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Foreign investment and urban development: A perspective from tourist cities

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A B S T R A C T

While most of the economists defend the positive role of foreign investors in economic development, the literature addressing urban settings show divergent views on the local impact of foreign investment. The author takes the approach of political economy, illustrating how the interests and preferences of foreign investors and the host community on the openness of a tourist city greatly diverge in the presence of side effects. Foreign investors tend to influence the tourist city's policy to exhibit a higher degree of openness than is optimal. So it is the government's responsibility to regulate foreign investment in a way that is conducive to the tourist city's sustainable development. Macao is adopted as a case study.

Introduction

International organizations such as the International Monetary Fund (IMF), the World Bank and the World Economic Forum enthusiastically urge cities to seek competitive advantages to ensure their survival and prosperity. Based on the assumption that inter-city competition for foreign investment is escalating, these organizations encourage cities to create market conditions that attract foreign investors to exploit local competitive advantages. The desirability of foreign investment is backed by a large volume of economic literature. According to these studies, foreign capital has various advantages, such as promoting growth (Coe & Wrigley, 2007; Xafa, 2008), fostering competition (Edwards, 2001; Sheng, 2010), transferring technology and management skills (Lopez-Mejia, 1999; Thompson, 2008), enhancing policy transparency and market discipline (Ivarsson, 2002; Moreno, 2001), strengthening efficiency in financial institutions (Claessens, Demirguc-Kunt, & Huizinga, 2001) and smoothing inter-temporal consumption across cities (Eichengreen et al., 1999).

In the extant urban literature, the term 'foreign investment' is associated with positive attributes. Wei, Leung, and Luo (2006) find that foreign investors made significant contributions to external trade, to the formation of global cities and financial centers, as well as to the more general rapid economic growth in the city of Shanghai. Wu (2001) finds significant contributions by foreign investors to finance development in China. This makes possible large-scale infrastructure and prestigious, high-profile projects and helps to change land usage in Chinese cities from mixed, cellular patterns to more highly differentiated ones. Sit and Yang (1997) find that foreign investors have played a significant and positive role in transforming the Pearl River Delta from a closed, self-reliant agrarian region into an industrialized and urbanized area, enabling it to become an integrated part of the international division of labor. Turnock (1997) argues that foreign investors help to accelerate urban restructuring, exploit comparative advantages and situate Eastern European cities within the global division of labor. Foreign investment also stimulates competition by encouraging innovation among domestic enterprises. Positive evaluations of the role of foreign investors are also provided by Wu (2000, 2003), Dick and Rimmer (1998), Bullard, Bello, and Mallhotra (1998) and Shi and Hamnett (2002).

A considerable selection of the urban literature, however, documents the negative impacts of free capital mobility and excessive foreign investment from economic, social, environmental, and political perspectives. Chan (2001a, 2001b), Chan and Senser (1997), Chan and Wang (2004), Chan and Zhu (2003), Chen and Chan (1999) report and comment on serious worker rights violations in China's booming coastal cities, including unpaid wages, unsafe working conditions, corporal punishment, compulsory overtime, imposition of monetary penalties, and bonding of labor through mandatory deposits. The fact that many foreign firms are actively involved in the abuses raises concerns about the negative impacts of rapid globalization and urbanization in countries where human rights are ignored and legal systems are weak. Examining the lives of female Chinese workers in factory dormitories, Pun (1999, 2004a, 2004b, 2005a, 2005b) explores the meaning of globalization for the laborers of global capitalism. She finds that production and consumption imperatives of the global capitalist market together with the authoritarian Chinese government and patriarchal Chinese culture lead to violent coercion and exploitation

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of women in the urban factories. Lee (1995, 2000, 2007a, 2007b) identifies increasing labor unrest amidst the brutal exploitation and coercion characterizing China's integration into the global capitalism system. She provides a broad political and economic analysis of this social struggle, opening a critical perspective on the death of socialism and the rebirth of capitalism in China as it emerges as the world's factory. Besides the serious human rights problems accompanying the urban growth driven by foreign investment, other negative socio-economic impacts, such as foreign dominance (Stoneman, 1976), a widening social divide (Sheng & Tsui, 2009a), inflation (Zheng, Kahn, & Liu, 2010), human resource shortages (Fortanier & Wijk, 2010), asset bubbles (Zhang, 2006) and pollution (Güneralp & Seto, 2008), are also well documented in extant literature.

More broadly in the context of the social sciences, particularly in Marxist scholarship, scholars are intensely critical of foreign investment due to the hypermobility of capital. Applying Marxist analysis to Neoliberal economic doctrine, which urges the free mobility of capital, Harvey (2005) finds that promotion of Neoliberalism by international lending institutions since 1980s has reformed the world economic system and restored political and economic power to the upper classes. He points out that the world economy has not performed well under Neoliberalism, an ideology that has been wrongly represented as the most desirable alternative. In fact, while multinational enterprises extract remarkable benefits from their investments in the process of globalization, host communities do not gain as much as people assume they do. Consequently, inequality increases worldwide. His critical point of view on Neoliberalism in the urban context is elaborated in more detail in Harvey (1989, 2003, 2008). Dickens (2000) finds that a new spatial division of labor is developing based on Neoliberal doctrine, so that each nation is attributed a specialized role. Such divisions depend on globalization, and they are good for capitalist profit, but they also separate the people from the land. Dickens argues for the fusion of perspectives emphasizing political economy with those focusing on peoples' urban lives. His critical opinions on the role of capitalism in the globalized, urban context can also be found in Dickens (1989, 2004) and Dickens, Duncan, Goodwin, and Gray (1985). Castells defines 'urban' as the processes of socialization of production, the realization of surplus value, and the collective production of labor power in capitalist societies. He finds that Neoliberalism marks the end of the democratic phase of urban development, and stresses the role of social struggles in the conflicting transformation of the city (Castells, 1978, 1979, 1983). Elaborating on Joseph Schumpeter's 'capitalism's phase of creative destruction', Klein (2007) argues that liberal economic doctrine rises to prominence in countries where the citizens are in shock from disasters. Policies under that doctrine, such as capital mobility, privatization, and free trade, however, often result in depressions, mass poverty, and private corporations looting public wealth.

Using the case study of Macao as a tourist city experiencing spectacular economic growth from foreign investment, the author illustrates how the interests of foreign investors and host communities might diverge in the presence of side effects. In this paper, the term 'tourist city' refers to a city in which the tourism sector occupies a large or dominant space in the local economy, and where the host community is mainly the provider and not the consumer of tourism services. The host community in Macao has been suffering from serious socio-economic consequences despite the apparently positive boom after its gaming sector was liberalized and opened to foreign investors. By critically evaluating the negative impacts of free mobility of capital under liberal economic doctrine, this paper aims to inspire city planners to formulate more comprehensive foreign investment policies. As there are many tourist cities across the world with characteristics similar to those of Macao (rapid expansion, foreign dominance and serious side effects), this paper has practical relevance. The rest of the paper is organized as follows: Impacts of increasing tourism: a review of literature section reviews the literature on the impact of tourism; The case of Macao section illustrates the case of Macao; and Conclusions section provides concluding remarks.

Impacts of increasing tourism: a review of literature

A significant number of studies highlight the serious side effects of the overgrowth of tourism in the tourist cities and countries, a process largely driven by foreign investment. The real tourism revenue of a tourist city is the amount of tourist spending that remains in the local community after profits and wages are paid outside the area and after imports are purchased. The amount subtracted from the revenue is called leakage, and this is required to build up and maintain the necessary tourist infrastructure. Walpole and Goodwin (2000) identify heavy leakage accompanying rapid tourism growth in Indonesia, including the removal of assets due to non-local ownership of businesses, infrastructure or running costs, the provision of transport operations by external operators, and the isolation of tourists from the local economy by all-inclusive itineraries, which can result in the loss of almost 80% of all tourist expenditure. Leakage rates vary from country to country, but in general, the less developed and smaller a country's human resources stock and manufacturing capacity are, the more capital, labor, and goods and services need to be imported to support the development of tourism, thus implying more leakage. Evidence and further discussion of leakage can also be found in Wilkinson (1999), Scheyvens and Momsen (2008), Sheng and Tsui (2009a) and Frechtling and Horvah (1999).

Göymen (2000) observed that a tourism boom driven by foreign investment is often accompanied by inflation and overvaluing in real estate. The prices of tourism-related goods and services can be driven higher by fast-growing tourist demand. Moreover, local residents may imitate foreign tourists' consumption behavior, and thus increase the overall demand for certain goods and services. On the other hand, increasing tourist demand attracts foreign firms to invest in tourism infrastructure, such as hotels, casinos, and theme parks, thereby boosting building costs and land values, and stimulating overall real estate prices to rise. The situation can be further worsened if the excessive foreign investment flows into the tourist city based on speculation, causing asset bubbles and financial crises (Cai, Leung, & Mak, 2006; Khan, Seng, & Cheong, 1990: Sheng & Tsui, 2009b; Smeral, 2006).

The 'resource curse' refers to the paradox that countries and regions with an abundance of natural resources, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. The term was first used to describe the decline of the manufacturing sector in the Netherlands after the discovery of a large natural gas field in 1950s. Corden and Neary (1982) theorize the phenomena, calling it 'Dutch Disease.' In their model, there is the non-traded good sector and two traded good sectors: the booming sector, and the lagging sector. The booming sector in the case of the Netherlands was natural gas, while the lagging sector refers to manufacturing. A resource boom will affect this economy in two ways. According to the 'resource movement effect,' the resource boom will increase the demand for labor, which will cause production to shift toward the booming sector, and away from the lagging sector. This shift in labor from the lagging sector to the booming sector is called direct-deindustrialization. The 'spending effect' occurs as a result of the extra revenue brought in by the resource boom. It increases the demand for labor in the non-tradable industries, shifting labor away from