

## Public and Private Sector Entrepreneurship as a Tool of Dynamic Functioning of Tourism Cluster at the Territories of Outstripping Development (Case Study of Primorsky Krai, Russian Federation)



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**Abstract.** Priority development areas (PDA) may serve as a basis for entrepreneurship development in tourism, creating a more competitive environment for entrepreneurial activities in relation to similar territories in the Pacific Rim. The key principles of these territories are radical deregulation and massive tax incentives. The process of creating priority development areas plays depends on the coordination of all members of the alliance which includes Federal government and business units. The purpose for the present study is to develop a mechanism of tourism cluster functioning in priority development areas through public and private sector entrepreneurship. In the framework of the set purpose the following objectives are fulfilled: the authors analyze the legislation of priority development areas; assess the current state of tourism and tourism infrastructure; develop a mechanism of tourism cluster functioning in priority development areas through one of the forms of public and private sector entrepreneurship – public franchising. During research the authors used methods of economic–statistical and comparative analysis, graphical description. Unlike other researchers, the authors applied an integrated approach to the implementation of the mechanism of state and business structures interaction. The research is based on the legislation on priority development areas functioning, the cluster approach on the example Primorsky Krai tourism. The research results revealed the peculiarities of the cluster approach application for efficient tourism functioning. The authors analyzed tourist potential of Primorsky Krai and identify the specifics of using public and private sector entrepreneurship for the development of priority development areas. The study reveals the differences between public and private sector entrepreneurship, public franchising and public service outsourcing, which is undoubtedly interesting for researchers of this issue. The proposed mechanism of interaction of state and business units with elements of the tourism cluster in the form of public franchising in priority development areas will bring the internal tourism product of Primorski Krai to the international level. The mechanism is based on partnership of the state (the Franchisor) and business (the Franchisee) sector in the tourism cluster, which will ensure the inflow of investments in development of tourist attractions and infrastructure in priority development areas and support small and medium business. This will ultimately lead to the implementation of strategic goals for the development of the Far Eastern territories in the framework of the state program.

**Key words:** priority development areas, tourism cluster, public and private sector entrepreneurship, public franchising.

### **Introduction**

Currently, the Government of the Russian Federation focuses its attention on the development of the Far East, the territory that is strategically important in a military-

political and in an economic aspect. The Far East occupies 36% of Russia's territory and contains a huge amount of various mineral resources; on the other hand, the region is facing increasing depopulation, its economy

is resource-based, and its infrastructure (transport and social) is underdeveloped [17]. The economy of the Far East is directly dependent on the general situation in the country, as well as on the situation in the Asia-Pacific region.

A mechanism for implementing modern developments of business models in the form of priority development areas (PDA) and targeted investment projects has been chosen as one of the strategic priorities of state policy in promoting the development of the Far Eastern region. In accordance with the Federal Law “About the territories of advanced socio-economic development” [13] in the Russian Federation, by order of the President of the Russian Federation, PDA are created in the Far East; PDA have the following key features: radical deregulation and large-scale tax incentives. The status of PDA resident provides a number of advantages, including exemption from profit tax, property tax, and land tax during the first five years, exemption from import and export duties and from VAT. Instead of the 30% insurance contributions, investors pay only 7.6% during the first 10 years and have the right to obtain land and ready-made infrastructure for their business, and they also undergo accelerated procedure of exporter’s VAT refund. An audit of an PDA resident can be carried out only with the consent of the Ministry for Development of the Far East of Russia; “the single window” system was created for investors, as well as the free customs zone, simplified state control,

accelerated and streamlined administrative procedures, including those dealing with obtaining building permits and customs clearance.

Thus, reducing the time a resident spends on administrative procedures, all approvals take place in a simplified form, tax burden has decreased and, as a result, business becomes more efficient. In addition to tax benefits, the state assumes an obligation to create necessary infrastructure. A large number of deregulation mechanisms are introduced, starting from the constraints on the organization of audits of PDA residents and ending with the transfer of all administrative and economic issues to the single body – the management company. It is expected that this measure will help offer more favorable terms to foreign partners, create a more competitive environment for business activity in relation to similar territories in the Asia-Pacific region.

Currently there are 14 sites for PDA and 18 priority investment projects in the Far East. It is assumed that priority development areas can have different specialization, and in some cases some of them can become multifunctional. However, the most promising projects are related to industry and infrastructure, which is not surprising and reflects the real spheres of development for the Far East. The intention of PDA initiators to use these sites to attract tourists is also clearly seen.

Primorsky Krai – one of the backbone regions of the Far East – has a favorable

geographical position and unique recreational resources. Tourism flows in the Asia-Pacific region are generated in this very part of the planet. In one hour distance from Vladivostok there are 400 million potential tourists; this fact creates promising opportunities for tourism. However, a poorly developed infrastructure of the region – insufficient number of modern hotels, worn-down roads, lack of convenient customs conditions, a very small amount of equipped berths for river cruise tourism, lack of ships that can carry passengers and tourists – all this hinders the development of tourism business [8, 14, 16, 19]. In our opinion, it is possible to deal with these problems effectively and promote the development of tourism business in priority development areas with the help of the cluster approach to tourism development, the approach is based on cooperation between business and government.

Thus, the research topic considered in the present paper is relevant because there exists a contradiction between the high socio-economic importance of priority development areas for the successful functioning of the tourism cluster and because the mechanism of interaction between state and business is not fully developed yet.

Polarized development of territories through the formation of clusters is due to the fact that regions, as a rule, have a set of industries and businesses with competitive growth potential [11]. Thus the “poles and points of growth” are formed that

stimulate the growth of other enterprises and industries. Leading branches create the agglomeration effect based on the unification of complementary activities (“zones of influence”) in a certain territory. The clusters that are formed have the best conditions for the formation and development of “growth poles”. Priority development areas in this case may serve as a convenient platform for the development of entrepreneurship in the tourism sector. It should be noted that in the process of creating PDA an important role belongs to the coordination of all members of the alliance that includes federal governmental structures and financial-industrial groups. This confirms the necessity to develop theoretical and methodological framework and a scientifically substantiated mechanism of functioning of the tourism cluster in priority development areas with the help of public-private entrepreneurship, which is the goal of the present paper.

**Theoretical and methodological framework of the research.** Priority development areas have a special regime for the functioning entrepreneurship; the specifics of the areas are described in the works of N.V. Smorodinskaya, A.F. Avdokushin, S.A. Sharapov and others. Theoretical and methodological issues of functioning of the tourism cluster were investigated by O.D. Kol', E.G. Kropinova, A.E. Boiko, A.A. Kizim, A.V. Mitrofanova, O.V. Lysikova and others.

The advantages of the cluster as a symbiosis of cooperation and competition are

shown in a short review of the works of A.G. Guseinov, E.V. Markushina, Yu.B. Mindlin, S.A. Pomitov, E.B. Lenchuk, and G.A. Vlaskin.

Scientific literature comprises many publications on public-private entrepreneurship, both by foreign and Russian researchers such as V.G. Varnavskii, M.V. Vilisov, M.A. Deryabin, J. Bailey, L. Sharinger, S. Linder, and others.

However, due to the fact that the interaction between state and business is complex and multidimensional, there still remain numerous issues that require further development. For example, the issues concerning public-private entrepreneurship instrumental to the successful functioning and development of the tourist cluster have not been studied thoroughly; the same can be said about organizational-economic interaction between state and business structures in the form of state franchise. All this highlights the importance of research in this area. In addition, the mechanism of functioning of PDA has not been elaborated thoroughly, despite the adoption of the law in this sphere [13].

Therefore, a fairly urgent task in modern conditions is to develop a mechanism for organizational-economic interaction between state and business entities for efficient functioning of the tourism cluster in priority development areas.

The methodology and tools of the study are based on the analysis of the tourism

industry in Primorsky Krai. The main methods of research include economic and statistical method, comparative analysis, graphical description. Benefits of the cluster approach, their features, properties, phenomena, analysis and systematization of scientific knowledge, forms of interaction between state and business sectors are identified with the help of theoretical analysis.

#### **Advantages of using the cluster approach in the development of economic sectors of the region**

A content analysis of a number of scientific theoretical and methodological researches of M. Porter, P. Sraff, A. Thompson, J. Schumpeter, G.D. Boush, etc. helps allocate the following advantages of the cluster approach:

1. Concentration of production, location of competitive enterprises producing similar products in a limited area.
2. Concentration of infrastructure. Joint use of production, innovation and social infrastructure in the region. Companies jointly develop the labor market, use specialized services (education, healthcare, information, advisory, transportation and logistics, etc.), and get collaborative benefits from the proximity and development of infrastructure.
3. Orientation toward export. A cluster is always focused on the output of final product designed for export rather than for satisfying the needs of the region. Cluster companies often jointly operate in foreign markets

thus strengthening their capacity and competitiveness.

4. Competition inside the cluster, which is not just a mandatory feature, but a driving force of its development. M. Porter displays a simple dependence: the higher the competition in the cluster, the higher the productivity and, therefore, competitiveness of the cluster as a whole [18].

Balanced influence on the development of these aspects leads to the development of not only the cluster itself, but also the region as a whole.

Clusters also have great innovation potential due to the following reasons:

- since clusters are concentrated within one region, cluster members are able to respond quickly and more adequately to customers' needs;
- access to new technology is easier in the framework of the cluster;
- innovative process involves suppliers, producers and consumers, i.e. all the links of the processing chain;
- costs of research and development are reduced as a result of inter-firm cooperation;
- implementation of innovation is accelerated due to competition within the cluster.

It stands to reason that in the countries leading in the sphere of innovation the policy related to innovation clusters is considered separately in the process of formation of economic policy for a region or country. Successful innovation development in clusters

is promoted by the fact that compliance with specific industry requirements (strengthening the innovation component of the cluster) is achieved by flexible adjustment of the cluster infrastructure, its ability to respond flexibly to the needs of the market of the final product [3].

A key advantage of the cluster based on the territorial concentration as the final producers and the necessary infrastructure that allows to respond flexibly to market needs and thus to ensure high competitiveness of the final product. The intensification of communications in the cluster will lead to the fastest possible adaptation of infrastructure and its elements to its needs.

Cluster as a complex network organization is capable of faster and more accurate adaptation to the conditions of specific markets and specific areas in which it operates.

Due to the above, the cluster approach becomes one of the most in-demand methods in the modern economy that make it possible to consider the region as a whole and its interrelationships; this approach provides the following opportunities:

- cluster helps consider the production in the whole range of its relationships (infrastructure of production and consumption, marketing);
- cluster helps compare regions among themselves on a global scale and determine their competitiveness, and assess the effectiveness of clusters and regions.

### Analysis of the status of resource potential of the tourism industry in Primorsky Krai

Primorsky Krai is one of the most promising regions for the development of domestic and inbound tourism (*Tab. 1*). The geopolitical position of the region determines its orientation toward the Asia-Pacific countries that are continuously increasing their share in global tourist flows.

Primorsky Krai is annually visited by tourists from more than 50 countries, such as China, the Republic of Korea, USA, Japan, North Korea and others. On average, over 80% of the tourists are citizens of China.

The tourist sector of the economy of Primorsky Krai has a strong resource potential. It has over two thousand archaeological and historical monuments. Among them, 875 belong to the era of primitive communal society and the Middle Ages. According to the concentration of cultural and historical sites,

Primorsky Krai occupies a leading position in the Far Eastern Federal District [12].

The territory of Primorsky Krai is unique, which undoubtedly attracts those who enjoy travelling. For example, in the region there are 10 mountain peaks and mountaineering and climbing sites; 160 known caverns (underground niches, grottos, caves), about 40 of which are used for caving. The water sites include 15 rivers of the basin of the Sea of Japan with a total “rafting” length of about 500 km and seven rivers of the basin of the Ussuri River with a total “rafting” length of about 400 km [4, p. 7]. Historians and travelers know about more than 30 waterfalls and more than 3,000 lakes in Primorsky Krai. In addition, the region contains national parks “Zov Tigra” (The Call of the Tiger) (Resolution of the RF Government dated 02 June 2007, No. 708-r) and “Udege Legend” (Resolution of the RF Government dated 09

Table 1. Tourist flow in Primorsky Krai in 2008–2015, people

Indicators	2008	2009	2010	2011	2012	2013	2014	Forecast 2015
Foreign tourists	67179	52952	67771	82414	95440	138900	191000	211152
Absolute variations, +/-		-14227	14819	14643	13026	43460	52100	20152
Growth rates, %		78.82	127.99	121.61	115.81	145.54	137.51	110.55
Domestic tourists	529900	614900	786040	882200	755531	1390000	1639000	1950410
Absolute variations, +/-		85000	171140	96160	-126669	634469	249000	311410
Growth rate, %		116.04	127.83	112.23	85.64	183.98	117.91	119.00
Tourist flow, total	597079	667852	853811	964614	850971	1528900	1830000	2161562
Absolute variations, +/-		70773	185959	110803	-113643	677929	301100	331562
Growth rate, %		111.85	127.84	112.98	88.22	179.67	119.69	118.12

Compiled with the use of: Lebedinskaya Yu.S. O politike Primorskogo kraya v sfere razvitiya turistskogo klastera [About the policy of Primorsky Krai in the sphere of development of the tourism cluster]. *Vestnik Tikhookeanskogo gosudarstvennogo ekonomicheskogo universiteta* [Herald of Pacific State University of Economics], 2013, no. 3 (67), pp. 43-47.

June 2007 № 745-r); thirteen state natural reserves; six state nature reserves, including the waters of the sea and lake Khanka in which the combination of Turgay flora and Poltava flora creates unique nature. Of great interest to vacationers can be the Botanical Garden of the Far Eastern Branch of RAS and the Arboretum of Academician V.L. Komarov mountain-taiga station; health resorts: “Sadgorod”, “Amurskii Zaliv”, “Primorye”, “Okeanskii”, “Lazurnyi”, “Sokol”, “Ekspress”, children’s recreation center “Okean” and many other health resort organizations and tourist centers of the region.

Primorskii Krai has 184 state and community museums and art galleries; more than 2,000 historical and cultural monuments (town planning, architecture, monumental and fine art, archaeology); 9 theatres, 20 cinemas, 2 circuses, an aquarium; over 60 orchestras, concert organizations, cultural centers; more than 300 leisure facilities, 30 major sports facilities, 10 stadiums, 7 specialized exhibition centers [4, 5]. In the framework of the general concept for development of Primorsky Krai the opportunities of the leisure and entertainment sector are expanding. A new impetus to the development of recreational infrastructure was provided by the creation of a tourist-recreational special economic zone on the territory of Russky Island (Resolution of the RF Government dated 31 March 2010 No. 201) and “Primorye” gambling zone on

the territory of Artemovskiy Urban District (Resolution of the RF Government dated 20 August 2009 № 1213-r).

The physical infrastructure of the region is represented by a network of roads and railways, sea and river routes. The region is the largest transport hub in the Far East with almost all types of transport.

Hospitality infrastructure in Primorskii Krai is actively developing: there are about 450 enterprises in this sphere.

Hotel industry in Primorsky Krai in 2014 comprised 242 enterprises [4]. The position of the region in the Far Eastern Federal District (FEFD) on this indicator and its dynamics are presented in *Table 2* [5].

As the table shows, Primorsky Krai occupies a leading position among the FEFD regions by the number of hotels. In 2014, this number increased in 2.5 times in comparison with the level of 2009. The total number of employees in the sector of collective accommodation facilities (CAF) in Primorsky Krai is about six thousand people. Tourist infrastructure is represented by a network of institutions, which include more than 200 recreation centers, 151 hotels, 23 health resort enterprises, about 1,100 catering enterprises, more than 100 transport companies engaged in passenger transport [6]. However, it should be noted that in regional centers the level of hospitality services does not meet international quality standards.

Based on the above, we can conclude that tourism and recreational resources and hotel

Table 2. Number of hotels and similar accommodation facilities in the Far Eastern Federal District, units

Region/oblast	2009	2010	2011	2012	2013	2014
Republic of Sakha (Yakutia)	104	98	109	121	129	137
Kamchatka Krai	36	34	36	38	50	47
<b>Primorsky Krai</b>	<b>94</b>	<b>110</b>	<b>142</b>	<b>151</b>	<b>150</b>	<b>242</b>
Khabarovsk Krai	92	90	98	95	107	180
Amur Oblast	70	76	87	92	97	126
Magadan Oblast	15	14	12	17	18	22
Sakhalin Oblast	59	56	56	58	54	55
Jewish Autonomous Oblast	9	9	8	7	8	9
Chukotka Autonomous Okrug	9	11	14	12	11	9

Compiled with the use of: Agafonova V.A., Baukova N.G., Karpova M.I., Krivoborod L.N., Filonova E.A. *Industriya gostepriimstva v Primorskom krae. 2013: statisticheskii sbornik* [The hospitality industry in Primorsky Krai. 2013: statistical collection]. Moscow: Primorskstat, 2014. 40 p.

industry in Primorskii Krai contribute to the realization of its tourism potential despite the existence of a number of barriers to the development of tourism.

Thus, the transport infrastructure is poorly connected with the tourism industry and involves mainly cargo transportation. Most federal documents regulating the transport development in Primorskii Krai do not set out any goals that would reflect the transport industries promoting the development of regional tourism. The Concept for Transport Development of the Russian Federation provides for international transport corridors (ITC) passing through the territory of Primorsky Krai (*Tab. 3*) and focused on freight traffic rather than on passenger traffic; this fact complicates the entry of foreign citizens via sea routes. Great difficulties arise with the operation of port facilities, especially births, Mostly because of the worn-out concrete structures that do not

meet modern technical requirements and are often unsafe for passengers. The berths are mostly on the public balance sheet and are not involved in economic turnover, so their repair and reconstruction does not receive enough funding from the budgets. This fact hinders the development of passenger and tourist traffic. The visa regime in Primorsky Krai also hampers the inflow of foreign tourists, so for some countries it is necessary to introduce a visa-free regime or to simplify the visa regime.

The state of the transport system in the region is of great importance for the development of tourism.

The analysis showed that the condition of roads and other traffic arteries used for tourism in Primorsky Krai is unsuitable for comfortable transportation of passengers. In addition, there are no proper tourism services provided to tourists as they travel along the tourist route.

Table 3. International transport corridors passing through the territory of Primorsky Krai

Name	Route	Specialization
Trans-Siberian Railway	Berlin – Warsaw – Minsk – Moscow – Yekaterinburg – Vladivostok (Nakhodka)	International transit routes to: Japan, Korea, China (Shanghai), Taiwan, Western Europe, Middle East, Afghanistan
NSR (Northern Sea Route)	Vladivostok – the Arctic – European ports	Through ship traffic for international transit
Primorye-1	Harbin – Suifenhe – Pogranichny – Vladivostok (Nakhodka/Vostochny) – ports in the Asia Pacific region	Promotion of international trade with Heilongjiang Province, with Asia-Pacific countries and with the sea ports of Southern China
	Suifenhe – Pogranichny – Ussuriysk – Vladivostok (Vostochny/Nakhodka)	
Primorye-2	Hunchun – Kamyshevaya – Posyet (Zarubino) – ports in the Asia Pacific region	Promotion of foreign trade relationships with Jilin Province, with Asia-Pacific countries and with the sea ports of Southern China
	Hunchun – Kraskino – Posyet (Zarubino)	
East West	Harbin – Pogranichny – port Vostochny – ports of the western coast of the United States	Promotion of trade of north-eastern provinces of China and the United States
Trans-Korean Main Line	Busan – Rajin – Khasan – Baranovsky – Trans-Siberian Railway	Promotion of foreign trade between South Korea, North Korea and the countries of Western and Eastern Europe
Compiled with the use of: <i>Passport of Primorsky Krai</i> . Available at: <a href="http://www.vladivostok.mid.ru/primorye.html">http://www.vladivostok.mid.ru/primorye.html</a> .		

In general, the situation is difficult with regard to most part of the tourist infrastructure, which is experiencing a decreasing trend. For instance, for the last 10 years the number of cultural and leisure facilities decreased by 125 units, and the number of folklore, music, theater and other groups – by 840 units [7]. Outdated facilities and infrastructure of the majority of health and resort centers is also characterized by the poor state of tourist infrastructure. This negative situation is, first, associated with a sharp reduction in state funding for capital repairs, purchase of medical and household equipment, and second, with the fragmentation of the health and resort system that has no centralized structure

and that is distributed between ministries, departments, public organizations and joint-stock companies, which determines the development of health institutions taking into account the interests and capabilities of the owner.

Thus, the functioning of the tourism cluster in the priority development areas requires implementing a set of measures that will help create well-developed transport and cultural and leisure infrastructure based on the partnership of government and business.

We propose to use the mechanism of interaction between the public and entrepreneurship sector with the help of state franchising as a form of public-private entrepreneurship.

### Analyzing the forms of interaction between the state sector and business sector of the economy

According to the requirements of the market environment the interests of the state and business sectors of the economy should be brought together. This is reflected in the emergence of various forms of interaction (Fig. 1).

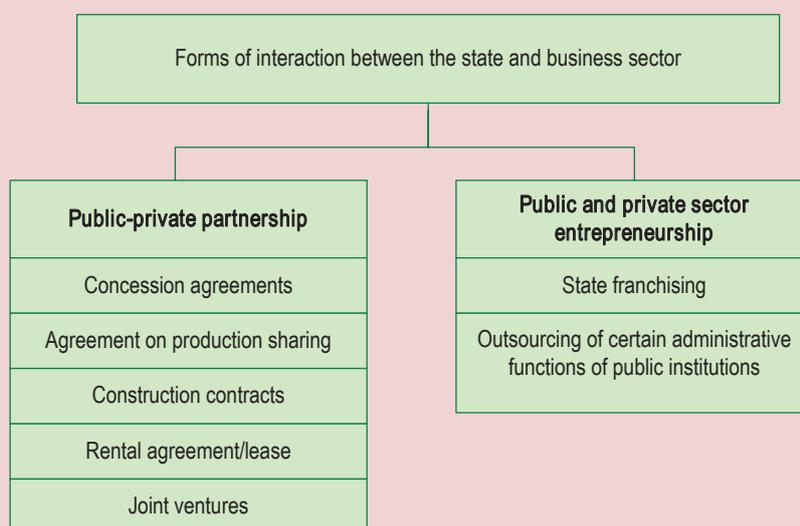
According to this scheme the forms of interaction are divided into two groups: public-private partnership, which includes concession agreements, agreements on production sharing and others, and public

and private sector entrepreneurship, which includes state franchising and outsourcing of certain administrative functions of public institutions.

Table 4 presents the main differences between public-private partnership and public and private sector entrepreneurship.

This table shows that public-private partnership is a form of partnership with big business. Strategic partnerships such as state franchising and outsourcing of public services are aimed at the interaction between state structures and small and medium-sized enterprises [9].

Figure 1. Forms of interaction between the state sector and business sectors in the economy



Source: Baldina Yu.V., Masyuk N.N. Strategicheskoe partnerstvo gosudarstva i biznesa: global'nyi outsorsing i gosudarstvennyi franchaizing [Strategic partnership of the state and business: global outsourcing and franchising of the state]. *Ekonomika i predprinimatel'stvo* [Economics and entrepreneurship], 2014, no. 12(3), pp. 453–456.

Table 4. Differences between public-private partnership projects, outsourcing of public services and state franchising [9]

	PPP (concession)	State franchising	Outsourcing of public services
Partners to the state	Big business	Small and medium-sized private companies	Small and medium-sized private companies
Contract term	From 10 to 40-50 years	3-10 years (with an option to extend)	1-3 years
Transfer of the right of state ownership	For the period of validity of the contract	For the period of validity of the contract	No
Extent of participation of private companies	Management of finished projects, and construction or major conversion	Management of finished infrastructure projects	Management of finished infrastructure projects
Risk management	Jointly by the state and private companies	Jointly by the state and private companies	The state; a private company manages only the risks of profit loss

In order to attract small and medium entrepreneurship in economic sectors particularly significant in socio-economic terms and to use its potential in the strategic partnership between the state and business, in particular, in the priority development areas, it is expedient, in our opinion, to apply public and private sector entrepreneurship as a form of interaction between the public and business sectors.

This form is based on the following aspects: initiative and mutual benefit of cooperation between the state and business sectors; focus on economic sectors that are important in social and economic terms; paternalistic approach of the state toward enterprises; reduction of business and investment risks; orientation of activity of the enterprise on the demands of the public.

Thus, public and private sector entrepreneurship will allow the business

sector (small and medium enterprises) to reduce risks, to get support from the state and to develop their business; it will allow the public sector to increase the share of small and medium entrepreneurship in GDP of the region, to solve the problem of employment, to increase the efficiency of state policy concerning the support and development of small and medium enterprises, to ensure the motivation of entrepreneurial activity in strategically important and socially significant economic sectors.

Public and private sector entrepreneurship involves public sector franchising, which is one of the forms of interaction between the state and business structures to ensure the dynamic functioning of the tourism cluster in a newly established priority development area.

Public sector franchising has the following features: the state structure has an exclusive

right to the product; special features of the product; establishing preferential prices for products and services of the franchisee company; use of business management principles and techniques; support and guarantees of the public sector; involvement of small and medium enterprises in socially and economically significant industries.

Public sector franchising as a form of interaction between the state and business structures will allow them to achieve the following goals: for the public sector and local authorities: to implement a program for supporting the development of the Far Eastern region by creating priority development areas; to create favorable conditions for growth in socially and economically important sectors with the help of small and medium enterprises as driving forces with their resources, in particular, for the development of the tourism industry in Primorsky Krai and in the Far Eastern region; to create new jobs, which in conditions of crisis is of great importance for the region; to provide support to small and medium business; to implement the performance resource in solving the problems of import substitution; to accelerate the growth of entrepreneurial activity in the tourism industry; for small and medium business: to reduce risks and obtain state guarantees when opening a new business (purchase of government franchises); to participate in socially and economically important projects; to make profit at minimal

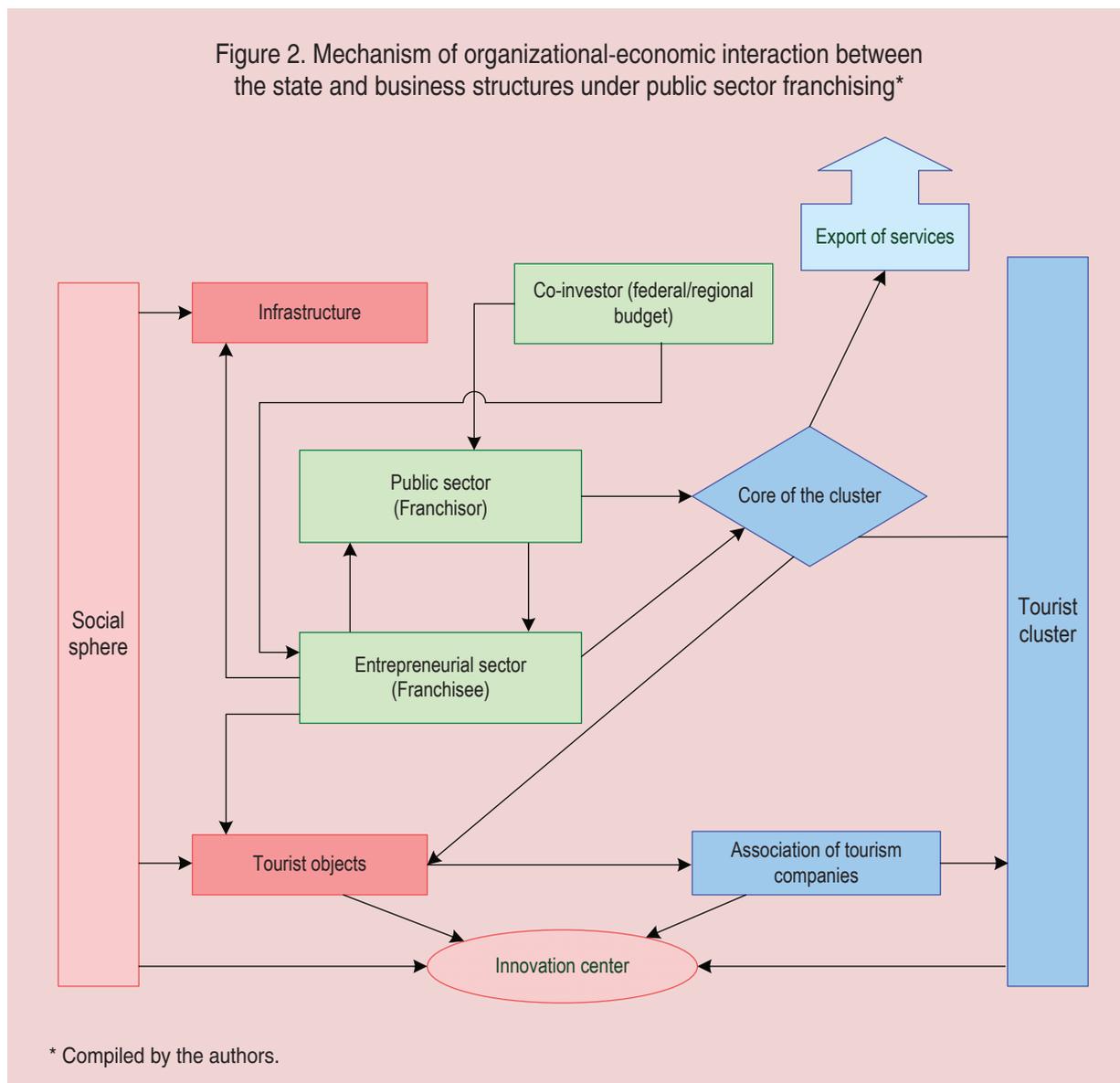
cost; to use opportunities of doing business.

*Figure 2* shows the mechanism of organizational-economic interaction in the sphere of tourism of the state and business structures, under public sector franchise, that enables the tourism cluster to function effectively in the priority development areas in Primorsky Krai and in the Far East.

This mechanism is based on the relationship between public sector entities (franchisor), which provide business sector entities (franchisees) with brand, product, marketing support, etc. of the tour operators in Primorsky Krai. The business sector, in turn, can open new business or to develop existing business without risk and excessive cost. Favorable conditions for investors created in priority development areas are boosting the inflow of investments in the tourism industry. Power structures (regional, federal budget) act as co-investors and a guaranteeing authority.

The connecting link and the basic tool of tourism cluster development for a co-investor is the social sphere, by managing which the measures to manage clustered development are implemented [15].

An important element in the proposed mechanism of interaction is found in the infrastructure support, which is a system for managing business and its livelihood. The main direction to improve infrastructure provision is to protect the interests of economic entities in the process of



preparation and adoption of decisions by state authorities, advisory services, improvement of activities of business structures and forecasting the likely consequences of the introduction of proposals. Information and advisory activities focus on assisting the manager in various matters related to the operation of a business structure.

Association and the innovation center are key elements in the developed mechanism of interaction between the social sphere and the tourist cluster since they ensure the search for the most optimal forms of cooperation between the public sector (the franchisor) and business (the franchisee) inside the cluster.

Thus, the proposed mechanism will help increase investments in the development of tourism facilities and infrastructure; this will have a positive influence on the tourist product in Primorsky Krai and will enable its domestic tourism to reach the international level of development.

In addition, due to the interaction between the public sector and business structures in the form of public sector franchising, small and medium entrepreneurship in Primorsky Krai will be involved in the tourism cluster formed in the priority development areas. In turn, these areas will create special conditions for the development of SMEs, and the mechanism that we have developed will combine the capabilities of the state and entrepreneurial sectors in the successful development of tourism as the most promising sector in the regional economy.

### **Conclusion**

Priority development areas are a convenient platform for the development of entrepreneurship, and in the tourism sector as well. The status of a PDA resident provides a number of advantages for both foreign and Russian entrepreneurs; this fact creates a more competitive environment for doing business in the region in comparison to similar territories in the Asia-Pacific region.

However, several problems caused by the poor infrastructure of Primorsky Krai hinder

the development of tourism business. It is possible to overcome them, to adjust the development of tourism business in priority development areas effectively and quickly with the help of the cluster approach, which is based on cooperation between business structures and state structures. Polarized development of territories through the formation of clusters is caused by the fact that regions generally have a set of industries and businesses with competitive growth potential. Thus the “poles and growth points” are formed that stimulate the growth of other businesses and industries. The clusters that are being established have better conditions for the formation and development of the “growth poles”. In the process of creating priority development areas an important role belongs to the coordination of efforts of all the members of the alliance, which involves the state and business structures. The mechanism that we propose to use in the interaction between the state and business structures with the main elements of the tourism cluster under the terms of public sector franchise will allow a comprehensive approach to the implementation of modern business models for priority development areas, contribute to the efficient development of tourism and support of small and medium business in the Far East.

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