



# Problems and Countermeasures in China's Capital Market Reform and Development

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**Abstract.** As a very important part of the financial market, the capital market refers to the sum of the relationship between securities issuance and trading, which is used for long-term financing. At present, the development of China's capital market lags behind passively, and there are some shortcomings in financial suppression and deepening, which directly affect the choice of financing mode and financing structure of enterprises, and affect the establishment of the modern enterprise system in China. Therefore, in view of the present situation of China's capital market, this paper discusses the problems and countermeasures encountered in China's capital market reform and development. The following conclusions can be drawn: (1) Strengthening institutional reform; (2) Standardizing the listed companies; (3) Improving the laws and regulations.

**Keywords:** Capital market · Financial development · Market reform · Countermeasure

## 1 Introduction

At present, China's unknown development state is not very balanced. The operation mechanism of the capital market needs to be further developed and advanced, and the operation function defects of the capital market also need to be further improved. Among them, the single financing methods of small and medium-sized enterprises have attracted my attention. In the subsequent research, this paper found that there are many problems in The China's capital market, such as unreasonable financing ratio and market opacity. Through this study, I hope to have a general understanding of the problems faced by China's capital market and try to propose corresponding solutions. Capital market is an essential part of the financial market. Vigorously developing the capital market can help enterprises optimize their financial structures, improve their economic income environment, and create favorable conditions for their development.

## 2 The Current Situation of Capital Market Reform in China

There are two different ways to define capital markets: one is to define capital markets from basic characteristics, and the other is to define the capital markets from specific

characteristics. The former believes that the capital market generally refers to the acquisition and transfer market of funds in the form of equity or property rights of enterprise ownership. The latter suggests that the normal operation of the capital market receives the sum of financing activities for more than one year, including the securities market for more than one year and the bank credit market for more than one year. It has been 30 years since China's reform and opening up in 1978. With the improvement of comprehensive national strength and the deepening of institutional reform, China's capital market has realized a transformation from scratch, from attempt to in-depth development. As an emerging market, although there are still problems like this and that, the achievements have attracted world attention.

At present, the number of listed companies, the financing amount and the number of investors in China have reached a considerable scale. The function and mutual benefit of the capital market appear, and the standardization degree is continuously improved. China is facing rare development opportunities in global economic integration and international large-scale capital flows. On April 23, 2018, the Regulations on the Supervision and Administration of Securities Companies and the Regulations on the Risk Disposal of Securities Companies were officially released, establishing a long-term mechanism for the risk cleaning of investment companies, and investment companies can adapt to the future development of the capital market with a new look [1]. Today, there are more than 4,100 listed companies in China, and a number of globally competitive enterprises have entered the world's top 500. The total profits of entity listed companies are equivalent to 50% of enterprises above the designated size in China. In the past 30 years, China's capital market has become the second largest market by market capitalization. With the size of the capital market, the number of investors is also increasing.

According to the China Securities Depository and Clearing Corporation, Chinese investors had 68.9867 million ending accounts in 2001, and 176 million investors by the end of November 2020. The US capital market has experienced hundreds of years of development, and up to now, there are only more than 3,000 listed companies. The total number of public companies in the entire Chinese capital market has achieved the crushing of the United States.

### **3 Problems in the Reform and Development of China's Capital Market**

#### **3.1 Structural Imbalance of Market Participants**

Compared with the US capital market, the US capital market is mainly for institutional investors. These investors have some relatively scientific methods of investing. Investment concepts have been practiced on the battlefield for a long time, investment tools are abundant, and the investment environment is relatively rational.

In the Chinese capital markets, they are mostly small investors.

Groups have a strong atmosphere of speculation and like to ask for trail information and follow the trend. They tend to become institutional investors. Compared with the institutional investor structure of the capital market, China not only lacks standard high-risk preference private equity funds, but also lacks stable long-term investment funds

with low-risk preferences. This problem is mainly reflected in the disharmony between the bond market and the stock market, the corporate bond market and the government bond market.

The development of the bond market lags far behind the stock market, and the development of the corporate bond market lags obviously behind the government bond market. The cost of internal financing is low, the cost of debt financing is also low, and the cost of stock financing is the highest, so in the developed market economy countries, the amount of corporate bonds issued is far greater than the amount of stock issuance, and the corporate bond financing is generally about 3–10 times the amount of stock financing. In China, the situation is just the opposite. In 2003, as an example, corporate bonds raised 32.5 billion yuan, the stock market raised 532.97 billion yuan, and Treasury bonds issued 628.34 billion yuan [2].

### 3.2 Market Opacity is Not True

The so-called market transparency refers to the general market participants' obtaining all kinds of information needed for decision-making through legal public channels. In modern markets, a market economy includes information provided to market participants, as well as supply and demand relationships in commodities, transaction prices, market supervision, various financial, economic, and financial indicators and policies.

Market transparency refers to the integrity, comprehensiveness, authenticity and reliability of market information. Market transparency plays an essential role in the fairness and efficiency of market transactions, strengthening supervision and restraint of financial markets, and preventing crises. At present, there are many opaque markets in China's capital market. In the past 25 years, there has been a large amount of insider trading in China's capital market. From this icon, we can see that with the gradual improvement of the regulatory mechanism, more and more insider trading has been detected and criminally punished, and the transparency of the capital market has been improved to a certain extent, but there is still a long way to go (Fig. 1).

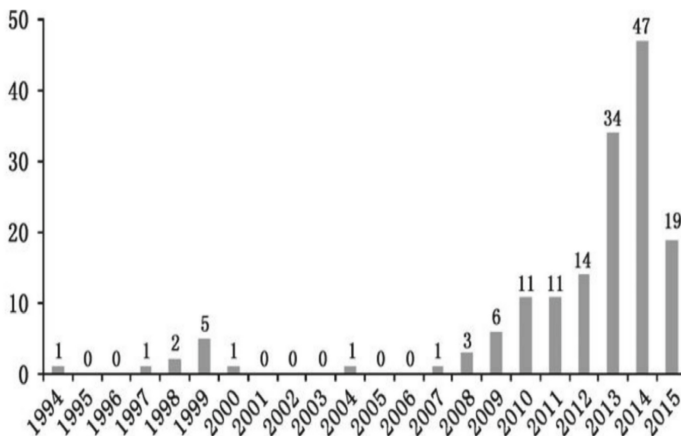


Fig. 1. Annual distribution of insider trading cases with administrative punishment

### **3.3 Unreasonable Ratio of Direct Financing to Indirect Financing**

The current situation in our country is that, because of the obstruction of joint-stock expenditure, there is no better choice for commercial banks in the face of financing problems than indirect financing. Generally speaking, the main source of assets for commercial banks is short-term capital [3].

The disadvantage of indirect financing is that it hinders the direct connection between the supply and demand of funds. Since indirect financing is concentrated in financial institutions such as commercial banks, the capital flow is not determined by the initial supplier of funds, but by financial intermediaries such as commercial banks. Meanwhile, small and medium-sized enterprises generally have their own high quality assets, equipment advanced degree, science and technology is low, and the characteristics of sustainable ability are weak.

At the same time, small and medium-sized enterprises' loan amounts, less financing times, and cooperation with financial institutions, resulting in financial institutions' lack of sustainability and objectivity, small and medium-sized enterprise credit rating, lead to small and medium-sized enterprise financing difficulties [4].

## **4 Relevant Countermeasures and Suggestions for China's Capital Market**

### **4.1 Strengthening Institutional Reform**

To complete the reform of the issuing system of new shares, we should have a suitable standard for the price-earnings ratio of the stock market, not too high or too low, which can make shareholders increase their confidence and protect the rights and interests of investors. The government should reform the delisting system so that it conforms to corporate standards and delisting procedures.

At the same time, the government should increase its review of listed companies. One of the most important conditions for the functioning of financial market mechanisms is: Participants in the market must have a real legal personality and must be real economic entities. The financial market mechanism focuses on the economic interests of the market participants, but if the market participants are not economic entities, the risk-and return-centered market mechanism will be ineffective.

Although China has carried out the reform of the enterprise management system to make the enterprises have a certain operating autonomy, some enterprises still maintain a high degree of contact with the state.

### **4.2 Standardize the Listed Companies**

The government should regulate the behavior of listed companies, establish and improve relevant laws and regulations, strengthen information management, and reprocess those who conceal information, so as to improve the standardization level of listed companies. At the same time, it is necessary to make corresponding provisions on the authenticity and timeliness of financial statements. Only in this way can the information transparency of listed companies be improved and the release of information through informal channels be avoided.

### 4.3 Improve the Laws and Regulations

Establish a civil compensation system to punish insider trading and raise the cost of illegal insider trading. The establishment of a civil compensation system for insider trading can mobilize the majority of investors to participate in the monitoring of insider trading, save the cost of law enforcement agencies, and thus improve the regulatory efficiency of insider trading. In addition, at present, the Securities Law of China for insider trading mainly consists of confiscation of illegal income and fines, and the administrative punishment in most cases applies to the lower limit.

The economic punishment is light, and the deterrent power for insider trading is not strong. Therefore, the government should increase the punishment of insider trading, and increase the illegal cost of insider trading to reduce the role of insider trading activities [5].

## 5 Conclusion

This paper aims to study the problems facing China's capital market and propose corresponding solutions. China's socialist market economy has developed from scratch, and the capital market has developed from a new social thing to the important height of China's socialist market economy, which has great significance to realizing the growth of China's national economy. The development of China's capital market has effectively promoted the healthy and orderly development of China's capital market.

At the same time, the development of China's capital market has distinct Chinese characteristics. With the accumulation of reform experience, the practice has proved that the establishment of China's capital market has effectively promoted the development of the economy, and has made a great contribution to the circulation of capital and the use of funds.

In the future, China's capital market will certainly be able to reach a more brand-new level, and the various systems of the capital market will be more and more perfect and scientific [6].

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