Effective Government Intervention in Establishing Optimal Financing Frame for Transnational Operation of Private Enterprises

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Abstract
A government’s financing policies are essential to its private enterprises’ transnational operation and development. Many foreign governments have attached much importance to their private enterprises and supported them by formulating a series of preferential financing policies and providing corresponding conditions for them. In this paper, Chinese private enterprises’ financing statuses in domestic and international markets are analyzed, in order to increase the financing strength for the transnational operation of Chinese private enterprises from the view of emphasizing government support.

Keywords: Effective government intervention, Transnational operation of private enterprises, Optimal financing

1. Evaluation on the efficiency of Chinese financing policies for private enterprises

1.1 Comparing the financing policies of China and those of foreign countries, we can find out the root of problems existing in China’s direct and indirect financing systems.

Apparently, difficulties in the financing of private enterprises are resulted from narrow financing channels, but actually, they are caused by inappropriate systems. The financing activities of private enterprises could develop only in a distorted form because the current financial and managerial systems with the public ownership as the mainstay fail to support the development of private economy. And the issuance of several supporting policies will be of no help if the present systems are not modified. Therefore, the abovementioned problem should be solved by innovating systems, that is to say, to eliminate all discriminations and take market efficiency and risk control capability as the principle for market access and withdrawal; to speed up legality building and unify the managerial systems of middle and small-sized enterprises (MSEs); and give policy support by cultivating the market competitiveness of MSEs. At present, it is urgent for China to develop a large group of local private financial institutions of middle and small sizes and multi-layer and diversified capital markets and to establish corresponding market systems and criterion. Since the key point that whether financial institutions have the capability to control internal risk is related to the clarity of property right system and the existence of owners rather than the nature of ownership system, the regulation of property right system and the perfection of corporate governance structure should be implemented.

1.2 Financing concept needs improvement

During their transnational operation in western countries, Chinese private enterprises encounter many obstacles in the transnational flow of production factors such as technology, capital and talents, and so on. The longstanding absence of equal international macro-environment makes it more difficult for these enterprises to perform financing and develop in international financial market. Shortage of capital, in particular shortage of exchange capital is a typical socioeconomic status in China. As the transnational operations of private enterprises happen in complex cultural background and changing market situation and with exchange rate risk, enterprise credit is especially important, however, currently, the foundation of business credit of the whole society is extremely vulnerable. The credit information concerning citizens and enterprises are scattered in each departments, resulting in imperfect credit sharing system and the lack of active constraint of breach of faith. The transnational operation of private enterprises is a long-term economic behavior, however, many private enterprises have no strategic insight that they resort to financing only when they face financial difficulties.

Therefore, the innovation of social financing system, especially of the capital policies for MSEs must be carried out. To gain external financing for transnational operation, private enterprises should improve the transparency and clarity of ownership so as to enhance bank credit, and the government should play a key role in establishing and maintaining a fair competitive environment as well as in encouraging loan to and investment in private enterprises.

2. Effective government intervention in establishing optimal financing frame for transnational operation of private enterprises

From the efficiency analysis of the financing policies for Chinese MSEs, effective government intervention is the
best approach to help these private enterprises to realize multiple financing modes, expansion of financing scale and optimal financing, for which the following aspects should be achieved:

2.1 The government should formulate specific measures to provide financing facilities.

The financing facilities include drawing financing plans of credit guarantee organizations, implementing different loan facilities according to different industrial development organizations, establishing special quick loan plans and additional clauses of commercial banks, and financing plans of specific fields (e.g. export financing). Take Malaysia as an example, it provides its private enterprises with buyer’s credit facility, overseas investment credit facility, buyer’s credit guarantee facility, supplier’s credit guarantee facility, export financing facility. Special government financing organizations may be established to provide credit service for private enterprises. Besides, the government should actively take part in negotiations on bilateral investment and in negotiating and signing agreements on avoiding double taxation so as to win more favorable international financing conditions.

2.2 The government should implement preferential financial policies as soon as possible.

It should conduct active intervention in state-owned large-scale commercial banks, and encourage Chinese-funded banks to carry out transnational operation and to cooperate with Chinese private enterprises to jointly enter international market. The government should develop middle and small-sized private commercial banks, and strengthen the opening up to foreign-funded banks and gradually lower the requirements on their entering Chinese financial market, so that middle and small-scale banks with good reputation may develop business in China successfully, bringing about more opportunities for Chinese private enterprises to do business and develop in foreign countries. The government should, conceptually and practically, actively offer private enterprises an all-round access to foreign markets. Good social credit system is necessary. The government may act as a guarantor in case private enterprises need loan services for transnational operation, provide favorable government financial credit, set up mutual risk investment fund, employee fund and security fund, and so on, and encourage private enterprises to issue stocks guaranteed by investment corporations. In addition, in order to help those with heavy debts, special loan for reinvestment may be established. For example, the Chinese government may learn from the regional professional guarantee systems run by American local governments. These guarantee systems are different in characteristics due to different situations. For instance, California founded its export credit guarantee system 12 years ago, aiming to help local small enterprises to expand export volume. It adopts government financial support and the cooperation with cooperative banks to share the loan risks of banks, so that banks will pay attention to both the cash flow and the future revenue of small enterprises, which enables small enterprises to become stable client of banks. Assisted by this regional guarantee system, many small enterprises have become successful exporters. While implementing the credit guarantee system for small enterprises, America also requires them to accept free charge training and consulting service offered by the government so as to improve their management level and reduce the risk that banks and non-governmental investors need to bear. It is obvious that, by means of guarantee, America establishes a MSE-oriented credit system to rebuild bank-enterprise relationship, improve the credit concept and quality of MSEs, and enhance social credit environment.

2.3 Using multiple financing modes to realize optimal financing for transnational operation of private enterprises

2.3.1 Short-term financing

There are short-term bank loan and overdraft, packing loan, negotiation under documentary credit, draft discount, factoring, forfeiting and open account. And most of them depend on settlement of account by letter of credit. As for BOT project financing, the combination of the short-term credit (e.g. loan and overdraft) and long-term project loan may solve the problem of current capital after the start-up of the project at relatively low cost. And for short-term financing modes such as negotiation under documentary credit, draft discount, factoring and forfeiting, their basic operation is that, after delivery, export enterprises sell their drafts with or without recourse to banks to pay back part or all loans. With the reduction of trading volume of letter of credit, foreign commercial banks are incessantly conducting innovation of these traditional financing modes. Chinese private enterprises also may seek proper financing services in foreign banks during transnational operation.

2.3.2 Middle and long-term financing

The Chinese government has intensified its support to enterprises in exchanging capital export for market, and the main modes adopted are just discount interest preferential loan and export credit. As regards policy, obvious support is given to high-tech projects such as communication and others.

Currently, export credit and preferential loan are major financing means taken by private enterprises for expanding overseas market, however, some restrictions must be broken, for example, the generally needed government guarantee. As for bond financing or stock financing, project financing modes such as BOT and financing leasing are good alternatives.
2.3.3 Financing leasing

Financing leasing, also referred to as finance leasing, is an assets financing mode, that is, the lessor provides credit for the lessee, and the latter accordingly acquires access to equipment. By combining financing and “substance raising”, financing leasing integrates trade, finance and lease to shorten project construction period. Financing leasing is flexible and simple in operation, and may facilitate technical reform, improve private enterprises’ financing effectiveness and technical advance. As to whether or not lease should be chosen as the source of debt capital for project financing, a comparison between optional lease financing modes and other debt capital modes should be carried out, and cost benefit analysis should be used to determine whether the lease mode adopted may bring about better comprehensive economic benefit, in such a manner, financing leasing could really solve bottle-neck problems of capital obtaining of private enterprises.

2.3.4 Overseas financing and listing and direct financing

As a kind of rare resource, capital is rather precious for Chinese private enterprises developing at a rapid speed and seeking scale expansion. In the aspect of overseas financing, Chinese private enterprises with quality assets may realize the following objectives:

1. Taking use of international capital, private enterprises may quickly enlarge their development scale;
2. Relying on international capital market, the products or services of private enterprises may be exported to international market;
3. The process of overseas financing is also the process of learning during which private enterprises learn from foreign management concept and enhance their levels of management;
4. If private enterprises choose overseas listing, then they may
   1. Raise a large amount of investment capital for development in a short period by selling part of the enterprise stocks. Due to factors like premium, often, private enterprises’ financing amounts are close to or even exceed their original total assets, which proves that overseas listing is the best choice for enterprises to gain actual increment.
   2. Establish conditions for long-term financing in stock market and obtain capital needed for further development by issuing stock dividends;
   3. Sell the assets of controlling stockholders in stock market to build a platform for the withdrawal and increment of capital of entrepreneurs;
   4. Regulate enterprise management, establish modern management systems, receive better social supervision and achieve stable development. By executing stock equity plans, private enterprises may strengthen their cohesive forces to attract more excellent talents;
   5. Have more cooperative opportunities in international technology, market, management and talents, creating positive conditions for entering international market;
   6. Win tremendous development and expansion capabilities and use less cash to merge target companies by equity swap;
   7. Take full advantage of many financial products in the international capital market and achieve the goal of capital operation.

Therefore, the Chinese government could guide its private enterprises to obtain plentiful sources of funds from the international market and enter the international economic circle. Besides, it may consider helping domestic private enterprises with superior assets, solid mode of profit, products of development potential and a complete business planning to obtain fund needed by self-development from the international capital market. Moreover, the government can directly make an appearance to help private enterprises to obtain overseas financing, such as industry investment, strategic joint investment, and risk investment, directional private placement, overseas merger and acquisition as well as overseas listing, etc. Private enterprises choosing overseas financing shall be with a clear shareholding structure and explicit history and has no big problems on law. Although the direct financing is the mode adopted by most of enterprises, at present, Chinese private enterprises are restricted by many objective obstacles in this respect. Not all of the enterprises can undertake this mode since the cost of previous period is too high for financing at the stock market, especially for financing at the overseas capital market. However, direct financing will be an indispensable developmental direction for Chinese private enterprises in the future. With increasingly mature conditions, direct financing of overseas listing will be an important step for Chinese private enterprises to enter the international market successfully.

3. Conclusion

In conclusion, effective government intervention intensifies financing of transnational operation and greatly
promotes transnational operation of Chinese private enterprises by using flexible and various financing modes. At present, it is the best choice for Chinese private enterprises to actively develop using international financing channel, to make use of continuously updated financial instruments, to seek after matching of life of loan, reasonable combination of structure of varieties and effective prevention of exchange rate risk in order to realize optimal financing of transnational operation.

References