



## The recent development of Hong Kong tourism industry and its outlook

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Tourism is one of the four pillar industries in Hong Kong. Since the implementation of individual visitor scheme in July 2003, the rapid development of tourism industry has become one of the driving forces for both the economy and employment market of Hong Kong. The economic value-added and employment of the tourism sector reached HK\$112.4 billion and 259,800 in 2016 respectively, amounting to 4.7% of the GDP and 6.8% of the total employment. However, the spending pattern of Mainland tourists has undergone a consolidation phase since 2014, together with the keen competition from other tourist destinations, rapid development of online shopping platforms, subdued economic growth globally and relatively strong Hong Kong dollar exchange rate, Hong Kong tourism industry entered into a period of correction. After more than three years of correction, Hong Kong tourism industry has recovered gradually and accelerated further in Q1 2018, though it is not expected to enter into another rapid development phase. Going forward, Hong Kong could leverage on the upcoming completion of the cross-border infrastructures to enhance the attractiveness and competitiveness of the tourism industry.

### 1. The characteristics of recent tourism recovery

After three years of correction, Hong Kong tourism industry is now recovering. The number of visitor arrivals is increasing gradually again, with the Chinese, Northeast and Southeast Asian tourists as the main growth drivers. However, the overall tourism revenue has yet returned to its peak in the past few years.

**Overall visitor arrivals increased again.** Since the implementation of individual visitor scheme in July 2003, Hong Kong tourism industry recorded remarkable growth. The overall visitor arrivals reached a historic high of 60.84 million in 2014 after recording an annualized growth of 15.5% for five years. The visitor arrivals then declined 2.5% and 4.5% in 2015 and 2016 respectively, and recovered by 3.2% in 2017, but it was still 3.9% lower than its peak in 2014. In Q1 2018, the number of visitor arrivals accelerated further to 9.6% growth year-on year.

**Overnight visitor arrivals recorded relatively solid rebound.** Among all the visitors, the number of overnight visitors, who have higher spending, reached 27.77 million in 2014, accounting for 45.6% of the total. The overnight visitors declined 3.9% and 0.5% in 2015 and 2016 respectively. It then recovered more notably by 5.0% in 2017 and surpassed the 2014 record to 27.88 million. In Q1 2018, overnight visitor arrivals also recorded relatively solid growth of 7.2%.

**Mainland visitors continued to be the main driver of visitor growth.** Over the past decade, the Mainland is the most important source market for visitor growth. In 2017, the number of Mainland visitor arrivals reached 44.45 million, accounting for 76% of the total. Its growth rate was faster than the overall average at 3.9% in 2017, while that from the rest of the world increased 1.1% only. In Q1 2018, the growth of Mainland visitors continued to outpace the overall market at 12.6% year-on-year, 3 percentage points higher than the overall average. Similarly, the number of overnight Mainland visitors increased by 6.7% and 10.5%

in 2017 and Q1 2018 respectively, 1.7 and 3.3 percentage points higher than the overall overnight visitors growth.

**Northeast and Southeast Asia are another source of visitor growth.** Apart from Mainland visitors, visitors from the rest of the world recorded 1.1% growth in 2017, with the Philippines (13.1%), Japan (12.6%), South Korea (6.8%) and Indonesia (3.8%) recording the fastest growth. Meanwhile, overnight visitors from all other destinations (except the Mainland) also recorded 1.9% growth in 2017. Japan (17.4%), the Philippines (12.4%), South Korea (8.3%) and Indonesia (6.3%) were also the top four fastest growing origins of overnight visitors. This showed that Northeast Asia and Southeast Asia are the two major sources of visitor growth outside the Mainland.

**Tourism revenue has yet returned to its peak.** According to the statistics from Hong Kong Tourism Board (HKTB), tourism expenditure associated to inbound tourism reached HK\$ 296.21 billion in 2016, 17.5% lower than the HK\$ 359.04 billion in 2014. The decline was much larger than the 6.9% drop of overall visitor arrivals, indicating the per capita visitor spending recorded an even larger decline. The per capita spending among overnight and same-day in-town visitors declined from HK\$ 7,960 and HK\$ 2,414 in 2014 to HK\$ 6,599 and HK\$ 2,122 in 2016 respectively, recording 17.1% and 12.1% decline from its peak. Among the main shopping categories, the visitor spending on personal care, electrical/photographic goods, jewelry and watch, leather/synthetic goods declined 50.3%, 45.9%, 41.6% and 29.2% from its peak respectively, showing that those high spending tourists no longer shopped that much in Hong Kong.

Currently, the HKTB has yet released its 2017 visitor spending data. Thus, the exports of tourism services are used as a proxy, which rose to a record of HK\$ 302 billion in 2013 and then declined by a total of 15.6% to HK\$ 255 billion in 2016. However, exports of tourism services improved in 2017 and Q1 2018, with 1.8% and 14.7% year-on-year growth respectively. The latter was also faster than the overall visitor arrival growth of 9.6%. As such, it is believed that the per capita visitor spending might have recovered as well.

Overall, the tourism industry in Hong Kong is now in a recovery phase, mainly driven by the global economic recovery, largely steady growth in the Mainland, stable RMB exchange rate, and increasingly efficient cross-border transportation services, etc. Nevertheless, the tourism industry in Hong Kong still faces a number of challenges ahead.

## **2. The challenges facing Hong Kong tourism industry**

**Shopping based tourism model is rather narrow.** Hong Kong is a free port, which basically has no sales tax and tariffs. Being a shopping paradise has long been the attractiveness of Hong Kong tourism industry. The ratios of Mainland, short-haul (outside the Mainland) and long haul overnight tourists who shopped in Hong Kong were 86%, 75% and 55% respectively. Moreover, the per capita spending for overall and Mainland overnight tourists reached HK\$ 6,599 and HK\$ 7,275 in 2016 respectively, indicating shopping is one of the main reasons for tourists visiting Hong Kong. Therefore, the tourism and retail sectors were both hit hardly by the change of spending pattern of Mainland visitors, showing that the tourism model of Hong Kong is too narrowly based on shopping. Over the past few years, online shopping, via both local and overseas online shopping platforms, is highly welcomed by the Mainland middle class. They can now purchase a wide range of quality products around the world more easily, without the need to travel to Hong Kong. In 2017, nationwide online retail sales reached RMB 7,175.1 billion, nearly 4.5 folds increase over the past five years. Meanwhile, more overseas retailers have directly established in the Mainland as well. As such, Hong Kong tourism industry should no longer rely on shopping to maintain high growth for an extended period.

**Tourism model based on high-end luxury shopping has ended.** As mentioned above, the change of spending pattern of Mainland visitors was one of the main reasons leading to the correction of Hong Kong tourism industry over the past few years, with spending on electrical/photographic goods, and jewelry and watch declining by 40% or even 50% from its peak. Currently, the number of visitor arrivals has rebounded from its low, but the sales of those high-end luxury goods remain much lower than its peak. The reasons include the less desire of Mainland visitors to purchase high-end luxury products, relaxed visa requirements from European countries and the US for Mainland tourists, relatively strong Hong Kong dollar exchange rate compared to euro and British pound, rapid development of local retail sector in the Mainland, with more foreign brand names to establish their stores directly there, etc. All of them affected the passion of high-spending tourists to visit Hong Kong. However, if the number of high-spending tourists continues to decline, Hong Kong tourism industry could only rely on the continuous growth of visitor numbers for further expansion, which will put new pressure on the society of Hong Kong.

**The tourist attractions require upgrading.** Even though the Mainland tourists have a relatively high satisfaction level on their trips to Hong Kong, the tourism industry in Hong Kong still have to further enhance its attractiveness, in particular to increase and upgrade tourist attractions. Currently, the top five tourist attractions in Hong Kong were the Peak, Hong Kong Disneyland, open-air markets (Ladies' Market), harbor-crossing ferry tour, Ocean Park Hong Kong, but these tourist attractions have already been built for many years without much enhancement. Only the two theme parks have built certain new attractions or introduced new themes over the past years. Nevertheless, the proportion of tourists that have visited above tourist attractions remained low, with the most visited attraction only receiving around 20% of tourists. This showed that Hong Kong tourism industry really needs to upgrade its attractions to enhance its competitiveness.

**Balancing the need of visitors from different origins.** Over the past decade, the Mainland tourists are the key driving force for Hong Kong tourism industry, with the largest share of visitor arrivals and highest amount of per capita spending. However, Hong Kong is a city where East meets West, together with the robust economic development of Southeast Asia, many Southeast Asian tourists are also interested to visit Hong Kong. As such, Hong Kong has to better take care of the cultural and dietary needs of those visitors, through offering them more diversified tourism experiences.

### **3. Actively enhancing its competitiveness, unleashing the advantages of Hong Kong's tourism industry**

Without doubt, the tourism industry of Hong Kong is now in recovery. However, it still has to enhance its competitiveness so as to consolidate and develop its new advantage to better contribute to the economic growth ahead.

**The completion of cross-border infrastructures could create new opportunities to attract more visitors to Hong Kong.** The Hong Kong Section of the Express Rail Link (XRL) is expected to be completed in Q3 2018. The Hong Kong Section of XRL will connect Hong Kong with the over 25,000-km National High Speed Rail Network. Direct trains to 18 Mainland cities will be available upon commissioning.

Generally speaking, the major beneficiaries of high speed rail service are the areas it covers within 4-hour journey time, i.e. around 1,000 km in length. According to government's information, at least 60 million of Mainland citizens could arrive in Hong Kong within a four-hour journey time through the XRL, which will be the largest coverage in the world. Going forward, Hong Kong should work closely with the Mainland authorities to establish more direct connection with other Mainland cities and actively promote the efficiency and convenience of using XRL to visit Hong Kong. It is thus believed that more citizens from the Mainland cities within 3-4 hours range will visit Hong Kong more frequently, in particular during weekends. As such, the Hong Kong Section of the XRL is likely to attract more visitors to Hong Kong in the future.

In addition to the XRL, the Hong Kong-Zhuhai-Macau bridge is also expected to be completed before the end of the year. It is likely to attract more visitors from the West Coast of Pearl River Delta in the future. Moreover, the third runway system of Hong Kong International Airport (HKIA) can further expand the geographical coverage of Hong Kong tourism industry. Hong Kong enjoys an enviable geographic location, where half of the world's population could be reached in just five hours' flying time. Among all the source markets, Southeast Asia has a better growth outlook, with many of them having reached middle-income level. Together with a vast and young population, these countries are likely to have stronger outbound travel demand in the future.

**Accelerate the development progress of the West Kowloon Cultural District (WKCD) to enhance the cultural elements of Hong Kong tourism industry.** The WKCD will be developed into one of the world's largest cultural quarters, blending art, education and public space. Providing 23 hectares of public open space with two kilometres of vibrant harbour-front promenade, it will also include a variety of arts and cultural facilities that will produce and host world-class exhibitions, performances and arts and cultural events. The Xiqu Centre, M+, Freespace and M+ Pavilion, will be developed as the first batch of facilities. A Lyric Theatre Complex, a Medium Theatre, a Centre for Contemporary Performance, Resident Company facilities, and Hong Kong Palace Museum will be developed as another batch of facilities. Obviously, the development of WKCD could meaningfully enhance the cultural elements of Hong Kong tourism industry. The convergence of East and West culture can make visiting Hong Kong a more distinctive experience.

**Accelerate the development of convention and exhibition (C&E) facilities to attract more high-spending business visitors.** Against the background of declining high-spending visitors, the C&E industry can attract more high-spending overnight business visitors to Hong Kong. Every year, Hong Kong hosts a number of large-scale international C&E events, including Asian Financial Forum, the Belt and Road Summit, Art Basel and the Business of Design Week, etc. In addition, Hong Kong held over 10 exhibitions which are the largest in Asia or even in the world for the trades concerned every year, including electronics, jewelry, gifts, watches and clocks, lighting, etc. In order to strengthen Hong Kong's competitiveness in hosting large-scale international conventions and exhibitions, Hong Kong needs to develop more C&E facilities quickly, for example, the redevelopment of the three government buildings in Wan Chai North into C&E facilities and the development of a convention centre above the Exhibition Station of the Shatin to Central Link should be implemented quickly. Meanwhile, the HKTB will continue to bid for more large-scale international C&E events to be held in Hong Kong, so as to strengthen Hong Kong position as a commercial business hub in the region and attract more business tourists.

**Work closely with the Bay Area to attract more tourists for multi-destination travel.** Hong Kong is a city where East meets West, with two major theme parks, i.e. Ocean Park Hong Kong and Hong Kong Disneyland, a number of highly regarded country parks and outlying islands, while Macau has already developed into a world-class tourism resort city. In addition, overseas tourists could visit other attractions in the Bay Area, such as Chimelong Safari Park, Chimelong International Ocean Tourist Resort, Shenzhen Overseas Chinese Town East, hot springs, golf and racing activities, etc. They can also experience the rapid development of metropolitans in the Mainland, such as Guangzhou and Shenzhen, as well as the culture and dietary in the Guangdong region. This can help diversify and enhance the region's tourist attractions, attract more new and returned visitors, and extend their stays in Hong Kong, leading to a more healthy and sustainable growth for Hong Kong tourism industry ahead.

# 主要經濟指標 (Key Economic Indicators)

|  | 2016   | 2017   | 2017/Q4              | 2018/Q1              |
|--|--------|--------|----------------------|----------------------|
| <b>一. 本地生產總值 GDP</b>                                 |        |        |                      |                      |
| 總量 (億元) GDP(\$100 Million)                           | 23,586 | 25,432 | 7,216                | 6,880                |
| 升幅 (%) Change(%)                                     | 1.9    | 3.8    | 3.4                  | 4.7                  |
| <b>二. 對外貿易 External Trade</b>                        |        |        | <b>2018/3</b>        | <b>2018/1-3</b>      |
| 外貿總值 (億元) Total trade(\$100 Million)                 |        |        |                      |                      |
| 總出口 Total exports                                    | 35,882 | 38,759 | 3,477                | 9,430                |
| 進口 Total imports                                     | 40,084 | 43,570 | 4,032                | 10,730               |
| 貿易差額 Trade balance                                   | -4,201 | -4,811 | -555                 | -1,300               |
| 年增長率 (%) YOY Growth(%)                               |        |        |                      |                      |
| 總出口 Total exports                                    | -0.5   | 8.0    | 8.0                  | 9.7                  |
| 進口 Imports   | -0.9   | 8.7    | 10.7                 | 10.6                 |
| <b>三. 消費物價 Consumer Price</b>                        |        |        | <b>2018/3</b>        | <b>2018/1-3</b>      |
| 綜合消費物價升幅 (%) Change in Composite CPI(%)              | 2.4    | 1.5    | 2.6                  | 2.4                  |
| <b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b> |        |        | <b>2018/4</b>        | <b>2018/1-4</b>      |
| 合約宗數 (宗) No. of agreements                           | 73,004 | 83,815 | 8,741                | 29,835               |
| 年升幅 (%) Change(%)                                    | -4.1   | 14.8   | -2.7                 | 8.8                  |
| <b>五. 勞動就業 Employment</b>                            |        |        | <b>2018/1-2018/3</b> | <b>2018-2-2018/4</b> |
| 失業人數 (萬人) Unemployed(ten thousands)                  | 13.3   | 11     | 11.2                 | 11.3                 |
| 失業率 (%) Unemployment rate(%)                         | 3.4    | 2.9    | 2.9                  | 2.8                  |
| 就業不足率 (%) Underemployment rate(%)                    | 1.4    | 1.1    | 1.0                  | 1.0                  |
| <b>六. 零售市場 Retail Market</b>                         |        |        | <b>2018/3</b>        | <b>2018/1-3</b>      |
| 零售額升幅 (%) Change in value of total sales(%)          | -8.1   | 2.2    | 11.4                 | 14.3                 |
| 零售量升幅 (%) Change in volume of total sales(%)         | -7.1   | 1.9    | 10                   | 12.7                 |
| <b>七. 訪港遊客 Visitors</b>                              |        |        | <b>2018/3</b>        | <b>2018/1-3</b>      |
| 總人數 (萬人次) arrivals (ten thousands)                   | 5,665  | 5,847  | 499.5                | 1561.0               |
| 年升幅 (%) Change(%)                                    | -4.5   | 3.2    | 8.9                  | 9.6                  |
| <b>八. 金融市場 Financial Market</b>                      |        |        | <b>2018/2</b>        | <b>2018/3</b>        |
| 港幣匯價 (US\$100=HK\$)                                  |        |        |                      |                      |
| H.K. Dollar Exchange Rate (US\$100 = HK\$)           | 775.6  | 781.4  | 783                  | 784.9                |
| 貨幣供應量升幅 (%) change in Money Supply(%)                |        |        |                      |                      |
| M1   | 12.3   | 9.8    | 12.2                 | 11                   |
| M2   | 7.7    | 10     | 9.4                  | 7.8                  |
| M3   | 7.7    | 10     | 9.3                  | 7.8                  |
| 存款升幅 (%) Change in deposits(%)                       |        |        |                      |                      |
| 總存款 Total deposits                                   | 9.1    | 8.7    | 8.3                  | 6.9                  |
| 港元存款 In HK\$   | 9.4    | 11.6   | 12.3                 | 9.4                  |
| 外幣存款 In foreign currency                             | 8.8    | 5.9    | 4.4                  | 4.2                  |
| 放款升幅 (%) in loans & advances(%)                      |        |        |                      |                      |
| 總放款 Total loans & advances                           | 6.5    | 16.1   | 15.7                 | 15.0                 |
| 當地放款 use in HK                                       | 7.4    | 15.5   | 15.8                 | 15.1                 |
| 海外放款 use outside HK                                  | 4.5    | 17.4   | 15.5                 | 14.9                 |
| 貿易有關放款 Trade financing                               | 0.2    | 8.7    | 13.9                 | 11.9                 |
| 最優惠貸款利率 (%) Best lending rate (%)                    | 5.0000 | 5.0000 | 5.0000               | 5.0000               |
| 恆生指數 Hang Seng index                                 | 22,000 | 29,919 | 30,845               | 30,093               |