



## GROWTH SUFFICIENCY OF THE INDUSTRIAL INVESTMENT FUND FOR LOCAL GOVERNMENT IN HENAN, CHINA

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### Abstract:

This study aims to explore the determinants of sufficient growth of the Local Government Industrial Investment Fund in Henan, China. The industrial investment fund in China started with the development of an overseas investment fund. China has become the world's second-biggest equity investment market. Industrial capital has thrived in recent years. In China, local government investment funds also have a broader role and importance and are becoming an important funding mechanism that local governments can function and encourage. This research methodologically constitutes a quantitative study. Another is the consequence, rather than explaining variables as a cause. Under the probability sampling design, the analysis uses the basic random sampling approach, using survey methods that include structured questionnaires. The result indicates that the local government's industrial investment fund in Henan, China, would be an infrastructure for economic development.

**Keywords:** growth sufficiency, industrial investment fund, local government, Henan, China

### 1. Introduction

The Industrial Investment Fund started in China with the creation of an industrial investment fund abroad (Wu and Ma, 2018; Wu et al., 2008; Yau et al., 2008; Ying et al., 2016; Yinxing, 2016). According to the Interim Proposals for the Management of Industrial Investment Funds drawn up by the former National Growth Planning Commission in 2006, Industrial Investment Funds (or Industrial Funds for short) refers to a scheme of mutual investment sharing benefits and equity investment risks and

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management services for unlisted undertakings to set up a fund company through the provision of fun-sharing services (Shi, 2016). China has become the world's second-largest equity investment market in terms of size. The fundamental explanation is that China's local government directs the participation of funds, enabling China's equity investment market to be in a high position (Lin, Jung & Zheng, 2018). Local governments have started to explore new models of monetary funds to adjust to market operations because of the downturn in local government economic growth and fiscal revenue growth, as well as the high demand for medium and long-term capital from local governments (Gu & Lu, 2014). However, because of its reasonably adequate legal structure and risk situation, China's local government investment funds also have a broader position and importance. They are becoming an important funding mechanism that local governments can operate and encourage. After a critical decision to deepen the reform of the economic structure was taken by the Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China, the investment and financing modes of local governments were gradually changed from the single debt-raising mode to the creditor's rights and equity financing mode. They were genuinely interested in financing, venture-raising and financing (Gu & Lu, 2014; Azam and Moha Asri, 2015; Tham et al., 2017; Udriyah et al., 2019).

Huang (2018) reported that 546 government industrial investment guidance funds were set up in East China by the end of June 2018, with a total target size of 2,174.7 billion yuan, ranking first in the country in terms of quantity and target size. The overall target size of the North China government-industry investment guidance fund is 1,554.1 billion yuan, which is the second largest in China (The National Bureau of Statistics of China, 2019).

The sector guidance fund, as a parent fund, invests in several sub-funds. Compared to model, this model leads to the emergence of funds in the form of parent funds, we can realise the project's investment through parent fund and sub-fund, it not only embodies the government's influence over the industrial path in the selection of sub-funds by fund managers (Chen, 2011; China Venture Capital Institute, 2012), but also embodies the definition of market activity (Baker and Wurgler, 2002; Berger and Udell, 1998; Berger and Udell, 1995; Chen, 2004; Chen and Strange, 2005; Li et al., 2011). Although context companies not sponsored by the government, but state-owned enterprises can refer to this model to set up growth funds for related industries, the preferred capital of the bank should be leveraged after self-financing is inferior (George and Mallery, 2003; Berkman et al., 2016; Brigham et al., 2004). Firstly, via the management channel, the fund is spent, and then the trusted channel invests the fund into the project. At present, the regulation is more stringent, and this mode will be affected to some extent in the environment of channel business call-off.

Government investment funds are important limited partners (LPs) in hybrid funds. According to the survey report of CITIC, the main obstacles encountered in the growth are as follows: Domestic LP private equity investment experience is insufficient, and the number of qualified LP is limited; the domestic policy and legal environment is

not mature enough, LP cannot choose GP and risk control; among them, LP lacks investment experience and reduced ability of GP selection and risk control, accounting for 17.93% respectively; there are fewer qualified LPs in China, accounting for 17.39%; the legal environment is immature, accounting for 14.49% (The National Bureau of Statistics of China, 2019).

Recalling the situation of new domestic and international listed companies in the province of Henan relative to the provinces of Zhejiang, Hubei, Hunan, Anhui and Sichuan compared to the other provinces, the overall situation of listed companies in the province of Henan is inadequate (Jinping et al., 2015; Hailiang et al., 2016; Frank et al., 2009; Gang, 2015).

In the financing process, Henan Province is restricted by high costs and limited channels, with many barriers, such as financing through the issuance of corporate bonds and bank loans, leading to increased costs and difficulties in financing (Rachmawati et al., 2019; Azam and Yusoff, 2020; Azam et al., 2020). Financing problems facing both small and medium-sized businesses and high-tech enterprises have become increasingly prevalent and are seriously limiting business development and growth (Azam et al., 2014; Haur et al., 2017; Katukurunda et al., 2019). In addition, because of overcapacity and economic downturn, whether listed companies with several funding networks or relevant functional divisions, the skill and incentive of direct investment in related industries are insufficient, investors are more likely to invest by setting up suitable industrial investment funds and competent management teams to achieve the target (Jinping, 2016; Kaplan et al., 2000; Klein et al., 2002; Jinju et al., 2016).

Henan Province has developed more than 40 advanced manufacturing funds in recent years, and modern service industries have invested 12.71 billion Yuan and made substantial progress in quantity and size (Lucey et al., 2013; Luig and Sorin, 2009; Luther et al., 2005; Li et al., 2009; Wang et al., 2011; Wang et al., 2014; Lisboa, 2017; Liu et al., 2006). In order to set up 12 funds for the growth of small and medium-sized enterprises for scientific and technological innovation, the government has directed social capital to set up 12 funds for the development on small and medium-sized enterprises for scientific and technological innovation, the funds invested exceed 3 billion Yuan, 164 enterprises were funded to promote the growth on small and medium-sized enterprises. By the end of 2017, Henan Province had set up 65 industrial investment funds, totalling 245,067 billion yuan. However, it is difficult to distinguish the growth of industrial investment funds from the support and direction of government policies (Qing Research Center, 2018; Dewi et al., 2019; Nguyen et al., 2019).

Local government industrial investment funds therefore need to centralise the establishment of government-led industrial investment funds under government guidance to attract social capital and broaden funding channels for small and medium-sized enterprises, optimise the structure of corporate equity, encourage free innovation and upgrade the transformation of enterprises, and exercise effectively Secondly, conventional industries face the predicament of excess power, which is mainly reflected in the backward mode of development, the lagging transformation of new and old kinetic

energy, the prominent structural paradox, the poor quality of the supply system and the inadequate capacity for innovation. The goal of this study is therefore to determine the growth adequacy of the Local Government Industrial Investment Fund in Henan, China.

## 2. Literature Review

The theory of structural economics, on the other hand, points out that it can be fixed by fiscal, administrative and legal means when external factors cause market failure. The government will enable companies to continue scientific and technical progress by offering positive externalities through tax reforms and financial subsidies to businesses. It operates on a market-oriented model after the establishment of the government venture capital guiding fund. Via investment and venture capital institutions, the government forms a fund, thereby reducing the degree of the risk investment process (Maghfuriyah et al., 2019; De Silva et al., 2017; Kuruwitaarachchi et al., 2019; Pambreni et al., 2019). Economic theory points out that it can be corrected by economic, administrative and legal means when the economy fails because of external factors. The government will enable companies to continue scientific and technical progress by offering positive externalities through tax reforms and financial subsidies to businesses. After a market-oriented government venture capital guiding fund, government investment funds and venture investment institutions, thus reducing the risk of venture capital institutions, while at the same time reducing the risk of the government through the “*benefiting the people*” process, in guiding the start-up investment company’s exit fund, generating revenue to the government section for most of the government section. The driving force for raising the anticipated returns of venture capital firms, under the assumption of risk mitigation, directs more venture capital to enter the venture capital market, thus addressing to a certain degree the funding difficulties of venture capital companies.

A modern growth paradigm for contemporary human beings is the principle of growth sufficiency. It is realised by reflecting on the development and living behaviour of human beings and worrying about reality and the future as the world faces three major economic, social and environmental problems. The United Nations Conference on Environment and Growth, held in Rio de Janeiro, Brazil, since 1992, established growth adequacy as a common human society strategy, the theory of growth adequacy. In recent years, China’s research on the theory of growth sufficiency has been growing. From the perspective of practise, some scholars conclude: “*Growth adequacy is the coordinated interaction of politics, economy, culture and ecological nature; its essence is the growth adequacy of the practise and practical ability of human production.*” Indeed, the principle of sufficiency in growth has given us a new level of thought and way of thinking. It incorporates rich ideological connotations and broad philosophical principles and encourages people to evolve from the co-ordinated development of the ecological environment and economic growth to the growth of economic, industrial, cultural and human social activities. In China, the growth adequacy of local government industrial investment funds has drawn the attention of scholars: economic growth is the centre of growth adequacy. Edward B.

Barbier describes growth adequacy in the book, *Economics, Natural Resources, Insufficiency and Growth*, as “*optimising the net benefits of economic growth while preserving the quality of natural resources and the services they provide.*” “*Economic growth is the main way of defining the concept of sufficiency for growth,*” and the sufficiency for growth of economic growth itself “*should be the important content and the first area of the strategy for sufficiency for growth.*” I assume so. If the growth adequacy of human development processes and functional capacity is the nature of growth adequacy, then the growth adequacy of the industrial investment fund of the local government is the growth adequacy of economic growth.

Strengthen the regulation of the running of the fund by industrial investment funds in order to prevent the possibility of business failure. In order to prevent the depletion of the capital of the industrial investment fund due to human factors, the government should take part of the restricted financial funds to invest in the industrial investment fund (Chun et al., 2019; Yang et al., 2019), so it needs to take the requisite steps to improve the regulation of the capital risk of the industrial investment fund. Moreover, in the follow-up of the growth of industrial investment funds, a strict approval process should be established and perfected, a diversified fund market should be established, businesses should be encouraged to innovate and form different financial derivatives, supervision of the financial derivatives market should be strengthened and advanced foreign experience should be learned to improve the growth of Chinese funds, but it cannot be completed. We should draw lessons from China’s national conditions and create good external conditions for the smooth operation of the industrial investment fund market (Wang, 2003).

### 3. Research Methods

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, fund convergence are independent variables. The policy is an intermediate variable, and sufficient promotion of industrial investment fund growth is a non-independent variable. Rather than describing variables as a cause, another is the effect. Quantitative studies of common frameworks examine causality (Sekaran and Bougie 2016). Therefore, the dependent variable is affected by the independent variable/variable, and its effect can be positive or negative. In this study, it is aimed at all residents in Henan Province, China. The purpose of this study is to examine the factors affecting the growth of local government industrial investment funds in China, so the population is composed of individuals. And, the present study employs the simple random sampling method under the probability sampling design, because this study focuses on all residents in Henan Province, China. The sampling technique will be surveyed method for this study, as it is accepted as the best method to investigate the personal and social facts, beliefs, motivation, approach, concerns (Hamid, 2014). Hence, the sample frame of the present study is all residents in Henan Province, China.

#### 4. Findings

520 samples were finally used for this study and consists of 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 less 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 (Collis & Hussey, 2009). Moreover, 46.7% are Degree holders whereas 26% have minimum of Diploma proficiency. Allegedly, 14% are furnished with pre-university education. Besides, the KMO test that measures the sampling adequacy stipulated 0.955. Hence, the sample size is adequate (Newman, 2011). Moreover, Newman (2011) recommended 0.5 as a minimum KMO value and also designated values above 0.9 as superb.

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 are over 0.7 which are inside the adequate greatness. There are 5 items in this construct. Bagozzi and Yi (1988) sanctions composite reliabilities of greater than 0.60 is satisfactory. Thus, that being the case, composite reliabilities of all the constructs are 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 for each construct in the measurement model shows an adequate convergent validity and discriminant validity in the model. After conducting the CFA for measurement models in each variable in the conceptual framework, the Structural equation modeling (SEM) was performed to test the fit between the research framework and the obtained data. Hence, all the model fit indicators of the structural regression model are within the acceptable threshold. 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.

There is a significant impact ( $\beta = 0.558$ ,  $p < 0.05$ ) of Supervision system structure on Policy. The 95% confidence interval for Supervision system structure is [0.420, 0.675] whereby the value 0 does not fall within the interval, again indicating Supervision system structure is a significant predictor. 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 Growth sufficiency. 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 (Hair *et al.*, 2006; Hair, et al., 2010; Pallant, 2011).

## 5. Discussion and Conclusion

This section presented the results of the collected data for statistical analysis. The chapter reviewed the dissection of the screening of the results. An example of descriptive statistics of the demographic profiles of the trails of the respondents is constant. This is accompanied by a descriptive evaluation of the variables of policy satisfaction used in the analysis, along with the preliminary analyses discussed. Most notably, the Exploratory Factor Analysis and Confirmatory Factor Analysis results of the core estimation methodology of this research are outlined in this section. The study ends with Structural Equation Modeling. Finally, this segment ends with the findings of the hypotheses. The study took very thorough steps to define the factors affecting the policy development of the Local Government Industrial Investment Fund in Henan, China. In order to establish the research methodology, a significant volume of literature is reviewed. Persistently, from churning the data to empirically analysing it a well-defined analysis approach is designed to the right. Exploratory factor analysis, confirmatory factor analysis and Structural Equation Modeling statistical data analysis techniques were used.

Structural regression model statistics showed that the structure of the supervisory system had a major effect on the local government's Industrial Investment Fund in Henan, China. In addition, the business exit process has also shown a significant positive relationship with the local government's Industrial Investment Fund in Henan, China. In addition, there is a major positive partnership between technical talent and the local government's Industrial Investment Fund in Henan, China. In addition to being a reference to the local government's industrial investment fund in Henan, China providers and local government's industrial investment fund in Henan, China company developers enter their marketing strategies to fit policy and behavioural development adequacies, the growth of the local government's industrial investment fund in Henan, China will not only be an infrastructuring fund.

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