
Study on the Development Direction of Capital Market in China

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Abstract: The development of capital market is crucial to a country, so it is necessary to improve the development of the capital market. In China, the development of multi-level capital market is also the focus of economic developments. This paper based on the national conditions of China, presents seven development directions set for the construction of multi-level capital market system. The seven development directions are realizing stock issuance registration system, vigorously developing a multi-level capital market system, continuously innovating the securities market, establishing long-term Funding and long-term mechanisms, building and improving the futures market, promoting the bi-directional opening of capital market, strengthening systematic construction for investors' protection. These seven development directions are interrelated. It is of vital importance to comprehensively improve the capital market and accurately locate the development direction of the capital market.

Keywords: Capital Market, Development, Finance

1. Introduction

In May 2014, the State Council issued the "Several Opinions on Further Promoting the Healthy Development of the Capital Market", putting forward a series of instructions on stock market, bond market, futures market, private equity market and expansion of the opening up of capital market, and making a top-level design for the development of capital market for 5 to 10 years in the future. This is significant for promoting healthy development of capital market under the new normal of economic development. The document describes a vision that "a multi-level capital market system of reasonable structure, complete functions, open regulations, stability and effectiveness, and openness and inclusiveness will basically come into being by 2020".

Promoting a high-quality economic development requires a more powerful capital market (An [1], 2018). The current research in China is mainly focused on the construction and development of multi-level capital market (Li [2], 2014; Mai [3], 2014; Zhou & Liu [4], 2017; Zhong [5], 2017; Liu [6],

2017; Du & Ding [7], 2018; Zeng [8], 2018; Yuan [9], 2018). The development of multi-level capital market plays an important role in serving the real economy (An [10], 2018; Zhang [11], 2018), which can alleviate the problem of financing difficulties effectively (Xiong & Zhu [12], 2017), can promote the transformation and upgrading of manufacturing industry (Yin [13], 2018). While sound monetary policy (Shen [14], 2014) and the promotion of the process of marketization (Li & Xie [15], 2017) help to improve the capital market.

2. Development Direction of Capital Market

Combined with the above research, and in order to achieve the goals setting by the "Several Opinions on Further Promoting the Healthy Development of the Capital Market", there are seven development directions set for the construction of multi-level capital market system.



Figure 1. The development direction of capital market in China.

2.1. Realizing Stock Issuance Registration System

The "Decisions of Several Important Issues for Comprehensively Deepening Reforms of the Central Committee of the Communist Party of China" of the Third Plenary Session of the 18th CPC Central Committee clearly stated that we will "promote the reform of stock issuance registration system". At the end of November 2014, the first draft of the reform plan of the stock issuance registration system was submitted to the State Council. In 2015, the revised draft of the Securities Law was submitted to the Standing Committee of the National People's Congress for the first instance. The revised draft made clear for the first time the application conditions and registration procedures for the issuance of stocks from the legal level, and established the legal system for the issuance and registration of stocks. Until the relevant supporting facilities are ready, the implementation of the stock issuance registration system will become the top priority for capital market during the "Thirteenth Five-Year Plan" period. Establishing a market-led, responsibility-based, disclosure-based, prospect-clarified and well-supervised stock issuance registration system becomes the overall goal of the registration reform.

The stock issuance registration system will bring the following impacts on the capital market:

(1) Fundamental changes in the structure of securities market and rapid expansion of the "New OTC Market" and Growth Enterprise Market;

(2) Promotion for innovation and entrepreneurship of private equity market. After the establishment of the stock issuance registration system, intervening time for entity projects will be moved forward, the professionalism of risk investment increased and speculative performance declined and the whole private equity market will be more market-based. As a result, people's desires for

entrepreneurship and innovation are thus strengthened;

(3) The competitiveness and attractiveness of China's capital market have increased;

(4) It will reduce the phenomenon of shell resources speculation, and the strategy of tolerant on input while strict on management has made it past;

(5) The channel competition of investment banks will become a competition of professional capabilities. By the end of the era of being easy to accept while difficult to sell, comprehensive professional capabilities of brokers of market pricing and self-distribution test will include pricing, risk control, sales, etc.;

(6) The stock issuance registration system will weaken the listed company's power for collecting money illegally. When the threshold for issuance is reduced while the issuance efficiency is improved, and it is stricter on information disclosure supervision and more perfect of delisting system, the risk of over-fund raising will be thus increased.

2.2. Vigorously Developing a Multi-Level Capital Market System

During the "Twelfth Five-Year Plan" period, a multi-level capital market including the main board, small and medium enterprise board, GEM, New OTC Market, regional equity exchange market, and securities company-led counter market were initially formed, but there are still many problems. During the "Thirteenth Five-Year Plan" period, the development direction of capital market will focus on strengthening the main board, reforming the GEM, improving New OTC Market and standardizing and developing the regional equity market and public equity financing. Taking the standardization and development of regional equity markets as an example, in the process of "Thirteenth Five-Year Plan", the Government has introduced and accelerated basic documents for regional equity markets, clarified the orientation and development plans for regional equity market, studied relevant measures to activate market dynamism and encouraged more qualified investors and high-quality enterprises to join in the regional equity market so as to continuously increased the coverage of regional equity market and their ability to serve the real economy.

2.3. Continuously Innovating the Securities Market

"Decisions of Several Important Issues for Comprehensively Deepening Reforms of the Central Committee of the Communist Party of China" passed on the Third Plenary Session of the 18th CPC Central Committee clearly states that "developing and regulating securities market and improving the proportion of direct financing are both important". And in the "Several Opinions on Further Promoting the Healthy Development of the Capital Market" stipulated by the State Council puts forward that "we should regulate and develop the securities market, strengthen the credit restrict in securities market, deepen the connection among securities markets and coordinate the supervision of securities market". And in January 2015, the China Securities

Regulatory Commission issued the “Administrative Measures for Issuance and Transaction Management”. In May 2015, the People’s Bank of China announced to abolish the review and approval of securities transaction and circulation inside banks and simplify the listing procedures among banks. And National Development and Reform Commission issued a notice to ease the issuance conditions for city-invested enterprise securities. All of these measures objectively encourage to finance through debt, which are favorable for the issuance and circulation efficiency of various securities. In addition, traditional financing structure on the core of bank credit has changed and advance of the need to develop local economy, finance for small and medium-sized enterprises and economic transformation and structural arrangement, deepening of marketization of interest rate and internationalization of RMB. Consequently, the “Thirteenth Five-Year Plan” period will be an import stage for the rapid development of the securities market.

The innovative direction of securities will be reflected in: the continuous enrichment of asset-backed securities and other financing tools; great development of financial tools such as government-bond futures; supporting role of enterprise credit securities to the real economy; significant breakthrough in the securitization of credit assets, which bridges the connection between the credit market and capital market; the importance of market pricing in national debt yield curve has been increased; credit constraints of securities market have been enhanced, which breaks the rigid payment and thus the interconnection among securities markets has further accelerated; rapid development of credit scoring industry, which offers support or the development of securities market; unified interconnection in securities market has been further strengthen, multi-level securities transaction and settlement system have been improved and supervision system for a uniform securities market has been increasingly promoted at the same time.;

2.4. Establishing LONG-Term Funding and Long-Term Mechanisms

At present, the biggest problem in China's capital market is the lack of institutional investors, especially institutional investors for long-term funding. On the other hand, social security funds, pension funds, corporate annuities, commercial insurance companies and other institutions are also longing for long-term investment. During the “Thirteenth Five-Year Plan” period, there will be more channels to guide domestic and foreign long-term funds to invest in China’s capital market, continue to expand the institutional investor teams, lead domestic and foreign long-term funds into the market and improve the investor structure of the capital market.

2.5. Building and Improving the Futures Market

During the “Twelfth Five-Year Plan” period, China’s futures and derivatives markets enjoyed a good momentum of development and it was obvious for their strategic roles in

servicing the transformation and development of the real economy and deepening financial market reforms. At present, the total number of futures varieties in China has reached 52, basically covering major industries of national economy, including agriculture, metal, energy, chemicals, finance, etc. At the same time, the intensity of reform of the various rules and regulations of the futures market continued to strengthen. What’s more, the second draft of the “Futures Law” has been finished, and thus market activity has been further released and quality of market operations has been continuously improved. During the “Thirteenth Five-Year Plan” period, the “Futures Law” will be introduced to optimize the listing mechanism for new futures varieties, develop new varieties and tools to meet market needs, improve the system of futures derivatives market, and adapt to the diversification of the real economy, the individualized risk management, pricing requirements and development of off-site derivatives market.

2.6. Promoting the Bi-Directional Opening of Capital Market

During the “Twelfth Five-Year Plan” period, with the opening of the Shanghai-Hong Kong Stock Connect, capital market has entered a new era of opening up. However, there are still many problems for the openness, such as restrictions and controls of capital entry, insufficient convenience, lacking international recognition, etc. while with the advance of the “Thirteenth Five-Year Plan”, on the basis of the Shanghai-Hong Kong Stock Connect trial, the Government will promote the further expansion of the bi-directional opening of the capital market, expand the scope of QFII, steadily open up the domestic market for foreign investors, orderly promote domestic investors to invest in overseas markets, and improve protection system for investors of cross-border investment, strengthen the coordination of cross-border supervision and innovate methods and modes of cooperative development of domestic and foreign capital markets.

2.7. Strengthening Systematic Construction for Investors Protection

During the “Thirteenth Five-Year Plan” period, the Government will strengthen the systematic construction for investor protection, issue guidelines on the appropriate management of investors and optimization of instructions of investment return mechanisms in the refinancing of listed companies and restructuring of major asset, and guarantee the implementation of special documents; improve the investor protection mechanism in the entire process of the reform of the stock issuance registration system, and study and introduce pilot management measures for the exercise of shareholding rights.

3. Conclusion

It is of vital importance to comprehensively improve the

capital market and accurately locate the development direction of the capital market. Through the study of the paper, it proposes seven interrelated directions for the development of China's capital market. At the same time, according to the seven directions, the paper puts forward the way to improve the capital market and the expected effect, which has certain practical significance for the further development of China's capital market.

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