Real Risk in China: Not Participating

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While there has been much focus of late on China's risks, there are ample opportunities for investors—and the real risk may be *not* participating in this country's growth.

Worries about China's credit growth still loom large. The massive deceleration we saw in industrial production growth, from 15% to below 6%, ended in 2015, but investors are still concerned about the extent to which debt has built up in China and continues to balloon. While China's debt is substantial—well over 200% of gross domestic product—fears of a debt crisis are overblown.

First, China's debt is held domestically, and it's concentrated in state-owned enterprises, with the Chinese government as the creditor. Would you ever default on yourself? It's not likely that China will either.

Second, against that backdrop, nascent Chinese financial markets are moving past the embryonic stage and, while they are still far from maturity, companies on the Shenzhen Stock Exchange now represent firms from those sectors that are driving China's growth—information technology, entertainment, leisure, all sectors aimed at a growing middle class. Foreign investors can now invest in these companies and tap these opportunities.

One manifestation of the immaturity of China's capital markets is that most Chinese companies are covered by one broker, or at most two. That creates an exciting opportunity for investors to bring their own experience and due diligence to help identify top performers.

And, now that China's domestically listed companies (A-shares) will be formally included in the MSCI Emerging Markets Index, the need to look seriously at its companies is growing.

Whether it is risky for investors depends on how you view the risks. The risk from my perspective is not participating in the opportunity.

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