

On the Current Status and Countermeasures of the Investment Mechanism of China's Cultural Industry

Shuting Jing

School of Economics and Management
Changchun University of Science & Technology
Changchun, Jilin, China 130022

Rui Huang

School of Economics and Management
Changchun University of Science & Technology
Changchun, Jilin, China 130022

Abstract—As one of the pillar industries of the national economy, the culture industry plays a vital role in promoting the prosperity of socialist culture. The effective operation of the culture industry investment mechanism serves as the basis for the sustainable development of culture industry. By analyzing the current status of China's culture industry investment mechanism, this paper found several bottlenecks, such as single investment channel, low efficiency of industrial investment, high bar for investment and lack of a guarantee system. To solve these problems, the paper put forward some suggestions, including forming a sound policy support system, broadening the source of funds, setting up diversified investment channels, actively building an information platform for culture industry investment and enhancing the connection between the culture industry and the capital market.

Keywords—culture industry, investment mechanism, operating efficiency

I. INTRODUCTION

Since the founding of the Department of Culture Industries in 1998, the culture industry in China has developed rapidly with the promotion of national policies, and has made breakthroughs in many fields such as press and publication, film and television, animation games, performing arts and cultural tourism, thus making great contribution to the development of the national economy. As to the culture industry investment mechanism, it is a legal and policy regulation for the rights and responsibilities, organization, supervision, implementation and other parts of culture industry investment. It aims at implementing the laws and policies of culture industry investment, conducting mutual operation of relevant parts to achieve the expected results, and timely detecting and adjusting the various problems during the implementation of the investment. The culture industry investment mechanism is the guarantee of the culture industry investment efficiency system, which covers complex contents, mainly including the relevant laws and regulations of the culture industry, the establishment and responsibilities of culture industry investment institutions, their total budget, the plan for capital gain, the government procuring and bidding system, investment efficiency evaluation system and other related system. The efficient operation of the culture industry

investment mechanism is very critical to the development of the culture industry.

II. CURRENT STATUS OF CHINA'S CULTURE INDUSTRY INVESTMENT MECHANISM

A. *The Government Continues to Strengthen Investment*

In recent years, governments at all levels have been increasing their investment in culture industries. According to the National Bureau of Statistics, the fixed assets investment in the culture industry was 2.8898 trillion Yuan in 2015, an increase of 22% over the previous year. Its share of the total investment in fixed assets investment of the society hit 5.1%, a 0.5 percentage of year-on-year increase, and this growth is 8.2 percent faster than the average speed of asset investment every year. The investment scale keeps expanding, which has effectively fueled the rapid development of the culture industry, and the investment in the cultural leisure and entertainment service industry reached 1.0784 trillion Yuan, accounting for 37.3% of the whole culture industry, making it the largest industry in investment scale. Among the many industries, the cultural information transmission service industry with "Internet Plus" as the main form has grown in the fastest speed, up 77% year-on-year. Following are the cultural exclusive equipment, the press and publishing service industry, and the cultural creativity and design service industry, with the increase of 41.8%, 40.7% and 38.1% respectively. In 2015, the Ministry of Culture included the development of distinctive culture industries in the major support list of the special fund of the development of central financial and culture industries, with a fund of 166 million Yuan. The Cultural Finance Support Program, a special fund for the development of the central financial and culture industries, has provided 1.18 billion Yuan of financial support to 138 key projects, and the amount of funds increased by 75 percent year-on-year[1].

B. *The Inflows of Cultural Capital Continue to Grow*

In order to comply with the rapid growth momentum of the culture industry, China focuses on the innovation of the capital market and accelerating the construction of multi-level capital markets for culture industry services. In recent years, the total amount of funds flowing into the culture industry through the major channel of capital market has been rising with a fast

speed. According to the 2018 Cultural Enterprise Financial Ecology Report, The total inflow in 2017 reached 534.852 billion Yuan; an increase of 11.25 percent compared with 2016, and still maintained a relatively high growth rate.

Culture industry has become a new economic growth point in many places. Therefore, local governments are keen to invest in the culture industry. The added value of culture industries in Beijing increased from 169.77 billion RMB in 2010 to 357.05 billion RMB in 2016, and its share of the city's GDP increased by 14.3 percent, further enhanced its role as pillar industry. In order to solve the common financing difficulties in cultural enterprises, since 2007, Beijing Cultural Creativity Center has signed strategic cooperation agreements with the Bank of Beijing, BOCM Beijing Branch, ICBC Beijing Branch and ABC Beijing Branch to support the development of culture industry in Beijing with financial capital. From 2007 to 2016, the four banks issued a total of 17,738 loans with the amount of 157.1 billion Yuan. As of the end of May 2017, the balance of RMB loans of Beijing Chinese banks in the culture industry was 142.41 billion Yuan, a year-on-year increase of 32.2 percent[1].

C. The Concentrated Inflow of Fund into the Four Traditional First-tier Regions: Beijing, Guangzhou, Shanghai and Zhejiang

China's culture industry and capital meet in the four traditional forefronts of Beijing, Guangzhou, Shanghai and Zhejiang. There are two reasons for this. One is the sound economic foundation in the four regions. Based on the statistics of the National Bureau of Statistics, In the GDP rankings of all regions nationwide in 2016, Beijing, Guangdong, Shanghai and Zhejiang ranked in the first line. The other is the favorable environment for cultural financial development and, relatively mature culture industry investment and financing service system, as Beijing, Shanghai, Guangdong and Zhejiang are leading the nation with great edges in finance and culture sectors. Due to their profit-oriented traits, all kinds of capital based on social capital, have flowed into the culture industry in these regions.

III. PROBLEMS IN THE OPERATION OF CHINA'S CULTURE INDUSTRY INVESTMENT MECHANISM

The inadequate culture industry investment and financing mechanism, the bad financing channels and other problems have turned the development of the culture industry to a bottleneck period. We are facing grave challenges in the thriving China's culture industry.

A. Single investment channel

At present, our culture industry investment channels are narrow[2], the degree of diversification is at a low level, and effective integration is lacking. Even currently we have various investment methods of culture industry including venture capital, private equity investment, bank investment and government funding, the development of culture industry is too dependent on direct government funding, while the due influence of other financing methods has not been fully exerted. Moreover, the government financial fund is limited, the

administrative views are backwards, and together with the low efficiency of financing, the development of China's culture industry has been seriously constrained. The government invests in culture industries mainly through investment subsidies, interest subsidies and loan transfers, however, in most regions and departments of the country, the government investment in culture industries is mostly limited to the single form of investment subsidy, and rarely involves interest subsidies and forms of loans.

B. Low Efficiency of Industrial Investment

The culture industry is a promising industry with broad prospects and great development potential. China's culture is still at an early and immature stage of development. At present, the investment efficiency and capital utilization rate of Chinese domestic business entities in the culture industry are generally low, and there is still a large gap with that of the western developed countries. Take the film industry as an example. In 2016, China's total box office was 45.712 billion yuan (about 6.6 billion US dollars), up 3.72 percent year-on-year, 2.2 percent higher than the growth rate in the North American market. But compared with the growth rate of 48.7 percent in 2015, there was a straight flop. Moreover, there was a year-on-year decline in box office in seven months of the year, with the highest decline of up to 33%. Movies shown in the theater accounted for only about 40% of the total production, and the box office of 60% of the films released were less than 10 million Yuan, which means that a large part of the investment funds are difficult to recover.

C. High Bar for Culture industry Investment

With the development of China's culture industry, the restrictions on investment have been relaxed, but the investment bar is still higher than other industries. In terms of market access, there is actually no specific and practical culture industry guiding policy in most parts of China. Although some competitive industries in the culture industry have begun to open to non-public capital, the degree of openness is not enough. Due to the particularity of the culture industry, most of the industry categories have strong ideological and political attributes and involve national security issues. Therefore, only private capital and some foreign capital are allowed to enter a small number of industries, only certain of the culture industry chain. The investment in the link has resulted in the low utilization rate of non-public capital and foreign capital in the culture industry[3]. In addition, relevant functional departments at all levels have the power to organize large cultural and artistic activities with great influence and wide participation, while private capital can only organize and take part in some small and medium-sized recreational activities for commercial promotion.

D. Lack of guarantee system

The prosperity of the culture industry must be underpinned by strong cultural enterprises, and cultural enterprises must rely on financial support to achieve the goal of expanding and thriving. However, with the current financial guarantee system, it is difficult to guarantee the financing needs of cultural enterprises. Although the national documents clearly promote

the cooperation between culture and finance, in fact, the integration and development of the culture industry and the financial industry have always stagnated. China's cultural enterprises mainly finance through bank loans, and at the same time obtain funds through stock financing, bond financing, financial leasing and overseas financing. While in the practical situation, in order to evade financial risks and reduce non-performing assets, banks generally implement a system that requires the borrower to provide a loan guarantee system with guarantees, mortgages and pledges. According to current regulations, for better valuation and liquidation, mortgage assets must be tangible assets such as machines, houses and products, but cultural enterprises are mostly light asset enterprises, which are difficult to set up mortgages.

IV. SUGGESTIONS ON IMPROVING THE EFFICIENCY OF CHINA'S CULTURE INDUSTRY INVESTMENT MECHANISM

If we want to achieve a leap-forward progress in the culture industry, we must first solve the bottlenecks. We must adjust the investment system of the culture industry, improve the investment environment, improve the efficiency of cultural investment activities, find more innovative opportunities for the investment mechanism, and create a good investment climate.

A. *Build a sound policy support system*

First, the government should establish a comprehensive and coordinated taxation system for the culture industry. If the culture industry wants to achieve breakthrough, it must be supported by the government's tax policy [4] which, however, must be targeted, that is, set specific preferential systems and implementation standards in all aspects of the industrial development. The government should establish a scientific, perfect, systematic and targeted taxation system, and implement more effectively the taxation policies. Through taxation support, the innovation potential of the culture industry can be stimulated and the industry can strike a balance between innovation and coordination alongside its development. Meanwhile, tax relief policies enable capital flow to the region where the culture industry is weak, realizing the comprehensive development in all regions. What's more, products and services exported by the culture industry should be supported in terms of taxation. Enterprises should be encouraged to make innovations, and develop core technologies, which are conducive to establishing a good brand image, enhancing brand value and the competitiveness, and occupying a more influential international status.

Second, improve the legal protection mechanism of the culture industry investment system. Laws and regulations are accepted standards for handling various types of disputes and are binding. The effective implementation greatly reduces the cost of supervision. There is a significant difference between the investment in the culture industry and the industry that relies on labor and technology. At present, the innovation of knowledge and the creativity of talents are particularly important. The Chinese government should strengthen legislation and effectively deal with the copyright issues related to intangible assets, adopt the legal means to create a good

competitive atmosphere and encourage a variety of other types of capital investments related to it.

B. *Broaden funding sources and build diversified investment channels*

First of all, governments at all levels should scale up budgetary expenditures in the government budget, and enhance the using efficiency of funds. They should adjust the government's financial input mechanism to adapt it to the development of culture industries, and support the public cultural services and the research and development of cultural enterprises' independent intellectual property rights. Secondly, although China's commercial banks have begun to lower the loan threshold, the loans are still insufficient for the development of cultural enterprises compared with the broader capital needs. Moreover, as an intangible asset-light, the culture industry cannot match some traditional financial products such as stocks and bonds. There are barriers in mortgage loans, the evaluation of property rights and other aspects between enterprises and financial institutions. Given this, it is urgent to establish a sound investment mechanism for culture industries [5], as well as a safe and reasonable risk assessment mechanism to evaluate the culture industry. Furthermore, the loan model of the culture industry should be more targeted and safe and profitable. Finally, we cannot blindly introduce private capital into the cultural field. Investors must be sensitive to investment opportunities in the culture industry, and recognize that culture industry investment is a complicated activity. They should invest after making risk evaluation by making clear whether China's current policy and regulations are favorable, whether the market mechanism is perfect and how the market runs currently.

C. *Build a cultural industry investment information platform*

In today's era, scientific and technological information is developing at a rapid pace. Therefore, it is possible to build an investment information platform to achieve good information communication between culture industry and related departments, thereby increasing the transparency between banks and enterprises, and promoting mutual understanding. It reduces the risk of investment and attracts both private capital and foreign capital into the culture industry. First, we need to select high-quality projects from the culture industry catalogue, and then combine these projects to form a database, and promote the use of financial products to offer a two-way choice. It builds a bridge between cultural enterprises and financial institutions and ensures the investment efficiency of the culture industry. Second, it is necessary to promote a long-term cooperation mechanism between the government and banks [6]. In recent years, the Ministry of Culture has joined hands with the Ministry of Finance, the People's Bank of China and other departments to establish a fund raising system, creating greater possibilities for multi-channel investment in culture industries. It also creates favorable conditions for government agencies and financial institutions to communicate and cooperate, and gradually promote a long-term mechanism for cooperation between the government and banks.

D. Promote the connection between cultural industries and capital markets

We have been lacking of a multi-level, diversified capital market structure for a long time. The current single market structure fails to meet the financing needs of different enterprises. Therefore, the establishment of a sound capital market is an important step for SMEs to achieve financing. To improve the openness of China's capital market and make the capital market and the culture industry fully integrated, we can adopt the following methods. First, accelerate the establishment of curb exchange, improve the lower-level capital market, and expand the market scale, to let more enterprises join the culture industry market so as to promote the low-end capital market transformed into a high-end one. Second, promote the cultivation of financial talents in the culture industry [7]. Invest more resources to cultivate the composite talents that know well both financial expertise and culture industries. That is to lay the cornerstone for the development of the culture industry. Third, strengthen the supervision of cultural enterprises for going public; prevent violations of regulations from damaging the development of culture industries. We must also improve the delisting system of listed companies in the culture industry, to maintain a good market order, build a stable and harmonious capital market, and enable the culture industry to achieve leap-forward development in a favorable environment.

V. CONCLUSION

In recent years, the Chinese government has strengthened its investment in the culture industry which is an important part of the comprehensive national strength, and has allocated more fund for the development of the central financial and culture industry. In addition, the fund raised from the capital market keeps increasing, and are mainly flowing to Beijing,

Guangzhou, Shanghai and Zhejiang, the four traditional frontline regions, which promote the sound development of China's culture industry. However, the industry still faces great challenges like the single investment channel, low industrial investment efficiency, high culture industry investment threshold and lack of guarantee system, making it hard to advance. Therefore, if we want to achieve sustainable development in culture industry, these bottlenecks must be addressed. We can build a sound policy support system, broaden the sources of funds, build diversified investment channels, build a platform displaying culture industry investment information, and promote the interactions between culture industry and the capital market, so as to effectively promote the development of China's culture industry.

REFERENCES

- [1] National Bureau of Statistics. <http://www.stats.gov.cn/>
- [2] Li Chong. Financial Support for the Development of Culture Industry—Based on the Perspective of Cultural Industry Investment Fund [J]. *Western Finance and Accounting*, 2015, 3:44-45.
- [3] Qu Zhangchang. Innovative Development of China's Cultural Industry Investment Fund [J]. *Technology and Enterprise*, 2013, 1:98-102.
- [4] Chen Bo, Wang Fan. The Financing Model of Western Three Countries' Cultural Enterprises and the Experience [J]. *Wuhan University Journal(Humanity Sciences)*, 2013, 1:80-84.
- [5] Li Huacheng. European and American Cultural Industry Investment and Financing System and Its Enlightenment to China [J]. *Science & Technology Progress and Policy*, 2012, 7:107-112.
- [6] Zhu Yajie. On the Obstacles in the Operation Mechanism of China's Cultural Industry Investment Funds [J]. *Jiangsu Commercial Forum*, 2016, (26):60-61.
- [7] Zhang Ruijuan. Obstacles and Ways of Financial Support for the Development of Cultural Industry--Taking Bazhou, Xinjiang as an Example [J]. *Times Finance*. 2014, (9):70-75.