



## **Regional Resources Capitalization: Theoretical and Methodological Basis**

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### **ABSTRACT**

The article substantiates the holistic theoretical approach to the definition of the economic content, dominant characteristics, the structure and features of the regional resource potential as the basis of the regional economy capitalization. The methodological platform, an updated and expanded conceptual and categorical apparatus of capitalization of the regional economy is presented in the paper. The authors conducted identification, classification and structural-functional decomposition of the elements of the resource potential, objectives, subjects, objects and mechanisms of capitalization of the territory taking into account the differentiation of their role, scale and impact on the process.

**Keywords:** Capitalization, Regional Economy, Regional Resource Potential, Methodological Platform, Capitalization Mechanisms

**JEL Classifications:** E22, O16, O18, P48

### **1. INTRODUCTION**

The problem of capitalization of the territory as a systematic activity of transformation of its resources, funds and assets into working capital with value added was formulated in the early 20<sup>th</sup> century, particularly in developing countries. Currently, one of the important directions of the analysis of this problem is the study of capitalization of the territory in the context of the search of long-term positioning strategies of countries and regions in the global redistribution of geo-economic status and influence. The concentration of mobile forms of capital (the rights to finance, technology, and information) becomes the dominant factor in the development and economic growth of countries and regions in the age of the global economy and open market. At the same time traditional forms of territorial resources gradually lose its former economic importance. So, countries and regions which effectively control the flow of goods, financial assets, investment, technology, property rights, and skills become more competitive.

Low capitalization of regional resources has already led to the growth of dependence of the national economy on world markets.

Russia has to comply with the process of economic evolution, including in terms of the cost of national and regional capital. It is necessary to enter into the world economic system on acceptable terms and to ensure the positioning of the regions in the global markets. Pereslegin (2005) formulated dangers both of insufficient and excessive capitalization. He noted that “undercapitalized” territories are not able to hold capital “undercapitalized” enterprises cannot keep the staff, “undercapitalized” countries cannot save the population. At the same time, “overcapitalization” of the area leads to escape from it productions, since all forms of activity (except for the control) are ineffective there because of the high cost of excessive resources. Deputy Prime Minister A.G. Khloponin (2005) (in the past - the Plenipotentiary of the RF President in the North Caucasus Federal District and the Governor of Krasnoyarsk region) noted that undercapitalization of Russian border territories, along with an increase in the capitalization of the neighboring countries is fraught with territorial claims on their part.

Requirement of identification of the relevant mechanisms of the capitalization process causes attention to territorial resource potential capitalization. It can be characterized as a tool, a

result and an indicator of the formation of the position of the region in multi-level distribution system of the economic and political influence. Relevance of the research is also determined by the fact that from the second half of 2014 Russian regions and the national economy as a whole develop in conditions of economic sanctions, the sharp drop in prices for energy and raw materials resources, devaluation of national currency, which is a manifestation of the geopolitical and economic instability in the world economy.

Theoretical and methodological foundations of the process of capitalization in modern Russian conditions are considered in the works of Arabkin (2003), Dedkova (2008), Malova (2007), Gavkalova and Barka Zine (2012), Goryachuk et al. (2012), Maslennikov (2014), Frolov (2015), Chebykina and Bobkova (2014), Morozov (2014), Anopchenko (2015), and others. The author's approaches to determining the factors and directions of increase of capitalization of the regional economy are set out in publications of Darmilova (2007), Knyaginina (2003), Kolesnikov (2012), Molchan (2011), Pereslegin (2005), Tsybulsky and Silifonkina (2010), Nemkovich and Saveliev (2008). However, a holistic theoretical and methodological approach to define the economic content, functions, subject-object basis and mechanisms of the capitalization of the resource potential of the region, is currently missing.

## 2. METHODOLOGICAL APPROACH TOWARDS CAPITALIZATION OF REGIONAL RESOURCE POTENTIAL

It is necessary to justify the holistic theoretical and methodological basis of the research, based on a synthesis of different positions in order to form a conceptual approach to the analysis of the capitalization of the resource potential in the conditions of the regional economy.

### 2.1. Reproduction Approach

The study of the capitalization process determines its investigation as an integrated, objectively caused reproductive system in the framework of achieving the required level of socio-economic development of the region (Malova, 2007; Molchan, 2011). Reproductive functions and processes are developed not only in time but also in space. The originality of the territorial structures forms the variety of manifestations of typological homogeneous reproduction of relations applied to different regional conditions. Reproduction approach allows considering the unity of the whole system of the process of expanded reproduction of capital at the regional level. It takes into consideration the economic and geographic features together with the specific situation of the region in the overall system of territorial and administrative-territorial formations (Nemkovich and Saveliev, 2008).

### 2.2. Geo-economic Approach

Geo-economic approach to capitalization analysis suggests that the dynamics of the capitalization process at the national and regional level is largely due to the geographical location of the subjects, combined with the international transport corridors,

shapes and volumes of commodity circulation (Knyaginina, 2003; Pereslegin, 2005). Currently, a public conception of the economic national and regional borders is changing. National and regional economies are transformed into "country-systems" and "regions-systems." The reproductive value added chains are going beyond a national and regional framework. It allows designating new borders of their functioning on the geo-economic atlas. These boundaries often do not coincide with administrative and are characterized by mobility. They are virtual and represent some kind of geographical outline of a supranational and supra-regional reproduction. The parameters of this space are determined by the level of infrastructural arrangement of the territory. The new routes of the world reproduction "pipelines," as well as areas outside the scope of this activity, are looked through on the geo-economic atlas of the world. Production and territorial complexes join the movement of reproductive-technological entities. Development of geo-economic processes at national and regional level is determined by the following circumstances. Firstly, economic resources are distributed between the countries and regions extremely unevenly. Secondly, the efficient production of various products requires different techniques or combinations of resources. In order to increase the productivity of resources and the volume of production economic actors develop specialization and cooperation in the economic activity. It leads to the unification of the production, financial, intellectual and other resources in the territorial structure of the reproduction on the basis of the latest industrial infrastructures.

### 2.3. Institutional Approach

The institutional approach can be one of the theoretical approaches to defining the essence of the capitalization process at the regional level (Malova, 2007). It is based on the identification and study of the institutional framework in which business processes take place in the region's economy. Institutional changes of any socio-economic system largely determine the vector of its development through qualitative structural transformation of its basic elements: Actors, organizational and legal forms and mechanisms of regulation of relations (Darmilova, 2007). A variety of regional communities allows implementing a much wider range of institutional changes within the country, especially with a federal system. Possibility of subjects of the federation to implement institutional changes in the scale of the part of the country, firstly, enables to test practical variants of the decision of many socio-economic problems. Secondly, it significantly limits the scope of the potential negative consequences of poor decisions. At the same time horizontal cooperation between federal entities and municipalities allows to share experience for the formation of strategic management mechanisms of process of capitalization.

### 2.4. Systematic Approach

The regional economy can be represented as a complex multi-level system which consists of a plurality of interacting subsystems, components, connections, integrated into the structure (Kolesnikov, 2012). At the same time, the regional economy is a subsystem of systems of higher order: The economy as a whole, the world economy, and the economy of separate macro-region, as it is endowed with independent functions in such systems. With the development of the regional economy the capitalization as a

system of economic relations is evolving. The objects become more complicated, new subjects of this process and new forms of relationships appear (Molchan, 2011). It is accepted to study complex processes and the subject-object relationships on the basis of the system approach as a synthesis of systemology, systems engineering and system analysis. A systematic approach to the study of the capitalization process can reveal its essence in unity with spatiotemporal organization, concretization of the objects, entities and regional particularities. However, universal general scientific systematic approach as the primary linear model of cognition reveals a number of deficiencies in the application of various types of economic issues. Therefore it is necessary to develop a systematic approach for the formation of complex research methodology of the capitalization of resource potential of the region.

### 2.5. Synergetic Approach

The synergy as a model of cognition of volumetric spatial processes on the basis of non-linear dynamics can serve as the basis of synthesis of the foregoing theoretical and methodological approaches to investigation of the capitalization process. Synergetic approach allows adequately comprehend the content of the spatial and temporal characteristics of the regional economy capitalization as a system of the subject-object relationship with the primacy of the subjective over the objective (Yevstigneyeva and Yevstigneyev, 2010). Traditional object-subjective system of socio-economic relations is complemented by the purposeful system of subject-object relations, a system of object-object (or structural-reproductive) relations and the system of subject-subject relations (socio-economic actors within the boundaries of the unity of the regional economy in the socio-political and historical - cultural context).

There is a structural boundary between the current and strategic market in the regional economy as an integral synergistic system. The basis of the current market is the monetary capital. It is controlled with the balance system. The strategic market is based on the financial capital (direct long-term investment programs). It forms a reproductive model of the region. The potential of the capitalization of the regional economy has structural and institutional dynamic construction. It includes the process of capacity-building as the realization of the investment process in the framework of the “dual economic spiral,” which unites the circulation of financial capital and the turnover of regional income. Regional income is the basis for extended reproduction of GRP. It has the property of system integrity and implies the formation of the mesostructure of monetary capital. The monetary capital is attached to the income as a basis for defining the scope and structure of investment at all levels. The state and the regions are designed to ensure the integrity of the investment process of capitalization. The compound of corporate and government investment resources has to overcome the limitations of the investment choices of the corporate capital. This process determines the formation of a regional cluster system. It is based on distribution of investment in strategic market of program investments within the framework of internal convergence between financial capital and the state. Thus, a synergistic structural-institutional dynamic potential of capitalization consists of two qualitatively different parts. They cover the whole cycle of the regional strategic financial capital

and turnover of regional income in the current market. In this case the cycle of financial capital is represented by metamorphosis “monetary capital - financial capital - productive regional capital - social capital.”

The capitalization of the personal income takes place in the social capital markets. They include the markets for consumer goods and services, savings and private banking (including mortgages), massive stock markets (Gavkalova and Barka Zine, 2012). They work closely with the regional markets of productive capital, monetary capital and the market of strategic program investments.

In the current linear model of economic growth the regional markets are related to the financial capital rather unsystematically. The companies perform their choice between the existing assets, rather than regions in the process of forming their regional strategies. Large foreign TNCs play an increasingly important role in the regional capital. They are guided by the position of their subsidiaries in existing global supply chains while creating the new ones in the regions of Russia. Domestic and foreign investors contribute to the formation of incipient local investment units (“points of growth”). However, it is impossible to equate the processes of regionalization of large capital and the formation of productive capital on the basis of regional investment territorial clusters. Ultimately, the productive capital forms the market of strategic program investments. It provides the conversion of the country’s productive capital in the regional capital, which integrity is determined by the regional investment units.

Synergetic approach allows replacing a linear set of tangible and institutional capitalization factors in the amount of separate structural and geo-economic perspectives by a special type of social and economic integrity of the region. It is created by the balance processes of entropy and dissipative (temporary structural and institutional) entities of the regional economy.

## 3. FUNDAMENTALS ON CAPITALIZATION OF THE REGIONAL ECONOMY

### 3.1. Conceptual and Categorical Apparatus of the Research

Despite a rarity and fragmentary nature of the researches devoted to process of capitalization at the regional level there is a number of interpretations of the term “capitalization of the region” now. Their generalization and systematization allows identifying four main areas of the consideration of the capitalization:

- The process of accumulation of the productive regional capital which is carried out in various ways;
- The process of involvement of resources of the region in economic turnover and their transformation into the capital;
- The process of changing forms of the regional capital;
- The estimated characteristic of cost of the existing regional capital or the method of estimation of cost of regional assets (Table 1).

However, each of the identified approaches to the capitalization of the region is the expression of a narrow understanding of

**Table 1: Systematization of interpretations of the term “capitalization of the region”**

Number	Interpretation	Authors
1	The process of accumulation of the productive regional capital which is carried out in various ways (the growth of the value of regional assets)	Knyaginina (2003), Malova (2007)
2	The process of involvement of resources of the region in economic turnover and their transformation into the capital	Molchan (2011), Kolesnikov (2012), Darmilova (2007), Chernyshyov (2007), Pereslegin (2005)
3	The process of changing forms of the regional capital	Nemkovich and Savelyev (2008), Yevstigneyeva and Yevstigneyev (2010)
4	The estimated characteristic of cost of the existing regional capital (the method of estimation of cost of assets of the region)	Arabkin (2003), Dedkova (2008), Tsybulsky and Silifonkina (2010)

this process. It is necessary to look more widely at the category to get rid of fragmentariness in consideration of this term. It will give the chance to define capitalization of the region as the multidimensional process of expanded reproduction of the regional capital and transformation of its forms. It is carried out by the involvement of resources of the region into economic circulation and resulting in the growth of cost of regional assets. This treatment considers the existence of various, capable to be mutually converted, forms of capital, including some new forms (the human, social, cultural, political capital). They often don't have quantitative expression, but form the structure of horizontal and vertical links. The expanded understanding of capitalization of the region also includes the process of direct involvement of resources in the turnover of the economic capital. In this aspect the capitalization is considered as an activity of transformation of any resource into the capital.

The implementation of the regional economy's capitalization process is manifested in its functional content (Table 2).

Due to the complex of the functions the capitalization of the region is at the same time not only the result, but the cause of the quality and quantity of productive economic changes in the regional economy. The complex of capitalization functions promotes uniform distribution of capital between sectors and actors of the regional economy, the growth of consumer spending and investment in various stages of reproduction, increase in regional resource potential and productive capital, change in the balance between traditional and innovative sectors of economy.

### 3.2. Subject-object Basis of Capitalization of the Regional Economy

The concept of the capitalization process in the conditions of the regional economy allows us to represent this process as a system of economic relations of the accumulation of capital by the subjects of capitalization. The subjects of capitalization are the households, the enterprises, and the region as a whole. The objects of the capitalization are property rights provided by household wealth, assets of the companies and resource potential of the region.

Households distribute their income on consumption and saving and seek to maximize not only the current consumer utility, but also future market value of the wealth, and also the individual social capital. The wealth of households is understood as all net assets including savings, investments and inheritance minus debts.

**Table 2: Functions of capitalization of regional economy**

Function	Content
Distribution function	Promotes redistribution of capital between sectors and economic actors in the region
Reproduction function	Supports a continuous process of circulation and accumulation of regional capital
Strategic function	Consists in the formation of resources, ensuring the strategic development of the region in the long term
Innovative function	Consists in financing of innovations by increasing the value of intangible and current assets as well as human capital
Information function	Is formed through the capital ratios that reflect the current and future state of a particular region
Forecasting function	Serves as an indicator of the future status of the region through the assessment of its potential
Mobilization function	Provides concentration of investors' funds for regional development in the context of the modernization and expansion of production
Investment function	Reflects the potential of the region as an indicator of regional investment attractiveness
Marketing function	Defines the attractiveness of the region in the global market of various goods and services

Enterprises capitalize their business assets, intangible assets, monetary assets, the state and corporate securities, inventory holdings. It is reflected in the growth of market value of the share capital of the company or increase of a market assessment of firm.

The region as the subject of capitalization provides growth of cost of the economic assets of the region. The assets are involved in the system of global exchanges on the basis of improvement of quality of production, innovative and other infrastructure at the expense of a regular gain of a gross regional product. As a result investment appeal of the region increases. This fact leads to capitalization process development. The property of the region as an object of capitalization includes the valuation of natural resources (land, minerals, water and forest resources), physical assets (fixed assets, inventories, and current assets), intangible assets (patents, licenses, etc.), and financial investments. It provides a sufficient potential

to ensure development of the region, with considering the real possibilities and peculiarities of each subject of the federation. The role of the region as a subject of capitalization is strengthened in the conditions of transition from the integrated (centralized) model of the spatial organization of regions to model of network regions and production and investment clusters.

Conceptual representation of subject-object and process foundations of the capitalization of the resource potential of the regional economy is presented in Figure 1.

Circulation of the various forms of regional capital and the ability of capital to transform under certain conditions and factors reveals more opportunities to identify capitalization potential of the regional economy, its quantitative and qualitative assessments. The coordination of activities of federal and regional economic policy is aimed at efficient use of the resource potential of the regions and country.

### 3.3. Mechanisms of Capitalization of the Region's Resource Potential

The capitalization of the region is not only the accumulation of a regional capital in its various forms and the market valuation of its value, but also the formation of the institutional environment and revitalization of infrastructure. It gives the opportunity for transformation of idle resources, assets, entities opportunities to invest in the framework of certain development goals.

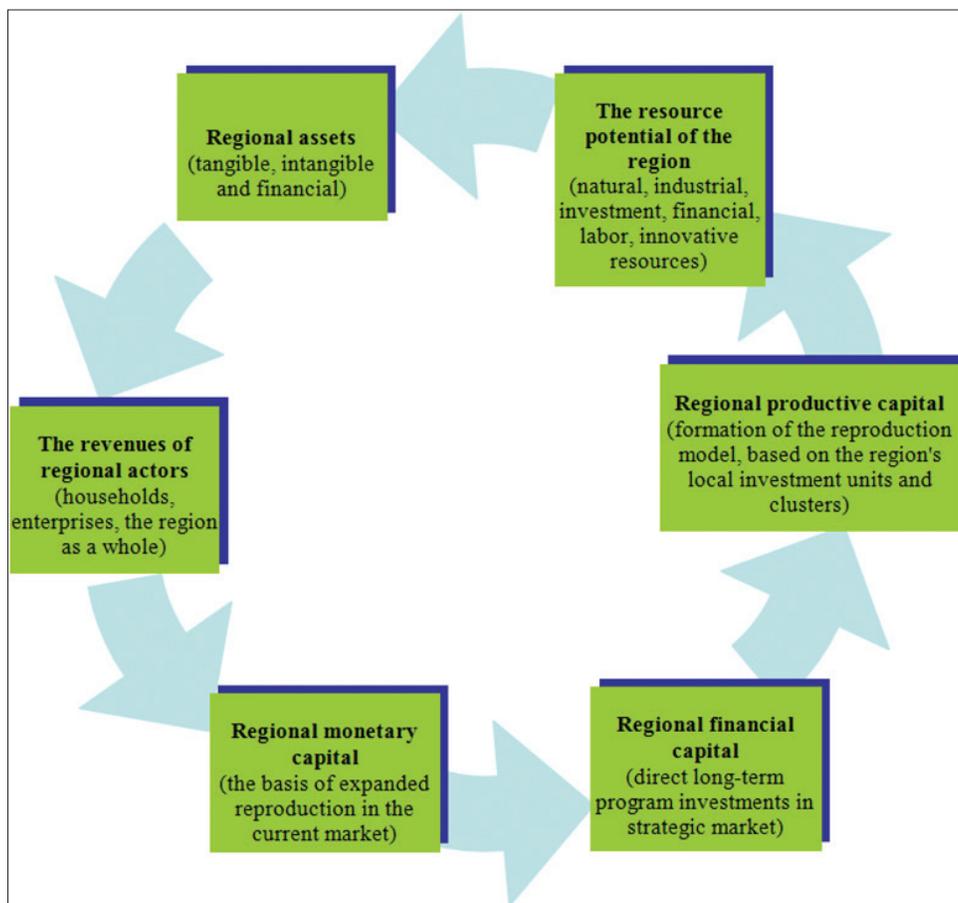
The implementation of the capitalization process is not automatic. It is associated with the presence of developed institutional mechanisms to ensure the effective regulation of economic processes. The main mechanisms of the capitalization process used by economic agents are financial institutions (in particular, stock market, financial and credit institutions) and the institute of public-private partnership (PPP).

The stock market performs the function of redistribution of available funds, mediates movement and evaluation of property rights, redistributes information and risks between parties of the business turnover. Thereby it creates the conditions for capitalization as a self-expanding value. The banking sector is intended to ensure the systematic development of the capitalization process through the transformation of money capital into financial capital based on investments in the real sector of economy.

Institute of PPP is a relatively new mechanism for capitalization. It is able to create the momentum to a sharp build of basic capacities and financial performance indicators of the economic entities of different levels, as well as growth in the value of the national wealth.

Infrastructural complex of the region should be formed and evolve depending on its specifics: Size of territory, population density, climate, availability of cities, operating manufacturing industries. The complex of constructions and communications of

**Figure 1:** Conceptual model of the process of capitalization of the resource potential of the regional economy



transport, the engineering equipment, and also objects of social and cultural and community service of the population is created in accordance with the specific characteristics of the region. This complex provides a sustainable development of the region on the basis of capitalization of its competitive advantages.

#### 4. CONCLUSION

The analysis of the theoretical and methodological aspects of the capitalization in the conditions of the regional economy allows forming a complex methodological research platform based on the synthesis of reproduction, geo-economic, institutional, systematic and synergetic approach.

The essence of the capitalization process at the mesolevel is defined as a multidimensional process of expanded reproduction of regional capital through the involvement of the resource potential of the region in the economic cycle within the constantly evolving system of subject-object economic relations.

The implementation of the regional economy's capitalization process is carried out through a set of functions and is associated with purposeful activity on formation of institutional and infrastructural arrangements of capitalization. The implementation of capitalization process results in rising cost of regional assets and national wealth as a whole.

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