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## The Study of Finance for the Civilian-Military Integration Industry in China

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### Abstract

**Background:** The current financing bottleneck has restricted the development and expansion of the civil-military integration industry. **Objective:** Puts forward the innovation of China's civil-military integration industry financing mode and positive and feasible strategies and suggestions to improve the existing problems. **Results and Conclusion:** China's civil-military integration industry financing model has some problems such as the sole investment subject, low capital efficiency and lack of financing tools. Through studying the development of foreign military and civil integration industry and capital integration experience, according to the characteristics of domestic industry development, the paper puts forward the innovation of China's civil-military integration industry financing mode and puts forward the positive and feasible strategies and suggestions to improve the existing problems.

**Keywords:** Civilian- Military Integration, Financing Mode, Financing Efficiency, Financial Support Diversification

### Introduction

In the party's 19 report, General Secretary Xi Jinping stressed that "more attention to civil-military integration, to achieve the party's strong military objectives in the new era", but also pointed out that civil-military integration needs to "speed up the establishment of civil-military integration innovation system." Among them, the innovative financing system and the exploration of diversified financial services are of vital importance, which indicates the direction of the development of the integration of socialist military and civilian with Chinese characteristics in the new era (Yuan, 2015). To promote the deep development of civil-military integration, the new situation has put forward the new development target to our country military industry enterprise, the military industry enterprise as the important pillar of our country defense industry, in the continuous development process of the civil-military integration industrial development, because the civil-military integration industry develops to the capital and the capital dependence degree is very high, moreover at present our country, it has been difficult to meet the needs of the future development of the industry, restricting the deep development of our country's civil-military integration industry, which has hindered the

transformation of our country from the military-civil fusion power to the civil-military integration in some degree. Practical experience at home and abroad shows that the financial support system is the System Foundation and basic guarantee to promote the deep development of the civil-military integration, and from the financial leading financing to the pluralistic transformation is not only a way, but also the urgent need of transforming our financial power into national defense Force and economic growth force in the present and future(Christopher & Schiit, 2011). Therefore, it is important to promote the development of military enterprises in China and to promote the national defense power in the background of civil-military integration. At present, most of the domestic research on military and civilian integration stays at the level of documents and theory, and there is still no targeted and feasible solution for the implementation of operational aspects.

### The Change of Financing Mechanism of Civilian-military Integration Industry in China

China's civil-military integration industry financing mechanism has undergone a single financial allocation, state-owned bank loans and market mechanism financing of the transition process, is currently in the direction of market diversification financing mechanism.

(1) 1949-1978: Single mode of financial appropriation. The financing mechanism of all walks of life in this period has obvious administrative color, the defense industry is no exception, the state financial appropriation is the only channel for its financing. The specific financing mechanism is: the operation mode is a single administrative plan, the fund supply side is the national finance Department, the capital demand side is the national administrative organ each military ministry, the Fund Flow way is the government direct appropriation, the financing environment is shown in figure 1.

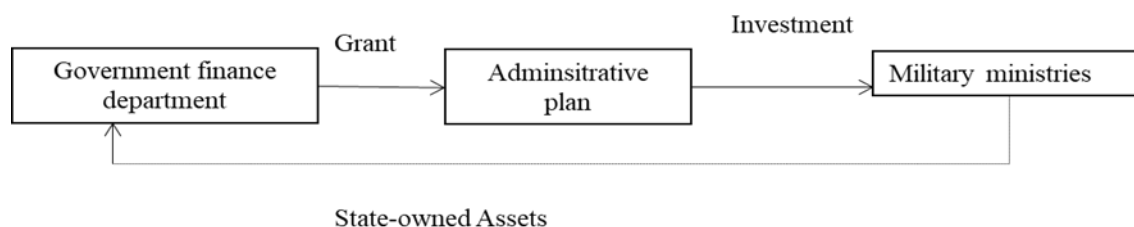


Figure 1. Single Mode of Financial Appropriation

(2) 1978-1993: State-owned bank loan model. China has carried out economic restructuring with the main line of "decentralization and profit-sharing". The state-owned enterprise financing mechanism has undergone major changes in the "relocation and reform of loans", and the reform of the defense industry financing mechanism has also begun. The channels and methods of funding for military enterprises have changed. "State-owned bank loans have become a new financing model (Tao & Aa.2015). The financing mechanism for this period is: the fund-supplying party is mainly state-owned banks, supplemented by state-owned financial departments, and the capital demand side has a career. The state-owned state-owned military industrial company, the mode of capital flow is loans and financial allocations, and the financing environment is based on the plan, and the market begins to play an important role in the socialist economic system. These are shown in figure 2.

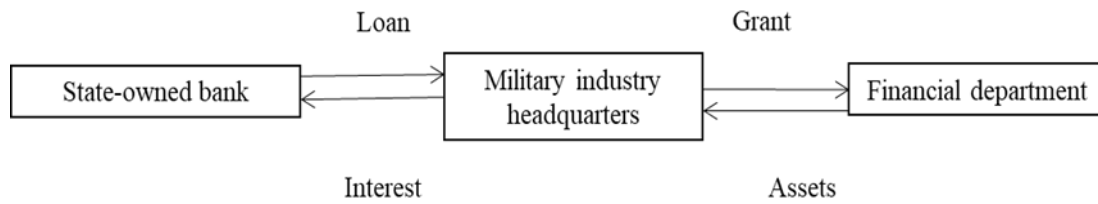


Figure 2. State-owned Bank Loan Model

(3) 1994 to present: Market diversification financing mode. Since the 1990s, with the rapid development of capital market, Chinese enterprises have tended to diversify their financing methods. Private enterprise and state-owned enterprises investment and financing machine System of smooth operation, for the defense industry to provide a good practical experience, coupled with the establishment of modern enterprise system of military enterprises, direct financing has become an important way for enterprises to obtain long-term funds, market diversification financing model gradually formed. The financing mechanisms for this period are: the fund supply main body is diversified, but still take the state-owned capital as the main part, the market economy subject position of the capital demand side (military enterprise) is further established; the financing environment is a continuous perfect socialist market economy system, and the market gradually plays an important role in financing (Shao & Chang, 2013). These are shown in figure 3.

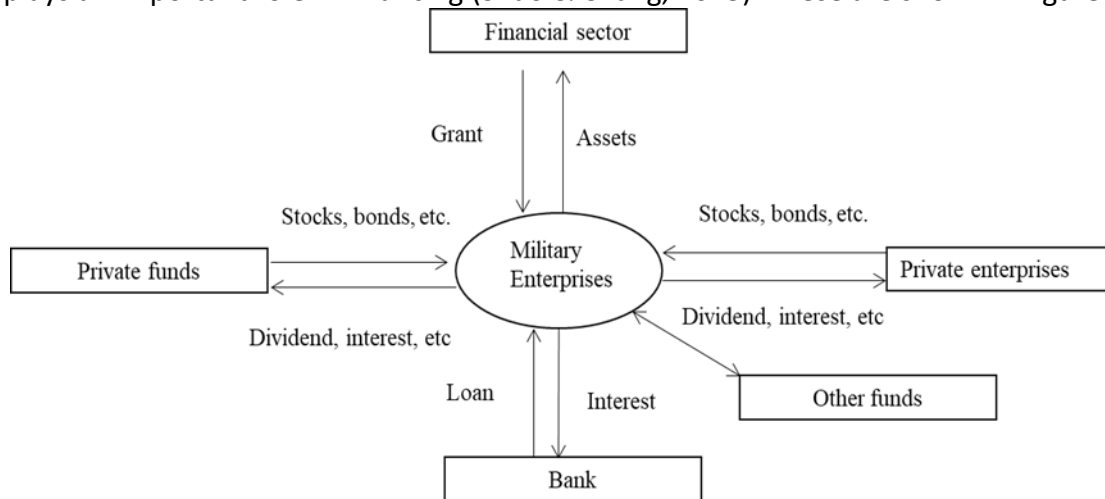


Figure 3. Market Diversification Financing Mode

### Problems Existing in the Financing Mode of China's Civil-military Integration Industry

#### Diversified financing subject and single channel

Although many military enterprises completed the shareholding system reform, but still did not realize the diversification of investment and financing, the main financing channels of China's military enterprises are divided into financial allocations, endogenous financing, bank loans, etc. These are shown in table 1. Because of the particularity of our country's military industry, especially the need of national secrecy, the military group is difficult to obtain financing from the capital market through the whole listing, there are investment barriers, the government is still the investment subject of

military enterprises(Wang, 2005). The investment and financing channels are single; it is difficult to complete the scientific research and production, and to guarantee a large number of new good weapons and equipment troops. Therefore, the traditional single investment and financing channel restricts the development of our military enterprises, especially for the civil-military integration, which requires the military enterprises to widen the investment and financing channels and promote the development of military enterprises.

Table 1. The Main Financing Channels of China's Civil-military Integration Enterprises

Financing channels	Capital source	Financing methods
Financial allocations	National financial sector	Allocations and subsidies
Endogenous financing	Military Enterprises	Retained Earnings, depreciation
Bank loans	commercial banks	Loans
Bond financing	Private funds	Bonds
Stock financing	Financial markets	Stock

### 3.2 Low capital efficiency

Military enterprises belong to state-owned enterprises, the market monopoly type is strong, the market entry barriers are high, and the benefits and inputs are seriously mismatched. Firstly, the non-modern enterprise system of military enterprises is flawed. Government as the main investment, its financial approval is generally the administrative plan, whether the project conforms to the market development law still need to consider. The private capital enters the military enterprise through the capital market, and the military enterprises market information asymmetry, difficult to grasp the market demand risk, if lacks the necessary investment benefit safeguard, will face the huge Qiao capital risk. Because the private enterprise has the market superiority and the management superiority, more adapts the market economy development, therefore if the military enterprise lacks the folk capital vigor for a long time, may cause the enterprises to develop the backward market. Secondly, the military enterprise belongs to monopoly state-owned enterprises, social supervision is not perfect(Dong & Zhong, 2018).In this way, in the process of project approval, evaluation and acceptance, it is inevitable to consult private fraud, will increase the cost of the Commission and reduce the efficiency of the use of funds.

### Inadequate introduction of financial innovation tools

At present, China lacks the laws and regulations and measures for the investment and financing of the civil-military integration industry, in addition to some of the listed companies, many financing activities still rely mainly on the administrative examination and approval operation, weaken the role of the independent financing of military enterprises, policy financial supply, multi-level capital market operation, Multi-mode innovative financial work is not enough. More importantly, our country's civil-military integration Enterprise Capital Operation consciousness and ability is still relatively lagging behind, lack of tracking the concept of modern financial innovation, the asset securitization as a representative of the new financing model practice is not enough.

### The Experience of Promoting the Financing of Civil-military Integration Industry Abroad

Both the high civil and military integration of Japan and the United States, or civil-military integration of the lower Russia are constantly under the constraints of national financial resources, invariably choose the military-civilian integration strategy and seek diversified investment and financing support (Ji & Chen, 2013).

Model one: "Government pilot + market-oriented operation" of the United States model. The United States is the "civil-military integration" Representative country, its civil-military integration began in the 1960s, fully launched in 20th century 90 Age. After the "Cold War", due to Soviet disintegration and its own defense budget constraints, the original civilian-military separation development model is unsustainable, the United States correctly handle the relationship between the government and the market, with good government-led "visible hand" and market operation "invisible hand", the social capital into the civil-military integration construction, to achieve between civil and military in technology, capital, Talents and other aspects of the integration, and ultimately achieved the world's number one military power, economic power and scientific and technological power status. Since the United States is a financial system with direct financing as the mainstay, the United States pays more attention to fair competition than other countries in the history of civil-military integration, and focuses on the use of market-based means.

Mode 2: "Tilt to private enterprise policy-oriented finance" of the Japanese model. Japan is "The people to hide the Army" on behalf of the country, its civil-military integration began after the "Second World War". Under the "Peace Constitution", the State does not establish a specialized equipment production enterprise, and all military technology and equipment production takes the private enterprise as the main body. In addition, Japan's National Defense science and technology strength, it is benefited from the private enterprise investment as the main mode. From the National Science and Technology development total investment, government investment including defense province, the proportion of less than 20%, of which military research funds is less than 1%, while the remaining 80% of the defense research projects are completed by private enterprises (Zhao, 2010). These private enterprises from the annual output value of about 20 billion U.S. dollars, employees more than 40,000 people, the total number of about 2,500 of the size of enterprises, and constantly use cutting-edge civilian technology in the military field.

Model three: "Financial support + Foundation support" of the Russian model. Russia is the "First Army after the people" on behalf of the country, which is not only to avoid the shortcomings of civil-military separation, but do not want to give up the independent military system of the compromise approach. Russia is also a country with indirect financing as its main body, but the financial base is relatively weak. In order to solve the shortage of funds, the Russian government has led the enterprise to set up a "research design-production-finance-trade-insurance" in one of the financial industry group, but also set up a "military industrial export Bank", for reference to the United States, the military enterprises in the process of conversion to increase the share of private investment; implement the privatization; introduction of foreign investment.☐

### Innovation of China's Civil-military Integration Industry financing Model

Considering the actual situation of our country, we cannot adopt the fund support system of direct financing in the United States, nor can we rely on the small and medium-sized enterprises as the main body in the short term, nor the support of the foundation like Russia.

Under the guidance of the Government, China should give full play to the dynamic role of the market and realize the diversified innovation of financing. At present, China's civil-military integration of the financial support system needs to be guided by the Government to achieve three innovation: the first is "from financial investment to indirect investment and financing" change, which is mainly determined by the characteristics of China's financial system, and the second is "from indirect investment and financing mainly to indirect investment and financing + direct investment and financing + endogenous investment and financing" change (Che & Zhang, 2013).

This depends on the future development of direct investment and financing market and the speed of capital accumulation, the third is "from traditional investment and financing to traditional investment and financing" change, with the increase of civil-military integration, the future investment and financing channels may further expand to private capital, international capital and so on. From the perspective of financing channels, diversified financing innovation system mainly shows: financial support, endogenous investment and financing, direct investment and financing, indirect investment and financing, and innovative investment and finance. First, financial support. including financial direct and indirect support, and related tax concessions and other preferential policies. Second, the endogenous investment and financing (Chen & Wang, 2015). Mainly refers to enterprises to use their own retained earnings and depreciation into investment and financing. Third, direct investment and financing. Including venture capital, capital market, insurance, bonds and so on. Four, indirect investment and financing. Including policy finance, commercial bank credit, private financial loans, small loans and so on. Five, innovative investment and financing. Including intellectual property pledge financing, joint issuance of debt, financing leasing, secured financing, Internet financial financing, etc.

### Countermeasures and Recommendations

#### (1) Reduce investment barriers and increase the investment interest of investment subjects

The State should continuously improve the investment system of the civil-military integration industry, reduce the investment barriers appropriately and attract more investment subjects to invest! First, in the capital market to introduce a number of civil-military integration of industrial finance policies to disclose the financial information of the civil-military integration industry to attract more investment subjects to invest; second, the introduction of relevant laws and regulations, Support and encourage investment subject to invest, give certain investment income protection; Third, improve the efficiency of the civil-military integration industry, obtain higher market rate, to increase investor enthusiasm.

#### (2) Establish rewards and punishments mechanism to improve the efficiency of capital use

Define the responsibility scope and division of the various departments of military enterprises, through the establishment of rewards and punishments mechanism, mobilize the enterprise management staff and staff enthusiasm, release the enterprise innovation vigor, give full play to the talent of technical experts, improve the efficiency of capital use and raise the level of profitability. In addition, we should strengthen the performance evaluation of investment decision, establish corresponding restraint mechanism, prevent funds from being arbitrarily used, expand the net assets of enterprises, and lay a good foundation for the financing of military enterprises from the market.

### (3) Improve the market diversification financing mode

In order to change the way of thinking in the past depending on financial appropriation and bank loan, military enterprises can consider the new forms of financing methods (such as intangible assets financing, project financing, financing leasing, etc.) on the basis of existing various financing channels. At the same time, can also be based on the characteristics of military products to choose flexible and diverse financing methods. For the production of high confidentiality requirements, sensitive military enterprises, not suitable for the selection of capital markets for financing, in addition to the State financial allocation of such enterprises, but also through to the relevant national ministries to apply for special research funds, from the state-owned banks to obtain loans; for production confidentiality requirements are low, Companies with less sensitive dual-use products can raise funds from the capital markets by issuing shares, bonds, and funds in a variety of ways.

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