

# The China Tourism Economy: Reaching Australia's Potential

October 2017



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# Foreword



## The Hon. John Brumby AO National President

*Australia China Business Council*

In 2016 Australia welcomed 1 million Chinese tourists. Thanks to the rapid growth of the Chinese middle class, by 2026 this number is expected to reach **3.3 million**. As last year's L.E.K./ACBC report showed, Chinese tourists benefit Australia in ways that go far beyond their direct economic impact: they are more likely to buy Australian products upon their return, to study and even to invest in Australia.

But it would be a mistake to take this projected growth for granted. There are many countries competing for the Chinese tourist dollar. Australia needs to make sure that it is offering what Chinese travellers want. That's what this year's report — *The Chinese Tourism Economy: Reaching Australia's Potential* — is all about.

Here in Australia, we know we have a lot to offer: pristine beaches and other first-class natural assets, unique flora and fauna, as well as great shopping, cultural and dining experiences. Not only must we communicate this to potential Chinese visitors through carefully targeted advertising, but we must also package it in such a way as to ensure the kind of experience that will encourage a return visit.

This report offers careful analysis of data from an extensive survey of Chinese travellers and students, as well as from consultation with academic, government and business leaders. It outlines a number of imperatives for the future, from improving Chinese-language signage to addressing visa issues, offering more Chinese payment options such as Alipay, and increasing the capacity of tourism infrastructure such as airports.

*The Chinese Tourism Economy: Reaching Australia's Potential* is a valuable resource for tourism operators, policymakers and the myriad of businesses that are connected in some way to the Chinese visitor economy. I would like to thank L.E.K. for another excellent report, and also the Victorian Government for its support, as well as for the vision it has shown in recognising the benefits of Chinese tourism.

A handwritten signature in black ink, appearing to read 'John Brumby'.



Australia China Business Council  
澳大利亚中国工商业委员会

# About the authors

David Bishop is a partner at L.E.K. Consulting, with 14 years of experience supporting clients in tourism and economic development, retail, media and entertainment.

David has a broad base tourism experience across the public sector, where he advises federal and state agencies on policy development, economic analysis and long-range planning.

In the private sector, David regularly provides commercial support on tourism mergers and acquisitions, transactions and advises industry players on growth and channel strategy, responses to disruption and commercial analysis.

With Emily Davis, David led the development and creation of this year's L.E.K. study, introducing the work at the ACBC Networking Day in Canberra in June 2017.

David holds a Bachelor of Commerce (Honours) degree in Management Accounting and Economics from the University of Auckland.



Emily Davis is a senior manager in L.E.K.'s Sydney office and has been with L.E.K. since 2007. Emily's recent work has focused on the consumer, tourism, aviation and airports sectors. She has extensive experience in developing consumer behavioural insights.

Emily holds a Bachelor of Engineering (Honours) in Industrial Chemistry from the University of NSW and an MBA from Harvard Business School.



ACBC and L.E.K. Consulting acknowledge the support of the Victorian Government as the key sponsor of this report.



A smiling woman with dark hair, wearing a green sweater, stands on a sandy beach at sunset. The ocean waves are visible in the background, and the sky is a mix of orange and blue. The overall mood is peaceful and scenic.

# Context

The first edition of the L.E.K. Australia–China tourism and trade report in 2016 explored the role tourism plays in broader economic relationships between Chinese households and Australia — and concluded that the ultimate economic footprint of Chinese tourism in Australia is much wider than the impact of the trips themselves.

This is the second edition of the report — prepared in collaboration with the Australia China Business Council (ACBC). It continues our investigation of the broader economic linkages, explores the key trends within China's continuing growth as a source market, and looks at the future improvements required for Australia to reach its economic potential within Chinese households.

This year's report has made use of the following important sources of insight:

- A bespoke consumer survey of over 2,000 Chinese residents who have travelled to Australia in the last three years, from both Tier 1 and Tier 2 cities in China (cities with a GDP of over \$US300 billion and \$US69 billion respectively)
- A survey of just over 300 Chinese students currently studying in Australia who were born in China and hold Chinese citizenship
- Consultations with over twenty senior leaders from universities, government departments, major tourism operators and businesses exporting to China
- Extensive secondary research from Tourism Research Australia, the Australian Bureau of Statistics, the Department of Foreign Affairs and Trade, the Department of Education and Training, Euromonitor, Chinese Census data and press articles

This report goes beyond the principal Chinese tourism opportunities and challenges in Australia to explore what lies ahead in non-tourism markets such as education, migration and the export of Australian products into China.

# Introduction

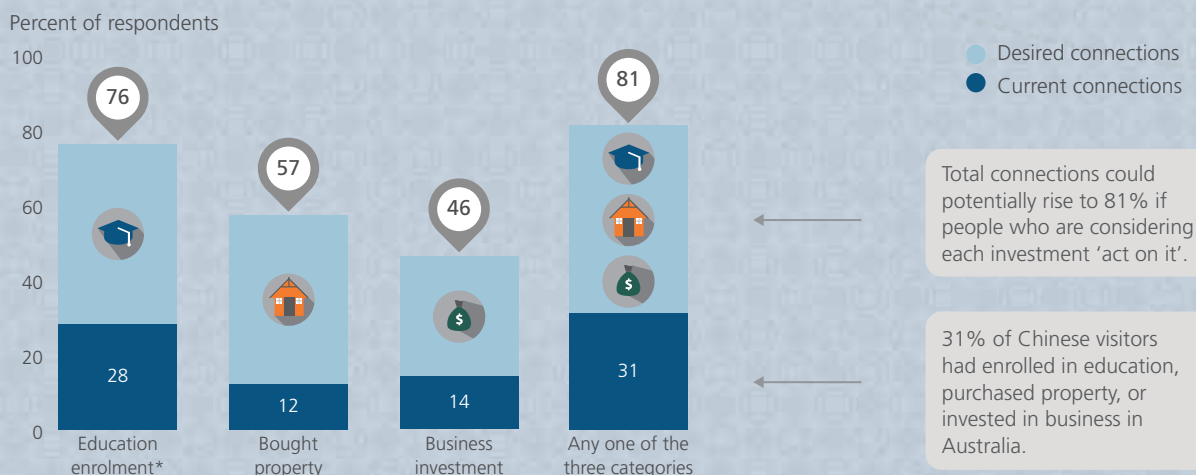
## Chinese tourism sits at the centre of a broader economic system

As identified in the previous report, Australian tourism is highly aspirational for Chinese residents, and for the most part delivers at or above expectations. A successful visit to Australia creates aspiration for broader connection and economic participation in the Australian lifestyle. At the level of the Chinese individual, there are clear demonstrable linkages between Australian tourism experiences and participation in Australian education, business, property, consumer goods and migration.

At present, 31% of Chinese visitors have a broader connection to Australia (Figure 1). Survey responses indicate that this increases to over 80% if respondents act on the future intentions (for broader economic participation) that they expressed.



Figure 1: Broader connections of Chinese visitors to Australia (June 2017)



\* If the respondent themselves, or their children have enrolled in tertiary education in Australia; \*\* This includes both respondents who have enrolled in education, purchased a property and/or invested in a business in Australia and respondents who claimed they 'probably would' or 'definitely would' participate/invest in each category in the future.

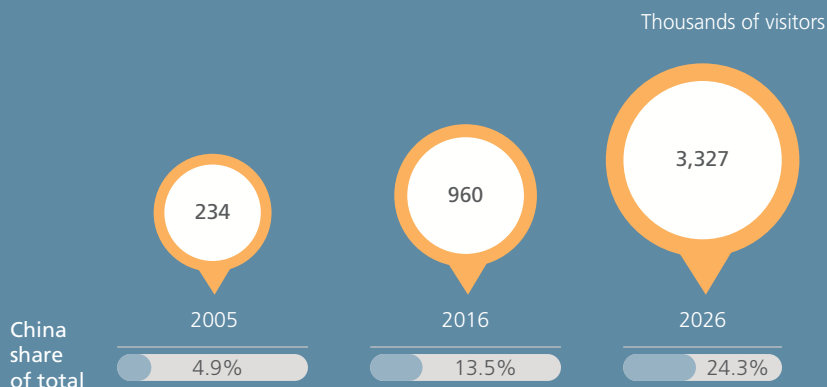
Source: L.E.K. Chinese Residents survey

## Australia continues to perform strongly in the Chinese outbound tourism market

With strong tailwinds and a desirable offering, Australia's Chinese tourism volumes have grown rapidly (Figure 2), enriching the system that surrounds them.

China is Australia's second-largest visitor market, and the largest in overall expenditure.

Figure 2: Chinese inbound visitors\* to Australia (2005 to forecast for 2026)



\* Excludes education visitors; China excludes SARs and Taiwan.

Source: TRA International Visitor Survey; TRA Tourism Forecasts 2017

## Other observations:

**3.3 million** visitors from China since 2006

**165,000** Chinese students are studying in Australia, a 12% p.a. increase since 2012

**40%** increase in wine exports to China in 2016. Now a \$520m market

**57%** of Chinese visitors report they already own or are considering buying Australia property

In other areas of trade, China is already Australia's largest source market for overseas students and the second-largest destination for consumer exports. It will soon overtake the US to reach leadership in the later.

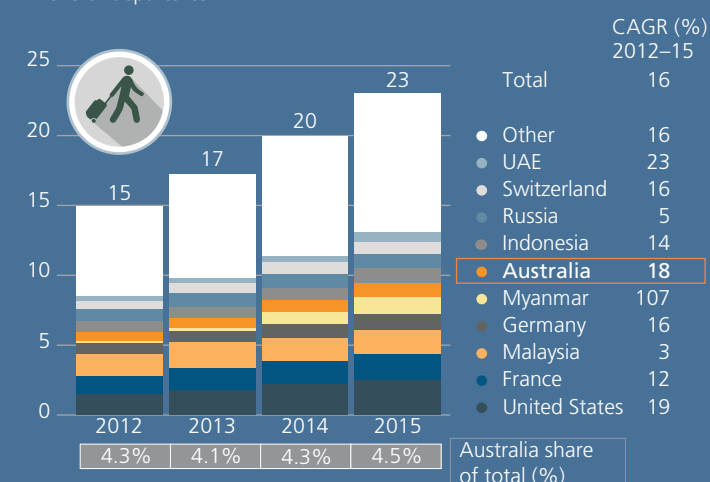
Australia is adapting to the tourism growth, slowly refining its tourism offering to be more 'China-friendly' (for example, introducing changes to visas and boosting air capacity). Beyond tourism, Australia is steadily connecting to China, gradually becoming more 'China-ready' with increasing numbers of business partnerships.

Australia's share of Chinese tourism is best measured as a share of 'out-of-region' visitors. China has a range of 'closer' international destination markets which are shorter-haul and/or low-cost propositions (70% of the total), whereas Australia competes primarily with higher cost long-haul destinations.

Australia's share of 'out-of-region' travel from China is 4.5% and has shown a modest increase over recent years (Figure 3).

Figure 3: China 'out of region'\* outbound departures, by destination country (2012–15)

Millions of departures



\* 'Out of region' share excludes Hong Kong, Macau, Thailand, South Korea, Japan, Taiwan, Singapore and Vietnam.

Source: Euromonitor International, Travel in China, August 2016

As the numbers of visitors and permanent residents from China grow, so too do the number of social and business networks they establish or become involved in (Figure 4).

Figure 4

- 53% of leisure visitors are repeat visitors, and 24% have been to Australia three times or more.
- Return visitors to Australia have been growing at 15.4% p.a. since 2006 and totalled around 530,000 in 2016.<sup>1</sup>
- 28,000 Chinese residents gained residency status in Australia in 2015.<sup>2</sup>
- 14% of all families of Chinese students studying in Australia own Australian real estate.
- There are currently 165,000 Chinese students studying in Australia.
- 191,000 Chinese-born migrants have moved to Australia from 2011–2016.<sup>3</sup>
- 48% of Chinese students intend to stay in Australia upon graduation.
- 14% of Chinese visitors stated they already had business investment in Australia.
- 2.2% of Australia's resident population was born in China (around 500,000 people).<sup>4</sup>
- Chinese-born residents make up around 5% of Sydney's 4.8m population.<sup>5</sup>
- The desired property ownership statistic implies up to 1.5m Chinese visitors since 2006 are interested in or considering buying property in Australia.<sup>6</sup>

Source: TRA; 2016 Australian census data; 2011 Chinese census data; ABS; Austrade; Department of Education and Training; L.E.K. 2017 Chinese resident survey; L.E.K. research and analysis

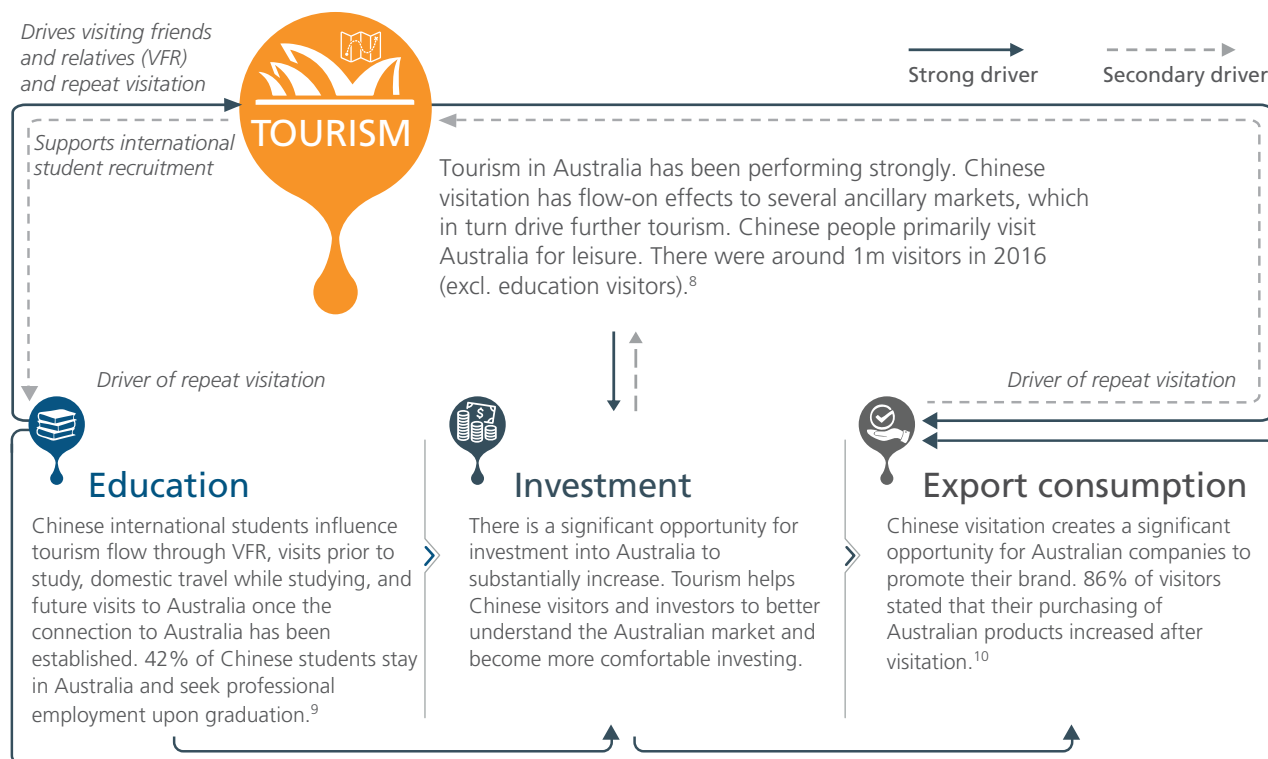


Strong growth in Chinese visitors is expected to continue with TRA projecting a 13% compound annual growth rate (CAGR) in visitors to 2026, excluding education visitors.<sup>7</sup>

The following sections explore the system depicted in Figure 5: the flows of people, activity, and wealth that develop around

Chinese tourism. These include education, goods exports property, investment and repeat visits. By assessing the health of these flows and emerging trends within them, we can highlight opportunities for further advantage.

Figure 5: Chinese tourism is at the centre of a broader economic system



## Macro headwinds could be coming; Australia needs to be careful

Looking forward, China tourism and investment into Australia may be constrained due to macro factors that could affect the industry as a whole.

Hong Kong has already seen decreasing demand from mainland Chinese investors due to tightening controls on capital out of Beijing. There are fears this decrease in demand from Chinese investors could potentially flow to other major cities such as New York, Sydney and London.

Although Australia traditionally performs well in the Chinese student market, universities are facing increased competition from Europe and the United States. Second-tier Australian universities face an increasing challenge as the China market becomes increasingly sophisticated in its knowledge of institutions and brands (tending to favour G8 Universities).

Australia will need to mitigate these issues and other factors that arise, to ensure that Chinese visits to Australia, along with inbound investment, continue to grow.



TRA projecting a  
**13%**  
compound annual  
growth rate in  
Chinese visitors  
to Australia  
to 2026



# Chinese inbound tourism review



## How does tourism fit within broader Chinese visitation?

Chinese visitors travel to Australia for a variety of different reasons, which correspond to different lengths of stay and average expenditures (Table 1).

Table 1

Main purpose for visiting Australia	2016 volume (persons)	2016 average visitor nights	2016 average expenditure
Holiday	482,500	9	\$4,300
Visiting friends and relatives (VFR)	163,100	56	\$4,200
Business	63,900	18	\$5,600
Education	118,600	158	\$24,000

Source: Tourism Australia. 2017. "China Market Profile"  Leisure travellers

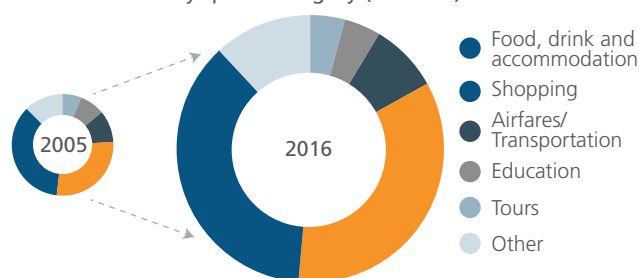
## Review of market trends

There were approximately 1 million Chinese visitors (excl. education visitors) to Australia in 2016 ranking China as Australia's second-largest inbound visitor market. There has been strong annual growth of 13.7% in visitor numbers since 2005. These numbers are forecast to grow at 13% through to 2026, reaching 3 million visitors annually. According to Tourism Australia figures, 31% of all inbound Chinese visitors (incl. education visitors) are from Beijing and Shanghai.

### Expenditure

Chinese visitors, including for education, generated \$9.2 billion in total expenditure in 2016, an increase of 11% from 2015<sup>11</sup> (Figure 6). This figure is expected to increase up to \$13 billion by 2020, according to Tourism Australia figures. China was also the largest source market for both total expenditure and total visitor nights.

Figure 6: Total\* spend by Chinese\*\* visitors in Australia, by spend category (2005–16)



\* Excludes education visitors. \*\* China excludes SARs and Taiwan.

Source: TRA International Visitor Survey

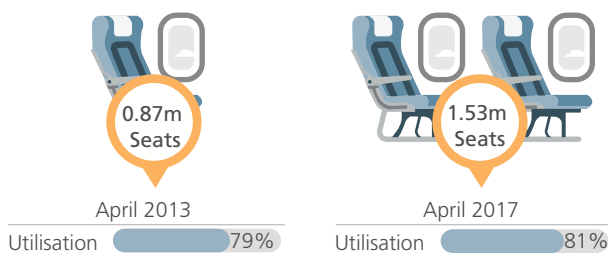
### Route capacity

The introduction of the Open Skies agreement in December 2016, which removed previous capacity constraints on Chinese airlines operating into Australia, has boosted visitor numbers by giving visitors from second-tier Chinese cities direct access to Australia. However, some second-tier routes are subsidised by provincial governments, and it is uncertain how sustainable these will be in the medium term.<sup>12</sup> Since 2011, direct aviation capacity has doubled, with annual capacity of around 1.5m seats in April 2017, a 76% increase on 2013 capacity<sup>13</sup> (Figure 7).

There are now seven Chinese carriers flying to Australia, an increase from four in 2014. While total capacity has significantly increased, utilisation has also increased somewhat over this period.

Figure 7: LTM Chinese carriers'\* inbound capacity for Australia–China routes (April 2013–April 2017)

Millions of seats



\* Chinese carriers include Beijing Capital Airlines, Air China, Sichuan Airlines, China Eastern Airlines, China Southern Airlines, Hainan Airlines and Xiamen Airlines

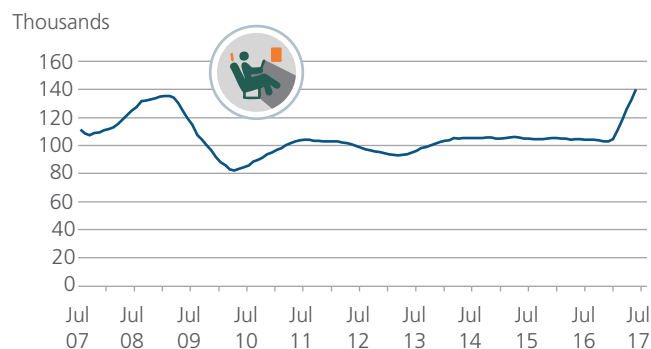
Source: BITRE: "Seat utilisation factors by airline." April 2017

Chinese visitors, including for education, generated **\$9.2 billion** expenditure in 2016

There were approximately **1 million** Chinese visitors to Australia in 2016

In contrast, Australia's outbound capacity to China (by Australian airlines) is underdeveloped compared to other markets such as Singapore and the United States. Although Qantas has increased its outbound capacity to China following the Open Skies agreement (Figure 8), it could be argued that Australian carriers have not yet taken full advantage of the tourism demand increase or the Open Skies agreement, ceding the opportunity to the Chinese carriers for now.

Figure 8: Qantas seat capacity outbound to China (July 2007–July 2017)



Source: BITRE: "International airlines operated flights and seats." June 2017

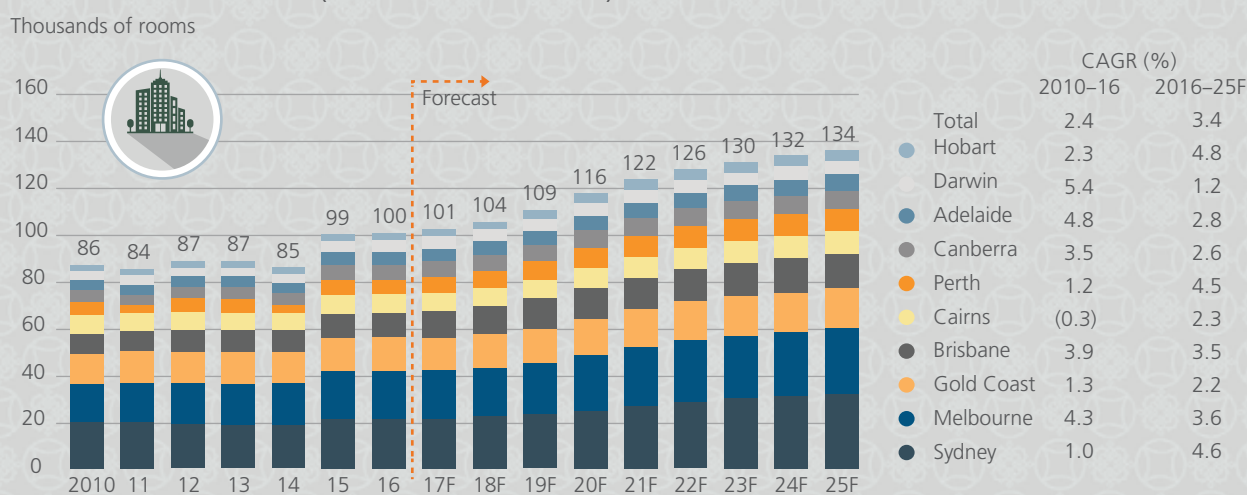
## Sydney is capacity-constrained

Sydney is a popular choice of destination for many first time visitors. Sydney accommodation and airport capacity is constrained and will remain under pressure for the next five years (Figure 9).

Sydney Kingsford Smith Airport's landing slots are highly constrained; and this is exacerbated by the nightly curfew from 11pm to 6am.

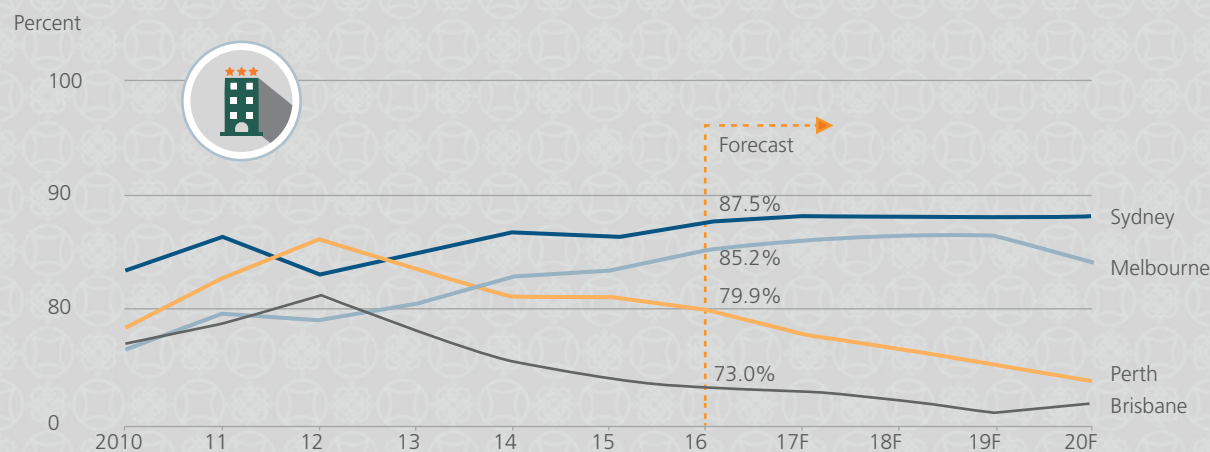
Similarly, Sydney's hotel stock is extremely tight. Occupancy levels are forecast to stay relatively constant at approximately 88% until 2020, before planned infrastructure is completed in 2021–2022 (Figure 10). Anecdotal evidence suggests the accommodation issue is exacerbated for China because its tourists generally book later than tourists of other countries. A secondary issue is the general absence of Asian-resonant premium hotel brands like Rosewood, Mandarin Oriental and Peninsula.

Figure 9: Hotel accommodation capacity (10 largest cities) (FY2010 to forecast for 2025)



Source: Dransfield Hotel Futures 2017

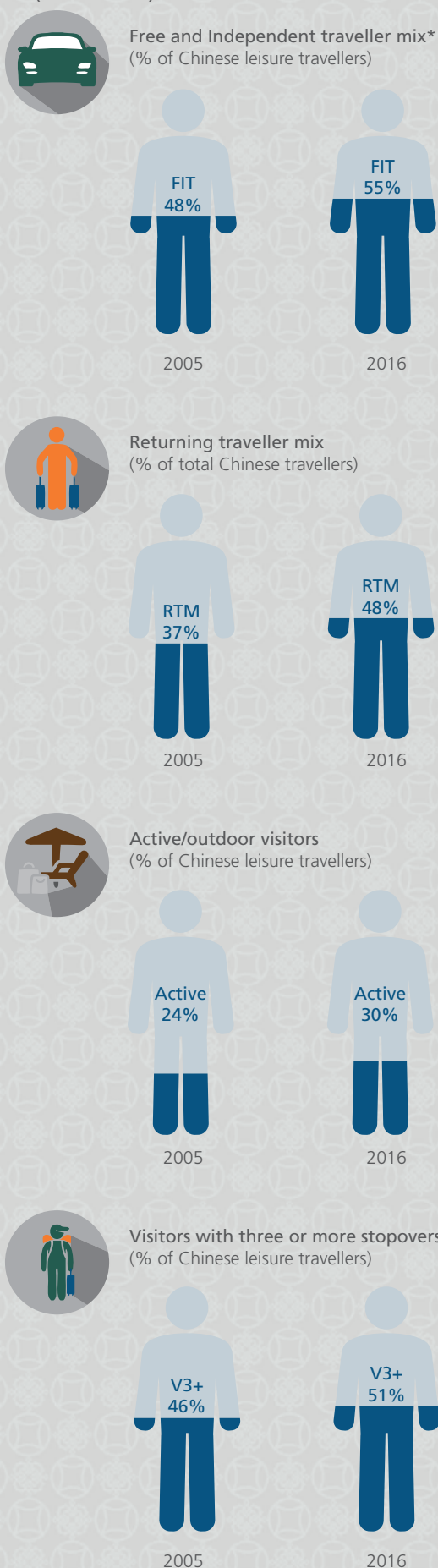
Figure 10: Hotel accommodation occupancy (FY2010 to forecast for 2020)



Source: Dransfield Hotel Futures 2017



Figure 11: Changing characteristics of Chinese visitors (2005 vs 2016)



\* Free and Independent travellers consist of travellers to Australia for the main purpose of holidays or visiting family or friends

Source: TRA International Visitor Survey; L.E.K. research and analysis

## Share of Chinese tourism: Australia's performance

Australia's share of Chinese tourism is best measured as a share of 'out-of-region' visitors. China has destination markets which, though international, function more like domestic or lower-cost destinations (70% of the total), whereas Australia competes primarily with other longer-haul destinations.

There are also less stringent entry requirements for Hong Kong, Macau and Taiwan than for other countries. In most cases a travel permit, rather than a passport, is all that is required for travel by Chinese residents. Several other markets (e.g. Thailand) offer simple visa-on-arrival arrangements, where the Australian visa process is far more demanding and time consuming. We have excluded Hong Kong, Macau, Taiwan, South Korea, Thailand, Vietnam, Singapore and Japan from the long-haul share analysis.

Travel from China to Australia has been growing strongly at 18.3% a year from 2012 to 2015 (Figure 3). This has resulted in increases to the 'out-of-region' share and total share of the market.

## Chinese consumers are changing

Australia's outbound travel from China has performed strongly of late and total arrivals from China have more than doubled since 2011. Based on the Tourism Australia definition of the market [excl. Taiwan, Macau, Hong Kong and North East Asian countries], Australia's 2016 'out-of-region' share from China is 3.07%.<sup>14</sup> Australia's total share of the market is 1.15% – this is the highest it has been since 2005.

*John O'Sullivan, Managing Director,  
Tourism Australia, July 2017*



Importantly, the profile of Chinese tourists is changing rapidly as the market matures.

An increasing proportion of Chinese tourists are classified as free and independent travellers (FIT). TRA data shows that the proportion of FIT among Chinese leisure travellers — holiday-makers and those visiting friends and relatives (VFR) — has increased from 44% in 2012 to 55% in 2016.<sup>15</sup> A greater proportion are returning travellers, and more visitors coming to Australia are seeking a higher-quality experience and participating in active or outdoor activities (Figure 11).

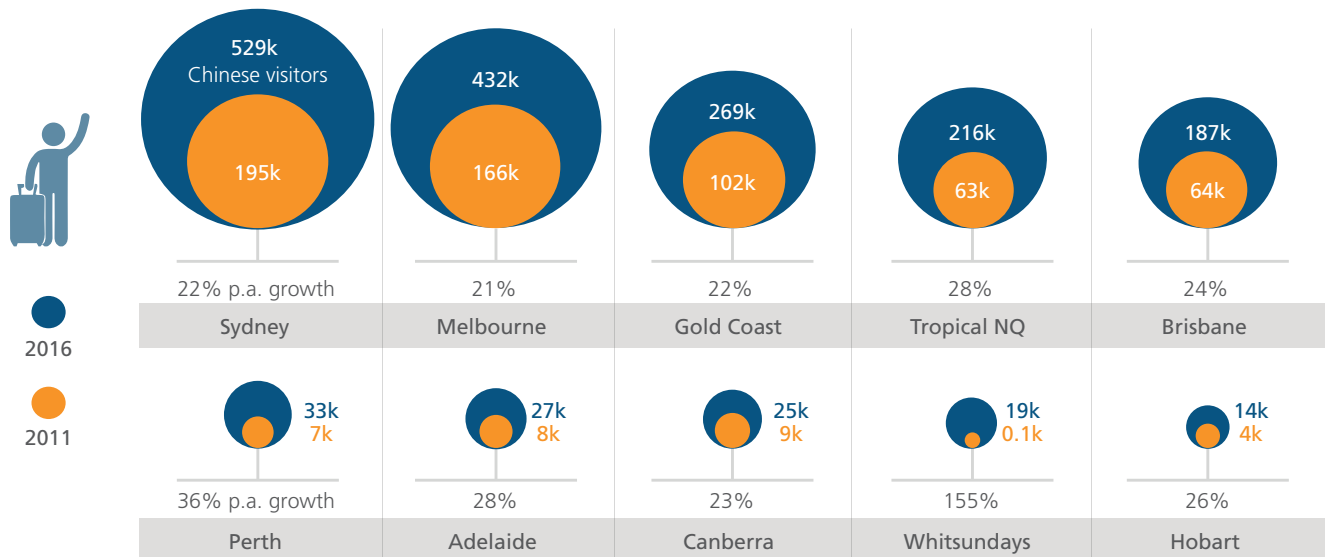
Travellers from Tier 1 cities are becoming more sophisticated, seeking experiences rather than shopping or organised tours. Survey results show visitors from Tier 1 cities are more likely to be free and independent travellers, have higher rates of business investment and spend more per visit. Time spent in Australia, and geographic dispersal during the visit, is generally similar between visitors from Tier 1 cities and visitors from other cities.

An increasing proportion of Chinese visitors are leisure visitors, while a significant share are still pursuing education

or business. Survey results suggest that 7% of leisure visitors later return for other purposes,<sup>16</sup> which highlights the importance of leisure visits as a driver of future engagement.

The distribution of Chinese visitors differs significantly, with limited dispersion of visitors beyond the east coast cities. Interviewees suggest this is the result of a lack of suitable accommodation, limited availability of information in Mandarin — which was also identified as an issue in our 2016 China report — difficulties in getting around, and fewer attractions reaching ‘iconic’ status.

Figure 12: Chinese leisure visitation for selected markets (2011–16)

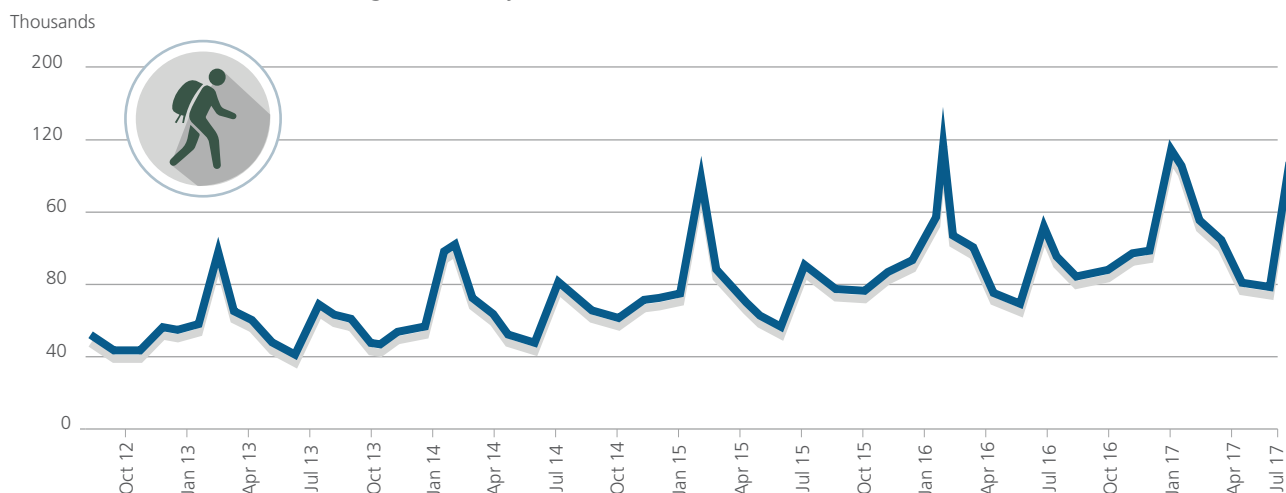


Source: TRA International Visitor Survey; L.E.K. research and analysis

Chinese visits are also highly seasonal, with peaks during Chinese New Year, when visitors have extended holidays, and also during graduation periods (Figure 13). The highest visitor levels are in the months from January to March, and lowest in April to June. This creates the potential for capacity pinches and crowding at popular destinations and attractions.

Australia and China only commenced a Work and Holiday visa Arrangement in 2015, and the program is limited to 5,000 visa grants per year.<sup>17</sup> There is the opportunity to grow the working holiday contingent of Chinese travellers towards the rates of Britain and Germany, which registered 42,175 and 25,980 grants respectively over the same period.<sup>18</sup> This is an area for development that could strengthen the connection between Chinese nationals and Australia.

Figure 13: Australian inbound visitors from China – Monthly data (August 2012–July 2017)



Source: ABS 3401: “Overseas Arrivals and Departures, Australia.” July 2017

Chinese businesses are following tourist demand into Australia to set up Chinese facing services on the basis of the economic flows created. Ctrip, a travel-services provider, and Alipay are two examples of this. There is the opportunity for Australian businesses to take advantage of these openings in the market and occupy some of this space themselves. This will require better service of Chinese tourists and a deeper understanding of the Chinese consumer generally.

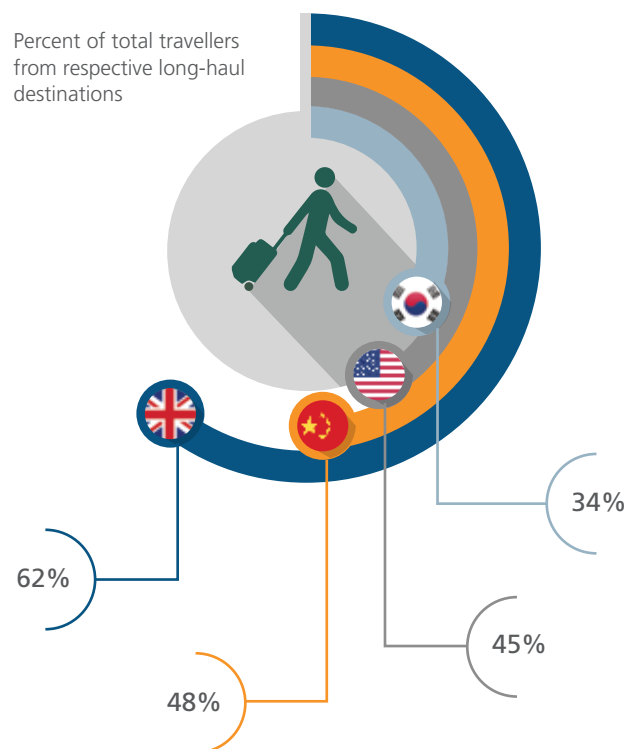
## Chinese visitors 'Australian experience' quality

While surveyed Chinese visitors appeared generally happy with their experiences, interviewees suggested Australia does not consistently offer quality experiences to all visitors in some categories.<sup>19</sup> Of survey respondents, 31% agreed that Australia is a single-visit destination. We would hope to see improvement in this metric as repeat visitors stay longer and are higher-yield.

L.E.K.'s resident survey has been compared to TRA's 2014 Chinese satisfaction survey. Visitors generally give high ratings to the natural experiences on offer in Australia, and to the friendliness of the Australian people. However, there are also some sources of disappointment. Wayfinding and the cost of products and services regularly receive the lowest satisfaction scores from Chinese visitors to Australia (Figure 14). We note there was a marked difference in the perceived friendliness of Australians between the two surveys (despite it being a strength in both).

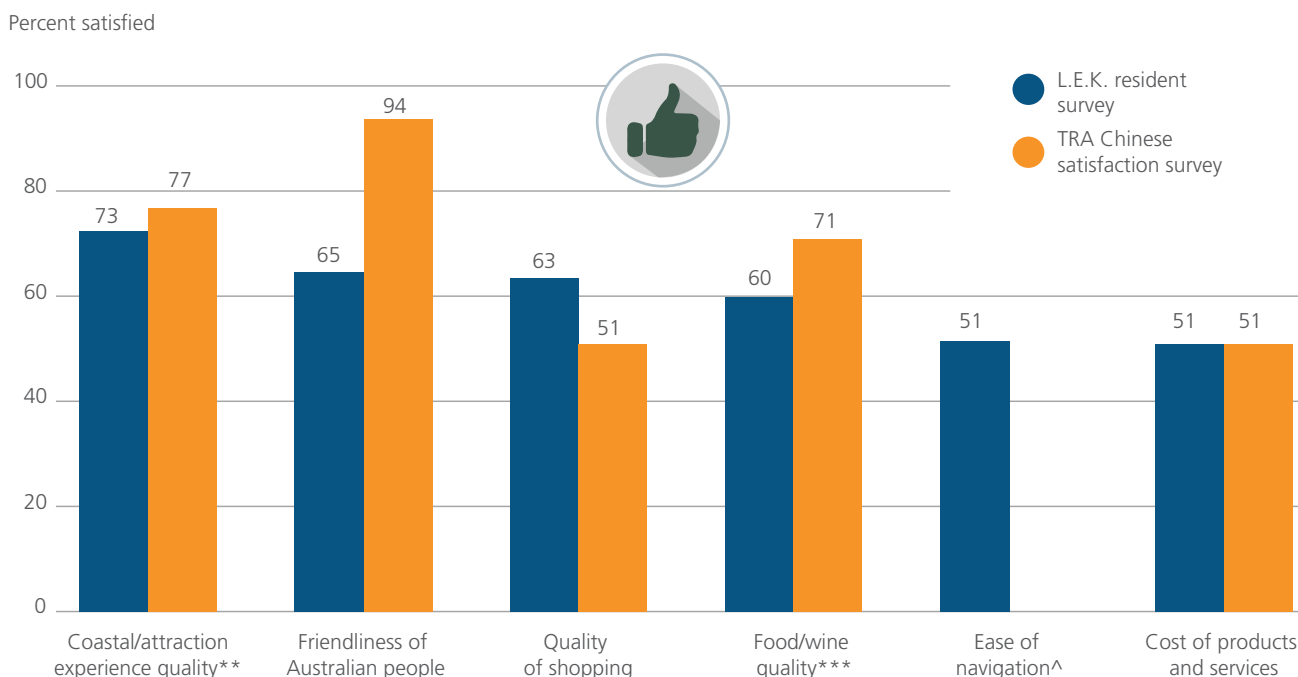
The percentage of repeat Chinese visitors to Australia is lower than that of Britain, but higher than many other long-haul destinations (Figure 15).

Figure 15: Return visitors as a proportion of total visitors from selected long-haul destinations (2016)



Source: TRA International Visitor Survey

Figure 14: Chinese satisfaction\* with Australian products and experiences (2017)



\* L.E.K. survey results percent of respondents that selected 'Slightly better than expected' and 'Much better than expected' TRA survey results are % of respondents who reported being 'satisfied' or 'very satisfied' \*\* Phrased as Coastal/aquatic experience in the L.E.K. survey and 'Attraction experience' in the Tourism Australia survey \*\*\* TRA survey split out 'Food & Beverages' and 'Wine', the satisfaction percentages were therefore averaged for these two categories ^ This question was not asked in the TRA Chinese satisfaction survey

Source: L.E.K. resident survey; TRA 2014 Chinese Satisfaction Survey



# Growing Return Visitors Case Study

## Sydney Fish Market

Sydney Fish Market (SFM) is the third-largest seafood market, by variety, in the world. In June 2017, the NSW Government announced plans to overhaul SFM with a \$250 million revitalisation.<sup>20</sup> It is expected that rebuilding the market at its new location at the head of Blackwattle Bay will offer a bigger and better customer offering and attract larger numbers of tourists.

“... The Sydney Fish Market is an iconic part of our city but there’s no doubt it needs a huge makeover, I know, with a makeover, there will be even more tourists and even more locals enjoying this. ...”  
*Premier, Gladys Berejiklian, June 2017*

According to Destination NSW, there were a total of 830,400 international visitors to the SFM in year-end



March 2017. China was the largest source market and accounted for 43% (360,400) of total international visitors. 68% of international tourists said that SFM was a factor in their decision to visit Sydney.<sup>21</sup>

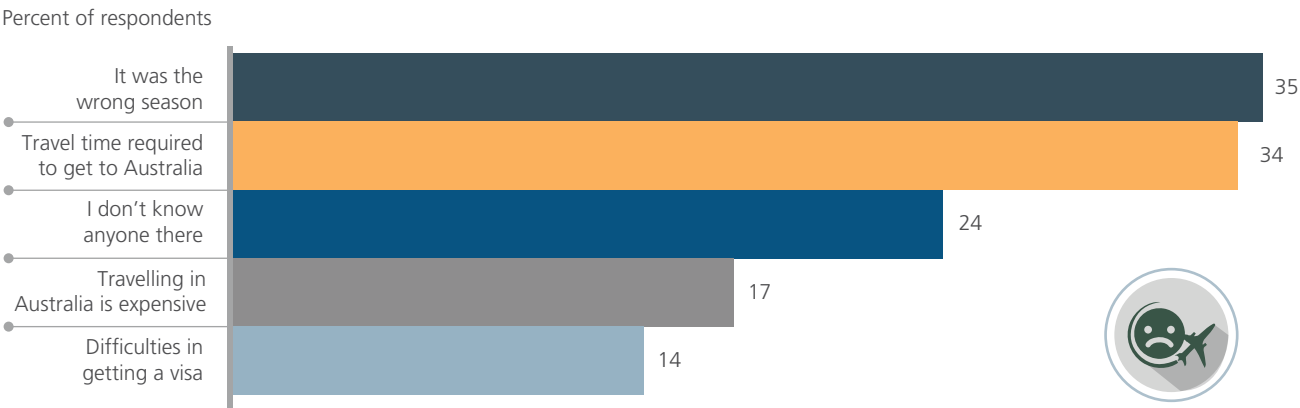
A report on the economic and social impacts of SFM estimated that it contributes \$303m per year. Through additional tourism spending, SFM is estimated to contribute \$72m in value add to the NSW economy and support the equivalent of 780 full time jobs.<sup>22</sup>



The introduction of the 10-year visa in late 2016 has made the Australian market more accessible to visitors. This is partly responsible for the recent increase in Chinese visitors to Australia. However, there is still room for improvement in the ease and cost of obtaining a visa: 14% of survey respondents said they did not travel to Australia because

of difficulties in obtaining a visa<sup>23</sup> (Figure 16). Interviewees suggest that if Australian visas do not become more accessible, Chinese visitors will choose to travel to other countries over Australia. Other reasons reported for not choosing Australia (including distance, time of year and cost) are harder to overcome.

Figure 16: Reasons for not visiting Australia, by international leisure travellers who did not visit Australia\*



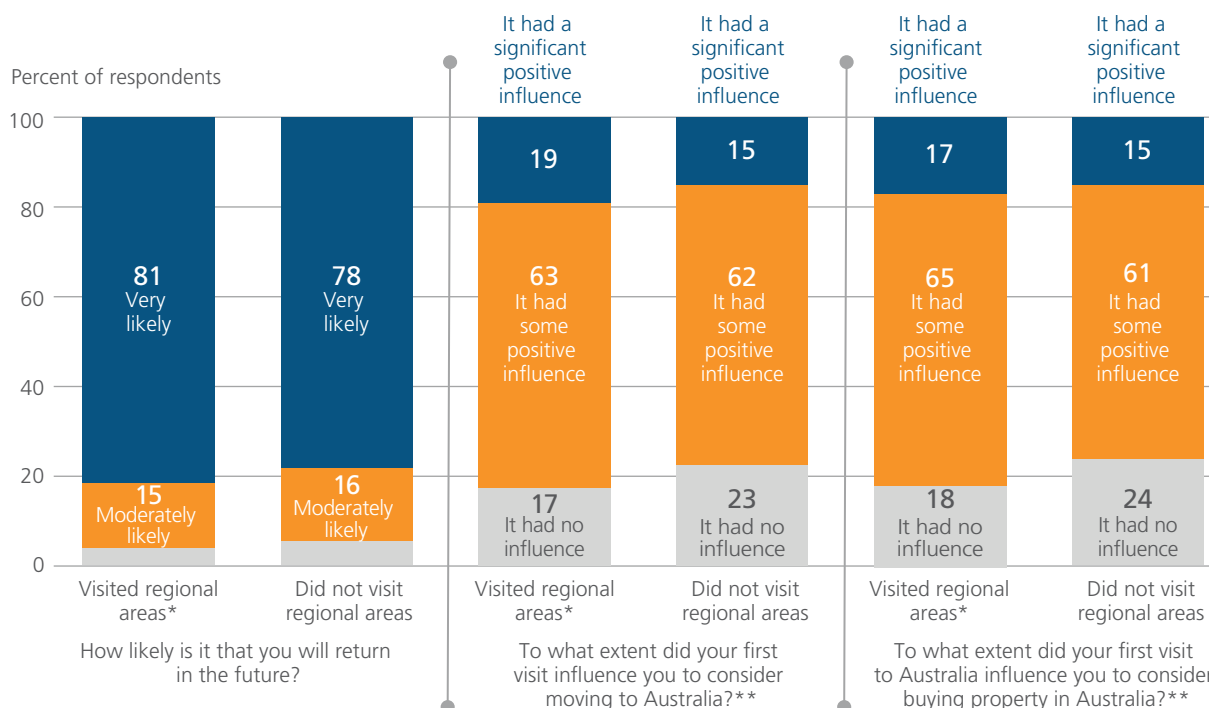
\* Respondents who had visited a long haul international destination in the last three years for leisure purposes but did not visit Australia

Source: L.E.K. Chinese resident survey

Survey results show that visitors who travel to regional areas (outside the capital cities) are more likely to return to Australia in the future and were more influenced to have broader connections through property or business investment (Figure 17).

Airport capacity was identified as a concern among tourism operators, as was the ability to handle Mandarin-speaking tourists and offer appropriate signage. As we found in our 2016 survey, delays associated with the Tourist Refund Scheme contributed to perceptions of airport bottlenecks.

Figure 17: Travel characteristics, by area visited (June 2017)



\* To be defined as a respondent who visited a regional area, the respondent had to visit an area outside of the 8 Capital cities; \*\* This question was only asked to first time visitors to Australia who had stated they would consider either migrating to Australia or buying property in Australia

Source: L.E.K. Chinese resident survey

## What are the future imperatives for Australia?

There are a range of priorities if Australia is to retain and build the value of its Chinese tourism franchise.

An overarching theme in consultations with industry experts is the importance of educating workers who deal with Chinese visitors, so they better understand Chinese culture and customs and can handle interactions appropriately. This will ensure a higher level of service across the whole tourism industry.

### Responding to Chinese technology/payments behaviour

Chinese visitors are very technologically savvy, and it is important businesses and government can engage with visitors on the appropriate platforms, providing information in Mandarin. Businesses serving Chinese visitors also need to consider offering digital payment mechanisms that are widely used by Chinese patrons, including WeChat Pay and Alipay.

### Chinese visitors 'Australian experience' quality

Australia needs to ensure it is set up to cater to the needs of the fast-emerging free and independent segment of Chinese travellers, along with the tour and guided segment that has traditionally characterised Chinese tourism.

Several basic needs specific to Chinese culture are sometimes not yet being met by Australian hospitality. Examples include the use of slippers in hotels, and closing hours of restaurants, which are earlier than Chinese visitors are accustomed to.

As the FIT proportion of overall visitors expands, Australia needs to provide more adventurous, but still China-friendly, pursuits.

Tourist visas should remain a priority for further improvement and streamlining, to ensure Australia does not lose significant numbers of Chinese visitors. Industry experts note the main area of friction is the cost of the visa rather than processing times.

It is important to focus not only on getting Chinese visitors to Australian shores, but also to create a welcoming and enjoyable experience for them when they are here. Ease of navigation for Chinese tourists was particularly noted as an area that could be improved.

In the future, it will be important to focus on increasing spend per visitor (yield) rather than numbers of visitors (volume). The most obvious way to do this is by delivering high-quality, high-value experiences.

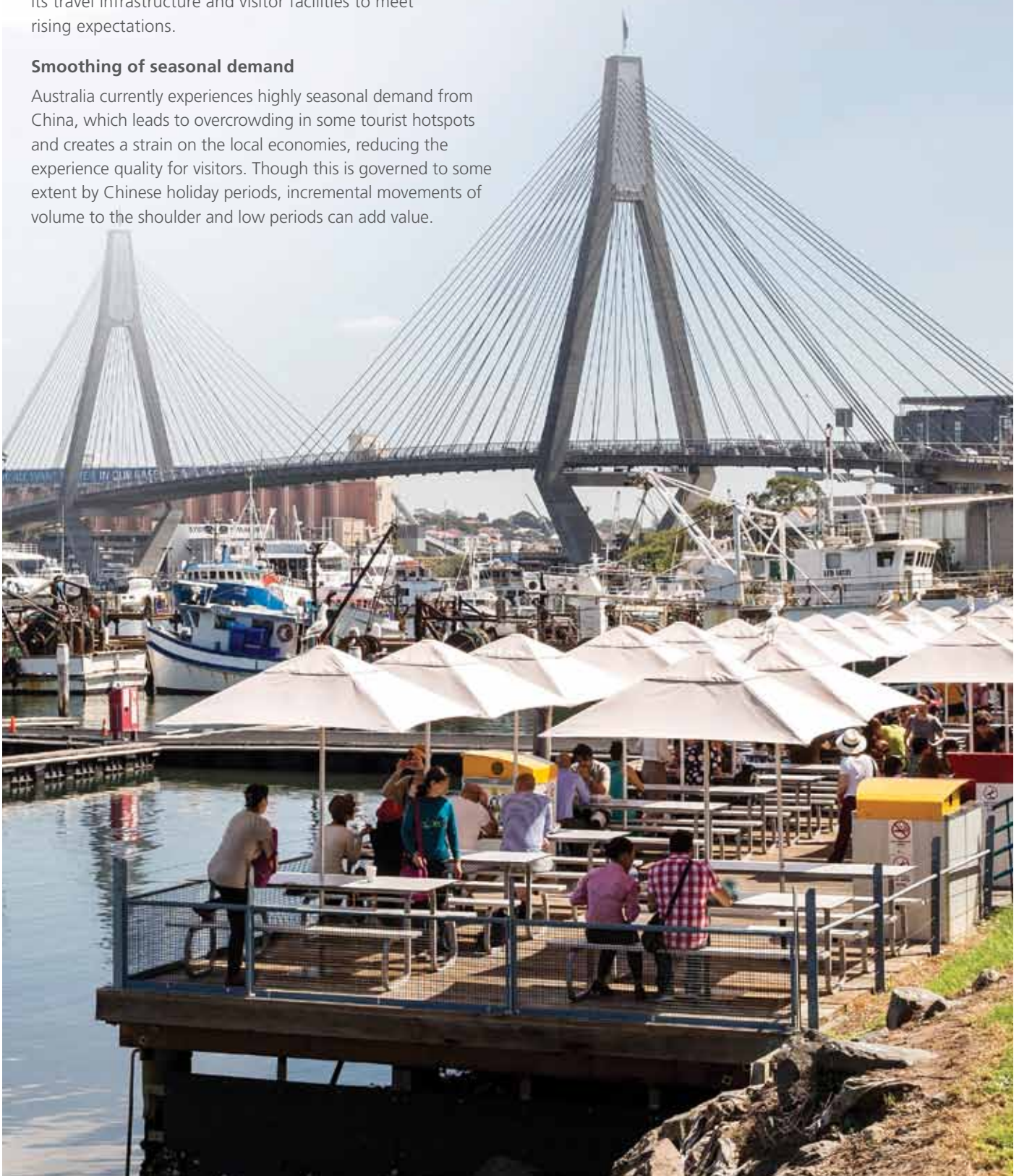
### Capacity

The ability of capacity and infrastructure to keep pace with demand in Sydney is of particular concern to tourism operators. Sydney accommodation occupancy levels are forecast to stay elevated, at approximately 88%, for the next five years.<sup>24</sup> Some near-term developments (incl. Star Entertainment's expansion in rooms) are expected, but a capacity shortfall will remain for several years.

As more Chinese visitors continue to arrive, and their sophistication increases, Australia will need to improve its travel infrastructure and visitor facilities to meet rising expectations.

### Smoothing of seasonal demand

Australia currently experiences highly seasonal demand from China, which leads to overcrowding in some tourist hotspots and creates a strain on the local economies, reducing the experience quality for visitors. Though this is governed to some extent by Chinese holiday periods, incremental movements of volume to the shoulder and low periods can add value.





# The Chinese student experience

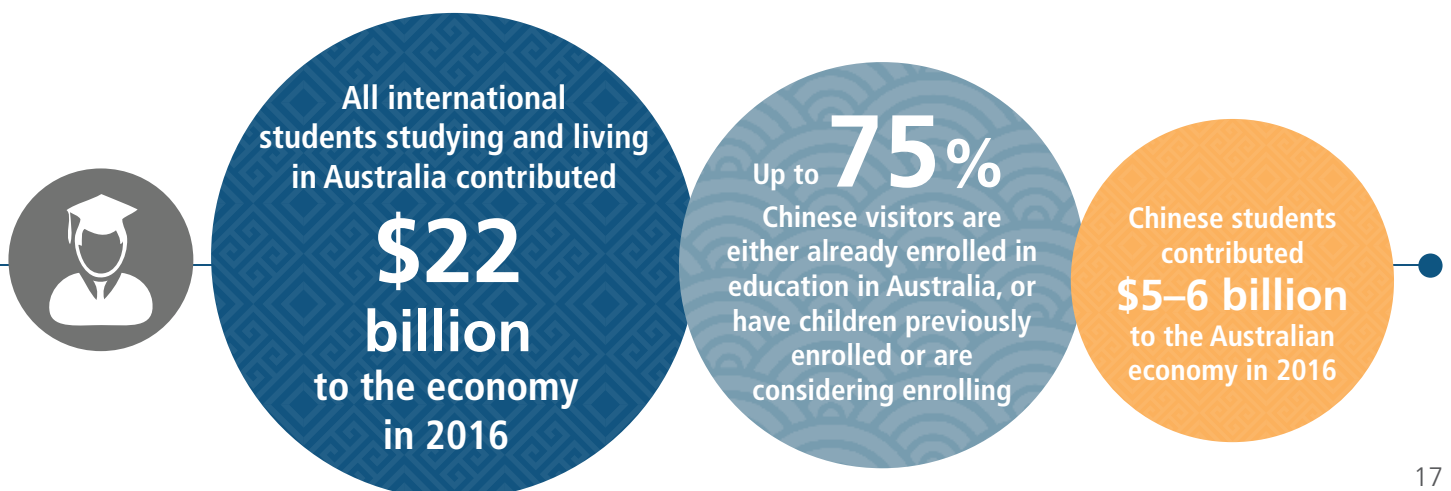
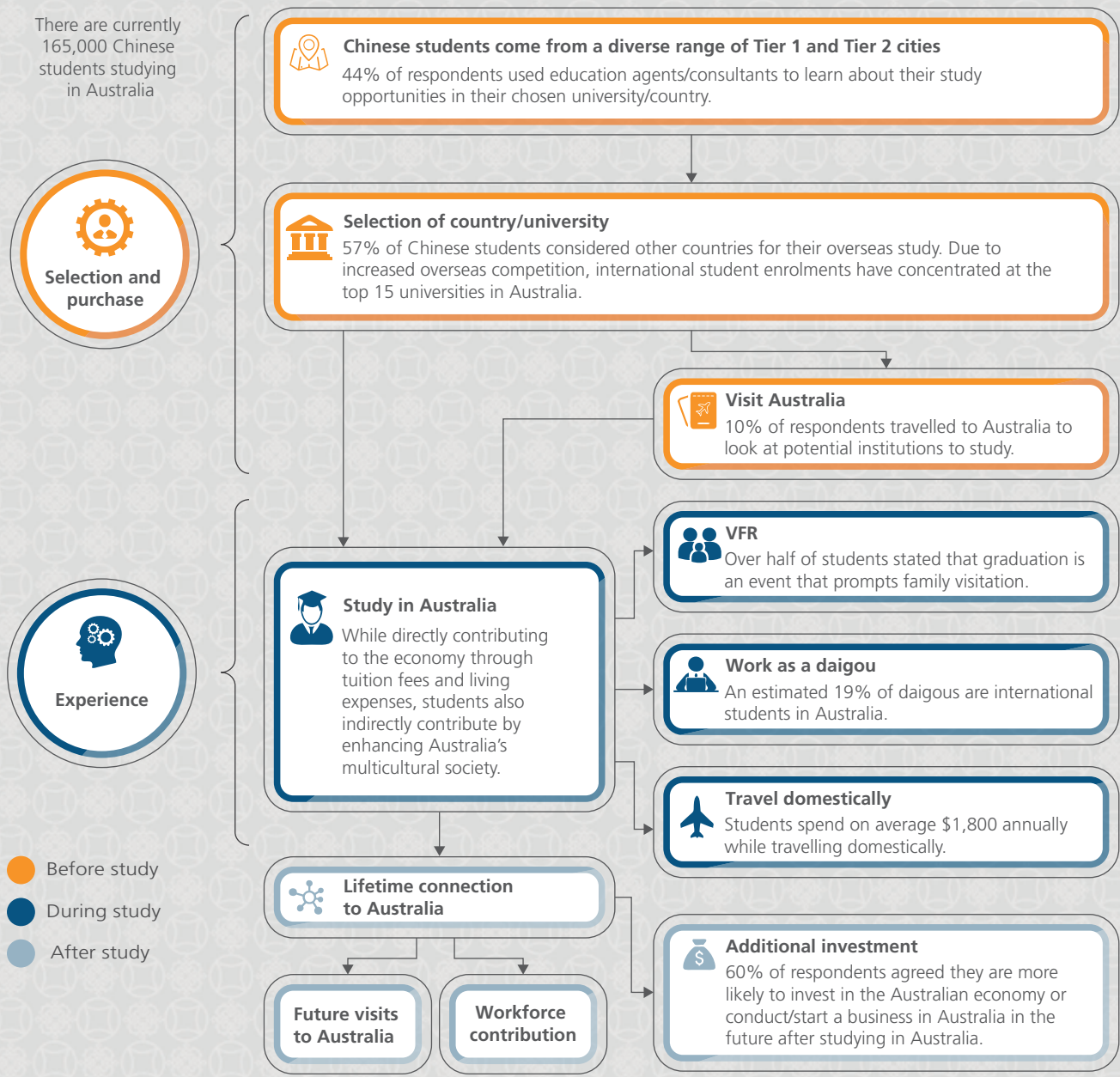


# How does the inbound Chinese student market work?

The impact of Chinese education extends far beyond the direct economic benefits that come from the tuition and living expenses incurred while studying. Students have a lifetime connection to Australia, creating economic and social benefits that flow back to Australia directly and

indirectly. While studying in Australia, Chinese international students boost tourism through visits by friends and relatives, domestic travel while studying and future visits to Australia once the connection has been established (Figure 18).

Figure 18: The inbound student market



It is estimated that the total economic value to Australia of a Chinese student is around \$59,000 per year, with the largest proportion of this being for tuition fees and living expenses (Figure 19). However, it is also estimated that the average student spends about \$2,000 on domestic travel and has, on average, approximately one family visitor per year who spends approximately \$4,000 when visiting. Around 17% of students have family investments in Australia, mainly in real estate. Interviewees suggest that there is an opportunity to better partner with universities and encourage students to travel in Australia more broadly. This suggests an approximate economic contribution by Chinese Students of \$5–6 billion p.a.

While many visitors to Australia have an educational connection to the country, around 66% of students have not been to Australia before coming to study, making education a linchpin of broader relationship formation. Emphasising the connection students make with the Australian community while studying, approximately half of the students surveyed intend to stay in Australia after they graduate.

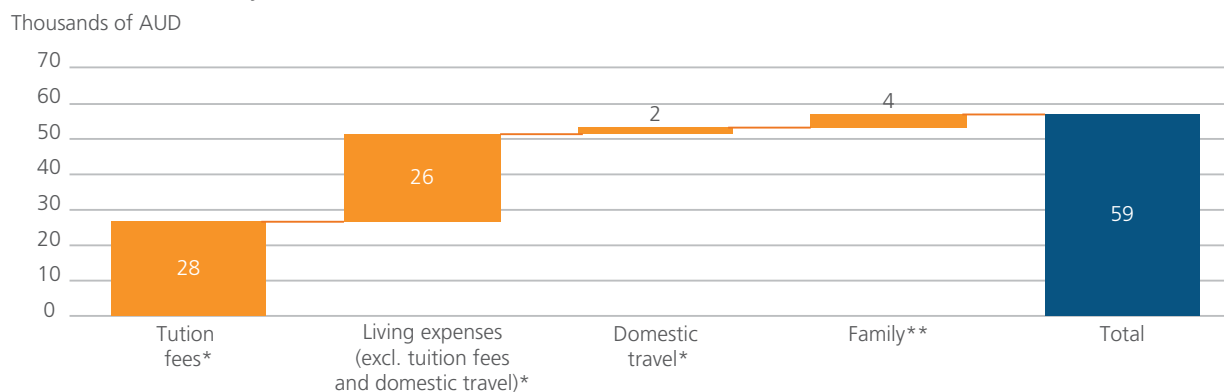
## Australia's performance in the Chinese education market

International education activity arising from international students studying and living in Australia contributed \$22 billion to the economy in 2016, according to the Department of Education and Training. Education is Australia's third-largest export after iron ore and coal and is estimated to support around 130,000 jobs annually.<sup>25</sup>

Australia has more than 560,000 international students on student visas. China is the largest inbound market, with roughly 165,000 Chinese nationals studying in Australia, representing 29% of international students in the country.<sup>26</sup>

The United States still draws the highest share of Chinese students, at 35% of the total number of Chinese students abroad (Figure 20). Australia, Britain and Japan each host around 12% of Chinese students abroad.<sup>27</sup> The number of Chinese students in Australia has grown strongly in recent years (Figure 21). International students constitute 30–45% of the student population at universities particularly popular with international students, such as Monash and RMIT (Figure 22).

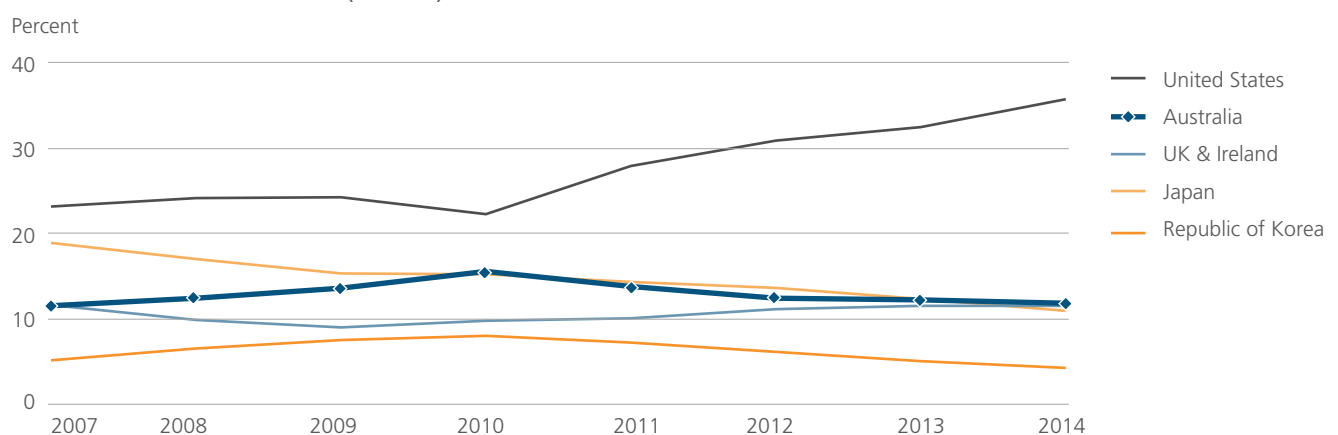
Figure 19: Estimate of total annual value of a Chinese student to the Australian economy (July 2017)



\* Average of expenditure ranges taken to calculate various student costs \*\* Average number of family visitors per year multiplied by average VFR visitor spend from TRA

Source: L.E.K. Chinese student survey, TRA International Visitor Survey

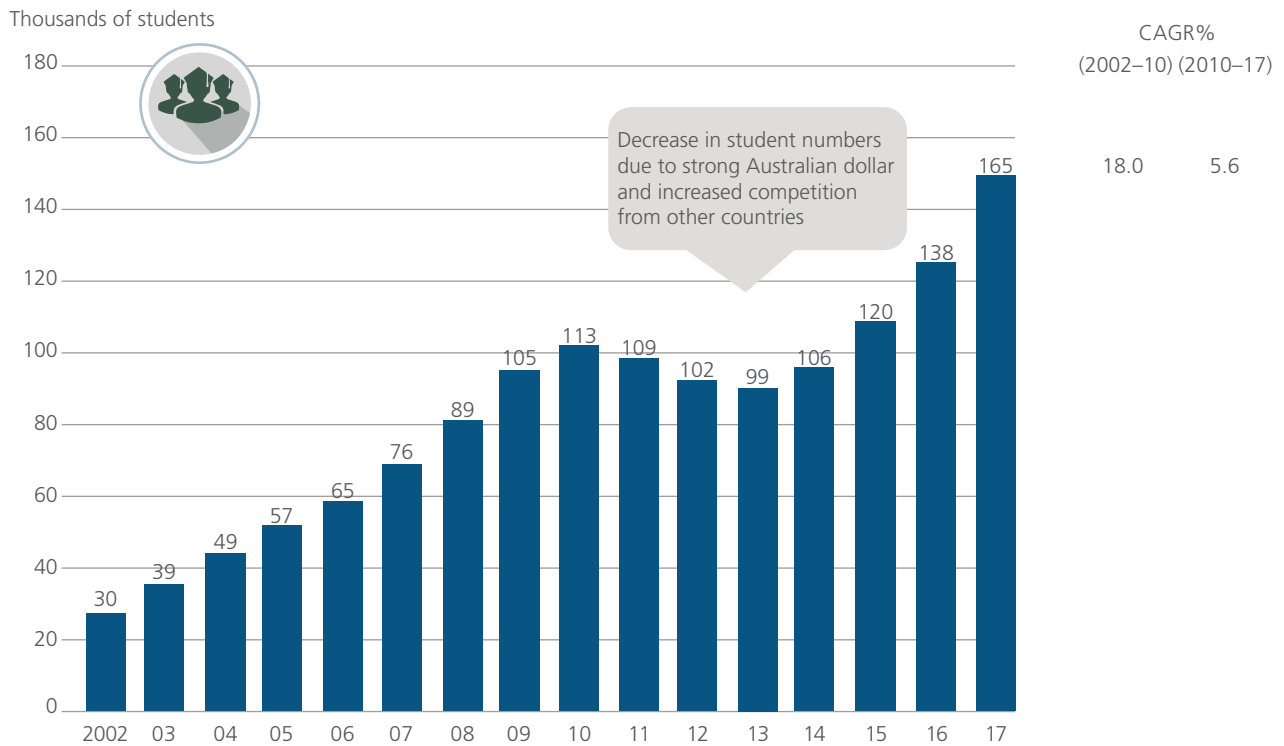
Figure 20: Share of Chinese outbound students, by host country (2007–14)



Source: UNESCO

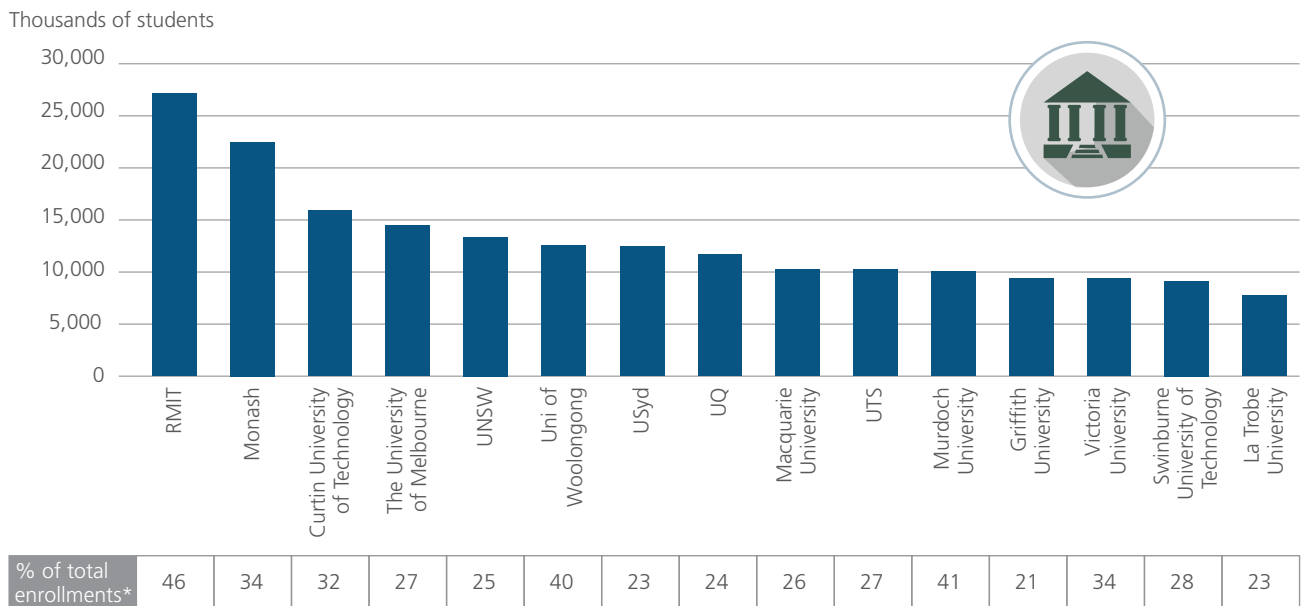


Figure 21: Number of Chinese students studying in Australia  
(2002–17)



Source: Austrade

Figure 22: International students at selected Australian universities  
(2014)



\* % of total enrollments that are international students.

Source: Australian Universities: "Student numbers at Australian Universities"

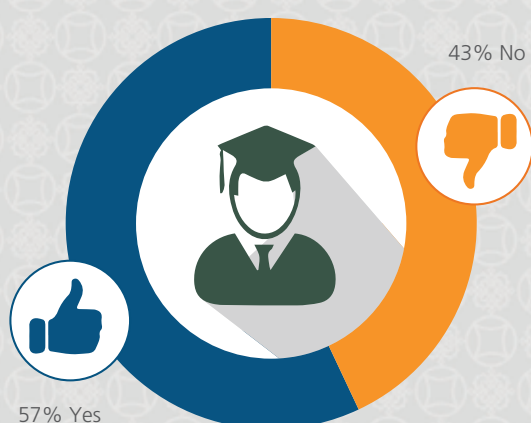
Survey responses suggest that there is large untapped potential for Australia to attract even more students from China. Up to 75% of Chinese visitors (or their children) are either already enrolled in education in Australia, or are considering enrolling.<sup>28</sup>

Australian universities are facing fierce competition from European and American universities, with selection criteria

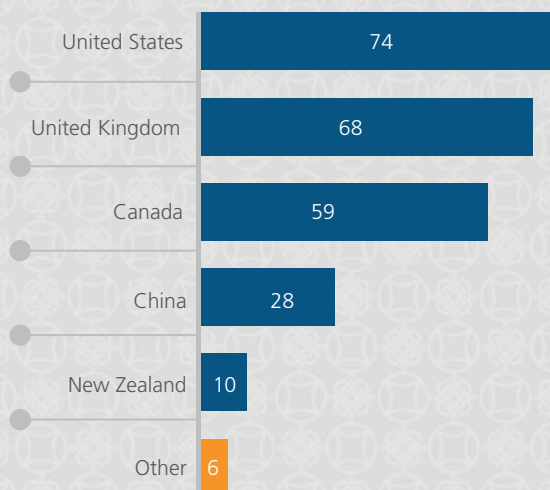
increasingly focused on quality of life and university brand and reputation. This is particularly disadvantaging second-tier Australian universities and focuses Chinese interest on the top 15 universities.<sup>29</sup> Britain, the United States and Canada are the main countries that Chinese students also considered<sup>30</sup> (Figure 23).

Figure 23: Other countries considered by surveyed students (July 2017)

"Did you consider studying in any other countries?"  
(July 2017)  
Percent of respondents



"What other countries did you consider studying in?"  
(July 2017)  
Number of responses



Source: L.E.K. Chinese student survey (individuals studying in Australia)

Interviewees noted that the increase of direct flights from Tier 2 Chinese cities is important in building education links with Australia. Easier access to Australia gives students confidence in travelling and allows more frequent family visitation.

While overall satisfaction levels of Chinese students studying in Australia are generally high, survey results suggest several areas where the experience could be improved, and about 40% of students said they would not actively encourage\* other Chinese students from studying in Australia.

- The Department of Education and Training's international student survey noted international students' satisfaction with 'learning' and 'living' in Australia ranked higher than in other surveyed countries

- This international student survey (of all international students) also showed higher satisfaction levels across 'arrival', 'living', 'learning' and 'support' during students' time in Australia compared to the L.E.K. survey of Chinese students.

Chinese students  
make up  
**29%**  
of the Australian  
international  
student population



\* Responded 'I would neither encourage or discourage', or 'I would discourage.'

Australia wins out on 'quality of life', which 47% of students stated was one of the main reasons they decided to study in Australia. 'Cost' and 'Opportunities to learn English' ranked at the bottom of these reasons, being cited by only 7% and 6% of respondents respectively (Figure 24).

Once students arrive, 'living experience' is the standout among areas where Australia performs strongly, with 71% of

Chinese students saying they were either 'very satisfied' or 'satisfied' with this part of their experience in Australia (Figure 25). 'Arrival experience' scored lowest of the different aspects rated, which reinforces that Australia could do a better job at wayfinding and orientation for arriving Chinese nationals.

Figure 24: "Why did you decide to study in Australia?" (July 2017)

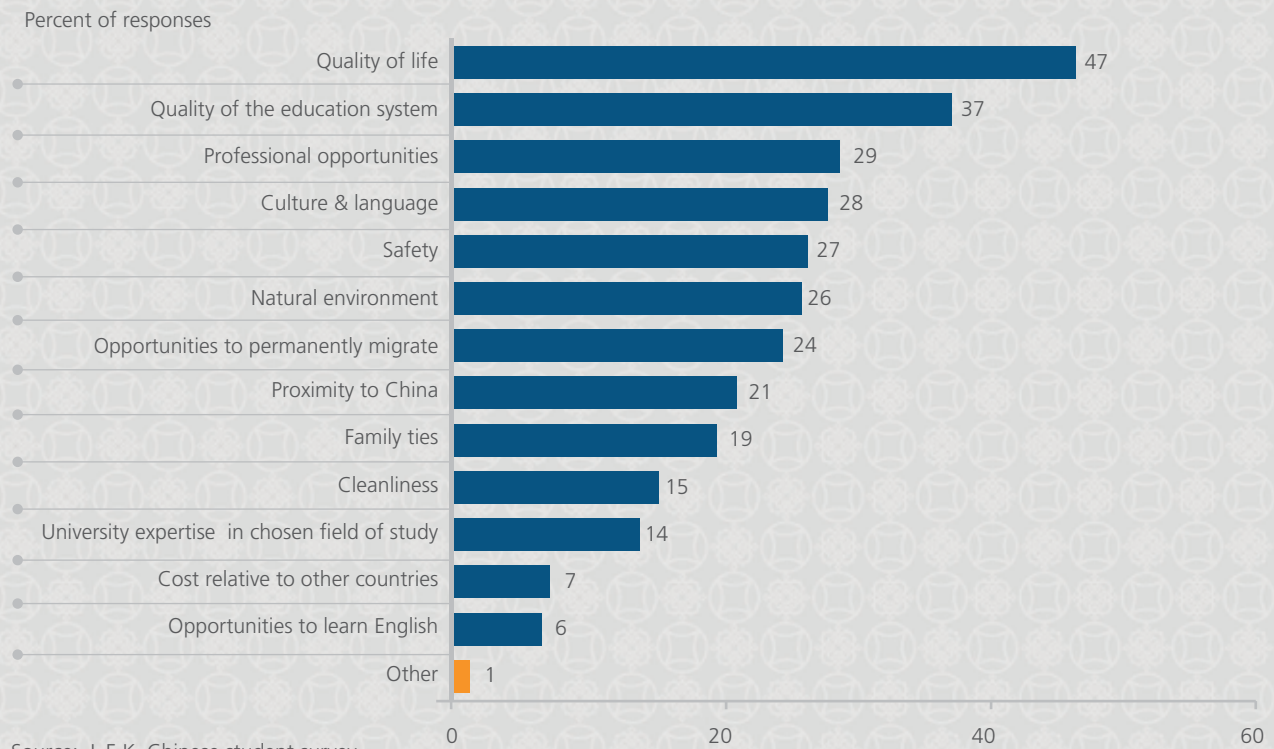
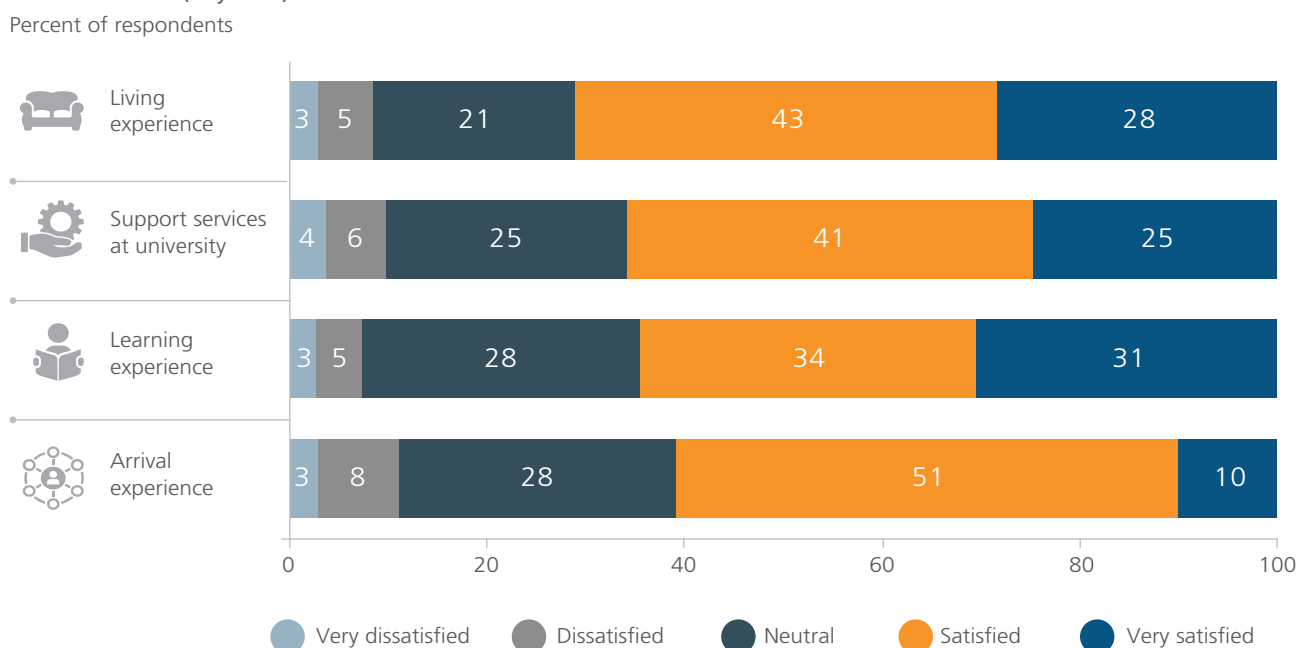


Figure 25: "How satisfied are you with the following experiences you have had in Australia?" (July 2017)





A significant portion (40%) of Chinese students would not actively encourage other students to study in Australia (Figure 26), and as 40% of Chinese students hear from friends about Australian study opportunities, the number not actively promoting Australia as a study destination is worrisome.

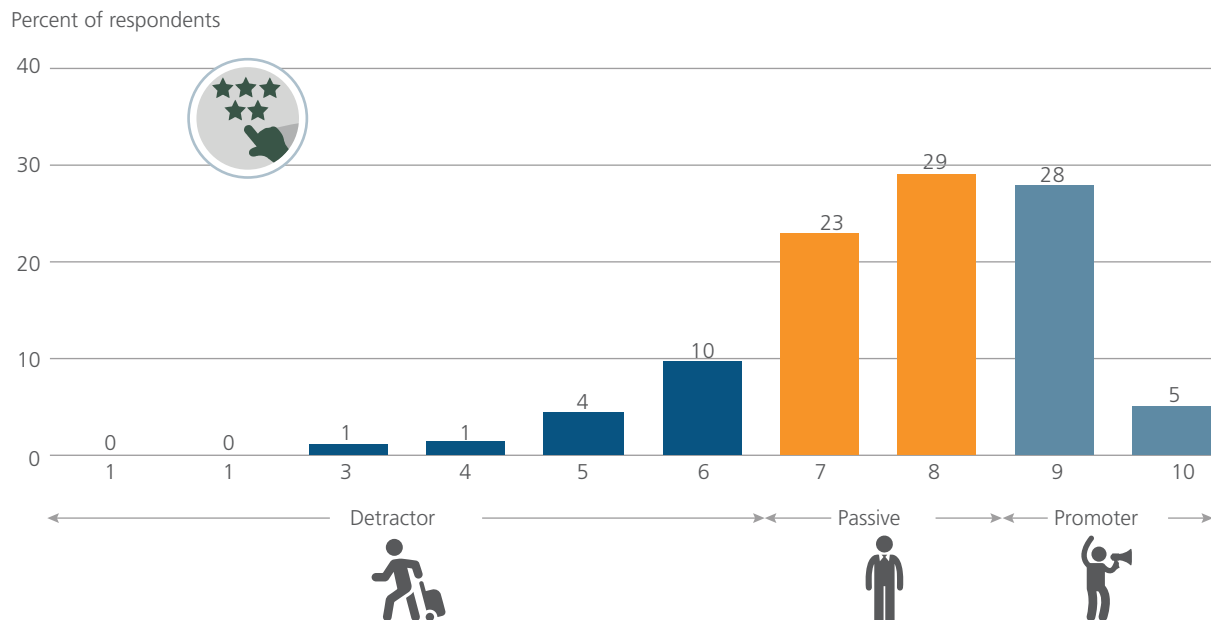
Figure 26: "Would you encourage other Chinese students to study in Australia?" (July 2017)



Source: L.E.K. Chinese student survey

The overall Net Promoter Score of Chinese students' satisfaction with their overall experience in Australia is reasonably healthy at 16%. Nearly one-third of students rated their experience in Australia a 9 or 10 (Figure 27).

Figure 27: "How would you rate your overall satisfaction with all aspects of your experience studying in Australia?" (July 2017)



Source: L.E.K. Chinese student survey

Surveyed students indicated that they spend a fair proportion of time interacting with people who were not Chinese. Those who spend much of their time with other Chinese students or Mandarin speakers do not appear to achieve as significant an improvement in their English as students who socialise with English speakers more often.<sup>31</sup>

Several industry experts assert that other countries, notably England and Germany, do a better job of creating employment pathways and fostering professional development for international students after graduation. Just over two-thirds of (67%) of survey respondents agreed that it is difficult, as an international student, to get a visa and job to continue living in Australia after studying.<sup>32</sup>

## What are the key risks and imperatives for Australia?

While Australia is generally doing well in offering a quality experience that attracts international students, there are key areas to improve to win market share from other countries also attractive to Chinese students.

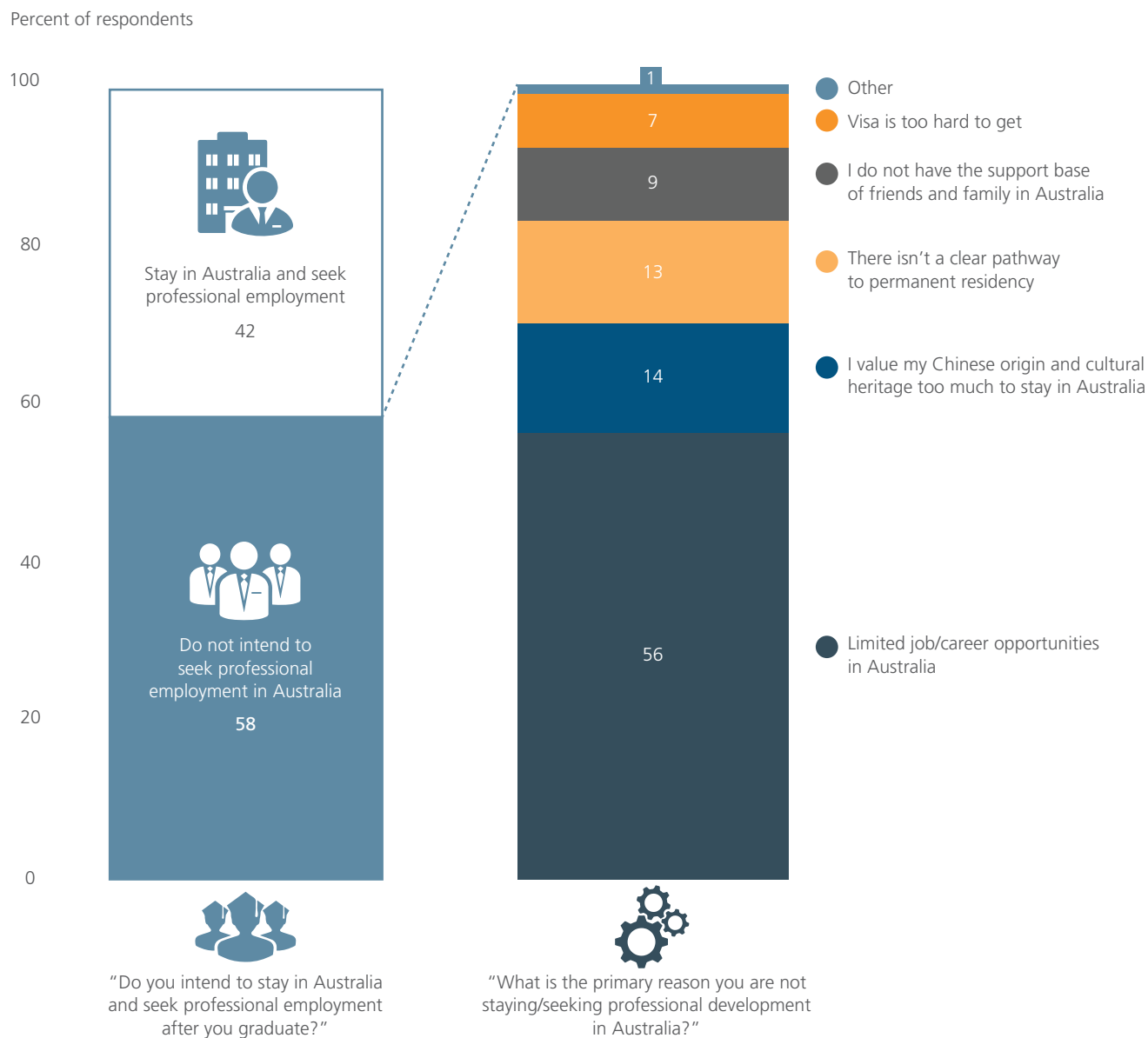
## Employment and migration pathways

There needs to be a clear pathway to employment for Chinese students beyond their study period in Australia. More than half (58%) of students are not seeking professional employment in Australia upon graduation. Of these, 76% said the primary reason was either visa or permanent residency issues, or that there were limited opportunities in Australia (Figure 28).

## Broader integration

Survey results show that a strong Chinese community and a welcoming environment are important to Chinese university students. To continue to attract Chinese students, it will be important for Australian universities to support and assist students to develop links and networks within both the Chinese and broader community.

Figure 28: Intentions after graduation  
(June 2017)



Source: L.E.K. Chinese Student survey

# Broader economic participation in Australia





Respondents to L.E.K.'s Chinese resident visitor survey demonstrate a high level of latent aspiration to form broader economic linkages with Australia (Figure 29).

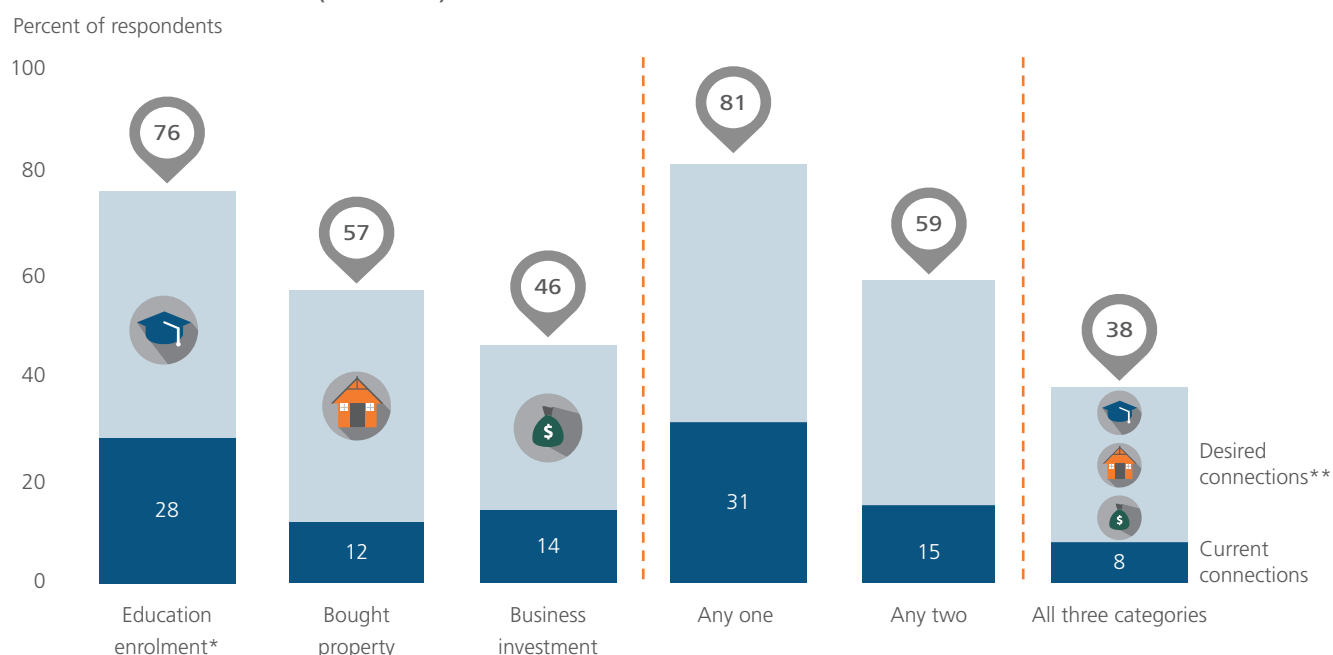
The influence of Chinese visitors and permanent residents in Australia is helping to grow Chinese networks across the country. The expansion of the Chinese middle class has created a broad category of Chinese residents who are connected with Australia to some degree. There is a growing network of Chinese nationals participating in the Australian economy, whether it is through direct investment, education, visiting for leisure, business interests or permanent residency.<sup>33</sup>

Barriers to increased participation include:

- In education: distance from China, more attractive options in the United States or Europe, limited job prospects and lack of family ties
- In business investment: a lack of understanding of the Australian market, distance from China and regulation of foreign investment

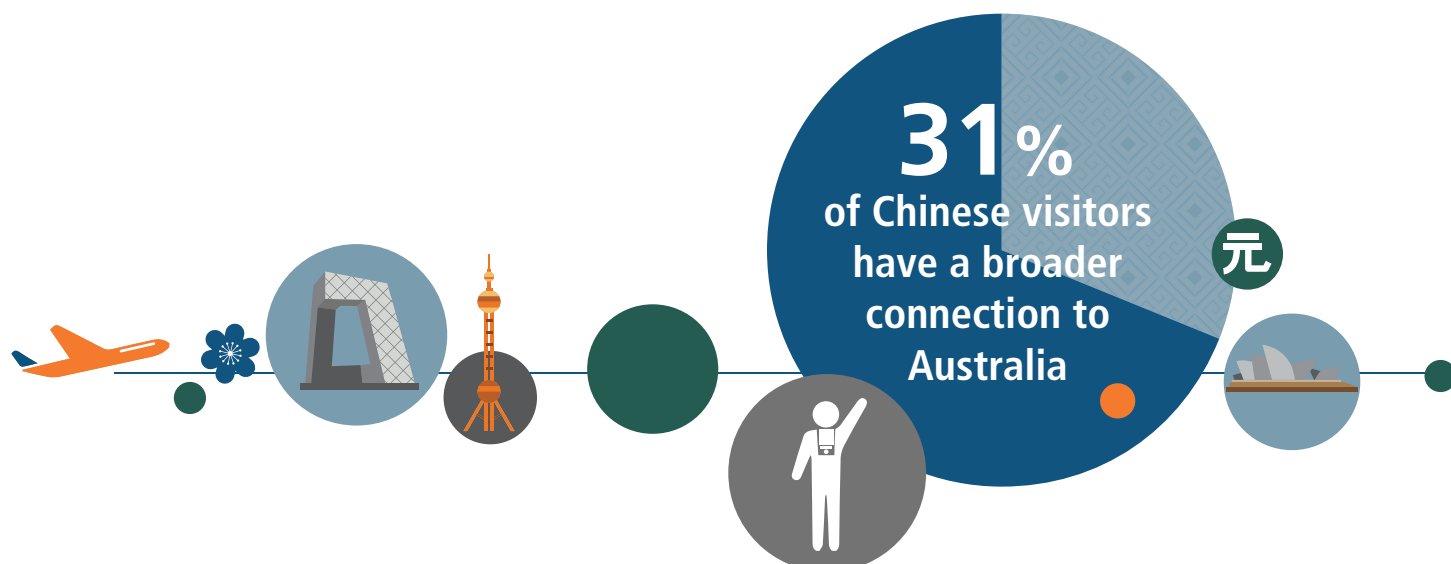
The following sections will look at two subtopics: consumer goods and property.

Figure 29: Broader connections of Chinese visitors to Australia (June 2017)



\* If the respondent themselves, or their children, have enrolled in tertiary education in Australia \*\* This includes both respondents who have enrolled in education, purchased a property and/or invested in a business in Australia and respondents who claimed they 'probably would' or 'definitely would' participate/invest in each category in the future.

Source: L.E.K. Chinese resident survey



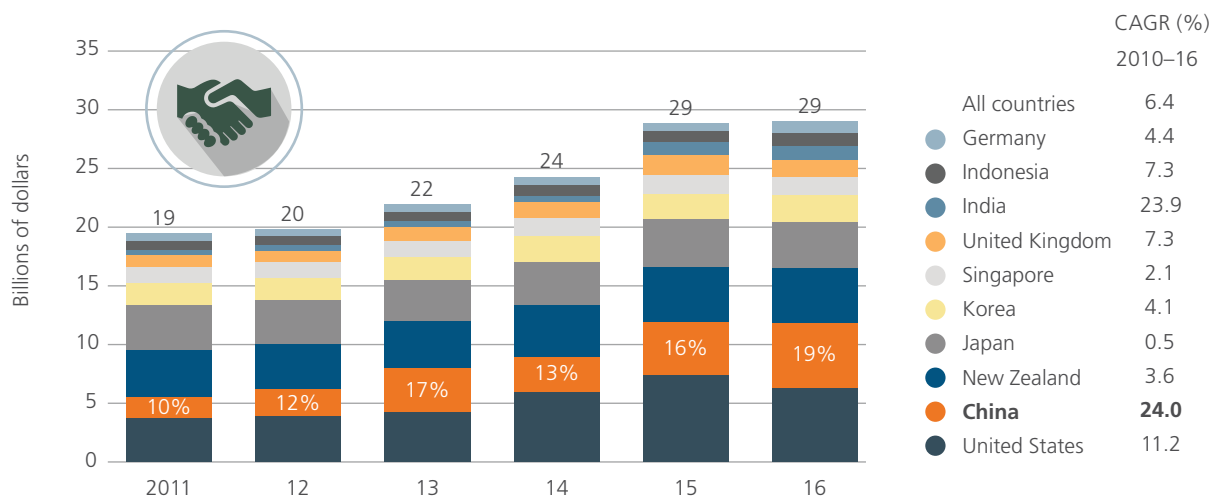
# Australian consumer goods

## What are the dynamics and key trends?

China is Australia's second-largest market for consumer exports (Figure 30); Australian exports of consumer products

to China have experienced strong growth of 24% annually over the last five years. Although consumer exports are realising significant growth, the top exports continue to be commodities including iron ore, gold and coal, according to the Department of Foreign Affairs and Trade.

Figure 30: Australia's largest consumer\* export partners (2010–16)



\* 'Consumer' products were categorised by L.E.K.

Source: ABS 5368: "International Trade in Goods and Services, Australia" May 2017

Case examples like the Bridestowe Lavender bear demonstrate the potential for celebrity endorsements to catapult Australian products into the Chinese mainstream.

## Influencer Case Study

### Bridestowe Lavender Estate

The lavender bear captivation took off in mid-2013 when Chinese model Zhang Xinyu posted a photo of herself on social media with a Lavender Bear named "Bobbie" from Bridestowe Estate and boasted about its possible health benefits. 65,000 visitors flocked to the Bridestowe Estate site in North-Eastern Tasmania within a year and the interest has remained strong since.<sup>34</sup>

“... Demand exceeds supply by 10 to 1, we get letters and lots of tearful emails and meltdowns in the store when people can only have the statutory one bear ...”

*Robert Ravens, Bridestowe Estate Owner, 2014*

The company has actively pushed into Asia for a number of years, seeing success in Japan, Hong Kong and Singapore, although the biggest increase in demand came from inbound Chinese tourism in 2013/14. Approximately 60% of the revenues are linked to China, either through tourists or Chinese Australians,<sup>35</sup> who are attracted not only to the beauty of the Bridestowe Estate farm, but the reputation of its lavender products grown in the pure, clean Tasmanian environment.



The farm contributes approximately \$10 million in economic value to the Nabowla community.<sup>36</sup> Whilst demand has remained strong, the lavender farm has moved on from the success of "Bobbie the Bear" and has recently diversified into several other products and experiences such as farm tours, luxury accommodation, an animated TV series, a café and other lavender related products, as well as seeking formal approval from the Chinese Government to import its products directly to the Chinese market.

“... It's the intrinsic authenticity of what's 'rare and special'. That's where the evolution of the business is taking us. Increasingly, the response to globalisation is for the consumer to want something boutique, unique, authentic and very personal ...”

*Robert Ravens, Bridestowe Estate Owner, December 2016*

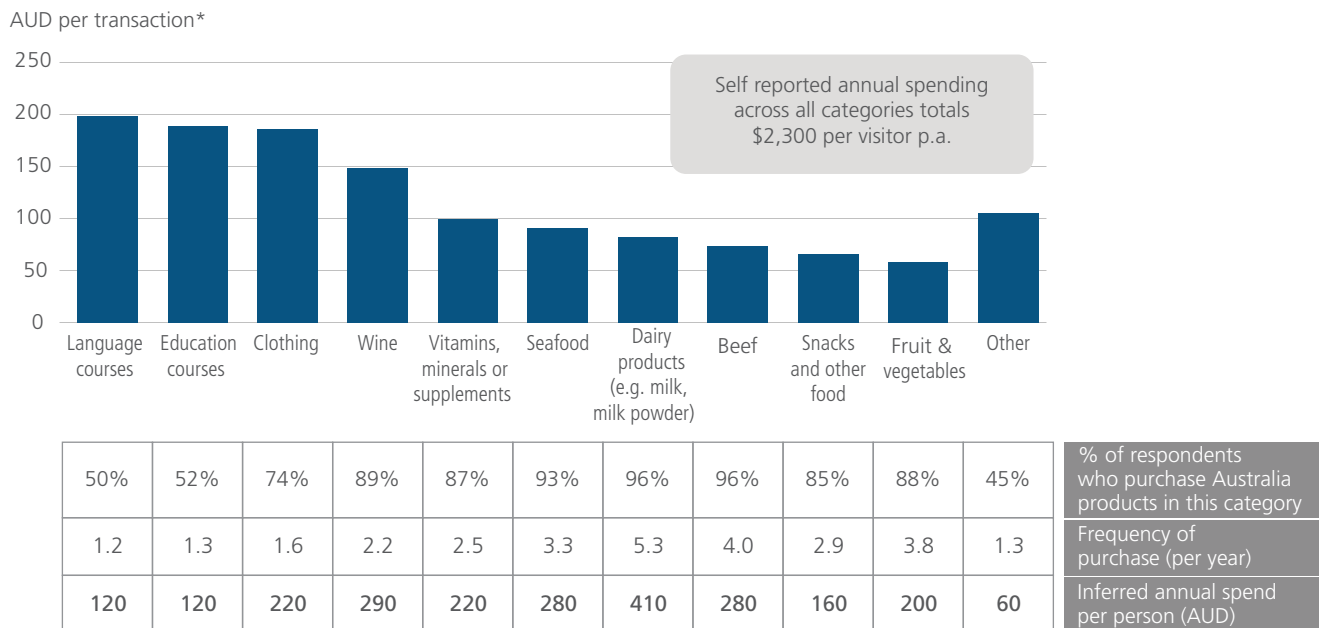


Visits to Australia provide a significant opportunity to drive consumption of Australian goods and services in China. In essence, tourism functions as free advertising. The effect is pronounced when a Chinese influencer profiles a particular product and can take an initial purchase back home. Providing appropriate information at retail points in Mandarin assists with this.

There is also potential for further partnerships between tourism operators and consumer products companies. For example, Carnival Cruise Lines invites Australian winemakers on board to demonstrate their viticultural processes and wines.<sup>37</sup>

Chinese visitors who hadn't bought Australian products prior to visiting, stated that the main reason was that they didn't know which Australian products were best or particularly special. After visiting, close to 100% of respondents bought Australian goods in China, with 86% of surveyed visitors saying their purchasing of Australian products increased. The average visitor claims to spend approximately \$2,300 per year on Australian products and services (Figure 31).

**Figure 31: Expenditure on Australian goods and services (June 2017)**

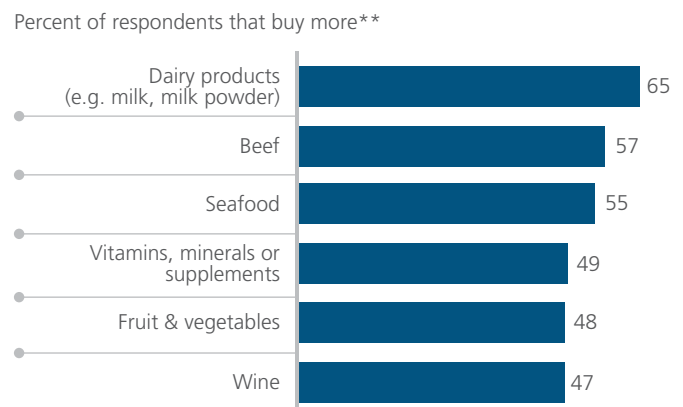


\* Only includes respondents who actually purchase the item. Midpoint of expenditure bands has been used to calculate the average. Converted CNY to AUD at spot rate of 0.19.

Source: L.E.K. Chinese resident survey

The increased spending after a visit implies there is the potential for more targeted advertising of Australian products in China to boost awareness and knowledge. Key categories to be advertised relate to Australia's image as a 'healthy' country and focus on the 'natural' features of the product. These include dairy products, beef, seafood, vitamins, minerals and supplements (Figure 32). Key Australian brands popular in China include Blackmores, Parmalat and Wolf Blass<sup>38</sup>.

**Figure 32: Categories visitors buy more post-trip\* (June 2017)**



\* "Since you have returned from Australia how have your purchase habits of Australian goods and services changed?"; \*\* Respondents who selected 'Buy significantly more' or 'Buy slightly more'

Source: L.E.K. Chinese resident survey



# Iconic Australian Brand Case Study

## Wolf Blass

The Chinese market has showed an increased interest in Australian wine. In 2016, China passed the United States as Australia's largest wine export market in 2016 and Australian wine sales grew by 40%.<sup>39</sup>

Treasury Wine Estates' (TWE) has expanded its market share in China, moving from number nine to number one imported wine supplier by value in China in just three years.<sup>40</sup>

TWE runs a multi-faceted approach to generating awareness and brand recognition for its Wolf Blass brand in China:

- The English Premier League is one of the most watched sports in China; Wolf Blass partnered with Manchester City in May 2016 to become the Club's Official Wine Partner for Asia, Middle East and Africa.<sup>41</sup>

“Wolf Blass has a long association with competitive sports and a passion in the chase for success. So we are thrilled to be involved with the number one sport globally, and one of the most popular and successful football clubs in the world.”

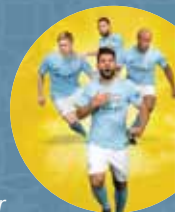
*Robert Foye, TWE President, Asia and Europe, May 2016*



- Wolf Blass was also the NBA Greater China's Official Wine Partner between December 2015 and June 2017.<sup>42</sup>
- TWE runs hundreds of education sessions in China targeting millennials to teach them how, and when to drink wine

“... They are thirsty for knowledge, it is incredible. We believe we are just at the beginning of the journey ...”

*Peter Dixon, TWE Managing Director North Asia, May 2017*



Australian products need well-developed distribution channels in China to maximise their reach. Typically, this will mean partnering with a Chinese company in the beginning and leveraging its knowledge of the Chinese market. For prominent brands, the development of distribution channels may extend to establishing flagship stores.

## What are the future imperatives?

Australian businesses have done well to take advantage of Chinese demand for their products, and are quickly learning how to operate in the complex Chinese market. Australian companies need to learn more about China, its people and culture to make sure they can maximum value from the opportunities.

### Increase brand awareness

Lack of awareness is the primary reason Chinese people don't buy Australian products before visiting the country. There is the potential for more targeted advertising of Australian products in China to increase awareness and knowledge. Through this targeted advertising, it is important to continue educating Chinese visitors and promote the image of Australia as 'healthy' and 'clean', which resonates well with Chinese residents. This observation accords with our 2016 report, which identified Australia's 'clean and green' products as a drawcard.

As shown in Chinese people's increased purchasing of Australian products after visiting the country, the Australian experience appears to effectively influence those who have made the trip Down Under, but Australia could also benefit from making greater efforts to reach Chinese residents before they travel.

### Greater collaboration

Chinese visits create a significant opportunity for Australian companies to promote their brand to an effectively untapped market with unconstrained demand. This could be taken advantage of through targeted advertising and collaboration between the tourism industry and others that also benefit from Chinese tourism. The current approach to marketing in China is relatively siloed.

Austrade already has a section on its website dedicated to 'Working with China', with subsections on 'China policies' and 'Information for businesses'. While making such resources available is a step in the right direction, there is potential for more government support to help get Australian companies 'China-ready', which would spur Australian businesses' investment in ventures oriented towards Chinese consumers, and realise more of the potential this market offers to Australia.

# Property

## What are the dynamics and key trends?

Australian property is in high demand among foreign investors. Credit Suisse estimates that foreign investors purchase 25% of the new housing supply in NSW and 16% in Victoria. Of foreign buyers in NSW, Chinese buyers (including those from Hong Kong, Macau and Taiwan) account for 77% of purchases.<sup>43</sup> Like other cities such as Hong Kong, Singapore and Vancouver, the Australian federal and state governments have introduced foreign buyer taxes with the intention of raising money to help local first home-buyers. The annual land tax surcharge on foreign buyers in NSW (2%), and the foreign investor stamp duty surcharges in NSW (8%) and Victoria (7%),<sup>44</sup> could constrain the flow of property investment from China to Australia as housing becomes considerably more expensive for foreign buyers. Credit Suisse estimates that the taxes from foreign buyers generate \$4.9 billion and \$3.1 billion each year in NSW and Victoria respectively.<sup>45</sup>

Morgan Stanley has recently warned that the flow of Chinese property investment into capital centres such as New York, London and Sydney could soon diminish due to tighter regulations. Morgan Stanley estimated that total Chinese overseas direct property investment could drop by 84% this year and potentially another 15% in 2018.<sup>46</sup> In the first half of 2017, mainland Chinese investors accounted for only 7.6% of investment in Hong Kong offices, down from 31% in 2016.<sup>47</sup> JLL, an investment management company that focuses on real estate, believes the fall is due to the stricter capital controls introduced by Beijing in November 2016.

There are significant links between Chinese visits and the broader economic participation of Chinese residents in Australia. Over 90% of respondents to our survey indicated that visiting had a positive influence on their consideration of further investment in education, property or business in Australia (Figure 33).

Survey responses suggest that there is considerable untapped potential for Chinese investment in Australia, with up to 80% of visitors considering education, property or business investment. Just over 30% of visitors had already either enrolled in education, purchased property or invested in a business.<sup>48</sup>

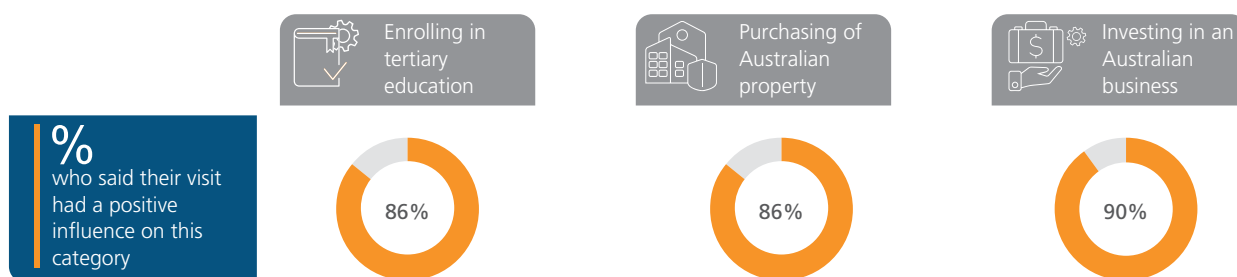
## What are the future imperatives?

There is a significant opportunity for an inflow of investment from Chinese residents, and Australian businesses and government departments are in a position to take advantage of it.

## Recognise sensitivity to regulations

Chinese investors are sensitive to regulation; Australia will need to ensure that all decisions regarding the regulation of property investment in Australia are considered carefully and take into account the views of all relevant stakeholders. If there is uncertainty around future taxes on property, Chinese investors may hesitate to invest. Hong Kong has already seen decreasing demand from mainland Chinese investors on the back of tightening capital controls; this phenomenon could also potentially affect other major cities such as New York, Sydney and London.

Figure 33: Impact of first visit on broader connections with Australia\* (June 2017)



\* To what extent did your first visit to Australia influence you to consider each of the below?

Source: L.E.K. Chinese resident survey

# Measuring progress: The China Readiness Score





This report, along with its 2016 first edition, has identified a range of opportunities associated with increased Chinese visits to Australia and a related deepening of Chinese engagement with the broader economy through education, consumption and investment. It has also discussed a variety of corresponding issues: areas in which Australian regulators and businesses have not yet sufficiently adapted to seize the full benefits of this closer relationship with China and its people.

While preparing this year's edition of the report, L.E.K. asked how progress might be measured as Australian industry better realises the broader economic potential of Chinese tourism. As a first step, we devised what we call the China Readiness Score, as a way of systematically evaluating where we are now and, in future, how far we have come.

L.E.K. wanted to understand how prepared the tourism industry is to benefit from the growth in Chinese visits. We have arrived at a score that evaluates the *current status* of the industry from several key perspectives and identifies where it is doing well and where it can make improvements.

To add depth to this analysis, and to provide benchmarks against which to compare the tourism industry's performance, we have applied the same methodology to produce scores for the education and consumer goods industries.

## Methodology

The China Readiness Score evaluates industry sectors in five areas, each of which is critical to obtaining maximum benefit from exposure to the Chinese market. These areas are:

**Regulatory environment and government facilitation:**

How conducive is the regulatory environment to capturing the economic opportunity offered by the Chinese market? How active are policymakers when it comes to encouraging and supporting businesses in each industry in their endeavours to capture a greater share of the Chinese market for their goods or services?

**Infrastructure and planning:** How aware is each industry of the broad economic opportunity associated with China, and how well are they planning to capture it? Are manufacturers and retailers developing products, services, pricing and marketing campaigns that appeal to, or are directed at, Chinese visitors and consumers? Do airlines, airports, universities, schools and manufacturers have sufficient capacity in the pipeline?

**Cultural connectedness:** This evaluates the extent to which each industry has taken steps to make itself user-friendly to Chinese consumers. For example, how much signage and

service is available in Chinese? Do organisations employ bilingual staff and produce promotional material in Chinese? What steps have been taken to develop the connection and relationship between Chinese nationals and Australia?

**Branding:** How strong is the industry's brand in China? How effectively are businesses, industry bodies and trade organisations promoting their products and services to the Chinese market? Is the industry seen as a source of safe, reliable and high-quality produce, consumer goods, educational and other services, and investment opportunities?

**Track record and experience:** This criterion considers previous efforts as an indicator of future success. If companies within each industry have successfully tapped into the China market, then there is reason to believe others can do so. It can also involve consideration of whether an industry has access to management with previous experience in the China market.

## Rating scale

Based on the insights and survey data in this report, together with L.E.K.'s expertise and experience working with companies in each sector, each industry is given a rating of between 1 and 20 on its performance for each criterion. These scores can be interpreted using the following scale.

**1–4: Severely impeded.** Performance on this factor seriously discourages Chinese visits, engagement, investment and consumption.

**5–8: Challenged.** This area presents some barriers and discouragement that stand in the way of the industry growing its share of the Chinese market.

**9–12: Neutral.** Performance on this factor neither encourages nor discourages Chinese visits and engagement.

**13–16: Favourable.** Significant efforts have been made to attract visitors and to remove barriers to visits and engagement, and these have achieved some level of success.

**16–20: Encouraging.** Nearly all barriers to visits and engagement have been removed. Major positive efforts to encourage visits and engagement have been made and are achieving visible success, up to the level of outperforming competing destinations or industries.

Adding the scores for each of the criteria produces an overall China Readiness Score between 1 and 100, which can be easily read as a measure of an industry's progress towards capturing the full opportunity represented by Chinese visits and engagement.

# China Readiness Scores by industry

 <b>Tourism</b>		
Criterion	Commentary	Score (0–20)
 <b>Regulatory environment and government facilitation</b>	<p>The Federal Government has made it easier for Chinese tourists to visit Australia by improving processing times and introducing a 10-year multi-entry visa.</p> <p>Further improvement would be possible by lowering fees and actively promoting greater awareness of the opportunities available to potential visitors and migrants.</p> <p>Additional value could be realised by increasing the quota of and further promoting the Work and Holiday visas (subclass 462) for Chinese nationals.</p>	<b>15</b>
 <b>Infrastructure and planning</b>	<p>Since 2011, direct aviation capacity has doubled to an annual capacity of 1.5 million seats in 2016.</p> <p>However, the tourism industry's infrastructure risks not keeping up with the growing demand from the Chinese market.</p> <p>Capacity constraints are a major issue, particularly at Sydney Airport, which acts as a roadblock to arrivals growth in Australia's largest city. Hotel accommodation in Sydney is also expected to be heavily constrained through to 2020.</p> <p>Regional centres are missing out on flow-on benefits from increased tourism due to inadequate infrastructure.</p>	<b>8</b>
 <b>Cultural connectedness</b>	<p>Australia has begun to adapt to the growth in tourist numbers from China and is slowly refining its tourism offering to be more 'China-friendly'.</p> <p>The wayfinding for Chinese visitors could improve through Chinese-speaking helpers and more Chinese signage at major tourist attractions.</p> <p>Chinese signage and access to Chinese guides will become increasingly important as a majority (55%) of Chinese leisure travellers now choose to travel independently rather than on pre-booked group tours.</p> <p>Although tourist numbers continue to grow, the industry has failed to meet some of the more basic needs of Chinese travellers such as the creation of a night-time economy.</p> <p>Payment systems that Chinese guests are familiar with could also be more widely available; QR code and Alipay payment pilots are currently being rolled out in specific locations around Sydney.</p>	<b>12</b>
 <b>Branding</b>	<p>The strength of the Australian brand in China is confirmed by the predicted growth in tourist numbers from China, which is expected to grow by 13% p.a. through to 2026.</p> <p>Repeat visits are high with L.E.K.'s survey showing 53% of leisure tourists come back to Australia and 24% visit three or more times. Visitors generally rate the natural environment and the friendliness of the people highly.</p>	<b>17</b>
 <b>Track record and experience</b>	<p>Australia's tourism industry has a strong track record of success in attracting and accommodating growing numbers of Chinese tourists.</p> <p>Travel from China to Australia has been growing strongly at 18.3% per year between 2012 and 2015. China is Australia's second-largest source of visitors (after New Zealand) and will soon be the largest. It is already the largest in overall expenditure, and will be the most valuable source of visitors in the long term.</p>	<b>15</b>
<b>Tourism China Readiness Score</b>		<b>67</b>








## Education

Criterion	Commentary	Score (0–20)
 <b>Regulatory environment and government facilitation</b>	<p>The L.E.K. survey found 58% of students are not seeking professional employment in Australia upon graduation, with 76% saying this is due to limited opportunities or visa and residency issues.</p> <p>Australia needs to find more employment pathways and foster professional development, as 67% of respondents said it was difficult, as an international student, to get a visa to continue living in Australia.</p> <p>Both Government and industry need to do better at providing opportunity and support for Chinese students seeking to remain here. If they do not, then Australia's competitiveness as an education destination will slip against countries like Germany, which has a more accessible visa system as well as better industry engagement.</p>	12
 <b>Infrastructure and planning</b>	<p>There is large untapped potential from China for international education in Australia. L.E.K.'s Chinese student survey found 75% of recent visitors have already purchased or are considering purchasing Australian tertiary education (for themselves or their children). The ability to attract these students is closely linked to the performance of the university, as Chinese students assign a relatively high value to the reputation of universities, compared to other factors.</p>	14
 <b>Cultural connectedness</b>	<p>A strong Chinese community and a welcoming environment are important factors for Chinese students choosing a university.</p> <p>Australian universities need to offer appropriate support and assistance to help Chinese students develop links with both their fellow students and the broader Chinese community.</p> <p>Anecdotal evidence suggests universities could immediately benefit from a greater effort to integrate international students with the broader student body and surrounding communities.</p>	13
 <b>Branding</b>	<p>Australia offers a high-quality and reputable education product.</p> <p>Although Australia is currently doing well to attract foreign students to its shores, universities are facing increased competition from Europe and the United States.</p> <p>Second-tier Australian universities are disadvantaged by this increased competition, with selection criteria increasingly focused on university brand and reputation.</p>	16
 <b>Track record and experience</b>	<p>It is estimated 165,000 Chinese students are studying in Australia, which represents 29% of all international students in the country.</p> <p>Education is Australia's third-largest export, after iron ore and coal, and is estimated to support more than 130,000 jobs.</p>	17
	<b>Education China Readiness Score</b>	72





## Consumer goods

Criterion	Commentary	Score (0–20)
 <p><b>Regulatory environment and government facilitation</b></p>	<p>Both the Australian and the Chinese regulatory environments have been overhauled so Australian consumer goods destined for China have greater ease of access.</p> <p>The Australian government finalised a free trade agreement with China in 2015, resulting in tariff reductions on various consumer products.</p> <p>China has slashed import duties on a number of consumer products to boost imports and stimulate spending.</p> <p>The next stage of reform will be when China addresses the many non-tariff obstacles that impede the import of consumer products.</p>	<b>13</b>
 <p><b>Infrastructure and planning</b></p>	<p>While Australian products are well-regarded, many companies are not digitally integrating their distribution into the online channels that Chinese consumers primarily use (for example, Taobao, Alibaba).</p> <p>Australian consumer goods companies need to put more planning into development of their cross-border e-commerce models.</p> <p>The opportunity to export goods to China should be taken advantage of through targeted advertising and cross-sectoral collaboration with other industries that also benefit from Chinese tourism.</p>	<b>9</b>
 <p><b>Cultural connectedness</b></p>	<p>The distribution of Australian consumer goods flows through two very different channels. The first is through partnerships with Chinese companies such as distributors, and the second is through the large number of <i>daigou</i> who source products for individual clients.</p> <p>Most cultural barriers are overcome by working with local partners who take responsibility for ensuring the customer-facing aspects of the product meet Chinese cultural and linguistic requirements.</p> <p>However, Australian businesses need to work harder to integrate and understand Chinese business customs.</p>	<b>10</b>
 <p><b>Branding</b></p>	<p>There is a need for greater awareness of Australian brands in China, which can be achieved by increased advertising and promotion done in partnership with Chinese businesses. Of Chinese visitors surveyed, 86% said they bought more Australian products after visiting.</p> <p>Australia's brand in China is closely associated with the nation's 'clean and green' environment. This results in a perception that Australian consumer goods are safe and of high quality.</p> <p>Australian brands that do well are those in which safety and healthfulness are seen as paramount, such as skin and hair care, vitamins and supplements, and baby products.</p>	<b>13</b>
 <p><b>Track record and experience</b></p>	<p>China is Australia's second-largest consumer export market, with growth of 24% per year over the last five years.</p> <p>Increased visitation by Chinese travellers to Australia is a significant driver of greater demand for Australian goods.</p>	<b>13</b>
	<b>Consumer goods China Readiness Score</b>	<b>58</b>

These three industries - tourism, education and consumer goods - are key to Australia harvesting the full economic opportunity of Chinese tourism. While each industry's China Readiness score is past the midpoint of 50, it clearly indicates each has room for improvement.

Only education scored within the 'encouraging' 16–20 range, where most barriers to participation have been removed and serious efforts to attract Chinese engagement are bearing fruit. Australian universities have a strong international reputation and have succeeded in enrolling large numbers of Chinese students. Yet there is no reason for complacency. Australian institutions face strong competition overseas; lower-ranked Australian universities, many of which are in regional areas, are in a weaker branding position.

The lowest scores are in infrastructure and planning (eight for tourism and 10 for consumer products). Tourism capacity constraints in air travel and accommodation, particularly in Sydney, will continue to be problems in the near future, though improvements in Sydney hotel capacity are expected from 2020. Consumer goods companies will benefit from closer engagement with Chinese e-commerce channels and payment systems.

All three industries need to improve cultural connectedness. Limited Australian understanding of Mandarin and Chinese customs does not appear to be actively deterring Chinese engagement, but nor does it entice visitors and commerce. Tourism operators could cater to Chinese customs, and improve Mandarin wayfinding. Universities could help students integrate with local communities to enrich their experience in Australia and improve their English language ability, while consumer goods businesses could attempt closer relationships with Chinese partners by understanding local business customs.



# Conclusion

As the Chinese market develops, there are a number of areas in which Australia needs to improve if it is to reach its economic potential within Chinese households (Figure 34).

L.E.K.'s China Readiness Scores could serve as an important benchmark of the country's progress in this area. There is also the prospect of further refining the assessment system to score the performance of individual businesses and organisations, identifying areas of weakness and tracking their improvement over time.

It is commonly accepted in Australia that our economic engagement with China has been a principal source of prosperity in recent years. It is certainly a contributing factor to Australia experiencing the developed world's longest period of uninterrupted growth, in the 26 years from 1991,<sup>49</sup> unbroken even by the financial crisis that dampened prospects around the globe from 2007 onwards.



At first glance scores in the 50's, 60's and 70's might feel like cause for disappointment. However, there is so much room for improvement. Our view is that the findings ought to be a source of excitement. Having the world's largest economy on our doorstep, which is still growing, (with GDP forecast to increase by 5.8% in 2018,<sup>50</sup>) is an extraordinary opportunity. Australia has already reaped many rewards from Chinese tourism and trade and can do even better in future.

We look forward to observing and measuring Australia's development in this area as Chinese visits to Australia continue to unfold into a deeper and more beneficial engagement between the two countries, their people and their economies.

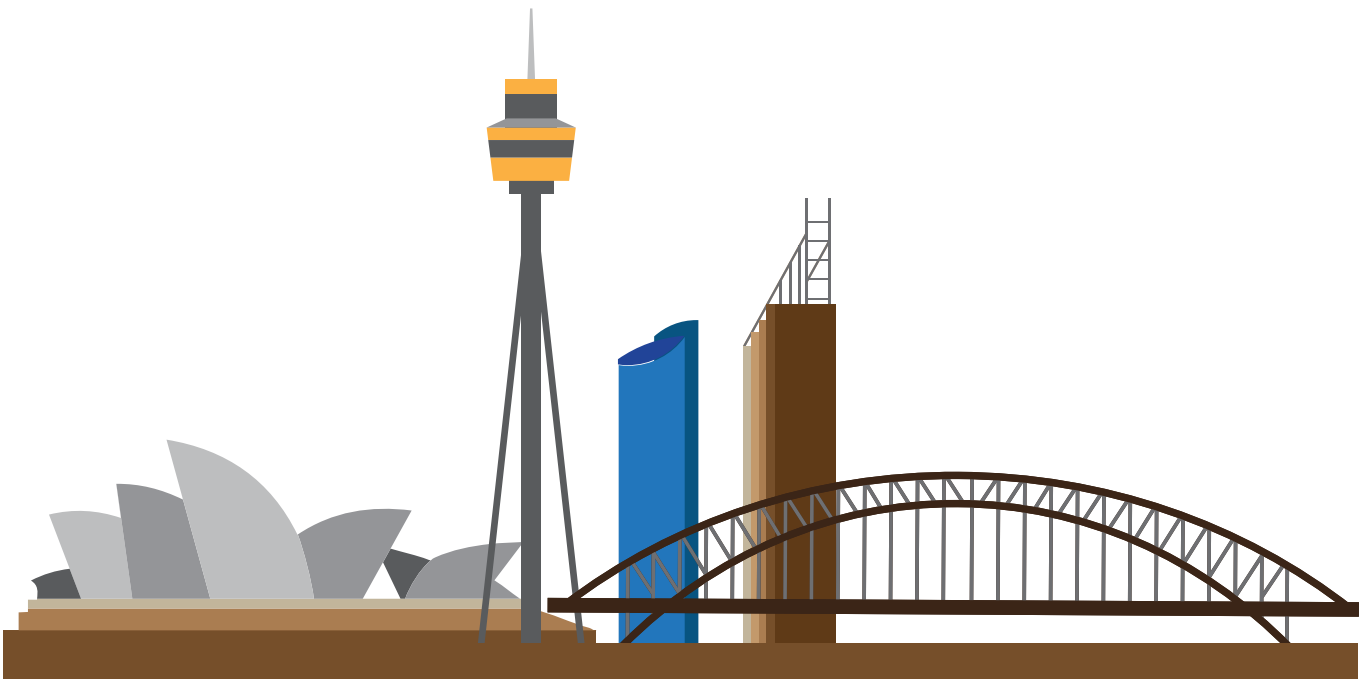




Figure 34: Improving Australia's China Readiness

How can our industries improve their China Readiness Score?				
Industry	China Readiness Score	Opportunity for improvement	What can be done?	
 Tourism	 65	Sydney constraints	> Hotel and Kingsford Smith Airport capacity constraints need to be resolved over time.	
		Regional developments	> Regional centres need more infrastructure as there is a risk they won't keep up with demand.	
		Visas	> Although recent changes have been made to visas, there needs to be greater effort to educate visitors about migration opportunities to Australia.	
		Wayfinding and payment	> Improve wayfinding with Mandarin-speaking helpers and tourist signage, and introduce payment systems Chinese visitors are familiar and comfortable with, including WeChat and Alipay.	
		Working holidays	> Increasing the number of Chinese travellers coming to Australia for a working holiday will lead to longer stays, higher expenditure and a lifetime connection to Australia	
		Demand seasonality	> Smoothing of Chinese tourism demand over the calendar year will help prevent overcrowding and capacity issues	
 Education	 72	Student experience integration	> Improve the student experience through better integration with the broader community	
		Employment/migration pathways	> There needs to be a clearer pathway for employment and migration beyond study for international students	
 Consumer goods	 58	Brand building support	> Increase awareness of Australian brands in China through targeted advertising and partnerships with Chinese businesses	
		Using Chinese online sales channels	> More Australian companies could digitally distribute via the online channels that Chinese consumers primarily use (for example, Taobao, Alibaba).	
 Regulatory awareness		Market sensitivity	> Those working with this system need to recognise the sensitivity of the Chinese market to regulation.  > An important point of difference in the Chinese market is that government advisories can trigger a wider and faster response among consumers than in Western markets.	

# Appendix

## Surveys

### Chinese resident survey

Our bespoke survey interviewed 2,012 Chinese residents who have travelled to Australia in the last three years, from both Tier 1 and Tier 2 cities (Figure 35). The survey was completed in Mandarin.

The current edition of the resident survey is more representative of the Chinese population as a whole than the one conducted in 2016 for the first annual edition of this report:

- 2,012 Chinese residents were surveyed as part of the campaign, compared to 514 respondents in the first edition survey.
- 60% of the respondents live in Beijing, Shanghai and Guangzhou.
- 88% of respondents travelled to Australia on temporary visas, compared to 81% in the first edition resident survey.

### Chinese student survey

This covered 301 Chinese students currently studying in Australia who were both born in China and hold Chinese citizenship (Figure 36).

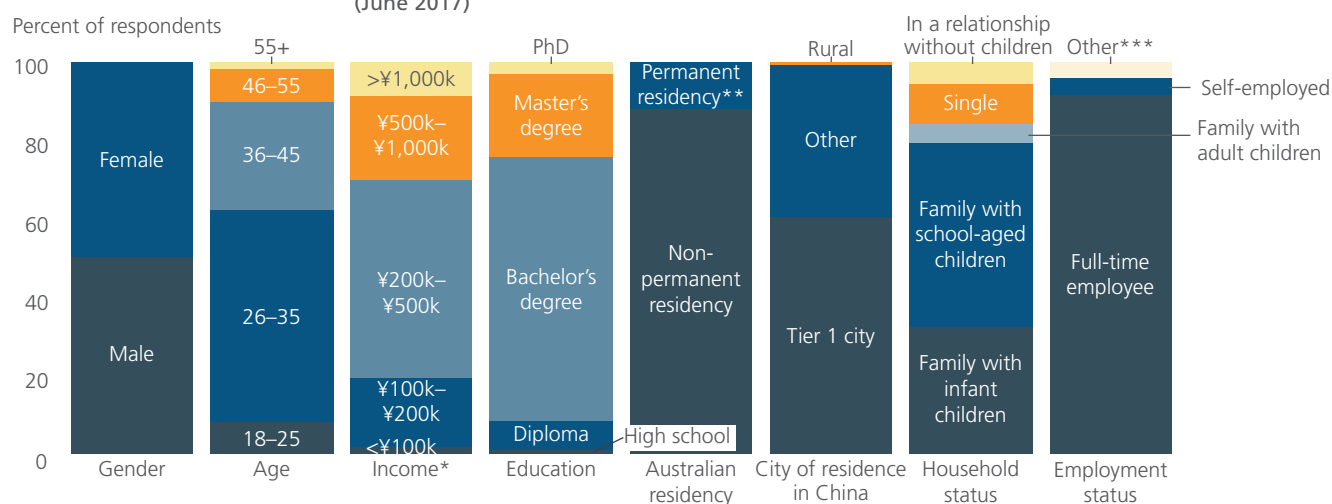
The students were from a geographically diverse set of universities, including the University of Adelaide, the University of Melbourne, RMIT University and the University of Sydney.

Of these students, 37% are from Beijing, Shanghai and Guangzhou, with the balance coming from other cities in China.

### Senior consultation interviews

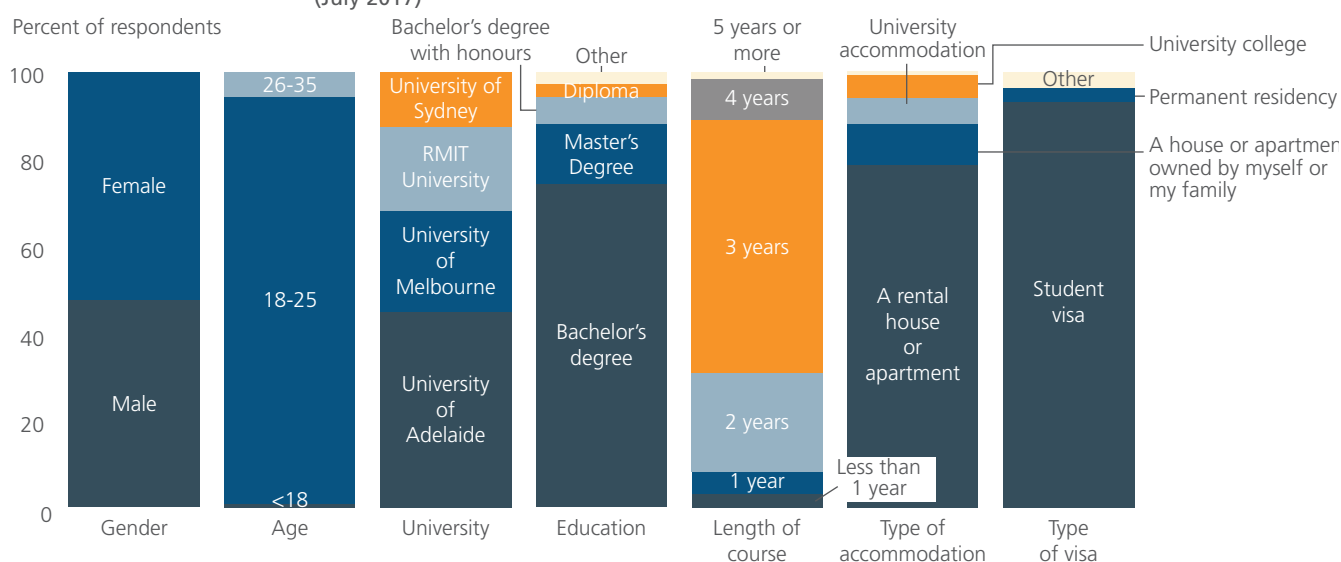
Approximately 20 senior executives/leaders from the accommodation, airports, aviation, government, tourism, education and the life sciences sectors were interviewed on a confidential basis. Their views and first-hand experiences were used to form our findings.

Figure 35: Demographics of L.E.K. resident survey respondents (June 2017)



\* Annual household income before tax; \*\* Entered Australia using an Australian passport or permanent residency visa; \*\*\* Other includes Part time employee, Student, Retired and Not employed

Figure 36: Demographics of L.E.K. Chinese student survey respondents (July 2017)



Source: L.E.K. China Students survey



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