The Problems and Countermeasures in China's A-Share Market

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Abstract. The Chinese domestic market, A-share, an integral part of the national economic boom is confronted with obstacles, which may threaten the long-term stability of the market. This paper explores three major hurdles: volatile market cycles, lack of transparency and abnormal retail investors' strategy. These determinants build the unstable atmosphere framework for investors and businesspeople. The solutions are going to be a multi-prong approach. Stability through long-term focus, market efficiency, internationalization, and diversity are key to managing market volatility. Meanwhile, listing requirements, corporate governance, disclosure standards, regulatory framework, market access, reporting practices, audits, and oversight enhance market transparency. Thirdly, Investor education, information access, and independent research optimize retail investors' strategies. The market of A-share in China can continue growing as the main distinguished platform where all the parties enjoy a winning position. This essay focuses on the problems and challenges of the A-share market, explores the effective countermeasures, and contributes valuable references for investors and policymakers. Therefore, it provides not only for the healthy growth of the Chinese capital market but also has immense global implications for economic and financial stability.

Keywords: China, A share market, volatility.

1. Introduction

China's A share market is the primary part of its stock exchange system and is vital to become a locomotive of its economy. It serves a dual purpose: providing the basis for companies raising capital and, in exchange, allowing investors to enjoy the benefits of the booming Chinese economy. However, the hegemony of this market is not without its issues. Periods of volatility had historically affected the A-share market, and it is reproducing the instability in the market now. This paper delves into three major issues that act as roadblocks to a stable market: rapid market cycles, lack of transparency, and bizarre retail investors' strategies. This countermeasures brief provides an overall solution to the problems of the A-share market in China. The implementation of the measures that include the promotion of long-term investment and fundamental focus will make the market stable, efficient, and capable of making proper allocation of capital through internationalization and diversification. The market standards and requirements will be introduced to make the market transparent, and there will be corporate governance and accountability with the regulatory framework that will be strengthened and overseen. Moreover, investor education, information availability, and research promotion have a role to play in improving the effectiveness of retail investors' strategies while giving investors the power to make their own decisions based on facts.

2. Current situation

The recent development in Chinese share market indicates an unstable trend with a lot of difficulties. From the market peak in February 2021, offshore Chinese equities have experienced a decline of close to 50%, while China A-Shares returns are down by around 37% in USD terms. This decline can be attributed to various macro headwinds, including Covid lockdowns, property market weakness, geopolitical tensions, regulatory actions on ecommerce platforms, and the strength of the US dollar [1]. Fig. 1 shows the Impact of Earnings Revisions plotted against Valuation Changes on MSCI China Returns.

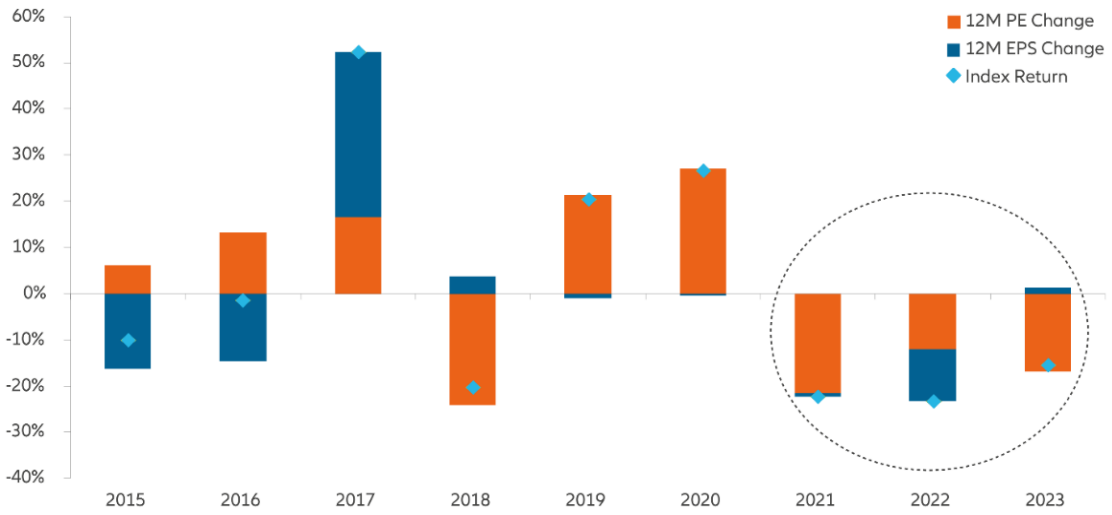


Figure 1. Impact of Earnings Revisions vs. Valuation Changes on MSCI China Returns

The graph above suggests that in recent years, from 2021 to 2023 there has been substantial market weakness, where both earnings revisions and valuation changes show 10-20% decline. Fig. 2 shows that MSCI China Growth stocks have declined by almost 60% from the market peak in 2021, while value stocks, particularly State-Owned Enterprises (SOEs) in sectors like financials, energy, and utilities, have outperformed by more than 20% over the same period [2]. This in turn reflects that the sentiment in the market has deteriorated, leading to a significant impact on growth stocks compared to value stocks.

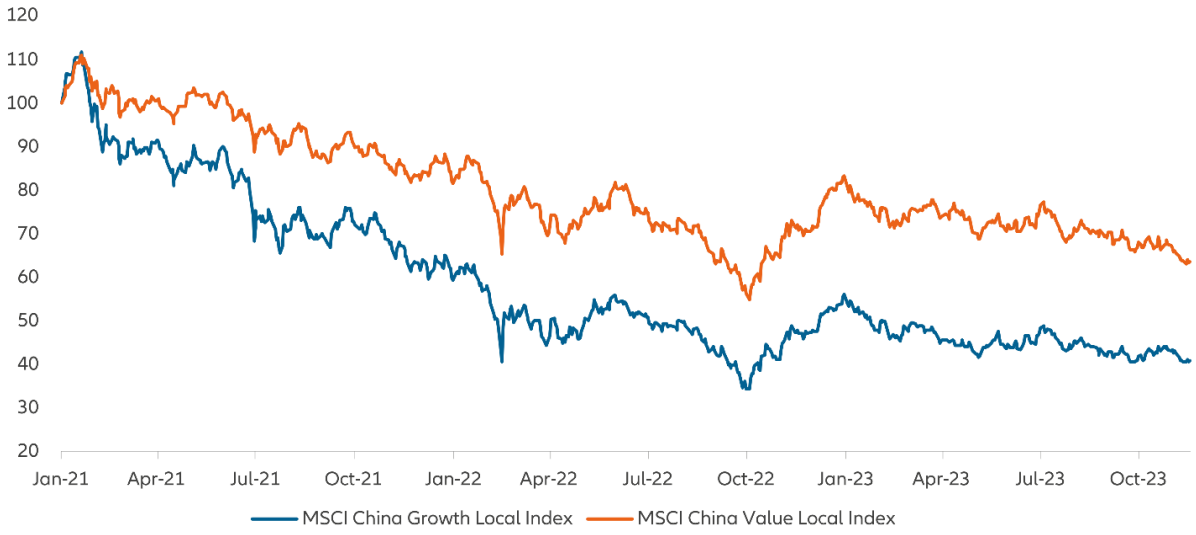


Figure 2. China Growth vs. Value Stocks from Jan 2021 to Oct 2023

3. Problems

3.1. Volatile Market Cycles

The A-share market has a clear-cut record of having periods of bullish growth followed by sharp corrections. This phenomenon of the boom-and-bust cycle, usually known as market volatility, creates environment of significant uncertainty for not only the investors but also the businesses. Investors become reluctant to invest long-term as they fear fast and significant profit losses [3]. However, businesses, as opposed to individuals, have problems raising funds for their sustainable development plans when the markets are so volatile. An illustration of this instability was noticed in 2015. The A-share market jumped in that year, but then took a downturn in 2016 [4]. This boom-and-

bust cycle discourages the confidence of companies to raise capital for lasting growth and the ailing state of the market.

3.2. Lack of Transparency

Insecurity associated with the opacity of corporate governance and financial reporting procedures in some of the listed companies forms a significant problem. It poses challenges for investors to make their decision based on rational thinking. Institutional investors, who need clarity on the financial health of a company before they to capital, may be particularly discouraged from this concealment. A lack of transparency hurts long-term investment which is a prerequisite for a market to be on the right track and focused on achieving sustainable growth [5]. Without the proper knowledge of a company's current financial status and its prospects, investors are more inclined to be short-term speculators rather than investors who are believers in Long-term Value Investing. This might bring floppy market regulation and prevent the flourishing of healthy and viable market environment.

3.3. Abnormal retail investors' strategy

The A-share market is significantly dependent on retail investors who mostly concentrate on short-term profits instead on corporate long-term prospects. Such a concern on the part of investors can easily aggravate market volatility. At the cost of short-term income, investors might be more interested in herd mentality, blindly following market trends without in-depth scrutiny of company's fundamentals. It may result in quick and sudden price changes that only worsens the problem and creates an avenue for manipulation [6]. The dominance of retail traders on the market poses the question of market efficiency. Without a strong presence of institutional investors, who usually takes a long-term view and concentrates on fundamental analysis, the market may be confused in terms of assessing the actual worth of a company.

4. Solution

4.1. Market volatility management

Increased institutional investment and international investment can act as stabilizing forces in the A-share market. The following is how it can be achieved:

Stability Through Long-Term Focus: Institutional investors in general will carry out a long-term investment program featuring a company's financial fundamentals based on future growth, profitability, competitive advantages. It is this emphasis of value-creation in the long term which promotes market stability. Unlike retail investors who are more likely to be affected by short-term market fluctuations and thereby change their positions, institutional investors tend to be more stable and therefore able to control volatility, providing a support to the market.

Enhanced Market Efficiency: The existence of institutional investors and their vast research capabilities and critical investment appraisal makes a significant impact on market efficiency. Their emphasis on fundamentals is geared towards the fact that a company's true worth is what should be reflected in the stock price [7]. This hence leads to better allocation of capital in the market economy through providing finance to the most efficient companies with a long-term sustainable outlook.

Market Internationalizing: By attracting foreign investors and capital, the market can become more diversified and less dependent on domestic factors. This can enhance the market's resilience and stability, reducing the impact of domestic economic fluctuations on the market.

Market diversity promotion: A diversified market with a wide range of investment options can help reduce volatility by spreading risk across multiple sectors and asset classes. Encouraging the listing of companies from diverse industries and with different business models can enhance the market's resilience and stability.

4.2. Market transparency improvement

The establishment of tighter market regulation and supervision is the primary solution to the phenomenon of opacity in the A-share market; it involves implementing stricter measures across various aspects:

Listing Requirements: Higher listing requirements for businesses targeting the A-share market can significantly improve the overall quality. That could implicate tighter profit criteria, a more prolonged record of profitability, and robust corporate governance systems. Through providing access to the market only for those companies who possess good fundamentals and growth perspectives in the long run, regulators will also decrease the risk of bubbles and refine investors' confidence.

Financial Disclosure Standards: Impose tougher financial reporting norms, enabling the investors to have aa clear vision of the the company's financial status and future progress. Such a structure might involve more frequent reporting, standardized financial reports, and harsher penalties for misleading or inaccurate accountability [8]. Regulators may strengthen the quality and efficiency of financial information to enable investors to create rational investment decisions, whilst pursuing the financials of a particular company based on a true foundation, rather than speculation and short-term trends.

Streamlined Market Access: Fostering the procedures to be simple can extend participation. This will most likely have to do with simplifying normative processes, cutting down on the number of bureaucratic procedures, and bringing the rules in line with the international accounting.

Corporate Governance: Ensuring good governance procedures creates conditions for active transparency and accountability within listed companies. This could be in the form of requiring separate non-executive board memberships, establishing more robust supervision over executive pay, and enhanced disclosure requirements for connected party transactions. Through requiring companies to be operated with transparency, they can foster trust within the investors and discourage dealings that are manipulative which contribute to volatility.

Standardized Reporting Practices: Regulatory bodies may place more stringent and standardized financial reporting requirements on listed companies. It would promote consistency and clarity of the financial information thereby facilitating the investors to compare companies better.

Independent Audits and Reviews: By providing encouragement and facilitating independent audits or reviews of financial statements, it is possible to have an additional file of assurance for investors. Such independent auditing might highlight errors in data or even fraudulent reporting by a company's management.

Improved Regulatory Framework: Regulatory frameworks should be enhanced to make them more transparent and robust, and corporate governance practices should be strictly observed to settle institutional investors` concerns directly. Adopting firmer accounting guidelines, enforcing more accurate disclosure practices, and supporting independent auditing can enhance trust and trustworthiness in the A-share market.

4.3. Retail investors’ strategy optimization

Financial Literacy Programs: Governments and financial institutions can coalesce to develop comprehensive financial literacy programs for retail investors. Such programs should encompass the basics of investment principles, risk management and the analysis of financial statements [1]. The educated investors are the least vulnerable to manipulation, and they can make good investment decisions, based on the prospects of the company in the long term that results in the stability of the market.

Investment Workshops and Webinars: Arrange for regular seminars and webinars to give investors a chance to go in-depth on other investment topics such as valuation methods and industry trends. Financial experts and listed companies can organize these sessions to help create a transparent and informative environment.

Investor Education Platforms: Building online platforms with educational resources and interactive tools can educate investors to carry out their research and analysis by themselves. These

platforms may host the company's financial reports, analyst recommendations, and educational tools, which retail investors can easily find.

Investor Relations Initiatives: The listed companies regularly have investor relations activities in place to reach investors. It can be done by arranging Q&A sessions, giving precise reports about financial results and quick response to investors' questions.

Disclosure of Material Information: Companies should be mandated to release all significant and affecting information on their financial figures and stock prices within a reasonable time and in a transparent manner. It builds investors' trust, and they can make the best investment choices.

Support for Sell-Side Research: Through the advancing of the establishment of a solid sell-side research field, investors will be given the opportunity to obtain data as well as analysis from independent financial experts [9]. This allows the market players to make informed decisions and, consequently, may help to balance any potential information asymmetry within the market.

Access to Analyst Reports: Through providing investors with easier access to analyst reports and research, they could use professional analysis to make informed decisions as opposed to merely relying on the information provided by the company itself.

5. Conclusion

The China's A-share market, in which the country places its hope to a prosperity, has obstacles that impede its long-term viability, namely volatile market cycles, lack of transparency and abnormal retail investors' strategy. Nevertheless, the completion of a functional market is pinned upon the availability of the solutions. This includes encouraging institutional investors to adopt a long-term focus, attracting foreign capital to diversify the market and reduce domestic dependency, implementing stricter listing requirements and disclosure standards to enhance transparency, and strengthening regulatory frameworks and oversight mechanisms. Additionally, optimizing retail investors' strategies through financial literacy programs, improved access to information, and promoting independent research is crucial to empower them to make informed decisions based on long-term value.

These mechanisms can be a change agent of the A-share market towards a resilient and dynamic platform. This should be beneficial to all participants - the individual investors, the enterprises, as well as the status of the Chinese economy in general by doing this. An A-share market that is stable, transparent, and fair can help China unlock all the potentials it may have as a powerful driving force behind a long-term economic growth as well as affirming its status as a top global economic player.

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