

Analysis of Problems and Countermeasures in Chinese Stock Market

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Abstract: China's stock is one of the most popular trading platforms with high global attention, it plays an important role in Chinese economy and global economy. With the rapid development of Chinese economy, China's stock market has also achieved significant achievements. It not only provides a vital platform to finance, but also optimize resource allocation. What's more, it decreases the investors' risk of the investment, and makes it is possible for government to carry out macro-economic policies through market stock. it boosts the development of China's financial system, and increases the ability of the China's financial system to anti-risks. However, there are also some problems existing in Chinese stock market, for example, the less reasonable structure of investors, serious disadvantages in the small and medium-sized GEM market governance, and frequent problems occur in the stock market trading mechanism and exchange system. This paper will as these three problems basis of starting the topic, and put forward countermeasures and strategies, which will have significant role in solving the existing problems efficiently in Chinese stock market.

Keywords: Chinese stock market, Information disclosure, Regulatory loopholes, Market mechanism, Investor structure.

1. Introduction

China's economy continues to develop with the development of China's reform. At present, China's economy has risen to the second place, becoming to the second largest economic entity in the world. China upholds the common development of diverse forms of ownership on the basis of public ownership. China's GDP has risen from 367.87 billion yuan in 1978 to 1260582.0billion yuan in 2023. China's economy has shown a continuous upward trend, there are obvious effects with the implementation of the policy pf "Mutual prosperity" [1].

A-shares plays a significant role in the country which is the largest and most influential capital market in China, there is no doubt that A-shares have helped China's economy jump continually. The A-share market has broadened the enterprises' financing channels and improved the China's stock market's resources allocation efficiently. Due to the diversification of investment tools, China's stock market's wealth continues to rise. At the same time, although the China's economy has improved continually, there are also prominent shortcomings. Today, there are unreasonable proportion of investor structure, individual investment dominant market, general legal person occupies high market

share, institutional investors exist relatively low market share, irrational investment, unreasonable distribution mechanism and governance system, which have affected China's stock market [2].

Therefore, this paper takes the A-share market as the example, analyzing the development shortcomings in the A-share market, and providing effective strategies and countermeasures from the causes of the drawbacks to make useful contributions in China's economic development. What is more, this paper advocates for practical references and suggestions for market participants and leaders and investors.

2. Current situation

China's stock market was created in 1990. It has become one of the world's essential capital markets after several years of market expansion and official reform.

2.1. Market Size and Structure

China's stock market was officially created in 1990, and there are more than 4000 listed companies in China's stock market at present. The market value in China's stock market has expanded continually with the expansion of the coverage of industries. There is an increase trend from 1991 to 2023 year by year (See Figure 1) [3].

With the development of richness and diversification of the market, the A-share market occupation is expanded continually. It is clearly to see that the number of listed companies on the main board of Shanghai stock Exchange is 1697 during the first quarter of 2024, occupying for 31.67%, during to the largest share, while the main board of Shenzhen Stock Exchange is second only to the main Board of Shanghai Stock Exchange, accounting for 1504 listed companies, occupying for 28.06% (See Figure 2). Besides, there are 1341 listed companies on GEM and 570 listed companies on Science and Technology innovation Board, accounting for 25.02% and 10.64% respectively, while there are 247 listed companies on Beijing Stock Exchange account for the least 4.61%. There is no doubt that these four structural sectors have provided boarder financing platforms and markets for the stock market and expanded China's stock market structure and fields [4].

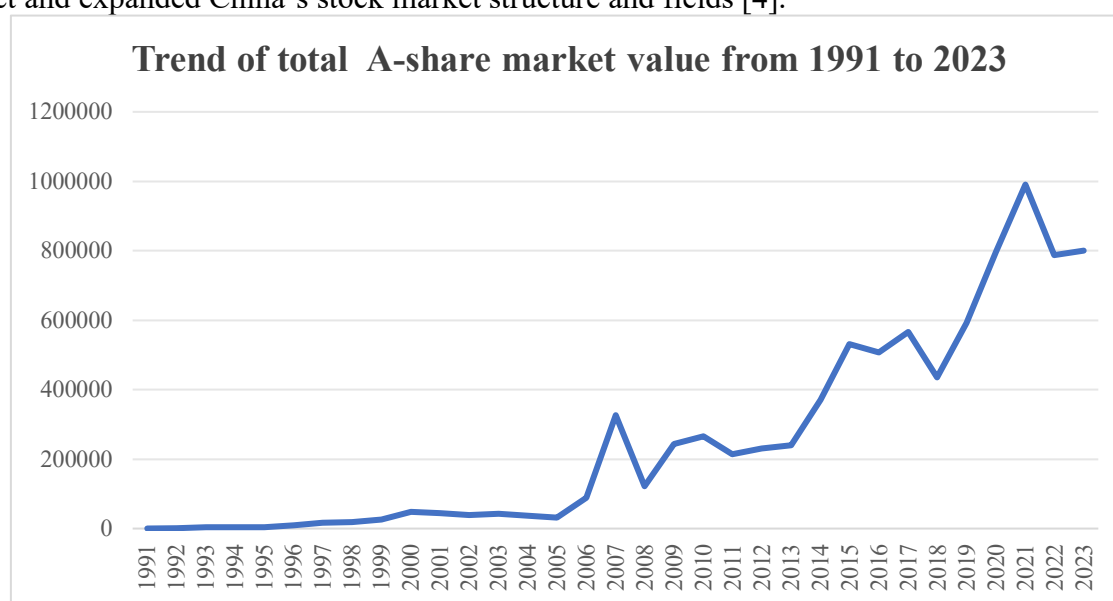


Figure 1: Trend of total A-share market value from 1991 to 2023

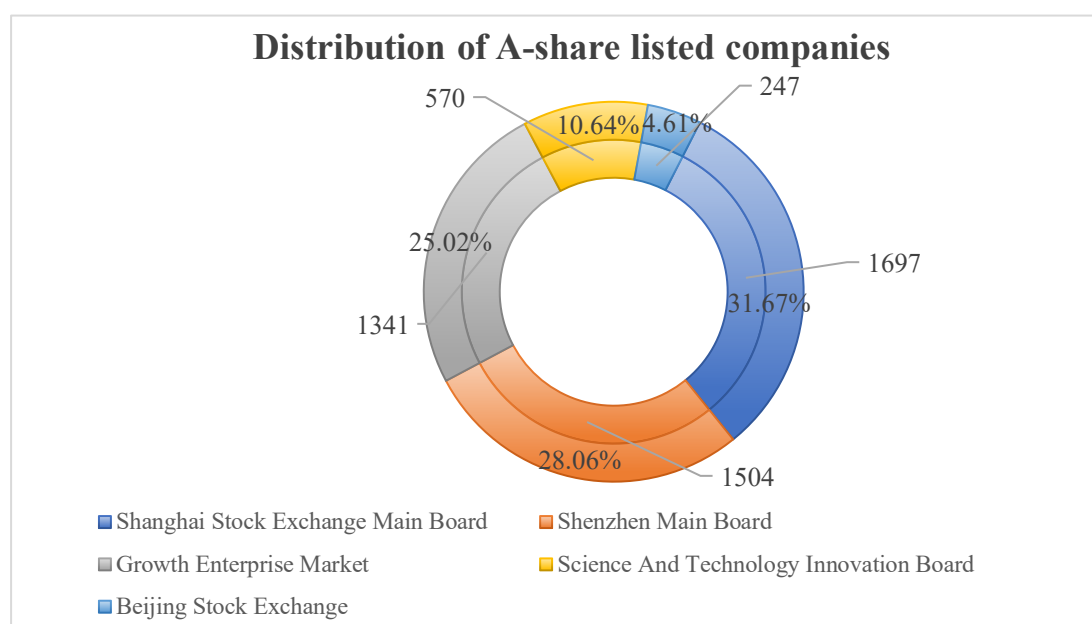


Figure 2: Distribution of A-share listed companies

2.2. Mechanism Innovation and Reform

During 2005, China's stock market advocated the reform of non-tradable shares, which solved the problem between non-tradable shares and tradable shares, not only did it prompt the development of the stock market, but also unifying the liquidity of stocks. What's more, China's stock market conduct in the registration system, such as China's stock market on the science and technology innovation board and Growth Enterprise board registration system. In order to meet demand for stock market financing and improve the new share issuance mechanism, the market access mechanism has been improved, and greatly make a contribution to the development of China's stock market.

2.3. Internationalization

China's stock market advocates the policy of "bringing in, going out". During to the introduction of the MSCI and FTSE Russel index included in A-shares, China's stock market has increased its attraction cause opening up to all of the world and it prevail position in the international market. Because of the opening of Shanghai-Hong Kong Stock Connect and Shenzhen and Hong Kong Stock Connect has improved the mainland and Hong Kong markets. Besides, the liquidity and activity for the China's stock market have blossomed again [5].

3. Problem

3.1. Unreasonable Investor Structure

There are five dominant phenomena in the investor structure in Chinese stock market, for example, general legal individuals occupy a high share, legal investors dominant the market, institutional partners account for a low proportion, a range of institutional investors other irrational investment behaviors, and unreasonable distribution mechanism and governance structure (See Figure 3).

What's more, it is clearly to see that unreasonable investor mechanism will cause to unreasonable stock price pricing, as the basis of West China Strategy. For example, during the second quarter of 2023, A-shares held by public funds was 5.57 trillion yuan in total, occupying 5.97% in the total A-

shares market. Before that period, the value was 5.76 trillion yuan, occupying 6.09%, and the scale of shareholding decreased by 3.24% quarter-on-quarter and 6.79% yearly [6].

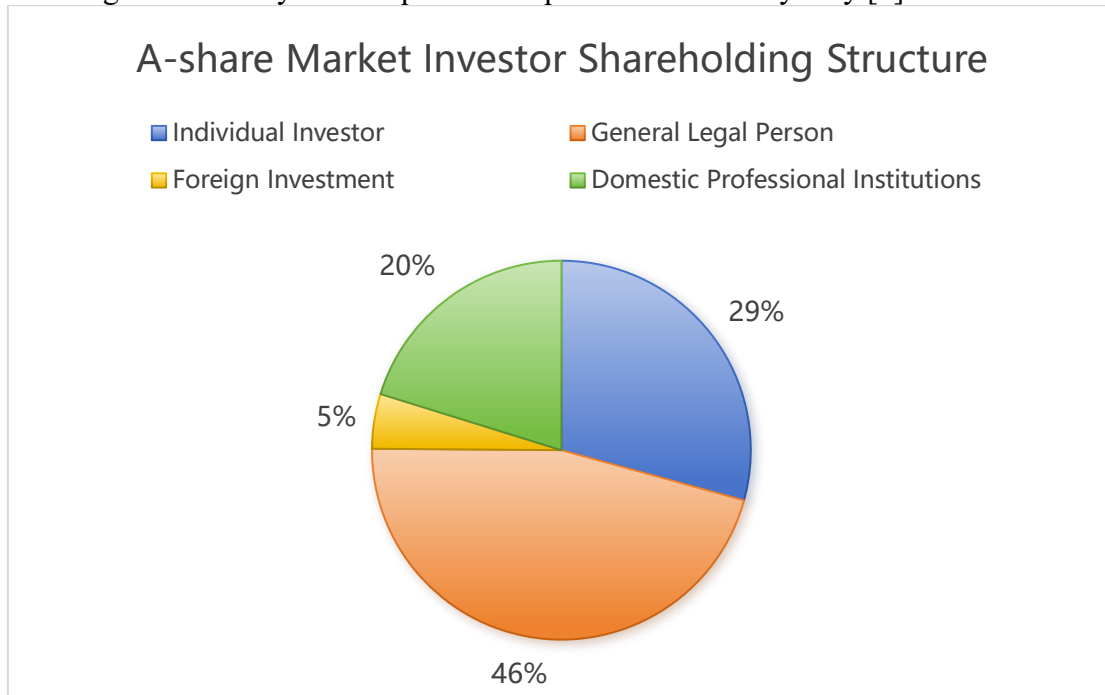


Figure 3: Investor shareholding structure in the A-share market in the second quarter of 2023

According to Figure 3, it is clearly to see that institutional investors occupy only 20.93%, individual investors for 29.29%, and general legal persons for 45.89%.

Individual investors and general legal individuals always lack systematic professional knowledge reserves. The higher proportion indicates that these two investors would probably reduce the bad effect about their holdings in the market at some specific circumstances. Besides, these two parts of investors have irrational behaviors in cluster investment such as “group holding”, which will effect the development in China’s stock market, what’s more, even cause accompanies the frequent occurrence of asset bubbles. What’s more, legal individuals and individual investors occupy a high part will find the distribution of stock wealth by reducing their holdings, and the interests of investors occupy a lower proportion cannot be protected accurately. The irrational structure in the existing market investors has caused to a series of chain phenomenon, which has affected the healthy and stable development in China’s stock market.

3.2. Market Governance

The small and medium-sized GEM market in China’s stock market has such shortcomings as information opacity today, imperfect internal corporate governance structure, higher market operation capacity, imperfect new problems and system, and absurd speculation [7].

As the basis of China Statistical Summary, many enterprises in the SME GEM market have common problems such as lower scale and shorter listing time, opaque information indicates that it is difficult for investors to make correct decisions, and more investors prefer to manipulate the market. It is clearly to see that the price discovery function of the market is also seriously interfered.

A classical case is during 2019, listed company was publicly punished by the CSRC due to fail to disclose main incidents timely and other violations in the company. There are several problems in the company, for example, the internal governance structure was imperfect, its single board of directors, and even main partners violated smaller shareholders sometimes. The disadvantages were exposed to

the market, some institutional investors manipulated the market, and ZhongTian Group also defraud investors and consumers by fraud, lower execution in the system, trying to uncover the reality, and even frequent speculation. Both cause bad influence for the small and medium-sized GEM market in the company, and effected the positive outputs in long-term company's development, especially in China's stock market.

3.3. Trading Mechanism

Main problems in China's today stock market highly concentrate on phenomenon such as extra amount size sell orders, money manipulation and information asymmetry caused by the daily limit mechanism is an exchange system that correctly limits the daily price rise and fall of each stock to prevent the abrupt rise and fall of trading prices and restrain excessive speculation in the stock market. The largest fluctuation of the trading price and during a period of trading time is a lower percent above and below the previous day's ending price. What's the meaning of that is the maximum price and minimum price for daily trading are created. Besides, it also indicates that previous the stock price affects daily limit, the amount of sell orders will rise sharply, which will bring about the collapse of the stock price in the future, disrupting the correct stock market order [8].

What's more, taking the review of the extreme information asymmetry in the market, investors chase after the maximization of personal benefits, even some hot money always manipulate stock prices by ways of continuous trading and back to seek private gains. Data delay and transaction details are absurdly covered, which influences the trading strategies between other investors, aggravates the volatility of the Chinese stock market, and affects the fairness and operation efficiency in the stock market. Even more and more serious problems are often caused by technical defects and risks, typically in the extreme condition of the absurd stock market, where the trading system crashes and influences normal trading.

4. Solution

4.1. Optimize the Investor Structure

There is a long-standing and far-reaching question about the unreasonable structure of investors in China's stock market. Based on the above speculation, it is clearly to see those general legal persons dominant a higher share, institutional investors occupy for a lower proportion, even some institutional investors and other irrational investment behaviors as well as unreasonable distribution system and governance structure to improve the phenomenon. To improve the mechanism of China's stock market, it is better for us to do the following steps [9].

Optimize investor education: China could improve the comprehensive quality education of investors and strengthen relevant financial knowledge education by enhancing investor education. By doing so, more investors, rather than investors who just major finance, have the equal chance to strengthen risk awareness, and investment level, and also integrate into theoretical practice.

Enhance the development of institutional investors: Depending formulating relevant policy instructions and relevant market incentives, increasing the proportion of institutional investors in the entire stock market, and reducing market speculation and risk appetite are what government encouraged.

Strengthen the market mechanism: It had better strengthen the market mechanism by improving the fairness of stock market information, by doing this, more and more investors could have the equal and fair market information and make the best investment decision.

Strengthen supervision and law control: I t had better strengthen China's stock market for relevant departments to crack down on stock market manipulation or pooling of funds by anyone and any department for any given reason, to maintain an efficient and a fair market trading atmosphere.

Implementation of financial reform: It had better deepen financial reform for Chinese government with the aim of improving the efficiency and competitiveness in China's stock market, to develop and avoid risks, establishing a better stock market correctly. The government, regulators, exchanges and investors must need to work together and taking measures to promote market reform and improvement in China's stock market [10].

4.2. Reform Market Mechanism

Based on the above analysis, it is clearly to see that there are some shortcomings in the current market governance between small and medium-sized GEM in China's stock market, which are presented as non-standard information disclosure, imperfect corporate governance, insider trading and market manipulation. There is no doubt that the above problems not only affect the transparency and correctness of the market, but also make the investors take risks. The government could solve these problems by the listed below.

Improve the supervision of stock market information disclosure: It is important for relevant departments should improve the supervision of information publish between small and medium-sized GEM companies and make the information clear in accordance with requirements of relevant Chinese laws and regulations to make sure the integrity and transparency; by doing these ways, it can prevent the occurrence of fraud and financial mistakes of small and medium-sized GEM companies.

Strengthen the corporate governance mechanism: In order to small and medium-sized GEM companies can have established mechanisms to control and refer to the implementation of internal governance and external disclosure, dividing power and responsibility, management, directors and operation structures to perform their respective duties, and eliminate incidents and fraud, there is no deny that the government should strength the corporate governance mechanism.

Enhance investor protection: In order to constantly enhance the confidence of small and medium-sized investors and potential investors in entering the stock market, it can make safeguard and legitimate rights between small and medium-sized investors and stock trading market.

Prompt the market reform: In order to solve the negative influences in the current SME GEM market governance inside China's stock market, and improve the efficiency and competitiveness of the market, it can prompt the market reform of the small and medium-sized GEM market, reduce administrative intervention, at the same time, it also needs to the government, regulators, exchanges and investors work together and take various measures to gradually promote the reform and improvement of the market [11].

4.3. Eliminate the Problem in Trading Mechanism

In the current trading mechanism of China's stock market, the classical example of which is the daily limit system mentioned above, may lead to some problems, such as oversized sell orders, hot money manipulation and information asymmetry. Based on the current complicated situation of the stock market, there are some the following measures to solve them.

Redesign of the daily limit system: The Chinese government could take appropriate adjustments of the daily limit system, for example, relaxing the range of the daily limit, or implementing a differentiated daily limit system, in order to reduce the impact of oversized sell orders and hot money manipulation. It can realize the equal distribution of power and avoid the excessive centralization of power.

Enhance market supervision: Relevant departments could enhance the supervision of the stock market, increase penalties for illegal acts, crack down on a series of illegal acts such as hot money manipulation and insider trading, and ensure the transparency and fairness in the trading market. Making market trading order and operation mechanism operate efficiently.

Optimize the quality of information disclosure: Optimize the quality of information disclosure of listed companies, need companies to disclose information in time, accurate and complete manner in accordance with regulations, improve the quality and transparency of information disclosure, and decrease the impact of information asymmetry. In particularly, it is necessary to avoid the potential impact of inside information on the stock market, enhance the disclosure mechanism of China's stock market, and make it possible that laws must be followed, and violations of laws must be prosecuted. Companies with particularly significant negative impacts on the industry should be severely punished, and public criticism should be issued to warn potential risk and violation enterprises, and a good trading environment should be established in the market [12].

Main shareholders of listed companies are prohibited from trading in the stock market within three years: this measure relates two key concepts, namely allocation of equity structure and free merger and creation of companies. If the former permit the shares of controlling shareholders of a company, it will squeeze the market of tradable shares, and the stock price of tradable shares also will be affected, unstable and even collapse. The majority shareholder of the latter company, when the company approved the listing, there is a potential risk that the majority shareholder of the company wants to immediately transaction cash out, the rights and interests of investors will be affected and spread, and the legitimate rights and interests of investors cannot be protected.

5. Conclusion

In conclusion, there is no deny that there are existing challenges and troubles in current China's stock market, which had better control positively. In order to solve these problems, the combination efforts of the country, the government, enterprises, individuals and all parts of the society are needed. If all of us can sustain make efforts, there will become a healthy and stable market stock. Both of us are expected to our efforts and contributions will make positive contributions on China's stock market.

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