

# Study of the Change of Industrial Elements and the Re-understanding of Financial Functions

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**Abstract.** Industry generation and development need the joint function of many factors. With the changes of economic development and industrial progress, the role of different elements of industry has also undergone profound changes. With the rich financial function, the significance of capital has also changed. One of the biggest changes is that finance no longer only participates in industrial development as an exogenous variable, but takes the initiative to play a new role in industrial development, that is Structural function. To understanding of this function correctly is of great practical significance for us to develop actively financial services and promote industrial development.

**Keywords:** Factor changing, Financial functions.

## 1. Factor Changing, That is the Realistic Choice after Traditional Dependence

The generation and development of any industry depends on certain factor resources. Modern industry began with the textile industry. One of the most important results of the British enclosure movement is providing cheap raw materials and labor for the textile industry. With the improvement of textile technology and the emergence of capitalists, there has been a push of technology and capital. In summary, there are factors in the formation and growth of industries as follows. The first one is the resource supply condition, including raw materials and energy. The second one is the supply of manpower, which mainly refers to the labor force, and at present it also includes modern technicians and managers. The third one is supply of capital or funds. The fourth one is the capacity of technology supply. The fifth one is sustained and effective demand for industrial products. When the above conditions are adequate, the industrial sector will be in a state of formation and continuous growth. Even from subsistence smallholder production to large-scale agricultural industrialization, in addition to the original basic elements of land, large-scale labor and large-scale machinery and equipment are indispensable elements.

With the process of industrial science and technology revolution, emerging industries have emerged and the change of leading industries has accelerated. The dependence on factors in the entire industry has also undergone major changes, mainly as follows. First, in developed and industrialized countries, the dependence of the leading industries of the national economy on the elements of blue-collar labor force has gradually weakened, and the requirements for capital and technology have increased. Second, in developing countries that have entered the heavy chemical industry stage, the demand and investment of industrial raw materials and energy have risen rapidly. Third, The requirements of modern enterprises for technical and managerial personnel have improved significantly, and the service industry relies heavily on personnel quality and service technology. With the development of modern information and logistics and the promotion of large-scale collaborative production, industrial development has been able to get rid of the obstacles of regional factors. The factor flow and reorganization are accelerated. This flow permeates every stage of the industrial cycle cycle and directly affects the changes of industrial structure and organizational structure.

In general, modern industrial development depends more on capital and technology, and powerful technology cannot be separated from strong scientific research and cost support. The process of keeping industry from being weak to being strong takes the form of industrial scale expansion. It needs the accumulation of capital and time. If capital accumulates faster or is supported by financial flows, the process of time accumulation can be significantly shortened by overcoming the inadequacy of other elements in the region. Therefore, the scale and speed of capital and capital ownership have a basic dynamic effect on industrial development.

The above is mainly an analysis of the changes of the factors that depend on the development of a single industry. However, the industrial development of a country is also an industrial structure, internal organizational structure, industrial layout and competitiveness to replace the process of renewal. The upgrading of industry has been throughout the entire process of industrial development. These are not entirely determined by the traditional basic elements.

## **2. Financial Function, Which is Worth Revisiting.**

According to the traditional economic theory of the positioning of finance, finance is as an exogenous variable of the economy to participate in economic growth and industrial circulation. Finance has not been regarded as a resource that is tied to the elements of industrial economic resources, such as raw materials resources, human resources, and technical resources. The relationship between finance and industrial development has traditionally been positioned as passive adaptation to industrial development. Under the premise of passive adaptation, finance is only the financial medium of industrial development. It is neither the driving force nor the stimulating effect on industrial development. But this is not consistent with the current facts. From the current industrial development of many countries, it is often the result of finance. The positive penetration of finance into industrial development shows that finance has an impact on industrial development.

Marx also systematically studied issues such as currency, credit, and banking in his own research on political economics. In "Capital", he pointed out that "banks are the most sophisticated and most developed products of capitalist production methods, so that ...has great power over business and industry..." In his time, Marx clearly judged the great influence of money, credit, and banks on the capitalist economy.

Industrial development needs funds, and finance guarantees the need for funds to expand the scale of the industry. If finance follows, rather than follows, or simply adapts passively to the financial needs of the industry, there is a potential for funding blockages. Thus hindering the development of industry, finance can first make money become the first driving force for industrial development. The leading role of the highly developed financial system is the premise of large-scale capital accumulation and highly liquid capital formation. It is the basic condition for industrial expansion.

Finance, which is the leading position in industrial development, has been fully utilized in developing countries and some developed countries since then. For example, the post-war industrial development process in Japan and South Korea fully reflects this feature. For developing countries, this positioning is all the more important. According to the development stage theory, industrial development can only be adapted to a certain level of income. Due to the constraints of resources such as capital, a country can only choose the industrial development that is closely related to survival, which conforms to the basic principle of resource allocation. The urgent needs of developing countries for modern technology and modern industries, as well as the strong desire to reduce the gap with developed countries, require the priority development of industries with modern technologies beyond the stage of development, which puts higher demands on the accumulation of funds. Finance first becomes an inevitable choice. When the financial development is high, the development of the industry can only be guaranteed. The significance of finance to economic development can only be truly revealed in the development of industry. In the middle of the last century, the economist Patrick pointed out that for underdeveloped countries, the target direction of industrial development has been clear when industrializing or industrial transformation takes place. The key is to direct resources in the right direction to ensure that the desired objectives are met. This requires financial system reform and improvement, promoting the formation of capital, and creating favorable institutional conditions for its economic growth and industrial development. Patrick stressed that financial institutions could proactively promote industrialization and growth.

From the above analysis, we can also see that there are two situations in the development of finance and industry from the perspective of operating mechanism. One is to follow the principle of "invisible hands". The market spontaneously allocates the relationship between finance and industry. The state does not interfere. Often in industrialized or developed countries, the financial system adapts and is

passive to industrial development. One is that the state intervenes in the allocation of finance between industries and realizes the financial policy of advanced development. And that must depend on complete industrial policy and catch-up development strategies.

### **3. Classification and International Reference of Financial Functions in Industrial Development**

#### **3.1 Classification of Financial Functions in Industrial Development**

The active role of finance in industrial development is obvious. Based on the basic contents of industrial development and the actual situation in the economy, this paper classifies the functions of finance in industrial development into the following categories.

##### **3.1.1 Equity Function**

The function of equity refers to the role of finance in promoting the formation of industrial capital and the satisfaction of financing, and thus the increase of output and profits. This function is the basic function of finance to promote industrial development. It is mainly aimed at the overall situation of the industry, and the way to play its role is the specific capital formation and financing behavior and results of various enterprises within the industry. Through the development of this function, it is transmitted to the promotion of the entire national economy.

The measure of a country's utility function can be compared with the financial correlation ratio of the American economist Goldsmith. Goldsmith analysed the financial structure of 35 countries over the past 100 years. The focus is on the size of financial instruments and the relationship between the funds of financial institutions and the corresponding economic variables. He created quantitative measures of financial level and efficiency, that is Finance-related ratios (FIR). The relationship between a country's financial aggregate and national economy, the actual core is the relationship between a country's financial aggregate and industrial output.

Specifically, whether the equity function of finance to industrial development is reasonable depends on the following two aspects. The first is the ratio of capital speculation to industrial production in a country's total financing(including overseas funds and investment). The second is the ratio of the total amount of financing in an industry to the total output of the national economy or the total profit of the industry.

##### **3.1.2 Structural Functions**

The structural function is the higher level role of finance in industrial development. The structural function of finance for industrial development mainly lies in the following aspects.

First, finance plays a key role in industrial restructuring. This role is centered on the industrial policy of a country, the formation of leading industries and the upgrading of industrial structure. The American economist Rostow once proposed development theory for developing countries and regions. It is the priority development of the leading sector that drives the entire economy to "take off" and continue to develop. The industrial structure is based on certain fixed assets. The formation of fixed assets structure is the result of investment accumulation. Therefore, the changes in industrial structure are mainly determined by the direction of investment and financing. In the early stages of economic development, all kinds of policy finance or long-term finance play an important role in order to achieve the economic and industrial development of the country more quickly. For example, Japan is a country that uses finance to function well in industrial structure. Among the various policy factors, such as finance, finance, administration, law, etc., Japan most concerns about its financial and financial means. In particular, the Japanese window financial system is the most distinctive. That is, through the central bank to implement the industrial policy orientation, to achieve a major difference in the investment and interest rate system among industries. Then guide and control the direction of investment of the private commercial banks, on this basis to ensure and promote the growth of the leading industries in various periods.

Second, finance plays a leading role in the formation of industrial distribution. The industrial layout of the region is closely linked to the financial characteristics of the region. Especially for those capital-intensive industries, the cohesive capacity of regional finance is more dependent. In each industry, heavy chemical industry plays an important role in the national economy. At the same time, it relies heavily on funds. From the experience of Japanese industrial development, Japan lacks raw materials and markets for heavy chemical industry. But it can develop a powerful heavy chemical industry. The main reason is that the Japanese government has led funds to such industries through compulsory policies and formed several coastal rich cities, which has had a leading effect on the distribution of heavy chemical industries.

Last, finance has the promotion function of industrial organization structure. Industrial organizational structure refers to the enterprise structure in the industrial system of a country. It includes the size structure of large, medium and small enterprises within certain industries and the relationships between different industries, as well as the factors that define these relationships, that is the structure of inter-firm relations in the industry. That is to study the relationship between competition and monopoly of enterprises in the industry. The ideal industrial organization should be as follows. On the premise that the factors of production are put into practice, the competitive vitality under the market mechanism can be maintained, so that the enterprises in the industry have enough impetus and pressure to improve their management, improve their technology, and reduce their cost. It can make full use of economies of scale, avoid the inefficiency brought about by excessive competition, and finally achieve the optimal allocation of resources. Effective industrial organization must achieve economies of scale. The reasonable flow and reorganization of resources is required, and the dominant enterprises must appear within the industry. All this must rely on the driving power of finance, both in the restructuring of resources in capital markets and in the credit support and restructuring of financial institutions such as banks.

### **3.2 International Comparison of Financial Functional Mechanisms in Industrial Development**

In the process of industry formation and development, the mechanism of financial function has also been differentiated over time. The differences in the financial function mechanism of various countries mainly lie in the differences in the industrialization process and the economy and culture of various countries. In the early industrialization period, in promoting industrial development, finance played its rights and interests function and structural function in an invisible form in the form of private or market initiative. The policy initiative of industrial financing function is not obvious. With the abundant industry, the financial function will change. For example, in capital-intensive heavy industrial development, the huge amount of capital required for industrial development and investment cannot be formed spontaneously by the people. Or some industries must give priority to development, and policies and behaviors that intend to use financial functions are reflected, especially in structural functions, especially in terms of structural functions. With the gradual strengthening of capital market and the increasing difficulty of the development of traditional industries, there is also a disconnection between financial function and industrial development. That is, finance(including foreign funds) no longer focuses on real industrial production or equity functions, but mainly flows to speculation and speculation, promoting the formation of industrial bubbles(such as real estate) or financial bubbles. In terms of the mechanisms by which the financial function functions, it can be divided into the following types of typical countries.

Japan and South Korea. They are both mechanisms that combine government and market leadership to play a financial role. For example, in Japan, the use of financial policies in industrial development takes precedence over measures such as direct subsidies to companies. For example, provide loans for the development of important industrial sectors and the development of emerging industries. Government policy financial institutions play a leading role in Japan's financial measures, with a wide variety of assets. Japanese policy finance implements preferential policies for leading industries and basic industries. The government's financial institutions also use financial leverage such as credit and interest rates. We will actively support the development of emerging industries and heavy chemical industries in terms of funds, and develop outward-oriented enterprises. For private

financial institutions, the "Temporary Interest Rate Adjustment Act" is enacted, which set the highest interest rates, ensure the benefits of investment in basic industries, and guide private capital to give priority to the development of industries and infrastructure. These mechanisms have played a positive role in the effective industrial development and rapid economic recovery and development in post-war Japan.

The United Kingdom and the United States. They are all market-driven mechanisms to play a financial role. The United Kingdom is dominated by capital markets, and the United States has equal banks and capital. On the road of British industrialization, the promotion of finance to industrial development is mainly reflected in the developed and highly institutionalized private financing and stock financing. In the United Kingdom for a long period of time, many industries are mainly private or partnership small business industrial organization model, can gather private capital very well. British companies are more focused on retained profits for long-term investment and self-financing. In this way, although the United Kingdom lacked the support of the financial system for industrial investment in the early stages of industrialization, the British industry has also achieved rapid development by relying on non-institutional financing channels such as source financing and private borrowing. Due to the lack of bank financing channels for industrial long-term capital, it has stimulated the development of joint-stock companies and the demand for direct financing methods such as stock markets, forming a strong capital market. On the road of industrialization development in the United States, the promotion of finance to industrial development is mainly reflected in the powerful market financing channels. The number of commercial banks and securities markets in the United States is large, but the number and size of government financial institutions are very small. At the same time, the government does not implement specific industrial financial policies for commercial financial institutions. The Government had adopted a liberal approach to the development of most industrial sectors, but it had focused particularly on supporting technological development and promoting industrial restructuring. The United States also relies on a completely market-based venture capital channel to promote the development of new technology industries. In particular, the capital market that supports innovation represented by the Nasdaq market is an important factor in promoting the development of high-tech industries in the United States.

Southeast Asian and Latin American countries. Such countries are mainly represented by countries such as Thailand and Mexico. They are typical representatives of the disconnect between financial function and industrial development. Finance not only failed to play a good equity function, but also failed to play a good structural function for domestic industries. According to the structure of the Thai and Mexican securities markets, a considerable portion of the capital in the Securities and banking markets meets the demand for funds that are not related to industrial development, while another part of the capital flows to low-efficiency industries. In Mexico, for example, only 30 per cent of the money imported from the United States went into industrial production, while the rest went into bond, stock and money markets. Before the financial crisis in Southeast Asia, more than half of Thailand's foreign investment was concentrated in securities market speculation. In these countries, domestic banks also have a large part of financing from industrial production to real estate or stock speculation. Therefore, if we break away from industrial development and finance does not serve industrial development, we will lose the foundation of financial function. The result will inevitably be an industrial bubble or a financial bubble, which will affect the normal development of the economy. Through the above analysis, classification and comparative study of financial functions in industrial development, it is helpful to further analyze the current situation of China's financial and industrial development. We will take relevant measures to fully guide and give full play to financial functions and promote the development of our industries.

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