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China Inbound Tourism Market Sentiment Report



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2019 H2 China Inbound Tourism Market Sentiment Report

Tourism operations in the first half of 2019 were generally smooth, with the number of inbound tourism arrivals reaching 72.7 million and total revenue clocking at nearly 64.9 billion RMB, according to China's Ministry of Culture and Tourism.

Established in China, the World Tourism Alliance (WTA) is an international non-governmental nonprofit organization entrusted with the mission to promote "Better Tourism Better Life, Better Life." Starting this year, in partnership with Horwath, WTA is conducting semi-annual sentiment surveys of China's inbound and outbound markets. This is the second of such reports this year.

Our special thanks go to Shanghai Municipal Bureau of Culture and Tourism, Fujian Provincial Department of Culture and Tourism, Gansu Provincial Department of Culture and Tourism, Shanxi Provincial Department of Culture and Tourism, Guangzhou Municipal Culture, Radio, Television and Tourism Bureau; Guilin Tang Dynasty Tours Co. Ltd.; Tunio.com, Marriott, Ctrip.com, China Association of Travel Services, China National Travel Service Group Corporation Limited, China CYTS Tours Holding Co., Ltd. and Los Angeles Tourism & Convention Board. As well, our sincere thanks go to WTA member Chengdu people's Government for providing the images in this report.

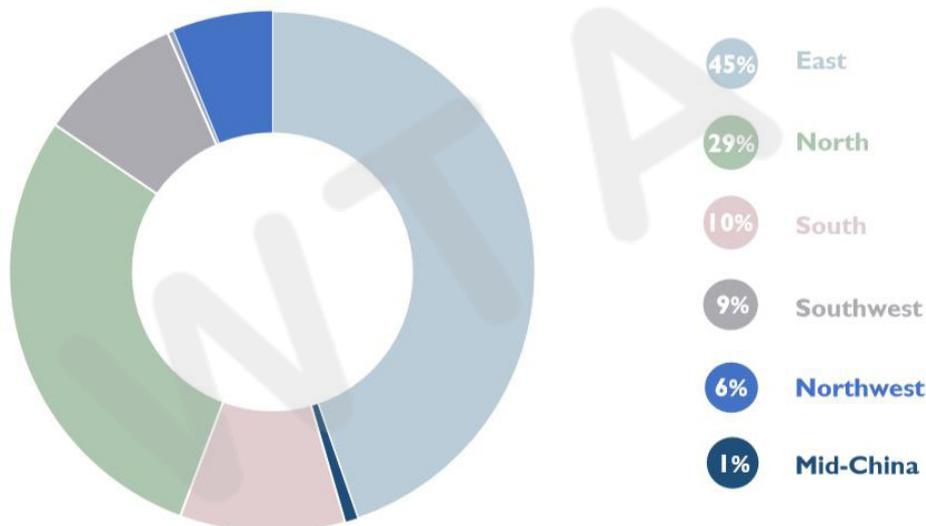
Introduction

The five-question survey focused on the outlook for Inbound Tourism Arrivals, Per Capita Consumption and Total Revenue. Responses are quantified through a specific sentiment score model to reflect the respondents' expectations for inbound tourism. They are measured and their values are compared across China's various 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 second half of 2019 to the actual performance in the first half of 2019. They were asked to identify the factors contributing to the variance and provide their insights into tourism source markets and destination markets.

This is the second survey conducted by Horwath and the World Tourism Alliance for the Chinese inbound market. It is a summary of the results of our research based on 542 questionnaires from 25 provinces, municipalities and autonomous regions in China, including 249 questionnaires specifically tailored for inbound travel.

Sample Analysis by Region, Mainland China



Sample Analysis by Organization Type



Market Sentiment Analysis

Sentiment Score

-1

Compared to the first half of this year, the average sentiment score of China's inbound tourism market in the second half of 2019 dropped by 3 points to -1, an indication of the respondents' conservative outlook.

Owing to global volatility, restrictive visa policy for international visitors and inadequate tourism infrastructure, inbound tourism is falling behind outbound tourism.

However, China's inbound tourism market is gradually recovering and it is transitioning into regular development. Compared with the growth rate of 1.2% in 2018, China's tourism arrivals recorded a healthy growth of 5% in the first half of 2019. Following are the factors contributing to this growth:

Improvement of tourism
image and marketing
reinforcement

Holistic Tourism
Promotion

Traffic Network
Optimization

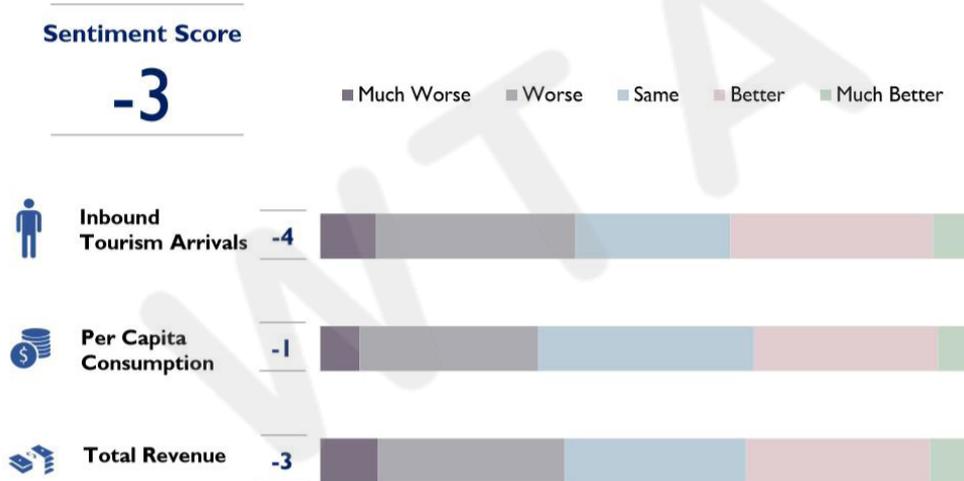
Increase in International
accessibility due to
"One Belt and One Road"

Looking ahead, the brand appeal of Chinese culture and tourism is expected to further expand, thanks to national policies that promote growth in international tourism arrivals and inspire trust and confidence in China as a top global destination.



Giant Panda

What is your assessment of China's inbound tourism for the second half of 2019?



Outlook for overall inbound tourism remains negative, indicating our respondents' pessimism caused in large part by the volatility of international trade situation and the global economic downturn.



The sentiment score of Inbound Tourism Arrivals declines by 5 points while that of overall market increases, showing respondents' negative expectation towards inbound tourism arrivals.

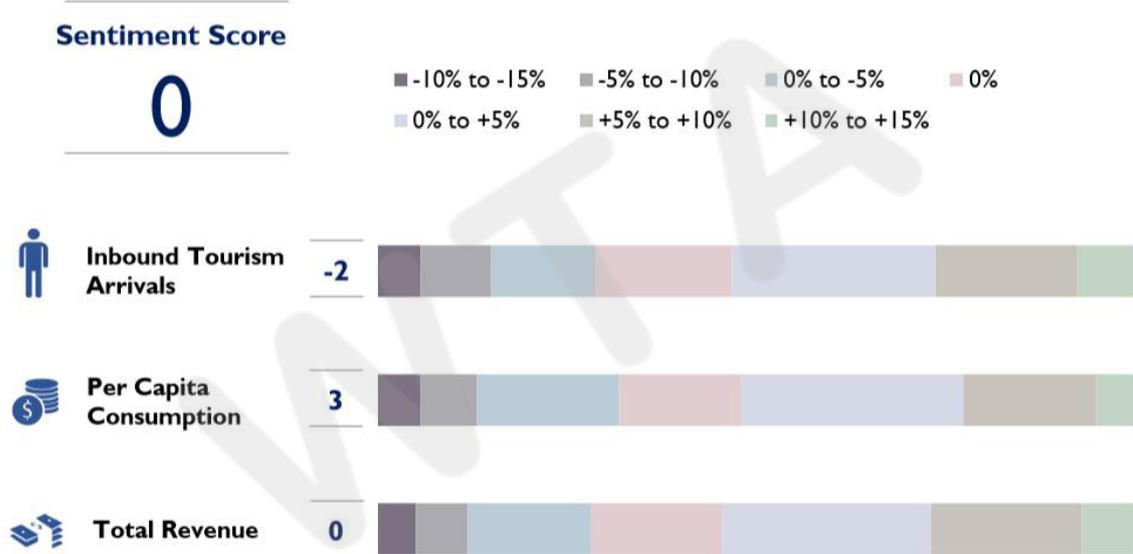


Outlook for Per Capita Consumption is more positive than Inbound Tourism Arrivals, with sentiment score increasing by 12 points, indicating that respondents' expectation is relatively optimistic.



The negative expectations for Tourism Arrivals and Per Capital Consumption contribute to the pessimistic expectation for Total Revenue. But respondents' confidence rises slightly as the sentiment score augments by 6 points.

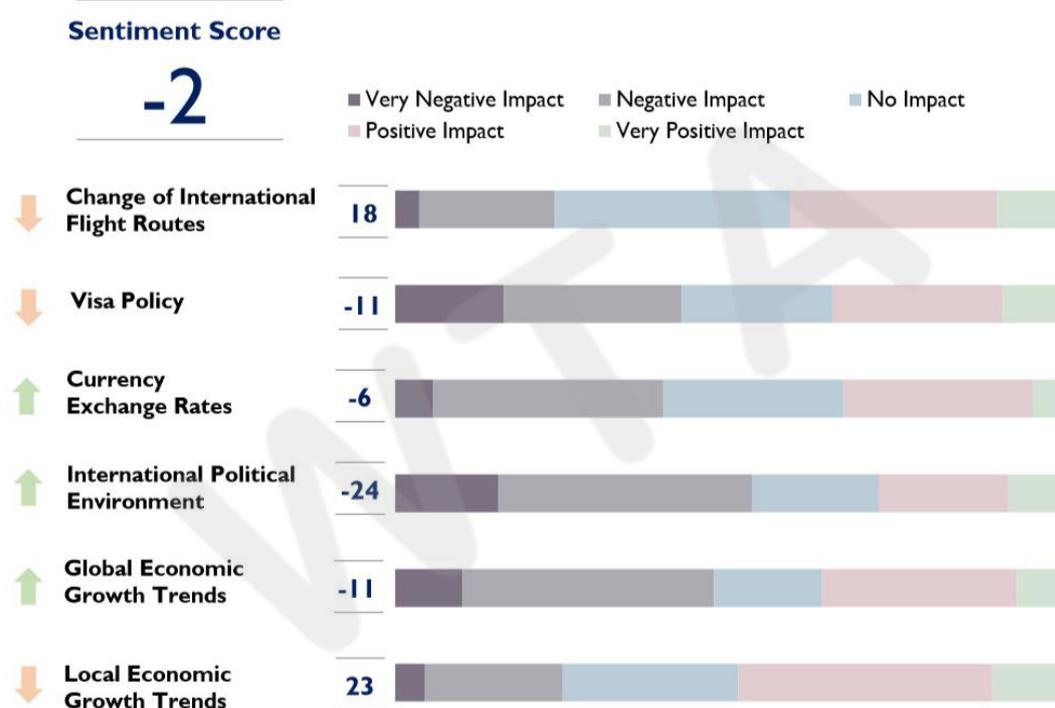
What is your expectation for growth/decline of inbound tourism in the second half of 2019?



Compared to the first half of 2019, respondents hold a conservative attitude towards the overall performance of their organizations in the inbound tourism industry, with sentiment score decreases by 11 points. The pessimism attitude towards Inbound Tourism Arrivals is the strongest while expectation towards Per Capita Consumption is positive, and towards Total Revenue is conservative.



How do you expect each factor below to influence China's inbound tourism in the second half of 2019?



China's trending economic development and the route network optimization by international carriers are the two major factors promoting inbound tourism. However, the turbulent international political climate and the global economic downturn are important factors hindering its progress.



Steady growth of China's economy and improvement of international route networks are the only two factors promoting the inbound market. Sentiment scores of both have decreased vs. the first half of 2019.



Uncertainty of the international political environment is believed to be the major factor restricting inbound tourism. Negative impacts of the global economy, currency exchange rates and visa policies are other factors contributing to the pessimism of respondents. However, the situation appears to be better than in the first half of 2019.

What is your performance expectation for each inbound tourism generating region below in the second half of 2019?

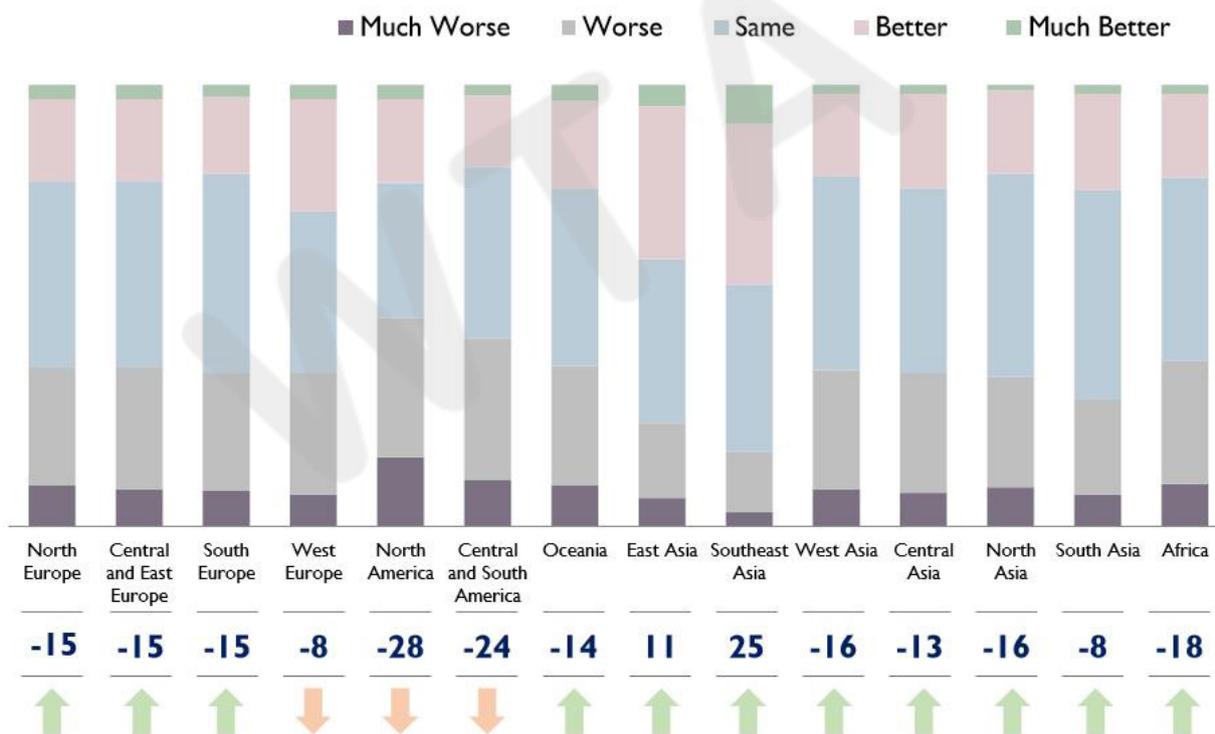
Asia remains the largest contributor to China's inbound tourism. The "Belt and Road Initiatives" connect and benefit adjoining countries, providing them with opportunities to develop their respective tourism industry. Thanks in large part to this policy, respondents are confident about Asia as a source market. With a nine-point increase in their scores, Southeast and East Asia are the only two submarkets with positive sentiment scores.

Europe is a major source of China's long-haul inbound tourism. The sentiment score has increased slightly, although respondents are cautious. Instability of the European political climate and the United Kingdom's eventual exit from the European Union cast doubt on the future of European integration. The debt crisis of some EU members, the large refugee influx into the continent and economic downturn are fueling the pessimism for this region as a source market.

Sentiment Score

- | |

Pessimistic expectations for the overall inbound tourism source market in the first half of 2019 have extended into the second half this year with only a slight easing. Of all inbound markets, North America, Central and South America have the lowest expectations. On the other end of the spectrum, Southeast Asia and East Asia are generating the highest expectations.



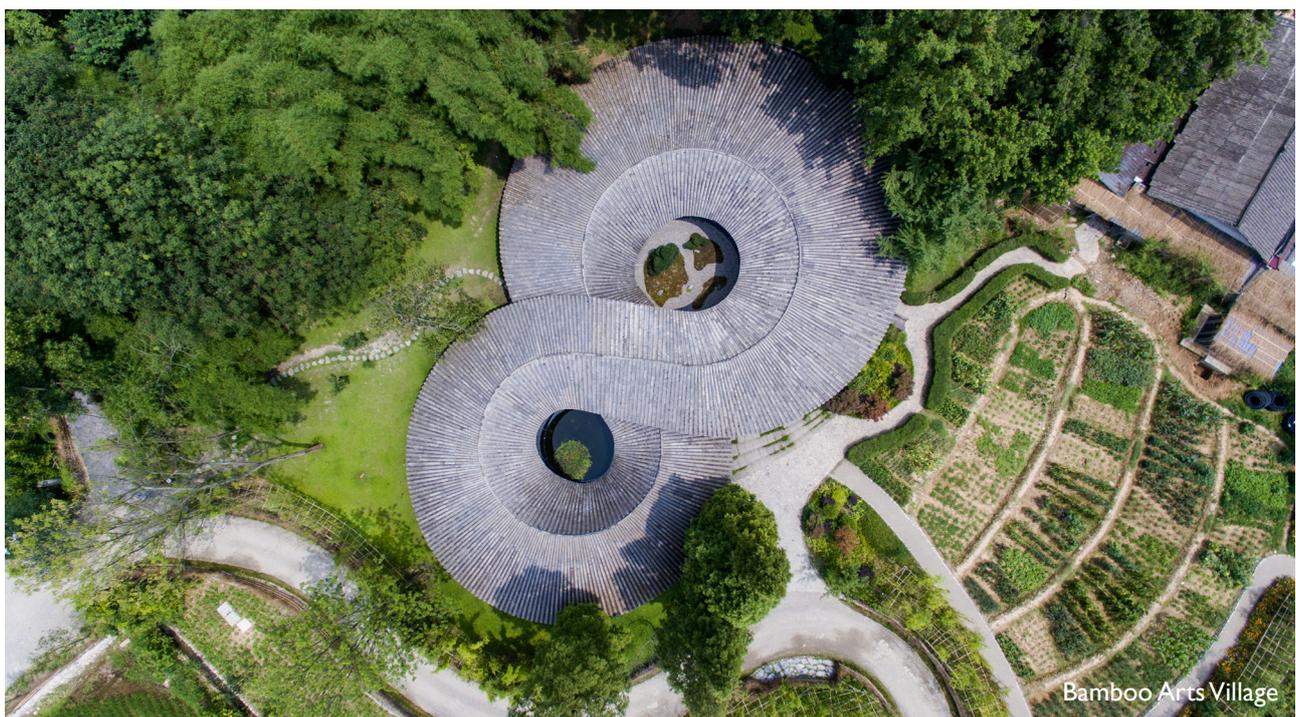
How do you expect each inbound tourism generating region below to perform in the second half of 2019?

Oceania contributes little to China's inbound tourism. Expectations for this market remain low. However, a slight improvement is recorded, with the sentiment score increasing by 5 points.

African countries are not mainstream inbound tourism source markets for China, owing to the region's relatively low level of economic development. Yet, it is noted that the "Belt and Road Initiatives" and other positive policies are bringing China and Africa closer together. Although the sentiment scores have significantly increased by 16 points, respondents remain cautious.

Central and South America is a small source market for China's inbound tourism owing to the region's low economic development and lack of direct flights to China. Trailing behind North America, the sentiment score for Central and South America has decreased by 5 points, putting it squarely in second place among the bottom markets. The decline is attributed to the crisis in the U.S.-Mexican border and the influx of Central American refugees.

North America, represented by the United States, has always been China's strongest inbound consumption source market. However, the escalating US-China trade war is the top major factor contributing to the negative expectations by our respondents, leading to a sentiment score decrease of eight points.

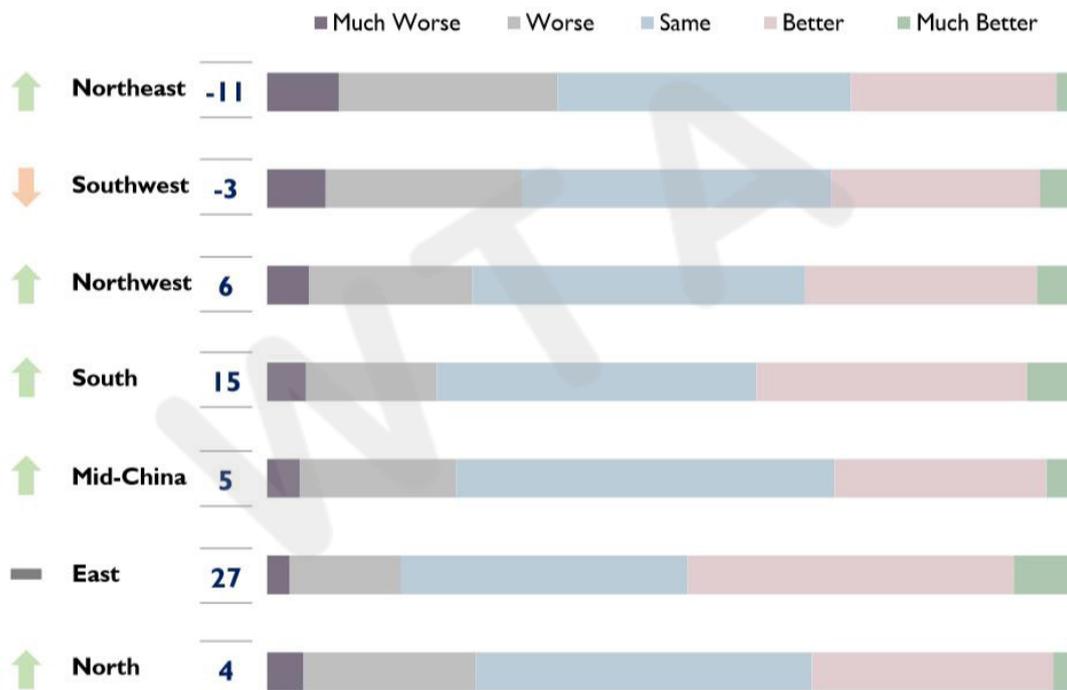


How do you expect each inbound tourism destination below to perform in the second half of 2019?

Sentiment Score

6

The inbound destination market is expected to be more positive, with the national average sentiment scores shifting from negative to positive, increasing by nine points. Except for the Southwest, the sentiment scores of all regions have increased significantly. Although its sentiment score is still negative, the Northeast has shown tremendous growth in market performance.



East China, the most advanced region in the country, leads in sentiment score. With Shanghai at the core, East China has abundant tourism resources, robust international air connectivity, highly developed infrastructure—all of which contribute to the city's overall prosperity.

South China has the second highest sentiment score which has increased by five points, denoting an optimistic outlook. Inbound tourism in South China relies mainly on traditional tourism destinations such as Guilin and Sanya. Newly developed destinations in the region are also making their mark.

How do you expect each inbound tourism destination below to perform in the second half of 2019?

Northwest China is not a popular inbound destination, with lack of accessibility hindering its progress. On the positive side, the score has increased by 15 points, shifting from negative to positive. With Xi'an as its key international airline hub, the region is expected to expand and strengthen its connectivity. Respondents are confident about Northwest China.

Mid China's sentiment score has increased by seven points, shifting from negative to positive. Wuhan's recently-opened direct flights to Turkey and the U.S. East Coast, coupled with the expected improvement and increase in air connectivity in the region, have contributed to our survey respondents' positive outlook for this region.

North China's inbound tourism is mainly driven by the capital Beijing. The sentiment score has increased by six points, indicating an increasingly positive outlook. Beijing has recently boosted inbound tourism by implementing visitor-friendly policies such as tax rebates and the 144-hour visa-free transit in the city. Cooperation with quality foreign travel agencies and

the development of inbound study tours are expected to drive this region's growth. Respondents are generally confident about its prospect and potential.

Southwest China's sentiment score has decreased by nine points, reflecting a negative view by respondents. Among the top demand generators in the region are the giant pandas, Sichuan cuisine and Yunnan's ethnic diversity. However, the earthquake in Sichuan in July and the drought in Yunnan are raising safety concerns while diminishing the region's appeal as an inbound tourism destination in the second half of 2019.

Northeast China's sentiment score has registered a substantial increase of 38 points. Recent promotions for in-depth experiential travel and the region's abundant natural tourism resources are credited for the increase. However, the overall sentiment score is still negative and ranks the lowest among all seven regions. Undeveloped travel connectivity and inadequate tourism facilities are the major factors hindering the region's development as an inbound travel destination.



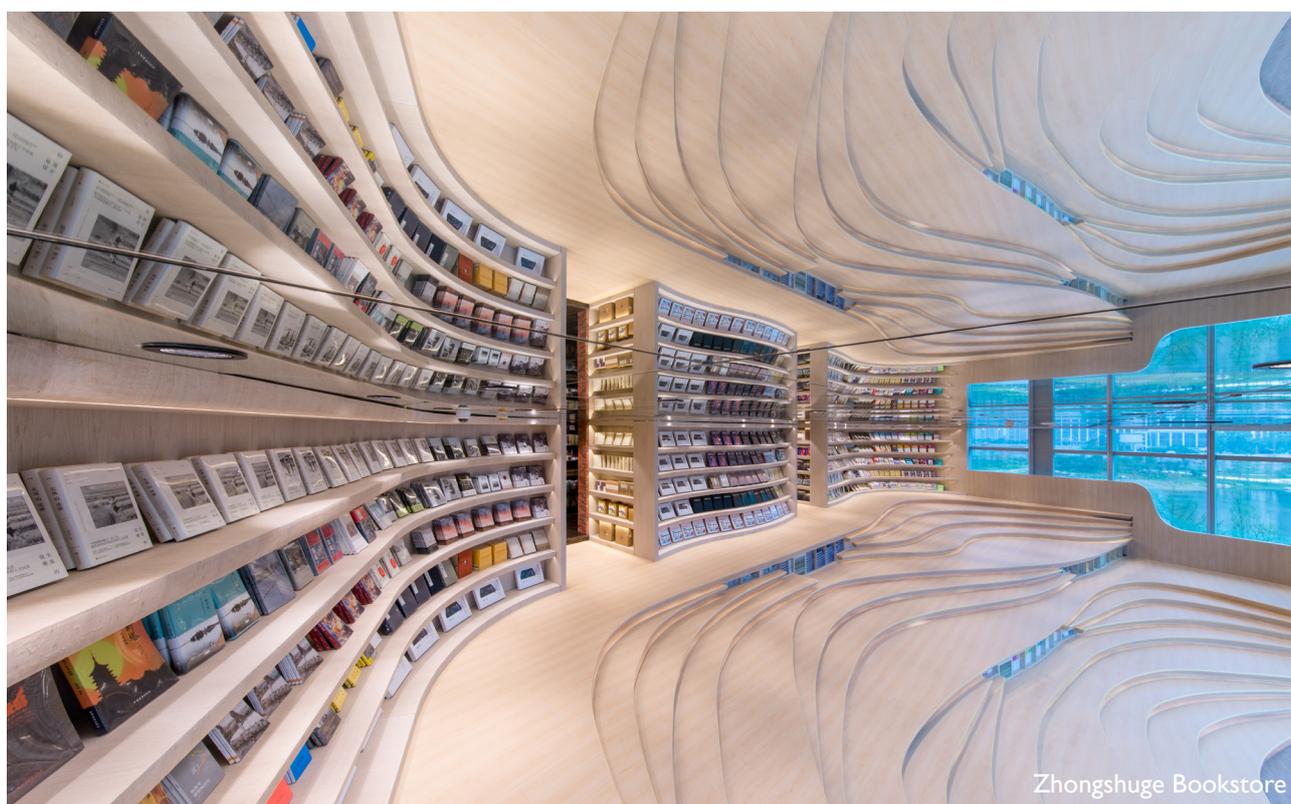
Conclusion

The sentiment score of inbound tourism in the second half of 2019 has declined slightly compared to the first half of 2019, with the overall outlook leaning slightly pessimistic. Except for the Northwest and Southwest China, the other five regions have earned a positive score.

Respondents are generally cautious about the other markets, with sentiment scores increasing slightly. East Asia and Southeast Asia are generating the most optimism.

High confidence is reported for Per Capita Consumption, but neutral about Inbound Tourism Arrivals and Total Revenue. At the top of the list of factors influencing the sentiment scores, the unsettled political environment is cited as the main obstacle for growth in inbound tourism. Other factors include the global economic development, currency exchange rate fluctuations and restrictive visa policy. The steady development of the domestic economy and the expansion of international route networks are the silver lining that are positively impacting this market.

Although the growth rate of inbound tourism is significantly lower than the GDP growth, its potential is inarguably huge. China is believed to have entered a new phase in overall recovery, notwithstanding the complex external downward pressure and less-than-ideal internal resources. National policies and strategic promotions are expected to breathe new, exciting prospects for a continuing upward trend in the foreseeable future.



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Appendix

About World Tourism Alliance

The World Tourism Alliance--the first global, non-governmental nonprofit tourism organization established in China--held its inaugural ceremony to commemorate its founding in Chengdu, Sichuan province on Sept. 12, 2017. Premier Li Keqiang of the State Council of the People's Republic of China sent a letter of congratulations.

In addition to upholding its mission of "Better Tourism, Better World, Better Life," WTA is committed to promoting peace, development and poverty alleviation through tourism by driving global tourism exchanges and cooperation at non-governmental level.

To date, WTA has 182 members from 38 countries and regions. Its membership roster comprises mainly of national or regional tourism associations, influential tourism or tourism-related enterprises, tourism cities, academia, media and individuals. Service to its members through platforms for cooperation, dialogue and networking, information and resource sharing and communication is at the core of WTA's operations.

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 firm. 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.

Established in Asia in 1987, Horwath HTL is the management consulting division of Crowe Horwath International that specializes in hotel, leisure and tourism industries. Our core business cover hotel investment, tourism destination investment, asset management, and strategic research. Horwath HTL now operates offices in several key cities throughout the Asia Pacific region. Our offices work closely together to ensure that our clients receive a multi-skilled international perspective for their projects. Horwath HTL is also supported by the Horwath database, the largest and most complete hotel and tourism related database in the world.

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 individually held businesses to the world's most prominent operators, developers, lenders, investors and industrial corporations.

No other firm is better positioned to meet today's and tomorrow's industry challenges than Horwath HTL - experts in the hotel, tourism and leisure industries.

Disclaimer

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