

# Research on the Optimization of the Government's Role in the Development of Hotel Industry

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**Abstract** Government's role playing is one of the most important issues in the development of hotel industry. The changing stages, essence, law, trend, and optimization of the government's role playing in Chinese hotel industry are studied. It concluded that the government should change the indicators for the performance appraisal, let the related nongovernment organization work regularly and improve the participation system of government strategic decision.

**Keywords** Government's role · Hotel industry · Optimization

## 1 Introduction

On January 4th 2010, "building Hainan international tourism island" became the national strategy of China. During the spring golden festival in 2010, the price of the hotels in Yalong Bay in Sanya city went up for 3–5 times and many hotel rates went beyond 10,000 yuan. Whether the government should regulate on this phenomenon or not aroused the attention and discussion of researchers. In fact, this is not an individual case of Hainan hotel industry. On the contrary during various activities and events, the room rates of the destination hotel will rise while the service quality is not increase at the same time. This leads to the damage to consumer interests and the industry image. The government should regulate on this or not is always paid close attention to.

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Hotel is one of the earliest industries to be opened up to foreign market. What role the government should play and how to optimize the government's role is a question of practice that needs systematic analysis. Researches in the field of hotel industry mainly develop from the aspect of micro operation, focus on the hotel marketing, human resources management and service quality. The research from the macro aspect is little and in this article, the government role in hotel industry in China will be discussed systematically.

## **2 The Changing Course of the Government's Role in Hotel Industry in China**

### ***2.1 The Government Mainly Playing the Role of "Controller" and "Operator"***

From the establishment of new China till 1978, the tourism industry had not broken the ice and fell behind. The most basic characteristics of the modern hotel: safety, sanitation, and comfort can not be guaranteed. In 1978, there were only 203 hotels and 320,000 rooms in China that can host foreign tourist,<sup>1</sup> while at that time the yearly number of inbound tourist is 1,809,000 person-time.<sup>2</sup> The guesthouse can not accomplish the increasing hotel receiving task. To increase the effective supply of the hotel in China became the urgent affairs. Under this background, the government mainly played the roll of "controller" and "operator" in the development of hotel industry in China.

#### **2.1.1 The Content and Performance of the Government Roll Player of "Controller"**

① The content of the government role player of "controller"

During this period, the government controlled the total supply amount of the hotel industry in China, mainly through the methods of transferring the hotel facilities to the department of tourism, utilizing foreign capital in building hotels and increasing the government input.

In May 1979, the state council endorsed the <<the proposal of changing the management system of superior hotel in China>> of the central office of tourism industry in China. It explicitly transferred some high-ranking guest house, rest house, and villa to the management of tourism branch in order to append the total amount of the supply of hotel.

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<sup>1</sup> Yu bingyan, Zhu chengqiang. Modern hotel management[M]. Shanghai: shanghai people publishing house, 2002, 4.

<sup>2</sup> Wang dawu, Xiao qianhui, Li renzhi. The blue book of the development of Chinese hotel industry 1979-2000. Beijing: Chinese tourism publishing house. 2002. 3:4.

In 1979, the state council endorsed the report about using 2,000,000 US dollars to building the Beijing Jianguo Hotel. In 1986, <<the inform of using international commercial loan to build tourism hotels from the state council>> was promulgated. This encouraged the using of international commercial loan to build hotels and provided accordance of the using of foreign capital.

In 1984, the stage council ratified <<the report of creative work in tourism>> of the national tourism bureau and proposed that all of the country, the local government, the department, the collectivity, and the person can invest in tourism. Self-dependant and taking advantage of foreign capital are both permitted. The national tourism bureau arranged tourism fundamental invest of 25 billion, with a year average of 5 billion to build hotel, scenery spot, and other facilities.

② The performance of the government role player of “controller”

Under the specific policy regulation, the hotel supply has been increased obviously. From 1979 to 1987, the total number of the hotel in China increased from 150 to 1,283, with an average increasing rate of 31.4 %. The room number changed from 3,400 to 40,070 with an average increasing rate of 25.2 %.<sup>3</sup> The augment of the total number and room number of hotels remitted the pressure of the receipting work of the foreign guests effectively.

### 2.1.2 The Content and Performance of the Government Roll Player of “Operator”

① The content of the government's role player of “operator”

At the beginning of the establishment of China, in order to develop the running management level of the hotel industry of our country, the Chinese tourism industry management bureau required the state-owned hotel highlight its own characteristics on the foundation of learning from western hotel and hold meetings to research on how to increase the service quality several times.

② The performance of the government's role player of “operator”

During the process of building up joint venture hotels with foreign investment, the government learned to facilitate the modern enterprise models by studying through analogy and reference and shortened the distance between the level of the Chinese hotel industry and the international hotel industry. The management level of the state-owned hotels increased rapidly. On July 1st 1985, the Guangzhou white swan hotel which was run by the cooperation of China and Hongkong was taken in by the world first-rate hotel organization as a full member and this was the first time for the hotel in China to enter the international first-rate hotel.

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<sup>3</sup> The tourism hotel association, Shanghai social science research center. The blue book of the development of Chinese hotel industry. Beijing: Chinese tourism publishing house. 2001: 51.

## ***2.2 The Government Mainly Played the Role of “Regulator” and “Operator” (1988–1993)***

After about 10 years of development, the hotel industry in China began to take shape. The shortage of the tourism rooms had been remitted and in some cities the supply of the hotel rooms even been over supplied and the occupancy rate decreased. In 1986, the average hotel renting rate is 88.6 % and in 1987 it decreased to 66.27 %.<sup>4</sup>

Among the hotels concerning foreign affairs, state-owned hotels were still the minority. In 1987, there were 2,027 state-owned hotels among the total 1,283 hotels, took up 80.05 %, the room number of the state-owned hotels is 1,45,600 and took up 78.83 % of the total number of the hotels which was 1,84,700.<sup>5</sup> Many state-owned hotels succeeded in transforming from institutions to independent enterprise. But they were still belong to 20 different systems such as national tourism bureau, government office administration and the communist youth league and it led to the problems of the disorder of management, the integration of government administration with enterprise and the over administration intervene of the operation of the companies.

Under the development background of the industry as above, the government mainly played the roll of “regulator” and “controller” in the development of the hotel industry.

### **2.2.1 The Content and Performance of the Government Roll Player of “Regulator”**

① The content of the government roll player of “regulator”

First of all, the implement of the star-rating institution

In August 1988, the national tourism bureau established the <<the regulation about the tourism hotel star rating of the people’s republic of China>> and <<the criterion of the tourism star evaluation of the hotel concerning foreign affairs of the people’s republic of China>> by consulting the international criterion and combining the actual situation of China. On 1st January 1993, the <<Classification and evaluation of the tourism hotel stars concerning foreign affairs>> became the national criterion.

Secondly, the implement of price regulation

In May 1991, in order to prohibit the tourism hotels from reducing the prices and protect the legitimate interest, the national tourism bureau and the national price bureau sent out the <<information of the lowest price limitation of the room

<sup>4</sup> The association of Chinese tourism hotels, Shanghai social science tourism research center. The blue book of the Chinese hotel industry. Beijing: Chinese tourism press: 58.

<sup>5</sup> The association of Chinese tourism hotels, Shanghai social science tourism research center. The blue book of the Chinese hotel industry. Beijing: Chinese tourism press: 58, 67.

price of the tourism hotel concerning foreign affairs>> and star hotels in different areas was managed by the lowest limitation of the tourism hotels.

Then, the start of the safety and fire fighting regulation

In October 1993, the ministry of public security and the national tourism bureau issued <<the inform of the strengthen of the fire control safety work of the tourism hotels>>. In April 1994, the validation meeting of the <<safety management method of the national tourism hotel and pleasure boat>> was held in Haikou by the national tourism bureau and the safety criterion of the hotels concerning foreign affairs and tourism boat.

② The performance of the government roll player of “regulator”

During this period the star evaluation institution had positive effect on the development of our hotel industry. Firstly, the star evaluation criterion provided reference to the hotel management and deduced the blindness and subjectivity in the development that resulted in the scientific management of the hotels. Secondly, the hotel presented star level so the consumer can have a basic understanding and acknowledge of the hotel, the star level became a method of tangible. Thirdly, after the implementation of star evaluation institution, people can made qualitative prediction from the star structure before invest in hotel industry. Besides, the start of the hotel safety and fire-protection regulation successfully regulated and promoted the development of the hotel industry.

But the price regulation on the hotel industry did not prove effective. Some manager of high-star hotels thought that although low price would lead to loss, the hotel servers can get practice in working and the moral can be inspired so that would provide good foundation for the running after the ending of the low season. Price decrease is a kind of running operation choice instead of malignant pricing competition. The substance of the government lowest price limitation was a kind of limitation to the company's operation behavior.

## **2.2.2 The Content and Performance of the Government Roll Player of “Controller”**

① The content of the government roll player of “controller”

First of all, the government controlled the investment in Chinese hotel industry strictly. In November 1986, the state council issued <<the inform about the using of international commercial loan to build tourism hotel>> and pointed that from the beginning of the publication of the inform it was prohibited to build joint venture or cooperation hotels, apartment and office building (including the rebuilt of old hotels). In April 1990, the state development planning commission, the national tourism bureau, the ministry of foreign trade and economic cooperation announced <<the inform of reaffirm of the strictly carrying out of the procedural of examination and approval of the joint venture and cooperation hotels>>. The regulation on the investment had been controlled strengthened.

Then, the government led the development of the hotel management company in our country positively. In February 1987, the national tourism meeting was held in

Beijing, the national tourism bureau pointed that the hotel management companies like Holidayinn, Hilton and Sheraton in foreign countries should be established. By doing so, the government tried to strengthen the macro management of the hotel industry and promoted the competition ability of the hotels. At the same time, try to realized the collective of the hotel industry quickly.

② The performance of the government roll player of “controller”

<<the annual report of the utilization of the foreign capital throughout the country>> in 1987 showed that in 1987 there were 76 sino-foreign joint venture projects in hotel industry given permission all over the country, the foreign investment was 14 billion US dollars which was 38 % of the permission of the direct investment of foreign capitals. In fact the foreign investments into the hotel industry were not restricted effectively.

China built hotel group successfully through non-market-oriented means and improved the competitiveness of Chinese hotel management companies comparing with foreign companies. For example, in 1992 among the top 200 hotels selected by <<Hotels>>, the Jinjiang company ranked 75. But because of the distinctive problems of fuzziness of property right, omission, dislocation and offside of the ownership and the power of operation, there were still obvious distance between Chinese hotels and international hotel groups in the fields of brand operation, market network, human resource development and capital operation.

### ***2.3 The Government Mainly Played the Role of “Regulator” and “Public Welfare Person”(1994 Till Now)***

After high speed rise in the 1980s, the tourism hotel industry entered the period of developing with steady pace. The total number of the hotels and room numbers kept on increasing and the increasing rate became slow. After 1980s, many famous international hotel management groups entered the Chinese hotel market and showed the trend of specification and group running that drove the increase of the competitiveness of our hotel industry. During this period, the government mainly played the role of regulator and welfare person in the development of the hotel industry.

#### **2.3.1 The Content and Performance of the Government Roll Player of “Regulator”**

① The content of the government roll player of “regulator”

First of all, the government reformulated and perfected the hotel star evaluation institution. With the widen of the opening-up of our country, the increase of the technology level, and the change in market environment, consumer structure and human resources the institution of hotel star evaluation was revised and

consummated accordingly. Comprehensive and hierarchical regulations were made and the criterion became more standard.

Secondly, the government made the hotel criterion system more perfect. During this period, a serious of hotel industry criterions was made. For example: <<the graphic symbol of the tourism hotel public information>> (1985), <<the requirement of the quality and allocation of the appliance of the star hotels>> (1996), <<the investigation stand of the star hotels>> (2006) and <<the green tourism hotel>> (2006).

At last, the government gave price regulation of special period and special district. For example, during the Guangzhou spring commodity exchanging meeting, the supply of the hotels can not satisfied the need of the market. The market had price regulations and had the highest price limitation to impose restriction on price increase at will.

The reformulation of the hotel star evaluation institution led to the change from unify mode of "large and all-inclusive, small and all-inclusive" to personalization in hotel industry and adapted the requirement change of the hotel industry nicely. The modifying hotel industry criterion system had positive effects on the regulate development and orderly competition.

During this period, the price regulation did not prove effective. Parts of the hotels avoided the highest price regulation successfully by changing the hotel rooms a little and made the room luxurious suits to charge higher price.

### **2.3.2 The Content and Performance of the Government Roll Player of "Public Welfare Person"**

#### ① The content of the government roll player of "public welfare person"

First of all, the government held trains. For example, in July 1994, the national tourism bureau held the fifth tourism on-the-job training, 16 hotels and 128 managers of middle or high level took part in the training all over the country; in October the same year, the national tourism bureau held the superior financial worker train and 30 super financial officers took part in it.

Secondly, the government fostered the progress of the information management of the hotel industry. In 1995, the national tourism bureau and American Rongcuo computer company operated the introduction of the hotel management system and 50 representatives of the hotel management groups attended the meeting.

#### ② The performance of the government roll player of "public welfare person"

The training held by the government facilitated the increase of the hotel operation level. In 1997, Hainan Huandao hotel was awarded the American "five star diamond praise" and Beijing Kempinski was admitted into world first class hotel.

The information progress of the hotel industry in China had been pushed successfully. On 1st January 1996, the first internet tourism booking wet of China was opened and the booking service in the world in our country began to make progress.

### **3 The Essence of the Government's Role in the Development of Chinese Hotel Industry**

Just as the analysis above, we can combine the practice of the government's role changing with the theory of the government role in governmental economics, Basing on that we can step further to classify these changing roles. Then we can conclude that its essence is a dynamic process, and the relationship between government and the hotel industry is continuously readjusted to the development stages. This process can be briefly showed in the following table (Table 1).

#### ***3.1 The Government's Successful Role Playing in Cultivating the Market***

Before the policy of reform and opening up carried out, the market of hotel industry in China was operated in a state of closed economy. Planning at that time was the exclusive approach to distribute resources. And the hotels then belonged to public institutions, so competition mechanism was not necessary at all in the marketing operation. While after the policy of reform and opening up carried out, the fact that our supply could not satisfy the demand of receiving foreign tourists led to the Chinese government's decision of opening up the hotel industry responsively and assertively.

##### **3.1.1 Open the Hotel Market and Cultivate Market Firmly in Order to Create Essential Circumstances for Tourism Development**

In the process of absorbing foreign investment, those who were influenced by progressive thinking for a long time thought that "it was shameful if we adopted foreigners to manage our hotels" and they asked "which the hotels should belong to, socialism or capitalism," what was worse, they even took irrational actions to interfere the investment such as "taking down the fence and pushing down the blenders." Although under these obstacles, Comrade Deng Xiaoping held explicitly that the men who had no reason should not be vexatious and firmly insisted on bringing in foreign investment in Chinese hotel industry.

When transforming the state-owned hotels to local tourism administrations and the branches of Chinese International Travel Service, Chinese government assertively claimed that in order to foster the local initiation those hotels should take the form of enterprise management and allowed the local authorities to take proper amount of the foreign currency income.

Hotel industry is one of the three pillar industries of tourism. At the initial stage of reform and opening up, offering foreign tourists accommodation was one of



**Table 1** The changing of the Chinese government's role in the development of hotel industry

The role of the government		The content of the government's role playing	The methods of the government's role playing	The performance of the government's role playing
Direct runner		Run as institutions	Comprehensive administrative management	<i>Bad</i> lack of modern management and least guarantee of safety, health and cozy
The government cultivate the market (1) 1978-1987	Controller	1. transfer accommodation facility to the department of tourism	The management institution of permission	<i>Good</i> releasing the activity of the market and remit the unbalance between the supply and the requirement
		2. increase the input		
		3. strengthen the utilization of foreign capitals		<i>Bad</i> the hidden danger of the over investment of the national asset
	Operator	1. foster the company management	Have industry training meeting	<i>Good</i> the increase of the running level of state-owned hotels
		2. guide the prominent of Chinese characteristics		
The government cultivate the market (2) 1988-1993	Controller	Control the foreign investment	Examine and approve control	<i>Bad</i> the investment of the foreign capital had not been limited
		Help to bring about state-owned hotel group	Policy guidance	<i>Middle</i> the nationalized hotel management company was developed but has some inborn shortcomings
	Regulator	Hotel star evaluation	Apply the star evaluation criterion	<i>Good</i> specify the development of the industry
		Price regulation	Made the lowest protective price	<i>Bad</i> exist in name only
		Safety and fire control regulation	The price approval of the state-owned hotels	<i>Bad</i> the performance of the state-owned hotels was not good
			Policy and institutions	<i>Good</i> help to protect the interests of the consumer

(continued)

**Table 1** (continued)

The role of the government		The content of the government's role playing	The methods of the government's role playing	The performance of the government's role playing
The government service the market (1994 till now)	Regulator	Complete the hotel star institution	Make, issue and apply the new criterion	<i>Middle</i> adopt the change of the environment timely but still had insufficient
	Public service person	Complete the industry criterion	Make, issue and apply the industry criterion	<i>Good</i> facilitate the order and regular development of the industry
		Organize training	Apply training	<i>Good</i> increase the quality of the personnel
		Push the development of information technology	Produce introduction meeting	<i>Good</i> guide the development of the industry effectively

the bottlenecks of the development of tourism. Fortunately, it was the government who successfully played the role of “controller” and cultivated the market successfully, so the total supply rose rapidly and remitted the state of shortage supply, which created a crucial condition for the development of tourism.

### **3.1.2 The Government Actively Promoted the Property Right Reform and Cultivated Market Competition Mechanism in Order to Provide a Reasonable Environment for the Hotel Industry**

At the beginning of the founding of new China, in order to promote the running level of our hotel industry, the tourism institution bureau debated on the enterprise of the hotel industry. In February 1980, the national tourism bureau stressed out “the fundamental requirements of the increasing of the tourism hotel service quality in all over the country” and provided the concrete methods and measures of applying enterprise running. It kicked off the restructuring of the leading system, autonomy in hotel management, scientific management and the institution of rewards and penalties.

In 2002, eight national ministries and commissions issued together <<the measures to arrange the personal more than needed which was the result of the separation of the main and second business of the big and middle state-owned enterprises >>, which pushed the difficulties of the restructuring of the state-owned hotels to the front and began the joint-stock reform inside state-owned hotels. This provided well-organized environment for the perfect market competition system.

However, accompanied with the property right reform in state-owned hotels, some drawbacks sprung up as well. The regional and local protectionism became nagging obstacles. For example, due to the absence of official recreation budget, some state-owned hotels became the source of corruption, and some became the places for rent-seeking and money laundering. In addition, some excellent state-owned hotels also faced difficulties of going further since they were questioned to lose the state-owned assets as well. Without doubts, all these limited the vigor of the state-owned hotels in the market competition, so a further step was still needed to be taken in order to overcome the difficulties in the property right reform.

## ***3.2 The Positive Government's Role Playing of Regulator to Remedy the Market Failure***

Market failure exists in the development of hotel industry, although the market had been cultivated successfully and the market mechanism could display its function in allocating resources, we could still find the cases of market failure. Therefore government should act as a regulator in the development of hotel industry in order to counteract the market failure.

### **3.2.1 The Government Regulate on the Information Asymmetries in the Hotel Industry Positively**

Product in hotel industry, which is mostly consisted of invisible elements, can be classified as service product, and in most cases, the transactions happen in a strange land. The imbalance of power between transaction participants on the information about quality and function namely information asymmetries may lead to the failure of the market mechanism of survival of the fittest, and even may lead to “The Market of Lemon” from the phenomenon of “Bad money drives out good if their exchange rate is set by law.”

In the development of hotel industry, Chinese government published a star-rating system in hotels which included strict procedure in inspecting and checking the rating process. To ensure the granted star, there are six indexes helping to refer. Besides, the government published some industry standards which contribute to solving the problem of information asymmetries and help to promote the healthy development of hotel industry.

Comparing with the development of the hotel industry, the process of star-rating in hotels was still lag behind. What was worse, it gradually exhibited some distances from the demand in the tourism although there were immediate renovation and modification according to the market and customers. During the process, moreover, further supervision and precaution were needed to prevent the possible government rent-seeking namely government failure.

### **3.2.2 The Government Regulated on the Externality Failure Positively**

Tourism equips itself with the feature of synthesis which includes six elements: food and beverage, accommodation, transportation, traveling, shopping and entertainment. The six elements act as an entirety and interact each other. As we know, the development of hotel industry has a direct impact on the other tourism departments. Take it, the unreasonable hyping and rising price has a direct impact on the destination image, which may damage the benefits of other departments in tourism, impair the function of market mechanism and even impede the whole industry’s development, although for its own nothing serious.

Chinese government spared no effort to control the price of hotel industry all the time. When supply exceeded demand in the tourism market, government usually imply the lowest proactive price. While in some regions when the demand exceeded the supply, the governments would use highest price limitation to maintain the good destination image. Nevertheless, we can rarely see these active controls made any effect. Many managers believed the government intervention would go against the law of market because the price should be a result of hotels’ independent management which obeys the law between supply and demand.

### ***3.3 The Lagged Government's Role Playing of Market Server in Counteracting the Market Failure***

#### **3.3.1 The Government's Role Playing of Public Welfare Server to Irritating Positive Externalities Began a Little Later**

As we all know, the IT application in hotel management and the network of hotel reservation contributes a lot to improve hotel industry especially in the channel of distribution. Comparing with the developed hotel reservation network in world famous hotels, the hotel industry in China was still in its early stages. The reaction of Chinese government fell behind although there were some other reasons such as the general level limitation in IT application.

Besides, green hotels pay more attention to the full use of resources and sustainable development. Unfortunately, the subsidies such as tax policies in China did not efficiently support the hotels' development. And this led to higher cost of the green hotels in China, which may impair their advantages in competition and furthermore, decreased the industry's enthusiasm for green hotels.

#### **3.3.2 The Government's Role Playing of Public Welfare Server to Remedy the Failure Supply of Public Goods Need to be Strengthened**

The hotel industry has a close bond with tourism in development. Both of them were based on the effective dissemination of destination image. So the regional image working as granted public goods can help to promote the development of hotel industry. Although China was a tourism country with big amount, in terms of image dissemination, China still could not meet the needs of the industry delegates and needed to be remedied further.

In the development of hostel industry, the quality of human resources is quite crucial. What is more, the residents' affinity and communication skills are of importance as well. Hence, all of these rely on the government increasing input in education.

## **4 The Requirements of the Changing of the Government's Role Playing in Chinese Hotel Industry**

After 30 years of reform and opening up, the role changing for Chinese government in the development of hotel industry mainly lies in two aspects. One is top-down demand of the government's role transition. The other is bottom-up demand of government's role transition.

#### ***4.1 Top-Down Demand of the Government's Role Transition***

During the two sessions (the National People's Congress and the Chinese People's political Consultative Conference) in 2010, the transformation of government's role caused a heated discussion. What is more, some other elements also required government transforming its role to service-orientation, such as the urge of transformation in economic development pattern and the need of national prosperity and rejuvenation. The practice of reform requires the government to transform its role, and this top-down transition also needs government to change its role in the development of hotel industry.

At the beginning of 2010, Professor Chi Fulin, Chinese celebrated expert in reform, published a book named <<the second transition—the transition of the developing mode at the cross road>>. In the book, he pointed out there were two stages of transformation in China. The first transformation was racing toward market mechanism, which provided a crucial condition for economic taking off. The second transformation was racing toward superpower in consuming, which will benefit us to realize national prosperity and rejuvenation in modernization. What should be noticed is that, in the second transformation, government must turn into service-orientated rather than economy-orientated and this means government will become the object for us to reform. Moreover we should emphasize its new role in the process of scientifically developing, institution supply and recreation.

#### ***4.2 Bottom- up Demand of the Government's Role Playing Transition in the Development of the Hotel Industry***

In order to understand the expected role of government from people who is working in hotel industry, I conducted a face to face survey. The sample was based on Hainan province, involving nearly 50 managers working in hotel industry in Haikou or Sanya. And the content included three aspects. First, what kinds of contact they had with the government. Second, what opinions they hold on the government's present role playing. Third, what suggestions they will offer to optimize the government's role playing in hotel industry.

The results indicate all those people hold positive attitudes toward the government's present role. Some people pointed out government had already tried to enhance its service-orientated role, and the promotion had come into effect already. But there still existed some places needed to be improved. Most of these inherent shortcomings are due to the mechanism, so it is hard to overcome.

The investigation showed that the needed roles of the government are: (lined according to the referring rate)

- i. The interpretation of the institutions. (For example, the related institutions of the international tourism island)
- ii. The building of the atmosphere of open up.
- iii. Education and public safety.

- iv. The perfection of the related institutions.
- v. The build and perfection of the management institution system of new tourism industry.
- vi. Promotion of the image.

The investigation showed that the roles needed to be amendatory are: (lined according to the referring rate) the price regulation of hotel; the hotel star evaluation.

We conclude that the industry delegates' expectation for the government's role playing is that the strengthen the role of "public welfare server" and the remedy of the role of "regulator."

## **5 The Goal of the of the Government's Role in the Developing Process of the Hotel Industry**

The dynamic equilibrium between government and market is the essential condition for economic transition. The perfect combination between government and market is the only way leading to developed market economy. During this transition, the interactivity between government and market is continuously innovating, and the role of government is dynamic as well. According to both the essence and the need of the government's role changing in recent development of hotel industry, the goal and key points for the government's role optimization in the present hotel industry was analyzed.

### ***5.1 Analysis Based on the Essence of Government's Role Changing in the Development of Hotel Industry***

The essence of government's role changing in the development of hotel industry can be concluded as a continuous process which includes market cultivating, market regulating and market serving. What we must admit is that it is inevitable for China to experience this process since we want to realize the economic transition. So the first and foremost thing for the government to do is to build an effective market and then readjust and optimize its role in the development of economy continuously.

### ***5.2 Allow the Market Mechanism to Perform Its Function Well***

Nowadays, Chinese government has successfully taken its role as "marketing incubator" in the development of hotel industry and the market has been cultivated

and opened successfully. However, noneconomic operation of some state-owned hotels became the hidden threats to market mechanism and limited its function as well. These problem lies in the point that for what purpose government invests in hotel industry. Some investment of state-owned hotels was just used for corruption, rent-seeking and the achievement flaunting, so no doubt they have difficulty in participating the market competition. Measures such as inspiring hotels' vigor and letting market mechanism to perform its function are needed to be taken by government in order to cope with these hidden threats in the operation of state-owned hotels.

### ***5.3 Counteract Market Failure Effectively***

Accompanied with the formation of market and the operation of market mechanism, market failure comes as well. To solve the inherent problem, government takes an active role as regulator. However the performance still fails to meet the demand of industry operation. Contradicting to the continuous improvement of market mechanism, the performance may even turn into restriction; one suitable case is the star-rating system in hotels.

The source of this problem is what we called government failure. Governmental economics points out that there exist both government failure and market failure. Chinese government now stays in the period of transition, so it is inevitable influenced by the planned economy. And most time we can still find it depends on the government-orientated strategies. Although when dealing with problems, government can work as a regular actively, there still exist difference between performance and expectation.

### ***5.4 Analyze From the Need of Government's Role in the Development of Hotel Industry***

#### **5.4.1 Propel the Basic Function of Market in Resource Allocation**

When entering the new stage of transition, the key point for China is the transition from economy-orientated government to service-orientated government. The negative effects on economy, social and politics which are brought by government-dominant pattern require government not to work as microeconomic subject competing in the market any more and on the contrary let the market mechanism perform its basic function. In addition, government should pay more attention to things such as providing public product and service, making fair rules, improving supervising and ensuring the effective market competition.



### **5.4.2 Enhance the Role of Public Welfare Person to Promote the Development of Hotel Industry**

The development of hotel industry has its own principles. People who working in the hotel industry urgently demand government to provide more public products for enterprises so as to create and maintain reasonable market environment and promote the sustainable development of hotel industry.

## **6 Conclusion**

In order to resolve the key problems in the optimization of the government's role in the development of hotel industry and impel the government's role turn to service the market effectively, the following methods can be taken.

### ***6.1 Change the Indicators for the Government's Check Which Used to Be "GDP"***

If the government needs to change to the duty of providing economic public services, the most urgent point is to change the indicators for the government's check which used to be "GDP." Only the government abandon the motive to pursue local and department economic interest, can the market place real fundamental allocation function in the distribution of the resources. And only through this way can let the hotel industry develop sustainable according to the rule of market competition.

Entering into the new stage of transition, the government should establish the consideration index of take human being as the center of development, pay more attention to the health, education and free development of the human being and increase the income of the habitant. Through these ways the latent market volume can develop fully and the people ware of the hotel industry can be increased. This will do goods to the future development of the hotel industry economy no matter in supply or requirement.

### ***6.2 Let the Nongovernmental Organizations Play a Roll in Orderly***

There must exist "government failure" in the economy intervene of the government. The government should cultivate the third party of nongovernmental organization such as industry associations etc. to let the expert of the industry association play more positive role in the procedure of making up the market failure. For example: the madding of the criterion, the association of the price etc.

In China, the development of the nongovernmental organizations were always restrained, the organizations which have played roles usually had a background of official. Before the founding of public service government, the disorderly development of the nongovernment organizations can be a kind of transition of government's power and can not have the effect of negotiation and industry service. So, the government should provide the institution space for the progress of nongovernmental organizations to let them play a role in orderly.

### ***6.3 Pay Attention to the Decision Procedure of the Participation of Industry Delegates***

On one hand, the government should provide more professional public services with higher efficiency; on the other hand, the government is lack of knowledge and experience compared with developed countries in the world. For example, the content of the public service system in hotel industry, the differences of the public service system between different destinations, etc. when we resolve these questions, we can absorb the participation of the experts of industry managers and scholars, so the decision can be more scientific and rational which will help to increase the public service ability of the government in the Chinese hotel industry.