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Tourist Industry Development Prospects in Vladivostok under the Launch of “Primorye” Integrated Entertainment Zone

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Abstract

For recent years in Primorye (Russia) there has been a significant increase in the flow of inbound tourism. One of perspective trends in the tourism development is the direction related to development of the gambling zone in its territory. This article deals with the problem of the gambling business development as one of four gambling zones wherein this activity is permitted in territory of Russia - the integrated entertainment zone “Primorye”. It considers potential prospects and threats to create the gambling zone in Primorye, with evaluation of possible competitors and consumers for the newly created tourist product. With extension of benefits to conduct the business and due to adoption of the Federal law “On the free port Vladivostok” there are new opportunities to realize major projects of Primorye tourist complex. The work indicates the need to link the gambling business activity with the tourist complex in the region for the effect of synergy and development of the regional tourist infrastructure. Specific tourist objects are considered that can be used jointly with the gambling zone objects.

Keywords: gambling zone; gambling business; gambling games; casino; business environment; tourist investments; synergistic effect

JEL Classification: L83; R11.

Introduction

Gambling business has always been considered one of the most profitable. The excitement and risk sense is inherent in the human nature.

Uncontrolled gambling business can produce negative social processes and attracts criminal structures. Therefore, faced with negative manifestations of the gambling industry, the Russian Government had to develop the Russian civil gambling doctrine. This doctrine became the basis for formulation of new laws regulating the gambling activities in Russia. Unchanged remained guidelines are basic principles related to the mass consciousness of citizens: worldview, morality, upbringing and behavior of the individual.

In accordance with the civilian doctrine in 2009 throughout the country the activities of entertainment facilities and casino were banned. Along with that four territories were determined wherein gambling business can develop under supervision of the State: “Azov-City” (Krasnodar region), “Sibirskaya Moneta” (Altai region), “Primorye” (Primorye Territory), “Yantarnaya” (Kaliningrad region). Such decision of the government was approved by most population of the country.

The calculation was that after a few years the gambling business on the allowed territories should begin to grow at high rates, attracting significant investments and a large number of foreign tourists. Income from activities of the gambling zones was to replenish the state treasury. Legalization of the gambling business on separate territories was to reduce the development risk of shadow gambling business. However, no miracle happened and

only now there is the real activity launch in three of four zones. In the fourth gambling zone "Yantarnay" the first object was commissioned in April 2017. At present the opening of a gambling zone in Sochi city instead of "Azov-City" is being discussed.

1. Literature Review

The largest center of gambling business in Asia is the Macau. This kind of business is constantly reviewed by the researchers (Liu *et al.* 2015, Hodgins and Petry 2016). The latest scientific works on development of the gambling business in North-East Asia include the following (Goulard 2016, McCartney 2016). Attitude towards the gambling business is different in the world. Many countries restrict the gambling business spread in their territories.

To open the first casino in Primorye was scheduled already for the start of 2014. And only about a year ago - on November 11, 2015 in the bay Muravyinaya next to Vladivostok there was the official opening of the largest casino in Russia "Tigre de Cristal". Casino immediately became interesting for tourists from neighboring countries. Rooms in the gambling zone hotel should be reserved for three months in advance. According to data of Summit Ascent Holdings Company - the owner of Tigre de Cristal Casino in 2016 about 200 thousand people came there and the State budget received about \$8 million.

High interest in the gambling zone "Primorye" is determined by the special geographical location of the gambling zone itself. Within a radius of 1000 km around the capital of Primorye, the city of Vladivostok, there are more than 414 million residents (nearly 300 million people in urban areas). It is the only city in Russia with such powerful environment. For example, around Moscow the same distance has a population which is less than 100 million. In this same space (within a radius of 1000 km) there is the annual gross domestic product for the sum of \$6.6 trillion, which makes about 9.5% of the world gross domestic product.

Along with the project development of "Primorye" gambling zone there is the increasing number of Russian scientific publications on assessing the prospects and forecasts for the economic efficiency of the gambling zone "Primorye" (Dolzhenkova and Kravchenko 2015, Penkova and Petechel 2016). In scientific publications, the economic analysis of prospects for the gambling business development in Primorye is given under the analysis of economic performance for the world's largest gambling centers (Turbin and Syin 2015, Zdor and Khodova 2015).

2. Methodology

The research methodology consists of four groups of methods:

- review and analysis (analysis of scientific literature and statistics);
- forecasting scenarios for the development of the economic system, based on the assessment of the behavior of future partners and the actions of competitors;
- expert assessments;
- business planning.

3. Results

3.1. Integrated entertainment zone development prospects "Primorye"

A new impulse to improve investors' interest towards the gambling zone "Primorye" was conditioned by Vladivostok status of a free port. Due to this new status the city of Vladivostok officially received a number of preferences. The free port status provides special legal and tax regulations for investors and business in general. For the free port residents there are preferences and exemptions on income tax. The State will provide residents with free road and engineering infrastructure. The free customs zone regulations and visa-free regime to visit the region are introduced. Since October 1, 2016 there is the 24 hours work of passing terminals with facilitation of the border crossing conditions for goods and cargo. As far as it is valid, the law is constantly being improved and updated.

Undoubtedly, the free port regulations would increase the inflow of foreign nationals in Primorye, with opening numerous new representative offices of foreign companies. In this regard, it is projected to have an increased demand on entertainment services in general and casino services in particular.

To determine development prospects of the gambling business in Vladivostok we are to consider some conditions of the gambling zone "Primorye" prevailing at present. Total area of the gambling zone is 620 hectares. In the long term other nearby territory can be used. Currently the number of hotel facilities makes only 121 rooms. About 600 hotel rooms will be available in 2017. In 2019 their number will increase to 1.5 thousand, while by the end of implementing the project there will be 6.5 million of them. In 2016 the daily number of guests visiting "Primorye" gambling zone is about a thousand people a day, of which 50% are tourists from Asia.

To define the geography of consumers and to assess an economic viability of the project the international consulting company GamingMarketAdvisors (GMA) was engaged, specializing in the gambling business. They estimate that in three years since the start of operation the combined revenue from the games in the gambling zone "Primorye" could reach \$1.2 billion and it can grow up to \$5.2 billion over the next 10 years. From it \$2.6 billion is expected from VIP customers mainly from Chinese provinces of Heilongjiang and the major cities of China, such as Beijing and Harbin. The GMA report served the basic document, which justified the project of the gambling zone objects offered to potential investors.

Currently, the plans on development of the gambling zone "Primorye" are supported by real investment projects. One of the largest investors is the company "Diamond Fortune Holdings Prim", which in March 2016 submitted for approval to the administration of Primorye master plans of three new hotel-entertainment complexes: "Golden Gate", "Moon Gate" and "Sun". We should note, that the company "Diamond Fortune Holdings Prim" has previously asserted in the regional administration the project of its first complex project in the gambling zone "Primorye" – "Selena".

The company has already begun the active phase of "Selena" project. To date, the construction site is already topographically surveyed with carrying out the engineering-geological exploration and dumping of technological platforms and roads. The complex will be opened in 2017. The new complex "Golden Gate" consists of three buildings with the hotel facility of 576 rooms, casino with 200 tables and 2 100 slot machines. The hotel complex offers rooms of different class: standard, deluxe, VIP and several presidential rooms.

"Moon Gate" Complex includes two buildings of four-and five-star hotels with 460 rooms. Hotels are connected by passages with a casino for 110 tables and more than a thousand slot machines.

"Sun" Complex consists of two hotel buildings with 900 rooms and a casino with 376 tables and 1 840 gambling slot machines. The company will start to construct "Sun" Complex already in 2017. Launch of "Golden Gate" and "Moon Gate" construction will be in 2018. Each complex will also include restaurants, bars, shopping areas, cinemas, wellness and SPA centers.

The Company "Diamond Fortune Holdings Prim" is not the only large investor in the objects of "Primorye" gambling zone. As to 2016, the regional administration signed a number of investment contracts in the total sum of \$2, 7 billion. But for the Company "Diamond Fortune Holdings Prim" investors are some other large companies: LLC "Primorye Entertainment Resort city", LLC "J1 Entertainment", LLC "Royal Time Primorye" and others.

Late in 2016 the Group of Chinese companies Guo Wei expressed a desire to become a new gambling zone resident. The company plans to build a casino and hotel complex with thousand hotel rooms, as well as to create parklands for recreation and a yacht club on the shores of the bay.

Representatives of the Chinese association on development of enterprises abroad have offered to build in territory of Primorye gambling zone an exhibition and exposition center, which is to become a new venue for the Eastern Economic Forum. Previously it was planned to build an exhibition centre on the Russky Island, but along with the gambling zone development the plans were reviewed. Business representatives, attending the exhibition centre may increase the number of guests in the entertainment zone.

In all for the guests by 2022 in the integrated entertainment zone "Primorye" it is planned to build 15 hotels and 12 guest villas. Among the major objects of infrastructure there will be a large yacht club, multifunctional shopping and exhibition complex, Aqua Park and other objects.

Experts estimate that tax revenue from the gambling zone "Primorye" in 2016 should make about \$8 million, in 2019 the budget revenue should be \$21 million and in 2022 - about \$53 million. The number of new jobs already in early 2016 is over a thousand, by 2019 it will increase up to 9 thousand jobs, and by 2022 the number of jobs should reach 20 thousand, and in related industries – up to 35 thousand.

Now during the search of employees, investors faced the lack of worthy candidate at the market of Primorye with the work experience in the gambling and hospitality industry. To solve the personnel problem, it is planned to create a single career center to provide "Primorye" integrated entertainment resort with qualified professionals. The project will be implemented jointly with the holding company "ANCOR" (the largest company at the Russian personnel market).

The opening of the gambling zone in Primorye was first and foremost focused on tourists from Asian-Pacific countries. For the last years crisis phenomena in the Russian economy influenced significantly the structure of demand on tourist services in the country and in the region of Primorye, in particular. Under the new circumstances, it is necessary to make an extensive use of new approaches and ideas to organize the tourist business (Zolotova and Martyshenko 2014). Currently they review the structure of tourist services to be offered in "Primorye" integrated entertainment zone. In addition to the gambling component, a new meaning will be given to an entertaining part of the service spectrum. Today the structure of services is planned focusing both on foreign tourists and residents of

Primorye and tourists from other regions of Russia. In the new concept the target audience of the new resort "Primorye" should include 50% foreign tourists and 50% Russian ones.

In winter there is to be the ski slope with the length of 350 m. In the summertime, the slope will be used for cycling lessons - downhill.

In such large-scale projects as the gambling zone large investments are very important at the initial stage. This business is referred to a business venture with a long payback period. Large investors determine the business to be or not to be. Today the first milestone is passed – the gambling zone in Primorye is to be.

So far, the integrated entertainment zone "Primorye", although it is regarded as one of the most promising tourist projects in Primorye, develops in isolation and independently from other tourism development programs in the region.

So now, with the actual launch of the gambling zone in Primorye, it would be reasonable to consider some of the projects which could organically supplement the gambling zone project and increase its tourism appeal. Collaboration of the gambling zone objects and the objects associated with these projects may produce important synergies (Schmidt and, Martysenko 2014).

3.2. Objects that can give a synergistic effect operated jointly with the gambling zone objects

One of such objects might become a major construction project of a suburban racetrack in Vladivostok. Equestrian in Primorye has a long tradition. In Vladivostok there was previously a hippodrome, which operated from 1902 to 1934. For more than ten years in the region the equestrian sport has been reviving with varying degrees of success. There are more and more equestrian sports clubs, training grounds for various equestrian disciplines, competitions are organized. There are attempts to revive the horse breeding. Equestrian sport development is interesting to business from neighboring countries. In the territories bordering on Primorye there are no such conditions to develop the equestrian sport direction. Everything is seemed to be, but for the proper scale and it is far to match international standards.

Another major project that could be used in conjunction with the gaming zone project is a project of multipurpose sport and technical complex "Primring". Currently the first complex phase is operating successfully. Over the past three years, the project has become a recognized brand not only in Russia but also abroad. Project managers expect to receive financing for the second stage of the complex early in 2017. Now there are active negotiations with potential investors to construct the third and fourth stage of the complex. "Primorye Ring" object is located from the gambling zone at a mere distance of 20-30 km. A large part of the road connecting these objects is now completely in a decent condition. It is required improve several sites in total, up to 10 km.

These two sites can seamlessly complement the service range of "Primorye" integrated entertainment zone because they involve betting services and adrenaline of real race or run. In addition, these two objects (and further on directions of the entertainment industry) may develop independently and irrespective of the gambling business. In principle, these directions practically do not depend on the season and they are rather popular among population of the region.

The next group of tourist objects that can be offered to foreign tourists in addition to the integrated entertainment zone "Primorye" is associated with the unique natural environment of Primorye. To explore the nature tourists do not need long journeys through the wilderness. These facilities fully comply with the urban environment in the gaming zone. Tourists from the countries next to Primorye pay much respect to natural monuments and natural museums, because in their countries there are no so many places of wildlife.

Among such objects, you must first call the aquarium, which opened in 2016 on the Russky Island in Vladivostok. The total area of the aquarium is about 35 thousand square meters. The water volume of all pools will be 25 thousand tons. The new aquarium is the largest in Russia and one of the world's largest marine biology research centers which is practically unmatched in its technical capabilities and coverage areas of marine biological research.

The next item that is unfairly overlooked is the Primorye botanical garden. It has an area of 170 hectares, wherein 98% of the territory is occupied by natural forests, which are the benchmark of nature in the Southern Primorye. In collections of the Botanical Garden there are more than 3100 kinds, forms and varieties of outdoor plants. Among them there is a collection of ornamental perennials including 490 species. In closed greenhouses there are 780 species and varieties of tropical and subtropical plants. For comparison, one of the oldest botanic gardens in Russia – is the Nikitsky botanical garden in Crimea with the total area of 40 hectares. Nikitsky garden is one of the most visited tourist objects in Crimea.

At present the Primorye botanical garden appearance proves its complete desolation and absence of financial support. Meanwhile, this object has an excellent location in the city of Vladivostok, which is a huge plus. To reconstruct this object, it is not required to undergo a complex procedure to harmonize the construction, there is a lovely plant database – you only have to find investors to bring the object in compliance with international standards. As experience shows, to harmonize the development of such a scale, especially in the urban territory, can take years. It's unclear why to invest now huge money in new objects from the scratch that can bring revenue through the years, while over here there is the finished tourist attraction and it is almost never used. At that to such an object as the scientific centre is prestige both for Primorye and the country as a whole. The botanical garden might become a wonderful place for rest and health. Such territories in the urban area of neighboring countries are rather popular among people and they are the matter of their national pride and demonstrate to international tourists.

Safari parks can be referred to the group of natural tourism objects. You may remember how just recently in the news of all the world's channels and internet people with a sinking heart followed a dangerous friendship of Amour Tiger and Timur Goat. To see this miracle of communication between animals the people were standing with small children for a few hours in the queue. Any pet parks are always interesting for tourists from the neighboring countries. But the part of absolutely other scales is needed. And to make such a park is difficult for small businessmen who now have small safari parks in Primorye. Again, in great safari parks there is to be a scientific activity and support of scientific contacts with the major international centers for keeping wild animals.

The main thing that can be influenced by other tourist objects - is to create exceptional impressions from visiting Primorye. It is an essential component to popularize a new international gambling zone. When establishing a gambling zone, it is necessary to focus on world leaders of the gambling business, but only at the level of provided services. In all other copying is even harmful. Inclusion of the national color may reinforce the impression. Polls of foreign tourists show that many of them are tired of the monotony. Moving from country to country, they just often don't have new experiences with the common monotony services. The national color can be made by small business representatives (Vlasenko and Tsareva 2017). Large projects are to have a place for small business. Therefore, already now small business representatives must pass a certain level of training. In large projects it is required to search funds to support small business (Kozlovskaya and Kravchenko 2015, Korneva and Fedoryakina 2016).

3.3. Possible problems in development of the integrated entertainment zone “Primorye”

It is a great delusion to think that once the main objects in the gambling zone are constructed, all the rest will appear by itself. Little things can ruin the whole idea or significantly affect the operation efficiency of the gambling zone project.

What “little things” are there might be? For instance, if by 2019 the number of personnel engaged in service of the gambling zone is to make 9-10 thousand people, is it determined now where the gambling zone staff should live? Will they come daily by road from the neighboring cities of Artem and Vladivostok or should they live somewhere near the gambling zone. It is important to note that the gambling zone is located on the Ussuri Bay shores (Muravynaya Bay), whereon there are a lot of large beaches. Therefore, already now in the beach season all roads around the gambling zone are smothered in traffic jams and it is unclear when in particular some other large objects of the gambling zone are to be commissioned. There are not so many parking places for road transport along the Ussuri Bay shores and they are evidently to be insufficient in future. Another conclusion follows – it is needed to have alternative forms of transport. The project provides construction of berths, but now it is not determined what ships they are to service, how many such vessels are needed and where from they come. To solve the problem of beach goers is possible by the rail transport. The stated problems might be said “to lie on the surface”. One can assert that such problems are numerous. Development of transport infrastructure and residential buildings need years and it is required to search investors for these objects now and urgently.

One of the most significant problems to develop “Primorye” entertainment zone is deviation from the previously assigned schedule to commission the objects. It affects negatively on the business image and discourages investors. Now it is required to do everything to implement the plans. To delay the schedule strengthens international competition.

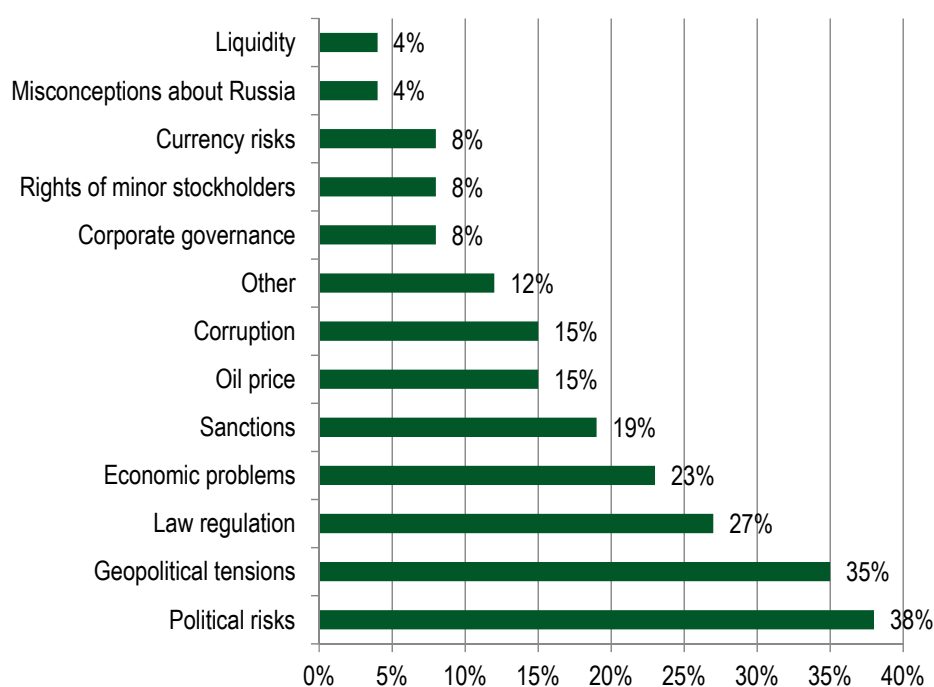
For example, advantages of the gambling zone development are now realized by South Korea (Malek and Kim 2016). It has the own project of a gambling zone near Incheon. Incheon is located 28 kilometres to the west of Seoul capital. The gambling zone is called Eightcity “8City”. The shape of new zone and its title look like figure “8”, which is an auspicious number among residents of China. “8City” will be three times larger than Macau. The project investments will make more than \$290 billion. This ambitious project is scheduled for completion by 2030. Incheon

authorities expect representatives of the middle and upper classes from China and Japan. It is even planned to build a new port in Incheon which would be convenient for ships of any class. Knowing the Koreans, you can be sure that they will create a new gambling zone and all objects are to be commissioned just in time.

Deadlines are related to such common problem of Primorye as insufficient infrastructure development level and firstly the transport infrastructure of Vladivostok. Surely during the run-up period for APEC Summit which was held in Vladivostok in 2012 notable results in development of the urban infrastructure were achieved. But after the summit even previously planned projects were frozen. A vivid example to that is the project of a bypass road around the Amur Bay. This project is also known as VKAD (Vladivostok ring road). The project was firstly developed in 70-ies of the last century and in 80-ies it was even included in the master plan of Vladivostok city development. The project was successfully forgot when the Soviet Union ceased to exist. For APEC Summit one half of the VKAD was realized, construction of the second half was shifted firstly by 2014 год. It is 2016 already and there are no funds to construct it. The project was excluded from the list of projects realized in the Far East at the expense of federal target programs and the city administration attempts to find investors abroad. There is a long list of infrastructure objects which are so required to develop the city of Vladivostok.

Two previous problems depend entirely on the investment climate in Primorye (Korneyko and Lin 2016). Improvement of the investment climate is evident, as by results of 2015 Primorye takes the 48th place out of 76 in the national investment climate rank. Surely, Primorye is a part of Russia and it bears all risks of investors, related to the investment climate in the country. Investment structure risk scoring of foreign investors in the Russian business by research results of *Detail-Communications* Company is given in Figure 1.

Figure 1. Investment structure risk scoring in the Russian business for foreign investors



And finally, development of the gambling zones is strongly interfered by an illegal gambling business, which is constantly changing, hiding behind various signs from sports clubs, lotteries to secret casinos. Law enforcement authorities constantly prevent the illegal activity of clandestine casinos in all regions of the country, and they still appear again and again. In recent years internet casinos have become comparable in volumes with traditional illegal gambling which are still invulnerable to the Russian laws.

Conclusion

It is evident that the visitors of "Primorye" integrated entertainment zone can be not only tourists with a target set to visit gambling establishments and accommodation in the gambling zone hotel complex. Therefore, the increase inbound tourism in the city of Vladivostok should favorably affect the increase of visitors in the gambling zone.

In 2017 Primorye was visited by approximately 4 million tourists who are 33% more than in 2016. In the overall flow the Russian tourists make 3,3 million people. In 2017 over 450 thousand tourists from China visited the

region. Under the visa-free exchange agreement the tourist flow has increased in 68%. The number of guests from South Korea has enlarged for 60%.

Air transportation volumes from the neighboring states are constantly increasing. In 2017 the number of charter flights increased by 30%.

Great prospects to increase the inbound tourism flow in the city of Vladivostok are related to development of the cruise tourism (Nikiforova *et al.* 2016). The cruise tourism development program is only at the beginning and in 2017 Vladivostok was visited by 15 large cruise liners. In 2018 it is planned to call 22 cruise ships. At present the construction project of a new passenger terminal is developed to call large cruise ships on the Russky Island.

Now in the territory of Primorye several significant projects are being realized that have a high tourist attraction. After launching the first stage of the gambling zone it is needed to pay more attention to interaction of the gambling zone with other tourist destinations, seeking a maximum multiplier effect.

A new impulse to develop the tourism infrastructure in Vladivostok should be provided by the new legislation approved in December 2016 by the Government of Russia "on creation of favorable conditions to develop the tourist -recreational activity in territory of the Far East Federal District". Under the new law there is a zero rate on income tax for the Far Eastern organizations engaged in the tourist - recreational activities.

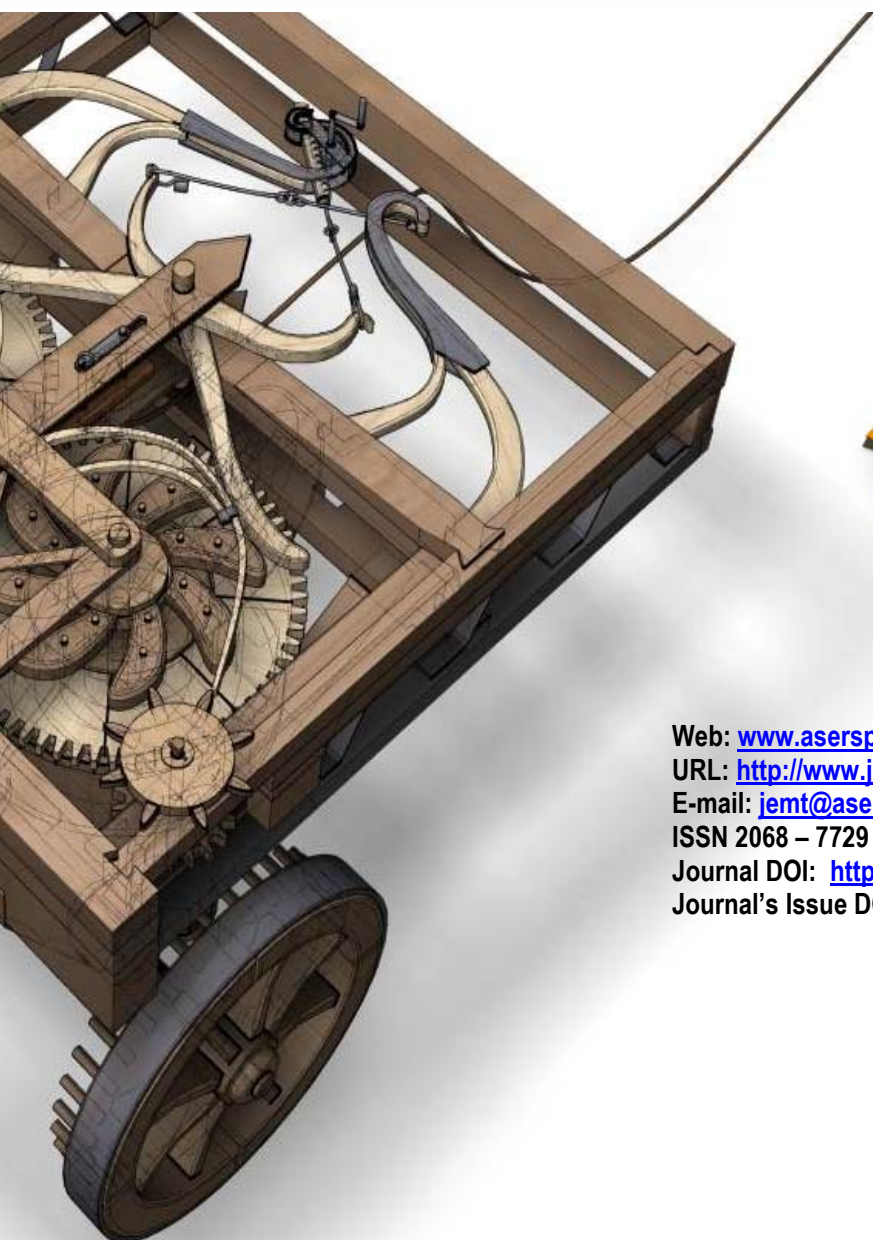
The capital of Primorye Vladivostok has a rich cultural life. In the city there are constant different events and celebrations of remarkable dates and holidays. Such events might become interesting to be visited by foreign tourists (Zakirova and Perova 2015, Martyshenko 2012). The region needs urgently the powerful event strategy. It requires no inventions but to make this work systemic and to ensure coordination of actions from the single centre on the regional image promotion both in neighboring countries and in territory of our region. Unfortunately, people in neighboring states know little about Primorye and its opportunities.

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