

# THE PUBLIC PRIVATE PARTNERSHIP MODE IN BEIJING CULTURAL TOURISM

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**Abstract:**

*The aim of this paper is to analyze the concept of Public Private Partnership in Beijing cultural tourism. According to some experts, an important reason why cultural tourism PPP is difficult to land lies in the government's lack of predictability of its own affordability. For the government, whether it is capital investment or subsidies, it will be a long-term burden. It may not be obvious for one project, but if there are too many projects, it will cause local government financial pressure and will greatly increase the risk of exceeding public budget.*

**Key words:** Public Private Partnership, Beijing, cultural tourism

**JEL classification:** H89, L83

## 1. INTRODUCTION

China's tourism industry has long relied mainly on traditional financing models such as government investment and bank loans. It is difficult to meet the huge financing needs of tourism project construction and transformation of tourism product structure. In August 2015, the General Office of the State Council issued a document saying that enterprises should be supported to invest, build, and operate tourism projects through government and social capital cooperation models. The so-called government and social capital cooperation mode is named the Public Private Partnership (PPP). It is a new type of investment and financing mode that the government and social capital cooperate with each other.

The concept of PPP in the United States and Europe has existed for centuries, but has become more prominent in recent decades in local economic development (Keating, 1998). Partnerships come in all sizes and types. The most important PPPs since the 1990s have been in the sectors of education, health, and transportation. There is considerable range in partnerships from those dominated by the private sector to those dominated by the public sector (Savitch, 1998). Public private partnerships (PPPs) are cooperative agreements between governments and the private sectors for the purpose of providing public infrastructure, community facilities and related services, typically of a long-term nature.

The development of tourism in emerging economies have been shaped by many factors among which Public-Private Partnerships (PPP) play a key role as they bring together government agencies and the public sector with representatives of the whole tourism value chain under the same goals of promoting socio-economic development, sustainability, job creation and international competitiveness through tourism (Taleb, 2015). PPPs attract stakeholders who have various kinds of objectives, skills and resources in a formal or informal voluntary partnership with the government to improve the attractiveness of a regional destination, its productivity, associated market efficiency, and the overall management of tourism.

## 2. THE PUBLIC PRIVATE PARTNERSHIP IN CHINESE TOURISM

The Chinese tourism PPP is accompanied by the growth of the entire PPP industry. The “National PPP Integrated Information Platform Project Library” of the Ministry of Finance Government and Social Capital Cooperation Center website, by February 28, 2017, the PPP projects in tourism reached 720, accounting for the proportion of 6.1% among total library PPP projects in China. According to Wei Xiang, associate professor of the Institute of Finance and Economics of the Chinese Academy of Social Sciences, tourism PPP investment focuses on tourism islands, ecotourism, forest parks, ancient towns, wetland parks, and industrial parks. In tourism PPP applications, social capital favors tourist towns. Since 2015, a number of tourist towns have been established. The local government and social capital industry are full of enthusiasm and expectation for entering the tourism industry through PPP. The Beijing News reporter found that by 2017, the PPP project for comprehensive development of ethnic cultural tourism in the world has been successfully implemented in Hunan Province with an investment quota of 18.5 billion Yuan. In addition, it is reported that Chifeng City, Inner Mongolia, is expected to start construction of 9 tourism PPP projects in 2018. The total investment amounted to 5 billion Yuan.

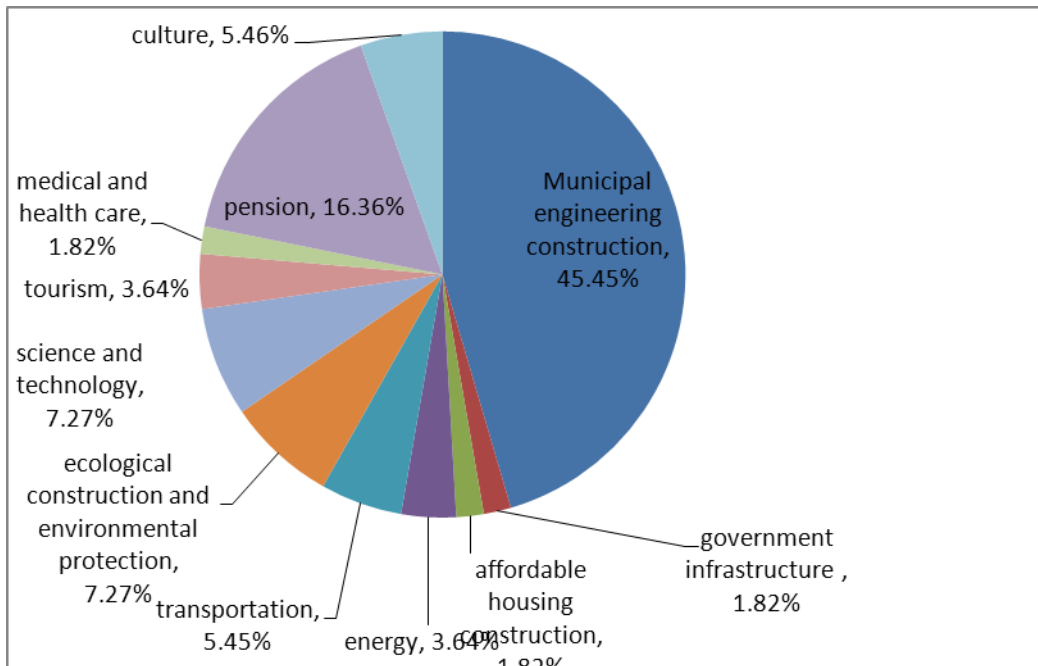
However, the number of PPP projects in Beijing doesn't stand out so much. As an important content of the supply-side reform, the PPP mode has been highly valued by Beijing Municipality. The development of Beijing PPP has the following characteristics:

- (a) The number of PPP projects is not prominent, but the investment is at the top

Considering the number of the PPP projects, there are 55 approved PPP projects in Beijing, accounting for less than 0.6% among all the 9285 PPP projects all over the country. The number is not so prominent, ranking 41th in 332 cities in China; but from the investment amount, the total investment is RMB 190.593 billion, accounting for 1.80% of the total, ranking the 4th, indicating that although the number of projects in Beijing's PPP projects is not outstanding, the project investment is relatively large and the overall scale is considerable.

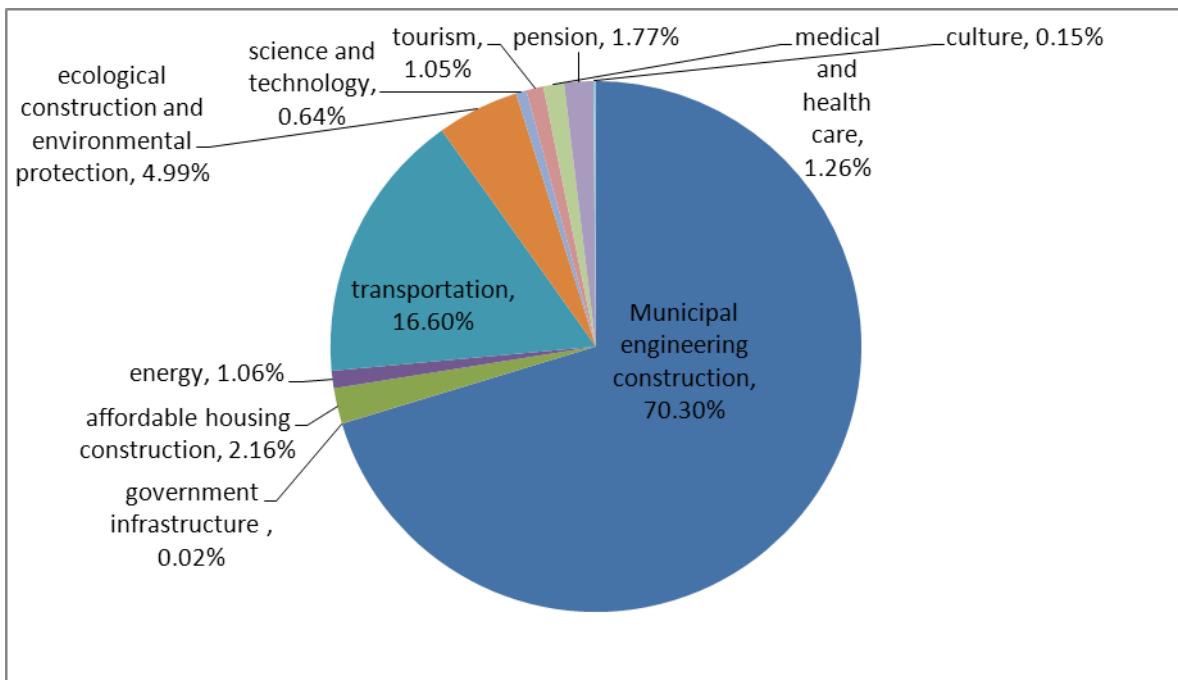
- (b) Concentrated in several industries and the municipal construction projects accounts for a relatively high proportion

The following chart shows that there are only 11 industries in Beijing's PPP projects. Not every industry is involved, and the project industry is extremely uneven, in terms of quantity, the proportion of municipal construction projects is relatively large, as high as 45.45%, from the amount of investment Look, this difference is even more prominent. The amount of investment in municipal construction projects is as much as 70.30%, followed by transportation, accounting for 16.60%, indicating that the municipal infrastructure projects are the main force for Beijing's storage projects. In the meanwhile, Tourism PPP projects only accounts for 3.64% in quantity and 1.05% in amount of investment, which is a relatively very small proportion, compared with the PPP projects in other fields.



**Figure 1. Beijing PPP Projects Fields Analysis (by Quantity)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*



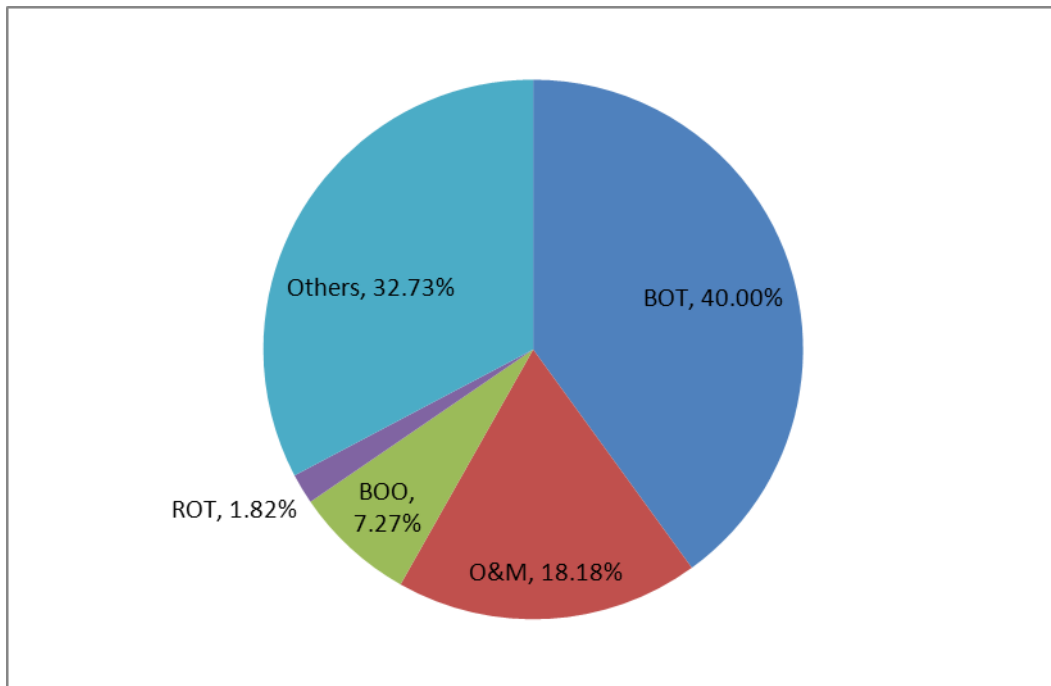
**Figure 2. Beijing PPP Projects Fields Analysis (by Investment Amount)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*

(c) Flexible and diverse operating modes, but mainly BOT

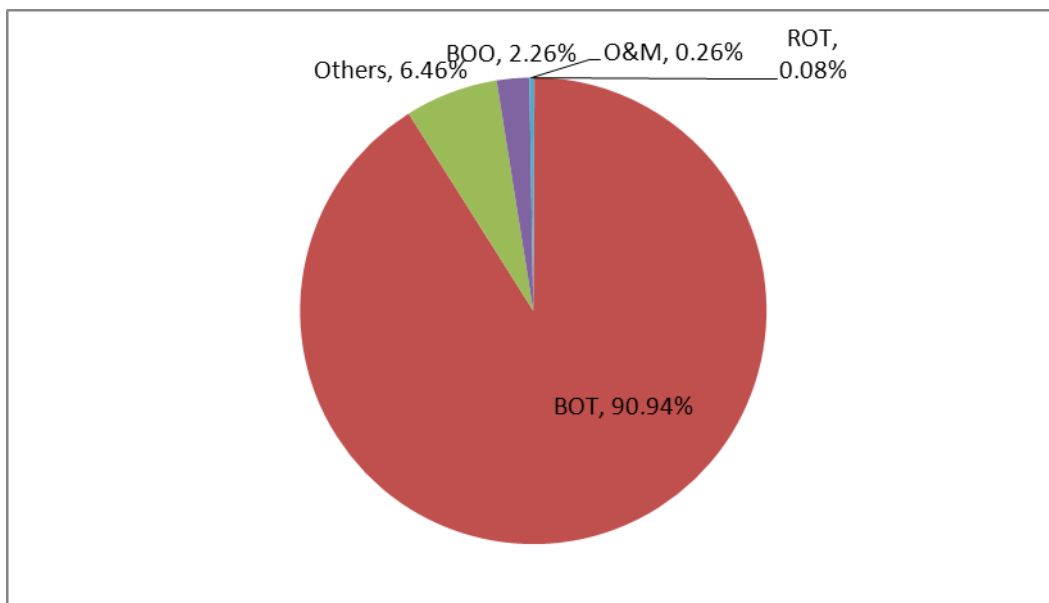
At present, the main operating modes of PPP in China can be divided into three types: First, the outsourcing type, including O&M (Operation-Maintenance) and MC (Management Contracts). In Beijing there are 10 PPP projects that use O&M to entrust the inventory PPP projects to experienced social capital with comparative advantages to operate; second, the franchising type, especially the BOT (Build-Operate-Transfer), which is most commonly used. 22 PPP projects in Beijing use this model. In terms of quantity, it accounts for 40% of the total investment. From the point of view of the investment, it is up to 90.94%, indicating that most of the large-scale projects with large investment, such as Beijing Metro Lines 14 and 16, Xingyan Expressway take BOT

model; In addition, there is another inventory project that adopted ROT (Rebuild-Operate-Transfer) model. The third type is the privatization. BOO (Build-Operate-Own) is more commonly used. 4 projects in Beijing are operating in this way and the entire the construction and operation of the project participated by social capital does not need to be handed over to the government.



**Figure 3. Beijing PPP Projects Operation Modes Analysis (by Quantity)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*

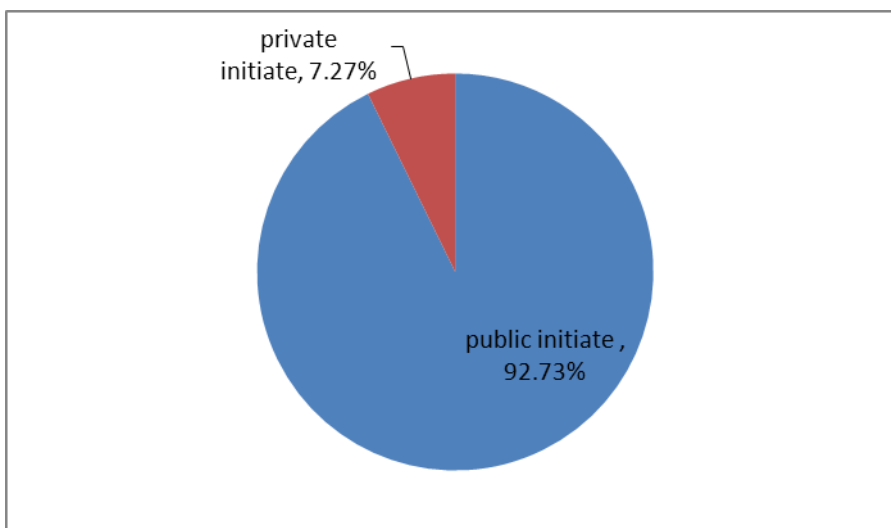


**Figure 4. Beijing PPP Projects Operation Modes Analysis (by Investment Amount)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*

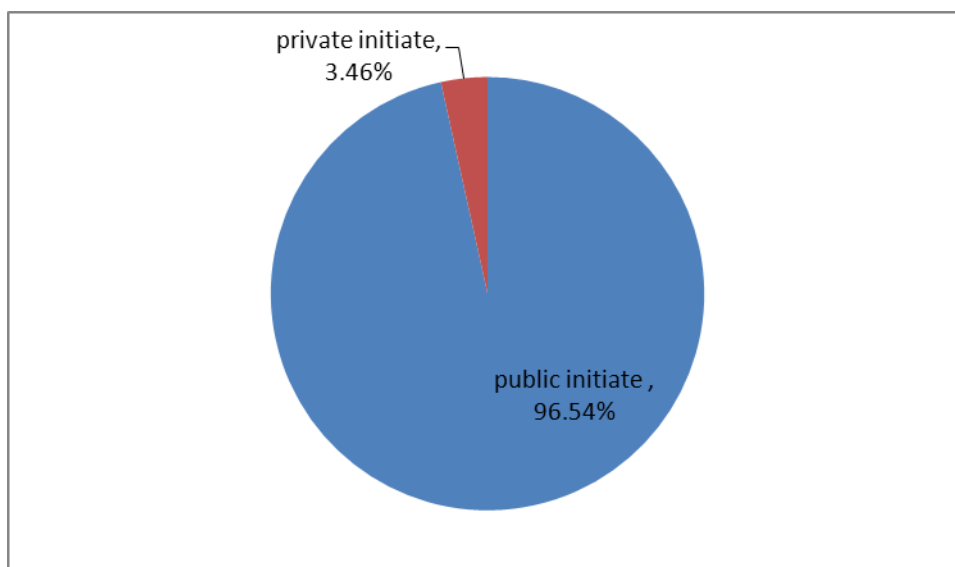
(d) The government is mainly initiative and the private supplemented

The initiator of a PPP project can be categorized into two types---public and private, from the Charts down, we can notice that both in terms of the number of projects and the amount of investment the government is the absolute body of the PPP project. More than 90% of the projects are issued by the government. There have been very few private initiators.



**Figure 5. Beijing PPP Projects Initiators Analysis (by Quantity)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*



**Figure 6. Beijing PPP Projects Initiators Analysis (by Investment Amount)**

Source: Ministry of Finance People’s Republic of China, *National PPP Integrated Information Platform Project Library Season 6 Quarterly Report*

(e) The duration of cooperation varies and the differentiation is very serious

It is worth mentioning that although nearly 70% of the Beijing PPP projects periods are between 10-30 years, but there are still different lengths of cooperation. For example such as the “Beijing Longxiang Fenghe Cultural Tourism Comprehensive Service Base Construction Project”, which has been cooperating for 70 years, the only 1 year cooperation Shandong Li Community Project initiated by Shougang Corporation and the sewage disposal Plant Project in Mentougou District, which lasts for only 3 years. The latter obviously contradicts the “cooperation period” in the application conditions issued by the Ministry of Finance. The limit is not less than 10 years in principle.

### 3. THE PUBLIC PRIVATE PARTNERSHIP MODE IN BEIJING CULTURAL TOURISM

Among all the PPP projects in Beijing, there are only 2 somehow directly with cultural tourism. Both of the projects are in the rural area. The introduction and details can be seen in the format down:

**Table 1. PPP Projects related to Cultural Tourism in Beijing**

PPP Projects related to Cultural Tourism in Beijing				
Name	Time	Place	Amount of capital	Details
<b>Miaofeng Chuangyi cultural tourism service facilities construction project</b>	2015	Mentougou District(rural)	25,83million RMB	The project was invested by Beijing Wanhua Chuangu Tourism and Vacation Co., Ltd. in the way of village-enterprise cooperation. The planned total land area is 0.36 hectares, and the planned total construction area is 1,005 square meters. The main contents include: Reception service, cultural and leisure experience, cultural tourism and so on.
<b>Shaanxi Garden of painting construction project</b>	2016	Mentougou District(rural)	80million RMB	The project was invested and constructed by the Beijing Gudao Lanting Culture and Art Co., Ltd., in the way of village-enterprise cooperation. It covers an area of 0.83 hectares. The main construction includes: cultural exhibition area, art gallery and Supporting projects.

Source: Ministry of Finance People's Republic of China, National PPP Integrated Information Platform Project Library Season 6 Quarterly Report

### WHY IS IT HARD TO ISSUE A PPP PROJECT IN CULTURAL TOURISM?

As for the difficulties encountered the cultural tourism PPP projects in Beijing as well as the whole China, the reason may be that cultural tourism PPP projects endowed the characteristics of continuous operation and sustained return. It is necessary for the government and social capitals to select the projects very carefully. PPP is a co-rent model for the public and private sectors. For the government, it needs the project to have a certain social public benefit, while the ultimate purpose of the private sector is to make profits. The project that simply pursues the nature of public welfare or is completely commercialized is not suitable for PPP. To projects that are both public in nature and capable of commercial operation are the first prerequisites for determining whether the government and the company's cooperation projects can proceed smoothly.

**According to some experts, an important reason why cultural tourism PPP is difficult to land lies in the government's lack of predictability of its own affordability.** For the government, whether it is capital investment or subsidies, it will be a long-term burden. It may not be obvious for one project, but if there are too many projects, it will cause local government financial pressure and will greatly increase the risk of exceeding public budget. Therefore, for the local government, planning for PPP should not be based solely on the project itself, but should be planned from the total local PPP project payment to determine whether it will exceed the capacity to bear.

It is also suggested that since **cultural tourism PPP needs long-term operations compared to the general PPP**, the government should choose to have more operational and capable private partners to cooperate. At the same time, in the cultural tourism PPP project, the role of experts and consulting agencies should be fully utilized, and the synergy between the tourism industry experts, financial experts, legal experts, and professional consulting agencies should be fully utilized to judge the feasibility of the project and the operational capacity of social capital.

In order to better encourage the PPP mode to improve the tourism public services, In April, 2018 the Ministry of Culture and Tourism and the Ministry of Finance People's Republic of China have jointly issued the *Instructions on PPP Mode in Tourism*, which emphasized the importance of developing PPP mode in China's tourism through the promotion of government and private cooperation models in the tourism sector, promote the implementation of the government's commitment to resources protection, environmental remediation, ecological construction, cultural heritage, consulting services, public facilities construction, and other tourism public services related to the neighboring hotels, scenic spots, shops, parking lots, real estate, advertising, refueling stations, and other operational resources for overall planning, integration and development, comprehensive improvement, and constantly optimize the tourism public service and public product supply, promote the protection and rational use of tourism resources, improve Assessment of the value of tourism resources assets, to better meet the people's needs for public tourism services, and vigorously promote the tourism industry to improve quality and efficiency and transformation and upgrading.

#### 4. CONCLUSIONS

For the first time, the development of the tourism PPP mode is proposed. Chen Shaofeng, deputy dean of the Institute of Cultural Industries of Peking University and deputy director of the National Cultural Industry Innovation and Development Research Base of the Ministry of Culture, stated that more and more large-scale projects are both cultural and tourism projects, and many cultural industry goals must be combined with tourism. In Chen Shaofeng's view, the merger of the cultural and tourism sectors is conducive to solving the problem of insufficient internal motivation for cultural undertakings. "Cultural venues built in many places cannot support endogenous growth and cannot solve the problems of both the business and the industry. Many businesses lose money. If culture and tourism are combined, they can use tourism to grow cultural industries and strengthen the cultural experience and industrial properties in tourism" (Ni, 2018).

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