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# MARKET INSIGHTS
## EUROPEAN TRAVEL COMMISSION
**MARKET INTELLIGENCE GROUP**

# CHINA

February 2007

This Market Insight is one of an ongoing series of market profiles produced by the Market Intelligence Group [MIG] of the European Travel Commission [ETC]. New market profiles will be added to the series and updated at regular intervals.

The members of the MIG comprise the Research Directors of the 37 National Tourist Offices (NTOs) that are members of ETC. The group regularly commissions and publishes market intelligence studies, handbooks on methodologies and best practice, and facilitates the exchange of European tourism statistics on the 'TourMIS' web platform.

More information on ETC's programme of market intelligence activities - including links to studies and sources of European tourism statistics - can be found on the organisation's corporate website: http://www.etc-corporate.org.

## OVERVIEW

- With the relaxation of restrictions on overseas travel, the Chinese have burst onto the international tourism stage. China is one of the world's fastest-growing outbound travel markets – although growth has slowed somewhat in the last couple of years – and it overtook Japan as Asia's leading source in 2002, according to official statistics. In 1995, the World Tourism Organization (UNWTO) predicted that China would generate 100 mn trips a year by 2020, making it the fourth largest market in the world. It is on course to reach that target well before 2020.
- However, all the enthusiasm about China's potential as an outbound source, stimulated by widespread media hype, overlooks the fact that the vast majority of outbound trips (around 70%) are really domestic – for the Chinese Special Administrative Regions (SARs) of Hong Kong and Macau.
- In 2005, total outbound trips increased by 7.5% to 31.0 mn. Preliminary data for 2006 points to a further 11% rise, to 34.5 mn. International travel expenditure, meanwhile, increased by 14% in 2005 to US$21.8 bn and the first half of 2006 saw an increase of 16%.
- Europe's share of China's outbound trip volume is difficult to determine as official outbound data only counts first point of call. But the official count was 1.8 mn in 2005. The leading European destinations include Russia, with 770,000 in 2005 (largely to the non-European part of the country, such as Russia's Far East), France, Germany and Italy. Preliminary estimates suggest that trips to Europe grew marginally in 2005 and by 4-5% in 2006.

- The European tourism industry's attention has been focused in the last couple of years on the Chinese group leisure tour market, recently opened up as a result of the granting of Approved Destination Status (ADS) to most European countries. However, it is proving difficult to generate sustainable and profitable business in a sector characterised by low-priced, low-yield, multi-destination tours. Business, incentive and technical trips, as well as independent leisure trips (FIT), are also increasing quite rapidly and are, in most respects, much more attractive markets. However, FIT are very difficult to organise for most European destinations.

# COUNTRY PROFILE

## Currency

- Yuan (Y), also called the renminbi (Rmb) €1 = Rmb10.00 (2006)
- The yuan/renminbi was effectively pegged to the US dollar at Rmb8.28 = US$1:00 until July 2005, when the government announced that it was shifting to a 'managed floating exchange rate regime' based on an unspecified basket of currencies with daily revisions to the central parities. There was an immediate but modest revaluation against the US dollar of 2.1% (to Rmb8.11). The currency has since drifted upwards very steadily – but at an accelerating rate. By the end of 2006 it was trading at around Rmb7.82: US$1.00.
- The yuan/renminbi gained some 5.9% over the US dollar between June 2005 and December 2006, and 1.7% in the last quarter of 2006 alone.
- The yuan/renminbi fell sharply (with the US dollar) against the euro in 2002-04 but stabilised in 2005-06.

## Population

- 1,324 mn in 2006 – 138 people per km2.
- The population is now growing by about 0.6% a year. The annual birth rate has fallen to 13.6 births per 1,000, while the death rate has fallen much more steeply to 6.8 per 1,000. The government introduced a law in 1980 essentially setting a limit of one child per family, which has contained the growth in the total population but is causing it to age very rapidly. The population under 40 has probably already peaked, at around 800 mn, and will fall by about a third over the next 20 years. Those over 40 will increase from 38% of the population to about 58% over the same period.
- The urban population was estimated at 41% of the total in 2005. The household registration system is being gradually relaxed, which is improving the legal and economic situation of the 'illegal migrants' (migrants from rural areas without residence permits, estimated to number 150-200 mn).
- The populations of the Beijing, Shanghai and Guangzhou/Guangdong regions – the main international tourist generating regions – are estimated at 12.5 mn, 29.3 mn and 50.8 mn, respectively.

## Age

| Breakdown (%) | 2005 | 2020[f] |
|---|---|---|
| 0-4 years | 6.4 | 6.2 |
| 5-14 | 15.0 | 12.2 |
| 15-24 | 16.5 | 12.5 |
| 25-34 | 16.5 | 15.1 |
| 35-44 | 17.4 | 13.5 |
| 45-54 | 12.7 | 16.6 |
| 55-64 | 7.9 | 12.1 |
| 65-74 | 5.1 | 8.1 |
| 75-84 | 2.2 | 3.0 |
| 85+ | 0.4 | 0.8 |

## Ancestry & Migration

- 92% of the total population is reported to be Han Chinese.
- Various sources suggest that there may be 60 mn 'overseas Chinese' – people of Chinese origin living outside 'Greater China' (China, Hong Kong, Macau and Taiwan). This figure includes 52 mn in Asia, 6 mn in the Americas and 1 mn in Europe. In Europe, there are about 700,000 in Russia, 300,000 in France, 250,000 in the UK, 135,000 in Ireland, 110,000 in Italy, 72,000 in Germany, 45,000 in the Netherlands and 12,000 in Spain.
- A growing concern of the Chinese Government is that around two thirds of young Chinese who study abroad choose not to return after their studies are completed, preferring to find work outside China (at least on a temporary basis).

## Language & Religion

- The official language in China is Putonghua or Mandarin ('Standard Chinese'), but most people also speak other dialects and languages, including Yue (Cantonese), Wu (Shanghanese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka and many others.
- China is officially atheist, but freedom of religious belief is protected by law. In practice, the principal religions are Taoism and Buddhism; there are smaller numbers following Lamaism, Shamanism, Christianity (<4%) and Islam (<2.5%).

## Economic Data

| | 2002 | 2003 | 2004 | 2005 | 2006e |
|---|---|---|---|---|---|
| GDP (US$ bn) | 1,454.0 | 1,647.9 | 1,936.5 | 2,278.4 | 2,676.3 |
| Real GDP growth (%) | 9.1 | 10.0 | 10.1 | 10.2 | 10.5 |
| GDP per capita (US$) | 1,130 | 1,270 | 1,480 | 1,730 | 2,020 |
| Inflation (%) | -0.8 | 1.2 | 4.0 | 1.8 | 1.3 |

## China's Economy 2004-05

- The Chinese economy is, famously, growing breathtakingly fast. Real GDP has been increasing by around 10% a year, led by extraordinary increases in investment. This is unsustainable, because productive capacity will tend to run ahead of consumption. The government has been trying for several years to rein in credit and investment without bringing on a more general economic downturn, but with little success.
- Prosperity is generally concentrated in the eastern and southern coastal provinces (notably around Beijing and the Pearl and Yangtze River deltas – the Beijing, Shanghai and Guangzhou regions). It is proving more difficult to generate growth in 'rural' areas, in the inland and western provinces, and in the North Eastern Region, with its concentration of declining heavy industries.
- It is estimated that there are about 300,000 'high net worth individuals' (dollar millionaires, excluding primary residences) in China. Asian Demographics Ltd points out that (using 2001 data) 72% of all Chinese households with incomes of more than Rmb48,000 (€6,500) per year live in the Beijing, Shanghai and Guangdong provinces alone, and 93% in the Eastern and South Eastern regions centred on these provinces. Official data for 2004 gives average disposable incomes in registered urban households (i.e. excluding 'illegal' migrant households) as Rmb16,700 (€1,600) in Shanghai, Rmb15,600 (€1,500) in Beijing and Rmb13,600 (€1,300) in Guangdong. It is separately estimated that fewer than 100 mn people have disposable annual incomes of over Rmb15,000.
- Inflation has usually been negligible in China in recent years. After a brief upturn in 2004, it fell back to 1.3% in 2006 – but is forecast to rise a little in 2007.
- Although the yuan/renminbi is regarded as seriously undervalued in the USA and many other OECD countries, it is overvalued in terms of local purchasing power, making overseas travel – especially to Europe – an expensive, if desired, option.

# TRAVEL PROFILE

## Chinese Outbound Trips

| Destination ('000) | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Hong Kong | 5,320 | 7,771 | 9,310 | 13,002 | 13,525 |
| Macau | 1,800 | 2,783 | 4,791 | 7,490 | 8,479 |
| Other Asia | 3,015 | 3,665 | 3,882 | 5,330 | 5,749 |
| Americas | 585 | 618 | 531 | 680 | 799 |
| Europe | 1,177 | 1,398 | 1,351 | 1,807 | 1,810 |
| Oceania | 210 | 265 | 265 | 361 | 409 |
| Africa | 13 | 51 | 46 | 115 | 144 |
| Unidentified | 13 | 51 | 46 | 68 | 111 |
| Total | 12,133 | 16,602 | 20,222 | 28,853 | 31,026 |
| % annual change | 15.9 | 36.8 | 21.8 | 42.7 | 7.5 |

Note: These are the official figures for Chinese 'citizen departures', issued by the China National Tourism Administration (CNTA) and broken down by first port of call. The figures for Europe, for example, do not include tourists travelling via Hong Kong or Singapore. However, they do include travellers to Russia, including Russia in Asia, which account for more than 45% of that total.

- Preliminary results point to 34.5 mn 'citizen departures' in 2006, up 11% over 2005 – including an estimated 10% increase for Asia Pacific, 20-30% for Africa and the Americas (from a much lower base) and just 4-5% for Europe.
- Of total departures, private trips accounted for 81% of the total.
- For comparison, domestic trips totalled 1.2 bn in 2006, up from 744,000 in 2000.

## International Travel Expenditure (excl transport)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Total (US$ mn) | 13,114 | 13,909 | 15,398 | 15,187 | 19,149 | 21,759 |
| % annual change | 20.7 | 6.1 | 10.7 | -1.4 | 26.1 | 13.6 |
| Per trip (US$) | 1,252 | 1,146 | 927 | 751 | 664 | 701 |

- Total expenditure increased by 16% in the first half of 2006 – growth was expected to average out at 15% for the full 12 months of the year.
- The figures for spending per trip in the table above are distorted by the predominance of travellers to Hong Kong and Macau. Spending per trip to Europe is typically in the range €1,500-€3000. A survey of Chinese tourists in 2005 released by the CNTA showed that travellers to various EU member states spent about €3,000 per trip (including about €500 on the flight) – of which 34% went on shopping, 17% on the air fare, 18% on accommodation, 9% on entertainment, and 3% on travel agency services.
- A feature of the Chinese market is the extremely low prices negotiated by Chinese travel agents for ADS leisure tours. According to trade reports, it is not uncommon for such tours to work on a budget of less than €50 per traveller per day, including accommodation, food and local travel. Business and technical group travel may work on more relaxed budgets, but are still very competitive.
- Until recently only the most affluent and privileged Chinese could travel to Europe. One reason for the decline in spending per trip in recent years has been the growing proportions of people on more modest incomes allowed to travel to Europe – a trend which is expected to continue.

## Leading Destinations

**Arrivals from China in selected destinations ('000)**

| | Measure | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| Hong Kong | TF | 2,707 | 3,066 | 4,757 | 5,693 | 7,794 |
| Macau | TF | 1,038 | 1,076 | 1,451 | 1,431 | 2,191 |
| Singapore | VF | 434 | 497 | 670 | 569 | 880 |
| Russia | VF | 494 | 461 | 726 | 680 | 813 |
| Thailand | TF | 704 | 695 | 763 | 624 | 779 |
| Vietnam | VF | 626 | 673 | 724 | 693 | 778 |
| South Korea | VF | 443 | 482 | 539 | 513 | 627 |
| Japan | TF | 352 | 391 | 452 | 449 | 616 |
| Malaysia | TF | 425 | 453 | 558 | 351 | 550 |
| Germany | TCE | 215 | 237 | 270 | 268 | 387 |
| Australia | VF | 120 | 158 | 190 | 176 | 251 |
| USA | TF | 249 | 232 | 226 | 157 | 203 |
| Mongolia | TF | 49 | 57 | 89 | 90 | 139 |
| Canada | TF | 73 | 81 | 96 | 76 | 102 |
| Italy | TF | 109 | 89 | 162 | 126 | 96 |
| UK | VF | 41 | 58 | 64 | 68 | 95 |
| New Zealand | VF | 34 | 53 | 77 | 66 | 84 |
| Kazakhstan | VF | 43 | 41 | 48 | 57 | 77 |
| Philippines | TF | 15 | 19 | 28 | 32 | 40 |
| Indonesia | TF | 29 | 32 | 37 | 41 | 30 |

Notes: These figures represent arrivals as reported by the destinations according to standard UNWTO definitions – TF = tourists at frontiers; VF = visitors at frontiers; TCE = international tourists at all forms of commercial accommodation; THS = international tourists at hotels and similar establishments.

These figures differ substantially from those shown by China's citizen departure statistics (see above under 'Chinese Outbound Trips'). The departure statistics suggest that in 2005 Asia accounted for 86% of departures, Europe 6%, the Americas 3%, Oceania 1% and Africa 1%. Of first touchdowns in Europe, Russia accounted for 43%, Germany 13%, France 11%, the UK 10% and other countries 23%.

Arrivals data for Chinese tourists in European countries are scarce and unreliable. Several important destinations, including France, the Netherlands, Greece, Portugal and Spain, do not provide regular counts, while in others the high proportions travelling unmonitored across the frontiers on multi-country tours complicates matters. It is also suggested that the fact that citizens of China, Hong Kong, Macau and Taiwan all carry passports from 'China' makes for unreliable reporting. However, annual arrivals in European countries are very roughly on the following scale:

| | |
|---|---|
| 500,000-1,000,000 | Russia (including Russia in Asia) |
| 250,000-500,000 | France, Germany, Italy |
| 100,000-250,000 | UK, Austria, Belgium, the Netherlands |
| 50,000-100,000 | Switzerland |
| 25,000-50,000 | Denmark, Finland, Greece, Norway, Spain, Sweden |
| 10,000-25,000 | Czech Republic, Poland, Portugal, Turkey |
| 5,000-10,000 | Bulgaria, Croatia, Hungary, Iceland, Romania |
| <5,000 | Albania, Armenia, Azerbaijan, Belarus, Bosnia & Herzegovina, Estonia, Cyprus, Georgia, Ireland, Latvia, Liechtenstein, Lithuania, Moldova, Luxembourg, Macedonia, Malta, Monaco, Montenegro, Serbia, Slovakia, Slovenia, Ukraine. |

## Purpose of Trip

- The share of official/business trips in total outbound volume has declined rapidly. It fell from 61% in 1993 to 27% in 2003 and 19% in 2005. Over the same period the proportion of leisure trips (or more accurately trips using 'private' passports, but essentially VFR trips and short visits to neighbouring countries, including Hong Kong and Macau, and tours under the ADS system – see 'Travel Formalities', below) rose from 39% in 1993 to 73% in 2003 and 81% in 2005.

- Purpose of trip to different destinations naturally varies widely. By way of example, the UK reported the following breakdown for 2004 arrivals from China: 22% holidays, 20% VFR, 36% business, 14% study, 3% other. For the same year, Australia reported 44% holidays, 11% VFR, 22% business, 12% study, 11% other.
- Although attention has recently focused on leisure travel allowed under the ADS scheme, business, MICE and FIT travel are also increasing rapidly and are in most respects more attractive markets. These segments comprise senior officials and executives, entrepreneurs and professionals who combine business and leisure on their travels. Incentive travel for employees and business partners is still in its infancy, but is also expected to become more important. China is already the world's third-largest market for business travel, according to UNWTO.

## Nature of Trip

- First-time travellers to Europe under the ADS system tend to travel on multi-destination trips, although the number of destinations covered per trip is much lower than, say, for the Japanese when they first started travelling to Europe. Tours to the Nordic countries often offer four countries over eight days (six nights) and trips involving Schengen countries generally cover a minimum of three, but European itineraries can incorporate as many as 6-8, especially when the same visa is valid for all countries. The trend towards a smaller number of destinations per trip is expected to continue.
- Repeat travellers may opt for 'deep tours' covering just one or two countries. Italy is a firm favourite for single destination trips, but obtaining visas for such trips are sometimes a problem.
- Average length of stay is correspondingly short. Destination statistics suggest, for instance, 3.3 days for France, 2.2 for Germany, 1.9 for Switzerland, 1.8% for Italy and 1.4% for Belgium. The UK appears to be the exception, with an average length of stay of 23 days (this is believed to be due to the large numbers of study, business and VFR visitors).

## Seasonality

- **Holiday entitlement and holiday periods**
  Since 2000, a five-day working week and leave entitlement, usually of 14 days a year, have been introduced for government office workers, and these conditions are being gradually extended to more formal, urban employees. In addition, there are three 'Golden Weeks' which offer opportunities for travel: 'Spring Festival' (the Chinese New Year, in January or February), 'Labour Day' (the first week in May), and 'National Day' (the first week in October). The school holidays in July-August form the peak season for family travel, and May-October for business travel.
- **Public holidays, 2007**
  1-2 Jan, 19-23 Feb, 8 Mar, 1-3 May, 23 May (Tibet only), 1 Jun, 1 Aug (Army only), 1-3 Oct

## Accommodation

- MasterCard's MasterIndex of Travel China (2nd half of 2006) found that the preferred accommodation of business travellers was international four-star hotels (38%), three-star/medium priced hotels (37%) and international five-star hotels or higher-end hotels (11%).
- ADS tours often book budget (3-star or 4-star) hotels, but this frequently leads to disappointment. Compared with the spacious newly built international hotels in China's key cities and in many tourism destinations in Southeast Asia, European hotels may be perceived as old, dingy and poorly maintained, with small rooms and unsatisfactory service standards. European hotel rooms usually lack items provided by their Chinese counterparts, including green tea, sewing kits, slippers, combs, toothpaste and toothbrushes. Kettles and green tea in the rooms and ready access to 'proper' Chinese restaurants are essential.

## Leisure / Recreational Activities

- According to the World Travel Monitor, the Chinese have a preference for city holidays, which account for an estimated 40% of all outbound trips, followed by beach holidays (27%) and touring trips (20%).
- Restricted as they are to organised and supervised group tours, the activities of Chinese leisure travellers in Europe are necessarily limited. The MasterIndex of Travel China (2nd half of 2006) found that the main activities of outbound travellers (to all destinations) were general sightseeing and scenic spots (70-75%) and shopping (55%). Preferred shopping items are local souvenirs, antiques and arts and crafts (71%), apparel and personal effects (64%) and food items (30%), with a strong emphasis on status brands.

- The emphasis for first-time travellers to Europe is naturally on the primary images, such as Versailles, Buckingham Palace, the Louvre, Eiffel Tower and Colosseum. Opportunities for taking photographs (as mementoes, but also for showing to friends as status trophies) are valued.
- An ETC/UNWTO study of the Chinese market currently under preparation quotes one of China's most experienced European guides as saying "younger travellers like to see famous sights and nature and the older tourists like to go shopping". However, it is also reported that the European shopping experience sometimes proves disappointing, especially for travellers from Guangdong, who have ready access to Hong Kong.
- Focus group discussions for this study found that tourists who had not been to Europe before were generally looking forward most to visiting France, Germany, Italy, Spain, Greece and Switzerland; they thought they would like Switzerland, France, Italy and Spain best. Guides reported that once in Europe, the country the groups liked best was France. Other countries mentioned were Austria (Vienna), Italy (Venice), Germany, Switzerland and Spain (Barcelona).
- Trade reports suggest that remote countryside, ruins and "too many old churches" are turn-offs.
- Although the sector is still in its infancy, an increasing number of Chinese travellers to Europe are opting for cruises in the Mediterranean.

# PROFILE OF TRAVELLERS

## Nature of Overseas Travellers

- The latest annual survey conducted by ACNielsen on behalf of the Tax Free World Association (TFWA) among 1,500 Chinese citizens in the three key cities of Beijing, Shanghai and Guangzhou who had travelled in the past six months found that 69% of travellers were women and only 31% men. However, these figures include travellers to Hong Kong and Macau, and surveys of arrivals in many other destinations show very different pictures. Two thirds of arrivals from China in the UK are males, and only one third females. Tourism Australia found that, in 2004, 58% of arrivals from China were male and 42% female.
- The TFWA-ACNielsen survey also shows that 36% of outbound travellers were aged 20-29, 29% 30-39, 16% 40-44 and 19% 45+. It is believed that travellers to Europe tend to be somewhat older – predominantly 35-60 years old. In 2000-04, the breakdown of visitors to the UK was as follows: aged 0-15 6%; 16-24 11%; 25-34 29%; 35-44 30%; 45-54 18%, 55+ 8%. The younger travellers were much heavier spenders.
- A promising feature of the Chinese market, according to the Scandinavian Tourist Board (STB) is the high proportion of repeat visits to Europe (although this is not necessarily borne out by other NTOs). A survey of Chinese arrivals (business as well as leisure) at Copenhagen airport commissioned by the STB in 2005, for example, found that only 56% had never been to the Nordic countries before.

## Education

- Travellers to Europe are predominantly graduates, but the proportion of travellers with higher education is falling and this trend will clearly continue. The STB's survey of arrivals at Copenhagen airport found that 66% had a bachelor's degree, 24% a master's, 3% a doctorate, and only 7% were not graduates (3% were educated to secondary level and 4% to primary level).
- In spite of the recent enthusiasm for learning English (there are reported to be 50,000 EFL – English as a foreign language – schools in China), the ability to speak some English (or, more rarely, French, Dutch or Portuguese) does not seem to be much related to education. It is more a matter of whether the family has connections with Chinese living in Hong Kong, Macau or Southeast Asia. It is therefore much more common among travellers from Guangdong.

## Occupations

- The 2005 survey of arrivals at Copenhagen mentioned above found that 46% worked in the public sector, 28% in the private sector, 9% were students and 17% 'others'. In 2000, 23% of Chinese travellers to Malaysia were professionals; another 23% were students, housewives and retired people; 22% were administrative and management personnel, 16% sales people, 6% manual workers, 8% government employees, 1% servicemen and 1% unemployed.

## Travel Companions

- Leisure travellers to Europe under the ADS regime are restricted to groups of five or more (plus tour escort and guide). ADS tour groups are typically of 30-40 people, but may be smaller or larger. Official, business and MICE groups vary widely in size – some are very large.
- Fully independent travel (FIT) to Europe is difficult to organise, but is a growing market. It involves at least the pretence of an official or business motive, with a corresponding passport, letter of invitation and detailed travel plans. FIT travel to Asia, meanwhile, is becoming more and more common and is certainly the preferred type of leisure trip for Chinese, who are starting to rebel against overly organised ADS tours, which oblige them to make frequent shopping stops to ensure commissions for the tour guides.
- Independent VFR travel on private passports to European destinations is not yet normally possible, in contrast to many Asian destinations. However, some travel agents will arrange ADS tours for Chinese wishing to visit friends and family.
- It is not common for travellers to bring their children to Europe (indeed, it is reported that some consulates look very carefully at visa applicants wishing to do so).

# AIR TRANSPORT

## Airports

- Three Chinese airports provide frequent direct flights to Europe: the Beijing Capital International Airport (PEK), Pudong International Airport (PVG) in Shanghai, and Guangzhou New Baiyun International Airport (CAN). There are also two flights a week to Russia from Sanya Airport (SYX) in Hainan. China is planning a fourth international airport near Beijing to cater for the 2008 Olympic Games.
- 19 airports in Europe are served by direct scheduled flights from China: London (LHR), Paris (CDG), Frankfurt (FRA), Munich (MUC), Amsterdam (AMS), Milan Malpensa (MXP), Rome Fiumicino (FCO), Vienna (VIE), Copenhagen (CPH), Helsinki (HEL), Stockholm (ARN), Madrid (MAD), Brussels (BRU), Budapest (BUD), Istanbul (IST), Kiev (KBP), Moscow Sheremetyevo (SVO), Moscow Domodedovo (DME) and St. Petersburg (LED).

## Airline Traffic / Capacity

- In February 2007, according to SRS Analyser, 14 airlines operated 234 weekly flights from China to Europe (in the one direction, and excluding Russia in Asia), with a capacity of 63,714 seats. There have been many changes to schedules over the last year, but little increase in overall capacity. These flights, of course, represent winter schedules: programmed flights for August 2007 appear to offer about 18% more capacity.
- The principal Chinese airlines are Air China (whose main hub is Beijing), China Eastern Airlines (based in Shanghai) and China Southern Airlines (based in Guangzhou).

**Airlines operating non-stop services from China to Europe, February 2007**

| Airline | Alliance | Flights | Seats | Originating airports | Destination airports |
|---|---|---|---|---|---|
| China Airlines | — | 54 | 16,657 | PEK 44 | FRA 12, CDG 7. LHR 6 SVO 7, FCO 5, MUC 3, MAD 2, ARN 2 |
| | | | | CAN 10 | FRA 7, MXP 3 |
| Lufthansa | Star | 33 | 8,356 | PEK 12, PVG 14, CAN 7 | FRA 21, MUC 12 |
| Air France | Sky Team | 20 | 5,650 | PEK 7, PVG 10, CAN 3 | CDG 20 |
| China Eastern | — | 15 | 4,306 | PVG 15 | CDG 7, FRA 5, LHR 3 |
| British Airways | OneWorld | 11 | 2,662 | PEK 6, PVG 5 | LHR 11 |
| KLM | Sky Team | 17 | 4,436 | NRT 7, KIX 7 | AMS 14 |
| Aeroflot | Sky Team | 16 | 3,680 | PEK 11, PVG 5 | SVO 16 |
| Finnair | OneWorld | 14 | 3,988 | PEK 6, PVG 6, CAN 2 | HEL 14 |
| China Southern | — | 8 | 2,729 | PEK 5, PVG 1, CAN 2 | AMS 6, CDG 2 |
| SAS | Star | 11 | 2,709 | PEK 7, PVG 4 | CPH 11 |

(continues)

**Airlines operating non-stop services from China to Europe, February 2007 (continued)**

| Airline | Alliance | Flights | Seats | Originating airports | Destination airports |
|---|---|---|---|---|---|
| Virgin Atlantic | — | 7 | 2,172 | PVG 7 | LHR 7 |
| Turkish | — | 7 | 1,637 | PEK 7 | IST 7 |
| Alitalia | Sky Team | 5 | 1,070 | PVG 5 | MXP 5 |
| Austrian | Star | 4 | 1,060 | PEK 4 | VIE 4 |
| Hainan Airlines | — | 4 | 840 | PEK 4 | BRU 2, BUD 2 |
| Transaero | — | 3 | 658 | PVG 1, SYX 2 | LED 2, DME 1 |
| Domodedovo AL | — | 3 | 644 | PEK 3 | DME 3 |
| Aerosvit | — | 2 | 460 | PEK 2 | KBP 2 |

Note: for airport codes, see above (under 'Airports'). The numbers after the codes represent the number of flights from/to each airport. Flights to Russia east of the Urals are excluded.

# TRAVEL PLANNING & BOOKING

## Travel Formalities

- International travel from China is strictly controlled, but the restrictions are being steadily relaxed. Prior to 1983 only official and authorised business travel was permitted. From 1983 travel to Hong Kong and Macau was permitted from specified cities. From 1987 1-day tours to neighbouring countries began to be introduced, and these were extended to 8-day tours by 1998. From 1988 travel to relatives in a few Asian destinations, at the relatives' expense, was introduced. From 1997 private leisure travel began to be allowed under the 'Approved Destination Status' (ADS) system. Most European countries were granted ADS by the end of 2004. There are now about 132 countries with ADS, although only around 85 have actually started operating group tours under ADS rules.

- The ADS system involves a bilateral agreement between China and a foreign government that allows Chinese citizens to travel for leisure purposes, within organised group tours arranged through approved tour operators in China and in the host country. The tours must have at least five members (Australia has now negotiated ADS groups of just two members) and be accompanied by an authorised group escort ('leader') and a guide (bi-lingual in English and Chinese). ADS also enables the destination country to establish a local NTO office in China.

- Travel agents are required to post bonds with CNTA guaranteeing the services provided to and rights of the tourists, and guaranteeing the return of the tourists to China. The tourists in turn are required to provide bonds, typically of Rmb50,000-Rmb200,000 (€5,000-€20,000), to the travel agents.

- Chinese travel documents include:
  1) Special travel permits allowing visits to Hong Kong, Macau and Taiwan;
  2) Diplomatic passports, seamen's passports, etc;
  3) Public affairs passports (valid for five years and multiple trips), for people sent abroad on behalf of the government or state-owned enterprises, including Chinese attending international conferences, making scientific or educational visits, artists, reporters and athletes;
  4) Private passports (valid for five years and multiple trips), mainly for Chinese visiting friends and family in certain approved destinations.
  5) Tourist passports (valid for one year and a single trip), introduced recently for travellers who wish to travel on ADS tours.

- Chinese visitors require visas for travel to all European countries. The authorised travel agents are responsible for presenting visa applications to the respective consulates. Visa information requirements are often very intrusive and somewhat arbitrary. Requirements for Schengen visas are not 'harmonised', allowing travel agents to shop around among the consulates for more favourable treatment. Some consulates appear to reject high proportions of the applications they receive, perhaps because there has reportedly been a greater incidence of absconding from larger group tours.

- China and host nations are concerned to prevent ADS tourists from absconding. Agencies which fail to return their tourists to China are quickly blacklisted by the visa-issuing consulates and the Chinese authorities. Consequently, the tour escorts usually retain the tourists' passports for the duration of the tours.

## Travel Decisions

- Tourists typically make their bookings 1-2 months in advance, but those wishing to travel during the 'Golden Weeks' (see 'Seasonality', above) are wise to book earlier – capacity tends to be quickly exhausted.
- The tour organisers tend to book accommodation and facilities at short notice, and the trade tends to complain about frequent changes in plans.

## Booking Methods

- Leisure tourists to Europe (restricted to the ADS system) depend on the authorized travel agencies to form a tour within which they can travel and to process their visa applications, and virtually all make their travel arrangements through these travel agencies. The authorized travel agencies cater for people who do not live within easy reach by working through numerous sub-agents.
- Official, business, MICE and technical travellers notionally have greater freedom to make their own international travel arrangements independently, but in practice almost all make their bookings through the major travel agents equipped to deal with them, or through their companies and organisations (many of which have an in-house department linked to one of these travel agencies). Few Chinese have international credit cards – although the numbers are growing fast, according to Visa International – and alternative international payment systems are scarce, complicated and expensive.
- Similar payment problems make it difficult to make definitive bookings over the internet, but the internet is increasingly popular for domestic travel and travel to Hong Kong and Macau, as well as for gathering information.

## Information Sources

- A 2005 GMI survey published in the ETC New Media Review gave Chinese travellers' preferred sources of information as: the internet (65%), personal recommendation (51%) and travel agents (50%). MasterCard's MasterIndex of Travel China (2nd half of 2006) gave the 'key information sources' as: travel agents (68%), the internet (42%) and word of mouth (28%).
- Travel agencies use newspapers, radio programmes (especially those aimed at car drivers), TV (only the biggest agencies can afford TV spots) and, increasingly, the internet. However, advertising is expensive and therefore superficial – it focuses heavily on price. This reinforces a serious problem with information and marketing. The senior managers in the authorised travel agents may be highly educated and knowledgeable, but their counter staff are usually not. They are unable to offer good information to customers, and fall back on the number of countries to be visited and price. There is a crying need for elementary brochures, properly translated and laid out for Chinese readers, aimed at both the trade and at consumers.

## Internet & Media

- The China Internet Network Information Center (an official body) reports that, at the end of 2006, there were 137 mn internet users in China (a 23.4% increase over the year, and equivalent to 10.5% of the total population. Two thirds of these users had access to broadband. They are, essentially, the urban middle-class elite, young, urban and educated – the prospective long-haul international travellers in the population. They are reported to be heavy users of online forums and bulletin boards.
- While that penetration level is low compared with many other countries around the world, China ranks second only to the USA in the overall number of users online. In fact, many analysts feel that the number of internet users in China will surpass the number of US users (210 mn) by 2009.

# TRAVEL TRADE PROFILE

## Tourism Authorities

- The China National Tourism Administration (CNTA) is the main government organization in charge of the tourism industry and effectively controls tourism policy (domestic, inbound and outbound) and supervises the industry closely. It handles foreign contacts and investments.
- The Public Security Bureau (PSB) is responsible for issuing passports.

- The Civil Aviation Administration of China (CAAC) supervises aviation, including the issuing of air tickets.
- The China Tourism Association (CTA) is a semi-governmental organisation, responsible to the CNTA but including the major players in the travel trade. Its purpose is to spread knowledge within the industry on how to improve management, efficiency and quality, and it has direct contacts with many foreign counterparts.

## Structure of the Travel Trade

- There are more than 1,250 international travel agencies in China, of which more than 670 are licensed to handle outbound travel. Most are wholly or partly owned, or controlled, by central or local government organisations. (Under World Trade Organization rules, foreign companies are to be allowed to set up wholly owned subsidiaries or joint ventures in China, and indeed some already exist, but none have yet been authorised to handle outbound business. This is supposed to happen in 2007.)
- There is not a clear distinction, among the travel agencies, between wholesalers and retailers. The large travel agencies service several thousands of smaller travel agents, which are not licensed to handle outbound travel and therefore rely on a big agency for visa processing and official procedures (see 'Travel Formalities'). It is also reported that private individuals sometimes form their own travel groups and sell these to the travel agents or tour operators for a commission.
- The travel agencies licensed by CNTA to handle ADS tours work with 'incoming' tour operators in the destination countries to design and package the products. CNTA requires tours to be accompanied by a tour escort or 'leader' and a guide, bilingual in Chinese and English. In the past, these guides were often residents of China or Taiwan, but in view of the expense of their air fares and their lack of familiarity with conditions in the host countries, guides are more often being hired locally.
- Although there are some thoroughly modern and efficient agencies, most provide rudimentary services, with manual, paper-based procedures. Very often the front-line staff have little experience and very limited knowledge about Europe. Few can read English (or any other European language). Because most customers lack credit cards or checking accounts, payment is usually in cash. Nevertheless, in 2005 40% of air ticket sales through the IATA BSP ('billing & settlement plan') in China were reportedly electronically ticketed.

## Retail Travel Agencies

The principal international travel agencies include:

- China International Travel Service (CITS), with 160 domestic and 12 overseas branches/outlets. It is the largest inbound operator and the second largest outbound operator.
- China Travel Service (CTS), with 250 branches throughout the country, is China's largest outbound operator.
- China Youth Travel Service (CYTS), with 56 branches, was the first Chinese travel agency to be listed on the stock market.
- China Peace International Tourism, based in Beijing, is one of the few companies equipped to deal with MICE business.
- BTG International Travel and Tours, also based in Beijing, is also equipped to deal with MICE business.
- Shanghai Tea Metropol International Travel Service Company.
- China Comfort Travel.
- Jin Jiang Tours, based in Shanghai.
- China Ocean International Travel, China Travel International (CTI), Panorama Tour, and Shanghai Business International Travel Service Company operate mainly as wholesalers but also sell directly to the consumer.
- The most important online travel agents are Ctrip.com and eLong.com. Others include Piao.co.cn, Sina.com, 63travel.com and TomTravel.com. The most important travel search engine is Qunar.com.

# KEY TRENDS AND FORECASTS

## Key Characteristics of Chinese Outbound Travellers

- The initial tendency for Chinese first-time leisure travellers to Europe to take 'lightning tours' through many destinations is declining fast. The current trend towards fewer destinations per trip is expected to intensify.
- Whether on ADS group tours or independently organised trips, the Chinese tend to be exacting customers. They are used to modern, spacious hotels, with facilities and details often lacking in the European hotels selected for them by European tour operators. Surveys reveal that, although they are willing to test European cuisines, they require Chinese food – and are often disappointed by what passes for 'Chinese food' in Europe. Kettles and green tea in hotel rooms are essential.
- Cultural differences and communication remain serious problems, in spite of the high proportion of graduates among travellers and the enthusiasm of the Chinese for taking EFL (English as a foreign language) courses. Chinese tourists expect their bilingual guides and tour leaders to be available at all times. Sensitivity to discrimination, or perceived discrimination, against China or the Chinese is also sometimes an issue.
- Until recently only the most affluent and privileged Chinese could travel to Europe. One reason for the decline in spending per trip in recent years has been the growing proportions of Chinese on more modest incomes allowed to travel to Europe – a trend which is expected to continue.
- Activities of leisure tourists on ADS tours to Europe are necessarily somewhat restricted. They include quick trips to the iconic sights in the capital cities, shopping and taking photographs. However, in view of the limited and often unsatisfactory experience which 'lightning tours' offer to the tourists, and the lack of profitability in offering such tours, the variety and sophistication of tour activities can be expected to improve rapidly.

## Short-term Prospects

- There are numerous forecasts for China outbound travel, mostly based on the UNWTO's projection, made a decade ago, of 100 million trips by 2020 (implying a growth rate of 13% a year). In 1995-2005, actual growth has been very much faster than this – 20% a year. Many analysts now expect the 100 mn trips mark to be reached by 2015 or even earlier. 100 mn trips in 2015 would mean a growth rate of 12% a year in 2005-15.
- Sceptics point out that most of this growth is being generated by trips to Hong Kong and Macau. Growth in trips to traditional destinations elsewhere in Asia is nevertheless strong (and China is Australia's fastest growth market). Growth in trips to Europe in 2001-05 was around 11% a year, but it has slowed significantly in the last couple of years. This trend is likely to continue for the foreseeable future.
- The Boston Consulting Group has also pointed out that China's GDP is far short of the US$15,000 per person normally required to sustain mass demand for long-haul air travel. Such levels will not be achieved much before 2030.
- Nevertheless, travel abroad is an increasing priority for Chinese of all ages. Critical indicators to watch include the appreciation of the yuan/renminbi, the extent to which prosperity is extended beyond the traditional tourist-generating regions of China, and the easing of travel restrictions.
- The European tourism industry has been overly excited at the opportunities for leisure tours opened up by ADS. Results have generally been disappointing, largely because of the extremely low prices negotiated by Chinese travel agents and the complications of catering for their customers. Chinese travellers have successfully rebelled against 'zero dollar' tours in Asia – tours with no profit built into the price, and in which any profit is derived from 'commissions' negotiated from retailers and tourist facilities – and, although price sensitivity will continue to remain widespread among group tourists to Europe, Chinese are likely to start demanding more quality. If this demand is not met, Europe could suffer as a destination. Specialist FIT, business, MICE and technical visits are invariably more attractive – but still highly competitive – segments for European operators.
- In short, the Chinese market holds huge potential, but for many operators it is in the short term proving a difficult and unrewarding market in which to do business.

# NOTES

[a] Multiple responses possible/percentages add up to more than 100%
[e] Estimates
[f] Forecasts

# SOURCES OF INFORMATION

**Principal statistical sources (by section):**

- **Country Profile**: International Monetary Fund; United Nations Department of Economic & Social Affairs Population Division; The Economist Intelligence Unit; Merrill Lynch *World Wealth Report*; Asian Demographics Ltd
- **Travel Profile**: China National Tourism Administration (CNTA); World Tourism Organization (UNWTO); Pacific Asia Travel Association (PATA); Scandinavian Tourist Board (STB); VisitBritain; Tourism Australia
- **Profile of Travellers**: CNTA; STB; VisitBritain, Tax Free World Association (TFWA)/ACNielsen; World Travel Monitor, IPK International; The Travel Business Partnership (TBP) from various industry sources
- **Air transport/Airlines**: SRS Analyser, OAG
- **Travel Planning and Booking**: CNTA; STB; TBP from various industry sources
- **Travel Trade Profile**: CNTA; UNWTO; STB; *ETC New Media Review*

# FURTHER INFORMATION

| | |
|---|---|
| China National Tourism Administration (CNTA): | www.cnta.gov.cn |
| Pacific Asia Travel Association (PATA) | www.pata.org |
| World Tourism Organization (UNWTO) | www.unwto.org |
| IPK International (World Travel Monitor Company) | www.ipkinternational.com |

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