

**Beyond Hype?
Risk Factors in Australia's Inbound Chinese Market**

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Introduction

This paper offers an assessment of the key issues confronting the sustainable development of the Chinese inbound market into Australia. China is forecast to be one of the world's major outbound markets by 2010 (WTO, 2002) and as such represents enormous opportunities and significant challenges for tourism operators – and policy-makers – around the world. The Chinese market to Australia has grown substantially since Australia became the first Western country to be granted so-called Approved Destination Status (ADS) in 1999. ADS is a bilateral agreement that permits group leisure travel by Chinese citizens to recipient destinations. In October 2003 the Australian and Chinese Governments announced the expansion of the ADS arrangement beyond the three original source regions of Beijing, Shanghai and Guangdong. The six new regions – Chongqing, Hebei, Jiangsu, Shandong, Tianjin and Zhejiang – will expand the catchment of potential visitors to Australia to around 432 million people. The latest forecasts issued by the Tourism Forecasting Council estimate an annualised growth of 18.5 percent – the only market with projected double-digit growth – for the Chinese through to 2013 (TFC April 2004). By 2010, China is forecast to be Australia's fifth largest inbound source market with 623,000 arrivals. However bright the prospects may appear for the Australian inbound industry a number of factors threaten to hinder the sustained and healthy growth of the Chinese inbound market. These factors, which will be explored in this paper, are: the price-oriented consumer market, the handling of Chinese tour groups into Australia, unethical practices in Australia, intensifying competitive environment and the unreliability of market forecasts. The implications for long-term potential of travellers from the world's most populous country are discussed.

Background to Chinese Tourism Industry

Since 1980, the Chinese Government has actively promoted both inbound tourism and domestic tourism. In contrast, outbound tourism had been, until the mid-nineties, severely restricted: only citizens in certain large cities were allowed exit permits and only then under strict conditions related to age, income and family background. The aim of the 'containment' policy was three-fold: to control the mobility of Chinese citizens, protect the domestic tourism industry, and limit the outflow of capital. The progressive opening-up of the overseas travel market in the last decade, albeit within a very strictly limited framework, resulted from a growing interest in foreign travel coupled with the ensuing pressure exerted by the more affluent (and politically more influential) segments of the population, which can afford such leisure trips. The Chinese government may also be using tourism as a mechanism to stimulate and promote the internationalisation of Chinese society, as evidenced by China's entry into the world Trade Organisation in late 2002, its successful bid for the 2008 Olympics and Shanghai's success in being awarded the site for the 2010 World Expo.

China's policy to liberalise its outbound market faces two basic limitations: (i) a limitation of the number of travel agencies authorised to promote outbound tourism; and (ii) a system whereby authorised travel agencies can only promote outbound tourism to countries having received a so-called Authorised Destination Status (ADS) from the government. ADS is granted after the conclusion of a bilateral agreement that contains, inter alia, restrictions on recipients of tourism services abroad and on tourism services providers. Travel agencies are not allowed to organise or promote tourism groups to overseas destinations which have not been granted ADS. Foreign tour operators are not allowed to promote outbound tourism services. At this stage, even the opening of a representative office is subject to very restrictive rules. For instance only a foreign tour operator that has sent at least 2000 tourists to China for

two consecutive years is eligible to file such a request. Therefore (at the time of writing) tour operators specializing in incoming services in Europe do not enjoy this right. As of March 2004, ADS had been granted to 29 countries, not including the ten EU nations.

It is important to note that the restrictions on overseas travel apply to group travel only. This is not well understood by tourism operators in Australia for example. A Chinese businessman can walk into the appropriate embassy in Beijing and apply for a tourist visa to Hawaii or Australia or the U.K. The decision about granting the visa is solely that of the foreign embassy immigration officials. The Chinese authorities need not know. For that reason, the United States has received tens of thousands of Chinese leisure visitors each year despite having no ADS agreement in place.

Key Issues in the Chinese Inbound Market

Unethical practices in Australia

The issue of unethical practices in Australian tourism received formal government attention in July 1997 with the formation in the state of Queensland of the Inbound Tourism Task Force. Its stated objective was to “inquire into and report on the alleged involvement of Inbound Tour Operators in activities and practices detrimental to Queensland tourism” (Queensland Inbound Tourism Task Force, 1997). The genesis of the report was the widespread industry belief that ITOs and tour guides exerting too much influence and control over tourists from foreign lands who speak languages other than English. In 2000, a report was commissioned to consider the regulatory options for inbound tour operators (ITOs). The subsequent report (CIE, 2000) acknowledged that there ‘undesirable practices’ in the inbound industry and that these practices were more likely to occur in markets characterised by 1) less maturity in overseas travel, 2) more structured outbound market, 3) greater proportion of organised group travel, 4) less experience of the destination, and 5) limited access to information on the destination (p.vi). In July 2000, the Tourism Ministers Council (TMC) (composed of representatives from state tourism bodies) established the National Inbound Tourism Taskforce (NITT), with representatives from the Australian Tourism Export Council, the peak body representing inbound industry organisations, Tourism Queensland, Tourism Victoria, Tourism New South Wales, and the Department of Industry, Science and Resources.

On 1 December 2003, the Queensland parliament passed the Tourism Services Act aimed at regulating activities of inbound tour operators and tour guides. It requires registration of ITO businesses operating in Queensland whose overseas sales account for more than 20% of total number of packages sold during a 12-month period. All ITOs are to abide by a Code of Conduct which sets minimum operating standards, facilitates fair dealings, and requires ITOs to have written policy about resolving disputes. Queensland’s Office of Fair Trading (OFT) maintains a public register of all registered ITOs which includes names, registered business name (if any) places of business, any conditions as registered.

It is important from a policy-making perspective to contrast the actions of the Queensland and New South Wales governments with respect of the Chinese market – for these two eastern seaboard states are the major recipients of Chinese travel to Australia. Sixty-nine percent of Chinese visitors visit Sydney while 30 percent visit the Gold Coast and 24 percent visit Brisbane; in terms of visitor nights, fifty percent of Chinese visitor nights are spent in Sydney compared to just two percent and 11 percent of visitor nights in the Gold Coast and Brisbane, respectively (IVS, 1999-2002). Despite anecdotal evidence indicating that similar problems exist south and north of the Tweed River, the NSW government has ignored the problem. A web-based search of Hansard speeches by the state minister for Tourism Sandra Nori reveals one mention of Chinese tourism, and that about the advantages of ADS, in five years since she became minister in 1999.

Price-oriented consumer market

The China market is a conundrum for Australian tourism operators. On one hand, the Chinese tourist to Australia is one of the country's biggest spending visitors, with an average spend of \$3,610 (after package tour and international airfares), placing it after South Korea and the United Kingdom. In terms of shopping while in Australia, China ranks #3 after Indonesia and Korea. Yet speak to many Australian tourism operators in the Southeast Queensland, Sydney or Melbourne and they may well respond with bemusement to the notion that Chinese are big spenders are big-spenders and therefore 'good' for Australian tourism. The inbound industry in Australia – private operator and public policy maker alike – is suspicious and wary of the Chinese tourist market. Interviews conducted with ITOs in Sydney by this researcher indicate that Chinese wholesalers are paying as little as \$40 nett per person per day to ITOs for accommodation and meals, indicating that the ITO must then 'drive' its Chinese groups through duty-free and retail outlets to produce sufficient commission revenue to cover costs and generate profits.

The Chinese outbound industry, for its part, is an immature and tightly controlled outbound market, with overseas travel typically limited to older and wealthier citizens from the larger cities. And for little more than a decade, those Chinese fortunate enough to travel overseas, were restricted, at least for official leisure travel, to a small number of Asian countries. The outbound travel industry is relatively new, Chinese overseas travellers are relatively inexperienced, and these factors, combined with the industry's relatively unstructured nature, have resulted in a price-driven consumer market. For when consumers lack experience in a new product category, price comparisons are their only quantifiable point of differentiation. The characteristics of the Chinese outbound market are similar to those of the Korean market in the 1990s, the decade following the removal of overseas travel restrictions in that country.

One of the main concerns arising from these market forces is the negative impact on customer satisfaction. To address the problem, the Quality Basics Program was established by the then Australian Tourist Commission (ATC), was established to investigate the Australian supply side response to quality delivery in tour programs. The program aims to focus on business dynamics and practices identification, action available under existing legislation, involvement of Government agencies via the Compliance Taskforce; and develop both short and long term solutions with consumer satisfaction being the ultimate goal. A private consultant has been contracted to manage this project and will be undertaking a number of interviews with industry and government agencies. The final report from the project was expected in the second half of 2004.

Failure of accreditation system for handling Chinese tour groups

Inbound tour operators in Australia are required to obtain approval to handle Chinese group tours from the Australian Tourism Export Council, the peak industry body for inbound tourism. Despite less than fifty ITOs having obtained this approval, operators report that many 'fly-by-night' or, indeed, reputable, ITOs handle Chinese groups without such approval (March 2004). Moreover, only a handful of the accredited ITOs are active in the Chinese market due to the widespread presence of price-gouging activities (based on interviews with ITOs in Sydney and the Gold Coast). The result is a two-tier structure of the inbound market: the accredited ITOs, most of whom have withdrawn from the market, and non-accredited operators who circumvent the rules through deceptive means.

Intensifying competitive environment

China is rapidly expanding the number of countries offered ADS status. In 2003, ten countries including South Africa, Germany, and India were granted ADS status. The pace of opening up accelerated during 2004, with the addition of several Pacific Island nations have been granted in-principle ADS. On September 1, 2004, the first tour groups arrived in Europe under the agreement between China and the European Union to allow group tours from China into signatory countries to the Schengen Agreement. While this decision excluded Ireland and Britain, which are not signatories, subsequent talks during 2004 have resulted in China agreeing in principle to extend ADS to Great Britain in 2005. The result of this diplomatic

activity is that fifty-three countries now have ADS (China Daily, Sept 4 2004). For Australia, the opening of these new competitor markets represent a serious threat to sustained growth from China. Chinese tourists, the majority of whom are over 35 years-of-age, express strong interest in culture and history, rather than the big nature, unique animals and relaxed lifestyle offered by many Australian tourism destinations.

Unreliability of market forecasts

Forecasts for the Chinese market have changed dramatically over the last few years. In April 2002, Australia's Tourism Forecasting Council announced that projected Chinese visitation to Australia by 2010 would be 1.03 million. Just eight months later, and despite the lack of significant changes in the external environment, this figure was cut to 685,000. By May the following year, in the midst of the SARS outbreak, the figure was again revised downward, to 500,000. In April 2004, the forecast arrival figure was back up to 623,000 (TFC, April 2004), with a projected annual growth rate of 18.5 percent, the only inbound market forecast to grow at double-digit figures (TFC, April 2004). The updated forecasts for 2010 released in December 2004 have the number at 689,000, at (puzzlingly) 17.1 percent average annual growth. While tourism operators pay little or no heed to forecasts, the shifts in forecasts for the Chinese market serve only to highlight the volatile nature of the market.

Discussion

Despite its potential, the Chinese market is severely under-researched. Several recommendations are offered here. First, inbound statistics can be deceiving: for example, Chinese holidaymakers accounted for just 44 percent of all Chinese in 2002 (compared to 82 percent for Japan), while 40 percent of Chinese came for VFR and business purposes combined. Though there is a natural tendency to generalise about a market few people understand or have experienced, a richer analysis of Chinese travel behaviour is required. Second, more consumer research is required in Australia by Mandarin-speaking researchers. In the late 1990s, the Australian tourism research community benefited from a number of studies into the Korean market undertaken by Korean research students in Australian universities. Third, whether the evolution of the Chinese outbound market will lead to the development of more ethical business behaviour, by Chinese and Australian intermediaries alike, remains to be seen. Studies of the growth pattern in the outbound Korean market may render insights about the likely direction and nature of the Chinese market. Fourth, from an Australian marketing perspective, new positioning and branding strategies need to be developed to respond to the competitive challenge posed by Europe. Australia also needs a more focused segmentation approach than used in the past when this country was one of a handful of Western ADS beneficiaries. While Australia was the first western destination along the overseas travel experience curve for Asian markets such as Taiwan, Japan and Korea, the same behavioural phenomenon may not apply to the Chinese.

References

Bureau of Tourism Research, "international Visitor Survey: 1999-2002", BTR 2003

Commenced on 1 December 2003.

Regulates activities of In Bound Tour Operators and Tour Guides.

Requires registration of ITO businesses operating in Queensland whose overseas sales account for more than 20% of total number of packages sold during a 12 month period. All ITO's to abide by a Code of Conduct which sets minimum operating standards, facilitates fair dealings, and requires ITO's to have written policy about resolving disputes.

OFT maintains a public register of all registered ITO's which includes names, registered business name (if any) places of business, any conditions as registered.

Requires ITO's to keep certain records, such as accounting records, itineraries, quotations and promotion documents.

Act aims to eliminate unfair practices from the industry.

Unfair practices include controlled shopping, misrepresentations, overcharging for goods and services.

Unconscionable conduct.

The law will be enforced by OFT inspectors.

Conduct random spot checks of ITO's and tour guides.

Act on specific complaints from retailers and consumers.

Penalties include

- Warning notices
- Infringement notices
- Undertakings
- Injunctions
- Suspension, cancellation, addition of conditions to licenses, non renewal of licenses
- Orders for compensation

Approach to date

- Focus on trader awareness
- Disseminate information such as fact sheets, guides, etc
- Brisbane and Gold Coast ITO's visited
- Relativity insignificant matters so far identified
- Formal investigations currently underway
- Industry assistance to identify offences welcome