

Analysis on the Financing Structure of Chinese Transnational Enterprises under the Constraints of Policy System Environment

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Abstract. The development of state-owned enterprises. has been promoted by the reform of economic system, especially the optimization of the policy system environment accompanied. The diversified financing pattern of the coexistence of multiple financing modes has proved that the changes of the characteristics of the transnational investment behavior of the state-owned transnational enterprises and the change of the financing environment are concomitant. According to the analysis of the financing structure of the state-owned transnational enterprises, the internal financing is limited by the performance and the scale. In recent years, with the development of the bond market, the demand and the proportion of the debt financing of the state-owned transnational enterprises have been rising. At the same time, the role of the financing platform of the stock market is obvious, that shows the state-owned transnational enterprises have a certain degree of soft financing constraints.

Keywords: State-owned transnational enterprises, Financing structure, Policy system environment.

1. Introduction

With the further development of the "one belt and one way" initiative, more and more non-state-owned enterprises have been involved in overseas competition. Reviewing the policy and institutional changes of our country, the economic policy of opening to the outside world and the reform of market-oriented economic system have opened up the road of transformation. Especially since 2005, the pace of "going global" of enterprises has been accelerated. The characteristics of financing institutions of state-owned enterprises and non-state-owned enterprises invested abroad have changed clearly. A general survey of the characteristics of the financing structure of China's transnational investment enterprises will take the financial data of the listed companies that can be obtained overseas for 2005-2018 years, analyze the financing channels of multinational enterprises from different financing channels, and sum up the main financing channels and financing methods of transnational enterprises.

2. Overall Characteristics of Financing Structure of Multinational Enterprises

The overall analysis of the financing structure of China's transnational enterprises will mainly be from endogenous financing (including internal retained earnings + depreciation), business credit (calculation method: accounts payable receivables), equity financing (calculation method: capital stock scale + capital surplus), debt financing (short-term loans + long term loans + bonds).

As shown in the figure below, the main financing of state-owned multinational enterprises in China is external financing, accounting for 70-80% of the total financing, followed by internal financing accounting for 20-30%. In terms of the composition of external financing, equity financing and debt financing are the main forms. Equity financing and debt financing account for 30-40% of the total amount of financing, respectively. However, we can find that the proportion of equity financing is declining while the proportion of debt financing is rising. For non-state-owned multinational enterprises, the proportion of endogenous financing is higher than that of state-owned multinational enterprises. In terms of the composition of external financing, the proportion of commercial credit financing is very low, even negative, which is related to ownership attributes and consistent with empirical facts.

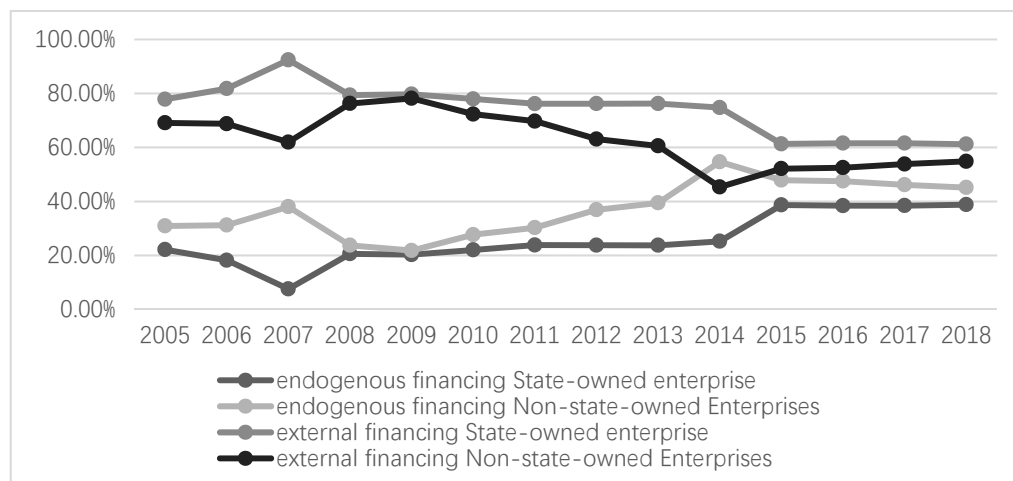


Fig.1 Comparison of Internal and External Financing between State-owned and Non-State-owned Enterprises

Note: the statistics are derived from the listed companies screened in China's global investment tracking (CGIT) dataset. Data are derived from the annual reports of these companies in the Wind database.

As shown in Fig.1, from 2005 to 2018, the proportion of endogenous financing of state-owned multinational enterprises is much lower than that of non-state-owned multinational enterprises, and the proportion gap is still widening. In contrast, the proportion of external financing of state-owned multinational enterprises is higher than that of non-state-owned multinational enterprises, and there is a trend of further expansion. This is due to the soft budget constraints and soft financing constraints of state-owned multinational enterprises. Resulting in. For non-state-owned multinational enterprises, the first consideration is the financing cost. Endogenous financing is equivalent to no financing cost, or only consider the opportunity cost of enterprise funds, so the financial pressure is low. In addition, endogenous financing can be timely invoked according to the situation of enterprises, without being restricted by investors. Therefore, non-state-owned multinational enterprises prefer to choose endogenous financing. External financing is more difficult than state-owned multinational enterprises, which is also the reason why non-state-owned multinational enterprises choose internal financing. With the advantage of state-owned ownership, state-owned multinational enterprises are more inclined to external financing, and from the data point of view, this trend is more obvious. However, from the perspective of the overall financing situation of multinational enterprises, 2008 has become the turning point of financing, and the proportion of endogenous financing of non-state-owned multinational enterprises has declined significantly. This is affected by the economic crisis in Southeast Asia and the economic downturn in Europe and the United States. As a result of this change in economic environment, the operating performance of enterprises in open economy fluctuates greatly, and profits decline, which leads to insufficient earnings. Since 2015, with the further development of the "one belt and one way" initiative, non-state-owned enterprises have begun to increase their overseas investment. With the help of policies, the proportion of foreign financing will be increased, so that the financing structure will be closer to that of state-owned enterprises.

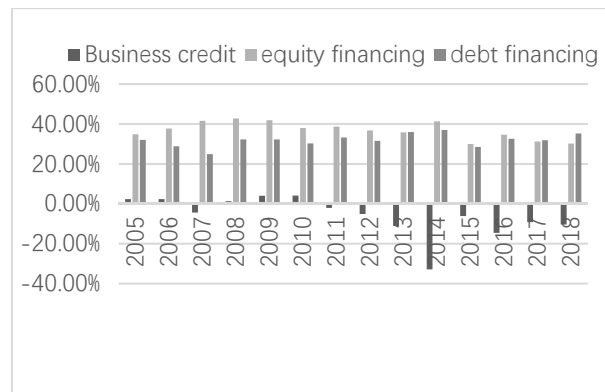


Fig.2 Classification and Comparison of Foreign Financing of Non-State-owned Multinational Enterprises (2005-2018)

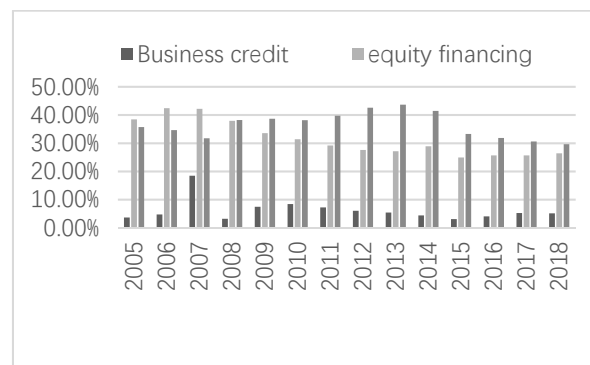


Fig.3 Classification and Comparison of Foreign Financing of State-owned Multinational Enterprises (2005-2018)

Note: the statistics are derived from the listed companies screened in China's global investment tracking (CGIT) dataset. Data are derived from the annual reports of these companies in the Wind database.

After 2009, the proportion of creditor's rights financing is gradually higher than that of equity financing. This is mainly due to the special relationship between state-owned multinational enterprises and state-owned commercial banks and government intervention. Considering the actual situation, the stock market has a great impact on the amount of equity financing. With the rise of the stock market, the amount of equity financing has also increased significantly. As shown in 2007, the proportion of equity financing has reached a high point. Non-state-owned multinational enterprises also show an increase in the proportion of creditor's rights financing, but equity financing is still the first source of external financing. In recent years, due to the experience and capital demand in the international market, China's multinational enterprises are increasingly inclined to the mode of equity financing in the external financing mode. The proportion of debt financing in the financing structure has increased. This paper argues that the reasons are as follows. Firstly, multinational corporations attach more importance to the role of tax shield in debt financing. Secondly, multinational corporations are inclined to take advantage of them. Optimize capital structure by allocating financing structure. Thirdly, indirectly reflects the achievements of China's bond market construction in recent years, and the support of the state.

To sum up, from the perspective of overall structural comparison, the capital structure of listed companies in China has become more and more inclined to exogenous financing. It is evident that the rapid expansion of enterprises makes them choose internal financing, but the total amount is limited. External financing is needed to meet the needs of capital. In exogenous financing, most enterprises prefer bond financing to equity financing. In recent years, with the vigorous promotion of bond market construction, creditor's rights financing has become the main way to alleviate the demand for state-owned multinational enterprises. The structure of external financing will be

analyzed in detail below, so as to specifically summarize the main characteristics of the capital structure of China's transnational enterprises.

3. Characteristics of Equity Financing Structure of Multinational Enterprises

In China, equity financing is carried out by Issuance of shares, additional shares or allotments in the open market. Specifically, except that IPO is the first issue of stocks, other ways of refinancing are issuance, allotment and convertible bonds. And the most difficult, the largest is the first stock issue. Specifically, except that IPO is the first issue of stocks, other ways of refinancing are issuance, allotment and convertible bonds. And the most difficult, the largest is the first stock issue. In the issuance process, IPO needs to go through the process of application, approval and approval, and formally trade in the stock market after the approval of the SFC. Therefore, it takes a long time. Additional issuance of shares and allotment financing need to be approved by the SFC, but different issuing objects are different from IPOs. In addition, the issuance price is different, IPO is the approved price, stock issuance is a certain proportion on the basis of the average price in a previous period of time, and the allotment price is the discount ratio of the current price as the standard. In terms of issuing conditions, both IPO and issuance of shares and allotment financing need to examine the sustained profitability and financial situation of enterprises, and can be issued only when conditions are met. From the point of view of issuance convenience, the allocation only involves the original shareholders, so it is relatively convenient, and the procedure of additional issuance is more complex.

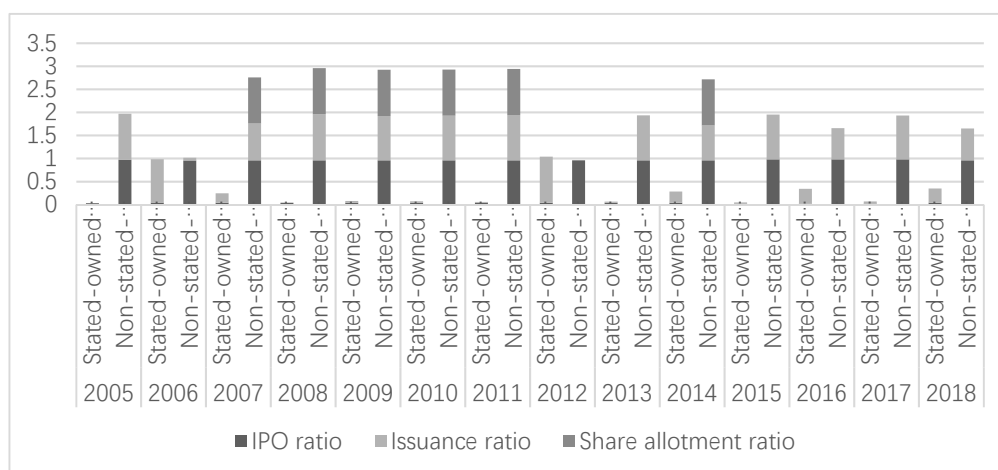


Fig.4 Characteristics of Equity Financing (2005-2018)

Note: same as above fig.1.

As we can be seen from Fig.4, the total amount of equity financing of state-owned multinational enterprises is much higher than that of non-state-owned multinational enterprises. Since the reform of non-tradable shares began in 2005, the Shanghai Stock Exchange Index has risen from its lowest point in 2005 to its highest point in 2007, 6124. At the same time, the total amount of equity financing has also achieved explosive growth. On the one hand, the increase of equity financing ratio shows that the state-owned multinational enterprises have strong equity financing ability, which is the convenience of examination and approval of the status decision of their state-owned enterprises. On the other hand, the more prosperous the stock market is, the more important role that can play. and the more platform it can play. The volatility of equity financing in China's state-owned multinationals also confirms such an analysis.

In terms of structure, IPO and issuance of non-state-owned multinational enterprises are the main ways of equity financing, and almost no convertible bonds are issued. In 2005, 06 and 07, the issuance volume of IPO and additional issuance financing reached its peak, then declined. After 2011, it rose slightly and mainly increased the amount of additional issuance financing. This shows that the

refinancing function of the stock market is also becoming more and more perfect. For non-state-owned multinational enterprises, the proportion of equity allocation financing and convertible bond financing in equity financing has been very low. The conditions for issuing convertible bonds in China are too harsh, especially for non-state-owned listed companies. For the state-owned multinational enterprises, the issuance of convertible bond financing is on the rise. It can be seen that for our multinational enterprises, the nature of their ownership has an important impact on the choice of financing methods and capital structure.

On the whole, with the fluctuation of stock market, the total amount of equity financing of Chinese state-owned enterprises also shows a trend of volatility. This shows that the way of equity financing is greatly influenced by external financing environment. Meanwhile, we can see that the state-owned multinational enterprises have adopted various ways of equity financing, which indicates that the state-owned multinational enterprises have a certain degree of soft financing constraints.

4. Characteristics of Creditor's Rights Financing of Multinational Enterprises

From the above analysis, we can see that China's state-owned multinationals are more inclined to obtain funds from bank loans and therefore rely heavily on debt financing. Next, we will analyze the structure of liquidity liabilities and illiquid liabilities in the debt financing of listed companies of China's state-owned transnational corporations. Because the capital structure of financial listed companies (such as Ping An Group, Construction Bank, etc.) is quite special, most of their assets are short-term liabilities, so this part excludes the data of these financial institutions, collates the data of other types of enterprises according to the year, and counts the total data of the year by the deadline of the current report period.

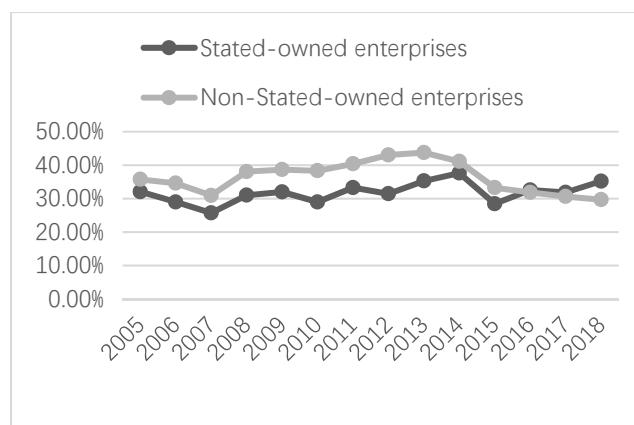


Fig.5 Characteristics of Creditor's Rights Financing

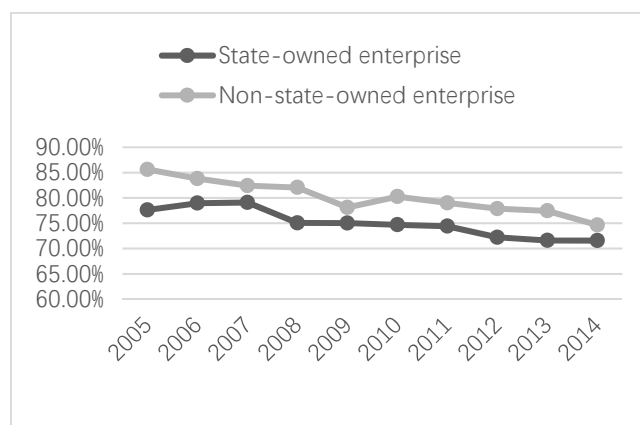


Fig. 6 Current liabilities to liabilities ratio (2005-2014)

Note: same as above fig.1.

From Fig. 5, we can see that from 2005 to 2018, the proportion of creditor's rights financing between state-owned multinational enterprises listed companies and non-state-owned multinational enterprises listed companies is relatively stable. But before 2015, the debt financing level of state-owned multinational enterprises has been lower than that of non-state-owned multinational enterprises listed companies. As shown in Fig. 6, the ratio of liquidity liabilities of both state-owned and non-state-owned multinational listed companies has declined in the ten years from 2005 to 2014, which indicates that the proportion of non-liquidity liabilities of Chinese multinational enterprises has gradually increased, reflecting that multinational enterprises pay more attention to the stability and long-term effects of non-liquidity liabilities. After 2015, with the implementation of the five way construction, the demand for funds of state-owned transnational corporations increased significantly, and the stability and long-term effects of illiquid liabilities were increasingly emphasized.

5. Conclusion

Overall, the proportion of Listed Companies in China's state-owned multinationals has increased gradually. On the one hand, because of the continuous improvement of the bond market, the financing channels of enterprises with state-owned enterprises' political attributes are broadened. On the other hand, China's state-owned transnational enterprises are better at using leverage and tax shield effect of debt financing based on their transnational economic attributes, thereby it can play an important role in optimizing capital structure and controlling risks. In addition, the most important reason is that the financing constraints and convenience of state-owned multinational enterprises are relatively high. Both banks and investors are willing to provide funds for state-owned multinational enterprises because of their background, so that the debt financing of state-owned multinational enterprises is more convenient and low-cost. The reform of economic system, especially the optimization of policy and institutional environment accompanied by the reform of state-owned enterprises, has promoted the development of state-owned multinational enterprises. The diversified financing pattern, in which multiple financing modes coexist, has initially taken shape. From the analysis of financing structure of state-owned multinational enterprises, endogenous financing is limited by performance and scale, and it must rely on external financing to make up for the gap. In foreign financing, with the development of bond market in recent years, the demand and proportion of debt financing of state-owned multinational enterprises are increasing. At the same time, we can see that the state-owned multinational enterprises have adopted various ways of equity financing, and the role of the financing platform of the stock market is obvious for the listed companies of the state-owned multinational enterprises, which indicates that the state-owned multinational enterprises have a certain degree of soft financing constraints.

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