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Corporate Investment Efficiency Affected by Industrial Policy

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Abstract

We look into how industrial policy affects corporate investment and investment efficiency. We investigate whether industrial policies have distinct effects on China's state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs) by utilizing the micro-level data of A-share listed companies on the Chinese stock market from 2001 to 2020. To further illustrate the impact of industrial policy on investment efficiency, we also identify specific policy adherents. The empirical findings demonstrate that, whereas SOE investment and efficiency are unaffected, industrial policies encourage investments among non-SOEs at the expense of reducing their investment efficiency. The primary means by which industrial policy has a negative impact on investment efficiency are subsidies from the government and competition between industries. In addition, both SOE and non-SOE policy adherents lose investment efficiency as a result of target industrial policies. Therefore, policymakers ought to pay more attention to the consequences of excessive inter-industry competition and unnecessary government subsidies in order to achieve the objectives of increasing the efficiency of corporate investment and fostering sustainable economic development.

Key words: Investment • National Economy • Social Development

Introduction

Companies investments play a crucial role in the growth of the economy because they help to upgrade and modify the industrial structure, which in turn helps to improve the industry. Policymakers have enacted a number of industrial policies to promote industrial structure adjustment, optimize resource allocation and direct corporate investment in order to achieve economic objectives. Since 1953, China has implemented short- and medium-term national planning with a five-year horizon to clarify the direction of economic and social development. Target industries have seen rapid expansion during the 13th Five-Year Plan for National Economic and Social Development (2015–2020). The value added of industrial strategic emerging industries above the designated size increased by 11.0% during 2016–2017 with the support of a strategic emerging industries development plan, according to the "Statistical Communiqué of the People's Republic of China on the 2017 National Economic and Social Development." Additionally, the innovation and profitability of these target industries have significantly improved. However, the government's "visible hand" can be both a blessing and a curse. Corporate investment can be distorted by improperly designed or implemented industrial policies, resulting in overinvestment and investment inefficiency.

Description

The Five-Year Plan's implementation is regarded as an industrial policy to encourage economic expansion. In general, the Five-Year Plans target industries will receive more resources and support, resulting in rapid expansion. The Five-Year Plans can have an impact on the investment decisions made by companies in the target industries from a micro perspective. As a result, economic growth is significantly influenced by the efficacy of industrial policies. Industry upgrading and resource allocation will be significantly improved if industrial policies encourage firms to make efficient investments; if not, some industries will experience overcapacity and redundant construction. The majority of studies examine the effects of industrial policies from a macroeconomic point of view. Few studies have examined the connection between fluctuations in industrial policy and the investment and performance of businesses. The impact of industrial policy on corporate investment is the primary focus of the existing literature, while firms investment efficiency is largely ignored [1].

By investigating the connection between industrial policy and the efficiency of corporate investment, we add to the industrial policy literature. In addition, we investigate the various effects of national and local industrial policy. Studies focusing on the impact of national industrial policies may overlook the role of local industrial policies in corporate investment because local policies formulated in accordance with national policies may not correspond to local economic conditions. We emphasize the influence of local industrial policies on firms investment and efficiency because Chinese businesses are closely linked to local government policies. In addition, there is a significant distinction in China between SOEs and non-SOEs in terms of status. Even though non-SOEs are the driving force behind economic growth and have expanded rapidly in recent years, SOEs still have an advantage when it comes to funding and market entry. As a result, we compare and contrast the responses of SOEs and non-SOEs to industrial policies [2].

We can examine the effects of industrial policy on corporate investment efficiency using China's thirteen Five-Year Plans, which provide a unique institutional context. The "Five-Year Plan for National Economic and Social Development," which covers the implementation periods of the 10th (2001–2005), 11th (2006–2010), 12th (2011–2015) and 13th (2015–2020) Five-Year Plans, has been hand-collected by us. Then, to investigate the effect of industrial policy on corporate investment and investment efficiency, we identify the target industries and match them to data on A-share listed companies. According to our empirical findings, industrial policies affect investment and efficiency differently for SOEs and non-SOEs. Non-SOE investments are significantly encouraged by industrial policies, but their investment efficiency is reduced as a result. In contrast, industrial policies have little effect on SOE investment and productivity. The primary mechanisms by which industrial policies influence investment efficiency are government subsidies and competition between industries [3].

To further investigate the impact of industrial policy on corporate investment efficiency, we also define the specific policy followers firms in target industries that increase investment following the implementation of supporting industrial policies. We find that the implementation of industrial policies has

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significantly reduced the investment efficiency of policy adherents. There are several contributions from our study. First, we broaden the influence factors of corporate investment from industrial policies perspectives. From a firm-level perspective, the existing literature investigates the factors that influence corporate investment and investment efficiency. Cost of capital, debt structure manager characteristics and political connections all have an impact on corporate investments. Additionally, corporate investment efficiency is significantly impacted by the information asymmetry brought on by disclosure quality and corporate governance. To demonstrate how macroeconomic policies influence corporate investment decisions, our research focuses on the impact of industrial policy on corporate investment and investment efficiency. Second, we look at how government subsidies and competition between industries affect corporate investment efficiency under industrial policies. Last but not least, we examine the investment effectiveness of specific policy adherents. Overall, our research highlights the significance of developing industrial policies and provides a fresh perspective on how industrial policy affects corporate investment and investment efficiency.

From the perspective of Chinese Five-Year Plans, we investigate how industrial policy affects corporate investment and investment efficiency. We match the firm-level data with the industrial policies target industries using four Five-Year Plans from 2001 to 2020. We provide convincing proof that industrial policy has a negative impact on the effectiveness of corporate investment. The industrial policy is one type of government intervention that encourages corporate investment while decreasing investment efficiency. However, such evidence does not exist in SOEs. According to the existing literature, government interventions significantly encourage SOE investment while skewed their optimal investment by political connections. On the other hand, we contend that non-SOEs investment efficiency is harmed by industrial policies because economic policy uncertainty affects corporate investment. Even though non-SOEs are the target of industrial policy, they may make irrational investments despite making ineffective ones. Non-SOEs are less politically connected than SOEs, making it harder for them to stay in touch with the government.

This makes it harder to keep track of changes in industrial policy. Non-SOEs may blindly make investment decisions in order to comply with policies if they are exposed to supportive industrial policies. The results of our research shed light on how different ownership statuses of businesses affect investment efficiency as a result of industrial policy. Even though it will reduce their investment efficiency, increasing investments may be the best option for non-SOEs, who face greater economic policy uncertainty. Therefore, it is imperative that policymakers develop reasonable guidelines for non-SOE investors investment decisions. We investigated whether industrial policies have distinct effects on the investment and efficiency of SOEs and non-SOEs, respectively, using the microlevel data of A-share listed companies on China's stock market and the four Five-Year Plans from 2001 to 2020. From the perspective of corporate investment and investment efficiency, our findings provided a fresh perspective on the impact of industrial policy [4].

First, non-SOE investment is benefited by target industrial policies; however, they distort the effectiveness of their investments. In addition, national industrial policies have a greater marginal effect on corporate investment and investment efficiency than do local industrial policies. Nevertheless, SOE investment and productivity are unaffected by target industrial policies. Second, corporate investment efficiency is impacted by industrial policies through government subsidies and competition between industries. The degree of inter-industry competition and the amount of government subsidy increase the investment efficiency of non-SOEs. Last but not least, both SOE and non-SOE policy adherents experience negative investment efficiency as a result of industrial policies incentivizing of overinvestment [5].

Conclusion

Overall, industrial policies make it easier for non-SOEs to invest by removing financial constraints and industry barriers, but this also makes it less effective for them to invest. Therefore, governments should pay close attention to boosting the investment efficiency of non-SOEs by reducing unnecessary government subsidies and preventing excessive competition between industries in order to enhance the efficacy of industrial policies. More importantly, industrial policies must remain consistent and stable to avoid inefficient investments and to foster favourable expectations for non-SOE investment decisions. Industrial policies will play a crucial role in maintaining economic stability because they have little effect on SOE investment. In a downturn in the economy, SOEs can keep people's livelihoods and investments in macroeconomic projects going.

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Conflict of Interest

None.

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