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**DIRECTORATE OF INTELLIGENCE**

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Tourism in China--Taking on New Importance

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**Summary**

Tourism is playing an increasingly important role in China's economic growth. Premier Zhao has acknowledged tourism's earning potential, and has targeted the industry for national development. China's attempt to appeal to foreign visitors has spurred construction in scenic areas--helping to develop local economies and improve nationwide services. Beijing hopes to attract 4 million tourists (not including Overseas Chinese) annually by the end of the century--a goal that we estimate could yield \$5-6 billion. Achievement of this goal, however, will require continued investment--both foreign and domestic--in accommodations, transportation, and other infrastructure, and improvement of travel, finance, communications, and other tourist services.

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**Tourism--Bringing in Revenues**

In a 1984 economic work report, Premier Zhao ranked tourism and the sales of arms and oil as China's three main growth sectors for the future. Last year, China took in more than \$1 billion from tourists, 20 percent more than it did in 1983 (see table 1). At least one-fifth came from spending in the southeastern provinces of Guangdong and Fujian, where overseas Chinese (see the inset) are frequent visitors. [redacted]

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Overseas Chinese: Come Back to the Homeland and Bring Money

The vast majority of visitors to China's mainland are overseas Chinese--that is, ethnic Chinese of foreign citizenship. More than 11 million overseas Chinese entered China last year. Nearly three-fourths of them visited the southeastern provinces of Guangdong and Fujian, primarily from nearby Hong Kong and Macao. [redacted]

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China actively encourages visits by overseas Chinese. Their spending bolsters foreign exchange revenues and overseas Chinese firms are a lucrative source of foreign investment as well. China maintains separate accommodations for overseas Chinese and offers preferential rates for most services, including air fares equivalent to those charged for Chinese citizens. To entice additional tourist trade among overseas Chinese, China has added direct flights from places with large Chinese populations such as Hong Kong, the Philippines, and Singapore. Further, China plans construction of additional hotels and other facilities specifically for overseas Chinese. [redacted]

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According to Chinese statistics, the number of tourists visiting China increased 25 percent in 1984 alone. The majority of visitors continue to be ethnic Chinese from Hong Kong and Macao--many entering China for traditional holiday periods. Yet other visitors are arriving in ever greater numbers. Last year, Japan accounted for one-third of the total foreign (non-ethnic Chinese) guests. [redacted]

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Officials hope to host 4 million foreign tourists yearly by the end of the century. To attract additional visitors, Beijing has been liberalizing its controls on travelers:

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**Table 1**  
**Tourist Traffic to China**

	Foreign	Overseas Chinese (In Thousands)	Total	Total Earnings (US\$ Millions)
1979	360	797	1,157	260
1983	870	8,607	9,477	940
1984	1,100	11,750	12,850	1,130
1985 First Half	635	8,300	8,970	560

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 • Although commercial tours still dominate the industry, individual travel is adding a new dimension. In fact, Chinese travel officials estimate that individual travelers may account for up to 30 percent of tourists by 1990.
- Travelers may now drive cars themselves in designated areas, thus avoiding reliance on taxi services.
- There are now 265 cities open to overseas tourists, of which only 159 still require travel permits.
- Overseas Chinese may make short business trips or visit relatives without special visas.
- Tourist bureaus around the country may now bypass the central China Travel Service to arrange travel for foreign visitors. [Redacted]

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**A Boost to Local Development**

According to Gao Yin, Director of China Travel Service, China will invest at least \$300 million of nationally budgeted funds in tourist facilities by 1990. In addition, Beijing has devolved authority for tourism development to the local level, permitting additional investments without central direction. For example, the State Council designated Hangzhou as one of China's top three scenic spots, with a free hand to approve tourism projects regardless of the amount of foreign exchange involved. Hangzhou has allocated more than \$60 million in local funds to improve local services in support of tourism. [Redacted]

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China's more isolated regions also plan to develop their tourism potential. Xizang (Tibet) wants to exploit its mystique; half of the 43 major construction projects now under way are linked to the tourist industry. Collective households are even operating hotels and car rental agencies. Since opening in 1980, Xizang has received only about 10,000 tourists, but the provincial government hopes to attract 200,000 yearly by the end of the century. [Redacted]

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A Touch of New England?--Bed and Breakfast in China

Even China's smaller localities are stretching their resources to entice tourists. At peasant-run hotels in Shandong province, guests sleep on traditional heated brick beds, raise chickens, and help villagers with farm work. In one village, all 260 families have rooms for tourists and hosted 600 visitors over the past two years. A peasant community near Zibo invested \$160,000 to develop a karst cave as a tourist attraction, and in the following six months earned more than \$40,000. [Redacted]

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**Constraints: Services and Sensitivities**

**Shortage of Midpriced Accommodations**

China has more than 300 hotels catering to foreign tourists. Many are built with foreign investment--primarily from Hong Kong and Japan, but with increasing participation from the United States and Middle East. At least 200 joint-venture hotels are planned through 1987. Resorts and theme parks, built with Hong Kong participation, are popular in the south. Even Europe's Club Med plans a resort in Shenzhen, near Hong Kong. However, most of these foreign investments are in construction of luxury hotels, and as a result there is a shortage of less expensive rooms and accommodations for Overseas Chinese. We believe that the number of tourist rooms will have to increase by more than 50 percent to support the tourist volume that Beijing wants in the year 2000. [Redacted]

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Hotel construction is proceeding at an almost frantic pace in some areas. For example, last year 6,000 new tourist beds were added in Beijing, bringing the total to some 27,000. Guilin, another tourist mecca, boasts five joint-venture hotels opening next year, increasing capacity by 2,200 beds. [Redacted]

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Among major US participants, Hilton International has signed an \$85 million joint venture with Hong Kong's Cindic Holdings for a hotel in Shanghai. Construction of a \$170 million joint-venture 700-room hotel and residential complex in Shanghai will be-

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gin in 1986. American International Group is the largest single investor in the project with a \$30 million share--the hotel will increase the number of tourist beds in Shanghai by about 25 percent. [Redacted]

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While we expect that foreign investment will continue to play a significant role in China's hotel construction, we also anticipate that operating problems in existing projects will deter some investors. Erratic power supplies and awkward long distance communications threaten the smooth operation of some hotels. Financial arrangements and management practices are cumbersome stumblingblocks that may also put off some potential investors. [Redacted]

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China's hotel construction may also be temporarily restrained by the highly publicized drawdown of foreign exchange in early 1985, which, we believe, has fueled a more cautious attitude toward large-scale infrastructural development. Senior officials in one port city worry that some 60 tourism projects will be postponed at least one year because of a 50-percent cut in national-level funding. We expect, however, that funding will be reinstated once Beijing believes it has regained control of foreign exchange outflows. [Redacted]

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**Transportation System Overburdened**

The increase in tourist travel has been a particular strain on China's rail system. Nonetheless, the rail system bears the majority of passenger traffic, to the point that the number of passengers can exceed nominal capacity by as much as 70 percent. China is trying to increase the number of passenger cars available and expand rail stations to ease the burden. To meet the growing passenger volumes, China needs to shift local traffic to the limited road system and long distance passengers to flying, and leave the railroads to handle medium-range travel needs. [Redacted]

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But, according to press reports, 1.25 million air passengers were turned away in 1984. Before air service can accommodate more passengers, China must replace obsolete aircraft and expand its fleet. China has spent at least \$1 billion on aircraft from the United States, Britain, and USSR thus far in 1985. The Chinese may also buy passenger helicopters to shuttle tourists to the Great Wall, archeological digs, and other tourist sites in rugged terrain. Additionally, China's national airline has purchased a computerized reservations system to improve booking services. [Redacted]

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<sup>1</sup> The problems surrounding Beijing's Great Wall Hotel have aroused considerable concern among investors, for example. Opened in 1984, the hotel was financed by a consortium of Western financial entities. Not long thereafter, it became apparent that the Great Wall could not repay its \$72 million construction loan on schedule. Since then, the hotel has signed a management contract with Sheraton to employ proven administrative techniques and put the venture on sound financial footing. [Redacted]

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Beijing decentralized its air service last year to permit regional airlines and thus encourage competition to improve service. The first regional airline approved by the State Council began operations in January 1985 in Xiamen. We expect that China will have to expend considerable effort and funds to acquire new aircraft, build new airfields, and train flight and support personnel to meet projected needs. [Redacted]

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Reforms in the driver-incentive system of China's state owned taxi company should help relieve another source of tourist complaint and improve taxi service. China is also buying vehicles--mostly Japanese--to expand the fleet, and has sought road construction assistance to help develop its highway system. [Redacted]

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**Fears of Foreign Influence**

The influx of foreign visitors has brought exposure to Western ideas and material goods that some Chinese officials fear will arouse dissatisfaction among the populace, especially among the young. Customs officials are under orders to confiscate such items as religious materials, pornography, and some music recordings to limit so-called spiritual pollution. [Redacted]

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Rising demand for foreign currency is also creating a problem, especially in the southern provinces near Hong Kong. There, vendors, hotels, and restaurants that cater to tourists charge lower prices when customers pay in foreign exchange. Provincial governments are trying to crack down on this dual pricing, which would hinder local efforts to acquire foreign exchange. While that may slow progress on some locally financed tourism projects, we do not believe the effect would be significant. [Redacted]

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**Prospects for Tourism**

We expect that China will continue to stress the benefits of tourism to both the national and local economy. However, without major investment in hotel construction and transportation, China probably will not reach its year 2000 foreign tourist targets. We expect that China will continue to rely heavily on foreign investment for infrastructure development, but that progress will be slower than officials hope because of bureaucratic inefficiencies and investor wariness. Meanwhile, China will continue to seek Western transport equipment, telecommunications services, and operating systems to sustain tourist-sector development. In spite of the costs and potential problems, we believe China will continue to stress tourism in order to exploit its potential for earning needed foreign exchange and as a significant stimulus to local economic development. [Redacted]

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