China

Less than a decade ago, the United Nations World Tourism Organization (UNWTO) announced that outbound travel from China would reach 100 million travelers by 2020; instead, outbound travel from China reached 109 million in 2014, shattering every previous estimate. Moreover, China's burgeoning middle class has led to such an appreciable increase in the number of "travel-ready" Chinese that the number of outbound travelers from China is now expected to double to more than 200 million over the next decade. The importance of China to the United States' long-term travel and tourism strategy, therefore, cannot be overstated.

Overall Rank

3

Over the last decade, China has been, and still is, the fastest growing outbound tourism market in the world. The number of Chinese travelers visiting locations outside of China now accounts for nearly 10 percent of all global outbound travel. Today, China has become the largest source market in the world for outbound travel.

Travelers from China spend more than anyone else on travel and tourism-related goods and services. Boosted by rising disposable incomes, fewer restrictions on foreign travel and an appreciating currency, Chinese spending abroad has increased almost ten-fold since 2000.[xiv] Collectively, Chinese travelers spent nearly $129 billion[xv] traveling abroad in 2013, a staggering increase of nearly $27 billion (26 percent) when compared to the previous year. China now accounts for more than 11 percent of global tourism expenditures—positioning China as the world's top spender on international travel and tourism.

With so much revenue at stake, countries around the world are aggressively trying to lure potential travelers. As incomes continue to rise globally and the demand for international travel and tourism grows, so too, will competition for international arrivals. It is a zero-sum game; travelers either visit the United States or they spend their vacations—and their money—elsewhere.

While this is true for all markets, the sheer number of potential Chinese visitors means that the opportunity to benefit the U.S. economy through an influx of Chinese spending cannot be missed.

Market Overview

The United States welcomed more than 1.8 million visitors from China in 2013, an increase of 23 percent when compared to the previous year. In fact, 2013 marked the fourth consecutive year (and the ninth out of 10 years) in which arrivals from China exhibited double-digit growth, propelling China up in the rankings two places to seventh in terms of total arrivals into the United States.[xvi]

A decade ago, China ranked ninth in terms of total travel and tourism-related spending in the United States. Now, however, after a decade of double-digit growth, China has vaulted to second place, trailing only Canada, after spending more than $21.1 billion in the United States in 2013. This translates into roughly $58 million a day[xvii] being injected into local economies around the country, an investment that supported more than 109,000 U.S. jobs.[xviii]

U.S. travel and tourism exports to China now account for nearly 56 percent of all U.S. services exports and more than 13 percent of total exports to China. In fact, travel and tourism is one of only a few sectors that enjoys a positive trade surplus with China. This surplus totaled nearly $16.5 billion in 2013.

To ensure that the United States remains in a competitive position, the United States extended the validity of short-term tourist and business visas for Chinese travelers from one to 10 years, the longest validity possible under U.S. law, and increased the validity of student and exchange visas from one to five years. As a result, and depending on visa processing capabilities and economic and other factors, a maximum of 7.3 million Chinese could travel to the United States by 2021, contributing nearly $85 billion a year to the economy and supporting 440,000 jobs. This policy response provides the U.S. private sector with a significant opportunity to capitalize on the Chinese market.

Understanding the "Typical" Traveler from China

The National Travel and Tourism Office's Survey of International Air Travelers provides key insights into travelers from China:

Purpose of Trip— Most Chinese visitors to the United States come for leisure activities. As to the main purpose of their trip, the majority of arrivals from China were on vacation/holiday (32 percent), followed by visiting friends and relatives (21 percent), education (17 percent), business (16 percent), and convention/conference/trade show (11 percent). When considering all purposes of their trip (multiple responses), the net purpose of business and leisure totaled 30 percent and 63 percent, respectively.

Ports of Entry—The top U.S. ports of entry used by Chinese travelers include Los Angeles, California (23 percent), San Francisco, California (16 percent), New York, New York (12 percent), Chicago, Illinois (12 percent), and Newark, New Jersey (six percent).

Number of States Visited—The majority (61 percent) of Chinese travelers visited only one state during their stay in the United States; nearly 21 percent visited two U.S. states, and 18 percent visited three or more states.

U.S. Destinations Visited: States and Cities—The top U.S. states visited include California (46 percent), New York (33 percent), Nevada (14 percent), the Hawaiian Islands (10 percent), and Illinois (seven percent). Cities favored by Chinese visitors were Los Angeles-Long Beach, California (34 percent), New York City, New York (31 percent), San Francisco, California (21 percent), Las Vegas, Nevada (14 percent), and Washington, DC (nine percent).

Leisure Activities—The top leisure activities of Chinese visitors were shopping (85 percent), sightseeing (78 percent), experiencing fine dining (48 percent), visiting national parks and monuments (37 percent), visiting art galleries/museums (36 percent), traveling to small towns/countryside (34 percent), visiting amusement/theme parks (34 percent), traveling to historical locations (26 percent), taking in cultural/ethnic-heritage sights (22 percent), and taking guided tours (22 percent).

Transportation Used in the United States—The mode of travel most popular with Chinese visitors while in the United States was air travel between U.S. cities (45 percent), followed by private or company auto (38 percent), city subway/tram/bus (31 percent), rented auto (26 percent), bus between cities (25 percent), and the use of a taxicab/limousine (22 percent). Fewer than 10 percent used the U.S. rail system between cities.

Accommodations and Nights in the United States—The majority of Chinese visitors stayed in hotels (66 percent), while 38 percent stayed in private homes. The average number of nights Chinese visitors stayed in the United States was 39 nights, with 21 percent staying 36 or more nights and 21 percent staying between four and seven nights.

Income—The average annual income of visitors from China was nearly $79,000 in 2013, with 25 percent of Chinese visitors making less than $20,000 a year and six percent making $300,000 or more. Nearly two-thirds (63 percent) made less than $60,000 in annual income.

Export Opportunities

The global growth of outbound travel from China represents a significant opportunity to increase travel to the United States and tourism exports. The leading market position of the United States, coupled with the extension of visa validity, provides the country with a competitive advantage. To capitalize on this potential, additional policies will have to be addressed to ensure that the United States can keep up with demand and maintain a positive perception as a travel destination.

Growth in outbound Chinese travel is being fueled by Chinese government policies lessening restrictions on Chinese travelers and positively encouraging the use of leave days, as well as by an expanding middle class. An appreciating currency and rising income levels will continue to fuel the expansion and should create a market of well over 200 million travelers over the next decade. China's population of nearly 1.4 billion and its outbound travel market will continue to grow in importance as more and more citizens become 'travel-ready.'

According to the UNWTO, the United States is the only country outside of Asia that receives more than a million visitors annually from China. However, the 1.8 million visitors the United States welcomed from China in 2013 accounts for less than two percent of total Chinese outbound travelers. In fact, in 2013, the percentage of Chinese travelers that visited the United

States as a percentage of China's total population was essentially zero (0.1 percent).

As a result, there remains significant potential for attracting even more visitors from China. The National Travel and Tourism Office's Forecast of International Travel anticipates a compound annual growth rate of more than 18 percent for China, culminating in 4.9 million arrivals from China in 2019 and nearly tripling the 2013 level of visitation. If this growth is realized, China would become the third largest international market (behind Canada and Mexico, respectively) and the largest overseas market in terms of visitation. The global growth of outbound travel from China represents an amazing opportunity to increase U.S. travel and tourism exports. Whether the United States can fully realize this potential is dependent in part on whether the demand for Chinese residents to travel to the United States can be met by the government and the private sector.

Challenges & Barriers

- **Air Services.** There is an obvious nexus between travel and tourism growth and air services development. The United States and China have agreed to bilateral talks in 2015 on further modernization and liberalization of the U.S.-China air services agreement, as well as to discuss issues related to doing business.

  The capacity (aircraft flights/seats) in the market today is demand-driven, based on what U.S. and Chinese airlines consider as having profit potential. As an example, American Airlines recently announced the launch of a Dallas-Ft. Worth to Beijing service. Chinese carriers collectively added several new city pair services in 2014 (China Southern service to New York JFK and Hainan Airlines service to Boston). Chinese policies, however, limit Chinese air carriers' abilities to act purely on commercial demand; China generally restricts its carriers from competing directly on routes (like Beijing to Los Angeles).

  Although the aviation agreement does cap combination (i.e. passenger) airline frequencies (number of flights per week) for airlines of both countries, enough frequencies remain under the cap to add considerable additional capacity in the near-to-medium future. However, at the expected growth rate of inbound Chinese visitors, and with U.S. travelers in the U.S.-China market, the number of flights required to accommodate anticipated passenger traffic will exceed the existing cap over the longer term. The U.S. Government will work to share forecasts and reporting of air traffic between the countries to help ensure air negotiations occur before capacity constraints hinder air traffic between the two countries.

- **Sale of Outbound Travel.** Under existing Chinese regulations, only Chinese companies can sell outbound travel to Chinese citizens. Foreign-owned companies are not allowed to sell travel to Chinese citizens. Thus, U.S. companies must work through Chinese intermediaries to access consumers to sell their products. This restriction was retained as part of China's accession to the World Trade Organization and applies to all nations. In 2010, China agreed to partial liberalization of the market by allowing several joint ventures between domestic and foreign companies, but has not made progress in opening the market since that time. The recent development of the Shanghai Free Trade Zone, as well as plans for other trade zones in cities such as Zhuhai and Tianjin, has muddied the landscape, as regulations governing the sale of outbound travel in those zones need further clarification.

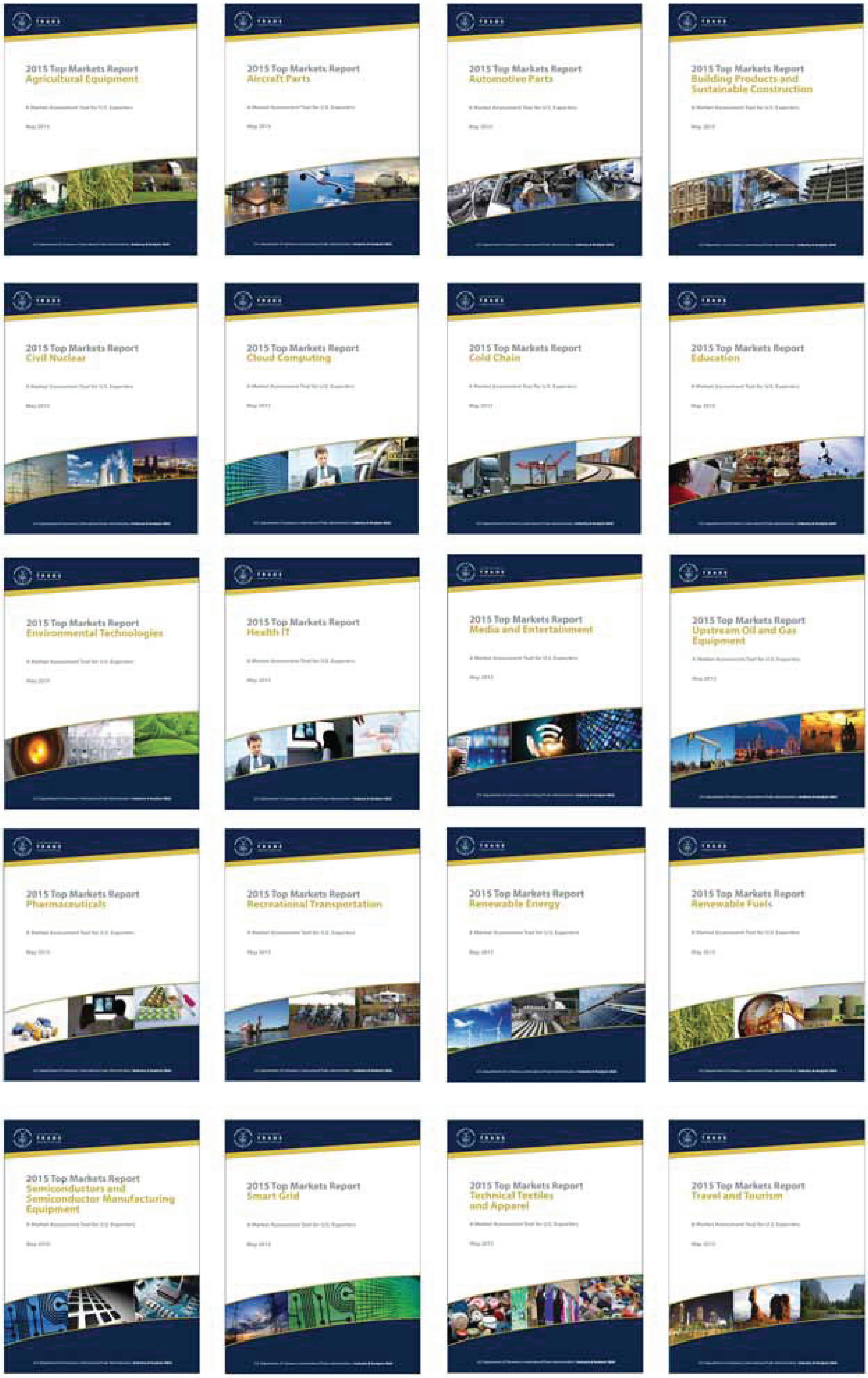
- **Brand Awareness.** The United States is often perceived as an expensive destination because it is long-haul. In addition, there has been concern over the quality of offerings in the United States, as well as the lack of products that cater to Chinese travelers, including signage in Chinese, Chinese menus and television programming in hotels, and interpreters at tourist locations.

  Managing the quality of offerings in the United States has been a challenge. Since the opening of the market to the United States in 2008, industry has been plagued by the presence of low-cost tours that seemingly rely on kickbacks from vendors on the itinerary. China passed a historic Tourism Law that took effect in 2014 that now forbids this practice. In addition, some tours do not provide the quality of vehicles and drivers needed to ensure the safety of the visitors. This has had tragic results in several instances. ITA has worked with the Chinese Government, industry, and the Department of Transportation to address this issue, and the situation has improved. However, there is still much uncertainty surrounding the new Tourism Law and its effects on U.S. industry.

Therefore, U.S. businesses impacted by this law should work with ITA and alert the U.S. Government if assistance is needed so that U.S. businesses may remain competitive in this market.

Additionally, feedback from the marketplace indicates that in order to effectively capture market share, the United States will need to adapt the product to be more attractive to Chinese visitors. This includes, but is not limited to, signage, the adaptation and translation of menus, and Mandarin-speaking staff and tour guides.

- **Full Implementation of the Memorandum of Understanding.** In 2007, under the U.S.-China Joint Commission on Commerce and Trade Tourism Working Group, the United States and China signed a Memorandum of Understanding (MOU) that opened the market for packaged leisure travel from China to the United States. This agreement has been implemented incrementally, and only two provinces remain uncovered by the MOU – Tibet and Xinjiang. China is committed to a two-year timeline for review from the date of implementation of the previous phase, which would not be until January 2016. The U.S. Government will continue to push for full implementation of the MOU at the earliest possible date.



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