

Risk Management of Industrial Investment Fund in Marine Economic Zone: An Investor Protection Based Study

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ABSTRACT

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The 21st century is the era of marine economy, and the exploitation of marine resources has been widely valued by all countries in the world. Therefore, the marine economy has gradually become an industrial cluster, which has become an important growth point for the development of a country. With the construction of Marine Economic Zone, marine industry investment fund has become an important way of investment industry. However, the development of China's industrial investment fund started late, which caused many problems, such as different scale, low industry maturity and so on. Therefore, there will be many risks in the industrial investment fund of China's marine economic zone. Based on the perspective of investor protection, this paper analyzes the risk management of investment funds in financial practice, which will form a mature system of financial institutions. However, China's marine economic zone has not yet established a comprehensive risk management system, which is a low awareness of investors' risk management. Therefore, this paper analyzes the necessity of the industrial investment fund in the marine economic zone. Then, this paper analyzes the investment fund management mode of the marine economic zone. Finally, this paper puts forward suggestions and measures.

ADDITIONAL INDEX WORDS: *Investor protection, marine economic zone, industrial investment fund, risk management research.*

INTRODUCTION

In the process of achieving business objectives, enterprises will encounter various uncertain events, which will affect their business activities and business objectives. In a certain environment, the uncertain events that affect the realization of enterprise goals are risks. In terms of investment, the marine industry investment fund bears the social mission of the revitalization of the marine industry, which is closely related to the overall planning and layout of the national marine strategy and industrial policy (Gao *et al.*, 2008; Gu *et al.*, 2009). Through the marine economy, the government can connect other industries in the Marine Economic Zone, which will lead the rapid development of marine strategic emerging industries. Through the marine industry investment fund, the government can promote the adjustment of marine industry structure, which will promote the development of marine industry (Zhao *et al.*, 2018). The marine industry investment fund is an important investment unit to support the construction of the provincial marine economic zone, which is jointly initiated and established by a number of investment institutions (Jin *et al.*, 2011; Li *et al.*, 2018). According to the Interim Measures for the administration of industrial investment funds, we must set up a

management company to set up the marine industrial investment funds first, which is a necessary condition for the urban marine industrial funds. Through the limited partnership system, the entrusting company of the marine industry investment fund will manage the company, which is directly responsible for the project investment, organization management and daily operation of the marine industry investment fund (Jin *et al.*, 2019; Kang *et al.*, 2011).

NECESSITY OF ESTABLISHING MARINE INDUSTRY INVESTMENT FUND

Expand investment and financing channels of marine industry

In recent years, the construction of coastal marine economic zone has been accelerating. However, due to the limited national financial resources, the development and investment efficiency of some marine economic zones are low, which has seriously affected the construction of marine industrial infrastructure. Therefore, our government continues to expand the financing channels, which will speed up the construction of the marine economic zone. Through the establishment of marine industry investment fund, regional governments will expand their own financing channels. The marine industry investment fund will bring a lot of funds to the marine industry, and these funds will be invested in the marine industry science and technology enterprises. However, the operation of science and technology enterprises in the marine industry has the following characteristics, such as long-

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term development of funds, large demand for funds and so on. Therefore, in the long investment period, the marine industry investment fund should help the reform of the marine industry. Through the way of equity investment, the investment fund can share the risks and interests with the marine industry enterprises, which is the future development trend of the investment and financing channels of the marine industry (Jiang *et al.*, 2018; Liu, Feng and Liu, 2019; Zhu *et al.*, 2020).

Promote infrastructure construction of marine industry

Marine industry infrastructure industry plays an important role in marine industry, which will promote the economic growth of marine industry. Through the main body of marine industry, we can provide direct or indirect services, which will further promote the development of marine industry. However, the investment in marine infrastructure industry has many shortcomings, such as large amount of capital input, long recovery cycle, government regulation and so on. Therefore, the general investors are not willing to invest in the marine industry infrastructure industry. With the construction of infrastructure industry in the Marine Economic Zone, investment fund has become a driving factor for the economic development of marine industry. Through the establishment of marine industry investment fund, the government can collect idle funds from the society, which will realize the sustainable development of marine industry infrastructure. Through the marine industry investment fund, we can provide specialized institutional investors, which will improve the efficiency of infrastructure construction and management of marine industry. By reducing construction and operation costs, investment funds can provide public services according to market demand, which will obtain stable long-term benefits. Therefore, investment funds can promote the construction of marine industry infrastructure.

Improve the adjustment and upgrading of marine industrial structure

At present, the marine economic zone is in a critical period of adjustment and upgrading of marine industrial structure. There are many problems in China’s marine industry, such as small overall scale, unreasonable structure, low industrial content, low added value of products, lagging development mode of industrial organization and incomplete industrial chain, which are the bottleneck of modern marine industry construction. Therefore, it needs a lot of funds to optimize the marine industrial structure in the marine economic zone. Through the establishment of marine industry investment fund, we can collect a large number of funds to invest in the marine industry, which will guide leading enterprises to speed up the adjustment of product structure. Through equity investment, we will promote industrial agglomeration, which will extend the marine industry chain. Through structural adjustment, we can achieve the coordinated development of production, processing and circulation of marine industry, which will improve the quality and efficiency of the development of marine industry.

MANAGEMENT MODE OF INVESTMENT FUND IN MARINE ECONOMIC ZONE

Management route of integration of investment fund and marine industry

China’s industrial investment fund was born from the Western venture capital fund, which belongs to the category of equity

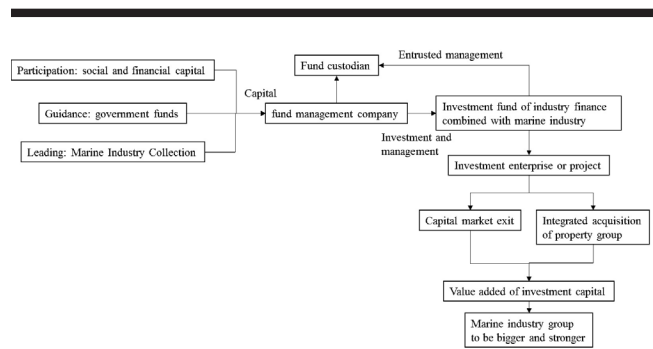


Figure 1. Management Roadmap of integration of marine industry and investment.

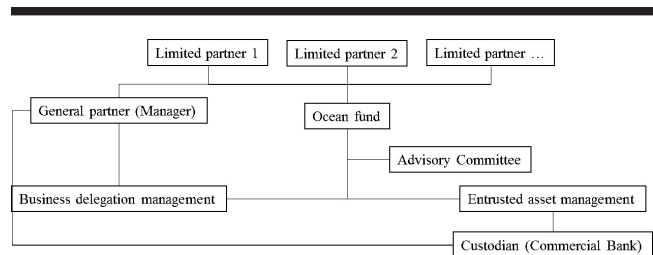


Figure 2. Relationship between marine industry investment fund and general partner.

investment. However, China’s investment funds retain the common features of foreign similar funds, at the same time, it also has innovation with Chinese characteristics. In essence, venture capital fund, industrial investment fund and marine industrial investment fund are all collective investment systems, which belong to the category of private equity investment. In this paper, a Management Roadmap for the integration of marine industry and investment is developed, as shown in Figure 1.

Form of investment fund

Marine industry investment fund is a limited partnership organization. In the limited partnership mode, investors of the fund will participate in the investment as partners. Therefore, the partners will enjoy the property rights of the partnership in accordance with the law. The advantages of limited partnership fund are tax exemption and limited liability system. As a result, the fund will have lower taxes. At the same time, fund investors will also bear limited liability. The relationship between the investment fund and the general partner is shown in Figure 2.

Investment direction and process

Marine industry investment fund has its own investment principles, such as low risk, high return, etc., which requires investment in the way of project equity, M & A, sub fund and so on. Therefore, through the integration and leading work of industrial funds, the marine economic zone can invest in projects with sufficient conditions, short return time and strong liquidity, which will strengthen the transformation of various industries, such as marine transportation logistics, marine equipment manufacturing, marine engineering construction, modern marine fisheries, marine ecological environment protection, marine

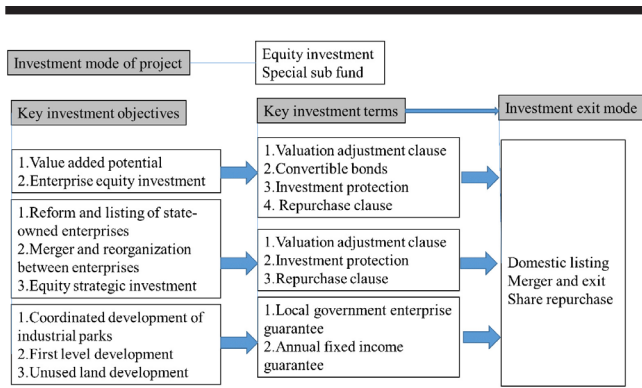


Figure 3. Investment flow chart of marine industry investment fund.

energy and mineral resources, marine cultural tourism, *etc.* In this paper, the investment process of marine industry investment fund is formulated, as shown in Figure 3.

RISK OF INDUSTRIAL INVESTMENT FUND IN MARINE ECONOMIC ZONE

Principal agent risk

The industrial investment fund controls the invested enterprise for daily operation and management. The principal-agent relationship exists between investors and managers. Therefore, in order to pursue the maximization of their own interests, they may have a game situation, which will cause the enterprise to suffer loss of interests in the process of operation. First of all, in order to obtain more and faster capital injection, entrepreneurs will seek private interests, which will conceal the real operation of the invested enterprises. After the capital injection, entrepreneurs will have the actual right to use the capital. Therefore, in order to pursue short-term benefits or higher risk returns, managers will conceal the true investment scope and use direction of funds, which will cause the investors' interests to face the risk of loss.

Industrial control risk

Some investment projects will have a large total investment, which will cause the complexity of the equity component, such as government infrastructure construction, rare resource development, real enterprise financing, *etc.* Therefore, the industrial investment fund can't obtain the absolute control right, which will cause the influence of the industrial investment fund is small. Therefore, it will be difficult for investors to guarantee their own interests from loss, which is the risk of industrial investment.

Exit mode risk

The purpose of industrial investment fund investment is to realize the withdrawal of equity capital when the enterprise matures, which will facilitate the next round of investment of investors. However, the maturity of China's capital market is low, which will make it difficult for investors to exit easily. Therefore, many industrial investment funds cannot find the right exit time and exit way, which will increase the risk of fund preservation and value-added. The stock market and property right market of our country still need to be improved. The listing of gem is a strong point to solve the dilemma of the exit of industrial investment fund.

Social credit risk

At present, the cost of breach of contract is still relatively low in China. Therefore, credit relationship will not be highly binding, and many financial data will not be true, which will cause financial risk. By hiding the real financial information, China's industrial investment funds will increase the difficulty, which will be detrimental to the scientific judgment and investment feasibility demonstration before investment. Data credit risk will damage the project control ability of industrial investment fund.

Government control risk

Government control risks mainly cover large-scale state-owned industrial investment funds, which are initiated by local governments and reported to the State Council for approval. Therefore, the local government will have actual control over the industrial fund, which will result in the kidnapping of the industrial investment fund and the local development interests. The investment behavior of industrial investment funds that are not constrained by the market has considerable component uncertainty, which will lead to many risks, such as facing repeated investment, investment expansion, access difficulties, single channel, *etc.* Therefore, the risk control by the government will lead to the risk of the industrial investment fund in the marine economic zone.

SUGGESTIONS ON RISK MANAGEMENT OF INDUSTRIAL INVESTMENT FUND IN MARINE ECONOMIC ZONE

Promote risk identification

Fund management companies are financial investment companies, which will be different from manufacturing enterprises in many aspects, such as organization, operation and applicable laws and regulations. Therefore, the risk management of investment fund has its particularity. The risk of fund management company is affected and restricted by the risk of offshore investment fund, which mainly includes the following risks, such as moral risk of management, unclear National PE fund policy, capital market risk, investment risk, fund management company risk, fund equity transfer, exit risk, investment opportunity competition risk, risk of limited partner's lack of control, risk of new organization, macroeconomic risk, uncertainty risk of the proposed investment project, inherent risk of investment in non-listed companies, risk of brain drain, operational risk, default risk, tax risk, *etc.* We must promote risk identification, which will better avoid risks.

Scientific risk assessment

Investment funds should learn from the experience of other companies in the same industry, such as Morgan's quantitative risk matrix model, which will determine the scientific risk monitoring and measurement model in line with the corporate style. First of all, we should identify potential threats to fund investment, which will lead to threats. Once the threat occurs, the investment fund will bring huge losses and negative effects. Investment funds can build risk assessment model on the basis of process analysis, which can divide risk into different levels by comprehensive score. Through the self-evaluation of business departments, we can combine with expert evaluation.

Establishment of comprehensive risk management system

By improving the risk management system, we can identify business risks. Through the assessment, we can formulate risk prevention and mitigation measures, which will keep the company's risk in a controllable range. Through proper comprehensive risk management, enterprises will reasonably judge the current macro environment, such as economic situation, industry environment, political changes, etc., which will respond to the risks of enterprises.

CONCLUSIONS

China's marine emerging industries are developing faster and faster, and their investment scale is also growing. Therefore, we should establish a government led investment and development model. In the whole cycle of financing, investment, income, exit and refinancing, we can establish a good operation mechanism, which is an important guarantee for the rapid development of marine emerging industries.

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