

Research on the Differences between the Securities Markets of China and the United States

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Abstract. This article aims to analyze the current development status and differences of the securities and fund industries in China and the United States and explore the reasons for the Chinese government's reduced attention to securitization. The article first emphasizes the importance of securities funds in modern financial markets, pointing out the leading position of US mutual funds in the global mutual fund industry, as well as the rapid development of Chinese securities funds in recent years. The article reviews the current research status related to securitization, pointing out the development of securitization markets in China and the United States, as well as the importance of securitization in disposing of non-performing assets and complying with Chinese government policies. At the same time, the article also summarizes the legal deficiencies of the Chinese government in taxation, credit rating, and enhancement issues, and suggests improving the transparency of relevant securities information and establishing a unified trading execution system. When comparing the development of the fund industry between China and the United States, the article found that there are differences and similarities in investment strategies, government roles, and financial regulatory agency functions between the two countries. The article also explores the differences in the size, investor structure, and valuation levels of the securities markets in the United States and China, and analyzes the main reasons for market development history, regulatory system and legal environment, and market participant structure.

Keywords: Securities Funds Comparison; Market Development; Regulatory System; Investor Structure; Market Outlook.

1. Introduction

The security fund plays an important role which is an important institutional system and financial instrument in modern financial markets. Besides, the security fund also has significant influences on the financial system. American mutual funds play a leading role in the global mutual fund industry. Moreover, Chinese security funds also developed rapidly in the past few years. American securities account for nearly 50% of global security market capitalization. However, global finance showed a decreasing tendency because of different kinds of factors, such as the Israeli-Palestinian conflict and the effects of COVID-19. Therefore, the Chinese government paid less attention to securitization than before.

It's very important to analyze the operation of the security fund industry in order to promote the Chinese security market, compare the security market between the two countries and figure out the reasons, that caused the Chinese government's ignorance.

When comparing the development of the fund industry between the two countries, it found many differences and similarities, such as unique investment strategies, the different roles of governments and the similar functions of financial regulators.

Previous studies showed some foundational knowledge about securitization and some useful information about Chinese and American securitization markets and their development. Many of them are essential to this topic. The Chinese economy is so huge that it can't be ignored in the global financial market. According to research, securitization not only is beneficial to the deposition of non-performing assets but also fits into the Chinese government's policies. Besides, for a country like China, where indirect financing holds an absolute majority in the financial system, it is particularly

important to vigorously develop the direct financing market. This would mitigate financial system risks, facilitate the shift from an indirect financing-dominated structure to one that prioritizes direct financing, and open up diverse financing channels for enterprises. Therefore he summarizes the problems of the lack of laws about tax imitation, credit rating, and enhancement issues. In the end, he summarizes that the Chinese government should improve the exposure of related security information and establish a unified trading implementation system [1]. Then, in Berkman's article, he lists the statistics and examples to show the political connections between Chinese firms and the capitalization market. By comparing different models, he points out that firms that have ties to the government simply did not benefit from the regulations, also he uses some formulas to illustrate the benefits, which are earned by individuals and state-owned enterprises [2]. James's paper explores how the organizational structure and objectives of securities regulators influence securities law and its enforcement. Securities regulators in different jurisdictions may have a vertical or horizontal organizational structure, and their mission may be policy implementation or dispute resolution. Securities regulators in China and the United States are two prime examples. The two countries can be roughly classified as radical states and reactive states respectively. This paper shows that the way regulators are organized and the leanings of the government influence the objectives of securities regulation, and provides some evidence that these factors also influence the regulatory approach, which explains the differences in apparent securities enforcement as well as differences in practical application. Reactive states primarily seek to protect investors and promote capital formation, while aggressive states tend to consider other national goals, including industrial policy and wealth redistribution. In addition, vertically organized securities regulators tend to focus more on technical rules and procedures, while horizontally organized regulators apply more flexible standards and are better able to achieve substantive justice. In summary, his article illustrates different types of securities regulators [3]. After more than 400 years of development in financial fields, the global economy has entered a various development tendency, and the global securities market system is perpetually improving, which further promotes the transformation of the modern securities market system. Therefore, studying the supervision and information disclosure systems of domestic and foreign securities markets, comparing and summarizing the systems of China and the United States will help to find the shortcomings of the securities systems of the two countries and provide objective suggestions. There are some clear introductions in Li's article. He clearly expresses the difference between the US and Chinese securities markets. From the Chinese and American history of securities, he shows a deep-inside view to find differences [4]. After a significant growth of 69 % in 2021 from 2020, there was a subsequent 26 % increase in 2022. This surge led the total market capitalization of the US stock market to surpass 86.95 trillion US dollars, solidifying its position as the world's premier stock market. In terms of daily activity, US exchanges record the trading of billions of shares. Investor structure: The investor structure of the U.S. stock market is relatively diversified, including individual investors, institutional investors, and foreign investors. The proportion of individual investors in the Chinese stock market is relatively high, while the influence of institutional investors is gradually increasing. Valuation level: The valuation level of the U.S. stock market is relatively high, and the price-to-earnings ratios of some technology and growth stocks are high. China's stock market valuation level is relatively low, some value stocks have more investment opportunities.

2. Difference

2.1. Size of the United States and China Securities Markets

The United States securities market has a long history and a leading position in the world, with a long history of being the world leader in terms of total market capitalization and trading volume. The United States has a large number of listed companies, including many globally recognized large companies and technology giants, such as Apple, Google, Amazon, etc. The developed financial system, sound legal system and high transparency and strong liquidity of the capital market in the United States provide a solid foundation for the healthy development of the securities market. In addition, diversified financial products, innovative trading mechanisms, and a wide range of

institutional and retail investors have made the US securities market a major gathering place for global capital. In Asia, China's stock market has achieved impressive growth in a relatively short period of time. Since the early 1990s, with the promotion of China's economic reform and opening up, China's securities market has developed rapidly [5]. Especially in the A-share market, not only has the number of listed companies increased significantly in the past few years, but many large state-owned and private enterprises have also landed on the A-share market. With the deepening of financial reform, the liberalization of market access and the increase of foreign interest in A shares, the liquidity and total market capitalization of China's securities market have been significantly enhanced [6-8]. This not only enhances China's position on the global financial stage but also provides more investment opportunities for domestic and foreign investors. China's securities market has developed rapidly in recent years. As shown in the table, the total market capitalization of China's A-share market is currently about 87.75 trillion yuan (equivalent to 12.5 trillion US dollars). That's a 12.95 percent increase compared to 2020, making it the second-largest securities market in the world [9]. In addition, the daily trading volume of the Chinese stock market is huge, with turnover often reaching the trillion-yuan mark. On the other hand, the US securities market is globally recognized for its immense market capitalization and brisk trading activity. After a significant growth of 69 % in 2021 from 2020, there was a subsequent 26 % increase in 2022. This surge led the total market capitalization of the US stock market to surpass 86.95 trillion US dollars, solidifying its position as the world's premier stock market. In terms of daily activity, US exchanges record the trading of billions of shares [10].

2.2. Investor Structure

The investor structure of the U.S. stock market is relatively diversified, including individual investors, institutional investors, and foreign investors. The proportion of individual investors in the Chinese stock market is relatively high, while the influence of institutional investors is gradually increasing.

2.3. Valuation Level

The valuation level of the U.S. stock market is relatively high, and the price-to-earnings ratios of some technology and growth stocks are high. China's stock market valuation level is relatively low, some value stocks have more investment opportunities.

3. Reason Analysis

Of course, the following are the three main reasons for the differences between the Chinese and American securities markets, each of which has been explained in detail:

3.1. Market Development History and Maturity

The US securities market originated in the late 18th century and has undergone over two centuries of development, forming a mature, stable, and highly developed market system. The US securities market has accumulated rich experience in institutional construction, market regulation, investor education, and other aspects, providing investors with a relatively transparent and fair investment environment.

Chinese Securities Market: In contrast, the Chinese securities market started in the early 1990s and although it has developed rapidly, it is still in the development stage compared to the United States. The Chinese securities market is still constantly improving in terms of institutional construction and market supervision, and the maturity of the market is relatively low. This difference in maturity has led to significant differences in trading rules, market participant behavior, risk management, and other aspects between the securities markets of the two countries.

3.2. Regulatory System and Legal Environment

The regulatory system of the US securities market is centered around the US Securities and Exchange Commission (SEC), whose regulatory framework emphasizes information disclosure, market fairness,

and investor protection. The US securities legal system is comprehensive and has strict requirements for financial reporting, corporate governance, insider trading, and other aspects of listed companies.

Regulatory System in China: The regulatory system of the Chinese securities market is mainly led by the China Securities Regulatory Commission (CSRC), which has been continuously strengthening regulatory efforts and improving market transparency in recent years. However, compared with the United States, the regulatory system and legal environment of China's securities market are still constantly improving, especially in terms of information disclosure and investor protection, which have certain gaps with the United States.

3.3. Market Participant Structure

US market participants: The US securities market is dominated by institutional investors, including pension funds, mutual funds, hedge funds, etc. These institutional investors usually have professional investment teams and rich investment experience, and their investment behavior is more rational and long-term.

Chinese market participants: The Chinese securities market is dominated by retail investors, who often lack professional investment knowledge and experience. Their investment behavior is more susceptible to market sentiment, leading to greater market volatility. In addition, the proportion of Chinese institutional investors is gradually increasing, but compared to the United States, their influence and maturity still need to be improved.

These three reasons have largely shaped the differences between the Chinese and American securities markets, and these differences may be difficult to completely eliminate in the short term. With the continuous opening and internationalization of China's securities market, as well as the continuous improvement of the regulatory system, these differences are expected to gradually narrow.

4. Prospects

Since its inception in the early 1990s, the Chinese securities market has undergone rapid development and transformation. With the sustained growth of the Chinese economy and the continuous opening of the capital market, the Chinese securities market is gradually moving towards a mature market. Looking ahead, the Chinese securities market may exhibit the following development trends:

4.1. Increased Market Openness

With the further opening up of China's capital market, more and more foreign institutions and investors will enter the Chinese market. This will bring more abundant sources of capital, and increase market liquidity and activity. At the same time, the introduction of foreign investment will also promote the internationalization of China's securities market, and enhance market competitiveness and influence.

4.2. Regulatory System Improvement

The regulatory system of China's securities market will be further improved to adapt to the development of the market and international needs. Regulatory agencies will strengthen their supervision of listed companies, improve the transparency and quality of information disclosure, increase the crackdown on illegal activities such as insider trading and market manipulation, and protect the legitimate rights and interests of investors.

4.3. Optimization of Investor Structure

With the popularization of investor education and the increase in the proportion of institutional investors, the investor structure of China's securities market will become more reasonable. Retail investors will gradually shift towards rational investment and reduce irrational market fluctuations.

Meanwhile, the increase in institutional investors will drive the market towards a more specialized and long-term investment style.

4.4. Product Innovation and Service Diversification

In order to meet the diversified investment needs of investors, the Chinese securities market will launch more innovative financial products, such as derivatives and structured products. At the same time, financial institutions such as securities firms will also provide more diversified and personalized services to enhance market competitiveness.

4.5. Deepening Technological Integration

The development of technology will profoundly affect the Chinese securities market. The application of technologies such as big data, artificial intelligence, and blockchain will improve market efficiency, reduce transaction costs, and enhance risk management capabilities. At the same time, the integration of technology will also promote the digital transformation of the securities market, providing investors with more convenient and efficient services.

4.6. Green Finance and Sustainable Development

With the global emphasis on environmental protection and sustainable development, the Chinese securities market will also pay more attention to green finance and socially responsible investment. Listed companies will be encouraged to disclose environmental, social, and governance (ESG) information, and investors will pay more attention to the company's sustainable development capabilities.

4.7. Risk Management and Market Stability

With the maturity of the market, the risk management mechanism of the Chinese securities market will become more perfect. Market participants will pay more attention to risk control, and regulatory authorities will strengthen monitoring and early warning of systemic risks to maintain market stability.

In short, the future of China's securities market will be a more open, mature, efficient, and stable market. With the continuous development and internationalization of the market, the Chinese securities market will play a more important role in the global capital market.

5. Conclusion

This article deeply analyzes the current development status, differences, and causes of the securities and fund industries in China and the United States, revealing various reasons why the Chinese government's attention to securitization has decreased. Research has found that although the Chinese securities market has developed rapidly in recent years, there are still significant differences compared to the mature and diversified securities market in the United States. These differences are mainly reflected in market development history, regulatory system, legal environment, and market participant structure.

The rapid development of China's securities market is attributed to economic reform and market opening policies, but its market maturity, regulatory system completeness, and rationality of investor structure still need to be improved. The US securities market, with its high market transparency, sound legal system, and diversified investor structure, provides a stable and efficient investment environment for global investors. In contrast, although China's securities market has made significant progress in terms of market size and liquidity, further strengthening is still needed in areas such as information disclosure, investor protection, and market regulation.

In the future, with the further opening up and internationalization of China's securities market, it is expected that the market will become more mature and stable. The improvement of the regulatory system, optimization of investor structure, diversification of product innovation and services,

deepening of technological integration, and emphasis on green finance and sustainable development will jointly promote the development of China's securities market towards a more open, efficient, and stable direction. This will not only enhance China's position in the global capital market but also provide more investment opportunities and a better investment environment for domestic and foreign investors.

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