

Research of the Far Eastern Financial Center: Problem Analysis and Outlook

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Abstract. The research of the Far Eastern financial center in the context of the analysis of investment and business regional problems based on statistic information. The key factors are assessed that ensure the development of financial market and competitiveness of the investment climate in the Far East. It has been demonstrated that besides state support for favourable investment business climate, the financial sector should be developed, as without it the market capacity of the region and target economic growth are impossible. The need for high-quality financial services for Russian and foreign investors in the Far East, and for the Far East specific professional project consulting was justified. The problems in the financial sector are analysed, and the widening gap between the business development in the Far-East and the financial market development are analysed. It has been established that difficulties associated with attracting business funding and high costs of loans are among the key problems. A higher spread between loan interests in Russia and developing countries, including Asia Pacific. The financial sector development indicators are presented, in terms of which Russian lags behind the key states in Asia Pacific. The evidence for funding cost reduction in the Far-Eastern Federal District is provided. The conducted research provides a target vision of the Far Eastern financial center that ensures a competitive business environment in Asia Pacific, the conclusions are made on the key levers of financial service regional market development.

1. Introduction

Growing investments are among the most important regional competition factors and national sustainable economic growth. The Far East comes second in Russia in terms of investment growth, including foreign investments [2]. In the previous 4 years the Far East received 33 billion dollars of foreign direct investments. Active investment policy aimed at creating favourable conditions and large-scale support measures for investors influence the attraction of considerable private investments to the priority industries of the Far Eastern economy [7]. A modern legal framework was developed. Today 40 federal laws and 190 Government rulings ensure the consistency and competitiveness for Far Eastern businesses.

2. Materials and methods

The article used the materials from the Federal State Statistic Service (Rosstat); results of Far East Investment and Export Agency's surveys and research that allow to identify regional business funding problems; analytical data from the Ministry for the development of the Russian Far East, results of

expert research and performance indicators of regional programmes and investment projects in the Far East. Systemic structure analysis, comparative, formal and logistics method and empirical analysis of relevant sources became the methodological basis of the research and allowed the authors to assess problems and provide a comprehensive outlook for the development of the Far East financial center.

3. Discussion

In the Far East the Ministry for the development of the Russian Far East and Far Eastern development agencies help to implement more 1600 new investment projects, 217 businesses flourish and more than 36 000 jobs have been created [11]. In the Far East, Russia is going to develop transport, fuel and energy sector, agriculture, construction, social infrastructure and prospecting surveys. The Far East development needs considerable investment in infrastructure and boosting businesses to increase the capitalisation of the regional economic system, the income of the population and taxes payments to the budget.

Direct investments can boost economic growth in the region, result in new sources of income and additional financial resources that are essential for the exploration of the richest natural resources of the Far East [1]. Unique preferential regimes are created for Far Eastern investors, with a view to attract further investments, including foreign ones [12]. To increase Economic growth endogeneity in the region, institutional innovations, such as Territories of accelerated development and Free port of Vladivostok are introduced in the region [3]; infrastructure and administration support is provided [9]. However, it is quite clear that in order to increase investments, it is still necessary to do more to address the economic problems of the macro region. The solution to this problem is associated with another important aspect of state and business activities in terms of using the opportunities in the Far East, namely with the transformation of the financial architecture in the region [5].

4. The goal setting

Faster economy growth in the region (up to 8%) will require by 21% more investments into GRP. To achieve the target, about 1 trillion rubles of additional real investments in 2018-2020 are required [13]. At the same time, in order to achieve the economy targets in the Far East, to attract the necessary investments, in particular non-governmental ones, it is essential to make funding, high-quality financial services and professional project consulting more accessible to investment projects stakeholders. It is key to identify development areas for the financial centre that could bridge the gap between business development in the Far East and financial market development.

5. Analysis

The statistics analysis allows to conclude that the financial sector development in the Far East is below the average for Russia by a number of indicators: loan and insurance products in the market, investment banking, asset management, stock exchange trade, etc. The financial market in the Far East has the lowest banking competition in the Russian Federation, which results from the key problems of the banking segment in the Far Eastern financial sector, namely difficulties associated with attracting credit resources for investment projects because of their high costs, which is confirmed by the conducted survey (Figure 1). The access of start-ups to banking infrastructure and funding is an especially complex task.

Business loan services' coverage in the macro region is considerably below the average for the Russian Federation and is only 19.79%. According to the estimates, larger loan service coverage up to 34.81% (the average for similar federal districts) would allow to increase the income in the market by 10.8 billion rubles. We should say that the percentage of sub-standard business loans in the Far East is relatively small, 6.7%, which corresponds to the average for Russia, namely 7%.

The results of the survey "Have you managed to attract the necessary funding for your business?" are presented in a diagram in Figure 1.

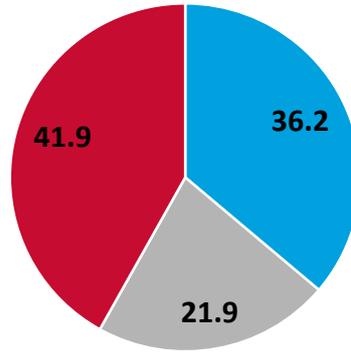


Figure 1. The results of the survey of respondents from the Far East¹.

This survey shows that 36.1% of the respondents received the necessary loan (in blue); 21.9% of the respondents got less than they wanted (in grey) and 41.9% were not granted a loan (in red).

The analysis of causes of respondents not receiving the necessary loan resources is shown in Figure 2.

The causes are the following:

- (a) unacceptable conditions (high interest, collateral);
- (b) banks' or investment funds' refusal of loans or investments
- (c) problems associated with the registration of a land plot;
- (d) other reasons.

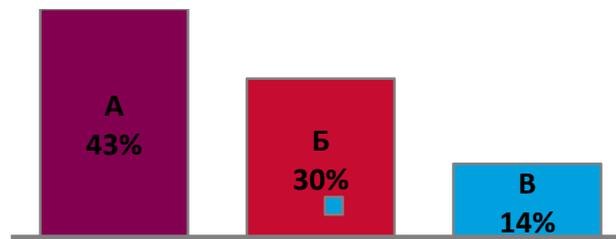


Figure 2. Distribution of causes of non-granting business loans in the necessary amount: unacceptable conditions (purple); banks' or investment funds' refusal of loans or investments (red); problems associated with the registration of a land plot (blue).

The majority of respondents believe that the main reason that stops them from receiving loans in the necessary amount is the high cost of loans, which is confirmed by a higher spread between loan interest in Russia and many developing countries, including those in Asia Pacific (Table 1).

Table 1. Loan interest (%) in Russia and some developing countries.
(SOURCE: Central Bank News website)

Countries	Russia	South Africa	Vietnam	India	China	Malaysia	the Philippines
Loan interest	10	6.5	6.5	6.3	4.4	3.3	3.0

¹ Source: Far East Investment and Export Agency

Competition development in the financial sector in the macro region due to encouraging foreign and Russian banks and a better investment climate for attracting potential foreign investors can result in lower funding costs in the Far Eastern region. There is also a need for reducing funding attraction limits. Reducing risks associated with regional project and simultaneously raising awareness of businesses about the conditions offered by the financial center to its financial service residents is an important factor in cutting loan interests.

Besides loan availability, Russia also lags behind key countries in Asia Pacific by such indicators as business and consumer loans, stock market capitalization, number of investment and banking deals, and venture capital investment. At the same time, in terms of private sector loans Russia is on par with other developing countries (BRIC, excluding China), but significantly behind the developed countries (the Eurozone), and as for the stock market capitalization, Russia falls behind both the developing (BRIC) and the developed ones (the Eurozone). At the same time, some indicators (for example, bank concentration) in Russia are similar to ones in the key countries in Asia Pacific [10].

Though they have highly-developed financial markets, countries in Asia Pacific continue to actively look for opportunities to invest and expand their international presence in the financial sector [8]. Direct foreign investments from Asia Pacific countries more than doubled in the last 10 years. Investors from Asia Pacific are extremely interested in the Far East. Their direct investments in the Far Eastern projects account for more than 540 billion dollars per year. The history of Asia Pacific where headquarters of the major financial institutions that increase their international presence are located, shows that the financial sector development is necessary to attract investments to the regional economy and to increase GRP by means of providing services to non-residents [6].

At the same time, attracting funds is also discouraged by a purely subjective business factor that can be described as a lack of competence. This is why a part of investment projects encounter difficulties in encouraging investments due to the insufficient consideration and structure complexity. In this context, it seems feasible to identify development prospects of the relevant infrastructure segments to stimulate financial sector growth.

6. Research outcomes

The development of financial center in the Far Eastern Federal District is oriented toward fulfilling two major tasks. The first one concerns the necessary funding for investment projects in the regions on reasonable interest, and the second one is associated with the financial market growth in the segment of services provided for foreign and Russian organizations. As for the main goals of investors, the financial center development should be aimed at lowering the funding cost and mitigating project implementation risks in the Far Eastern regions. The first task can be carried out through competition growth in the financial market and a search for alternative ways to attract capital. Project support and professional business services are an important factor in targeted risk mitigation. Professional services are represented by non-commercial risk insurance and services aimed at improving the project quality, their assessment and follow-up monitoring, as well as reducing the administrative pressure on businessmen.

The authors' research considers the possible options of target financial center positioning and concludes that banking services focused on project funding and simultaneous development of accompanying industries should become the main specialization of the financial center [5]. Such specialization implies the necessary development of the Far Eastern region economy oriented toward ensuring the sufficient number of projects with acceptable profit-making capacity from the point of view of investors. In view of such specialization, it is very important to establish a regulation sandbox as a special platform with preferential legal regime that ensures testing of services on the basis of new financial technologies; pilot innovative financial services, risk analysis and assessment of service or technology introduction feasibility.

As the financial center in the FED can become a geographic regional focal point for the local economy and neighbouring Asia Pacific countries (China, the South Korea and Japan), financial organizations from Russia and Asia Pacific states can become its target clients. This is why, in the

light of increasing the GDP contribution of the financial market, the priority development area and free port regimes should cover the financial sector and foreign market service development as well [4]. Trade and financial instruments operation are of special importance, as they are now prohibited in China, the largest neighbouring country: options and swaps (except for percentage and currency ones). It is essential at the stage of approximate assessment to take into account that the majority of non-residents of the Russian Federation in the Far East are interested in off-shore financial services with a high percentage of on-line services; in insurance and banking (for example, deposits, loans); mediation in securities trade; management companies services.

7. Conclusion

Taking into account the aforementioned positioning, the financial center should become a platform that provides competitive conditions for financial activities in Asia Pacific that ensure lower funding costs for residents and more opportunities for attracting foreign capitals. The financial center development in accordance with investors' needs creates incentives for more financial institutions to come to the Far East.

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