Journal of Political Science and International Relations Studies
ISSN: 3078-7319
DOI: https://doi.org/10.61784/jpsr3021

THE HAND OF GOVERNMENT AND THE FORCE OF THE MARKET: AN EMPIRICAL REVIEW OF FIVE MAJOR RESCUES IN CHINA'S A-SHARE MARKET

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Abstract: China's A-share market shows a pattern of sharp swings and repeated government rescues. This paper reviews five major rescue episodes in 1994, 2008, 2015, 2018, and 2024. It combines the historical record with evidence from recent empirical studies. The review finds a clear and consistent pattern. Rescue policies stop panic and block risk contagion in the short run. Direct intervention, however, tends to harm market quality over longer horizons. Rescued stocks often show higher volatility, weaker liquidity, and lower price efficiency. Frequent rescues also feed moral hazard, because investors come to expect a policy floor under prices. The paper then compares the costs and benefits of different rescue tools. Indirect tools such as liquidity support and expectation guidance carry smaller side effects than direct stock purchases. Based on these lessons, the paper proposes a rule-based stabilization framework, a tool hierarchy that treats direct purchases as a last resort, stronger policy communication, a clear exit plan, and deeper reform of basic market institutions.
Keywords: A-share market; Government intervention; Market rescue; Moral hazard; Market quality; Financial stability; Policy design

1 INTRODUCTION

China's A-share market opened in 1990 with the founding of the Shanghai and Shenzhen stock exchanges. Within three decades it grew into the second largest equity market in the world. Its size, however, has not been matched by stability. The market swings between short and violent booms and long and deep busts. Each major bust has triggered a government rescue. This cycle of crash and rescue has become a defining feature of the market, and it raises a basic question about where the hand of government should end and where the force of the market should begin.

The A-share market is a typical case of an emerging market inside a transition economy. It was built while China moved from central planning toward a market system. From the start, the market carried a special mission. It was designed in part to raise funds for the reform of state-owned enterprises [1,2]. This mission shaped listing rules, ownership structures, and the habits of regulators. It also created a deep and lasting expectation among investors that the government stands behind stock prices. Scholars describe this pattern as a policy-driven market, in which policy signals often matter more than fundamentals [3,4].

This paper makes three contributions. First, it builds a unified account of five major rescue episodes in 1994, 2008, 2015, 2018, and 2024, and it places the 2024 package in the sequence for the first time in this literature. Second, it links each episode to modern empirical evidence, including studies of leverage-driven fire sales, national team purchases, and stimulus credit allocation [5-7]. Third, it draws design lessons on timing, tool choice, moral hazard, and exit, and it turns these lessons into concrete policy proposals.

The rest of the paper is organized as follows. Section 2 describes the institutional background. Section 3 reviews the five rescue episodes. Section 4 assesses the effects of rescue policies. Section 5 distills the main lessons. Section 6 presents policy recommendations. Section 7 concludes.

2 INSTITUTIONAL BACKGROUND OF THE A-SHARE MARKET

The A-share market differs from mature markets in three basic ways. First, retail investors dominate trading. Individual accounts have long produced most of the turnover, which fuels a strong speculative culture [8-10]. Second, prices move together to an unusual degree. Stock returns in China show high synchronicity, which signals that firm-specific information is weakly priced [11]. Third, policy exposure is extreme. Announcements about IPO pace, stamp taxes, or margin rules can move the whole market within minutes [3,12].

These features produce a distinct cycle pattern. Table 1 and Fig. 1 compare A-share cycles with U.S. cycles. In the A-share market, the average bear market lasts 27.8 months with a loss of 56.4 percent, while the average bull market lasts only 12.1 months with a gain of 217.2 percent. Bear phases last 2.3 times longer than bull phases. The U.S. pattern is the mirror image. The average U.S. bear market lasts about 10 months with a loss of 35.4 percent, and the average bull market lasts about 32 months with a gain of 106.9 percent. The A-share market rises fast and falls long, while the U.S. market rises long and falls fast.

Table 1 Market Cycle Statistics: A-Share vs. U.S. Equities

Indicator	A-share	U.S.	Ratio
Avg. bear duration (months)	27.8	10	2.8x
Avg. bear decline (%)	-56.4	-35.4	1.6x
Avg. bull duration (months)	12.1	32	0.4x
Avg. bull gain (%)	+217.2	+106.9	2.0x
Bear/bull duration ratio	2.3	0.31	–

Source: compiled from public index data. Ratios are A-share values over U.S. values.

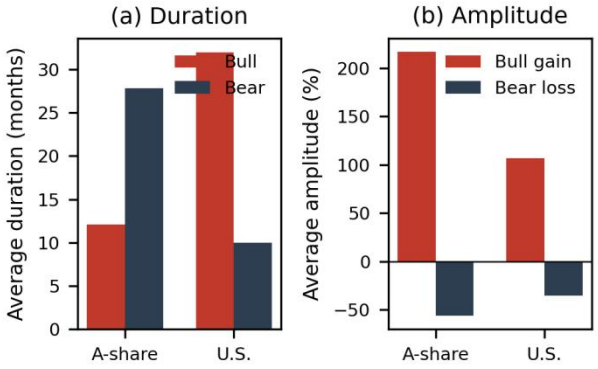

Figure 1 Average Cycle Duration and Amplitude, A-share Market Versus U.S. Market

The long-run record is also weak. The Shanghai Composite Index reached 6124 points in October 2007. Seventeen years later it still hovered near 3000 points, which is rare among major markets. Careful studies confirm that listed A-share firms have delivered poor long-run returns relative to bank deposits and to listed firms in other large economies, and they trace the gap to IPO selection rules and weak corporate governance rather than to the growth of the real economy [2,13]. The problem is not a shortage of money, since household savings exceed 160 trillion yuan. The problem is a shortage of confidence, and the confidence gap has institutional roots. When basic institutions fail to protect investors, the government steps in as the stabilizer of last resort, and each intervention deepens the expectation of the next one [4,14].

3 FIVE MAJOR RESCUE EPISODES

This section reviews the five rescue episodes in time order. Table 2 summarizes the triggers, the measures, and the short-run outcomes. Fig. 2 marks the five episodes on the long-run path of the Shanghai Composite Index.

Table 2 Overview of the Five Rescue Episodes

Year	Trigger	Decline	Main measures	Short-run result
1994	Post-bubble slump, confidence collapse	-79% (1558→325)	IPO suspension, rights-issue cap, new funds admitted	+223% in about 5 weeks, then relapse
2008	Global financial crisis	-72% (6124→1664)	Stamp-tax cut, Huijin purchases, 4T stimulus	Confidence restored, 2009 rebound
2015	Leverage unwinding, fire sales	-33% in 3 weeks	PBoC liquidity, IPO halt, national team purchases	Liquidity crisis eased
2018	Trade friction, pledge risk, deleveraging	-30% over year	RRR cuts, relief funds, lighter trading rules	Pledge risk contained
2024	Demand weakness, outflow loop	Multi-year grind lower	Five-part package, PBoC swap and relending tools	+34% in 3 weeks to 3674

Source: compiled by the authors from official announcements and index records.

3.1 The 1994 “Three Policies”

The first systemic rescue came in July 1994. The Shanghai Composite Index had fallen from 1558 points in February 1993 to 325 points, a drop of nearly 80 percent. Confidence had collapsed. The China Securities Regulatory Commission and related agencies then issued three measures. They suspended new share issuance and listings, they capped rights offerings by listed firms, and they widened the channels for new funds to enter the market. The response was explosive. The index surged past 1000 points within about five weeks, a gain of more than 200 percent. The rally, however, faded within two months, and the market slid back into a long slump. This episode set the template of the policy-driven market. Investors learned to trade on policy signals, and the government learned that words and rules could move prices at will [3].

3.2 The 2008 Crisis Response

The second episode came during the global financial crisis. The index fell from 6124 points in October 2007 to 1664

points in October 2008, a loss of more than 70 percent. The government cut the stamp tax on stock trading, directed Central Huijin to buy bank shares, and launched a four trillion yuan stimulus program. Compared with 1994, the tools were more market based and mostly indirect. Loan-level evidence shows that the stimulus credit of 2009 and 2010 supported working capital and real activity, but it flowed disproportionately to state firms even though private firms were more productive [5]. Local governments also leaned on bank credit through financing vehicles, which weakened monetary control [15]. The market recovered through 2009, yet the stimulus left behind excess capacity and a heavy stock of local government debt [16].

3.3 The 2015 Crash and Large-Scale Rescue

The third episode was the most dramatic. A leverage-fueled bull market pushed the index to 5178 points in June 2015. The boom then reversed into a crash. The index lost about one third of its value in three weeks, and days with a thousand limit-down stocks became common. Margin calls forced sales, and forced sales deepened the fall, which is the classic spiral of funding and market liquidity [17]. Account-level data confirm that leverage, especially hidden off-exchange leverage, drove the fire sales [6]. Structural flaws amplified the crash, including unbalanced margin trading, distorted index futures, unregulated shadow financing, and fragmented regulation [18].
The rescue was unprecedented in scale. The central bank pledged liquidity. The regulator suspended IPOs. The police investigated malicious short selling. Twenty-one brokers pooled a rescue fund. Central Huijin and China Securities Finance Corporation, together known as the national team, bought stocks directly and at one point held positions worth several percent of GDP [7]. The purchases eased the liquidity crisis and cut the default risk of rescued firms. The costs are examined in Section 4.

3.4 The 2018 Targeted De-Risking

The fourth episode unfolded in 2018 under trade friction with the United States, financial deleveraging, and share-pledge stress. The index fell from 3587 points to 2449 points over the year, a decline of about 30 percent. The fall was slow rather than sudden, but pledged shares near forced-sale lines created a systemic worry. The response was precise rather than massive. The central bank cut reserve requirements. Banking and insurance regulators encouraged institutions to relieve pledge stress. Local governments set up relief funds for private firms. The securities regulator reduced unnecessary trading restrictions. Direct purchases were largely avoided. The episode marked a shift toward institution building and expectation management.

3.5 The 2024 Systemic Stabilization Package

The fifth episode came in late September 2024 after a long one-sided decline. Weak domestic demand, falling earnings expectations, drained liquidity, and frozen sentiment had formed a loop in which falling prices pushed money out and outflows pushed prices down. The package announced before the National Day holiday was not a single measure but a five-part system. It combined broad monetary easing, new structural tools for the capital market, listed-company governance reform, supporting measures for the property sector, and channels to guide long-term funds into stocks. For the first time, the central bank created special facilities, including a swap facility for securities firms, funds, and insurers and a relending facility for share buybacks, that put a direct floor under the stock market. The index jumped 939 points in three weeks, broke the 3000-point band that had held for a decade, and reached 3674 points. The index then pulled back and moved sideways for months before it regained the high.

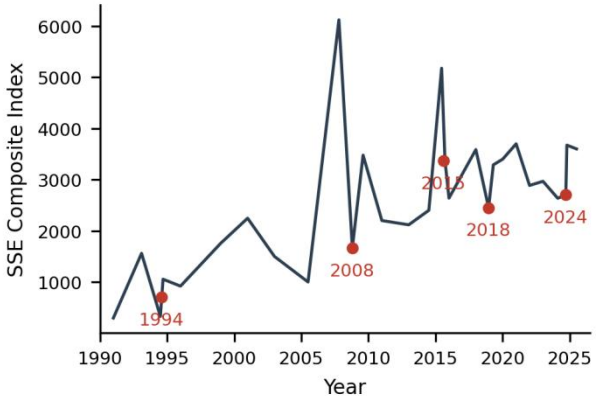

Figure 2 Shanghai Composite Index, 1991–2025, with the Five Rescue Episodes Marked

4 EMPIRICAL ASSESSMENT OF RESCUE EFFECTS

4.1 Short-Term Stabilization

In the short run, rescues work. Every episode arrested the panic that triggered it. Fig. 3 shows the approximate index gains

over the event windows. The 1994 measures produced the largest bounce at over 200 percent in five weeks. The 2008 package restored confidence and set up the 2009 rebound. The 2015 purchases ended the fire-sale spiral. The 2018 measures stopped the pledge chain from breaking. The 2024 package lifted the index by about a third in three weeks. Structural estimates of the 2015 intervention find that national team purchases created value, mainly by cutting default probabilities and by restoring liquidity, with net benefits worth several percent of GDP [7].

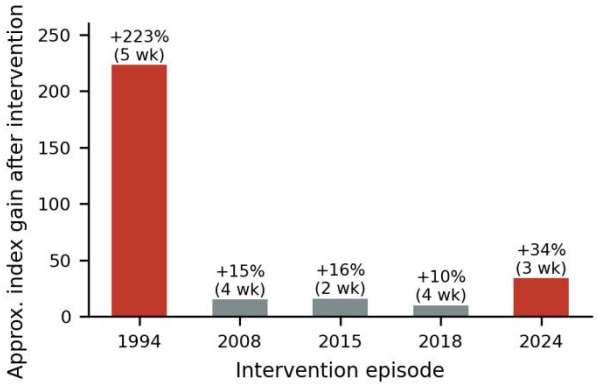

Figure 3 Approximate Index Gains over Each Post-intervention Event Window
Note: Values are Stylized Estimates for Comparison

The gains, however, decay. The 1994 rally reversed within two months. The market after 2015 did not return to health but entered a long grinding range. After the 2024 surge, the index gave back part of the move and needed months to reclaim the high. Short-term stabilization is real, but it is not the same thing as recovery.

4.2 Medium- and Long-Term Market Quality

The longer-term picture is less favorable. Three channels of damage stand out. First, direct purchases distort price discovery. When an administrative buyer sets the marginal price, prices carry less information about fundamentals, which worsens the already high return synchronicity of the market [11]. Second, the visible hand changes the game itself. Investors track the national team instead of studying firms, so information efficiency falls further. Third, moral hazard grows. When investors expect the state to backstop losses, they take more risk, and the expectation feeds larger bubbles and deeper busts [3,4].

Empirical work supports these concerns. Studies of the 2015 rescue report that stocks held by the rescue funds later showed higher volatility, weaker liquidity, and lower price efficiency than comparable stocks, and that market quality worsened again when the rescue funds sold [7]. Selection added a political layer, since firms in systemically important industries and firms with stronger political connections were more likely to be rescued. Related evidence shows that poorly designed stabilization rules can even amplify crashes, as the circuit breaker did in January 2016 before it was scrapped within four days [19]. The deeper cost is cumulative. Repeated intervention keeps the market from building its own capacity to absorb shocks, which is one reason long-run A-share returns have disappointed [13].

4.3 Comparing Rescue Tools

The five episodes deployed very different tools. Table 3 groups them into three classes. Direct tools include stock purchases and IPO suspensions. Indirect tools include liquidity injections, tax changes, and structural facilities. Soft tools include communication and expectation guidance. Fig. 4 maps the main tools by their degree of directness and their side effects on market quality. Direct purchases deliver the strongest immediate impact but also the largest lasting damage. Liquidity and tax tools act more slowly but leave the price mechanism intact. The 2024 swap and relending facilities sit in the middle, since they route state support through market institutions rather than through direct state ownership of shares. Table 4 summarizes the key empirical studies behind this assessment.

Table 3 Classification of Rescue Tools

Class	Examples	Episodes used
Direct	National team stock purchases, IPO suspension, short-selling crackdowns	1994, 2015
Indirect	Stamp-tax cuts, RRR cuts, relief funds, swap and relending facilities	2008, 2018, 2024
Soft	Statements, expectation guidance, lighter trading rules	2018, 2024

Source: classified by the authors.

Table 4 Key Empirical Evidence on Intervention Effects

Study	Method / data	Main finding
[6]	Account-level margin data, 2015	Leverage, especially shadow leverage, drove fire sales and the crash

Study	Method / data	Main finding
[7]	Structural estimation, 2015 rescue	Purchases cut default risk and added value, but rescued stocks lost quality and exits hurt the market
[5]	Loan-level DID, 2009–2010	Stimulus credit favored state firms and misallocated capital
[19]	Theory and event evidence, 2016	Badly set circuit breakers accelerate selling near the threshold
[13]	Long-run returns, 2000–2018	Listing rules and governance, not the economy, explain weak A-share returns

Source: compiled by the authors from the cited studies.

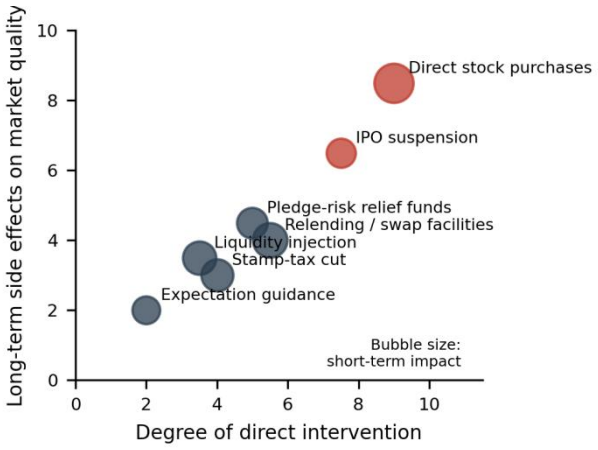

Figure 4 A Tool Map

Note: Bubble size shows short-term impact. Direct tools trade lasting market quality for immediate effect

5 LESSONS FROM THE FIVE RESCUES

5.1 Timing and Pace

Timing matters as much as size. Intervening too early blocks the market's own correction and delays the release of risk. Intervening too late lets contagion spread and raises the cost of the eventual rescue. Pace matters too. Policy should move step by step and adjust to market feedback. The 1994 episode shows the danger of a single oversized shock, since a 200 percent rally without follow-up measures collapsed back into a slump within months.

5.2 Tool Choice and Sequencing

Tool choice should follow a clear hierarchy. Indirect tools that respect prices should come first, including liquidity support, monetary easing, and regulatory adjustment. Direct purchases should remain a last resort for moments of true systemic failure, as in the fire-sale spiral of 2015 [6,17]. The 2018 and 2024 episodes suggest that a well-designed package of indirect and structural tools can stabilize the market with less damage than direct state buying.

5.3 Moral Hazard and Expectations

Moral hazard is the core dilemma of any rescue, in equity markets as in bank bailouts [20]. Frequent rescues teach investors that losses will be socialized. The lesson weakens risk discipline and invites the next bubble. Expectation management is therefore part of the policy itself. Authorities need to stabilize confidence during a crisis while making clear that support is temporary and conditional. Policy uncertainty is costly in its own right, so communication should be consistent and transparent [3,12].

5.4 Exit and Transparency

A rescue is a temporary act, not a destination. The exit decides the final outcome. Evidence from 2015 shows that later sales by rescue funds degraded market quality a second time [7]. A credible exit needs a published path, gradual execution, and neutral vehicles such as index funds that spread the flow. Transparency about holdings and about the rules of exit reduces the fear premium that otherwise hangs over the market.

6 POLICY RECOMMENDATIONS

The lessons above lead to five recommendations, which Table 5 matches to the problems they target. First, build a rule-based stabilization framework with clear trigger conditions, decision procedures, and tool menus, so that rescues stop being improvised. Second, codify the tool hierarchy, with indirect and structural tools as the default and direct purchases as a documented last resort. Third, strengthen communication, publish the logic of interventions, and manage expectations to contain moral hazard. Fourth, design the exit before the entry, with a public roadmap and gradual, market-neutral

execution. Fifth, and most fundamental, reform basic institutions, including issuance quality, delisting, investor protection, and the growth of long-term institutional capital, so that the market needs rescuing less often [1,13,21].

Table 5 Recommendations Mapped to Underlying Problems

Problem observed	Recommendation
Improvised, discretionary rescues	Rule-based framework with triggers and procedures
Overuse of direct purchases	Tool hierarchy, direct buying as last resort
Moral hazard and bailout expectations	Transparent, conditional, well-communicated support
Exit shocks after rescues	Pre-announced, gradual, market-neutral exit plans
Institutional roots of instability	Reform issuance, delisting, governance, investor base

Source: proposed by the authors

7 CONCLUSION

This paper reviewed five major rescues of China's A-share market across three decades. The evidence supports a simple verdict. Rescues are effective firefighting, and they are poor architecture [21,22]. They stop panic, block contagion, and buy time, but direct intervention degrades price discovery, weakens market quality, and feeds the expectation of the next bailout. The direction of reform is equally clear. China should institutionalize stabilization, prefer indirect tools, manage expectations honestly, plan exits in advance, and above all repair the basic institutions that make the market fragile. A mature market is one that can correct and stabilize itself. Getting there requires the hand of government to strengthen the rules of the game rather than to set its prices.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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