

CHINA ECONOMIC UPDATE OCTOBER 2019

Taking flight: China is changing the global tourism market



NAB Group Economics

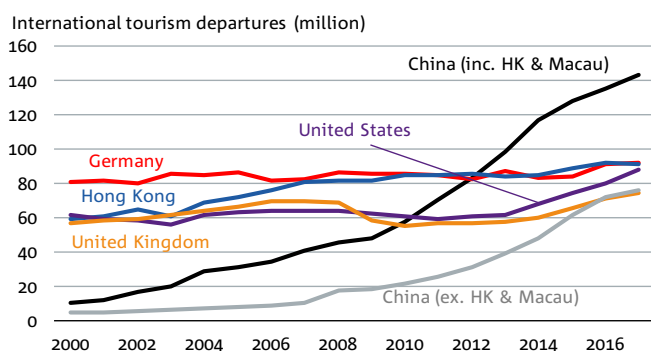
There have been dramatic changes to the global tourism industry over the past two decades, as China has emerged as a major source of international travellers. A range of factors have contributed to this trend, including the growing wealth levels of Chinese residents, increasing transport linkages with international markets and an easing in international visa requirements for Chinese tourists. The long term growth potential for Chinese tourism is enormous, however the near term outlook is uncertain – given the income effects of the US-China trade war and possible policy responses.

THE EMERGENCE OF THE CHINESE TOURIST

According to World Bank data, China accounted for the largest share of international tourists in 2017, with over 9% of the global total, compared with around 3.8% a decade earlier. However, it could be argued that this data presents a misleading picture, given that the two largest destinations for mainland Chinese tourists were the Special Administrative Regions of Hong Kong and Macau. These regions have different immigration policies to the mainland – international visitors can travel more easily to the Special Administrative Regions and mainland Chinese visitors require an entry permit but do not require a passport – highlighting a grey area in global comparisons.

THE RISE OF THE CHINESE TOURIST

A major source even excluding SARs



Source: World Bank, CEIC, NAB Economics

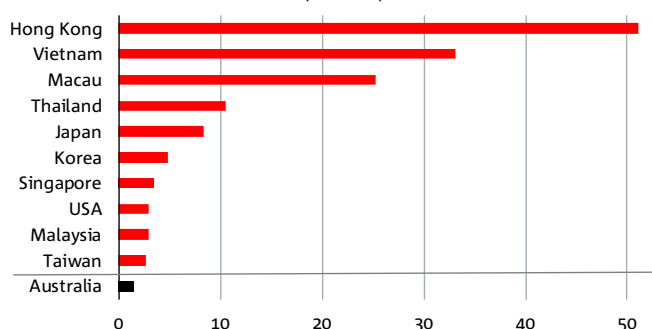
Excluding the Special Administrative Regions, Chinese travellers still account for a sizeable share of the global total – at around 5.1% – larger than the number of United Kingdom residents who travelled in 2017.

Aside from these regions, the major destinations for Chinese tourists tend to be relatively close to home. The largest other market was Vietnam – at 33 million visitors in 2018, followed by Thailand at 10.5 million and Japan at 8.4 million. Some proportion of these journeys are for non-tourism purposes – such as business travel – however estimates suggest that around 92% of the total journeys are tourism related.

CHINESE TOURISM BY DESTINATION

Near neighbours the key markets

Visitor arrivals from China in 2018 (millions)



Source: CEIC, US Department of Commerce, ABS, NAB Economics

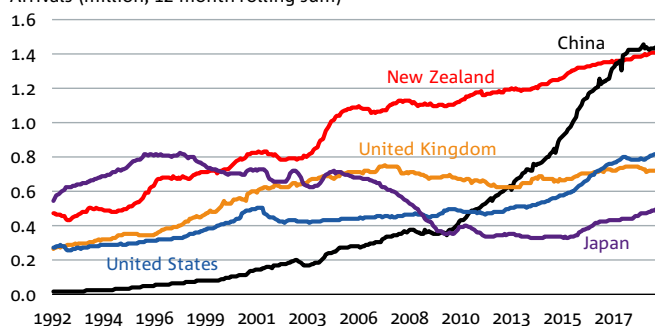
Even though Australia sits quite a way down the list of major destinations for Chinese tourists – outside the top ten – China has become the most important source of international visitors. In 2018, China overtook New Zealand, which had been the long term

number one source of visitors. This highlights the fact that a relatively small share of Chinese tourists can have a major impact in some markets.

VISITOR ARRIVALS TO AUSTRALIA

China now the largest source

Arrivals (million, 12 month rolling sum)



Source: ABS, NAB Economics

CAN CHINA'S TOURISM INDUSTRY BE DEPLOYED AS A WEAPON?

A sizeable proportion of China's international tourism is conducted by travel companies, offering package tours that include transport, accommodation, transfers, food and translation services. Typically, package tours are favoured by older aged travellers, with a larger proportion of younger tourists preferring to manage their trips themselves.

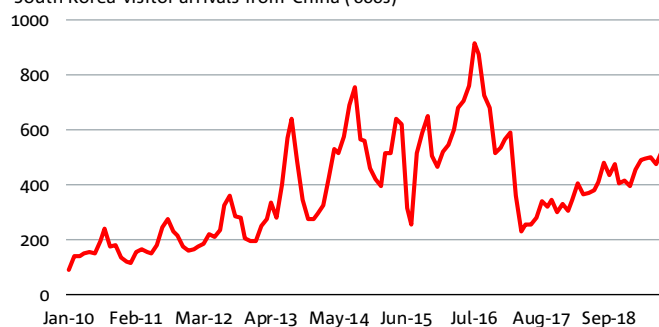
These travel operators can be influenced by government policy directives – such as the case in 2017, when the Government ordered operators to cease offering tour packages to South Korea, following a diplomatic dispute. Chinese tourists had flocked to South Korea up until 2016 – when China accounted for almost 47% of the country's total arrivals.

However, Chinese visitor numbers to South Korea plunged by 48% in 2017, and despite an official end to the policy, there has only been a moderate recovery so far. This policy had a significant impact on South Korea's tourism sector, given the importance of Chinese visitors. A similar event occurred in 2016 with a fall in Chinese tourist numbers to Taiwan.

CHINA HAS WEAPONISED TOURISM IN THE PAST

Tourists slowly returning to South Korea

South Korea visitor arrivals from China ('000s)



Source: CEIC, NAB Economics

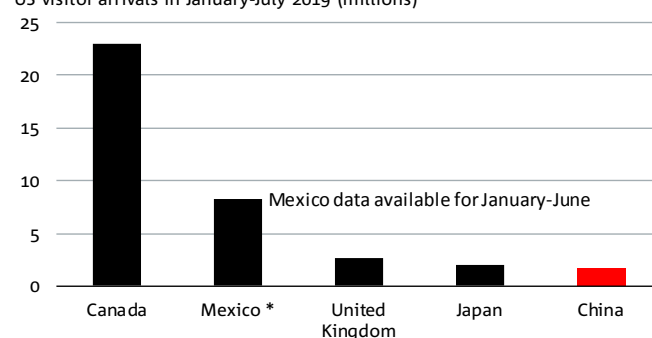
Visitor numbers to the United States fell by 3.1% yoy in the first seven months of 2019. At this stage it is unclear if this is related to the US-China trade war or reflects the increasing cost of US travel (due to exchange rate movements), or some combination of these factors. The Chinese government issued a travel warning for the United States in June, however this would not have significantly impacted this result.

That said, China is unlikely to be able to deploy its tourism industry as a major weapon in the US-China trade war, given the far smaller role Chinese tourists play in the US tourism sector. In the first seven months of 2019, China ranked as the fifth largest source of visitors to the United States, far behind Canada and Mexico, and smaller than the United Kingdom and Japan. This suggests that the economic impact of a large scale decline in Chinese visitor numbers would be less severe for the United States than would be the case in many Asian economies.

US MARKET SOMEWHAT PROTECTED

Smaller role for Chinese tourists limits potential damage

US visitor arrivals in January-July 2019 (millions)



Source: US Department of Commerce, NAB Economics

CONCLUSION: RECENT TRENDS AND LONGER TERM

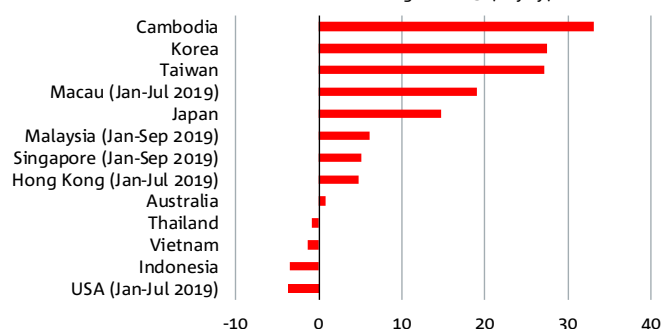
There is a lack of timely Chinese data on outbound tourism (particularly by destination), however available data suggests that the total number of departures increased by 14% yoy in the first half of 2019. It is possible that the slower rate of economic growth in China – reflecting the transition of the country's growth model towards domestic consumption, along with the negative impact of the US-China trade war – could negatively impact demand for international tourism in the short term.

Arrivals data from major Chinese tourist destinations shows mixed trends so far in 2019. There were large increases in Chinese tourist arrivals in South Korea and Taiwan – however this growth comes as these markets recover from policy-related declines in earlier years – as well as Cambodia (however this is a relatively small market). As noted above, there has been a notable decline in Chinese visitor arrivals to the US.

VISITOR ARRIVALS IN 2019

Mixed trends in key markets

Growth in visitor arrivals from China in Jan-August 2019 (% yoy)



Arrivals to Australia increased by 0.9% yoy in the first eight months of 2019 – a much slower rate than the trend from 2010 onwards. Exchange rate movements have not been so negative between the two countries – with the Australian dollar depreciating against the Yuan in 2019, compared with rates in 2017 and late 2018.

The long term potential for growth in Chinese international tourism is considerable. Estimates suggest that just under 9% of China's population hold a passport – compared with around 40% of US citizens and 76% of the British population. Even a marginal increase in this share would allow a vast number of additional foreign tourists.

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