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Chinese Tourism Industry

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Development Overview

China's tourism hasn't started to develop until the implementation of reform and opening-up policy which was released in 1978. During the last three decades of development, China's tourism has been playing an important role in national economy and accounting for an increasing portion in world travel industry.

In order to promote tourism industry, from 1970s to 1980s, China started to attract foreign investment to Chinese tourism market. There were total 5 billion USD in foreign investments on building new hotels and restaurants which enhanced China's tourism service level and conditions in this period. Until the mid 1980s, by the support of China National Tourism Administration, a bunch of domestic hotels were built and tourism buses were imported from overseas. However there were only few tourism routes at that time.

Additionally, another purpose of developing tourism industry in this period was to increase the foreign exchange reserve. From 1978 to 1998, China's tourism industry gained foreign exchange income from 260 million USD to 12.6 billion USD. Until the end of 2012, China gained foreign exchange income of 50.03

billion USD from inbound tourism.

Chinese tourism witnessed a booming period from 1990s to the present. In 1990s, China created several new tourism routes to boost domestic and inbound tourism, such as special railway route of Silk Road and Cruise Ships travel in three gorges area and sea side areas. Overnight Inbound tourists increased from 720,000 to 54.72 million people from 1978 to 2008.

On the other hand, from late 1990s, China released several policies stimulated domestic and outbound tourism. For example, China started two-day weekend in 1995, the golden week (seven-day holidays) in 2000, and paid annual holiday policy in 2008, which have stimulated strong travel and consumption demand on both domestic and outbound tourism. In 1993, Chinese domestic tourists and outbound tourists was 410 million and 3.74 million people, while these numbers increased to 870 million and 20.2 million people in 2003.

In recent years, tourism has become one of the important sectors in China and began to serve as a major engine for economic development. In 2013, China ranked:

➤ 1st Tourism source market

- 1st International tourism expenditure
- 4th Destination of international tourist arrivals

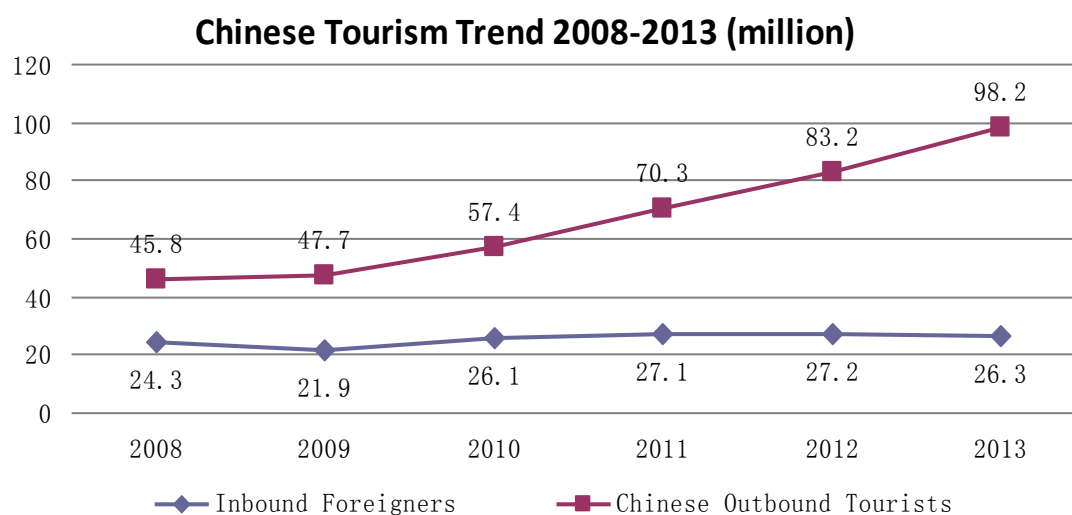
Chinese Tourism Statistics

According to the China National Tourism Administration (CNTA), in 2012, China's tourism revenue totalled 2.59 trillion RMB (about 414.7 billion USD), up by 15.2%. Tourism foreign exchange earnings totalled 50.03 billion USD, up by 3.2%.

According to the data released by the Bureau of Exit and Entry Administration of the Ministry of Public Security, in 2013, the total **international inbound** arrivals numbered 26.29 million, down by 3.31%

from previous year. The top 10 arrival countries are S. Korea, Japan, Russia, America, Vietnam, Malaysia, Mongolia, Philippines, Singapore, and Australia. In terms of visit purposes, sightseeing occupied the most about 38.5% of total tourists.

In the same time, **Chinese outbound tourists** reached 98.19 million, up 18.04% year on year. The top 8 travel destinations for inland Chinese were HK, Macao, S. Korea, Thailand, Taiwan, America, Japan, and Vietnam. About 92.6% of total visitors travelled for self purpose.



Sources: China National Tourism Administration & Bureau of Exit and Entry Administration of the Ministry of Public Security

For the **domestic tourism**, the total tourists number reached 2.96 billion people, up by 12% with the total tourism

income of 2.27 trillion RMB (about 363.5 trillion USD) in 2013.

China's investment to tourism sector is growing rapidly. In 2013, the total investment reached 514.4 billion RMB. Investment from private sector occupied about 57% of total investment in tourism sector. Until 2012, the total number of tourism agencies was 24,944, up by 5.3% with the total capital of 83.96 billion RMB, up by 18.1%, and the total turnover was 337.47 billion RMB up by 17.5% in 2012.

Current Development of China's Tourism Market

➤ **China's Domestic Tourism Market**

According to China National Tourism Administration (CNTA), China invested 514.4 billion RMB to tourism market in 2013, up by 26.6% over previous year, while 57% of the total investment was from private sector. About 61% of total investment went to leisure scenic. The Investment on large tourism projects increased sharply, and there were 127 projects with the investment of over 10 billion RMB per project. Such as, Shanghai Disney Park invested total 29 billion RMB and Guangzhou Chime-long Tourist Resort initially invested 20 billion RMB.

In terms of tourism destinations,

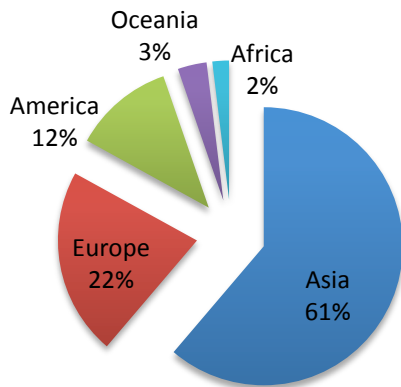
Guangdong, Gansu, Anhui, Shanxi, Sichuan, Qinghai, Hubei, Yunnan, and Xinjiang province were on the top list, while the growth of tourism income all reached over 30% in these regions. Guangdong Province ranked 1st on comprehensive tourist reception capability and Sichuan province surpassed Shanghai and gained the highest satisfaction by tourists.

Meanwhile, the new trend of travel preferences, such as Ocean Tour, Self-Drive Tour, and Recreational Vehicle Tour, became the new sources of tourism profits growth.

People's needs for tourism are getting diversified, shifting from pure sightseeing to more leisure-oriented. In most cases, clean nature resources and local food that are becoming more attractable to people. According to CNTA, there were over 13.5 million people employed in the tourism sector in 2013, with more than 1.7 million households in the farm stay tourism, benefiting more than 30 million farmers. Especially for white collar workers who are under high pressure in the city are tend to go somewhere just to relax over the weekend, such as urban dwellers.

➤ **China's Inbound Tourism Market**

2012 China's Inbound Tourism Source Regions



Source: China National Tourism Administration

Comparing with the inbound foreign tourists of 1.81 million people and foreign exchange income of 260 million USD in 1978, the numbers raised 72 and 191 times to 26.3 million and 50.03 billion USD in 2012. However, in recent years, the inbound tourists are trending downward. Tourism Experts gave the following reasons:

- There are more and more Tourism agencies which are currently making efforts on outbound tourism;
- RMB appreciation and increasing domestic tourism costs;
- Less tourism products
- China Tightens Visa Approval
- Pollution conditions in recent years

The top 10 regions with 68.5% of total foreign visitors are Guangdong, Jiangsu,

Zhejiang, Shanghai, Beijing, Liaoning, Shandong, Yunnan, Shaanxi, and Hei Longjiang Province. However, foreign tourists going to middle and western regions are increasing rapidly.

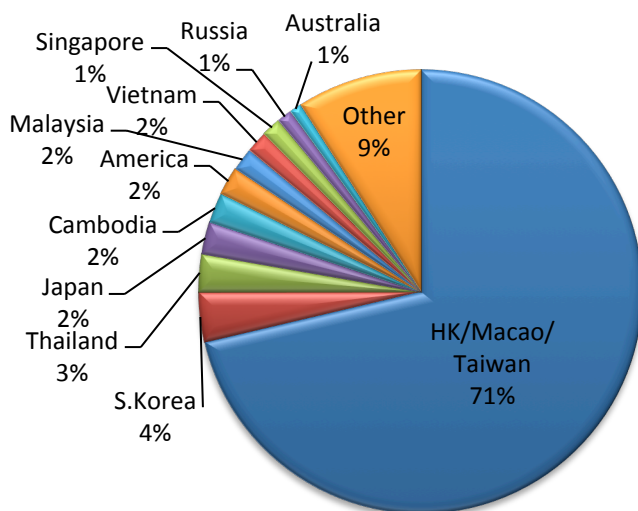
Foreign visitors mostly favour leisure travel with less tourism consumption, while the most of their consumption are related with their personal life, such as hotel and restaurants that booked by tourism agencies and guide. One main reason that leads to this condition is less diversified inbound tourism model in China. China should create more personal and flexible tourism products that can make foreign visitors closing to Chinese culture and modern life but not only the historical scenic spots.

➤ China's Outbound Tourism Market

As of April 2014, China had signed Approved Destinations with 150 countries and regions for Chinese tourist destinations; moreover, Chinese citizens with ordinary passport enjoy visa-upon-arrival and visa-free in 49 countries.. According to China National Tourism Administration (CNTA), in 2012 the top 3 Chinese traveling destinations in Europe are the UK (406,000 tourists), Germany (376,700 tourists) and France (369,700 tourists). According to the

UNWTO, in 2013, China surpassed America and Germany and become the largest spender on international tourism with the total outbound consumption of 102 billion USD.

2012 China's Outbound Tourism



Source: China National Tourism Administration

Current Chinese outbound tourism characteristics:

- The major outbound tourism markets are from the eastern regions, while the tourism market growth in middle and western regions are faster and have more development potentials.
- About 80% of total tourists are on sightseeing and leisure vacation, while over 50% of them had commercial visits or education experience in the destination countries. About 34% of tourism consumption is on shopping, while only about 10% of tourism

consumption is on entertainment, accommodation and restaurants.

- The main tourism destinations are in Asia and Pacific regions – since the close culture connection, Turkey can expand influence by Silk Road destination and Euro-Asia mixed culture to China.

Chinese outbound tourist trend:

- Outbound travel are no longer only for rich people, the increasing number of tourists from middle class is an important trend in China's outbound tourist.
- Outbound tourist source regions in China are moving from 1st tier cities to 2nd or 3rd tiers cities.
- Over 70% of tourists choose “do it yourself” tourism. Also, 80% of the travel agencies believed that these products will increase rapidly.
- The demand for Customized travel products is also rapidly increasing.
- They prefer more reasonable mid priced level hotel.
- Expenditures are moving from purchasing of luxury products to more useful commodities.

The growth of China's outbound tourism development could drive the tourism development, economic development and employment of destination countries.

At the same time, the tourism development in foreign countries effectively enhanced Visa facility, Chinese language services and other external environment to Chinese tourists.

Since the rapid development of China's outbound tourism, attracting Chinese tourist became the key on developing tourism in many foreign countries. For example, According to the US ministry of commerce, the growth of Chinese tourists going to America will have over 200% growth year on year in the future and the amount of tourists from China will higher than those from France and Germany. Since the growth of Chinese tourists has large affect on America's economic recovery, US is working hard in getting more share on Chinese outbound tourism. .

According to data from Global Blue, the average consumption of tax refund trade through Global Blue from Chinese consumers in foreign countries was 815 Euro in 2013, and the number was 870 Euro from January to April 2014 with growth of 25% year on year, which ranked the first in the world.

Chinese outbound tourists in EU

According to China Outbound Tourism

Research Institute of Germany, through the increase of income, there are more and more Chinese tourists who prefer personalized travel products in Europe, such as Cruises tour or Golf tour. Moreover, the major consumption group is moving from group tourism to individual tourists who have higher education and income. Individual tourists are more likely to create their own travel routes, focus more on personal experience and interest in culture, arts and health tourism products.

Additionally, according to the institute, except the sightseeing and shopping, there are some Chinese private investors who investigate local investment possibilities during the travel, especially on real estate market. Chinese investors are interested in French wine farms, Spanish beach villas and other real estate projects. Also, some investors invest on real estate sector in places that their Children can go for their future education.

China's Tourism Policy

In 1981, China held its first national tourism conference and clearly pointed out that tourism business is an important economic sector. From 1998, tourism industry has been decided to be the new

development engine for China's national economic development. The 11 FYP in 2006 cleared that China would promote Tourism industry to be the key sector in China's economy. In 2010, Chinese government released the 12 FYP for Tourism and set goals and principles for tourism industry's development from 2011 to 2015.

➤ **Twelfth Five-Year Plan For Tourism sector**

The Chinese government sets the goal of being in line with the advanced level among the globe for tourism industry in scale, quality and profits by 2020.

According to the Plan, by 2015, the total **income** of tourism industry will reach 2.5 trillion RMB with 10% of annual growth rate; the number of **domestic tourists** will reach 3.3 billion with 10% of annual growth rate. The **ratio of added value of tourism industry to GDP** will increase to 4.5%, which accounts 12% of added value of service industry and tourism consumption accounts for 10% of residents' total consumption.

Other targets are below:

1. Total income of domestic tourism to 1.9 trillion RMB in 2015 with annual growth rate of 11%.

2. Arrivals for inbound tourists (including HK, Macao and Taiwan) to reach 153 million in 2015 with 3% of average annual growth rate.
3. The number of inbound overnight tourists to reach 66.3 million in 2015 with 4% average annual growth rate.
4. Foreign tourists to China to reach 31.15 million in 2015 with 4.5% average annual growth rate.
5. Tourism foreign exchange earnings to reach 54.9 billion USD for 2015 with 5% of average annual growth rate.
6. Tourists for outbound tourism to reach 83.75 million in 2015 with an average annual growth rate of 10%.
7. Total income of tourism industry to reach 2.3 trillion RMB in 2015 with 10% of annual growth rate.
8. Residents travel rate to reach 2.25 per person in 2015.
9. New created employments figure to reach 15.25 million in 2015 with 700 thousand new jobs created per year.

➤ **China's stimulation to tourism industry**

In order to stimulate and boost tourism industry, China directly invested 514.4 billion RMB in 2013 up by 26.4% year on year. Chinese government also continues to complete the Regulations of Paid

Annual Leave of Employees and regulate organizations and companies to implement this regulation. For employees of fewer than 10 years work in the company will have 5-days paid holiday and for employees of 10-20 years work in the company will have 10-days paid holiday. However, the most of Chinese people are not satisfied with the Regulations of Paid Annual Leave for Employees and Chinese public holiday arrangement since China ranks in the bottom third in the world on paid annual leave days. At the same time, local governments will increase tourism public services facilities investment; China supports developed regions to provide travelling benefits to employees and decrease tickets prices of views pots in order to stimulate national tourism consumption.

Besides, China is deeply exploring the leisure travel resources, especially in rural areas, to improve modern tourism services and tourists satisfaction level. Additionally, China will further expand international cooperation and combine the resources from both national and international regions to raise tourism competitiveness capability.

➤ China's tourism law improvement in 2013

In April 2013, China's top legislature adopted new tourism law, which is designed to address industry woes, protect tourists' interests and foster the industry's sustainable growth.

Under the new law, measures are outlined to address key problems – unfair competition, unreasonable prices, and forced goods purchases, which have plagued the industry and aroused strong public discontent.

The new law also lays down items to ensure tourists' rights to know, choose, get aid, and be respected.

For regular travel agencies, the tighter legal administration can avoid unfair competition, improve the quality of travel services, and smooth the industry's future development.

The law devotes a whole chapter, or 11 articles, to the planning and promotion of tourism industry development, highlighting government support in terms of funding and personnel training.

The country is making efforts to improve the quality of its travel services, create a smooth path for the travel sector's

sustainable development and turn the sector into a pillar of economic growth.

➤ **China's policies to foreign tourism agencies**

In 2009, China cancelled the limitation for foreign investment travel agency to set up its own branch in China. Foreign invested travel agencies started to enjoy the national treatment. From that time, the total registration capital for foreign invested agency is at least 300,000 RMB.

In 2010 China's State Council announced that the government would gradually open Chinese tourism market to foreign investment. Foreign tourist agencies have been permitted to provide tourism services for Chinese from 2010.

According to the 'Interim Measures for the Supervision and Administration of the Pilot Operation of the Outbound Tourism Business by Sino-foreign Joint Venture Travel Agencies' that was released by China National Tourism Administration and China Ministry of Commerce in August 2010, China first approved 3 joint venture tourism agencies were to operate outbound tourism businesses. They are TUI China Travel Co., Ltd. (Germany TUI Group & China Travel Service Head Office), CITS American Express

(American Express & China International Travel Service) and JTB New Century International Tours Co., Ltd. (Japanese JTB China Group & CITIC Travel Co., Ltd.).

In September 2012, The Ministry of Commerce, as the final approval department of foreign investment enterprise, has transferred the power of approving foreign investment travel agency to the Ministry of Commerce at provincial-level. Therefore, the National Tourism Administration is expected to lower its permission right for foreign investment travel agencies.

By September 2013, there were 81 foreign invested travel agencies established in China, while 56 of them were wholly owned foreign invested companies, 12 of them were joined venture companies controlled by Chinese company, and 13 of them were joined venture companies controlled by foreign companies. According to China National Tourism Administration (CNTA), in 2012, the total business income by foreign tourism agencies was 3.26 billion RMB, up by 29.9%, which accounted 1.05% of total income of national tourism agencies.

List of China International Tourism Fairs

China International Travel Mart (CITM) 2014, in Shanghai on 14-16 November 2014.

It is an annual event that is held in Shanghai and Kunming alternately. As the largest professional travel show in Asia, CITM has drawn the attention of people in the tourism industry worldwide. It is jointly organized by China National Tourism Administration, Civil Aviation Administration of China and Shanghai Municipal People's Government.

<http://www.citm.com.cn/english/index.aspx>

The 11th Beijing International Tourism Exhibition (BITE), on 27-29 June 2014.

This is an annual event for the international showcase of destinations, tourism attractions, travel packages, products and services, which was organized by Beijing Municipal Commission of Tourism Development.

<http://www.bitechina.com.cn/en/page/16/home.html>

Guangzhou International Travel Fair (GITF), in Guangzhou on 6-8 March 2015

It includes B2B fairs focusing on outbound travel, inbound travel and M.I.C.E. (Meeting, Incentive, Conference, and Exhibition). It is organized by Hannover Milano Fairs China Ltd.

<http://www.gitf.com.cn/en/index.html>

World Travel Fair, 8-10 May 2015

It is an annual fair in Shanghai and co-hosted by Shanghai Municipal Tourism Administration and VNU Exhibitions Europe. It is a unique opportunity for the global travel trade to meet, network, negotiate and conduct business, plus an effective platform for consumer marketing.

<http://www.worldtravelfair.com.cn/en/>

International Luxury Travel Market / Asia, in Shanghai on 1-4 June 2015

ILTM Asia is an invitation-only event, where the very best travel agents and advisors from across Asia meet the world's very best luxury travel experiences. Attendees are invited to choose up to 69 one-to-one appointments from a select community of 1100 buyers and suppliers. It is organized by Reed Travel Exhibitions.