

# Research on Financing Problem of Chinese Military-Civilian Integration Industry

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**Abstract:** At present, military-civilian integration industry is highly valued by the state. However, in the process of the development of the military-civilian integration industry, the financing issue has gradually emerged. This paper thoroughly studied the current development of Chinese military-civilian integration industry financing, proposed several suggestions for solving the financing problems of Chinese military integration industry.

## 1. Introduction

In 2017, the military-civilian integration industry has become a national key strategic industry, and it is a strategic measure to promote economic development and safeguard national defense. In the process of Chinese military-civilian integration industry gradually maturing, financing problems are gradually emerging. Through the research on the current status of financing, combining experience and proposing policy recommendations for problems, it has effective practical guiding significance for promoting the maturity and perfection of Chinese military-civilian integration industry [1].

## 2. The financing status of Chinese military-civilian integration industry

### 2.1 The source of financing for Chinese military-civilian integration industry

The financing sources of Chinese military-civilian integration industry mainly include government, enterprises and financial institutions. Because the military-civilian integration industry plays an important role in Chinese strategic industry, the government assumes the role of guarantee and guidance. Therefore, the government's financial allocation is the most important channel for obtaining funds of the military-civilian integration industry, accounting for more than 90%, far exceeding private capital. Although the role of private capital in the development of military-civilian integration industry is still not obvious, in the future development process, the military-civilian integration industry must get rid of the attributes of the planned economy, and the applicability of private capital to the market economy is unmatched by government capital. Therefore, the role of private capital in the development of military-civilian integration industry cannot be ignored [2].

### 2.2 Financing scale of Chinese military-civilian integration industry

By analyzing the data of 2003-2008, the proportion of government financial funds in the funding sources of scientific research institutions in China is always the highest, and government funds are increasing year by year. Funds from enterprises and financial institutions accounted for only 3.85% in 2008. And from the statistics of six years, the proportion of private capital is gradually decreasing, and the scale of financial institutions is gradually decreasing.

Table 1. Sources of fund raising sources of Chinese research and development institutions

Index (billion)	2003	2004	2005	2006	2007	2008
Government	535	596.05	763.4	835.5	1041.7	1156.6
Enterprises	47.1	49.81	56.17	52.7	54.3	41.6
Financial institutions	11.3	9.07	12.69	11.5	10.2	4.7

### **2.3 The financing mode of Chinese military-civilian integration industry**

The application fields of Chinese military-civilian integration industry financial fund-raising are limited. As the development, the military-civilian integration industry has not yet been perfected and capital operations are not mature [3]. Most of the capital operations are limited to the civilian products sector in military enterprises. For core assets and important projects with huge capital needs, related industries involving national security and national strategy, government financial funds and bank funds are always the most important source of funds, while funds from private enterprises and non-bank financial institutions are in the military-civilian integration industry. In the production and operation, the proportion and role are very small.

## **3. Financing characteristics of Chinese military-civilian integration industry**

### **3.1 Long-term investment and long investment cycle**

In the early stage of the military-civilian integration industry, the demand for capital investment is large and the cycle is long. The military-civilian integration industry has the characteristics of a high-tech industry, and the research and development stage is crucial. Therefore, a large amount of manpower and financial resources are required in the early stage of research and development. At the same time, the military-civilian integration industry needs to clarify the correct research direction and development direction in the early stage of the industry [4]. Once the direction is wrong, it is difficult to return a large amount of funds and human resources. Production companies and investment companies must ensure the correctness of the direction in all aspects of production and development, until the product development is successful and mass production and market.

### **3.2 Market potential is huge, oligopoly investment returns lasting**

Chinese military-civilian integration industry has a huge potential market and long-lasting characteristics of oligopoly income. In terms of resources, military enterprises have the highest quality military resources in China, and private enterprises are relatively backward in terms of resources. At present, the development of military-civilian integration industry has changed from initial development to in-depth development. It has already ushered in its strategic opportunity period and critical period of development. The military and civilian integration market development potential in the military field cannot be underestimated and the benefits are lasting.

### **3.3 The industry that is related to national security and national economy, guarantees the proportion of funds held by the state**

For areas that require absolute control of the state, state capital must account for a large proportion and guarantee the absolute control of the state. The government can encourage the state-owned enterprises to use the capital securities market through the reorganization of mergers and acquisitions, mergers and acquisitions, etc. Preferential stocks, targeted issuance of convertible bonds and other financial instruments to promote the development of Chinese military-civilian integration industry [5].

### **3.4 Other service and strategic industries, increase the proportion of private capital holdings**

In important industries that do not involve national security and national strategies, state enterprises, private enterprises, and financial institutions should be jointly invested and operated, and they should be responsible for their own profits and losses. The government can also invest in

innovative and entrepreneurial enterprises through the establishment of state funds, use government capital to guide private capital, attract financial institutions funds or corporate funds to invest in high-tech enterprises, promote the practical use of scientific research results and the growth of high-tech entrepreneurs [6].

#### **4. Problems in Chinese military-civilian integration industry financing**

##### **4.1 The military-civilian integration industry lacks multiple investment entities**

Because Chinese military-civilian integration industry has national attributes, state control and state secrets, military enterprises have obvious planned economic attributes, lack of enthusiasm for market financing, and are highly dependent on state financial funds. Less, leading to the lack of multiple investment entities in Chinese military-civilian integration industry.

##### **4.2 Military and civilian integration industry funds use efficiency is low**

Because Chinese military-civilian integration industry has a market monopoly, it is difficult to enter the market, a large amount of investment, but the benefits are very small, and the input and output are extremely mismatched, resulting in the inefficient use of funds for the military-civilian integration industry in China. Because of the information asymmetry and lack of transparency between private enterprises and military enterprises, it is difficult for investment institutions to grasp market demand and assess market risks according to market information. Investment lacks protection and faces uncertain risks, making the military-civilian integration industry project highly fragmented and difficult. The scale effect of the formation of funds makes the project duplication, low resource utilization, low production efficiency, and does not show scale advantage [7].

##### **4.3 The military and civilian integration industry financing incentive mechanism is not smooth**

On the one hand, Chinese military-civilian integration enterprises adopt decentralized administrative management methods, and the use of investment funds is opaque. Investors cannot know the use and benefits of funds, and cannot supervise and manage the invested enterprises, which has hurt investors' investment enthusiasm; On the one hand, China adopts the military ordering system, the allowable profit level of military products is extremely low, the operating income is low, and the incentives for investors are insufficient.

##### **4.4 Government financial funds are unreasonable in the investment of military-civilian integration industry**

Due to insufficient investment in defense expenditure and unreasonable financial support structure, the government's financial support for the military-civilian integration industry is unreasonable, which makes the gap between military and civilian products in China a large gap between military and civilian products. The development of military products is better than the development of civilian products. The specific performance of the "military-to-civilian" civilian products is developing rapidly, and the operating income is considerable, but the military products in the "civilian army" industry are not effective [8].

#### **5. Financing suggestions for Chinese military-civilian integration industry**

##### **5.1 Achieve diversified financing structure for military-civilian integration industry**

In order to promote the in-depth reform and development of the military-civilian integration industry, we should make good use of the capital market and diversify the financing model. Military-civilian integration enterprises need to attract more social funds and achieve a diversified financing structure, which is a key task in the military-civilian integration strategy.

For large military industrial groups and enterprises involved in national military secrets, the state's controlling position should be guaranteed, mainly based on government financial allocations or bank loans; For subsidiaries with a high degree of integration between the military and civilians

in the group or enterprises with mature military-civilian integration technologies, it is necessary to make full use of the capital market, IPO, mergers and acquisitions, bank credit, or through the issuance of bonds, stocks, etc., to achieve direct or indirect Listing; For small and medium-sized enterprises at the end of the military-civilian integration industry, various government funds, product funds, and venture capital are suitable choices for diversified financing. At present, Chinese military-civilian integration industry is developing well, and the military-civilian integration industry base is gradually maturing, providing a platform for the financing development of SMEs at the end of the military-civilian integration industry.

## **5.2 Establish a sound incentive and punishment mechanism for the military-to-civilian industry**

A sound and perfect incentive mechanism for military-to-people awards and punishments is an important guarantee for the continuous advancement of military-civilian integration reform. For enterprises, adapting to the market economy and changing the habit of planning economy is the primary problem facing the "military-to-civilian" and the key issue that must be solved by the "military-to-civilian" industry [9].

Only by establishing a fully effective military-to-people reward and punishment incentive mechanism can we maximize the efficiency of resource allocation, stimulate the enthusiasm of all relevant entities to promote the deep development of military-civilian integration, and promote the military-civilian integration industry to adapt to marketization.

## **5.3 Improve laws and regulations related to the military-civilian integration industry**

The reform of the military-civilian integration industry faces the problem of insufficient implementation methods and means. In the past reform of state-owned enterprises, the acceptance of bribery and other situations has been repeatedly prohibited. To prevent this from happening in the process of military-civilian integration industry reform, laws and regulations still need to be further improved. Development provides good external conditions.

The current development of the military-civilian integration industry is still in its infancy, and governments at all levels have tried to introduce and promote relevant incentives and preferential policies. Only by continuously improving relevant policies and laws and regulations can we play an obvious role in promoting the reform of the military-civilian integration industry and improve the legal environment for the reform of the military-civilian integration industry.

## **5.4 Reasonable arrangement of special funds for military and civilian integration**

In order to strengthen and standardize the management of special funds for the development of military-civilian integration industries, improve the efficiency of the use of fiscal funds, give full play to the policy guidance and promotion of fiscal funds, and promote the reform process of the military-civilian integration industry, special funds for military-civilian integration should be rationally arranged. On the one hand, the government should rationally choose the allocation of defense funds. In addition, the military-civilian integration industry should establish a sound industrial structure. The military-civilian integration industry is currently highly valued by the state. It should increase the state's financial support, increase investment in scientific research, actively develop dual-use high-tech military and civilian, give play to the guiding role of national policies, and actively guide the investment direction of private capital. Therefore, fiscal funds should be focused on the field of "civilian participation in the military".

Only by properly arranging special funds for military and civilian integration can we fully improve the efficiency of capital use, better support and promote the military-civilian integration industry, safeguard national defense, rationally guide social capital, and promote economic development.

## **6. Conclusion**

Through the research on the financing aspects of Chinese military-civilian integration industry, the main problems are: lack of diversified investment entities, inefficient use of funds, poor financing mechanism, and unreasonable government financial investment. Measures can be taken to improve the financing situation of Chinese military-civilian integration industry in establishing diversified financing structures, improving reward and punishment mechanisms, improving relevant laws and regulations, and rationally utilizing government financial funds.

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