

China Retail

Chinese Tourism Trends & Shopping Behaviors: Industry Expert

- **What's New** — We hosted a lunch event with a travel industry expert, Mr. Zou Feng, on 22 October in Hong Kong. Mr. Zou discussed some of the evolving trends to Chinese outbound tourism, including his take on the recent China Tourism Law and its implications on destinations like Hong Kong. Outbound traffic has increased from 10mn in 2002 to 83mn in 2012 at an accelerating rate of about 13-15mn new Chinese travelers per annum in the past five years. For the first five months of 2013, outbound Chinese tourists increased +17.3% YoY to more than 37mn, a rate that Mr. Zou believes is sustainable for the rest of 2013 despite the slower economic outlook and more discerning spending patterns by Chinese consumers. Mr. Zou believes Chinese tourism has yet to reach its peak and greater tourism expenditure, including shopping, can be expected. Our key takeaways from the lunch include:
- **New Tourism Law to benefit larger-scale brands/retailers in HK**— Mr. Zou views the new law in place as a positive where tourists in HK will now have the greater flexibility of time and selection to conduct higher quality shopping. This could drive higher spending per person of which larger-scale department stores/malls, duty-free stores (DFS) and flagship stores of better known brands would likely benefit. Retailers with lower brand awareness (and lower-quality products) such as of gold, jewelry would be negatively affected. On the other hand, tourist growth in destinations like Hong Kong and South-East Asia (SEA), where zero-fee packages are more prominent, would moderate in the near term. This slowdown would be most noticeable during off-peak seasons (peak season like July-Golden Week (Oct) account for 45-55% annual Chinese outbound tourism), which is where the market will be over the next 1-2 months.
- **US to draw more Chinese tourists than Europe in near term**— While HK/Macau remain the most popular destination(s) for outbound Chinese tourists (first-stop), more are venturing out to countries like the US (#8), Japan (#6), Korea (#3), and Taiwan (#4) (see Fig 2-3). The rise of US as the only non-Asia country among the top ten destinations in 2012 had been contributed in part by the greater ease in visa applications to US. Application time has been shortened to 5 days from 2 months following more visa officers in China (>400 vs. 100-plus in the past). Compared with an estimated growth rate of 20% for Chinese outbound tourism to Asia, Mr. Zou expects the rate to US could be stronger at >30% in the near term. In comparison, the application process remains more onerous for Europe (ex UK, which had recently announced simplified visa application rules for Chinese), notably Paris (France) and Italy where public security appeared to be a concern among Chinese.
- **Increased purchases of products from country of origin, self-consumption vs. gifting** — Asia will still draw the majority of Chinese outbound tourists but traditional strongholds like HK/Macau & SEA could see moderating growth. (*more on Page 2*)

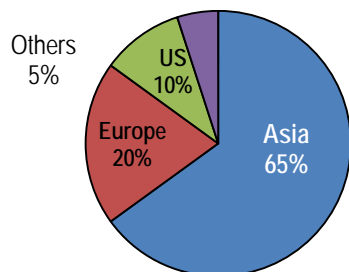
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Figure 1. Geographical split in shopping expenditure by Chinese tourists overseas

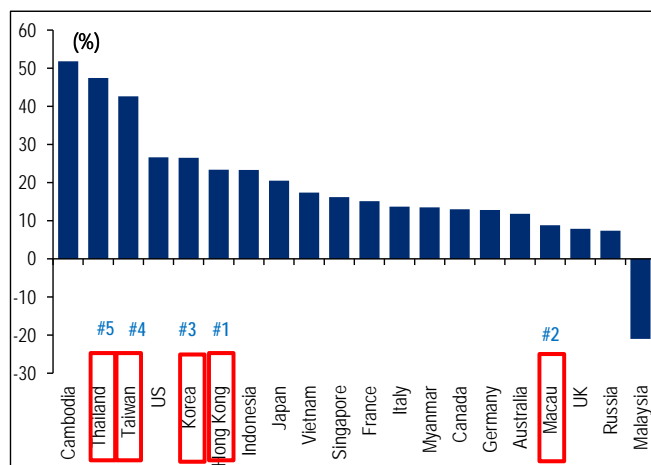


Source: China National Tourism Administration (CNTA)

■ **Increased purchases of products from country of origin, self-consumption vs. gifting** — (Con't from Page 1) Growth across Japan (>20%), Korea (>25%) and Taiwan (>40%) is expected to at least sustain, among which, Japan could see the strongest growth upside given the low base from the bilateral strains in the last few years. Mr. Zou also shared that based on his recent experiences, more Chinese tourists are inclined to make purchases of goods at the country of origin, which include home appliances, cosmetics, medicines, food products, etc. These are largely meant for self-consumption (including to immediate relatives) and lesser so for official gifting purposes. Hence, more consideration would be given to the value proposition versus the absolute dollar value of the product. Prices of these products are generally lower at their country of origin and more importantly, the assortment is wider than back in China. Compared with the initial trend of splurging on expensive items like watches, jewelry, or luxury bags overseas, Mr. Zou sees a longer-term trend of more rational and discerning spending by Chinese tourists ahead.

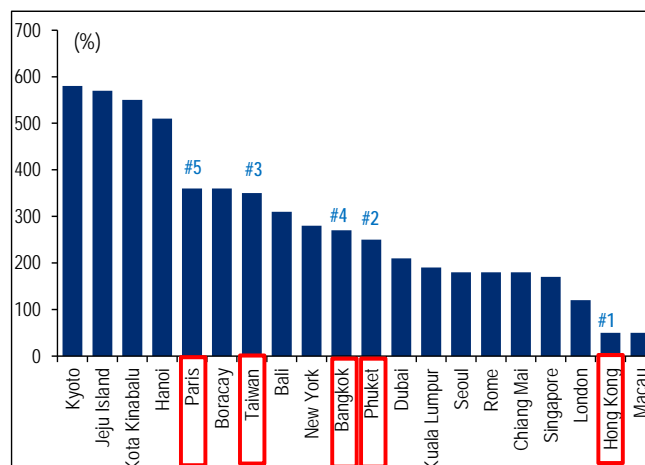
■ **Steady growth for domestic tourism traffic, room for higher spending ahead** — Growth of domestic tourism is not too far away at 15% per annum, vs. outbound tourism of 16-18%. Mr. Zou is of the view that there is very strong development potential of the domestic tourism market in China, particularly in the development of destinations that appear to be drawing keen investment interest. Areas like Hainan (Sanya) can continue to draw domestic travelers who face constraints in international visa applications (selected civil servants, government officials) as well as for large-scale business functions. During the winter, Sanya is the top choice for business/corporate meetings among Chinese enterprises. Other local destinations include Yunnan, Sichuan, Xiamen and Qingdao where Mr. Zou expects future improvements in transportation systems, etc., to draw more Chinese travelers to these areas.

Figure 2. Growth rates of Chinese tourists to the top 20 visited countries (by tourists numbers) in 2012 (%)



Note: Red box highlights the top five destinations (& ranking) by outbound Chinese tourist numbers; Source: China National Tourism Administration (CNTA)

Figure 3. Growth rates of Chinese tourists to the top 20 visited countries (by tourists numbers) during July & August 2013* (%)



Note: Red box highlights the top five destinations (& ranking) based on unique visitors recorded on daodao.com; Source: daodao.com

Appendix A-1

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