a forward P/E of ~14x, less than half the S&P 500's 30x[iii]. Meanwhile, China is pivoting from property-driven growth to equity market development. The government is easing listing requirements, increasing foreign access, and promoting equity financing over debt.

China's innovation edge remains intact. AI firm DeepSeek shocked the market in 2025 with capabilities rivaling U.S. incumbents at a fraction of the cost. Companies like CATL, Meituan, Tencent, and Kweichow Moutai continue to lead in their respective categories, with strong earnings and deep integration into domestic demand themes.

Macau: Completing the Picture

While small in market capitalization, Macau also plays a symbolic and structural role in the AllChina investment thesis. Governed under the same SAR framework as Hong Kong, Macau has seen increasing policy coordination with Beijing. Its listed equities, concentrated in tourism and entertainment, represent a key channel for China's consumption and leisure economy.

As a key part of the Greater Bay Area integration program, Macau is increasingly aligned with the Mainland's development strategy. For investors seeking full exposure to China's economic footprint, Macau's inclusion is no longer optional.

The Case for Rebuilding Allocation Frameworks

China is currently the largest component of Emerging Market (EM) benchmarks, representing over 40% of EM float-adjusted market cap. Yet its weight in global (DM + EM) benchmarks remains disproportionately low, just 5–6%, depending on classification. Investors allocating to China via EM benchmarks are effectively crowding out other markets while maintaining incomplete and distorted China exposure.

Adding to the inconsistency, Hong Kong remains a meaningful component DM indexes, despite being politically and economically unified with the Mainland. This legacy framework results in double exposure for some investors, and underweighting for others.

The solution is to utilize an AllChina framework: structuring exposure to Mainland China, Hong Kong, and Macau as one integrated investment universe, and to treat it as such within portfolio construction.

AllChina as a Standalone Allocation

An increasing number of institutions are moving toward treating China as a standalone allocation, neither Emerging nor Developed, but unique. There are several reasons for this:

•**Scale:** AllChina is the second-largest equity market globally by float-adjusted market cap, behind only the U.S.

•**Integration:** Policy coordination, listing flows, and regulatory convergence have erased practical distinctions between regions.

•**Complexity:** China's hybrid of private entrepreneurship and centralized state control requires nuanced risk assessment.

Using AllChina as a standalone exposure, alongside EM ex-China, allows investors to calibrate risk, avoid overlap, and allocate in line with both market reality and policy structure. A clean separation between China and the rest of EM also enables better tracking, manager benchmarking, and performance attribution.

Cumulative Performance (Last 12mon)
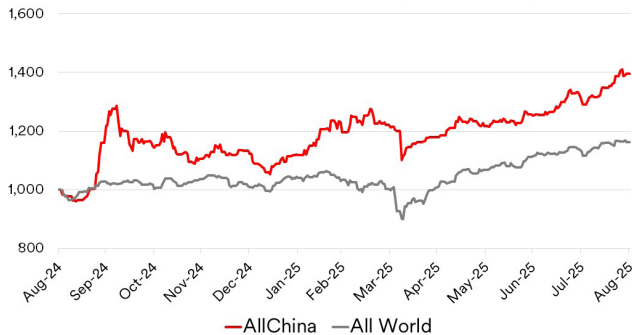
Source: MarketVector Indexes, Data as of August 31, 2025. AllChina (MV1CHN Index), All World (MVIGE Index)

Strategic Sectors, Structural Reforms, and Policy Signals

China's policy focus on advanced manufacturing, clean energy, AI, semiconductors, and domestic consumption has reoriented capital flows. Many leading firms in these sectors, are now listed in Hong Kong or dually listed across mainland and offshore venues.

At the same time, policy reforms have improved market functioning:

- Streamlined overseas listing approvals
- Expanded Stock Connect access
- Eased ownership and liquidity restrictions for foreign investors

This alignment of regulatory access and strategic sectors makes Hong Kong-listed Chinese equities an increasingly efficient way to express structural themes favored by Beijing.

The Role of Index Providers

A rethinking of allocation frameworks requires decisive investor conviction to "lean forward" in recognizing the changes in Chinese and global markets. It requires tools that reflect the new landscape. Index providers play a vital role in defining investable universes that match economic realities. As allocators look to separate China from legacy EM classification, index-based solutions that capture AllChina exposure holistically have become essential.

Asset owners are increasingly partnering with index providers to co-develop frameworks that support standalone China views, removing artificial DM/EM splits and better aligning with policy, liquidity, and access conditions on the ground. As this evolution advances, the use of a complete, seamless benchmark for Chinese equities is vitally important.

Conclusion: The New Reality is AllChina

Geopolitics, regulation, and capital markets have moved decisively toward integration. The separation between Mainland China, Hong Kong, and Macau is no longer economically logical. For investors, the choice is not just about where to allocate, but how to structure exposure in a way that reflects the unified nature of China's financial system.

"AllChina" is more than a taxonomy. It is a new architecture for understanding, measuring, and investing in the world's second-largest economy. As the boundaries between policy, market access, and economic geography continue to blur, portfolios must evolve to reflect the reality of **One Country, One Market, One Financial System.**

[i]HKEX, Annual Market Statistics. hkex.com.hk
[ii]World Development Indicators, Market capitalization of listed domestic companies (% of GDP), World Bank and World Federation of Exchanges (WFE), as of 2024.
[iii]Gurufocus.com as of August 18, 2025. PE Ratio or Price-to-Earnings Ratio TTM, calculated by dividing the current market price of the index by the total earnings per share of its constituent companies over the past twelve month.