

RESEARCH

MARKET INTELLIGENCE PROFILE OF CHINA

**Market
Research
report
2005-1**

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Market Intelligence Profile of China

Market Research Report

Canadian Tourism Commission

Ottawa, January 2005

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With the largest population on Earth reaching 1.3 billion, the Chinese are avid travellers. In 2003, the number of outbound Chinese visitors reached a record 20.2 million. China has more outbound international travellers than Japan (13.3 million in 2003). According to the World Tourism Organization, China will become the largest inbound tourism market and one of the top 3 outbound tourism markets in the world by year 2020. As the Chinese economy is growing, so too has the appetite for travel, and in particular long-haul tourism, among its more affluent citizens.

It is interesting to note that 70% of the total Chinese outbound travel is to countries with Approved Destination Status (ADS). The ADS is a major incentive that guides Chinese tourists when making travel choices and makes it easier for them to be part of a pre-organized tour group. There are currently 24 countries on the approval list and more than 20 awaiting approval. Despite the fact that Canada did not have ADS status, in 2003, Canada welcomed 76,800 (3.4%) of the total long-haul outbound travel. Even though the total number of outbound travellers is still small compared to China's population, outbound travel has been growing vigorously in recent years.

The purpose of this report is to assemble market intelligence on one of Canada's key markets and to assess the potential of Chinese outbound travel market for Canada. The following sections include an assessment of the economic environment, the Chinese travel trends and characteristics, population forecasts, forecast travel to Canada, competition and airline capacity.

Economic Environment

China has one of the world's most vigorously growing economies benefiting from a large domestic sector with less reliance on exports. This is especially significant during the time when the economies of the Pacific Rim countries are flat or declining. For example, Beijing's successful bid for the 2008 Olympic Games and China's accession to the World Trade Organization will open up new possibilities diverting investment away from the rest of Asia and contribute to increased confidence.

The Chinese Economy

	2000	2001	2002	2003	2004	2005	2006	2007
GDP	8.0%	7.5%	8.0%	9.1%	8.6%	7.2%	7.0%	7.0%
Private Consumption	7.2%	2.8%	3.1%	2.7%	3.2%	4.3%	8.7%	9.8%
Unemployment Rate	3.1%	3.6%	4.0%	4.3%	3.6%	N/A	N/A	N/A
Inflation Rate	0.4%	0.7%	-0.8%	0.9%	2.1%	2.6%	3.5%	N/A
Exchange Rate (\$Cdn/renminbi)	0.1799	0.1871	0.1896	0.1690	0.1545	0.1574	0.1625	0.1698
Year-to-Year Change	0.0%	4.0%	1.3%	-10.8%	-8.6%	1.8%	3.2%	N/A

Global Insight, 3rd Quarter 2004

- Despite concerted efforts to cool down the booming Chinese economy, it expanded at an annualized rate of 9.7% in the first quarter of 2004. Real GDP is expected to increase by 8.6% this year before growth slows to 7.2% in 2005. First quarter growth was driven by investment spending and soaring bank lending.
- The economy's rapid expansion is resulting in huge increases in raw material prices and is also leading to supply bottlenecks.
- With economic growth showing few signs of abating, monetary authorities may be forced to adopt other measures to slow down the economy and contain inflation.
- The renminbi is expected to remain relatively stable given the positive outlooks for exports and foreign investment;

Travel Trends & Characteristics

- Prior to 2001, long-haul travel from China was growing rapidly. The decline registered in 2001 left the average growth over the period of a minuscule 0.9 per cent. Canada performed slightly better than average during this period despite the large decline in 2003.

Long-haul Outbound Travel from China

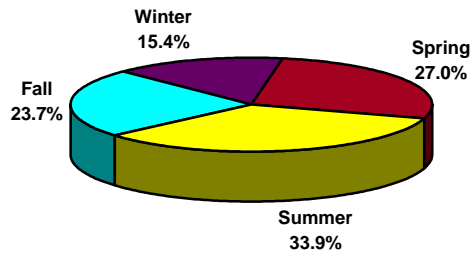
	2000	2001	2002	2003
Long-Haul Outbound Trips ('000)	2,221	2,088	2,317	2,282
Year-to-Year Change	-	-6.0%	11.0%	-1.5%
Overnight Trips to Canada ('000)*	73.8	81.7	95.3	76.8
Year-to-Year Change	23.8%	10.7%	16.9%	-19.4%
Canada's Market Share	3.3%	3.9%	4.1%	3.4%
Receipts (\$M)	119.5	162.8	185.0	142.7
Year-to-Year Change	59.3%	36.2%	13.6%	-22.9%

* Source: Statistics Canada

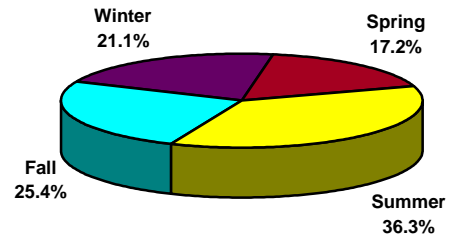
- Amongst the key overseas markets to Canada, in 2003, China ranked 11th in terms of trips and 5th among the Asia Pacific key markets (behind Japan, Australia, South Korea and Hong Kong).
- In 2003, Canada's overnight arrivals from China declined by 19.4 per cent to 76,800 overnight trips. Receipts from China showed a similar trend, reaching \$142.7 million in 2003, down 22.9 per cent compared to the previous year. In fact, in 2003 Canada's arrival and receipts not only from China but from all its key markets were affected by the series of misfortunes that plagued the industry in the past years including SARS, the U.S.-led war with Iraq, or the mad cow disease.
- According to the latest statistics released by Statistics Canada, for the January to September 2004 period, 35.5 per cent more Chinese travellers came to Canada compared to the same period a year ago. While this rebound in travel is welcome news for the tourism industry, the increases are relative to the weak performance recorded in 2003.

[Link to the Latest Fact Sheet](#)

- The latest 2003 statistics indicate that 45 per cent of overnight Chinese travellers to Canada came primarily to visit friends and relatives, 15 per cent arrived for leisure purposes, and 25 per cent arrived for business. The remaining 15 per cent came for personal or non-specified reasons.
- Preferred Canadian destinations for Chinese travellers in 2003 were Ontario (37 percent), British Columbia (36 percent), and Quebec (17 percent).
- Outbound travellers plan trips around public holidays, mainly the Chinese new year which falls between late January and mid February, the International Labour day starting from 1st of May and the National day from 1st of October.
- Travel patterns, when compared to 2000, show significant gains in the winter at the expense of spring;



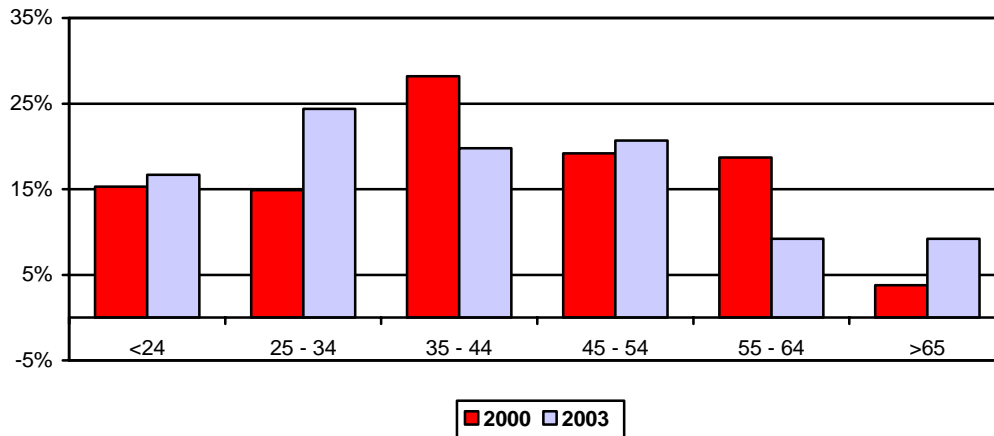
2000



2003

- In terms of expenditures, the Chinese travellers are a lucrative market. In 2003, Chinese travellers spent on average \$1,857 per person-trip compared to \$1,619 in 2000; the 2003 average is well above the Asia/Pacific average of \$1,427, and higher than the average registered in Europe (\$1,343);
- Chinese visitors have a high propensity to shop. In fact, after accommodations (28 per cent) Chinese visitors to Canada spent 27 per cent on souvenirs and shopping followed by 17 per cent for food and beverages.
- The average number of nights stayed increased from 21 nights in 2000 to 30 nights in 2003, the highest among the Asia/Pacific countries; however, the average spending per night is below the average of the Asia/Pacific region (\$80) at \$61 per night;
- In 2003, 59% of the Chinese travellers to Canada were over 35 years old; however there was an upsurge in the 25-34 age group (24.4%).

Overnight Travel Proportion by age range



CTC Targets

Most of the marketing efforts of CTC are directed towards the following segments:

Business travelers – senior/middle management professionals

Frequent travelers

Young, western-influenced Chinese aged between 20 and 40

- Among the frequent travellers are those 55+, a segment that yield the strongest results. This group enjoys retirement at a relatively young age (55 for women and 60 for men), are becoming more adventuresome, have increasing amounts of disposable income, have discretionary leisure time, and their percentage of the market is rapidly increasing.
- Young travellers are generally seeking more adventure-type destinations.
- According to a report by Tourism Australia, the total Chinese residents' business visits abroad rose by approximately 80 per cent between 1999 and 2002. CTC is also focusing on business travelers since those have higher incomes and have a less stringent travel processes to follow.

Population Forecasts

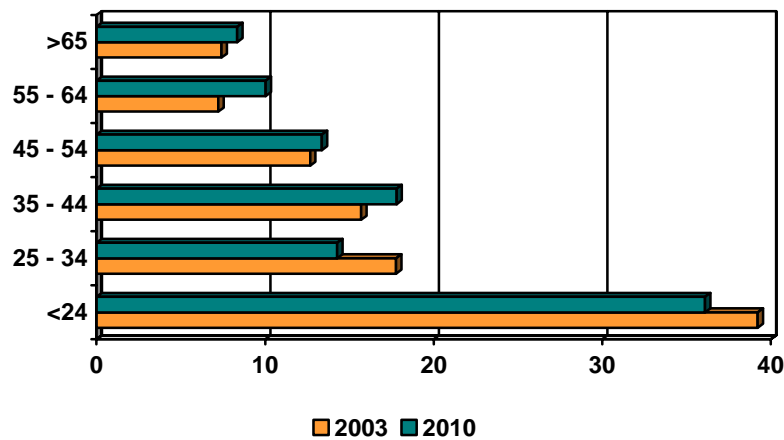
- China is the largest nation on Earth, with a population count of almost 1.3 billion in 2003.
- In 1980, after post WW II baby boom, a one-child policy was put in effect to reduce the overall population growth. Recently, the government began allowing more families to have second children in hopes of easing the future burden of scarce workers supporting a growing number of retirees. The tradition requires old people to be cared for in the family home thus putting tremendous pressure on the younger generations.
- Another concern is the rising disparity between births of boys and girls; nationwide, 117 boys are born for every 100 girls.
- Population forecasts for China suggest that the population is aging; the proportion of Chinese over 45 is expected to increase from 27% in 2003 to 32% in 2010; the 35 to 54 age-group would represent the best opportunity for expansion.

China Population Forecasts

	2003 (MILLION)	2010 (MILLION)
<24	504.8	484.8
25 – 34	228.6	191.8
35 – 44	201.9	240.0
45 – 54	163.2	179.6
55 – 64	92.9	134.6
>65	95.4	111.9
Total	1,286.8	1,342.7

Source: IBD Population Database, U.S. Census Bureau

Proportion of Chinese Population Forecasts %



Forecasts Travel to Canada

- The Business Outlook is used by CTC to gain insight in the short-term outlook for domestic & international travel to Canada on a quarterly basis using readily available market intelligence in a timely and cost-efficient manner.
- The outlook for overall leisure travel from China—as indicated by BO Monitor participants—is for 8.5 per cent growth in the first quarter of 2005, compared with the previous year. BO Monitor participants anticipate that group travel will rise 9.2 per cent, while independent (FIT) travel climbs 6.8 per cent during this period.
- When broken down by provincial region, BO Monitor participants indicated they expect Chinese visits to increase 9.5 per cent in Ontario/Quebec and 8 per cent in Alberta/British Columbia during the first quarter.

[Link to latest Business Outlook on the Web.](#)

Airline Capacity from China

- China's transport sector is one of the largest in the economy and aviation has been growing rapidly, with the three major hubs (Beijing, Shanghai, and Guangzhou), which have enhanced their navigation system and introduced advanced technology and equipment.
- China's airline industry has seen passenger demand rebound strongly since it dropped during the SARS outbreak in 2003, but sky-high oil prices are clouding the industry's profitability outlook. Chinese carriers have been less vulnerable to rising oil prices because China's state-controlled oil markets keep prices lower than the international market. However, the recent steep increases are now beginning to affect Chinese airline fuel costs.
- Direct air capacity from China is expected to jump 24.3 per cent during the first quarter of 2005, compared with the previous year. As a result, air capacity should not represent a constraint for travel between China and Canada during that period.

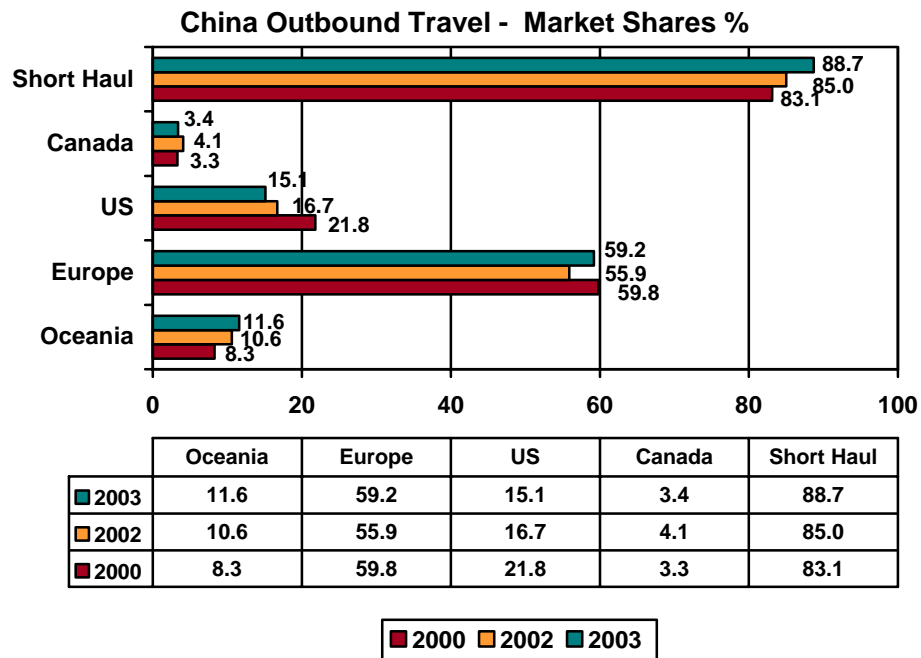
Air Capacity from China to Canada

	2000	2001	2002	2003	2004
Air Seat Capacity (000's)	136.2	202.0	204.3	196.5	211.7
Year over year change	30.2%	48.2%	1.2%	-3.8%	7.7%

Source: OAG Worldwide

Competitive Environment

- With a few exceptions, the Chinese government first allowed pleasure travel to overseas destinations in the beginning of the 1990's. Before that, outbound travel was restricted to business and official travel.
- All characteristics of the Chinese market indicate that China outbound travel market will continue to grow rapidly over the next 20 years. With an increasing personal income and improved standard of living, more and more Chinese are taking the opportunity to see the outside world.
- Although the desire to travel outbound is increasing, in 2003 more Chinese travellers preferred to travel short-haul, perhaps still influenced by the world events that took place in the last few years. The most preferred destinations for Chinese in 2003 are within Asia and Russia (89% of the long-haul in 2003).
- The Approved Destination Status (ADS) destinations account for approximately 70% of the total outbound market.
- In 2003 Canada has been losing market share due to competitors mainly from Oceania. Chinese travellers took more short-haul trips in 2003 and fewer to the US and Europe.



Summary

- China has been one of the Asia/Pacific star performers; despite the turbulent period of 2000/2001, the economy has been resilient to the global economic slowdown;
- According to the Business Outlook Chinese travel to Canada will increase by 8.5 per cent during the first quarter of 2005. Group travel is expected to rise 9.2 per cent, while independent (FIT) travel climbs 6.8 per cent compared with a year earlier.
- In 2003 there were double-digit declines in both trips and expenditures from China which constrained Canada's market share to virtually the same as that recorded in 2000.
- Travel is part of the Chinese culture; Chinese long-haul outbound travel to Canada reached 76.8 thousand in 2003.
- Airline capacity does not seem to be an issue; OAG data shows that direct air capacity from Canada is expected to increase nearly 25 per cent in the first quarter, which should help facilitate the growth in Chinese visits expected for this period.
- The 2003 preliminary overseas Market Portfolio Analysis (MPA) ranks China in the 6th place.

[Link to latest MPA on the Web.](#)