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Research Paper

A free pricing strategy at a major tourist attraction: The Case of West Lake, China

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ABSTRACT

This study analyzes an uncommon tourism attraction pricing phenomenon in China, known as "free West Lake". West Lake Scenic District in Hangzhou is a World Heritage Site in China's most prosperous eastern region. Here, the admission fee was progressively removed and free access was introduced. This paper uses Chinese newspaper reports, official documents and academic articles to explore the evolution of the pricing policy and its consequences for visitor use and government finances, with implications for other attractions in China and elsewhere. This novel pricing initiative resulted in an initial economic loss to the local government but eventually broadened the economic base, reduced the environmental pressure on certain sensitive heritage sites, and enhanced tourists' experiences, residents' quality of life and the city's reputation, providing novel insights into public resource management in China. The case highlights the importance of adopting a broad perspective on admission pricing, as the implications may extend beyond the narrow confines of the facility in question.

1. Introduction

Many facilities used by tourists are public goods or are supported by a mix of revenue streams emanating from both the public and private sectors. For example, parks, beaches, markets, gardens, zoos, museums, art galleries, theaters, centers of the performing arts, stadiums and even entire destination communities may be funded by the public or private sectors or, commonly, a mixture of both. Furthermore, different admission strategies may be adopted depending upon cultural and political norms and historic precedents. For example, attractive small towns in the western world can usually be visited free by tourists and it is uncommon to require the payment of a fee to enter such communities although charges may be levied to gain access to or take advantage of particular attractions within them. In contrast, in China it is common to charge admission fees to visitors who enter small towns that have become tourist attractions but, at the same time, are places where many people live permanently (e.g. Fan, Wall, & Mitchell, 2008; Gu & Ryan, 2009; Ying & Zhou, 2007).

Whether or not to charge for the use of public goods and, if so, how much to charge, are questions that have attracted a great deal of attention (Laarman & Gregersen, 1996; Van Sickle & Eagles, 1998; Wu & Zhang, 2012). Responses to these questions have varied greatly, reflecting the different ideological positions of those expressing opinions, as well as differences in the way that capital and operating expenses may be treated (Sharifi-Tehrani, Verbič & Chung, 2013). An additional concern is the implications for residents and businesses in the vicinity of publicly funded facilities who may be recipients of both positive and negative externalities (Liu & Wall, 2006). Some see the provision of public goods such as transportation and education facilities, hospitals, fire services and garbage collection as being in the public interest and that therefore it is appropriate to provide these from the public purse (Dranove, 1988). Others, placing more emphasis on the user-pays principle, suggest that users, the direct beneficiaries, should cover the costs since they are the ones that benefit most (Rentschler, Hede, & White, 2007).

Many arguments and counter-arguments exist concerning the pricing of access to public and mixed public–private goods (Frey & Steiner, 2012). For example, arguing that taxpayers have already paid through their taxes, some maintain that use should be free. Such provisions, according to others, are subsidies to the relatively wealthy who frequently tend to be more frequent users of many of the facilities concerned and are more able to pay their way. Others argue that public subventions to support public facilities are frequently insufficient to ensure their continued availability and, therefore, user fees have to be charged. Compromise positions may be put in place, as is the case with many museums where admission is free at particular times, such as one day a week, with charges levied at other times or to see special exhibits.

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Sometimes a dual price system is adopted for international tourists and locals (Frey & Steiner, 2012). Benefit-cost analysis may be undertaken to examine likely financial implications, especially prior to investment in new facilities. Contingent valuation, such as willingness-to-pay studies, may be undertaken to assess the implications of different admission prices or to place a value on the benefits, including non-market benefits, obtained by users (Chung, Kyle, Petrick, & Absher, 2011; Esparona, Gyuris, & Stoeckl, 2014). Economic impact assessments may be undertaken to explore the magnitude of facility and visitor expenditures and their economic implications (for example, through measurements of multiplier effects and leakage). These different methods provide answers to different questions, and provide information that can be used by managers and policy makers to support decisions that may ultimately be underpinned as much by philosophical leanings as they are by the outcomes of economic analyses.

The situation is further complicated by the fact that many of the facilities in question are used by local residents, visitors from the surrounding region and people from further afield: the mix varying with, among other things, the type of facility, the event that is being hosted, and the time of year (Sinnott & Wall, 1980). Commonly, those coming the furthest tend to stay longer and spend the most money but, since they often use a greater variety of facilities than more proximate visitors, it is more difficult when undertaking economic impact studies to attribute their expenditures to particular sites or to a singular motivation for visiting (Boggs & Wall, 1985).

This introduction has briefly discussed aspects of the economic analysis of the provision of access to public goods and associated pricing issues. The main body of the paper consists of a case study of the West Lake Scenic District, Hangzhou, China, where an admission fee was removed and free access was introduced. The paper explores the evolution of this change in policy and its outcomes. There are a number of important reasons for exploring and documenting the case. Firstly, West Lake is an iconic Chinese tourism destination that has received UNESCO designation as a World Heritage Site for both natural and cultural reasons. Secondly, tourism development in China has resulted in commodification of resources and, in the desire to acquire quick economic returns for operators and local governments, it has become commonplace to charge admission fees, which are often substantial. In fact, Shepherd and Yu (2013) have discussed what they call an 'admissions economy' whereby decentralization of power has given local government management responsibilities for heritage resources but not the necessary financial support to exercise these tasks effectively. High entrance fees are charged to fund development rather than preservation. Thus, the removal of an admission fee is an unusual occurrence in China: one that is contrary to the national trend. It is important to understand why this was done and what the consequences have been. Thirdly, given the recent and ongoing growth of tourism in China and the continued creation of new destinations there, it is worthwhile considering if the novel initiative in Hangzhou has implications for other attractions in China and, indeed, elsewhere. However, before embarking on the case study, in order to place it in a broader context, the pertinent pricing literature will be reviewed.

2. Pricing

There is a vast literature on pricing and revenue management in general and specifically with respect to tourism (e.g. Clarke & Ng, 1993; Crompton, 2011; Keane, 1997; Walpole, Goodwin, & Ward, 2001). Indeed, price is at the root of much micro economic and business analysis although, unfortunately, the conflation of effective demand (consumption or participation) with total demand (including potential and deferred demand) in much tourism literature often confuses the picture (Wall & Mathieson, 2006, p.22). Furthermore, there is also a large and controversial literature that examines the pricing of public goods (e.g. Beckerta & Rösselb, 2013; Rentschler et al., 2007). However, space does not permit the detailed examination of such issues here. Useful introductions to the pricing of tourism and recreation opportunities can be found in Walsh (1986), while Dwyer, Forsyth and Dwyer (2010). Baumol and Bowen (1966) and Baumol (1980) provide important insights into the economics of the arts and cultural industries in a mixed economy. Pertinent case studies can be found in journals such as *Tourism Economics* and the *Journal of Cultural Economics*, among others.

In order to focus the discussion and draw information relevant to the case from a very large and diverse literature, attention will be devoted to articulating the pros and cons of charging an admission fee. Although an important topic, this review will not address the question of what price should be charged and how this should be determined in the event that an admission fee is instituted. Although highly pertinent in many, perhaps most, situations, this is less relevant to the case that follows in which an existing fee has been removed. This case study situation is uncommon and is not widely discussed in the literature, since many publicly-funded facilities would struggle to survive economically in the absence of admission or user fees, and precarious financial situations are likely to discourage them from voluntarily relinquishing almost any source of income (e.g. Schwartz, Stewart, & Backlund, 2012; Van Sickle & Eagles, 1998).

Many arguments have been posited concerning the charging of admission fees or, conversely, providing free admissions (Clarke & Ng, 1993; Crompton, 2011; Eagles, 2002; Laarman & Gregersen, 1996; Rigall-I-Torrent & Fluvià, 2011; Walpole et al., 2001). Some of the key arguments will now be summarized. With respect to the former, it has been suggested that:

(1) fees provide a source of income that can be used to defray costs of operation and maintenance, or to enhance offerings (Clarke & Ng, 1993; Steiner, 1997);
(2) the charging of a fee increases appreciation of and respect for the site (Chung et al., 2011; Frey & Steiner, 2012);
(3) the collection of fees can provide a source of information that may have managerial utility (Schwartz et al., 2012);
(4) the charging of fees can be used to ration use, ensuring that the facility is used only by those who ascribe a minimum value to it (Sharifi-Tehrani et al., 2013);
(5) it is often difficult to control all access routes, especially to large natural areas, as there may be multiple entrances and sometimes even back-door, unmonitored entrances (Eagles, 2002; Rigall-I-Torrent & Fluvià, 2011);
(6) the existence of fees disadvantages those that are unable to pay them, i.e. the poor (Frey & Steiner, 2012).

On the other hand:

(1) the provision of free admission will generate public support and increase use levels, which may be welcomed provided the site is not then overused (Kirchberg, 1998);
(2) free admission and associated increases in use will result in increased operation and maintenance costs (O'hagan, 1995);
(3) free admission will increase the potential market, encourage repeat visitation and user loyalty and be non-discriminatory (Crompton, 2011);
(4) users may have already paid to support the facility through their taxes (although this is less likely to be true of tourists) and, therefore, the charging of entrance fees at publicly funded facilities can be viewed as a form of double taxation (Eagles, 2002);