

Commentary

Among the results of China's economic modernization has been the emergence of an affluent middle class with considerable disposable income, estimated by the Chinese Academy of Social Sciences to be as many as 110 million people. In common with people in similar circumstances in other countries, many of these newly well-off Chinese are spending some of their wealth on tourism – as many as 10 million will travel overseas this year to Asian destinations. About three million are estimated to want to travel further afield, with more than half of those hoping to visit Canada some day. However, relatively few will make it to Canada in 2002. Last year, Chinese nationals made 86,000 trips to Canada, an increase of 65% since 1995 (compared to a fall of more than 20% in visitors from all other Asian sources). In 2001 alone,

Chinese visitors spent an estimated \$123 million during their stay in Canada. However, very few of these Chinese visitors to Canada came as “tourists,” citing instead business or family as their primary reasons for visiting. Chinese applicants have believed the likelihood of getting a Canadian visa for the sole purpose of “tourism” is slim. Administrative barriers have inhibited the growth of Chinese tourism to Canada but bilateral talks are now beginning which could lead to Canada winning “approved destination status” from Beijing, which could lead to a dramatic increase in genuine tourist arrivals. Chinese travellers could be the next big thing for the tourism industry, over time eclipsing even the high-spending but recently depressed Japanese market. But this opportunity, as with all business in China, does not come without considerable complications.



Opening the Door to Chinese Tourism

China's entry into the World Trade Organization and the country's record of robust growth during the current global economic downturn have raised again the question of the “infinite” opportunities offered by China's vast domestic market. Western entrepreneurs have for over a century fantasized about this potential, but the absence of sound market research and poor understanding of Chinese institutions have led many businesses astray. Today an important outcome of the reform process is not simply that the Chinese are wealthier and more able to purchase foreign goods and services, but also that the Chinese market is more open and intelligible to foreign business and that the kind of market research fundamental to any major product launch in Western liberal economies is now more applicable to China. Recognizing this, the Canadian Tourism Commission (CTC) recently commissioned a study of potential long-haul pleasure travel in China and the potential for Canada to capture some of this demand; as well as of the opportunities and barriers for Canada in the Chinese market. The results of this study are encouraging, but there is much to be done by both the Canadian government and private industry before the potential of Chinese tourism to Canada can be realized.

**CTC market survey
in China found . . .**

The major conclusions of the CTC report, prepared by PricewaterhouseCoopers LLP, and found on their website <http://www.canadatourism.com/en/ctc/ctc_index.cfm> included:

- A conservative estimate of the current size of the potential long-haul pleasure travel market in China is close to three million travellers. This is very large for an emerging market, particularly one that still has so many travel restrictions in place.
- The potential long-haul pleasure travel market will increase as the Chinese economy continues to expand and as Chinese citizens become more affluent. There is an increasing desire on the part of Chinese to travel and more leisure time available to do so.
- Chinese long-haul pleasure travellers tend to be 25-44 years of age, male and married. Compared to the general adult population, they are much better educated, are more likely to hold professional or managerial positions, and are considerably more affluent — 69% have household incomes of more than Rmb 3,000 (C \$581) a month.
- The potential market for Canada currently sits at around 1.9 million pleasure travellers. In excess of 64% of all would-be long-haul pleasure travellers are interested in visiting Canada, a very high proportion compared with interest in other international markets. Shanghai, Beijing and Guangzhou offer the most potential for Canada.
- In addition to generating high numbers of potential travellers, the Chinese market is also potentially very lucrative for Canada. In many destinations, Chinese travellers have become known as big spenders, topping the list when it comes to shopping expenditures.
- Main competitors for Chinese travellers in the long-haul marketplace are Australia, the US and Europe, particularly France, but also Germany, the UK, and Italy.
- Chinese travellers are most concerned to find outstanding scenery, along with safety and cleanliness, with over 90% of all long-haul pleasure travellers looking for these two elements in vacation destinations.
- Cost is one of the most important factors when choosing a destination, particularly for first-time travellers who will often base their decision almost entirely on cost considerations.
- Canada's chief marketing strengths are scenery, safety/cleanliness, nature, and a contribution to increasing knowledge among the travellers. The travel trade agrees that Canada's nature product and its image as a land of natural beauty and panoramic landscapes will be the key to unlocking this market in the future.
- A major marketing weakness for Canada is that it is not seen by Chinese travellers as a destination with a strong historical offering. Another weakness cited by the travel trade is the perception that Canadian winters are long and cold, although West Coast winters are believed to be more pleasant.
- The travel trade views the main barrier to market development as Canada's lack of "Approved Destination Status" (ADS) — a designation conferred by the Chinese government. The second major barrier is the high cost of travelling to Canada compared to Europe or Australia. Other barriers include the complexity of securing a visa, language, limited air access and lack of awareness of both the country and its tourism products.

**. . . lack of "approved
status" an obstacle**

From a policy perspective, the last item stands out. In particular, Canada's lack of ADS puts it at a disadvantage against 21 destinations with this approved status, including Australia, New Zealand, Germany, Turkey, Hong Kong, and most Southeast Asian countries. ADS is a negotiated agreement between the governments of China and the receiving country. The agreement establishes a quota for outbound trips and authorizes a limited number of travel agencies to handle travel to the destination. These agencies post a bond with the Chinese government of between Rmb 1-2 million. In turn, they collect "insurance" from their clients, the amount of which varies from destination to destination.

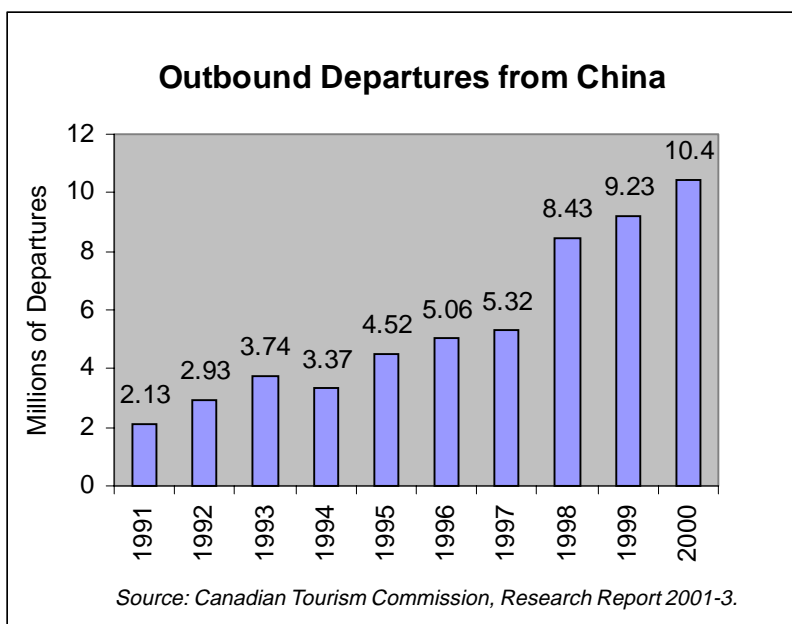
Talks underway to join approved list

Canada has begun talking to the Chinese Government about conditions for receiving ADS. Given that a sharp increase in Chinese visitors would have implications not only for Canadian tourism, but also for immigration, security and foreign affairs, conflicting interests among the ministries may affect the pace and intensity of the negotiations. One concern is the ability of visitors, once in Canada, having the full protection of the Charter of Rights and Freedoms to undertake the lengthy refugee determination process plus subsequent appeals. Another factor is said to be Canada's concern about the implications for "perimeter security" and the possible reaction of the United States to more liberal entry requirements. In fact, many Chinese tourists do see Canada as an attractive destination because of its proximity to the US and would be lured by the possibility of a trip that encompassed both countries. This kind of travel package would be possible with visa harmonization between the US and Canada for Chinese visitors, but the current climate in Washington does not suggest a readiness to relax visitor restrictions, while Ottawa is unlikely ever to adopt US visa standards. In the near term, it would be in Canada's interest to assuage any American concerns about security threats from Chinese tourists coming to Canada, but to not allow continentalist pressures to derail the ADS negotiations.

Australia sees a boom in Chinese tourism

Australia – a major competitor already holding ADS – provides a hint of the potential for Chinese tourism in Canada, although Australia's distance from illegal immigrant lures like the US and the absence of Charter rights for would-be refugees enables them to be more relaxed about issuing tourist visas. In 2001, Australia received about 172,000 Chinese visitors, an increase of 38% over the previous year. By 2010, Australia is expected to receive over one million visitors from China annually, putting China in the ranks of other major source countries such as Japan, the US and the UK. Chinese visitors in Australia are big spenders, averaging A \$5,637 (C \$4,660) per trip in 1999, exceeding the spending of visitors from the US, Canada or Germany. Asian countries as a whole are expected to host as many as 10 million Chinese tourists in 2002, with total spending in the US \$18 billion range. Even politically isolated Taiwan is getting in on the game. Starting this year, mainland Chinese nationals living overseas will be allowed to visit the island on group tourist visas. The World Tourism Organisation estimates that by 2020 China will generate a mind-boggling 100 million tourists a year.

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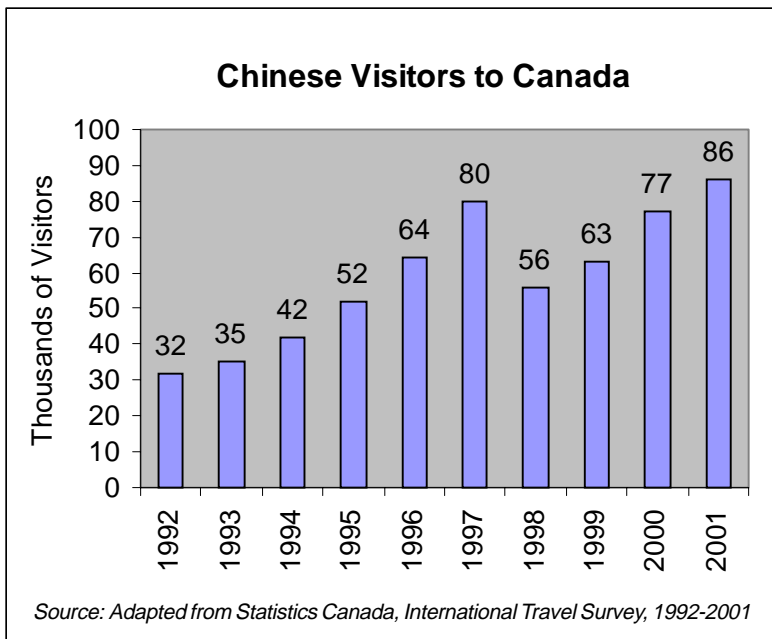


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The CTC report identifies obtaining ADS as the main near-term challenge to building the market for inbound Chinese tourists to Canada. It is not the only challenge, however, since there is already a substantial flow of visitors from China to Canada who enter for business reasons or on family visits, but who include tourism as a significant ancillary activity. According

Canada, too, must change its rules

to Statistics Canada, Chinese nationals made 86,000 trips to Canada in 2001, contributing an estimated \$123 million to the economy. The number of visitor arrivals from China has increased by about 65% since 1995, compared to a fall of more than 20% in visitors from all other Asian sources. Strictly speaking, these visitors are not considered tourists since their main reason for coming to Canada was to visit relatives or for business reasons. With the sharp rise in immigration from China in the last four years (well in excess of 100,000 new arrivals), the demand for family visits will surely grow. For these visitors, the major challenge in coming to Canada is to obtain a visa. The current private visitor visa approval rate, around 64%, reflects the perceived trade-off between openness and risk of “overstayers” that



Canadian immigration officials in Beijing have to balance. One of the complicating factors is in dealing with applications that are ostensibly for business or family visits, but which may be perceived by immigration officials as tourist visits in disguise. While there is no Canadian prohibition against tourism from China, it is widely believed that applicants who list tourism as the primary reason for coming to Canada stand a very poor chance of getting a visitor visa. Most Chinese seem to assume that tourism to Canada is not even possible, hence the small number of visa applications listing tourism as the main reason for travel. In fact, this could be because until very recently, visitor visa application forms for Chinese nationals did not set out any criteria for obtaining a visa for the purpose of tourism, while detailed requirements for visas for business or family visits were spelled out.

ADS role may fade as China eases travel

Herein lies a contradiction in the current ADS system. Whether or not a destination is “approved,” there is little to stop Chinese nationals already holding passports (around 2% of the population) from applying for “tourist” visas from non-ADS countries such as Canada. As China continues to relax its exit restrictions and as travellers increasingly make independent travel arrangements (rather than to go through the official travel agencies that handle ADS accounts), the distinction between ADS and non-ADS countries will fade. Major reforms in exit procedures were announced by Beijing at the end of 2001, including the simplification of requirements for obtaining a passport. Later this year, the requirement for Chinese citizens to file an application or to submit an invitation letter to go overseas will no longer apply. One of the attractive features of ADS is that receiving countries can pass the burden of screening out “risky” travellers to official travel agencies in China (which, in turn, pass the burden to the travellers through a bonding system). But as long as there is a parallel independent visa application process and the prospect that some tourists may apply under non-tourist categories, there will be a need for screening techniques that explicitly take into account criteria for tourist visits.

Canada will still have to screen travellers

There is a tendency for countries with ADS status to close off all other channels for tourist visas. In Canada's case, tourism from China is not illegal and there is nothing in principle to stop Chinese nationals from applying for tourist visas independently, rather than using an approved travel agency. In a post-ADS situation, Immigration Canada should resist the temptation to close off tourism by way of independent visa applications. Indeed there is a case for even raising the approval rate of *current* tourist visa applications (as opposed to tourists applying under business or family categories) given that there is a proven market for outbound tourists, as shown in the CTC report. If nothing else, it will change the widespread perception in China today that Canada is not open to tourism and will pave the way for potentially larger volumes of future ADS travel.

CTC prepares to put Canada on the map

In anticipation of Canada winning ADS, the Canadian Tourism Commission is ramping up its marketing efforts in China, starting with the PricewaterhouseCoopers study. In December 2001, a television crew from Beijing Television was in Canada to gather footage for a program featuring tourist destinations around the world. Later this year, the popular series "Looking at the World" will run 10 episodes on Canada, focusing on tourist spots in B.C., Alberta, Ontario and Quebec. The Canadian Tourism Commission – a co-sponsor of the Canadian episodes – hopes the program will inspire the burgeoning group of affluent Chinese to consider Canada in their travel plans. It is important that the allocation of resources to administer our immigration policies keep pace with these marketing efforts.



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