

WORLD  
TRAVEL &  
TOURISM  
COUNCIL

# THE IMPACT OF TRAVEL & TOURISM ON JOBS AND THE ECONOMY

CHINA AND  
CHINA HONG KONG SAR



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# WORLD TRAVEL & TOURISM COUNCIL

THE WORLD TRAVEL & TOURISM COUNCIL (WTTC) IS THE BUSINESS LEADERS' FORUM FOR TRAVEL & TOURISM, WORKING WITH GOVERNMENTS TO RAISE AWARENESS OF THE IMPORTANCE OF THE WORLD'S LARGEST GENERATOR OF WEALTH AND JOBS.

With chief executives of more than 100 of the world's leading companies in membership, WTTC has a unique mandate and overview on all matters related to success in Travel & Tourism.

WTTC is delighted to have collaborated with a broad cross section of leaders from China's and Hong Kong's tourism industries and the public sector to produce this report, which presents our most recent simulated Tourism Satellite Account and forecasts for China and Hong Kong.

Undertaken by WTTC, together with our research partners Oxford Economic Forecasting, this report quantifies all aspects of Travel & Tourism demand – from personal consumption to business purchases, capital investment, government spending and exports. It then translates this information into economic concepts of production, such as gross domestic product and employment, which can be compared with other industries and the economy as a whole to provide credible statistical information that will assist in policy and business decision-making.

Pre-SARS results clearly showed that China was experiencing enormous growth in its Travel & Tourism, and is expected post-SARS to increase total demand by 10.4 percentage points per annum in real terms over the next decade. This growth makes China the fourth fastest growing Travel & Tourism economy in the world. Similarly, Travel & Tourism in Hong Kong (post-SARS) is expected to grow at a rate of 9.2 per cent per annum, making it the ninth fastest growing Travel & Tourism economy in the world. From the perspective of employment, the forecast is equally sobering, with China expected to create 1.3 million new Travel & Tourism jobs each year.

Although China's macroeconomy has demonstrated remarkable strength and growth in recent years, the painful experience of recent months clearly demonstrates that the positive impact of this on Travel & Tourism can no longer be taken for granted. As illustrated in the Policy Framework section of this report, several important challenges, beyond those specific to recent events, continue to limit Travel & Tourism's full growth potential in China. These include, most importantly, tourism management, regulatory law, the private sector's role, and financial services policies. In Hong Kong the challenges mainly concern product development and aviation liberalization/open skies.

This report also sets out WTTC's recommendations on policies that we believe will help optimize the potential benefits of Travel & Tourism in China and Hong Kong, ensuring longer-term sustainable development and spreading the benefits across all levels of the economy and the country. China's and Hong Kong's Travel & Tourism could do even better than the baseline forecasts suggest, as long as certain factors are assured – a genuine public-private sector partnership, a climate that is conducive to business investment, sustained and effective marketing and promotion, and policies that respect the environment and local cultures. WTTC stands ready to support the adoption and implementation of these policies.



Jean-Claude Baumgarten  
President, World Travel & Tourism Council



Sir Ian Prosser  
Chairman, World Travel & Tourism Council  
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# EXECUTIVE SUMMARY

IS CHINA READY TO BECOME A WORLD TOURISM POWER, CREATING 40 MILLION JOBS\* OVER THE NEXT TEN YEARS?

ACCORDING TO RESEARCH CONDUCTED FOR THE PURPOSE OF THIS REPORT, CHINA HAS THE POTENTIAL TO BECOME ONE OF THE WORLD'S GREAT TOURISM ECONOMIES – IN TERMS OF INBOUND, DOMESTIC AND OUTBOUND TRAVEL.

This follows the opening of its markets to the outside world and its entry into mainstream economic and political circles such as the World Trade Organization. Although the vision for China's ascension is extraordinary and bold, and historical experience has clearly demonstrated the Chinese government's ability to deliver on its promises, the scope and depth of effort necessary for China to build a world-class tourism economy are staggering.

The isolation of China prior to the start of economic reforms and its opening to the outside world has delayed China's entry onto the world stage in many areas including Travel & Tourism. In some ways this late emergence has helped to protect its resources from excessive exploitation and unsustainable development.

government structures, agencies and officials in a unique, difficult and tenuous position of trying to keep up with events and fast-paced development that they have previously managed to control under a different set of circumstances. The current climate of China's Travel & Tourism also illustrates the nature of market-economy transition, and how China's official tourism structure needs to adapt to the changing requirements and needs of the market, its producers and its consumers and external events.

Nevertheless, the future prospects for Travel & Tourism in China remain extraordinary. There is widespread speculation – mostly underestimated – as to Travel & Tourism's current and likely future contribution to the national economy and, more

**The future prospects for Travel & Tourism in China remain extraordinary.**

Yet, in other ways, it has also limited the benefits that Travel & Tourism can deliver economically and socially.

Nevertheless, while business leaders and industry analysts have long been heralding China as the next major source of Travel & Tourism development, its actual performance over the past few years has already shown that even optimistic scenarios can sometimes be too conservative, while at the same time proving extremely vulnerable to external events.

Although it is unusual to criticize success stories, there appears to be one main problem for China's Travel & Tourism – and that is its extraordinary success and newly discovered reliance on the industry. The scale and pace of its development and future potential growth put

importantly, the difficult structural factors that still constrain its true potential.

In truth, the Chinese Government has moved quickly and decisively to transform itself in only a few short years, implementing a policy of opening up the country to the outside world, moving to a market-based economy and, in the process, achieving massive growth and development.

However, what the World Travel & Tourism Council (WTTC) and Oxford Economist Forecasting research makes clear is that, despite its success to date (excluding the SARS period), the industry requires a new vision of openness, collaboration and cooperation between the public and private sectors. This will ensure

\*Source: CNTA





that China's Travel & Tourism moves to the next level of development and sophistication, on track to becoming a world tourism power.

In Hong Kong, the primary post-SARS focus is tactical, focused on the creation and development of a leading Asian aviation transport hub and on restarting the destination's lifecycle by broadening and deepening its tourism product base. Both are vital to spreading tourism growth beyond the Chinese market and assuring Hong Kong's position within Asia's Travel & Tourism.

Even when the current crisis is over and pre-SARS levels have been regained, there will still be significant structural barriers in China and Hong Kong that will inhibit the growth of Travel & Tourism. While some of these issues are already on the respective governments' agendas, others have yet to be included, and yet other issues are vying for

attention. Although not everything can be programmed for immediate action, WTTC calls on the Chinese and Hong Kong authorities to focus even greater attention to these issues and work with the private sector to establish immediate and long-term priorities to meet the challenges head on.

Travel & Tourism offers enormous potential as a catalyst for future economic and social development across the whole of China and Hong Kong. Measures already undertaken by government augur well for the sustainable development of Travel & Tourism – achieving a healthy balance between business imperatives, the protection of cultural heritage and environment, and the well-being of local communities. Additional measures recommended in this report set the stage to help ensure the larger rewards that Travel & Tourism can bring.

# ECONOMIC IMPACT

IN 2004, CHINA'S TRAVEL & TOURISM IS EXPECTED TO GENERATE RMB1,536.7 BN (US\$183.6 BN) OF ECONOMIC ACTIVITY (TOTAL DEMAND). THE INDUSTRY'S DIRECT IMPACT INCLUDES:

13,618,400

jobs representing 1.9% of total  
**EMPLOYMENT.**

Rmb 289.2 bn

(US\$34.5 bn) of

**GROSS DOMESTIC PRODUCT**  
(GDP) equivalent to 2.3% of total GDP.

HOWEVER, SINCE TRAVEL & TOURISM TOUCHES ALL SECTORS OF THE ECONOMY, ITS REAL IMPACT IS EVEN GREATER. CHINA'S TRAVEL & TOURISM ECONOMY DIRECTLY AND INDIRECTLY ACCOUNTS FOR:

54,051,700

jobs representing 7.4% of total  
**EMPLOYMENT.**

Rmb 1,273.6 bn

(US\$152.1 bn)

of **GROSS DOMESTIC PRODUCT**  
equivalent to 10.2% of total GDP.

Rmb 285.9 bn

(US\$34.2 bn) of

**EXPORTS, SERVICES & MERCHANDISE**  
or 7.1% of total Exports.

Rmb 512.1 bn

(US\$61.2 bn) of

**CAPITAL INVESTMENT**  
or 9.4% of total investment.

Rmb 69.6 bn

(US\$8.3 bn) of

**GOVERNMENT EXPENDITURES**  
or a 3.8% share.



# GROWTH

IN 2004, TRAVEL & TOURISM IN CHINA IS FORECAST TO SEE REAL GROWTH OF:

21.8%

in total

**TRAVEL & TOURISM DEMAND,**

Rmb1,536.7 bn  
(US\$183.6 bn).

33.6%

in **TRAVEL & TOURISM INDUSTRY GDP**  
to Rmb289.2 bn (US\$34.5 bn) for the industry directly  
and 23.0 % to Rmb1,273.6 bn (US\$152.1 bn)  
for the Travel & Tourism Economy overall (direct  
and indirect expenditures).

21.3%

in **TRAVEL & TOURISM INDUSTRY  
EMPLOYMENT** (direct impact only), to  
13,618,400 jobs, and 13.7% to 54,051,700 jobs  
in the Travel & Tourism Economy overall  
(direct and indirect).

OVER THE NEXT TEN YEARS, CHINA'S TRAVEL & TOURISM IS EXPECTED TO ACHIEVE ANNUALIZED REAL GROWTH (REAL DECLINE) OF:

10.4%

in total

**TRAVEL & TOURISM DEMAND,**  
to Rmb4,767.7 bn (US\$498.1 bn) in 2013.

10.9%

in total **TRAVEL & TOURISM GDP,**  
to Rmb844.6 bn (US\$88.2 bn) in 2013 for the  
industry directly and to Rmb3,747.2 bn (US\$391.5 bn)  
for the Travel & Tourism Economy overall.

3.8%

in **TRAVEL & TOURISM EMPLOYMENT,**  
to 16,092,500 jobs directly in the industry,  
and 3.4 per cent to 65,849,200 jobs in the  
Travel & Tourism Economy overall in 2013.

22.4%

in **VISITOR EXPORTS,**  
rising to Rmb525.3 bn  
(US\$54.9 bn) by 2013.

8.7%

in terms of **CAPITAL INVESTMENT,**  
increasing to Rmb1,453.0 bn  
(US\$151.8 bn) in 2013.

7.1%

in terms of  
**GOVERNMENT EXPENDITURES**  
to Rmb179.0 bn (US\$18.7 bn) in 2013.

# FUTURE PROSPECTS

DESPITE SARS, THE BASELINE FORECASTS FOR CHINA ARE STAGGERING. OVER THE NEXT TEN YEARS, THE GROWTH OF TRAVEL & TOURISM DEMAND IN CHINA IS EXPECTED TO MAKE IT THE FOURTH FASTEST GROWING TRAVEL & TOURISM ECONOMY IN THE WORLD.

The expected annualized rates of growth for personal consumption of domestic and outbound tourism, as well as visitor exports (inbound tourism), suggest that China's most difficult challenge will be to manage the projected growth. It needs to focus its financial, human and intellectual resources on supporting, facilitating, enabling, managing and directing this growth rather than – as is the challenge most other nations face – trying to stimulate growth. WTTC maintains that the extraordinarily high level of expected growth will require China to anticipate any weaknesses likely to be exposed under this intense pressure and prepare plans, structures and systems to help ensure that Travel & Tourism reaches its potential.

## TOURISM MANAGEMENT

China's Central Government needs to show tourism leadership by re-orientating, clearly defining and communicating the structure, organization, portfolio and funding of the China National Tourism Administration (CNTA).

The newly designed CNTA should provide planning and policy-making, tourism development and management, as well as coordinating, facilitating and, thereby, driving the country's new market economy-based approach to Travel & Tourism. To ensure this happens properly, it will be necessary to elevate tourism to a ministerial portfolio with responsibility for overseeing collateral government agencies/departments that have a direct or indirect link to tourism.

## NATIONAL TOURISM ORGANIZATION

To ensure that China competes effectively with the world's leading tourism destinations, it should spin off

and adequately fund the marketing and promotional responsibility of CNTA into a newly created public-private sector managed China Tourism Board (CTB).

It is envisaged that this national body will spearhead the tourism marketing and development initiative, including a major focus on domestic tourism. In addition, the new CTB should serve as a fully fledged national convention bureau and assume a coordinating role with the provinces/cities, as well as producing and disseminating Travel & Tourism research, market intelligence and information management. Finally, the CTB should follow international best-case practice and operate with a diverse and broad-based board of directors who reflects the collective wisdom and experience of key public and private sector leaders.

## PUBLIC-PRIVATE SECTOR PARTNERSHIP

In order for China to achieve its aggressive development and employment objectives to create 40 million Travel & Tourism jobs over the next decade, it will

need to create a true working partnership with the private sector in all aspects of tourism planning and operation.

This will involve the re-orientation of existing trade associations into independent contributing bodies. Their input might emulate that of the Shanghai Mayor's Round-Table forum where the private sector provides briefings, exchanges views and initiates discussion about new trends and issues that have an impact on the Travel & Tourism industry.

## TOURISM PLANNING

China's National Tourism Policy, 'Building a World Tourism Power and Developing a New Mainstay Industry – The Compendium for China Tourism Development in the Early 21st Century', is a visionary tourism plan.

However, 'building a world tourism power' may require even greater attention to the free-market re-orientation of the tourism business environment in China and to more comprehensive strategy and operational plans as to how this vision is to be achieved. CNTA must focus on developing strategy and providing guidance, making and directing long-term plans for the industry, and removing unreasonable barriers to growth. It should advocate standards and service levels. It should clearly communicate its roles and responsibilities and provide transparency.

## INDUSTRY MEASUREMENT

Industry information currently available in China and Hong Kong is insufficient under recent crisis mode and current high-growth conditions to formulate intelligent, well-considered short- or long-term business and policy decisions.

A national tourism research organization could be a useful tool to help ensure the credibility of historical results and future demand forecasts, as well as generating marketing intelligence information and assessing the economic contribution of Travel & Tourism.

China should also develop a tourism satellite account (TSA) and update it on an annual basis to ensure that adequate data are available to factor Travel & Tourism into economic and employment strategies. WTTC also encourages Hong Kong to translate its pilot TSA into a fully fledged TSA capable of providing complete

economic history and forecasts to government and industry players, so that government and business decision-making can be improved.

## DOMESTIC TOURISM

The extreme seasonality of the Golden Week (week-long) national holidays will increasingly cause an unmanageable strain on existing tourism resources and infrastructure, and may result in the abandonment of the original policy objective to encourage domestic tourism consumption.

To lessen the burden on these periods, China should move swiftly to supplement the three week-long periods with two additional weeks of paid vacation, which can be taken throughout the year, at the discretion of consumers and businesses. This policy will spread holiday-taking throughout the year, reducing seasonality and creating a more stable and sustainable Travel & Tourism industry.

## OUTBOUND TOURISM

To achieve the full potential of Travel & Tourism, the Chinese Government must treat outbound tourism as a strategic priority on a par with inbound tourism.

Like the third leg of a tripod, Travel & Tourism is not balanced and is not sustainable without a strong outbound market. This will require the rapid elimination of approved destination status (ADS) requirements, allowing for unlimited access to the Chinese market by foreign tour operators and national tourism organizations, and removing limits on travel agency outbound sales and the limits on foreign currency exchange. At the same time, the travel industry needs to ensure the quality of the products and services it sells by promoting transparent consumer rights, self-regulating price and quality, and developing a sound legal operating framework.

## PRODUCT DEVELOPMENT

China is in the process of developing a mass tourism economy unlike any the world has ever seen.

The Chinese Government needs to prepare the groundwork for this explosive new consumer demand carefully and expeditiously. This will include facilitating the development of transport networks and infrastructure, tourism destination planning and

construction. In the hotel sector, it should encourage and facilitate hotel product diversification including high quality small-sized hotels, true resort hotels, B&Bs and other niche products. In addition, it needs to institute marketing and promotion campaigns and establish the appropriate legal, regulatory and financial system required for free-market forces to absorb the enormous demand as quickly as possible. Hong Kong also needs to focus on product development, but its situation is different in that its focus should be on extending, broadening and deepening its already excellent product base, and increasing average length of stay and yield, through initiatives such as Hong Kong Disneyland.

## BUDGET HOTELS

International experts believe that urgent measures must be undertaken by the Chinese Government – both in terms of policy decisions and practical measures – to facilitate development of the budget hotel sector, thereby helping to unlock the potential of domestic tourism.

The segment must be restructured, reorganized and refocused so that it provides low-cost, quality accommodation for the growing domestic travel market. WTTC firmly believes that the Chinese authorities should work even harder to facilitate the consolidation of state-owned enterprises into profitable hotel groups and management companies. This process can be expedited by classifying them as an ‘encouraged category’ of industry, as well as easing restrictions on the listing and free exchange of assets.

## THE MICE MARKET

China should raise the level of its meetings, incentives, conferences and exhibition (MICE) business to that of an important economic contributor.

National, provincial and municipal efforts to conduct convention bureau operations should be reorganized and restructured under a National Convention Bureau (NCB) with city/destination chapters to tap the potential of this enormous market. The NCB should ensure complete coordination and synergy between all stakeholders for the promotion of China’s MICE business, should position China in the international marketplace as a leading destination, and serve as an initial/focal point of contact, distributing leads and allocating business transparently.

## TIMESHARE

It is imperative for China to draw up sound regulations for timeshare that protect the consumer and allow legitimate developers to grow their businesses.

Cornerstones of these regulations should be a cooling-off period to allow the consumer time to think things over before a sale becomes final. Additional mechanisms that protect the consumer’s use rights over the life of the ‘right to use’ programme must also be instituted. China should look to international best-case examples of regulatory law in the USA and EU in developing its timeshare structure.

## DEVELOPMENT OF WESTERN CHINA

The economic business model for western China’s tourism must be sustainable – otherwise China will be forced to provide onerous investment and ongoing subsidies.

For western China, it is critical that tourism infrastructure, strategic plans and objectives be followed by detailed action plans for tourism marketing and promotion, training and education, and sustainable development.

WTTC also encourages CNTA to adopt a Pro-Poor Tourism (PPT) policy – as defined by the United Nations Commission for Sustainable Development – which encourages local residents to set up tourism-related enterprises by providing them with tax incentives, financial preference in relation to obtaining loans from domestic banks, management and technical training.

## HUMAN CAPITAL

The Chinese Government must make a firm commitment to furthering employment opportunities in the tourism industry in China by exempting the industry from permanent residence requirements, so that human resources can be effectively mobilized and encouraged to stay in Travel & Tourism.

In the short term, China may need to open its doors wider to external expertise in order to tap the international pool of seasoned Travel & Tourism professionals to assist in accelerating information and technology transfer to the resident Travel & Tourism community. In the longer term, China must ensure an



equitable distribution of jobs, skills, income and ownership of capital in the industry, through initiatives entailing tourism and human capacity development, business development, opportunities for management, community development and ownership. China would be well served to establish programmes that focus on the transition of workers from closed state-owned enterprises, agriculture, rural areas and western regions into Travel & Tourism jobs, professions and ownership.

## FINANCIAL SERVICES

China must focus greater attention on establishing transparent financial services policies in close collaboration with key stakeholders who provide for the convenient conduct of consumption associated with Travel & Tourism.

Unless financial services reform and liberalization can keep pace with demand for Travel & Tourism, China's reliance on cash-based transactions will severely limit its ability to fully exploit the economic potential of this sector through increased spending.

## AVIATION

The tremendous growth of China's aviation sector as a result of necessary service improvements, free international trade, and reduced airline fares, also presents serious operational issues.

Among the many challenges facing the government and, more specifically, Civil Aviation Administration of China are the limited capacity of air traffic control systems and the need for the rationalization of air space authority between military and civilian aviation. In addition, China's reservation system is currently incompatible with major systems in use in the rest of the world, the country suffers from a shortage of qualified aviation personnel, and controls on ticket pricing and revenue flows need to be lifted. If these issues can be addressed – and resolved – China will be the largest commercial aviation market outside the USA over the next 20 years with air traffic growing at 7.6 per cent per annum.

## OPEN SKIES

WTTC believes that, when all the liberalization and 'open skies' factors are considered, aviation must be seen as the driver of Travel & Tourism development and greater job creation.

China and Hong Kong should make even greater efforts to open air transport markets to attract more air transport services and improve regional networks. They should continue to liberalize aviation agreements and provide for greater commercial incentives and viability, paying particular attention to routes on which capacity is limited and capacity growth lags behind the growth in traffic demand. They should continue to pursue managed liberalization and the relaxation of aviation regulations.

Both governments should establish an Aviation Unit within their tourism policy organizations to coordinate and implement actions to increase the number of airlines and passengers. Finally, Hong Kong should develop as an aviation hub for the region with at least one Hong Kong-based carrier without national or Special Administrative Region (SAR) policy protection devised to keep any particular entity in place. In Hong Kong, ownership and control rules should be loosened so that economic viability and ongoing service are determined by the market and the expertise and delivery of the aviation entity.

## FINANCING

Continued efforts need to be made, through the development of capital market structures, to attract sustained capital investment in China's Travel & Tourism industry from domestic and foreign sources.

The lack of effective domestic financing options limits the potential for Travel & Tourism companies to expand, make acquisitions, merge with other companies, spin off bad assets, exchange property rights, restructure assets and consolidate.

If China is to realize its vision of becoming a 'tourism power' it should create legislation that categorizes the investment of certain types of hotels (for eco-tourism, historical preservation, high-grade resorts, timeshare, small-sized luxury properties, etc.) and tour operators as an 'encouraged' type of industry. It should also introduce a specific promotion law for small and medium-sized enterprises (SMEs), aimed at encouraging local governments, private entrepreneurs and financial institutions to invest in SMEs associated with Travel & Tourism, among which much of the industry's growth is expected to occur.

# REALIZING THE POTENTIAL

IN ORDER TO ACHIEVE OR – EVEN BETTER – SURPASS THE BASELINE FORECASTS FOR CHINA AND HONG KONG (POST-SARS), CERTAIN KEY FACTORS NEED TO BE ASSURED.

These include, most importantly, a re-oriented, prestigious, highly visible and well-funded tourism ministry in China, supported by a newly created and effective national tourism organization with independent responsibility for marketing and promotions and demand-based research. In addition, there needs to be increased focus on private sector input and a free-market reorientation of the business environment; a balanced priority of inbound, domestic and outbound tourism; and enhanced product development, especially in the areas of budget hotels, financial services, the MICE market and timeshare. Barriers to career development need to be removed and greater support provided for aviation policy and infrastructure growth and development.

In Hong Kong, increased focus needs to be placed on the development of the Special Administrative Region (SAR) as a vital aviation hub, and on broadening its tourism product base.

All this pre-supposes close coordination between the national, provincial and local governments, as well as with the private sector.



Against this background WTTC has made certain policy recommendations to the Chinese and Hong Kong Governments, detailed in this report under the section, The Policy Framework. The recommendations are summarized below.

## PLAN FOR THE FUTURE.

- Organize a gradual restructuring and strengthening of China's National Tourism Administration oriented around developing strategy, establishing policies and procedures, funding promotion and facilitating change.
- Focus on the implementation of China's National Tourism Policy, 'Building a World Tourism Power and Developing a New Mainstay Industry – The Compendium for China Tourism Development in the Early 21st Century', in consultation with provincial and local governments and the private sector.
- In China, establish genuinely independent and transparent avenues for an industry contribution to Travel & Tourism policy issues, strategies, or operational enhancements necessary to capitalize on the vast potential of Travel & Tourism.
- Monitor trends in Travel & Tourism demand by establishing dedicated research units in China and Hong Kong so as to anticipate and adapt products to changing demand.
- In Hong Kong, the priority tourism focus should be on product extension and diversification, such as Disneyland, in order to refresh and extend its product base.
- In China, the priority tourism focus should be on developing a broad range of mainstream products and services, as well as the infrastructure required to satisfy the pent-up demand of a massive domestic market.
- Channel domestic tourism demand wisely in China to balance regional economic disparities, encourage development in western China, and avoid the extreme pressures of high demand and seasonal imbalances caused by week-long national holidays.
- Facilitate the free flow and consolidation of state-owned assets to create a better business climate for budget hotel chain development in China.
- Ensure that the high priority given to promoting inbound and domestic tourism in China does not detract from a necessary focus on outbound tourism, since this can generate extensive employment benefits and a vital transfer of knowledge.
- Establish a National Convention Bureau to manage all aspects of the meetings, incentives, conferences and exhibitions (MICE) business for China.
- Establish sound timeshare regulations in partnership with industry leaders to protect consumer rights and allow legitimate timeshare developers to grow their businesses.
- Join forces with the private sector to address the full range of issues (strategic to operational) that are necessary for the successful staging of the Beijing 2008 Olympics and the Shanghai 2010 World Expo.
- Use the potential of Hong Kong Disneyland as a prime example of a strategic opportunity for product development and for the engagement of government leaders' support for tourism at the highest level.
- In China, establish an independent, well-funded public-private sector tourism marketing organization to develop, position and execute destination branding, promotional and marketing activities.
- In Hong Kong, re-evaluate the funding mechanism for marketing and promotion, in order to allow strategic investments during down-cycles geared to reversing the cycles and bringing in new tourism.
- In Hong Kong, continue to work closely with the private sector to address existing concerns and develop public-private sector partnerships in areas such as marketing and promotions, product development, and education and training.

## HIGHLIGHT THE STRATEGIC IMPORTANCE OF TRAVEL & TOURISM.

- Recognize Travel & Tourism's impact across the broader economy, its ability to diversify China's and Hong Kong's economies, and create employment opportunities, and ensure that this is measured on an annual basis by means of a national tourism satellite account (TSA).
- Reflect Travel & Tourism in mainstream policies for employment, trade, investment and education, ensuring that the underlying policy framework and federation of diverse government agencies are conducive to dynamic growth.
- Communicate the strategic importance of Travel & Tourism to all levels of government and industry, as well as to local communities.
- Use tourism as a leading catalyst for the development of western China, in order to attract investment and consumption and balance the regional disparity with the eastern regions and urban areas.

## DEVELOP THE HUMAN CAPITAL REQUIRED FOR GROWTH.

- Promote a positive image of the Travel & Tourism industry as a provider of jobs and career opportunities for all Chinese and Hong Kong residents.
- Take advantage of Travel & Tourism's potential to provide jobs for workers made redundant by the rationalization of state-owned enterprises, first-time job seekers, and women looking for part-time employment, as well as workers from agriculture, rural areas and western regions.
- Recognize that Travel & Tourism employment is concentrated in small businesses and local communities throughout the country and across the whole employment spectrum.
- China must provide Travel & Tourism talent, ie graduates of accredited tourism schools and universities, an exemption from permanent residence requirements, so that human resources can be effectively mobilized and encouraged to stay in the industry.
- China may also need to open its doors wider to external expertise in order to tap the international pool of seasoned Travel & Tourism professionals who can assist in accelerating information and technology transfer to the resident Travel & Tourism community.
- Place education and training at the forefront of Travel & Tourism development, introducing it in grammar schools and the high-school curricula, and adopting measures to improve skills.

## ENCOURAGE OPEN MARKETS AND SKIES AND REMOVE BARRIERS TO GROWTH.

- Progressively liberalize trade, transport and communications through international trading regimes such as the World Trade Organization's General Agreement on Trade in Services.
- China must focus greater attention on liberalizing its financial services policies in close collaboration with key stakeholders who provide for the convenient conduct of consumption associated with Travel & Tourism.
- Open up China's air transport markets by encouraging aviation company compliance with accounting and payment standards, compatibility with worldwide reservation systems, modernization of the air traffic control system, and decontrol of ticket pricing and revenue sharing schemes.
- Recognize aviation in China and Hong Kong as the driver of Travel & Tourism development and increased job creation, and make greater efforts to open air transport markets to attract more air transport services and improve regional networks.
- Continue to liberalize aviation agreements and provide for greater commercial incentives and viability, paying particular attention to routes on which capacity is limited and capacity growth lags behind the growth in traffic demand.
- In Hong Kong, ownership and control rules should be loosened so that economic viability and ongoing service are determined by the market and the expertise and delivery of the aviation entity.
- Restructure China's tourism marketing and promotions to match prevailing competitive approaches and establish a public-private sector national tourism organization with responsibility for coordinating national, provincial and local efforts.
- Build safety and security provisions and communications into national, provincial and local strategies in China and Hong Kong, and place special emphasis on Travel & Tourism in overall security/policing strategies.
- Develop fiscal regimes that encourage tourism growth, exports, investment, infrastructure, business innovation and job creation.



## MATCH PUBLIC AND PRIVATE INFRASTRUCTURE TO CUSTOMER DEMAND.

- Develop an agreed process for forecasting Travel & Tourism infrastructure demand – especially in the transport sector – which will have high credibility with the industry and with the investment and financial community.
- Continue to expand infrastructure – especially public and mass transport systems – and restructure networks to better support rural and western regions in China.
- Coordinate with provincial governments in China to improve road and rail networks across the country, especially in the rural areas, opening up new areas for tourism development.
- Encourage provincial governments to improve land-use planning and protection to ensure that the patterns of flow do not adversely affect the natural or built heritage.
- Introduce increasing incentives for the rapid modernization and upgrading of China's rural infrastructure in order to spread the benefits of Travel & Tourism across the country.
- Highlight the dangers of excessive, unplanned development, which can result in unhealthy competition, declining operating performances and profits.
- Develop access to capital resources and encourage capital investment in China's and Hong Kong's Travel & Tourism industry from domestic and foreign sources.
- China should create legislation, which categorizes the investment of certain types of hotels and tour operators as an 'encouraged' type of industry.

## FAVOUR TECHNOLOGICAL ADVANCEMENT.

- Provide support for local Chinese and Hong Kong companies so that they can develop access to technological advances and compete more effectively with foreign-owned companies.
- Provide leadership in the development of national and provincial tourism portals, together with partners from the private sector, so as to improve the distribution of China's and Hong Kong's tourism products and develop e-marketing skills.

## PROMOTE RESPONSIBILITY IN NATURAL, SOCIAL AND CULTURAL ENVIRONMENTS.

- Focus on the delivery of an ecotourism development plan and ensure that the procedures and guidelines for planned and sustainable tourism expansion incorporated in the China Tourism Strategy are communicated to all stakeholders and implemented as widely as possible.
- China and Hong Kong should adopt the principles of Agenda 21 for the Travel & Tourism Industry developed by WTTC, the World Tourism Organization and the Earth Council after the 1992 Rio Earth Summit.
- Ensure that the socio-economic, cultural and environmental benefits of Travel & Tourism are spread equitably across the population in all parts of the country, and actively encourage local community engagement and empowerment.
- Introduce new financial programmes to provide incentives for local community-based sustainable tourism enterprises.
- Seek branding for key natural and cultural resources in China and Hong Kong through national and international designations.



# CHINA'S TRAVEL & TOURISM

## OVERVIEW OF RECENT TRENDS AND DEVELOPMENTS

The following section of the report has been compiled with the generous support of the Tourism Research Centre, Chinese Academy of Social Sciences, Beijing

### STILL NUMBER FIVE IN THE WORLD

In 2002 China was ranked by the World Tourism Organization (WTO/OMT) as the fifth most important tourism destination in the world, both in terms of international tourist arrivals and tourism receipts (excluding payments for transport). This ranking did not take account, either, of the Special Administrative Regions (SARs) of Hong Kong and Macau, which are treated by WTO/OMT as separate destinations and source markets for tourism statistical purposes. In 2001, in fact, Hong Kong was itself ranked 14th among all destinations worldwide in terms of arrivals and 13th in terms of receipts.

Whatever the short-term impact of SARS, domestic tourism will be harder hit than foreign business. SARS will certainly not undermine the growing importance of China in the medium to longer term, and it will not lose its number five world ranking. In fact, there were already clear signs of pent-up demand from international markets before the final lifting of the World Health Organization travel advisories in June 2003.

As well as being key tourism destinations, both China and Hong Kong are also ranked among the world's top ten spenders on international travel abroad by WTO/OMT (excluding transport payments) – China in seventh position and Hong Kong just behind at number eight (2001 ranking). While the WTO/OMT tourism measures are not strictly comparable with those used in this report – or, indeed, those reported by the respective national authorities – due to a difference in methodology, the high rankings do indeed reflect the enormous growth registered by China's Travel & Tourism over the past decade. And this strong growth is forecast to continue after a temporary slowdown in 2003.

### From a planned to a market-based economy for Travel & Tourism

Tourism development in China can be divided roughly into two phases. Phase one is known within China as 'cultivation' (1978 to 1991), when tourism emerged from the traditional planned economy, and phase two is termed the 'growth' phase (1992 to the present) – a period in which tourism has taken a life of its own and progressively adapted to the market economy.

From the start of the second phase, the tourism industry began its massive growth by upgrading its status and clout within the national

industrial structure and programmed transition from the planned economy to the market economy. As a result of this transition, the three main sectors of Travel & Tourism – inbound, domestic and outbound – have grown rapidly, the size of the industry has multiplied, and major measures have been taken to encourage tourism development. These measures, studied in more detail in the Policy Recommendations' section of this report, include the State Programme for Tourism Development 2020, the introduction of three week-long national holidays, and overseas promotional campaigns to tap international markets.

Even following the September 11, 2001 terrorist attacks and the unfavourable climate around the world for growth in international Travel & Tourism demand, China continued to record much stronger growth than the world, or even Asian, averages. Its international arrivals and tourism receipts increased by 6.2 per cent and 9.7 per cent respectively in 2001, and provisional results for 2002 point to even higher increases. The SARS epidemic resulted in a 5.3% decline in arrivals in the first five months of 2003 – and results for the months of May and June were expected to be even worse – but some key markets have maintained their steady growth pattern.

Outbound tourism growth has been even more impressive in the last few years as the gradual lifting of restrictions has allowed pent-up demand to be – finally – partially satisfied. In terms of trip volume, outbound travel grew by 15.9 per cent in 2001, and by an estimated 29.0 per cent in 2002.

Domestic tourism has also shown steady growth, boosted by the introduction of the week-long national holidays and an increase in disposable incomes. Since the beginning of the 1990s domestic trip volume has risen from 280 million to an estimated 930 million. The increase in number of visitors and revenue was 5.3 per cent and 10.9 per cent respectively in 2001, and a further 10 per cent or so was expected for both in 2002.

### Hong Kong and Macau also record above average growth

As the following table shows – and Hong Kong's Travel & Tourism is discussed in more detail at the end of this section of the report – both Hong Kong and Macau also recorded double-digit increases in



international tourist arrivals in 2002. In the case of Hong Kong at least, the very sharp growth was almost exclusively attributable to demand from mainland China, up 65.4 per cent over the year.

As for outbound travel from the two SARs, Hong Kong's growth was rather more modest, at 5.6 per cent – although this was still above the world average – but demand for foreign destinations (ie excluding mainland China and Macau) fell by 1.9 per cent. Residents of Macau registered a 22.8 per cent rise in outbound travel, albeit from a low base.

### China's International Travel & Tourism, 2002

	2002 ('000)	% change on 2001
<b>INBOUND TOURISM</b>		
<b>Mainland China</b>		
Total arrivals	97,908	10.0
Foreign arrivals <sup>a</sup>	13,439	19.7
<b>Hong Kong</b>		
Total arrivals	16,566	20.7
Foreign arrivals <sup>b</sup>	9,206	5.3
<b>Macau</b>		
Total arrivals	11,531	12.2
<b>OUTBOUND TOURISM</b>		
<b>Mainland China</b>		
Total trips <sup>c</sup>	15,700	29.0
<b>Hong Kong</b>		
Total trips	65,540	5.6
Foreign trips <sup>b</sup>	4,709	-1.9
<b>Macau</b>		
Total trips	463	22.8

<sup>a</sup> Excluding arrivals from Hong Kong, Macau and Taiwan

<sup>b</sup> Excluding arrivals from/trips to mainland China and Macau

<sup>c</sup> Estimated

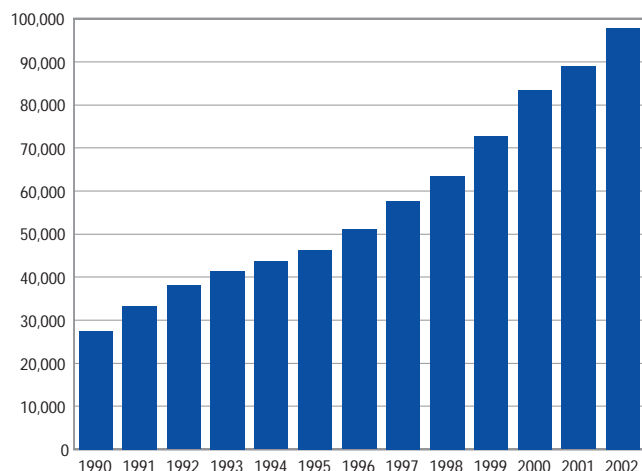
Source: Pacific Asia Travel Association (PATA); respective national tourism administrations/organizations

## CHINA'S INBOUND TOURISM

Inbound tourism has made an increasingly significant contribution to China's economic development over the past decade, or even longer. Last year's total inbound arrivals count of close to 97.9 million compares with just 27 million in 1990 and a mere six million in 1980.

The steady, strong growth in demand for China as a tourism destination – both for business and leisure travel – reflects the increasing priority given to tourism in the country's overall development policies, as well as the opening of the country to the outside world. Access has been facilitated by increased international airline frequencies to China and by massive improvements in infrastructure, together with the development of new hotels and other tourist attractions. These improvements in turn have enhanced the country's status in international trade and business circles – boosted in 2002 by its accession to the World Trade Organization (WTO/OMC) – and increased awareness of the rich cultural heritage China has to offer leisure tourists from all over the world.

### China's Inbound Tourism Market, 1990-2002 ('000 arrivals)



Source: The Yearbook of China Tourism Statistics

Nonetheless, it is important to point out that, of the total 97.9 million visitor arrivals recorded in 2002, close to 86 per cent were from Hong Kong, Macau and Taiwan (up 8.7 per cent on 2001's level), highlighting the mainland's dependence on Chinese expatriate sources. The growth in foreign arrivals was more than twice as high, at 19.7 per cent, but obviously from a much smaller base.

Japan and South Korea rank fourth and fifth in the list of major sources for China, and both showed healthy double-digit increases in 2002. Thanks to the joint efforts of the Japanese and South Korean governments in celebrating, respectively, the 30th and 10th anniversaries of the establishment of diplomatic relations between their countries and

### Visitor Arrivals in China by Major Source Markets<sup>a</sup>, 2002-03

Market	Arrivals ('000)	% change 2002/01	% change Jan-Apr 2003/02	% share 2002
Hong Kong SAR	61,879	5.7	-7.3	63.2
Macau SAR	18,929	20.0	4.6	19.3
Taiwan	3,661	6.4	-22.0	3.7
Japan	2,926	22.6	3.1	3.0
South Korea	2,124	26.5	-3.8	2.2
Russia	1,272	6.3	21.3	1.3
USA	1,121	18.1	-19.0	1.1
Malaysia	592	26.4	-22.1	0.6
Philippines	509	24.7	-8.9	0.5
Singapore	497	19.8	-19.1	0.5
Mongolia	453	17.1	-3.9	0.5
Thailand	386	29.5	-26.6	0.4
UK	343	13.4	-5.5	0.4
Canada	291	14.8	-15.8	0.3
Australia	291	14.2	-13.2	0.3
Other foreign <sup>b</sup>	2,634	na	na	2.7
<b>Foreign total<sup>b</sup></b>	<b>13,439</b>	<b>19.7</b>	<b>-4.7</b>	<b>13.7</b>
<b>Total</b>	<b>97,908</b>	<b>10.0</b>	<b>-5.3</b>	<b>100.0</b>

<sup>a</sup> By nationality; <sup>b</sup> ie excl Hong Kong, Macau and Taiwan

Source: China National Tourism Administration; PATA



China, these two markets are expected to show further growth in 2003. This is despite the impact of SARS on travel demand from these two markets generally.

Russia is the only European market to feature in China's top ten market ranking, and it should be pointed out that most travel out of Russia is from the east – or Asian part – of the country. Growth from the rest of Europe has been good, but from a relatively small base. The USA ranks seventh and recorded healthy growth in 2002. However, caution must be taken in interpreting this trend as China counts arrivals by nationality – so a significant share of US arrivals is actually from Americans living in the Asia Pacific region. The first four months of 2003 did, however, see a sharp 19% decline in US arrivals in China.

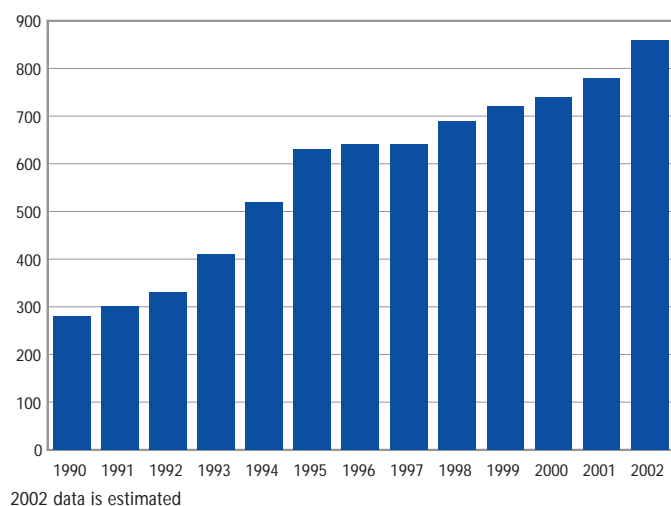
Hong Kong and Taiwan also recorded declines over the four-month period. Macau and Japan, in contrast, registered increases, as did Russia, in sixth position in the ranking.

The industry is cautiously optimistic about prospects for 2003. Even though growth will continue to be restrained as a result of the SARS outbreak and the continuing political and economic uncertainties, the year should end on a modestly positive note in terms of international arrivals.

## DOMESTIC TOURISM

China's domestic tourism has gradually developed since the mid-1980s thanks to the implementation of the open policy of the late 1970s. It has become especially popular since the early 1990s, increasing from 280 million trips in 1990 to an estimated 860 million in 2002.

### China's Domestic Tourism Market, 1990-2002 ('000 arrivals)



Source: *The Yearbook of China Tourism Statistics*

As with outbound tourism, one of the most important factors for domestic tourism demand in China has been the increase in residents' disposable income, coupled with an increase in free time and major changes in lifestyle and consumption. Between 1985 and 2000 the average salary rose from Rmb1,148 to Rmb9,371 (US\$138 to \$1,129) – an eight-fold increase. By 2000, residents of China also enjoyed 114 days holiday including weekends and public holidays.

In 2001, domestic trips increased by 5.3 per cent and revenues from domestic travel rose by 10.9 per cent according to the China National Tourism Administration (CNTA). Some 21 out of 31 provinces and autonomous regions in China each recorded over 30 million domestic visitor arrivals, and 20 earned Rmb10 billion (US\$1.2 billion) or more from domestic tourism. Guangdong, Beijing and Shanghai each earned more than Rmb80 billion. However, the growth rate of both visits and revenues slowed in comparison with the previous year.

One of the most important factors for domestic tourism demand in China has been the increase in residents' disposable income, coupled with an increase in free time and major changes in lifestyle and consumption.

### Changing lifestyles impact demand

The results for 2001 (detailed data for 2002 are not yet available) also pointed to some changes in the nature of domestic tourism. To give some examples, the proportion of organized tours increased from 10.4 per cent up to 12.1 per cent; people between the age of 45 and 64 years old made up 38.9 per cent of all trips, becoming the largest market segment; families with a monthly income of Rmb1,000-Rmb1,999 (US\$120-\$241) made more trips than people from all other categories (a 34.4 per cent of the total), while those with a monthly income of between Rmb4,000-Rmb4,999 (US\$482-\$602) accounted for only 5.9 per cent.

In 2002, due to the impact of the first two Golden Week holidays – in May and October – domestic tourism continued to grow, both in number of visits and revenues. Day visits increased even faster, and city dwellers tended to make more day trips or short-distance trips than long-haul visits. This was attributed partly to uncertainties in the marketplace, but also to limited discretionary income.

### Improved supply will stimulate growth, but imbalances will remain

Although the impact of SARS will be severe in 2003, the long-term prospects are excellent. China is expected to enter a new era of rapid growth in domestic tourism over the next 5-10 years. Domestic tourism growth is in fact projected to exceed GDP growth and, perhaps more importantly, also the growth forecast for inbound tourism. Two major trends in domestic tourism have emerged. First, the macroeconomic climate may help improve tourism supply and, second, the new supply of tourism and recreational activities will stimulate demand.

Current forecasts point to annual growth 3-6 per cent in domestic trips and 9-18 per cent in spending over the next 5-10 years. However, although most signs are positive, the development of domestic tourism will not be balanced throughout China as per capita GDP and income in rural areas will remain low for some time.

## Purpose of domestic travel

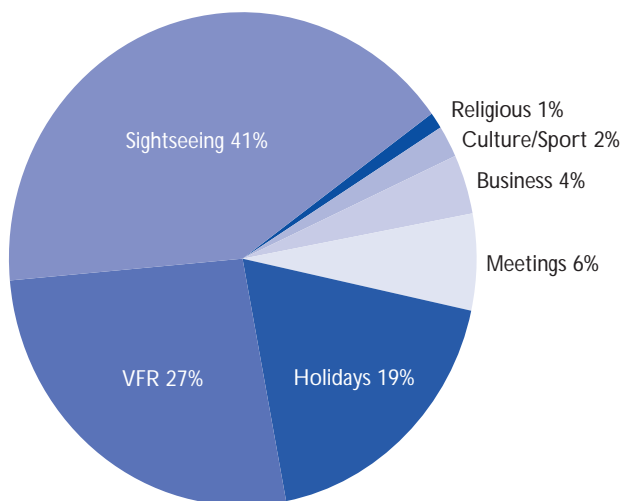
Sightseeing accounts for the highest share of all domestic trips in China (2001 data), or 39 per cent, followed by visits to friends and/or relations (VFR) with 25 per cent. Holidays generate a further 18 per cent. Perhaps surprisingly, business travel, including meetings, accounts for less than 10 per cent of total demand.

However, following China's entry into the WTO/OMC, the international meetings, incentives, conventions and exhibition (MICE) sector is expected to bring more opportunities for the country's tourism development. China's MICE tourism developed rather late, but it has grown very fast and is projected to become one of the new growth points of economic development.

Government authorities at all levels are playing an active role in MICE tourism development, and a number of associations dedicated to MICE have been established. At the same time, a construction boom of exhibition and conference facilities has been evident all over the country and some of the key organizers have joined related international organizations. Mega-cities such as Beijing and Shanghai are rapidly developing as international MICE centres, as well as key leisure destinations, boosting visitor numbers and income.

The two most important Chinese cities for domestic tourism in 2001 were Shenzhen and Guangzhou – the closest to Hong Kong. MICE business was a major contributor to their respective visitor arrivals counts of 3.6 domestic and 680,000 foreign arrivals, in the case of Shenzhen, and 3.3 million and 1.1 million respectively for Guangzhou. Thanks to increasing marketing and promotions in international fora, interest from MICE organizers abroad is also focusing more and more on China's potential.

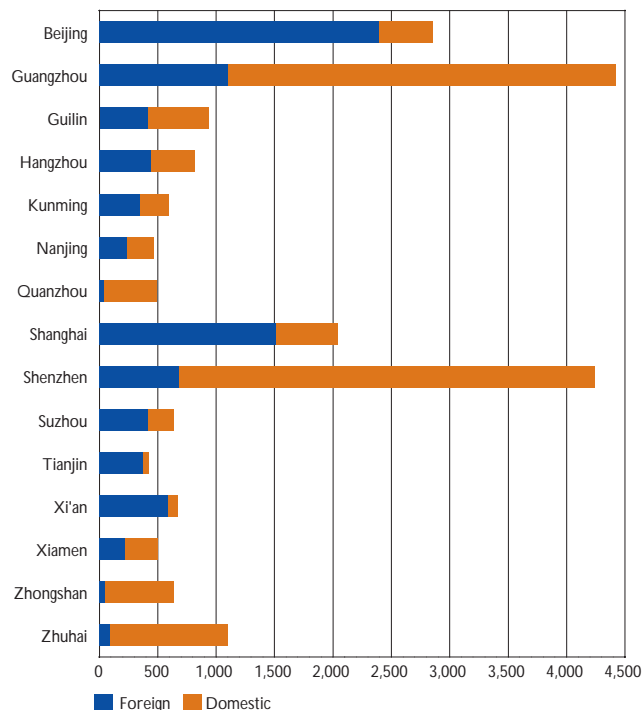
## Domestic Tourism by Residents of China by Purpose, 2001



Source: *The Yearbook of China Tourism Statistics*

VFR = visits to friends and/or relations

## China's Major Tourism Cities, 2001 ('000 arrivals)



Source: *The Yearbook of China Tourism Statistics*

## OUTBOUND TOURISM

Mainland Chinese were able to take tours of Hong Kong and Macau from as long ago as 1983 but outbound tourism generally only started in 1990, when self-paid tours to Singapore, Malaysia and Thailand were first authorized. The Chinese Government's policy toward outbound tourism has been to develop this market in an 'appropriate way' – that is to say, in a 'planned, organized and controlled way'.

Nevertheless, over the last decade the Chinese government has been gradually liberalizing outbound travel regulations, with the result that demand has soared. Measured in terms of cumulative arrivals in destinations around the world, the Chinese outbound travel market has averaged more than 20 per cent growth per annum. The World Tourism Organization (WTO/OMT) now expects it to be the fourth largest tourism generating country in the world by 2020 at the latest (excluding travel to Hong Kong and Macau).

Growth measured in terms of outbound trip volume has been less spectacular, but nonetheless very impressive. In 2001 the Chinese made an estimated 12 million trips abroad – a growth of nearly 140 per cent in five years, and 15 per cent over the previous year alone. Moreover, the market has consistently outperformed forecasts. A growth of 10 per cent was projected for 2002, yet preliminary estimates point to an increase of as high as 29 per cent, to 15.7 million. As a result of the SARS epidemic, growth will be seriously curtailed in 2003, but it is nonetheless expected to be positive over the full 12 months of the year.

Asia accounts for 85 per cent of all trips (2001 data), well ahead of Europe, in second position with a 9 per cent share. Russia recently became the 22nd country to gain 'approved destination status' (ADS), which means that leisure tour groups – the fastest-growing sector of the



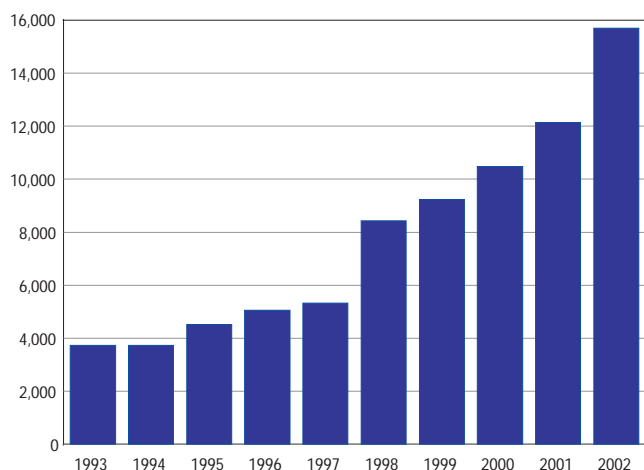


market in terms of demand – can now be organized to the destination. This will undoubtedly boost leisure travel demand if the experience of other countries is anything to go by.

Australia, for example, has recorded phenomenal growth out of China since it first acquired ADS, and it is projecting double-digit annual growth out of China between now and 2012. The only European destinations to have acquired ADS are Malta, Turkey and Germany but, since Germany is a signatory to the Schengen Agreement – which has removed immigration checks at signatory member borders – Chinese travellers to the country will presumably be allowed to travel in other parts of the Schengen region.

With an additional boost as a result of China's accession to the World Trade Organization, the market is now widely expected to overtake Japan in terms of outbound trip volume within one to two years. But it is not simply the volume of trips that is impressive. The Chinese are also among the highest spenders per capita on travel abroad, generating an average US\$2,090 per trip for an average 12-night trip, according to the China Travel Monitor, part of IPK International's

### China's Outbound Travel Market, 1993-2002 ('000 trips)



2002 data is estimated

Source: *The Yearbook of China Tourism Statistics*

Pacific Asia Travel Monitor. They are the highest spenders of all markets in Hong Kong, for example.

Travel for private purposes (largely holidays) is gaining share, accounting for some 50 per cent of total trips last year. This is in large part due to the fact that interpretation of the Chinese Government rules governing 'private purposes' has been significantly relaxed. Whereas in the past it meant that such a trip had to be 100 per cent financed by an overseas friend, relative or sponsor, it can now be financed by the traveller himself/herself.

Chinese have a preference for city holidays, which account for an estimated 40 per cent of all outbound trips, followed by sun and beach holidays (27 per cent) and touring trips (20 per cent). Chinese outbound travellers are younger than travellers from most of the world's key source markets – the mean age is 37 years.

## A WIDE RANGE OF TOURIST ATTRACTIONS

With its rich cultural heritage and spectacular natural scenic attractions, China has everything to suit all tourist tastes and budgets. Although the country's tourism industry still has several major hurdles to overcome, its unique attractions are increasingly expected to prove too compelling to resist – whether for intra-Asian markets or world-travelled Westerners looking for new exotic destinations.

Negative factors include a conservative and overly bureaucratic administration, a lack of experienced management, poor service quality, and inadequate concern for the environment. However, on the positive side, China has already made considerable progress in restructuring and re-organizing the tourism industry, establishing a national standard of classification and quality grading for tourist attractions (in 1999), for example. This is already helping to protect the environment and raise standards in the tourism industry.

### Theme parks

There are currently more than 400 theme parks in China, with the majority attracting between one to two million visitors each year. Generally speaking, China's theme park industry has gone through three phases since the early 1980s.

During the 1980s, several commercial amusement parks were built in large cities – such as the Jinjiang Amusement Park in Shanghai and the Orient Amusement Park in Guangzhou. Similar in concept and design to the early parks established in Europe and North America, they usually featured imported rides, roller coasters and sky wheels.

From the late 1980s to the mid-1990s, the success of the Splendid China theme park, which was opened to the public in 1989 in Shenzhen, started a construction boom of theme parks throughout the country. As a result, some 2,500 theme parks of various sizes were built between 1990 and 1994, representing a total investment of some Rmb300 billion (US\$36 billion). Of the total, 70 per cent run their business at a loss, 20 per cent break even, and 10 per cent are profitable.

It is believed that the main reasons for the failure of so many theme parks in China is due to the lack of innovation, and of serious plans and designs, as well as to the fact that scientific feasibility studies and market research were rarely carried out before the parks are built. Other negative factors resulting in the failure of different ventures have included the use of foreign designs – which have not usually been appropriate for the Chinese market – unsuitable locations with poor access, insufficient investment, low quality products, and poor management.

Since the late 1990s, theme parks in China have been concentrated in the Pearl River Delta, the Yangtze River Delta and Beijing-Tianjin area. Three theme parks have been developed by OCT Holding Company – Splendid China, Chinese Ethnic Village and Window on the World – in Shenzhen. Together with the Xiangjiang Wildlife Park in Guangzhou, these represent the new breed of Chinese theme parks. They are more customer friendly, management has been improved,



more attention has been paid to brand building, and their themes are more creative and innovative. The theme concept has been introduced widely, from restaurants to hotels, and also to whole communities. Development of theme parks has now also been combined with the real estate business.

Hong Kong's Disneyland is due to open in 2005, and other major international theme park operators have shown great interest in the Chinese market. The major impact of Disney's entry into China's theme park development is evident in many ways and may lead to another theme park boom in Hong Kong, Macau and other regions of the Chinese mainland. Disney has helped the Chinese better understand the value of theme park products, service and entertainment. It has changed the Chinese attitude towards leisure and recreation. It has promoted China's theme park industry, given much-needed lessons in effective marketing and management of theme parks, and helped to train more qualified staff for the industry.

Future theme park development in the country is still likely to be concentrated near the large cities in the Pearl River Delta, the Yangtze River Delta and the Beijing-Tianjin area. But new theme parks will almost certainly be built near large resorts or shopping centres, and they will involve more theme park holiday resorts with apartments, hotels, recreation and shopping facilities. It is also thought that real-estate operators will enter the theme park business, that existing theme parks will regroup, and that government will continue to provide theme parks with infrastructure, financing and policy support.

### Winter tourism attractions

As of last year China boasted about 100 ski resorts of different types, most of them located in Northern China, in regions such as Heilongjiang, Jilin, Liaoning, Xinjiang and Hebei provinces, with a few in the southern provinces like Sichuan and Yunnan. Meanwhile, indoor skiing can also be found in large cities such as Shenzhen.

Winter tourism grew quickly from 2001 to 2002. Many provinces – eg Heilongjiang, Jilin, Liaoning and Xinjiang – developed various winter tourism activities such as skiing, ice lamp and snow sculptures. Heilongjiang Province has carried out several promotion campaigns in Beijing and Guangzhou. Large cities in south-east coastal regions, such as Shenzhen, have built indoor ski parks. And winter tourism is becoming the hot spot of investment. The success of winter tourism is attributed to the active support of governments at various levels, not to mention interest from a wide range of investment sources. Meanwhile, related regulations, such as the first Chinese skiing ground-quality standards issued by the Heilongjiang Government in 2002, have improved the management of winter tourism.

By 2005, the number of participants in winter tourism is expected to reach seven million, and revenue from this sector may increase to Rmb2 million (US\$241 million). The winter tourism market is forecast to expand quite rapidly, and investment in snow-related activities will increase. Regional collaboration and cooperation in this field should strengthen, and the business is likely to be diversified, expanding to include snow-skiing, water-skiing, grass-skiing and ice sculpture. Private







enterprise and government organizations are paying more attention to market research, market segmentation and the need for the integrated marketing of winter tourism.

## TOURISM INFRASTRUCTURE

During the last three years, the Chinese Government has increased the state bonds' investment in tourism infrastructure construction to speed up tourism development, especially in the country's middle and western regions.

The use of state bonds for tourism infrastructure construction is aimed mainly to stimulate more social investment, optimize the structure of tourist products, better preserve tourism resources, and help ensure the sustainable development of the industry. It is also one of the most important steps to carrying out the country's Western Development Strategy. During 2000/01, Rmb2.92 billion (US\$352 million) of state bonds (both central and local) was used for the construction of tourism infrastructure, and 249 projects representing a total investment of Rmb8.51 billion (US\$1.03 billion) were supported from the state bonds. Most of the projects were due to be completed before the end of 2002.

According to the central government, the state bonds have been used mainly for the major scenic spots, which offer better tourism resources and potential growth at national or province levels. The money has gone largely to building roads linking the tourist attractions and to trunk lines, as well as to important national tourism projects in or close to the major cities. However, priority has also been given to the western regions of the country, especially the poorest regions, or those that are home to minority ethnic groups.

## TRANSPORT

The Policy Recommendations' section of this report discusses aviation issues in some detail, so this important transport sector is not covered in this overview of China's Travel & Tourism. Nevertheless, it is important to point out that, before the SARS outbreak, 2003 was widely seen as the year when China would become a major aviation force in the region. In line with the liberalization of market access to China, following its accession to WTO/OMC, airlines, airports and the tourism industry throughout the Asia Pacific region have already been starting to benefit.

China intended to open its skies to more international airlines this year, focusing on access from/to longer-haul points, such as major European and North American cities. Some destinations in Africa and South America were also under consideration. Plans have, however, been put on hold as a result of SARS. But air transport is rapidly getting back to normal, with almost all airlines that cancelled flights during the SARS outbreak having resumed service since the end of June.

Meanwhile, rail transport is still one of the most important means of passenger transport within China. To meet the needs of growing tourism, China's railway system has increased in terms of speed four times since 1997 – from 120 kilometres per hour (kph) to 160-200 kph.

This means that travel between cities within 500 kilometres of each other can be completed during daylight hours. Cities at 1,500 kilometres distance can be reached overnight, and those at less than 2,500 kilometres can be reached within 24 hours.

As a result, rail transport has become the most important mode of personal transport, playing a particularly important role in short-break leisure travel by city dwellers on, say, Golden Week holidays. New railway lines have also helped local tourism development and greatly enhanced the competitiveness of rail transport vis-à-vis other means of transport. With further improvements planned – new railway lines of up to 6,000 kilometres are due to be built during the tenth Five-Year Plan period (2001-05) – rail transport is expected to become more popular with foreign visitors. New international railway lines to neighboring countries are also under consideration.

## TRAVEL SERVICES

China's travel services market has been expanding rapidly in line with the growth in tourism demand – and especially for more independent travel. The opening up of the market and the growth of Internet technology has nonetheless placed more competitive pressure on existing providers. Up-to-date figures are not available but, by the end of 2001, the number of travel service establishments in China totalled 10,716 – an increase of 19 per cent over 2000 – and the number of international travel service establishments was 1,319, a 4 per cent increase.

China recently licensed 461 more local travel agencies to sell outbound tours. The first licences for outbound agencies were issued in 1991, when nine were handed out, and then in 1997 a new list was issued containing the names of 67 agencies – including most of those listed in the first wave. But this latest substantial growth does not necessarily indicate a new wave of liberalization. The country has at least 3,500 travel agencies that can issue international air tickets, for instance – this new licensing round means that the equivalent of only 15 per cent can sell international tours.

At the same time, enormous strides have been made to open up the country to foreign companies. After several decades trying to establish joint ventures with Chinese travel agencies/tour operators and car hire businesses, a handful of major international companies are finally making some progress. China's tight restrictions on foreign involvement in their travel industry have been relaxed a little, allowing groups such as American Express, TUI, Hertz and Avis to get a toehold in this vast potential market.

In June this year, CNTA and the Ministry of Commerce lifted the ban on setting up travel agencies in China that are controlled or wholly owned by foreign entities. This major step comes two and a half years ahead of the schedule agreed with WTO/OMC. Hotel joint ventures have been possible since 1982, when the Jianguo hotel opened in Beijing with management by Hong Kong's Peninsula Hotel Group, and the joint-venture China Hotel opened in Guangzhou.



For foreign tour operators a joint venture with a mainland Chinese operation opens up access to China's inbound market, its vast and fast-growing domestic sector and, ultimately, to Chinese outbound travellers. China's accession to the WTO/OMC has sparked off changes in this very restricted sector, and foreign-invested travel agencies have been handling inbound and domestic tours for some time although, until now, they had still been prohibited from involvement in outbound tourism. Strict financial rules ensure that only the largest of foreign operations can be involved. The annual worldwide turnover of foreign partners must be at least US\$40 million, and the foreign partner must hold registered capital in China of US\$4 million.

Among the first to take advantage of the lifting of restrictions is the German TUI, which confirmed a deal with China Travel Service (CTS) at the end of 2002. An agreement has been signed to establish a new company involving three shareholders – TUI, China Travel Service (CTS) and Martin Büse, who will also be executive board chairman of the new company. While TUI is a market leader for European tour operator holidays to China, sending some 40,000 clients per year group-wide, Beijing-based CTS is one of China's largest tourism organizations,

**It has only been possible for private individuals to learn to drive in China since fairly recently – there are already over 40 million private driving licences in China, but only 14 million cars.**

handling approximately 810,000 customers in 2002 and generating a turnover of some US\$170 million.

The parent company, CTS Group, has a China-wide network of 300 tourism offices, and also owns 17 hotels. Both CTS and CTS Group are directly administered by the central government. Advantages for the Chinese side should include the benefit from TUI's management and expertise, while the foreign partners believe the venture should position TUI as a leader of quality tourism in China, and establish a structure which could ultimately harness the fast-developing Chinese outbound market.

American Express, which has had a presence in China for many years, set up a travel services joint venture with CITS in early 2002. The joint venture's Business Travel Centre in Beijing was first to open, followed by the Shanghai Business Travel Centre in December 2002. A third, in Guangzhou, opened in February 2003. The centres are licensed to offer travel management services in China to multi-national corporations, regional companies and domestic companies, and to issue both domestic and international air tickets.

American Express estimates that the travel and entertainment market in China is already worth US\$10 billion annually, of which some US\$4-\$5 billion is business travel expenses. It is confident that this market will enjoy double-digit growth annually for the next five years, and plans to expand the corporate travel business into 40 other cities in China during 2003. A recent study conducted by American Express on global travel trends showed that 35 per cent of the respondents in China

expected an increase in the level of their business travel this year, although this study was conducted pre-SARS.

Among other groups in discussion with China's tour operators are Thomas Cook in a joint venture with major tour operator China International Travel Service (CITS) – and due to start taking bookings from this June – Rosenbluth International and Synergi.

Meanwhile, international involvement in China's car hire sector has also made recent progress. Avis Europe, which announced a joint venture with Shanghai Automotive Industry Sales Corporation at the start of 2002, has now opened nine locations in and around Shanghai, offering some 1,000 cars for hire. The 50:50 joint venture, which involved US\$22million capital investment, aims to expand eventually across China, using the Avis brand. While there is considerable international demand, the potential from the domestic market is thought to be much more important in the long term. It has only been possible for private individuals to learn to drive in China since fairly recently – there are already over 40 million private driving licences in China, but only 14 million cars.

Hertz, whose China operation is being run with licensee China

National Aviation Authority (CNA), has been operating since March 2002, and already has eight offices located at the airports in Beijing, Shanghai and Guangzhou as well as downtown representation in those three cities. Hertz is permitted to hire cars out to international business and leisure visitors as well as Chinese nationals.

Among other major car hire groups already operating in this fast-growing market are those run by hotel groups such as Accor, and companies such as BCNC in Beijing, set up in 1997, which has US management.

## ACCOMMODATION

### The hotel sector

By the end of 2001, China had 7,358 star-rated hotels with 816,260 rooms. This compared with 853 hotels and 167,195 rooms ten years earlier. Most of the growth has been in the two- to three-star categories although, in terms of satisfying market demand, there is still room for growth in the budget and mid-range sectors. At the same time, many in the industry believe that four- and five-star capacity growth should no longer be allowed to grow in an uncontrolled fashion as over-capacity risks creating excessive competition and rate-cutting.

The total fixed assets of tourist hotels in China represents around Rmb253 billion (US\$30.5 billion), or 39.1 per cent of total tourism industry assets. The hotel segment alone directly employs over 1.1 million people. Although the earnings of the hotel segment exceeded



Rmb86.2 billion (US\$10.4 billion) in 2000, it made a net loss. State-owned hotels account for more than 60 per cent of all hotels in the country.

China's hotel sector has been increasingly liberalized and joint ventures have been growing rapidly as a result. Between 1987 and 2000, the number of joint-venture hotels increased from 162 to 833, representing an average annual growth of 13.4 per cent. 1998 was the only year of no growth, when the number of joint-venture hotels fell by 40 due to the impact of the Asia financial crisis.

The performance of joint-venture hotels was disappointing in the first few years owing to the fact that overseas investors had little knowledge of China, and China had little experience in foreign direct

investment (FDI). But since 1993, the situation has greatly improved, both in terms of operating and financial performance. Joint-venture hotels have become the backbone of China's hotel industry with occupancy rates in 2000 averaging 5.8 percentage points more than the national average, and 7.2 percentage points more than the average of state-owned hotels. In 2001, joint-venture and foreign hotels, which accounted for 8 per cent of all tourist hotels in absolute volume, generated 32.6 per cent of total hotel revenues in the country.

The number of foreign hotel brands is now very high. The Accor Group was one of the first international hotel management groups to enter China, in 1985, and currently operates 21 hotels across the country. These include four five-star Sofitels, ten four-star Novotels, one three-star Century, one two-star Ibis and five Zenith. Six new Accor-branded Sofitels, one Novotel and two Ibis.

The French group's latest joint-venture agreement with China's largest hotel group, Jin Jiang International Management Corporation, will see the establishment of a sales, marketing and distribution network in China to sell both groups' combined hotel inventory. Accor also manages Jin Jiang's flagship hotel, the 549-room Sofitel Jin Jiang Oriental Pudong, which opened in Shanghai in September 2002.

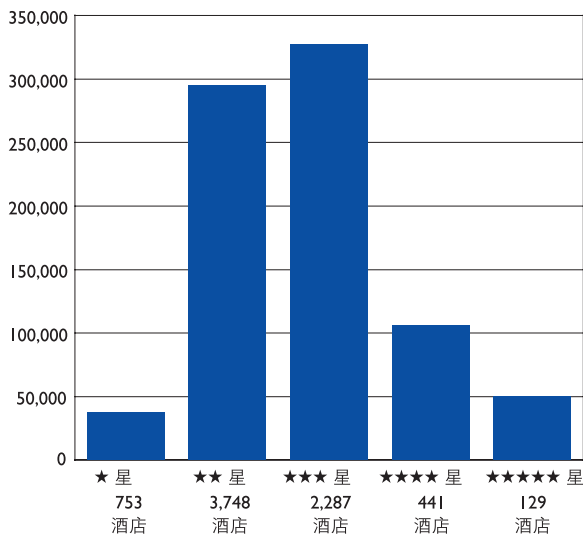
Among Marriott's new openings scheduled for 2003 and 2004 there is a particularly strong showing for China, with three new properties earmarked for Shanghai alone – the 237-unit Marriott Executive Apartments, the 362-room JW Marriott, and the 375-room Renaissance Shanghai Pudong Hotel, Marriott's second Renaissance property in the city. Marriott has over 20 hotels in China already with more than 8,000 rooms. As well as the Shanghai hotels, a Marriott is under construction in Dalian along with an 83-unit Marriott Executive Apartments, and a Renaissance is being built in Wuhan.

Six Continents has signed an agreement for the development of hotels in China. Like Starwood did earlier, 6C is trusting development to a Sino/US company, China Anda, which estimates there will be 40 or more Holiday Inns over the next five years, all or most in resorts.

Shangri-La, one of the first international hotel groups to take on a management contact in China back in 1984, is continuing its ambitious programme of expansion into key secondary cities. With 8,000 rooms in China – 40 per cent of all Shangri-La Hotels and Resorts' roomcount – the group's commitment to China is clear. Shangri-La has 16 properties (either managed, fully or part-owned) already operating in the country, with eight more projects in the pipeline.

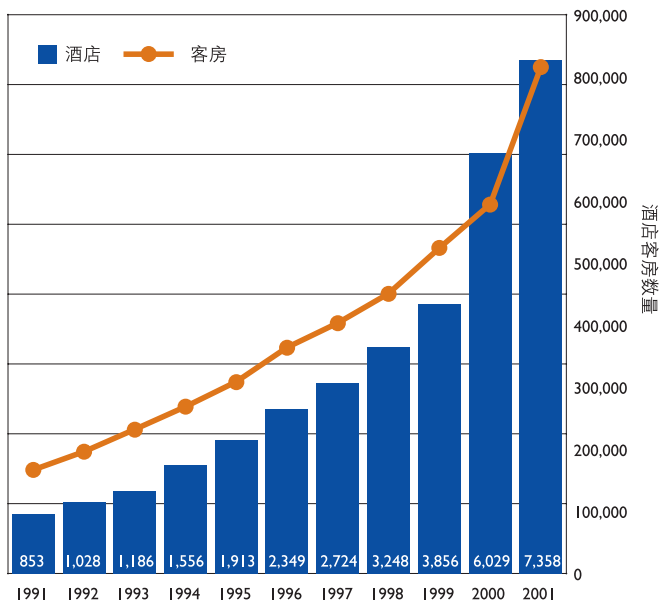
Although the impact of the Olympic Games on the hotel segment will mainly affect Beijing, they are expected to stimulate another hotel boom across the country generally. Beijing is expected to have some 900 starred hotels with 170,000 rooms by 2008 – up from 407 starred hotels with 84,000 rooms in 1995. In 2008, when the Olympic Games are held, hotel occupancy in Beijing is forecast to be 80-88 per cent and average room rate will be Rmb900-Rmb950 (US\$108-\$114). However, after 2008, hotel demand is expected to decrease, resulting in widespread occupancy and room rate declines.

### China's Hotel Room Capacity by Star Rating, 2001



Source: The Yearbook of China Tourism Statistics

### Growth in China's Hotel and Hotel Room Capacity, 1991-2001



Source: The Yearbook of China Tourism Statistics

## Timeshare

The concept of timeshare was introduced into China in the late 1990s. RCI (Resort Condominiums International) was the first group to list Chinese timeshare properties on an international exchange network. RCI now has 16 such properties on its books and Interval International has three. However, this sector is expected to grow significantly as new joint-venture timeshare properties enter the market. It is also expected that local governments will promote timeshare development, especially in those cities that have suffered from an over-heated real-estate sector.

## CURRENT OUTLOOK

### Bullish prospects, but numerous challenges ahead

Beyond the immediate post-SARS recovery period, eight macroeconomic issues are expected by China to influence its short-term Travel & Tourism development – whether negatively or positively. These include the sluggish growth of key world economies, globalization and regional economic integration. The impact of the US-led attack on Iraq and its aftermath, not to mention continuing threats of terrorist attacks around the world, are also expected to be major factors. China's entry into WTO/OMC, Beijing's hosting of the 2008 Olympic Games, and other national and local events and developments, all augur well for Travel & Tourism's development and for strong growth in international and domestic demand.

Entry into WTO/OMC does provide a better climate for tourism

investment in China, but may raise some challenges too. To realize the Chinese Government's goal of Rmb800 billion (US\$96.4 billion) in tourism receipts by 2005 – including foreign exchange of US\$26 billion – investment in fixed assets will need to reach Rmb110 billion (US\$13.3 billion), of which some US\$6 billion from overseas.

Internet technology for China's tourism industry was first introduced by the joint-venture hotels in the early 1980s. By 2001, almost all the major travel agencies, including CITS, ran their businesses with computing networks. The first travel website (ctn.com.cn) was established by CITS's headquarters in 1997, and there are currently 600 travel websites and channels.

Nevertheless, competition is intense, with the emerging travel websites challenging the traditional travel agency outlets. This has resulted in mergers and acquisitions in the sector – some travel websites have been integrated into traditional travel agencies, closed down or have disappeared for one reason or another. Technology is not the main problem – the difficulty is the business environment for the traditional travel industry and social and economic development in general. Travel market information is generally not transparent, and pricing is often confusing. Credit consumption and distant purchasing are not well developed, and travel websites are not able to shoulder the burden of responsibility if there are service quality problems. In addition, government regulation currently prohibits companies without a license from conducting travel agency business.

Despite these challenges, few doubt that demand for China's Travel & Tourism will show enormous growth over the next decade, and that



the many different teething problems being faced by the industry will be resolved in the short rather than the medium term.

## HONG KONG'S TRAVEL & TOURISM

### Inbound tourism

In early 2002, Hong Kong's SAR Government said it had budgeted more than US\$2.3 billion (HK\$18.0 billion) to expand and improve local tourist attractions over the next five years in order to enhance its competitiveness and boost tourism revenues. This recognition of tourism's economic potential came at a time when Hong Kong was suffering badly from the global economic slowdown. Unemployment had been increasing, economic growth forecasts were down, and the deficit for the financial year ended in March 2002 was expected to hit US\$8.5 billion – far higher than the original estimate of US\$385 million.

Tourism contributed some US\$8.3 billion to the local economy in 2000, up 5 per cent, although this was still below Hong Kong's 1996 peak of US\$10.6 billion – ie before the handover of Hong Kong to China and the start of the Asian economic and financial crisis.

### Visitor arrivals<sup>a</sup> in Hong Kong SAR by major markets, 2002

Market	Arrivals ('000)	% change on 2001	% change on 2000	% share 2002
Mainland China	6,825	53.4	80.3	41.2
Taiwan	2,429	0.4	1.8	14.7
Japan	1,395	4.4	0.9	8.4
USA	1,001	7.0	3.6	6.0
Macau SAR	535	0.4	18.9	3.2
South Korea	457	7.4	22.5	2.8
Singapore	426	1.1	-5.5	2.6
UK	380	5.4	3.3	2.3
Australia	343	5.9	-2.6	2.1
Philippines	330	12.5	18.7	2.0
<b>Total (incl others)</b>	<b>16,566</b>	<b>20.7</b>	<b>26.9</b>	<b>100.0</b>

<sup>a</sup> Includes same-day visitors

Source: Hong Kong Tourism Board

Visitor arrivals have been picking up steadily since 1998 and increased by 20.7 per cent in 2002 – an achievement that seemed well out of reach in the immediate wake of the September 11, 2001 terrorist attacks. However, the result does need to be qualified since, without mainland China, there would have been much lower growth of 5.3 per cent. Mainland China increased by 53.4 per cent over 2001 – and by 80.3 per cent over 2000's level – and generated 41.2 per cent of the total arrivals count. It should be noted, nonetheless, that a significant share of Chinese simply stopped off in Hong Kong en route to/from other destinations.

Growth from Taiwan, Hong Kong's second most important source, was negligible at 0.4 per cent (and 1.8 per cent over 2000), due to the weak Taiwanese dollar and generally difficult economic conditions. It is also important to note that only about 25 per cent of Taiwanese stay overnight in Hong Kong. The majority are in transit to/from China and are therefore counted twice – on their way in and out of the country.

Given the increased focus on tourism in Hong Kong and the planned improvements to tourist attractions, the Hong Kong Tourism Board (HKTB) was forecasting further strong growth in inbound arrivals in 2003. The main reason for the HKTB's optimism was the continued growth potential of the Chinese mainland thanks to the relaxation of visa requirements, the abolition of group quotas and the sharp increase in number of mainland operators licensed to operate Hong Kong packages.

In addition, other events and developments expected to boost demand included the enhancement of Hong Kong's status as a trade centre, the speeding up of border clearance controls, the improvement of port connections, the development of innovative industries, and the government's focus on creating a clean environment.

Clearly, Hong Kong's Travel & Tourism has suffered severely from SARS and, even with a good second half-year in 2003, cannot hope to recoup its losses for some time. However, its main source of tourism, China, is expected to rebound quickly, contributing to positive growth in arrivals for the full 12 months of 2003.

### Outbound tourism

Over the last few years a number of influential factors have negatively affected Hong Kong's outbound travel market, including the handover of Hong Kong back to China and the 1997-98 Asian economic and financial crisis. Nonetheless, Hong Kong outbound travel grew by more than 10 per cent a year from 1997 to 2001 – growth attributed to increased demand mainly for intra-regional destinations. Mainland China and Macau accounted for a massive 92 per cent of all trips in 2001.

In 2002 total outbound grew by 5.6 per cent, according to the HKTB. However, if travel to mainland China and Macau is excluded, total trip volume was just 4.7 million, down 1.9 per cent on 2001's level. This followed a 3.7 per cent increase in foreign travel the previous year.

In 2001, the Americas was the only destination region to suffer a decline, and travel to the USA has fallen from its peak in 1997. Europe has shown modest growth over the period overall, but there have been very different performances from one country to another. The favourite destinations for Hong Kong outbound travellers (excluding China and Macau) are Thailand, Taiwan, Singapore, Malaysia, the USA and Australia, and leisure travel accounts for a surprisingly high an estimated 75 per cent of total trips.

# TRAVEL & TOURISM SATELLITE ACCOUNT

## TOURISM SATELLITE ACCOUNTING

THIS REPORT FOLLOWS THE CONCEPT OF SATELLITE ACCOUNTING DEFINED IN THE *TOURISM SATELLITE ACCOUNT: RECOMMENDED METHODOLOGICAL FRAMEWORK (TSA:RMF)*, AND DEVELOPED UNDER THE AUSPICES OF THE WORLD TOURISM ORGANIZATION.

Over the last three decades, countries have estimated the economic impact of Travel & Tourism through a range of measures using a variety of definitions and methodologies. Such approaches have prevented meaningful comparisons among nations. Even for the same nation over different periods of time, they have frustrated business and government attempts to draw valid conclusions about the nature and course of Travel & Tourism demand in national economies. This regime has obscured the substantial, positive role the industry plays in national economies and has thwarted business and government attempts to optimize economic programmes and policies.

The World Travel & Tourism Council (WTTC) recognized the dearth of crucial Travel & Tourism intelligence from the time of its establishment in 1990 and it published the first detailed estimates of world tourism's economic impact that same year.

Since then WTTC has worked to improve its methodologies and to encourage individual countries to enhance their measurement and understanding of tourism's impact on their national economies. Furthermore, in the spirit of joining forces to enhance world comprehension of the role of Travel & Tourism in national economies, WTTC has strongly supported the programmes of the World Tourism Organization (WTO) to improve tourism statistics worldwide.

## WTTC'S RESEARCH

WTTC and its economic/research partners – Oxford Economic Forecasting, (OEF), since 1999, and Global Insight (previously known as DRI•WEFA), from 1990-1999 – have developed and published research on the economic contribution of Travel & Tourism to the world, regional and national economies.

Starting in 1990, WTTC's research team has been working to develop practical, real-world models to illustrate Travel & Tourism's economic contribution based on the needs of private sector leaders, public sector policy-makers and industry researchers, and on the interpretation of the system of national accounts. The research is now firmly anchored in the international standard for tourism satellite accounting that was developed by WTO, OECD and Eurostat, and approved by the United Nations Statistical Commission in 2000. It was launched at the TSA Conference held in Vancouver in May 2001 and published as the *Tourism Satellite Account: Recommended Methodological Framework (TSA:RMF)* in 2001.

Since 1999, WTTC's research has assumed the conceptual framework of the UN-approved standard with a number of discretionary extensions, and it combines the most sophisticated economic modelling and forecasts available with the most up-to-date, publicly available data to generate a comprehensive implementation of Travel & Tourism satellite accounting.

The 2003 update of the WTTC TSA research is the third annual update undertaken for WTTC by OEF. In carrying out the work, OEF has drawn extensively on the methodology developed over the years by WTTC to develop TSAs as operational tools. However, it has also taken the opportunity in a number of areas to review and enhance the modelling techniques, assumptions used and data sources applied.



## WTTC'S APPROACH TO TOURISM SATELLITE ACCOUNTING

WTTC has endeavoured to implement and produce the most comprehensive TSA provided for within the TSA:RMF – by developing the narrow concept of the 'Travel & Tourism Industry' in addition to the broader concept of the 'Travel & Tourism Economy'. WTTC advocates full implementation of the TSA as defined in the TSA:RMF in order to achieve the highest level of benefits for industry and governments. These include:

- A wealth of customer and consumer information on tourism-related purchases (before, during and after trips – whether domestic or international, imported or exported – as well as services, durables and non-durables) that has never been identified until now;
- Comprehensive documentation and analysis of the full tourism-product service chain and government's ability to deliver quality and timely service to visitors;
- Linkages between Travel & Tourism and other sectors of the economy such as agriculture and manufacturing to illustrate the flow-through of spending;
- Complete outlook for public works that benefit visitors and Travel & Tourism companies in order to leverage public sector plans and priorities for growth;
- Focused opportunities for domestic production, as well as incentives from the public sector, to aid in

the growth of businesses that help alleviate trade balance issues;

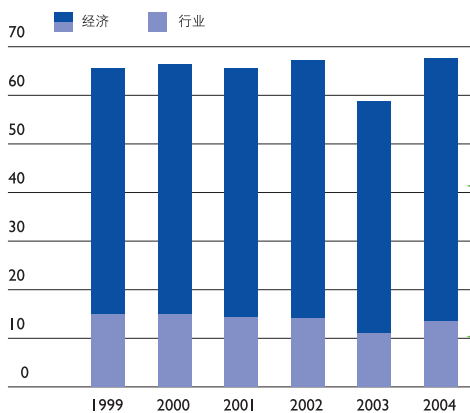
- Demand- and supply-side information on employment that allows for human resource planning and development.

WTTC has worked towards developing a comprehensive TSA – not because it is eager to exaggerate the size of Travel & Tourism's impact, but because the information that can be garnered from the exercise by governments and industry is crucial for making intelligent and informed policy and business decisions. WTTC believes that history will document its pioneering implementation of the simulated TSA as one of the most important turning points for Travel & Tourism's long overdue economic recognition.

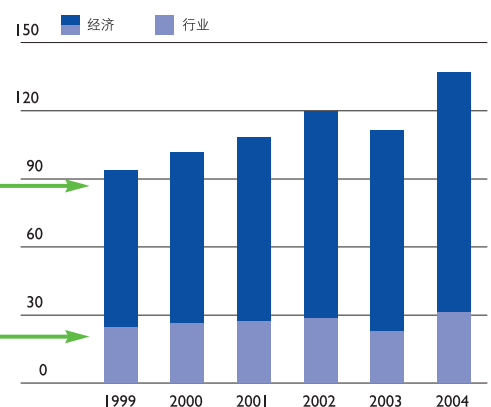
In the WTTC research, no country receives special treatment or favours. WTTC uses internationally available data sources and the same scope of tourism satellite accounting for all countries, as well as the same basic assumptions through the same system of models. WTTC's TSA research utilizes a universal and internally consistent modelling framework and generates harmonized results and forecasts for 161 countries around the world. Details of the methodology used by WTTC/OEF in its TSA research are available on WTTC's website ([www.wttc.org](http://www.wttc.org)).

## PEOPLE'S REPUBLIC OF CHINA

Travel & Tourism Employment  
(mn Jobs)



Travel & Tourism Gross Domestic Product  
(1990 Constant US\$ bn)

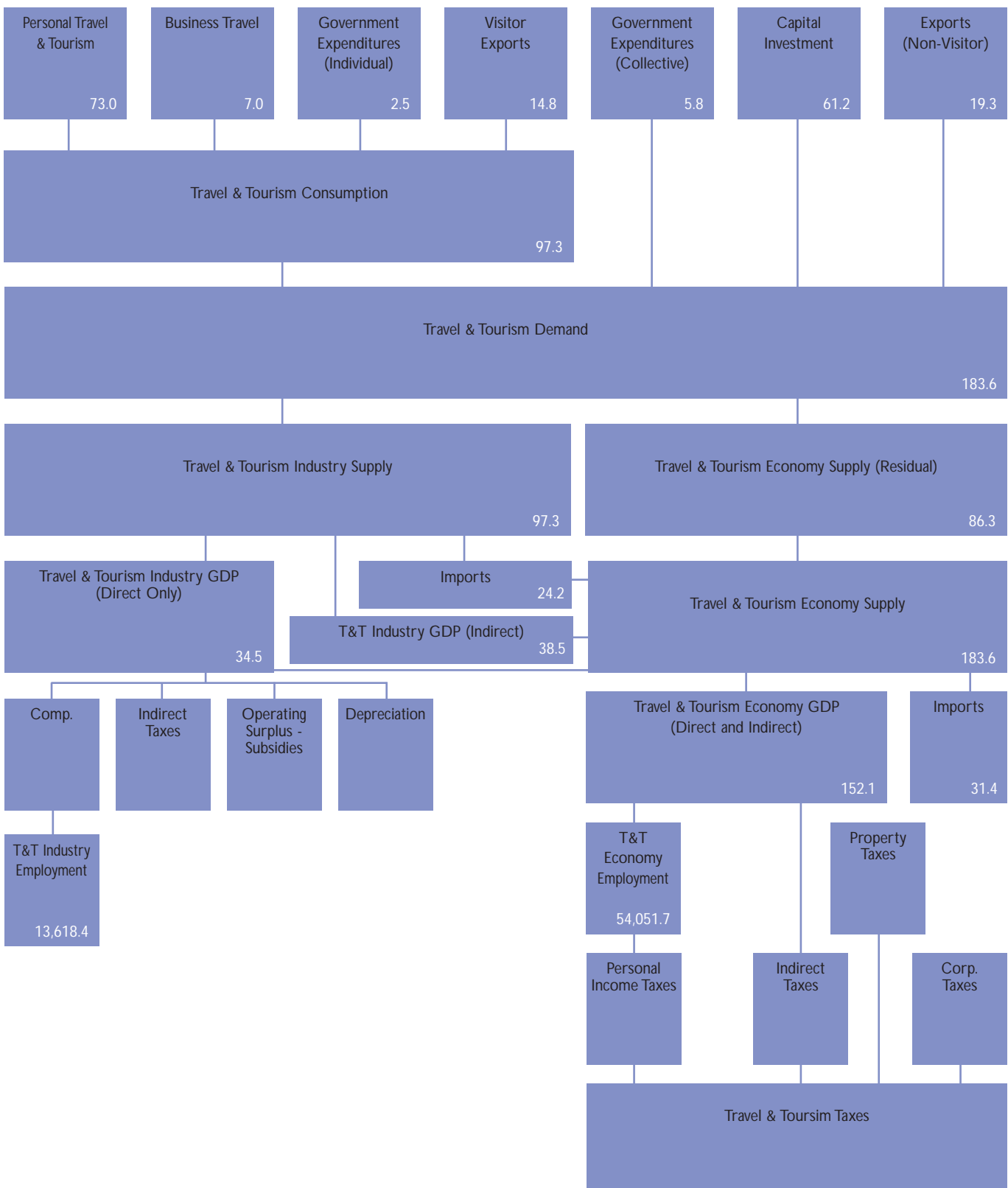


T&T ECONOMY  
Direct and indirect impact of visitor activities, capital investment, exports and government services.

T&T INDUSTRY  
Direct impact of visitor activity (transportation, accommodation, food and beverage, recreation, entertainment and travel services)

# TSA CONCEPTS & STRUCTURE

(US\$ bn, '000 Jobs)



Travel & Tourism Satellite Accounting research for China and Hong Kong reflects a comprehensive simulation of the new international standard adopted by the United Nations following the Enzo Paci World Conference on the Economic Impact of Tourism (Nice, France, June 1999), ten years of model development and TSA experience by WTTC and Oxford Economic Forecasting (OEF), and application of OEF's latest macro-economic forecasts.

### TSA Economic Concepts

The Travel & Tourism Satellite Account is based on a 'demand-side' concept of economic activity, because the industry does not produce or supply a homogeneous product or service like traditional industries (agriculture, electronics, steel, etc). Instead, Travel & Tourism is an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodations, food and beverage, entertainment, government services, etc) that are delivered to visitors. There are two basic aggregates of demand in the TSA:

I **Travel & Tourism Consumption** represents the value of products and services that have been consumed by visitors. It is the basic demand-side aggregate used to construct an explicitly defined production-side 'industry' equivalent for comparison with all other industries. Travel & Tourism Consumption includes:

- **Personal Travel & Tourism**, more formally known as consumer expenditures, which captures spending by China and Hong Kong residents on traditional Travel & Tourism services (lodging, transportation, entertainment, meals, financial services, etc) and goods (durable and nondurable) used for Travel & Tourism activities.
- **Business Travel** by government and industry, which mirrors Personal Travel & Tourism's spending on goods and services (transportation, accommodation, meals, entertainment, etc), but represents intermediate inputs used in the course of business or government work.
- **Government Expenditures (Individual)** by agencies and departments which provide visitor services such as cultural (art museums), recreational (national park) or clearance (immigration/customs) to individual visitors.
- **Visitor Exports**, which include spending by international visitors on goods and services.

II **Travel & Tourism Demand** builds on Travel & Tourism consumption to include Travel & Tourism products and services associated with residual components of final demand. It is used to construct a broader 'economy-wide' impact of Travel & Tourism. The residual elements of Travel & Tourism demand are:

- **Government Expenditures (Collective)** made by agencies

and departments associated with Travel & Tourism, but generally made on behalf of the community at large, such as tourism promotion, aviation administration, security services and resort area sanitation services.

- **Capital Investment** by Travel & Tourism providers (the private sector) and government agencies (the public sector) to provide facilities, equipment and infrastructure to visitors.
- **Exports (Non-Visitor)** which include consumer goods sent abroad for ultimate sale to visitors (such as clothing, electronics or petrol) or capital goods sent abroad for use by industry service providers (such as aircraft or cruise ships).

By employing input/output modelling separately to these two aggregates (Travel & Tourism Consumption and Travel & Tourism Demand), the Satellite Account is able to produce two different and complementary aggregates of **Travel & Tourism Supply**: the **Travel & Tourism Industry** and the **Travel & Tourism Economy**. The former captures the explicitly defined production-side 'industry' equivalent, direct impact only, for comparison with all other industries, while the latter captures the broader 'economy-wide' impact, direct and indirect, of Travel & Tourism. Through this process, the Satellite Account is also able to determine that portion of supply, which it **Imports** from abroad.

Next, the satellite account breaks down both aggregates of supply (Industry and Economy) into the direct and indirect impacts of **Gross Domestic Product (GDP)**, the main descriptor of economic production, as well as the various components of GDP (**Wages & Salaries, Indirect/Transaction Taxes, Operating Surplus, Depreciation and Subsidies**). Beyond the regular TSA accounts, a separate analysis is also provided of **Personal Income Taxes** paid by Travel & Tourism generated employment and **Corporate and Property Taxes** paid by Travel & Tourism companies.

Finally, one of the most important elements of the Travel & Tourism Satellite Account are the Employment results, which can now be quantified for the basic Travel & Tourism Industry and the broader Travel & Tourism Economy.

- **T&T Industry Employment** generally includes those jobs with face-to-face contact with visitors (airlines, hotels, car rental, restaurant, retail, entertainment, etc).
- **T&T Economy Employment** includes T&T Industry Employment plus those faceless jobs associated with:
  - Industry suppliers (airline caterers, laundry services, food suppliers, wholesalers, accounting firms, etc).
  - Government agencies, manufacturing and construction of capital goods and exported goods used in Travel & Tourism.
  - Supplied commodities (steel producers, lumber, oil production, etc).

# TRAVEL & TOURISM'S ECONOMIC IMPACT

TRAVEL & TOURISM – ENCOMPASSING TRANSPORT, ACCOMMODATION, CATERING, RECREATION AND SERVICES FOR VISITORS – IS ONE OF CHINA'S HIGHEST PRIORITY INDUSTRIES AND EMPLOYERS.

Worldwide in 2004, it is expected to post US\$4.9 trillion of economic activity (Total Demand) and this is forecast to grow to US\$8.9 trillion by 2013.

In the People's Republic of China, in 2004, Travel & Tourism is expected to post Rmb1,536.7 billion (US\$183.6 billion) of economic activity (Total Demand), growing to Rmb4,767.7 billion (US\$498.1 billion) by 2013.

Travel & Tourism Total Demand in the Special Administrative Region (SAR) of Hong Kong is expected to total HK\$328.8 billion (US\$42.2 billion) in 2004, growing to HK\$829.4 billion (US\$106.3 billion) in 2013.

In 2004, the Travel & Tourism Industry should contribute 3.7 per cent to worldwide GDP. The broader Travel & Tourism Economy should contribute 10.3 per cent to world GDP in 2004.

In China, the Travel & Tourism Industry is expected to contribute 2.3 per cent to GDP in 2004 (Rmb289.2 billion, or US\$34.5 billion), rising to Rmb844.6 billion, or US\$88.2 billion (2.5 per cent of total GDP), by 2013. The Travel & Tourism Economy contribution should grow from 10.2 per cent (Rmb1,273.6 billion, or US\$152.1 billion) to 11.3 per cent (Rmb3,747.2 billion, or US\$391.5 billion) over the same period.

In Hong Kong, the Travel & Tourism Industry is expected to post a GDP contribution of 1.8 per cent in 2004, while the Travel & Tourism Economy contribution will be 11.1 per cent.

Travel & Tourism is a high-growth activity, which is forecast to increase its total economic activity by 4.6 per cent per annum worldwide in real terms over the next ten years.

For China, Travel & Tourism economic activity is expected to grow by 10.4 per cent per annum in real terms between 2004 and 2013.

In Hong Kong, Travel & Tourism is expected to post average annualized gains of 9.2 per cent between 2004 and 2013.

Travel & Tourism is human resource intensive, creating quality jobs across the full employment spectrum. In 2004, one in 13.0 jobs will be generated by the Travel & Tourism Economy. The Travel & Tourism Industry will account for 2.7 per cent of global employment. Next year there will be 69.7 million Travel & Tourism Industry jobs and 201.0 million jobs in the Travel & Tourism Economy, and these will rise to 83.9 million Travel & Tourism Industry jobs and 247.2 million Travel & Tourism Economy jobs by 2013.

In China, in 2004, Travel & Tourism Economy employment is estimated to reach 54.1 million jobs, or 7.4 per cent of total employment. By 2013, these should grow to more than 65.8 million jobs – 8.3 per cent of total employment. The 13.6 million Travel & Tourism Industry jobs will account for 1.9 per cent of total employment in 2004 and are forecast to rise to 16.1 million jobs, or 2.0 per cent of the total, by 2013.

Hong Kong's Travel & Tourism Industry is expected to generate 74,600 jobs in 2004 (2.2 per cent of total employment), while the broader Travel & Tourism Economy will account for 269,200 jobs (7.9 per cent of total employment).

Travel & Tourism is a major exporter, with inbound visitors injecting foreign exchange directly into the economy.

In China, exports are a small, but catalytic share of Travel & Tourism's contribution to GDP. Of total Chinese exports, services and merchandise, Travel & Tourism is expected to generate 7.1 per cent (Rmb285.9 billion, or US\$34.2 billion) in 2004, increasing to Rmb1,154.8 billion, or US\$120.7 billion (7.5 per cent of total exports), by 2013. Travel & Tourism exports in Hong Kong are expected to represent 7.1 per cent of total exports in 2004, growing to 7.8 per cent in 2013.

Travel & Tourism is a catalyst for construction and manufacturing. In 2004, the private and public sectors combined are expected to spend US\$730.9 billion in new Travel & Tourism capital investment worldwide – 9.6 per cent of total investment – rising to US\$1.3 trillion, or 10.1 per cent of the total, in 2013.

Year 2004 capital investment in the PRC's Travel & Tourism Economy is expected to total Rmb512.1 billion (US\$61.2 billion) or 9.4 per cent of total investment. By 2013, this should reach Rmb1,453.0 billion (US\$151.8 billion), or 10.1 per cent of total capital investment.

Hong Kong's Travel & Tourism Capital Investment is expected to total HK\$52.6 billion or US\$6.7 billion in 2004, or 13.6 per cent of total capital investment.

Travel & Tourism is both a generator and receiver of government funds. Globally, in 2004, Travel & Tourism is expected to generate US\$893.9 billion of taxes – 11.7 per cent of total taxation – while channelling US\$236.6 billion of government expenditures, or 3.9 per cent of total expenditures. By 2013, taxes should increase to US\$1.5 trillion – 12.4 per cent of the total – and government spending on Travel & Tourism to US\$378.2 billion – 4.1 per cent of total government expenditure.



## PEOPLE'S REPUBLIC OF CHINA ESTIMATES AND FORECASTS

	2004			2013		
	Rmb bn	% of Total	Growth <sup>1</sup>	Rmb bn	% of Total	Growth <sup>2</sup>
Personal Travel & Tourism	610.8	10.1	22.4	1,793.2	11.8	9.8
Business Travel	58.4	---	21.7	187.6	---	10.9
Government Expenditures	69.6	3.8	8.9	179.0	4.0	7.1
Capital Investment	512.1	9.4	14.7	1,453.0	10.1	8.7
Visitor Exports	124.3	3.1	105.8	525.3	3.4	22.4
Other Exports	161.7	4.0	12.0	629.6	4.1	11.9
Travel & Tourism Demand	1,536.7	---	21.8	4,767.7	---	10.4
T&T Industry GDP	289.2	2.3	33.6	844.6	2.5	10.9
T&T Economy GDP	1,273.6	10.2	23.0	3,747.2	11.3	9.9
T&T Industry Employment	13,618.4	1.9	21.3	16,092.5	2.0	3.8
T&T Economy Employment	54,051.7	7.4	13.7	65,849.2	8.3	3.4

<sup>1</sup>2004 Real Growth Adjusted for Inflation (Percent); <sup>2</sup>2004-2013 Annualized Real Growth Adjusted for Inflation (Percent); Employment in Thousands

## HONG KONG, CHINA SPECIAL ADMINISTRATIVE REGION ESTIMATES AND FORECASTS

	2004			2013		
	HK\$ bn	% of Total	Growth <sup>1</sup>	HK\$ bn	% of Total	Growth <sup>2</sup>
Personal Travel & Tourism	109.2	13.9	12.5	303.8	19.6	9.6
Business Travel	5.7	---	19.3	14.3	---	9.3
Government Expenditures	11.3	7.5	3.7	20.3	7.8	4.1
Capital Investment	52.6	13.4	16.3	116.0	14.1	7.5
Visitor Exports	57.2	2.7	78.7	163.9	3.4	16.7
Other Exports	92.8	4.4	8.0	211.1	4.4	7.0
Travel & Tourism Demand	328.8	---	19.2	829.4	---	9.2
T&T Industry GDP	25.6	1.8	66.1	68.3	2.4	14.7
T&T Economy GDP	157.7	11.1	31.2	376.0	13.1	9.8
T&T Industry Employment	74.6	2.2	64.9	121.1	3.0	11.7
T&T Economy Employment	269.2	7.9	29.7	427.2	10.7	7.8

<sup>1</sup>2004 Real Growth Adjusted for Inflation (Percent); <sup>2</sup>2004-2013 Annualized Real Growth Adjusted for Inflation (Percent); Employment in Thousands

## WORLD ESTIMATES AND FORECASTS

	2004			2013		
	US\$ bn	% of Total	Growth <sup>1</sup>	US\$ bn	% of Total	Growth <sup>2</sup>
Personal Travel & Tourism	2,294.6	10.1	4.8	3,862.3	10.8	3.7
Business Travel	524.8	---	4.8	871.7	---	3.7
Government Expenditures	236.5	3.9	3.0	378.2	4.1	3.0
Capital Investment	730.9	9.6	3.9	1,308.6	10.1	4.3
Visitor Exports	605.1	6.0	10.7	1,332.1	6.0	7.1
Other Exports	535.2	5.3	8.9	1,187.0	5.4	7.2
Travel & Tourism Demand	4,926.8	---	5.7	8,939.7	---	4.6
T&T Industry GDP	1,374.8	3.7	4.8	2,279.2	3.8	3.6
T&T Economy GDP	3,787.2	10.3	4.8	6,461.4	10.8	3.9
T&T Industry Employment	69,737.8	2.7	3.4	83,893.6	2.8	2.2
T&T Economy Employment	200,967.0	7.7	3.3	247,205.0	8.4	2.4

<sup>1</sup>2004 Real Growth Adjusted for Inflation (Percent); <sup>2</sup>2004-2013 Annualized Real Growth Adjusted for Inflation (Percent); Employment in Thousands

# TOTAL DEMAND

TRAVEL & TOURISM IN THE PEOPLE'S REPUBLIC OF CHINA IS EXPECTED TO TOTAL RMB1,536.7 BILLION (US\$183.6 BILLION) OF TOTAL DEMAND IN 2004, INCLUDING:

- Rmb610.8 billion (US\$73.0 billion) of Personal Travel & Tourism consumption by residents of China (10.1 per cent of total personal consumption);
- Rmb58.4 billion (US\$7.0 billion) of Business and Government Travel by resident companies and government employees;
- Rmb69.6 billion (US\$8.3 billion) of Government Expenditures, 3.8 per cent of total government spending in China, to provide services to the Chinese Travel & Tourism Industry and its visitors;
- Rmb512.1 billion (US\$61.2 billion) of Capital Investment, 9.4 per cent of total capital investment in China, in personal, commercial and public Travel & Tourism facilities, equipment and infrastructure;
- Rmb124.3 billion (US\$14.8 billion) of Visitor Exports, or 3.1 per cent of total exports in China, generated from international visitor markets; and
- Rmb161.7 billion (US\$19.3 billion) of

Merchandise Trade Exports, 4.0 per cent of total exports in China.

In the Special Administrative Region of Hong Kong, Travel & Tourism Total Demand is expected to total HK\$328.8 billion (US\$42.2 billion) in 2004.

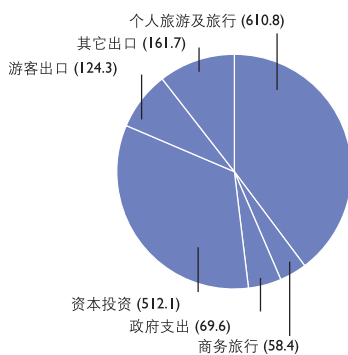
This breakdown of China Travel & Tourism demand clearly illustrates the fact that, even though international visitor spending accounts for more than 8 per cent of the Chinese Travel & Tourism Economy, personal consumption by residents makes up the largest share at nearly 40 per cent of total demand. This would suggest that significant attention be paid to the development of domestic Travel & Tourism.

Over the past 14 years (1988-2002), China's Travel & Tourism activity has grown by a steady and massive 158 per cent in real terms. This compares with a mixed positive and negative 53 per cent cumulative growth over the same period for Hong Kong and steady 42 per cent growth for the world overall.

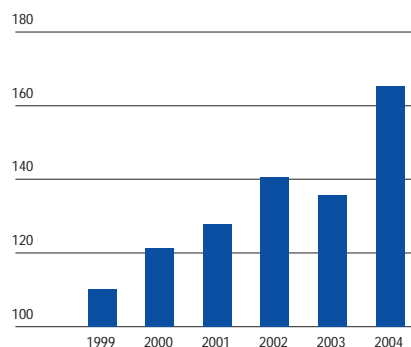
The long-term outlook for growth in China's Travel & Tourism Demand is expected to be strongly positive building on the success to date of its 1990s' economic restructuring and the accelerated rebuilding post-SARS. It is expected that the strong growth in visitor exports – ranked number three in the world on a normalized basis – will be a leading catalyst for significant growth in personal Travel & Tourism, capital investment and government expenditures. Overall, China's Travel & Tourism is expected to grow by 10.4 per cent per year over the next decade, ranking it (8.9 per cent normalized for SARS) as the fourth fastest growing Travel & Tourism economy in the world.

Over the next ten years, growth in Hong Kong's Travel & Tourism Demand is expected to average 9.2 per cent per annum. This level of growth (8.1 per cent normalized for SARS) ranks Hong Kong ninth out of 161 countries studied by WTTC.

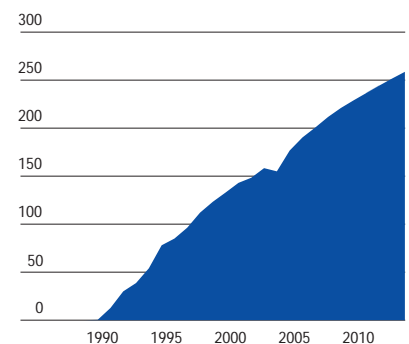
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Total Demand  
(2004 Est Rmb bn)



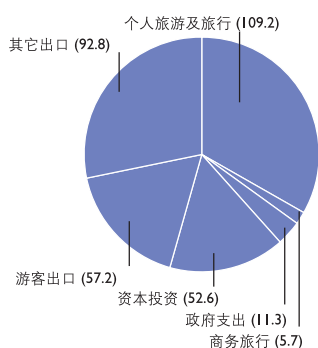
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Total Demand  
(1990 Constant US\$ bn)



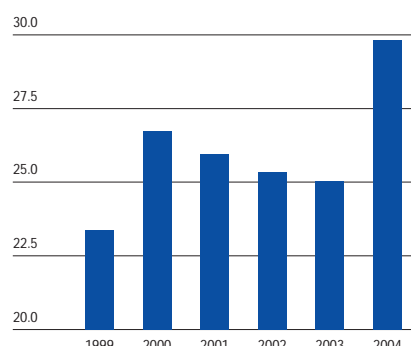
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Total Demand  
(Cumulative Real Growth, %)



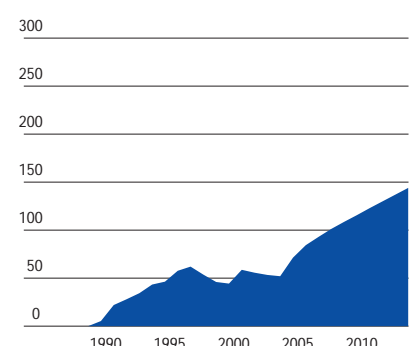
HONG KONG SAR  
Travel & Tourism Total Demand  
(2004 Est HK\$ bn)



HONG KONG SAR  
Travel & Tourism Total Demand  
(1990 Constant US\$ bn)



HONG KONG SAR  
Travel & Tourism Total Demand  
(Cumulative Real Growth, %)



# EMPLOYMENT

## THE TRAVEL & TOURISM INDUSTRY IN CHINA IS EXPECTED TO YIELD DIRECTLY 13.6 MILLION JOBS BY 2004.

A total of 54.1 million jobs (direct and indirect) are expected to be generated across the broader spectrum of the Travel & Tourism Economy encompassing travel company employment, government agency employment, and supplier company employment.

The first category represents Travel & Tourism Industry jobs, while all three categories together represent Travel & Tourism Economy jobs.

In the Special Administrative Region (SAR) of Hong Kong, 74,600 jobs will be directly generated in 2004 by the Travel & Tourism industry, while 269,200 jobs will be directly and indirectly generated by the Travel & Tourism economy.

Travel & Tourism Industry jobs in China will represent 1.9 per cent of the country's workforce. By 2013, Travel & Tourism Industry employment is expected to increase by 2.5 million jobs to 2.0 per cent of total employment in China. In Hong Kong, the Travel & Tourism Industry will be responsible

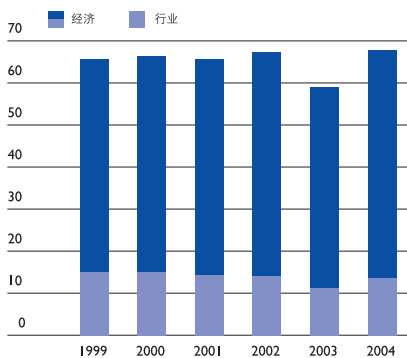
for 2.2 per cent of total employment and is expected to increase this share to 3.0 per cent by 2013. The 54.1 million Travel & Tourism Economy jobs in China in 2004 will represent 7.4 per cent of the total workforce. By 2013, Travel & Tourism Economy employment is expected to increase by 11.8 million jobs in China to 8.3 per cent of total employment. In Hong Kong, the equivalent numbers are 7.9 per cent of 2004 employment, growing by 158,000 new jobs to 10.7 per cent of total employment in 2013.

Over the past 14 years to 2002, Travel & Tourism in China has created more than 16.6 million jobs. In Hong Kong over this same period, more than 63,000 jobs have been lost as a result of increases in productivity and a weaker economy. Assuming a post-SARS rebound and continuation of positive economic growth in China and a recovery in Hong Kong, there is strong potential over the next decade to create 1.18 million new jobs every year in China and 15,800 new jobs every

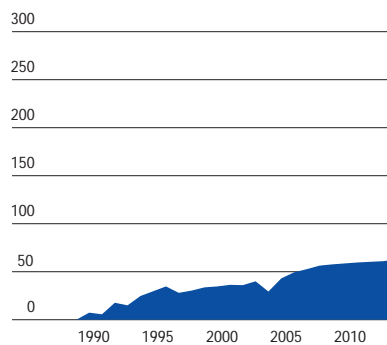
year in Hong Kong.

In the charts, excluding 2003 for SARS, China's Travel & Tourism employment growth has been mostly positive, but well below its growth level of Travel & Tourism Demand, indicating significant gains in productivity. Second, if Travel & Tourism employment as a percentage of total employment on a normalized basis is compared with other Asia Pacific economies, China and Hong Kong only rank in the middle tier of the list. More importantly, although the absolute number of new jobs expected to be created in China is enormous, the country comes well down the list of performance estimates. Hong Kong's level of employment growth is significantly better, at 23rd position (normalized) in the ranking. This tends to suggest that, contrary to conventional thinking, Travel & Tourism will be a major contributor to employment in Hong Kong while, for China, its true employment potential will only be realized if greater attention is paid to the industry.

PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Employment  
(mn Jobs)



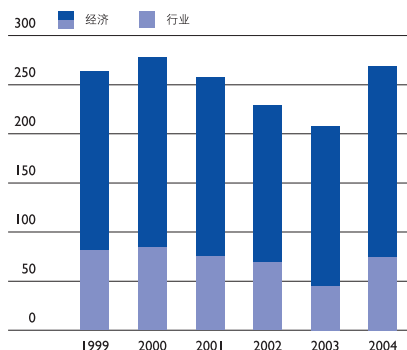
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Economy Employment  
(Cumulative Real Growth, %)



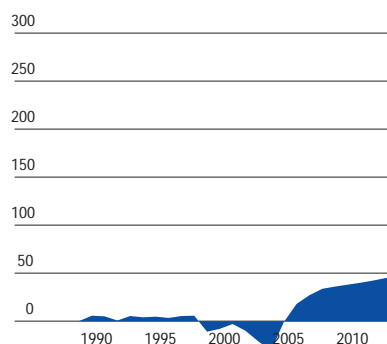
WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Economy Employment  
(2003, % of Total Employment)

3	Macau, China	68.4
62	Japan	10.4
66	Malaysia	10.1
70	Philippines	9.7
83	Thailand	8.6
87	Korea, Republic of	8.4
91	Indonesia	8.1
95	Hong Kong, China	7.6
97	China	7.5
105	Singapore	6.6
118	Vietnam	5.5
119	Chinese Taipei	5.5

HONG KONG SAR  
Travel & Tourism Employment  
('000 Jobs)



HONG KONG SAR  
Travel & Tourism Economy Employment  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Economy Employment  
(10-Year Real Growth, Annualized, %)

13	Malaysia	6.4
14	Singapore	6.3
23	Hong Kong, China	5.6
56	Macau, China	4.5
61	Indonesia	4.3
99	Vietnam	3.2
107	Chinese Taipei	3.1
115	Thailand	2.8
128	Philippines	2.2
134	China	1.9
142	Korea, Republic of	1.7
161	Japan	0.0

Table extracts normalized for SARS

# GROSS DOMESTIC PRODUCT

THE TRAVEL & TOURISM INDUSTRY IN THE PEOPLE'S REPUBLIC OF CHINA IS EXPECTED TO PRODUCE DIRECTLY RMB289.2 BILLION (US\$34.5 BILLION), OR 2.3 PER CENT OF TOTAL GROSS DOMESTIC PRODUCT (GDP) IN 2004.

The broader Travel & Tourism Economy (direct and indirect) is expected to produce Rmb1,273.6 billion (US\$152.1 billion), or 10.2 per cent of total GDP. The long-term expectations for Travel & Tourism GDP growth are very positive – exceeding 9.9 per cent annualized real growth. By 2013, Travel & Tourism Economy GDP is forecast to total 11.3 per cent or Rmb3,747.2 billion (US\$391.5 billion).

In the Special Administrative Region (SAR) of Hong Kong, the Travel & Tourism Industry is expected to produce directly 1.8 per cent of total GDP in 2004, growing to 2.4 percent in 2013. The broader direct and indirect measure of the Travel & Tourism Economy is expected to account for 11.1 per cent of total GDP in 2004 and 13.1 per cent in 2013. Both indicators are expected to grow

at a rate exceeding 9.8 per cent per annum over the coming decade.

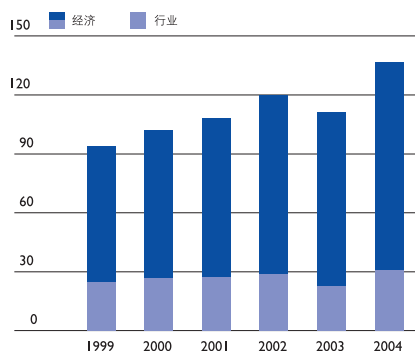
The Travel & Tourism Economy results and forecasts illustrate the massive economic stimulus of Travel & Tourism. The first set of charts (stacked bar) shows how the tourism industry acts as a leading economic catalyst as its contribution permeates through both Travel & Tourism Economies. These charts also illustrate how changes in the Travel & Tourism Industry result in a much larger impact on the Travel & Tourism Economy.

In the second set of charts (Cumulative Real Growth), China's Travel & Tourism Economy shows little if any deviation from continuous significant growth save for SARS in 2003. On the other hand, Hong Kong has experienced several cycles of gain and loss in addition to 2003 SARS. Evident for both

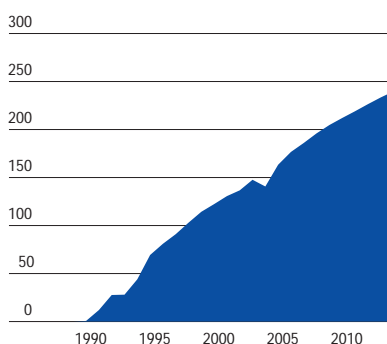
economies is the positive outlook for growth over the next ten years. Overall, this level of significant growth is indicative of the Chinese economy generally, which continues to post major gains.

The third set of charts (right) compares China and Hong Kong with WTTC estimates for their Asia Pacific neighbours, comparing respective Travel & Tourism Economy GDP as a percentage of total GDP normalized for SARS. Hong Kong and China, ranked at number 61 and 68 respectively, are currently among the mid-tier tourism-intensive countries. In addition, the second league table extract illustrates how China's and Hong Kong's prospects for GDP growth (normalized for SARS) are leading the world ranking – in ninth and 21st positions respectively.

PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism GDP  
(1990 Constant US\$ bn)



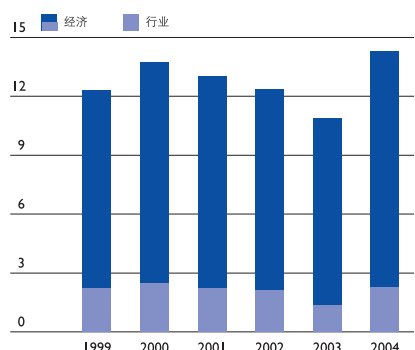
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Economy GDP  
(Cumulative Real Growth, %)



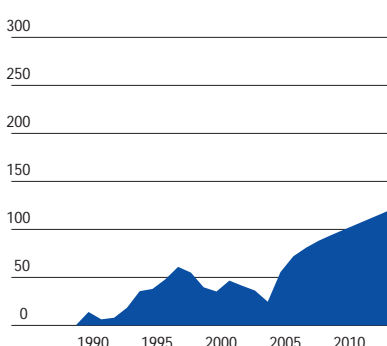
WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Economy GDP  
(2003, % of Total GDP)

4	Macau, China	54.8
50	Malaysia	12.2
53	Thailand	11.8
61	<b>Hong Kong, China</b>	<b>11.0</b>
68	<b>China</b>	<b>10.3</b>
72	Indonesia	9.8
73	Singapore	9.8
85	Japan	8.9
109	Korea, Republic of	7.5
110	Philippines	7.4
116	Vietnam	6.9
137	Chinese Taipei	4.9

HONG KONG SAR  
Travel & Tourism GDP  
(1990 Constant US\$ bn)



HONG KONG SAR  
Travel & Tourism Economy GDP  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Economy GDP  
(10-Year Real Growth, Annualized, %)

8	Malaysia	8.2
9	<b>China</b>	<b>8.1</b>
21	<b>Hong Kong, China</b>	<b>7.2</b>
31	Vietnam	6.7
38	Thailand	6.5
43	Indonesia	6.4
50	Singapore	6.3
61	Chinese Taipei	6.1
70	Macau, China	6.0
101	Korea, Republic of	5.4
106	Philippines	5.3
161	Japan	1.5

Table extracts normalized for SARS



# CAPITAL INVESTMENT

IN 2004, TRAVEL & TOURISM CAPITAL INVESTMENT IN CHINA IS EXPECTED TO REACH RMB512.1 BILLION (US\$61.2 BILLION) OR 9.4 PER CENT OF TOTAL INVESTMENT.

In Hong Kong, Travel & Tourism Capital Investment is expected to approach HK\$52.6 billion (US\$6.7 billion) in 2004, or 13.4 per cent of total capital investment.

In both cases, the largest component of capital investment originates from the private sector in new facilities, plant and equipment, while the public sector invests in new Travel & Tourism infrastructure. This level of spending represents a consistently brisk pace of investment in China for Travel & Tourism and expectations for increasing levels through 2013 at a strong rate of 8.7 per cent per annum in real terms. For China, this level of future investment (normalized for 2003) places it in fourth place for growth among the 161 countries analyzed by WTTC. This ranking sends a strong message to Travel & Tourism operators at home and abroad that China is set to attract new ventures.

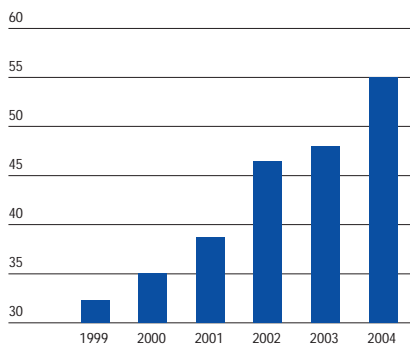
Although Hong Kong's history of Travel & Tourism capital investment has been less consistent than China's, future expectations are nearly as strong, with annual growth estimated at 7.5 per cent. This would put Hong Kong (normalized for 2003) in tenth position in the WTTC/OEF ranking of 161 countries.

Typically, examination of Travel & Tourism Capital Investment results and forecasts lends greater insight into the market forces at work in a given economy and the expectations by the public and private sectors to meet challenges and opportunities in the years ahead. For the most part, Travel & Tourism Capital Investment tends to be cyclical, with strong links to major public policy initiatives, the business market cycle, major events (such as natural disasters) and significant socio-political changes.

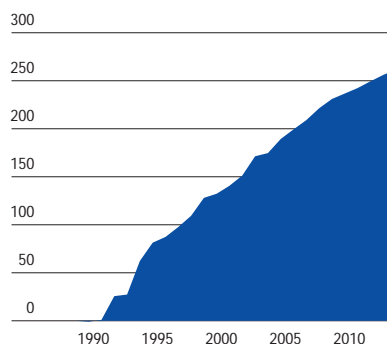
Worldwide, Travel & Tourism Capital Investment is expected to reach 9.6 per cent of total investment in 2004. The expectation for global growth for the years 2004-2013 is 4.3 per cent per year (in constant US dollars).

The charts below illustrate several additional points. First, China's Travel & Tourism Capital Investment is almost monotonous in its continued positive growth. Second, when normalized for 2003 and compared with neighbouring Asia Pacific countries, China currently falls in the lower half of the ranking in investment percentage terms for 2003. At 9.6 per cent of total investment, China is in 109th position, between Korea in 108th position and Vietnam in 137th. Hong Kong (normalized for 2003), on the other hand, ranks much higher, in 67th position.

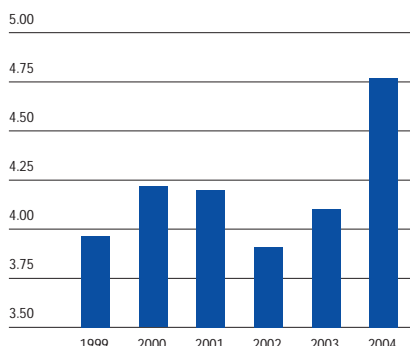
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Capital Investment  
(1990 Constant US\$ bn)



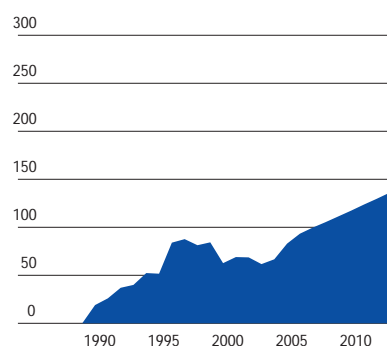
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Capital Investment  
(Cumulative Real Growth, %)



HONG KONG SAR  
Travel & Tourism Capital Investment  
(1990 Constant US\$ bn)



HONG KONG SAR  
Travel & Tourism Capital Investment  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Capital Investment  
(2003, % of Total)

2	Macau, China	74.7
52	Malaysia	14.9
<b>67</b>	<b>Hong Kong, China</b>	<b>13.6</b>
72	Singapore	13.1
83	Indonesia	11.5
86	Philippines	11.1
90	Thailand	11.0
106	Chinese Taipei	9.8
108	Korea, Republic of	9.6
<b>109</b>	<b>China</b>	<b>9.5</b>
137	Vietnam	7.4
155	Japan	4.7

WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Capital Investment  
(10-Year Real Growth, Annualized, %)

<b>4</b>	<b>China</b>	<b>8.0</b>
6	Malaysia	7.6
8	Singapore	7.4
9	Chinese Taipei	6.9
<b>10</b>	<b>Hong Kong, China</b>	<b>6.8</b>
14	Indonesia	6.3
15	Thailand	6.0
17	Philippines	5.8
29	Vietnam	5.2
34	Macau, China	5.1
38	Korea, Republic of	5.0
158	Japan	1.4

Table extracts normalized for SARS

# PERSONAL & BUSINESS

IN 2004, CHINA IS EXPECTED TO GENERATE RMB610.8 BILLION (US\$73.0 BILLION) OF PERSONAL TRAVEL & TOURISM CONSUMPTION BY RESIDENTS, OR 10.1 PER CENT OF TOTAL PERSONAL CONSUMPTION.

In China, business travel in 2004 is expected to total Rmb58.4 billion or US\$7.0 billion (88 per cent corporate, 12 per cent government). On a relative scale, the Special Administrative Region (SAR) of Hong Kong shows a much higher portion of Total Personal Consumption from Travel & Tourism at 13.9 per cent. In 2004, Hong Kong residents are expected to spend HK\$109.2 billion (US\$14.0 billion) on Personal Travel & Tourism and HK\$5.7 billion (US\$729 million) on Business Travel.

Unlike visitor exports, which depend on international markets for consumers, the business generated in these two categories depends on the Chinese and Hong Kong economies themselves. As the Chinese economy grows, Chinese consumer and business travel follows suit. The same is true for Hong Kong. Between 1988 and 2002, Chinese Personal Travel & Tourism has grown by a massive 153 per cent – clearly indicative of the economy's massive growth. In this same period Hong Kong grew by 94 per cent.

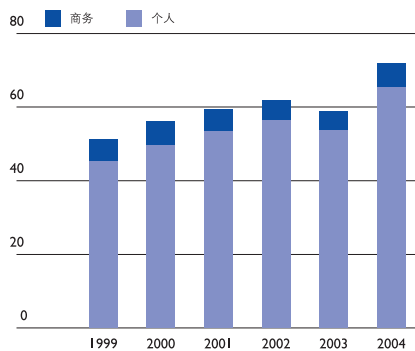
Over the next decade (2004-2013), Personal Travel & Tourism in China is expected to grow at an annual rate of 9.8 per cent, while Business/Government Travel is forecast to grow at a much higher annual rate of 10.9 per cent. In Hong Kong, expectations for Personal Travel & Tourism and Business Travel growth are similar, at respectively 9.6 per cent annual growth and 9.3 per cent annualized. Both sets of forecasts put these economies in the world's top tier for future growth.

Analysis of China's results highlights a few interesting points. First, PRC residents have recently spent about 10.1 per cent of their personal expenditures on Travel & Tourism. This percentage is right at the world average of 10.0 per cent and generally higher than for other countries in the region. Second, China's overall macroeconomic situation since the early 1990s has manifested itself in increasingly positive resident spending on Travel & Tourism, as illustrated in the stacked bar and cumulative growth charts

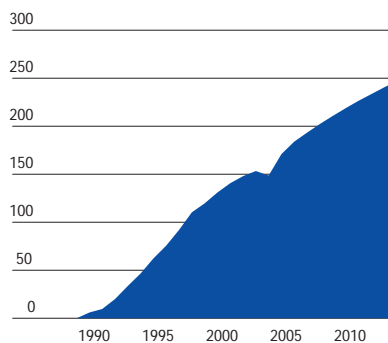
below. Of course 2003 is an exception to the rule because of SARS. In contrast, Hong Kong has seen greater fluctuations in growth.

Nevertheless, the cumulative growth charts for China and Hong Kong below illustrate the strong future growth outlook for Travel & Tourism spending. If, as expected, the economy continues to show positive growth, China's residents' spending on personal and business Travel & Tourism is also likely to accelerate. Finally, the league table extracts reinforce this message of strong positive spending. China and Hong Kong normalized for SARS rank in the top tier of the world and regional tables in terms of current Travel & Tourism spending vis-à-vis total personal consumption, as well as in the ranking for future growth in Travel & Tourism spending.

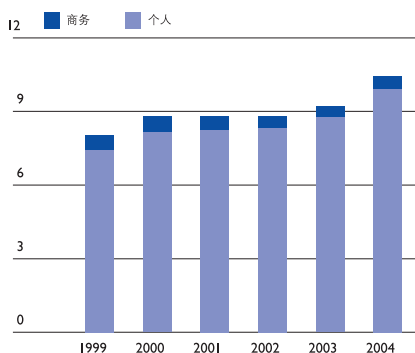
PEOPLE'S REPUBLIC OF CHINA  
Personal & Business Travel & Tourism  
(1990 Constant US\$ bn)



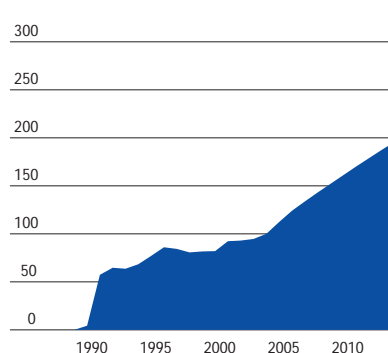
PEOPLE'S REPUBLIC OF CHINA  
Personal Travel & Tourism  
(Cumulative Real Growth, %)



HONG KONG SAR  
Personal & Business Travel & Tourism  
(1990 Constant US\$ bn)



HONG KONG SAR  
Personal Travel & Tourism  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Personal Travel & Tourism  
(2003, % of Total Personal Consumption)

5	Singapore	18.1
16	<b>Hong Kong, China</b>	<b>13.2</b>
36	Japan	11.0
43	<b>China</b>	<b>10.0</b>
49	Thailand	9.6
53	Vietnam	9.3
63	Macau, China	7.7
65	Malaysia	7.6
93	Korea, Republic of	5.8
99	Philippines	5.5
110	Chinese Taipei	5.2
116	Indonesia	4.9

WTTC LEAGUE TABLE EXTRACT  
Personal Travel & Tourism  
(10-Year Real Growth, Annualized, %)

3	<b>Hong Kong, China</b>	<b>9.4</b>
7	<b>China</b>	<b>8.3</b>
8	Vietnam	8.1
28	Malaysia	7.3
33	Chinese Taipei	7.0
46	Thailand	6.4
47	Philippines	6.4
54	Indonesia	6.1
60	Korea, Republic of	6.0
75	Singapore	5.6
98	Macau, China	5.1
161	Japan	1.2

Table extracts normalized for SARS

# EXPORTS

## TRAVEL & TOURISM EXPORTS PLAY AN IMPORTANT DEVELOPMENT ROLE IN CHINA'S TRAVEL & TOURISM BUSINESS.

In 2004, Travel & Tourism services and merchandise exports for China are expected to total Rmb285.9 billion, or US\$34.2 billion (44 per cent by visitors, 56 per cent by exported consumer and capital goods), representing just 19 per cent of total Travel & Tourism Demand.

In contrast, Hong Kong expects to produce HK\$150.0 billion (US\$19.2 billion) of Travel & Tourism Exports (services and merchandise) in 2004. This business represents nearly 46 per cent of total Travel & Tourism Demand in Hong Kong.

In the first instance, in China, Travel & Tourism Exports represent a key catalyst for developing the overwhelmingly important domestic Travel & Tourism market. In the case of Hong Kong, which is a more mature and destination-oriented Travel & Tourism economy, the health and vitality of the local Travel & Tourism sector will follow the same trend as this category grows and contracts.

Over the past 14 years, the results for

Travel & Tourism Visitor Exports have been sporadic in Hong Kong with large gains and losses. In China, in contrast, performance has been rock solid since 1990 with almost consistent year-on-year increases, exclusive of SARS in 2003. As in most countries, 2001 was a uniquely difficult year for both China's and Hong Kong's Visitor Exports, especially following the terrorist events of September 11 in the USA. In both cases, a real loss was posted, -11.7 per cent for China and -11.1 per cent for Hong Kong.

If considered over a longer period (1988-2002), China's Visitor Exports have grown by 216 per cent in real terms. Over the next ten years, China's Visitor Exports are expected to grow by a remarkable 22.4 per cent per annum, while Travel & Tourism Visitor Exports in Hong Kong are expected to lag behind at a nonetheless very respectable 16.7 per cent real growth per annum. Both forecasts are slightly inflated by the post-SARS recovery. However, on a normalized SARS adjusted basis, these

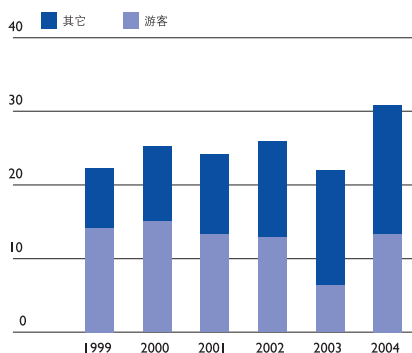
forecasts place China and Hong Kong third and 20th, respectively, in WTTC's country ranking. Globally, visitor exports are expected to grow at 7.1 per annum over the next ten years (2004-2013).

Clearly, based on these forecasts, China's Travel & Tourism Visitor Exports' growth is leading the global industry.

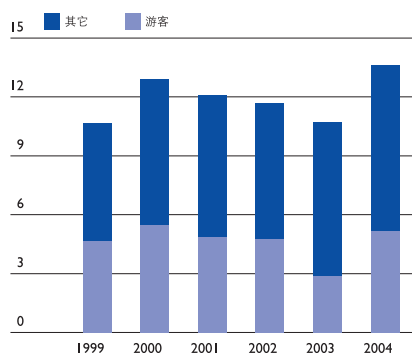
Although long-term expectations for China's Travel & Tourism Exports' growth (2004-2013) are quite positive these forecasts, like any others, depend on future events and are therefore not guaranteed.

Examination of the normalized WTTC league table (top right) reveals that China is placed about midway among its regional competitors and well down the list of its world competitors on the basis of current visitor exports as a percentage of total exports. Hong Kong's position is even worse. Although both economies will gain over the coming decade from their strong visitor exports' growth, their rankings will only improve by a few places.

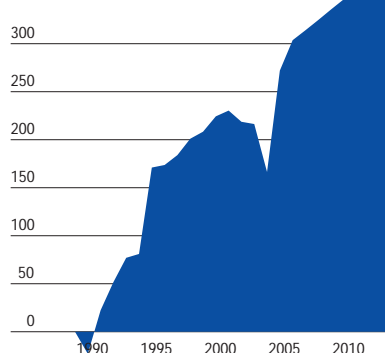
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Exports  
(1990 Constant US\$ bn)



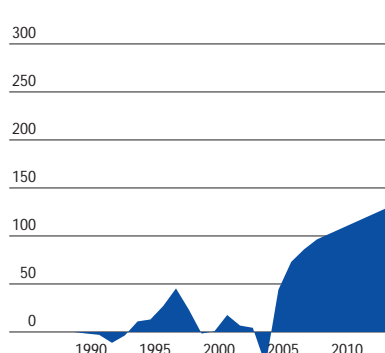
HONG KONG SAR  
Travel & Tourism Exports  
(1990 Constant US\$ bn)



PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Exports  
(Cumulative Real Growth, %)



HONG KONG SAR  
Travel & Tourism Exports  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Visitor Exports  
(2003, % of Total Exports)

10	Macau, China	43.0
79	Thailand	9.0
90	Indonesia	7.3
113	Malaysia	4.4
115	Philippines	4.3
<b>124</b>	<b>China</b>	<b>3.5</b>
129	Korea, Republic of	3.4
134	Singapore	3.0
<b>135</b>	<b>Hong Kong, China</b>	<b>2.9</b>
142	Chinese Taipei	2.1
150	Japan	1.2
156	Vietnam	0.9

WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Exports  
(10-Year Real Growth, Annualized, %)

<b>3</b>	<b>China</b>	<b>11.3</b>
7	Malaysia	10.1
12	Japan	9.7
16	Vietnam	9.1
<b>20</b>	<b>Hong Kong, China</b>	<b>8.8</b>
44	Indonesia	7.7
59	Philippines	7.4
60	Singapore	7.4
62	Chinese Taipei	7.3
68	Thailand	7.2
128	Macau, China	6.2
135	Korea, Republic of	6.1

Table extracts normalized for SARS

# GOVERNMENT

IN 2004, NATIONAL AND LOCAL GOVERNMENT AGENCIES IN CHINA ARE EXPECTED TO SPEND RMB69.6 BILLION (US\$8.3 BILLION) OF CURRENT OPERATING FUNDS FOR TRAVEL & TOURISM.

This represents 3.8 per cent of total government expenditures, which are allocated to providing individual and collective government Travel & Tourism services to visitors, travel companies and the community at large. Over the next ten years (2004-2013), Travel & Tourism Government Expenditures in China are expected to increase by an average of 7.1 per cent per annum in real terms – the highest rate of growth by any country currently studied by WTTC (see WTTC League Table below, at bottom right).

In Hong Kong, government agencies are expected to allocate and spend HK\$11.3 billion (US\$1.4 billion), or 7.5 per cent of total government operating expenditures, for Travel & Tourism. This is expected to increase by 4.1 per cent per annum over the next decade – a healthy rate of growth as indicated by the League Table below.

Globally, governments generally are expected to contribute an average 3.9 per cent of expenditures to Travel & Tourism-related functions, and to increase this spending by 3.0 per cent per annum over the next ten years.

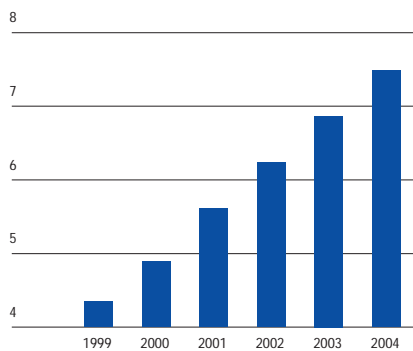
Based on these results, the Chinese government's 2004 contribution of 3.8 per cent places it at about midway in the ranking of regional and global competitors (73rd of 161 countries) for Travel & Tourism support and services. Hong Kong's current position is much higher at 36th position in the ranking of 161 countries around the world.

In this WTTC report, 2004 government expenditures include individual expenditures of Rmb21.1 billion (US\$2.5 billion) that can be linked to individual visitors, such as museum subsidies or immigration services. But they also include collective expenditures of Rmb48.5 billion (US\$5.8 billion) that are

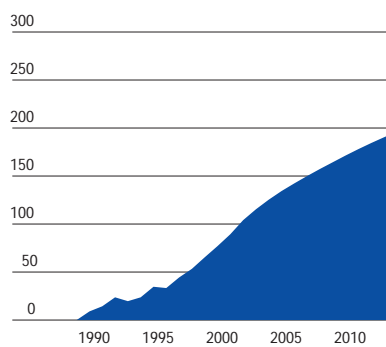
undertaken for the community at large – such as airport administration or tourism promotion – but which have a logical service connection to Travel & Tourism.

One would naturally assume that there should be a direct link between the impact of an industry/sector like Travel & Tourism on the economy (in terms of GDP) and the amount of funding allocated by governments towards that industry/sector. In China, the 2004 ratio of Travel & Tourism GDP (percentage of total GDP) to government expenditures is 2.7:1.0. Worldwide and in Hong Kong, this ratio is 2.6:1.0 and 1.5:1.0 respectively. This would suggest that the Chinese authorities are returning an average government contribution to Travel & Tourism, while Hong Kong is doing much better than average.

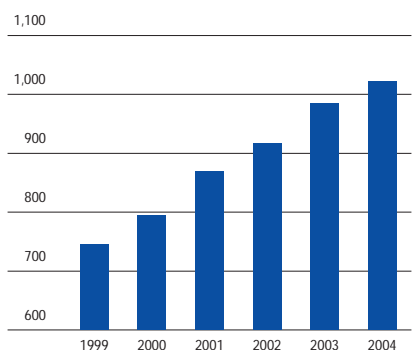
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Gov't Expenditures  
(1990 Constant US\$ bn)



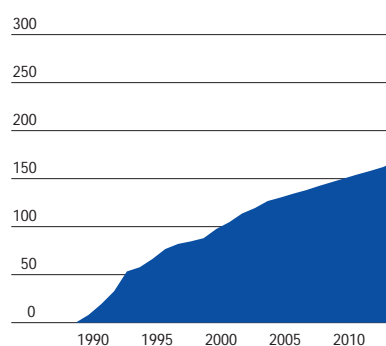
PEOPLE'S REPUBLIC OF CHINA  
Travel & Tourism Gov't Expenditures  
(Cumulative Real Growth, %)



HONG KONG SAR  
Travel & Tourism Gov't Expenditures  
(1990 Constant US\$ mn)



HONG KONG SAR  
Travel & Tourism Gov't Expenditures  
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Gov't Expenditures  
(2003, % of Total Gov't Expenditures)

21	Macau, China	12.3
28	Singapore	9.6
32	Indonesia	8.6
36	Hong Kong, China	7.5
68	Japan	4.0
73	China	3.8
80	Philippines	3.5
106	Thailand	2.6
113	Korea, Republic of	2.4
139	Malaysia	1.7
140	Chinese Taipei	1.7
146	Vietnam	1.3

WTTC LEAGUE TABLE EXTRACT  
Travel & Tourism Gov't Expenditures  
(10-Year Real Growth, Annualized, %)

1	China	7.1
9	Vietnam	5.5
14	Indonesia	5.1
19	Macau, China	5.1
67	Hong Kong, China	4.1
70	Malaysia	4.1
116	Thailand	2.9
119	Singapore	2.9
130	Philippines	2.5
132	Korea, Republic of	2.5
135	Japan	2.4
149	Chinese Taipei	1.7

Table extracts normalized for SARS





# SARS

ALTHOUGH MANY LESSONS HAVE BEEN LEARNED FROM THE OUTBREAK OF SEVERE ACUTE RESPIRATORY SYNDROME (SARS) AROUND THE WORLD, THERE ARE A FEW KEY LESSONS THAT STAND OUT FOR TRAVEL & TOURISM.

## Health – A New Threat

Travel & Tourism is, and has always been, particularly vulnerable to events that are, or can be portrayed in the media as, a threat to personal health, safety and security. These threats include war, terrorism, natural disasters, political instability and health concerns. Concerns about health have not traditionally played a major role in the equation since health-related travel advisories issued by the World Health Organization (WHO) or other government bodies have usually applied to isolated, low-population destinations that do not attract high levels of traffic or tourism demand.

However, the incidence of SARS and high-visibility travel advisories in major tourism destinations has raised the stakes for personal health concerns to be a major threat to Travel & Tourism. Unfortunately, China and Hong Kong have served as pioneers in this new arena and have suffered the consequences of starting from ground zero in terms of learning how to deal with such situations.

At this point, it is easy to imagine that another high-visibility threat to Travel & Tourism could occur, generating new travel advisories. But lessons that have been learned in China, Hong Kong and other affected destinations will hopefully help to alleviate any future crisis and ensure speedy containment and recovery.

## Economic Visibility

Travel & Tourism's economic contribution tends to be taken for granted and, even though the numbers in this report for China and Hong Kong are quite impressive, the reality of the economics is only truly apparent when there is a major catastrophe such as the SARS outbreak.

The impact of SARS has been similar to – albeit much more extensive than – the terrorist attacks of September 11, 2001 in the USA. Both resulted in an almost complete business shutdown in terms of Travel & Tourism and other economic sectors. But while the shutdown in the USA was measured in days and weeks, that in China and Hong Kong has to be measured in months.

Even more striking in these situations is the connection that becomes immediately apparent between primary Travel & Tourism providers, such as hotels, airlines and restaurants, and secondary suppliers. The latter are usually hidden behind the scenes but they suffer just as much as the primary suppliers when there is a massive decline in visitor arrivals and spending. These secondary suppliers are not always seen as being linked to Travel & Tourism – they are more likely associated with the food wholesale industry, say, or garment manufacturing and laundry services – but their livelihood begins and ends with visitors and visitor spending.

## Contingency Planning

Preparing for disaster is rarely at the forefront of any business planning process although certain segments of Travel & Tourism, namely the airlines, have developed – sometimes out of necessity – strategies and action plans to address all types of unpredictable situations from hijackings to airline crashes. Hotels also have contingency plans ready to implement in the event of fires or other man-made and natural disasters. However, it is only now that destinations themselves and their national or local tourism authorities are beginning to recognize their responsibility for disaster, contingency and recovery planning on behalf of the broader Travel & Tourism economy.

Since health travel alerts have never been a source of major disruptions to Travel & Tourism on the scale of SARS, it stands to reason that few destinations would have been prepared to implement contingency plans already on the shelf. However, the die is now cast and destinations have been warned that health travel advisories issued by WHO or governments can make or break your industry. So Travel & Tourism administrations must be prepared to deal with them and put in place plans to recover and rebuild their industry once the advisories have been lifted.

Hong Kong should be congratulated for taking the time and effort during the crisis to prepare and fund a recovery plan that is expected to kick-start its Travel & Tourism business, and which was basically ready to implement the day the travel advisory was lifted. In contrast, although there has been an announcement of a recovery programme by China's Australian office, it is not clear what the overall recovery programme will be from the China National Tourism Administration in Beijing.

### Working Together

Perhaps the most important lesson learned from the SARS crisis is that it has raised the stakes for the public and private sectors of Travel & Tourism to join forces. In some cases joint committees have been formed to strategize, organize and plan for Travel & Tourism post-SARS. In Hong Kong, the Economic Relaunch Strategy Group is a prime example of the expertise, skills and resources that should be brought together to manage a crisis of this nature. Including the chairs of the Hong Kong Tourism Board (HKTB) and Airport Authority is certainly a step in the right direction. However, the recovery is still ongoing. It remains to be seen whether there is sufficient focus on Travel & Tourism by the group to address effectively the myriad of issues that have arisen for hotels, airlines, tour operators, travel agencies, restaurants, shops and other Travel & Tourism providers who are depending on the HKTB for comprehensive representation.

In China, there have been reports of additional promotion and marketing funds being made available to restore consumer and visitor confidence. But there is little, if any, visible public-private sector cooperation to help identify and address the long list of issues that have arisen within the Travel & Tourism industry as a result of SARS.

### The Impact of SARS on Travel & Tourism

The data and information envisioned for this report were prepared before SARS hit China and Hong Kong. Once the nature of the crisis was apparent, it was decided to postpone the report until the outbreak was contained and the WHO removed its travel advisories. And as soon as the severity of the impact on Travel & Tourism became clear, WTTC commissioned Oxford Economic Forecasting to produce a special update of its TSA research for China, Hong Kong, Singapore and Vietnam to gauge the exact scale of the impact and reformulate the forecasts for recovery. These are the numbers that have been used in this final report. This update also provides WTTC and readers of this report with the actual impact of SARS on China's and Hong Kong's Travel & Tourism. Please note that some of the pre-SARS data has been used in the ranking tables in order to provide a 'normalized' perspective of Travel & Tourism in China, Hong Kong and Asia in general without the unique circumstances associated with SARS.

# CHINA

IN 2003, CHINA'S TRAVEL & TOURISM IS EXPECTED TO LOSE RMB169.4 BN (US\$20.4 BN) OF ECONOMIC ACTIVITY (TOTAL DEMAND) AS A RESULT OF SARS. THE INDUSTRY'S DIRECT LOSS INCLUDES:

2,802,210

jobs

Rmb 63.3 bn

(US\$7.6 bn) of Gross Domestic Product (GDP).

HOWEVER, SINCE TRAVEL & TOURISM TOUCHES ALL SECTORS OF THE ECONOMY, ITS REAL IMPACT IS EVEN GREATER. CHINA'S TRAVEL & TOURISM ECONOMY IS EXPECTED TO SUFFER A SARS-RELATED LOSS, DIRECTLY AND INDIRECTLY, OF:

6,798,120

jobs

Rmb 169.4 bn

(US\$20.4 bn) of Gross Domestic Product (GDP).

Rmb 64.8 bn

(US\$7.8 bn) of Exports, Services & Merchandise.

Rmb 30.4 bn

(US\$3.7 bn) of Capital Investment.

Rmb 74.1 bn

(US\$8.9 bn) of Personal and Business Travel & Tourism by residents and resident companies.



# HONG KONG

IN 2003, HONG KONG'S TRAVEL & TOURISM IS EXPECTED TO LOSE HK\$28.4 BN (US\$3.6 BN) OF ECONOMIC ACTIVITY (TOTAL DEMAND) AS A RESULTS OF SARS. THE INDUSTRY'S DIRECT LOSS INCLUDES:

27,340  
jobs

HK\$ 9.4<sub>bn</sub>  
(US\$1.2 bn) of Gross Domestic Product (GDP).

HOWEVER, SINCE TRAVEL & TOURISM TOUCHES ALL SECTORS OF THE ECONOMY, ITS REAL IMPACT IS EVEN GREATER. HONG KONG'S TRAVEL & TOURISM ECONOMY IS EXPECTED TO SUFFER A SARS-RELATED LOSS, DIRECTLY AND INDIRECTLY, OF:

41,720  
jobs

HK\$ 28.4<sub>bn</sub>  
(US\$3.6 bn) of Gross Domestic Product (GDP).

HK\$ 23.9<sub>bn</sub>  
(US\$3.1 bn) of Exports, Services & Merchandise.

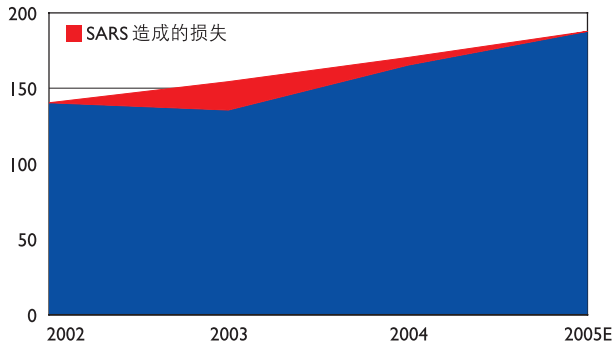
HK\$ 2.5<sub>bn</sub>  
(US\$0.3 bn) of Capital Investment.

HK\$ 1.9<sub>bn</sub>  
(US\$0.3 bn) of Personal and Business Travel & Tourism  
by residents and resident companies.

# CHINA

## Travel & Tourism Demand

1990 Constant US\$ bn

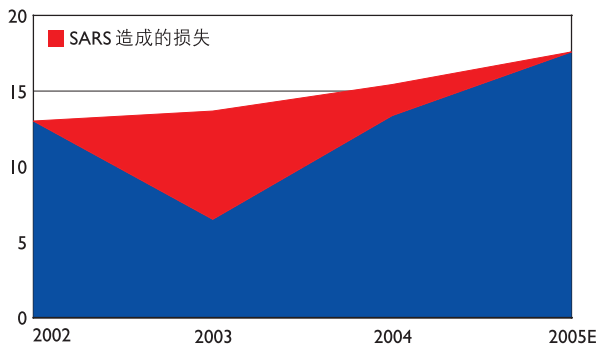


### TRAVEL & TOURISM DEMAND

The original 2003 WTTC/OEF TSA for China estimated that Travel & Tourism Demand in 2003 would generate real-term growth of 10.0 per cent over 2002 results. In contrast, this post-SARS analysis forecasts a real-term loss of -3.4 per cent for 2003. The difference, -13.4 per cent real loss for China's Travel & Tourism, is the negative impact associated with SARS. In nominal terms, this SARS impact is expected to total Rmb-169.5 billion or US\$-20.4 billion in 2003 alone. The area in red on the chart indicates the SARS-related loss.

## Travel & Tourism Visitor Exports

1990 Constant US\$ bn

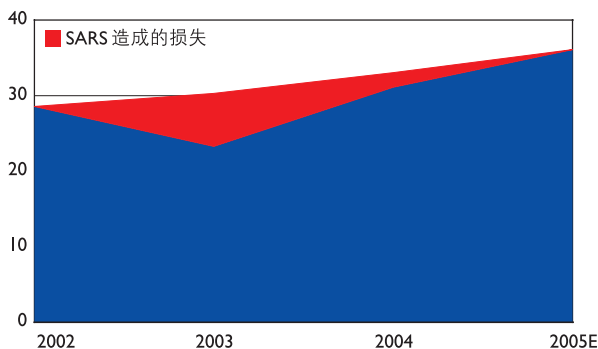


### TRAVEL & TOURISM EXPORTS

Visitor Exports is expected to be the hardest hit component of Travel & Tourism Demand during the SARS outbreak. The original 2003 WTTC/OEF TSA forecast for China's visitor export growth in 2003 was 5.2 per cent over 2002 results. This post-SARS analysis has restated China's visitor export growth at -50.0 per cent, a decrease of -55.2 per cent, or Rmb-64.8 billion (US\$-7.8 billion) vis-à-vis the original 2003 forecast. SARS-related losses are indicated in red on the chart.

## Travel & Tourism Industry GDP

1990 Constant US\$ bn

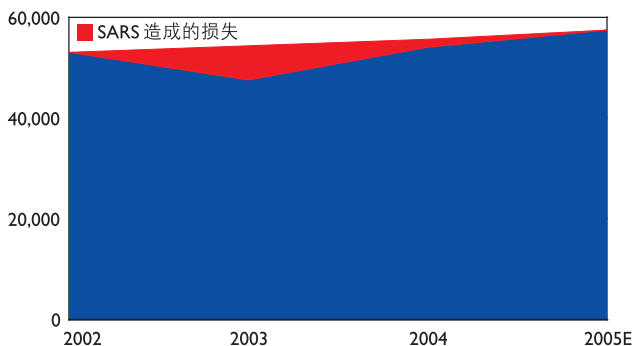


### TRAVEL & TOURISM GROSS DOMESTIC PRODUCT

A proper analysis of the SARS-related impact must also isolate the likely change to Travel & Tourism Industry GDP since some elements of T&T Demand, such as government expenditures and capital investment, are not expected to be significantly impacted. For China, Travel & Tourism Industry GDP is expected to decrease in the SARS analysis by -24.5 per cent (Rmb-63.2 billion or US\$- 7.6 billion) vis-à-vis the original 2003 forecast. SARS-related losses are indicated in red on the chart.

## Travel & Tourism Economy Employment

'000 of Jobs



### TRAVEL & TOURISM EMPLOYMENT

Finally, Travel & Tourism Economy Employment, in its broadest sense, is the most comprehensive and personal gauge of SARS losses on our industry. In 2003, Travel & Tourism Economy employment in China was expected to total 54,356,300 jobs under our original 2003 TSA forecast. Under this post-SARS analysis the total jobs forecast is now pegged at 47,558,190. The difference, -6,798,120 lost jobs, is the negative employment impact in China associated with SARS. These losses are shown in red on the chart.

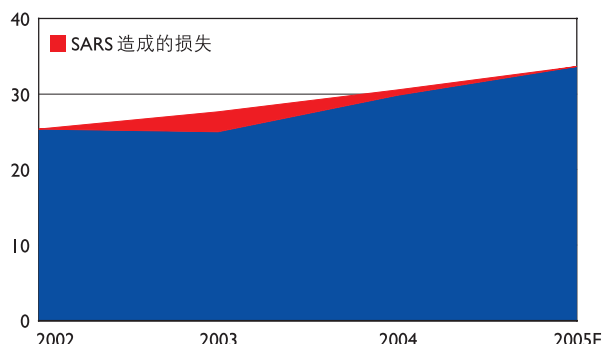
# HONG KONG

## TRAVEL & TOURISM DEMAND

The original 2003 WTTC/OEF TSA for Hong Kong estimated that Travel & Tourism Demand in 2003 would generate real-term growth of 9.2 per cent over 2002 results. In contrast, this post-SARS analysis forecasts a real-term loss of -1.2 per cent for 2003. The difference, -10.4 per cent real loss for Hong Kong's Travel & Tourism, is the negative impact associated with SARS. In nominal terms, this SARS impact is expected to total HK\$-28.1 billion or US\$-3.6 billion in 2003 alone. The area in red on the chart indicates the SARS-related loss.

## Travel & Tourism Demand

1990 Constant US\$ bn

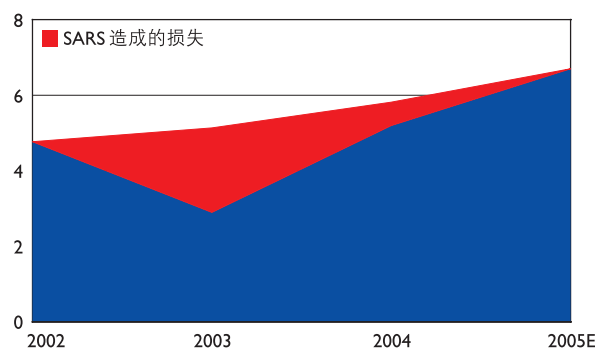


## Travel & Tourism Visitor Exports

1990 Constant US\$ bn

## TRAVEL & TOURISM EXPORTS

Visitor Exports is expected to be the hardest hit component of Travel & Tourism Demand during the SARS outbreak. The original 2003 WTTC/OEF TSA forecast for Hong Kong's visitor export growth in 2003 was 7.4 per cent over 2002 results. This post-SARS analysis has restated Hong Kong's visitor export growth at -39.1 per cent, a decrease of -46.5 per cent or HK\$-24.2 billion (US\$-3.1 billion) vis-à-vis the original 2003 forecast. SARS-related losses are indicated in red on the chart.

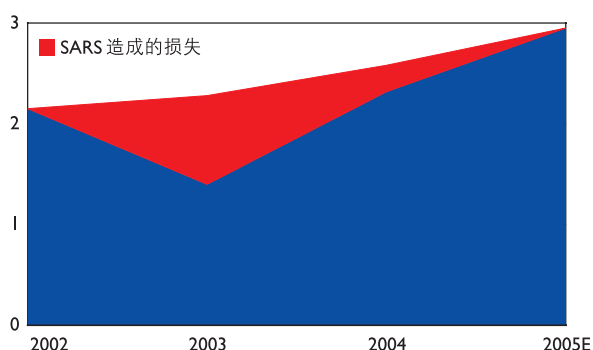


## Travel & Tourism Industry GDP

1990 Constant US\$ bn

## TRAVEL & TOURISM GROSS DOMESTIC PRODUCT

A proper analysis of the SARS-related impact must also isolate the likely change to Travel & Tourism Industry GDP since some elements of T&T Demand, such as government expenditures and capital investment, are not expected to be significantly impacted. For Hong Kong, Travel & Tourism Industry GDP is expected to decrease in the SARS analysis by -41.1 per cent (HK\$-9.4 billion or US\$-1.2 billion) vis-à-vis the original 2003 forecast. SARS-related losses are indicated in red on the chart.

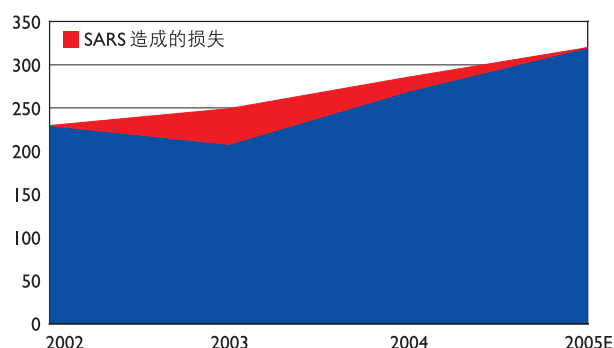


## Travel & Tourism Economy Employment

'000 of Jobs

## TRAVEL & TOURISM EMPLOYMENT

Finally, Travel & Tourism Economy Employment, in its broadest sense, is the most comprehensive and personal gauge of SARS losses on our industry. In 2003, Travel & Tourism economy employment in Hong Kong was expected to total 249,243 jobs under our original 2003 TSA forecast. Under this post-SARS analysis the total jobs forecast is now pegged at 207,520. The difference, - 41,720 lost jobs, is the negative employment impact in Hong Kong associated with SARS. These losses are indicated in red on the chart.



# SARS ANALYSIS SUMMARY TABLE

## CHINA

	Original TSA Real Growth Estimate for 2003	Post-SARS Analysis Real Growth Estimate for 2003	Total SARS Impact for 2003 Real Growth Gain(Loss)	Total SARS Impact for 2003 Rmb bn	Total SARS Impact for 2003 US\$ bn
Personal Travel & Tourism	9.1%	-5.0%	-14.0%	-71.5	-8.6
Business Travel	1.4%	-3.9%	-5.3%	-2.6	-0.3
Government Expenditures	10.1%	10.1%	0.0%	0.0	0.0
Capital Investment	10.5%	3.2%	-7.2%	-30.4	-3.7
Visitor Exports	5.2%	-50.0%	-55.2%	-64.8	-7.8
Other Exports	20.2%	20.2%	0.0%	0.0	0.0
Travel & Tourism Demand	10.0%	-3.4%	-13.4%	-169.4	-20.4
T&T Industry GDP	6.0%	-18.6%	-24.5%	-63.3	-7.6
T&T Economy GDP	8.7%	-7.0%	-15.7%	-169.4	-20.4
T&T Industry Employment '000	-0.5%	-20.4%	-19.9%	-2,802.2	-2,802.2
T&T Economy Employment '000	2.4%	-10.4%	-12.8%	-6,798.1	-6,798.1

## HONG KONG

	Original TSA Real Growth Estimate for 2003	Post-SARS Analysis Real Growth Estimate for 2003	Total SARS Impact for 2003 Real Growth Gain(Loss)	Total SARS Impact for 2003 HK\$ bn	Total SARS Impact for 2003 US\$ bn
Personal Travel & Tourism	7.2%	5.3%	-1.9%	-1.72	-0.22
Business Travel	-2.7%	-6.9%	-4.2%	-0.23	-0.03
Government Expenditures	7.5%	7.5%	0.0%	0.00	0.00
Capital Investment	11.0%	5.0%	-6.0%	-2.50	-0.32
Visitor Exports	7.4%	-39.1%	-46.5%	-23.87	-3.06
Other Exports	12.8%	12.8%	0.0%	0.00	0.00
Travel & Tourism Demand	9.2%	-1.2%	-10.4%	-28.39	-3.64
T&T Industry GDP	6.1%	-35.0%	-41.1%	-9.44	-1.21
T&T Economy GDP	9.8%	-11.6%	-21.4%	-28.39	-3.64
T&T Industry Employment '000	3.3%	-35.6%	-38.9%	-27.34	-27.34
T&T Economy Employment '000	8.7%	-9.5%	-18.2%	-41.72	-41.72



# THE POLICY FRAMEWORK

## POLICY RECOMMENDATIONS

China's Government is firmly committed to Travel & Tourism, and there is clear recognition at the highest levels of government of the pivotal role played by Travel & Tourism in terms of sustainable growth, employment creation and social development across the entire national economy.

"Opening the country to the outside world is our basic and long-term state policy...Once we enter WTO, we will earnestly fulfil our rights and obligations and play our due role in promoting economic development and trade around the world...I am happy to tell you that China is committed to opening (up the country) still wider to the outside world in an multi-directional and multi-tiered way, with an even more active approach. Such sectors as finance, insurance, telecommunications, trade, commerce, transport, construction, tourism and intermediary services will be gradually opened to foreign investors.

We will vigorously seek new ways and new channels of attracting foreign capital and allow foreign investors to set up equity, or contractual joint ventures, or solely owned businesses, in the above-mentioned sectors... We will adopt open, transparent and equality-based policies on trade and investment, continue to improve the environment for investment and business operations, encourage fair competition, and offer national treatment so as to increase investor confidence and predictability in China."

Extract from a Speech by Vice President Hu Jintao of the People's Republic of China at a Dinner Hosted by the China-Britain Business Council  
30 October 2001

This is reflected by the prominence given to the recent publication (March 2000) of *Deng Xiaoping on Tourism* – a book which celebrates the achievements made by China's Travel & Tourism industry over the past 20 years and calls for even greater efforts to make the country a 'tourism power' as soon as possible. In his book, Deng Xiaoping advocated tourism as one of China's foundation industries for reform, economic development, and opening up the country to the outside world.

According to *The People's Daily* newspaper, "The publication of Deng Xiaoping on Tourism reflects the hope that various quarters will conscientiously study, profoundly comprehend and accurately grasp Deng Xiaoping's thinking on the development of tourism, and (will) flexibly apply the essence of his thinking in practice, to adapt to the new situation, explore new ways – and jointly spur the tourism industry – to play a still greater role in national economic development and social progress, thereby forging ahead in a pioneering spirit in order to realize the dream of making China a world tourism power at an early date."

China's former President Jiang Zemin has consistently focused his efforts on accelerating and promoting the nation's economic development, suggesting that "economic restructuring is an inevitable requirement of economic development at the present stage". Jiang has stressed that economic restructuring requires "exerting greater effort to develop the tertiary industry, especially information [technology], banking, [travel and] tourism and services".

China's former Vice Premier and Minister of Foreign Affairs Qian Qichen has also spoken frequently on the subject of Travel & Tourism's importance. In May 2001, *The People's Daily* reported that "Qian Qichen has used the occasion of the week-long International Labour Day holiday to promote

further development of the nation's tourism industry, saying Chinese people need to have wider access to recreation and relaxation. Tourism plays an important role in the country's economic development and the improvement of people's lives," said Qian.

The World Travel & Tourism Council's (WTTC's) forecasts, developed with its research partner Oxford Economic Forecasting (OEF), highlight the extraordinary growth prospects for China's Travel & Tourism. Based on current economic forecasts, and assuming there will be no change in China's current policy position on Travel & Tourism, WTTC/OEF forecasts the creation of approximately 11.8 million new Travel & Tourism jobs over the next nine years.

The China National Tourism Administration (CNTA) has set even greater objectives for job creation and, by extension, Travel & Tourism demand and GDP, which far exceed the WTTC/OEF projections. Taking into consideration new policy changes planned, CNTA expects to create 40 million jobs from Travel & Tourism over the next ten years. This difference in the jobs' forecast alone illustrates the focus, aspiration and hopes that China has placed on the industry and the policy changes that it expects to implement for Travel & Tourism.

Under the WTTC/OEF scenario, no extraordinary policy changes have been anticipated and growth is only driven by SARS recovery and normal economic gains. Under the CNTA scenario, however, it is clear that China has already accounted for future significant policy changes. For this latter scenario to be achieved, certain factors need to be assured. Most importantly, the government's national policy framework must be adopted by provincial and local governments, and it must be supported by a climate that is conducive to business investment, implemented by the public and private sectors working in partnership.

# 'Building a World Tourism Power and Developing a New Mainstay Industry' National Tourism Administration of the People's Republic of China, 2001

## INTRODUCTION

### Three Markets and Market Potential

Inbound, domestic and outbound tourism have all been growing steadily, in terms of numbers and earnings, helping China become firmly established as an emerging Travel & Tourism economy.

### Expansion of Tourism and Development of the Tourism Industry

Over the past few years, tourism products and services have rapidly developed and expanded. By the end of 2000, there were 254,300 accommodation establishments/facilities, including 10,500 hotels and 948,200 guestrooms, as well as 8,993 travel agencies. Transport has also been greatly improved with the rapid development of civil aviation, the railways, highways and waterways, and local transport. Tourism services, including restaurants, entertainment and shopping, have also been enhanced in terms of quality and quantity.

As the industry has grown, tourism education has followed suit. There are 252 universities and colleges with tourism departments or faculties, 943 vocational schools with tourism programmes and 327,900 students currently following tourism courses.

### Tourism Product Mix

A number of high-quality tourism products/sectors have been successfully established in China during the past few years, and these have proved to be attractive to international and domestic visitors. They include sun-and-beach holidays, skiing, ecotourism products, and the meetings, incentives, conventions and exhibitions (MICE) business.

### Tourism Marketing and Promotion

The marketing and promotion of China's tourism at home and abroad has been remarkably successful in recent years. The industry has overcome the negative impact of the Asian financial crisis thanks to increased advertising frequency and spend, and improved promotions and public relations – at tourism fairs and through exposure from its work with international tourism organizations.

### Administration and Regulation of Tourism

The administration of China's tourism industry is being carefully re-examined and restructured so as to improve regulation, management, coordination and services. Building China's 'Excellent Tourism Cities' programme has greatly improved the tourism environment, reinforced urban tourism, and accelerated urban infrastructure development and modernization.

### China's International Position in Tourism

CNTA and local tourism bureaus have developed bilateral and multilateral cooperation and interchange programmes, thereby expanding their relationships with major tourist generating countries, neighbouring economies and regions. These activities have steadily enhanced the international status of China's tourism industry and reinforced international cooperation.

### Seven Opportunities for the Industry in the 21st Century

- Tourism will be a new growth area for the national economy;
- Tourism will act as a catalyst for the industrial realignment of China's economy;
- The development of western China will be a significant opportunity for tourism;
- The legal holiday system (three Golden Weeks) will spur the growth of domestic tourism;
- Entry into the World Trade Organization will optimize and accelerate tourism development;
- The 2008 Olympic Games will internationalize and modernize China's tourism product and improve its image;
- The growth of world tourism will assist China in becoming a world tourism power.

## THE CONSTRUCTION OF THE WORLD TOURISM POWER: DEVELOPMENT GOALS, STAGES AND STRATEGIES

### Quantitative Goals for 2020

- The number of inbound tourist arrivals in China is expected to reach 210-300 million;
- International tourism receipts are projected to total US\$58-82 billion;
- Domestic tourism receipts will reach Rmb2,100-Rmb3,000 billion (US\$256-\$366 billion).
- Total tourism income is expected to exceed Rmb3,600 billion (US\$439 billion), or 11 per cent of GDP;
- Tourism will become the mainstay industry of the Chinese national economy.

### Qualitative Goals for 2020

Build China into a tourism power, which involves the following ten steps:

- Create, tap and expand tourism consumption;
- Balance inbound, domestic and outbound tourism;
- Develop and improve tourism products;
- Standardize and improve service quality;
- Diversify tourism markets, promotions and products;
- Improve tourism-related information technology;
- Encourage internationally competitive tourism enterprises;
- Establish a market economy-based legal and regulatory regime for tourism;
- Modernize and standardize tourism administration;
- Ensure financial and market efficiency in tourism.

### Development Stages

The Primary Stage (2001-05):

Laying a Foundation for Building a World Tourism Power

- Breakthrough in policy-making;
- System reform;
- Develop western China;
- Reinforce marketing and promotion.

The Advanced Stage (2006-10): Advancing Tourism Competitiveness

- Optimize policy and the natural and social environment;
- Cultivate the inbound and domestic markets;
- Establish major tourism enterprises;
- Compete effectively on the international stage.

The Consolidation Stage (2011-15):

Consolidating International Competitiveness

- Enhance China's competitiveness;
- Seek new development;
- Improve quality;
- Achieve profitable and sustainable development.

The Perfection Stage (2016-20):

Shape and Perfect the World Tourism Power

- Optimize tourism output and achieve intensive growth;
- Create world-famous tourism products;
- Promote social development;
- Establish China's image globally.

### The Development Strategy

Tourism is a Momentum Industry: tourism is not only an economic industry, but also a momentum industry in social and economic development.

Quality is Fundamental: the key to building a tourism power is improving the overall level of competitiveness.

Innovation: China's tourism requires innovation in strategy, products, markets, administration, management and professionalism.

### Development Guidelines

- Under the guidance of Deng Xiaoping's theories and his ideology of the tourism economy, the tourism industry is to be developed, with tourist resources as the 'support', tourist products as the 'basis', the market as the 'guide', and financial benefits as the 'core'.
- With a view towards opening up the great tourism market, inbound tourism will be vigorously pursued, domestic tourism will be energetically encouraged and outbound tourism will be developed in a moderate fashion.
- While strengthening the government's lead role, people from all walks of life are to be mobilized to vigorously cultivate and develop the new economic growth sector, namely the tourism industry.
- Great importance should be attached to sustainable tourism development.
- Attention should be paid to ensuring both hardware and software development so that professionalism can be enhanced.
- The development strategy will take account of tourism's actual and potential contribution to the national economy – establishing a solid foundation for building 'the world's tourism power'.

### Development Policies

- Understanding of tourism development should be enhanced and unified, and the public's enthusiasm for tourism development should be fully awakened.
- All departments and agencies concerned should make joint efforts to promote tourism development under the leadership of the government.
- A detailed development plan should be formulated to guide tourism development.

(Continued on page 54)

While the private sector can – and must – play an increasingly proactive role in developing quality products and services geared to international and domestic demand, the Chinese Government needs to show leadership by ensuring that CNTA is effective. As a first step, tourism needs to be elevated to ministerial level and this new ministry should assume responsibility for overseeing collateral government agencies/departments that have a direct or indirect link to tourism.

The increased role and responsibility of the country's new national tourism administration, which should be clearly defined and communicated to all stakeholders, will require increased funding. This will enable it to assume responsibility for planning and policy-making, tourism infrastructure development and management, as well as to drive the country's new market economy-based approach to Travel & Tourism development. The new Ministry of Tourism should have close links with ministries responsible for the arts, culture, recreation and sport, aviation, public transport and parks. This would help ensure a more integrated approach to tourism development and management and help focus the industry on achieving aggressive Travel & Tourism targets.

### Dedicated Cabinet-Level Tourism Ministries [39]

Algeria	Eritrea	Mauritius
Bahamas	Fiji	Mexico
Brazil	Ghana	Mozambique
Cambodia	Guinea-Bissau	New Zealand
Cameroon	Haiti	Nicaragua
Cape Verde	Honduras	Niger
Chad	India	Philippines
Costa Rica	Israel	Romania
Croatia	Lebanon	Senegal
Cuba	Madagascar	Sri Lanka
Dominica	Malawi	Syria
Dominican Republic	Maldives	Turkey
Egypt	Malta	Yugoslavia

In a further 72 countries, the cabinet-level portfolio of Tourism is shared with other ministries such as Transport or Culture.

The current responsibility of CNTA for marketing and promotion should also be taken over by a newly created, public-private sector managed China Tourism Board (CTB). This national tourism organization (NTO), based on one of the NTO models successfully adopted in other key tourism destinations around the world, would spearhead the tourism marketing and development initiative. It would have responsibility for almost every aspect of tourism development in the country – product development, marketing, the setting of standards, research, etc. It should also include responsibility for domestic tourism. In addition, the new CTB should serve as a fully fledged national convention bureau, coordinating all its efforts with those of the provinces and cities, as well as generating and disseminating Travel & Tourism research and market intelligence to all stakeholders.

As an interim step towards the establishment of a joint public-private sector tourism board, it is recommended that CNTA immediately establish a Tourism Marketing Council. This would provide assistance to the private sector, sharing its experience and expertise in the development and implementation of short-term marketing and promotional strategies. The Council, which would comprise leading private sector operators (airlines, hotels, travel agencies, tour operators,

attractions, etc), would meet periodically to review CNTA strategy and plans and advise CNTA on its work programme. Following the formal establishment of the CTB, members of the Council would naturally join the CTB's board of directors.

These actions alone would help China compete more effectively with leading tourism destinations around the world. However, WTTC also maintains that, in order for China to achieve its aggressive development and employment objectives, the government will need to create a true working partnership with the private sector in all aspects of tourism planning and operations. This should involve the re-orientation of existing trade associations into independent bodies modelled on those that exist in any number of leading tourism economies such as the UK, France, Canada and Australia.

The public-private partnership could also be structured along the lines of the Shanghai Mayor's Round-Table forum where the private sector provides briefings, exchanges views and instigates discussions about new trends and issues that have an impact on the Travel & Tourism industry. In either guise, this new partnership between the public and private sectors would be a major cornerstone to China's future tourism success.

In Hong Kong, the primary focus is more tactical in nature, but the Special Administrative Region (SAR) of China may well adopt a new strategic approach to Travel & Tourism development. Options include its development as a major Asian aviation transport hub, or the expansion and broadening of its product base through initiatives such as Hong Kong Disneyland. Whatever strategy it adopts in future will help build new business on the strong foundation it has set up over the past 20 years or more.

Against this background WTTC recommends that the Chinese Government:

## PLAN FOR THE FUTURE

### Long-term Tourism Planning

China's future tourism development requires the focused implementation of its National Tourism Policy as detailed in the China National Tourism Administration (CNTA) document entitled: 'Building a World Tourism Power and Developing a New Mainstay Industry – The Compendium for China Tourism Development in the Early 21st Century'. This document, summarized by WTTC on pages 44 and 46, reflects a strong vision for China's Travel & Tourism industry.

This plan is in many ways visionary in comparison with other national tourism policies previously reviewed by WTTC. However, the scope of proposed tourism development envisioned by China – as defined in the document, 'Building a World Tourism Power...' – may need to take even greater account of the free-market re-orientation of the tourism business environment in China. This will be especially important with regard to developing the strategy and operational plans detailing how this vision is to be achieved.

WTTC believes this will require a gradual restructuring and strengthening of China's National Tourism Administration (CNTA). It will need to divest itself of all types of industry management issues and focus on developing strategy and providing guidance, taking the lead in developing long-term plans for the industry and removing unreasonable

# 'Building a World Tourism Power and Developing a New Mainstay Industry' National Tourism Administration of the People's Republic of China, 2001

(Continued from page 52)

- Innovation should be encouraged, as well as the creation of imaginative products.
- Regional cooperation is to be strengthened.
- The benefits of tourism should be distributed as equitably as possible across eastern, central and western China.
- Priority should be given to inbound tourism as the sector offering greatest potential for development, followed by domestic tourism.
- Investment in tourism promotion should be increased and improved.
- Tourism administration should to be broadened and its functions improved and modernized.
- Efforts should be made to build a number of powerful tourism destinations within the country to help China become a world tourism power.

## Developing Inbound Tourism

- Promotion and marketing should highlight China's wide range of attractions and tourism products.

## Cultivating Domestic Tourism

- Formulate and implement a National Tourism Plan.
- Increase tourism supply, and implement and promote leisure tourism.
- Reform the national system of holiday entitlement to boost tourism consumption.
- Implement a system of paid holidays.
- Develop incentive business (corporate-sponsored leisure travel).
- Enhance the development of domestic tourism products.
- Promote domestic tourism.
- Ensure that domestic tourism is effectively managed.

## Outbound Tourism

- The moderate development of outbound tourism implies planned, organized and controlled development.
- The administration and management of outbound tourism should be closely linked to that of inbound tourism, ensuring an equitable distribution of trips per destination.
- Different policies should be formulated appropriate to the different purposes of outbound travel – the growth of the sector should be carefully managed.

## Tourism Product

In addition to developing new products – national and world-class products – existing tourism products should be enhanced. All these should embody national characteristics and highlight specific national attractions, but be developed according to international norms. This requires improved planning, design and innovation.

## Perfecting the Three Major Products

Three major types of tourism – sightseeing, stay-put holidays and special interest tourism – should be further improved in quality.

### Sightseeing Tourism

Cultural/historical tourism  
Entertainment  
Scenic attractions  
Museums

### Holiday Tourism

Major resorts  
Tropical/sub-tropical islands and beaches  
Mountains, lakes, forests and hot springs  
Urban conurbations  
Timesharing

### Special tourism

Festivals  
Study tourism  
Adventure tourism  
Conference and exhibitions  
Incentives  
Cruises  
Ecotourism  
Skiing  
Third-age travel  
Golf tourism  
Business travel  
Rail travel

## New Products

Attention should be focused on the following eight types of products:

- New archaeological discoveries and natural wonders;
- Theme parks;
- City tourism;
- Agricultural tourism;
- Industrial tourism;
- Science and educational tourism;
- Weddings;
- Health tourism;
- Extreme/adventure travel.

## Showcase Products

- A number of national attractions, such as areas of particular scenic beauty, scenic routes and festivals, should be developed and promoted.

## World-class Products

- World-class products should be created based on the country's natural and cultural heritage, including archaeological and natural wonders.

## Joint Development of Three Tourism Regions

- Great efforts should be made to promote tourism development in eastern China while, at the same time, placing special emphasis on the development of distinctive products in western China and on stimulating growth in tourism to the central regions.
- Certain destinations in the central and western regions of the country should be developed as test cases in an effort to generate income from tourism, thereby helping to eliminate poverty.
- Ecotourism should be developed in a sustainable manner by planning and constructing a number of national ecotourism resorts.
- Resorts should be developed in line with international resort standards adapted to suit the needs of both domestic and international markets.

## Regional Tourism Development

- Sophisticated tourism developments should be planned for eastern China.
- Larger-scale developments that are based on local natural resources should be earmarked for the creation of unique tourism products in central China.
- Great efforts should be made to ensure that tourism becomes the most profitable industry in the development of western China.

## Develop Key Tourism Regions

- The different regions of China must cooperate closely in terms of tourism development.

## Develop Key Tourism Areas

- The new Asia-Europe mainland bridge;
- The Yangtze River tourism belt;
- The great Beijing-Jiulong tourism belt;
- The tourism belt of the Coastal Superhighway Corridor.

## Promote Key Tourism Routes

- The Silk Road tourism route;
- Yangtze River Three Gorges tourism route.

## Promote the Development of Key Tourism Cities

### Develop Tourism with Science and Education on a Full Scale

- More attention should be paid to the use of science and technology in the design, planning and construction of tourism destinations and specific tourism projects.

## Develop Tourism Human Resources

- Measures should be taken to promote the development of human resources for tourism.

## Implement a Sustainable Development Strategy

- Promote sustainable tourism development, produce 'green tourism' products, popularize 'green tourism' management, and construct 'green tourism' systems.



barriers to growth. It should advocate standards and service levels instead of strictly regulating the industry. It should clearly communicate its roles and responsibilities and provide transparency so the private sector can better understand its role in Travel & Tourism.

If it can achieve these goals, CNTA will create an environment of fair competition and growth, enabling the market to function efficiently, and stimulating greater domestic and foreign investment. For CNTA to be able to assume such a role involving inter-ministerial cooperation as well as a partnership with the private sector, WTTC believes it needs to be upgraded to a full ministerial portfolio.

As Travel & Tourism impacts all sectors of the economy – from wholesale and retail businesses to real estate and construction – planning must involve all levels of central, provincial and local government and the private sector, as well as local communities. This will help overcome conflicting inter-governmental objectives (central, provincial and local), as well as encouraging growth that is sustainable economically, environmentally and socially. It will also help spread the benefits equitably across the country to all stakeholders, thereby stimulating support and commitment from all sectors.

Although China's National Tourism Policy is quite comprehensive, it may benefit from additional emphasis on several key issues, which WTTC has identified as mission-critical factors that may limit China's ability to achieve Travel & Tourism's full potential. These mission-critical factors include:

- foreign direct investment;
- state-owned enterprises;
- the MICE market;
- travel related financial services;
- public-private sector partnership; and
- Travel & Tourism research (economics and marketing).

Discussion of these issues follows under the appropriate headings. We encourage CNTA to consider these factors and incorporate their formulation into the National Tourism Policy statement.

In Hong Kong, the situational analysis and tourism strategy are somewhat different. Hong Kong post-SARS will be looking to reposition itself as a regional business and leisure centre for the next 20 years. It has restructured its tourism policy organization into the new Tourism Commission and its tourism marketing operations into the recently created Hong Kong Tourism Board (HKTB). It has developed short-term and long-term action programmes, focusing on hardware and software. It is continuing to upgrade and enhance its facilities, attractions, heritage sites and the countryside, or many rural areas of Hong Kong. It is continuing to improve access, service levels, the quality of the tourism experience in Hong Kong, and its planning and promotion.

One very important part of Hong Kong's tourism is the Tourism Strategy Group (TSG). With representation from the government, the HKTB and the tourism industry, the TSG was formed to advise the government on tourism development from a strategic perspective. With advice from the TSG, a Tourism Development Action Programme has been prepared, which maps out more than 50 short-term and long-term initiatives to make Hong Kong a much more visitor-friendly destination and Asia's premier international urban attraction.

The new structure of Hong Kong's tourism administration shows

that, despite the destination's undisputed success in the past, there were a number of weaknesses that needed to be addressed.

On a more specific note, one characteristic of Hong Kong's tourism that has served it well through the years has been the industry's positive contribution of experience and expertise to the Hong Kong Government in its quest for growth, development and job creation.

As an example, the Travel/Tourism Committee of the Hong Kong Coalition of Service Industries (HKCSI) – the service policy think-tank of the Hong Kong General Chamber of Commerce – holds meetings with travel industry practitioners to discuss the promotion of Hong Kong's Travel & Tourism industry. From the discussions, the HKCSI formulates position papers. A number of such papers have been submitted to the government, reflecting some important issues/views from the Travel & Tourism sector.

Even more impressive was the input by the industry in January 2001, when the Hong Kong Tourist Association (Amendment) Bill 2001 was introduced to the Legislative Council to reorganize the HKTA into the new HKTB. More than 20 Travel & Tourism industry associations made written submissions to comment on the amendment. In this instance, most of the organizations were in support of the bill. However, the important issue to note is not the approval of these organizations for the new HKTB, but the free flow of experience and expertise that exists in Hong Kong in search of one common goal – namely, to increase the contribution of Travel & Tourism to Hong Kong's economy.

This kind of positive contribution of the industry for the common good of Travel & Tourism does not exist in China at the present time. Estimates put the number of industry associations in mainland China at some 26 tourism associations, 13 tourist hotel associations and four domestic tourism associations at provincial, autonomous regional and municipal levels across the country. However, these associations are not yet able to provide Chinese Government tourism leaders with the private sector experience and expertise necessary to help them identify the key Travel & Tourism policy issues, strategies, and/or operational enhancements required to capitalize on the vast potential of Travel & Tourism. There are a number of best-case examples around the world for China to consider in this regard, but the case of Singapore's public-private partnership in Travel & Tourism would perhaps serve as a good starting point and benchmark.

## Monitor Trends in Travel & Tourism Demand

In order to plan ahead better and anticipate changing demand, as well as to react quickly to unanticipated crises, it is important to track trends in past and current Travel & Tourism demand. This implies ensuring good quality statistical data on China's Travel & Tourism, including data on international visitor arrivals and departures, key market sources and destinations visited, mode of transport, domestic tourism data, hotel operating performance, expenditure patterns, attitudes and preferences, as well as the overall economic contribution of Travel & Tourism.

It is generally agreed that information currently available from different sources in China and Hong Kong is satisfactory, but it is sometimes inconsistent and conflicts with other available information. More importantly, especially with regard to mainland China, the data issued is not timely enough in the current high-growth environment to



enable intelligent, well-considered short- or long-term business and policy decisions to be formulated.

A national tourism research organization – similar to Australia’s successful Bureau of Tourism Research and its sister organization, the Tourism Forecasting Council, in which all stakeholders are well represented – could be a useful tool in China and Hong Kong for ensuring the credibility of historical results and future demand forecasts. It could also help to mitigate serious hardware supply shortages or oversupply in the future.

#### **Organizations Commenting on the Hong Kong Tourist Association (Amendment) Bill, 2001**

Board of Airline Representatives of Hong Kong  
Hong Kong Association of China Travel Organizers  
Hong Kong Association of Registered Tour Coordinators  
Hong Kong Association of Travel Agents  
Hong Kong Guesthouses Association  
Hong Kong Hotels Association  
Hong Kong Inbound Tour Operators Association  
Hong Kong Japanese Tour Operators Association  
Hong Kong Retail Management Association  
Hong Kong Taiwan Tourist Operators Association  
Hong Kong Tourist Industry Employees General Union  
Hong Kong Travel Agents Owners Association  
International Chinese Tourist Association  
Marine Excursion Association  
Maxim’s Caterers  
Pacific Asia Travel Association Hong Kong Chapter  
The Association for Hong Kong Catering Services Management  
The Federation of Hong Kong Chinese Travel Agents  
The Federation of Hong Kong Hotel Owners  
The Joint Council of the Travel Industry of Hong Kong  
The Tourist Guest Houses Federation of Hong Kong  
Travel Industry Council of Hong Kong  
Yue Hwa Chinese Products Emporium

Monitoring Travel & Tourism trends will also help identify threats to growth, as well as new opportunities. Examples of threats to growth obviously include SARS-type epidemics and the impact of pollution on the environment, which is a serious concern for China, and security threats, which have become an even more critical issue in the minds of the public by last year’s bombings in Bali and the Philippines.

Several dedicated Travel & Tourism research institutions have recently been established in China. These include the Zhongshan University (Guangzhou) Centre for Tourism Planning and Research (with several thousand students in its tourism degree programme); Beijing University (which specializes in tourism degrees); and the Tourism Research Centre of the Chinese Academy of Social Sciences. However, more are needed because of the vast scale of tourism development in China and the attendant issues and problems that need to be tackled.

In Hong Kong, the Hong Kong Polytechnic University has a large, wealthy and very strong School of Hotel and Tourism Management, which is becoming a major education centre for tourism in the region and generates some particularly good research. In 1998, the Chinese University of Hong Kong also established a new School of Hotel and Tourism Management, in an effort to combine high-quality hospitality, tourism and real-estate education programmes with the natural laboratory setting provided by the real business life of Hong Kong.

## **Encourage Greater Market and Product**

Both China and Hong Kong seem to be entering new phases of their tourism industry lifecycles. China appears to have moved from an emerging tourism phase, during which it offered a small range of traditional tourism products, to a more mature phase, in which it is attracting more mainstream markets looking for contemporary products. Hong Kong, meanwhile, is taking stock of the increasingly sophisticated competition it faces in the marketplace, and is attempting to reach beyond its traditional markets into new visitor groups, at the same time restructuring and diversifying its products to refresh and extend its offerings.

China’s National Tourism Policy seems to recognize that significant tourism growth – whether inbound or domestic – will depend on its emulating the success of more mature tourism economies. This implies the development of a broad range of mainstream tourism products from beach resorts to golfing and skiing, meetings and conventions. The key issue for China’s Travel & Tourism economy is whether the government is able to translate a significant free market economy-oriented strategy into proper free market economy-oriented operations.

In contrast, we suspect that if Hong Kong has a problem in meeting its challenges, it will not be a free market-oriented challenge. Instead its particular challenge may be the allocation of sufficient financial resources to long-term Travel & Tourism product development at a time when current fiscal deficits are putting pressure on capital-intensive projects and long-term investments. This fiscal pressure – at least, prior to the SARS recovery effort – was evident in the flat operating budget allocation for the HKTB, which is responsible for the marketing and promotion of Hong Kong’s tourism. Its particular situation illustrated the traditional dilemma faced by a number of national tourism organizations (NTOs), which are limited by a lack of funding that prevents the NTOs from making strategic promotional investments during down-cycles – the ‘Catch 22’ of tourism marketing and promotion. However, this said, the recent funding allocated for post-SARS recovery is a clear indication that Hong Kong may have turned the corner on this issue, if only in the short term.

## **Domestic Tourism**

China has clearly recognized the growing importance of domestic tourism. In addition to generating increased earnings for less well-known parts of the country, domestic tourism can promote a greater understanding of the various lifestyles and cultures of China’s diverse population, contributing to harmonious living and encouraging support from local communities for tourism development. The new focus on domestic tourism is illustrated by the three week-long national holidays and the expanding policy of paid holidays, which was initiated to stimulate personal consumption generally and Travel & Tourism specifically.

Domestic Travel & Tourism is also seen as leading catalyst for the development of western China, helping to boost investment and consumption. It will assist in balancing the regional economic disparity between the relatively prosperous east, which was first to benefit from the opening of China’s markets and trade, and the west, which is the focus of the Western Development Campaign. In addition, it will address the

## Australia's Bureau of Tourism Research

### Who we are

The Bureau of Tourism Research (BTR) is a small research organization, jointly funded by the commonwealth, state and territory governments and by the sale of research services, statistical data and publications.

The BTR's primary role is to provide tourism-related statistical and background information to the Australian tourism industry and government. Such information is vital to allow our stakeholders to make good decisions regarding investment in tourism infrastructure, services and marketing.

### What we do

The BTR conducts a variety of research activities including:

- design, administration, management and analysis of ongoing surveys of international and domestic tourists;
- design, administration, management and analysis of one-off surveys;
- publication and marketing of results of research on current and emerging issues in tourism;
- publication and marketing of survey data and other tourism-related information;
- customized consultancy projects for a wide variety of government and private sector clients.

### Our key stakeholders

Our key stakeholders are:

- the Australian Commonwealth Government;
- state and territory governments;
- the many businesses and organizations which are involved in the Australian tourism industry;
- the Australian community.

### What you can expect from us

We are committed to providing objective, quality, cost-effective services that balance the needs of all our stakeholders. We place a high value on:

- being honest, ethical and professional;
- being helpful, courteous and considerate;
- acting with care and diligence;
- listening to what you tell us;
- understanding and responding to what you tell us.

In recognizing the diverse needs of our customers, we will:

- improve access for those with particular needs;
- require our documents and procedures to be straightforward;
- ensure all public information is easily accessible with contact details for more information.

We will keep you informed:

- by making available information about our research findings and related statistical data using a wide variety of forms;
- through our Internet website ([www.BTR.gov.au](http://www.BTR.gov.au));
- by responding promptly to requests for statistical information, or for general information about our research programme, our activities and services.

### Tourism Forecasting Council

The BTR also manages a forecasting unit, funded by the commonwealth government, which:

- prepares forecasts of international and domestic tourist activity for the Tourism Forecasting Council (TFC);
- provides secretariat support for the TFC Technical Committee, which is chaired by BTR's Director;
- prepares alternative scenarios of the impact of changing global economic conditions on Australia's tourism industry;
- has enhanced its econometric forecasting models to develop simultaneous and interactive forecasting of inbound, outbound and domestic tourist activity;
- has managed the development of a methodology and first forecasts for the supply and demand of tourism accommodation (tourist accommodation, regional demand, investment & supply model).

disparities of urban and rural development and bring economic growth and jobs to lesser-developed regions of China. At the same time, it will aid in the development of a rural tourism product that addresses consumer demand for relaxation, local specialities, natural scenery, culture and heritage.

Domestic tourism may also have an impact that reaches far beyond its intended or expected impact, and that is on the administration of China's tourism industry itself. The reason for this is that domestic visitors do not have the same requirements as international visitors. First, there is no language barrier and visitors can act as a tourist or a common consumer. They can also move about without tourist guides. Second, their spending patterns are very different from those of international visitors and they frequent establishments that do not necessarily fall under the administration of the tourism officials.

These characteristics alone will require China's tourism administration to change from being an organization that controls business conduct and conducts business itself, to one that simply provides direction and strategy, supporting the private sector's business efforts through promotion and the dissemination of information.

Although China's new policy of three week-long holidays has made an enormous impact on kick-starting China's domestic tourism, it is clear that the extreme seasonality of these national holidays has and will cause considerable strain on existing resources. It may also result in consumers avoiding these heavy traffic periods by spending their discretionary income elsewhere. To lessen the burden on these periods, China should move swiftly to supplement the three week-long national holidays with two weeks paid holidays, which can be taken throughout the year, at the discretion of consumers and businesses. This policy will help create a more balanced spread of holiday-taking throughout the year, reducing seasonality and creating a more stable and sustainable Travel & Tourism industry.

## Outbound Tourism

Joint research by the World Tourism Organization (WTO/OMT) and the European Travel Commission (ETC) into Chinese outbound tourism has neatly summarized the situation regarding this important component of China's Travel & Tourism industry:

"While the Chinese Government has promoted both inbound and domestic tourism actively since the mid-1980s, it has traditionally restricted outbound tourism. The reasons for this are political as well as economic. The policy has often been referred to with the explanation that China is a developing country and must therefore develop internally and protect the interests of its domestic industries. However, a number of factors, including a growing interest and pressure from the expanding number of affluent Chinese, have resulted in a new policy of opening up to Chinese outbound tourism since the mid-1990s. The policy can best be characterized as a mix of continued containment and slow opening up with the purpose of controlling the mobility of Chinese citizens, protecting the national tourism sector, and limiting the outflow of foreign currency.

To meet these purposes, the following main rules are in operation:

- Chinese tour operators are not allowed to organize or promote tourism groups to overseas destinations that have not been granted approved destination status (ADS).



- Foreign tour operators are not allowed to promote outbound tourism services. At present, they are not even allowed to establish a representative office in China to provide outbound tourism services.
- Foreign airlines are limited in their frequencies and capacities by means of restrictive air agreements.”

NB: It should be noted that, since the WTO/ETC report was completed, there has been progress in terms of liberalizing the tour operating sector. Among the first to take advantage of a lifting of restrictions has been TUI AG, which confirmed a deal with China Travel Service (CTS) at the end of 2002. An agreement has been signed to establish a new company involving three shareholders – TUI AG, CTS and Martin Büse, who will also be executive board chairman of the new company. While TUI is a market leader for European tour operator holidays to China sending some 40,000 clients per year group-wide, Beijing-based CTS is one of China’s largest tourism organizations, handling approximately 810,000 customers in 2002 and generating a turnover of some €158 million.

The parent company, CTS Group, has a China-wide network of 300 tourism offices, and also owns 17 hotels. Both CTS and CTS Group are directly administered by the central government. Advantages for the Chinese side should include the benefit from TUI’s management and expertise, while the foreign partners believe the venture should position TUI as a leader of quality tourism in China, and establish a structure which could ultimately harness the fast-developing Chinese outbound market.

American Express, which has had a presence in China for many years, set up a travel services joint venture with CITS over a year ago. The joint venture’s Business Travel Centre in Beijing was first to open, followed by the Shanghai Business Travel Centre in December 2002. A third, in Guangzhou, was due to open in February 2003. The centres are licensed to offer travel management services in China to multi-national corporations, regional companies and domestic companies, and to issue both domestic and international air tickets. President of American Express Global Travel Service, Charles Petrucci, estimates that the travel and entertainment market in China is already worth US\$10 billion annually, of which some US\$4-\$5 billion is business travel expenses. He is confident that this market will enjoy double-digit growth annually for the next five years, and plans to expand the corporate travel business into 40 other cities in China during 2003.

Among other groups in discussion with China’s tour operators are Thomas Cook AG, in a joint venture with major tour operator China International Travel Service (CITS) – and due to start taking bookings from this June – Rosenbluth International and Synergi.

In the past 18 months, CNTA has re-structured and expanded the travel agency system in China by issuing over 500 licenses to travel agencies to organize and promote tourist groups to outbound ADS destinations. According to the WTO/OMT and ETC report: “Although it has proven easy to obtain approval for the establishment for a National Tourism Organization representative office in China, which is defined as ‘residential representative office of foreign governmental tourism department’, ADS status is crucial to have a fully operating NTO office. Only ADS countries are allowed to promote Chinese outbound travel, while all others have to attract outbound tourists by word of mouth. Any ‘proactive’ promotion by non-ADS countries is strictly prohibited.”

China now has at least 3,500 travel agencies that can issue international air tickets (out of an estimated total of more than 10,500) but, even after the new licensing round, only 15 per cent are permitted sell international tours.



While this is in line with CNTA's plans to control the development of outbound travel, WTTC maintains it has failed to recognize that the full potential of Travel & Tourism, including Chinese job creation. Without a free flow of outbound, as well as inbound and domestic tourism, this potential will not be realized. Like the third leg of a tripod, Travel & Tourism is not balanced and is not sustainable without a strong outbound market.

To achieve the full potential of Travel & Tourism in China, the Chinese Government must treat outbound tourism as a strategic priority on a par with inbound tourism – by eliminating ADS requirements completely, and allowing unlimited access to the Chinese market by foreign NTOs and tour operators, and by removing restrictions on travel agency outbound sales. At the same time, the travel industry needs to ensure the quality of the products and services it sells by promoting transparent consumer rights, self-regulating price and quality, and further developing a sound legal operating framework.

**Travel & Tourism is a completely new experience for Chinese residents and the products and services necessary to serve domestic visitors do not currently exist.**

### **Product Development**

In most tourism economies, product development is associated with the latest analysis of consumer motivation/desires such as ecotourism, which adds a new element of ecology, nature, high-spending visitors and exclusivity to an already full complement of Travel & Tourism products. In China, although ecotourism will also fill that niche, the primary concern and focus is the development of tourism products that will accommodate and satisfy a new middle class of consumers – a market estimated in the hundreds of millions.

In many respects, China is in the process of developing a mass tourism economy unlike any the world has ever seen. Current estimates suggest that, in 2002, the country exceeded the 100 million international visitor mark forecast by WTO/OMT for 2010 at the earliest. In addition, domestic visitors totalled around 800-900 million. As is the case in the USA and Europe, the vast majority of visitors are looking for holiday experiences – in sun-and-beach resorts, mountains or urban destinations. However, unlike visitors in these other countries, Travel & Tourism is a completely new experience for Chinese residents and the products and services necessary to serve domestic visitors do not currently exist.

China will therefore need to prepare the groundwork for this explosive new consumer demand, improving transport networks and infrastructure, and ensuring careful destination/resort planning and development. In addition, this will need to be supported by marketing and promotion campaigns, as well as by a legal, regulatory and financial framework that will encourage free-market forces to adapt quickly to accommodating and managing the huge projected demand.

## Budget Hotels

The budget hotel sector is a key segment of the market which international experts believe has extremely high growth potential in terms of domestic travel demand, and which, they believe, should be earmarked as a priority for development. Although the development of four- and five-star luxury hotel properties was initially important for China to capture inbound visitor business, international brands in the upper hotel categories are now well established in China – in fact, the competition between brands is very strong – and the time is ripe to focus on the provision of low-cost, quality accommodation. This will primarily meet the needs of the growing domestic market, but will also stimulate growth from a new, less upmarket sector of the international market.

This point of view is highlighted in a paper produced by Guo Qing and Yu Huijun from the Tourism Management School at Beijing Second Foreign Language Institute. Their analysis suggests:

“Many state-owned tourism enterprises are suffering from the serious influence of the planning economic system... The state-owned enterprises lack strict budget constraints and they have no drive to seek the maximum profits during their operation, since... the ownership of the industrial assets is not clearly defined... Consequently, over-capacity and low efficiency are produced and the waste of the resources happens... As for the hospitality industry, based on the domestic market, we should develop the hotel products for domestic tourists and put priority to the development of economic hotel chains and economic hotel groups.”

Another paper, entitled ‘The Challenges of Hotel Chain Development in China’, by Ray Pine, Pingshu Qi and Dr Hanqin Qiu Zhang from The Hong Kong Polytechnic University, investigated the problems and challenges of hotel chain development in China and suggested a series of possible solutions. Among the problems and challenges the authors identified were:

- Current regulations limit the free flow of state-owned assets in the market.
- Bureaucratic control over hotels may cause a waste of resources, low efficiency, and a lack of innovative entrepreneurs.
- The complexity of the hotel ownership system in China makes chain development even more difficult.
- The failure to separate hotel management and ownership, and the effective monitoring of state assets, can cause many problems in terms of chain affiliation.
- Most Chinese hotel owners would prefer self-management rather than losing control by contracting hotel management to another party.
- The lack of necessary resources – eg human resources, capital, and management expertise – make it difficult for Chinese hotel chains to develop their organizational capabilities.

The authors include several recommendations:

- Continued reform of some basic regulations on the free flow of state-owned assets and bureaucratic control over hotels are needed to create a better business climate for hotel chain development in China.
- The hotel ownership system must change and an ownership trading market should be established, which would lead to the restructuring of Chinese hotel assets.

There has been some progress regarding this issue – as reflected by the recent agreement between the Accor Group, one of the top multinational hotel groups, and Jinjiang Group to establish a joint venture to deal with sales and distribution channels in China’s hotel market. Nevertheless, WTTC firmly believes that the Chinese Government authorities should work even harder to facilitate the consolidation of these enterprises into profitable hotel groups and management companies. This process can be expedited by their classification as an ‘desirable category’ of industry, as well as by the lifting of certain market restrictions, which will allow the free movement of assets and encourage the development of hotel groups and hotel management companies.

## Meetings, Incentives, Conferences and Exhibition (MICE) Travel

China is a newcomer to the world of meetings, incentives, conferences and exhibitions (MICE) compared with leading US, European and Asian destinations. The MICE business accounts for a modest share of arrivals, although it is starting to show annual percentage strong growth. The development of new world-class facilities in Beijing, Shanghai and Guangzhou should help attract new year-round demand and enable China to compete more effectively with other leading destinations. China’s recent success in attracting high-visibility events such as the 2008 Olympic Games reflects the country’s aspirations and intent to make large events a mainstay of its product offering.

Although these gains are impressive, national and municipal efforts to operate as convention bureaus are insufficient and should be reorganized and restructured under the leadership of a National Convention Bureau (NCB) with city/destination chapters to tap the potential of this enormous market. The NCB should ensure complete coordination and synergy for the promotion of China’s MICE business. It should position China in the international marketplace as a leading destination, and serve as an initial/focal point of contact, distributing leads and allocating business transparently. The NCB should provide conference industry leadership and coordination, raising the level of professionalism, serving as an information clearing house of convention industry information, exerting influence and linking industry and government. In so doing, the NCB will raise the level of the MICE business to that of an important economic contributor.

Hong Kong already enjoys a strong international reputation as a MICE destination and has put in place a strong team effort to market, promote, sell and operate this lucrative business.

## Timeshare

Researchers, Yumpeng Lee and Yunquan Hu, of the Harbin Institute of Technology have concluded: “Timeshare will be the most prosperous industry of travel and tourism in the future.”

One of the world’s largest timeshare operators, Interval International, has been following the China market for timeshare opportunities for a number of years, and it reports that timeshare continues to be one of the fastest growing segments of the global Travel & Tourism economy. Global membership growth has continued to increase over the past 22 years at a compound annual rate in excess of 17.5 per cent. Currently, over 5,000 resorts are located in over 110



countries and over nine million weeks of timeshare are owned.

In general, timeshare has matured as a Travel & Tourism product category and is now viewed as a mainstream hospitality product that neatly supplements hotels and other accommodation products. It appeals to growing middle-class visitors who appreciate the entry of larger companies with strong reputations, offering higher quality resorts, at affordable prices, in great destinations. The industry has also seen increased quality exchange opportunities, more flexible alternatives, increased consumer protection and vacation/holiday ownership that is a good hedge against inflation.

On the other hand, the public sector appreciates the sustainable development associated with timeshare, not to mention its significantly higher occupancies, longer visitor stays, more frequent and return visits, and higher spending. Timeshare is also seen as a successful product for softening down-cycles and directing traffic to new tourist areas, as well as alleviating problems of accommodation over-supply.

In China, these benefits have also been noticed by the Chinese authorities. Qian Qichen, the Vice Premier of China, speaking at the National Tourism Development Conference said: "The key cities could actively discuss such new way[s] of tourism [such] as timeshare. The development of timeshare will add new drive to the increase of [the] tourism industry."

Interval International's analysis of the China timeshare market suggests that its popularity in China will continue to increase, especially following the growth of the middle class and the desire of people to spend quality time with friends and family. The burgeoning opportunities for domestic, regional and international timeshare exchange will only enhance public interest in domestic, inbound and outbound travel for China. Interval International also reports that, as Chinese business people become more knowledgeable about the

**“Timesharing vacation[s] should be vigorously promoted. Focus should be put on supporting large tourism enterprises, trying out timesharing vacation and developing on a steady basis according to China’s situation.”**

## China Tourism Strategy

timeshare concept, more sales and marketing expertise will be developed locally, providing greater incentive for larger Chinese companies with strong reputations to enter the industry.

Since the outlook for timeshare in China seems so positive, it is imperative that industry leaders work in partnership with government officials to establish sound regulations that protect the consumer and allow legitimate timeshare developers to grow their businesses. Cornerstones of these regulations should be a seven-day cooling off period to allow the consumer time to think things over before a sale becomes final. Any money paid at the time of the sale will be held in an independent escrow account or trust during this seven-day cooling off period. Additional mechanisms that protect the consumer's use rights over the life of the 'right to use' programme must also be instituted as another cornerstone of intelligent timeshare regulation. A number of countries, including the USA and members of the European Union, provide best-case examples of regulatory law for timesharing that Chinese officials should consider in developing its regulatory structure.

## Special Events

The Beijing Olympics of 2008 presents a major opportunity for China to showcase itself as a nation and leading tourism destination with world-class infrastructure, facilities, products, policies and standards. It is also an enormous catalytic opportunity for China to undertake a comprehensive assessment, restructuring and makeover to springboard Beijing, and in many respects China itself, into the modern age of Travel & Tourism. Based on recent events – Beijing officials released their preliminary Olympic Games Strategy paper in October 2002 – the process is well underway.

In preparation for the 2008 Olympic Games, the city has embarked on a major development effort, which covers many areas in addition to the construction of sports-specific facilities, such as stadia, infrastructure and superstructure for visitors (eg a new international airport, ring-roads, motorways, hotels, the Olympic Village, etc). Its seven-year Action Plan covers ten general areas including: infrastructure development; environmental pollution control; urban transport development, and management; information and telecommunications systems development; improved security, health care and sanitation; and an increase in the overall pace of urban regeneration and modernization.

It is engaged in a major face-lift of the entire city, including the rejuvenation of inner-city spaces, the reconstruction of distressed areas, and improvements to cityscapes and parks. It is making a concerted environmental effort to produce a cleaner, greener city, which at present suffers from high levels of air and water pollution. Measures include the planting of 12,500 hectares of trees to the north-west of the city in an attempt to reduce dust storms (it has already planted more than one million trees in a 240 square kilometre green belt around the city); the replacement of coal-fired power stations and coal-based industries with gas to reduce annual airborne sulphur emissions; the relocation of the

city's entire chemical industrial zone from the south-east suburbs, and the closure of others which fail to reach ISO-14001 environmental management standards to further reduce pollution; and the banning of cars more than 15 years old from its roads and their replacement with lead-free petrol and LPG fuel-driven vehicles. Its cultural and social strategy includes new health standards, extending the sewerage system to cover 90 per cent of the city by the end of 2007, new waste disposal systems, and the reduction of sulphur, nitrogen and carbon dioxide levels in the suburbs (Beijing Olympic Strategy 2002).

The final impact of the Olympic Games should be a reconstituted modern tourism destination, the city of Beijing, that is equal in attractiveness for international and domestic visitors with any of the world's great cities.

Although China's 2008 Olympic effort to date appears to be right on target, it can not be overstated that this event will be China's first real chance to show the world that the nation has come of age. Every detail of the lead-up to the event and the way in which the Olympic Games





are organized will be scrutinized – from food hygiene to traffic congestion – and the long-term future of China’s Travel & Tourism will to a great extent be dictated by the successful running of the Games. The 2008 Summer Olympics will be a global showcase for China and its future tourism.

Another major opportunity for China to showcase its accomplishments and its future potential for Travel & Tourism will be World Expo 2010, which was recently awarded to Shanghai. Expo 2010 not only presents an opportunity for urban development, but also focuses great attention on Shanghai and China as a world-class tourism destination. To quote the *China Daily*:

“In the city’s ambitious urban planning blueprint, banks along the Huangpu River will be the centrepiece of renovations, with a 5.4 square kilometre area reserved for the US\$3 billion World Expo 2010 project.

Pollution-generating steelworks, shipmakers, chemical plants, port machinery factories, discarded dock warehouses, shabby huts and apartment buildings that stretch along the river bank, will be replaced by magnificent show halls, conference buildings and gardens, restoring the river to its rightful, spotlight place in city. This renaissance will become the central element around which a new way of life will be structured and developed. In addition to the public transport system currently under construction, other transportation infrastructures will be developed to include the Expo site in Shanghai’s mass transit network. The urban developments will thus be optimum for their integration in the metropolis and allow development to continue after 2010.

‘In a word,’ said the city’s top planner Tang, ‘Shanghai’s carefully selected location for the Expo venue will not only facilitate the exhibition in 2010, but will bring far-reaching benefits for the people here.’”

Xinhua News Service reported that: “Business opportunities are the

most evident benefits of hosting a World Expo, which can promote the development of the international economy, trade and tourism, as well as cultural exchanges and friendly cooperation between countries.”

Both the Beijing 2008 Olympics and the Shanghai 2010 World Expo showcase China’s promise and focus for developing world-class hardware and software for Travel & Tourism. Although both ventures require enormous financial, human and intellectual resources, the potential reward for China is unlimited if the public and private sector work hand in hand to address the full range of issues (strategic to operational) that are necessary for the successful staging of these events.

### Hong Kong Disneyland

Perhaps the most dramatic example of tourism product development to take place recently for China and Hong Kong was the December 1999 agreement between the SAR and Walt Disney Company to build a Disney theme park at Penny Bay, Lantau Island. Although some have questioned the structure of the deal, it is difficult to disagree with the Hong Kong Chief Executive’s conclusion. Tung Chee Hwa said: “First, the Disney theme park will ensure that Hong Kong becomes the ‘favourite tourist destination’ in this region. Second, the Disney theme park strengthens our status as a ‘world city’. And third, together with our other initiatives in the economic sphere, Hong Kong Disneyland will ensure that our economic recovery and growth are sustained.”

The list of benefits that Hong Kong Disneyland is expected to bring Hong Kong is significant:

- Park royalties and management fees;
- A revitalized economy and tourism industry thanks to the provision of sound infrastructure;
- Primary and secondary value-added;
- An increased and diversified supply of budget hotels;



- Additional incentive for transit passengers to use Hong Kong's airport;
- Employment associated with land reclamation and other infrastructure works;
- An enhanced international image of Hong Kong as a cosmopolitan city and major tourist centre in Asia;
- The transfer of Disney's edge in quality standards, technological innovation, staff training and environmental attention to the rest of the economy;
- Enriched quality of life for Hong Kong residents through access to a world-class theme park and high-quality recreational facilities.

If there are any concerns about the impacts of Hong Kong Disneyland on Hong Kong, they are generally related to the limited supply of well-educated and experienced employees, especially at management levels, available to staff the theme park and associated businesses. Although the issue is primarily a short-term supply issue, it is also thought to be a short-term quality and service standards issue generally throughout Hong Kong. WTTC believes that Hong Kong and Walt Disney must pay special attention to this issue so the industry as a whole does not suffer.

In many ways, Hong Kong Disneyland represents the coming of age for Travel & Tourism in the region. It is a recognition at the highest level that Travel & Tourism is a pillar of the economy, and that bold action must sometimes be taken to ensure that the long-term vision for Travel & Tourism is realized – both for overall economic development and for job creation.

More recently, an announcement was made for the development of a Universal Studios Theme park to be built in Shanghai. This world-class brand brings the first significant attraction to China in a deal estimated at US\$870 million. Similar to Hong Kong Disneyland, Universal Studios Shanghai is seen as yet another major contribution to expanding the product offering and making Shanghai a regional tourism centre.

Rumours and off-the-record reports continue to circulate regarding Universal's plans in Beijing and Disney's plans in Shanghai, but no official plans or agreements have been announced. In either case, if one or both of these concepts become reality, China will have made an even greater commitment to Travel & Tourism and will have illustrated its intentions to create 40 million Travel & Tourism jobs.

### **Invest in Effective Marketing and Promotion**

The China National Tourism Administration (CNTA) has outlined a full complement of programmes and campaigns to promote China's tourism product in its recently developed tourism strategy. Unfortunately, the document does not provide information about available funding for the projects – either for existing projects or those planned for the future. According to CNTA: "The publicity of our tourism market at home and abroad mainly by way of promotion has won remarkable success... For the past few years, our tourism industry has succeeded in overcoming the serious impact of the Asian financial crisis by boosting the investment in product promotion, increasing the promotion frequency, improving and perfecting promotion method." The year-on-year record growth in terms of international arrivals and spending points is clear evidence of the fact that CNTA's strategy is working. More importantly, it appears to be positioning itself for even greater investment: "The investment in promotion should be increased and the promotion methods improved. Modern promotion means should be applied without delay to effectively reinforce the promotion

oriented towards the national and international markets. The investment is to be boosted and the promotion influence enlarged.” Perhaps the most important new element of the National Tourism Strategy is for CNTA to work with industry players to develop cooperative promotional efforts.” Cooperative propaganda is to take shape by strengthening the cooperation with the sectors involved, taking advantage of the commercial opportunities of overseas promotion, and organically linking tourism with the activities of the sectors and industries involved.”

Although the Tourism Strategy extensively discusses the modes, methods and themes for China’s tourism promotional effort, it does not address the funding or operational structure of tourism promotion within CNTA. Neither does it look at how the organization will carry out such a comprehensive mandate in the face of fierce competition around the world that has re-oriented the way in which tourism promotion is conducted. From the perspective of the private sector, transparency in CNTA’s marketing and promotion strategy, as well as in its operations, is missing. An immediate example of competitive re-orientation in this regard is the new Hong Kong Tourism Board (HKTB).

In April 2001, the Hong Kong Tourist Association (HKTA) was reconstituted as the HKTB following the Strategic Organization Review by the HKTA and the Hong Kong Government’s decision in 1999 to establish the Tourism Commission “with specific responsibility for policy-making and tourism development issues.” The new HKTB’s remit is to:

- Endeavour to increase the contribution of tourism in Hong Kong;
- Promote Hong Kong globally as a leading international city in Asia and a world-class tourism destination;
- Promote the improvement of facilities for visitors;
- Support the Hong Kong Government in promoting the importance of tourism to the community;
- Support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- Make recommendations to and advise the Chief Executive [of the HK SAR] in relation to any measures which may be taken to further any of the foregoing matters.

This new division of responsibilities between policy (HKTC) and promotion (HKTB) allows the HKTB to focus “on marketing and promoting Hong Kong as a destination worldwide, and taking initiatives to enhance the experience of visitors when they arrive.” Although the HKTB is no longer an association of members as the HKTA was, it is now “a body able to support the interests of Hong Kong’s tourism industry in its entirety”.

Although Hong Kong is the nearest example, geographically speaking, there are a number of similar examples around the world of a split of responsibilities between the national tourism administration, responsible for policy, and the national tourism organization, handling marketing and promotion. These should be looked at closely by China as it implements its strategic plans to compete for tourism on the world stage. The following are among the best examples:

In all cases, the one common denominator for successful tourism promotion is a marketing organization with a diverse and broad-based board of directors that reflects the collective wisdom and experience of key public and private sector leaders. By relying heavily on private sector experience to develop, position and execute destination branding, and promotional and marketing activities, these boards have effectively leveraged the talents of executives who use these skills on a daily basis.

## **HIGHLIGHT THE STRATEGIC IMPORTANCE OF TOURISM**

### **Recognize Travel & Tourism’s Economic Importance**

Travel & Tourism has the potential to diversify China’s economy. It can further enhance the country’s ‘tourism balance of payments’, stimulate entrepreneurship – particularly in small businesses – act as a catalyst for foreign and domestic investment, create large numbers of sustainable jobs, help social development in local communities, and assist in the Great Western Development Campaign.

The Tourism Strategy has already recognized the importance of tourism as a tool for social development. To make this strategy operational, China should consider producing a promotional campaign similar in nature to that undertaken in South Africa. The Welcome Campaign, as it is known locally, ensures that all public and private sector stakeholders in South Africa recognize Travel & Tourism’s full impact across the national economy – not just on hotels, restaurants and retail businesses, but also on construction, real estate and other sectors. Even more importantly, the campaign helps stakeholders recognize the untapped potential and the spin-off benefits of tourism that filter down through all levels of the community. South Africa’s Welcome Campaign, launched in 1999, encourages local tourism, national pride and care for the environment around the theme ‘Tourism is everyone’s business’.



Country	Tourism Policy Organization	Tourism Promotion Organization
Australia	Australian Department of Industry, Tourism and Resources	Australian Tourist Commission
Canada	Canadian Ministry of Industry	Canadian Tourism Commission
France	State Secretariat for Tourism	Maison de la France
Hawaii	State of Hawaii Department of Business, Economic Development and Tourism; Hawaii Tourism Authority	Hawaii Visitors and Convention Bureau
Hong Kong	Hong Kong Tourism Commission	Hong Kong Tourism Board
Spain	State Secretariat for Commerce and Tourism	Turespaña
South Africa	South African Ministry of Tourism	South African Tourism
Thailand	Ministry of Tourism and Sports	Tourism Authority of Thailand
UK	Department for Culture, Media and Sport	VisitBritain

Although this programme is similar in many respects to Hong Kong's 'Be a Good Host Campaign' of 1998, it has a broader scope of recognition of Travel & Tourism within the community and focuses on helping residents recognize their personal stake and opportunities in tourism.

## Make Travel & Tourism a Strategic Priority

Travel & Tourism should be factored into mainstream policies for employment, trade, investment, education and environmental protection, ensuring that the underlying policy framework is conducive to dynamic growth. The strategic importance of Travel & Tourism should be communicated to all levels of government, industry and local communities. All levels of government – central, provincial or local – affected by, or impacting on Travel & Tourism development, should be closely involved in elaborating and implementing the National Tourism Strategy.

The most visible example of how China has made Travel & Tourism a strategic priority is its Western Development Campaign.

### Western Development Campaign

Travel & Tourism is seen as a leading catalyst for western China's economic development, helping to attract investment and consumption. It will also assist in balancing the regional economic disparity between the relatively prosperous east, which was first to benefit from the opening of China's markets and trade. In addition, it will address the disparities of urban and rural development and bring economic growth and jobs to lesser-developed areas of China. Finally, it will aid in the development of a rural tourism product that addresses consumer demand for relaxation, local specialities, natural scenery, culture and heritage.

Although the objective for tourism development in the western provinces is commendable, the reality of the situation is that the range of tourism products on offer is still relatively limited. When western tourism is referred to as rural tourism, the issues are particularly evident. Xi'anmin Lu, from the Tourism Management Department of Beijing's Second Foreign Language University, neatly summarized these issues in his paper entitled 'Rural Tourism in China'. He said:

"Despite the trend of continuous growth in China's rural tourism, the range of rural tourism products on offer is still relatively limited. First, most of the current rural products are monotonous and there is a lack of sophisticated tourism products that can draw visitors' long-term attention. [The] structured supply of the leisure and cultural activities available is in its infancy. Tourism products on a specific theme (such as hunting and angling, educational travel, arts and heritage tourism, ethnic tourism and adventure), combining the stay with some kind of activity, are only just beginning to be assembled. Second, rural tourism is of a markedly seasonal nature, reducing investment profitability. The product is at a lower price than holidays to other tourist destinations."

These product development issues can of course all be addressed, but government and industry leaders must recognize that the dictum 'If you build it, they will come' is not necessarily true. Particularly with regard to western China, it is critical that tourism infrastructure, strategic plans and objectives be followed by detailed action plans for tourism marketing and promotion, training and education, and sustainable development. The economic business model for western China's tourism must be sustainable. Otherwise, China will be forced to provide onerous investment and ongoing subsidies.



Under present policy, certain provinces in the central and western regions come within the categories of ‘tourist sites, areas and related facilities’ that belong to the ‘encouraged industry’. If a project comes under this category, it will be deemed to be an encouraged category project and may enjoy two years of 100 per cent profit tax exemption plus six years of 15 per cent profit tax. This is in contrast to the normal national profit tax of 30 per cent, plus a three per cent local profit tax rate. In addition, visa formalities for arriving visitors can be handled in certain major tourist cities in the central and western region.

## Advancing Western China's Development

Accelerating the development of the middle and western regions is a strategic decision to modernize China. It is quite clear that the strategic decision will push forward the overall development of tourism in the western regions and raise tourism to a higher level. Therefore, the development of western China constitutes another significant opportunity for the development of Chinese tourism in the new century.

- Speeding up the construction of the infrastructure will radically solve the accessibility of tourism development in western regions. It will also transfer tourism resources in western regions into products and help them develop into excellent products with the perfection of the infrastructure construction.
- Safeguarding and constructing ecological environments and landscaping are to directly impel the development of the western regions.
- The effort to develop distinctive preponderant industries is to result in the making of a series of policies and the unfolding of jobs, and consequently impel the development of tourism in the western regions.
- The development of science, technology and education with great efforts is to fundamentally enhance the western provinces’ national and international competitiveness in tourism development and engender a new image accordingly.
- Being more open to the outside world will drive the upgrading and updating of the tourism in the western regions.

China Tourism Strategy

Although this policy does encourage western development, WTTC believes that China should establish a broader definition of tourism to include infrastructure that relates to tourism. WTTC also encourages CNTA to adopt PPT (United Nations Commission for Sustainable Development definition for Pro-Poor Tourism) policy, whereby the development of tourism should suit the economic interest of local residents from the poorest regions. China should encourage local residents to set up tourism-related enterprises by providing them with tax incentives, financial preference with regard to obtaining loans from domestic banks, management and technical training. It should also devise an employment policy that encourages training and job creation – such as using local residents as tour guides and cleaning/maintenance workers.

## Implement Satellite Accounting on an Annual Basis

Travel & Tourism needs to be effectively measured in order to understand its full impact throughout the economy. As a new industry,

Travel & Tourism is not discretely identified in charts of national or provincial accounts – its component parts are scattered throughout the accounts. Public sector analysis and related policies tend to overlook, or understate, the impact of the industry, or deal with its smaller individual components.

The technique of satellite accounting is designed to measure the new service sectors. This new tourism satellite account (TSA), developed by WTTC and Oxford Economic Forecasting (OEF) for China, is a significant tool for planning and policy development.

Unfortunately, the status of TSA development in China is not particularly clear. Although Chinese tourism officials regularly talk about the GDP or employment associated with Travel & Tourism, the *Yearbook of China Tourism Statistics* does not include any information on the subject. In addition, the recent report produced by the Asia-Pacific Economic Cooperation (APEC) Tourism Working Group entitled *Best Practice in Tourism Satellite Account Development in APEC Member Economies* reported that China was among “seven [APEC Members that] have not yet developed a TSA”.

WTTC urges the Chinese Government to follow the lead of the eight APEC member economies – Australia, Canada, Chile, the Republic of Korea, Mexico, New Zealand, the Republic of the Philippines and Singapore – that have already begun developing TSAs. Most of these eight countries have developed them as joint projects between the national tourism administration, the national statistics office and the central bank. The report on best practice cites the key uses and benefits of the TSA – that help to raise awareness of tourism and its contribution to national economies, notably to GDP and employment. This in itself helps legitimize/give credibility to the tourism industry in the minds of politicians and the general public. A TSA:

- helps provide a core definition of tourism as a composite industry;
- provides a base for developing national tourism indicators;
- thanks to its ability to track the industry, helps keep tourism on the public and policy horizon;
- provides a foundation for the development of specific analytical extensions, such as employment/labour force modules or provincial TSAs;
- provides a good basis from which to solicit and justify funding for tourism development and marketing.

Ultimately, China should develop a TSA of its own and update it on an annual basis to ensure that adequate data are available to factor Travel & Tourism into economic and employment strategies.

A number of organizations are available to assist CNTA in developing a TSA. The simulated TSA work produced by WTTC is an excellent example of how the private sector can provide capacity building and knowledge transfer to the public sector in this critical area. Other organizations, such as the World Tourism Organization, or the governments of Australia or Canada – which have done significant work in this area – might also contribute their expertise on a complimentary basis.

WTTC also encourages Hong Kong to translate the pilot TSA into a fully fledged TSA capable of providing complete economic history and forecasts to government and industry players so that government and business decision-making can be improved.





3/F

Green Leaf Curry House  
綠葉咖啡屋

嘉禾餐廳  
GOLDEN HARVEST RESTAURANT  
3/F  
合款OK通宵營業

金湖園  
潮州樓

新好酒樓

建生珠寶鐘錶

百福金行

A614  
98

唯屋

OK \$28



## DEVELOP THE HUMAN CAPITAL REQUIRED FOR GROWTH

### Promote a Positive Image of the Travel & Tourism Industry as a Provider of Jobs and Careers

The Travel & Tourism industry in China directly generates around 1.9 per cent of total employment in China, or some 13.6 million jobs. The Travel & Tourism economy overall accounts for a 7.4 per cent share, or 54.1 million jobs. Although these shares are modest by international standards, we still expect China to produce nearly 12 million new jobs from Travel & Tourism over the next ten years, assuming no significant changes in Travel & Tourism policy.

Recent discussions with CNTA have indicated that they are targeting the creation of some 40 million jobs in Travel & Tourism over this same time period. This level of job creation would suggest an annualized growth approaching 25 per cent. Although this would be an extraordinary growth rate, this kind of growth would certainly be possible as long as there is a climate of significant policy change.

Whichever scenario proves correct, employment creation in China's Travel & Tourism will come under the pressures of accession to the World Trade Organization (WTO/OMC), which will force China's industry, including Travel & Tourism, to become more productive, paring excessive labour to a level approaching world competitive levels.

Job creation is certainly one of the most important objectives for the Chinese government, but the problem is more long term than short term. This is due to the fact that China's low-wage regime will remain an advantage for many years to come and it will lessen the need for China to reduce its workforce to levels comparable with those in other countries.

During the WTO/OMC membership transition period, industries that have previously received subsidies or those with large numbers of

unskilled workers will be hardest hit. On the other hand, Travel & Tourism is uniquely qualified to generate significant employment opportunities for these areas of the workforce. However, this will require a massive retraining programme on a scale unmatched by the tourism industry anywhere else in the world

### Take Advantage of Travel & Tourism's Ability to Provide a Wide Range of Jobs

While acknowledging the vast expectations for future job creation, it is particularly important to point out that career opportunities in Travel & Tourism can be extremely varied – with upstream suppliers such as hotel designers or airport engineers, or with downstream service companies like retail shops, petrol stations, clothing manufacturers and food suppliers. The former depend on travel company purchases; the latter are driven by visitor expenditures. There are also jobs in the public sector catering to visitors – such as border inspectors, air traffic controllers and museum attendants.

Contrary to conventional wisdom, jobs created by Travel & Tourism – both directly in and outside the industry – range across the entire employment spectrum and, in many cases, have characteristics that fit model employment patterns:

- The increasing sophistication of the industry means that there are a growing number of high-level jobs in different sectors;
- They can be created at low cost, with few barriers to entry, and faster than most industries;
- They are service and export related;
- They provide an avenue for transformation and social cohesion by counter-balancing the flow of people to the cities from disadvantaged rural areas, or from the western regions to the eastern regions;
- They are often created in small and medium-sized enterprises, or family-run businesses, encouraging traditional crafts and cultural activities;
- They provide significant opportunities for women, many of whom want part-time jobs;
- They are ideal for young, previously disadvantaged, or first-time employees;
- They have good capacity for education, training and skills development;
- There are widespread opportunities for long-term careers rather than mere jobs.

China has recognized all these opportunities, as well as the fit for Travel & Tourism, especially with regard to creating jobs for workers made redundant by the rationalization of state-owned enterprises (SOE). In looking at best-case practices, a number of emerging economies have made commitments to furthering economic opportunities specifically in the tourism industry, and these could serve as models. China should establish programmes that focus on the transition of workers from closed SOEs, agriculture, rural areas and western regions into Travel & Tourism jobs, professions and ownership. Moreover, the Chinese Government must make a major investment in time, education, training and funding to assure these programmes produce results.

### Hong Kong – Pilot Tourism Satellite Account

As reported by APEC in its report entitled *Best Practice in Tourism Satellite Account Development in APEC Member Economies*, Hong Kong has developed 'a pilot tourism satellite account...covering only inbound tourism':

In 2000, following discussions between Hong Kong's Census and Statistics Department (C&SD), the Tourism Commission and the Economic Analysis Division of the Financial Services Bureau, it was decided that C&SD would compile a pilot TSA (known as PTSA) for Hong Kong using existing available data. Through the pilot compilation process, it is hoped that the following broad targets can be achieved: provide a crude answer to such questions as the contribution tourism makes to Hong Kong's GDP; and identify any data deficiencies for the compilation of a more comprehensive TSA. In conducting the pilot project, Hong Kong learned a number of lessons associated with tourism satellite accounting, most importantly, the fact that "there are significant data shortages in some areas and a lot of estimation and simulation using existing data is required". According to the Hong Kong Census and Statistics Department in its chapter in the APEC report: "Given the crude nature of the estimates, a decision has not yet been taken regarding the publication of the results."

One important aspect of Travel & Tourism human resource development, which is standard procedure for most countries, but is problematic in China, is the free flow of talent. In a paper presented to the Asia Pacific Tourism Association Fifth Annual Conference by Fan Songhe, of the Beijing Second Foreign Language Institute of China, Mr Songhe writes:

“Usually the local authorities only allow foreign-managed hotels to hire people with registered permanent residence, thus making it [impossible] to recruit all the talent [needed to] meet the [company’s] requirement[s]. Therefore in reality, it is common that those with registered permanent residence would not like to enter the industry, while those who are eager to take the job of hospitality just cannot do it.”

To address this issue, China must provide Travel & Tourism talent, ie graduates of accredited tourism schools and universities, exemption from permanent residence requirements, so that human resources can be effectively mobilized and encouraged to stay in the industry. In the short term, it may also need to open its doors wider to external expertise in order to tap the international pool of seasoned Travel & Tourism professionals who can assist in accelerating information and technology transfer to the resident Travel & Tourism community.

**A nation-wide educational campaign should be established to enhance the image of Travel & Tourism, which is typically perceived by many as offering low wages and poor working conditions.**

### **Place a High Priority on Education & Training**

Given the projected growth in Travel & Tourism demand, it is important to plan ahead to attract sufficient numbers of employees with the appropriate skills. Special attention has already been paid to placing education and training at the forefront of Travel & Tourism development, introducing it into the school curricula and implementing measures to improve skills, such as training accreditation programmes.

A nation-wide educational campaign should be established to enhance the image of Travel & Tourism, which is typically perceived by many as offering low wages and poor working conditions. There should also be increased emphasis on informing all sectors of the community about the career opportunities available.

WTTC encourages the Chinese Government to promote the scale, scope and characteristics of career opportunities created directly and indirectly by Travel & Tourism, and to factor these into mainstream employment, trade, investment and education policies.

In looking at the current state of Travel & Tourism education in China, it is clear that great progress has been made over the past two decades – especially in the 1990s – in terms of scope, educational levels and geographic distribution. However, in an analysis of tourism education in China presented to the Asia Pacific Tourism Association Fifth Annual Conference, Honggen Xiao of Huaqiao University reported six significant limiting issues:

- The hierarchy of tourism education and training does not correspond to the tourism career path specified by tourism students or industry’s general demand.
- Most degree programmes are dominated by disciplines of an applied nature reflecting the immaturity and limited scope of tourism higher education.
- There is an apparent lack of standardization in curricula design for tourism degree programmes.
- Tourism education is currently focused on receiving inbound international visitors and neglects domestic tourism, leisure and leisure-related studies.
- Professional and vocational schools dominate (80 per cent) tourism education without regard to industry demand.
- Tourism education has not yet been factored into the Ministry of Education portfolio, limiting standardization and the maturation of tourism education as a discipline.

The analysis finishes with a series of recommendations that we believe will provide a sound basis for the future of China’s Travel & Tourism education system:

- A comprehensive tourism education and training model should be adapted to reflect student needs and industry demand, and in doing so, create a balance between tourism education and tourism career paths.
- Guidelines should be developed for standardizing tourism education.
- Under the guise of national education reform, functional distinctions (curricula design, qualifications of educators, facilities/equipment, skills) and hierarchical linkages should be established between tourism education and tourism training.
- Tourism research should be developed and encouraged to accelerate the maturity of tourism as a discipline.

WTTC also recommends that China embrace best-practice education and training methods and structures from sources outside China, in order to reduce the learning curve and supplement its own system with first-hand, world-class experience.

## **ENCOURAGE OPEN MARKETS AND SKIES AND REMOVE BARRIERS TO GROWTH**

### **Open Markets and Improve Airline Access**

The accession to the World Trade Organization (WTO/OMC) should work in favour of China’s tourism industry. But there is no guarantee that this major structural change will come easily or help China realize its full potential. A liberal international trading regime, with free-flowing markets for goods and services, tends to help Travel & Tourism growth and, in turn, enhance wealth and job creation. Increased trade encourages business trips, and growing disposable income expands leisure travel. However, the magnitude of change necessary for full implementation of WTO/OMC requirements in China is extraordinary in scope and complexity.

### **World Trade Organization Effects**

A recent paper by Bo Hu and Liping A Cai from the Department of



Hospitality & Tourism Management at Purdue University in the USA neatly summarizes the opportunities and challenges associated with China's accession to the WTO/OMC:

"China's accession to the WTO[/OMC] is bringing opportunities for travel service companies and destinations that are interested in one of the world's biggest markets. Foreign travel companies are now permitted to establish joint travel services with Chinese partners in Beijing, Shanghai, Guangxi, Xi'an and other government designated regions, as long as the Chinese partner holds the majority ownership. The foreign travel service partners will be allowed to take a dominant share of a joint venture by the end of 2003; and foreign investors will be able to establish solely owned travel agencies by 2006. The restrictions on setting up travel service subsidiaries or branches by the joint venture companies will be removed before 2006. In fact, foreign involvement in travel agencies and tour operations is already a reality in inbound and domestic travel sectors.

"Under the negotiated terms of WTO[/OMC] entry, [the] Chinese outbound travel sector is currently exempt from opening to foreign travel service providers. However, according to the WTO[/OMC] trade rules, exceptions will be reviewed after five year[s], and will normally not last for more than ten years. Therefore, it is only a matter of time [before] the Chinese outbound travel industry [will] be in line with WTO[/OMC] requirements and remove its barriers to foreign investors. Consequently, the structure of the outbound sector will shift from government-protected local competition to free international market competition where market forces will prevail.

It is inevitable that the tour operators will face the challenges not only from their domestic counterparts, but also from multinational firms. The introduction of international competition will help improve the efficiency of the travel trade in general, upgrade service quality, and cut service costs. All of these will benefit the sustainable growth of the outbound market. At the same time, the foreign participation in the market will lead to a trying time for many Chinese tour operators and agencies, which are currently considered a weak link of China's tourism industry."

### Financial Services

According to the Economist Intelligence Unit (EIU), China has one of the highest per capita savings rates of any country in the world and is primarily a cash-focused society. It also suffers from limited payment vehicles such as a nation-wide credit card system with information regarding a consumer's credit history. These two circumstances, taken together, make it difficult to persuade consumers to use electronic payment cards or payment systems for the purchase of Travel & Tourism products and services – something that is standard practice in most countries around the world. It also limits travel companies from accepting payment cards, due to the risk associated with unknown consumer credit risk. In most markets, given the high cost associated with even domestic travel and tourism, deferred payment options such as credit, charge and debit cards are the preferred choice of the majority of consumers.

In fact, in most countries, it is becoming more and more difficult to separate the consumption of Travel & Tourism activities from the electronic financial services that facilitate consumption. In most economies, this entails a wide range of banking and credit services

including credit/debit card payment options, automatic teller machine (ATM) networks, currency exchange, travel insurance, etc. Most countries already have an integrated national online payment network and, in many cases, these networks are linked with international networks such as American Express, Visa and MasterCard. The EIU has reported that, although China is working to build a nation-wide network through China UnionPay, the pace of change may be insufficient to accommodate the high rate of growth in Travel & Tourism consumption.

In general, China must focus greater attention on establishing transparent financial services policies in close collaboration with key stakeholders who provide for the convenient conduct of consumption associated with Travel & Tourism. Unless financial services can keep pace with the demand for Travel & Tourism, China's reliance on cash-based transactions will severely limit its ability to fully exploit the economic potential of this sector.

**China must focus greater attention on establishing transparent financial services policies in close collaboration with key stakeholders who provide for the convenient conduct of consumption associated with Travel & Tourism.**

### China's Aviation Sector

By all accounts, the outlook for China's aviation sector is quite positive post-SARS. However the tremendous growth recently experienced and forecast does present problems. As an example, overcapacity and under-utilization have plagued China's civil aviation industry for many years. And, as the American Chamber of Commerce (AmCham) in China reports: "The limited capacity of ...air traffic control systems puts physical constraints on sector expansion. A studied and focused commitment of resources from the Chinese Government on capital improvements would help remove sector constraints. [Furthermore,] the larger threat to airline expansion is the lack of qualified aviation personnel." A list of aviation recommendations put forward by AmCham China is on page 64..

### Airline Access, Air Transport Liberalization and Open Skies

Air transport liberalization and the debate on 'open skies' continue to capture the attention and imagination of Travel & Tourism stakeholders around the world. In some cases, the debate is focused on the availability of affordable airline seats during peak season on the most popular routes. In other cases, the debate is centred on the ability of carriers to generate sufficient economic returns while providing travellers with acceptable flight options and levels of service. This is especially true when there are state carriers factored into the equation.

However, there is another debate that asks a more strategic question



## Entry and Exit of Foreign Currency

### Entering China

Chinese (People's Republic) citizens carrying less than US\$2,000 foreign currency into China and foreigners carrying less than US\$5,000 foreign currency into China are not required to declare such amounts to the PRC Customs. However, if they are subsequently going to carry any foreign exchange out of China, it is advisable to declare their cash to the PRC customs authorities. This is because both PRC citizens and foreigners are permitted to carry out of China an amount of foreign currency not greater than the amount they previously declared. Declaration is mandatory for travellers carrying greater amounts of foreign currency than that stated above.

### Exiting China

Local residents and foreigners must apply for the following permits if they carry the following amounts of US dollars or other foreign currency out of China:

Local Residents	Foreigners	Requirements
<US\$2,000	<US\$5,000	Declare to the Customs upon exit
US\$2,000 to \$4,000	US\$5,000 to \$10,000	Apply in advance to a local bank for an Exit Permit
>US\$4,000	>US\$10,000	Apply to a local branch of the State Administration of Foreign Exchange (SAFE) for verification that the source of money is legal; apply to a local bank for an Exit Permit; and after the Exit Permit is issued, Customs will permit the carrying out of such amount of money.

Individuals frequently entering into and exiting China within a short period of time are subject to much more rigorous restrictions.

Although these restrictions are not excessive, they do inhibit legitimate Travel & Tourism consumption and production by local and international enterprises. WTTC suggests raising the capped foreign currency levels to higher amounts, which could vary according to different nature of travelling purposes, and simplify the prior approval process. For example, SAFE could delegate its verification duty to local banks, and also require banks to speed up the verification process.

## American Chamber Of Commerce Aviation Recommendations

### Accounting Procedures

As more Chinese airlines directly negotiate with suppliers, suppliers making direct sales to Chinese airlines will require credit risk assessments. The Chinese Government can facilitate this process by encouraging Chinese aviation companies to comply with internationally accepted accounting standards and by streamlining the payment process. Furthermore, inefficient payment processes hamper the sale of imported aviation components and spare parts. Elements of e-commerce can improve customer/supplier interaction, resulting in greater economy and growth for China's civil aviation sector.

### Partnerships with Foreign Airlines

Code-sharing and alliance partnerships with foreign airlines are changing the way Chinese airlines operate internationally. Greater opportunities for Chinese airlines outside China will gradually increase opportunities for foreign carriers in China. In order to take advantage of greater access to international markets, however, the Chinese reservation system must be compatible with major worldwide reservation systems.

### Commercial Space and Air Traffic Control

China's drive to modernize its air traffic control systems is a top priority. The addition of new air routes to civilian control will relieve congestion on existing airways and provide greater point-to-point route flexibility and safety. However, new air routes will require accelerated construction of infrastructure to provide positive control services along these routes. As air commerce in China continues to grow and more air routes come under civil control, rationalization of authority over air space between the military and civilian authorities is also important.

### Ticket Prices and Revenues

Finally, a number of industry analysts have indicated that the Civil Aviation Administration of China's (CAAC's) control of ticket pricing has become increasingly problematic – with some airlines asking for the right to offer discounts to attract more passengers. The redistribution of revenues by CAAC to less profitable airlines is also seen as incompatible with attempts to operate Chinese civil aviation according to market principles. Both issues need to be urgently addressed.

– How does aviation policy fit within overall government objectives of economic development and job creation now and in the future? In many ways, the answer to this question is even more difficult and complicated than it would seem at first glance, because it is not unusual for aviation and tourism in the government structure to operate independently of each other with separate ministries and separate sets of objectives.

The situation is even more difficult when a state-owned airline, or a publicly owned airline that has enjoyed historical preferences in a destination, is factored into the equation. In these cases, the state must determine the level of competition that it is willing to create and/or tolerate, and how this balances with its strategy for economic development – maximizing job creation potential for the nation/destination as a whole. As far as the Travel & Tourism industry is concerned, both sides of the issue have valid arguments, but it is necessary for them to be clearly defined and built into the destination's Tourism Plan.

At this point in time, the spotlight of the liberalization and 'open skies' debate appears to be focused on Hong Kong and the question of how Hong Kong will position aviation and Travel & Tourism within the broader context of economic development.

One of the most comprehensive and recent analyses of the Hong Kong aviation situation was published in a paper (April 2000) entitled: 'The Reality of Open Skies and Its Relevance for Hong Kong', by Dr C K Law and Dr Raymond Yeung from the Hong Kong Policy Research Institute. Their paper argues that:

**By encouraging more competition and capacity, Hong Kong SAR's airport could experience rates of growth far higher than in recent years. Until it does, however, its growth rates will be respectable, but still well below its potential.**

A strong home carrier is important for enhancing Hong Kong's air hub position because:

- Only the strong home carrier can expand trunk routes and extend the network efficiently for Hong Kong.
- A dominant home carrier, with its headquarters located in the home base, has a much stronger linkage and multiplier effect in the local economy than foreign carriers.
- A strong home carrier will be more valuable as a member in global aviation alliances.
- A strong home carrier can maintain a stable supply of air transport services for the hub. This would prevent the disruption of services due to political and other crisis situations.
- A strong home carrier brings 'national' prestige to the home base.

Government should consider the following policy recommendations:

- Design a comprehensive and transparent aviation policy by taking all domestic and international factors into account, with quantitative relations fully estimated.
- Formulate a negotiation strategy for liberalization by adopting a game theory approach, with emphasis on promoting better aviation cooperation among Asian economies.
- Maintain bilateral negotiations based on a fair and equitable exchange of economic opportunities in fifth-freedom and other

rights negotiations – a unilateral 'open skies' policy may not be the best strategy for Hong Kong.

- Maintain a strong home carrier in order to enhance the hub's development.
- Review the market structure regularly.

Although it is difficult to disagree with these aviation policy recommendations, which seem to be self-evident, it is more difficult to accept in haste the arguments that equate a strong home carrier as a driving requisite for a Hong Kong hub concept. In fact, based on a paper by Axxess Asia Pte to the Pacific Asia Travel Association in November 2000, entitled: 'Aviation Hub Study', there are five factors considered essential to airport hub development, none of which require a strong home carrier. These factors draw on experiences in North America and Europe and include:

- Infrastructure: Adequate airport infrastructure and convenient and comfortable facilities are key drivers of hubs. Most airports in Asia are now well prepared in this area.
- Economic Vitality: The growth of regional GDP will drive the demand for both business and leisure travel.
- Deregulation: As aviation markets become deregulated, demand for travel is stimulated by more capacity and lower fares. In order for an aviation hub to expand and compete, experience shows that the host government must liberalize the commercial aviation environment.

■ Aviation Technologies: Advances in extended range aircraft can greatly enhance or diminish an airport's importance as a hub.

■ Airline Alliances: Alliances increase hub activity through closely coordinated efforts to increase traffic flows and net revenues – at lower operational costs.

The Axxess paper concludes that there are three candidates in the hub game in Asia – Singapore, Kuala Lumpur and Hong Kong. For Hong Kong, the key factors contributing to its potential as a hub are its geographic location to serve China, its own identity as a strong origination and destination market, its geographic position for transit between South-east Asia and North American markets, and its new 24-hour world-class airport. The report concludes by suggesting that "by encouraging more competition and capacity, Hong Kong SAR's airport could experience rates of growth far higher than in recent years. Until it does, however, its growth rates will be respectable, but still well below its potential."

Following the Hong Kong Policy Research Institute paper, Ms Sandra Lee, Secretary for Economic Services, provided the Hong Kong SAR position on the issue on the Radio Television Hong Kong Programme 'Hong Kong Letter Today' (July 21, 2001).

"Since the opening of the new airport, the HKSAR Government has firmly implemented a policy of progressive liberalization of our air services.

# China - Current Market Outlook, 2002

## The Boeing Company

### China and Aviation

China will be the largest commercial aviation market outside the USA over the next 20 years with air traffic growing at 7.6 per cent annually. The current market outlook for China is predicated on the continued globalization of world economies, resulting in growing numbers of people travelling to visit friends and relatives, to transact business, and to enjoy leisure and educational opportunities not available close to home. In addition to economic growth, the demand for air travel is related to service improvements, international trade, and airline fares. As China's carriers become more market focused, competitive pressures will drive them to offer more frequencies and destinations to best serve their passengers.

### The Domestic Market

China's high GDP growth rates are leading to a rapid increase in domestic traffic. The domestic market, including Hong Kong and Macau, will continue to grow at an average annual rate of 9 per cent. Special events in China will support these high growth rates. Development of the western regions will promote growth. WTO/OMC membership will stimulate future travel. The 2008 Olympics in Beijing will create the opportunity for strong domestic travel as foreigners tour the country before and after the Olympics.

### The Regional Market

The entire Asia Pacific region will show healthy growth with China's regional market expected to see average annual revenue passenger-kilometre (RPK) growth of: China-North-east Asia 7.1 per cent; China-South-east Asia 4.4 per cent; China-Oceania 3.4 per cent; and China-South-west Asia 4.3 per cent. The China to North-east Asia market (Japan and South Korea) will be the fastest growing of all international markets. Service to/from South-east Asia will generate almost as many RPKs as service between China and North-east Asia.

In the Asia Pacific market, China-domiciled carriers will outpace foreign carriers in the growth of frequencies over the next 20 years. While non-China-domiciled carriers operating within Asia will grow intra-Asia frequencies to just over double 2001 levels, China's carriers will approach three times today's frequencies in this market. This will be encouraged by increased links to North-east Asia and more trade cooperation with ASEAN countries, as well as building on the renewed economic relationship with India.

### China-Europe

China-Europe service will initially link the four major Chinese cities to several European business centres including London, Paris, Frankfurt, Milan, Zurich and Amsterdam. Growth of both China- and Europe-domiciled carrier frequencies will occur at all four of these major Chinese airports of Hong Kong, Beijing, Shanghai and Guangzhou.

The China-Europe market will see a three-fold increase in frequencies over the next 20 years. Service to/from France, the UK and Germany will continue to dominate the China-Europe market. However, the market between China and other European countries (outside the aforementioned big three), will grow almost four-fold as new links are fostered.

The growth of frequencies to/from Shanghai will be slightly more rapid than to/from Beijing, although Beijing is still expected to remain the leader in frequencies between Europe and mainland China. Shanghai's rapid growth is due to airlines from Europe beginning to fragment their service between Beijing and Shanghai over time. As Shanghai evolves into another financial centre for China, there will also be some increased demand for more non-stop flights.

Over time many Chinese cities (like major cities and large provincial capitals) could be connected non-stop to several major European cities like Rome, Brussels, Geneva, Berlin and Madrid.

### China-North America

China-North America service is forecast to be about as large in terms of RPKs as the China-Europe market in 20 years. Frequencies in the China-

North America market are forecast to grow just under three-fold. By 2021, there will be 872 weekly flights in this market (counting both directions). New airlines will enter this market and new city pairs will be served non-stop. China will account for 18 per cent of all frequencies between North America (excluding Alaska and Hawaii) and Asia by the end of the 20-year forecast period.

China has several cities beyond the traditional four gateways (Hong Kong, Beijing, Guangzhou and Shanghai) that could support North American services in the future. Possible candidates are Chongqing, Chengdu, Shenyang, Wuhan and Xi'an. By 2010, these cities will have populations greater than five million creating a large catchment area for point-to-point traffic to/from North America.

By 2021, Hong Kong markets will operate an equal number of frequencies with large airplanes. Beijing and Shanghai will be about evenly split in terms of their transpacific fleet mix and frequencies offered to/from North America.

### Impact of WTO/OMC

China became a member of the WTO/OMC in 2001. As the world economy recovers from the current downturn, China's exports should increase substantially. With the further reduction of tariff and non-tariff barriers brought about by WTO/OMC, imports should also fare favourably. This boost to trade will increase both air cargo and passenger traffic volumes. Initially, this benefit will be realized by the provinces along the eastern seaboard since participation in international trade is still related to the access to major seaports.

As foreign investment continues to pour into China, more business relationships will be developed between Chinese and foreign enterprises, giving rise to the potential for more air travel over the long term. Foreign competition will also help China's industries increase their productivity and aid in accelerating their competitiveness globally. As a result, China's air carriers will need to open new international markets never before served through frequent, non-stop links.

### Market Focus

China's emphasis on a market focus has led to the consolidation of its airline industry. There were too many airlines in debt and the industry was fractured with no apparent rational networks centred on strategic hubs. The CAAC is trying to restore efficiency and competitiveness through this consolidation strategy. By enhancing the competitive position of the three major carriers Air China, China Southern and China Eastern at their respective hubs of Beijing, Guangzhou and Shanghai, the profitability of these carriers is expected to improve.

This consolidation will leave the major airlines to focus on domestic trunk routes, hub-to-hub routes, Asian routes and intercontinental service, while obtaining domestic feeder service from the networks of their merger partners. Over time, it is quite likely that these major carriers might also acquire equity interests in many of the remaining regional carriers to boost feeder service as directional and well-timed hub-and-spoke networks develop on the networks or point-to-hub service to supplement the major carrier networks. These carriers will focus mainly on connecting small cities to provincial capitals, or provide service between provincial capitals. They may also provide service to major cities from the small cities.

On the international scene, the major alliances are already courting China's carriers and it is very likely that each major Chinese carrier will eventually participate in a major airline alliance. This will further increase their connectivity and provide vital links as WTO/OMC benefits are realized. Stronger networks will make China's airlines more competitive and move them towards a more passenger-focused strategy. Passengers basically want a choice of departure times and fewer stops en route to their destinations. Consolidated carriers will therefore focus frequencies at their hubs and serve a variety of destinations.



Often, this slogan [Open Skies] embodies a stance that is not always fair to Hong Kong, and allows some countries to protect their local airlines through the application of double standards. For example, some economies exclude their huge domestic market from the boundaries of 'open skies', thereby preventing Hong Kong airlines from competing with their own. Hong Kong does not accept a slogan such as 'open skies', because we believe that Hong Kong and our aviation partners should both have fair and equitable opportunities. Putting this fundamental principle at risk would not only frustrate the healthy expansion of our air services sector, but could also adversely affect Hong Kong's long term development as a major international and regional aviation hub.

There have also been questions about the state of competition among Hong Kong's three local airlines, particularly whether our 'one route, one airline' policy needs to be modified. Under this policy, the government would in general designate one Hong Kong airline to provide services on a particular route. This policy has always provided full flexibility for government to designate more than one Hong Kong airline on a route when circumstances warrant additional designations.

Furthermore, the above policy does not mean that there is no competition on Hong Kong's air routes. On most routes, there is keen competition between Hong Kong and overseas airlines.

The truth is, Hong Kong's air services policy has been very liberal. Otherwise, it would not have been possible for Hong Kong to have such a wide air services network and high-frequency services.

I cannot agree more with a Hong Kong academic who observed

that if we blindly follow an 'open skies' policy proposed by some aviation partners, we could be chipping away the foundation of fair and equitable competition for our aviation industry, and this might cause damage to our economy. Hong Kong has an excellent geographical location, which means that our air traffic rights are very valuable. These assets belong to the entire Hong Kong community. As a responsible government, we have a duty to carefully evaluate the relevant policies to take progressive and steady steps to further enhance Hong Kong's status as a major international and regional air services hub."

The most recent development in this area has been the new Hong Kong-US bilateral agreement reached in late October 2002, and which – according to a press release from Hong Kong's Economic and Trade Office:

"...will further liberalize air services between Hong Kong and the USA. The agreement will allow for expansion of both cargo and passenger services and introduce code-share services for both Hong Kong and US airlines.

Hong Kong Secretary for Economic Development and Labour Stephen Ip said: "The new agreement will further expand Hong Kong's air services network; provide new business opportunities for Hong Kong airlines and further strengthen Hong Kong's status as an aviation and logistics hub'."

WTTC believes that, when all the liberalization and 'open skies' factors are considered and weighed, aviation must be seen as the driver of Travel & Tourism development and greater job creation. In this regard, we recommend that all governments, China and Hong Kong included,







make even greater efforts to open air transport markets to attract more air transport services and improve regional networks. Governments should continue to liberalize aviation agreements and provide for greater commercial incentives and viability, paying particular attention to routes on which capacity is limited and capacity growth lags behind the growth in traffic demand.

In general, China and Hong Kong should continue to pursue managed liberalization and the relaxation of aviation regulations. Both governments should establish an Aviation Unit within their tourism policy organizations to coordinate and implement actions to increase the number of airlines (scheduled and chartered) and passengers to and through Hong Kong and to and within China. Most importantly, these units should work with all stakeholder groups to develop a comprehensive and integrated strategy to use aviation as a catalyst for Travel & Tourism and overall economic development.

More specifically in Hong Kong, there seems to be little disagreement that Hong Kong should develop as an aviation hub for the region. Furthermore, there is also little disagreement that there needs to be a Hong Kong-based carrier in order for this to happen. However, what usually needs to be clarified is that neither of these scenarios requires that the resident airline(s) need be protected by a national or SAR policy to keep any particular entity in place. Rather, in advocating international liberalization, WTTC suggests that the hub operator in Hong Kong or any other hub for that matter, does not necessarily need to be locally owned. In Hong Kong, ownership and control rules should be loosened so that economic viability and ongoing service are determined by the market and the expertise and delivery of the aviation entity.

## Restructure the Management and Promotion of Travel & Tourism

While ultimate responsibility for China's Travel & Tourism at the national level should remain with CNTA, the tourism marketing and promotion function undertaken by CNTA should be divested to a public-private sector national Tourism Board to match prevailing competitive approaches.

The Chinese Government should establish the China Tourism Board (CTB) and, in so doing, take note of the existing, highly successful examples of public-private sector partnership developed in several countries around the world – in particular Australia, Thailand, Canada and France – for tourism marketing and promotion. Consideration should be given to the further development of the CTB as a public-private sector partnership, responsible for the coordination of national, provincial and local government tourism efforts.

For this partnership approach to be successful it will be necessary to ensure the following:

- Top-level active political support and engagement;
- A declared strategy – with clear targets and a detailed game plan for implementation;
- The involvement of major stakeholders in the development process;
- Strong public and private sector cooperation with outreach to partners across the Travel & Tourism economy;
- Consistent and growing public sector funding and exceptional inducements to attract matching private sector funding;

- Private sector leadership in drawing up marketing strategies;
- An integrated approach across government departments, and particularly in coordinating national, provincial and local promotional efforts;
- A continued awareness building and public relations' effort by the CTB to raise the profile of the campaign and generate media interest.

## Enhance Public Health, Safety and Security

Following the SARS epidemic in China, Hong Kong and other destinations, plus terrorist attacks in different parts of the world, public health, safety and security have been identified by visitors, governments, the industry, local communities and the media as one of the key areas of concern for Travel & Tourism around the world. The issue may no longer be an immediate problem in China or Hong Kong. However, newly emerging visitor demands and sound contingency planning require that all tourism destinations build health, safety and security provisions into national, provincial and local strategies, and that special emphasis be placed on Travel & Tourism in overall screening and policing strategies.

While general consensus suggests that there is a clear recognition of the need for greater attention and action at the highest government levels everywhere, WTTC believes its pivotal importance should be underlined. Successful health screening and law enforcement in troubled areas could result in a more sustainable forecast scenario.

Post-SARS, health concerns – especially clean water, environmental concerns and general hygiene – should be addressed and clear guidelines communicated for dissemination by the media. All too often, China is too harshly judged by the media, when open discussion of the perceived problems, the actions already taken, and programmes in place to address the issues, could so easily reduce their impact.

## Tax Intelligently

Care should be taken that any new taxes are not excessive, as this could have a negative impact on demand. There is an increasing tendency worldwide for governments – whether national or provincial/local – to target Travel & Tourism as a revenue generator to meet short-term budget objectives, with little thought for the longer-term consequences on demand and job creation.

While Travel & Tourism should pay its fair share of taxes, the growth and prosperity of the industry – including the investment necessary to generate these future revenue flows – will depend in no small part on the competitiveness of China's Travel & Tourism. This also depends on whether it receives equitable treatment relative to other industries and to competing destinations.

WTTC urges the Chinese and Hong Kong Governments to ensure fiscal regimes that continue to encourage tourism growth, exports, investment, infrastructure, business innovation and job creation. The 'User Pays – User Benefits' principle should be given priority, with funding collected earmarked for Travel & Tourism infrastructure and promotion.

New fiscal programmes, such as tax credit schemes, also need to be developed to encourage tourism growth, exports, investment, infrastructure, and business innovation and job creation.



## MATCH PUBLIC AND PRIVATE INFRASTRUCTURE WITH CUSTOMER DEMAND

### Expand Infrastructure

Infrastructure remains a critical component in Travel & Tourism development if the full potential of employment generation, export earnings and regional development effects are to be achieved. In most cases public infrastructure that supports Travel & Tourism expansion will anyway serve other urban and regional development purposes.

Quality infrastructure is also essential to diversify the product base, remove bottlenecks, ensure good service and distribute the benefits of tourism flows around the economy. It is not only a question of coping with increasing numbers of visitors, but also of making sure that the patterns of flow do not affect the natural or built heritage, nor run counter to local interests.

In general, China is investing massive amounts of capital in new infrastructure to serve the nation, as well as the tourism industry. The Economist Intelligence Unit reported that: "Just a dozen years ago, China had no highway system linking its provinces; now it has over 12,000 kilometres (7,500 miles) of such highways. It has increased the rail network by close to 50 per cent and introduced high-speed trains on many routes. Light rail systems are being built in 20 cities."

For China's airports the trend is the same. Under the tenth Five-year Plan, 43 new airports will be built, of which 23 will be in the western region. These 43 include two state-class hub airports in Chengdu and Xi'an and five regional hub airports. Additional investment is also flowing into the expansion and upgrading of Beijing Capital, Pudong International and Guangzhou Baiyun Airports. In some cases, China's aviation infrastructure has outpaced demand, causing financial stress and investment concerns.

Although the balance between supply and demand must be rationalized, the massive investment in Travel & Tourism infrastructure bodes well for an industry that relies on air, ground and water transport to deliver and facilitate the demand of its products and services. Certainly, the speed of building has implications for financial viability. In some cases, airlines and airports are losing money, and the costs of urban rail networks and toll roads exceed the revenues generated. With entry into the World Trade Organization, additional competition in areas like aviation may cause even greater stress on the system. China must therefore carefully balance the speed of infrastructure investment with supply and demand, with foreign investment and returns on capital, to guarantee a sustainable level of growth.

### Improve Land-use Planning and Protection

Land-use planning by provincial governments and local authorities, and particularly zoning, should be encouraged to protect the character of the natural environment, which is one of China's major attractions for residents and visitors alike.

Admittedly, the central government cannot enforce all types of legislation, but it can show leadership and encourage buy-in for legislation by provincial and local governments. Special incentives should also be proposed for the rapid modernization and upgrading of China's rural areas in order to spread the benefits of Travel & Tourism



across the country. These incentives could include assistance in a wide range of issues such as the development of concessions, the facilitation of sensitive infrastructure, delivering marketing strategies, and developing investment and promotion strategies.

### Develop Access to Capital Resources and Encourage Sustained Capital Investment

Capital investment in China's Travel & Tourism is currently high, at an estimated 9.4 per cent of total capital investment. Over the next ten years it is also forecast to rise by about 8.7 per cent a year to reach 10.1 per cent. However, there is no room for complacency. Experience has shown that investment – whether foreign or domestic – is extremely sensitive to economic changes. To guard against this, continued efforts need to be made, through the development of capital market structures, to attract sustained capital investment in China's Travel & Tourism industry from domestic and foreign sources.

At the same time, however, it is important to guard against the dangers of excessive development that bears no relation to existing or projected demand. This can result in cut-throat competition, leading to declining operating performances and lower profits. This situation has occurred in a number of international destinations, when hotel construction – especially in the high-end properties – was encouraged, without regard to attracting or transporting sufficient numbers of visitors to fill the rooms.

Perhaps one of the largest barriers to development of Travel &





Tourism in China are restrictions that inhibit a free flow of funds between investors and establishments. The lack of effective domestic financing options suppresses the ability for Travel & Tourism companies to expand, make acquisitions, merge with other companies, spin off bad assets, exchange property rights, restructure assets and consolidate.

Although the lifting of capital market restrictions to serve the needs of Travel & Tourism is unrealistic, Travel & Tourism is a major reason why China needs to build a less restrictive capital market in order to achieve sustainable development. However, in the meantime, there may be other paths than China could follow for Travel & Tourism. For example, several countries have created institutions or special funds within existing government-owned institutions for the development of Travel & Tourism enterprises.

The Asian Development Bank reports that:

“SMEs [small and medium-sized industries], most of which are private companies, represent one of the most dynamic economic sectors and contribute significantly to the national economy and to the creation of new employment opportunities. [However,] the development of SMEs [in China] is constrained because of the lack of access to financing and, in general, a conducive policy environment...The [Chinese] Government recognizes the importance of SME development, and is considering introducing a specific SME Promotion Law...[which] states that the Government will establish an SME Development Fund. The purpose of the fund will be to encourage local governments, private entrepreneurs and financial institutions to invest in SMEs. This will help to improve the access of SMEs to financing.”

WTTC encourages the Chinese Government to pursue this approach and pay special attention to SMEs associated with Travel & Tourism, among which much of the industry growth is expected to occur.

Within the broader context of encouraging sustained capital investment, China’s Travel & Tourism industry – with the exception of operations in the central and western region of the country – is not considered to be an ‘encouraged’ type of industry. Specifically, foreign investment in the hotel and tour operating sectors in other

## Requisites for the Creation of Capital Markets

- Transparency is primary
- Rules and laws are fair, clear and consistent
- Markets are free
- Lender and equity rights are clear and protected
- The economy is free of corruption
- Data and accounting practices are consistent and reliable
- Competition is encouraged
- Foreign investment criteria are minimized
- Tax advantages are promoted by government
- Repatriation of profits is a non-issue
- Rules are stable

Source: Asian Development Bank

parts of China, outside the central and western regions, is not afforded special incentives – such as lower profit tax, import duty and VAT exemption (for imported equipment within the total amount of investment), etc.

If China wants to achieve its vision of a becoming a ‘tourism power’, it should create legislation which categorizes the investment of certain types of hotels (such as lower-end or budget hotels) and tour operators in strategic areas (other than the central and western region) as an ‘encouraged’ type of industry.

## FAVOUR TECHNOLOGICAL ADVANCEMENT

### Telecommunications

An increasing share of Travel & Tourism operations – and virtually all distribution and sales transactions – flow through telecommunications circuits. Where telecommunications are monopoly controlled, there are often restrictions on access, high costs and unreasonable operating conditions. This in turn limits the potential of market-oriented expansion of Travel & Tourism, with negative impacts domestically and internationally in terms of cost, operational efficiency and customer service.

WTTC recommends that the Chinese Government continue pursuing its policy of open telecommunications markets, which will help to lower costs and enhance services for travellers and tourism companies.

### Information Technology

In today’s increasingly competitive global marketplace, there is a real need for a strong national leadership branding which optimizes resources, focuses the myriad of interests – public and private sector, national, provincial and local – and attracts the attention of travellers. This will require particular emphasis on a coordinated approach to Internet marketing and distribution to optimize China’s visibility.

A recent paper by Ying Wang, from the School of Tourism and Hotel Management, Griffith University in Brisbane, Australia explored the status of ‘Information Technology Application in China’s Tourism Industry’. The paper suggests:

“In China, IT [information technology] has started to penetrate the tourism industry sector by sector and is having greater impact on all sectors of the tourism industry including transportation, travel, hospitality and entertainment. It can be proved by [the] increasing number of various tourism enterprises involving IT applications. However, the integration of different sectors in the industry has not been achieved and such technology has not been delivered to [the] retail sector and individual consumers.”

The author concludes:

“In order to survive in [a] furious [WTO/OMC] competition [environment], China’s tourism industry should realize the benefits of IT, and focus more on marketing by means of advanced technology...Therefore, in order to promote IT to China’s tourism industry:

- The whole industry should urge the government to emphasize more on upgrading national information policy, information infrastructure and IT education system.
- CNTA and its provincial subsidiaries should provide positive guidance for the businesses and organize national or regional tourism cooperative networks.
- Individual enterprise in the industry needs to establish a positive attitude towards IT adoption and train more eligible employees with both IT and tourism knowledge.
- Large tourism business groups should go online as a whole based on existing internal computer networks while individual travel services should try to gain access to a computer network under professional guidance.”

Experience in other countries around the world has shown that, while public sector support for national destination databases is critical, the operation and marketing of these databases are best left to the private sector. Best-practice models include Australia, Austria, Ireland and the Netherlands, but there are also examples in Asia that could serve as models for China.

## PROMOTE RESPONSIBILITY IN NATURAL, SOCIAL AND CULTURAL ENVIRONMENTS

### Establish Clear Procedures and Guidelines

Since the Rio Earth Summit in 1992, it has been widely recognized that sustainability has to be at the core of all policy-making and development planning. This holds especially true for Travel & Tourism. With huge increases in the number of people travelling for tourism purposes over the next decade, there are evident implications for consumption, waste and resource utilization.

In 1994, WTTC started the Green Globe environment awareness programme to encourage tourism businesses to make environmental improvements. Green Globe 21 now operates as an independent organization that monitors and certifies businesses. It maintains links to WTTC. There is also a WTTC Infrastructure Task Force working towards the sustainable development of infrastructure.

The Chinese Government, through CNTA, has already committed to the following guidelines and policies for tourism development, as contained in the China Tourism Strategy:

- Great importance should be attached to the combination of the tourism resources exploitation with ecological environmental protection while promoting sustainable tourism development in an all-round way.”
- Ecotourism. First, a comparatively integral system of ecotourism products, is supposed to be engendered corresponding to the extensive market demands. Second, a batch of key ecotourism spots are supposed to gain special support so as to achieve a distinctive image on the international market and to engender perfect products with high standards, fine quality and good benefits. Moreover, these products are required to meet the strict requirements of environmental protection.

It is essential that the procedures and guidelines incorporated in these plans are communicated to all stakeholders and implemented as widely and as quickly as possible. Implementation of these procedures and their impact should also be closely monitored. In addition, WTTC recommends that:

- The socio-economic, cultural and environmental benefits of Travel & Tourism be spread equitably across the population in all parts of the country;
- Local community engagement and empowerment be actively encouraged;
- China adopt the principles of ecological preservation as outlined in Agenda 21, developed for the Travel & Tourism industry after the 1992 Rio Earth Summit by WTTC, the World Tourism Organization and the Earth Council.

Sustainability will need a balance of private initiative, economic incentives and regulation. Global principles should be reflected in local

**“Great importance should be attached to the combination of the tourism resources exploitation with ecological environmental protection while promoting sustainable tourism development in an all-round way.”**

### China Tourism Strategy

action, and market-based delivery mechanisms should be encouraged. Pilot projects should be used to evaluate and demonstrate local sustainability. It is important for sustainability to be accepted as a policy across the industry as a whole, and not just as a policy for rural and nature-based tourism.

One very clear and practical example of this focus is the recent opening of the Cooperative Research Centre for Sustainable Tourism (CRCST) office in Chengdu, which has been very active in promoting its Green Globe products. (After being developed by WTTC, Green Globe became independent in 1998.) CRCST is working closely with China's State Environmental Protection Administration to provide a combination of global promotion and targeted Chinese marketing of Green Globe 21 (GG21), which has brought a strong response with many major Chinese organizations expressing their interests in the GG21 programme.

A report by the United Nations, summarized on page 73, highlights the most recent developments for China's Travel & Tourism for sustainable Travel & Tourism development.

In Hong Kong, in November 1997, the Hong Kong Tourist Association in collaboration with the Industry Department commissioned the Hong Kong Productivity Council to design an 'Environmentally Sustainable Development Strategy (ESDS) for Hong Kong's Travel and Tourism Industry'. The resulting Strategy Report and Action Plan was intended to lead Hong Kong's Travel & Tourism

## Plan of Action for Sustainable Tourism Development in the Asian and Pacific Region (1999-2005): A Progress Report

United Nations, New York, 2001

The unique natural endowments, long history, diverse cultural heritage of various ethnic groups and tradition of hospitality form the basis for tourism development in China. Rational use of resources to develop tourism was considered as important for national economic development to improve people's living standards in ways that would be sustainable and carry forward national and cultural traditions. In terms of human resources development, the government considers that tourism managers, tourists and the public needed enhanced awareness and more scientific knowledge about sustainable tourism development. China has a seven-point strategy as a basic framework for sustainable tourism development that seeks to balance rational use of resources for positive economic impact with environmental protection. One point of the strategy emphasizes giving full play to market mechanisms and promoting the government's role in establishing a cooperative institutional safeguard system. This would help at the macroeconomic level by replacing some traditional industries that used resources inefficiently and caused pollution.

Environmental protection and scientific management as key parts of a strategy of sustainable tourism development was the fundamental state policy of the National Tourism Development Plan, 1996-2000. Scientific management of natural and cultural resources would involve active development of ecotourism, especially for protecting bio-diversity.

China has strengthened its legal and technical standards in order to protect tourism resources. Since the 1980s, this has included the Law on Environmental Protection, Rules and Regulations on National Scenic Spots and Regulations on Forests and Parks. At the same time, it was recognized that investors were one of several groups of stakeholders, and meeting everyone's interests required integrated coordination and management of the whole industry. Science and technology could also help to build institutional and infrastructural safeguards for sustainable tourism development. The government has identified 500 cultural relics protection sites at the national level, 99 cities of historical and cultural renown and 119 scenic spots at the national level. More than 700 nature conservation zones have been established, as well as more than 120 national and provincial holiday resorts.

Enhancing international cooperation was considered integral to promoting sustainable tourism development based on equal participation by all countries. Countries should formulate plans that are relevant to national conditions, but they should also be aware of any negative impact on neighbouring countries. International cooperation would facilitate sharing resources and technology and help developing countries to build their capacities for sustainable tourism development.

The National Tourism Administration of China has proposed guidelines on promoting tourism development at the Sixth Annual Session of the Parliamentarian Congress on Environment and Development in Asia and the Pacific. China has also emphasized public awareness and education campaigns on sustainable tourism development, and there have been pilot projects involving ecotourism.

One initiative under China's seven-point strategic policy for tourism development involves setting up model ecotourism projects. An important part of ecotourism projects involves action to preserve and maintain the continuity of the cultural heritage.



industry towards environmentally sustainable development. Several years later, at the Second Travel and Tourism Industry Roundtable on the Environment, co-hosted by The Hong Kong Polytechnic University (PolyU) and Hong Kong Tourism Board, Dr John Ap, Director of the Sustainable Travel and Tourism Resource Unit at PolyU, presented the results of a survey. This had been conducted to determine the extent to which the industry had adopted environment-friendly practices and what level of awareness there was within the industry of the Environmental Sustainable Development Strategy. He observed that, while many were aware of, or had adopted, environment-friendly practices, awareness of the actual Strategy was low. This suggests that more needs to be done to raise industry awareness of the Strategy.

Perhaps one of the best recent guides to sustainable development for Travel & Tourism, which China and Hong Kong should study and implement rigorously, is the July 2002 report from the Asia-Pacific Economic Cooperation (APEC) Tourism Working Group, entitled *Public-Private Partnerships for Sustainable Tourism – Delivering a Sustainability Strategy for Tourism Destinations*. This objective of this report, produced by the Australian Co-operative Research Centre for Sustainable Tourism, “is to provide a framework for the sustainable development of the travel and tourism industry in the APEC region, through public-private partnerships, and to deliver a sustainability strategy for tourism destinations”. In our judgement, there is no better source of guidance in establishing a comprehensive and solid foundation for sustainable Travel & Tourism.

## Increase Branding through International and/or National Designations

China boasts a large number of world-class natural and cultural resources that have been awarded World Heritage Site designation. The following was reported by Zhang Tingting, China Internet Information Centre staff reporter, on June 13, 2002:

### Jinci Temple Seeks World Heritage Status

After centuries of restoration and additions, Jinci Temple at the foot of Xuanweng Mountain in Taiyuan, Shanxi Province is a garden and architectural complex that was granted national protection by the State Council in 1961 and designated an AAAA scenic area by the State Tourism Administration at (sic) January 2001. Now to further protect its gardens, sculptures, steles and ancient trees the State Council seeks a further distinction: World Heritage Site. Jinci Temple is among 50 other cultural and natural sites listed on China’s ‘World Heritage Candidate List’ – the first step in applying for World Heritage status. In Shanxi Province alone, three other sites are on the list: Dingcu Village Relics, Ying Country Wooden Pagoda, and the Eternal Joy Temple.

Worldwide 690 cultural and natural preservation sites are on the World Heritage list which was created in 1972 when UNESCO’s 17th Meeting passed a ‘World Cultural and Natural Heritage Preservation Treaty’ in Paris. China joined and became a signatory state to the treaty on November 22, 1985 ratified by the 13th Session of the Standing Committee of the Sixth National People’s Congress. In 1987 the first World Heritage sites were designated in China: The Great Wall, the





“Ecotourism. First, a comparatively integral system of ecotourism products, is supposed to be engendered corresponding to the extensive market demands. Second, a batch of key ecotourism spots are supposed to gain special support so as to achieve a distinctive image on the international market and to engender perfect products with high standards, fine quality and good benefits. Moreover, these products are required to meet the strict requirements of environmental protection.”

China Tourism Strategy

Palace Museum, the Zhoukoudian Home of Peking Man, the Mogao Grottoes, the Mausoleum of the First Emperor of Qin in Xi'an and the Terracotta Warriors and Horses. China now has 28 cultural and natural relics on the World Heritage list, ranking third in the world after Spain and Italy.

Each application for World Heritage site designation can promote public awareness about history and civilization. While increasing the cohesiveness of a whole city, the application can have a huge social and economic impact. The most important impact is the better protection of precious historical natural sites. However, designation as a World Heritage site has proved to be a boon for tourism. For example, the year after the Chengde Mountain Resort to Escape the Heat was listed as a World Heritage site, the number of tourists there increased 10 per cent. As for Pingyao City in Shanxi, tourism noticeably increased after its World Cultural Heritage site designation.

China has made strong steady progress since acceding to the World Heritage Convention in 1985. It is currently a member of the World Heritage Committee itself, which highlights the dedication and commitment it has towards the protection and conservation of the world's irreplaceable cultural and natural heritage.

In addition to this focus on world heritage, the Chinese Government also operates and promotes a national heritage designation, with clearly defined criteria to support quality. Such a designation should be accompanied by increased government funding for the development and promotion of identified areas of particular heritage value.



# SATELLITE ACCOUNT

## CHINA

	1999	2000	2001	2002E	2003E	2004E	2013P
<b>China Travel &amp; Tourism - Rmb bn</b>							
Personal Travel & Tourism	398.37	440.46	473.11	500.46	484.64	610.75	1,793.24
Business Travel & Tourism	50.17	54.98	51.53	47.56	46.55	58.35	187.61
Corporate	44.97	49.06	45.71	42.04	41.02	51.40	166.99
Government	5.20	5.92	5.82	5.52	5.53	6.95	20.61
Gov't Expenditures - Individual	11.56	13.12	15.04	16.80	18.85	21.14	54.35
Visitor Exports	124.21	133.16	117.66	115.22	58.64	124.28	525.27
Travel & Tourism Consumption	584.31	641.72	657.33	680.05	608.69	814.53	2,560.47
Gov't Expenditures - Collective	26.51	30.10	34.49	38.54	43.22	48.49	124.66
Capital Investment	282.64	309.37	342.29	412.24	433.51	512.05	1,452.97
Exports (Non-Visitor)	69.97	89.45	95.50	114.51	140.22	161.66	629.56
Travel & Tourism Demand	963.43	1,070.64	1,129.62	1,245.34	1,225.64	1,536.73	4,767.65
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment ('000)	15,055.20	15,009.40	14,527.30	14,093.10	11,225.50	13,618.40	16,092.50
Gross Domestic Product	219.04	235.90	242.88	253.28	210.17	289.17	844.55
<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impacts)</b>							
Employment ('000)	50,486.00	51,266.30	51,116.40	53,098.70	47,558.20	54,051.70	65,849.20
Gross Domestic Product	822.72	900.60	955.40	1,061.37	1,005.72	1,273.57	3,747.19
<b>T&amp;T Accounts as % of National Accounts</b>							
Personal Travel & Tourism	10.13	10.26	10.06	9.83	9.17	10.06	11.76
Gov't Expenditures	3.66	3.69	3.72	3.75	3.78	3.80	4.00
Capital Investment	9.47	9.40	9.41	9.46	8.92	9.44	10.14
Exports	10.61	9.68	8.76	7.98	5.80	7.13	7.44
T&T Imports	8.62	7.87	7.45	6.63	6.39	6.58	6.43
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment	2.14	2.12	2.03	1.96	1.55	1.86	2.03
Gross Domestic Product	2.67	2.64	2.53	2.44	1.91	2.32	2.54
<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impact)</b>							
Employment	7.18	7.23	7.15	7.38	6.56	7.40	8.32
Gross Domestic Product	10.03	10.07	9.96	10.22	9.16	10.21	11.27
<b>Travel &amp; Tourism Real Growth (% per annum, except 2013 = 10-year annualized)</b>							
Personal Travel & Tourism	11.59	9.58	7.41	5.39	-4.95	22.37	9.84
Business Travel & Tourism	9.53	8.61	-6.28	-8.04	-3.93	21.72	10.87
Gov't Expenditures	11.51	12.55	14.58	11.33	10.07	8.93	7.05
Capital Investment	4.30	8.48	10.64	19.99	3.22	14.70	7.47
Visitor Exports	16.01	6.25	-11.65	-2.43	-50.04	105.79	22.35
Other Exports	9.39	26.71	6.76	19.46	20.19	11.95	10.01
Travel & Tourism Consumption	12.31	8.85	2.43	3.07	-12.15	29.94	11.35
Travel & Tourism Demand	9.61	10.14	5.50	9.84	-3.40	21.75	10.38

# TABLES

	1999	2000	2001	2002E	2003E	2004E	2013P
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Gross Domestic Product	10.48	6.74	2.95	3.90	-18.56	33.61	10.92
Employment	1.37	-0.30	-3.21	-2.99	-20.35	21.32	3.84

<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impact)</b>							
Gross Domestic Product	8.05	8.49	6.08	10.68	-7.00	22.97	9.92
Employment	1.11	1.55	-0.29	3.88	-10.43	13.65	3.38

## China Travel & Tourism - US\$ bn

Personal Travel & Tourism	48.12	53.21	57.16	60.46	58.32	72.95	187.35
Business Travel & Tourism	6.06	6.64	6.23	5.75	5.60	6.97	19.60
Corporate	5.43	5.93	5.52	5.08	4.94	6.14	17.45
Government	0.63	0.72	0.70	0.67	0.67	0.83	2.15
Gov't Expenditures - Individual	1.40	1.59	1.82	2.03	2.27	2.53	5.68
Visitor Exports	15.01	16.09	14.22	13.92	7.06	14.85	54.88

Travel & Tourism Consumption	70.58	77.52	79.42	82.16	73.25	97.29	267.51
Gov't Expenditures - Collective	3.20	3.64	4.17	4.66	5.20	5.79	13.02
Capital Investment	34.14	37.37	41.35	49.80	52.17	61.16	151.80
Exports (Non-Visitor)	8.45	10.81	11.54	13.83	16.87	19.31	65.77

Travel & Tourism Demand	116.38	129.33	136.48	150.45	147.49	183.56	498.10
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<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment ('000)	15,055.20	15,009.40	14,527.30	14,093.10	11,225.50	13,618.40	16,092.50
Gross Domestic Product	26.46	28.50	29.34	30.60	25.29	34.54	88.24

<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impacts)</b>							
Employment ('000)	50,486.00	51,266.30	51,116.40	53,098.70	47,558.20	54,051.70	65,849.20
Gross Domestic Product	99.38	108.79	115.43	128.22	121.03	152.12	391.49

## Travel & Tourism - 1990 Constant US\$ bn

Personal Travel & Tourism	45.52	49.88	53.57	56.46	53.66	65.67	136.07
Business Travel & Tourism	5.73	6.23	5.83	5.37	5.15	6.27	14.24
Gov't Expenditures - Individual	1.32	1.49	1.70	1.90	2.09	2.27	4.12
Visitor Exports	14.19	15.08	13.32	13.00	6.49	13.36	39.86
Travel & Tourism Consumption	66.76	72.67	74.43	76.72	67.40	87.58	194.29
Gov't Expenditures - Collective	3.03	3.41	3.91	4.35	4.79	5.21	9.46
Capital Investment	32.29	35.03	38.76	46.51	48.00	55.06	110.25
Exports (Non-Visitor)	7.99	10.13	10.81	12.92	15.53	17.38	47.77
Travel & Tourism Demand	110.08	121.24	127.91	140.49	135.71	165.23	361.76

<b>Gross Domestic Product</b>							
Travel & Tourism Industry	25.03	26.71	27.50	28.57	23.27	31.09	64.08
Travel & Tourism Economy	94.00	101.98	108.18	119.74	111.36	136.94	284.33

# SATELLITE ACCOUNT

## HONG KONG

	1999	2000	2001	2002E	2003E	2004E	2013P
<b>Hong Kong Travel &amp; Tourism - HK\$ billion</b>							
Personal Travel & Tourism	88.62	91.57	91.08	90.10	94.66	109.24	303.81
Business Travel & Tourism	7.18	7.20	6.16	5.00	4.64	5.68	14.32
Corporate	6.60	6.63	5.64	4.56	4.22	5.18	13.21
Government	0.58	0.57	0.52	0.44	0.42	0.50	1.10
Gov't Expenditures - Individual	2.70	2.70	2.91	3.00	3.22	3.42	6.18
Visitor Exports	55.94	61.45	53.90	51.42	31.23	57.23	163.89
Travel & Tourism Consumption	154.45	162.92	154.06	149.52	133.74	175.57	488.19
Gov't Expenditures - Collective	6.19	6.20	6.68	6.88	7.38	7.85	14.17
Capital Investment	47.35	47.23	46.37	42.11	44.10	52.60	116.01
Exports (Non-Visitor)	71.17	82.97	79.32	74.50	83.82	92.82	211.07
Travel & Tourism Demand	279.16	299.32	286.42	273.01	269.04	328.84	829.44
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment ('000)	82.32	84.50	76.45	70.29	45.27	74.65	121.07
Gross Domestic Product	26.98	27.79	24.82	23.13	15.01	25.56	68.27
<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impacts)</b>							
Employment ('000)	264.46	277.49	257.93	229.30	207.52	269.15	427.17
Gross Domestic Product	147.20	153.65	143.72	132.89	117.20	157.68	375.99
<b>T&amp;T Accounts as % of National Accounts</b>							
Personal Travel & Tourism	11.96	12.30	12.22	12.71	13.55	13.90	19.61
Gov't Expenditures	7.41	7.41	7.45	7.46	7.49	7.52	7.81
Capital Investment	14.55	13.60	13.56	13.61	12.89	13.45	14.06
Exports	7.81	7.73	7.42	7.39	6.15	7.16	7.76
T&T Imports	8.47	7.97	8.04	8.12	8.06	8.21	9.04
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment	2.65	2.64	2.35	2.18	1.39	2.20	3.04
Gross Domestic Product	2.16	2.16	1.94	1.83	1.17	1.80	2.39
<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impact)</b>							
Employment	8.50	8.69	7.92	7.12	6.36	7.94	10.73
Gross Domestic Product	11.81	11.93	11.24	10.49	9.11	11.10	13.15
<b>Travel &amp; Tourism Real Growth (% per annum, except 2013 = 10-year annualized)</b>							
Personal Travel & Tourism	0.53	10.17	0.87	1.37	5.30	12.54	9.59
Business Travel & Tourism	2.60	6.82	-13.16	-16.85	-6.94	19.33	9.29
Gov't Expenditures	9.64	6.76	9.24	5.52	7.46	3.72	4.10
Capital Investment	-21.40	6.36	-0.45	-6.92	4.95	16.30	6.30
Visitor Exports	2.20	17.13	-11.07	-2.22	-39.14	78.70	16.72
Other Exports	8.57	24.31	-3.07	-3.74	12.76	7.98	5.59
Travel & Tourism Consumption	1.38	12.48	-4.12	-0.54	-10.35	28.01	11.17
Travel & Tourism Demand	-1.63	14.33	-2.97	-2.31	-1.23	19.18	9.20



# TABLES

	1999	2000	2001	2002E	2003E	2004E	2013P
<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Gross Domestic Product	0.34	9.86	-9.46	-4.50	-34.97	66.08	14.68
Employment	9.92	2.65	-9.53	-8.06	-35.60	64.91	11.67

<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impact)</b>							
Gross Domestic Product	-4.34	11.31	-5.16	-5.24	-11.60	31.18	9.83
Employment	3.07	4.93	-7.05	-11.10	-9.50	29.70	7.82

## Hong Kong Travel & Tourism - US\$ bn

Personal Travel & Tourism	11.42	11.75	11.68	11.55	12.14	14.01	38.95
Business Travel & Tourism	0.93	0.92	0.79	0.64	0.60	0.73	1.84
Corporate	0.85	0.85	0.72	0.58	0.54	0.66	1.69
Government	0.07	0.07	0.07	0.06	0.05	0.06	0.14
Gov't Expenditures - Individual	0.35	0.35	0.37	0.38	0.41	0.44	0.79
Visitor Exports	7.21	7.89	6.91	6.59	4.00	7.34	21.01

Travel & Tourism Consumption	19.91	20.91	19.75	19.17	17.15	22.51	62.59
Gov't Expenditures - Collective	0.80	0.80	0.86	0.88	0.95	1.01	1.82
Capital Investment	6.10	6.06	5.94	5.40	5.65	6.74	14.87
Exports (Non-Visitor)	9.17	10.65	10.17	9.55	10.75	11.90	27.06

Travel & Tourism Demand	35.98	38.41	36.72	35.00	34.50	42.16	106.35
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<b>Travel &amp; Tourism Industry Aggregates (Direct Impact Only)</b>							
Employment ('000)	82.32	84.50	76.45	70.29	45.27	74.65	121.07
Gross Domestic Product	3.48	3.57	3.18	2.97	1.92	3.28	8.75

<b>Travel &amp; Tourism Economy Aggregates (Direct and Indirect Impacts)</b>							
Employment ('000)	264.46	277.49	257.93	229.30	207.52	269.15	427.17
Gross Domestic Product	18.97	19.72	18.42	17.04	15.03	20.22	48.21

## Travel & Tourism - 1990 Constant US\$ bn

Personal Travel & Tourism	7.42	8.18	8.25	8.36	8.80	9.91	21.98
Business Travel & Tourism	0.60	0.64	0.56	0.46	0.43	0.52	1.04
Gov't Expenditures - Individual	0.23	0.24	0.26	0.28	0.30	0.31	0.45
Visitor Exports	4.69	5.49	4.88	4.77	2.90	5.19	11.86
Travel & Tourism Consumption	12.94	14.55	13.95	13.88	12.44	15.92	35.32
Gov't Expenditures - Collective	0.52	0.55	0.61	0.64	0.69	0.71	1.03
Capital Investment	3.97	4.22	4.20	3.91	4.10	4.77	8.39
Exports (Non-Visitor)	5.96	7.41	7.18	6.91	7.80	8.42	15.27
Travel & Tourism Demand	23.38	26.73	25.94	25.34	25.02	29.82	60.01

<b>Gross Domestic Product</b>							
Travel & Tourism Industry	2.26	2.48	2.25	2.15	1.40	2.32	4.94
Travel & Tourism Economy	12.33	13.72	13.01	12.33	10.90	14.30	27.20



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