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Analysis and countermeasure study on the investment and financing methods of cultural industry

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ABSTRACT

The development of cultural industry in China is facing huge challenges in investment and financing methods. This thesis firstly brief introduce the current situation of cultural industry and major problems on the investment and financing methods, then analysis several existing investment and financing methods and even their shortages, and finally put forward corresponding advises in changing investment methods by the government, innovating financial instruments, making full use of the venture investment channels and establishing intermediary organizations.

KEYWORDS

Cultural industry; Investment and financing; Methods; Countermeasure.

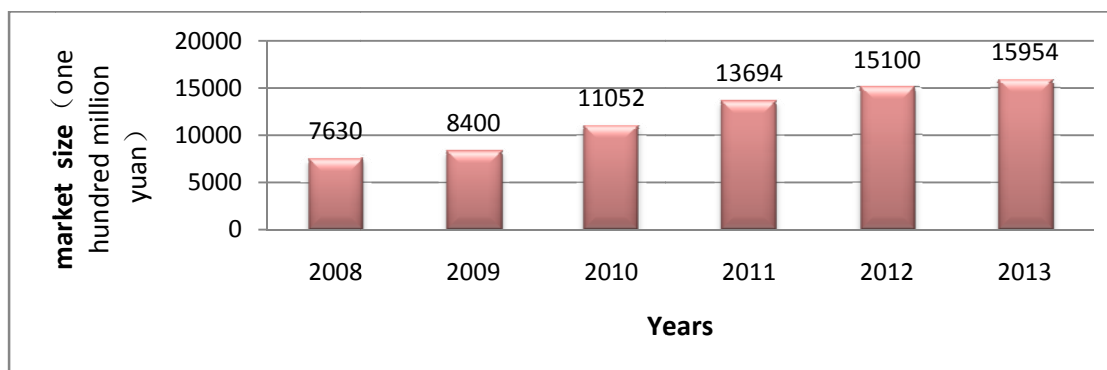


INTRODUCTION

The added value of cultural industry in 2013 is up to 210 billion, increasing by 15% year on year, constitutes about 3.77% of the total GDP^[1], which further boosts the economic development. Cultural industry was attached great importance at the National People's Congress and the Chinese People's Political Consultative Conference. ("two meetings" as follows). Premier Li mentioned cultural construction several times at the conference, "we should continue deepen reform of cultural system, improve policies pertaining to the cultural economy..... enhance China's cultural soft power". Thus, the government and all walks of life begin to pay close attention to the development of cultural industry.

The Ministry of Culture recently introduces lots of policies for the benefit of cultural industry, which certainly in turn would promote the development of cultural sector and relate industries, such as finance, insurance, technology, real economy and so on. Especially the cooperation between cultural sector and financial sector, which really provoke some financial institutions highly support the financing and investment on cultural industry, for example, currently, China Development Bank and Hunan Provincial Branch of Import and Export Bank and other banks gradually to support the development of financing and investment on cultural industry. Wuxi Rural and Commercial Bank has established the first "cultural bank". Cultural industry in China shows the trend of rapid growth. The TABLE below shows market scale of cultural industry in recent years.

TABLE 1 : Market scale of cultural industry in recent years



http://www.ce.cn/culture/gd/201402/07/t20140207_2254072.shtml; Source from related data on the NBS website

From the TABLE above, changes of cultural industry in China can be clearly seen. Market scale is growing wider and wider, annual growth rate reaches 16.3%, and the added value of cultural industry has accounted 3% among the total GDP.

Although China has introduced lots of policies to back the development of cultural industry, for its late start compared with western countries, specific characteristics of its own, challenges in investment and financing, which altogether are obstacles for the development of cultural industry. As a kind of intangible asset, it's not easy to use cultural industry as collaterals for bank loans. There are also some shortages and lag behinds in the innovation of financial instruments by financing institutions. Due to the lacking of intermediary organizations between cultural industry and financial institutions, thus it's hard for cultural industry to gain support from financial institutions. Monetary support from government is limited to large state-owned cultural enterprises, thus it's that difficult for most small and medium sized cultural enterprises to realize investing and financing, which would certainly restrict the overall economic development of cultural industry. Besides, due to the imperfect market standard and mechanism, it's challenging for cultural industry to realize listing and financing, which would also hinder the cooperation between venture companies with corresponding cultural industry.

INVESTMENT AND FINANCING METHODS OF CULTURAL INDUSTRY AND THEIR SHORTAGES

Investment and financing methods of cultural industry in China mainly include financial investment from government, credit capital from financial institutions, venture investments, listing and financing and etc. However, because of traditional Chinese ideology and culture management mode, governmental financial investment still dominates cultural industry in China. And the use of other methods during the process of investment and financing is far from enough.

Financial investment from government

Although China has various investment and financing methods, governmental financial investment still plays a large part in cultural industry in recent years. Especially cultural companies, whose cultural cost has been increased since the 6th Five-Year and most money comes from the government. (see the TABLE below).

TABLE 2 : Table of basic conditions of china cultural cost

	Cultural Cost (billion)	National Financial Gross (billion)	Share of cultural cost in financial gross(%)
the 6th Five-Year	36.03	7483.18	0.48
the 7th Five-Year	62.45	12865.67	0.49
the 8h Five-Year	121.33	24387.47	0.5
the 9th Five-Year	254.51	57043.46	0.45
the 10th Five-Year	496.13	128022.85	0.39
the 11th Five-Year	1220.40	318672.05	0.38

Source from: the Ministry of Culture in China. Chinese cultural heritage statistical yearbook 2011

According to the Figure released by the Ministry of Finance, the central government have already allocated 1.06 billions to state-owned cultural enterprises from state capital operating budget from 2011 to 2012, among which 500 million have been allocated in just 2012.^[2]

In addition, traditional cultural industry, such as television broadcasting, books literature and so on, most of whose operating money also comes from government investment. Still, the government investment capital shows an upward trend year after year. By the statistics, the Ministry of Finance has invested up to 52.5 billion to cultural industry, an increase of 10.3% over the previous year. Such rapid growth rate has lasted for years, but the government still reluctant to give up management authority. Although government investment capital plays an important role during the development of cultural industry, it still owns many defects in a long term. Depending on the government investment in a long running may not only incur unnecessary waste, but also lead to low operation efficiency and rigid system, thus restrict the long-term development of cultural industry.

Financing from financial institutions

According to the Figure released by National Bureau of Statistic, 7.5% of the financing of fixed asset in China cultural industry comes from the financial institution loans. Therefore, financing from financial institutions should be regarded as one of the most important financing ways in cultural industry.

Cultural industry has the characteristics to develop light industry, whose development mainly relies on some hard-to-value intangible assets. With limited fixed asset and late start, almost 90% enterprises are still in the beginning stage, therefore the perfect evaluation system is lacking from financial institutions, thus also constrains the innovation of financial products in cultural field. Meanwhile, due to the existing complicated loan program, complex procedures and long approval time, thus it cannot meet the higher request on timelines. Beside, approved loans usually last only one year, but common projects of cultural industry frequently need a long period to take effect.

With the unfolding of “two meetings”, lots of banks are stimulated to provide cultural industry with offer investment and financing. But the two sides cannot achieve a close connection, cause on one hand, the characteristics of cultural industry may strict financial institutions, on the other hand, financial institutions can't really get into cultural industry.

Financing from domestic stock market

Stock market has become one important financing ways to develop cultural industry. Apart from the wealthy state-owned media industry and broadcast television industry, some new cultural industry try to realize listing and financing through domestic stock market. Based on the Figures of China Securities Regulatory Commission, 11 cultural enterprises went public in 2011, and the number reached almost 70 by the end of 2013. In addition, data of China Securities Regulatory Commission suggested that there are many more cultural enterprises, especially the small and medium-sized cultural enterprises plan to file their listing applications before Jan.2, 2014.

Compare with western countries such as America and etc., financing through stock market in China is still needed to be improved and perfected. Current listing standards have rigid requirements in such aspects as company scale, asset condition, main income and so on, which make it easier for large and wealthy companies to be listed. For the small-scale cultural industry, to be listed would be that difficult, even the small and medium-sized enterprises can hardly meet the standard. Although such requirements could guarantee the stability of listing companies, it also neglect those with temporary loses but high potential companies. Besides, due to the simple distribution mechanism, investment banks always are pessimistic towards new cultural industry, such as cartoon industry and Internet cause their high risk and flexibility. As a result, such enterprises turn to overseas listing, which is definitely a great loss to domestic market.

Debt financing

Bond market is another channel to invest cultural industry. Although develops very quickly in recent years, cultural corporate bond market is still in the very beginning stage and there is much room for further developing. Unlike those

western countries, which have already established perfect evaluation system and guarantee mechanism, cultural enterprises in China take debt financing is still very little. According to the statistics, debt financing in America accounts for 30% of all social financing, but less than 15% in China. The only successful case took place in 2007, when China Film Group(CFG) issued 500m enterprise bonds. And the “AAA Level” ranking from credit evaluation company and full guarantee covering from banks are the reason for its successful.

Therefore, in order to make full use of debt financing, we should perfect the guarantee system, evaluation mechanism and set issue terms for bonds.

Venture investment

Venture investment grows late in China compares with foreign countries, but its annual investment capital is up to 10 billion. Cultural industry is human-oriented, and venture investment values human resources most, thus both sides are intrinsically linked. In addition, the high potentiality of cultural industry is perfectly satisfied with venture investment. Therefore, as the sunrise industry in 21st century, we look forward the future of cultural industry.

Due to the imperfect mechanism in China, venture investment cannot form normal capital appreciation and turnover, thus cultural industry cannot combine with venture investment. More specifically shows in the insufficiency of investment fund, specifically during the development stage. Currently, venture investment capital mainly focus on traditional manufacture industry and new material industry, take up 15.7% and 10.1%^[3] of the total venture investment respectively. Cultural industry, by contrast, only accounts for 2.1%. Both the sum and quantity of venture investment shows that investment on cultural project at development stage is the least. See TABLE 3 below, sum of venture investment at development stage only takes 6.5%, quantity only takes 12.5%

TABLE 3 : Venture investment on cultural industry during different period in 2013

Project	Researching period	Starting period	Growing period	Mature period
Percentage of investment capital among total amount (%)	6.5%	13.5%	39.6%	40.3%
Percentage of investment number among all project number(%)	12.5%	24.2%	48.5%	15.2%

COUNTERMEASURES TO IMPROVE FINANCING AND INVESTMENT METHODS OF CULTURAL INDUSTRY

Changing government's supporting method

Financial input of government plays an important role in cultural industry, but too much financial input could not only contribute heavy burden to the government but also lead to lazy culture, thereby constrain the development of cultural industry. The development of cultural industry certainly needs the support from government, but the way of supporting needs to be changed. For example, government should cease financial investment to those unprofitable cultural enterprises. We should strive to cultivate leading companies, make big companies bring small and middle-sized enterprise's development. We can also implement the project strategy, expanding enterprises through key projects. Government should encourage those private enterprises try to enter the cultural field through such methods as merger and acquisition, restructuring, rental and etc., managing to realize the establishment of culture industrial cluster.

At the same time, we should perfect relevant rules and regulations, for example, lower the listing standards for cultural enterprises, especially small cultural enterprises. Also, we should take the combination of cultural industry developing lands with city plan and annual plan into account, and give first consideration to cultural industry clusters, such as some abandoned workshop and industrial sites need to be a priority for experiment areas. Government should also think over built-up lands for cultural industry during the process of countryside construction.

Besides, we should strengthen legislation, and perfect relevant legal system. For example, a reporter at the two meetings even mentioned the popular South Korean TV soaps—*My Love from the Star*. Unlike China, South Korea sets cultural-related legislation much earlier, and that's the reason why South Korea soaps that hot. Meanwhile, it also suggests cultural loss in China. So, on the basis of related law policy, cultural industry in China can flourish.

Innovate financial instruments, realize the active role of financing from financial institutions

Cultural industry has the special characteristics to develop light industry, thus difficult to receive financial support from financial institutions. Based on experience of cultural industry in foreign countries, loans from financial institutions can be regarded as the principal way to develop cultural industry. After convening of the two meetings, China spares no effort to realize financial cooperation. Therefore, financial institutions should develop and innovate appropriate financial instruments based on the features of credit for cultural industry. Besides, mortgage can be gained through asset securitization, syndicated loan, and some intangible assets such as patent rights, intellectual property, motion picture rights and etc. Also, cash acquired through entrance ticket, sales contract can be used as another way for mortgage. China Minsheng Bank once issued a 700 million loan to Dadi Cinema, which is achieved through “collecting entrance tickets from all cinemas”, and then used these

cash as mortgage. Currently, Industrial and Commercial Bank of China (ICBC), Bank of Communications (BC) and other financial institutions have gradually used intellectual property as mortgage. And in recent years, China Development Bank, together with the Ministry of Culture has carried out research on the mortgage and pledge of arts. But there is still a long way to go.

But beyond that, insurance companies can launch relevant products, such as insurances for the finish of films, game software and insurances for creative cultural products and etc. For example, Shenzhen Development Bank once provided loans to “The Banquet” produced by Huayi Brothers through the insurance service of China Export & Credit in 2005.

Make full use of stock and bond market

Cultural industry could try to receive financing through various channels such as short-term funds, medium-term notes and long-term bonds. Large cultural enterprises can raise funds through the distribution of convertible bonds and corporate debts, whereas collective bonds can be adopted by the small and middle-sized enterprises. Cultural enterprises in China now are almost small and middle-sized enterprises, which can hardly meet the requirements for issuing corporate bonds, thus collective bonds become their best choice.

Cultural enterprises, which have gone public could raise funds through such methods as refinancing, merging, purchasing and etc. in the stock market. For example, Beijing Tourism has acquired Beijing rising culture media Ltd with 150 million. For those unlisted cultural enterprises, we should lower entry barriers to start a business, loosen listing conditions, and reduce the demands for assets and registered capital, thus beneficial for more enterprises to go public. In addition, unlisted enterprises can cooperate with those listed ones, making assets and equity are accepted into listing companies. In the short term, listed companies can seek new growth point from cultural industry. For example, after the acquisition of Beijing CCTV Splendid Film and TV Corp, Ltd by Beijing Xiangeqing Co, Ltd, the company’s net profit at the first quarter of 2014 has increased by 202% year on year. On another hand, it could provide financial support for cultural industry.

Make full use of venture investment channels

Venture investment is that important for fund demand and later development, therefore, we should promote its cooperation with culture industry. Thus, relevant regulations and exit mechanism is still needed to be further improved. Also, government should give corresponding policy support.

Government could offer more

privileges, provide venture investment companies with risk compensation funds to cover their losses and minimize risks. Besides, corporate income tax can be exempted to arouse investors’ enthusiasm cause they all desire for higher return. Also, the usual preferential policies, loans discount and other measures should be continued to attract social capital (foreign and private capital) to enrich venture investment. Meanwhile, we have to introduce professional talents, especially those who have the knowledge of management, highlight the cooperation with colleges, and reasonably allocate human resources.

Perfecting reasonable exit

mechanism is another important way to encourage venture investment capital enter into cultural industry. Whether the capital exit or not is especially important for venture investment companies. The main exit mechanism in China nowadays have just issued its initial public offering, which gradually become the preferred exit method for venture investment because of its higher yields. In order to design reasonable exit mechanism, we should regulate main board market and develop exploration market, lower entry barriers, realize the common development for both sides, thus make venture investment capital orderly flow into cultural industry.

Establish intermediary organizations for financing and investment

To solve financing and investment problems in cultural industry, we should establish intermediary organizations, which provide special guarantee for cultural industry with the help and guidance by government. We should give subsidies to guarantee corporations, increase financial input to provincial-level re-guarantee corporations, encourage guarantee corporations to conduct relevant operations, make it easier for cultural industry to obtain capital through various financing channels. So far, there is a guarantee corporation for cultural industry has been set up in Shanghai.^[4] More intermediary organizations are required to be established to stratify the needs of cultural industry.

Besides, both the most prominent feature of cultural industry, but also the biggest bottlenecks for financing and investment is too much intangible assets in cultural industry. Intangible asset evaluation become so difficult among current cultural industry cause they are short of tangible assets as collateral, which should be give the first concern. So, assessment agencies can be established to serve cultural industry, conduct such services as evaluation of intangible assets, investment consulting, research and study and so on. Besides, after the intangible asset evaluation, evaluation agencies could also provide freehold service – evaluation agencies keep the project password and key technology for cultural enterprises. Thus, it can balance the benefits between cultural enterprises, intangible asset users and financial institutions.

CONCLUSIONS

Although cultural industry in China has already formed such methods as governmental financial investment, financial institutions credit capital, venture investment, listing and etc., there are still many problems existed due to imperfect rules and immature market. Therefore, this thesis gives such suggestions as changing government’s invest method,

innovating financial instruments, making full use of venture investment channels and intermediary organizations. In general, the development of cultural industry in China still needs the joint efforts from government, cultural enterprises relevant financing and investment organizations. Cultural industry in China is that promising cause great importance has been attached to it.

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