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H2 **2019**

China Outbound Tourism Market Sentiment Report



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2019 H2 China Outbound Tourism Market Sentiment Report

Tourism has become an important driving force for China's economic development. According to the Ministry of Culture and Tourism, the number of outbound travelers reached 72.69 million in the first half of 2019 alone, representing a year-on-year 14% growth.

The World Tourism Alliance—an international nonprofit, non-governmental organization founded in China with the mission to promote "Better Tourism, Better Life, Better World"—is partnering with Horwath to conduct semi-annual sentiment surveys of China's domestic, outbound and inbound tourism markets starting in 2019. This is the second of such reports this year.

Our special thanks go to Shanghai Municipal Bureau of Culture and Tourism, Shanxi Provincial Department of Culture and Tourism, Fujian Provincial Department of Culture and Tourism, Zuzuche.com, Guilin Tang Dynasty Tours Co. Ltd., Tunio.com, Ctrip.com, China Association of Travel Service, China National Travel Service Group Co. Ltd., China CYTS Tours Holding Co. Ltd., Los Angeles Tourism & Convention Board and the Tourism Section of the Embassy of Spain in China for their invaluable support. As well, our sincere thanks go to WTA member "In Love with the Wind Castle", Bulgaria for providing us with the images in this report.

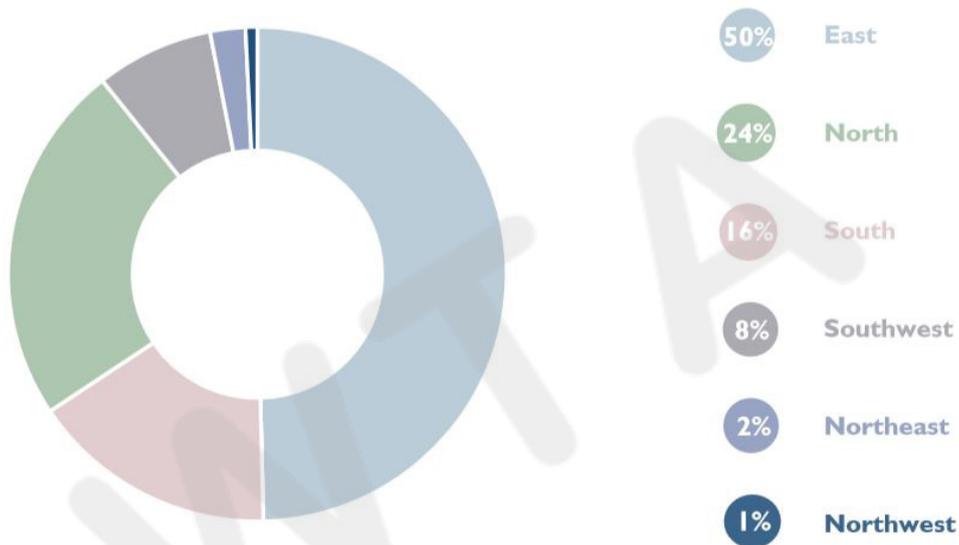
Introduction

This five-question survey is focused on the outlook of Outbound Tourism Arrivals, 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 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 outbound travel 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 133 valid questionnaires for outbound travel.

Sample Analysis By Region, Mainland China



Sample Analysis By Organization Type



Market Sentiment Analysis

Sentiment Score

12

In the second half of 2019, the average sentiment score of outbound tourism is 12, representing a five-point increase compared to the first half of the year and indicating an industry-wide positive outlook.

In the first half of 2019, the outbound tourism market achieved a significant growth of 14% due to the factors below:

China's Huge
Population Base

Growth in
Disposable Income

Efficiency of Overseas
Destinations'
Marketing Programs

Traffic Network
Improvement

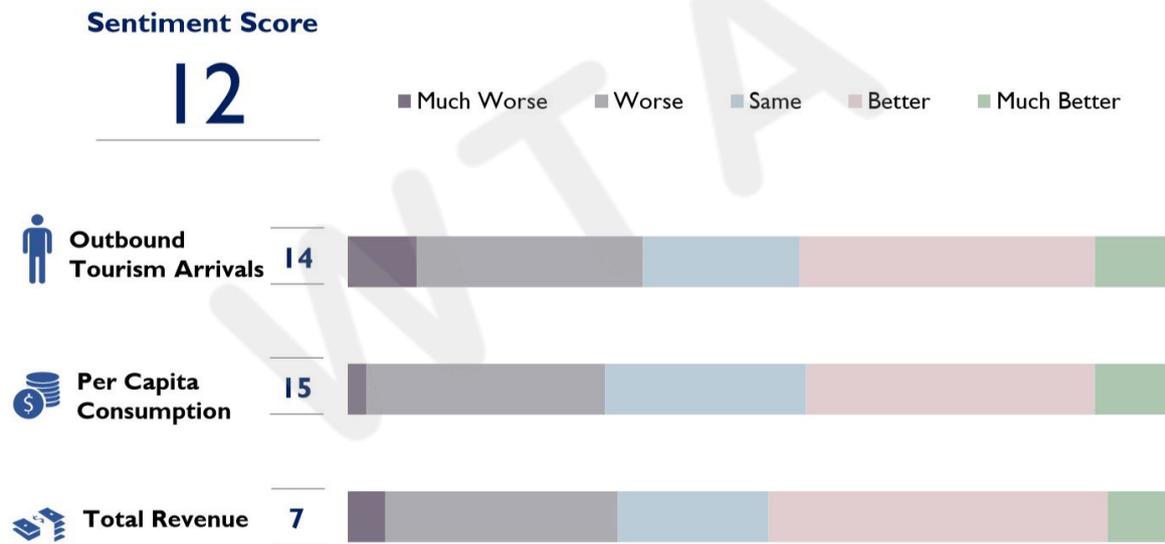
Simplification
of Visa Application

Diversified and in-depth cultural experiences, quality of food, lodging and tourism products are top of mind for outbound Chinese leisure travelers in choosing their destinations.

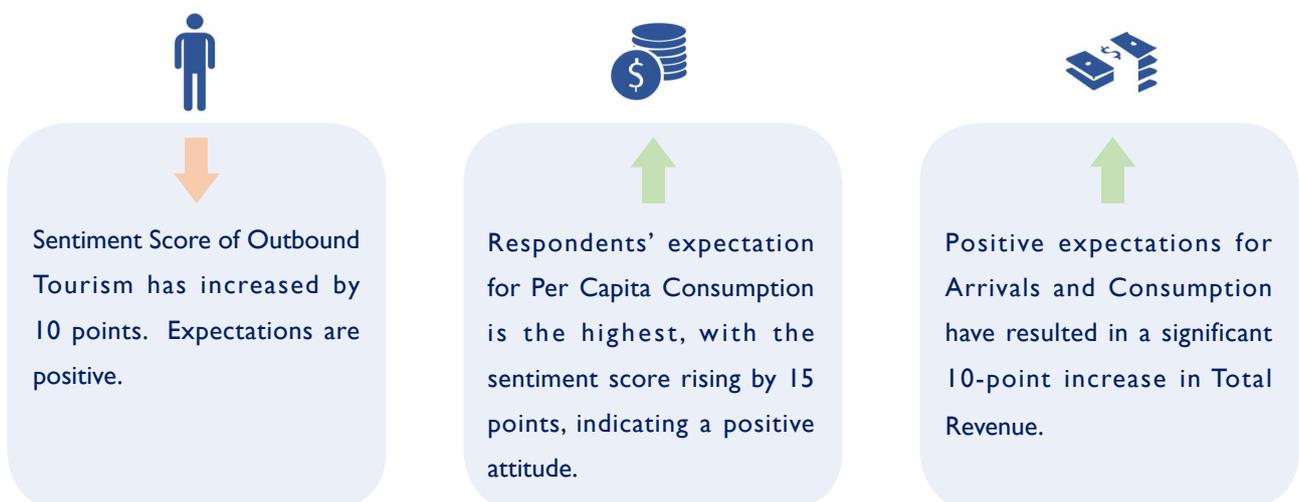
Notwithstanding the current economic turbulence and fluctuations in currency exchange rate, the growth potential of outbound tourism is quite robust. The facilitation of the application process of Chinese passports, upgraded transportation network and improved visa policies by major outbound destinations are stimulating demand from China's s second and third tier cities. Short distance outbound travel remains in the mainstream. As outbound travel frequency increases, the market is expected to flourish.



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



Compared to the first half of 2019, the sentiment score in the second half of this year has increased, indicating optimism for the overall performance of outbound tourism. Respondents are most positive about Per Capita Consumption. Expectations for Outbound Tourism and Total Revenue are positive, both recording higher scores than those in the first half of 2019. China's economic development is still moderate, given the severe downward pressure of the global economy. However, spurred by the relaxation and simplification of visa application policies in some countries and the constant route network optimization by international airlines, the overall outlook for outbound tourism is positive.



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



More than half of the respondents are positive about the performance of their respective organizations. They believe that in the second half of 2019, Outbound Tourism Arrivals, Per Capita Consumption and Total Revenue are going to maintain their trending growth. While they are confident of a better performance in the second half of this year, their confidence has dropped slightly vs. the first half.



↓

Most respondents are forecasting an increase in the second half of 2019 in spite of a three-point decrease vs. the first half.



↑

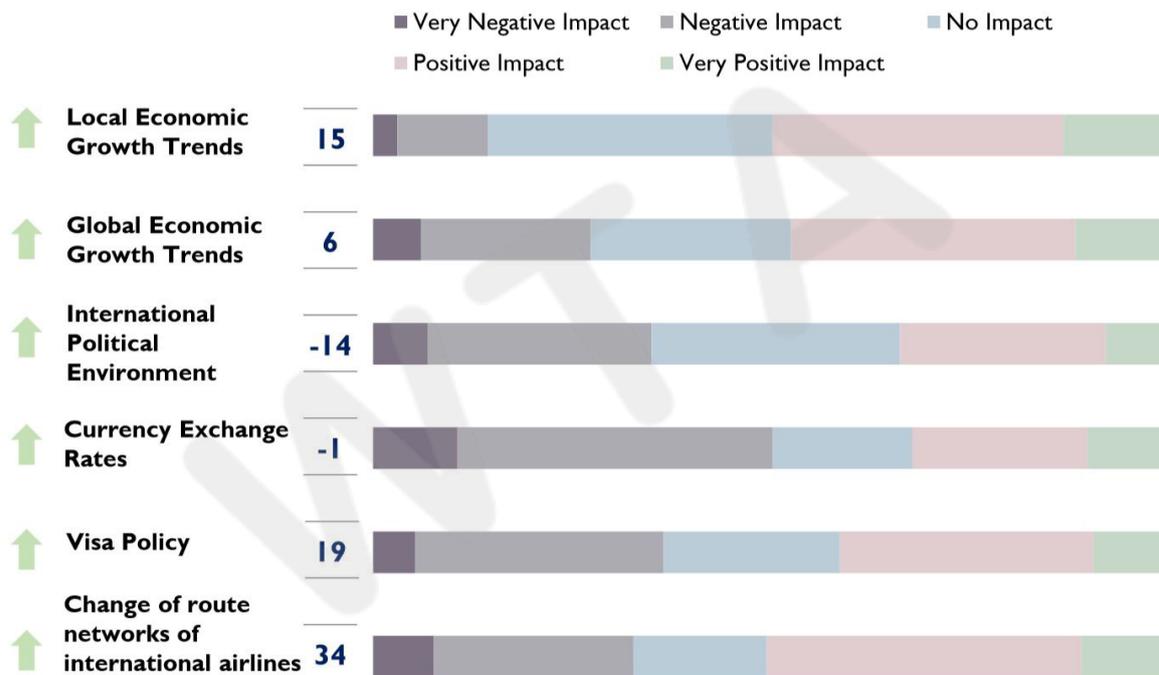
Respondents have positive expectations for Per Capita Consumption which has increased by two point, the only indicator showing growth.



↑

Positive expectations for Arrivals and Consumption have resulted in a positive outlook for Total Revenue. However, the sentiment score for this has dropped by five points.

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



Global political and economic uncertainty are the main factors restricting the progress of outbound tourism. However, countervailing measures and policies of major outbound destinations that include visa relaxation and simplification and expanded route networks by international carriers, have pushed the outbound market sentiment higher, rising by 13 points vs. the first half of 2019.



Route network optimization by international carriers is cited as the most significant factor influencing outbound tourism. Simplification of the visa application process and China's steady economic growth are also important factors stimulating the development of outbound tourism.



Global situation and the current currency exchange rate are the only two negative factors cited by respondents. European and American outbound tourism destinations are facing greater challenges in the near future due to exchange rate fluctuations and the geopolitical environment.

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

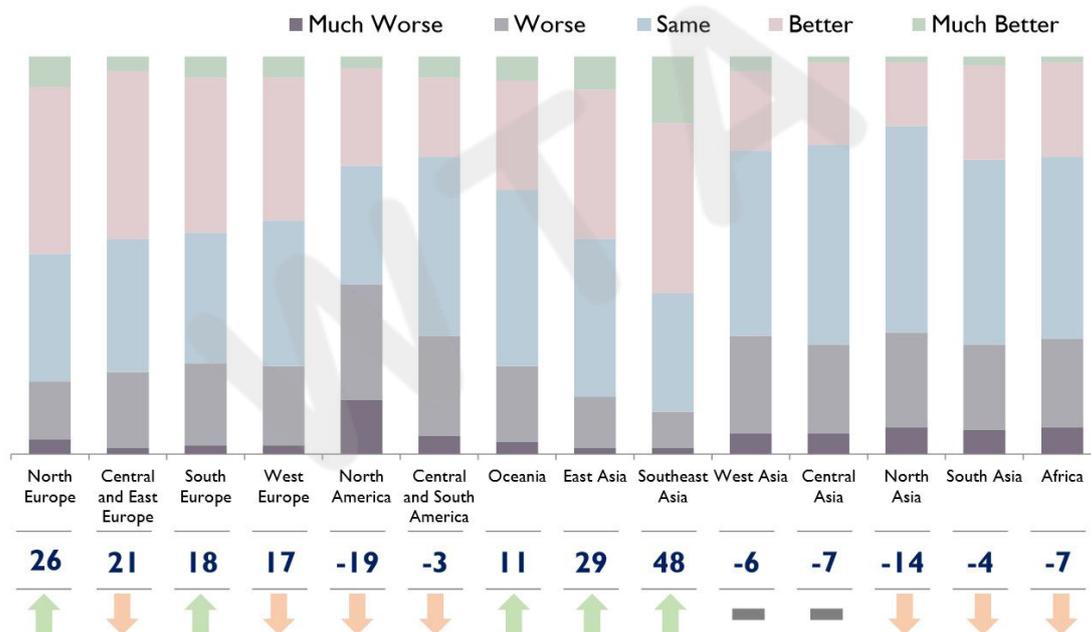
Asia remains the favorite short distance destination for Chinese outbound tourists. Scores for East Asia and Southeast Asia have increased three and eight points respectively. The slowdown in global economy is prompting outbound tourists to choose low budget destinations, while the relaxation of visa policies for Chinese tourists by Japan and Korea are stimulating the market. Non-traditional destinations in Asia have not scored as well—with a decrease in sentiment index—because of longer flight time and stiff competition from more popular European destinations.

Europe has always been popular with outbound Chinese tourists. The region's highly developed tourism products and infrastructure, convenient transportation system as well as relaxed visa regulations are among the top reasons cited for Europe's enviable position. President Xi Jinping's European visit in March this year and the gradual disintegration of the Yellow Vest movement in France are also contributing to the positive scores of European regions. Noticeably, the booking volume of China's tourism to Europe increased by more than 17% in the first half of 2019 compared to 2018. The escalating US-China trade conflict and the exchange rate of the US dollar exceeding 7 RMB favor Europe as the first choice for long-haul outbound Chinese tourists in the short to medium term.

Sentiment Score

8

Outlook for the market performance of outbound destinations remains positive, although a slight weakening is noted. Closer to home, outlook for Southeast Asia is steadily increasing. Expectations for Africa and South Asia have significantly declined.



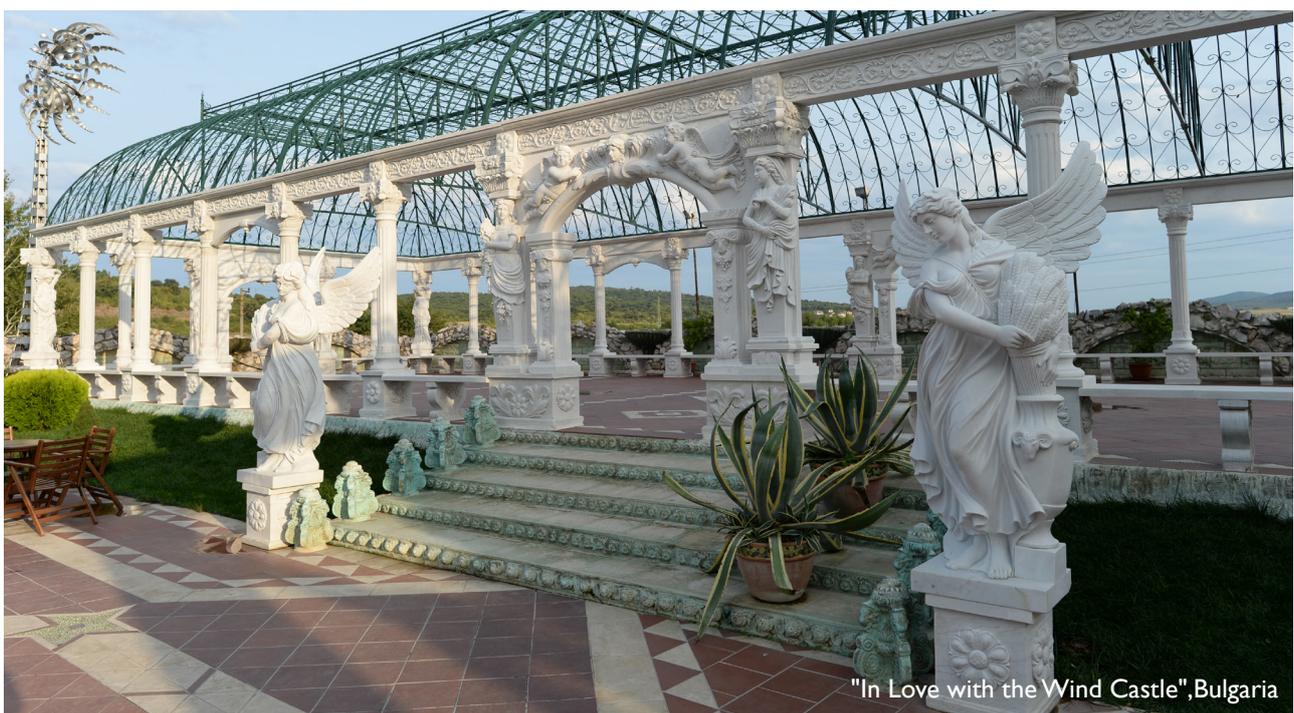
How do you expect each outbound travel destination below to perform in the second half of 2019?

Oceania has reached a sentiment score of 11, a slight increase compared to the first half of 2019. However, more than 20% of respondents are pessimistic about the prospect of Oceania as an outbound destination due to the terrorist attack in New Zealand in March and the high cost of travel in Australia. Generally, however, the outlook for this region is positive.

African has a recorded sentiment score of -7, a decrease from 20. The “Belt and Road Initiatives” provide an opportunity for numerous projects in the region to be implemented. A combination of undeveloped tourism products, infrastructure and transportation network make Africa a less appealing destination for Chinese tourists who value quality. The outbreak of swine fever and frequent attacks on foreign tourists are also contributing to the significant decline of the sentiment score in the second half of 2019.

Central and South America are a niche market for China’s outbound tourists. The sentiment score has shifted from positive to negative in the second half of 2019 as indicated by a six point drop. Conflict in the U.S.-Mexican border, lack of security and personal safety concerns are factors contributing to the pessimistic sentiment for this region.

North America has registered a continuously declining sentiment score of -17. The severe drop is blamed on the US-China trade war and the tightening of U.S. visa regulations which have resulted in a steep decrease of outbound tourism to the region in the first half of 2019. More challenges are expected as the exchange rate between the US dollar and the Chinese RMB breaks seven, making travel to the USA more costly.



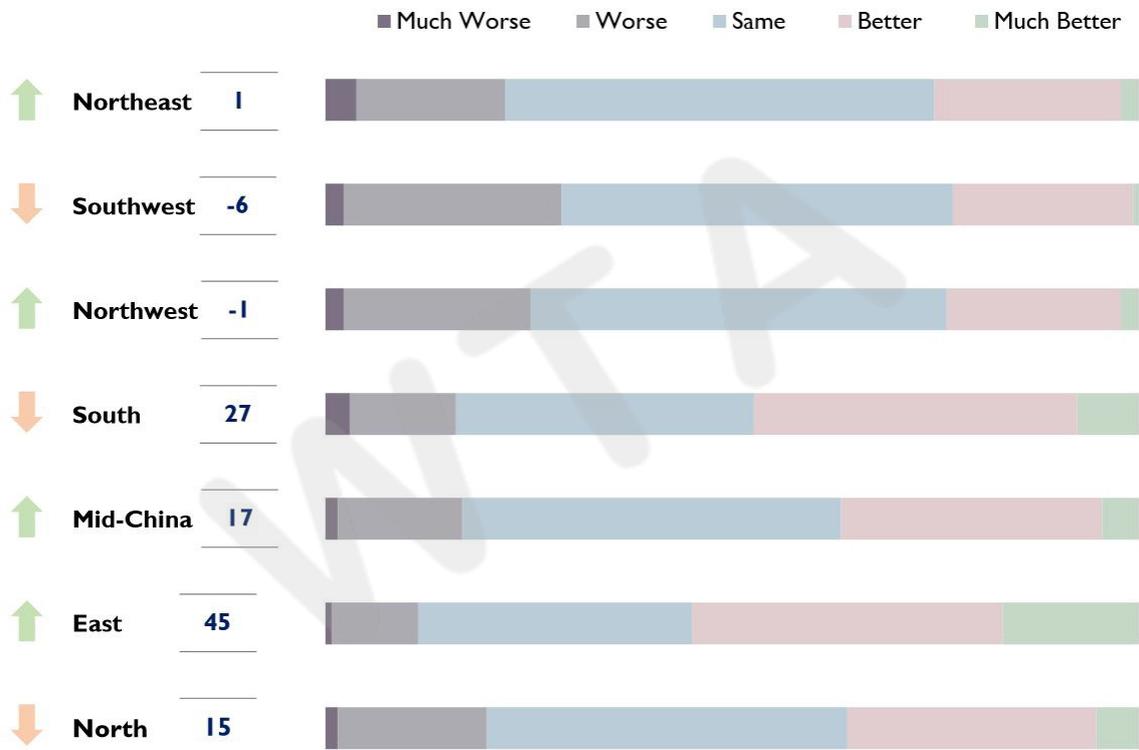
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How do you expect each outbound travel destination below to perform in the second half of 2019?

Sentiment Score

14

Respondents are increasingly optimistic about the outbound tourism source markets. Of all the regions, East and South China have scored the highest. On the other end of the spectrum, Southwest and Northwest China have generated negative scores.



East China continues its trending growth with a 10-point increase in the sentiment score for the second half of 2019. Annual outbound trips have become the lifestyle of residents in this rich coastal region. It is expected to continue to be the top leader of China's outbound source markets.

Although the sentiment score of **South China** has declined slightly, it remains in second place after East China. Steady growth of outbound tourists from the first tier cities in Guangdong is fueling this development. Overall outlook remains optimistic.

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

Hampered by its less developed economy and lack of air connectivity, the score of **Northwest China** is relatively low. In the first half of 2019, Xi'an launched a few commercial aviation route networks, strengthening the region's connectivity to countries such as Russia, Japan and Singapore. The increase in accessibility has resulted in a drop in the cost of international travel. With further expansion of route networks, including direct flights to Europe, outbound tourism in the Northwest China is expected to transition into a new phase.

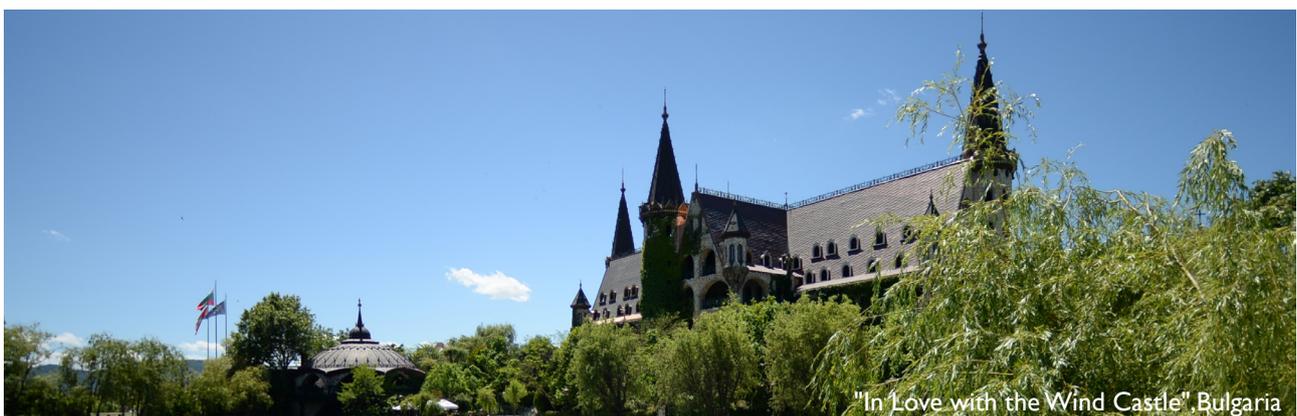
Southwest China's sentiment score has decreased by six points, reflecting the respondents' negative outlook. As a third tier outbound tourism source, the west typically generates fewer overseas travelers compared to the east. Residents have no strong desire to travel internationally in light of this year's economic uncertainty. In the absence of new international routes, the sentiment score for Southwest China has declined in the second half of 2019.

The sentiment score of **Mid-China** has increased slightly, reaching 17. Chinese outbound tourists from the East, Middle and North China regions follow a 7:2:1 stepped pattern. Mid-China, the second-tier outbound

tourism source market, has seen a steady rise due to improvements in the route networks of international carriers. The proportion of its outbound tourism output has increased from 20% to 25%, making respondents confident about its prospect.

The sentiment score of **North China** has declined slightly at 15, indicating a positive outlook driven primarily by Beijing, China's capital. Extensive route networks and connectivity, coupled with the strong consumption and purchasing power of its residents, have made Beijing a major source of outbound tourism in North China. Sentiment score of this region is expected to remain the same or increase slightly.

The sentiment score of **Northeast China** has rebounded with a score of one in the second half of 2019. Sentiment recovery is attributed to Russia's various tourism initiatives which includes the relaxation of electronic visa regulations. Northeast China's geographic proximity to Russia make the latter an appealing destination for outbound Chinese tourists from the region. More importantly, Russia's Eurasian culture makes it an attractive cost-saving alternative to Europe.



Conclusion

Overall sentiment score for outbound tourism in the second half of 2019 has increased slightly compared with the first half of this year, indicating an optimistic assessment. Although the outlook for outbound destination markets has somewhat weakened, it remains positive. Europe, Oceania, East and Southeast Asia are recording positive sentiment scores. Except for Northeast and Northwest China, all the other five regions show positive sentiment scores with East and South China garnering the highest ratings.

Respondents are particularly confident about Per Capita Consumption, a key performance indicator. The positive impact of the growing Per Capita Consumption and Tourism Arrivals have shifted the Total Revenue from negative to positive.

Uncertainty of the international political environment and fluctuations in the currency exchange rates are adversely affecting China's outbound tourism. Respondents, however, are generally optimistic, thanks to friendly visa policies and the route network expansion by international carriers.

China's large base of outbound markets, combined with the Chinese tourists' diversified preferences and growing consumption and purchasing power, solidifies the country's position as the world's top source of outbound tourism. The eventual economic recovery of domestic and foreign economies, stabilization of the RMB exchange rate and further relaxation of visa regulations ensure steady growth in the years to come.



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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