

Problems and Countermeasures Analysis in the Chinese Stock Market

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Abstract: As the second largest capital market in the world, China's stock market has made remarkable achievements after decades of rapid development, but it still faces many challenges. Although China's stock market offers a wealth of investment opportunities, the market is volatile, investor sentiment is susceptible to a variety of factors. Through in-depth analysis of the current situation of China's stock market, this article focuses on three core problems, such as insufficient capital inflow, low participation of shareholders and unsound supervision system. To solve these problems, this article puts forward some measures to encourage incremental capital to flow into the stock market, enhance investors' professional knowledge and influence, and improve IPO standards and regulatory systems. The overall supervision system of China's stock market and the issue of shareholders' participation have made certain rectification. The research of this article not only provides theoretical support for solving the practical problems faced by China's stock market at present, but also provides policy suggestions for future market reform.

Keywords: Chinese stock market, Inflow of funds, Shareholder participation, Regulatory system.

1. Introduction

Stock market, as the core component of modern financial market, its importance is self-evident. Firstly, the stock market provides business efficient financing channels. Some companies can issue shares to the public when they are short of cash flow, attracting parts of society divide the funds. To expand their own production or improve their own business. Secondly, the stock market provides investors with diversification investment options. Investment in foreign stock market is a very extensive investment choice, which provides a channel for the majority of investors. Investors can choose different types of stocks to invest according to their own risk appetite. At the same time, some investment portfolios can be selected to provide diversification for investors. Therefore, the stock market plays an important role in the modern economic system.

In the past few decades, China's stock market has experienced a historic leap forward. Since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990, China's stock market has gradually developed into the world's second largest capital market [1]. After more than 30 years of development, China's stock market has not only made great progress in size, but also

increasingly diversified market structure. Judging from the number of listed companies, China's stock market has made a qualitative leap (See Figure 1).

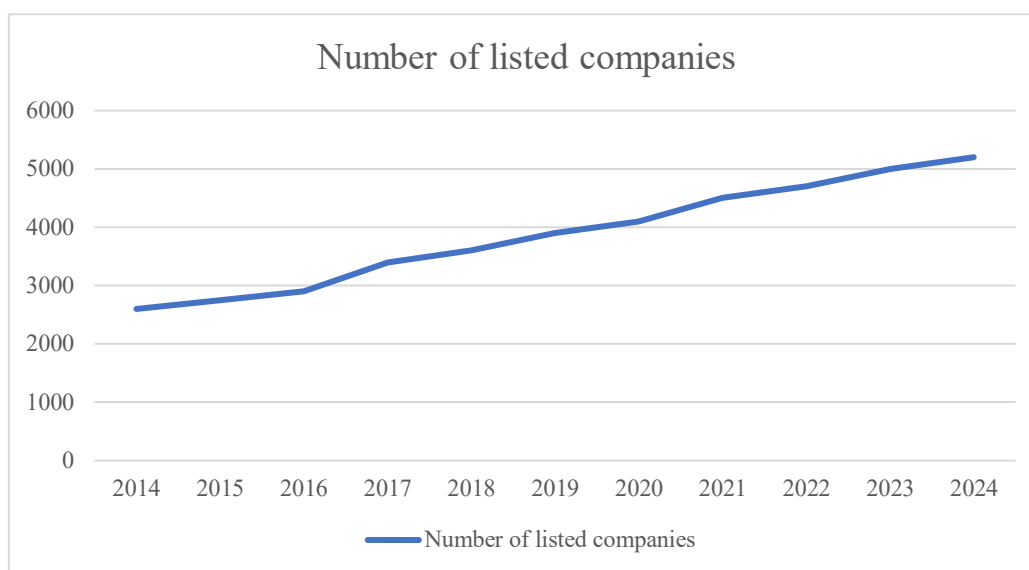


Figure 1: Number of listed companies in the past decade

As can be seen from the figure, the number of listed companies in China's stock market has been rising in the past decade, which also represents the market's investment choices have become more abundant. And the total value of China's stock market is rising. This also reflects the expansion of the stock market capacity and the participation of more social funds, which promotes the continuous growth of China's stock market.

Since its establishment in the 1990s, China's stock market has experienced many policy adjustments and market fluctuations, have now become it is the second largest capital market in the world. However, compared with mature markets such as the United States, China's stock market still has significant gaps in terms of market maturity, investor structure and regulatory system. The regulatory regime is relatively imperfect, especially in terms of market transparency and trust in terms of interest disclosure, there is still much room for improvement [2]. These gaps not only affect the stability of the market, but also limit the pace of further internationalization of the market. Therefore, this article will analyze the main problems existing in China's stock market and give countermeasures on the stock market supervision mechanism and shareholder participation, aiming to provide reference for the healthy development of the market.

2. Problem

2.1. Capital Inflows

The stock market is a money-driven market. Compare that to other countries like the United States. China's stock market is facing a significant problem, is the lack of capital inflows in the entire stock market. Why has the US stock market been in a hot state for several years, in addition to expanding production scale and investing in new products, many companies in the US. stock market chooses to use part of their profits to buy back their own shares and increase their share prices, thus maintaining the phenomenon that there is always money flowing into the stock. Take Apple as an example, according to the survey results, Apple bought back a total of 662 billion dollars of the company's shares in the first 20 years ticket, this has helped Apple's market value climb to an estimated \$3,448.9 billion in 2024. This kind of behavior is very helpful to the improvement of the market. In addition,

the domestic capital market is relatively open to the outside world, and the entry channels of international capital are limited, which also limits the large-scale inflow of foreign capital [3].

On the other hand, China's stock market is dominated by state-owned enterprises and listed companies, these two companies generally do not buy back their own shares for some financial welfare reasons. Take China's A-share Kweichow Moutai for example, Kweichow Moutai's gross profit margin has reached 91.76%, enough to show his profitability. However, Kweichow Moutai has never bought back its own shares for more than 20 years, but mostly handed them over to Guizhou's finance, which has not brought benefits to China's stock market. Thus, the lack of significant capital inflows into the Chinese stock market, because what China's stock market needs most is currency, the circulation of currency has the opportunity to create value. Therefore, if the market does not release real benefits, it will not be able to bring incremental funds to the market. As a result, the bull market has been delayed, and retail investors themselves will not take excess money to invest in stocks. In the face of the national debt cycle and the incomplete registration system, A shares lack sufficient funds to walk out of a wave of bull market. In addition, uncertainties in the global economy, such as China-US trade frictions and the impact of the epidemic, it also makes international capital more conservative in investing in the Chinese stock market [4].

Short-term investment behavior is another important reason for the lack of capital inflows in China's stock market. Many investors lack a sense of long-term investment and focus more on short-term market fluctuations, tend to trade frequently for short-term gains. This investment behavior not only increases the volatility of the market, but also limits the entry of long-term capital, further exacerbating the problem of insufficient capital inflows [5].

2.2. Investor Participation

This investment behavior not only increases the volatility of the market, but also limits the entry of long-term capital, further exacerbating the problem of insufficient capital inflows. After the Japanese stock bubble burst in the 1990s, Japanese investors were afraid to participate in the stock market for a long time. Japan's stock market is at a steady high after its GDP fell by 8%, in proportion to the contribution of its shareholders. At that time, Japan's leaders promptly adjusted macroeconomic policies after coming to power, implementing "zero interest rates" and "quantitative easing". So, the Bank of Japan cut its ten-year interest rate from 0.8% to less than 0.1%. When ordinary Japanese found that they could not get much return on their money in the bank, they began to try to buy stocks. But in China's stock market, investors are not getting the returns they crave. After all, profit is the first thing for investors, and the Chinese stock market has lasted for 3,000 points for so many years, naturally cannot bring good returns to investors.

China's stock market is highly volatile, which makes many investors less confident in the market. Especially after the big swings in the market, many investors choose to exit the market or reduce their investments, further exacerbating the low participation problem in the market. Because the market lacks sufficient stability, investors often lack confidence in investment income, choose to wait and see or withdraw from the market, resulting in insufficient market vitality [6]. And individual investors are the largest group of A-share investors, because their high trading volume can achieve the purpose of active capital markets. For A long time, individual investors have shown A high proportion of shares in the A-share market. However, in recent years, the proportion of individual investors has continued to decline, which has seriously affected the activity of the stock market. According to Data Treasure statistics, since 2013, the shareholding ratio of individual investors has fluctuated greatly. In 2013, it exceeded 33%, in 2015, it topped 39%, and then fluctuated downward. In 2022, it was less than 33%, and at the end of the second quarter of 2023, it fell to less than 30%, and the proportion of retail shares was the lowest in the past decade.

2.3. Supervision System

China's stock market supervision system is not sound, mainly in three aspects. First, there's a certain amount of market manipulation and insider trading, some illegal elements make huge profits by manipulating market prices, releasing false information and other means, seriously damaging the interests of investors, but also destroy the market's fair competition environment. This unfair market environment not only reduces the trust of investors, but also weakens the attractiveness of the market and limits the inflow of funds. Secondly, the imperfect information disclosure system of listed companies is also an important manifestation of the imperfect regulatory system. Many listed companies fail to disclose their financial information in a timely manner, major matters, and serious loss information is not reported. As a result, many investors are unable to judge whether their investment strategy is reasonable and make wrong choices. The imperfect information disclosure system also makes it difficult for the market to form an effective price discovery mechanism, resulting in an increase in market volatility.

Finally, the current IPO system has shortcomings in the auditing standards and procedures of companies listing. The failure to effectively screen out high-quality listed companies has affected the overall quality of the market. There are a number of low-quality companies that have gone public with low-standard IPO, however, after listing, it failed to make a certain contribution in its own production field, which brought huge investment risks to investors. In addition, there are problems with the transparency and fairness of the IPO review process. Some companies obtain listing status through improper means, this not only affects the fairness of the market, but also causes damage to the interests of investors.

3. Countermeasure

3.1. Encourage Incremental Capital

First, in order to attract more funds into the stock market, the government can consider implementing a series of policy support and tax incentives. For example, lower taxes on stock transactions and capital gains, reducing transaction costs for investors and thus making stock investments more attractive. In addition, the government can also establish a special investment fund to guide social capital into the stock market and provide a long-term and stable source of funds. These measures can effectively reduce the transaction costs of investors and enhance the willingness to invest, thus increasing the capital inflow in the market [7]. Third, governments could consider introducing long-term investment incentives, for example, provide tax breaks to investors who hold stocks beyond a certain period to encourage long-term investment. Such a policy can not only increase the stability of the market, but also help attract more long-term capital into the stock market.

Improving the international image of China's stock market is an important means to attract foreign capital inflows. Governments and market regulators should actively participate in the interaction of international financial markets, strengthen links with major global capital markets and promote the recognition of the Chinese stock market in the international market. At the same time, by strengthening cooperation with international rating agencies and research institutions, enhanced market transparency and information disclosure to boost foreign investors' confidence in the Chinese stock market. For example, by promoting the internationalization of the yuan, the government can increase the proportion of yuan assets in global portfolios, this will not only help attract more international capital into China's stock market, but also enhance the global influence of China's financial market [8].

Finally, increasing the diversity of financial products can also better encourage incremental capital flows into the market. Such as index funds, ETFs (exchange traded funds), bond funds, etc., to meet

the needs of different investors. At the same time, promote the development of market-oriented merger and acquisition funds and private equity funds, expand the coverage of the capital market, and attract long-term capital.

3.2. Expertise of Shareholders

Enhancing shareholder expertise is an important strategy to increase the number of retail investors in the stock market. Governments and financial institutions should work together to enhance shareholders' expertise through multiple channels. For example, through investor education activities such as online training courses, lectures, seminars, etc., help investors understand the market operation mechanism, risk management methods, etc. These educational activities can not only help investors master basic investment knowledge, but also help them form a rational investment mentality, thus, reducing irrational fluctuations in the market. To further enhance shareholder expertise, the government could also consider incorporating investment education into the national education system and popularizing basic financial literacy from the secondary school level. This not only helps to cultivate future qualified investors, but also helps to improve the financial literacy of the whole society and enhance the stability of the market [9].

On the other hand, government departments can also provide investors with convenient investment tools. Such as intelligent investment advisory, mobile trading platform, etc., to provide investors with convenient and fast investment services. This will not only increase market participation for investors, but also help them better manage their portfolios and reduce investment risks. As a new type of financial service that has emerged in recent years, through big data analysis and artificial intelligence technology, it provides personalized investment advice and risk management solutions for investors. This kind of service can not only help investors optimize their portfolios, but also improve their market participation and investment experience.

In addition, with the popularization of Internet technology, the promotion of mobile trading platforms can further reduce investors' transaction costs and improve transaction efficiency. This convenient way of trading is especially suitable for younger investors, it is helpful to attract more young people to participate in stock market investment, thus improving the vitality and liquidity of the market [10].

3.3. Improve Supervision System

IPO is the first threshold for enterprises to enter the capital market. In order to improve the quality of listed companies, the review standards for ipos should be further improved to ensure that only companies that meet strict conditions are allowed to enter the market. At the same time, the transparency and fairness of the IPO review process should also be guaranteed to prevent human intervention. Regulators should establish a transparent and fair audit mechanism to ensure an open and transparent audit process and increase trust in the market. The improvement of the information disclosure system not only helps to improve the transparency of the market, but also reduces the information asymmetry, help investors make more rational investment decisions. By introducing independent third-party auditors and expert committees, it can enhance the independence and professionalism of the audit process, thereby enhancing market trust. Second, it is critical to strengthen disclosure policies, regulators must require listed companies to disclose their financial position, major events and other information in a timely and comprehensive manner. In addition, penalties for false disclosure and withholding of information should be increased to maintain the authenticity of information in the market. In this regard, China can learn from the information disclosure mechanism of the US securities market, by developing detailed disclosure guidelines and norms, require listed companies to disclose all information related to the company's operations and

financial position within a specified period of time, thereby enhancing transparency and trust in the market.

Finally, it is imperative to strengthen market supervision and law enforcement. The personnel in charge of the IPO listed company in the CSRC shall implement the lifelong responsibility system and be responsible for all the affairs of the company after its listing. For example, in the United States, the securities market regulators have adopted strict laws and regulations and advanced scientific and technological means, effectively maintain the fairness and stability of the market. However, China should strictly control the operation of companies through various systems such as company listing and supervision, so as to enhance the credibility of the market and the trust of investors.

4. Conclusion

As the second largest capital market in the world, after decades of rapid development, although remarkable achievements have been made, there are still many challenges. Through an in-depth analysis of the current situation of China's stock market, the article focuses on three core problems: insufficient capital inflow, low participation of shareholders and unsound supervision system. To solve these problems, this article puts forward some measures to encourage incremental capital to flow into the stock market, enhance investors' professional knowledge and influence, and improve IPO standards and regulatory systems. The overall supervision system of China's stock market and the issue of shareholder participation have been rectified to some extent. The research of this article not only provides theoretical support for solving the practical problems currently faced by China's stock market, but it also provides policy recommendations for future market reforms.

To achieve these goals, governments and market participants need to work together, through policy support, market reform and financial innovation, we will promote the development of China's stock market in a healthier, stable and international direction. This will not only help improve China's position in global capital markets, it will also provide strong support for the realization of high-quality development of the national economy. In the future, China's stock market will need to constantly adapt to changes in the international market, enhance their competitiveness and attractiveness. By strengthening market infrastructure, promoting the application of fintech, and deepening capital market reforms, China's stock market is expected to become an important investment destination for global investors, providing new impetus to global economic growth.

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