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Development orientations for attracting investments – A perspective of less-developed townships in China

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ABSTRACT

Investment attraction by adopting adequate development orientations is perceived as effective method for promoting social and economic development in those less developed areas or regions such as the mountainous townships in Southwest China. Investments will not be attracted or utilized effectively if the development orientation is positioned improperly. Existing studies do not provide methods for helping these townships define proper development orientations. This paper presents a decision-making method called *matching coefficient model* for supporting these less-developed townships to identify suitable development orientations in order to attract effective investments. The application of the method is demonstrated by a sample of 20 townships located in Southwest China. Research data employed are collected through on-spot investigations and semi-structured interviews with the officials in these sample townships. The research reveals that the existing development orientations adopted in many less-developed Chinese townships do not match the resources endowment they possess, thus limited investment has been attracted. The study finds that agritourism business is most suitable for application in these townships in order to attract effective external investments, and that strategic emerging industry seems not suitable. The research results provide valuable reference for township governments to design development orientations and adopt measures towards effective investment attraction.

1. Introduction

Effective investment attraction is commonly appreciated as a booster for promoting social and economic growth for both the developed countries which wish to remain the leading positions and the emerging markets which attempt to boom the economy (Igor and Ekaterina, 2015; Lygina et al., 2015; Sarkar, 2012). Investment can not only make up weakness in the scarcity of capital and advanced technology, but also increase employment and promote social and economic development (Myachin et al., 2015; Pennings, 2005; Shen et al. 2017). Therefore, how to effectively attract investments is a global issue in the face of vigorous market competition. Previous study suggests that the prerequisite for attracting effective investment is to formulate strategic plans (Zhao et al., 2012). These strategic plans shall outline the development orientations in a specific region, such as tourism orientated development, manufacturing oriented development (Luo and Dai, 2014; Sáez and Perriáñez, 2015), based on the advantages of local resource endowment.

However, small townships particularly in those developing countries such as China often do not have adequate development plan when

they launch investment attraction programs. They do not incorporate the advantages of their local resource endowments into development orientations (Zhao, 2013; Tan et al. 2017). There are cases reported that the efforts contributed in attracting investments become void because of no clear development orientations (Li, 2007). In other cases, investments have been attracted but the projects invested cannot generate benefits and are abandoned in the end because of improper development orientation defined. Under these circumstances, financial burdens are often transferred to the local government for the continuous operation of these projects. Some of these abandoned investment activities even caused serious environmental degradation (Xu, 2016). This phenomenon is particularly prominent in these less developed small townships in China (Groh and Wich, 2012).

The townships in Southwestern region in China are typically less-developed. According to the data provided by the Statistics of Towns in China Statistical Yearbook 2012 (Department Of Rural Social Economic Investigation, 2013), there are 12,058 townships in Southwest China, accounting for 30% of the total number (40850) of townships in the country. The report by China National Bureau of Statistics (2015) shows that the per capita GDP in 2015 in the Southwest provinces is much

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lower than that in other developed provinces. For example, per capita GDP in 2015 in Chongqing, Guizhou, Sichuan, Hubei, and Yunnan was \$7585, \$4327, \$5331, \$7343, and \$4203 respectively, whilst that in the developed regions of Beijing, Tianjin, and Shanghai was \$15,439, \$15,651, and \$15,047 respectively. Furthermore, 78% of the townships in Southwestern region are characterized with mountainous terrain (Department Of Rural Social Economic Investigation, 2013), indicating a fragile ecological environment and limited carrying capacity in supporting industrial and economic activities (Kong and Sheng, 2010). It is considered that Southwestern region of China is the bottleneck for the future urbanization of the country. With this background, the external investments are highly promoted in these Southwestern townships. The local governments in these townships have been devoting efforts in promoting investment attraction, but the effectiveness of these efforts seems limited. According to the study by Zheng (2005), the investments attracted in some townships in Southwest China did not bring benefits to either the investors or the local communities because of inadequate development orientations chosen. Therefore, it is essential to define proper development orientation for less-developed townships in order to attract effective external investments. According to the Factor Endowment Theory proposed by Ohlin (1933), it is the endowments in a region that determine the fitness for specific development orientation. This way will allow that the defined development orientation will be implemented with the advantages of having local resources endowment.

This paper therefore aims to introduce a method to help less-developed townships define adequate development orientations in order to attract effective investment in the context of Southwest China. The key research issues include identifying types of development orientations for attracting investment with reference to the townships in Southwest China; analyzing the input attributes needed for adopting different development orientations; and formulating development orientations that can attract effective investment for a group of sample townships in Southwest China.

2. Literature review

Existing research works have analyzed the determinant factors for effective investment attraction. For example, based on the case study of Norway, Boateng et al. (2015) suggested that the factors affecting investment attraction include trade openness, exchange rate, GDP level, inflation, interest rate, unemployment, and subsidiary policy. Lygina et al. (2015) and Shuai et al. (2018) pointed out that poor management performance in government departments is the main barrier for attracting investors in the context of Russia, and therefore suggested that Russian government shall improve the effectiveness of administration management in order to attract effectively external investments. Mayer and Mourmouras (2010) concluded that corruption and ineffective governance are two major factors hampering the attraction of investment particularly in developing countries. Cheng and Kwan (2000) and Sun et al. (2002) analyzed the factors that have contributed to the effective investment attractions in those developed regions or townships, including quality labor, potential market, sound infrastructure, good education, preferential policy, stability, and openness. Zhang et al. (2016) revealed that investors normally will give the priority for consideration to those places which have shorter geographical distance to their business headquarters.

Other researchers have examined strategies and policies for attracting effective investments. For example, Anderson and Sutherland (2015) suggested that establishing investment promotion agencies is an effective strategy to attract investment as these agencies have professional knowledge and experience in assisting investors to find feasible projects. Panayiotou and Medda (2014) proposed the strategy of establishing fund mechanism to attract private investors for developing transportation infrastructures. Sarkar (2012) revealed that the combination of tax reduction and investment subsidy is the most effective

strategy to attract external investment, and this view is also echoed by other studies such as Pennings (2005). Myachin et al. (2015) revealed that small-scale projects or businesses are more attractive to external investments in comparing to those large-scale projects, and suggested that attention should also be given to these small-scale projects when seeking for investment. In the study by Steurer et al. (2016), it has been found that local features such as geographical location are the key factors affecting investment attraction, suggesting that the strategies for attracting investment must be associated with local features. Wells and Wint (2000) suggested that governmental policies serve as key parameters to determine external investments. According to the study by Shapiro and Globerman (2003), North America adjusted effectively its investment promotion policies in guiding the flows of investments towards the governmental strategic plan, for example, to attract investments to the lower cost regions by rearranging tariff factories and to the developed regions by recruiting high value-added industries.

Some other research works have presented discussions on the topics of entrepreneurial orientation (Mthanti and Ojah 2017), market orientation (Deutscher et al. 2016), learning orientation (Huang and Wang 2011), and technology orientation (Tutar, Nart and Bingöl, et al., 2015). Some scholars have studied the development orientations of new products for businesses (Mu et al. 2017; Wu 2007). Mthanti and Ojah (2017) explored the determinants for firm's development orientation. Mu et al. (2017) pointed out that the business performance of new product associates closely with development orientation and market network. The conception of Characteristic Townships introduced recently by the Chinese central government in 2016 (MOHURD, 2016) is in line with the principle that development orientation in these townships shall correspond to the local resources endowments. The policy of Characteristic Townships is promoted across the whole country in China for further economic transition and upgrading industrial structure under the mission of new urbanization. According to the policy, Characteristic Townships refer to the small township that has clear and distinctive development orientation, including cultural connotation, tourism characteristic and well-developed public service facilities. The development of Characteristic Townships relies mainly on characteristic industries and endowment factors (geographical, ecological, or cultural endowments, etc.). The introduction of Characteristic Townships policies provides valuable references for identifying the development orientation of townships.

It appears, nevertheless, that little research has been conducted in presenting methods to guide local governments in making decisions on development orientations in order to attract effectively external investments, particularly with reference to these less developed townships in countries such as China. This paper therefore aims to introduce a method that can help local governments in those less-developed townships design their development orientation which can take full advantage of local resources endowments to attract effective investment in the context of China.

3. Research methods

The following research methods are employed to achieve the research aim which is to provide guidelines for defining adequate development orientation that can attract investment effectively. The methods include literature reviews on existing literatures and examining official documents, semi-structured interviews, development of a decision-making model, and on-site surveys. Anderson, Spataro, and Flynn (2008) proposed Personality-Job match theory, suggesting that the main procedures for matching are analyzing job demands, identifying personality's attributes, and searching for effective methods to calculate personality-job matching degree. This theory provides the reference for formulating the research procedures in this research, highlighted in Fig. 1.

These procedures in Fig. 1 will be adopted to accomplish the research objective. Firstly, the types of development orientations at

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