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The role of local government and the private sector in China's tourism industry

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HIGHLIGHTS

- The role of Chinese local government in private sector tourism is examined.
- Performance of natural resource-based companies depends on the special nature of their businesses.
- A singular profit model will not be sustainable.
- A need exists for a clear statement of responsibilities and rights of each stakeholder.

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ABSTRACT

For many less-developed regions in China, cultural and natural attractions are often used by local governments as regional economic drivers. However, the expectation is that income generated from the direct use of culture and nature will only provide the initial round of working capital to facilitate development of other industrial sectors. One strategy in recent years is to separate government from business operations in these attractions to improve the economic performance of businesses and better conserve cultural and natural resources. This paper examines the impact of these policies on resource-dependent tourism companies (RDTCs) for the period 2003–2012. Data on economic performance are derived from listed companies. It is shown that RDTCs have better performance than other tourism sectors because of their monopoly status on high-quality natural and cultural resources. Yet local governments still have a role in tourism operation. Their involvement tends to lead to the reduction of the economic effects of RDTCs and results in discernible overcrowding at sites, thus resulting in negative ecological consequences. The implications for policy and companies are discussed.

1. Introduction

The economic output produced by tourism attractions is significant in the Chinese tourism industry (Wu, 2011). In 2010, the number of visitors accommodated by all A-grade (1A–5A) attractions was 2.1 billion (Wu, 2011). The economic output produced by tourism attractions in China continued to expand, and the total revenue for 4500 A-grade attractions was more than USD 301.99 billion in 2010. This included revenue from cable cars, gate tickets, and other attractions, with gate ticket revenue being the most important, at approximately 40% of the total (Wu & Zhao, 2011). Furthermore, attractions can also bring a much higher return rate, with a more stable cash flow than either travel agencies or hotels (Wu, 2011). Among these attractions, the most influential are those that rely on natural or cultural resources of national significance (Xie & Wu, 2008). These natural and cultural resource-based attractions are especially important in less-developed regions, where tourism often serves as the keystone industry (Sofield & Li, 2011). The pressures and expectations on natural and cultural resources to bring economic benefits are high (Ma, Ryan, & Bao, 2009; Ryan, Gu, & Meng, 2009; Ryan, Zhang, & Deng, 2011; Zhong, Deng, & Xiang, 2008).

Meanwhile, because most of these high-quality natural or cultural resources are also listed as national or international heritage sites, alongside an increasing awareness of environmental concerns, the need to balance the use of these resources between regional development and conservation is high. The tourism development of these natural or cultural resources is expected only to provide the initial round of working capital for regional development, and then trigger further development later through market mechanisms. When benign, positive reinforcing feedback for

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development is set up, this capital will generate returns from other businesses and, thus, reduce reliance on exploitation of the heritage sites (Wei & Huang, 2010). The less-developed areas can gradually overcome their capital constraint for development, and the resources can be conserved (Wei, 2000). Although it is true that tourism attractions such as national parks have the potential to provide economic development as well as sources of funding to maintain the environmental value of the parks (Buultjens, Rantnayake, Gnanapala, & Aslam, 2005), this can be only achieved when diversion of the businesses and multiplier effects of attraction business is obtained and when the governance system for the natural and/or cultural resources is effective. Overall, the management structures of these attractions are crucial. As a result, Chinese local governments have been examining various suitable management models.

A series of reforms of the management structure of natural attractions has been undertaken, aligned with the national economic and political transformation. In the early stages of tourism development, the business and political risks for private involvement in the development of national cultural and natural resources are high, and government institutions were forced to act as establisher, owner, regulator, entrepreneur, manager and business operator of these attractions. This model proved to be effective in mobilizing all the available resources for tourism attraction development; for instance, financial support from the government sector for infrastructure construction, permission for business operations inside the park and community agreements. When tourism development enters its later development stages, shortcomings in the model also appear. Outstanding issues are lack of further financial resources, poor quality of service and damage to the environment (Wei, 2009). The model is preferred by local governments because they can easily use the attractions for their own agendas and, therefore, fewer reforms are carried out for these attractions.

However, in approximately 2000, a top-down reform of the management structure of the attractions was implemented, and government institutions are no longer allowed to be directly involved in business operations. In the attraction sector, corporations are responsible for the operation of the attractions, whereas local governments are to regulate these corporations to ensure that natural or cultural resources are properly conserved (Huang, Deng, Li, & Zhong, 2008; Zhong, 2002).

After the 2000 reform, a privatization model for attractions was introduced, and most important attractions have set up tourism corporations with authorized business-operating rights. These rights include the charging of gate ticket fees for attractions as well as for cable cars and other services (Dong & Wu, 2010). In terms of ownership, local governments or their subsidiaries often own the majority of shares in these tourism companies to keep control rights over natural, cultural or historic resources (Zhong, 2002). Generally, we call this kind of ownership 'state ownership'. For the reason that these companies operate based on natural, cultural or historic resources, we define them as resource-dependent tourism companies (RDTCs). It is expected that, through this reform, these RDTCs can gradually attain further development through market mechanisms; for instance, to be listed in the securities market for capital (Dong & Wu, 2010) and, thus, be able to search for other business opportunities outside the attractions. In this way, it is possible for local governments to place a strict conservation management model on these attractions and reduce the use of natural and/or cultural resources while not damaging the financial or economic capacity for further growth of the corporations. Thus, the goal of conservation and sustainable development can be achieved.

Some attractions seem to have successfully gone through the reform and are listed in the securities market, such as Huangshan Mountain and E Mei Mountain. As a result, they have gained the capacity to develop by market mechanisms and have established a model for Chinese attractions. However, local governments or their subsidiaries still find ways to involve themselves in the strategic decisions of the RDTCs and, therefore, create barriers to sustainable development. In contrast to the study by Bramwell (2011), which analyzed the effects of state intervention on tourism and sustainability at the macro level, this paper examines this issue from the micro and corporate finance angles. Therefore, the questions are divided into the following two areas: does government involvement impact on the performance and/or value of RDTCs, and if so, how? And, what does this mean for the sustainable development of both the RDTCs and the natural resources? This is a topic deserving some attention, especially in transition countries that have executed 'government-dominant' tourism development policies or where the state has an important influence on tourism industry development (Petrovic & Cerovic, 2010; Zhang, Chong, & Ap, 1999). Until now, no empirical study has been carried out to examine the influence of state owners or their intervention on the performance and/or value of RDTCs.

2. Literature and hypotheses

2.1. Literature on the relation between government involvement and the performance of firms

From the aspect of firms, the right of government control will inevitably lead to government involvement in business governance decisions (Ang & Ding, 2006; Cao, Yang, & Sun, 2007), which will then affect the performance of firms. However, the empirical results on this issue are still divergent. According to the samples of nearly 1000 China-listed companies from 2003 to 2005 (Le & Buck, 2011), Singaporean Government-linked and non-government-linked companies from 1990 to 2000 (Ang & Ding, 2006), and 87 non-financial listed companies included in the composite index in 2001 in Malaysia (Anum & Ghazali, 2010), researchers revealed a positive association between state ownership and firm performance. They attributed this to either the fact that state ownership in the Chinese context is a strategic asset (Le & Buck, 2011), or that there are better governance practices of government-linked companies (Ang & Ding, 2006). By contrast, many other studies showed negative correlations between government shareholding and corporate performance (Bai, Liu, Lu, Song, & Zhang, 2004; Wei, Xie, & Zhang, 2005). Still others found that this relation exists only under certain conditions (Cao et al., 2007; Gunasekarage, Hess, & Hu, 2007), or that the performance of state-owned enterprises is significantly lower than private firms (Chen, Firth, Xin, & Xu, 2008). In addition, both a U-shaped relation (Hess, Gunasekarage, & Hovey, 2010) and an inverted U-shape relation (Sun & Tong, 2003) between government shareholding and the performance of firms have been shown.

For tourism firms, Petrovic and Cerovic (2010) found that the low financial performance of Serbian hotel companies was related to ownership by state-owned investment funds. They concluded that further development of the hotel industry in Serbia required reform in ownership as a way of improving corporate governance. Pine and Phillips (2005) thought that state ownership could cause many problems, such as poor monitoring of state assets and, by descriptive statistical analysis, they found that HMT- (Hong Kong, Macau, and Taiwan) and foreign-funded hotel performance was better than that of state-owned properties. However, the simple comparative analyses in Petrovic and Cerovic (2010) and Pine and Phillips (2005) are not enough to argue a relation between state ownership and tourism firm performance. Using the data for China-listed tourism companies from 2003 to 2010, Liu and Chen (2012) investigated the influence of government control rights on