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ARTÍCULO

The Risks of Government-Driven Stock Market Booms in China

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Abstract: This study conducts a comparative analysis and a systematic literature review (SLR) to evaluate the Chinese government's stock market stimulus policies during 2008, 2015, and the recent measures in 2024. Historical examination reveals that the government relied on monetary and real estate policies to boost market performance in both 2008 and 2015. Similarly, in 2024, the government has implemented comparable strategies, triggering a notable rise in stock market indices. However, these short-term interventions carry significant risks. By fostering a market environment potentially disconnected from fundamental economic values, the likelihood of a speculative bubble increases, raising concerns about a subsequent market collapse. This study delves into the underlying motivations for the government's recent actions, suggesting that the stimulus is likely aimed at providing financial relief to underperforming state-owned enterprises (SOEs). Such measures intertwine the stock market with the bond market and banking sector, heightening the risk of systemic financial instability. Additionally, investor scepticism about China's commitment to market-oriented reforms could further erode confidence in the economy. Our findings indicate that the current stimulus efforts are unsustainable and may exacerbate systemic risks. Rather than relying on monetary easing or propping up poorly managed SOEs, we recommend prioritizing the development of a robust, well-regulated capital market. By fostering a transparent legal framework and stable economic expectations, China can create a healthier investment environment that ensures long-term growth and stability.

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Introduction

The recent surge in China's stock market has drawn significant attention from the global investment community. Historically, the Chinese stock market has been heavily influenced by government policies. In 2024, numerous economic indicators point to mounting challenges within the Chinese economy, reflected in persistent declines in the stock market to historic lows. Against this backdrop, in late September 2024, various Chinese government agencies introduced a series of measures aimed at boosting market liquidity and artificially propping up stock prices. These interventions triggered an extraordinary 20% rise in the stock market within just five trading days. This rapid rally has attracted both institutional and individual investors while also raising concerns among economists and analysts about its sustainability given the broader economic headwinds. By examining historical precedents in 2008 and 2015, when the Chinese government similarly injected liquidity into the markets, we observe a consistent reliance on monetary easing and real estate stimulus to counter economic stagnation and market downturns. The 2024 measures appear to follow this established pattern, highlighting a potential path dependency in the Chinese government's approach to economic management.

Our analysis of these bailout policies reveals that while they can temporarily stimulate the stock market, they pose significant long-term risks to the economy. The primary motivation for such interventions seems to be the stabilization of state-owned enterprises (SOEs), which are integral to China's economy. However, this approach risks exacerbating structural issues, potentially leading to a banking crisis and further entrenching non-market mechanisms within the economy. In conclusion, we highlight the broader implications of China's repeated reliance on such interventions. While these policies may deliver short-term market relief, they come at the cost of long-term economic health and sustainability. Policymakers' preference for short-term solutions over structural reforms can hinder China's economic development, and investors must remain cautious to avoid significant losses by blindly aligning with government-led market movements. This study underscores the importance of transitioning towards a more market-oriented and legally grounded financial and economic system in China. Such a shift would not only benefit the government but also foster a healthier and more equitable environment for all market participants. Future research can build on these findings to further explore strategies for achieving sustainable economic growth and resilience.

Literature Review

Typically, the Chinese government employs a dual approach of monetary and real estate policies to stimulate the stock market artificially or to stabilize it through market interventions (Claessens et al., 2012; Wu et al., 2024; Zhao et al., 2019). The monetary policy is characterized by measures such as reducing interest rates and reserve requirement ratios to enhance liquidity. Concurrently, fiscal policy is often geared towards bolstering the real estate sector, which in turn stimulates related industries and increases local fiscal revenues from land sales (Adair et al., 2003; Pereira, 2017; Yin et al., 2018). While adopting an expansionary monetary policy is a recognized response to liquidity crises, the underlying issues within the Chinese economy extend beyond mere liquidity shortages (Xu, 2011, 2019). These challenges include an aging population, income inequality, and a lack of market and legal system development (Hurst, 2016; Lu & Liu, 2019; Zhou & Song, 2016). Despite the interventions in 2008 and 2015, the government has not effectively tackled these problems through comprehensive reforms (Cortina et al., 2024; Lim et al., 2024). Instead, there is a tendency to rely on liquidity injections and real estate promotion as a means (Cheng et al., 2022; Huang et al., 2019; Li, 2015), while this approach is likely to result in long-term economic sustainability concerns (Bieliński et al., 2017; Qian, 2016).

In 2024, amid significant economic headwinds, the Chinese government has initiated a novel series of interventionist measures, reaffirming a pattern of policy reliance on both monetary and real estate measures. This approach suggests a degree of continuity, or path dependence (Yeung, 2009; Zhan et al., 2017), in the government's strategic response to economic stress. Historically, such interventions have disproportionately benefited the state-owned enterprises (SOEs) (Borisova et al., 2015; Cheng & Wei, 2024; Song & Xiong, 2018), suggesting that their stabilization might be a primary objective of these measures. In this latest iteration, the government has pledged an extraordinary injection of liquidity into the equity markets through the central bank. The use of increased liquidity for bailouts in financial and economic crises, while common, comes at a cost (Diamond & Rajan, 2002; Gorton & Huang, 2004; Ringbom et al., 2004). While this has led to a notable, albeit temporary, upsurge in market activity, it does not address the underlying structural issues that plague the Chinese economy, potentially laying the groundwork for a more profound systemic crisis (Yang, 2017).

The current strategy will continue to intensify the real estate sector's challenges and draw the banking sector into the quagmire of capital market turmoil. By reconstituting the real estate market, local debts, and non-performing state assets into "subprime assets" and then converting these into "treasury bonds" within the banking system, the government has effectively monetized them for investment in the stock market. And the problem of subprime mortgages caused by tying multiple financial products together in a business was once thought to be the source of the 2008 financial crisis (Demyanyk & Van Hemert, 2011; Langley, 2010; Purnanandam, 2011). This financial operation is inherently speculative: the government is gambling on a sustained market upswing to attract investors, thereby alleviating domestic economic strains, as in 2015 (Li, 2016; Zeng et al., 2016). However, once market forces reassert rationality, a significant retreat of substantial capital could set off a chain reaction with catastrophic consequences, potentially leading to an unprecedented economic downturn. Moreover, in the long run, government intervention reduces market efficiency and makes adjustments and feedback less timely (Bond & Goldstein, 2015; Brunnermeier et al., 2022). We believe that nothing can underscores more the necessity for a more holistic and structurally reformative approach to economic sustainability, rather than reliance on short-term, market-interventionist policies. In the next section, we will analyse how the Chinese government specifically stock market bailed out in 2008 and 2015.

Methodology and Data Display

Methodology

This study adopts a comparative research approach, by

reviewing the Chinese government's bailout policies in 2008, 2015, and comparing these policies with today's policies in 2024, we try to reveal the similarities of the policies. And, we infer the impact of this bailout based on historical experience. The method of comparative research is often used in qualitative research, which can introduce some kind of common historical experience, policy instructions (Bartlett & Vavrus, 2016; Brislin, 1976; Jowell, 1998). In addition, this study uses table to list the categories under which different policies fall, so that readers can visualize that the main policies (Archambault et al., 2015; Qin et al., 2020). Economic papers do not necessarily have to employ research methods such as regression analysis as empirical evidence (Angrist & Pischke, 2010; Ron, 2002). In fact, empirical evidence can encompass various aspects, such as case studies, comparative studies, and field investigations (Ellinger & McWhorter, 2016; Starr, 2014). As long as there are concrete and real historical experiences that can serve as counterparts and references and provide insights for current policy analysis (Alasuutari, 2010; Bettis et al., 2015), the research is still considered valid empirical research. In reality, due to the timeliness of some studies, comprehensive and complete statistical data are often temporarily unavailable (de Jong et al., 2019). In this paper, after showing the consequences of the policies in 2008 and 2015, this paper uses inferential analysis to predict the outcome of the current policy in conjunction with the latest government policy in 2024. Incorporating historical scenarios for event description and extrapolation is also a common non-data based empirical method, which is often employed in the humanities and social sciences as well (Jackman, 1985; Yanow, 2014). Methodology and narrative logic for this study is intuitively displayed in Figure 1. By using a combination of these methods, we have not only visualized and compared the similarities and differences of the 3 bailout policies, but also laid the foundation for the next discussion, which is to analyse the real intentions and possible consequences of the policies.

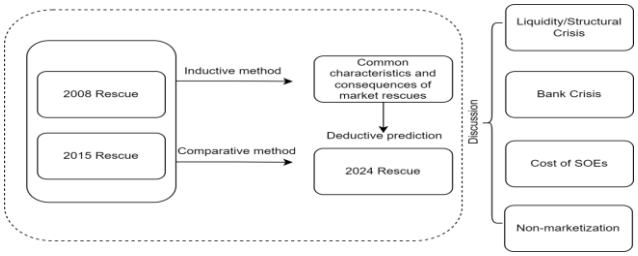

Figure 1: Methodology and Narrative Logic for this Study.
Source: Figure 1 is created by the Authors via Software.

Data Display: 2008 and 2015 Market Rescue

As the globe's preeminent export-driven economy, China experienced profound repercussions from the 2008 global financial crisis (Gamble, 2010; Zhao et al., 2019). China's most representative stock index, the SSECI (Shanghai Stock Exchange Composite Index) SCI (Shanghai Composite Index) in short plummeted from a peak of 5522 points at the outset of 2008 to an all-time low of 1664 points on October 28, as illustrated in Figure 2, eroding investor confidence to a marked degree.

Figure 2: Decline in Shanghai Stock Exchange Composite Index during the 2008 Crisis.
Source: Figure 2 is created by the Authors via East money Stock Software.

On November 5, 2008, the State Council resolved to bolster domestic demand with a substantial injection of approximately 4 trillion Chinese yuan into infrastructure projects. "Besides expansionary fiscal policy, China also conducted easy monetary policy. By reducing the interest rate and the bank reserve requirement ratios to historical low as well as removing credit ceilings on loan business of commercial banks, China succeeded in injecting huge amount of liquidity into banking system" (Zhao et al., 2019). Concurrently, the government engaged in direct intervention in the equity markets: the China Securities Regulatory Commission halted initial public offerings (IPOs), announced a shift in stamp duty from bilateral to unilateral imposition to cut transaction costs, endorsed state-owned enterprises increasing their stakes or repurchasing shares in the secondary market, and required state-owned financial institutions as Central Huijin invested in shares of state-owned banks, including the Industrial and Commercial Bank of China, Bank of China, and China Construction Bank. Table 1 shows more details of the measures taken by Chinese government. The aforementioned suite of policy interventions had a stabilizing effect on investor sentiment, particularly in curbing the market's acute panic-driven downturn. Notably, on September 19, 2008, the Shanghai Composite Index saw a remarkable one-day surge of 9.46%, yet the market soon faced significant volatility and continued to reach new lows, bottoming out on October 28. The intricacies of the global economic landscape and the challenges of domestic economic restructuring meant that the stock market did not swiftly revert to pre-crisis levels but instead entered an extended period of adjustment and

consolidation.

Table 1: Stock Stimulus and Real Estate Market Stimulus in 2008.

	Major Measures	Date of Announcement
Monetary Easing & Stock Stimulus	Reduction of interest rates	September 16, October 8, October 29, November 27, 2008
	Suspension of IPO	September 17, 2008
	Reduction of stamp duty on share trading	September 18, 2008
	State-owned enterprises are required to repurchase shares	September 18, 2008
	Central Huijin announces additional holdings in state-owned bank stocks	September 18, 2008
Real Estate Market Stimulus	Temporary exemption of stamp duty on house purchases	October 22, 2008
	4 trillion Chinese yuan investment	November 9, 2008
	The Chinese Premier pointed out that the real estate industry is an important pillar of economy	November 11, 2008

Regarding the economy, China's economic indicators also began to show a gradual recovery. As evidenced by GDP growth, the rate dropped from 9% in Q3 2008 to a low of 6.2% in Q1 2009, only to rebound to 7.9% in Q2 2009, and further rise to 9.1% in Q3 2009. Among the world's major economies, China appeared to be one of the first to emerge from the recessionary shadow. However, it is debated that the substantial increase in leverage and the fiscal and monetary stimulus measures were effective in inflating asset prices. "The 4 trillion yuan stimulus package probably led to later problems of systemic risk" (Zhou & Ronald, 2017). After an initial surge of enthusiasm, the repercussions of the illusory boom in 2008 swiftly came to light: "China has to deal simultaneously with the slowdown of economic growth, the structural adjustments of the economy, and the adverse consequences of the previous economic stimulus policies" (Teng et al., 2019). By 2014, the Chinese economy was grappling again with a dual challenge of waning domestic demand and diminished external demand. Confronted with these economic headwinds, the Chinese government sought to rekindle economic growth through another round of liquidity injections.

In 2014, the government proclaimed the advent of a "targeted easing" policy, aiming to bolster the agriculture sector and the small and micro enterprises (SMEs). China's central bank, the People's Bank of China (PBoC), resolved to lower the Chinese yuan reserve requirement ratio for county-level rural commercial banks by 2 percentage points, effective from April 25. On June 16, a further reduction of 0.5 percentage points was applied to the reserve requirement ratio for commercial banks that met specific lending targets to farmers and SMEs, thereby broadening the ambit of the targeted easing measures. However, as the economic climate deteriorated, the so-called "targeted easing" morphed into a more generalized easing. On May 8, 2014, the PBoC determined to broaden the financing avenues for consumer finance firms and other non-bank financial entities to ramp up financial backing for consumer spending. In September 2014, the PBoC and the China Banking Regulatory Commission resolved to introduce a more focused easing monetary policy to assist with housing loans for individuals. However, the liquidity that was unleashed did not seamlessly permeate the real economy but instead became ensnared in the financial markets, inflating asset prices (Bieliński et al., 2017), and sowing the seeds of potential future downturns (Chan, 2021; Cortina et al., 2024; Pan & Yu, 2024).

Figure 3: The Four Periods of Chinese Stock Market from 2014 to 2017.
Source: Figure 3 is created by the authors via East Money stock software.

Table 2: Stock Stimulus and Real Estate Market Stimulus in 2015.

	Major Measures	Date of Announcement
Monetary Easing & Stock Stimulus (Before 2015 Crash)	"Targeted easing" for small and medium enterprise	2014
	Reserve requirement ratio cut for county-level commercial banks	April 25, 2014
	Expanded access to finance for consumer finance companies	May 8, 2014
	Further reductions in selected banks' reserve requirements	June 16, 2014
	"Targeted easing" to support housing loans	September, 2014
	Mainland China–Hong-Kong Stock Connect program	December, 2014
Monetary Easing & Stock Etimulus (After 2015 Crash)	Reduction of interest rates	June 27, August 26, 2015
	Reduction of requirement ratio	June 28, September 6, October 24, 2015
	Pension fund was announced to enter the stock market	June 29, 2015
	Reduction of transaction cost	July 1, 2015
	Suspension of IPO	July 4, 2015
	Central bank's liquidity support. Central Huijin started buying ETF	July 5, 2015
	Central state-owned enterprises are not allowed to reduce their holdings of listed companies.	July 8, 2015
	The scope of insurance funds to invest stock is broadened	July, 2015
Real Estate Market Stimulus	Reduction of payment ratio for home purchase	March 30, September 1, September 30, 2015
	Various cities cancel or relax purchase restrictions	2015
	Reduction of taxes on transfer of personal housing	March 30, 2015
	Qualified foreign institutions and individuals can purchase house	August 27, 2015
	Shantytown renovation monetization	August, 2015

During the first half of 2015, a rapid surge in the bull market was observed. The euphoria of this market, compounded by the state media's exhortations for domestic investors to engage in the stock market, resulted in a dramatic increase in the number of retail investors (Li, 2015), with capital funnelling into the stock market in pursuit of quick returns. In retrospect, the so-called bull market around 2015 could be delineated into the following phases: the tranquil, bull, crash, and post-crash periods (Wang & Hui, 2018b). From the outset of 2015 through March, certain small and medium-cap stocks commenced an ascent, indicative of a burgeoning optimism in the equity markets, spurred by a surge of liquidity. Between March and June, a market-wide ascent took hold, with virtually all equities partaking in the rally. During this epoch, the Shanghai Composite Index mounted from 3234 points at the year's commencement to a zenith of 5178.19 points on June 12 (Laskai, 2016; Zeng et al., 2016). However, against the backdrop of a yet-to-improve economic landscape and persistent pressures from currency depreciation, there was a considerable divergence between stock prices and their underlying fundamentals. "The value of many shares rose at a rate and speed that made little sense. Many companies with meagre earnings (or even losses) were seeing a meteoric rise in their shares. Meanwhile, the country's broader economy was going the other way, with economic growth slowing down significantly" (Zeng et al., 2016). "The market gave the emerging growth stocks too high expectations, and the valuation of the serious bubble is the root cause of the crisis" (Pan et al., 2024). Commencing June 15, 2015, a precipitous decline befell various indices of China's stock market, including the Shanghai Composite Index, Shenzhen Component Index, and growth enterprise market index (Li & Zhou, 2016). Within a mere two-month span, the Shanghai Composite Index experienced a nearly 40% nosedive, as in Figure 3, inciting a liquidity crunch and provoking profound market consternation (Li, 2015; Zhao et al., 2019).

Confronted with the implosion of the stock market, the Chinese government embarked on another extensive rescue operation, as Table 2 illustrate. On June 27, 2015, the central bank executed a 0.25 percentage point decrease in the reserve requirement ratio. Subsequently, on July 4, the China Securities Regulatory Commission declared a halt to all pending initial public offering (IPO) plans. Concurrently, authorities declared their intention to encourage long-term capital inflows from funds such as pension funds and insurance funds, aiming to refine the investor composition of the market. More significantly, the State-owned Assets Supervision and Administration Commission (SASAC) instructed state-owned enterprises to refrain from reducing their equity stakes in listed companies. The China Securities Regulatory Commission, with financial backing from the People's Bank of China, mobilized other state-owned financial enterprises to inject liquidity into the stock market. For instance, "the China Securities Finance Corporation Limited (CSF) and China Central Huijin Investment Limited (CCH) lent money to 21 brokerages and formed a 'national team'" (Huang et al., 2019). "The Chinese government bought a very large number of shares in addition to firms on the major index. The national team bought 1389 stocks in our sample, almost half of the total A-share listed companies" (Cheng et al., 2022). It is estimated that the national team's expenditure on directly purchasing stocks on the secondary market surpassed 1.5 trillion yuan. The China Securities Regulatory Commission also imposed a ban on shareholders holding more than 5% of a listed company's shares from offloading their stakes within a six-month period. On July 8, more than 1600 of the 2800 listed companies

on the Shanghai and Shenzhen stock markets suspended trading, representing 57% of the total listed companies in China (Li, 2015)

Table 3: Systematic Literature Review of Chinese Government Market Rescue.

(Author, Published Time)	Journal	SJR Rank	Target Year	Policy	Targeting Sector	Effect	Specific Impact
(Wong, 2008)	*China & World Economy*	Q1	2008	Monetary Policy	Overall, Economy	Negative	Hidden Dangers
(Zhang et al., 2008)	*Applied Financial Economics*	Q2	2008	Stock Stimulus	Financial Sector	Negative	Economic Anomaly
(Ji, 2010)	*Journal of Chinese Economic and Business Studies*	Q2	2008	Monetary Policy, Fiscal Policy	Overall, Economy	Positive	Economic Growth
(Zhou et al., 2016)	*Journal of Contemporary China*	Q1	2015	Stock Stimulus, SOEs	Overall, Economy	Negative	The Politicization
(Xia, 2018)	*Journal of Chinese Political Science*	Q1	2008, 2015	Fiscal Policy, supporting Bank	Overall economy	Negative	No Credible Institutional Foundation
(Wang et al., 2018a)	*Journal of International Financial Markets, Institutions and Money*	Q1	2015	Not Specified	Not specified	Negative	Bank Relevance Increases
(Huang et al., 2019)	*IMF Economic Review*	Q1	2015	Monetary Policy, Stock Stimulus	Financial Sector	Negative	Moral Hazard, Uncertainty
(Zhao et al., 2019)	*Physica A*	Q1	2008, 2015	Comprehensive Measures	Financial Sector	Neutral	Systemic Risk Increased in 2015
(Zhang & Pan, 2021)	*Economic Modelling*	Q1	2008	Real estate Stimulus, Fiscal Policy	Real Estate	Positive	Economic Expansion
(Maso, 2021)	*Journal of Cultural Economy*	Q1	2015	Not specified	Financial Sector	Negative	Excessive State Intervention
(Zhou et al., 2022)	*Financial Innovation*	Q1	2015	Comprehensive measures	Overall, Economy	Neutral	
(Cheng et al., 2022)	*Pacific-Basin Finance Journal*	Q1		Government Stock Purchase	Financial Sector	Negative	Stock Price Synchronicity and Transaction Cost went up
(Yang & Ferrer, 2023)	*Pacific-Basin Finance Journal*	Q1	2008, 2015	Comprehensive Measures	Overall, Economy	Neutral	Lack of Institutional Construction
(Li et al., 2023a)	*Economics of Transition and Institutional Change*	Q2	2008	Rescue of SOEs, Stimulus	SOEs	Negative	Reduced Business Efficiency
(Jin et al., 2023)	*Journal of Financial Markets*	Q1	2015	Direct Government Purchase of Stocks	Financial Sector	Negative	Reduced Efficiency of Information Transmission
(Liu et al., 2024)	*Journal of Banking & Finance*	Q1	2015	Direct Government Purchase of Stocks	Financial Sector	Negative	Lower Liquidity
(Li et al., 2024)	*Financial Management*	Q1	2015	Direct Government Purchase of Stocks	Overall, Economy	Negative	Overall Decline in Corporate Efficiency

Similar to the 2008 scenario, following the announcement of the rescue measures, the stock market initially experienced a fleeting rebound in August 2015. This was succeeded by a period of pronounced volatility and further declines to new lows, with a gradual recovery only materializing after February 2016. Having outlined the historical contexts and stock market figures for 2008 and 2015, along with the corresponding bailout measures, we will proceed to examine the targeted policies for 2024. We will highlight the parallels between the bailout strategies employed by the Chinese government. In addition to the presentation of specific policies in 2008 and 2015, we also do a more comprehensive and systematic literature review (SLR), as shown in Table 3, presenting other researchers' analysis of the effects of the Chinese government's bailout. Our criterion for selecting an article is that the article should first address the Chinese government's bailouts, mainly in 2008 and 2015. Moreover, the article should originate from a convincing and reliable academic source, and we labelled the journal sources and journal SJR rankings of the article, with most journals located in the Q1 and Q2 range. In the systematic literature review, we show the government bailout policy analysed by the articles, which targeted the industry sector. We also summarize the overall attitudes of the authors of the articles towards the bailout policy, labelled as "Positive, Negative, and Neutral." In the last column, we show the specific impact of the policy. We have collected almost all the reliable studies in the field; thus, this systematic literature review is comprehensive. According to Table 3, it can be seen that most of the researchers give negative comments on the two bailout policies of the Chinese government.

Result

Stock Stimulus and Restricted Market

In contrast to the 2008 downturn, the 2015 stock market crash was artificially induced. Systemic risk had escalated to aberrant levels prior to the 2015 crash (Zhao et al., 2019). From an industry standpoint, the 2008 market crash was predominantly driven by the manufacturing sector, indicating that the risk was largely due to external shocks. In

contrast, the 2015 crash saw entities from the financial and insurance sectors as the primary contributors to systemic risk, with domestic policy being the main culprit (Zhao et al., 2019). The government utilizes policy instruments to quell extraordinary market disturbances, aiming to stabilize the market and prevent economic collapse. However, the Chinese government's excessive and frequent interventions have incrementally given rise to a "policy market" characteristic within the Chinese stock market (Song et al., 2023). For instance, to shield the domestic financial market from external shocks, the Chinese government has established a segmented stock market and the so-called dual financial market system, which restricts the types of buyers and dictates the trading currency (Li, 2015).

Within this system, "A-shares are regular domestic stocks settled in renminbi (RMB). There are also stocks settled in foreign currencies other than RMB. B-shares are denominated in U.S. or Hong Kong dollars with the same cash flow rights as A-shares" (Xing & Ibragimov, 2023). As we have demonstrated, during the 2015 financial turmoil, the Chinese government established a "national team" to acquire a substantial number of stocks and ETFs (Brunnermeier et al., 2022), thereby directly intervening in the stock market dynamics. Fundamentally, this national team serves as a form of market stabilization fund (MSF). Research indicates that MSFs are instrumental in quelling market volatility and preventing the escalation of financial crises (Bhanot & Kadapakkam, 2006; Huang et al., 2019). "MSFs can help alleviate the sharp decline of stock prices by purchasing ETFs or individual stocks. On the one hand, it injects funds directly into the market to dampen the downward liquidity spiral. On the other hand, it also signals policy objectives of the central government (e.g., providing a backstop to stock price), which also helps restore investor confidance and rebuild markets' self-adjusting function" (Zhu et al., 2022). Basically, the role of an MSF should be transitional rather than perpetual. "As market stabilization funds (MSFs) are usually established to stabilize a short-term stock market disaster, most of them will "retreat" after crashes. However, there is an exception, i.e., the Chinese MSFs, which still purchase and hold a large number of shares even after the stock market crash" (Zhu et al., 2022).

Similar Scenario in 2024

COVID-19 pandemic has dealt a huge blow to the global economy, while China's strict quarantine and embargo policies have further dampened economic vitality. In fact, it led to a decoupling of the Chinese economy from global trends, prompting capital flight, a contraction in domestic investment, and a significant tightening of liquidity (Li et al., 2023b). The Chinese economy also grapples with a host of entrenched structural issues, such as an aging population, urban-rural disparities, inequitable income distribution and entry barriers between state-owned and private sectors. All the factors led to a deterioration in various economic indicators for China, with some key metrics showing the most severe conditions since the era of reform and opening up from 1978. From 2022 onwards, China's economic indicators began to decline, with Q4 2022 GDP growth at a mere 2.9%, significantly below the 3.9% growth in Q3. From July 2022, the Purchasing Managers' Index (PMI) began to consistently register below the 50 thresholds, a figure that has been below 50 for 31 out of the last 39 months leading up to October 2024. Starting in June 2023, the Consumer Price Index (CPI) began to remain persistently below 0, and the GDP deflator has been in negative territory for six consecutive quarters. Additionally, as in Figure 4, since the third quarter of 2023, China has witnessed its first net outflow of foreign capital in the history.

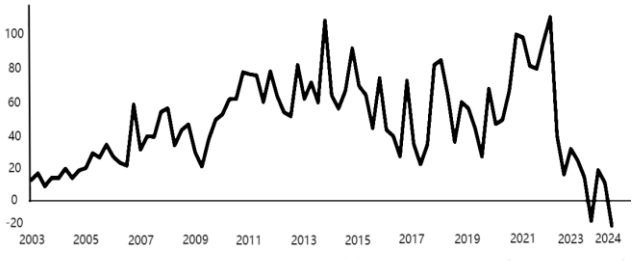

Figure 4: Quarterly Inbound Foreign Direct Investment (billion U.S. dollars).
Source: Figure 4 is created by the authors.

During this period, the Shanghai Composite Index experienced a steep decline, falling from 3,100 points to a low of 2,689 points. The inflection point emerged in September 2024, coinciding with the U.S. Federal Reserve's announcement of a 50-basis-point interest rate cut, which provided a window of opportunity for the Chinese government to implement a comprehensive suite of economic stimulus measures. On September 24, 2024, a highly anticipated joint press conference was held at 9 a.m. by the People's Bank of China (PBOC), the State Financial Supervision and Administration Bureau, and the China Securities Regulatory Commission. This announcement, strategically timed just before the opening of the stock market at 9:30 a.m., hinted at robust and unprecedented policy interventions, which were perceived as a potential turning point for the beleaguered Chinese stock market. The unveiled measures included several key components aimed at addressing liquidity and market confidence. A reserve requirement ratio (RRR) cut was introduced to enhance liquidity within the banking system. Additionally, plans were outlined for the establishment of a stabilization fund designed to mitigate stock price volatility by purchasing shares during market downturns and selling them during periods of recovery. A market value management mechanism was also introduced, requiring companies with stocks trading below their net value to engage in value management activities, supported by central bank-provided loans to facilitate share buybacks. Most notably, the government introduced an innovative monetary policy instrument, a swap facility that allowed securities, funds, and insurance companies to obtain liquidity by pledging assets. Initially capped at 500 billion yuan, this facility enabled the exchange of riskier, less liquid assets, such as stocks, for safer, more liquid assets like government bonds. While similar to the U.S. Term Securities Lending Facility (TSLF), which was designed as a temporary measure during liquidity crises, the Chinese swap facility was presented as a permanent policy tool. The head of the PBOC explicitly stated that the initial 500-billion-yuan allocation could be followed by additional tranches of equal size if necessary, signaling the long-term nature of this intervention (China Economic Net, 2024). The immediate impact of these measures on the stock market was substantial. On the day of the announcement, the Shanghai Composite Index rose by 114 points (4.15%), closing at 2,863. This momentum was sustained in the following days, supported by additional policy actions. On September 26, 2024, an extraordinary economic meeting convened by the Communist Party of China further bolstered market confidence, resulting in a 104-point increase (3.6%) in the index, which closed at 3,000.95, reclaiming the critical 3,000-point threshold. On September 27, 2024, the final trading day of the week, retail investors, buoyed by

optimism, intensified their trading activities. This surge in activity overwhelmed the Shanghai Stock Exchange's servers, causing a temporary system outage. Over the weekend, the Chinese government announced additional measures to stimulate both the monetary and real estate markets. The PBOC reduced interest rates by 50 basis points, complementing the earlier RRR cut. Concurrently, the Ministry of Housing and Urban-Rural Development declared support for first-tier cities to fully exercise their autonomy in regulating the real estate market. Cities responded by reducing mortgage interest rates and relaxing social security payment duration requirements for home purchases, effectively easing restrictions to rejuvenate the real estate sector. The coordinated and multi-faceted policy measures underscored the Chinese government's determination to stabilize both the stock and real estate markets amidst economic challenges. However, the magnitude and breadth of these interventions raise critical questions about their long-term implications, particularly regarding the sustainability of such dependence on state-led strategies and the potential risks of exacerbating structural economic vulnerabilities.

Table 4: Stock Stimulus and Real Estate Market Stimulus in 2024.

	Major Measures	Date of Announcement
Monetary Easing & Stock Stimulus	Reduction of interest rate and reserve requirement ratio	September 24, 2024
	Introduction of a swap facility of 500 billion yuan for securities, funds, and insurance companies	September 24, 2024
	300-billion-yuan support for corporate share buybacks	September 24, 2024
Real Estate Market Stimulus	Lowering existing mortgage rates	September 24, 2024
	The Politburo meeting proposed to promote the stabilization and recovery of the real estate market	September 26, 2024
	Major cities ease or lift purchase restrictions	September 29, 2024

Consequently, on September 30, 2024, the final trading day of the month in China, the stock market experienced a dramatic surge, with the Shanghai Composite Index soaring by an unprecedented margin, establishing a new historical record for the largest single-day increase. Out of the market's almost 5,300 listed stocks, only 8 declined. Numerous ETF funds hit their upper limits for the day. The total trading volume for the day was an astronomical 2.5 trillion, representing five times the typical daily volumes seen throughout most of August and September of the same year. From May 2023 to September 2024, the Shanghai Composite Index had plummeted from 3,400 points to 2,689 points over a 16-month period. However, in a swift reversal starting September 24, 2024, the Index leaped from 2,748 points to 3,336 points within a mere 5 trading days. It recorded consecutive daily gains of 4.15%, 1.16%, 3.61%, 2.89%, and 8.06%. In 2008 and 2015, confronted with external and internal shocks, the Chinese government deployed expansionary monetary policy and simulative real estate measures to invigorate the stock market and the broader economy.

In 2024, grappling with an economic slump, the Chinese government ultimately retraced its steps, opting for a combination of monetary easing for stock stimulus and real estate stimulus policies to combat the economic downturn. By flooding the market with a massive volume of liquidity so substantial that the term "massive" seems an understatement the Chinese government effectively used the descriptor "unlimited" to characterize its efforts. This led to a sharp, short-term recovery in the stock market, which also drew substantial funds from the bond market, banks, and other sectors into the equity markets. This strategy is, in fact, seen as part of the government's underlying intent: by bolstering the stock market, it aimed not only to restore public confidence in the Chinese economy but also to enable citizens to profit from the market. This, in turn, was expected to stimulate consumption, benefit companies, and help the economy break free from the deflationary cycle.

Discussion

Liquidity Crisis and Structural Crisis

The efficacy of China's recent stock market intervention strategies remains highly questionable. While direct governmental intervention in secondary markets during a liquidity crisis can be effective by injecting additional liquidity and averting immediate market collapses (Brunnermeier et al., 2022), its long-term sustainability is contentious. Since the beginning of 2024, the Chinese government has actively deployed its "national team" to purchase stocks and ETFs. These purchases have included broad-market indices like the CSI 300 ETF and the 50 ETF, as well as mid- and small-cap ETFs such as the CSI 500 and the ChiNext ETF. Despite these efforts, direct government buying of stocks and ETFs cannot serve as a sustainable strategy. A comprehensive rescue plan requires a well-structured exit strategy to mitigate risks and ensure stability (Cheng et al., 2022). However, observations suggest that these interventions have persisted throughout the year, culminating in the recent stock market surge.

While liquidity injections can alleviate liquidity crises, they cannot address underlying structural issues. Over time, this approach risks price distortions and the emergence of moral hazard. The argument that directs state purchases at least provide market liquidity is also open to debate. For example, Chan et al. (2004) demonstrate that government intervention in the Hong Kong stock market reduced liquidity for 33 Hang Seng Index constituent stocks following a reduction in their free float. Similarly, in the 2024 Chinese case, as the national team intensified ETF purchases, overall trading volume in the stock market declined. Between July and August 2024, during heightened market support, trading volume contracted from 700 billion to less than 500 billion, despite the presence of approximately 5,000 listed companies on the Shanghai and Shenzhen stock exchanges.

Further compounding these concerns, China's weak economic fundamentals became increasingly apparent een as the stock market continued its upward trajectory. On September 27, 2024, the National Bureau of Statistics of China reported that the profits of large-scale industrial enterprises had plummeted by 17.8% in August, a sharp contrast to the 4.1% increase recorded the previous month. This significant decline highlighted a worsening economic trend. However, these grim economic indicators were largely overlooked amidst speculative fervor and market optimism. On September 30, 2024, the Bureau of Statistics released additional data revealing that the Purchasing Managers' Index (PMI) for September was 49.3, remaining below the critical threshold of 50. This marked the

continuation of a prolonged period of contraction, with the index exceeding 50 in only three of the previous 18 months. Despite such discouraging data, the stock market continued to rally on the same day, underscoring the irrational market environment, seemingly encouraged or tolerated by the government.

China's extensive market interventions, while effective in the short term, fail to address deep-rooted structural challenges in the economy and pose significant risks for the country's long-term economic trajectory. These risks include the potential for banking crises, widening disparities between state-owned and private enterprises, and a growing marketization deficit in a stock market increasingly dependent on policy interventions. By ignoring these fundamental economic issues and fostering speculative behavior, China appears to be embracing a high-stakes gamble with uncertain outcomes.

Bank Crisis

"China has a bank-based financial system. Bond and equity financing only account for about one- fifth of the total credit to non-financial institutions. Unlike the non-financial sector, the financial sector is predominated by state-owned financial institutions. Most banks are state-owned. The Big Four alone contribute to more than 40% of total bank deposits" (Song et al., 2018). The Big Four stands for Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), Bank of China (BOC), and China Construction Bank (CCB). These four banks are also recognized by the Financial Stability Board (FSB) as "global systemically important banks (G-SIBs)" (Xu & Shi, 2024). In 2024, amidst a continued sluggish stock market, the national team increased its stake in the stocks of the four major state-owned banks, causing their share prices to reach new highs while other stocks persistently set new lows. This selective support has led to increased market unfairness. Prior to the current stock market stimulus, the realms of securities and banking were distinct sectors, but they have now become intertwined. Reflecting on the 2015 stock market crash, as a professor of economics in Chinese highest official academic institution in social science Chinese Academy of Social Sciences, Yang (2017) suggested that "China must draw lessons from successful experience in strict regulation in Roosevelt's time, especially the formulation of regulation laws strictly distinguishing commercial banks from investment banks, and establish the firewall strictly restricting the flow of commercial banks' loans to investment banks and shadow banks, and never follow the current financial liberalization policies of the United States and Europe."

However, the actions taken in 2024 clearly diverge from this scholar's recommendations. The Chinese government declared that it would allocate 300 billion yuan in refinancing quotas to support listed companies in pledging their own stocks through banks, with the funds acquired from these pledges being reinvested into share buybacks. One cannot raise himself to the sky by continuously stepping his one foot on another foot. Yet, the central bank's policy in this instance is akin to creating currency out of nothing and spending it in this manner. It is inconceivable that listed companies are engaging in a form of financial circularity, causing their stock prices to rise instantaneously without any tangible basis, fuelled by an unlimited supply of liquidity. The second policy is even more perilous: the initial phase of a 500-billion-yuan swap facility for securities, funds, and insurance companies, and it allows the central bank to exchange the low-liquidity assets held by financial institutions for highly liquid assets such as government bonds. Financial institutions can then sell these highly liquid assets, and the proceeds from these sales are permitted, indeed mandated, to be invested exclusively in stock purchases. The central bank head's promise of additional 500-billion-yuan instalments after the first phase effectively pledges an open-ended policy. This policy interlocks China's entire banking, securities, and bond markets, driving the stock market upward by funnelling investments from the entire society, including individuals, institutions, and all types of funds, even those using leverage. "The linkage between the banking system and the stock market constitutes a systemic risk that the banking system will suffer if the stock market crashes" (Li, 2015).

When nearly all of a nation's assets are intertwined, "after a peak of prices out of control is reached and the power for climbing up is exhausted, speculative capital that manipulates the market will suddenly shift to sell-off, which brings about a widespread market panic and then the avalanche-type exit from the market and too large glut, and deepens the positive feedback process of market panic, scrambling to sell off and slump in prices" (Yang, 2017). Given that, as mentioned earlier, China's banking system is the nucleus of its financial structure, and "China's crisis management and market exit mechanism for banks (CMME mechanism) is still at an early stage of development" (Xu et al., 2024), any misstep significantly raises the likelihood of systemic risk.

Cost of State-Owned Enterprises

Since its inception, the primary objective of China's stock market was not to create a market-driven trading platform but to facilitate fundraising for poorly managed state-owned enterprises (SOEs). As Song et al. (2018) note: "The state established the stock market in the early 1990s for two key purposes: (1) channelling private savings to SOEs; and (2) diversifying risks in the state-owned banking sector." In this context, it becomes challenging to anticipate that private enterprises would receive the same level of support as SOEs. "There is a long-standing phenomenon of financial repression in China, that is, compared with private enterprises, state-owned enterprises tend to get more favourable prices when obtaining bank credit support" (Pan et al., 2024). State-owned enterprises, as opposed to non-state-owned ones, are found to receive government subsidies more swiftly.

Further research indicates that companies with stronger government ties, located in regions with more conducive political and business environments, and deemed more critical to the regional economy, are more likely to receive increased government subsidies when facing stock price risks. Throughout history, despite the government's ongoing expansion of state-owned enterprises (SOEs), they struggle with poor management and high levels of debt, necessitating state-orchestrated societal support through various institutional mechanisms. This was evident during the establishment of the stock market in 1990, the SOE crisis in 2000-2001, the decline in SOE performance in 2015, and again in 2024. It is achieved in such a way: The crux of stock market stimulus policies has typically been to inflate stock prices and lure capital into the market, thereby creating favourable conditions for listed companies to conduct additional share issuances. With 60% of A-shares controlled by state-owned assets, the China Securities Regulatory Commission is also particularly attentive to the extra issuance of state-owned assets. The higher the stock prices, the more capital is attracted into the market, and consequently, the more funds can be raised through additional issuances, potentially alleviating the debt issues of SOEs. Thus, some scholars have suggested that the 2015 stock market boom was, to some extent, a government-orchestrated strategy, leveraging

societal and shareholder funds to "create a bull market which can help to ease debt burden" (Li, 2016) and "solve the debt problem of zombie state-owned enterprises and the government"' (Zeng et al., 2016).
In light of our earlier discussion, financial institutions are permitted to exchange a variety of their assets for treasury bonds at the central bank and then use these bonds as collateral to obtain state-owned capital for stock purchases. While this appears to be a move to bolster the stock market, it is, in essence, a nationwide, orchestrated effort to borrow from the entire society, invest in state-owned assets, and subsequently have those assets purchase stocks. It represents a systematic approach that effectively has the entire society, and even foreign investors, underwrite China's SOEs. During this process, national teams and state-owned enterprises manage to accumulate cash and cancel their debts. Meanwhile, institutions, retail investors, and foreign investors would find themselves holding shares of underperforming SOEs, only holding the hope of future stock price increases.

Strengthened Non-Marketization

The capital market is highly responsive to external stimuli. In the short term, the interventions by Chinese regulators and the government have induced market anomalies (Bieliński et al., 2017), which have indeed invigorated the previously lacklustre stock market, with the Shanghai Composite Index recovering from 2,689 points to over 3,300 points. However, the impact of government rescue efforts is only a temporary solution for market stability (Yang et al., 2020). In the long term, such measures do not genuinely enhance the health of China's capital market. On the contrary, they tend to push more the market towards a "policy market" dynamic, which disrupts the trading discipline, and "come at a long-run cost of creating moral hazard, preventing price discovery, creating more uncertainty, and damaging government credibility" (Huang et al., 2019). "The information and pricing efficiency is lower with higher national team ownership" (Cheng et al., 2022). Intervention policies may diminish the informational content of stock prices because market participants focus more on government policies than on economic fundamentals and are reluctant to seek out market information (Bond et al., 2015; Brunnermeier et al., 2022). Furthermore, the national team's market support increases the synchronization of the stock market where all stocks rise or fall in tandem, or certain industries rise collectively, regardless of the individual company's performance, but "for a strongly efficient stock market, the lower its stock price synchronization, the more informationally efficient it is" (Dong et al., 2023). Despite the Chinese leadership's pledge to advance market-oriented reforms, the stock market turmoil in 2015 "forced the authorities to retract from that intention, intervening heavily to prevent a bigger crash. This is a setback from the course of reforms envisioned by the Chinese government. It also costs the Chinese government credibility and shakes faith in its ability to form and execute coherent policy" (Zeng et al., 2016). Furthermore, a protracted distortion in the financial system would result in policy misalignment, hinder economic growth, diminish the efficacy of capital allocation, and undermine financial stability (Song et al., 2018).

Conclusion

This study examines the atypical fluctuations in China's stock market during the crises of 2008 and 2015, highlighting their recurring patterns. The Chinese government consistently adopted a dual-pronged strategy comprising monetary and real estate policies, either to stabilize the stock market during downturns or to manufacture speculative bull markets. While these interventions triggered swift market recoveries, they ultimately failed to prevent economic decline, as monetary policies detached from economic fundamentals often faltered. The substantial liquidity injected into the market frequently flowed into the real estate sector via fiscal policies, creating a fame of economic prosperity. In 2024, amidst another severe economic downturn, the Chinese government has once again implemented a rescue plan that combines monetary and real estate policies. This recurrence reflects a degree of path dependence on the government’s policy-making approach. Each intervention appears to disproportionately benefit China's state-owned economic sector, suggesting that bailing out state-owned enterprises might be the government's underlying objective. Notably, this latest intervention features a novel element: the central bank's commitment to providing virtually unlimited liquidity exclusively for the stock market, an unprecedented move in China's economic history. While this measure has catalyzed a dramatic short-term market surge, its long-term implications remain precarious.

Practical and Policy Implications

This study argues that the structural problems underlying China’s economy remain unaddressed and are compounding into a deeper systemic crisis. The government’s current strategy risks intensifying the existing real estate crisis while creating a potential stock market capital crisis that could entangle the banking system. The government plans to package distressed real estate assets, local government debts, and state-owned non-performing assets into so-called "subprime assets," repackage them as "treasury bonds" within the banking system, and convert them into liquidity for stock market investments. This approach represents a significant gamble, relying on artificial stock market inflation to attract investors and alleviate internal economic challenges. However, the success of this strategy is far from guaranteed. As the market stabilizes and initial optimism fades, a mass exodus of capital could trigger widespread panic, escalating into an unprecedented economic disaster. The reliance on short-term stock market stimulation as a tool to address deeper economic challenges exposes China to heightened systemic risks. This approach could undermine not only the Chinese economy but also the welfare of its citizens, the credibility of state authorities, and the confidence of international investors. A sustainable and market-oriented economic growth path is paramount. Policymakers should prioritize building a regulated capital market that fosters stability, adherence to the rule of law, and long-term investor confidence. Instead of relying on monetary policies to support poorly performing state-owned enterprises or artificially inflating stock markets, China would benefit from cultivating a transparent, competitive, and market-driven economic environment.

Suggestions for Further Study

This research employs qualitative methodologies, including comparative analysis, literature reviews, and inferential narratives, to examine the Chinese government's bailout behavior. Future studies could incorporate quantitative approaches to provide deeper insights. Developing comprehensive econometric models that account for specific components of bailout packages and conducting

regression analyses to measure the stock market's response could yield valuable findings. Moreover, comparing China's bailout strategies with those of other countries facing similar economic crises could illuminate differences in policy choices and their outcomes. Such cross-national analyses would provide a broader perspective on the effectiveness and drawbacks of varying bailout strategies. By doing so, future research could offer a more robust understanding of the potential pitfalls associated with China's reliance on monetary instruments for stock market stimulation and guide policymakers toward more sustainable solutions.

Statement

Author Contributions

Conceptualization, L.K. and Y.C.; methodology, Y.C.; formal analysis, Y.C.; investigation, Y.C.; resources, Y.C.; data curation, Y.C.; writing—original draft preparation, L.K. and Y.C.; writing—review and editing, Y.C.; project administration, L.K. All authors have read and agreed to the published version of the manuscript.

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Conflicts of Interest

The authors declare no conflicts of interest.

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