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Analysis: China's global step forward

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If the ability to move global markets is a gauge to measure a country's global influence, then China has certainly earned its star this week. The question remains, however, whether or not the country is blossoming into a mature financial market that can attract those seeking steady investment returns, or whether it remains a place only for the strong of heart who can afford to take hefty financial losses at times.

For its part, the Chinese government could well argue that the impact its stock market had on bourses worldwide heralds a new dawn for its global standing. After all, the country is arguably the seventh-largest economy in the world, it has nuclear capabilities and is a key player in ensuring North Korea from aggravating the situation in an already tension-filled region, and is the world's second-biggest energy consumer next to the United States. So to declare that the Shanghai stock market should be on par with that of London, New York, and Tokyo would not be a strange one, at least at first blush.

Still, some analysts strongly disagree that China's financial market is a sound destination for investors, and argue that it would be a long time away indeed before the country's bourses could be on par with that of the current global hubs, if ever.

"Most people just don't understand how murky the Chinese market is," said Usha Haley, director of the global business center at the University of New Haven, Connecticut. She pointed out that corporate governance in the country remains opaque amid a complex web of various companies and industries having shares and sway in one another.

Granted, China is far from the only country that has such problems. Lack of transparency is often one of the biggest problems when it comes to putting money into any emerging market, even though that has not stopped an ever-increasing number of investors worldwide into betting on up-and-coming nations.

That, however, is a dangerous practice that can ultimately backfire, especially for those betting on a continuous upward trend.

Share values in some emerging markets have "gone up 30, 40 percent a year. That can't be a result of company performance," Haley said, adding that investors' expectations are "way out of line with reality" if they expect that level of performance to be sustainable.

She did, however, argue that investing in India was a safer bet than in China, given, for one, that there were fewer Indian companies that were listed on the Mumbai bourses, and also given the fact that Indian business practices were more transparent than their Chinese counterpart.

The debate on whether China or India is a safer bet aside, one thing is clear: U.S., European, and Japanese market players will need to be on top of the goings-on in emerging markets just as much as they are about their own markets in order to stay ahead of the game.

So while analysts point out with hindsight that a 9 percent fall in Shanghai's market Tuesday was a correction that was bound to happen sooner or later, investors should now be better prepared that what happens in China, where so many more brokerage houses are increasing their portfolio holdings, will have a significant impact back home. What's more, Wall Street investors broadly agree that the week's volatility across the global market was at the end a result of worries about the U.S. economy's longer-term outlook rather than concerns about China.

Nevertheless, "the increasing correlation or contagiousness of financial markets...is a major aspect of financial globalization, and one that more often than not has remained beneath the popular radar" as country-specific shocks more easily spread beyond national boundaries, said Lee Hudson Teslik of the Council on Foreign Relations.

Yet the problem is that despite the surge in capital flows across borders even into countries that may seem higher risk, basic understanding of those countries remains precariously low as greed to have a slice of the profit appears to overcome fears of the unknown.