

## Review and Prospect of the 15 Years of Chinas Stock Market Development

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## Abstract

It is 15 years since Shanghai Feile Acoustics Company issued the first share in China in November, 1984. In the past 15 years, China has experienced both happiness and sorrow on the stock market. But the undeniable fact is that it is during the 15 years that China's stock market has developed extremely rapidly. This article is mainly about the review of China's stock market development, the significance of China's stock market on economic reform and economic development and the exploration of the present problems and developing trend.

This article can be divided into three parts. The first part is about the review of China's stock market development. The stock market can be divided into two stages with Deng Xiaoping's speech during his South China tour in January, 1991 as a dividing line. The first stage lasts from the end of 1984 to the end of 1991. This stage has the characteristics as follows: (1) The stock issues and marketable exchange are rather small in size. By the end of 1991, there are only 14 listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange, with a total market value of only a couple of billion yuan; (2) The stock market spreads over a low range of areas, only within the scope of big cities and coastal areas such as Shanghai and Shenzhen; (3) The listed companies are small in size, most of which are small-sized enterprises and collective enterprises rather than large-sized companies and state-run companies; (4) There are no national uniform law and regulations concerning the operation of the stock market and no special uniform body to run the stock market. Thus, there is no standard operation of the stock market. The second stage begins from 1992 until now. The characteristics are: (1) The stock market expands very quickly. By the end of 1998, there are 942 listed companies on the two stock exchanges mentioned above, with a total market value of 19,523 billion yuan; (2) The stock market spreads over the whole country, including the remotest areas such as Xinjiang and Xizang; (3) Large and super state-run enterprises have gradually become major listed companies and the stock market played a very important role in China's economic reform and economic development; (4) There has been established a national uniform law and regulations concerning the operation of stock market and there also established such a national uniform body as China Stock Supervision Council. Therefore, the stock market is gradually developing to its maturity.

The second part is about the significant effect China's Stock market has had on China's economic reform and economic development. China's stock market is the product of market reform and economic development. And it, in turn, has a great effect on the market reform and economic development. The effect includes at least three aspects: (1) Increasing the share reform of state-run enterprises and the change of operational mechanism. Since the mid of 1980s, China's reform has deepened and the market process has quickened. Thus, how to make the state-run enterprises become market principals bearing their own wins and losses and self-development has become an extremely essential issue. It is due to the campaign of stock issues and stock exchange that the problem are solved. Stock issues have changed the state-run enterprises into stock enterprises with multi-property rights, and stock exchange has facilitated the organizational structure and

managing mechanism in the stock enterprises to adapt to market economy:(2)Promoting the expansion of advantageous enterprises in scale. First, according to Chinas law and regulations concerned, an enterprise must possess the most fundamental conditions before it is approved to issue stocks and exchange shares, that is, the enterprise must has a benefit in three continuous years with a benefit factor of over 10 percent in the latest years net asset, and its capital, sales vplume and occupancy factor on market must also precede others in the same line. Therefore, the listed companies are all top enterprises In their own line. Second, the listed companies have all possessed strong vigor and potentials to develop. For example, the famous large enterprises such as Changhong and Haier have developed based on the support of stock market. Third, stock market can supply the listed compoanies with large amopunt of capital. Fourth, stock market can also supply the advantageous jenterprises with a place and mechanism to quicken their expansion:(3)Accelerating the market process of Chinas economy. Stock market is the most compl

The thirc part is about the present problems and developing trend of Chinas stock market. The main problems are:(1)The selective mechanism of the listed companies is unreasonable. The present procedure to select companies for stock is as follows: the centrla government decides the size of stock issues and the number of companies to be in the market all over the country, and simultaneously distributes the number to different provinces or districts: then the local governments choose enterprises according to the number given and report them to China Securities Supervision Council, who at last examines and approves the documents of the enterprises. This style is quite disagreeable with market economy:(2)The equity structure of the listed companies is unreasonable. Over 95 percent of Chinas present lested companies has developed from state-run enterprises after their stock reform, too much proportion in the state share with an average of over 60%.some even over 80%.This kind of equity structure, in fact, makes the listed companied dtill inm the hands of government agencies and difficult to thoroughly transfer the mechanism, which accordingly will reduce the operational efficiency of the listed companies:(3)The lack of circulation of public shares brings about a lot of problems. As the majority of public shares of listed companies are not circulative, this brings about the same shares but with different equity and also makes the size of Chinas stock market circulation extremely unparallel to the size of its capital stock. This is the cause of the unsteadiness of Chinas stock market:(4)The second securities market is full of speculation. For one thing, the low circulation of stock market makes the speculators easy to succeed, for another, the main stock investors are individuals and therefore they are not rational enough. Since department infestors just appear, they do not have a steady effect on stock market. Furthermore, some department investors try every means to make fortunes bp speculation:(5)The stock market is lack of strict supervision