ISSUES PAPER: TOURISM AND ECONOMIC STIMULUS IN CHINA

I. Summary

In response to a request from the Chinese Government, the World Bank Group has prepared the following short note considering the role that increased support to the tourism sector can play in stimulating consumption in the face of the current crisis. This note addresses three related questions: (i) Does China’s tourism sector comprise a relatively attractive mechanism to stimulate consumption in the short-run? (ii) In light of global trends, what are options that the Government may wish to consider to stimulate tourism and overall consumption, and iii) What are the trade-offs the Government should consider, given the structure of China’s economy and tourism sector? This note was developed through consultation with World Bank Group experts on tourism and on China’s economy, and draws upon the most recent information from sector studies and global tourism organizations.

In summary, there appear to be multiple opportunities for China to increase consumption through stimulating tourism. This note focuses primarily on domestic tourism, which accounts for a significantly larger share of tourism’s contribution to China’s economy and employment than international tourism. Given that the international financial crisis has already, and is continuing to impact travel from source market countries, a focus on the domestic market is prudent in the short term. Chinese expenditures on travel and entertainment, culture and education account for about 15 percent of consumption, or about 8 percent of GDP. Assuming half of this is tourism, this could indeed make a significant contribution to demand and consumption, if demand can be increased in the short run. Other countries are actively taking a number of measures to stimulate tourism, and this note highlights a few of them. However, the Government will want to more rigorously analyze the trade-offs that come with possible measures, given the specifics of China’s tourism industry and economy.

II. Background

Tourism is one of the world’s fastest growing industries, and prospects for continued growth are promising, notwithstanding the current economic climate. The long-term growth trend for tourism is about six percent over a thirty year horizon, and its prospects for continued growth appear good, although, in the short run, the current economic downturn is producing negative growth. The industry has also proved in multiple instances to be resilient to shocks.

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1 This issues paper was prepared by a World Bank Group team under the overall guidance of David Dollar and led by Christopher Finch and including Katrinka Ebbe, Ardo Hansson, Bert Hofman, Shaun Mann, Hannah Messerli, Jim Reichert, and Shenhua Wang.
However, forecasts for short-term tourism growth globally have shifted downward repeatedly as the global economic contraction has intensified, with visitor arrivals, air passenger traffic, and tourism earnings slowing markedly in recent months. Global growth in tourism arrivals is now projected to be at 0% to -2% for 2009 per the UN World Tourism Organization (UNWTO), which forecasts a return to growth in the latter part of 2009 and a shift to shorter trips closer to home. The economic crisis and impact of the recent influenza scare are causing travelers to book much closer to their departures in search of deals and to also avoid costly cancellations due to unexpected events. Industry analysts anticipate that travel bookings with a short lead time---even for long haul travel---will become the standard in the future.

In recent years, China has had one of the fastest growing tourism markets in the world in terms of inbound, outbound, and domestic tourism. Increasing affluence among China’s citizens has created more travel and tourism within the country: in 2007 there were 1.6 billion domestic trips. The Chinese National Tourism Administration (CNTA) projects domestic travel volume to increase to 1.85 billion in 2009. While domestic tourism is still dominated by trips that are arranged by work units and employers, the pattern is changing rapidly towards smaller groups, families and individual travelers. These tourists are growing in sophistication and their expectations for tourism experiences are expected to quickly match those of foreign visitors.

While China’s tourism growth is the envy of many countries with highly developed tourism sectors, China is far from fully utilizing its vast tourism resources. Abundant cultural and natural attractions remain undeveloped in emerging urban centers as well as rural areas. Further distribution of domestic tourists to diverse areas will support continued tourism growth and an even wider economic impact across regions. Xinhua News reported domestic tourism reaching RMB 813 billion in 2007. In the short-term, however, tourism growth in China is forecast to drop below 1 percent in 2009, following a year in which travel and tourism GDP increased by 4.4%.

III. Tourism as stimulus option

Tourism is well positioned to play an important role in stimulating consumption, and to contribute to China’s overall economic rebalancing goals. In its delivery, tourism is labor intensive and a services sector, so fully consistent with rebalancing economies. According to WTTC, China’s travel and tourism economy drives 7.8% of all employment in 2009. Also, because consumers travel to the point of consumption, the tourism sector includes numerous SMEs, which can offer a local, customized

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2 According to China’s official tourism statistics, per capita expenditure on domestic tourism in 2007 was 483 yuan, of which urban resident expenditure was 907 yuan and rural resident expenditure was 223 yuan. Roughly estimating, the share of spending on tourism to the total household consumption spending was about 9% for urban residents and 7% for the rural residents. Domestic expenditures on tourism have trended upward since 2003, and Xinhua News reported domestic tourism reaching RMB 813 billion in 2007.
experience, direct consumption to less developed areas, and provide employment and income earning opportunities for the poor, especially in rural areas. The structure of the tourism value chain includes core trunk activities (transport and accommodation) with multiple branches of goods and service providers who serve those industries, and multiple indirect and induced beneficiaries. This makes tourism a horizontally integrated sector and suggests that tourism, more than some sectors, is worth stimulating and will benefit the economy overall.

Tourism also is a catalyst for investment in other sectors and stimulates economic diversification. It offers strong potential for environmental and cultural linkages, by providing an economic incentive to preserve natural and cultural sites, undertake environmental cleanup efforts, and improve local environmental management. Tourism expenditures can turnover 7 to 11 times in an economy. Pro-poor tourism studies have shown tourism linkages clearly benefiting the poor.

Governments around the world, as part of their economic stimulus packages, are adopting a range of actions to support tourism. This interest stems from tourism’s contribution to employment, potential as an entry point into the workforce for young people and women, strong economic multiplier effect, as well as tourism’s role in building business and consumer confidence. According to the most recent UNWTO report, national stimulus packages for tourism recovery are focused on tourism promotion and marketing, although many countries are also adopting fiscal and monetary policy measures, some of which are described below.³

IV. Measures to stimulate domestic tourism in China

To sustain China’s domestic travel activity and attract international tourists, tourism sector suppliers (such as tour operators, transport, hotels, etc.) need adequate access to capital during seasonal fluctuations and any periods of decreased traveler activity to assure a variety of offerings which stimulates consumption. An immediate entry point is establishing an active partnership with all players involved – including Government, airlines, hotels, tour operators, municipalities, and national parks – to focus intensively on a concerted effort to promote travel. Implementing measures to support tourism enterprises and activities, and to intensify tourism development, are both prudent and in line with China’s overall economic rebalancing goals. Some of these are described below.

Short-term measures to promote domestic tourism

³ UNWTO classifies stimulus efforts in the area of tourism into 8 categories, including: (i) marketing measures; (ii) public/private partnerships; (iii) fiscal measures; (iv) monetary measures; (v) human resources measures; (vi) travel facilitation; (vii) transnational and territorial cooperation; (viii) environmental measures. This note presents several options that the Government of China may wish to consider, along with indications of what other countries have done. See: World Tourism Organization, “Tourism and Economic Stimulus – Initial Assessment”, Madrid, May 2009.
1. Tourism promotion: One of the main actions being taken globally is intensified marketing and promotion. Approaches include:

- **Targeted promotion campaigns:** An immediate response is to increase the promotional budgets of the national tourism administration and launch special campaigns to target the domestic market. This can include encouraging nationals to take their holidays at home, such as a campaign by Australia to encourage workers to use their leave for holidays within the country, or a coordinated domestic packaging effort. For example, Portugal launched a comprehensive advertising campaign and developed a dedicated website where private partners offer special packages and discounts for domestic travelers. Several countries have created travel packages that bundle popular destinations within a region or province. To promote domestic tourism and encourage citizens to travel within Thailand, officials have allocated funds to bring up to 2,000 youth from each of the country’s provinces to travel throughout Thailand. In China, CCTV and other state media could provide a relatively inexpensive channel for promoting multiple domestic tourism events and offerings. Co-op advertising, combining public and private resources, also improves the potential for reaching multiple audiences. If specific provinces and sites are promoted, it is important to ensure that they are capable of fulfilling the expectations created.

- **Travel fairs:** Officials have a good track record with sponsoring travel fairs across the country. A recent example is the combined 2009 China Domestic Travel Fair and 6th East Asia International Travel Fair in Dalian in April. The Guangzhou International Travel Fair is produced cooperatively with Feria de Madrid (the largest exhibition company in Spain). These fairs are effective in generating interest and could be expanded to tertiary cities. They also serve as a vehicle for the travel trade to collaborate and exchange good practices.

- **Internet:** Domestic and international travelers are using the internet increasingly as an information and booking channel. A strong internet presence is crucial to building tourist interest and traffic. Developing a website to promote domestic tourism and to define any temporary financial benefits of traveling domestically would help to reinforce an overall marketing strategy.

- **Domestic event tourism:** Size and timing of events are crucial factors for harnessing the economic benefits of event tourism. Although major events that attract large numbers of travelers can take many months to prepare, they have the potential to trigger domestic travel. Promotion of cultural and sport events, similar to the 2010 Soccer World Cup in South Africa or the upcoming East Asian Games, utilizes specifically targeted promotional campaigns and stimulates travel. Regional events organized through economic stimulus policies could effectively fuel domestic travel at sites throughout China generating substantial economic activity as well as dispersing travel beyond major cities to areas most in need of economic momentum.

- **New tourism experience promotion:** China’s younger generation and growing middle class are targets for the promotion of new, innovative travel experiences. China has already developed themed travel routes to encourage travelers to visit multiple destinations. The popularity of “red tourism” in 2007 celebrating the 80th anniversary of the army is an example of domestic demand for tourism with an educational benefit. New experience initiatives, sponsored cooperatively by the government and tourism sector suppliers, could be tied to official recognition of tourism’s contribution and fuel domestic consumption.
2. Tax and fiscal measures: While agreement is elusive on the long-term benefits of changes in tax policies to stimulate tourism, some countries have begun to try and ease pressure on businesses and travelers by temporarily reducing or eliminating specific taxes on travel-related activities. Given the economic downturn, temporary financial incentives, such as lowering or eliminating airport taxes on domestic flights, accommodation taxes for Chinese travelers, tiered entrance fees at parks and cultural sites, and lowering toll road charges, can induce domestic travel. Combining marketing campaigns with lower taxes and fees would send a message that this is a unique time and opportunity to see China. Lowering airport taxes and hotel fees would also benefit business travelers, meetings and conference segments. Other countries have introduced tax reductions and suspensions in fees for tourism and related areas, such as Macao SAR of China’s suspension of its tourism tax on restaurants and Egypt’s reduction of take-off and landing fees for airline operators. In considering possible tax holidays/rebates, it is desirable to review current taxes on tourism and travel activities and benchmark China’s effective tax rate against those in other countries – analysis that the WBG could potentially support.

The Government could consider a one-time tax-holiday over the summer or during a typically slow season – which would be a kind of fiscal stimulus that targets spending on tourism services (analogous to the tax rebate for buying manufactured goods) and encourages the dispersal of leisure trips throughout the annual calendar. In considering a measure such as this, it will be important to consider the complexity of implementation. For example, if a temporary tax holiday were to be provided to the hotel and entertainment tax, which is a local tax, then local governments will need to be compensated for the revenue loss. It is also advisable to link tax holiday(s) to product improvement (such as a tax holiday for hotel operators that upgrade their physical plant or for a tour operator that purchases a new transport vehicle for providing tourist services), to assure reinvestment in operations which supports competitiveness and continued consumption over time.

3. Encouraging greater flexibility in spreading out vacation time. To promote year-round travel and reduce the seasonality fluctuations, greater flexibility in travel timing policies is encouraged. Increased flexibility for government officials to spread out vacations, rather than clustering them during "golden weeks," stimulates tourism and sets an example for other travelers.

4. Other measures

- **Public/Private Partnerships**, where government coordinates with businesses related to the tourist industry to promote tourism or strengthen tourist infrastructure, such as a collaboration by the Korean Tourism Organization and VISA on a large discount scheme for tourists to South Korea, or the increased cooperation between Hungary's tourist promotion agency MT and domestic tourism industry to create a coordinated strategy focusing on the domestic tourism market and neighboring countries.

- **Monetary Measures**, including credit provision and guarantees to businesses in the tourism industry, as well as transportation companies, such as a USD 50 million loan by the Jamaica
Tourism Board to its transport sector, or a micro-credit scheme by Thailand to its small- and medium-sized businesses.

- Encouraging *longer term tourist consumption while providing short term job creation*. For this, it might be useful to consider broadening China’s current economic stimulus approach to include infrastructure projects that reduce the travel time to tourist destinations such as airport metro links and roads, and small and medium airport construction or expansion. This would include expediting final design and approval of projects that are already part of the planning process and have substantially completed the feasibility study process.

**Medium-term measures to promote domestic and international tourism**

1. **Expanding conservation and infrastructure investments to improve tourism sites and create jobs.** Limited budgets and lack of access to expert skills have, in some cases, resulted in inappropriate conservation and deferred maintenance for important nature-based and cultural tourism sites. Investments in infrastructure and environmental protection are critical, not only for the sustainable development of the sites, but also for increasing opportunities for local economic development. To continue increasing visitor numbers, capacity building is needed for tourism planners, site managers, and museum designers to provide interpretation that is based on: deeper research and knowledge; updated presentation methods; and an expanded number of themes that present all the cultural and natural features of the sites and appeal to all types of visitors – adventure, religious, cultural and ecotourists.

2. **Building infrastructure to improve accessibility.** Access to destinations is critical to sustainable travel and tourism. This includes ease, frequency and affordability. Continued government support of multiple forms of transport---especially air, rail and ship---will contribute to increased rates of domestic travel. Liberalization of commercial air traffic, of a kind which leads to financially viable low-cost airlines can help to promote tourism. Allowing smaller airlines to serve as low cost feeders at select regional airports would provide greater access to key cultural and natural sites, and could open up economic opportunities for local communities.

3. **Opening up the travel and tourism sector to greater competition and to encourage development of SMEs providing tourism services.** Many services in the tourism sector, including hotels, restaurants, tour operators and transportation, are provided by small- to medium-sized enterprises (SMEs). An overall agenda that seeks to improve the business climate for SMEs, including their access to finance, could benefit the tourism sector. Worth consideration is providing micro-finance and micro-credit schemes to SMEs that offer attractive terms and conditions in the form of longer lending periods and lower interest rates. To attract international standard hotel developers beyond gateway and secondary cities, reducing FDI barriers should be encouraged. In any market, access to land, adequate capital and sufficiently trained human resources are key constraints to tourism. The Government’s "Provisions for Travel Agents," enacted May 1, 2009, is viewed as an important step forward for opening up the travel and tourism sector. It includes provisions for foreign investors to set up foreign funded travel agencies in China. Continued opening up of the private sector to support tourism businesses to benefit from competition and exposure to international practices can stimulate tourism.
4. Other financial crisis response approaches noted by UNWTO

- **Human Resources Measures**, including the creation of new jobs in tourism by government, vocational training to promote tourism skills, such as the announcement of The Philippines Tourism Department to create 3000 jobs in tourism, or a special visa program by Pakistan to promote skill transfer. Many capable site managers, tour operators and NGOs in China could be tapped to advise less developed and well-known sites. In addition, there are many international organizations that have an interest in helping support sustainable tourism. The US National Park Service has an active program of Sister Parks which provides for an exchange of visits and expertise. The Getty Trust and the World Monument Fund have ongoing programs assisting with conservation of important historic sites. Domestic and international partnering and study tours within China can also help build awareness and capacity throughout the country.

- **Transnational and Territorial Cooperation**, cooperation between states and territories to create common tourism products, such as the cooperation between the Macao SAR of China with Mainland China and Hong Kong SAR of China to develop common tour itineraries awaiting the upcoming East Asian Games.

- **Environmental Measures**, stimulating the development of eco-tourism and environmental awareness in the tourism sector, such as a program by the Republic of Korea on a zero-energy tourism complex.
Annex 1   China tourism projections

The contribution of travel and tourism to China’s economy is projected to remain strong, in spite of slight declines related to the current economic crisis. Based on the World Travel and Tourism Council’s economic impact report for 2009, the travel and tourism economy’s contribution to GDP in China is expected to be 9.8% (RMB 2,993.7 billion) in 2009 and 9.7% (RMB 9,679 billion) in 2019. Real growth for travel and tourism is expected to be 0.6% in 2009. However, it is projected to average 9.2% per annum over the coming 10 years. The contribution of travel and tourism to employment is expected to rise from 60,841,000 jobs in 2009 (7.8% of total employment) to 83,519,000 jobs by 2019 (10.1% of total employment).4

Internationally, China’s travel and tourism economy is currently ranked third in absolute size, 78th in contribution to GDP and first in expected growth over the next 10 years. The table below compares China with other large economies.

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<td>Absolute Size</td>
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Source:  http://www.wttc.org/eng/Tourism_Research/Tourism_Economic_Research/

This information should be viewed with several China-specific considerations in mind:

- The system of national vacations during the first weeks of May and October each year has meant that around 50% of annual domestic tourism site visits are conducted during two 5 day periods. This pattern has led to short-term, but intense overuse at both cultural and natural sites.

- China’s tourism officials and international agencies are aware that there are some inconsistencies and structural weaknesses in the way China’s tourism numbers are recorded, analyzed and presented. Currently the numbers of domestic tourists in China are probably overstated due to mechanisms that count short distance trips to visit friends and family as tourism. In 2002, it was estimated that around 50% of “tourists” from urban areas had not consumed any form of entertainment and 25% had not visited a tourist site; and 70% of “tourists” from rural areas had not consumed any entertainment or visited a tourist site.

- As noted above, while domestic tourism is still dominated by trips that are arranged by work units and employers, the pattern is changing rapidly towards smaller groups, families and individual travelers. These tourists’ goals for tourism experiences are expected to quickly match those of foreign visitors.
