

China's Government Investment Funds: Evolution, Risks and Reform Measures

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In the context of guarding against financial risks and deleveraging, government investment funds supplement the traditional government debt financing by market-based equity financing, which is regarded as the profound change of the government's financial management idea and mode. In reality, the practice of China's government investment funds is still in the stage of "learning by doing". The diversification of the target, the lack of supervisory experience, the imperfect information disclosure and evaluation mechanism, and the shortage of professional talents pose a challenge to the government's future risk control and the regulation of government behavior. This paper summarizes the path and trend of the development of government investment funds and the possible risks, and on the basis of international experience, puts forward the measures and suggestions for further standardizing the management of government investment funds and deepening the reform of government investment and financing system.

Keywords: government investment funds, evolution, risks, reform measures

1. Introduction

As China's economy enters the new normal, the economic growth mode needs to be adjusted, the industrial structure needs to be upgraded and local government debt risks are gathering. Against this backdrop exploring new mode of government investment and financing, effectively preventing and controlling government debt risks, and strengthening the government's macro-control and guiding power have become a difficult problem which requires immediate solution.

As an important investment and financing mode in the post-local government debt period, the government investment fund has been deeply involved in SMEs financing, venture capital and infrastructure in various provinces, opening up a new mode of government replacing debt financing with equity investment. This mode expands the market-based channel and ability of government to obtain resources from financial market, ties the government with banks and funds more tightly, enlarges government credit lever, and mobilizes huge financial resources to serve China's industrial

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adjustment and economic structure upgrading.

In recent years, in order to standardize the operation of government investment funds, documents including *The Interim Measures for the Administration of Government Investment Funds*, *Instructions on the Financing of Government Investment Funds to Support Industrial Development* have been promulgated. Compared with the system design and supervision, the government investment funds are more advanced and diverse in the practical level. Under the guidance of financial innovation, the relative lag of the supervision system, the alienation of the actual operating mode and the mismatch of the time limit make the government investment funds a new focus, as the funds may turn into government debt. Therefore, it is necessary to carry out a more in-depth analysis of government investment funds.

This paper consists of four parts. The first part is the introduction. The second part summarizes the theoretical basis and definition of government investment funds, and combs the development and evolution of government investment funds. The third part analyzes the problems and possible risks in the establishment, operation, supervision and exit of the current government investment funds in China. The fourth part explores the deep economic, social, legal and managerial factors behind the system based on summarizing international experience, and proposes policy recommendations to promote the healthy development of government investment.

2. The Concept and Evolution of Government Investment Funds

2.1. Theoretical Basis: The Positioning and Function of Government Investment Funds in Technological Innovation

The emergence and development of government investment funds are related to the promotion of government in technological innovation. The rich existing research has provided strong theoretical support for the government to intervene the innovation investment activity.

The role of technological innovation as the engine of economic growth has been widely accepted. Research shows that innovative enterprises and SMEs play a significant role in promoting industrial evolution and innovation activities. As a result, in a period of economic turmoil and recession, governments often view entrepreneurial activity as a spark plug to revive economic growth and upgrade the industrial structure. However, unlike mature companies that generate stable cash flows, high growth innovators with large amounts of intangible assets, while representing future technology and market orientations, are likely to suffer long-term losses in the development and commercialization phases, and they face uncertain prospects. Venture capital emerges as traditional bank loans and other equity funds are unlikely

to flow to such enterprises. However, private venture capital has its own law. Globally, the venture capital industry shows the characteristic of drastic fluctuations, which is caused by the prosperity degree of venture capital to a large extent. The public investors' intervention can eliminate this volatility, as investment will be encouraged when the economy is at low and investment will be discouraged when the market is overheated. At the same time, as an industry with progressive rate of return, entrepreneurial industry's agglomeration effect (including entrepreneurial market activity, mature investors, and the cluster of professional lawyers and intermediaries such as data providers, and high-quality employees, etc.), endows entrepreneurship itself a significant positive spillover. These are reasonable reasons for the government to intervene in innovation (Lerner, 2012). Theoretically, governments' policies to encourage entrepreneurial activities and venture capital can be grouped into two categories. One is to form an environment that promotes entrepreneurship and venture capital activities, namely, the coordination and integration of entrepreneurial elements such as healthy entrepreneurial environment, potential technological advantages, relative complete legal requirements and capital supply side venture capital industry. The other is the direct investment in enterprises and funds. Government investment funds encouraged and launched by governments are among the latter.

2.2. The Definition of Government Investment Funds and Its Evolution

The term of government investment funds¹ has no strict theoretical definition, and its definition and connotation are adjusted with its different positioning by national macro policy. In order to attract capital from local investors, enterprises, technological investment institutions and financial institutions, and promote technological innovation in small and medium-sized enterprises, the government established government-led funds, and named them Innovation Funds (see *The Interim Provisions of Technical Innovation Funds for Science and Technology SMEs* issued in 1999). The money came mainly from central financial allocations and bank interests. Although the innovation funds were intended for guiding in nature, and introduced of competition, evaluation and tendering mechanism, they still mainly depended on administrative allocation.

In 2005, the State Council promulgated *The Interim Measures for the Administration of Venture Capital Enterprises*, stipulating that “the central and local governments can set up venture capital to guide the investment, and establish and develop enterprises through equity participation and the provision of financing guarantee”, and made clear the positive role played by government investment funds in entrepreneurship. The

¹ In practice, the specific names of government investment funds are different. They may be called Government Equity Investment Funds, Guidance Funds, Industrial Investment Funds, or just Government Funds, but the nature remains the same. In this paper, they are referred to as government investment funds according to the official definition.

government guiding funds then were funds set aside.

The third plenary session of the 18th Party Central Committee made important decisions to deepen economic reform. Documents including *The State Council's Decision on Deepening the Budget Management System* and *The Notice on the Issuance of a Plan for promoting the Investment and Cooperation of Financial Funds* have been promulgated. In 2015, the Ministry of Finance promulgated *The Interim Measures for the Administration of Government Investment Funds* (No. 210 [2015], Ministry of Finance) to define government investment funds clearly as “funds guiding all types of private capital to invest in key areas and weak links to support the development of related industries and areas, which come from all levels of government through budget arrangements (including general public budget, government funds budget, state-owned capital operating budget, etc.), are established separately or jointly with private capital, and take market-based forms such as equity investment. In 2016, the National Development and Reform Commission promulgated *The Interim Measures for the Administration of Government-funded Industrial Investment Funds*, which defined the government-funded industrial investment funds as government-funded investment funds and venture capital funds mainly invested in non-public trading enterprises equity, and stipulated that industrial investment funds should be mainly invested in seven major areas of non-basic public services, such as infrastructure, housing security, ecological environment, regional development, strategic emerging industries and advanced manufacturing industries, as well as entrepreneurial innovation. The above definitions of government investment funds given by the two major departments clarify the basic attributes of current government investment funds of being public and market-based. At the same time, government investment funds were expanded from being mainly invested in innovation industries in the 1980s and 1990s to being invested in fields and industries which are weak and calling for government support, such as infrastructure, housing security, public service industries, the scope getting more extensive and. As a result, venture capital funds began to be known as government investment (guiding) funds.

At present, government investment funds serve as new exploration into the allocation mode of government public resources. The government tries to transform the free appropriation mode, which is mainly administrative distribution, of public financial investment funds (including the budgetary investment, the central and local special construction funds supporting industrial development, and other public finance funds), into market-based operation mode of equity investment, which has the following characteristics: policy guidance, leverage amplification effect, market resource allocation, equity rolling investment instead of one-time free input, and so on, aiming at improving the efficiency of resource allocation and strengthening fiscal regulation.

2.3. Current Development of Government Investment Funds

2.3.1. Scale Characteristics

According to the domestic data platform, as of 2013, the number of government investment funds has been relatively stable, with the annual number of no more than 100. Under the background of China's supply-side reform and macro "innovation and entrepreneurship", government investment funds have been expanded to larger scope and more market-based, with both the number and scale of government investment funds at various levels increasing every year. Especially since 2015, the domestic government guiding funds have been exploding. In 2014, 105 new government investment funds were set up, raise funds 288.101 billion yuan, a leap from 74.668 billion yuan in 2013. In 2015 297 new government guiding funds were set up, 2.83 times the number of 2014, and the funds reached nearly 1.51 trillion yuan, 5.24 times of that of 2014. As at the end of December 2015, a total of 780 government guiding funds with the scale of 2.18 trillion yuan had been set up in China. By the end of September 2016, there had been a total of 980 government guiding funds with the total size of over 3.30 trillion yuan (Zero2IPO Research, 2016).

2.3.2. Structural Characteristics

According to the invested fields, government investment funds can be divided into industrial investment funds, angel investment funds, venture capital funds and infrastructure investment (PPP) funds. In terms of organizational form, there are corporation, (corporate funds), partnership (partnership funds) and the contract system. Because the establishment of partnership is relatively simple and flexible and it avoids double taxation, it has become the principal form of most investment funds.

2.3.3. Gradual Establishment of the Regulatory Framework of Government Investment Funds

The relevant institutional framework of government investment funds is gradually established and perfected in China. In order to standardize the operation and management of government investment funds, in addition to the central ministries and commissions, local governments promulgated methods and rules for the administration of investment funds based on their actual situations, and made detailed and definite stipulation to fund establishment, operation, management, withdrawal, income distribution, division of rights and responsibilities and so on.

Sorting out the relevant provisions of government investment funds, we can find

the following salient features. (1) The central government formulates a macro-policy framework, which is more oriented and principled. Provincial governments tend to classify and refine the administration methods or rules of different types of investment funds, and even make special provisions for individual funds that involve major industrial policies of the whole province (city). (2) The localization characteristics of investment funds are obvious. The vast majority of investment funds require the sub-fund to invest in a certain proportion of the provincial (regional) industry. The investment direction and the investment scale are also clearly defined, reflecting the regional guiding nature of the funds. (3) Specific provisions regarding the positioning, operating mode, profit and risk distribution of government investment funds vary from province to province. To some extent, it reflects interprovincial differences in industry investment policy, the understanding of asset management and investment, and the capability of risk control and market regulation. (4) Some provincial government investment funds show the integration function of financial funds, which is more obvious in the PPP infrastructure funds. (5) Compared to other types of government investment funds, PPP investment funds or public infrastructure investment funds that invest in regional public infrastructure are highly leveraged, and most provinces and cities have significant preferential policies in respect of public basic funds, including provisions that define the government as inferior-level partners, which, from one point of view, indicates that it is possible for this kind of funds to replace the platform debt and transform into recessive government debt. (6) The provincial and municipal provisions of government investment funds are subject to faster adjustment. This on the one hand, highlights the local governments' enthusiasm to seize the opportunity to promote the reform of investment and financing mode so as not to lag behind in the new round of institutional reform; on the other hand, it also highlights the limited local institutional innovation in this round of top-down reform. In order to avoid making mistakes, it is necessary to adjust and innovate under the institutional framework with reform direction given by the upper levels.

3. Existing Problems and Risks of Government Investment Funds

The practice of China's government investment funds is still in the stage of learning and exploration. In the process of the evolution, there are many uncertainties and risks including learning cognitive bias, talent experience and environmental conditions, in addition to the uneven entrepreneurial environment and the different national conditions. In particular, as the county and district governments have limited capacity of management and risk control, new risks could arise easily, posing a new challenge to the overall macro-risk management and government behavior norms. The issues involved are reflected in the following aspects.

3.1. Diversified Targets and Dissimilated Functions Preventing Some Government Investment Funds from Realizing Expected Effects

The initial purpose of setting up government investment funds is to play the role of government in guiding investment in high-tech enterprises and industries. As China's economy enters a new stage of development, the importance of government investment funds is becoming more and more prominent in advancing technological progress and promoting economic restructuring and upgrading. However, under the background of high government debt risk and limited financing capacity, government investment funds are extended to the infrastructure and other public sectors to relieve the pressure of local capital financing, including the promotion of PPP and the development of other public basic undertakings in the local area. Government investment funds are replacing the local platform debt, and become the important government financing mode in the post-government debt era. Right now, government investment funds not only undertake the target such as the engine of the emerging economy development, the regional industrial upgrading, but also need to provide funds for local public infrastructure, and to promote local economic growth and so on. Government investment funds have been given multiple objectives in specific institutional design. The diversified economic goals blur the vision of private investors and become less attractive to private capital, which is the important reason for the unsatisfactory performance of some funds.

3.2. Lack of Experience and Dependence on Fixed Administration Mode of Financial Funds Leading to New Risks

In reality, government investment funds are something “fresh” to government departments, especially district-level governments. The market-based operation and administration of investment funds is different from the traditional bureaucratic administrative mode. To understand relevant laws and regulations, to get familiar with the financial market, and especially to change ideas and thinking of administration is a gradual learning and adaptation process which needs time and experience accumulation. At present, many of the local governments in the exploration period are basically in the state of “learning while doing”. Some local governments are still confined to the traditional thinking of managing market-based funds free of charge and taking sole responsibility.

In addition, when the law is not complete and the policy supervision means is relatively weak, some local governments tend to set up funds as if they were launching a campaign, rather than paying attention to the improvement and optimization of the soft conditions such as system construction and environment construction, and simple repetition cannot withstand the test of economic logic.

3.3. Lagging Financial Reform Restricting the Development of Government Investment Funds

Government investment funds, similar to the FOF in nature, attract a relatively single source of private capital. Long-term funds, such as pensions, have many restrictions on equity investment because of the need of capital security, and insurance funds prohibit the investment of equity such as entrepreneurship and venture capital. Because of the requirements of separate operation and supervision, bank funds shall not directly carry on the equity investment, but participate in government investment funds by the way of “investment and loan linkage”. Due to factors such as the pursuit of fixed income and the maturity matching risk of bank funds, in the specific operation process, the banks tend to choose the role of priority investors or only serve as financial advisers or information providers, but cannot fulfill the “equal pay for equal equity” risk avoidance requirements preset by investment funds. In March 2018 *Guidance on Regulating the Asset Management Business of Financial Institutions* was issued, breaking the rigid honoring expectations of asset management products. Strict regulations about related investment activities can effectively prevent and control debt risks, but in turn restrict the investment of private capital in government investment funds in some extent, which requires a transition in the administration of government investment funds and an adjustment in the investment strategy.

3.4. Differences in Professional Talent, Entrepreneurial Environment and Entrepreneurial Factor Endowment Leading to Differences in Access to Government Investment Funds, Causing New Imbalance of Regional Resource Allocation

The shortage of professional talent specializing in funds management and financial investment in the government is a universal problem across the world. This kind of knowledge bottleneck is more prominent at county-level government in China. Domestic VC/PE institutions are concentrated in Beijing, Shanghai, Guangdong and other financially developed areas. Due to investment zone restrictions, the first-tier city investment teams are often unwilling to settle in counties. It is difficult for the county government to find the excellent fund management team. In addition, relatively poor county-level regional entrepreneurial environment is poor and few projects with profitable prospects make it difficult for the local government industry to satisfy their upgrading needs with private capital investments, and few projects can land.

3.5. Performance Evaluation Ideas and Ways of Government Investment Funds to Be Adjusted and Updated

The evaluation of some government investment funds simply continues the method

and idea under the mode of administrative appropriation, which does not fit the property of investment funds. Taking venture capital guiding funds as an example, one of the most prominent characteristics of venture investment industry is that the risk investment market shows a strong cyclical characteristic of ups and downs. According to international experience, the failure rate of venture capital is generally more than 50%, especially in early investment. Therefore, the assessment requirement of “the funds’ rate of returns being above the inflation rate” does not conform to the basic financial rules of venture capital. In addition, creating a thriving entrepreneurial and venture capital culture takes a long time, especially in areas where there is no entrepreneurial base or tradition. So it’s not realistic to ask for a quick return in a short term. Next, the budget management mode of government investment funds still equates to the traditional direct appropriation by the government. The funds are positioned as “evergreen” funds, which are not allowed to have deposits of funds, or they are subject to strict requirements in expenditure progress according to evaluation systems similar to those applicable to direct investment. For example, some relevant departments’ regulations or funds use evaluation systems include requirements of expenditure progress and speed, regardless of whether the region has the conditions for funds, whether there are quality projects and good prospects for the industry and so on. These are deviation from the nature of investment funds.

3.6. Multi-Departmental Supervision Leading to Ambiguous Distribution of Power and Responsibility; Competitive Law Enforcement Impeding Concerted Regulation

The regulation of government investment funds involves many departments, such as National Development and Reform Commission, the Ministry of Finance, National Audit Office, State-Owned Assets Supervision and Administration Commission and so on. To obtain more supervision power in the future reform, currently relevant departments actively participate in the reform of government financing modes, and rush to introduce departmental regulations combined with their own departmental functions, resulting in competitive law enforcement. Although each department’s regulatory focus is different, overlapping occurs frequently. Absence of integration and coordination will easily plunge entities setting up funds into complicated situation of multiple regulations, triggering new risks. In addition, it is difficult for a regulatory system with regulatory intersection and blind spots to make coordinated efforts, thus the regulatory effect has declined.

4. Relevant Policy Recommendations

As an important reform in the field of government investment and financing, government investment funds reflect both the deepening innovation of institutional

mechanism and the promotion of supply-side structural reform, and they are also an important tool and means to implement “innovation and entrepreneurship” smoothly and promote the upgrading of industrial and economic structure in the period of economic transformation.

For government departments, the reform of government investment funds means not only the change of investment and administration, but also the adjustment of government’s thinking and behavior pattern. Whether the design of incentive and restraint mechanism of investment funds is reasonable, whether the relevant market-based reform can be matched to follow up, and whether the learning adjustment of all levels of government affects the implementation effect of this mode, the transition process from pure administration to marketization, and the practice of government governance modernization. Therefore, on the basis of clarifying the problems and risks of the institutional mechanism, incentive system and management mode of government investment funds, drawing on international experience and proposing relevant measures to optimize and guide government investment funds is necessary for the healthy development of government investment funds in the future.

4.1. Constructing Standardized Legal System Framework for Government Investment Funds

Unlike the previous reform mode of “testing each step before taking it”, this round of government investment funds reform is mainly guided and encouraged by the central government, and implemented by the relevant ministries and local governments. As a typical compulsory institutional reform, the establishment of a scientific and reasonable institutional framework, a legal policy system in line with national conditions, and clear and positive top-down incentive guidance are vital.

Analysis of international successful cases shows that, Israel approved limited partnership which was accepted all over the world through legislation, and established a “distributary” tax system to avoid the double taxation of the corporate system, thus achieving the after-tax profit maximization of fund partners. The Labor Department of the United State passed *The Employee Retirement Income Security Act* in 1979 to define the high-risk areas of pension fund managers’ investment including venture capital, through the “prudent man rule”, which promoted the rapid growth of the venture capital industry in the 1970s and 1980s. The above experience indicates that the government guiding and establishing the operating mode, incentive mechanism, and risk sharing framework of government investment funds will help the fund partners and other private capital to form a relatively stable expectation, and promote the rational distribution and share of risks.

Now in China, under the background of promoting the rule of law, as government investment funds are viewed as an important breakthrough and direction of

government financing reform, we should first start to strengthen legal systems related to investment funds, enhance the law level, clarify basic rules such as mode choice, equity investment norms, the range of leverage, incentives, withdrawing condition, and source of funds, so as to stabilize social expectation and reduce the concern and anxiety of nongovernmental capital participating in government funds.

4.2. Accurately Positioning the Role and Function of Investment Funds in Innovation

To set up government investment funds, several key issues need to be clear. First, what are the positioning and role of government investment funds? Based on the successful experience of market-based countries, government investment funds play a leading and guiding role in promoting scientific and technological progress and upgrading industrial structure. In the reform exploring the market-based transformation of government resource allocation, government investment funds should not be transformed to the main financing channel of local governments, nor should they be an alternative tool to reduce the leverage of local governments. In accordance with the Benefit Principle, public investment such as local infrastructure should be completed as far as possible with the financing of general debt and special debt, which is in line with the principle of intergenerational equity of public capital goods. Second, is it necessary for every local government to set up a separate government investment fund? According to the relatively mature experience, the government's role in supporting innovation and industrial upgrading lies more in creating opportunities, and coordinating and integrating as far as possible the holders of innovation elements (talent, technology, capital, etc.) and the innovation elements. Government investment funds are "catalysts" and boosters, rather than deep or direct participant. In practice, the varying degree of difficulty in establishing government investment funds is becoming the inducement of the new round of unbalanced resource allocation. Therefore, lower-level governments with insufficient capacity, conditions and experience do not need to set up government investment funds by themselves, instead they can participate in provincial and municipal government investment funds, which promote the funds' market-based operation and deployment of resources by integrating financial funds and market resources in the province or the city. In this way, it is more conducive to the acquisition of financial resources and the integration of macro-control.

4.3. Steadily Promoting Market-Based Reforms in the Financial Sector, Enriching Investment Products, and Broadening the Sources of Government Investment Funds

Developed capital market, diversified capital sources and products are important conditions for government investment funds to explore market-based operation and to guide private capital to realize capital maturity matching and risk sharing. Abroad,

institutional investors, such as insurance funds, retirement funds, pensions, university endowments and cash-rich private investors do not mind putting large sums of money into products that could not be cashed out for a long time but could yield a rich income. At the same time, convertible stock, private equity fund, FOF funds and other diversified equity investment products in the capital market, market operation mode, and relatively complete financial legal environment are the cornerstone of the development and expansion of government investment funds.

Domestically, in the process of steadily promoting financial marketization, on the one hand, we should strengthen financial supervision and control risk; on the other hand, we also need to create conditions to promote banks, insurance, pensions, and other long-term capital to participate in equity investment. We should further strengthen relevant financial legislation, strictly enforce the law, and standardize the market-based investment behavior. At the same time, financial products should be enriched to expand the government investment funds channels.

4.4. Timely Adjusting Concepts and Methods of Government Investment and Supervision, and Strengthening the Relevant Talent Reserves and Training to Respond to the Reform of Government Financing Mode

From the former “dotting” direct investment to the guiding marketization operation, the main bottleneck that the government needs to break through is to adjust investment idea and regulation way. Many of the financial and auditing departments with direct supervisory responsibilities are still at an early stage in their understanding of government investment funds. The government regulations and incentive mechanism following suit are often unable to hit the key of supervision, or their inadaptability to the local situation leads to the failure of cooperation with social resources or escalating government future debt risk. The new idea and new mode of reform need constant study, adjustment and adaptation at the concrete operation level. Especially under the new investment and financing mode, how should we combine the government investment tools with other policy elements to make the resource allocation more efficient and reasonable? How can the system be designed to play the “well-leveraged” guiding role, while effectively dispersing social risks? These questions undoubtedly deserve reconsideration and attention of governments at all levels.

In addition, the foundation for the government to adjust to the market-based investment and financing mode and change administration mode is to reserve the relevant specialized personnel and cultivate personnel with market-based experience in practice. As the founder of the FOF, the government should not only accurately judge the local industry advantage and future industry development trend, but also be familiar with the establishment, administration and operation mode of the industrial fund, understand the domestic venture capital industry to choose the appropriate

fund management team, reasonably and accurately grasp the characteristics of the investment industry, and design incentive and evaluation systems.

4.5. Optimizing the Performance Evaluation of the Funds and Building a Comprehensive Evaluation System Combining Micro and Macro-Level

Comprehensive and scientific policy tracking evaluation can optimize policy formulation, improve the effectiveness of policy implementation, and promote the implementation of the ground. When it comes to government investment funds, we should not only consider their microeffect, but also evaluate the long-term influence of the transformation into market-based investment mode on the scale of government investment and overall macro-economy. The combination of micro-level and macro-effect evaluation can form a comprehensive and objective understanding and evaluation of government investment funds, and provide scientific basis for the follow-up adjustment of the related policies and the system design.

At the micro-level, evaluation systems of investment funds performance should be set up according to the category of funds. First, the index and the weight should be set reasonably and scientifically to coordinate the extensive social role of the funds and the financial function of private capital. While paying attention to economic indicators, the evaluation system should quantify and depict the social benefits of the funds; while reflecting the generality of the investment funds, the evaluation system should highlight their distinctive features and special functions, so as to achieve an objective and comprehensive evaluation. Second, establish government investment funds database and conduct vertical comparison of the performance of the invested enterprises based on big data. Horizontal performance of enterprises with and without equity should be closely tracked and compared, so that the evaluation results are comprehensive and real. Third, the government, especially the departments of audit and finance, should adjust the assessment mode, index setting and evaluation emphases of the financial funds in time, reflecting both the government's requirement of setting up the funds and the characteristics of the new mode of the funds. Fourth, the mechanism of incentive and restraint should be institutionalized and open. Criteria for enterprises selection, funds evaluation, and rewards and punishments designed in advance should be made public, which will have a stable guiding effect on private capital. Last, we should make the operation of government investment funds more market-based and transparent, meet the demands of the public and the market to supervise the investment efficiency of government public funds, and make it easy for the fittest to survive market competition in the government investment field.

At the macro-level, what impact does the government funds' guiding private capital to follow up investment have on local government investment behavior and the investment scale? Will it lead to a new round of task-oriented investment campaign and

result in a new round of cyclical fluctuations in the economy? How does the change of investment mode affect the government's state-owned assets management, debt risk supervision and budget management? How do government departments respond to such changes and challenges in terms of regulation and thinking? All the above issues need to be deeply analyzed, carefully evaluated and judged by relevant policy-making departments and think-tank institutions to guide the promulgation and revision of relevant policies.

4.6. Consolidating and Rationally Dividing Supervisory Power to Create Synergy

Led by the State Council, the relevant departments should get involved to standardize the process, and clarify their specific responsibilities in each link of the establishment, supervision, and evaluation of government investment funds so that responsibility and right, rewards and punishments are clearly defined. In particular, concerning the overlapping part of the business, the government departments should merge overlapping functions, and divide supervision focus. In the specific supervision process, the departments should communicate and cooperate with each other, eliminate the blind spots and the dead angles, and make a synergy, which will guide and ensure the successful market-based transformation of government investment and financing mode.

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