Headline: Careful, MSCI, you may score an own goal	
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Careful, MSCI, You may Score an Own Goal

Expert Take

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Dear MSCI,

You have issued a stern warning to India about a potential weightage cut in the emerging market indices constructed by yourself because our exchanges have decided to discontinue the sharing of data with their competitors.

A Hindi proverb says, "*Vinash kale, vipreet buddhi.*" Translated, it means that when one's destruction is near, one takes leave of one's senses. Let me illustrate how:

I am not a subscriber to your services. Your services aren't available on Reuters or Bloomberg or on your website unless paid for separately. Google searches show you are looking to add China A shares to emerging market indices, which will eventually take China's weight to more than 50%. Seems you haven't learnt from your past experiences when Japan was almost 60% of benchmark indices and how misleading it proved to investors. In the days where ETFs weren't present, such mistakes were pardoned. That may not be the case now. In case you decide to upgrade South Korea to the Developed World Index (which is a long delayed, but logical step), then maybe you will have to rename the emerging market indices to China and others indices.

Please evaluate the following facts before taking any decision in the context of issuing a stern warning for weightage cut to India for non-sharing of data by exchanges with its competitors:

- India is the only country in the world where in the listed segment, the largest bank, the largest insurance company, the largest mortgage company, the largest FMCG company, the largest telecom company, the largest automobile company etc are majority-owned by foreigners. Do you think that is possible in China? Should a country like India, which is so open and welcoming for foreign investors, be appreciated or threatened?
- In India, Uber operates freely. In China, they were thrown out to create space for a local competitor, Didi Chuxing. Did you write a stern warning to China that it will be excluded when they did it. I don't

think you will be able to do that without serious consequences for your business in China. No issue when you can't punish China for whatever stuff it does. Then why penalise India when it is so open to foreign investments?
- India allowed free entry to Google, Yahoo, Amazon, WhatsApp, Facebook, etc. We didn't create a copy of them through local companies with scant regard for intellectual property rights (IPR). We didn't create Baidu, Weibo, Wechat, Ten Cent, Alibaba etc. Those are all Chinese companies which have brazenly copied models of their western counterparts that were subsequently kicked out of China. Did you warn China that such unfair breach of IPR and restrictive business practices will result in their weightage reduction or exclusion? No, you didn't. Then why punish India for being open in welcoming foreign capital?
- In China, there is an A-share market, B-share market, Red-chip Market, H-share market, N-share Market, P-chip, S-chips and L-chips. In India, we have just one market and ADRs. Did you issue a warning to China about not creating one market like the one in India. No, you didn't. Then why punish India for its simplicity and ease of doing investments by foreigners?

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Careful, MSCI, You may be Raising a New Osama bin Laden

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- India's largest bank, valued at more than $75 billion, is not part of your Index. You have excluded it ostensibly on the basis of "no head room for investment by foreigners". This is such a crooked logic because the fact is that it is owned mostly by foreigners. In all its offerings since inception, highest investments were made by foreigners. Every day, foreigners buy and sell its shares on Indian exchanges among themselves. But you are happy to include a Chinese bank which is majority-owned by the Chinese government and keeps some limit open for foreigners. For you, future investment of hundreds of millions of dollars has all the weightage, but not the existing investment of tens of billions of dollars. When will you grow up? Does your investor care for past investments or future investments? By that logic, Apple and Microsoft should be out of MSCI indices because they are unlikely to do fresh issuance for new investors.
- In the 2015-2016 meltdown, China had introduced many measures to protect their falling market which restricted free functioning of markets and repatriation of foreign capital. I am sure you have forgotten that as it is not easily available in Google Search. To refresh your memory, I am recounting it.
- Of the 3,200-odd listed companies, at least 1,400 were suspended from trading in the wake of sharp fall in prices. At least 248 companies are still suspended. Did you issue a warning to China that suspending trading can result into exclusion from the index like you did for some of the Latin American countries? I bet you didn't. During the worst time of our market correction, courtesy subprime crisis in the US during 2008, India didn't suspend any company from trading. Our markets were down by more than 60%, but we honoured our commitment to let the market function freely. We allowed free and full repatriation of foreign capital. Is it fair on your part to punish India, which plays by the rule book, but reward China which creates its own rules?
- China banned investors who hold more than 5% stake in a company from selling for six months to protect their falling market. We paid every foreigner who wanted to exit India in 2008 despite our markets falling more than the Chinese markets. Shouldn't you encourage India, which allows foreigners to take out money freely, rather than China which restricts them at will?
- During the meltdown, 197 people were arrested, as per official records (I hope you know the authenticity of official records given out by the state-run entities in China) including Wang Xiaolu of Cajing, for correctly predicting that the Chinese stock market is a bubble and will crash. They didn't even spare Xu Xiang who was hailed as China's Warren Buffet from a jail term. Did you write a letter to China that it will be excluded if those analysts were not freed? Should you encourage a country like India where freedom of speech is guaranteed under the constitution or China where people who want freedom of speech are crushed under the wheels of a tank?
- India allows one of the most generous entries and exits to foreign capital as witnessed in the majority ownership of foreigners in companies in sectors like banking, insurance, auto, FMCG, pharma, telecom etc. China has a quota for QFII. It has put a cap of 20% of total AUM on monthly repatriation. There is also a three-month repatriation freeze. The Hong Kong-Shanghai connect also has its aggregate quota as well as individual quota. Have you warned China that such restrictive practices will result into exclusion from the index ?If not, then why punish India which respects foreign capital?

Our exchanges were sharing data with other exchanges in the world when they were not competing for the same business. When those exchanges started looking to launch single-stock derivatives, should our exchanges not defend their turf by declining to share the data? In your own case, you don't share your data with people like us who are not paid subscribers. I get details of Dow Jones or Nasdaq, but not MSCI on Reuters or Bloomberg even though I am not your competitor. Will you share your data with your peers? How can you expect our exchanges to do what you yourself aren't practising?

I see a pattern in many Western institutions of not appreciating

India as we don't hit back. Union Carbide killed thousand of Indians, but was allowed to go relatively scot-free. Rating agencies give us near-junk rating despite more than 5,000 years of track record in honouring our commitment to foreigners. China uses every trick in the trade to dictate its terms. They can create artificial islands far away from the Mainland to claim the entire South China Sea to the dismay of its all neighbours and get away from the Western world's ire.

The behaviour of Western institutions reminds me of a proverb that says those who don't learn from history are doomed to repeat it. Let me share a piece of history. US provided arms, money, training and political support to the Mujahideen and Pakistan to fight against the Soviet occupation in Afghanistan. In no time, those Mujahideen became Al Qaeda and Taliban to wage war against the US. Under the leadership of Osama Bin Laden, they brought down the twin towers located at the edge of Wall Street by crashing aeroplanes into them. The encouragement given to terror in the past is hounding the US even now. Please don't encourage China for wrong reasons. Their unchecked growth will crash Wall Street and US dominance of financial markets just like the twin towers crashed from Bin Laden's terror strikes.

India is the only large country available to the Western world with common values like democracy, freedom of speech, open and free markets, respect for IPRs and most importantly encouraging entrepreneurship. Please don't discourage India. Not for our sake, but for your own sake.

P.S.: I recommend you watch a Bollywood movie called Ghayal. There is a dialogue between Om Puri and Amrish Puri, which you may find interesting. A frustrated Amrish Puri proclaims he will file a case for *maan-haani* (defamation suit). A cool Om Puri advises him to evaluate if it shouldn't end up becoming more *haanikarak* (damaging) for his *maan* (reputation). India without being part of any debt indices has attracted about $80 billion-plus foreign capital. Maybe the weightage reduction by MSCI will not have any impact on India, but end up moving institutional investors to other service providers which are more pragmatic.