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ADVANCED EXPERIENCES OF IMPROVING STOCK MARKET ACTIVITY IN DEVELOPED COUNTRIES: IN THE CASE OF CHINA

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Abstract

In developed countries, state and corporate structures finance their activities with a limited range of resources, mainly through their own funds, shares, bank loans, leasing in stock markets. This article examines and analyzes the problems in attracting foreign capital, such as the fact that commercial banks have not yet organized the international circulation of shares, the practice of public offering of shares on international stock exchanges, the circulation of Eurobonds is relatively narrow.

Keywords: *foreign markets, financial institutions, international capital markets, Derivative, bonds, Chinese stock market*

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INTRODUCTION

When it comes to foreign experience, of course, first of all, developed countries come to mind. In this regard, we can easily say that the USA can be a clear example in terms of attracting the funds of individuals to the securities market. But today we decided to focus on the experience of another country - China.

The Chinese economy is a unique phenomenon. Everyone expects that in the near future it will become the largest in the world. Previously, experts believed that this would happen by 2033, but now 2028 is increasingly emphasized. So you don't have to wait long. At the same time, China's stock markets lag significantly behind America's, and this is no accident. The first prototype of the Chinese stock exchange was the Shanghai Brokers Association, which opened at the end of the 19th century. It was later renamed the Shanghai Stock Exchange. This stock exchange has long been the largest stock exchange in Asia. At one point, it was even on par with the New York Stock Exchange. The development of the stock market went well, but during the Second World War, during the occupation of China by Japan, the stock market was closed for a while. And in 1950, Mao Zedong completely destroyed it.

In the 1980s, thanks to Deng Xiaoping's reforms, China began to revive the stock market for a simple reason: the government was faced with a shortage of funds and had to start issuing bonds. In the late 1980s, joint-stock companies began to appear in China, whose shares were distributed only among their employees. In 1990, the Shanghai Stock Exchange was revived.

LITERATURE REVIEW

The most popular form of borrowing is the issuance of these securities. In this context, let us consider the definition of the stock market and the stock market in the economic literature and vocabulary. E.F. Zhukov writes: "Currently, there are three markets for securities involved in financing the economy: over-the-counter, stock (stock) and street." Other economists, such as Ya.M. Mirkin, see the concepts of stock market and stock market as one concept. However, if we consider that in all three markets there is a single commodity quote, which can be called "stock values", it becomes clear that the concepts of "stock market" and "stock market" are very similar.

The securities market ensures the efficient functioning of the whole economy: it helps economic entities to attract investors' financial resources, investors to increase their reserves by investing in financial instruments, and the state to implement its economic policy. The financial market and the stock market are mechanisms that ensure the exchange of financial assets through the seller and the buyer meeting.

J.Tielens, B. van Aarle, J.Van Hovelar assessed the impact of Eurobonds on the dynamics of sovereign debt on the example of EU member states Portugal, Ireland and Greece. Sovereign debt scenarios have been developed without Eurobonds and through full Eurobonds. And the effectiveness of the use of Eurobonds to reduce macroeconomic shocks and uncertainties has been identified.

ANALYSIS AND RESULTS

The People's Republic of China is a communist country with a strict dictatorship. Political decisions have a strong impact on stock quotes, as illustrated by the confrontation between the authorities and Jack Ma, the founder of Alibaba.

The Shanghai and Shenzhen Stock Exchanges are still the face of the Chinese stock market today. Trading in the Shanghai Stock Exchange is done electronically, but at the same time the exchange itself has a large trading floor with a large number of electronic terminals. Investors submit their applications both on the trading floor and through a terminal located at certain points in Shanghai. The Shanghai Stock Exchange is one of the strongest in the world in terms of volume, as its trading system allows for up to 16,000 transactions per second. One of its main features is that the stock market has "limiters" that allow it to control speculative price fluctuations in the market. For successful trading, prices should not change by more than 10%. The Shenzhen Stock Exchange has no particular differences from the Shanghai Stock Exchange, except for the instruments traded in it, which can be carried out simultaneously on several exchanges due to the prohibition of cross-listing, that is, quotations in China. Its trading system handles up to 20 million trades per day, which is slightly ahead of the Shanghai Stock Exchange.

The fact that the stock market in the PRC has become a convenient place for capital exchange for retail investors is inextricably linked to China's connection to the global financial system. In particular, China's membership in the World Trade Organization was a great impetus for this. Between 2000 and 2001, the market experienced a boom in anticipation of this event, the opening of foreign markets to the Chinese and domestic markets to foreign capital.

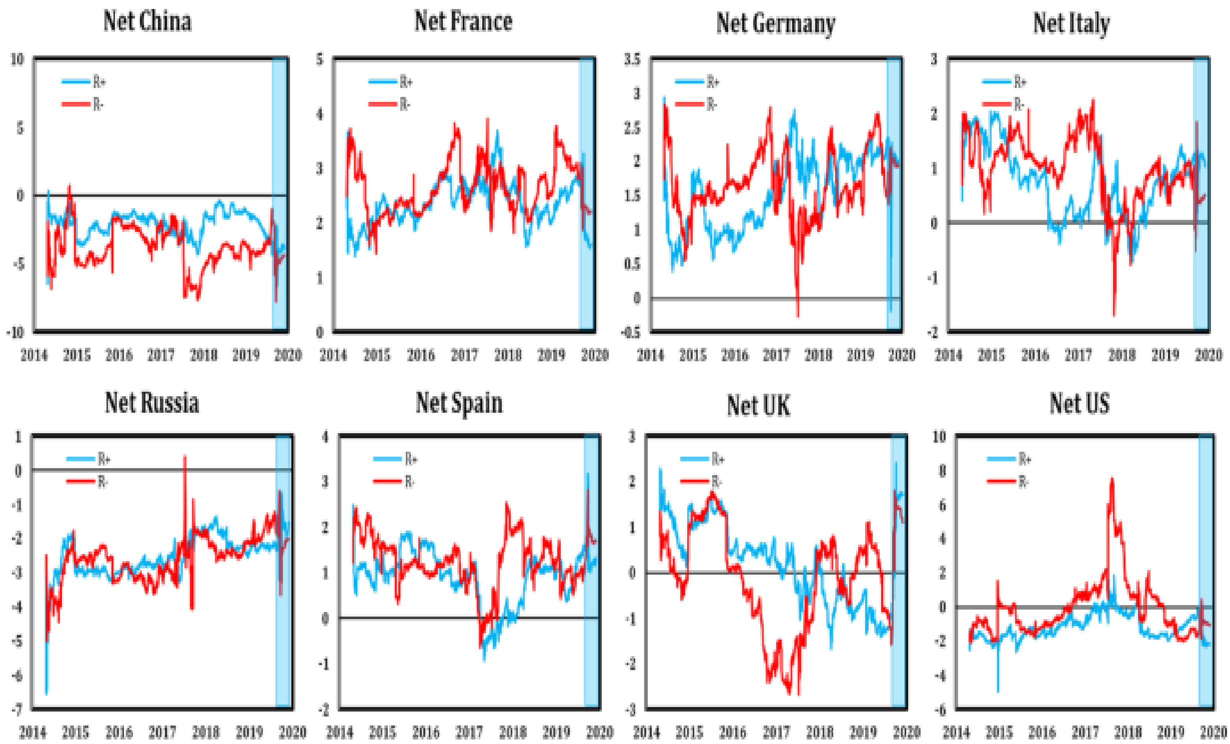

Fig. 1. Dynamics of indices of the world's major securities trading systems

It is worth noting that until February 2001, "B" class shares were available only to foreign individuals and legal entities, as well as to Chinese people living in foreign countries. In this situation, the authorities used the tactics of gradual change. In February 2001, the first step in eliminating segmentation was taken: Chinese investors, for this purpose, individuals with savings in foreign currency deposits, became eligible to access Class B transactions. From the middle of 2002, in accordance with the obligations before the WTO, it was allowed to create investment funds as a joint venture with foreign investors, and they were allowed to work with shares of class A. From the end of 2002, the QFII system (Qualified Foreign institutional investors, foreign institutional investors). Within certain quotas, foreign investors can obtain this type of license and work with the A shares and bond market.

In May 2005, the authorities allowed the sale of state-owned shares. The total value of state shares was estimated at 250 billion US dollars. KUKSM has identified several companies for the pilot project to eliminate unsaleable shares and eliminate all types of illegal transactions. The main problem to be solved in the implementation of the reform was the compensation of the existing private minority shareholders, who could suffer losses due to the decrease in the share price due to the increase in the supply. In fact, the company could buy these shares only on the condition that 2/3 of the owners of the shares to be sold agreed to the decision on such a purchase, and the shareholders were offered a bonus or cash payment within the limits as compensation. determined between the board of directors and the shareholder himself.

In June of the same year, the commission decided to expand this project to 42 more companies, but in exchange for agreeing to buy unsold shares, shareholders were offered more favorable terms: firstly, increased cash payments, and secondly, a number of similar securities Derivative financial instruments (derivatives) were introduced to diversify the risk of price changes. This was another step towards improvement of corporate financing mechanisms.

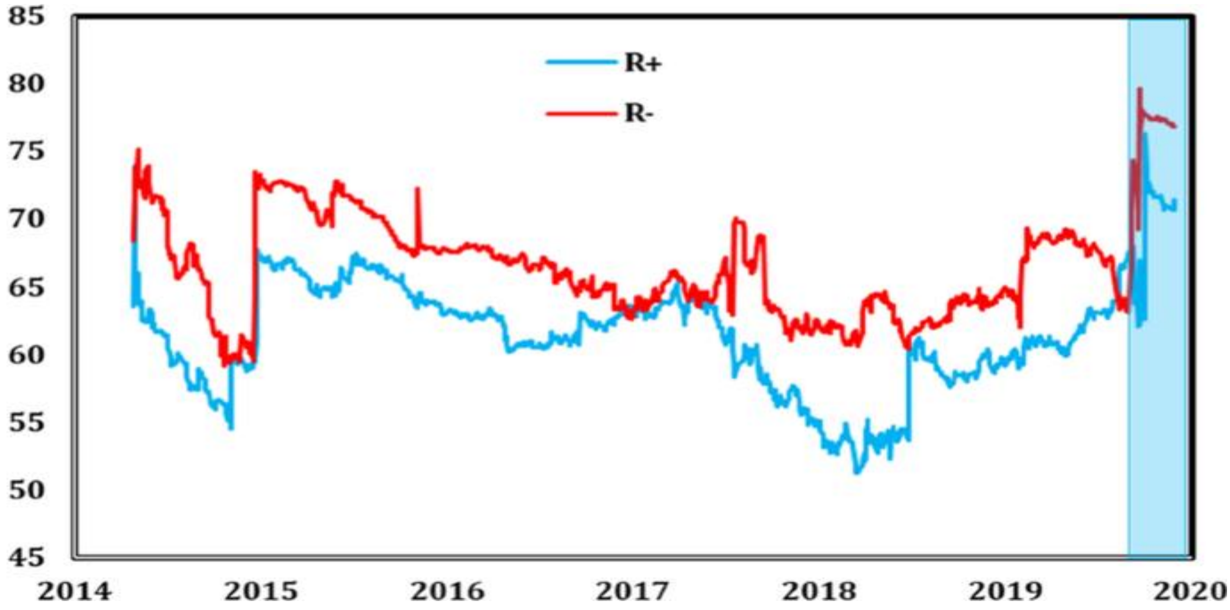

Fig. 2. Dynamics of indices of the China's major securities trading systems

2020 and the confrontation between the US and China showed that China's stock quotes are very sensitive to external influences. Donald Trump's many statements have led to sharp changes in stock charts of stock monitors. In 2020, many restrictions were imposed on Chinese companies in the United States, which did not have a good effect on the quotations of Chinese stock exchanges. Now (after the last election) US politics has softened, but the risk of bad news remains. Joe Biden has already made it clear that the confrontation will continue, only in a "different way".

Let's list a few trading platforms that are currently operating in China:

Shanghai Stock Exchange - SSE;

Shenzhen Stock Exchange - SZSE;

Stock Exchange of Hong Kong - SEHK;

Taiwan Stock Exchange - TWSE.

The process of taxation of dividends from Chinese issuers is very interesting. The amount of their tax depends on the period of ownership of the share, that is, they have a progressive scale:

- In case of ownership of shares for less than 1 month, tax is paid on all dividend income and is 20% of the payment amount:

- If the investor owns securities from 1 month to 1 year, the tax is paid on 50% of the received income and in practice it is 10% of the amount;

- If the investor owns the shares for more than 1 year, the tax is paid from 25% of the income and the rate is 5%.

Thus, the state encourages long-term investment and partially protects the market from external dividend speculation.

It should be noted that Russia and China have signed an agreement on the prevention of double taxation. A tax resident of Russia must pay 13% or 15% of each payment amount in their home country. It turns out that if you own Chinese stocks for a long time, you can significantly reduce the tax paid when the money is transferred to the account. In Russia, you still have to pay taxes in such a way that a total of 13 or 15 percent of the payment amount comes out. But taxes are paid only in the next calendar year after receiving the payment, and it is possible to divert them in the current year and get additional income from them. Small, but nice.

Many Chinese stocks are only available to qualified investors. Except for companies that issue deposit slips. Such companies are not so few, and among them are Chinese giants:

VipShop - online store;
Alibaba is an online store;
Baidu is a search engine;
Aluminum Corp of China is an aluminum production and processing company;
PetroChina - oil and gas corporation;
Yum China Holding is a food holding company;
China Eastern Airlines - an airline;
China Life Insurance is an insurance company;
Joyy is an entertainment platform.

There are several BPIFs and ETFs available to non-qualified investors with a focus on China:

In addition, there are funds that contain shares of various countries, including China. So investing in China is now easier than ever. You just have to weigh the pros and cons. Investing in China is a way to diversify your investment portfolio. As China's economy is booming, it offers good earning potential. But, of course, it is important to take into account political ricks.

Although the PRC is ruled by a communist party, the country has a market economy. There are many opportunities for entrepreneurship. There are no restrictions on the growth of entrepreneurs until there is an impact at the government level.

In particular, the most common method of influencing the stock market of any developed country is information.

Based on data from recent years, the Shanghai Composite Index has lost a third of its value since mid-June despite desperate efforts by Chinese authorities to stem investor panic. China's stock market has been depressed by illiterate investors and leveraged trading

Chinese officials cannot avoid the word "panic" when describing the situation in the stock market. "Panic sentiment and irrational selling of stocks have led to liquidity problems in the stock market," the China Securities Regulatory Commission said in a statement. China's main Shanghai Composite Index, which hit its highest level since late 2007 in June, fell for a fourth straight week.

The capitalization of China's markets decreased by $3.5 trillion from its peak on June 12 (for comparison, the total capitalization of all issuers of the Moscow Exchange is about $450 billion). The Chinese stock market has officially entered the "bear" zone, writes HSBC led by strategist Roger Hee

In addition, a subordinated credit line in the form of a subordinate loan to finance joint-stock commercial bank "Agrobank" in the amount of $ 20 million (at 5.875%) and $ 89.9 million ($ 39.95 million at 5.75%, $ 49.95 million). USD 6.375%) to finance strategic projects of Navoi Mining and Metallurgical Combine.

Of the total $ 999.1 million in deposits and loans disbursed to the Uzbek capital market, a total of $ 428.1 million in interest and $ 387.55 million in expenses over 10 years and $ 5.4 million in the first five years, the next five 2.72 million per annum in annual interest income. Overall, the accumulated profit on international bonds placed for 5 and 10 years is growing steadily, reaching 40.6 million after 10 years. USD.

It should be noted that the placement of the bulk of the proceeds from the placement of sovereign Eurobonds on deposits in commercial banks is also important, as it does not increase the expenditures of the state budget and does not incur additional costs from the budget.

CONCLUSION

In short, China can easily pull and control its capital market in any direction at any time. If there is a shortage of money in the market, it will not be difficult for them to attract capital through the various methods discussed above, and there are all the tools for this. On the other hand, if the market is saturated with money, that is, if a "bubble" begins to appear, the government can immediately "choke" the market with interest rates, economic restrictions, sanctions and a thousand other methods. . But at the right time, it also performs the functions of protection and punishment. An example of this is the "battle" between Jack Ma, the head of Alibaba (at that time, when Ma publicly criticized the government's economic policy) and the Chinese government in October-November 2021, and against all technology companies. It is no exaggeration to cite the restrictions and inspections used as an example.

Securities of state and joint-stock companies are traded on the stock market. The term stock is a complex economic concept in itself. The emergence of this concept dates back to the 12th and 13th centuries.

In our opinion, when thinking about the evolution and politics of attracting financial funds to the securities market, first of all, it is necessary to dwell on securities and their types, periodic development of the securities market. As we know, the concept of securities is compatible with the terms "securities" in English-speaking countries. S.Patrick Collins, one of the foreign economists, said that "initially in the economy, the terms security and reliability (security) were applied to the laws regulating the financial sector. Financial instruments are controlled through these laws and regulations. Later, with this term (securities), the types of securities were understood: bonds, certificates of deposit, shares and options.

As a result of our studies, it became clear that in those times, along with the development of financial instruments, ensuring their reliability became very important. Therefore, a number of security laws have been introduced to prevent fraud and extortion in securities circulation.

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