



Tourism Market in China

*China's tourism and travel industry has greatly expanded over the last decade: while domestic tourism has grown 10% annually on average and inbound tourism has increased by 10% in total over the same period, **the largest growth was witnessed in China's outbound tourism industry.***

*In 2013, the **total number of outbound trips organised for Chinese tourists rose to 97 million**, overtaking the USA as the world's largest outbound market. Chinese outbound tourists also overtook Germans and Americans as the world's **biggest spenders on international travel** (total outbound expenditure reaching USD 102 billion in 2012).*

*Despite these alluring figures, being an actor in China's travel industry is no easy task, as the market remains highly regulated by the government. Indeed, **no foreign travel agency based in China is allowed to operate in outbound travel services for Chinese nationals.** This limitation was eased to a certain extent in 2011 when the China National Tourism Administration (CNTA) granted "outbound" licenses to three foreign-invested operators after a tedious, lengthy approval process. Nevertheless, there are opportunities for foreign actors, especially on untapped niche markets such as **high end or luxury markets.***

*Several factors are encouraging further growth in China's travel and tourism industry, such as a **better legal framework** laid down by the authorities, **the expansion of China's middle class**, **relaxation of visa procedures**, and **favourable exchange rates.***

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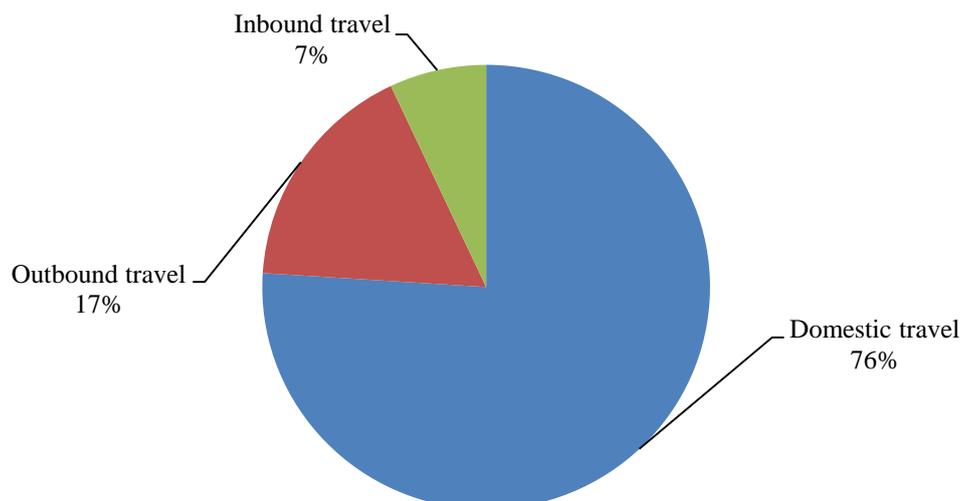
1 Market structure and size

In recent years, China has witnessed a massive rise in demand for tourism and travel-related services. This trend can be explained by various factors, including but not limited to:

- Rising disposable income levels among Chinese consumers: since China's international expansion in 1978, the per capita disposable income of China's urban residents has been multiplied by 71 (i.e. a 13% annual growth). This rise in disposable income has led to a shift in spending patterns, with more and more people dedicating money for lifestyle (sports, culture, tourism);
- The rising exchange value of the Chinese Yuan (CNY), which encourages Chinese citizens to travel abroad where their spending power has comparatively increased and where cosmetics, luxury products or spirits are actually cheaper than in China because they are not submitted to excessive import taxation;
- Internationalisation of the education system, with more and more schools, high schools, and colleges offering foreign languages programs;
- New technology (typically the Internet), which have helped raise exposure to the outside world and encourage Chinese travellers to go abroad;

A recent study from China National Tourism Administration (CNTA) revealed that domestic travel still accounts for a vast majority of travel demand (76%), even though the market share for outbound travel jumped from 4% to 17% between Q2 2012 and Q2 2013.

Inbound, outbound and domestic market share in China (Q2 2013)



Source: CNTA, July 2013

1.1 Domestic tourism and travel

Market size

In the last decade, China's domestic tourism market is reported to have grown by 10% on average each year.

The year 2012 registered 2.46 billion domestic tourists, and the revenue from domestic tourism totalled CNY 2.2 trillion. The number of domestic trips organised by tourism operators grew by 12% that same year, while domestic tourist expenditure rose by 14%.

In 2013, China's domestic tourism population size stood at 3.26 billion people (+10.3% YoY increase), with aggregated revenue of CNY 2.6 trillion (+15.7%).

Key trends

The most popular destinations for domestic travel on the 2007–2012 periods were:

Domestic tourism by destination (2007–12). Unit: millions of trips	2007	2008	2009	2010	2011	2012
Shanxi	53.0	54.1	62.8	74.2	88.4	114.7
Anhui	31.2	34.3	38.1	42.9	46.3	49.8
Beijing	75.5	74.9	93.8	102.6	112.1	123.1
Fujian	81.8	85.1	92.3	98.4	114.2	131.2
Guangdong	109.1	123.6	153.9	186.0	214.9	241.9
Guangxi	62.8	68.7	83.7	98.1	113.3	130.1
Hainan	17.7	19.6	22.0	25.2	29.2	32.2
Hebei	13.1	14.5	16.5	19.2	21.6	26.1
Henan	138.6	155.0	165.8	191.7	194.4	213.8
Jiangsu	185.0	201.7	234.3	286.1	330.5	375.2
Shandong	127.4	150.8	181.1	214.0	253.8	292.1
Shanghai	45.8	46.3	49.4	62.4	76.3	85.6
Sichuan	101.7	93.7	114.0	140.9	181.6	230.0
Tianjin	13.9	16.1	18.4	21.1	23.5	26.8
Yunnan	56.1	62.6	67.3	76.3	90.4	105.9
Zhejiang	105.0	115.7	135.9	159.8	180.9	213.9
Other domestic tourism destinations	150.8	138.7	144.7	130.4	122.2	70.2
Domestic tourism	1,368.5	1,455.5	1,674.0	1,929.5	2,193.4	2,462.4

Source: Euromonitor International, August 2013.

Peak periods for domestic travel are the two so-called “golden weeks”, the national day holiday (from October 1st–7th) and the spring festival holiday (end of January or beginning of February), as well as labour day holiday (May). Since Chinese nationals have 10 paid holidays on average, tourists tend to travel at the same time, thus creating major problems in famous scenic spots with regards to traffic, safety, service quality, and environment protection.

Concerning the duration of the stay, trips between four and seven days are the most popular accounting for over 50% of total domestic trips in China in 2012. The recent expansion of China's

high-speed rail system network, combined with a rise in car ownership and development of low-cost air carriers, have all greatly improved Chinese tourists' mobility in the last few years.

Domestic tourism by purpose of visit and mode of transport (2007–12). Unit: millions of trips	2007	2008	2009	2010	2011	2012
Business	443.1	468.1	529.0	614.6	689.8	772.0
· Air	72.5	76.0	86.0	96.5	107.5	118.2
· Land	190.4	203.3	231.5	265.3	299.4	334.9
· Rail	156.4	166.5	190.8	229.6	257.7	291.8
· Sea	23.8	22.3	20.6	23.2	25.2	27.1
Leisure	925.4	987.4	1,145.0	1,315.0	1,503.6	1,690.5
· Air	152.0	163.7	190.0	222.9	256.6	290.6
· Land	338.4	362.3	421.0	486.2	553.8	623.0
· Rail	326.8	349.3	406.8	470.8	540.7	609.5
· Sea	108.1	112.1	127.2	135.1	152.4	167.4
Domestic tourism	1,368.5	1,455.5	1,674.0	1,929.5	2,193.4	2,462.4

Source: Euromonitor International, August 2013.

Outlook

The national outline for tourism and leisure (2013–2020), released in 2013 by the State Council, is expected to further boost domestic tourism, as it plans to implement a national system of paid holidays by the end of 2020. At the same time, the government's 12th Five-Year Plan aims to increase living standards, which should contribute to this development.

By 2015, China's domestic tourism population should reach 3.3 billion people. The number of domestic trips is expected to increase by 16% annually, and the revenue from domestic travel should total CNY 3.9 trillion by 2020, while total domestic tourist expenditure should record a 10% growth annually.

Forecast domestic tourist expenditure 2012-17. Unit: CNY million	Value	% Value growth
2015	2,940,268.6	9.6
2016	3,212,776.3	9.3
2017	3,490,233.8	8.6

Source: Euromonitor International, August 2013.

1.2 Outbound tourism and travel

Market value

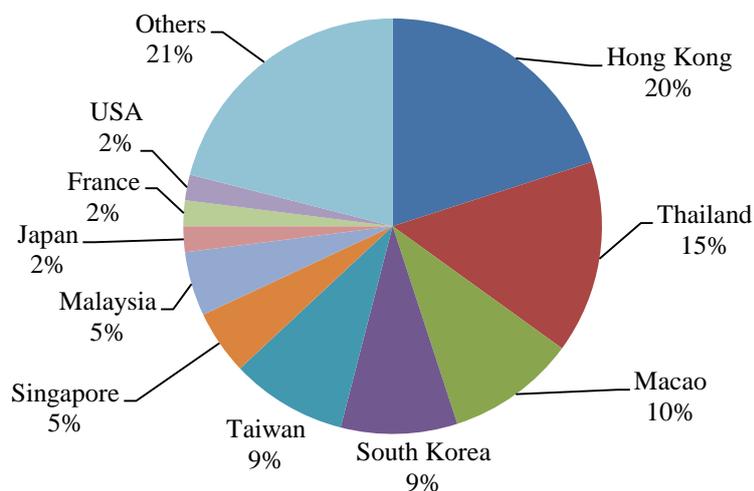
The Chinese outbound travel market has witnessed the most impressive growth in the past years compared to the domestic travel.

According to the China Tourism Academy, the total number of outbound trips organised for Chinese tourists rose to 83.18 million in 2012 (+18% YoY growth), which now makes China the world's largest outbound market before the USA and Germany. Outbound tourist expenditure reached CNY 446 billion in 2012 (+14% YoY).

Key trends

Reports from the CNTA revealed that Hong Kong is still by far the favourite destination among Chinese outbound tourists (20%), followed by Thailand (15%), and Macao (10%), while the USA and South Africa have recorded the highest growth in the number of outbound departures from China in 2012.

Favourite destinations of Chinese outbound tourists (Q2 2013)

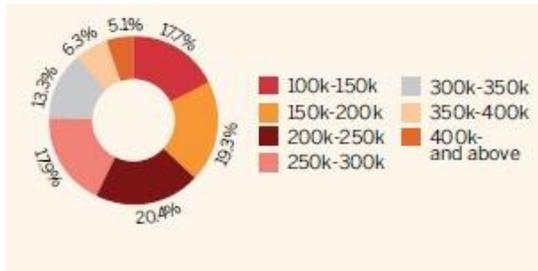


Source: CNTA, July 2013.

Hong Kong was the destination where Chinese tourists spent the most in 2012, as Chinese citizens tend to consider Hong Kong as a premium place to buy more competitively priced goods than on Mainland China.

Rising disposable income and a shift in spending patterns have stimulated outbound tourism. Reports tend to show that a growing number of Chinese outbound tourists come from the upper-middle class, as can be seen on the two graphs that follow:

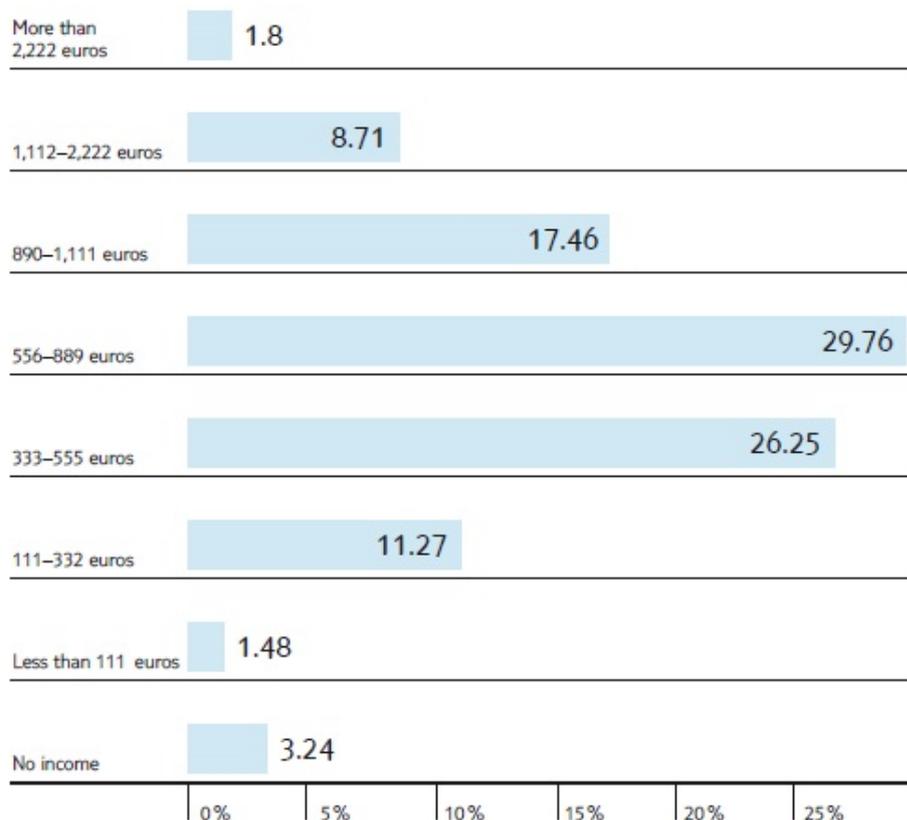
Chinese outbound tourists' household income breakdown in 2013 (CNY)



Source: China Confidential Custom Research, 2013

Outbound tourists are likely to be relatively wealthy middle-class Chinese with higher than average education, from tier-1 cities (mostly from eastern provinces) and relatively young.

Chinese outbound tourists' individual monthly income breakdown (2011)



Source: China Tourism Academy, 2012.

In terms of the reasons to travel, leisure travel accounted for the majority of outbound trips in 2012:

Departures by purpose of visit (2007–12)	2007	2008	2009	2010	2011	2012
Unit: thousands of trips						
Business	9,072.7	8,539.1	9,075.9	10,964.8	13,307.7	15,093.1
Leisure	19,261.5	18,800.8	19,716.1	23,524.9	28,686.1	33,359.3
Departures	28,334.2	27,339.9	28,792.0	34,489.7	41,993.9	48,452.4

Source: Euromonitor International, August 2013.

Chinese outbound tourists tend to travel mainly in groups (24.8%), as a couple (23.8%), or with their family (21.4%).

Outlook

The total number of outbound trips is projected to rise by 15% annually in the next few years and by 2015, China is forecast to be the number one source of tourists worldwide. Outbound tourist expenditure is set to reach CNY 793 billion by 2017, while outbound trips should reach 200 million by 2020.

The development of a national system of paid holidays, as well as the multiplication of express visa procedures for Chinese tourists (USA, France, Italy, UK) should contribute to further growth in the Chinese outbound tourism market.

1.3 Inbound tourism and travel

Market value

The number of inbound trips to China fell to 57 million in 2012 (–1% YoY). This decline is probably linked to a gloomy 2012 global economic situation, thus preventing people from dedicating a large part of their income to leisure activities such as travel. Incoming tourist receipts totalled CNY 3.15 billion in 2012.

Arrivals by country of origin (2007–12). Unit: thousands of trips	2007	2008	2009	2010	2011	2012
Australia	508.3	465.8	456.5	547.6	601.3	652.9
Canada	499.2	438.1	444.5	603.4	658.6	633.5
France	392.0	360.2	339.7	428.8	412.4	441.6
Germany	483.3	444.7	414.5	518.6	542.8	571.7
Hong Kong, China	23,420.9	24,268.7	25,497.9	26,094.6	26,915.9	26,773.3
India	418.4	383.7	392.5	509.3	562.3	559.6
Indonesia	420.2	379.6	417.4	513.4	545.0	564.8
Italy	191.3	180.6	170.8	212.7	218.1	236.9
Japan	3,127.4	2,718.1	2,654.8	3,059.6	2,999.8	2,870.8
Macau	3,910.3	3,879.1	3,848.1	3,928.9	4,279.4	3,821.1
Malaysia	749.4	673.2	681.9	795.7	794.9	785.0
Mongolia	717.3	666.4	575.0	699.1	874.9	906.8
Philippines	784.8	702.1	623.1	704.1	760.2	824.0
Russia	2,161.6	2,498.7	1,394.4	2,014.8	2,155.9	2,102.0
Singapore	623.8	579.4	588.7	659.5	698.4	688.8
South Korea	3,585.1	3,084.3	2,658.0	3,261.1	3,348.3	3,274.7
Taiwan	4,021.2	3,797.5	3,832.4	4,369.5	4,444.4	4,470.2
Thailand	561.2	512.3	494.4	521.6	499.0	514.1
United Kingdom	448.7	440.0	422.4	458.9	475.5	491.8
USA	1,367.8	1,704.7	1,601.7	1,909.1	2,010.3	2,031.2
Other countries	3,327.7	2,848.0	3,373.1	3,854.5	3,783.5	3,819.2
Arrivals	51,719.8	51,025.3	50,881.7	55,664.6	57,580.7	57,033.7

Source: Euromonitor International, August 2013.

The 62% of arrivals are from Hong Kong, Taiwan, and Macao. Arrivals from Japan, (fifth largest country of origin for inbound arrivals), declined by 4% during 2012, a phenomenon experts attribute to the current territorial disputes between China and Japan regarding the Diaoyu/Senkaku Islands. Arrivals from Macao also declined drastically (–11%), which could be linked to the economic slowdown in Macao in 2012, however, Australia, Russia and Italy recorded the strongest growth in terms of arrivals to China.

Key trends

In 2012, the vast majority of inbound tourists came to China for leisure purpose (57%) and in groups (28%). Business arrivals overall declined by 1% (–33% on the MICE1 segment).

¹ Meetings, incentives, conferencing, exhibitions

Arrivals by purpose of visit (2007–12). Unit: thousands of trips	2007	2008	2009	2010	2011	2012
Business	22,621.8	22,069.7	21,367.6	23,535.1	24,423.2	24,256.6
Leisure	29,098.0	28,955.6	29,514.1	32,129.4	33,157.5	32,777.1
Arrivals	51,719.8	51,025.3	50,881.7	55,664.6	57,580.7	57,033.7

Source: Euromonitor International, August 2013.

In terms of destinations of inbound tourism, it is notable that Beijing (–3% YoY), Shanghai (–2% YoY), Shenzhen, and Guangzhou received the most international visitors. Shenzhen and Guangzhou’s popularity can be explained by their proximity with Hong Kong. The city of Guilin also recorded the fastest growth in international arrivals during the same period.

Outlook

Despite a slow 2012 regarding inbound travel, international arrivals are projected to grow by 2% annually in the coming years.

Estimations by the World Tourism Organisation predict that there will be an annual increase of 43 million foreign tourists to China over the next two decades.

In the next few years, an increasing number of foreign tourists are predicted to come from Asian countries (such as Russia, Indonesia, or the Philippines), considering their growing middle class and rising disposable income.

Forecast arrivals by country of origin (2015–17). Units: thousands of trips	2015	2016	2017
Australia	830.9	905.6	989.0
Canada	707.7	750.1	802.7
France	561.9	612.5	669.4
Germany	700.2	763.3	839.6
Hong Kong, China	27,393.6	27,804.5	28,332.8
India	643.5	680.8	721.7
Indonesia	639.0	668.4	700.5
Italy	306.7	335.9	368.5
Japan	2,784.4	2,840.1	2,911.1
Macau	3,593.0	3,646.9	3,719.8
Malaysia	814.4	829.1	845.7
Mongolia	1,064.8	1,134.0	1,213.4
Philippines	1,076.9	1,182.5	1,304.3
Russia	2,503.3	2,703.5	2,946.8
Singapore	741.7	767.7	798.4
South Korea	3,577.7	3,731.6	3,903.2
Taiwan	4,569.2	4,624.1	4,688.8
Thailand	578.2	607.1	640.5
United Kingdom	561.2	594.9	636.5
USA	2,155.5	2,220.1	2,297.9
Other countries	4,205.5	4,415.8	4,680.7
Arrivals	60,009.4	61,818.4	64,011.1

Source: Euromonitor International, August 2013.

Incoming tourist receipts are projected to reach CNY 3.82 million by 2017.

In the future, efforts by the China National Tourism Association (CNTA) to regulate the travel and tourism industry should contribute to a smoother development of inbound tourism to China.

2 Key operators profile

The CNTA reports that China currently has more than 24,900 travel agencies (+5.3% YoY), only 2,151 of which are allowed to operate in outbound tourism (see below). These agencies are mainly gathered around Beijing and Shanghai, as well as in Zhejiang and Jiangsu provinces.

The annual turnover reported for all travel agencies in China amounted to CNY 337,48 billion in 2012 (Source: CNTA).

2.1 Domestic operators in the tourism and travel industry

The CNTA, (in cooperation with China Tourism Association), ranks the travel agencies by revenue. Below is an analysis of the top 10 tourist groups in order to better understand the dynamics of China's tourism industry.

China National Travel Service (HK) Group Corporation



Founded in April 1928 by banker Chen Guangpu, China National Travel Service Hong Kong Group Corporation is a state-owned company and China's largest travel group. The activities of the group include, but are not limited to tourism, industrial investment, logistics, and real estate development, with tourism the core business of the group. The group employs more than 45,000 people worldwide and reported revenue of CNY 50 billion in 2010.

The main companies of the group are the following:

- HKCTS or Hong Kong China Travel Service, with more than 150 subsidiaries and 500 branches in China, Hong Kong, and Macao, as well as 21 overseas branches in 16 countries. HKCTS operates in domestic, inbound, outbound travel, and transportation or invests in various performance arts programs, tourist attractions, theme parks, and resorts;
- Mango City, China's fifth online travel agency with a 4% market share (www.mangocity.com);
- HKCTS Metropark Hotel Management, the largest national hotel group with famous brands Metropark and Travelers Inn;
- Majority stake in the Tangshan Guofeng Iron and Steel Group, involved in the production of steel, iron, and rolled steel products.
- Shanxi Weihe Power Plant, north-western China's largest thermal power plant.
- China CTS Asset Management Corporation.

Ctrip Travel Group



Ctrip.com International Limited is China's second largest travel service provider for hotel accommodations, air tickets, and packaged tours in China. It is a privately owned company created in 1999 in Shanghai by CEO James Liang. It currently employs more than 16,100 people and reported a net income exceeding USD 167 million in 2013. It has been listed on NASDAQ since 2003.

Since March 2000, Ctrip.com International Limited holding company located itself in the Cayman Islands and conducts all its operations in China through the following wholly owned subsidiaries:

- C-Travel International Limited (general travel services);
- Ctrip.com Hong Kong Limited (travel service and booking facilities);
- Ctrip Computer Technology Shanghai (IT and consulting services);
- Ctrip Travel Information Technology Shanghai (online travel booking services);
- Ctrip Travel Network Technology Shanghai;
- Ctrip Information Technology Nantong, Beijing Ctrip (domestic and cross-border travel, as well as air ticketing);
- Shanghai Ctrip Commerce Co. (hotel booking services, conference services, business consulting, business information services + wholesale and retail sale of travel necessities and handicrafts);
- Guangzhou Ctrip International Travel Agency (domestic and inbound travel + air ticketing);
- Shanghai Huacheng Southwest Travel Agency (domestic travel and air ticketing);
- Shanghai Ctrip Charming (domestic and outbound travel);
- Shenzhen Shencheng Information Consulting Services (air ticketing).



Overseas Chinese Towns Enterprise Co. (OCT)

Overseas Chinese Towns Enterprise Co. is a Shenzhen-based state-owned company created in 1985 that operates in tourism, culture, real estate, and manufacturing (electronics), with tourism its core business. The group currently employs 24,000 people.

The main brands of OCT group include the following:

- OCT Real Estate
- OCT Tourism
- OCT Asia, formerly Huali Holding Group Ltd (paper packaging and printing)
- OCT Hotel
- KONKA Group (electronics manufacturing)
- Splendid China Folk Culture Village (theme park)
- Window of the World (theme park)
- Happy Valley (theme park)
- Portofino (hotel group)
- New Pujiang Town (satellite community town on the outskirts of Shanghai)
- Interlaken Village (hotel)

- He Xiangning Art Gallery (museum)
- OCT-Loft Creative Culture Park (creative industry park)
- Huaxia Art Center (facility for art and culture)
- InterContinental Shenzhen (hotel)
- Crowne Plaza Hotel Shenzhen (hotel)
- Interlaken OCT Hotel (hotel)
- City Inn (loft hotel)

In 2013, the OCT Group served more than 24 million tourists, exceeding CNY 4 billion in turnover, the majority of which came from the Happy Valley theme park.



JinJiang International Holdings Co., Ltd

Jinjiang International Holdings Co, Ltd is a Shanghai-based private conglomerate founded in 1951 that mainly provides hotel, tourism, and transport services and also operates in real estate, trade, and finance. With a registered capital of more than CNY 2 billion, Jinjiang International Group's main subsidiaries include:

- Shanghai Jinjiang International Hotels Holdings Company Ltd (or Jinjiang Hotels Group) is the biggest hotel group in China, with more than 1,025 directly or partially owned hotels or inns as of November 2013. It also operates in the food and catering segment through its subsidiary Shanghai Jinjiang International Catering Investment Co. Ltd;

The 2012 turnover of Jinjiang Hotels Group reached CNY 2.3 billion. The company listed on the Shanghai Stock Exchange in 1996. It is ranked the ninth largest hotel group in the world;

- Jinjiang Inn (hotel chain);
- Jinjiang International Industrial Investment: freight transportation, taxi, and car rental services, as well as hotel-related services;
- Jinjiang Real Estate;
- Jinjiang International Travel (JJIT): with a registered capital of CNY 800 million JJIT operates in domestic, inbound, and outbound travel. JJIT has merged the resources of former large travel agencies in Shanghai – namely, Shanghai CTS, Shanghai Jinjiang Travel, Shanghai Huating Travel, and Shanghai Travel. JJIT currently has more than 30 agencies in Shanghai, employs 1,100 people and reported CNY 886 million turnover for the first half of 2013.



Summary of Jinjiang International Group Portfolio: Jinjiang Hotels, Jinjiang Transport & Logistics, Jinjiang Travel Jinjiang Real Estate, Jinjiang Industry and Jinjiang Finance

Beijing Tourism Group (BTG)



Established in 1998, Beijing Tourism Group is a leading state-owned tourism group headquartered in Beijing.

Following various M&A, BTG grew exponentially. BTG currently covers six business segments: hotels and resorts; travel; shopping; restaurants; coaches and taxis and scenic spots. The group has more than 50,000 employees and reported a 2013 turnover of CNY 39.2 billion.

The main brands of Beijing Tourism Group include:

- Hotels and resorts division: BTG Jianguo, Home Inn, and the Beijing Capital Tourism Co. Ltd;
- Restaurant division: Quanjude, Donglaishun;
- Coach and taxi services division : Capital Taxi Company;
- Shopping division: Beijing New Yansha Group;
- Travel division: BTG International Travel & Tours, China Comfort Travel Company Ltd;

Scenic spots division: stakes in popular touristic destinations, such as the Shahu Scenic Zone in the Ningxia autonomous region or the Nanshan Tourism Zone in Hainan Province.

HNA Tourism



HNA Tourism is a division of HNA Group, a Hainan-based group created in 2000 that offers a wide range of services, including air transportation, real estate, retailing, financial services, tourism, and logistics services. HNA Group's 2012 revenue was estimated at CNY 126 billion with 120,000 employees.

The main business divisions of HNA group include:

Aviation division (management of air transportation and aviation-related companies, such as MRO, aviation logistics, etc.);

Industry division (real estate development, retail department store, airport operations, and financial investments);

The capital division aggregates about 30 companies operating in financial services, such as investment banking, leasing, insurance, trust, securities and funds;

The tourism division (HNA Tourism) engages in aviation, traditional tourism, travel financial services, hotels, IT, and Internet industries, owning more than 20 brands. Its most famous brands in the business segment are Deer Jet and Caissa Touristic;

The logistics division engages in speed transport, equipment manufacturing, and shipping.

Other business units include HNA Culture, HNA Finance Co. Ltd., and Changsha Nanfang Professional College. HNA Tourism is headquartered in Beijing, with assets reaching CNY 10 million in 2012. Each year, HNA Tourism serves 1.6 million tourists.

Qunar



Qunar.com is an online travel search engine that was created in 2005 by three entrepreneurs. In the summer of 2011, Internet giant Baidu became the majority stakeholder in Qunar with its \$306 million investment. Qunar.com allows web users to compare available prices for air/train tickets, hotels, car rentals, and tour packages.

Qunar Cayman Islands Limited Company (“Qunar”), the holding company of Qunar.com, reported 2013 revenue of CNY 850 million (up 69.6% from 2012). As of December 31st 2013, Qunar had 2,585 full-time employees.

CITS Group Corporation



CITS Group Corporation is China’s eighth largest travel corporation. This state-owned group, with a registered capital of CNY 390 million (2014), engages in the following business segments: travel service, tourism, communications and transport, and e-commerce.

The group’s main subsidiaries include CITS Head Office (travel service), China Duty Free Group Corporation, and CITS Real Estates & Property Management Company:

- CITS Head Office: created in 1954 and currently operates 122 branches and sub-branches throughout China. It was one of the first operators to obtain the licence for outbound tourism. CITS has now more than 40 subsidiaries (14 of which are abroad) and has established partnerships with more than 1,400 travel agencies worldwide;

CITS has around 10 million clients per year. The company’s 2013 turnover reached CNY 17 billion (+8% YoY) and profits exceeded CNY 1.29 billion (+28% YoY).

- China Duty Free Group Corporation: founded in 1984, the group has since set up 159 duty-free shops in airport, ports, and so on;
- CITS Real Estates & Property Management: development of travel-related tourism and management of hotels and resorts.



Shanghai Spring International Travel Service

Shanghai Spring International Travel Service is a Shanghai-based travel service company founded in 1981. Currently employing 4,000 people with an annual turnover of CNY 6 billion, Spring Travel operates in inbound, outbound, and domestic travel. It is the only travel service company to own its own low-cost airline (Spring Airlines, which started operations in July 2005). The group is present in all the big cities in China, as well as abroad (branches in the USA, Europe, and Asia).

Jinling Holdings Limited

Jinling Holdings Limited is China's 10th largest travel group. Its main subsidiary is the Jinling Hotel Corporation (established in 2002), which employs 1,273 people and by itself has nine subsidiaries:

- Jinling Tourism Development Co., Ltd.
- New Jinling Hotel Co., Ltd.
- Jinling Hotels & Resorts Corporation
- Jin's Inn Co., Ltd.
- Jinling Trading Co., Ltd.
- Jiangsu Sutang Candy and Wine Foodstuff Co., Ltd.
- Nanjing Jinling Golden Property Services, Ltd.

The 2013 turnover for the Jinling Hotel Corporation reached CNY 92 million.

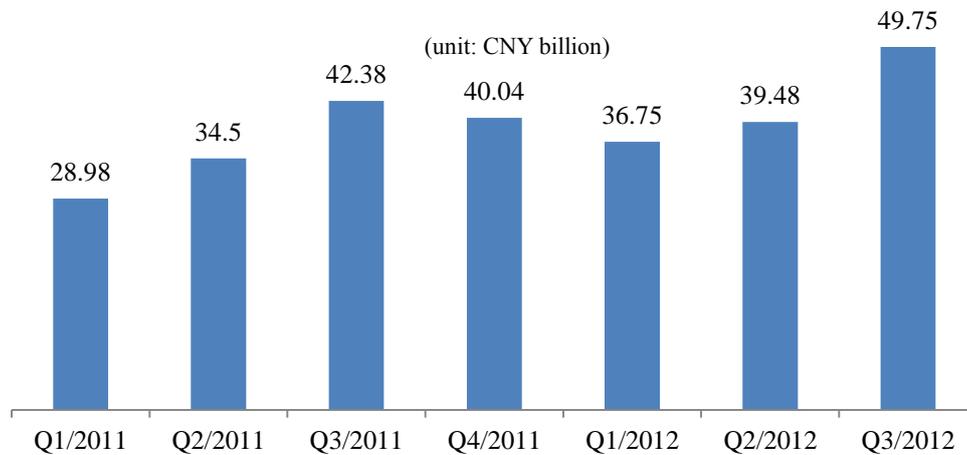
2.2 Main Online Travel Agencies (OTAs)

Development of online travel market

Thanks to the massive development of e-commerce in China, (618 million Internet users at the end of 2013), online sales of travel products and services have expanded rapidly in the last decade. With many operators and great growth prospects, the online travel segment is, in its own right, a valuable specific market. In 2011, travel-related websites have received more than 42 million unique visits per month.

According to Sootoo, a Chinese research institute focused on social media and Internet in China, the turnover for the online travel market for the third quarter of 2012 amounted to CNY 49.75 billion, up 17,4% from the previous year.

Turnover of online travel market in China



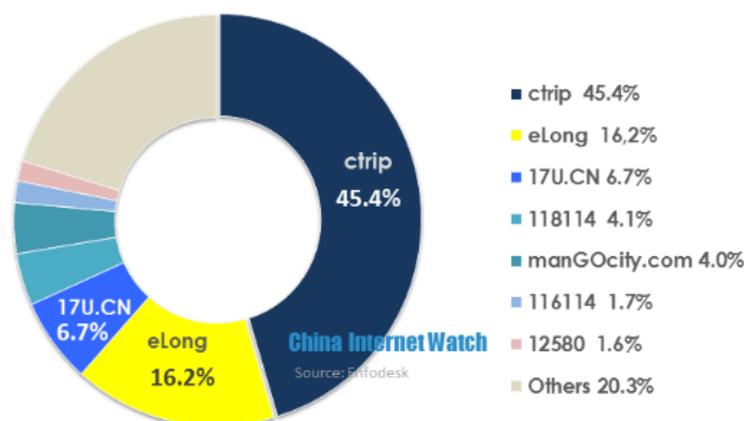
Source: Sootoo, January 2013.

The enthusiasm for online transactions can be explained by the many possibilities e-commerce offers: the ability to shop 24/7 and easily compare prices, products and competitors. An increasing number of online travel agencies differentiate themselves from the competition by offering additional support services, such as a 24/7 hotline or the ability to chat with customer service at any time to help with the buying process.

At Ctrip, online and mobile booking accounted for 80% of total bookings for 2012

Market shares of China's main OTAs in 2012 (by revenue).

China Online Travel Agency Market Share, 2012



Source: China Internet Watch.

China OTA market share in 2012 (by total visits)

Source: Hitwise, 2012.

Top 3 OTAs**Ctrip.com Hong Kong Limited**

Ctrip.com is China's leading OTA, with 46% market share and listed on NASDAQ. In April 2014, Ctrip.com began talks with Baidu-backed travel website Qunar regarding a potential merger.

Always at the forefront of technology, Ctrip.com is very present in the world of mobile apps: 20% of its sales come from its own mobile apps (in the third quarter of 2013, Ctrip apps were downloaded more than 70 million times).

eLong

eLong (www.elong.com) is Ctrip.com's main competitor. Created in 1999, eLong's main shareholders are Expedia (56%) and Tencent Holding (16%).

eLong's total revenue for 2013 amounted to CNY 1.07 billion (80% of revenue from hotel reservations and 12% from air ticketing). eLong's hotel supply portfolio now covers more than 150,000 hotel properties worldwide, including 19,000 hotels in China and more than 130,000 internationally, thanks to its connection with Expedia.

17U.cn

17u.cn is a Chinese online travel service provider created in 2004 that offers a wide range of services such as hotel, flights, cruises, sightseeing tickets, FIT (Free Independent Traveler) travellers, and group-buying deals.

17u.cn received a massive CNY 10 million investment from Tencent in 2012 and CNY 35 million from Oriza. It recently received CNY 500 million in funding from Boyu Capital an equity investment company. In 2012, 17u.cn announced its plans to launch an IPO in the near future.

To face Ctrip's upcoming collaboration with Qunar, 17u.cn plans to develop a partnership with current rival eLong (also backed by Tencent). In 2012, revenues for 17u.cn reached CNY 500 million.

2.3 Permitted foreign travel agencies

Considering the limitation imposed by the CNTA on outbound travel for Chinese nationals, only three actors have been granted the "outbound license" in May 2011 after a lengthy process review by the CNTA – the main requirement being that companies filing an application for this license should be Sino-foreign joint ventures. These three joint-ventures were amongst 14 applicants:

CITS American Express



CITS American Express (www.citsamericanexpress.com) was founded in 2002 as a merger between China International Travel Service (CITS) and American Express.

JTB New Century International Travel



JTB New Century International Travel (www.ncit.com.cn) was founded in 2000 as the first joint venture in the travel industry in China, a partnership between the Japanese giant JTB International (49%) and China's CITIC Travel (51%).

TUI



TUI China (www.tui.cn/en) was founded in 2003 as a joint venture between TUI AG and China Travel Service (CTS). It is the only joint venture in the Chinese travel market in which a foreign company is the majority owner (TUI AG owns 75% of shares). Headquartered in Beijing, TUI China operates mainly in MICE and expat travel (China-based foreigners). It can also offer inbound and outbound travel services.

2.4 Other foreign actors

Many other foreign actors are present in China's travel and tourism industry, albeit not on the outbound segment.

In the tourism industry, most major international hotel chains are currently in China: Starwood Hotels & Resorts, Marriott International, InterContinental Hotel Group, Hilton Worldwide, Wyndham Hotel Group, Langham Hospitality Group, Jumeirah Group, and Ritz-Carlton. International hotel chains

entered the Chinese market quite recently (at the end of the 1980s) and account for a 10% market share. It is notable that resorts groups such as Club Med are becoming increasingly popular.

In the travel industry, most foreign actors engaging in domestic and inbound travel are of relatively small size.

3 Business opportunities and major threats for European companies

3.1 Limitation on outbound travel for foreign-invested travel agencies

CNTA limitations

The outbound tourism market is among the most controlled by the government with no easy access, even for Chinese travel agencies.

The possibility of obtaining an outbound licence for Chinese travel agencies is subjected to the following requirements from the CNTA: They must have maintained a domestic travel agency business licence for at least two years without having any official client complaint or paying any fine. The deposit for the outbound licence is CNY 1.2 million.

Regarding limitation on foreign fully owned or invested travel agencies, the *Decision of the State Council on Amending the Regulations on Administration of Travel Agencies* (adopted at the 49th executive meeting of the State Council on December 5th 2001 and promulgated by decree no. 334 of the State Council of the People's Republic of China on December 11th 2001 and effective as of January 1st 2002) states that:

Article 32 Foreign-invested travel agencies may engage in the inbound tourism business and domestic tourism business [...].

Article 33 No foreign-invested travel agency may engage in the tourism business of Chinese citizens traveling abroad and of citizens from other Chinese territories traveling to Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region.

The registered capital for said joint ventures is also subjected to requirements:

Article 28 The minimum registered capital of a Chinese-foreign equity joint venture travel agency shall be [CNY] 4 million. The minimum registered capital of a Chinese-foreign contractual joint venture travel agency may be adjusted. The competent tourism administration department of the State Council shall, together with the competent foreign trade and economic cooperation department of the State Council, determine the time limit for adjustment.

The trend seems to be leading towards opening up the market: In 2009, the government lifted some restrictions on the market; for instance, it lowered the registered capital threshold for a foreign-invested company or WOFE from CNY 4 million to CNY 300,000. In August 2010, the CNTA issued *tentative measures for supervising pilot operation of outbound tourism business by Sino-foreign equity joint venture travel agencies*, allowing foreign-invested travel agencies to apply with the CNTA for the pilot operation of outbound tourism business, provided that they meet the following criteria: The travel agencies must be a Sino-foreign equity joint venture, the applicants must have obtained the travel agency business license at least two years, and they must not have been subjected to any administrative punishment more serious than fines due to impairment of the legitimate rights and interests of tourists.

The application period was open from September 1st until September 30th 2010 and resulted in 14 applicants (only three of which were granted the outbound licence: CITS American Express Business Travel, JTB New Century International Tours Co. Ltd, and TUI China Travel Co. Ltd).

3.2 Better regulation by the authorities

New Tourism Law (entered in October 2013)

Until very recently, it was not uncommon to see package tours sold at highly competitive prices (sometimes even advertised as “free of charge”) by main Chinese tourism operators. These package tours included never-ending shopping sessions imposed on Chinese tourists during their stay to guarantee that tourist guides and travel agencies received commissions from those “partner shops” – commissions considered a legitimate retribution to compensate for ridiculously low prices of the tours (guides receiving no fixed salary and were paid through these commissions). As late as January 2013, for instance, one could find 11-day package tours to Taiwan for as little as CNY 2,980, which is even cheaper than the average round-trip air ticket to Taiwan!

To prevent repeated abuse and to protect the consumer, a new tourism law was voted in April 2012 during the second sessions of China’s People Congress and implemented by the CNTA on October 1st 2013.

According to this new law:

China Tourism Law, Article 35. Travel agencies are prohibited from organizing tourism activities and luring tourists with unreasonably low prices, or getting illegitimate gains such as rebates by arranging shopping or providing tourism services that requires additional payment. When organizing and receiving tourists, travel agencies shall not designate specific shopping places, or provide tourism services that require additional payment. However, it does not include circumstances where both sides have agreed or the tourists have requested for such arrangements and no influence is caused on the itinerary of other tourists. In case of any violation to the above two paragraphs, tourists shall have the right to, within thirty (30) days from the end of the travel, require the travel agency to return their purchases and pay the price of the returned purchases on behalf in advance, or refund the payment made for tourism services that require additional payment.”

This new law should contribute to a healthier development of tourism and travel industry in China and help reduce unfair competition, thus turning China’s tourism and travel industry into a more structured market, opening up opportunities for foreign travel agencies or tour operators.

According to a recent joint study from China Association of Travel Services (CATS) and Ivy Tourism Alliance Consulting, which interviewed a number of travel agencies following the new tourism law, 61% of respondents said that they remain hopeful regarding the future prospects of China’s outbound tourism market.

Opening of the Shanghai free trade zone (FTZ): an opportunity for foreign travel agencies?

On September 29th 2013, the Chinese government launched the new free trade zone, covering 28 km² in south Shanghai. According to China’s Prime Minister Li Keqiang, “*The priority will be to facilitate investment and the opening of the service industries*”. This new free trade zone is therefore mainly focused on the tertiary sector such as finance or tourism business and will most likely be used as a “test zone” to launch future government reforms. The three-year development plan, initiated in October 2013, should be adjusted in the near future.

During the latest Shanghai municipality conference on the tourism industry (end of January 2014), Shanghai municipal officials have reiterated their support for the creation inside of the free trade zone of foreign-invested travel agencies operating in outbound tourism (excluding Taiwan). New regulations in that direction are expected for 2014.

3.3 Express visa procedures to further boost China's outbound tourism

Aware of the potential benefits of China's outbound tourists to their own countries' economies, a growing number of countries have simplified visa application procedures for Chinese citizens.

Europe

In Europe, there are currently two types of visas that can be granted to Chinese nationals to enter the Schengen area, whether they travel individually or in a group. The "C" visa (valid for 90 consecutive days) can be broken down into two types:

ADS (Approved Destination Status) visa is granted to groups of more than five people. Applications for ADS visas must be made through an ADS-accredited travel agency.

Individual visas, for those who travel by their own means and following their own itinerary. The application process for this type of visa is more complex, time consuming, and more likely to be rejected.

In case of a multi-country tour, the country through which the visa application must be made is the country where the tourist spends the most time or, if there is no main destination, the entry country.

Because of this rule, and because of the explosion of the number of Chinese tourists to Europe in the last few years, a fierce competition between Schengen area member countries has developed. Indeed, the benefits for the entry country's economy can be substantial: flight with the country's air carrier, shopping expenditure (estimated at EUR 1,500 for an average Chinese tourist in 2013). Consequently, France, the UK, and Italy have all implemented express application visa procedures.

France

In light of this growing competition, the French government decided to simplify visa application procedures for Chinese tourists. Early in 2014, to benefit from the momentum of China and France's 50- year anniversary of bilateral relations, French Minister of Foreign Affairs Laurent Fabius announced that from January 27th on, visa application procedures would be simplified for all Chinese nationals (launch of the "visa in 48h" operation).

According to tourism professionals, if visa application procedures were further simplified, Chinese outbound tourism to France could grow by 30%.

Italy

Italy has also decided to streamline visa procedures for Chinese citizens to prepare for the Milan Expo 2015. Since October 2014, only five days are required to obtain tourism visas (compared to eight before) and two days for business visas (four days previously).

United Kingdom

In October 2013, the UK government announced that it would relax visa application procedures for Chinese citizens by eliminating the need for Chinese nationals to submit a separate UK visa application when visiting Europe. A 24-hour "super priority" visa service is also rumoured to be available from summer 2015.

USA

In 2012, the then US Ambassador to China, Gary Locke announced a new process to streamline visa application procedures for Chinese nationals: From March 16th 2012 on, Chinese applicants have the

opportunity to schedule their visa interviews, pay fees, and check on the status on their visa online. Prior to 2012, the waiting period for an interview could be as long as 60 days.

Other countries

Other countries, such as Thailand, have seen the potential benefits of shortening the visa application process for Chinese tourists and have followed suit.

3.4 Growing niche markets

Recently, experts have seen that the high end, luxury travel sector in China is growing rapidly and that few Chinese operators are equipped to meet the requirements of this demanding clientele, leaving room for foreign operators.

Indeed, the global luxury travel market has reported an increase in the number of travelers from emerging countries, such as China and India. According to the 2013 HuRun report, there were 2.8 million USD millionaires in China in 2013 (+4% YoY). The report reveals that 63% of those chose travel as their favorite form of entertainment, with France, the USA, and Singapore as their top three destinations. The report also said that Chinese tourists are responsible for 25% of the world's luxury consumption.

A relatively small number of operators are currently present in this market segment, and foreign actors tend to be more trusted when it comes to luxury services. Furthermore, the new tourism law is likely to increase independent travelling, as tour packages will soon become almost as expensive as individual travel. As a consequence, opportunities still remain for foreign operators, especially in the luxury niche markets:

“Although Chinese citizens’ outbound travel will continue to be characterised by mass tourism, market fragmentation will become increasingly apparent and mass tourists will increasingly pay attention to the quality of travel products and services while the high-end market will look for special travel experience” (extract of a 2011 report from Chinese Academy of Social Sciences).

Indeed, second- and third-time outbound Chinese travellers will seek more and more differentiated travel experiences, such as:

Cruise holidays, as witnessed by the opening of new cruise terminals in Singapore, Shanghai, and Hong Kong and by the rapid expansion of regional cruise liners².

Themed holidays, such as “island hopping tour” in the Mediterranean, “luxury shopping tour” in Italy or France, “spa towns tour” in Western or central Europe, “fashion week tours” (with private fashion shows and a visit of independent young fashion designers), and “casino tours” in Monaco.

Cultural or historical tours, such as “Renaissance art tours”, “opera and ballet tours”, “modern art tours”, “medieval tours” (with a visit of medieval towns and medieval castles in Western Europe), “local workmanship tours” (discovery of local handicrafts, such as perfume or soap manufacturing), and “holy days tours” that revolve around holy days in specific countries, such as Las Fallas celebrations in Valencia, Spain.

Culinary holidays: either cooking, eating, or wine-tasting.

² Royal Caribbean International, which entered the Asian market a few years ago, reported a rise in numbers of 20–30% YoY.

Sports holidays: skiing or hiking holidays in the Alps or the Pyrenees Mountains, golf holidays in Scotland, rowing training in Cambridge.

To quote Hilton and the School of Oriental and African Studies' 2011 blue paper³, *“the importance of Chinese niche markets for the European Travel industries should not be underestimated. Given the size of the Chinese population, the number of potential customers for a niche tour may nonetheless be considerable”*.

Aware of this increasing lucrative niche segment, in March 2012, Ctrip.com launched its high end brand called HH Travel (High to Heart Travel) in collaboration with Wing on Travel and YZ Travel. Group tours proposed by HH Travel have a size limit (around six people, maximum of 10) to offer a unique experience to the customers and ensure the quality of the stay.

HH Travel quickly gained fame by launching limited edition innovative premium packages, such as the “80-day world tour package” priced at CNY 1 million in 2013. The product sold out in 17 seconds after its release online.

Thanks to HH Travel, Ctrip.com hopes to acquire 50% of China's outbound high-end demand by 2020.

³ *“How the rise of Chinese tourism will change the face of the European travel industry”*, **London School of Oriental and African Studies (SOAS) and Hilton Group.**

4 Main sources

4.1 Public administrations and Institutions

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- Atout France
- China Association of Travel Service

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- Interviews with travel agencies



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