

Foreign Experience Forming Financial and Industrial Groups

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Abstract: The author analyzes the features of the development of financial and industrial groups in the economy of foreign countries. Republic of Korea. In particular, financial and industrial groups in the world were studied, a comparative analysis of the characteristics of the financial groups of developed countries was done. At the end of the article, the author summarizes the results of theoretical analyzes of financial and industrial groups in the economy of the Republic of Korea.

Keywords: Financial-industrial groups, management, conglomerate, innovation, export, import, GDP

1. INTRODUCTION

It is important to develop and develop financial and industrial groups to enhance its competitiveness in the process of integrating the economy of the country into the global economy. Consequently, international economic relations require high competitiveness of the participants. From this point of view, one of the most urgent issues is the modernization of leading industries in ensuring the country's economic stability, diversification of export-oriented products, development of the banking and financial system and industry sectors.

In particular, it is important to create favorable conditions for the formation of high-intensity production complexes of financial-industrial groups, transnational corporations in economic development of countries. From this point of view, it is important to introduce the advanced aspects of the experience of the developed countries in the socio-economic development of the country to the national economy.

2. LITERATURE REVIEW

In general, scientific literature describes financial-industrial groups as follows: Financial and Industrial Groups (MSG) have the centralized management system to incorporate their own resources (production, finance, labor, non-fiscal, etc.) in order to ensure the efficiency of production, economic, financial and other types of activities, and the form of integration of independent legal entities with financial and credit institutions [2].

The experience accumulated by financial-industrial groups, especially in the Korean economy, is of particular importance. Therefore, it is important to overcome economic difficulties and achieve high rates of economic growth by forming MSGs on the basis of state programs of the Republic of Korea.

3. FINANCIAL AND INDUSTRIAL GROUPS IN THE MODERN WORLD

In most market economies that successfully modernized the economy after the Second World War, powerful financial-industrial groups, a kind of "metastructure", have played and continue to play an important role in the development of industrial production. Modern financial-industrial groups are universal in nature and transnational in their scale, which include, based on joint-stock, financial, and business forms of relations, industrial firms, banks and other financial institutions, trading and construction companies, as well as companies related to other sectors of the economy. Therefore, among the huge variety of forms of interaction of interrelated partners there are traditional concerns led by a large industrial corporation (General Motors, El du Pont de Nemours, General Elektric, Ford Motors, AT & T, IG Farben Industry, "Flik", "Thyssen-Openheimer", "Fiat", etc.), groups formed around financial institutions ("Chase", "Morgan", "Mellon", "Limen-Goldmen, Sacks" in the USA or Deutsche Bank AG, Dresdner Bank AG in Germany, etc.) and include in their composition controlled production enterprises, family holding companies (for example, South Korean chaebols - "Daewoo", "Samsung", "LG International", "Hynd ai "and others.). In addition, there are also universal diversified associations - business groups that are most prevalent in Japan (Südany - Mitsubishi, Mitsui, Sumitomo, Dai-Ichi Kangyo, Fuje, Sanva). For today's highly integrated corporate associations - financial-industrial groups that concentrate a significant part of GNP in their hands, economic control became characteristic not of individual economic sectors and business sectors, but over the entire national economy, which gives them the status of

centers of economic power. Here are just some examples [1].

- In the mid-1980s, about 2/5 of the GNPs of both countries accounted for 30 UK companies and 180 US companies.
- According to official data, the cumulative annual sales of six groups of giants make up about 14-15% of the gross national product of the country, taking into account subsidiaries - about 25%. They control (taking into account their member companies) about 50%, and according to some estimates, up to 75% of the total industrial assets of the country.
- In the sales volume of the top 10 South Korean industrial holdings, about half of the Republic of Korea's GNP was reached. And the scale of activity of the largest of them, the Samsung group, today is such that they are best compared with the national economic indicators of Korea. The volume of sales of the corporation is more than 10% of GDP, exports - more than 12%.

Thus, the problems of the world economy associated with development trends along the path of creating large financial and industrial associations, naturally, cannot but interest Russia. But it's just as clear and another, even more important for us is the question of the extent to which the practice of such development is acceptable to today's Russia, with great difficulty looking for a way out of the socio-economic crisis, to normalize its national economy. Which in turn determines the study of the main trends of global transformations of the organization of production activities in the world economy.

The existing financial and industrial associations in the United States can be divided into two groups: the first includes structures dominated by banks, while the control over enterprises is exercised by the banks. Among the most well-known banking associations with a set of controlled enterprises, we single out the Chase, Morgan, Mellon, Limen-Goldman, and Sachs groups.

The organizational structure of banking financial and industrial groups is a horizontal association of large oligopolistic firms, in the center of which is a leading commercial bank.

In most cases, these groups have a similar history of creation and development, have the same structure. For example, the financial component of the Chase group includes the commercial bank Chase Manhattan Corp. (Chase Manhattan Corp.), created on April 1, 1996 as a result of the merger of Chase Manhattan Bank with Chemical Bank, and two life insurance companies (Metropolitan Life Insurance K. and Equitable Life). The industrial component of the group is 21 non-financial corporations, each of which is among the top 100 largest US companies, including five transportation companies, including three airlines and two railways; two aircraft manufacturing companies, two chemical companies; two retail companies. All of these companies are controlled by Chase Manhattan Corp.

The second group is dominated by industrial enterprises ("General Motors", "El du Pont de Nemours", "General Electric", "Ford Motors", "AT & T" [5]), but the financial structures in them are also very strong ("General Motors Acceptance Corp.", "General Electric Capital Services", "Ford Motor Credit Corp.", "IBM Credit Corp.", etc.)

Characteristic black.

- A characteristic feature of the American model of corporate business is the principle of strict separation of the financial and industrial sectors of the economy, which has recently become more and more criticized, as contrary to the fact that the countries with banking-oriented financial systems have been very successful. In this regard, the inevitable nature of integration processes in the American economy is increasingly accompanied by raising the question of the need to remove barriers to closer contact between the industrial and financial sectors, to the increasing role of large financial institutions in corporate governance and the subsequent formation of conglomerates from banks and industrial companies.
- The economic policy of the American state, contrary to the "antitrust laws", not only did not prevent the spread of control by the banking structures over industrial structures, but even facilitates this process. At present, the stakes of industrial enterprises at the disposal of banking monopolies are quite significant (analysis of the distribution of the decisive votes in 122 large corporations showed that 25.2% of the votes were banks, and 4.3% were insurance companies). This gives banks the opportunity to directly influence corporate policy, not limited to only conducting advisory activities related to tax maneuvering.
- Features of the structure and development of financial-industrial associations in countries with a banking-oriented financial system.

In countries with a banking-oriented financial system, the industry, in the initial stages of its development, was in dire need of additional financial resources, but was unable to create them independently without a financial and credit system. On the one hand, this was due to the fact that the level of profitability in industrial production was insufficient to develop independently, only by reinvesting its own profits. On the other hand,

these countries have historically been characterized by a relatively low level of development of financial markets. Therefore, industrial corporations could not accumulate additional capital by placing the next issue of shares among the population.

At the same time, the low level of development of the stock market significantly limited the possibilities for diversifying investments. Savings were transformed mainly in the form of short-term and long-term loans through a network of commercial banks and other savings institutions. Therefore, a significant proportion of all financial contracts was concentrated in the hands of the banks themselves, and their lending policies are directly aimed at financing industrial corporations.

All this led to the fact that banks were forced to combine both the functions of long-term lending to industrial enterprises and the functions of control over the activities of industrial enterprises, since only in this case can we count on the effectiveness of using the credit investments themselves.

In addition, unlike countries with a market-oriented financial system, countries with a banking-oriented financial system are characterized by a more liberal attitude towards grouping enterprises, integrating financial and industrial capital. Not only industrial enterprises, but also commercial banks, as a rule, did not have (with rare exceptions) and did not have strict restrictions on the choice of investments and control over the activities of other corporations. This explains the characteristic feature of the close relationship between banks and industry, as well as a high degree of concentration of share capital.

For example, German antimonopoly legislation allows, in addition to cartel agreements in the field of standardization, in the field that does not reach the dominance of specialization, agreements of small and medium enterprises also create cartels of rationalization and structural crisis, if participating companies can prove that the agreement provides for rationalization of production or to export growth.

Under certain conditions, intercompany cartel-type agreements are also permitted in Japan. Under certain conditions, the cartelization of the economy is not an obstacle to the development of the country's industry. According to Japanese economist Kozi Yamomura, "the anti-competitive effects of restricting imports, oligopolization and cartelization of key industries in Japan were largely negated by the power of the" investment race "and strong competition in world markets."

In addition, according to Japanese law, companies are allowed to enter into a temporary cartel agreement, recognizing the industry as "structurally unfavorable", provided that no less than 2/3 of the industry's companies insist on this. In this case, production quotas are determined for the parties to the agreement (the fixing of prices for the products produced by the cartel members, however, is not allowed). At the same time, with the help of the government, the companies belonging to such a cartel are developing a program to rehabilitate the industry, including the elimination of excess production capacity.

In France, the most widespread financial and industrial associations created around the largest industrial complexes. The most famous of them are the groups: "Elf-Akiten" (ELF Aquitaine), "Company française de pétrole" (petrochemical industry); "Company Generale Electrosite" (electronics and electrical engineering); Ron-Poulenc (chemistry); Aerospatial (aerospace industry), etc.

The industrial component of these associations are, as a rule, a single entity in terms of production - formed on the basis of technologically interconnected enterprises. Groups may include from several tens to several hundred legally independent firms. Banking institutions that are part of groups are often controlled by the main industrial enterprises of the group.

Along with the industrial groups in France, the distribution and trade. Large trading companies (Cora, Intermarsh, Oshan) stood at the origins, and subsequently controlled a number of banks (Bank Accord, Bank Sabrière), spreading their influence over some sectors of the French economy.

A characteristic feature of financial and industrial groups in Sweden is the predominance of industrial associations associated with the families of large Swedish businessmen and financiers. In general, the data of FIGs demonstrate characteristics close to the German financial and industrial associations. As in the German groups, cross-ownership of shares, reaching up to 25%, is widespread in them.

In the Italian economy, banking financial and industrial groups dominate. Among the largest Italian banks that have played a decisive role in the process of the formation of financial-industrial groups in Italy, can be called the "Italian loan", "Rome Bank", "Commercial Bank". First of all, this is due to the fact that raising capital through the issuance of additional share issues by industrial enterprises did not lead to the expected results. Therefore, the Italian concerns, in order to increase investment, were forced to resort to using a bank loan, in turn, more and more dependent on the banks' lending them.

Considerable amounts of loans provided, taking into account high interest rates and the fact that the overwhelming majority of shares issued by industrial companies were also acquired by creditor banks, played a decisive role in the predominance of banking capital over industry.

4. FINANCIAL AND INDUSTRIAL GROUPS IN THE KOREAN ECONOMY'S DEVELOPMENT

For a relatively short period of time, the Republic of Korea has ranked first in Asia in the development of the education system, one of the HDI indicators, and ranked seventh in the world [3]. Innovative development has a special place in the activities of the financial and industrial groups of the Republic of Korea. As a result, the Republic of Korea has achieved a high rate of economic growth in 2000-2010 compared to other developed countries. Innovative approach to MSGs is reflected in the focus of large financial resources on industrialization, consistent introduction of complex technologies, and rapid use of scientific solutions in practice. The fact that the Korean financial and industrial groups are similar to the Japanese "dzaibatsu" holding companies can be explained by the fact that the formation of the first Chels in the Republic of Korea was due to the colonial era of Japan. But the independence of the Republic of Korea and the sharp development of the country's economy have increased the importance of developing financial and industrial groups. The organizational development of MSGs dates back to the 1960s.

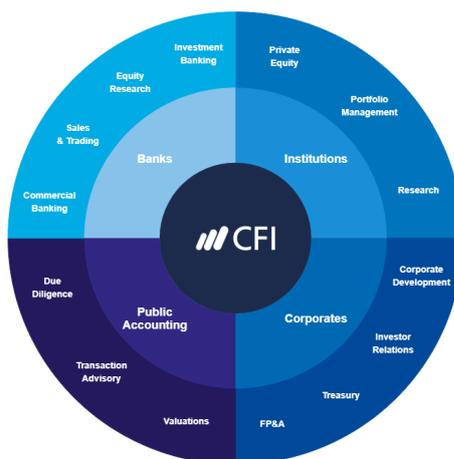


Fig.1. Top Banks in South Korea [3]

In our view, financial assistance from the United States to South Korea has led to the occurrence of the above. It should be noted that initially the vertical integrated group-holding corporations were established as the basic organizational-economic model for the Republic of Korea, based on the family control of foreign capital.

In particular, the centralization of capital in the Republic of Korea has led to the creation of large financial and industrial groups. This, in turn, has played an important role in the integration of financial and industrial groups (chels) along with the industrialization of the Korean national economy and its integration into the global economy. An example is the emergence and development trends of Samsung, Hyundai, and LG.

The main features of the proposed MSGs are [4]:

- The principal amount of Samsung shares belongs to the Li family;
- The Hyundai Motors group belongs to the Chon family;
- The control of the group is passed from generation to generation, and family members accept the basic decision on each issue, ie the system of ownership, centralized management.
- The processes of active organization of financial-industrial groups were in the 80s of the XX century. For example, in 1953 there were only 5 Chels in South Korea, 10 in 1965, 20 in 1975, and in 1985, their number reached 70. By the end of the 1990s the number of financial-industrial groups exceeded 100.

It should be noted that between 1965 and 1985, the formation and development of financial-industrial groups played an important role in stabilizing the national economy of the Republic of Korea, in particular, by 20 per cent of GDP growth [5].

Table 1: Average annual GDP growth rate in the Republic of Korea

	1965-1980		1990-2001		2012*
	Worldwide	Republic of Korea	Worldwide	Republic of Korea	Republic of Korea
GDP	4.1	9.9	3.3	8.7	2.7

Source: Changes in GDP of South Korea www.ereport.ru

As a result of the reforms undertaken in the 60-70th years of the twentieth century, a favorable period for the development of Chels has emerged as a result of the government's policy aimed at this goal. In the 70s of the

20th century, annual growth rate of assets of 46 large-scale assets exceeded 23%. Meanwhile, GDP growth in this period was 9.9 percent, which means higher growth rates than the global average. As a result, their share in the production of GDP in 1973-1978 increased from 9.8 pp to 17.1 pp (Table 1).

It should be noted that the expansion of foreign economic activity of the local population is actively supported by the state. In this process, the government measures of 1975, which give the big conglomerates the status of "large trading companies", are of particular importance. These reforms have made it possible for the Chels to use additional tax and financial benefits.

There are 11 financial and industrial groups in the Republic of Korea, one of the 500 largest in the world, 4 of them are in the top ten. [10]

Normative-legal foundations and financial support have been provided by the government to form large financial and industrial groups in the Republic of Korea. These activities were regulated by the following principles:

- Implementation of norms on imported goods for the development of export potential of Chebols;
- Cancellation of export customs duties;
- Creation of direct tax incentives for large exporters;
- Creation of conditions for insurance of export goods and services, issuing instructions on prevention of risks;
- Creation of free trade zones, improvement of infrastructure for export development;
- Increasing the role of Korean Trade Association and trade development agencies in support of exporting enterprises;
- Establishing new industries and providing opportunities for companies;
- Implementation of export software development for companies.

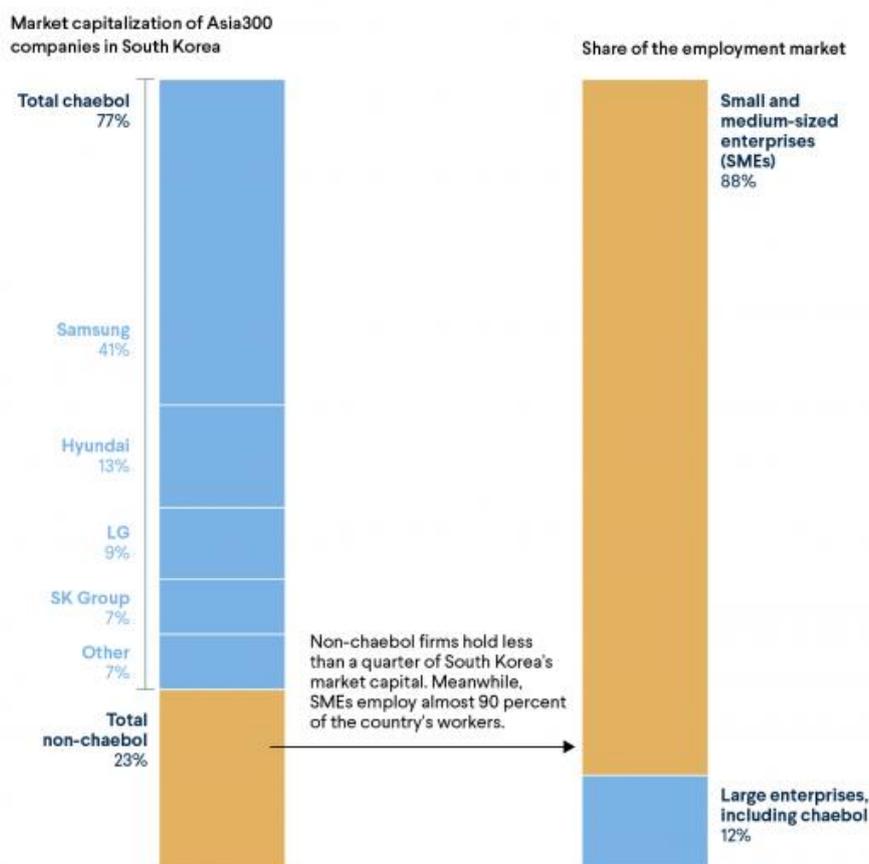


Fig.2. Chaebol in South Korean economy

Sources: <https://www.cfr.org/backgrounders/south-koreas-chaebol-challenge>

In our view, exports to major exporters of industrial products have a positive impact on the economic growth of the Republic of Korea. The increase in the competitiveness of the financial and industrial groups of the Republic of Korea in the world market is linked to a number of factors.

Specifically:

- the great potential of the national currency's appreciation;
- introduction of new technical technologies;
- creation of new industries;
- a low level of taxation on export earnings.

At present, the share of exports in the economic development of the Republic of Korea is 40% of GDP, or an average of 552.6 bn. US dollars. [9]

The Republic of Korea has five integrated components of MSGs, which include:

1. shipbuilding;
2. Automotive industry;
3. Chemical industry;
4. Light industry.

Also during the last decades the process of developing ICT equipments and technologies has been intense. In 1988, the share of industry in the country's exports was 12.25%, while in 2000 this figure was 32%. Particularly, in 2012 the volume of ICT industry made up 140 billion soums. US dollars were exported [6].

In particular, the Republic of Korea is one of the leading producers of liquid crystal and plasma monitors in the world. Samsung Electronics Co. and LG Electronics have 38 per cent of the global market, with their financial assets reaching \$ 35.5 billion [7].

5. CONCLUSION

Investments in new industries, nanotechnology-based industry-driven industries will be 130 billion by 2017. USD can be made. The goal of these measures is to increase the country's share in the world market to 45%. In this regard, the integration of production and science plays an important role. Part of the means to be allocated is the budget of the state budget. The bulk of these funds are allocated for the creation and operation of solar-powered technologies. This is rapidly developing the domestic market infrastructure in order to maintain the industry's position in the foreign market. It should be noted that the experience of the Korean financial and industrial groups during the economic crisis of 1997 became unique in this respect. Mainly for export-oriented policies, the production of new products has led to increased financial outcomes through innovation using new technologies [8].

This success has been achieved through the following factors:

- Consideration of major domestic private enterprise in the Republic of Korea with the creation of stable economic and political conditions;
- wide diversification of commercial activities, numerous economic benefits, targeted government support for foreign economic expansion;
- Most of the State budget allocations from the Republic of Korea are dedicated to the creation and operation of technology.

In summary, it should be noted that the formation of the financial and industrial groups in the Republic of Korea, along with the growth of the national industry, was the guarantee of significant growth of the state financial and industrial groups, thus creating a strong place in the world market. In our opinion, the fact that the practice of establishing MSG in the Republic of Korea is exactly the same in the industry of information and communication technologies.

In particular, it is important to apply the following recommendations in practice: Establishing MSG for suppliers of export-oriented products:

- tax exemptions;
- Guarantee fees for insurance against risks;
- Providing tax breaks to their business when importing advanced technology.

The financial and industrial groups are involved not only for stable industrial enterprises but also for the development of economically insolvent enterprises.

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