WORLD TOURISM ALLIANCE

Horwath HTL 浩華

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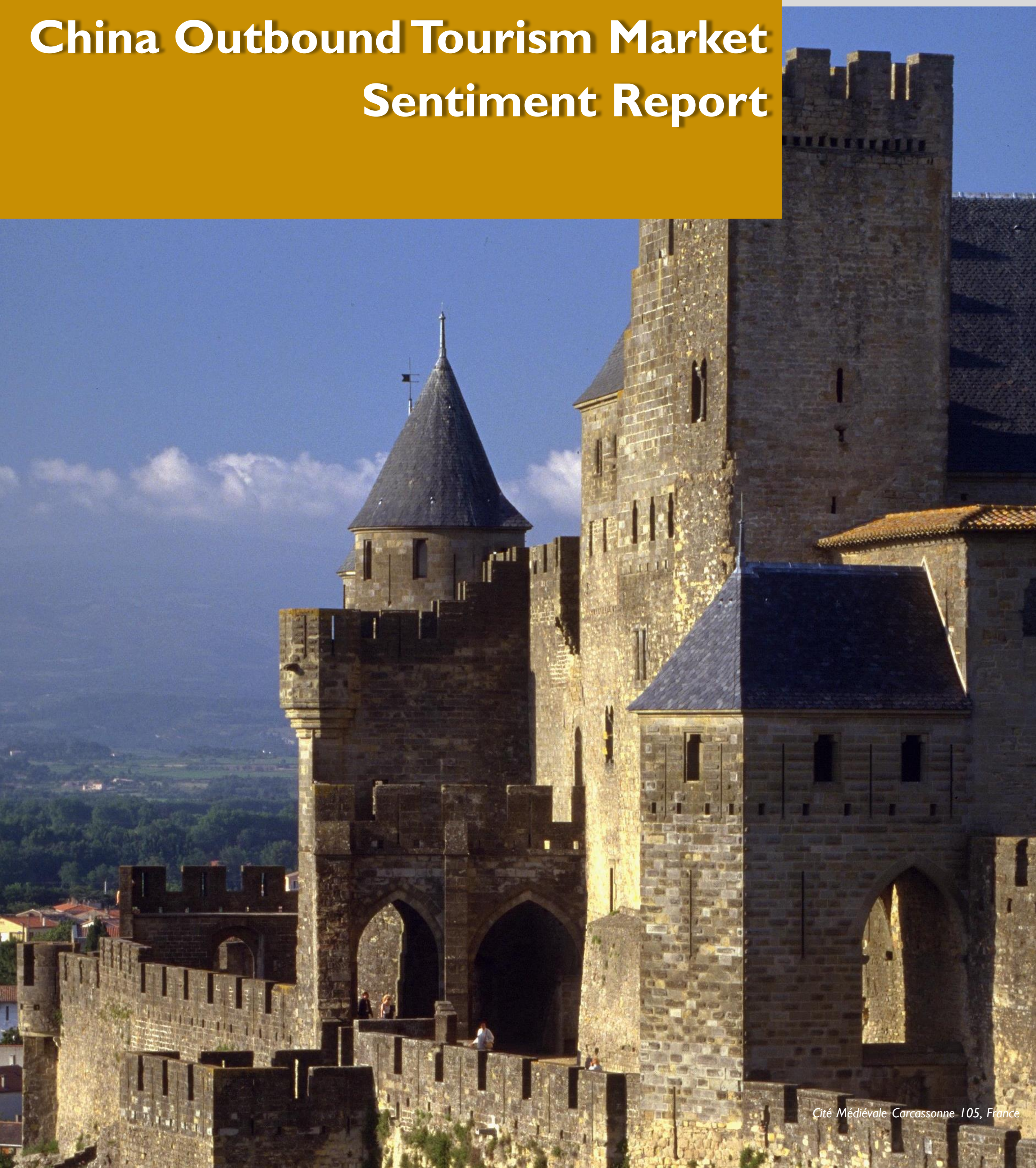
China Outbound Tourism Market Sentiment Report



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Foreword

Tourism has become one of the most important driving forces of China's economic development. In 2018, the country's domestic tourism market experienced rapid growth with more than 5.5 billion tourism arrivals and tourism-generated revenue totaling nearly 6 trillion RMB. Inbound tourism maintained a steady growth of 5%, indicating a sustained development pace.

The World Tourism Alliance (WTA), a China-founded international nonprofit, non-governmental organization dedicated to uphold its mission and vision of a "Better Tourism, Better Life, Better World," is partnering with Horwath, a leading global hotel and tourism consulting company, to conduct quarterly sentiment surveys of China's domestic, outbound and inbound tourism markets starting in 2019.

One of several professional services WTA provides is high level local, regional and global tourism research and analysis for dissemination to its members, relevant organizations and institutions of learning across the world. These sentiment reports are valuable resources for tourism practitioners to gain better understanding of market trends, allowing them to make data driven decisions and forecasts.

These surveys received altogether 348 qualified questionnaires. The China Outbound Tourism Market Sentiment Report is focused on established tour operators, travel agencies and OTAs (online travel agencies) that are actively involved in this industry segment. For the H1 2019 report, we created and collected responses to a total of 154 questionnaires, covering 16 provinces and municipalities. We formulated a sentiment score model, assigning scores to each question in the survey. Based on this model, we calculated the score to each question by adding the average score and comparing it with the basic value 150.

Additionally, we conducted interviews with top level executives in the outbound tourism space to gain deeper insights and broader perspectives. This sentiment primarily targets travel and tourism industry enterprises. Other travel behaviors generated through other channels are not within the scope of our duty.

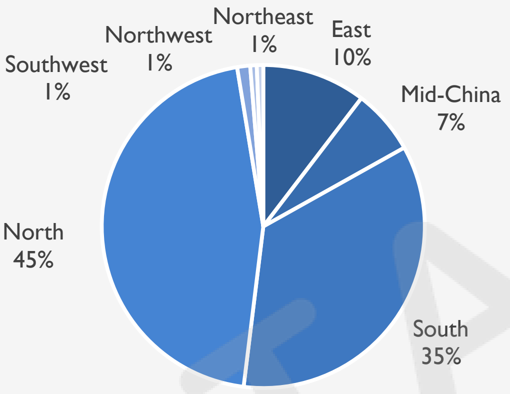
Our special thanks go to China National Travel Service Group Corporation Limited, Ctrip.com, China CYTS Tours Holding Co. Ltd; China Association of Travel Services, Guilin Tang Dynasty Tours Co. Ltd; Guangzhou Li Zhi Network Technology Ltd; Meituan Dianping, Tuniu.com and Beijing Utour International Travel Service Co. Ltd. for their support of this study. As well, our sincere thanks go to WTA member Carcassone city in France for providing us with images for use in this report.

Carcassonne Cité, France

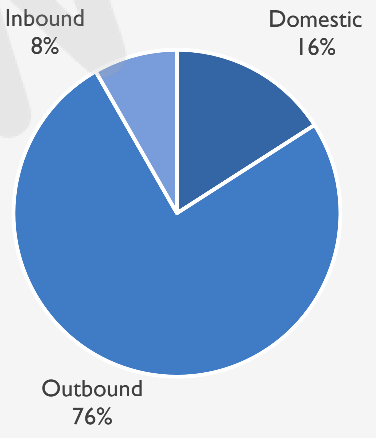
Introduction

The China Outbound Tourism Market Sentiment Report aims at providing global tourism practitioners with a reliable reference and resource for the accurate assessment of current market situations, trends and forecasts. This is the first report of its kind conducted by the World Tourism Alliance and Horwath HTL. One of the three-series reports on China's tourism sentiments, this is a comprehensive summary of our survey results in the first half of 2019.

Respondents By Region, Mainland China



Respondents By Primary Business



The five-question survey is focused on the outlook for outbound travel, per capita consumption and total revenue. Responses are quantified through a specific sentiment score model and presented in the form of scores to reflect the respondents' expectations for outbound tourism, measure and compare values across China's different regions and cities.

A sentiment score is applied to each question, with scores ranging from negative 150 to positive 150. A negative 150 score indicates a state of absolute pessimism, while a score of zero indicates unchanged expectations. Conversely, a score of positive 150 indicates a highly optimistic sentiment.

Respondents were asked to compare the market performance in the first half of 2019 to the actual performance in 2018. They were asked to identify the factors contributing to the variance and provide their insights into tourism source markets and destination markets.

Market Sentiment Analysis

Market Sentiment Score： 7

The average sentiment score of the outbound tourism market in the first half of 2019 is 7, reflecting an industry-wide positive outlook. Although it may be difficult to replicate the momentum of previous years, the market is still expected to maintain a sustained uptrend development. Most respondents anticipate the growth to be better than 2018.

Majority attribute the slowdown of outbound tourism in 2018 to the global economic situation, the rising cost of long-haul outbound travel and the downward pressure on the Chinese economy. Also seen as dampening the interest in travel to the United States and Canada is the tightening of the respective visa policy of these countries, which are the top favorites among Chinese outbound travelers.

On the other side of the spectrum, Japan and several other countries have simplified the visa application process for Chinese travelers. The extension of the May Day vacation this year to four days has also stimulated outbound tourism.

Several opportunities abound for a rosy outlook. With less than 5% of Chinese citizens holding valid passports, there's a huge potential for this number to grow exponentially. Consumption power is increasing in second and third tier cities which are likely contributors to outbound tourism. The expansion of the route networks of international airlines, aggressive marketing campaigns by overseas destinations in China are proven to increase outbound travel. Millennials are expected to become the driving force of outbound tourism in the future.

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Question 1 :

What is your assessment of China's Outbound Tourism Outlook for the first half of 2019 vs. 2018?

Outbound Tourism

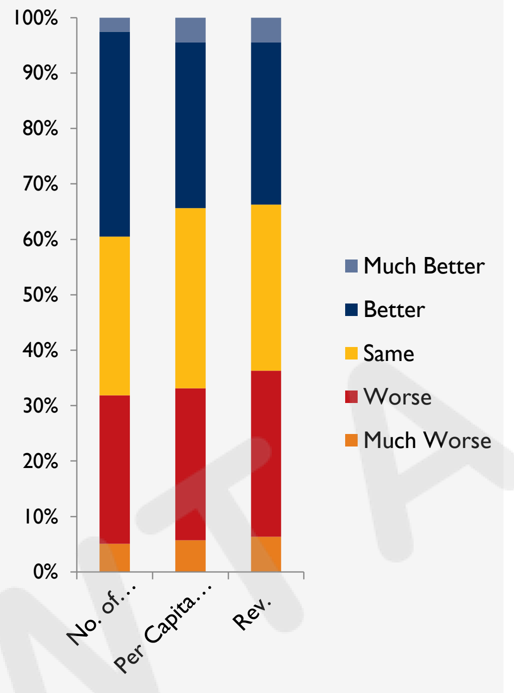
Respondents have a positive outlook for China's outbound tourism. Nearly 40 percent of tour operators/travel agencies surveyed believe the number the first half of 2019 will increase or increase significantly compared to the same period in 2018. About 29 percent anticipated the number to stable. 31 percent anticipate a decrease or significant decline, with about 5 percent expecting a substantial reduction.

Per Capita Consumption (PCC)

Market expectation for per capita consumption leans to neutral and perceived to be worse compared to the outlook for outbound tourism. Nearly 32 percent of travel agencies surveyed estimate the PCC to remain stable. About 33 percent expect it to decrease or decrease significantly. 35 percent believe it will increase or increase significantly compared to the same period last year. The slowdown of the Chinese economy are making respondents cautious about their PCC assessment.

Total Revenue

General outlook for total revenue is conservative and worse than the forecast for outbound tourism and per capita consumption. More than 35 percent believe the total revenue will decrease or decrease significantly. About 30 percent expect the total revenue to remain stable over the same period last year. 35 percent are predicting an increase. Only 4.5 percent of those surveyed believe the total revenue to reach substantial growth.



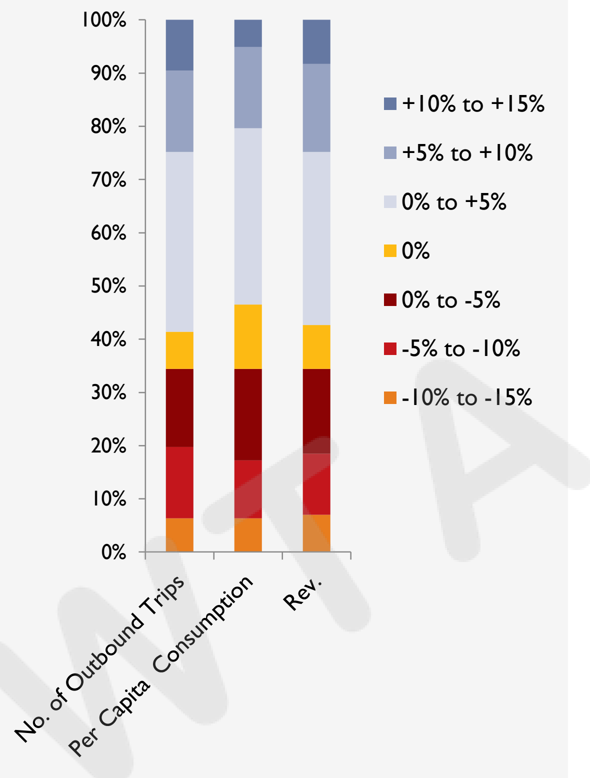
MARKET OUTLOOK SENTIMENT SCORE	
Average	**0**
No. of Outbound Tourists	**4**
Per Capita Consumption	**0**
Revenue	**-3**

Majority of respondents hold a neutral outlook for Outbound Tourism, Per Capita Consumption and Total Revenue. While they have negative expectation for total revenue, their outlook for outbound tourism is generally positive. Due to China's economic slowdown, it may be difficult to replicate the momentum of previous years. Most expect the market performance to remain at the same level as 2018.

Question 2 :

What is your expectation for growth/decline of outbound tourism in the first half of 2019 vs. 2019 for your business?

Over half of tour operators/travel agencies interviewed expect the performance of Outbound Tourism, Per Capita Consumption and Total Revenue in the first half of 2019 to be better than that of 2018 for their business.



TRAVEL AGENCY PERFORMANCE EXPECTATION	
	CHINA
Average	**14**
No. of Outbound Tourists	**16**
Per Capita Consumption	**11**
Revenue	**15**

Outbound Tourism

Majority of respondents project an increasing trend, surpassing that of 2018, for the number of outbound tourists in the first half of 2019. 58 percent expect the number for their business to increase, with 24 percent estimating the growth to exceed 5 percent and 34 percent predicting it to be less than 5 percent. 7 percent estimate the number of outbound tourists to be in line with the same period last year. 35 percent have a negative view, with most of them estimating the decline to be less than 10 percent. Compared to the overall outbound tourism market performance, respondents are more optimistic about their own performance.

Per Capita Consumption

Compared to the optimistic score for Outbound Tourism, respondents are guarded in their assessment of the 2019 growth prospect of Per Capita Consumption. About 34 percent anticipate a decline in PCC, with 17 percent estimating the decrease to exceed 5 percent. About 12 percent estimate the Per Capita Consumption in 2019 to stay the same as that of 2018. 54 percent predict an increase in Per Capita Consumption, with 33 percent expecting the growth to be less than 5 percent.

Overall, the respondents maintain a positive view, with majority of them projecting a limited growth rate.

Total Revenue

The positive expectation for Outbound Tourism and Per Capita Consumption is resulting in a positive outlook for Total Revenue. The average national score for Total Revenue is 15. 57 percent are forecasting an increase in Total Revenue, with nearly 25 percent estimating the growth to exceed 5 percent. The other 43 percent believe the 2019 Total Revenue will remain unchanged or decline compared to 2018. Only 18 percent estimate the decrease to exceed 5 percent. On the whole, in 2019 tourism practitioners are confident about the growth of Total Revenue of outbound tourism.

Question 3：

How do you expect each factor below to influence Chinese outbound tourism in the first half of 2019?

In general, most of the factors below are negatively impacting China's outbound tourism.

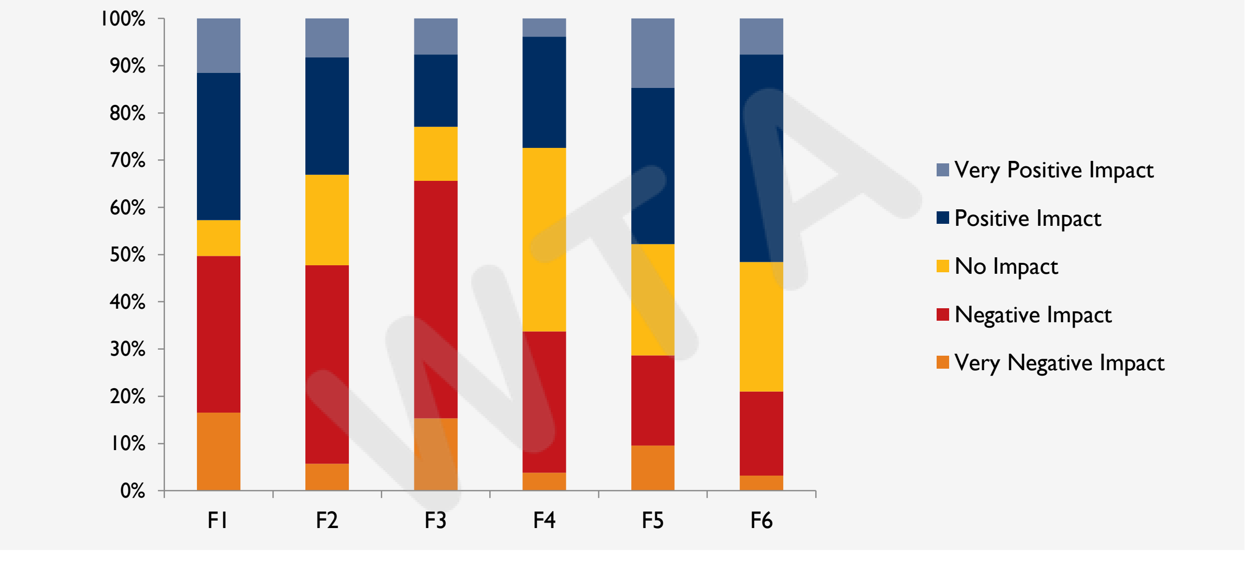
- **Positive Factors**: "Visa Policy" (18) and "Change of International Air Routes" (26) are the only two values scoring higher than other factors. About 50 percent of respondents believe the increase in the number of visa-free countries for Chinese tourists and the expansion of international air routes will have a positive or significantly positive impact on overall outbound tourism. Nearly 15 percent think that further improvement of international air routes will have a substantial positive impact. About 8 percent believe the increase in the number of visa-free countries for Chinese passport holders as well as the facilitation of visa application procedures will lead to a significantly positive impact.

- **Negative factors**: Respondents have the strongest negative view of the "International Political Environment" (-38). About 66 percent of respondents believe fluctuations in the global political situation will have a negative or very negative impact on the overall outbound tourism market. Less than 23 percent of respondents view this factor positively, a clear indication the international political conflict is reducing the propensity to travel. "Global Economic Growth Trends" (-9), "Local Economic Growth Trends" (-9) and "Currency Exchange Rates" (-5) all lead to the negative expectation.

Influence Factors

FACTORS	SCORE
F1. Local Economic Growth Trends	-9
F2. Global Economic Growth Trends	-9
F3. International Political Environment	-38
F4. Currency Exchange Rates	-5
F5. Visa Policy	18
F6. Change of International Air Routes	26

The unstable global political situation is considered the primary reason restricting outbound tourism. On the other side of the spectrum, the visa policy relaxation and expansion of international air route networks contribute to the development of outbound tourism.

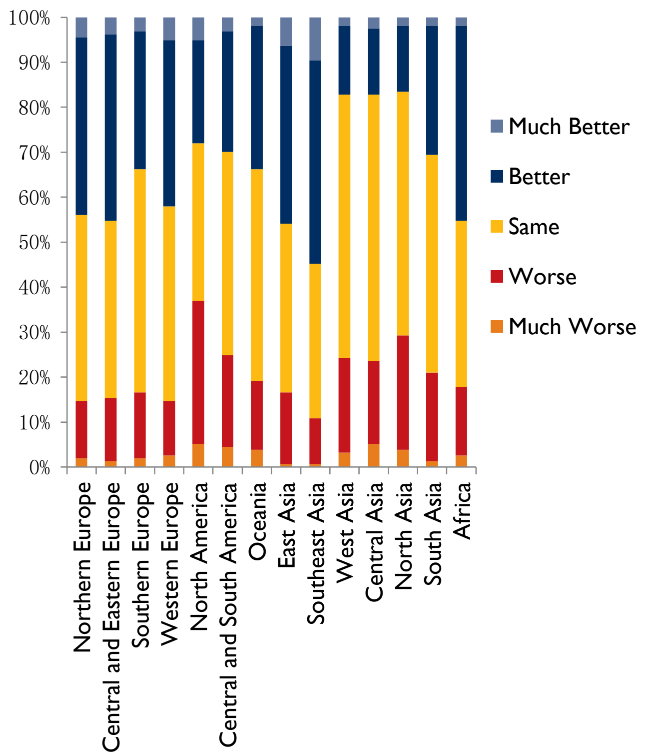


Question 4:

What is your performance expectation for each outbound travel destination below in the first half of 2019 vs. 2018?

Respondents view the overall outbound tourism positively. Except for North America and certain parts of Asia, they are optimistic on the prospects for majority of outbound destinations.

The fourth question is focused on the respondent's 2019 H1 evaluation of 14 outbound regional markets, including, among others, Europe, North and South America, Asia, Oceania and Africa.

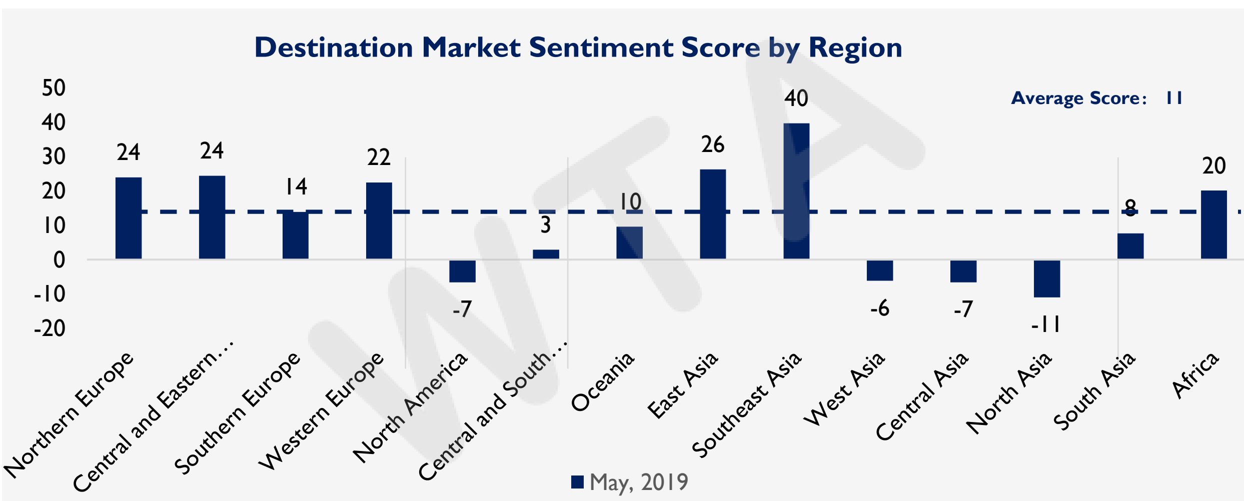


The average sentiment score for all destinations is 11, indicating a positive forecast.

European and American countries are the primary long-haul destinations for Chinese tourists, while Singapore, Malaysia, Thailand, Japan and South Korea top the short-haul markets.

Asia, Oceania and Africa:

Asia is the favorite destination for low budget outbound Chinese travelers with limited vacation time. It has also the largest number of outbound Chinese tourists. Broadly, most respondents have positive expectation for Asia this year. East Asia (including Japan and Korea) and Southeast Asia are the two most popular destinations, receiving high scores from respondents. About 46 percent expect the number of Outbound Tourists to East Asia to increase or increase substantially. 54 percent think outbound travelers to Southeast Asia will increase or increase significantly, with nearly 10 percent estimating a remarkable increase.



Question 4:

As outbound destinations, how are each of the regions below expected to perform in the first half of 2019 vs. 2018?

Due to a few successive accidents in the region, more than 10 percent of respondents have negative assessment of Southeast Asia as an outbound destination. Outside of these two areas, the rest of Asia is not considered a traditional destination for Chinese outbound tourists, resulting in a sentiment score below the global average.

Respondents are cautiously optimistic about the Oceania market. More than 47 percent of respondents expect the number of Chinese tourists to this region to remain stable. 34 percent predict the number to increase or increase significantly.

Survey respondents also perceive Africa's market performance positively. More than 45 percent estimate the number of Outbound Tourists to the region to increase or increase significantly. Chinese tourists do not consider Africa a traditional destination. Overall demand is relatively small. However, certain African countries, such as visa-free Morocco, is becoming popular, contributing to an increase of Outbound Tourists to the region.

Europe:

Thanks to a wide variety of tourism resources, Europe is always considered a popular destination among Chinese tourists. In the early stages of China's outbound tourism development, Schengen countries, such as France and Italy, were considered the top choice. In recent years, however, outbound tourism has evolved from traditional sightseeing to recreational tourism. Chinese outbound travelers have expanded their vacation options in Europe by exploring niche destinations such as Croatia, the Czech Republic and the Nordic countries.

According to the survey, the sentiment score of Europe's various regions are all positive and above average. More than 40 percent of respondents believe the number of Outbound Tourists in Northern Europe, Central and Western Europe will increase or increase significantly. Only about 15 percent anticipate the outbound number to these three regions to decrease.

Although the sentiment score of Southern Europe is the lowest among all European regions, 34 percent of respondents still expect the number of Chinese tourists here to increase. By optimizing their abundant tourism resources and conducting promotional activities, roadshows and marketing events, the national tourism administrations of European countries have enhanced their image and brand appeal in China.

North and South America:

North and South America have been the favorite long haul destinations among Chinese travelers. However, the trade dispute which started in 2018 and the 5G technological conflict have strained the bilateral relations between China and the United States. Canada's visa policy reform has also made the visa application process more complicated, resulting in a decrease in the number of applicants and a downward trend. Respondents are cautious and somewhat negative in their assessment of the North America market, including Central and South America. The sentiment score for Central and South America is 3 while the sentiment score for North America has dropped to -7, both below average.

About 37 percent expect the number of Outbound Tourists to North America to decrease compared to last year, with 5 percent estimating the number to decrease or decrease significantly. Less than 28 percent anticipate the number to increase. As for Central and South America, most respondents believe that outbound tourism will remain stable or decrease slightly. Only 30 percent think it will increase compared to the same period in 2018.

Although respondents are not optimistic about the market performance of traditional outbound destinations (United States and Canada) due to the political climate and trade tensions, they still hold a positive view of the performance of most outbound markets in 2019.

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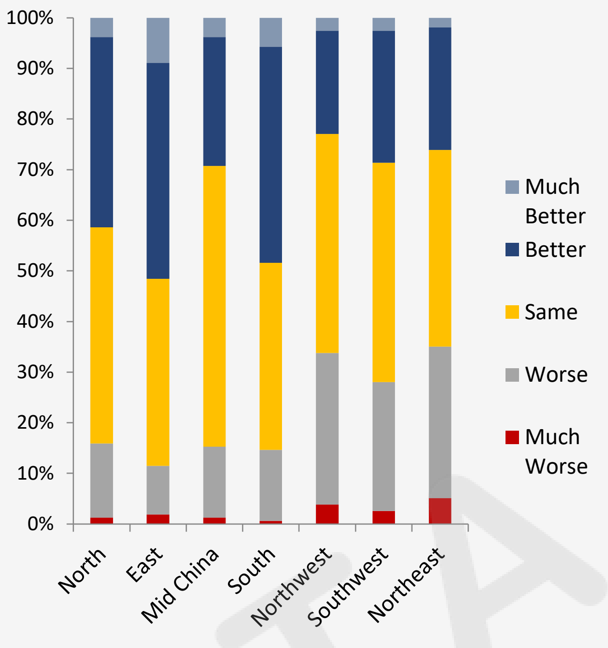
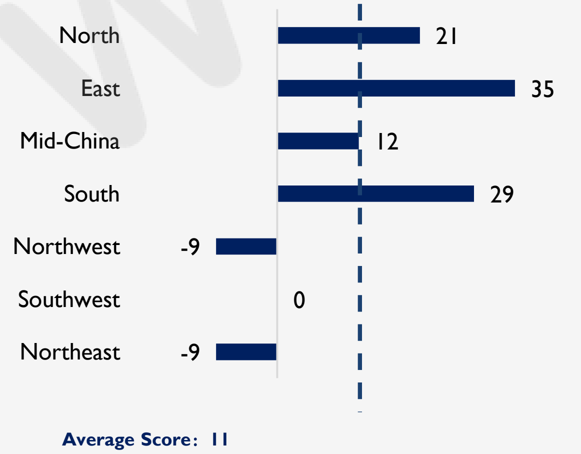
Question 5：

What is your performance expectation for each outbound tourism source market below in the first half of 2019 vs. 2018?

Respondents are optimistic about the source markets of outbound tourism, with East and South China leading the pack in development. Only the Northwest and Northeast are showing a downtrend in demand expectation.



Source Market Sentiment Score (May,2019)



The fifth question is focused on the expectation for different outbound tourism source markets in the first half of 2019, including seven regions--North China, East China and Central China among others.

Expectation for the source market performance is generally positive, with the average national sentiment score of 11, indicating an optimistic perception and confidence.

The number of Chinese travelers from different source markets is closely tied to the level of the local economic development. Residents from first-tier cities and the more developed second-tier cities are the primary consumers of the outbound tourism market. However, industry the practitioners are pointing out the substantial increase from other second and third-tier cities that are contributing to the general positive outlook.

East（35）and South China (29)

East China and South China, represented by the Yangtze River Delta and the Pearl River Delta, are the regions with the strongest economic development in the country. Not surprisingly, expectation for these two is positive. According to the data, nearly 52 believe the number of outbound tourists from East China will increase or increase significantly. About 37 percent expect the number to remain stable. Around 49 percent anticipate the outbound tourism in South China to increase or increase significantly this year. Less than 15 percent hold a negative view.

North China (21)

Outbound tourism from North China is mainly driven by Beijing. As the capital of China, Beijing provides a relatively high per capita disposable income for its residents. It is also benefiting from a well-developed international aviation network. Meanwhile, due to the scarcity of tourism resources in North China and its proximity to East Asian countries such as Japan and South Korea, tourists from this region prefer to travel abroad during holidays. Respondents are generally optimistic about the market performance of outbound tourism in North China. More than 41 percent believe the number will increase or increase significantly compared to the same period last year. Only 15 percent perceive a decrease.

Question 5:

What is your performance expectation for each outbound tourism source market below in the first half of 2019 vs. 2018?

Mid-China (12)

Respondents hold a positive view of outbound tourism from Mid-China, a region comprised of second and third-tier cities that are under-developed and lacking in international air services. However, a few second-tier cities--Wuhan and Changsha—have expanded their commercial aviation capacity, making their destinations more accessible and convenient for global tourism. Robust economic development in this region, a rise in the propensity to travel among its residents and the significant increase in the number of outbound travelers are reasons for optimism.

More than 30 percent expect the number from Mid-China to increase or increase significantly this year. About 55 percent anticipate the number to remain stable over the same period last year.

Southwest China (0)

Respondents are neutral about the prospect of outbound tourism development in Southwest China in 2019. Similar to Mid-China, residents of second-tier cities--Chongqing, Chengdu and Kunming--benefit from the expansion of international air services in the region. Newcomer airlines typically entice their customers with hugely discounted inaugural promotional fares to encourage overseas travel and introduce their brand to their target audiences. About 29 percent of respondents think outbound tourism from Southwest China will increase or increase significantly. Around 43 percent believe the number to remain stable. However, nearly 27 percent expect it to decrease, a response caused by the unfavorable market performance of the less developed economies and deficient transportation network of Guizhou and Tibet that are also dragging the overall sentiment score of the region to zero.

Northwest and Northeast China (-9)

In the first half of 2019, the sentiment scores of Northwest and Northeast China rank last among the seven outbound tourism source markets. Economic stagnation in this region due to the obsolescence of its previously industry-heavy economy is contributing to the negative assessment of its performance. 35 percent believe the number of outbound tourists from Northeast China will decrease. Only 26 percent expect the number from Northwest China to increase.

Similar to residents in Northeast China, those in Northwest China have low propensity to travel abroad. The lack of direct international air services in Northwest China results in less affordable fares for travelers compared to first tier cities. High travel costs and low disposable income are restricting the development of the region's outbound tourism. About 34 percent of respondents estimate the number to decrease while only 23 percent expect it to increase over the same period last year.

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Conclusion

The overall sentiment score for outbound tourism in the first half of 2019 is seven, indicating a relatively optimistic assessment. Outside of Northeast and Northwest China, all the other five regions show positive sentiment scores, with East and South China earning the highest scores.

Respondents are generally positive about the growth prospect for outbound destinations, except for North America, West Asia, Central Asia and North Asia, whose sentiment scores are negative.

They are also confident of the growth potential of outbound tourism. Key performance indicators reveal the negative effects of a low Per Capita Consumption sentiment score on the total revenue which has dropped to minus. Unstable international political climate, as well as the downtrend of local economy, is adversely affecting China's outbound tourism market.

However, respondents are generally optimistic about outbound tourism, thanks to visa policy liberalization by certain tourism destinations and the trending expansion of international airline services in China. With economic recovery and the stabilization of international political climate, we believe China's outbound tourism will grow steadily in the coming years.

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Appendix

About World Tourism Alliance

On Sept. 12, 2017, the World Tourism Alliance (WTA) — the world's only global, comprehensive, non-government, nonprofit tourism organization founded in China — was inaugurated in Chengdu, Sichuan Province, China. Premier Li Keqiang of the State Council of the People's Republic of China sent a congratulatory letter to celebrate the official establishment of WTA.

Upholding the vision of "Better Tourism, Better World, Better Life" as its ultimate mission, WTA is committed to promoting peace, development and poverty alleviation through tourism. It aims at driving global tourism exchanges and cooperation at non-governmental level.

To date, WTA has 182 members from 38 countries and regions. The WTA membership covers national and regional tourism associations, influential tourism and tourism-related enterprises, government tourism boards, academia, media and individuals. As a service-orientated international organization which caters to its members across the world, WTA is a vital platform for dialogue, networking, practical and authoritative information and resource sharing for integrative development.

The WTA headquarters and Secretariat are located in China.

About Horwath HTL

Founded in 1915, Crowe Horwath International is an integrated professional organization of accounting and management consulting firms. Horwath also boasts the world's largest and oldest professional hotel and tourism consultancy practice. From its inception, Horwath paved the way by creating the "Uniform Systems of Accounts for Hotels", a system so successful it has become the standard in hospitality accounting around the world. Today, Horwath is a name recognized as the pre-eminent expert in the hotel and tourism sectors.

Throughout the Asia Pacific region, Horwath HTL has consulted on over 4,000 hotel and tourism related projects throughout the region (including more than 1,600 projects in China) for clients ranging from the world's most prominent theme park operators, hotel management companies to real estate developers, lenders and investors. Horwath HTL has always been internationally recognized for its impartial and independent professional perspective in providing services.

After a long-term development, Horwath HTL has become a leading consulting company specializing in the hotel, tourism and leisure industries. Integrating local insights and global perspectives in every single project, Horwath HTL offers reliable, innovative, and efficient industry solutions and services to clients around the globe. By continuously innovating itself based on the current and future trends of the related fields, Horwath HTL strives to maintain its unique strength in the industry and keep providing quality service to the customers.

Disclaimer

This report is prepared for general information purposes only. Information contained here is derived from reliable sources that have not been independently verified. We do not guarantee its accuracy or completeness. All opinions and estimates constitute our judgement as of the date of publication. They are subject to change without prior notice. Transactions should not be entered into in reliance upon the information, opinions and estimates set out herein. We accept no responsibility to any person in any way in respect to any action taken or any failure to act in reliance upon the information contained herein.

Any data presented from this publication should source the information as coming from the "China Outbound Tourism Market Sentiment Survey, Horwath HTL and World Tourism Alliance (WTA)".

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