



An analysis of tourism policy development in modern China

Hanqin Qiu Zhang*, King Chong, John Ap

Department of Hotel and Tourism Management, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong

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Abstract

Tourism in China has rapidly developed since the adoption of open-door economic reform policy in 1978. There is still little understanding about the role played by the Chinese government in the development of tourism. This paper represents a first attempt to identify the roles played by the Chinese government in developing its international inbound tourism. The period examined is from 1978, a turning point for China's development, to the present. Generally, the Chinese government has played the following roles: Operator – involving ownership and provision of the infrastructure for tourism development and operation of tourism business activities; Regulator – formulating and implementing regulations to control tourism business; Investment stimulator – stimulating tourism investment through the provision of financial incentives; Promoter – spending money on the promotion of tourism in the international market; Coordinator – coordinating activities of different government departments with respect to tourism; and Educator – establishing a system of tourism education institutions and providing tourism education and training programs. Analysis of the policies and government roles in China was examined systematically in terms of demands, decisions, outputs and impacts for each of the three historical periods identified, namely 1978–1985, 1986–1991 and 1992 to the present. The framework adopted for examining the policies in terms of demands, decisions, etc. represents the specific policy issue components of the tourism policy-making process suggested by Hall's model (1994). Based on China's experiences, some implications of the governmental roles for other developing countries are suggested. © 1999 Elsevier Science Ltd. All rights reserved.

Keywords: China; Tourism policies; Tourism development; Government roles

1. Introduction

Following the introduction of the economic reform policy by Deng Xiao-ping in 1978 (also known as the open-door policy), tourism in China has developed rapidly and gradually become a significant economic activity. In 1996, visitor arrivals totaled 51.1 million, a 27 fold increase from 1.8 million in 1978. In terms of economic contribution, tourism receipts increased from US\$ 2.6 billion in 1978 to US\$ 10.2 billion in 1997 (China National Tourism Administration (CNTA), 1985–1998). Total receipts for tourism earning in terms of foreign exchange from exports increased from 2.7% in 1978 to 6.8% in 1996 (CNTA, 1985–1998; State Statistical Bureau of the People's Republic of China) (see Table 1).

Government involvement has greatly influenced tourism development, particularly in developing countries with socialist economic systems. Most developing countries are characterized by a scarcity of resources, especially for tourism development, and the private

sector generally has little experience with the tourism industry. Governments in developing countries tend to be more actively involved and have assumed key developmental and operational roles. In socialist countries, where the private sector is small or non-existent, the level of government involvement would be greater than that in countries that have a predominantly free-enterprise philosophy (Jenkins & Henry, 1982).

China is a developing country with a socialist economy and the private sector in the tourism industry is small. For example, in 1995 state, collective or alliance owned hotels (i.e. joint state, collective or stock owned) totaled 2944, accounting for 79% of the 3720 hotels in China. Private-invested, foreign-invested, or Hong Kong, Macao, and Taiwan-invested hotels numbered 694, which accounted for 19%, with a remaining 2% being stock owned hotels (i.e. owned by a group of share holders through a stock or limited liability company) (CNTA, 1985–1998). With the rapid growth of tourism in China since 1978, most efforts may be credited to the Chinese government because most aspects of tourism development have been addressed through a variety of policy initiatives and measures.

*Corresponding author. Tel.: 852 2766 6368; fax: 852 2363 9362; e-mail: hmhanqin@polyu.edu.hk

Table 1
Summary of China tourism statistics 1978–1997

	1978	1985	1991	1996	1997
Visitor arrivals	1 809 221	17 833 097	33 349 757	51 127 516	57 587 923
Foreigners (a)	229 646	1 370 462	2 710 103	6 744 334	7 428 006
Compatriots (b)	1 561 483	16 377 808	30 506 227	44 228 581	50 060 913
Overseas	18 092	84 827	133 427	154 601	99 004
Chinese (c)					
Tourism receipts (Million US\$)	262.90	1 250.00	2 844.97	10 200.46	12 074.14
Percentage of Tourism Foreign Exchange Earning (d)	2.7	4.6	4.0	6.0	NA (e)
Number of hotel	137	710	2130	4418	5201
Number of Travel agencies	NA	NA	1561	4252	4986
Number of employees	NA	168 357	708 263	1 196 749	1 359 400

Notes:

(a) Referred to the persons with foreigner citizenship. Overseas Chinese who have already acquired foreign citizenship are also recorded as foreigners.

(b) Referred to the Chinese compatriots who live in Hong Kong, Macau and Taiwan province of China.

(c) Referred to the Chinese nationals who hold Chinese passports but reside abroad.

(d) Percentage of tourism foreign exchange earning in foreign exchange earning from exports.

(e) The figure is not available.

Sources:

1. China National Tourism Administration (CNTA), *The Yearbook of China Tourism Statistics*, China Tourism Publishing House, Beijing, 1985–1998.

2. State Statistical Bureau of the People's Republic of China, *China Statistical Yearbook*, International Center for the Advancement of Science and Technology, Hong Kong, 1995.

3. State Statistical Bureau of the People's Republic of China, *Statistical Yearbook of China*, Economic Herald, Hong Kong.

4. Han, K. H., *China: Tourism Industry*, Modern China Press, Beijing, 1994.

Although the government has been decisive in guiding China's tourism development, there is little understanding about the type and kind of role(s) played by the government in tourism research literature. Without identifying the nature of the government's role, neither past tourism development in China can be systematically analyzed, nor can future trends be forecasted.

The purpose of this paper is to identify the different roles that the Chinese government has played in the development of international tourism during three historical periods since 1978, that is, following the adoption of the open-door policy advocated by Deng Xiao-Ping. The period before 1978 is also reviewed for comparison purposes. The three historical periods examined are as follows: The first period is from 1978 to 1985 when government regarded the nature of tourism as both politics and economics; the second period covers the years from 1986 to 1991 where the nature of tourism from the government's viewpoint changed to economics over politics; and finally, the third period is from 1992 to the present when the government decided that tourism should be gradually developed in the socialist market economy model.

In order to provide a systematic analysis of China's international tourism policies during the periods identified above, the policies will be examined under the four broad headings of: (i) demands, (ii) decisions; (iii) outputs; and (iv) impacts. These headings represent the specific tourism policy issue components of the tourism policy-making process model developed by Hall (1994). The scope of this paper is to provide an analysis of the tourism policies of a centrally planned developing country. It does not attempt to empirically test Hall's model nor examine the policy-making process in China. However, it does rely on the use of a component of the policy-making model to guide the assessment and analysis of China's policies.

Edgell (1987) and Richter (1983, 1989) were two pioneers who analyzed tourism policy-making. Richter for example, examined the evolution of Chinese tourism policy, its political environment, and its organization and found that it is critical to understand not only the design of the policy but the nature of the resources of the society and its administrative milieu. Hall (1994), based on the work of Easton (1965), was the first to suggest a model of the tourism policy-making process. He pointed out that

the government's role in tourism is an outcome of its tourism policy formulation and implementation. Therefore, an analysis of tourism policy is the most straightforward way to identify government roles in developing tourism. According to Hall (1994), the tourism policy-making process includes: (1) policy demands from both inside and outside the political system; (2) policy decisions by the political authority which are authoritative rather than routine; (3) policy outputs; and (4) intended or unintended policy impacts. Policy development is also set within the context of a policy arena in which interest groups, institutions, significant individuals and institutional leadership interact and compete in determining tourism policy choices. The policy arena must also be considered within a broader environment including institutional arrangements, values and power arrangements affecting tourism policy formulation. A detailed examination of the roles played together with a summary and comparison of the key aspects of China's tourism policies for each period is presented under each aspect of the specific policy issue component of the policy making process (see Table 2).

2. International tourism prior to economic reform in 1978

Prior to 1978, tourism in China primarily served the political purpose of promoting the achievements of Socialist China, to expand China's political influence, and to promote international understanding and friendship through receiving invited guests and tourists (Han, 1994a). The China National Tourism Administration (CNTA) had a promotion division (then named Propaganda Division) before 1985 and regularly invited the foreign press to China. It was the famed National Geographic tour of photographers and writers organized by CNTA as a political tool in the early 1980s that instantly made Xian's terracotta warriors an internationally famous attraction. The propaganda division activities remained relatively low key and resources allocated to it were not high. It was not until 1988 that the promotion role was recognized as being an important function and when the government embraced this role through developing marketing campaigns for the very first time and doubling the budget. Thus, according to Zhang (1995), the nature of tourism during the pre 1978 period was political only.

3. Historical period one: 1978–1985

Zhang (1995) suggested that the nature of tourism was politics plus economics from 1978 to 1985. Since the adoption of the economic reform policy in 1978, the nature of tourism gradually shifted and changed to an economic activity. After the Cultural Revolution

(1966–1976), Deng Xiao-Ping and Chen Yun became the supreme leaders of the Communist Party of China (CPC). Any policy change involving tourism matters, which traditionally served as a political instrument, had to be approved by Deng and Chen. Their attitude towards tourism has greatly influenced many policy changes. Following the Cultural Revolution, China faced backward economic conditions and a serious shortage of capital. It was in deep need of foreign exchange to finance further economic development activities which was being promulgated in an era of economic reform. The importance of tourism as a means for accumulating foreign exchange was recognized and emphasized by both Deng and Chen who delivered important speeches about the economic benefits of tourism. Deng stated "Developing tourism should first develop those businesses, which could earn more money". Chen commented that: "tourism was just like the export of scenic spots, earning foreign exchange more quickly than the export of goods". They also agreed that greater effort was needed to develop tourism (Han, 1994a; He, 1992). Both Deng and Chen's consistent attitudes toward tourism development led to positive changes in tourism policy and started the shift of tourism as a political instrument to one of economic activities. In this period, the Chinese leaders regarded the nature of tourism as both political and economic to achieve a "double harvest" in both the political and economic spheres (Han, 1994a). However, the conditions such as government structure and tourism infrastructure and facilities in this period could not cope with the development of tourism as an economic activity, mainly because demand outstripped the supply of facilities and services.

3.1. Demand for tourism policies

3.1.1. Ineffective tourism administration

In the area of tourism administration, a policy was introduced which called for the combination of both government and business functions. The Bureaus of Travel and Tourism (BTT) managed travel agencies nationwide while China International Travel Services (CITS) operated travel services under CITS only. But, actually BTT was involved in travel services operation because the head or deputy head of BTT was also the general manager of CITS. The combination of government with business/enterprise functions resulted in its inability to play the two-functions effectively.

3.1.2. Insufficient tourism infrastructure and facilities

The 10-year period of the Cultural Revolution from 1966 to 1976 made tourism development a non-issue. Upon opening China's doors to international tourists, the receiving capacities in hotels, travel agencies and civil aviation could not meet the demands of a large influx of visitors. Visitor arrivals in 1978, for example, were

Table 2
Summary of the components of Chinese government policies post 1978

Period	Policy making environment	Policy demands	Policy decisions	Policy outputs	Policy impacts	Government roles
Historical period one (1978–1985)	<p>Power arrangement & significant leaders (Deng Xiao-Ping & Chen Yun)</p> <p>↓</p> <p>Change of the attitude of the Chinese government towards tourism</p> <p>Nature of tourism shifted from politics only to both politics and economics</p>	<ol style="list-style-type: none"> 1. Ineffective tourism administration 2. Insufficient tourism infrastructure and facilities 3. Non-profit oriented tourism pricing 4. Ineffective management & poor service quality 	<ol style="list-style-type: none"> 1. Separation of enterprise functions from government functions 2. Introduction of foreign investment in the hotel sector 3. Decentralization of tourism investment and operation 4. Reform controlled tourism pricing mechanism 5. Enterprise reform 6. "Red & Professional" education policy 	<ol style="list-style-type: none"> 1. Tourism administration became a government function 2. Increased tourism infrastructure & facilities – hotels, travel agencies & airlines 3. Flexible & profit oriented tourism pricing established 4. Enterprise reform success in the hotel sector 5. Different types of education institutions established 	<p>Intended impacts:</p> <ol style="list-style-type: none"> 1. Increased Tourism receipts <p>Unintended impacts:</p> <ol style="list-style-type: none"> 2. "Disorder" in the industry emerged 	<p>Roles of Operator, Regulator, Investment Stimulator, Educator</p>
Historical period two (1986–1991)	<p>Change of the attitude of the Chinese government towards tourism</p> <p>Nature of tourism shifted from both politics and economics to economics over politics</p>	<p>The goals stated in the "National Tourism Plan 1986–2000"</p> <ol style="list-style-type: none"> 1. Improve service quality 2. Develop infrastructure 	<ol style="list-style-type: none"> 1. Coordination at government level 2. Mass restoration and development of tourist attractions 3. Aviation reform 4. Intensification of tourism education & training 5. Regulation of the travel agency and hotel sectors of the industry 6. Promotion of tourism 	<ol style="list-style-type: none"> 1. Coordination mechanism between CAAC* and CNTA** established 2. Unique attractions restored or developed 3. Six state-owned & operated airlines established. 4. Airports transferred to local government control 5. Tourism education & training system in place 6. "Disorder" problems reduced 	<p>Intended impacts:</p> <ol style="list-style-type: none"> 1. Tourism developed as a significant industry <p>Unintended impacts:</p> <ol style="list-style-type: none"> 2. Tourism goals not achieved due to June 4 incident 3. Persistence of poor service quality 	<p>Roles of operator, regulator, educator are intensified.</p> <p>Roles of planner, coordinator, promoter emerge</p>

<p>Historical period three (1992–Present)</p>	<p>Power arrangement & significant leader (Deng Xiao-Ping) ↓ Change of the attitude of the Chinese government towards tourism: Tourism should be developed in the Socialist Market Economy Model</p>	<ol style="list-style-type: none"> 1. Tourism further opened to foreign investors 2. Tourism geared to international markets and Chinese nationals overseas travel 	<ol style="list-style-type: none"> 1. Expansion of the areas of foreign investment 2. Planning and construction of resorts 3. Decentralization of tourism pricing 4. Regulation of tourism based on the market mechanism 5. Intensification of tourism promotion 6. Permission granted for Chinese national overseas travel 	<ol style="list-style-type: none"> 1. Joint venture airlines and travel agencies set up 2. Foreign investment was introduced for the resort developments. 3. Construction of 12 resorts. 4. Tourism corporations operating in a free market economy environment 5. Registration of tour guides introduced and implemented 6. Establishment of “Quality Deposit System” for travel agency 7. HMCs set up 8. Promotion stimulated tourism growth 	<p>Intended Impacts:</p> <ol style="list-style-type: none"> 1. Tourism industry gradually geared to the market economy 2. Further expansion of tourism as a significant industry. 3. Achieved goal to obtain US\$8–10 billion in revenue by 2000. 	<p>Investment stimulator, regulator, and promoter roles are intensified Operating role in pricing released to tourism corporations The role of planner extended from the national plan to resort development The role of educator continues and remains unchanged</p>
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* CAAC – Civil Aviation Administration of China.

** CNTA – China Nation Tourism Administration.

1.8 million, which exceeded the total accumulated arrivals from 1949 to 1977. In the following year (1979) this increased by 133% to 4.2 million. However, China only had 137 hotels for international tourists in 1978 and this rose slightly to 150 in 1979 and the hotel growth rate of 9.4% was totally inadequate in meeting the basic accommodation needs of this huge surge of tourist arrivals (China National Tourism Administration (CNTA), 1985–1998; Han, 1994a).

3.1.3 *Non-profit-oriented tourism pricing*

As tourism was primarily promoted for political purposes before 1978, tourism pricing was controlled by the government and merely set to cover operating costs. Prices were fixed and the government was also ignorant of demand fluctuations occurring in the different tourist seasons.

3.1.4 *Ineffective management and poor service quality*

As in every industry in China at the time, the managers' authority in tourism enterprises was restricted. China had adopted a planned-economy since 1949 and resources allocation was fully controlled by the government with managers having little autonomy. Due to the traditional politics-command structure, branch secretaries of the Communist Party of China were responsible for operation rather than the managers. These factors led to decision-making not necessarily based on economic rationality. In the area of service quality, employees in the tourism industry, like every one else on the government payroll, were entitled to the benefits of the "iron rice bowl", meaning that their jobs were safe forever and the evaluation of the employees were not based on their performance. Therefore, there were no incentives for employees to be concerned with quality service and its improvement. Cai and Woods (1993) found that instead of providing the necessary interpretation on exhibits and historical events involved, most tour guides either took a nap on the bus or waited in the museum gift shop to collect the commission on guests' purchases. Service quality, thus, remained far from acceptable international standards.

3.2. *Policy decisions and outputs*

3.2.1. *Separating enterprise functions from government functions*

Before 1978, the BTT was under the jurisdiction of Ministry of Foreign Affairs rather than the State Council (also called the Central People's Government), the supreme executive organ under the Chinese constitution. In 1978, the State Council upgraded the status of BTT to the State General Administration of Travel and Tourism (SGATT) which came directly under its jurisdiction and SGATT became the sole government body responsible for tourism administration. Meanwhile, many provinces,

municipalities, or cities either restored or established their own tourism bureaus like Guangdong Province, Beijing and Shanghai Municipalities. Later in 1982, the State Council separated China International Travel Services' (CITS) enterprise functions from SGATT (He, 1992), and tourism administration became a government function that would no longer be involved in enterprise activities. At the same time, SGATT was renamed the China National Tourism Administration (CNTA).

3.2.2. *Introduction of foreign investment*

The first industry sector allowed foreign investment was hotels. All foreign invested hotels were exempt from tax for the first three years and this exemption was reduced to 50% for the following two years. Initially, only two forms of foreign investment were permitted – joint ventures and cooperatives, where ownership of these investments would be transferred to the Chinese side after 10 to 20 years (Han, 1994a). The introduction of foreign investment in hotel development was very successful and by 1985, there were 45 foreign invested hotels which represented 85% of total investment in the tourism industry (Tisdell & Wen, 1991a). Not surprisingly, hotels were the largest foreign investment sector in the tourism industry.

3.2.3. *From centralization to decentralization*

Prior to 1978, civil aviation, travel agencies and hotels were funded and operated by the central government. In 1984, the State Council decided that central government, localities, individual government departments, collectives and even individuals could invest in and operate tourism development projects (Han, 1994a).

The Civil Aviation Administration of China (CAAC) also encouraged local governments and individual government departments to operate airlines. The State Council issued "Provisional Regulations on Authorizing Civil Aviation Corporation" which detailed operating conditions and approval procedures for establishing and operating an airline. Various local airlines were thus set up such as Xiamen Airlines, Xinjiang Airlines and Shanghai Airlines (Han, 1994b).

Originally, only the head offices of CITS and CTS (China Travel Services) had authority to contact foreign tour operators. This centralized policy restricted promotion of market growth and in 1980 decentralization of marketing promotion to local offices was subsequently introduced. However, lack of central control and coordination resulted in overbooking, unexpected delays and unsatisfactory itinerary changes. In response to these problems, the State Council further modified its decentralization policy in 1984 and allowed all regional branch offices to contact and sell to foreign tour operators, and to notify the visa issuing authorities. However, their sales plans were still subject to the approval of CITS (Han, 1994a). Prior to 1984, CITS, CTS and CYTS (China

Youth Travel Service which was set up in 1980) monopolized travel service operations. In 1984, the State Council also decided that travel agencies could be owned privately, as well as collectively and CNTA classified all agencies into three categories. Category one travel agencies were allowed to negotiate directly with foreign tour operators while the other two were restricted to arranging tour-related activities for the foreign tourists coordinated by category one travel agencies. The effects of decentralization and liberalization were obvious and the number of travel agencies increased to 1245 by 1987. The number of tourists received by travel agencies also increased from just over 2 million in 1984 to over 3 million in 1987 representing a 49% growth rate (CNTA, 1985–1988; Han, 1994a).

The decentralization policy also stimulated domestically owned hotel development and many central government departments, local governments, government enterprises and even individuals participated into hotel construction. For example, the Huiqiao Hotel, in the Hepingli District of Beijing, was built and managed by farmers from the suburbs, and the Lantian (Blue Sky) Hotel in Shanghai was owned and managed by a local air force unit. (Yu, 1995). As a result, the total number of hotels increased from 137 in 1978 to 710 by 1985.

3.2.4. *Reform of tourism pricing*

In this period, tourism pricing was directed at making a profit and tourism prices increased annually. The government thus became aware of demand fluctuations in different tourist seasons and in 1985, classification of tourist seasons was introduced. The busy, shoulder and slack tourist seasons were identified where prices for the busy season would be 6% higher than those of the shoulder season (Hu, 1994).

3.2.5. *Enterprise reform*

Adoption of corporate management was first initiated by Deng Xiao-Ping. It meant: (1) separation of tourism enterprises from administrative bodies where autonomy on personnel, finance and operational matters was granted to a certain degree from higher administration; (2) manager command rather than the Party secretary command where the manager replaced the Party secretary with the responsibility for overall management; and (3) rewarding staff based on their performance (Han, 1994). All tourism corporations, that is state-owned enterprises, including travel agencies and hotels, were also permitted to establish a strict appraisal system for staff. Rewards were based on their performance and staff with poor performance could be punished and even dismissed. These corporate management measures were in line with western hotel management concepts in which there is (1) general manager and department manager responsibility; (2) staff reward based on their performance; and (3) management based on economic rationale. Implementation

of these measures in the hotel sector was quite successful, especially with the introduction of western hotel management concepts, which had accompanied foreign investment. However, for other sectors such as travel agencies and airlines, it was not so effective as the politics-command and “iron rice bowl” privileges were still deeply rooted.

3.2.6. *Tourism education and training*

Due to problems of ineffective management and poor service quality, emphasis on tourism education and training was stressed by the central government. As tourism served both political and economic requirements, a “Red and Professional” education policy was adopted which aimed at developing tourism employees with the ideology of communism and socialism (“Red”) and knowledge about tourism management and operation (“Professional”). From 1978 to 1983 when sufficient funds were not available to establish educational tourism institutes and there was urgent need for manpower, the CNTA offered financial and human resources to jointly run tourism programs with some universities. CNTA also established its own educational institutes and by 1986, a tourism education system was in place which comprised 189 vocational schools, 4 secondary professional schools, and 10 colleges and universities offering tourism courses (Zhang, 1987). Meanwhile, many managers were also selectively sent overseas for tourism management training.

3.3. *Impact of tourism policies*

The goal to earn more foreign exchange was achieved, with tourism receipts increasing from US\$ 262.9 million in 1978 to US\$ 1.25 billion by 1985, more than a three-fold increase. The share of tourism receipts in total foreign exchange earnings from exports increased from 2.7% in 1978 to 4.6% in 1985 and the foreign exchange growth rate from tourism also increased faster than those of other exports (CNTA, 1985–1998; State Statistical Bureau of the People’s Republic of China, 1995).

The unintended consequences that resulted from the Chinese government’s over-emphasis on the quantity of tourism rather than its quality was that the policy allowed introduction of foreign investment and decentralization too rapidly. Without proper planning, lack of coordination and central-control resulted in what the Chinese called “Disorder Tourism”:

From 1985 to 1988, the growth rate in the number of hotels, hotel rooms and hotel beds all exceeded the growth rate of foreign arrivals which represented the main market for hotel demand. As a result, hotel supply moved ahead of the availability of transportation, especially civil aviation. In top tourist regions which had adequate transportation infrastructure, places such as Beijing, Shanghai, Guangdong enjoyed high occupancy

rates while the occupancy rates were low at the top tourist regions with poor transportation capacity and infrastructure like Shaanxi and Guangxi (Tisdell & Wen, 1991b).

Generally, there was an over-supply of luxury hotels compared with medium hotels and in a survey of hotels conduct in 15 tourist cities in 1985, 70% were luxury class hotels. This arose because the Chinese government wrongly estimated foreign tourists demand for luxury hotels and believed high tariff of luxury hotels would bring more foreign exchange. The same survey also found that 35% of the visitors stayed in economy class hotels, 60% in middle class hotels and only 5% in luxury hotels (Zhao, 1989). As a result, the accommodation problem remained unsolved.

Among the 49 major tourists receiving cities identified by CNTA, 14 were distributed over eight municipalities and provinces which received 87% of total tourist arrivals. A list of these cities is presented in Table 3. However, travel agencies in these eight regions accounted for only 51% of the total number of travel agencies in China (CNTA, 1985–1998). An imbalance of distribution channels clearly existed.

As mentioned previously, travel agencies in China were classified into three categories. The delineation of the three-categories of travel agencies was not clear and it was based solely on whether they were allowed to make foreign contacts. Violation of the regulations occurred and service quality still remained poor, especially with some tourist guides who were often the target of complaints for their poor level of service and questionable or ethical practices.

During the first period (1978–1985), the economic contribution of tourism was recognized and led to the opening up of the country to foreign tourists. Understandably, the initial influx of 1.8 million visitors in 1978 created carrying capacity problems, where government owned or operated facilities and services were hardly able to cope with the expectations and demands of the international traveler. A lack of infrastructure and facilities, poor service quality, ineffective administration and management led the government to introduce policies designed to separate the enterprise/operational functions of government from its administration functions. To overcome and resolve the problems, the government allowed foreign investment, introduced tourism pricing and enterprise reforms, and established education and training programs. In this regard, the government played the roles of investment stimulator, regulator and educator, respectively. This period was also characterized by a lack of coordination, poor levels of service provision, and a mismatch between luxury class hotel provision and visitor needs. The government clearly recognized the need to increase the supply of facilities and services and to upgrade the quality of service and it acted accordingly. However, a lack of coordination and the unintended

Table 3
Top 14 tourist cities of 49 major tourist cities 1987

Provinces, municipalities & cities	Number of tourists	Rank
Guangdong province		
Guangzhou	1 850 249	1
Shenzhen	846 511	3
Zhuhai	403 101	6
Shantou	162 840	12
Beijing municipality	1 077 568	2
Shanghai municipality	767 713	4
Guangxi province		
Guilin	503 033	5
Zhejiang province		
Hangzhou	291 855	8
Jiangsu province		
Nanjing	202 047	9
Suzhou	186 401	10
Wuxi	109 375	13
Shaanxi province		
Xian	301 488	7
Fujian province		
Quanzhou	170 232	11
Fuzhou	107 084	14
Total number of tourist arrivals received by the top 14 tourist cities (1)	6 979 457	
Total number of tourist arrivals received by the major 49 tourist cities (2)	8 065 739	
% of (1)/(2)	86.53%	

Source: China National Tourism Administration (CNTA), *The Year-book of China Tourism Statistics*, China Tourism Publishing House, Beijing, 1988.

consequences of the hotel mismatch were acknowledged and ushered the next historical period from 1986 to 1991 when a national tourism plan was adopted to guide the further development and prosperity of tourism.

4. Historical period two: 1986–1991

In December 1985, the government incorporated tourism in the Seventh Five-year National Plan as a key component for economic and social development. Tourism was declared to be a comprehensive economic activity with the direct purpose of earning foreign exchange for China's modernization (Han, 1994a; Zhang, 1995). This event was a significant benchmark for tourism development in China as the attitude of the central government toward the nature of tourism saw a change in emphasis from both politics and economics to economics over politics.

4.1. Demand for tourism policies

In developing tourism as an economic industry and resolving the problems of "disorder" experienced

during the first period, the China National Tourism Administration (CNTA) prepared the “National Tourism Plan 1986–2000”. The goal of the first phase, covering the period 1986–1990, was to enter the ranks of more advanced tourist receiving countries in terms of service quality and infrastructure development, to reach a target of 5 million foreign visitors and US\$ 2.7–3.0 billion in tourism receipts. The government paid full attention to the development of aviation, attractions, education, improvement of service quality, and the operation, promotion, and coordination of the development of tourism. The plan focused on 21 top tourist cities including Beijing, Shanghai, Xian, Guangzhou, Guilin and Hainan Island. The goals of the plan for the second phase from 1991 to 2000 were for China to become an advanced tourist country, to reach the target of 10–12 million foreign visitors, and achieve US\$ 8–10 billion in tourism receipts (Han, 1994a).

4.2. Policy decisions and outputs

4.2.1 Coordination at government level

As coordination was minimal, it was one factor which led to disorder in the tourism industry and the National Tourism Commission (NTC) was set up by the State Council in 1988 to assume responsibility for coordinating activities. Coordination initially focused on civil aviation because its development lagged behind the other key tourism sectors such as hotel and travel agency. As a result, a coordinating mechanism between the CNTA and the Civil Aviation Administration of China (CAAC) was established whereby CNTA would provide their most updated visitor arrival forecasts to CAAC. Based on these forecasts, CAAC took corresponding actions to meet the demand (Wei & Feng, 1993).

4.2.2. Mass restoration and development of tourist attractions

Before 1984, the main emphasis of the Chinese government was on the provision of tourism infrastructure and facilities. The development policy for tourist attractions was mainly limited to opening up more cities for tourists, particularly where historical and cultural attractions were located. At the National Tourism Conference in 1984, awareness was raised of the equal importance of developing attractions and increasing the receiving capacities of tourist facilities and services. A long-term policy was formulated whereby the government allocated RMB\$5 billion annually to the top 14 tourist cities for project development. Since then, mass restoration and development of tourist attractions occurred and many unique attractions such as the Great Wall, Palace Museum (“The Forbidden City”), Terra-Cotta Warriors of

Qin Dynasty and the Grand Canal were either restored or further developed with new and/or improved visitor facilities.

4.2.3. Aviation reform

Structural reform of CAAC was undertaken in 1987 with the aim of transforming the airlines and airports into independent corporations. For airlines, the CAAC would no longer be involved in airline operation and based on the airline teams of the original six regional administrations, six state-owned and operated regional airlines were set up. These airlines which provided both international and domestic services were Air China, China Eastern Airlines, China Southern Airlines, China Southwest Airlines, China Northwest Airlines, and China Northern Airlines. The airlines would be responsible for their own profits and losses. Airport operation and management was also transferred to local and regional governments, with the airports in Shanghai and Beijing the first to be taken over by local government authorities (Han, 1994b).

4.2.4. Intensifying tourism education and training

During this period, CNTA formulated an education policy, which established a nationwide tourism education system. Under this policy, all regional tourism bureaus set up their respective departments governing tourism education for their region. Annual investment on tourism education by CNTA increased sharply from RMB\$ 2.5 million in 1979 to RMB\$ 40 million by 1988. By 1991, the tourism education and training system in China had been established, which comprised of 68 colleges and universities offering tourism courses, 20 secondary professional schools, 178 vocational schools, two training centers, one tourism education press, and several tourism research centers (CNTA, 1985–1998; Han, 1994a).

4.2.5. Regulating the tourism industry

The government decided to further regulate the operations and service quality in the travel agency, tour guiding and hotel sectors of the tourism industry. Due to the unclear delineation of the three travel agency categories and with less control over their establishment, CNTA issued rules to regulate all travel agencies in 1988. The rules covered matters relating to operating conditions, approval procedures and penalties against rules violation. This, however, did not change the unfair practices and competition created through the use of administrative methods to categorize the travel agencies. Although violations of the regulations decreased, they still persisted.

With complaints of poor service quality and the deteriorating ethical conduct of some tour guides, CNTA issued a ‘Ban on Receiving Commission in Tourism’ and introduced ‘Provisional Regulations on Administration of Tourist Guides’ in 1987 and 1988, respectively. These

directives were aimed at regulating all tourist guides over matters pertaining to their qualifications, duties, and responsibilities. Tourist guides were required to be licensed and had to pass an examination before being granted a license. Service quality improved but only to a limited extent since the “iron rice bowl” concept was still deeply rooted in the minds of many tourism employees.

In the hotel sector, a majority of luxury hotels that were developed involved foreign capital investment and with the over-supply of luxury hotels, CNTA decided in 1988 that no further foreign investment in hotels would be permitted in main tourist cities (Zhao, 1989; EIU Travel and Tourism Analyst, 1989). In addition, all hotels had to obtain a license from CNTA before they could operate. Hotel construction gradually came under control. CNTA also issued “Regulations on the Star Standard and Star Rating of Hotels in the PRC”, the purpose of which was to improve the mismatch between service quality and rating of the facilities, and to enable China’s hotels to meet international standards. In 1990, CNTA announced the first group of star-ranked hotels (Yu, 1992). Since then, hotel operations in China were gradually improved to meet international standards and “dis-order” problems in the industry were reduced.

4.2.6. *Promoting international tourism*

When China first opened its door to international tourists, “China Fever” and the easing of travel restrictions led to huge numbers of tourist arrivals. This situation of a “Seller’s Market” combined with emphasis on the increasing capacities of tourism facilities and services caused the Chinese government to do little market promotion. From 1986 to 1990, CNTA’s promotional budget was approximately US\$ 1.4 million per year, which included the operating cost of its overseas offices (Bailey, 1987). However, when the growth of tourist arrivals slowed down for two consecutive years in 1987 and 1988, followed by the June 4th incident (as officially described by the Chinese authorities) at Tiananmen Square in 1989, when total visitor arrivals dropped sharply by 23%, it was only then that China gradually understood the importance of market promotion. The promotion campaign – Tourism Year of Dragon was first introduced in 1988. By 1991, CNTA’s promotional budget increased to US\$ 3.2 million, representing more than a 100% increase compared to the previous year (TTG Asia, 1994b).

4.3. *Impact of tourism policies*

The policies implemented did not achieve the objectives desired as a result of the consequences of the June 4th incident. Neither tourism arrivals, nor tourism receipts achieved the goals set in the “National Tourism Plan”. In 1991, foreign tourist arrivals were less than

3 million, far short of the goal of 5 million which had been set for 1990. Moreover, poor service quality was still a persistent problem in the hotels, although it improved primarily in the foreign invested and managed hotels. According to a survey conducted by CNTA (Sun, 1989), one-quarter of Japanese tourists were unsatisfied with the overall quality of service in China. The ultimate cause in the slow progress in improving service in the local hotels was that neither government nor corporations could make breakthroughs with the restrictions of a planned economy and particularly with such privileges as the “iron rice bowl” which employees had previously enjoyed and expected.

Meanwhile, tourism developed into a significant industry. By 1991, the industry comprised 2130 hotels, 1561 travel agencies, and directly employed 708,000 staff. According to international norms, the ratio between direct and indirect employees of tourism industry was 1:5. Based on this norm the total employment provided by tourism was estimated at 3.54 million (CNTA, 1985–1998; Sun, 1989).

The second historical period saw the introduction of policies designed to overcome the problems of “dis-order”. The government assumed the new roles of coordinator and planner through the establishment of the National Tourism Commission and the adoption of the National Tourism Plan, respectively. In the meantime, it continued to intensify its activities as an operator, regulator and educator. In terms of the latter role as an educator, the government through CNTA had established a comprehensive and extensive tourism education system to accommodate the manpower and training needs of the industry. The second historical period also saw the need for and recognition of the importance of international marketing promotion. Interestingly, marketing promotion was not initially regarded as a key aspect of government activity in tourism. However, with the slow down of tourist arrivals in 1987 and 1988 and followed by a dramatic drop in arrivals after the June 4th incident in 1989, intensification and doubling of the budget for marketing promotion occurred. Tourism by 1991 had developed into a significant industry and it was clearly recognized as an important economic activity in China.

5. Historical period three: 1992–present

In the spring of 1992, Deng Xiao-Ping announced the speeding-up and intensification of economic reforms during his tour of Guangdong province. During the 14th Communist Party Congress in October 1992, a milestone resolution was adopted with the policy of establishing a “market economy under socialism” which allowed the market itself to determine resource allocation within the guidelines of socialism (Liu, 1993). This signified that China would open its door wider than before,

and its economy would be further geared to the market system.

5.1. *Demands for tourism policies*

As an important economic activity, tourism would undoubtedly be closely tied to this general market oriented policy, meaning that tourism would be further opened to foreign investors. This also gradually geared China to receive international tourists and to promote overseas travel of Chinese nationals. Thus, the tourism policies formulated in this period were mainly based on achieving these two objectives as identified in the “National Tourism Plan 1986–2000”.

5.2. *Policy decisions and outputs*

5.2.1. *Expanding the areas of foreign investment*

Prior to 1992, foreign investment was only allowed in the hotel sector and with a more open “Economic reform policy”, travel agency and aviation operators were no longer restricted. In 1991, CNTA announced a policy which allowed Chinese nationals to join overseas tours organized by the China Travel Services to Hong Kong and neighboring countries such as Malaysia, Singapore, and Thailand. The government’s relaxation of the rules for traveling overseas encouraged people to travel abroad (Zhang & Qu, 1996). Foreign aviation investors were allowed to operate any aviation business jointly with China except for those related to aviation control. Based on this policy, foreign investors could operate joint venture airlines with China and also could invest in commercial airports (TTG Chinese, 1994a). By 1994, China had also set up 15 aircraft maintenance and ground services corporations with foreign investors from Hong Kong, USA, Singapore and Indonesia, with Hainan Airline the first airline in China to receive foreign investment.

5.2.2. *Planning of resort construction*

Prior to 1992, vacation travel in China traditionally comprised sightseeing at natural and man-made scenic spots. In making tourist attractions more adaptable to the needs of the international market, the State Council decided in 1992 to build 12 state-level resorts to combine simple sightseeing with holidaymaking. Resort construction would employ both state and foreign investment with the majority interest held by the former including state-level resorts such as the Golden Stone Beach in Dalian, Stone Old Man Holiday Resort in Qindao, Yalong Bay in Hainan, and Hengsha in Shanghai. The travel markets for these resorts are mainly for international tourists (Beijing Review, 1994).

The Chinese government also offered attractive incentives for foreign investment in the state resorts and a 24% tax allowance was offered. For tourism corporations, which operated more than 10 years, the Chinese Govern-

ment would not impose any tax in the first and second years, and imposed half of the normal tax from the third to fifth year (Tourism Industry Monthly, 1993). From 1992 to 1994, total foreign investment amounted to US\$5.45 billion, comprising 79% of total investment in the industry (TTG Chinese, 1994b).

5.2.3. *Decentralization of tourism pricing*

In developing tourism based on market mechanisms, tourism pricing which was previously set by government was decentralized to individual tourism corporations. In 1992, tourism corporations were given the right to stipulate their own prices based on domestic and international tourism market demand, and by 1994, all tourism enterprises were operating in an market economy environment (Hu, 1994; Liu, 1995).

5.2.4. *Regulating tourism based on the market*

During this period, CNTA had to oversee an industry based on market forces more than ever before. The “Tour Guide Registration System” was introduced in 1995 to improve the service quality and competence of tour guides. All tourist guides were required to be licensed with CNTA, and only those who passed the CNTA’s qualification examination were eligible for registration. The registration of guides would be revoked if complaints from tourists were serious and found to be true. One of the aims of the regulation was to eliminate the “iron rice bowl” benefits and transform tour guides from national cadres to self-employed workers, who would be subject to market demands. The registration process of tour guides was fully implemented in 1997 (Qian, 1995). The “Provisional Regulations on Quality Service Guarantee Funds of Travel Agencies” issued by CNTA in 1995 required all travel agencies to deposit a sum of cash with CNTA as a means to guarantee the provision of quality service. The deposits would be used as indemnities to compensate customers when services provided were not up to standard or conditions either stated in the contracts or according to state standards were not met. The fund would also be used when agencies were unable to refund pre-paid fees due to bankruptcy or any other special circumstances. These regulations were directly aimed at encouraging travel agencies to be more concerned with customer’s satisfaction more so than before (Liu, 1995).

Although China’s airlines had improved their services considerably, there was still a gap in service provision in terms of punctuality and in-flight service, especially when compared to their international counterparts. Market competition in the aviation industry is keen and except for the three most successful airlines (Air China, China Eastern and China Southern), all other airlines in China have been operating at loss (TTG Chinese, 1994c). As a result, CAAC stopped issuing licenses to set up a new local airline (Gayle, 1994).

The service quality of many domestically owned hotels also did not generally meet international standards and employing foreign hotel management companies (HMCs) was very expensive. Therefore, the establishment of Chinese HMCs to meet market needs was encouraged. In encouraging and regulating the HMCs, CNTA issued the “Provisional Methods on Administration of Hotel Management Companies” regulation in 1993 to control the approval procedures and operating conditions of HMCs. By 1995, China had 19 HMCs. CNTA helped the hotels by providing a good training base and human resources to set up the HMCs so that these Chinese HMCs could improve their service quality and gradually replace the foreign HMCs.

5.2.5. *Intensifying tourism promotion*

CNTA actively engaged in tourism promotion and the budget doubled from US\$ 3.2 million to 6.4 million between 1991 and 1993 (TTG Asia, 1994b). CNTA also, for the first time, formulated a number of promotional strategies consisting of “Theme Years”, “Major Markets” and “Niche Markets”. The “Theme Years” generally targeted its markets. The theme in 1997 was “Visit China 1997” based on the return of Hong Kong to Chinese sovereignty where CNTA capitalized on this historic event to attract more tourists. The “Major Market” strategy focused on specific countries with strong annual growth potential (e.g. South Korea in 1994 and Germany in 1995). The “Niche Market” emphasized specific market segments where CNTA promoted specific tourist products to the targeted segment. For example, for the Muslims in the ASEAN countries, CNTA promoted relics on the Silk Road, and for high-school students, promotion of the martial arts and calligraphy was undertaken (TTG Asia, 1994a). To effectively launch their promotional campaigns, China officially joined the Pacific-Asia Travel Association (PATA) in 1993 and also took every opportunity to attend and/or hold regional and international exhibitions. Since 1991, both visitors and tourism receipts had enjoyed sustained growth and CNTA acknowledged that this growth has resulted from its international promotional efforts (Beijing Review, 1994).

5.3. *Impact of tourism policies*

Tourism during the third period fully recovered from the dramatic drop in visitor arrivals experienced in 1989 and it then developed rapidly. Both visitor arrivals and tourism receipts peaked in 1995 with the share of tourism receipts in total foreign exchange earnings from exports increasing from 4% in 1991 to 5.9% by 1995. The goal set in the National Tourism Plan to generate US\$ 80–100 billion in revenue by 2000 was achieved. It is generally considered that these remarkable achievements have mainly occurred as a result of the mass promotional

campaigns. The other impact was that China’s tourism gradually geared itself to the free market economy environment. Moreover, China’s tourism industry further expanded and by the end of 1995, China had 3720 hotels, 3826 travel agencies and around 34 airlines, directly employing 1 million people and indirectly employing an estimated 5 million (CNTA, 1985–1995; Gayle, 1994).

In this third and current period, the government’s role of investment stimulator, promoter, and regulator intensified. The operating role which previously regulated tourism pricing was relaxed so that tourism corporations would determine it themselves, and the role of planner was extended from the National Plan to involvement in the establishment of a specific tourist product (that is, state resorts). A definite shift in policy occurred in this period whereby adoption of a socialist market economic approach with Chinese characteristics was introduced.

6. Discussion

Choy (1993) argued that there are no “a priori” reasons for believing that the government of a developing country would have sufficient expertise to develop tourism successfully in the absence of a strong and tourism-experienced private sector. However, in the case of China, government involvement has been successful in the development of tourism from its initial stages to the present day. The Chinese government has played various important roles: Operator – involving the provision of the infrastructure for tourism development and through ownership and operation of tourism businesses; Regulator – formulating and implementing regulations to run the tourism businesses; Investment stimulator – stimulating tourism investment by granting financial incentives; Promoter – spending money on the international promotion of tourism industry; Coordinator – coordinating the activities among different government departments with respect to tourism; and Educator – establishing tourism education institutions and providing tourism education and training programs.

During the past two decades, when China had opened its doors to international tourists, the role and nature of tourism has changed significantly. Tourism has transformed from being initially a political tool, which was centrally controlled to an economic one which is now driven by market forces. Tourism has also emerged as a significant economic industry. Given the nature of China’s economic development under communist rule with strong central government control, it is not surprising to find that the government played a key and decisive role in shaping the development of tourism through the adoption of a series of policies. For each of the historical periods identified, the roles played by government and the accompanying policies were

quite distinct and pivotal in shaping the nature and direction of tourism. The initial role of government as an operator has changed now to that of coordinator and planner, while the role as educator has continued throughout each of the three historical periods. The establishment of an extensive tourism education system under the auspices of a tourism administration (i.e. CNTA) acknowledged the need for properly trained and educated personnel to service the employment demands of the industry. Education continues to play an important role as China strives to become a leading tourism country and to meet international standard levels of service.

Despite the best of efforts, the unintended consequences of “disorder”, persistence of poor quality service and impact of the June 4th incident which saw a dramatic drop in tourism arrivals in 1989, led the government to adopt new roles to overcome the unexpected problems that had arisen. In respect of “disorder”, the government assumed the roles of coordinator and planner with the adoption of the National Tourism Plan. The issue of poor quality service is a difficult one to tackle given the “iron rice bowl” mentality of the workers. For those who are formally educated in hospitality and tourism this is not a problem. However, for many tourism employees who do not have the benefit of formal training, there has not really been any incentive to improve standards of service. The recent announcement by Zhu Rong-ji following his appointment as Premier in 1998, to cutback government expenditure and no longer subsidize unprofitable enterprises will force employees in government or collective owned enterprises in particular to either shape up, otherwise they may find that they may not have a job. Although adoption of the socialist market model has been in place for six years, the recent measures announced by Premier Zhu certainly adds impetus for enterprises, be they tourism ones or not, to get their act together so that they are run efficiently, meet market demands, and satisfy the customer through the services provided.

Interestingly, it was not until 1990 that the Chinese recognized the need and importance to internationally market their country in a concerted manner. The concept of marketing would, at best, not be very well understood and used, given that China enjoyed an unprecedented growth in tourist arrivals for nearly a decade from 1978 to 1987 and as it was a very popular tourist destination during that period. However, as arrivals began to stabilize and fall, the government had to assume the role of promoter and began to develop marketing strategies and campaigns to attract international tourists. Tourism in China has certainly come a long way from one that has been based on a centrally planned economy to one now based on market needs. Time and continued experience with the market will, no doubt, enable Chinese tourism to flourish and eventually meet internationally accepted

service standards. The government will need to continually monitor progress on these matters well into the next century to ensure the standards are improved to international expectations.

7. Implications and conclusions

The experience in China has demonstrated that it has been possible to actively develop tourism so that it can become an important economic industry. A number of implications for other developing countries have been identified as follows:

(1) In a developing country where resources are scarce and there is an absence of a strong and experienced private sector, government taking an active role in the development of tourism is essential (Jenkins & Henry, 1982). Without active government involvement, it is unlikely that any industry players would have been able to formulate a series of actions to foster and promote the development of tourism. These roles will vary according to the situation and needs of the industry, and one would also expect the roles to change over time;

(2) Commitment and control are also important factors leading to the successful development of tourism. This commitment and control is no doubt fostered in a country with a socialist background where central planning has been widely accepted and practiced. Nonetheless, the lesson for other developing countries is that with a high level of commitment and control, one is able to guide development without incurring too many adverse impacts. In having control of the development of tourism, minimization of the negative impacts particularly upon the communities involved will help enhance the acceptance of tourism;

(3) With scarce resources, governments also need to carefully nurture its investment stimulator role to introduce as well as control foreign investment. In the case of China, foreign investment was carefully controlled so that the necessary facilities and expertise could be brought in without “selling out” one’s assets to foreign interests. Furthermore, the introduction of foreign investment was carried out in such a way that mutual benefits were gained for both host and foreign participants;

(4) The roles of coordinator, planner and regulator should be played in the initial stages of tourism development in order to plan and control the orderly development of tourism, otherwise ad hoc and imbalanced development may result, as in the case of China’s experience during the first historical period (1978–1985); and

(5) In the absence of any formal education and training programs, it will be necessary for an educator’s role to be played so that the skills of the local people will be sufficient to be able to provide the necessary level of

service and for some to have the necessary expertise to run and operate a tourism enterprise.

Previous studies by Mill and Morrison (1992) and Hall (1994) have discussed the various roles that could be played by government, but they do not address the nature of the interrelationship between these roles. A description of the roles only may provide a false impression that the various roles are independent from each other. Nevertheless, the various roles played by government are interrelated, and such inter-relationships could be described as one of “mutual cooperation”, which brings about a “synergistic effect” to achieve the national goals for tourism.

Lastly, Hall's model provides a useful framework for analyzing tourism policy as it conceptualizes the tourism policy-making process and identifies the key components involved. Factors affecting tourism policy-making can be identified in the case of China such as power arrangements, significant leaders, however, factors such as institutional arrangements and interest groups are not examined which provides the focus for another paper. Absence of any discussion on the institutional arrangements and interest groups is acknowledged as a limitation of the paper. The interrelationship among these factors also needs explanation and warrants further investigation. Further testing of the application and usefulness of Hall's policy model in other countries would enable assessment of the relevance of the model and also provide the basis for making comparisons between policy development approaches among different countries.

In conclusion, modern China's experience in the development of international inbound tourism has provided some interesting insights as to how a developing country has transformed tourism development from a political tool to a major economic activity which is now driven by market forces. No doubt, the government through its various roles, at critical junctures, has been a major player contributing to the current success of the industry. Despite the unintended consequences of disorders which resulted toward the latter part of the first historical period (1978–1985), the Chinese authorities through a series of policy measures were able to rectify many of the problems. Adaptability has been a key aspect of China's tourism policy development and this should be acknowledged as the various governmental roles change over time.

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