

# *Analysis and Prospects of High-Quality Development of Capital Market*

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**Abstract:** The capital market has made outstanding contributions to the relief of state-owned enterprises, the handling of non-performing assets by commercial banks, the incubation of startups and the growth of science and technology enterprises, and the support of the development of the private economy for more than 30 years since its establishment. The financial structure centered on capital market plays a vital role in the construction of modern economic system and is an irreplaceable force to promote high economic growth. The capital market not only provides economic support to individual enterprises, but also plays an important role in upgrading the management level of enterprises and stimulating entrepreneurship. In the current environment of economic rebound, reshaping consumer confidence and stabilizing development expectations, there is a need to further enhance the ability of the capital market to serve the real economy, and to guide social capital into key technology areas and start-up science and technology-based enterprises [1]. While the trend of capital market development remains unchanged, there are both challenges and opportunities, and relevant research should be carried out in a more targeted manner, with a view to improving the governance mechanism of the capital market and contributing to high-quality growth [2].

## **1. Introduction**

In the financial industry, the capital market plays a balancing role. Since 1990, China's capital market has gradually grown from zero to a huge system, and after more than 30 years of development, we have formed a diversified capital market system with the main boards of Main Board, GEM, Kechuan Board, New Third Board and regional equity markets. China's capital market has always adhered to the principle of supporting the development of the real economy, and has played a crucial role in optimizing the allocation of resources, reforming the financing model and accelerating economic growth.

## **2. Analysis of the Current Situation of China's Capital Market Development**

The market system is rich in layers. In the last three decades, China is promoting the construction of a multi-level capital market system. Nowadays, substantial progress has been made in the multi-level capital market, such as the Main Board, GEM, KIC, New Third Board and

regional equity markets, which are the main carriers. The coverage of capital market services has been continuously improved, and the various levels of the market are clearly positioned, staggered and complementary to each other, providing differentiated financing services for enterprises of different sizes and in different industries. The bond market has been developing vigorously, the bond structure has become more reasonable, and the types of bonds have become more diversified, in addition to the traditional bonds such as treasury bonds and financial bonds, the development of enterprise bonds, corporate bonds, short-term and medium-term notes and other types of bonds has been progressing in tandem to meet the needs of different investment bodies, and has become one of the important ways of direct financing for enterprises.

Over the past 30 years, China's capital market has always adhered to the purpose of serving the real economy, based on the actual needs of economic development, giving full play to optimize the allocation of resources and guide the role of factor flows, and strongly supporting the steady development of the real economy. By the end of 2020, there were 4,128 A-share listed companies. In 2020, A-shares raised a total of 15417 billion yuan on the Shanghai and Shenzhen exchanges, 188.3 billion yuan more than in 2019. Among them, initial public offerings raised 474.2 billion yuan, nearly double that of the previous year [3-4].

China's capital market has made significant progress in opening up to the outside world. Since China became a member of the World Trade Organization (WTO), we have been actively promoting the opening of the capital market to the outside world, aiming to realize the integration of "bringing in" and "going out". Since 2011, through the implementation of QFII, QDII, RQFII, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and other "channelized" modes, China has successfully realized the interconnection with the global capital market, is shown in Figure 1. By the end of December 2020, foreign institutions held 3.25 trillion yuan of bonds in the interbank market, accounting for about 3.2% of the total custody of the interbank bond market. The world's three major bond indices, Bloomberg Barclays Global Aggregate Index (BBGA), J.P. Morgan Global Emerging Markets Government Bond Index (GBI-EM) and FTSE Russell World Government Bond Index (WGBI), have all included Chinese government bonds, fully reflecting international confidence in China's capital market.



Figure 1: Opening up of China's capital market to the outside world

However, the development of China's capital market has a relatively short history, compared with the mature and developed capital markets in Europe and the United States, the problem of unsound and imperfect capital market governance mechanism is still more obvious, especially the problem of the low proportion of direct financing is more prominent.

First, the scale of the capital market is small compared with the scale of China's economic development.

Although the number of listed companies in China, the total market capitalization, the bond market balance is huge, but the capital market and China's current level of economic development

and the need for a larger gap. From the point of view of the size of the capital market, Wind data show that as of June 30, 2023, the total market value of U.S. stocks was \$ 53.6 trillion, is shown in Figure 2. China's A-share listed companies with a total market value of 93.42 trillion yuan, the U.S. total market value of our country more than four times. The number of U.S. companies with market capitalization above \$10 billion is more than three times that of A-shares. The market value of listed companies and GDP ratio, in 2020, the total market value of China's A-share listed companies accounted for about 80% of China's GDP, the United States is 191%, Japan is 145%, the United Kingdom is 108%.



Figure 2: U.S. Total Market Capitalization Positive

Second, the development of institutional investment is lagging behind.

Investors in the U.S. stock market are mainly mutual funds, hedge funds, industrial capital and listed companies, including sovereign wealth funds of various countries, pension funds, insurance funds, foreign investors and other institutional investors. And China's institutional investment is relatively weak, insurance and pension funds less than 1/10 of the size of the United States, other non-bank financial institutions less than 3% of the size of the United States, the A-share market retail investors accounted for a large proportion of foreign investors to participate in a relatively low degree. In addition, the proportion of China's medium- and long-term funds holding shares is low, accounting for less than 6%, far below the level of mature markets in developed countries generally more than 20%. From the perspective of fund investment institutions, the gap between China and the United States is also large. The U.S. private equity fund management scale has exceeded 10 trillion U.S. dollars, accounting for nearly half of the total size of the global private equity fund, as of the end of 2022, the scale of Chinese and U.S. private equity funds are about 2.75 trillion U.S. dollars and 18 trillion U.S. dollars respectively.

Third, the development of the bond market is lagging behind.

A richly layered and relatively complete bond market can not only optimize the allocation of social resources and promote the healthy development of the financial market, but also effectively reduce the risk of the financial system and promote the realization of national macroeconomic goals. At present, China's bond market system is not perfect, compared with the United States and other developed countries lagging behind. U.S. corporate bond varieties are complete, bonds in the interest rate structure, term, embedded options and other aspects of the design flexibility, derivatives market is also very developed, providing investors with a variety of investment options and risk avoidance tools. And China's bond market subjects less, the market size is less than 1/3 of the United States, most investors are concentrated in financial institutions, the bond market investment varieties are relatively single, the enterprise debt financing tools also rely excessively on bank loans, China's non-financial enterprises bond financing is less than 20% of the bank loans, while the United States has reached more than 70%.

The above aspects to a certain extent, led to China's capital market compared with other

countries less active. Therefore, under the reality that there is a big gap between the development level of the capital market and the public expectation, it should provide useful policy references to improve the governance mechanism of the capital market and then help the economy to grow with high quality.

### 3. Sound Capital Market Governance Mechanism

First of all, we should be based on the function of the capital market, rationally identify all kinds of public opinions, anchor the development goals, and maintain the development and reform strength. It is important to prevent the capital market from becoming a place to widen the gap between the rich and the poor. In his important article, "Chinese-style modernization is a smooth path for the construction of a strong nation and national rejuvenation," General Secretary made it clear that "the main weakness of Western modernization lies in its excessive preference for capital at the expense of the people, and the pursuit of maximizing capital gains rather than the interests of the greatest number of people, which has led to a serious wealth gap and extreme polarization. " In this regard, it is important to have a deep understanding of Chinese-style modernization and maintain a clear understanding of the shortcomings of Western modernization. With the goal of protecting the legitimate interests of investors, the relevant regulatory authorities need to be persistent, fill the gaps and omissions in the system as soon as possible, and take advantage of institutional reforms to stimulate the enthusiasm for investment. In addition, it is also necessary to revise the relevant regulations at an appropriate time, introduce proven judicial regulatory methods such as the revised Securities Law and valuable academic research results, and regulate the operation status of China's capital market from the perspective of system construction in the face of emerging problems. More importantly, it is necessary to strictly regulate the dissemination of capital market information in accordance with the law, and to rectify the chaotic phenomenon that certain quantitative institutions in the private placement industry have organized and premeditated long-term use of highly read self media "vest" to publish illegal articles, incite investor sentiment, and mislead investors' judgment.

Secondly, we should rationalize the relationship between the securities issuance market and the trading market, segregate the period of issuance and financing from the listing and trading, and make the two levels of the market interact with each other in a benign manner, is shown in Figure 3. The basic function of the capital market is to meet the demand for direct financing of enterprises and to serve the real economy. At present, investor confidence is insufficient because the two levels of the market did not form a benign interaction, such as IPO pricing is too high, resulting in a reduction in the ability of listed companies to raise funds, and triggering a decline in share prices and abnormal fluctuations. To restore investor confidence, we need to manage the relationship between the two levels of the market in a rational and scientific manner, that is, to allow the primary market to meet the financing needs of enterprises, while long-term capital allows enterprises to focus on production, research and development, and re-investment to provide products and services to the community, to provide employment opportunities, as well as to increase the country's tax revenues. In short, the primary market provides a solid foundation for the secondary market, making investors' interests fundamentally safeguarded; without the support of the primary market, the secondary market becomes a completely speculative market.





Figure 3: The market for the issuance of securities is closely linked to the trading market

#### 4. Improvement of Relevant Systems and Regulations

First of all, we should adhere to the law regulation, fair regulation. Due to China's special national environment, capital market process and development stage, at this stage still need to properly deal with the growth of the financial industry, innovation, risk prevention, as well as regulatory issues to ensure that the fair supervision of the supporting regulations can be sustained. It is important to establish regulatory mechanisms that are compatible with the identification and control of market risks. Because financial innovation is essentially the transfer, diffusion, amplification and avoidance of existing regulation, the economic, tax and legal costs of high-risk financial innovations should be increased at the legal level while stimulating financial innovation. Risk-based regulation should be realized. Stock supervision requires a change in mindset; for sound systems and low-risk operating entities, self-management should be promoted; for medium- to high-risk operating entities, supervision should be intensified and effective risk prevention strategies should be implemented. Private law autonomy should be adhered to. While adhering to the autonomy of private law, this study firmly moves towards marketization, attaches importance to the autonomy of private law of market subjects, and carefully avoids interfering with the internal business decisions of companies. This study further strengthens the self-regulatory functions and processes of securities industry associations, listed company associations and stock exchanges, as shown in Figure 4. Fourthly, the building of regulatory talent should be strengthened. An efficient and fair regulatory body must have a large number of excellent talents with knowledge of modern economics and finance, law, and rich experience in securities and law. To this end, securities regulators should widely absorb outstanding professionals to join, and constantly improve the ability and level of regulation in accordance with the law and fair regulation.



Figure 4: Beijing Stock Exchange (BSE)

Secondly, we should pay attention to the governance effect of foreign investors. The participation of foreign investors is an important manifestation of the high level of opening up of the capital market. In recent years, China has continued to promote the implementation of a higher level of financial liberalization, injecting new momentum into the high-quality growth of the Chinese economy [5]. In particular, the equity of China's banking sector has been open to foreign investment for nearly two decades, and more diversified sources of capital are quite helpful in solving the financing problems of Chinese enterprises [6]. In addition, besides solving the problem of capital sources, the supervisory and governance advantages of foreign equity are also of concern to the market.

Subject to the objective fact of late start, the imperfect governance structure of China's banking industry brought about by irregularities in the operation, risk control failures and other issues are becoming the financial services of the real economy high-quality growth of the "stumbling block". At a time when we continue to promote the high level of financial liberalization, foreign shareholders have a positive role in monitoring banks' non-compliance, which can significantly reduce the degree of non-compliance. The participation of foreign shareholders in board governance is an important channel to reduce the risk of bank non-compliance. At the same time, the introduction of foreign shareholders can reduce banks' internal control violations and shadow banking violations, and the supervisory effect on non-listed banks' violations is more obvious.

Finally, it is important to focus on the governance role of accounting firms. Accounting firms are known as the "gatekeepers" of the capital market, and how to further enhance the effectiveness of their external supervision has been a topic of great concern. In recent years, real-life cases such as the failure of CombiPharma's audit have reflected the inadequacy of China's accounting firms' external oversight capabilities. This reflects the fact that audit regulators must be more effective in identifying possible compliance issues in audit projects, further strengthening audit supervision capabilities, is shown in Figure 5, and thus escorting the high-quality development of China's economy.



Figure 5: Strengthening audit oversight

The financial restatement of the client company comprehensively reflects whether the auditor complies with the requirements of specific auditing standards in terms of the collection of audit evidence and the attitude of practice, which is a more accurate and comprehensive measure of audit quality. In addition, indicators such as the client company's micro-profitability, whether the firm is a first-year auditor, and the firm's size are also significantly associated with some types of audit violations, and these indicators measure audit quality from different dimensions. Under the constraints of limited enforcement resources, regulators can predict the possibility of audit violations based on audit quality indicators, so as to select the target of regulation in a more targeted manner to ensure the smooth development of the capital market [7].

## 5. Conclusion

In the new journey of the new era, the continuous improvement of the capital market governance mechanism is an important dependence on the high-quality growth of the capital market and an important foundation for economic growth. In the last decade, China has carried out a lot of work in the construction of various laws and regulations, and investors, auditors and other types of market participants have also achieved new development in this period. Based on the reality of China's capital market development, this column analyzes and discusses the governance mechanism of China's capital market from the perspectives of institutional investors, foreign investors and accounting firms, which is of great practical significance for further strengthening the supportive role of the capital market to the high-quality development of the economy. It should be pointed out that, with the increasingly complex economic and social environment at home and abroad in recent years, the capital market is constantly emerging new phenomena, new problems and new challenges. It is expected that this study will provide some inspirations and reflections for the subsequent related research, and guide more scholars to deeply plough into the practice of China's capital market and make more high-level research results to serve the high-quality development of the economy [8].

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