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Emerging Global Advisors To Launch China Infrastructure ETF (CHXX)

by [Michael Johnston](#) on February 16, 2010 | ETFs Mentioned: [CHXX](#) • [EMIF](#) • [PXR](#)

[Emerging Global Advisors](#), the New York-based ETF issuer that pioneered [sector-specific emerging markets ETFs](#) last year, is scheduled to launch its first China ETF on Wednesday. The INDXX China Infrastructure Index Fund ([CHXX](#)) will be based on the [INDXX China Infrastructure Index](#), a free-float cap-weighted index comprised of 30 companies determined to be representative of China's infrastructure sectors.

Although the benchmark focuses exclusively on the infrastructure sector, the underlying companies will include a mix of sub-sectors within this space. Major allocations in the index include metals and mining, construction and engineering, real estate management and development, electrical equipment, construction materials, and diversified telecommunications.

China's Infrastructure Industry

The case for investment in China's infrastructure sector is a relatively simple one, and focuses on an overriding theme expected to drive growth throughout the [emerging world](#): urbanization. Approximately 43% of China's 1.33 billion people now live in cities, up from only 26% in 1990. And China now has more than 50 cities with a population of 1 million or more, compared to only 9 in the U.S. While this represents a significant increase in urban populations, it remains far below the 82% rate in the U.S. This transition to city living is expected to continue for the foreseeable future: China's rate of urbanization is estimated at 2.7%, compared to just 1.3% for the U.S. By some estimates, 70% of the Chinese population will live in urban areas by 2030.

The connection between urbanization and need for substantial infrastructure spending isn't a difficult one to make, especially in the current environment. Approximately 45% of China's \$580 billion stimulus package was allocated to railways, highways, airports, and power grids, highlighting the importance of this sector to the economy's sustained growth. As China's major cities swell in size, so too will the need for basic [utilities](#) and infrastructure.

Beyond Urbanization

Infrastructure isn't important to only the urban areas in China. Despite the impressive images from Shanghai and Beijing, much of China looks more like an emerging market than a booming metropolis. Paved roads are a rarity in much of the country, even near cities that would be considered relatively large in the U.S.

China has a population more than four times that of the U.S and [now sells more cars](#), but the national highway system is far less developed than those in advanced economies. China's express highway system has grown from

about 12,000 kilometers in 2000 to more than 65,000 kilometers now. Growth is still expected to accelerate in coming years, with objectives of expanding to 85,000 kilometers by 2020 and 175,000 kilometers by 2050. By comparison, the U.S. interstate highway system is about 75,000 kilometers long.

The government has committed to build a network of roads connecting all provincial capitals and cities with populations exceeding 200,000 people, an ambitious goal that speaks volumes about the infrastructure gaps between China and the developed world. The idea of a campaign to connect cities the size of Spokane or Boise to a nationwide network of roads would be unnecessary in the U.S., but that's exactly what is underway in China.

Long Term Timeline

Such a long-term campaign would likely be impossible in the U.S., as the focus of major public works projects tends to shift with every election. But China is a completely different story, as the consistency in power allows for extended planning in infrastructure development. The development of sufficient infrastructure also becomes a high priority for a government whose primary objective is not courting votes, but preventing social unrest. The inability to purchase an iPhone may spur complaints, but poor transportation and frequent brown outs will cause more meaningful problems for the Chinese government, and infrastructure development is the most effective way to ensure relative stability. "Long-term planning is easy in a one party system," says Richard Kang, chief investment officer at EGA. "And infrastructure development in China will be a major story for the foreseeable future."

CHXX will offer China-specific infrastructure exposure not currently available through ETFs. The [PowerShares Global Emerging Markets Portfolio \(PXR\)](#) and [iShares Emerging Markets Infrastructure Index Fund \(EMIF\)](#) allocate about 16% and 17%, respectively, to China. CHXX will charge an expense ratio of 0.85%.

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Disclosure: No positions at time of writing.

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