

## How to Improve Investment and Financing System of China Cultural Industry

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### Abstract

It is necessary to guide and encourage the investment and financing of cultural industry, which will promote the rapid development of the industry. The lending system and financing system are not fit for the now cultural industry. Besides, the national policy doesn't investment and Financing of Cultural Industry is more difficult than any other industries for the industry characteristics and polict serve as a guide to encourage social capital into the cultural industry. The investment and financing system of cultural industry must be perfected. Diverse investment and financing system of cultural industry should be established, which should be guided by financial funds, based on enterprise investment, dominated by bank credit and private funds, and complemented by stock financing and offshore funds

### Keywords

**Cultural Industry; Investment and Financing; Financial Innovation; Diverse Investment.**

### 1. Introduction

Cultural industry is recognized as a sunrise industry in the 21st century. Cultural industries have been higher in the proportion of GDP in developed countries. China didn't put forward the conception of cultural economy until the 1990s. Cultural industry is still in its infancy now and capital and money is very important for any industry. China Twelfth Five -year Program put forward the strategic objectives which turn cultural industry into a pillar industry of national economy. It is essential to perfect the Investment and Financing System of China Cultural Industry.

### 2. Overview of the investment and financing system of culture

#### 2.1 The Definition of Investment and Financing System of Cultural Industry

Culture Industry Investment is the process in which investors put investment into cultural industries to gain profits. The activities can be divided into direct investment and indirect investment. Direct investment is the investment that is directly involved in the operating management, such as holding a cultural company; Indirect investment, whose purpose is just to obtain capital gains but not to operate, such as purchase bonds of cultural company, it doesn't control over enterprise capital and its operation.

Financing of cultural industries is the practice to raise fund. Financing of cultural industries can be classified into debt financing and equity financing. Debt financing means enterprise must repay the principal and interest by the agreement, creditors do not participate in the management and have no decision-making authority over the use of funds. Equity financing constitutes the equity funds of enterprises, investors have the right to participate in the management of decision-making and also have the right to acquire the bonus of enterprises, but have no right to withdraw funds. Investment and financing of cultural industries is a unity of opposites. Investment in the cultural industry is the successful financing of cultural industries subjects. If the subjects of cultural industries want to finance successfully, there must be investment in social capital. Taking bank founds as an example, that cultural enterprises borrow money from banks is a financing behavior, at the same time, it's also an investing behavior of banks. This kind of investment and financing behavior in nature is the indirect investment of banks as well as the debt financing of cultural enterprises.

## **2.2 The Special Risks of the Investment and Financing of Cultural Industry**

All investment has risk, and cultural industries have more special risks relative to other industries. Firstly, commercial risk of cultural industries is much larger. Products and services of cultural and creative have unpredictable nature. The creation of cultural products and supply of cultural services are from the creative inspiration of intellectuals, that is creativity. The innovative nature of creativity determines that invest in cultural industries doesn't like input in material production industries, which will have products as long as there is input. According to incomplete statistics, every year China produces more than 3000 films and television shows, but eventually not more than 100 will bring about a certain social influence. Even in Hollywood, the successful works are not more than 5%. The specificity of cultural industries determines that it's more difficult to obtain investment and financing than other industrial categories. Secondly, cultural industry is much more affected by the policy. Cultural industry is a special industrial that have both bus

Ness and cultural nature. Deferent with the tangible material products, culture breeds political, moral, ideological, historical and other values. All states have always given its cultural rich connotation, and their cultural policies are more particular. So, investment in cultural industries often encounters more politics risks that other industries do not have.

## **2.3 The Necessarity to Encourage and Guide the Investment and Financing of China's Cultural Industry**

Investment and financing of cultural industries is important to cultural security. Cultural security is not inseparable from the protection of national system. The developed domestic cultural industry is an important means of maintaining cultural safety. Statistics shows that America and European currently account for 76.5% world culture market. China not only has not accounted for in the international cultural market in the match with its share of political and economic status, but its domestic cultural market is also occupied by a considerable share of foreign cultures. We should not only make the local culture to be dominant status in the domestic market, but also should make it more influential in the international cultural market. Only by increasing the encouragement and guidance to the investment and financing of China's cultural industries to make it develop more quickly, can we gain a foothold in the international cultural competition. In addition, encouraging the investment and financing of cultural industries is its own need for China's cultural industry. China's cultural industries accounted for only 2.5% of GDP. Cultural industry cannot become pillar industry without massive investment and financing. History has shown that in the process of emerging industries to be leading industry, only those states who have grasped the opportunity to provide industry support can gain a dominant position in the international competition finally.

## **3. Problems of the investment and financing system of china cultural industry**

According to 2009 China's Creative Industries' High-growth Business Development Report, more than 90% creative enterprises desire financing, 51% of the enterprises demand for 1000-5000 million; 20% of the enterprises need more than 50 million. Financing difficulty has become a bottleneck which constraints the development of China's cultural industry. The reason why current industry cannot get enough finance may be the followed.

### **3.1 The Bank Financing Mechanism Is Not Suitable**

The existing bank lending mechanism is not suitable for cultural and creative industries. Most cultural enterprises can't reach the collateral requirements of bank loans and risk control. Cultural industries are mainly in the form of intangible assets such as intellectual property and brand value. Cultural enterprises don't have enough fixed assets to mortgage, so the possibility of access to bank credit is very small. Statistics show that the total 21 amount of mortgage loans is less than 2 million in Beijing district currently.

### **3.2 The Financing Mechanism of Capital Market Is Not Suitable**

By the year 2010, in Capital market, 19 cultural enterprises (including an IPO) only accounts for 1% of the total listed companies; and its value only accounts for 0.6% of the total market capitalization. Cultural industry is difficult to financing in the capital market. First, the existing capital securities market mainly serves the traditional tangible industries; its conditions for the issuance of shares and bonds are more suitable for the industrial and commercial enterprises which possess a large proportion of the fixed assets. Cultural industry enterprises are difficult to meet the listing requirements. Of course, there are certain drawbacks for the culture enterprises to come into the capital market. For example, many culture enterprises have high proportion of related party transactions and low information disclosure.

### **3.3 The Limitation of Foreign and Private Capital Into Cultural Industries Affects Investment and Financing**

The policy of private capital to get into cultural industry is too restrictive. According to the relevant provisions of "Decisions on Non-public Capital into Cultural Industries by the State Council ", Non-public capital shall not invest and establish news agencies, newspapers, publishing houses, radio (stations), television (stations), radio and television transmitters, relay stations (stations), satellite radio and television, satellite uplink stations and collection transfer stations, microwave stations, monitoring stations (stations), cable transmission backbone, etc. And so on, the part which private capital can be permitted into should not have more than 49% bonus; At the same time, private capital into areas related to cultural industries must be reviewed and approved by the relevant administrative departments. Besides, the restriction of international capital to get into cultural industries is very serious. If foreign investments want to enter into cultural industries, they should obey " decisions on non-public capital into cultural industries by the State Council", and also should meet the requirements of "Views on the foreign investment in the field of culture by the State". The legal documents further restricts foreign investment in the field of cultural industries, further put forward clear requirements of the approval of foreign investment and the qualification of investors, and strict licensing requirements. The other character of document is that it only has "banned range" and "permission guidelines", not encourage range. The direct result of restricting policy is, comparing with other industries, direct investment of foreign businessmen in cultural industry is actually quite limited. Taking the year 2000, 2002 and 2003 as examples, the direct investment of foreign businessmen in cultural industry only accounted for the total actual foreign investment 0.13%, 0.07%, 0.07% respectively.

### **3.4 The Lack of Effective Supporting Policy**

The powerless policy of culture industry is a cause to affects investment and financing. China has issued a series of files on culture industry development. But in practice, there are shortages in tax preference and government funds. First of all, the functions of tax preference have limits. For example, the subjects are limited, 90% companies cannot share tax preference. The tax preference only applies to several taxes and sets strict rules and have short preferential period. Secondly, the special funds given by the government fail to affect investment and financing. The current systems of special funds for the culture industry have problems, the sum of the fund is very small and the benefited companies are in the minority. High risk is the biggest obstruction for social capital going into the sector of culture industry. If there are no powerful policies supporting culture industry, it is hard to get investment and financing.

### **3.5 The Unsounded System for Culture Investment and Financing**

The government funds are not enough and the private money raised by companies have not yet get its way. It is estimated that China has only 11 investment funds on cultural industries. At present only five investment fund have investment cases about culture. In practice, they are only willing to consider large powerful companies, ignoring the small and medium cultural enterprises which really need investment. A limited number of cultural industry funds and their steady investment have determined that it cannot solve the problem in investment and financing of the whole cultural

industries. China has not set up the Cultural Industry Investment Fund constituted by government money, as is very popular in U.S. and Europe. Besides, the financing guarantee fund system of cultural industry hasn't been established. According to 'Guidance and suggestions on the Financial Support for the Promotion, Development and Prosperity of Cultural Industry' Government departments should encourage all types of security institutions to provide financing guarantees for the cultural industry through re-guarantees, co-warranties and the combination of guarantees and insurance, etc. To spread risks, more credit guarantee funds of enterprises and regional re-guarantee institutions should be established.

#### **4. Suggestions to improve the investment and financing system of china cultural industry**

##### **4.1 Establishing Appropriate Indirect Financing Mechanism**

Firstly, China should set up appropriate bank financing mechanism. 90% of the social fund in the state is centralized in banks, it is important to establish a bank lending mechanism which can meet the financing demand of the culture industry. As previously mentioned, the main reason why it is difficult for cultural industries to raise capital from the banks is that cultural industries lack fixed assets and also the banks do not create new credit varieties that suit the characteristics of cultural industries. Therefore, several measures should be taken to establish a suitable banking financing mechanism. On the one hand, setting up evaluation system for the intangible assets of cultural industries to offer bank institutions some guarantee. Intangible assets are the largest property of cultural enterprises and also are the basis for cultural enterprises to borrow money from banks. Therefore it is a common need for both cultural enterprises and banks to properly evaluate intangible cultural assets. In that effort, the government should organize and coordinate to quickly establish an independent evaluation agency for cultural property and corresponding process. On the other hand, encouraging banks to innovate financial credit, study and apply the mature project financing and cultural product securitization from European countries and American; further encourage banks to explore credit loan and "couplet protects couplet to borrow". Besides, considering set up cultural industry banks. The government should establish bank designed for culture industry or encourage some commercial banks to set up special branches to serve culture industry. These measures will effectively boost the communication between banks and culture industry.

Secondly, China should set up suitable bond system for culture enterprises. The existing bond issue system practices a strict approval system which is not demanding for culture enterprises in terms of property and qualification, and therefore is not fit for culture enterprises. So, measures should be taken systematically to widen the entering condition in a moderate way to let culture enterprises get the chance to issue bonds and to expand the scale of issuing bonds so as to let culture enterprises have more access to social capital.

Thirdly, China should encourage and regulate private loan activities. Private borrowing is an important channel for indirect financing and the majority of medium and small-sized culture enterprises finance through private borrowing. Therefore, it is necessary to build up a management system for private loan based on the principle of benefiting for the development of the whole culture industry.

##### **4.2 Establishing Appropriate Direct Financing Mechanism**

China should build up appropriate listed mechanism for cultural enterprises. Capital market plays an important role in the investment and financing of culture industry, as it can help culture enterprises to finance in low cost. [5] In addition, encourage and guide cultural industry conduct risk investment. Cultural industry contains both high risk and high profits, it is perfect for risk investment. Amazon, Yahoo, eBay, Google and many other large international cultural enterprises benefited a lot from risk investment funds in their starting up period. Our country's risk investment is still in its infancy and even less in cultural industry.

Besides, Financing through capital market is direct financing which possesses advantages that different from financing through borrowing. But, so far, most cultural enterprises in their early stage of development still have a long way to go before they can go public, as no matter Main Board Market, Small and Medium-sized Board Market or Growth Enterprise Market, they all set demanding requirements for enterprises which seek for listing. Building up suitable listing mechanism for cultural enterprises, the first step is to widen the requirements for cultural enterprises to list in the stock market, following with some preferential treatment in further issue, rights issue and so on.

#### **4.3 Establish a Sound Investment and Financing Mechanism for Multi-agent**

China should relax access to private capital of cultural industries. To solve this problem, government should amend the access system of cultural industry fields, such as in media industry. We should first allow introducing private capital in related industries, while maintaining the premise of the right of the media content validation, we can make use of forms like joint-stock to introduce a variety of social capital in the core layer of culture.

What's more, China should relax access to international capital of cultural industries. Government should further emancipate the mind, opening up the field of cultural industries, and implement the same benefits of industrial and economic policy for foreign investment enterprises and domestic enterprises at the premise of safeguard national cultural safety. In addition, establish the main investment and financing system of national cultural industries. At the early period of industrial development, the government should not only be industrial managers, but also be a direct participant. To promote the development of cultural industries without government financial support, the government should use more financial resources to establish national investment and financing fund of cultural industries, participating directly in the investment and financing activities in cultural industries.

#### **4.4 Establish an Effective Mechanism to Support Cultural Industries**

Preferential industrial policy is the base to attract investment and financing. To support the investment and financing of cultural industries, we must be inclined to take care of the cultural industry in policies. The special risk of the investment and financing of cultural industries has also determined that without the protection of an effective supporting mechanism, the cultural industry is impossible to obtain rapid development.

In the first place, government should provide tax support for cultural industries. Government should implement tax incentives for cultural enterprises, to make them enjoy the tax treatment that other industries do not have, so as to provide incentives for a rapid accumulation of social capital into cultural industries

Moreover, government should expand the scale of cultural industries in special funds. To give award to cultural industries is the best way to reflect government support for cultural industries, which can resolve the "political concerns" that capital will enter into cultural industries. Larger financial incentives to all investors, including private capital funds and foreign capital, will further stimulate the flow of more funding into cultural industries. <sup>23</sup> The specificity of cultural industries determines the difficulty of investment and financing in cultural industries. The investment and financing of cultural industry can be achieved when there must be a strong system to provide appropriate protection. Cultural industry is the pillar industry in part of the Europe and America. In European cultural industry policies, some systems like the cultural industry incentives, active use of international capital, financial innovation and varieties of cultural industries, direct government involvement in the investment and financing, effectively solve the problem of difficult investment and financing of cultural industries.

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Europe and America. In European cultural industry policies, some systems like the cultural industry incentives, active use of international capital, financial innovation and varieties of cultural industries, direct government involvement in the investment and financing, effectively solve the problem of difficult investment and financing of cultural industries. China's cultural industry is still in its infancy, investment and financing is a bottleneck restricting the development of cultural industries. In addition to its own reasons of cultural industries, institutional issues also cannot be ignored. The current financial system and capital market borrowing stock and bond issuing system are mainly the business services for traditional physical products; private capital and international capital received too much policy limits into cultural industries; cultural industries do not have more advantage of the policy in the industries clusters, etc. are all problems in urgent need of resolve in the future investment and financing cultural industries in China.

In the promotion of cultural industries into the pillar industry, we must address the problem in investment and financing system of cultural industries. Impeccable investment and financing of cultural industries should be guided by government funds, based on enterprise investment and take bank credit and private capital as the principal part, stock market financing and diversification of foreign capital as a supplement

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