

The Influence of FDI on China's Tourism Industry

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Table of Contents

List of Figures.....	iv
List of Tables.....	v
Attestation of Authorship	vi
Acknowledgements	vii
Abstract	viii
1. Introduction	1
2. Literature Review	3
2.1 Influence of FDI in China’s Economic Growth	3
2.2 Influence of FDI in China’s Tourism Industry	5
2.3 Regional Tourism in China	7
2.4 Tourism Policies and Their Impacts	11
2.5 Lessons from Use of FDI in India’s Tourism	13
3. Methodology	15
4. Findings and Discussion.....	18
4.1 FDI in China’s Tourism Industry	18
4.1.1 The Hotel Sector	19
4.1.2 The Travel Agency Sector	21
4.1.3 Tourism Features	24
4.2 Influence of FDI on Regional Tourism Industry	27
4.2.1 Influence of FDI in coastal regions	27
4.2.1.1 Influence of FDI in hotel services	28
4.2.1.2 Influence of FDI in tourism features	31

4.2.1.3 Influence of FDI in travel agencies	35
4.2.2 Influence of FDI in Inland Regions	40
4.2.2.1 Influence of FDI in hotel services	40
4.2.2.2 Influence of FDI in tourism features	44
4.2.2.3 Influence of FDI in travel agencies	46
4.3 FDI-Related Policies in China	48
4.4 Comparisons of FDI in Tourism Industry With India	52
5. Conclusion	58
6. Reference	61

List of Figures

Figure 1: Distribution of Coastal and Inland Regions in China.....	7
Figure 2: Distribution of Budget Hotels in China	41
Figure 3: Room Occupancy for Budget Hotels in China	41
Figure 4: Profit rate from travel agencies in Yunnan, 1996-2003	47
Figure 5: GDP growth rate (%), 2002-2006	53
Figure 6: growth of foreign exchange earnings (%), 2002-2007	53

List of Tables

Table 1: Development of tourism 2006-2008	6
Table 2: Number of star-rated hotels from 2004 to 2007 in China	20
Table 3: Foreign visitor arrivals by sightseeing/leisure, 2006-2009	26
Table 4: Foreign visitor arrivals by purpose, 2006-2008	26
Table 5: Five-star hotel distribution in China, 2009	30
Table 6: Top 10 regions combined revenue of star-rated hotels in 2006	31
Table 7: Number of tourists visiting Shanghai, 1999-2008	34
Table 8: GDP per capita in 2008	36
Table 9a: Major economic indicators for domestic travel agencies in coastal regions in 2008	37
Table 9b: Major economic indicators for international travel agencies in coastal regions in 2008	37
Table 10: The top 5 budget hotel chains in China in 2007	42
Table 11: Top 10 guest source countries in China and India, 2005-2006	57

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for award of any other degree or diploma of a university or other institution of higher learning.

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Abstract

This study aims to analyze the influence of foreign direct investment in China's tourism industry since the late 1970s, when the Government reopened China to foreign direct investment (FDI). China's rather turbulent economic history and political policies in different periods, the imbalance of the development process across geographic regions, and the variety of types of inbound FDI provide the bases of comparison in this dissertation. Influences of FDI on the tourism industry are different in coastal and inland regions from three tourism-related sectors: the hotel sector, tourism features and travel agencies. In order to clearly illustrate this dissertation, two concrete questions are focused on, that is, what is FDI and what roles does FDI play in China's tourism industry and, what policies did the Chinese governments undertake to react to different situations when they realize the impact of FDI on the development of China's tourism industry? Last, by comparing tourism-related FDI in China with that in India, some suggestions are made concerning how to improve efficiency of FDI in the future.

1. Introduction

Foreign direct investment (FDI) is defined as foreign investors moving their assets into another country where they have control over the management of assets and profits (Graham & Spaulding, 2005). It is generally true that the more FDI a country acquires, the more local economic growth and transformation can develop, because foreign companies often bring to the country large sum of funds and new technologies, as well as advanced management skills which allow local industries and regions to gain a lot of experience (OECD, 2003).

China used to be a closed country and refused to allow foreign investment in local economic development. However, since China's opening up to the world, the investment system has been transformed to encourage diversification of investment and greater competition (Zhang, 2007). The positive investment environment and the huge market potential in China have, therefore, caused large amounts of FDI to pour into the country.

The tourism industry in China seems attractive for FDI. It has become one of the most popular investment objectives for foreign investors since the 1980s (Wen, 2002). With the high growth in foreign tourist arrivals and tourism revenue, the tourism industry has become more-and-more important in China's economic development (Sofield & Li, 1998).

India is being viewed as a strong competitor to China, and may take away a large share of FDI from China's local tourism industry (Figure 5). India emerges as a popular tourist destination that also provides high quality medical services (Chinai &

Goswami, 2007). In addition, India and China share a similar background of economic and social conditions. Therefore, China may learn some lessons from India so as to attract FDI and further boost local tourism industry.

In this dissertation, I will first introduce the impact of FDI on China's overall tourism industry on the basis of previous researches. Then, I will explain the impact of FDI on China's coastal and inland regions by providing related data. Later, I will analyze how the Chinese government makes policies as a response to FDI. Finally, I will give some suggestions for improving China's tourism by comparing the influence of FDI in China's and in India's tourism industry.

2. Literature Review for the influence of FDI in China

2.1 Influence of FDI in China's Economic Growth

Initially, under the Chinese Communist Party (CCP), the central government acted as the only source of investment funding for local industries. Foreign investors were not allowed to take part in local economic development. During that time, China's economy suffered from a low development pace and a low growth rate.

However, China's national government has opened the economy to investment from outside the country since 1978. Thus, the investment system has been transformed and a series of supportive policies have been proposed to encourage diversification of investment and competition (Zhang, 2007). One of the key elements used to push China's economic reforms is the encouragement of FDI. Since 1978, China's policies toward FDI have undergone various changes in policy priorities. In the late 1970s and early 1980s, China's economic policies were characterized by passing new regulations to authorize joint ventures and, setting up Special Economic Zones (SEZs) ¹and "Open Cities"². At the Second Session of the Fifth National People's Congress in July 1979, the Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment was adopted, granting foreign investment a legal status in China. The State Council also awarded rights of autonomy in foreign trade to Guangdong and Fujian Provinces and, in 1980, set up four Special Economic Zones (SEZs) in three

¹ Special Economic Zones (SEZ's) are development zones established by the PRC in the 1980s to encourage foreign investment in China. They include Guangdong Province; Fujian Province; Hainan Province; Shanghai Municipality.

² In 1984, China further opened 14 coastal cities—Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai—to overseas investment.

cities in Guangdong Province (Shenzhen, Zhuhai, Shantou), and one city in Fujian Province (Xiamen). Since 1984, China also has moved to further openness to FDI. In 1984, the concept of SEZs was extended to another fourteen coastal regions. Later, in 1986, in addition to joint ventures, wholly foreign-owned enterprises were also allowed to enter China. In “22 Article Provisions”³, foreign ventures were granted preferential tax treatment, the freedom to import inputs such as materials and equipment, the right to retain and swap foreign exchange with each other, and simpler licensing procedures.

China's supportive policies toward FDI increased the inflow of FDI in the late 1980s and it became even more frequent in the early 1990s. Since 1992, when China's central authority decided to expand the scale and geographical scope of foreign investment, an increase in the foreign direct investment in China emerged. In the years between 1982 and 1991 the average foreign direct investment in China was US\$ 2.5 billion. This average increased by seven times to become US\$ 37.5 billion during 1995 (“Low Income Countries in Global FDI Race”, n.d.). Subsequently, after China's entry to the WTO in 2001, China's investment system entered an expanded internationalization stage and the country has now become the top recipient of FDI among developing countries (World Investment Report, 2006).

³ China's “22-article provisions”, or the Provisions for the Encouragement of Foreign investment, were published in 1986 to encourage foreign investment in China's economic development.

2.2 Influence of FDI in China's Tourism Industry

Since Vice-Chairman Deng decided to develop the service industry, especially the tourist industry in the early 1970s, this sector has become one of the most popular investment areas for foreign investors. Statistics show that from the late seventies to the late eighties, the amount of FDI into China's tourism industry was around US\$5 billion and, in the nineties, the amount has reached over \$9 billion (China's National Tourism Administration, 2008a). Such enthusiastic investment behaviour encourages China's tourism development and other related business growth such as the hospitality industry, travel agencies and other tourism-related service industries.

Stemming from the influence of FDI, China now employs over six million people in the tourism industry to serve 100 million foreign tourists annually. The data in Table 1 reflect the latest development of tourism in China during the 2006-2008 period. Development mainly includes: number of travel agencies in terms of international and domestic; number of visitor arrivals; number of star-rated hotels; and amount of tourism earnings.

Table 1: Development of tourism in China, 2006-2008

Item		2006	2007	2008
Travel agencies	International	1688	1838	
	Domestic	16787	17882	
Visitor arrivals (million)	Overseas	222.10	261.10	243.25
	Domestic	1394	1610	1712
Star-rated hotels		12751	13583	
Tourism earnings - foreign exchange (US\$ billions)		33.95	41.91	40.8 ⁴

(Source: China's National Tourism Administration, 2009b)

⁴ Tourism earnings in 2008 decreased because of natural disasters such as the snow damage in southern provinces and the 8.6 earthquake in Sichuan Province.

2.3 Regional Tourism in China

The map (Figure 1) below shows the distribution of coastal and inland regions in China. The dark and light brown areas are the major economically developed regions in China where GDP per person was above \$1500 in 2002. As shown in the map, all of these developed regions are coastal regions.

Figure 2: Distribution of Coastal and Inland Regions in China.



(Source: China: A Third Generation NIC, n.d.)

In spite of the overall soaring amount of FDI in China's tourism industry since opening to foreign investment, the scale and distribution of FDI in the tourism industry is different from one region to another. It is also found that China's tourism industry is regionally even more unequal than general economic activity (Wen &

Tisdell, 2001). A number of studies have analyzed determinants of FDI location in China. Head and Ries (1996) built a model of self-reinforcing FDI showing that incentive zone status, such as the special economic zone, attracts around 30 percent more FDI per year than less-favored areas. Cheng and Kwan (2000) analyzed the determinants of the location of FDI in 29 Chinese provinces from 1985 to 1995. They found that a large regional market, good infrastructure, and preferential policy all largely influenced the location decision of foreign investors in China. Economic size, average productivity and coastal location are the positive determinants of FDI. The origins of the geographic division into coastal and inland areas, used by the Chinese government in its five-year plans, dates back to 1950 when China was for the first time to be divided into coastal and inland areas, according to the degree of industrial productivity (Atherinos, 2003).

There are 12 coastal regions as follows: 9 provinces including Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hainan, Guangxi, and 3 municipalities including Beijing, Tianjin and Shanghai. Depending on the previous preferential policies that the central government has made for coastal regions to attract foreign direct investment, these coastal areas are now rich in human resources and technological capability (Atherinos, 2003). Adding to the advantages of geographic position and their convenient transport facilities, foreign investors zealously invest in coastal areas in terms of sole proprietorships, partnerships and joint ventures. About 35 to 40 percent of joint ventures in China embark on property development, including hotels, resorts, travel agencies and other tourism-related facilities (Lew & Yu, 1995). In 1992, there were about 90% of the 17000 enterprises with FDI flowing into coastal regions. These factors not only provide a stable source of FDI for the

coastal tourism development but also lead to more extensive commercial development than for inland regions.

Furthermore, due to the history of emigration from the Pearl River Delta, the coastal region is the home region of thousands of Chinese descendants living abroad, many of them coming to China for doing business or visiting families (Atherinos, 2003). A large amount of foreign investment they brought in makes a chance to build up large commercial centers, distinctive shopping downtown and places of entertainment. All of them pave the way for developing the coastal tourism industry, especially for developing to support local business travel. (Ryan & Gu, 2008).

By contrast, the tourism industry in inland regions⁵ has developed more slowly. The inequality of tourism compared to China's coastal regions shows that the inbound tourism industry has not been a good investment for interior regions due to the FDI location preference affected by China's policy incentives and industrial agglomeration (Wen and Tisdell, 2001). Furthermore, China's decentralization policies, difficult local economic conditions, as well as its isolated geographic position slow down the pace of FDI inflows. The relative lack of FDI in the interior regions makes it impossible to develop inland tourism industry. However, this situation has improved since the interior took a gradual, state-directed path to economic development. In 1995, for example, out of 13 localities with foreign tourist receipts of over US\$100 million⁶, only Yunnan province, Shanxi province, and Sichuan province are located in

⁵ Inland regions include 16 provinces: Anhui, Chongqing Municipality, Gansu, Guizhou, Heilongjiang, Henan, Hubei, Hunan, Jiangxi, Jilin, Ningxia, Qinghai, Shaanxi, Shanxi, Sichuan, Yunnan, and 4 autonomous regions including Inner Mongolia, Ningxia, Tibet, and Xinjiang.

⁶ US\$100 million is the average foreign tourist receipts in 23 provinces, 4 municipalities, 5 autonomous regions in China.

the interior. In 2000, in addition to the above three regions, the provinces of Hunan, Heilongjiang, Hubei, Inner Mongolia, Henan and Chongqing managed to surpass the barrier of \$100 million in terms of foreign exchange revenue (Atherinos, 2003). In order to attract FDI and develop the local tourism industry, it is necessary to search for unique attractions. Different from business travel in coastal regions, inland regions try to promote natural resources and develop cultural ethnic tourism so as to appeal those who are more interested in ecotourism and natural landscapes, or who are tired of attractions of coastal regions and are looking for something different (Wen and Tisdell, 2001). Furthermore, instead of international or luxury hotels, economy hotels are very common. Unlike the coastal regions where five- or four-star hotels are prevalent, almost half of inland regions have no five-star hotels, yet three-rate hotels are popular (Zhang, Pine & Lam, 2005).

In spite of the positive effects that FDI has on China's tourism industry, some scholars hold opposite views. In the early 1980s, for example, there has been a great discrepancy in local economic development between inland and coastal areas. Though it was largely due to government's policies of that time, the economic imbalance between coastal and inland areas has also been reinforced by the influence of FDI on the local tourism industry because most of FDI has flown to coast regions (Liu, Parker, Vaidya & Wei, 1999). Moreover, foreign investors may take customers from domestic firms and even drive out local competitors when they begin to develop local nature and culture. Powerful MNCs may obtain control over Chinese assets and jobs and gain influence to play a large role in China's economic and political decisions.

2.4 Tourism Policies and Their Impacts

Tourism is one of the world's largest industries and is expanding rapidly. The tourism industry plays a significant role in economic, environmental and social-culture development (Hall & Jenkins, 1995). It is even regarded as "a highly political phenomenon" (Richter, 1989). Richter (1989) studied the tourism industry in Asia and the Pacific and suggested the dominant role of government in local tourism development. Peck and Lepie (1989) also observed that the nature of tourism in any country is the product of both economic and political factors. Wen and Tisdell (2001) examined the evolution of Chinese tourism policy, its political environment and organization, pointing out that it is necessary to understand the design of the policy and the nature of the resources of the society and its administrative milieu. Hall (1994) also suggested a model of the tourism policy-making process defining the government's role in the tourism industry. Actually, an analysis of tourism policy is an effective way to identify government roles in attracting FDI toward tourism and eventually understand the influence of FDI on tourism (Zhang & Chong, 1999).

In order to bring a large quantity of FDI into China's tourism industry to inspire China's tourism development and related business prosperity, the central government exempted all foreign invested hotels from tax in the early 1980s (Zhang & Chong, 1999). Moreover, prior to 1978, the hospitality sector was funded and operated by the central government. In 1984, the state council stated that local government departments, enterprises and even individuals could invest in and operate tourism projects. Unexpectedly, the Chinese government's over-emphasis on physical development of tourist facilities and infrastructure rather than efficiency of tourism

products and services led to disorder in tourism facility management, which meant that the supply of recreation facilities have exceeded tourism demand and high quality services still need to be improved (Zhang, Pine & Lam, 2005).

In 1985, the central government established provisional regulations on the administration of travel agencies, enhancing the nationalization of travel agencies. Later in 1999, however, the central government together with China National Tourism Association set up the first Sino-foreign joint venture travel agency - Guangzhou Kangtai International Travel Service Ltd which was established in December 1999. It opened up the international tourism market and promoted China's tourism industry.

Before 1984, the main goal of the central government was to improve tourism infrastructure and facilities. At the National Tourism Conference in 1984, the issue of developing tourism features was proposed. Since then, many tourist attractions have been developed and promoted, such as the Great Wall and the Grand Canal. The central government also offered attractive incentives for foreign investment in the state resorts and a 24% tax allowance was offered. Moreover, prior to 1992, vacation travel in China mainly consisted of natural and manmade scenic spots. In order to make tourism features more adaptable to the international market, the central government employed both state funds and FDI to build 12 state-level tourism & resort districts where foreign investment is allowed in joint-venture travel agencies (Asia Times, 2002).

In addition to the impact of policies made by China's central government, local authorities should also take actions that suit local circumstances. Regional inequality

between inland and coastal regions in China has risen dramatically since the 1978 reform. The coastal regions⁷ that form the economic powerhouse aim to get ahead of developing export-oriented economy and to become dynamic and outward-looking regions (Li, 1992). While in non-coastal regions, especially in the western regions, the development strategy is to reduce poverty, strengthen the social safety, and protect natural ecology and bio-diversity (Yang, 1990). Therefore, tourism policies are different between coastal and inland regions in China (Lew & Yu, 1995).

However, there is little literature focusing on China's tourism policy implementation. Therefore, a full study of China's tourism policy implementation is necessary. It will help foreign investors get familiar with related policies and clarify the purpose of the governors so as to make foreign investment more convenient and successful in combining with the local tourism industry. Moreover, only when policy makers fully understand the implementation process outcomes, could they know the pros and cons of these policies and then enhance the efficiency of the political dimensions of tourism.

2.5 Lessons from Use of FDI in India's Tourism

Compared with China, India appears more attractive to gain FDI. China draws much praise for overtaking India in macroeconomic parameters, but in terms of microeconomic indicators, India is ahead. China is often regarded as the world's manufacturing hub, making products ranging from toys to electronic gadgets. In India,

⁷ The coastal regions include 9 provinces, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hainan, and 3 municipalities, Beijing, Tianjin and Shanghai.

skilled manpower and advanced technology are both a major source (Majumder, 2006). Moreover, while China's attractiveness for FDI is considered mainly in terms of cheaper labour and better infrastructure, India possesses more advanced medical facilities, more ideal healthcare system, higher education and training, technological readiness and so on. For example, India has world-class expertise in complex medical practices and has, by 2006, received over 500,000 overseas visitors flowing for healthcare related surgeries and medical tourism. Liberalization policies made by India's government have led to rapid growth in FDI flows. FDI in India is also used as a developmental tool in tourism industry (Subbarao, 2008). One hundred percent of FDI is allowed in Indian tourism industry through the automatic route⁸. Thanks to the huge amount of FDI, India's tourism infrastructure and tourism products will develop fast (Subbarao, 2008).

In the worldwide tourism industry, China is expected to become world's largest tourist destination by 2015 ("China to become", 2010). On the other hand, India is the second-fastest growing tourism market. India's tourism industry is experiencing a strong period of growth (Economy Watch, n.d.). The two countries hold massive potential which indicates that they will change the face of the global tourism market (Ramachandran, 2002). In order to get more acquainted with the advantages and disadvantages of China's tourism industry and to insightfully analyze China's tourism potential market, a comprehensive analysis of both China's and Indian conditions for their tourism development is important (Tourism Analysis, 2007).

⁸ The automatic route means that foreign investors only need to inform the Reserve Bank of India within 30 days of bringing in their investment, and again within 30 days of issuing any shares.

3. Methodology

In this study, I will use both the comparative method and the case study approach to facilitate readers' access to understand and realize the role of foreign direct investment in China's tourism industry during the last few decades. On the one hand, according to the definition of the comparative method (Lijphart, 1971), I will provide some quantitative data and analysis available from secondary sources to compare the situation of FDI in different industries and in different periods separately within China. Also, I will provide some suggestions for China's tourism industry by comparing with India's tourism industry. On the other hand, following Flyvbjerg's (2006) definition of the case study approach, I will focus on a systematic way of collecting statistics and analyzing information in two regions, that is, the coastal region in terms of Guangdong province and Shanghai municipality; the interior region including Yunnan province and Tibet autonomy. By analyzing these areas I will explain why the cases happened as they did, what can be learned from these cases, and what may be useful in future research. Some concrete methods will be used as follows.

The first method is to classify the investigation subject into a number of categories. In order to clarify and elaborate on these research questions, this study is carried out of three separate sectors where the influences of FDI on the tourism industry can be observed. These areas are travel agencies, hospitality industries and tourism features. Two main regions consisting of four concrete areas in China are also considered in this study in which a variety of foreign direct investment issues are more prominent than in other regions.

Secondly, I will find data to answer research questions. In this study, I will give a large quantity of information to the development of China's tourism over 40 years. By analysing the information I will look for factors that can explain the influences of FDI on China's tourism industry. Then I will analyze some typical policies related to FDI seeing if these policies are suitable to improve both holistic and regional tourism development.

Thirdly, I will get access to extensive archival and statistical information. I will use secondary data as the data sources in my study, all of which can be divided into two parts. The first one is about the size of China's tourism industry that focuses on the scale of hotel services, tourism features and travel agencies. All data and information come from both official statistics such as the National Tourism Administration of The People's Republic of China and the National Bureau of Statistics of China, and database in terms of China Statistical Yearbook and Leisure Tourism Database. The second one is about the amount and the scope of FDI in China's tourism industry. In this study I will use quantitative analysis to compare the size of FDI in China with the size of the tourism industry for each available period from 1978 until now. The first period begins from 1978 to 1988 when China began to open itself to the outside world. The second period of China's tourism development covers from 1989 to 1994 when the travel service was no longer controlled by the Chinese government as a state monopoly. The third period is from 1995 to 2005 when sightseeing travel in China became more and more mature. The fourth period is from 2006 to now when there is a transition from sightseeing travel to vacation travel. Also, I will provide some data about the amount and the scope of FDI in India's tourism industry. All data and

information in this part are from United Nations Conference on Trade and Development (UNCTAD), China Statistical Yearbook and other journals (Journal of China Tourism Research and International Journal of Hospitality Management) and Internet source (Science Direct).

4. Findings and Discussion

4.1 FDI in China's Tourism Industry

Tourism is travel for recreation, leisure or business purposes (World Tourism Organization, 1995). It is vital for many countries due to the enormous intake of money for goods and services, and the creation of opportunities for employment in the service industries associated with tourism, such as hospitality services, travel agencies and entertainment venues.

According to "China's National Tourism Administration Report" (2009a), China is the biggest domestic tourist market in the world in terms of number of tourists. In 2007, China was the 4th largest tourist arrival country in the world with enormous tourism receipts that ranked 5th in the world. Therefore, China's tourism industry is potentially one of the most attractive fields for FDI. By 2007, the FDI in China's tourism industry accounted for 25% of the total tourist capital in China, covering wide fields like hotel services, travel agencies and tourism features (SASAC, 2007). According to the World Tourism Organization, China will become the most attractive tourism destination, which in turn attracts more offshore funds to flow into China's tourism industry (Lim & Pan, 2005). Viewing from the source-country of FDI, foreign investments mainly come from the Hong Kong SAR, the United States and Japan (Graham & Wada, 2001); as for investment destinations, most tourism FDI flow into eastern coastal provinces.

4.1.1 The Hotel Sector

Hotel services are a tourist-related service that provides tourists with food services, accommodations, recreation, and so on. Hotel operators could get great profits in developing countries, such as China and India, where there are low levels of economic development and potential demand for hotel services. Investors could cater their supply to meet demand, and gain a competitive advantage by developing operating systems and management technologies. In China's tourism industry, hotel services play an important role in improving tourist services, creating employment opportunities and increasing public revenue, therefore, local governments are eager to promote development and investment opportunities for hotel services.

The initial successful entry by FDI into the hotel sector date back to three decades ago when the Beijing Jianguo Hotel, a Sino-US joint-venture property, opened in April 1982. It greatly helped to improve the development of China's hotel industry-cooperation. The number of Sino-foreign joint venture hotels was increasing (Table 2). By the end of 2006, there were 12751 star-rated hotels with total value of CNY148.28 billion, including 585 Sino-foreign joint venture hotels creating about CNY28.12 billion. In 2007, the number grew to 13583 hotels with a value of CNY164.70 billion, in which there were 592 Sino-foreign joint venture hotels worth about CNY28.48 billion (China's National Tourism Administration, 2008b). The wholly foreign owned hotels also emerge in China recently such as the Ibis Hotel in Wuxi built by Accor hotel group and the Shangri-La Hotel in Nanjing.

Table 2. Number of star-rated hotels in China, 2004-2007

Item	2004	2005	2006	2007
Number of star-rated hotels (units)	10888	11828	12751	13583
Five-star	242	281	302	369
Four-star	971	1146	1369	1595
Three-star	3914	4291	4779	5307
Joint venture hotels (units)	531	570	585	592

(Source: China's National Tourism Administration, various years)

Seizing the Olympic and Shanghai World Expo 2010 business opportunities, many top international hotel groups enter into China's hotel sector, constructing luxury hotels. Starwood Hotels & Resorts Worldwide, for example, plans to bring all their nine brands to the China market and increase total portfolio to 100 by 2010 in both first- and second-tier cities (Yin, 2007). ACCOR, another large multinational corporation and one of the world's leading hotel groups, plans to triple its hotels in China by 2010, compared with around 60 hotels in 2008.

FDI entry into the China's hotel sector not only solves capital shortages in local hotel development but also brings unique management experience to the whole hotel industry. Those FDI-related hotels, no matter owned by wholly owned enterprises or

by joint ventures, will challenge the existing local state-owned and collective-owned hotels through their tremendous capital and advanced operating skills. International hotel groups who are superior in availability of capital, management, marketing strategies, and brands will bring fierce competition to the field. Therefore, local hotel operators are forced to modernize their operation systems and improve quality of services. Under support of local government, large numbers of Chinese locally owned hotel operations began to emerge by imitating international hotel groups. Instead of the lack of innovation and over-all pattern, China's local hotel operators began to realize the importance of innovation and cooperation among the strong participants other than just to imitate foreign hotels. Since 2002, a large number of local hotel brands have emerged that can compete against large international companies, such as Shanghai Jin Jiang Hotel, Nanjing Jinling Hotel and New Century Grand Hotel Hangzhou.

4.1.2 The Travel Agency Sector

Travel agencies are another field in China's tourism industry that enjoys high favor of FDI. A travel agency provides tourism-related products and services such as arranging transportation and accommodation. Travel agencies in China have not been developed rapidly until the last 20 years when the standard of living in China was much higher than before. When three "golden week" holidays and the annual 7-day national holidays were implemented in 2000, such as Spring Festival, National Day, and Labor Day, domestic travel agencies began to spring up. In 2002, there were 11552 travel agencies, including 1349 international travel agencies and 10203 domestic agencies. In 2007, there have been 18943 travel agencies, an increase of 986 travel agencies

against the previous year, 1797 of which were international travel agencies and 17146 were domestic travel agencies. Their combined business revenue reached CNY163.93 billion, and their combined tax turned over to the state government stood at CNY1097 million.

In order to seize this huge tourist market, there is no doubt that FDI grew in the travel agency sector. It is interesting to notice that even though it may be a losing proposition, those foreign-invested travel agencies are still eager to participate in the market. The flow of FDI into travel agencies began from 1998, yet solely foreign-invested travel agencies were not allowed until in 2003 when Jalpak International Co, a travel agency affiliated with the Japan Airlines Group, was approved. It brought 25,000 tourists to China in 2002 through its Beijing office and hopes to raise the number to 40,000 per year (CCTV International, 2003). Respectively in 2000 and 2006, Japanese travel giant JTB (Japan Travel Bureau) respectively founded a wholly-owned travel agency in both Beijing and Shanghai to expand operations in China. American Express, a diversified global financial services company, together with China International Travel Service, also found a Sino-U.S. corporate travel joint venture in Beijing in 2002. After that, increasing amounts of foreign direct investment by national and multinational tourism companies flowed into travel agency services, like the German travel giant TUI AG, America's JTA Travel Group, and Miki Travel from U.K. However, due to some restrictions and even bans made by Chinese government such as restrictions on foreign ownership and bans of outbound travel, only 30 foreign businesses have been registered, including 15 wholly foreign-owned travel agencies, eight joint-venture travel agencies with the controlling shares at the foreign side and seven joint-venture travel agencies with the

shares controlled by China. All of them together generated only 2.63% of the industry's total revenue (Wang, 2009).

Though operating in the shadow of low profit margins or even deficit, these foreign-funded companies are still well positioned to capitalize on the growth potential of the business travel industry in China. Especially when foreign tour operators are no longer restricted from operating outbound travelling business market where high profits are contained, large amount of foreign investors will emerge. By combining the strength of foreign investors' global travel management expertise and their own enormous local knowledge, these foreign travel agencies will in the future gain the upper hand in China's travel agencies service.

It should be noticed that in the near future, even if a large quantity of foreign-funded travel agencies were to enter into the Chinese tourist market, they would have little impact on China's local travel operators. There are four reasons. One is the difference between what they are focusing on. Local travel agencies, who lack clear division of market segments, usually prefer to operate traditionally popular sightseeing tour businesses. Different from local travel agency's single and inflexible business, foreign travel agencies prefer to focus on special target market and high-end market, providing various travel packages to different tourists or other tourism-related companies. They largely serve middle and upper class customers and are expert at organizing business travel. For example, JTB (Japan Travel Bureau) is mainly engaged in Japan's outbound tourism market to China (Yamamoto & Gill, 1999). BTI Jin Jiang Travel, another joint venture travel agency in China, aims to serve high-end business travel by providing a first-class service for business travelers. Secondly, most

foreign travel agencies, especially wholly foreign owned agencies, have been in China's tourism market for a short period of time. Their aim is to popularize their brands in China and build up local relationship network for further development, rather than to increase great profits. It will take foreign investors a long time to get acquainted with unique Chinese consumer need and marketing rules so that they are not able to compete with local travel agencies. The last reason is that foreign travel agencies are banned from accessing outbound tourism services, which greatly help local participants make much higher profits than foreign ones.

However, in the long run, after getting familiar with China's unique culture and marketing system, foreign travel agencies will expand their market share. In order to keep its promise at its entry into WTO, China must become even more open, which indicates that all bans or restrictions will be lifted in the future. By that time, the threshold for the establishment of foreign travel agencies will have been lowered again and the ban on foreign-invested companies from doing outbound tourism business will have been lifted. Foreign travel agencies will occupy China's local tourist market because they have an advantage over local companies in engaging in outbound tourism.

4.1.3 Tourism Features

Tourism features are another area where FDI is attracted because there is great tourism potential to attract tourists from all over the world. Due to the enormous historic relics endowed by China's long history and brilliant Chinese civilization, and the charming nature scenery created by China's vast territory, many tourists who are

interested in enjoying natural scenes and experiencing adventures like to visit China on leisure tours. On the other hand, the total profit margin of scenic spots is much higher than that of travel agency industry and hotel services. Attracted by huge profits, large amount of FDI is invested in China.

In the sightseeing aspect, theme parks are more popular. Once a theme park is located in one place, there will be enormous profits created by the park. Therefore, lots of FDI flow into establishment of theme parks. In 2005, Hong Kong Disneyland, the world-class theme park and resort, opened to the public. It was built by a joint venture between The Walt Disney Company and the Government of the Hong Kong Special Administrative Region (HKSAR Government). Since the Resort was opened in September 2005, the theme park has attracted 15 million tourists. The U.S.-based Universal Studios, another world-class foreign investor, also desires to build a \$900 million theme park in Beijing in the future. In addition to theme parks, it is also common to see FDI participation in many other scenic areas. There are also more than 100 tourism projects in Guangdong Province such as the Guangdong Food Fair, Guangdong Spring Flower Market, and Guangdong Dragon Boat Race. These tourism projects attract a total foreign investment of US\$2.08 billion spent on ethnic tourism and sightseeing tour in 2006. Thanks to the enormous foreign capital and advanced operation methods, tourism features in China are becoming a strong competitor in international tourism market. In the last few years, lots of tourists are attracted to travel in China for leisure tour (Table 3).

Table 3: Foreign visitor arrivals by sightseeing/leisure, 2006-2008

	2006	2007	2008
Total foreign visitors (persons)	22,210,266	26,109,668	24,325,337
Sightseeing/leisure	11,331,923	13,140,840	12,039,585

(Source: China's National Tourism Administration, 2009b)

Compared with leisure tours, business travel is also playing an important role in China's tourism features (Table 4).

Table 4: Foreign visitor arrivals by purpose, 2006-2008

	2006	2007	2008
Total foreign tourists (persons)	22,210,266	26,109,668	24,325,337
Meeting/business	5,548,343	6,960,548	5,677,694

(Source: China's National Tourism Administration, 2009b)

An increasing number of multinational companies in China have stimulated the development of China's business travel market (Tang & Selvanathan & Selvanathan, 2007). Foreign-based business activities are expanding and playing a dominant role in China. Though their business or investments are made outside investors' home countries, those foreign investors still control the use of resources in the host country. In order to yield great profits, they have to get acquainted with China's different

cultures and new economic and political structures. This means that they need more detailed and complex information and resources. Therefore, business travel grows from these needs. In addition, FDI in the manufacturing sector also contributes to the development of business travel. The inflow of FDI in the production field leads to international trade activities. It indirectly promotes local products and services and eventually leads to a growing local market, which, in turn, greatly helps business travel to develop.

4.2 Influence of FDI on Regional Tourism Industry

4.2.1 Influence of FDI in coastal regions

In spite of an overall growing trend in China's tourism industry, there are significant inequalities in wealth distribution and tourism development between coastal regions and inland Provinces (Jackson, 2006). FDI prefers to flow into coastal regions due to China's economic policies together with some intrinsic advantages these coastal regions have, such as abundant human resources and convenient transportation. The flow of FDI plays a distinctive role in regional tourism development and modernization since the implementation of the open door policy in 1979. During the past ten years from 1979 to 1990, the coastal regions received more than 90% of FDI while inland regions only received around 10% (Wen & Tisdell, 1996a, b). Promoted by the efficient utilisation of FDI, tourism businesses in those 12 coastal regions started to boom, especially in three major fields, that is hotel services, travel agencies and tourism features.

4.2.1.1 Influence of FDI in hotel services

According to China's National Tourism Administration (2009b), total inbound tourist arrivals to mainland China in 2008 was 75 million, while the top 10 regions, that is, Guangdong, Jiangsu, Zhejiang, Shanghai, Beijing, Fujian, Shandong, Yunnan, Liaoning, Guangxi, were almost from coastal regions (except Yunnan). Such influx of visitors requires high quality hotels to accommodate, which directly generate huge demand for hotels in coastal areas.

In 1989, 71.5% of the hotels in coastal regions were owned by the state. The services provided by the hotels were far below international standards including a lack of communication skills, poor accommodation infrastructures and bad attitudes towards service (Tsang & Qu, 2000). However, due to China's open door policy and inflows of foreign investments, those non-state-owned hotels had better connections with international hotel chains. These hotels could acquire abundant investment as well as advanced management systems from foreign investors other than the state so that the proportion of state-owned hotels has fallen in coastal regions (Ma & Chen, 2008). As FDI is more and more prevalent, those non-state-owned hotels, especially foreign-funded hotels in coastal localities, became more competitive in hotel market and indirectly help to attract both domestic and international tourists.

According to the level of services and accommodations they offer, hotels can be awarded as five-star hotels, four-star hotels, three-star hotels, two-star hotels and one-star hotels. Getting in sights the comparative advantages of the industry cluster as

well as business centre, foreign hotel chains entered the Chinese market. By the end of 2006, there have been 37 international hotel groups including 60 hotel brands in China (Lv & Zhao, 2009). Top 10 international hotel chains, such as Wyndham Hotel Group, Accor Group and Starwood Hotels & Resorts, are focused on coastal regions. As business travel is more and more popular and the overall levels of consumption become much higher, hotels of medium to high levels play a dominant role in coastal regions. They attract tourists by providing them with a comfortable living environment, a range of extra facilities and other unique services during their stay. Besides, foreign-funded hotels force local state-owned and non-state-owned hotels to not only improve hotel accommodation and leisure facilities but also promote operating systems. Nowadays, information technology and productivity have been widely used in international hotel chains. Online booking and reservation, for example, is becoming the main way for sales promotion. Seeing the advanced operating modes, the five-star White Swan Hotel in Guangdong Province adopted Hotel Internet Marketing Solutions, HIMS, for improving direct sales online so that they could efficiently attract potential customers and save on commission fees. Generally, in 2004, the occupancy rate of local hotels in terms of state-owned and private-owned hotels, respectively increased to 59.24% and 61.68%, 4.19% and 5.56% higher than 2003 (China's National Tourism Administration, 2005).

Resulting from FDI spillovers in coastal regions, 9 of all the top 10 regions owning five-rate hotels in 2009 are seaboard localities, except for those in Sichuan Province (Table 5) ("China's five-star hotels", 2009). In addition, at the end of 2006, business revenue of all star-rated hotels in China reached up to CNY148.29 billion. Among the

top 10 regions where star-rated hotels make highest profits, most regions were coastal localities (Table 6).

Table 5: five-star hotel distribution in China, 2009

	Total	294
1	Beijing	51
2	Guangdong	47
3	Shanghai	26
4	Jiangsu	24
5	Shandong	15
6	Zhejiang	14
7	Hainan	12
8	Liaoning	11
9	Sichuan	10
10	Guangxi	9
11	Hunan	8
12	Fujian	7
12	Yunnan	7
12	Xinjiang	7
15	Hubei	6
15	Tianjin	6
17	Heilongjiang	5
17	Anhui	5
19	Jilin	4
19	Henan	4
19	Shaanxi	4
22	Hebei	3
22	Chongqing	3
24	Inner Mongolia	2
24	Jiangxi	2
26	Shanxi	1
26	Gansu	1

(Source: China's National Tourism Administration, 2009b)

Table 6: Top 10 regions combined revenue of star-rated hotels in 2006.

	Business Revenue (CNY/ billion)
Beijing	18.36
Guangdong	16.25
Zhejiang	15.80
Shanghai	15.41
Jiangsu	11.44
Shandong	9.1
Liaoning	5.82
Sichuan	4.5
Yunnan	4.27
Henan	3.73

(Source: China's National Tourism Administration, 2006)

4.2.1.2 Influence of FDI in tourist-oriented attractions

Business travel, another typical tourism project in coastal provinces, is becoming more and more prevalent in coastal regions. A large number of tourists, especially foreign tourists, come to China for doing business or visiting relatives and friends. It seems that the presence of business travel in China is associated with FDI, and the more FDI inflows, the more frequent business travel is (Lew, Yu, & Zhang, 2002). As early as 1978 when Deng Xiaoping inaugurated China's open-door policy, FDI began to move into Chinese market, most of which moved into manufacturing sector. Influenced by China's policy of Special Economic Zones (SEZs) at that time, FDI

flows were concentrated in the coastal regions other than inland areas. Those export-oriented and market-oriented FDI positively contributed to improve local industrial productivity as well as accumulation of capital (Chen & Demurger, 2002), which indirectly stimulated local purchase behaviour and drove business performance. Furthermore, many foreign investors undertook FDI projects in property development, especially in terms of hotels, resorts and real estate (Lew & Yu, 1995), all of them improving the business and leisure environment in the coastal regions.

The Canton fair, known as China Import and Export Fair, is one of the most attractive activities showing popular business travel in Guangdong Province. The Canton Fair was established in 1957 in Guangzhou, the capital of Guangdong Province. Due to China's political centralization and closed economy, at that time only 20 countries attended the Canton fair and foreign exchange was scarce (Jin & Weber, 2008). However, because of China's open door policy and Special Economic Zone Policy, Guangdong Province became the business and financial heart of the Special Economic Zones and attracted large amount of FDI flows into local manufacturing sector. Undoubtedly, it encouraged domestic production and consumption and also promoted local imports and exports. In 2003, the total import and export amount of Guangdong Province was US\$283.646 billion, representing 33.3% of national import and export total. Among Guangdong's total trade, the amount of processing trade comprises 70.21%, 61.6% of which was contributed by foreign-funded enterprises. As a result, Canton Fair, performing as a global trading platform, became much more popular and attracted many domestic and overseas visitors to come into Guangdong for doing business. By the 101st session in the spring of 2007, there have been 192,691 international buyers from 212 countries coming to Canton Fair (Jin & Weber, 2008).

In the same year, there were 18 million overseas tourists and 104 million domestic tourists visiting Guangdong, generating totally CNY212 billion tourism revenue including \$75 billion foreign exchange (China's National Tourism Administration, 2008).

Shanghai Municipality, an international metropolis, is another attractive destination for business travel. When foreign investors help to improve the quality of life of local citizens in Shanghai, they also introduce a new concept of tourism, that is, business travel, including conferences, incentive travel, exhibitions and so on. Shanghai Municipality is well known as a multi-cultural metropolis, drawing the attention of the whole world due to its position as the largest base of China's industrial technology, the international communication platform and China's largest commercial and financial centre. Therefore, multinational companies flock to Shanghai to establish their headquarters or branches where they could acquire huge benefits by utilizing local abundant and cheap labour force and advanced technologies and, more conveniently, gain access to Chinese inland great market by exploiting Shanghai's close connection with massive domestic markets (Sassen, 2002).

Compared with Guangdong Province's focus on low and middle end business travellers, Shanghai's FDI concentrates more on high end marketing. During the 1990s, most FDI flew into local high-tech industries, all of which coming from North America and European Countries (Martinsons & Tseng, 1995). Not only tourism giants, such as Starwood Hotel Group, French holiday group Club Méditerranée, and American Express, but also worldwide luxury brands like Tiffany, Gucci, and Burberry launched their branches in Shanghai, positively attracting domestic and

foreign individuals and companies to visit Shanghai for business travel. Known as "the Oriental Paris", Shanghai is now a shopper's paradise. One of the best attractions for tourists in Shanghai is Nanjing Road, which is one of the worldwide most famous shopping centres. It accommodates a large number of businesses ranging from large multinational enterprises to small private businesses. Nowadays, there have been many domestic and foreign well-known giants flowing into Shanghai, such as Rockefeller Group, LVMH Group, and Lan Kwai Fong (Hong Kong), making Nanjing Road an international business centre. In addition, Xujiahui Shopping Centre, Yuyuan Shopping City, and Jiali Sleepless City are thriving and popular destinations for those who are seeking for something special, no matter at a bargain price or a high price. During the last 10 years, an increasing number of both domestic and international tourists are attracted year by year (Table 7).

Table 7: Number of tourists visiting Shanghai, 1999-2008.

Year	Domestic (million) tourists	Overseas (million) tourists
1999	74.98	
2000	78.48	
2001	82.55	
2002	87.61	
2003	76.03	
2004	85.05	3.85
2005	90.12	4.45
2006	96.84	4.65
2007	102.10	5.20
2008	110.06	5.26

(Source: Shanghai Statistics, various years)

On the other hand, since the first batch of FDI in Shanghai was encouraged by local government to flow into real estate market in 1990s, the tertiary industry has been gradually open to FDI and regarded as a pillar industry (Wu & Cai, 2005). Those FDI that provide high-tech services with high quality knowledge support and abundant experiences help to develop Shanghai's tourism industry. Exhibition giants, such as Deutsche Messe AG and Fiera Milano Group, have located their branches in Shanghai, these exhibition giants greatly promoting local conference and exhibition tourism and business travel. In 2006, the city hosted 295 exhibitions that totally attracted 8.8486 million visitors (Shanghai Statistical Bureau, 2007). The Asia Business Travel Market (ABTM) attracted more than 160 exhibitors from 20 countries in 2003, including world-class multinational chains such as Hilton, American Express and Scott. These multinational investors came to Shanghai for the first high-profile international exhibition, which increased the demand for business travel.

4.2.1.3 Influence of FDI in travel agencies.

Not only hotel services and tourism features are influenced by FDI, travel agencies in coastal regions also take on a special aspect. Since the 1980s when coastal regions such as Shanghai Municipality and Guangdong Province began to be opened to foreign investors as so-called special economic zones (SEZs) where FDI was encouraged to inflow, these regions' GDP have increased greatly. China's GDP per capita is over \$3000 as a whole, while it is much higher than \$5000 in some developed regions (Table 8) (Wu, 2009). High levels of GDP growth lead to high

growth rate of tourism demand, especially outbound tourism (Ashe, 2005). It is easy to notice from Table 8 that 9 of the top 10 areas with the highest GDP are coastal regions, providing local travel agencies with huge potential market for outbound tourism. On the other hand, domestic tourism was usually regarded as the main business for travel agencies. However, with the increasing number of travel agencies, especially the emergence of foreign-funded travel operators with tremendous capital and business experiences, competition in domestic tourism market becomes much fiercer. What is more, as these foreign-funded travel companies are forbidden to be engaged in outbound tourism in China, they have to embark on domestic and inbound tourism, which not only results to a continuously decreasing market share but also puts pressure on travel agency profits. During the last ten years, the net profit margins in domestic travel are very small, usually around 5%, and even some travel companies are losing money. Therefore, local travel agencies begin to turn their attention to outbound tourism where the profits are six to eight times that of domestic tours (Table 9a, 9b).

Table 8: GDP per capita in 2008.

Rank	Province	GDP per capital (US\$)
1	Shanghai	10537
2	Beijing	9082
3	Tianjin	7993
4	Zhejiang	6082
5	Jiangsu	5695
6	Guangdong	5416
7	Shandong	4767
8	Inner Mongolia	4641
9	Liaoning	4506
10	Fujian	4341

(Source: National Bureau of Statistics of China, 2009)

Table 9a: Major economic indicators for domestic travel agencies in coastal regions in 2008.

	Revenue (M)	Profits (M)	Profit rate (%)
Beijing	287	-1.09	-0.38
Tianjin	134	-0.61	-0.46
Liaoning	136	-0.20	-0.15
Hebei	59	-1.15	1.95
Shanghai	1966	19.65	1.00
Jiangsu	581	6.20	1.07
Zhejiang	792	30.76	3.89
Fujian	694	-6.88	-0.99
Shandong	395	-2.60	-0.66
Guangdong	1117	2.91	0.26
Guangxi	398	2.37	0.60
Hainan	239	-1.14	-0.48

Table 9b: Major economic indicators for international travel agencies in coastal regions in 2008.

	Revenue (M)	Profits (M)	Profit rate (%)
Beijing	4741	243.09	5.13
Tianjin	179	1.02	0.57
Liaoning	341	8.41	2.46
Hebei	7	1.15	1.56
Shanghai	2440	55.41	2.27
Jiangsu	1564	13.63	0.87
Zhejiang	1036	2.26	0.22
Fujian	843	12.55	1.49
Shandong	413	1.26	0.31
Guangdong	6059	149.48	2.47
Guangxi	646	2.35	0.36
Hainan	1464	79.78	5.45

Benefiting from China's open-door policy and Special Economic Zone policy, Guangdong Province became one of the most attractive destinations for FDI in the 1980s. These FDI helped Guangdong improve the economic development of local communities through creating jobs and improving business linkages (Perkins, 1997). The improvement of living standards triggered local people's desire for outbound travel. This helped to prompt Guangdong Province to become the first PRC Province to undertake an outbound tour in November 1983. Local people were primarily allowed to visit friends and relatives in Hong Kong and Macau (VFR, Visiting Friends and Relatives). However, the real boom in outbound tourism did not start until 1989 when local government attempted to organize the first outbound travel to Thailand, followed by Singapore and Malaysia.

Nowadays, outbound tourism in Guangdong has been exceptionally prosperous, especially since China entered into WTO and the travel service industry opened its market to the world. The number of outbound tourists was 933458 persons in 2000, while it has continued to sharply accelerate during the following seven years, from 1,161,959 persons in 2001 to 3,763,407 persons in 2007 (Statistics Bureau of Guangdong Province, 2008). The large number of outbound tourists induced revenues of international travel agency to increase fast. International tourism has become an ever more important part of life in Guangdong Province. In 2008, China's top four Provinces and municipalities in terms of the highest business revenue of the travel agencies are Beijing, Shanghai, Guangdong, and Chongqing.

The generous inflow of FDI not only increases the contribution to local economic development by offering large sum of capital, advanced skills and job opportunities,

they also somewhat change local traditional life style, including travel preferences by indirectly bringing in different perspectives and concepts of life. The transition from sightseeing tour to business travel in coastal regions is a successful example from which local travel agencies are benefiting.

As described above, business travel is much more prosperous and popular in coastal provinces, especially in Shanghai. It leads to frequent conferences, exhibitions, training courses and so on, which require international travel agencies to develop new strategies and tactics to contest the business travel market. Compared with the sightseeing tour markets, business travel markets are more attractive to travel agencies. On one hand they are steadier than the sightseeing tour markets, being hardly influenced by the natural environment or private economic power (Plawin, 1992). On the other hand, business travel consumers generally focus more on convenience and efficiency services that travel agencies could provide, not on price factor, so they could offer travel agencies more benefits than other kinds of travel projects, usually generating 20%-30% profits higher than the latter (Fang & Gao, 2007). Seeing the potential profit margins, Shanghai's travel agencies are exploring an easy and efficient way to occupy the market share. Some of the major tourism groups, such as the Shanghai Jin Jiang, China Youth Travel Service, Chunqiu travel agency, have joined the international exhibition organizations. By cooperating with Business Travel International (BTI), Shanghai Jin Jiang has successfully signed cooperation agreements with several international business travel consumers including Dell, HSBC bank, and Standard Chartered Bank. Similar to Shanghai, travel agencies in Guangdong Province also emphasize their business on international business tourism. GZL International Travel Service, for example, has focused on the business travel

market since 2000, making their total revenue accelerating at a high speed of 50%-80% per year.

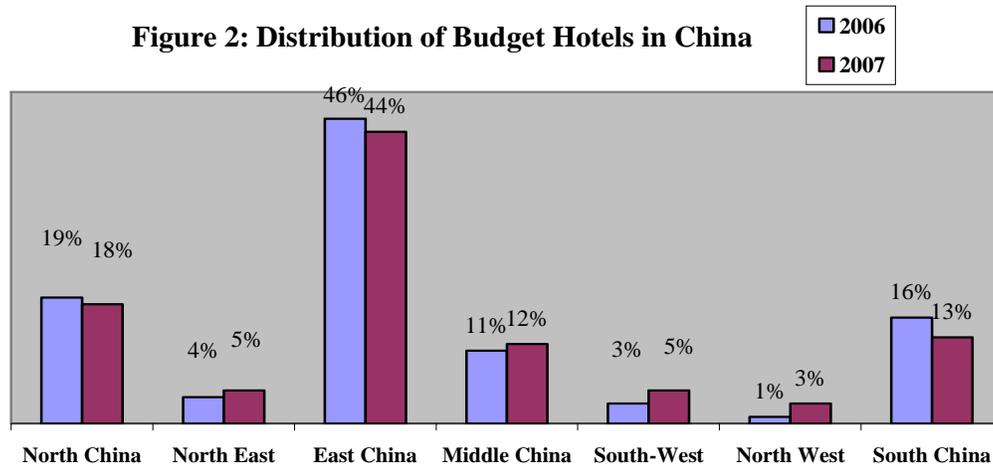
4.2.2 Influence of FDI in Inland Regions

Compared with the scale and scope of FDI in coastal regions, the amount of FDI in inland regions seems insignificant, especially during the 1980s. Not every province and city could enjoy China's open-door policy, and the more west these areas lie in, the less FDI they would get, it partly because of the conservative attitudes of the Chinese government towards FDI, partly due to these inland regions' geographical disadvantages. Therefore, the influence of FDI in inland economic growth and social progress was not excessive or obvious in the beginning. Since China became more open to the world after WTO accession, however, much more FDI has been encouraged to flow into all walks of life in inland regions, including the tourism industry (Hong, 2008). Due to the low level of economic development and geographical aggregation, foreign investors' market access strategies are also different from those in coastal regions.

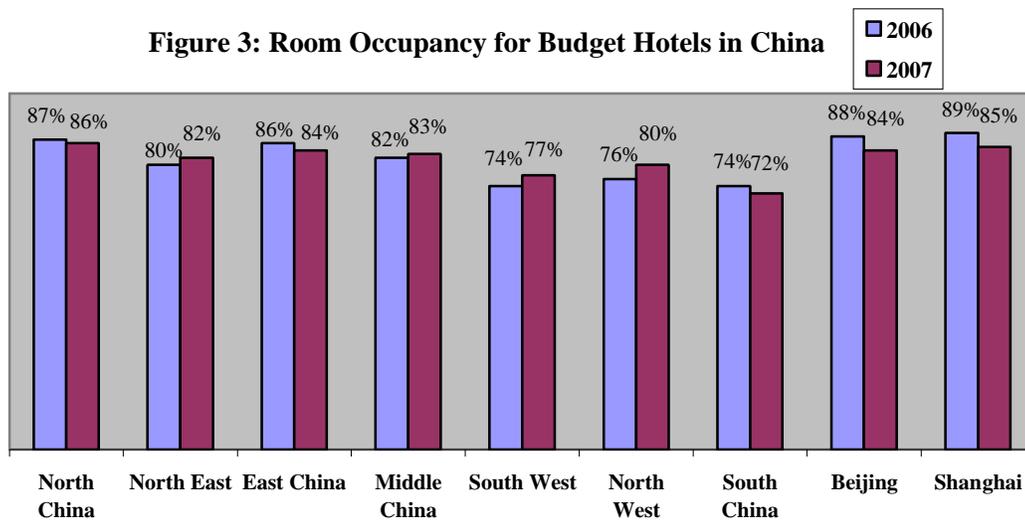
4.2.2.1 Influence of FDI in hotel services.

Unlike the widespread distribution of luxury hotels in coastal regions, budget hotels in inland regions seem more popular. Although the number of budget hotels in coastal regions in terms of East China and South China is much higher than that in middle and western China, an increasing number of budget hotels are being established in inland regions while, by contrast, budget hotels in coastal regions decreased (Figure 1)

(China Hotel Association, 2007). Correspondingly, room occupancy rates for budget hotels in inland regions is higher than that in coastal regions, indicating an outstanding development prospect for establishing budget hotels in the future (Figure 2) (China Hotel Association, 2007). As a result, inland regions become more attractive for budget hotels.



(Source: China Hotel Association, 2007)



(Source: China Hotel Association, 2007)

It is interesting to notice that those hotel chains that are in charge of most budget hotels in inland regions are native investors, not foreign-funded companies (Table 10) (China Hotel Association, 2007). However, FDI played a vital role in introducing and prompting the emergence of budget hotels in developing regions. Star-rated hotels, especially luxury hotels owned by multinational companies, have occupied the largest market shares in coastal regions and, the more luxurious the hotels are, the more popular they will be with tourists. Native hotel investors do not have enough financial support or rich experiences to compete. In order to survive tough competition and gain profits, they have to move to inland regions where there is less competition and larger market potential. Gradually, they build budget hotels that are in line with both investors' own economic strength and local economic conditions. Furthermore, the "budget" hotel concept was originally from developed countries where they were considered as motel or economy lodge. It simply provides tourists with accommodation and simplifies amusement facilities. As a result, native hotel investors could achieve cost reduction targets by conserving energy and reducing labor costs and, eventually, attract tourists at a lower price.

Table10: The top 5 budget hotel chains in China in 2007.

Operations		Hotel opened	Provinces
1	Home Inns & Hotels	266	29
2	Jinjiang Inn Co. Ltd	181	29
3	7 Days Inn Group	121	24
4	Shanghai Motel	120	19
5	Hanting Inns -	96	15

(Source: China Hotel Association, 2007)

Yunnan province is one of the most popular destinations to establish budget hotels. During the last 10 years, Yunnan province has always been one of the top 10 regions that receive both the most tourists and the most tourism receipts. As an inland province, however, Yunnan province is undergoing slow economic and social development. Among China's 34 provinces, municipalities and autonomous regions, Yunnan ranked 32nd in terms of GDP per capita in 2008. The large potential market and the low level of consumption lead to the emergence of budget hotels. The top five budget hotel chains have all set up their branches in Yunnan, with annual average room occupancy of 90%. Even when Yunnan's tourism industry was severely hit by the financial crisis in 2008, the occupancy in budget hotels in Kunming kept 80%, while room occupancy in most star-rated hotels decreased rapidly (Travel Daily, 2008).

Tibet Autonomous Region is a special area located in northwest China. It is located in the highest region of the world, the unique geographical zone reducing both tourists' and investors' desire to enter. Since 2000, China's government has planned to promote Tibetan economic development. Qinghai-Tibet Railway opened in July 2006 brings domestic and foreign travels to "Roof of the World". In 2006, there were more than 2.5 million tourists visiting Tibet, creating about CNY2.8 billion in tourism revenue. Besides, thanks to the convenient transportation, more and more FDI flow into local economic development. The growing consumer market, together with a favorable economic environment, effectively promotes hotel investors' enthusiasm and inspiration to settle hotels in Tibet. Jinjiang Inn establishes the first budget hotel - Lhasa Shanghai Plaza in Lhasa, followed by Home Inn and InterContinental Hotels Group who build budget hotels in Linzhi. On the other hand, with more and more

tourists visiting Tibet, foreign-funded star-rated hotels, such as Shangri-La Hotel and Four Points by Sheraton Lhasa, begin to establish economic hotels, indirectly increasing tourists' arrival.

4.2.2.2 Influence of FDI in tourism features.

Both the closed geographical context and the less attention China's government paid to lead to a slow economic growth in inland regions. Business tourism is less popular than that in coastal regions. By contrast, as inland regions are endowed with splendid natural beauty and rich natural inheritance, wild species and landscape-oriented tourism play a dominant role in local tourism industry. National parks, consisting of outstanding natural scenery and cultural resources, are popular and important in inland tourism development. Each year there are nearly 80% of domestic tourists visiting national parks. By 2009 there have been 2500 national parks of different classifications.

Yunnan province is one of China's inland regions that successfully achieve rapid tourism growth by positively developing local national parks. Yunnan is located in south-west China where 62% of China's total poor people are living. It is regarded as one of the poorest provinces in China, with 87% of the population living in the countryside. (Joseph, 2003). It is impossible to boost business tourism under such social and economic conditions. On the other hand, Yunnan province is famous for its abundant natural resources, beautiful scenery and minority culture, all of which promote establishment of national parks. Due to local scarcity of capital, FDI is encouraged by local government to take part in Yunnan's national parks. Kunming,

the capital of Yunnan province, has attracted CNY2.9 billion foreign capitals from Phuket Fantasea, Thailand into local Stone Forest Scenic Area. It helps Kunming build up a worldwide theme park showing tourists primeval forests, rare animals and unique karst landscape. Xishuangbanna, another city that is famous for countless virgin forests and tropic rainforests, provides abundant natural resources that attract large amount of overseas direct investment. In 2008, US\$308 million FDI was invested in 14 development projects, such as tropical rainforest park and Jinghong Dashaba leisure centre (Hai, 2008). By the end of 2009, 10 of top 100 national parks in China's 31 provinces, municipalities, and autonomous regions are located in Yunnan province. Both Xishuangbanna Dai Park and Kunming World Horticultural Expo Park are also listed in China's 10 most beautiful national parks. Distinctive national parks and unique natural tourist resources make the position of Yunnan's leisure tourism become more important.

In spite of local amazing natural landscapes, tourism in China's western inland regions is less developed because of shoddy construction and poor transport infrastructure. Tibet is a plateau region located in south-west China. Due to the remote geographic position and terrible climate, Tibet is one of the poorest areas of the world (Edgar, 1926). Fortunately, since the construction of Qingzang railway was approved by China's government in 2001, a little of FDI has been attracted into Tibet. Bombardier, a transport manufacturer, provided Qingzang railway with 361 high-altitude passenger carriages. TZG Partners and Qinghai-Tibet Railway Company build the 'Dragon Express' luxury railroad to run along a new route from Xining in Qinghai Province to Lhasa in Tibet (Barale, 2006). This convenient transport helps to connect Tibet with the rest of China and even with the world (Yang, 1990). According to Tibet

autonomous Region Statistics Bureau (2008), the world's highest line has transported 2.02 million passengers to Tibet by the end of June 2007, one year after Qinghai-Tibet Railway opened. In the same year, Tibet has received more than 4 million tourists from home and abroad with a year-on-year increase of 60 percent, reaping a total tourism revenue of CNY4800 million. Furthermore, more than 34,870 Tibetan rural people in 2007 have participated in the tourism industry with the per capita income of CNY6,383 that increased by 20 percent over that in 2006. This number is 2.29 times higher than the net income of other Tibetan rural people in the whole region (Tibet Autonomous Region Statistics Bureau, 2008).

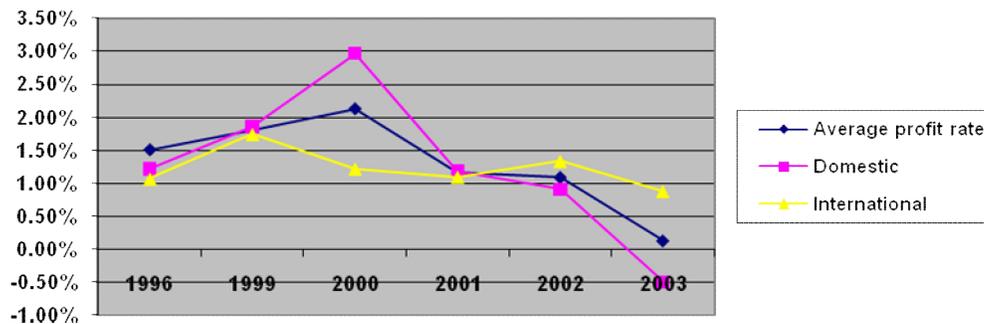
4.2.2.3 Influence of FDI in travel agencies.

Compared with the influence of FDI on hotel sector and tourism features, there is a little influence in travel agencies in inland regions. One reason is that most foreign-funded travel agencies flow into coastal regions such as Guangdong, Shanghai, and Beijing where business travel and inbound tourism is prosperous, few moving into inland regions because of relatively little tourism revenue from sightseeing tours. As a result of local abundant natural sceneries and less developed economy, travel agencies in most inland regions focus more on inbound tourism other than on outbound tourism, on sightseeing travel other than on business travel.

Due to a small profit and China's conservative investment policy and attitude, there are hardly foreign-funded travel agencies establishing in Yunnan. Depending on native natural resources, local travel agencies usually offer package tours to people traveling to Yunnan. However, as tourist attractions are being totally explored and

sceneries typically follow the same pattern, sightseeing services provided by travel agencies cannot satisfy tourists' special demand. It leads to a decreasing profit rate year by year (Figure 3). A lack of advanced management experiences and cut-throat competition that are resulted from an oversupply of travel agencies make it hard for local travel agencies to develop as leading enterprises with strong competitive power. More than one third travel agencies have made great losses.

Figure 4: Profit rate from travel agencies in Yunnan, 1996-2003



(Source: The Yearbook of China Tourism Statistics, various years)

Tibet is one of China's most undeveloped regions and its large growth heavily relies on China's central investment. Little FDI was found in Tibet until 2000 when Chinese government proposed the "Great Western Development Strategy". Compared with large FDI that has flown into hotel sector and tourism-related infrastructure, only few or none FDI flows into travel agencies. Like travel agencies in other inland regions, tour operators in Tibet rely on natural sceneries to attract tourists. As a newly opened tourist region, thousands of tourists travel to Tibet, from 127,148 persons in 2001 to 4,029,400 in 2007. however, due to the low operational efficiency and a critical shortage of high-quality tours, there has been a decreasing profit margin in local travel

agencies, from 3.88% in 2001 to 1.77% in 2007 (China's National Tourism Administration, 2008).

4.3 FDI-Related Policies in China

There are many determinants that attract FDI into a country such as local economic growth in terms of GDP or GNP, the market size, product differentiation and so on. Incentive policies are also an important factor to consider, especially in developing countries (Sun, Tong & Yu 2002). China is most likely to maintain its economic growth policy and investment promotion. As tourism is regarded as one means of ameliorating a country's economic development, Chinese central government produces a series of policies to develop local tourism industry. Preferential FDI policies are one important factor to bring the overwhelming performance of attracting tourism-related FDI (Zhang, 2000).

In 1978 when Deng Xiaoping made the openness and reform policy, some selected coastal regions such as Guangdong and Fujian were designated areas where a comprehensive economic reform program is laid out. In these special zones the tax incentives and preferential policies become big attraction to foreign investors (Jiang, Christodoulou & Wei, 2001). Later, in 1985, China opened another 14 coastal cities (Wu, 1999). As a result, almost 93% of FDI flew into southeast coastal regions of China at that time. Since 1995 when the Chinese government embark on the Western Development Program to attract more FDI to the western regions, FDI in the coastal regions was gradually decreasing, from 93% in 1995 to 87.80% in 2005 (China Statistical Yearbook, 2006). China's focus on developing tourism as a pillar industry

of China's national economy also attracts FDI into tourism-related sectors in terms of hotel sectors, tourism features and travel agencies.

The hotel sector in China is one of the earliest sectors that are open to FDI (Qu, Christine & Sinclair, 2002). In the 1970s, almost all hotels were state-owned businesses and China's state-owned banks act as the prime lender to these SOEs (Pine, Zhang & Qi, 2000). China's Open Door Policy in 1978 marked the prelude to the entry of FDI in the hotel sector and FDI was regarded as both a channel to attract abundant overseas funds and a mechanism to introduce advanced management skills in China's hotel services. In 1982 the Hong Kong Peninsula Group took over the Beijing Jian Guo Hotel. It indicated that multinational hotel companies began to enter the Chinese market. In 1984, the government allowed local government departments, enterprises and even individuals to invest in and operate tourism projects. Initially, only two forms of foreign investment were permitted, that is, equity joint-venture enterprises (EJVs) that are required to have at least 25% foreign investment of total capital in a joint venture and, cooperative joint ventures (CJVs) where the distribution of profits are subject to the partners' mutual agreement in their contract. After China's entry into the WTO in 2001, China gradually relaxes restrictions on foreign investment in hotel sector and another form of FDI, wholly foreign-owned enterprises (WFOEs), were allowed, which must be equipped with 100% foreign capital. Since then, foreign hotel chains could enter the Chinese market in any form. Many of the world's top hotel chains such as Sheraton, Hilton, Accor and Shangri-La entered into China in the mid-1980s, followed by Starwood and Best Western 1990s. By 2006, there have been 585 star-rated foreign-funded hotels, much higher than 162 in 1987. These policies for foreign investment were successful and the hospitality sector

became the largest foreign investment sector in the tourism industry. The total number of hotels increased from 137 in 1978 to 710 in 1985, and the number grew to 2130 in 1991 (Zhang, Pine & Lam, 2005).

The second sector that Chinese government focuses on is tourist attractions, including theme parks and tourism-related infrastructure. Leisure tourism in internal regions is the main means to attract tours and pound tourism industry. Nearly 50% of trips in China were simply for the purpose of sightseeing. In order to attract abundant funds and obtain operation experience, the central government has listed a series of tourism-related projects in Advantages of foreign investment in central and western regions Industry Directory (amended 2008), which provide preferential treatment to foreign investors (National development and reform commission, 2008). Besides, in most western regions, basic infrastructure such as communication facilities and transportation systems is not enough, making it hard to bring in domestic and foreign tourists and large investment. In 2000, Chinese government introduced build—operate—transfer model⁹, aiming to encourage FDI to flow into infrastructure such as transportation, environmental protection, and water conservation. These tax incentives through reductions or exemptions on infrastructure also help to attract FDI into western regions (Li & Shum, 2001).

Compared with the first two tourism-related services, the flow of FDI in travel agencies is only in its infancy. As early as 1996, foreign travel agencies are entitled to national treatment in inbound and domestic market but outbound market so that native

⁹ BOT model: foreign investors are allowed to build and operate a business for a period. It helps the project proponent to recover its investment, operating and maintenance expenses in the project. Then the business is transferred to the host country.

travel agencies could win enough time to enhance themselves and build a strong base in domestic and foreign tourism market. In order to attract more FDI and to fulfill promises China made for entry into the WTO, the "Regulations on travel agencies" taking effect on May 1, 2009 stipulates that in addition to Chinese-foreign equity and contractual joint ventures, foreign investors can also set up wholly foreign-owned travel agencies in China. Along with the privatization of China's travel agencies, foreign investors feel more confident in investing in the travel agency industry. Furthermore, by 2009, the threshold for overseas-funded travel agencies' entry has gradually been lowered. The new regulation replaces the rule of a minimum registered capital of CNY4 million with CNY300 thousand. Besides, after the five-year transition period after joining the WTO, China's central government gradually allows foreign travel agencies to participate in outbound tourism. By 2009, Hong Kong-funded and Macao-funded travel agencies in nine provinces, such as Guangdong, Fujian, and Hainan, have been allowed to outbound tourism. Therefore, more and more foreign travel agencies would like to come to China. In 2001, China has 11 foreign-funded travel agencies, yet by the end of 2008 there have been 34 overseas-owned travel agencies set up among overall 19800 travel agencies in China (China's National Tourism Administration, 2009b).

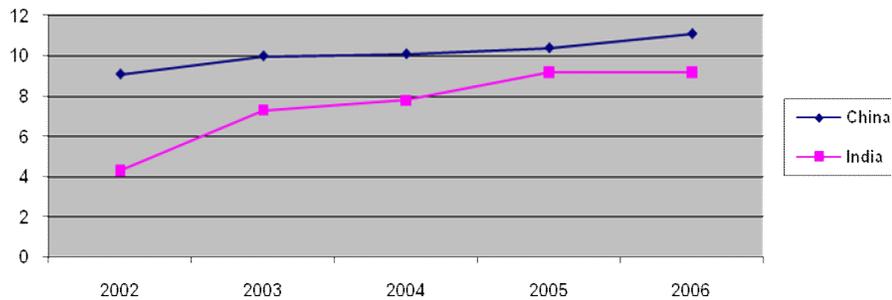
Not only China's central government, but also regional governments hope to introduce FDI as much as possible to their own administrative areas. In order to explore and promote local tourism industry, many regions and cities in China have embarked on tourism-oriented development course. The low levels of transport services and poor transport infrastructure in inland regions, especially in western regions such as the Tibet Autonomous Region and the Xinjiang Uygur Autonomous

Region, greatly slow down local tourism business. Therefore, many regional governments are engaged in building highways and railroads: the government of Chongqing municipality determines to make the fifth biggest railroad junction connecting Xian and Kunming; the Guangxi Zhuang Autonomous Regional People's Government aims to develop tourism industry as a pillar industry in national economy and has proposed to invest CNY30 billion in commencing 12 new railway and road projects within 6 years (Nanning China, 2009). Furthermore, for inland regions, natural advantages and tourist attractions are unique and unmatched compared with coastal regions. Therefore, local governments in inland China pay much more attention to protecting and promoting natural resources and ethnic culture rather than developing large business centres. The Tibet autonomous regional government, supported by the central government, is stepping up efforts to protect its ecological environment. Especially, rural environment protection is a priority in the local ecological protection scheme, as farmers and herders account for 80 percent of Tibet's regional population. According to Yunnan Provincial Government maintaining culture is at least as important as maintaining the environment. Besides, in pursuing regional development, 12 provinces in western and inland China have joined together since early 2000 in the "west development" campaign intended to gain the regional development with tourism activity being an essential actor. In 2001, the forum on China's tourism was held in Sichuan province, with over 200 participants from provincial governments, China's National Tourism Administration, the tourism industry, tourism academic from around China (Liu & Feng, 2000).

4.4 Comparisons of FDI in Tourism Industry with India

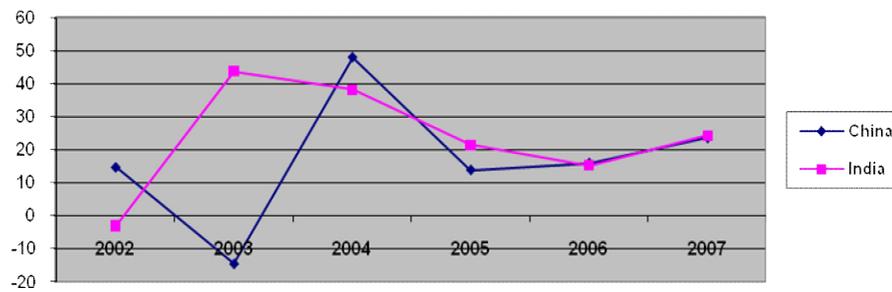
India is the most competitive country in Asia that has a similar GDP growth rate to China and a rapid growth rate in tourism industry (Figure 4, 5). In addition, both China and India have a huge population of which rural population occupies more than a half. Both low labor cost and abundant natural resource play an elementary role in local tourism industry. Therefore, China could learn lessons from India by analyzing the influence of FDI in Indian tourism.

Figure 5: GDP growth rate (%), 2002-2006



(Source: China National Tourism Administration & Indian Ministry of Tourism, various years)

Figure 6: Growth of foreign exchange earnings (%), 2002-2007



(Source: China National Tourism Administration & Indian Ministry of Tourism, various years)

India is pursuing faster economic growth. In order to achieve the GDP growth target of more than 9%, India greatly encourages inflow of FDI, more than 70% of FDI in India coming from developed countries and containing capital technology transfers.

Compared with China's specific advantages such as rapid economic growth, low taxes, sound infrastructure, India's potential to attract FDI in tourism industry usually includes economic and investment liberalization, innovative technologies, health and higher education. It makes India become the most competitive country in Asia to attract FDI compared with China.

Tourism industry plays an immense role in improving Indian economic development, contributing to 6.23% of the GDP and 8.78% of total employment (Ministry of Tourism, 2008). It can provide impetus to other industries such as Indian Medical Service and financial services and, bring in huge revenue earnings (Mudur, 2004). In order to develop Indian tourism industry and to take advantage of multiplier effects of FDI for local economic growth, India's central government formulates preferential policies to facilitate private investments. Unlike China's restrictive FDI policies, Indian government allows 100% FDI in the tourism industry and has offered the investment opportunity of around \$10 billion in the next 5 years. India's liberalized environment like easy visa rules and public freedom makes FDI much easier than in other countries.

Tourism-related infrastructure projects in terms of hotel and resort constructions and transport infrastructure in India are more attractive for FDI. In India's hotel sector, for example, total FDI of up to \$450 million was attracted in 2007 and around 40 multinational hotel chains such as Shangri-La, Accor, and Marriot have built branches in India (SiliconIndia News Bureau, 2007). High levels of FDI provide Indian tourism with great opportunities for hotel sector. Nowadays, five star hotels account for 27% of the total capacity, four star 8%, and three star 22%. It means that there is still great

development potential for hotel investors. Railway transport is not exempted from industrial licensing requirements until July 2006 when Indian Government began to open up India's retail market to greater foreign investment (Srivastava, 2008). The Indian government has received \$135 million FDI from multinational companies such as Neptune Orient Lines and JM Bakshi in railways by 2007. During 2006-07, Indian Railways carried 6,219 million passengers, increasing by 8.6% from 5,725 million during 2005-06 (Indian Railway Year Book, 2007).

Apart from popular areas of tourism like eco-tourism, health and spiritual tourism has also been given priority. Medical care and private health care in most western countries are expensive, while India has well-trained doctors working for a lower fee. In order to develop local medical tourism, Indian government increases the automatic approval limit for FDI in the pharmaceutical industry from 40% in the 1980s to 100% in 2001 (Lalitha, 2002). The Monsanto Company, a global American pharmaceutical company and medical devices manufacturer and, GlaxoSmithKline, the world's second largest pharmaceutical company have established their branches in India. The introduction of advanced medical technologies attracts large number of foreign tourists to visit India. In 2004, only 150,000 patients traveled to India for healthcare (Schult, 2006). It is estimated, however, that medical tourism to Asia could generate as much as \$4.4 billion by 2012, half of which will go to India (Bhangale, 2008).

One factor leading to discrepancy between China's and India's tourism development lies in guest source countries. As shown in Table 11, in top 10 guest source countries, only 4 countries in China have an average GDP per capita of over \$20,000, while 7 countries in India. Though China is full of commercial opportunities and tourist

attractions, these are also popular in other tourism countries. There are no special tourism projects or tourism characters like India's medical tourism in China, leading to lack of comparative advantages in China's tourism industry. Traditional Chinese medicine treatments, together with kung fu and Tai chi, indeed have attracted a lot of foreign tourists. For example, by the end of 2004, Shaolin Temple, the cradle of China's martial arts in Dengfeng city, has attracted 2.31 million foreign and domestic tourists of a total of 2.63 million in Dengfeng city and tourism revenue reached to CNY2.97 million (Zhao, 2005). Unfortunately they are not designed to be a competitive tourism product nor to achieve effective tourism clusters like medical tourism in India.

Table 11: Top 10 tourists' countries in China and India, 2005-2006.

Rank	China			India		
	2005	2006	Proportion in 2006	2005	2006	Proportion in 2006
1	Korea	Korea	17.7%	Britain	Britain	16.5%
2	Japan	Japan	16.9%	USA	USA	15.7%
3	Russia	Russia	10.8%	Bengal	Bengal	13.0%
4	USA	USA	7.7%	Canada	Canada	4.0%
5	Malaysia	Malaysia	4.1%	France	France	3.9%
6	Singapore	Singapore	3.7%	Sri Lanka	Germany	3.5%
7	Philippines	Philippines	3.2%	Germany	Sri Lanka	3.5%
8	Mongolia	Mongolia	2.8%	Japan	Japan	2.7%
9	Thailand	Thailand	2.7%	Malaysia	Australia	2.5%
10	Britain	Britain	2.5%	Australia	Malaysia	2.4%

Source: China National Tourism Administration, Indian Ministry of Tourism

5. Conclusion

China's tourism industry has experienced rapid development since 1978, evolved from part of political affairs to a fully open tourism market towards investors and tourists. During these years, FDI is always regarded as a leading role in promoting and reforming China's tourism development. In recognition of the important role of FDI in China's tourism industry, this study fills an important gap in the literature by using comparative and case study methodology. It not only illustrates the value of FDI in general tourism industry, but also analyzes the influence of FDI on existing regional inequalities and discrepancies in tourism development from the view of both coastal and inland regions.

The coastal regions have experienced rapid economic and tourism development because of the inflow of FDI and political preferences. Hotels and restaurants are usually luxury and super-luxury and five-star and four-star hotels could be seen everywhere to serve domestic and foreign tourists. Business travel is more prevalent than ecotourism in coastal regions. The increasing volume of FDI brings in huge business opportunities. It makes business environment in coastal regions become more and more mature and dynamic. Most tourists, especially foreign tourists, come to China for doing business or visiting relatives and friends. The rapid development of business tourism also promotes GDP growth. High levels of GDP growth in turn lead to high growth rate of tourism demand. Tourism demand is the foundation on which all tourism-related business decisions are made. Therefore, China's governments take this opportunity to attract FDI to driver for economic and social welfare and foreign companies flow into China to grab more of China's tourism market.

By contrast, though less FDI flows into inland regions, they have indirect influence on local tourism industry. An increasing number of budget hotels are being established in inland regions because of relatively poor economic condition. Room occupancy for budget hotels is much higher than that in coastal regions. Besides, due to the closed geographical context and the less attention China's government paid to, economic growth in inland regions is very slow. As inland regions are endowed with splendid natural beauty and rich natural inheritance, leisure tourism, instead of business tourism, is popular. Landscape-oriented tourism plays a dominant role in local tourism industry. Poor transport infrastructure in inland regions seriously hinder the potential development of local tourism and hence FDI is encouraged to local basic infrastructure. Large amount of capital and technologies help to improve local infrastructure construction, making it more convenient and attractive for tourists and investors to move to inland regions.

Political reasons also play an indirect but essential role in developing the tourism industry and accentuating regional inequalities. It could be viewed as the director and regulator of FDI. Since 1978 when Deng Xiaoping decided to open China to the world, Chinese government has made a series of positive policies to attract FDI to flow into coastal regions such as Special Economic Zone policy and preferential tax policy. Since 1999 when western development policy was first issued, a lot of encouraging policies are put forward to attract FDI into inland regions for infrastructure construction, such as preferential land policies and supportive policies.

At last, compared with India, one of the most competitive tourist destinations in Asia, it seems that China does not attract enough investment even though its macroeconomic developments are very good. China's FDI policies are not as liberal as India's. Many of FDI-related policies in the tourism industry are too much restrictive, not relaxing control on foreign investment in many industry segments such as travel agency industry, real estate industry, and infrastructure construction. China also does not have any automatic approval system for FDI, all of them subject to project-by-project approval by the government. Also, there are not enough tourism characters like India's medical tourism to attract foreign tourists. The quintessence of China such as the Peking Opera, traditional Chinese medicine treatments, and China's martial arts has not been generally accepted or understood by the world. Therefore, China's government should act not only as a regulator and facilitator of FDI but also as an explorer to gather available resources together and make an apex body to promote them as China brand in the world.

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