





# **QUESTIONS & ANSWERS China's Securities Market**

By Chen Qiwei

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### **Foreword**

Since it started its reform and opening to the outside world in the late 1970s, China has been making efforts to build a socialist market economic system, and the establishment and perfection of the Chinese securities market has all along been an important part of this endeavor. At the 15<sup>th</sup> National Congress of the Communist Party of China, held in 1997, the share-holding system had its important position formally established in the reorganization of China's state-owned enterprises. At present, the Chinese securities market has already achieved a considerable size, and is still growing at a steady and rapid pace.

The securities market was born in the course of the reform and opening of the Chinese economy. It started in the early 1980s. Although the variety of securities at that time already included treasury bonds, enterprise bonds and stocks, the actual operation was not standard at the starting stage. China had no stock exchange until the early 1990s, and has only gradually established its treasury bond secondary market. However, the Chinese government has consistently strengthened the construction of laws, regulations and systems related to the securities market. Like the tremendous achievements made in China's economic construction, the achievements made in the Chinese securities market, which started from scratch and has grown to become standardized in its operations, have also been universally acknowledged.

With the rapid growth of the Chinese securities market, there are more tools for raising funds through securities and more varieties of securities, thus providing more and better opportunities to investors both at home and abroad. In recent years, China has actively employed the advanced experience and technologies developed by the international capital market, and many international instruments of financial innovation have also been widely applied in China. Although the Chinese securities market is not yet perfect, the Chinese capital market is developing along international lines. It is believed that more and more international investors will be interested and participate in Chinese portfolio investment activities.

This book can be used as an elementary textbook for the understanding of China's securities market. Divided into five parts, it gives respective accounts of the general situation of the Chinese securities market, the Chinese stock market, the Chinese bond (including treasury bonds) market, the Chinese funds market and the laws, regulations and systems related to the Chinese securities market.

I would like to express my thanks to Zhang Jin, a Ph.D candidate under my guidance, who helped me with most of the writing, to Wang Xueying, who helped me with part of the writing, and to Lan Faqin, Yuan Dong'an, Yu Ying, Yu Tiecheng and Qian Jing, who helped me with the first draft.

Chen Qiwei February, 1999

# CHAPTER I

# The Present Situation of the Chinese Securities Market

# Q. 1 What is the present situation of the Chinese securities market?

A: Despite the impact of the Asian financial crises and the serious challenge of economic adjustment at home, China's securities market continued to expand in 1998. It showed an obvious improvement in its place in the national economy.

### (1) The issue market

On the basis of the fast issue of stocks and the accelerated listing of stocks in 1997, the number and size of new stocks issued and listed continued to grow, and the rhythm of the listing of stocks was accelerated in 1998. The whole year saw 106 companies listed. By December 31, 1998, China had 851 listed companies (including 438 companies on the Shanghai Stock Exchange and 413 companies on the Shenzhen Stock Exchange). A total of 71.468 billion yuan was raised through the issue of new stocks and the allotment of shares in the whole year of 1998 (including 36.992 billion yuan on the Shanghai Stock Exchange and 34.476 billion yuan on the Shenzhen Stock Exchange). The listed companies are geographically located as follows: 93 companies in Northeast China, 91 companies in North China, 53 companies in Northwest China, 95 companies in Southwest China, 218 companies in Central and

South China and 302 companies in East China. The businesses of the listed companies fall into the following categories: 538 industrial companies, 86 commercial companies, 3 financial companies, 27 real estate companies, 64 public utilities companies and 134 general companies.

# (2) The trading market

The market size grows rapidly. The total trade volume on the Chinese securities market came to 4,622.216 billion yuan-worth in 1998, including 2,166.177 billion yuan for the bond trade, 101.689 billion yuan for funds and 2,354.349 billion yuan for stocks. By the end of 1998, the total market value of the Chinese securities market came to 1,950.564 billion yuan, accounting for about 25 perent of China's GDP in that year.

The market trade continues to be brisk, with the reorganization of assets becoming the focus of attention. The year 1998 witnessed the reorganization of assets in more than 300 cases on the Chinese securities market, involving 254 listed companies. This clearly demonstrated the function of the securities market in optimizing the allocation of resources.

## (3) The market structure

In 1998, investors in all parts of China were eager to open accounts. The whole year saw 5.8 million new accounts opened, including 2.87 million on the Shanghai Stock Exchange and 2.93 million on the Shenzhen Stock Exchange. By the end of 1998, there were a total of 39.11 million accounts in China, including 19.99 million accounts on the Shanghai Stock Exchange and 19.12 million accounts on the Shenzhen Stock Exchange.

On the principle of separating the banks from the stock ex-