Transactions on Economics, Business and Management Research
ISSN: 2960-1789, eISSN: 2960-2254 | Volume 14
AFTEM 2024

Problems and Countermeasures of Chinese Stock Market (CSM)

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Abstract. With the continuous transformation and upgrading of China's economy, the reform and development of the stock market (SM) is particularly important to the whole country. Therefore, it is a practical significance to study the problems and countermeasures of the China stock market. This study sorts out the main problems in the CSM and discusses the root causes and influence of these problems. The study found that the main problems in CSM include excessive policy intervention, an immature stock market, and the number of listed companies. Based on these findings, the research proposes to appropriately reduce policy intervention, upgrade the quality of CSM, and control the number of list companies (LCs). This study provides valuable references for policymakers to help them develop more scientific and reasonable SM measures. The research also provides specific suggestions for the market participants to improve the market behavior, which helps to accelerate the healthy development of the market.

Keywords: Policy intervention; Market fluctuations; Excessive number of LCs.

1. Introduction

The SM is an important place for businesses and governments to raise funds. By issuing stocks, enterprises can publicly raise capital for expanding production, research and development, and innovation activities. The SM guides investors' funds to the enterprises most in need of funds and realizes the optimal allocation of resources. The trend of the SM can also reflect the health state and growth trend of a country's economy. The fluctuation of stock price often indicates the cyclical changes of the economy in advance, providing important economic signals for investors. Finally, the SM provides investors with rich investment opportunities and investment tools. Investors can invest in different types of stocks according to their own risk tolerance and investment targets.

The development of CSM has played a positive role in accelerating China's economic development. First of all, CSM provides an efficient financing channel for Chinese enterprises, which helps to aware the optimal allocation of resources, enhance economic vitality, improve the wealth level of residents, promote stable economic development, and promote social employment and innovation. Secondly, CSM plays a significant role in the steady operation and development of the national economy through capital circulation, risk diversification, improving the efficiency of resource allocation, and increasing government income. The development of the SM also reflects investors' confidence in the economic outlook through the overall performance of the market, thus providing important reference information for policymakers.

According to Li's report, the development of CSM can be in four main stages: Pilot initial stage (1978-1990), in 1978, China established the goal of economic construction as the center. Since then, economic construction has become the country's basic task, and China has embarked on the road of reform and opening up. In the early 1980s, stocks with bonds began to appear. And then as the issuance of securities continues to increase and the number of investors increases, the secondary market has taken shaped; the initial development stage (1990-1998): Deng Xiaoping's southern tour speech established the goal of China's economic system reform. To better build a socialist market economy system, the Shanghai SE was established in 1990 and Shenzhen SEs was established in 1991. Since then, CSM has entered the trial operation stage. Then the state-owned enterprises began the shareholding reform, some of the companies that have completed the transformation have begun to list on the SM. In 1993, the pilot stock issue with Shanghai Shenzhen was introduced to the whole country, the development space of the capital market was thus opened up; the standard development stage (1999-2005): in July 1999 - The Securities Law of the People's Republic of China pushed the China’s SM to a new development stage. The construction of the securities system and the legal system were also gradually improved, and the national unified regulatory fund-raising began to be established. With the deepening of the economic system reform, non-state-owned enterprises also began to enter the capital market. At the end of 2001, after China entered into the WTO, China's economy began to fully open, the breadth and depth of the capital market continuously expanding and improved; and the mature stage (2005 to present): in 2005, China the most significant institutional change since the form of the SM —— the reform of non-tradable shares. The reform of non-tradable shares completely solves the situation of interest division between non-tradable shareholders and tradable shareholders and solves the basic contradiction of the development of the securities market from the system. In addition to equity, the regulatory layer promulgated the newly revised Securities Law and the Company Law, which were implemented in 2006. Subsequently, the State Council approved the Opinions on Improving the Quality of LCs, and the comprehensive management of SM has been put on the agenda for many years [1].

The healthy development of CSM is not only reflected in the number and market value of LCs but also reflected in the standardization and transparency of the market. Through the implementation of the registration system of stock issuance, CSM has accelerated the "metabolism" and improved the efficiency and vitality of the market. Secondly, the Beijing Stock Exchange officially opened on November 15, 2021. It is an vital milestone in the construction of China's capital market. As of November 15, 2023, the LCs on the Beijing SE has increased to 229, with a total market value of nearly 300 billion yuan, among which small and medium-sized enterprises account for 81%, showing the positive role of Beijing SE in supporting the development of small and medium-sized enterprises. However, there are still some problems in CSM, such as excessive policy intervention, immature SM, surging number of LCs, and so on. This study discusses these three issues and puts forward targeted suggestions.

2. Question

2.1. Policy Intervention

Too much policy intervention means that there is a strong policy sensitivity in CSM. Every implementation of the macro policy will be accompanied by drastic market fluctuations, which have a great impact on the market. The intervention and influence of policy should gradually weaken with the improvement of the marketization level. However, China's stock issuance and listing still mainly adopt a strict approval system, which leads to the market direction is not determined by the macroeconomic operation, but by policy regulation. The government adopted the method of direct intervention and issued temporary policy measures to guide the SM along the hope policy target, in order to implement some policy intention. This too frequent policy interferes with the internal law of the SM's rise and fall, leading to frequent fluctuations in the SM.

According to the report of Ding, almost every year in the 30 years since the establishment of China's securities market, some policies have greatly affected the market [2]. For example, from February 1993 to July 1994, the Shanghai SM and Shenzhen SM continued to be depressed and fell continuously. On July 30, the management issued three famous policies to rescue the market, namely, suspending the issuance of new shares, strictly controlling the scale of rights offering of LCs, and adopting the policy of expanding the market. As a result, the Shanghai SM and Shenzhen SM rose from 333 points to 1,052 points, the most since the stock price liberalization. In 1996, the SM continued to rise. After October, the securities regulatory authorities issued 12 consecutive policy to ensure that the SM continued to rise.

2.2. Immaturity

The immaturity of CSM is because the market has been a retail investor structure since its inception. According to the research conclusion of Siyuan Chen, due to the substantial presence of individual investors and high transaction volume in the CSM, coupled with the framework of bounded rationality within behavioral finance, investors inevitably incorporate personal emotions into their investment activities [3]. With the proliferation of stockholders and the advent of the Internet, the extensive exchange of information leads to fluctuations in investors' sentiments. Emotionally susceptible investors may exert an influence on a stock's yield through their trading decisions, causing its price to deviate significantly from its intrinsic value. Therefore, when retail investors, as the main traders in CSM, will show obvious speculative mentality and herd mentality in specific investment activities, resulting in the characteristics of high volatility, high P/E ratio, and high turnover ratio in CSM. In addition, institutional investors have also failed to give full play to the role of leading long-term investment and value investment, which has instead intensified the speculation in the market and caused some harm to the Chinese market.

According to the report from Xu shows that retail investors due to various aspects and defects, their will to invest is often weak [4]. When the external environment changes, their psychology will produce corresponding changes. Although their purpose is to avoid risk and maximize personal interests, they are often powerless and cannot control the market changes, so they can only adopt corresponding policies to ensure the value of the stock. Such blind investment behavior as "chasing the rise and killing the fall" will aggravate the volatility of the SM, and advocate that the market trend is one-sided. This behavior makes the market difficult to cool down when the SM expands and heat up when depressed. American stocks in the 1920s had the same problem. At that time, 90% of the American investors were retail investors, and everyone was a "stock god", because stocks were rising every day, as long as they bought stocks, no one had the idea to do other work. But it was not until the 1929 crash, that many retail investors jumped, and then entered the long Great Depression. When the US economy recovers again, the US stock retail investors have been eliminated, the US SM has become the battlefield of the institutional game, and the pricing mechanism of the US SM has become more efficient.

2.3. Exiting of Companies

First, a large increase in the number of LCs could lead to supersaturation of the market. As large numbers of companies pour into the market, investors' choices become more fragmented, which can lead to wild fluctuations in individual corporate stock prices. Secondly, more LCs mean that regulators need to invest more resources in supervision and management, which may lead to a decline in regulatory efficiency. Finally, a large number of new listings may trigger short-term large fluctuations in the market, affecting the stability of the market.

Take the comparison of the number of LCs in China and the United States as an example. In the early days of the Shanghai SM and Shenzhen SM in 1991, the number of LCs in China was only 14. In the same year, the number of LCs in the United States reached 6,513, and the number of Chinese LCs accounted for only 0.21% of the number of LCs in the United States. According to Xie's report, as of November 21, 2022, there were 2,153 A-share LCs on the Shanghai SE, 2,721 on the Shenzhen SE, and 126 on the Beijing Securities Exchange. The total number of LCs in China has increased to 5,000 [5]. The number of LCs in the US is 4,878, which means that the number of listed Chinese companies has surpassed that of the US. Research shows that it is a reasonable range for LCs in a country's SM to remain at 3000 to 5000, and there should be a continuous exit mechanism to maintain a balance between the number of exits and newly LCs. The exit mechanism of the US SM and the number of LCs that remain relatively stable make the return on equity of the LCs generally high, and the gap between the return on equity of Chinese LCs and the US SM also continues to increase.

3. Solutions

3.1. Appropriate Reduction in Policy Interventions

The most effective way is to continuously promote market-oriented reforms and avoid unnecessary administrative intervention in the SM. The government need to accelerate the reform of the stock listing and delisting registration office system, and strengthen corporate governance and information disclosure. The government have to promote the reform of the trading system with more market-oriented facilitation, promote the effective allocation and optimization of the market, improve the competitiveness and vitality of the market, and let the market economy play a greater role.

Reduce the direct intervention of the government in the market: the government departments should reduce their direct intervention in the SM, slow down the formation of consensus market expectations, and strive to build an institutional framework in which the market mechanism plays its full role. Eliminate the characteristics of the policy market, make investors face up to their investment behavior, rational analysis of the stock value, and reasonable investment.

Respect the law of the market and strengthen the supervision of leverage: Government departments should try to believe in the market, respect the market, and let the laws of the market itself work. The government should strengthen supervision of leverage, standardize and transparent development, and effectively reduce leverage.

Clear government positioning: the government needs to be free from the participants in the SM, fully fulfill the responsibilities of regulators, and clarify the market stock policy positioning of the government to protect the legitimate rights and interests of investors and the stability of the macroeconomy. According to Yang's report, the government should carry out the reform of property rights, strive to promote the diversification of the shareholding structure of LCs, correct and clarify the role of the government, gradually improve the operation system of the SM and stable and efficient policies and systems, and truly safeguard the interests of investors [6].

Improve the legal guarantee: regulate the behavior of the SM from the perspective of legislation, and reduce the SM shocks caused by information asymmetry, stock price manipulation, and other phenomena. At the same time, clear the purpose of government intervention, reduce the cost of decision-making and promote the development of the SM and the national economy. Wu proposed that the relevant departments should improve the rules and regulations as soon as possible, and the regulations should be dealt with seriously [7]. At the same time, the government should also enhance the intensity of supervision, and the regulators should do the supervision without dead corners.

3.2. Improve the Quality of the CSM

To solve the problem of an immature market, a series of measures can enhance the stability and transparency of the market, promote the healthy development of the market. Here are some feasible solutions.

Improve information transparency: LCs are required to timely and comprehensively disclose financial statements and major matters promptly to reduce information asymmetry. False or delayed information disclosure should be strictly punished to safeguard investors' right to know. Liu 's 2016 report said the CSRC should clarify the financial indicators that should be listed in the annual reports of listed commercial banks and arrange them according to certain logic [8]. This is conducive to enhancing the clarity of information and helping users to make corresponding economic decisions.

Guide institutional investors to participate: through policy support and market mechanism optimization, attract more institutional investors to participate, increase the rational power of the market, and reduce the proportion of retail investors.

Strengthen investor education: through education and training, improve investors' understanding of the market and risk awareness. Guide investors to establish a long-term investment concept and reduce the impact of short-term speculation on the market. According to the research of Yuan Wenli and Zhao, as investors, they should have a clear awareness of risk in every link of investment and financial management, maintain a good positive attitude, and not take advantage of speculative stock trading [9].

Improve laws and regulations: Formulate and improve relevant laws and regulations to ensure that the market has laws to follow and rules to follow. The government must intensify the crackdown on illegal activities such as insider trading and market manipulation, increase the cost of illegal activities, and maintain market order.

3.3. Control the Number of LCs

Controlling the number of LCs in CSM needs to be achieved through a series of policies and mechanisms. This involves the macro-control of the market but also needs to carry out strict reviews and checks at the enterprise level. Here are some possible measures:

Strict IPO approval system: improve the financial, operational, and other requirements of LCs, to ensure that only enterprises with stable operation, good profitability, and growth can be listed. The financial status, governance structure, and industry status of the enterprises to be listed should be more strictly reviewed. Prevent "packaging listing" and "backdoor listing" behavior. Xu and Xia's report proposed that a good enterprise should establish a risk identification and evaluation mechanism, and timely find and identify all kinds of risks in the IPO process. The mechanism should be comprehensive, systematic, and accurate, and can classify, evaluate, and analyze risks, and put forward corresponding solutions [10].

Optimize the balance between market supply and demand: according to the affordability of the market and the needs of investors, reasonably arrange the listing rhythm of enterprises, and avoid the excessive diversion of market funds caused by the listing of a large number of enterprises, which will affect the market stability. And the use of phased listing to relieve the market to absorb new shares.

Improving the delisting system: According to the report of Wuqiao's report, it is quite normal for LCs to be delisted in European and American countries. More than 30,000 companies have been delisted since the opening of the US SM, but less than one-tenth of that in China, which leads to the poor quality of companies in the SM, which is not conducive to the development of the SM [7]. Therefore, the relevant departments should develop quantitative indicators of forced delisting, as long as the bottom line is touched must be forced delisting.

Strengthen macro-control and expectation management: the government should timely adjust the capital market policies according to the economic cycle and market conditions, such as guiding the listing time and quantity of enterprises through window guidance. Through policy guidance and publicity, the market and enterprises should reasonably guide their expectations for listing, to avoid excessively concentrated listing or blind listing.

4. Conclusion

The study points out that the main problems in CSM include large market volatility, opaque information disclosure, and an imperfect market supervision system. These problems restrict the healthy development of the market to a certain extent. The root causes of these problems are excessive policy intervention, an immature SM, and an excessive number of LCs. Because of the above problems, several countermeasures and suggestions are put forward, including appropriately reducing policy intervention, improving the quality of CSM, and controlling the number of LCs. This study provides practical suggestions for policymakers on how to improve CSM, helping to formulate more scientific and effective market regulatory policies and promote the stability and development of the market.

After studying the problems and countermeasures of CSM, the future research direction can be based on the following aspects: 1. The improvement and development of the multi-level capital market; 2. the deepening of the regulatory system; 3. the optimization of the investor protection mechanism; 4.

the deepening of market internationalization; 5. the impact of technology on the SM; 6. the market analysis from the perspective of behavioral finance. These directions can not only provide theoretical support for further improving the efficiency and stability of CSM, but also provide practical suggestions for policymakers and market participants, and promote the sustainable and healthy development of the market.

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