

# China Economic Update April 2023



## Tentative recovery: Chinese outbound tourism continues to face constraints

### NAB Group Economics

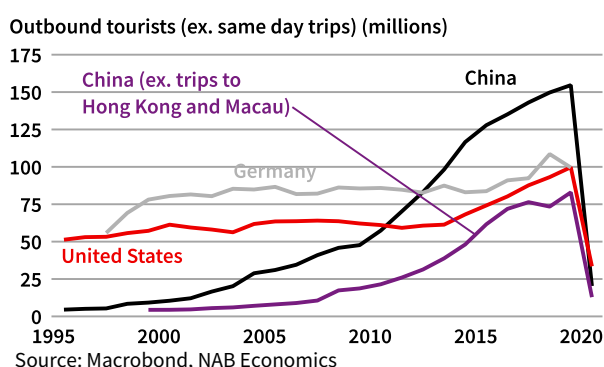
China's international borders effectively reopened in early January, when Beijing removed quarantine requirements for international visitors and allowed Chinese residents to leave the country in significant numbers for the first time since the start of the COVID-19 pandemic. While overseas travel is now permitted, the increase in outbound departures has been modest so far. A range of constraints mean that a full return of the Chinese tourist to international markets may take some time.

### Chinese tourism goes from leader to laggard

Prior to the COVID-19 pandemic, China had emerged as a major driver of the global tourism market. China's rapid industrialisation over the past few decades underpinned growth in household incomes and wealth, which supported an increase in China's outbound tourism. According to data from the UN World Tourism Organization, China overtook Germany in 2012 to be the largest single source of tourists worldwide. These data include mainland Chinese tourists travelling to the Special Administrative Regions of Hong Kong and Macau, presenting a somewhat distorted view of global tourism activity. That said, even excluding these journeys, the number of Chinese international tourists rapidly increased in the two decades prior to the pandemic.

### Global outbound tourists

China has emerged as a major tourism driver in recent decades



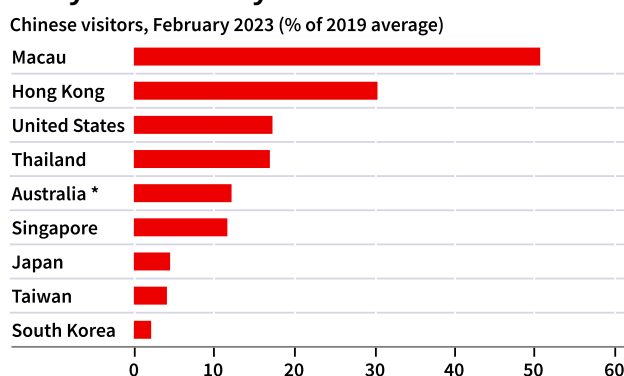
COVID-19 led to a period of major upheaval in the global tourism industry. Various countries – including China – effectively closed their borders to either inbound or outbound tourists and heavily restricted internal movement of people. The subsequent reopening of

borders happened in a staggered fashion, with many countries doing so in 2022 – albeit often with restrictions based on vaccination status and providing a negative COVID-19 test. China's reopening was comparatively late when compared with other countries, maintaining strict border controls until January this year.

Since reopening its border, Chinese outbound tourist numbers have increased notably, albeit they remain well below the levels recorded prior to the pandemic. It is worth noting that data for Chinese tourists comes from the country of arrival – China has not updated high level outbound tourist data since the end of 2019. There have been marked differences in arrivals in different locations – with Macau at around 50% of 2019 levels in February 2023, whereas South Korea was at just 2%.

### Chinese tourists by destination

Many locations yet to see a rebound

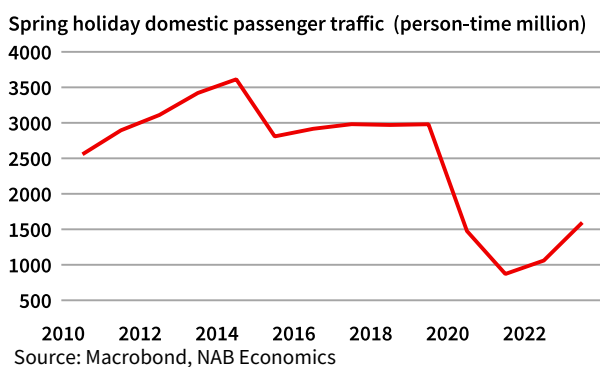


In part, the modest increase in tourist numbers may reflect a range of constraints that continue to restrict the ability of many individuals to travel. Some of these may be administrative – with reports of delays in processing new passports in China and visas for Chinese tourists in range of countries. With respect to the latter, many countries implemented new restrictions on Chinese

visitors in January, following China's border reopening, reflecting concerns around the COVID-19 wave that was occurring at that time, although most of these measures have since been removed. Some of the constraints may also be psychological – despite the easing in domestic travel restrictions associated with the zero-COVID policies, the volume of travellers returning home during the Chinese New Year holidays remained well below pre-pandemic levels. This may reflect a degree of unwillingness to travel at present.

## Chinese domestic travel

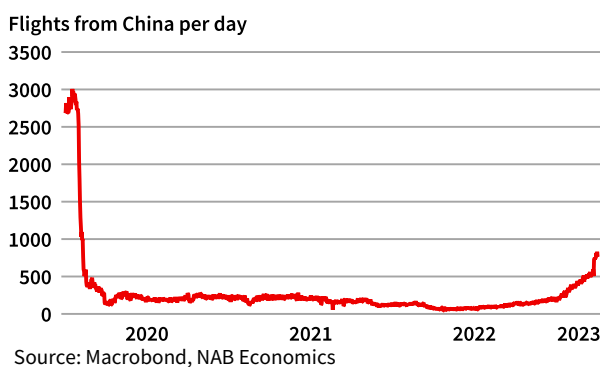
### Modest recovery in 2023, but well below pre-pandemic levels



An additional constraint to overseas travel is the limited number of scheduled flights between China and the rest of the world. According to data by Variflight, there were around 830 flights departing China each day in early April 2023 (including those to Hong Kong and Macau) – well above the lows (below 100 flights) of early 2022, but also far below the pre-pandemic trend level of around 2600 flights per day. Flights between China and the United States are currently restricted by an order from the US Department of Transport, with any increase requiring the approval of both governments.

## China's flights expanding

### But remain well below pre-pandemic levels



## Could foreign policy decisions impact Chinese tourism?

A significant proportion of the Chinese outbound tourism market consists of group tours, organised by travel agencies and online providers, although its share of the total market has declined over many years. Traditionally, the demographic of those taking group tours tends to skew older, as younger tourists often prefer independent travel. That said, it remains an important segment and one that the government can exert significant influence.

In early February, China's government permitted group tours to partially recommence, with a pilot program that allowed tours to a group of 20 countries. This was expanded in March with an additional 40 countries, although a range of prominent destinations – including Australia, the United States, Japan and South Korea – were not included, despite being among the top 15 destinations for Chinese tourists prior to the COVID-19 pandemic.

Some commentators have suggested that the omission of these countries could be a retaliatory measure, either for implementing travel restrictions in January, or earlier issues, such as the earlier trade measures imposed on Australia following the start of the pandemic. China's government previously used group tour tourism as a foreign policy tool, instructing travel agents not to book packages to South Korea, leading to a sharp slowing in visitor numbers in 2017.

## Conclusions

Various factors have constrained the recovery in China's outbound tourism since its borders were reopened in January and these could continue in differing degrees for several months at least. It remains to be seen how long it will take for a broad recovery in outbound tourism to take place and whether different destinations may suffer – either due to consumer preference or government policy.

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