Financial Flows of Large Corporations and a Region’s Socioeconomic Development: The Case of Krasnoyarsk Krai

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Abstract—The issues of exterritoriality of big business capital and the clash of interests between big capital owners and regional economic policy are discussed with special reference to the Krasnoyarsk krai economy. The stages in the establishment of major integrated business groups (IBGs), the formation of their financial flows, and their influence on the region’s economy are analyzed.

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At present, most of the larger enterprises of Krasnoyarsk krai that form the core of the region’s economy are concentrated in the primary sector and integrated into large holdings of federal or even global level. The key enterprises of nonferrous metallurgy, forestry and fuel industry belong to federal holdings whose decision making centers are located outside the krai.

The need for an analysis of the activity of big business in Krasnoyarsk krai and of the scale and forms of its influence on the region’s economy is determined by that it is big business that, for optimization of its expenditures, often reorients financial flows in such a way that is to the damage of regional interests. This phenomenon in the activity of big corporations is called exterritoriality of capital defined as “its (or its operator’s) special properties it acquires when it leaves the territory of its origin. These properties are: exemption from taxes to the territory (country) of its origin and emancipation from constraints of its legislation in respect of rules and norms of movement, use and accretion; from standards of morality in respect of the territory (country) of origin” [1].

Many large companies of the krai distribute the financial effect of their activity by means of exterritorially oriented mechanisms. This is especially typical of companies oriented rather to external than internal market and have their subdivisions abroad. In this case it is possible to speak about redistribution of the results in favor of foreign subdivisions that are centers of profits though many enterprises not connected with international trade are also included in multilevel holdings which allows them to transfer the financial effect to other regions.

The exterritorial behavior is typical not only of mineral but also of power generating, information and practically of any other company. Special attention to mineral companies is paid because they are the biggest in the country and present the leading sector of the economy.

The financial flows of the biggest, economically most prosperous enterprises of Krasnoyarsk krai had already several years ago “left” the regional financial markets. In the result of redivision of possession such enterprises have been included in the set of vertically integrated financial-industrial holdings with federal or transnational status, and are working today in the processing regime, not receiving all proceeds due to them. This is at least the mode of functioning of major regional industrial (in particular, nonferrous) employers in Krasnoyarsk krai.

One precondition for exterritoriality is the ownership right. The concentration of the ownership right to means of production outside the region (mostly in the federal center) is not conducive to fair distribution of financial flows in favor of regions that accommodate the industrial potential.

Krasnoyarsk krai, one of the most economically advanced regions in the country, has a very high industrial potential and is the largest exporter of nonferrous metals. The krai’s involvement in interregional and international economic relations implies certain costs and benefits for the residents and enterprises of the region.

The benefits may be revenues to the budget from the increased incomes of the enterprises due to increased export proceeds at their access to the world market. This, however, often has implications negative for the region, i.e., reflow of resources from technological to mineral sectors (the Dutch sickness syndrome), redistribution of financial flows and taxation base to region’s disfavor, transfer of the center of decision outside the krai, etc.

In the process of consolidation and centralization of property (therefore, of the capital), the region’s advantages from the deployment of production capacities in its territory, apart from benefits allowing the corporations to run big business (optimal sizes of production, decreased doubling costs, making effective decisions, consolidation of positions in the market, etc.), are lost. The concentration of financial flows and right of control to them are withdrawn from region to the centers of government—to the central office located, as a rule, in
the federal center, to native or foreign offshore. In the result, the benefit from property consolidation and krai’s involvement in the world economic relations is cancelled by the negative effect of these processes. Therefore, Krasnoyarsk krai turns into a raw material subdivision of the largest holdings busy not so much with “mineral business” as with the “business of exporting of mineral resources.”

As of today, the raw sector is oriented not to the regional market—processing of the extracted mineral resources is practically absent in Krasnoyarsk krai—but to the world market, and its specificity is such that by a number of reasons the repayment of financial resources to the krai is not among obligatory conditions.

First, the mineral business has no need to invest vast resources in order to raise the value of products to the world level and regularly modernize them, as, for example, is the case of machine building. In metallurgy business, the competitive advantages associated with the consumer properties of the products are practically absent.

Second, mineral extraction is developing by extensive rather than intensive pattern, with the use of high cost methods. In any technological sector the basis of business is technology, the improvement of which requires constant high investments. Another important factor is cooperation (i.e., cooperation of a great number of enterprises in the production chain), the creation (or purchase) of which also requires resources. Such limitations are practically absent in nonferrous metallurgy that depends mostly on the world prices of its products.

Third, high revenues in the mineral sector and weak state strategy in economic reorientation do not inspire the owners to supplement their business with processing productions. The industrial capacities placed in the region are quite viable even without reinvestments of the obtained profits.

Therefore, it is the mineral sector, unlike other economic sectors, that has the highest financial freedom, which in the final analysis is manifested in a large scale use of update methods of running business that produces the phenomenon of exterritoriality of capital of local productions included in the mineral corporations. However, the financial freedom exists until the acceptable level of profitability is provided, which for the owners is practically entirely determined by the prices of the world market. Therefore, the capital of mineral corporations turns into speculative capital dependent on world market prices and liable to withdrawal from the region of their origin.

Capital exterritoriality is a relatively new phenomenon for Russia, in particular, for Krasnoyarsk krai, the process caused by additional possibilities for economic agents due to country’s access to the world economy and the process of globalization. Capital exterritoriality is an objective world tendency inherent in all countries with open economy to which it is objectively impossi-

ble to oppose. So it is necessary to find the most acceptable way of tackling the difficulties that result from this tendency by gainfully “build in” the krai’s economy into the system of interregional and international economic relations.

The krai’s involvement in the world economic relations is most profitable for large corporations that have access to the world markets of capital, sale, etc. It should be taken into consideration that the exterritoriality of capital is closely associated with the development of transnational corporations (TNCs) (difference in location of mineral resources, cheap labor, high technologies and finances are now not barriers on the way of corporations but is a competitive advantage for those of them that skillfully use all these factors of production). The exterritoriality of capital and the “financization” of the economy in general (the detachment of finances from production) are also fostered by the development of world markets of capitals and information technologies allowing in short time the replacement of capitals with minimum transaction costs, creating thereby “money from money” and withdrawing it from the reproduction process of the region or country of origin.

The additional benefit of the exterritorial behavior is tax optimization obtained by relatively legal ways. However, under the present structure of ownership the financial result obtained by the region on largest enterprises of the krai is lost.

In management the business it is usual to use many companies built-in in the holding, i.e., within the framework of the same holding company, extraction, processing, selling the raw materials are dealt with by different juridical persons, although the products are often moved only from one workshop to another. Therefore, the supplier, manager and seller are turned into a service organization subordinated to the parent company. In the result the raw material, means of production, end products are owned by different juridical persons, which allows wide variation in transferring the financial result to different companies that are on fiscal accounting in different territories. This status of enterprises in a holding produces the phenomenon of regional exterritoriality of the capital of corporations.

The notion “holding” often used in description of the Russian big business does not reflect, in the strict meaning of this word, its true content. The point is that for the modern big business the relations of ownership, management, production between parent and daughter companies typical of the holding are replaced by a more complicated structure. Usually the production enterprises have above them the parent company which originally is “empty” to perform the functions of the owner (see [2]). The parent company includes shareholders, usually it is foreign offshore companies which are juridical persons created only in order to include in their balance sheets the appropriate blocks of shares. The owners of offshore companies are physical per-