



# UNDERSTANDING THE CHINESE STOCK MARKET

PIIE, 11 MAY 2022, JOHN YASUDA (JHU)



A black and white photograph of Jack Ma, the founder of Alibaba Group. He is shown from the chest up, looking slightly to the right with a thoughtful expression. His right hand is resting on his chin. He is wearing a dark jacket over a light-colored collared shirt. The background is dark and out of focus, suggesting an indoor setting like a conference or meeting.

CHINA'S  
INCOMPREHENSIBLE  
STOCK MARKET

# AN OVERVIEW

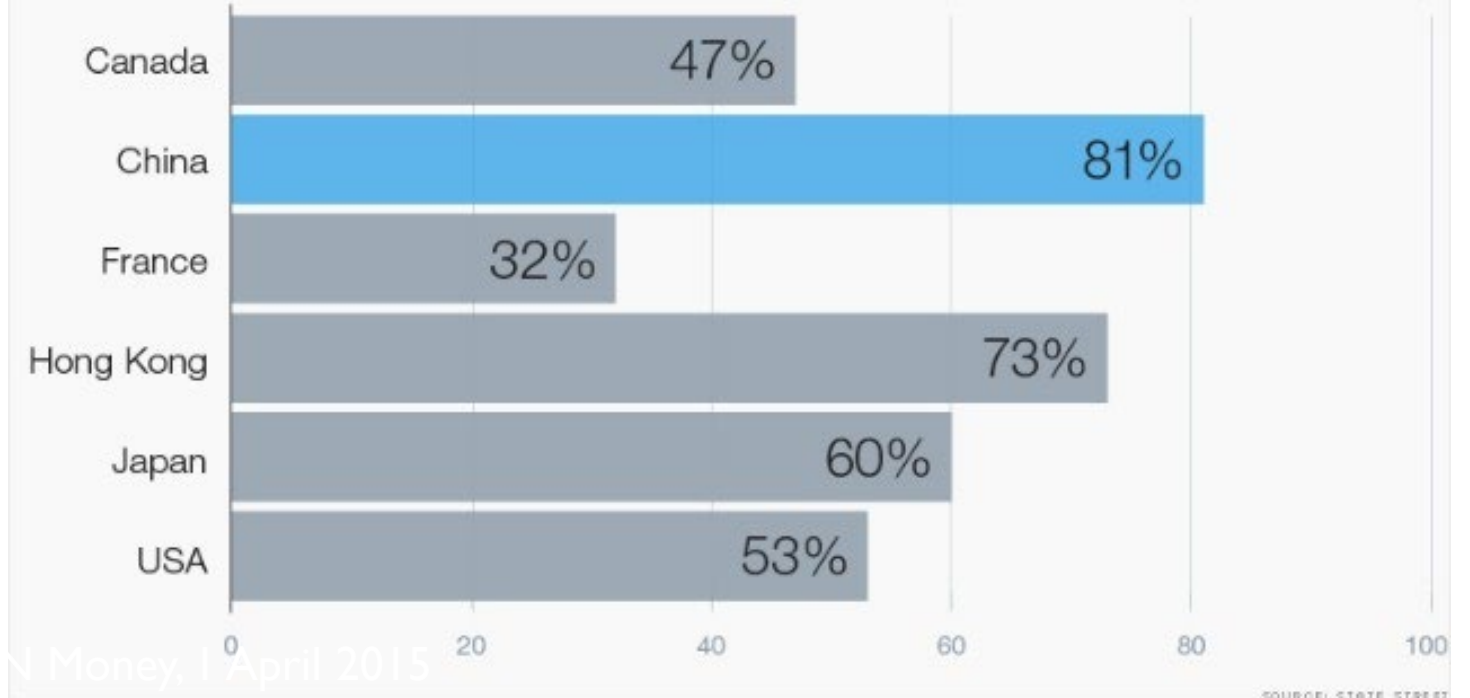
	China	USA	Japan
Market Capitalization (% GDP) <sup>1</sup>	12.2 trillion USD (83%)	40.7 trillion USD (194.3%)	6.7 trillion USD (132.8%)
Major Stock Exchanges	Shanghai Stock Exchange Shenzhen Stock Exchange Beijing Stock Exchange (HKEX)	NYSE NASDAQ	JPX
Listed Companies <sup>2</sup>	4154 (60% State-Owned)	4266	3754
Sources of corporate <sup>3</sup> finance equity (debt)	5.5% (73.8%)	5% (44.8%)	1.4% (50.6%)
Foreign Ownership <sup>4</sup>	5.4%	40%	30%
Retail Investor Participation, Turnover <sup>5</sup>	~80%	~20%	~21%
Price Volatility ('10 – '20) <sup>6</sup>	22.5	16.8	20.7

1:2020 WB; 2: 2020 WB; 3: Kagaya (2018); 4: CN SCMP 2021, USA Tax Policy Center 2019; JP JPX 2020; 5: CN Jones et al 2021; USA BNY Mellon, JP JPX 2020; 6: WB 2020

# CHINA'S IRRATIONAL INVESTORS

- Retail investors drive ~80% of Market Turnover
- Momentum Traders
- Thematic Stocks
- Short Investment Horizon (~2 months)
- Low Financial Literacy

Percent of retail investors who trade at least once a month



CNN Money, 1 April 2015

## FROM THE MOUTH OF REGULATORS

- “the main issue is that **our investors are still not mature**. We have no major institutional investors that are well-established” -- Former CSRC Official, 10 June 2019
- “if you look at 2015, you have weak corporate earnings, earnings per share are down, but you still have a bull market? **People are irrational here.**” --CSRC Official, Beijing, 14 June 2018
- “...This is **completely irrational behavior**. So, naturally the way regulators view this environment is that it will be necessary to be **far more stringent.**“ --10 June 2019, Adviser to Securities Law Reform Committee

# THE OBAMA AND TRUMP EFFECT



## HARD PATERNALIST TOOLS

Merit-Based  
Review  
(Registration Trial)

Price Limits (10 -  
20%)

T+1 Rule

Indefinite Bans on  
Shorting; Sectoral  
Bans; Listing  
Moratoriums

Positive List  
System

The “National  
Team”

# REGULATORY PHILOSOPHY

## “State Capitalism”

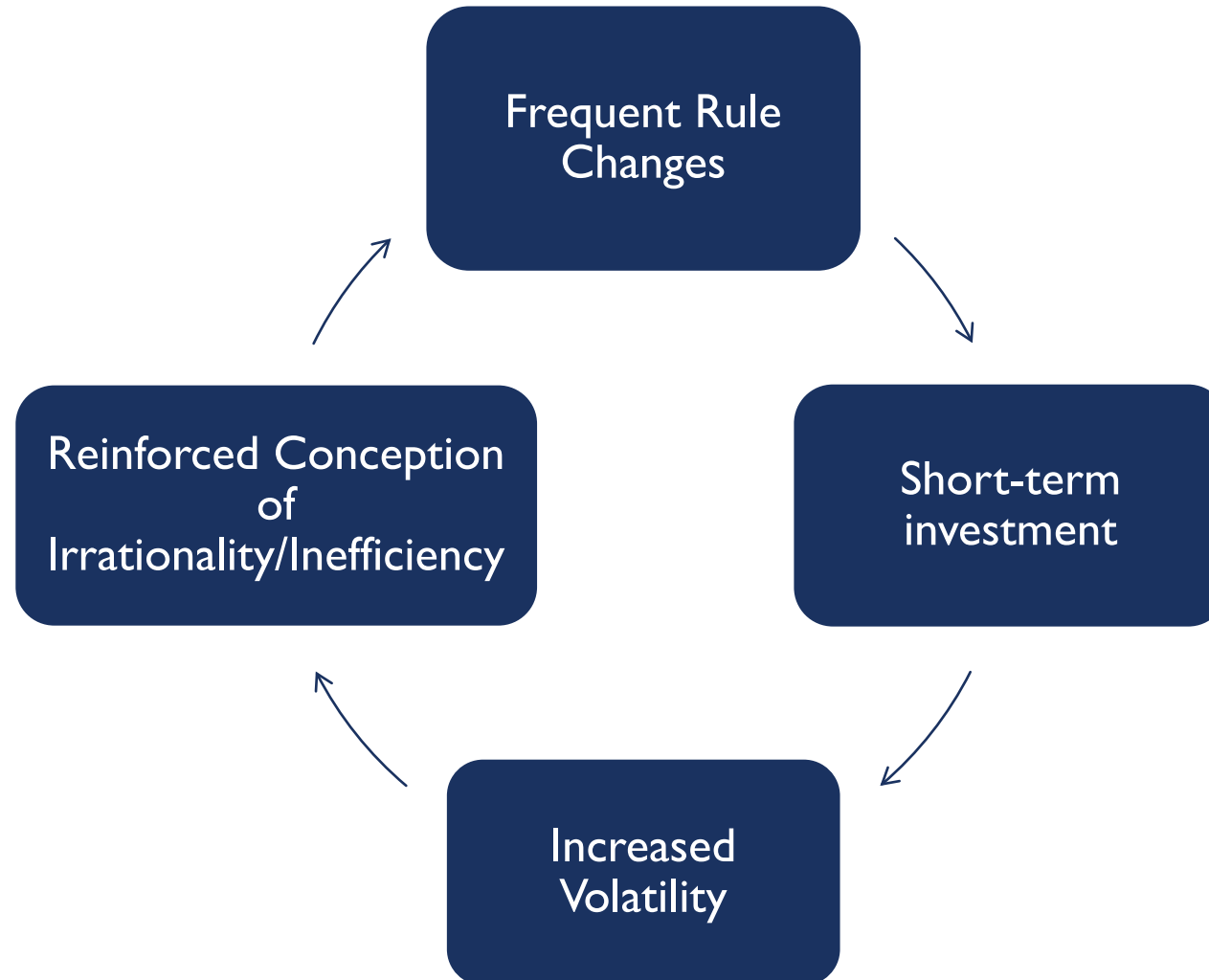
- The Irrational Investor
- Non-ECMH
- Hard Paternalism

## Liberal Market Economy

- The Reasonable Investor
- Efficient Capital Market Hypothesis
- Soft Paternalism



# SELF-FULFILLING PROPHECIES



## FAILURES TO REFORM?

- Launched 2019
- China's fourth try at NASDAQ
- Registration System
- No profit requirements
- Price movement Capped 20%

STAR 科创板  
MARKET

上海证券交易所科创板正式开板  
The Launch of the SSE STAR Market  
JUNE 13, 2019



# QUO VADIS?

- Free, Standardized, Global?
- International Financial Center?
- Continuation of Financial Repression?

## China's stock market value climbs past 2015 high

Market capitalisation (US\$tn)



Source: Bloomberg  
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