



DEVELOPMENT OF THE INDUSTRIAL INVESTMENT FUND FOR THE LOCAL GOVERNMENT IN CHINA

Zhang Liⁱ,

Jacqueline Tham,

S. M. Ferdous Azam

Postgraduate Centre (PGC),

Management and Science University,

University Drive, Off Persiaran Olahraga,

40100 Shah Alam, Selangor,

Malaysia

Abstract:

The purpose of this study is to examine the development of the industrial investment fund for the local government in China. This study constitutes a quantitative study. Based on a model framework, the existing literature and previous studies on the regulatory mechanism, market exit mechanism, professionals, lack of risk prevention, single fund portfolio are independent variables. The policy is an intermediate variable, and sustainable promotion of industrial investment fund development is a non-independent variable. Findings show that there is a relationship between Industrial investment fund for the local government in Henan, China and Development of the industrial investment fund for the local Government in Henan, China. This study has also revealed that higher the perceived supervision system structure and market exit mechanism of industrial investment fund for the local government in Henan, China, policy Industrial investment fund for the local government in Henan, China becomes higher. Industrial investment fund for the local government in Henan, China providers and industrial investment fund for the local government in Henan, China business developers will have to realize the importance of knowing and understanding policy perception on industrial investment fund for the local government in Henan, China as is vital in inducing policy.

Keywords: development, industrial investment fund, local government, Henan, China

1. Introduction

Industrial investment fund is a unique concept in China and is commonly referred to as venture capital fund and private equity fund abroad and this is generally directed at unlisted enterprises with high potential to make equity or quasi-equity investment and

ⁱ Correspondence: email 751074758@qq.com

participate in the operation and management of the invested enterprises, to achieve capital appreciation through equity transfer after the investment enterprise matures (Yu et al., 2014). The industrial investment fund has become the core of the financial system in developed countries (Zhang et al., 2008). In China, the industrial investment fund began with the establishment of an overseas industrial investment fund. According to the Interim Measures for the Management of Industrial Investment Funds formulated by the former National Development Planning Commission in 2006, Industrial Investment Funds (or Industrial Funds for short) which refers to a system of collective investment sharing benefits and risks of equity investment and management services for unlisted enterprises to set up a fund company by issuing fund shares to most investors (Ting et al, 2011). The fund company shall act as the fund manager or entrust the fund manager separately to manage the fund assets and entrust the fund trustee to trust the fund assets, engaged in industrial investment such as venture capital, enterprise restructuring investment and infrastructure investment (Jinping, 2016). According to the different areas of investment, industrial investment funds can be divided into venture capital funds, enterprise restructuring investment funds, infrastructure investment funds and other categories. With the promulgation of the Partnership Law of the People's Republic of China in 2006 and the Interim Measures for the Supervision and Administration of Private Investment Funds in 2014, the organisational form of industrial investment fund is developing in a diversified direction (Ting et al., 2011).

At present, China's local government industrial investment funds are not only facing ample development space but also will play an increasingly important role in the development of the national economy (Yu, 2016). According to Yinxing (2016), Henan is facing both great opportunities and challenges, and the development of various cities in Henan Province is particularly essential. Moreover, how to develop the local economy better, industrial investment fund as a medium plays a vital role. The venture capital and industrial investment funds set up in Henan Province in 2018, and there are 20 funds involved, the total scale is 104.2 billion Yuan, mainly invested in extensive data, intelligent manufacturing, pension, agriculture, transportation, culture, tourism and other fields. In 2019, the Henan Provincial Government Office issued Opinions on Further Deepening the Financial Services of Private Enterprises. Suggestions are made to vigorously develop equity investment funds, as well as publishing the directory of the establishment of funds to guide the development of social capital cooperation, focusing on the critical areas of green industry, big data, Rural Revitalization and free trade zones, we should connect the financial market resources of the whole country, it also introduces well-known management teams and institutional investors such as social security funds and insurance funds to set up a number of industrial investment funds, introducing well-known venture capital and industrial funds from home and abroad into the Central Plains Fund Island, the fund scale reached 300 billion Yuan.

At this time, a reasonable and healthy development model of local industrial investment funds is significant for Henan's economic development. However, according to the current situation of industrial investment of local governments in China, there are still some deficiencies and areas that need to be improved (Zhou, Chan & Song, 2017).

Thus, Henan Province is restricted by high cost and limited channels in the financing process with many obstacles such as financing through the issuance of corporate bonds and bank loans, which lead to high financing cost and difficulties.

In addition, due to overcapacity and economic downturn, whether listed companies with many financing channels or relevant functional departments, the ability and motivation of direct investment in related industries are insufficient, investors are more willing to invest through the establishment of relevant industrial investment funds and professional management team, so as to achieve the purpose of decentralizing risk and focusing too much on a single industry. The main objective of this study is Determinants of a Sustainable Development of the Industrial Investment Fund for the Local Government in Henan, China.

2. Literature Review

The rapid development of local government investment funds in China in recent years is mainly due to the guidance of superior design and the active promotion and implementation of relevant departments and local governments. Nowadays, the innovation of investment and financing mode promoted by provincial and local governments is basically after the central and relevant departments have instructed or established the institutional framework, according to the relevant provisions of local regulations, the establishment, operation, management, withdrawal, income distribution and division of responsibilities of local investment funds are determined, to ensure the legitimacy and security of local government investment funds in China.

In recent years, there are more and more unused funds in the national society, and the financial products and investment channels are relatively narrow. In some places, private lending has gradually become a scale and even formed illegal fund-raising, which crises social security. Therefore, in the process of preparing the limited partnership urban development fund, we should avoid promising fixed returns to investors, raising funds for the public and investing beyond the scope. Fund managers should collect, invest, manage and withdraw according to law, change the current practice of local governments in urban development funds to cover the bottom of projects, give full play to the role of equity investors of social capital in participating in urban development funds, guide government finance and social capital to share profits and risks in the operation of funds, and participate in the management and operation of investment projects together (Wang, 2011).

As an investment fund, the government-guided fund has a particular risk. The risk management of the government-guided fund has always been an essential part of the work of governments. In order to strengthen the supervision and risk prevention of the guiding fund, the government should first have a sufficient understanding of the risks and predict the operation and process of the risks. At present, some local governments ignore the objective law of economic development, blindly pursue the growth of industry quantity and ignore the control of industry quality and related procedures, which will lay a foundation for the outbreak of government investment fund risk. Therefore, some

government organs and functional agencies do not have enough understanding of the risk of investment funds. Therefore, it is necessary for the government to analyse and predict the development of investment funds in its jurisdiction, make a complete industrial development plan, systematically solve problems, and prevent the occurrence of risks (Management, 2018). Because of this, the local government has become the main body of the establishment of government investment funds. In view of the weaknesses of the government itself in terms of talents, norms and wind control, the government needs to enhance its awareness of financial risk prevention, such as preventing the debt risks brought by the rapid expansion of the number of local investment funds and taking on too many project risks, such as speeding up the establishment and improvement of the exit mechanism of government investment funds, such as strengthening the ability of financial risk prevention.

Comprehensive, systematic and effective prevention and control of financial risks in the development process of government investment funds need to clarify the risk management responsibilities of various government departments and form a joint effort to prevent financial risks of government investment funds. Wind control management mainly includes three links: risk identification, risk assessment and risk response. Many scholars accept complete wind control management combined with industrial investment fund process. There are intervention management, standardised operation, scientific decision-making, information disclosure and other systems. Based on the literature support, the followed framework expresses the research model as a name of conceptual framework. Later, this constitutes the research hypotheses.

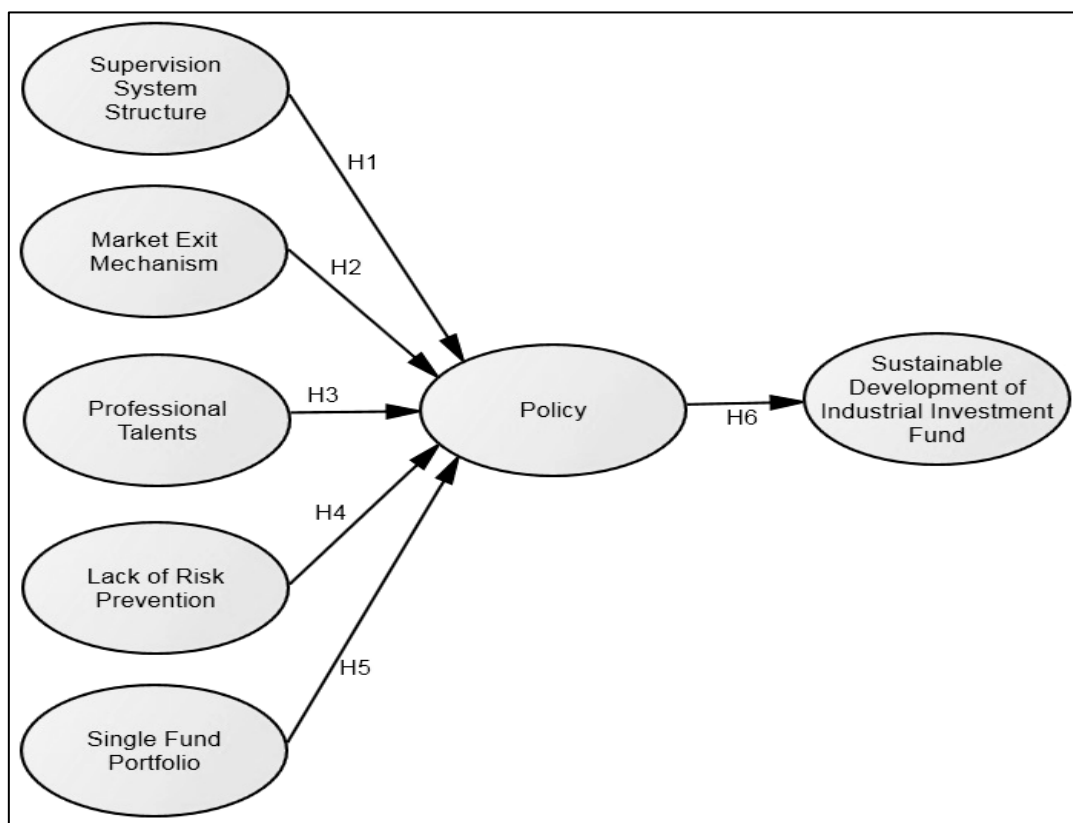


Figure 1: Conceptual Framework

In order to test the relationship between policies, six hypotheses were put forward. Therefore, the research hypothesis is as follows:

H1: There is a positive and significant relationship between supervision system structure and policy.

H2: There is a positive and significant relationship between market exit mechanism and policy.

H3: There is a positive and significant relationship between professional talents and policy.

H4: There is a positive and significant relationship between lack of risk prevention and policy.

H5: There is a positive and significant relationship between the single fund portfolio and policy.

H6: There is a positive and significant relationship between policy and sustainable development of industrial investment fund.

3. Materials and Methods

Based on a model framework, this research studies the regulatory mechanism, market exit mechanism, professionals, lack of risk prevention, fund integration as an independent variable, policy as an intermediate variable, and sustainable promotion of industrial investment fund development as a non-independent variable. The design is experimental. The design will include problem domain identification. Data collection, structured questionnaires and data analysis are all part of the research design.

This study constitutes a quantitative study. Based on a model framework, the existing literature and previous studies on the regulatory mechanism, market exit mechanism, professionals, lack of risk prevention, single fund portfolio are independent variables. The policy is an intermediate variable, and sustainable promotion of industrial investment fund development is a non-independent variable. Rather than describing variables as a cause, another is the effect. Quantitative studies of common frameworks examine causality. Therefore, the dependent variable is affected by the independent variable/variable, and its effect can be positive or negative.

4. Data Analysis and Findings

The demographic profiles of the respondents in this research are very important. It gives a cognitive canvas of the market segment or policy in short. In this research, age stratified sampling method is adopted. Hence, the minimum number of samples for each category as stipulated in the previous chapter is achieved. Out of 520 samples collected, 311 are females and 209 are males. Thus, the gender distribution is considerably even. Additionally, the occupational breakdown of the respondents comprises 46.2% of Academicians, 24.6% of Lawyer and 23.7% of Government Servants while the remaining 5.6% were Businessman. Out of 520 respondents, 12.5% are endowed with Masters Degree qualifications and 0.8% are Doctorates. The smaller number of PhD degree

holders is in line with the figures provided by the ministry in which there is only a few PhD degree holders in the country (Fong, 2016). Moreover, 46.7% are Degree holders whereas 26% have minimum of Diploma proficiency. Allegedly, 14% are furnished with pre-university education.

Reliability analysis is conducted to test the internal consistency of the data set based on Cronbach's alpha value. The Cronbach's Alpha of the constructs is over 0.7 which are inside the adequate greatness. Subsequently, reliability of the constructs is confirmed (Nunnally & Bernstein, 1994). After conducting the CFA for measurement models in each variable in the conceptual framework, the combined measurement model is constructed to test the composite scores. The model fitting criteria of the combined measurement model is shown in Table 1.

Table 1: Model Fit of the Measurement Model

	Index	Model Fit Indices' Threshold	Measurement Model	Decision
Absolute fit indices	RMSEA			
	(LO90, HI90)	p<0.08	0.037, 0.044	Satisfied
Incremental fit indices	CFI	≥0.90	0.970	Satisfied
	IFI	p>0.90	0.970	Satisfied
	TLI	p>0.90	0.967	Satisfied
Parsimony fit indices	Normed Chi	P<5	1.864	Satisfied
	Square	p>0.50	0.867	Satisfied
	PCFI			

Usually, composite reliabilities of greater than 0.60 are satisfactory. Thus, that being the case, composite reliabilities of all the constructs is satisfactory. Similarly, average variance extracted of more than 0.50 is essential. Consequently, the average variance extracted of all the constructs is significant. Moreover, Average Variance Extracted and Composite Reliability values in Table 2 for each construct in the measurement model shows an adequate convergent validity and discriminant validity in the model.

Table 2: Average Variance Extracted and Composite Reliability values of the constructs

	Average Variance Extracted	Composite Reliability
Sustainable development	0.801	0.952
Policy	0.741	0.934
Supervision system structure	0.731	0.931
Market exit mechanism	0.724	0.929
Professional talents	0.762	0.927
Lack of risk prevention	0.632	0.894
Single fund portfolio	0.741	0.934

Moreover, professional talents exhibit positive relationship with Sustainable development. However, lack of risk prevention exhibits moderate negative correlation with Sustainable development. As the interactivity increases, the Sustainable

Development scores go up as well and vice versa. Interchangeably, single fund portfolio also displayed moderate negative correlation with Sustainable development too.

In testing for multivariate normality, Mardia’s critical ratio was 101.545 (more than 5). Hence, multivariate normality assumption is not met. Therefore, in the estimation of the coefficients, the bootstrap method was used. Besides that, there is a significant impact ($\beta = 0.266$, $p < 0.05$) of Professional talents on Policy. The 95% confidence interval for Professional talents is [0.153, 0.369] whereby the value 0 does not fall within the interval, by and by indicating Professional talents is a significant predictor.

In addition, there is a significant impact ($\beta = -0.136$, $p < 0.05$) of Single fund portfolio on Policy. The 95% confidence interval for Single fund portfolio is [-0.226, -0.046] whereby the value 0 does not fall within the interval, in like manner indicating Single fund portfolio is a significant predictor. Furthermore, there is an insignificant impact ($\beta = -0.077$, $p > 0.05$) of Lack of risk prevention on Policy. The 95% confidence interval for Lack of risk prevention is [-0.173, 0.018] whereby the value 0 does fall within the interval, further indicating Lack of risk prevention is an insignificant predictor. Intriguingly, there is a significant impact ($\beta = 0.873$, $p < 0.05$) of Policy on Sustainable development. The 95% confidence interval for Policy is [0.834, 0.912] whereby the value 0 does not fall within the interval, again indicating Policy is a significant predictor. On the whole, six out of seven hypothesized paths in relation to direct relationships between the latent variables of the research model has p-value less than 0.05, hence, the significance of the related hypotheses is corroborated (Hair et al., 2010).

Table 3: Research Hypothesis Validity

Regression Path	Hypothesis	Findings
Direct Effects		
Supervision system structure → Policy	H _{1a}	Supported
Market exit mechanism → Policy	H _{2a}	Supported
Professional talents → Policy	H _{3a}	Supported
Lack of risk prevention → Policy	H _{4a}	Not Supported
Single fund portfolio → Policy	H _{5a}	Supported
Policy → Sustainable Development	H ₆	Supported

Due to the existence of positive externalities, market failure often occurs in innovation and entrepreneurship activities, which makes it particularly important to give full play to the role of the “invisible hand” of the government. Here, policy and sustainable development in different places or country is found to be similar in certain aspects and concurrently differs in some angles. On the whole, seven factors have been identified in connection with Development of the industrial investment fund for the local Government in Henan, China and Industrial investment fund for the local government in Henan, China. These factors are known as Supervision system structure, Market exit mechanism, Professional talents, Single fund portfolio and Lack of risk prevention. As a result, this study’s first objective to describe the factors that influences the Development of the industrial investment fund for the local Government in Henan, China is gratified. In this study, it is validated that Supervision system structure is the significant factor that

stimulates peoples' Industrial investment fund for the local government in Henan, China. Accordingly, H1a states that there is a relationship between Supervision system structure and Industrial investment fund for the local government in Henan, China.

In addition, in this study, it is also corroborated that Market exit mechanism is the significant factor that stimulates peoples' Industrial investment fund for the local government in Henan, China. Accordingly, H2a states that there is a relationship between Market exit mechanism and Industrial investment fund for the local government in Henan, China. Apart from that, this study vindicated that Professional talents is also a significant factor of policy Industrial investment fund for the local government in Henan, China. Similarly, H3a states that there is a relationship between Professional talents and Industrial investment fund for the local government in Henan, China.

In this research, it is confirmed that Industrial investment fund for the local government in Henan, China is a significant factor that arouses policy Development of the industrial investment fund for the local Government in Henan, China. In this study, it is also validated that Industrial investment fund for the local government in Henan, China mediates the relationship between the independent variables and the dependent variable Development of the industrial investment fund for the local Government in Henan, China. Accordingly, H1b, H2b, H3b, H5b and H6b state that there is a mediating effect of Industrial investment fund for the local government in Henan, China in the relationship between these two groups of variables.

5. Conclusion and Discussion

Industrial investment fund for the local government in Henan, China failed to mediate the relationship between the Lack of risk prevention and Development of the industrial investment fund for the local Government in Henan, China. In this study, Age group and Education Level difference has significant impact with regards to policy Development of the industrial investment fund for the local Government in Henan, China. Policy that fall under the age group of 50 and less is found to be different with policy of the age group 50 and above in connection to their Development of the industrial investment fund for the local Government in Henan, China. Accordingly, H₈ states that there is an association between Age and Development of the industrial investment fund for the local Government in Henan, China. Correspondingly, it is identified that Education Level has significant difference with regards to policy Development of the industrial investment fund for the local Government in Henan, China. Policy of Foundation/Pre-U education background is found to be distinguishable with policies who are PhD / Doctorate holders in relation to their Development of the industrial investment fund for the local Government in Henan, China. Similarly, H₉ states that there is an association between Education Level and Development of the industrial investment fund for the local Government in Henan, China.

This study has revealed that higher the perceived supervision system structure and market exit mechanism of industrial investment fund for the local government in Henan, China, policy Industrial investment fund for the local government in Henan,

China becomes higher. Industrial investment fund for the local government in Henan, China providers and industrial investment fund for the local government in Henan, China business developers will have to realize the importance of knowing and understanding policy perception on industrial investment fund for the local government in Henan, China as is vital in inducing policy.

The Chinese market is an ever booming market whereby access to information is becoming more effortless and easier to the extent it has become a necessity.

Hence, industrial investment fund for the local government in Henan, China providers as well as industrial investment fund for the local government in Henan, China business developers should advertise or promote the idea that industrial investment fund for the local government in Henan, China is a useful tool while advocating its ease of use. This will motivate policy to think or have a good impression on the industrial investment fund for the local government in Henan, China.

References

- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis*, seventh edition. Upper Saddle River, New Jersey: Prentice Hall.
- Jinping, X. (2016). Speech at the symposium on philosophy and social sciences, Xinhuanet, May 18.
- Nunnally, J. C., & Bernstein, I. H. (1994). *Psychometric Theory*, 3rd Edition. New York, McGraw Hill.
- Ting, I. W. K., & Lean, H. H. (2011). Capital structure of government-linked companies in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*. 7(2). pp. 137–156.
- Wang, H., Zweig, D. and Lin, X. (2011). Returnee entrepreneurs: impact on China's globalization process, *Journal of Contemporary China*, Vol. 20 No. 70, pp. 413-431.
- Yinxing, H. (2016). Building a theoretical system of socialist political economics with Chinese characteristics based on innovative theory, *Economic Research Journal*, No. 4.
- Yu, Y., Luo, W., Lee, Y., & Zhu, Q. (2014). Investment behaviour and performances of government-sponsored venture capitals. *Economic Research Journal*, (2), 32-46.
- Yu, Z. (2016b). The development of political economics with Chinese characteristics, *People's Daily*, February 23.
- Zhang, G. B. (2008). The choice of formal or informal finance: Evidence from Chengdu, China. *China Economic Review*, vol.19, no. 4, pp. 659-678.
- Zhou, L., Chan, E. and Song, H. (2017). Social capital and entrepreneurial mobility in early-stage tourism development: a case from rural China, *Tourism Management*, Vol. 63, pp. 338-350.

Creative Commons licensing terms

Author(s) will retain the copyright of their published articles agreeing that a Creative Commons Attribution 4.0 International License (CC BY 4.0) terms will be applied to their work. Under the terms of this license, no permission is required from the author(s) or publisher for members of the community to copy, distribute, transmit or adapt the article content, providing a proper, prominent and unambiguous attribution to the authors in a manner that makes clear that the materials are being reused under permission of a Creative Commons License. Views, opinions and conclusions expressed in this research article are views, opinions and conclusions of the author(s). Open Access Publishing Group and European Journal of Social Sciences Studies shall not be responsible or answerable for any loss, damage or liability caused in relation to/arising out of conflicts of interest, copyright violations and inappropriate or inaccurate use of any kind content related or integrated into the research work. All the published works are meeting the Open Access Publishing requirements and can be freely accessed, shared, modified, distributed and used in educational, commercial and non-commercial purposes under a [Creative Commons Attribution 4.0 International License \(CC BY 4.0\)](https://creativecommons.org/licenses/by/4.0/).