Business Development in the Context of Kleptocracy

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Developing a productive, competitive, and resilient business is a challenging task. Rational government policies often can help businesses to keep operating and thrive even in an unfavorable economic environment. Unfortunately, not all companies can expect such support, since many firms must deal with regulations imposed by kleptocratic governments. In conditions of kleptocracy, the development of business strongly depends on support from influential government officials and can encounter many growth barriers.

Unlike traditional governments, their kleptocratic counterparts mainly seek to increase the personal wealth of high-ranking government officials, as well as their families, friends, political allies, business partners, and other actors. Typically, kleptocratic governments do so even at the expense of public wealth or lawful interests of individuals, communities, and businesses. As a result, the corrupt government even might make decisions and policies that harm overall economic prosperity if such decisions increase their wealth. Such a practice is common in many developing countries, including Sub-Saharan nations, which are perfect examples of high corruption levels (Okafor, Smith, and Ujah 2011, 98).

These weaknesses of kleptocracy combined with inefficient and non-transparent public spending contribute to the slowdown of social and economic development (Okafor, Smith, and Ujah 2011, 100). Consequently, businesses that rely on the local market, labor force, or resources might encounter numerous challenges, ranging from stagnating incomes and a poor demand for their products to the lack of qualified specialists and underdeveloped infrastructure. While such issues do not necessarily render business activity infeasible, they reduce the profitability and international competitiveness. Weak social development and the subsequent lack of skilled labor in these countries might even force businesses to spend additional funds on training employees or hire foreign professionals. Increased transportation and import costs might become an additional barrier to the steady growth of companies that actively cooperate with foreign partners. As a result, businesses operating in countries with kleptocratic governments often have to seek for additional opportunities to cut costs or even refuse useful acquisitions (for example, new equipment that a company with low profits might be unable to afford).

Another disadvantage of kleptocracy is the difficulty of protecting the lawful interests of the business in question. Kleptocracy is an attribute of highly corrupt states, in which decisions of legislative, executive, and judiciary branches of the government might be unpredictable, arbitrary, or even inconsistent with declared legal standards. In such conditions, business owners and managers might struggle with maintaining stable operations and profits. Since kleptocrats prioritize their wealth over the rights of individuals or organizations, they might resort to sudden changes in business regulations, or even the confiscation of competitors' assets to protect their economic interests. Labonte, Schram, and Ruckert (2017, 245) point out that "state seizure" is likely in countries with "weak judiciaries." Such a possibility creates uncertainty and additional risks for businesses, which might manifest themselves in increased legal or insurance costs or even the necessity to outsource sensitive business operations to safer countries.

LaPorte (2017, 89) observes that such risks are particularly high in resource-rich kleptocracies, which can enjoy steady incomes regardless of the unfavorable business climate or other complications caused by abuses of power. While such power might provoke capital flights, the departure of businesses, and brain drain, for example, these issues seldom affect profits of corporations that extract natural resources in a given country. Consequently, kleptocracies that subsist on exports of natural resources enjoy a high level of security and stability and face minimal financial impacts if they undermine a safe business environment.

Most businesses operating in such markets also might have to adjust their budgets to corruption-related costs. Companies (especially large corporations) often encounter situations when it is impossible or unreasonably difficult to continue normal business operations or enter a new market without paying bribes to government officials or, at least, using the services of intermediaries. This practice was common in Georgia before 2003, since even exports of scrap metal, for example, was only obtainable upon making unofficial payments to the Economic Minister (LaPorte 2017, 90). Similar conventions existed in other economic activities. This example demonstrates that unless businesses are ready to manage such costs, they will face many artificial growth barriers.

For that reason, investors and managers might find it prudent to minimize their risks in kleptocratic nations by restricting types of business projects initiated. Notably, companies can only invest in business activities that do not require high investments or generate high profits in the short- or middle-term perspective (such as the production of raw materials or tourism). By following this strategy, businesses are likely to avoid severe losses and even reach profitability in the case of the seizure of assets or other unfavorable changes in the regulatory environment. This circumstance explains why corporations that produce mineral resources, food, and other raw products are more common and prosperous in many developing countries than companies that manufacture high-technology products.

An alternative business growth strategy is cooperating with the ruling elite. For instance, the company (foreign or domestic) might become a supplier of goods, which the kleptocratic government deems essential for its wealth or overall economic growth. In such a way, the organization can capitalize on kleptocracy and minimize the risk of complications or conflicts. Some companies might take a proactive approach and try to establish trusted relationships with the elite. For example, in 1996, Mobil Oil strengthened its relationship with the government of Kazakhstan and secured the right to extract oil from the Tengiz field by making payments to the James Giffin's company, which then bribed government officials. Other companies directly bribed members of the elite to ensure favorable terms (LaPorte 2017, 95). While such practices are ethically controversial (and often illegal in western nations), many businesses opt for this business development strategy, considering it the most secure in conditions when the replacement of the ruling elite is unlikely.

Moreover, businesses that belong to members of the elite (or at least persons who established strong connections with it) can enjoy numerous advantages. Namely, foreign oil companies that accepted the terms of corrupt government officials secured high profits from oil extraction and exports operations (LaPorte 2017, 95). Since no entity could enter this market without the authorization of the Kazakh government, such controversial practices enabled oil companies to capitalize on resources, which would be inaccessible otherwise. These arrangements are perfect examples of how businesses can obtain nearly monopolistic economic advantages over potential competitors in conditions of kleptocracy.

In conclusion, since kleptocracy mainly serves the interests of the elite, any business that has no connections with the elite and is not valuable to it might encounter many challenges, including higher costs, economic stagnation, regulatory uncertainty, and even the risk of loss. In such conditions, the stable development of business depends on the ability to implement business models that generate high profits with minimum investments, or at least the ability to establish favorable relationships with the ruling elite. Business owners and investors must factor in such additional costs and risks before deciding to start operating in a country with a kleptocratic government.

References

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