

Chinese Consumers Series - Issue 3

A glimpse of China's domestic tourism market - The new Chinese travelers drive new trends in domestic travel

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Online travel market thrives

Online travel revenue soars along with the rapid development of e-commerce in China.

Demand for quality and customized tourism

The increased sophisticated of Chinese travelers continues to drive new trends in tailor-made, niche and quality tourism.

Cross-sector partnerships

A growing number of strategic investors and large corporations from other sectors as well as property developers and key Internet players are keen to venture into the tourism sector.

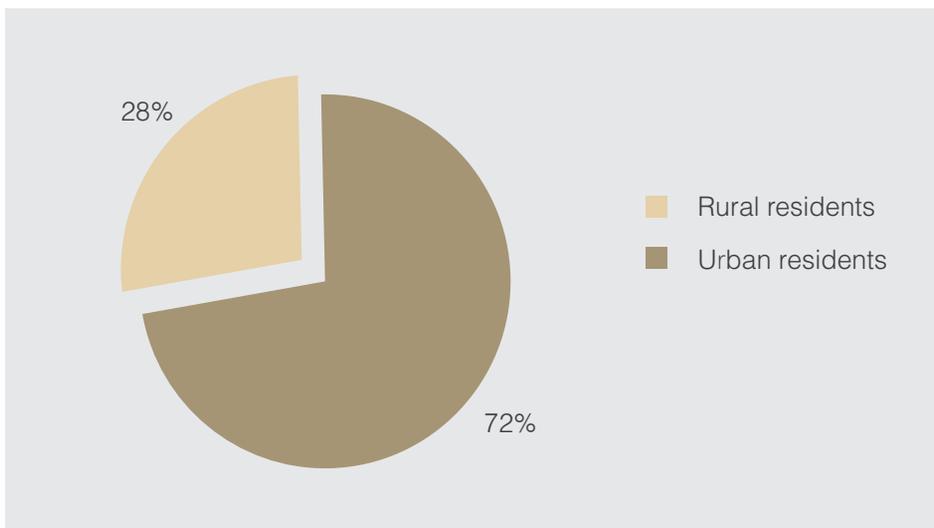
A thriving domestic tourism market

Being one of the strategic pillars of the national economy and the six major consumption areas encouraged by the Chinese government, tourism has long been an important growth engine for China's economy. Domestic tourism^a is the biggest segment and key driver of China's tourism industry, accounting for 97.4% of all tourism trips in 2016¹. The burgeoning domestic tourism has brought huge opportunities to the country.

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Despite the economic slowdown under the 'new normal', domestic tourism in China still maintained its strong growth momentum in recent years. Data from the China National Travel Administration (CNTA) show that Chinese travelers made 4.44 billion trips on domestic travel in 2016, increased 11% yoy. Among which, 72% were urban residents, up 14% yoy while 28% were rural residents, increased 4.4 yoy% (Exhibit 1).

Exhibit 1. The share of China's domestic tourism among urban residents and rural residents in 2016



Source: China National Travel Administration; compiled by Fung Business Intelligence

Domestic tourism contributed 92% of total tourism revenue in 2016, reaching 3.9 trillion yuan, up 15.2% yoy. Total spending on domestic tourism reached 638.4 billion yuan, accounting for 83.6% of the country's total tourism consumption². Domestic travel is expected to reach 4.88 billion trips by end of 2017, up 10% yoy with revenue rising 12.5% to reach 4.39 trillion yuan.

^aDomestic travel is defined as tourism involving Chinese residents travelling within the country.

Key growth drivers

1. Demographic factors

Rise of middle class and increasing disposable incomes

China's tourism industry is growing fast on the back of rising disposable incomes and middle class consumption. According to a study by Boston Consulting Group (BCG), China's middle-class consumer market^b is projected to be the world's largest by 2020 – comprising 338 million households and worth 44.3 trillion yuan³. As more Chinese families are getting wealthier, their discretionary spending especially on travel and entertainment are on the rise. Their increasing desire to enjoy life has led to a greater propensity to travel.

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Besides, the rapid increase in car ownership has also accelerated the development of self-driving travel within the country. According to the Ministry of Public Security, the national privately-owned vehicles ownership reached 165.59 million by end of 2016, up 15% yoy⁴. Increasing numbers of affluent families in tier-1 cities like to drive out to a village for a weekend to get a taste of rural life.

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^b Definition of middle class: Emerging-middle class – households with annual disposable income of US\$10,001-16,000 (approximately 67,640-108,250 yuan); the middle class – household with annual income of US\$16,001-\$24,000 (approximately 108,220-162,320 yuan).

Source: Boston Consulting Group. <https://www.bcgperspectives.com/content/articles/globalization-growth-new-china-playbook-young-affluent-e-savvy-consumers/?chapter=3>

The empowered Chinese millennials



Chinese millennials (post-80s and post-90s generation) have become the dominant force to drive domestic tourism consumption. According to a study by Tuniu.com, China's leading online leisure travel company, the average age of domestic travelers has dropped over recent years, with the age group of 26-35 accounting for about 23% of total in 2016⁵. A recent study

by Hurun Research Institute shows that the post-80s generation are experienced travelers with high spending power. 55% of the young, luxury travelers like to travel whenever it fits their schedule. According to the survey, young luxury travelers' passion for travel still remains high, with respondents planning to take 3.2 trips abroad in the next year⁶, down slightly from 3.4 trips in 2016⁷.

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Growing demand from the silver population

On the other hand, the rapidly aging population in China has also provided huge opportunities for domestic tourism. Figures released by the National Bureau of Statistics of the PRC in 2017 show that the population of Chinese aged 60 and above was 230.8 million. By 2050, that number is estimated to reach 400 million⁸. These seniors and retirees who have plenty of time for leisure activities including traveling create huge demand for tourism, in particular the "Red tourism". Red tourism is a subset of tourism in China in which people visit locations with historical significance to Chinese Communism with a revolutionary legacy. According to the study by Tuniu.com, about 16% of red tourism travelers were in the 55 to 63 years age group⁹.

These seniors and retirees who have plenty of time for leisure activities including traveling create huge demand for tourism, in particular the "Red tourism".

2. Continuous expansion of transportation networks



Transport infrastructure in China has experienced significant growth in recent years. Continuous expansion of a comprehensive transportation system especially the high-speed railway and aviation network has contributed to the rapid development of domestic tourism, both for leisure and business purpose. According to a study by the School of Hotel and Tourism Management of the Hong Kong Polytechnic University¹⁰, China's high-

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speed railway has significantly increased domestic tourism demand and provided significant benefits for provinces that the railway route spans across⁶.

⁶ The effect of the 1,070-kilometre Wuhan-Guangzhou railway on domestic tourism receipts in three provinces that the railway route spans across, namely Guangdong, Hunan and Hubei was being studied. The results show that the railway has produced profound economic benefits for the tourism sector particularly in Guangdong and Hunan province.

3. Strong government support

The Chinese government has been very supportive to the development of the domestic tourism industry and regarded it as an important growth area for the economy. A series of measures and policies have been promulgated in recent years to further develop tourist resources and boost growth in China's tourism industry. Selected measures include:

- In January 2009, the State Council issued the *Opinions on Accelerating the Development of the Tourism Industry*, which highlights the government's aim to nurture the tourism industry as one of the strategic pillars of the national economy¹¹.
- In February 2013, the State Council released *The National Outline for Tourism and Leisure 2013-2020* which aims at boosting both domestic and outbound tourism. It also outlines the government's intention to implement a national system of paid holidays by the end of 2020¹².
- In August 2015, the State Council issued a circular which focuses on boosting tourism investment and consumption so as to develop the modern service industry and increase employment¹³.
- *China's 13th Five-Year Plan* highlights tourism as one of the key sectors the government would pay special attention to. The government would increase living standards and further promote "Tourism-plus". According to the State Council, investment in tourism is expected to grow to 2 trillion yuan by 2020, and the sector will contribute more than 12% of GDP¹⁴.
- The *515 Strategy* advocated by the CNTA in January 2016 outlines five objectives, 10 actions and 52 measures to promote tourism development in China from 2015 to 2017¹⁵. The goal of the *515 Strategy* is to meet the five objectives of tourism development, namely civility, order, safety, convenience and national prosperity, and to facilitate the transformation and upgrade of the tourism industry, improve its quality and efficiency, and speed up its modernization and internationalization process.

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New trends and developments

1. Online travel market thrives

China's online tourism is growing with tremendous potential. Online travel revenue continued to soar in recent years, with an accelerating growth pace driven by the rapid development of e-commerce in China. According to iResearch, the gross GMV of China's online travel increased by 25% yoy to 165.94 billion yuan in 1Q17 (Exhibit 2), while the revenue of online travel agencies (OTA) hit 8.96 billion yuan in 1Q17 with a yoy growth of 34.6%¹⁶. Data from China Internet Watch show that China's online travel market, which consists of online transportation booking, online accommodation booking, and online holiday booking, amounted to 210 billion yuan in 1Q17 with an increase of 51.5% yoy. Ctrip is the largest player in China's online travel market, with a market share of 35.2%, followed by Qunar (17.3%), and Alitrip (13.6%)¹⁷.

Online travel revenue soared in recent years, with an accelerating growth pace driven by the rapid development of e-commerce in China.

Exhibit 2. China's online travel GMV, 1Q14-1Q17



Source: iResearch; compiled by Fung Business Intelligence

2. Growing demand for quality and customized tourism thanks to consumption upgrade

As income levels rise, consumers look for upgraded consumption experience and switch to more expensive and premium travel experience. The increased sophistication of Chinese travelers continues to drive new trends in tailor-made, niche and quality tourism. Unlike in the past where the Chinese travelers used to join group tours, they now favor a more individualistic approach to travel.

With the change and upgrade of people's consumption habits, the traditional organized group tours become difficult to meet customers' needs. At present, increasing numbers of local travel agencies have ventured into customized tourism by launching tailor-made and specialized tours for private groups, families, with well-designed itineraries and added personal touch to services. Travelers can customize the itinerary to include everything they wish to see and do during their trips.

The increased sophistication of Chinese travelers continues to drive new trends in tailor-made, niche and quality tourism.



3. Cross-sector partnerships

In recent years, a growing number of strategic investors, venture capitalists and large corporations from other sectors have begun to tap into the prosperous tourism sector. Selected examples of Chinese property developers who have ventured into the tourism sector or buying more tourism assets in recent years include:

- Wanda Group – it has started to acquire a number of domestic travel and tourism agencies and companies since 2013, and invested heavily in ultra large tourism projects, including holiday resorts and theme parks in over 12 provinces in China.
- Evergrande Group – a leading property developer in China which put a lot of focus on cultural tourism. Its subsidiary company, Evergrande Tourism Group, focuses on developing the group's major tourism projects. One of which is the Haihua Island Project which comprises 28 commercial attractions including the Fairytale Land, an indoor theme park with a marine world and a waterpark, conference and exhibition center, museums, etc.
- Shenzhen-based Kaisa Group – it has invested heavily in two major tourism real estate projects: the Golden Bay International Park and the 1.27 million sqm fantasyland in Liaoning Province.

Besides, some key Internet players in China are also keen to tap the country's booming tourism industry. Selected examples of Internet companies tapping the online tourism business include:

- Alibaba launched its online travel arm Alitrip (formerly known as Taobao Travel) as an independent brand to tap China's booming online travel market. The company is constantly increasing its presence and scale in China's e-tourism market by merging with other online tourism players and hotel groups. The strategic partnership in 2016 with Korea's biggest travel agency, HanaTour, to bring more Chinese outbound tourists to South Korea was a notable example.
- Baidu formed strategic partnerships with China's largest online travel service providers, Ctrip and Qunar. In 2015, Baidu swapped its ownership in Qunar for ownership in Ctrip. Based on the share exchange transaction agreement, Baidu and Ctrip would carry out business cooperation across a broad base of products and services.
- Tencent acquired eLong, Inc., a leading mobile and online travel service provider in China in 2015 and privatized it with a consortium in the same year.

A growing number of strategic investors, venture capitalists and large corporations from other sectors have begun to tap into the prosperous tourism sector.

Conclusions and Outlook

Powered by the growing number of middle class and elderly population, the upgrading of private consumption and the continuous government support, we believe that domestic tourism in China will continue to stay robust in the coming years.

The National Outline for Tourism and Leisure (2013-2020) states that the government targets to double domestic spending on tourism by 2020 through their continual support to develop the sector. The number of domestic trips is expected to increase by 16% annually, reaching 7.3 billion people-times by 2020, while gross revenue of domestic tourism industry to reach 7 trillion yuan¹⁸. Aircraft manufacturer Airbus¹⁹ and Boeing²⁰ also projected that China's domestic air traffic will become the world's largest within ten years.

Domestic tourism is set to remain a major growth driver of China's economy, making significant contribution to regional economic growth, improving economic structure, driving the development of related industries, enhancing employment and boosting domestic demand.

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