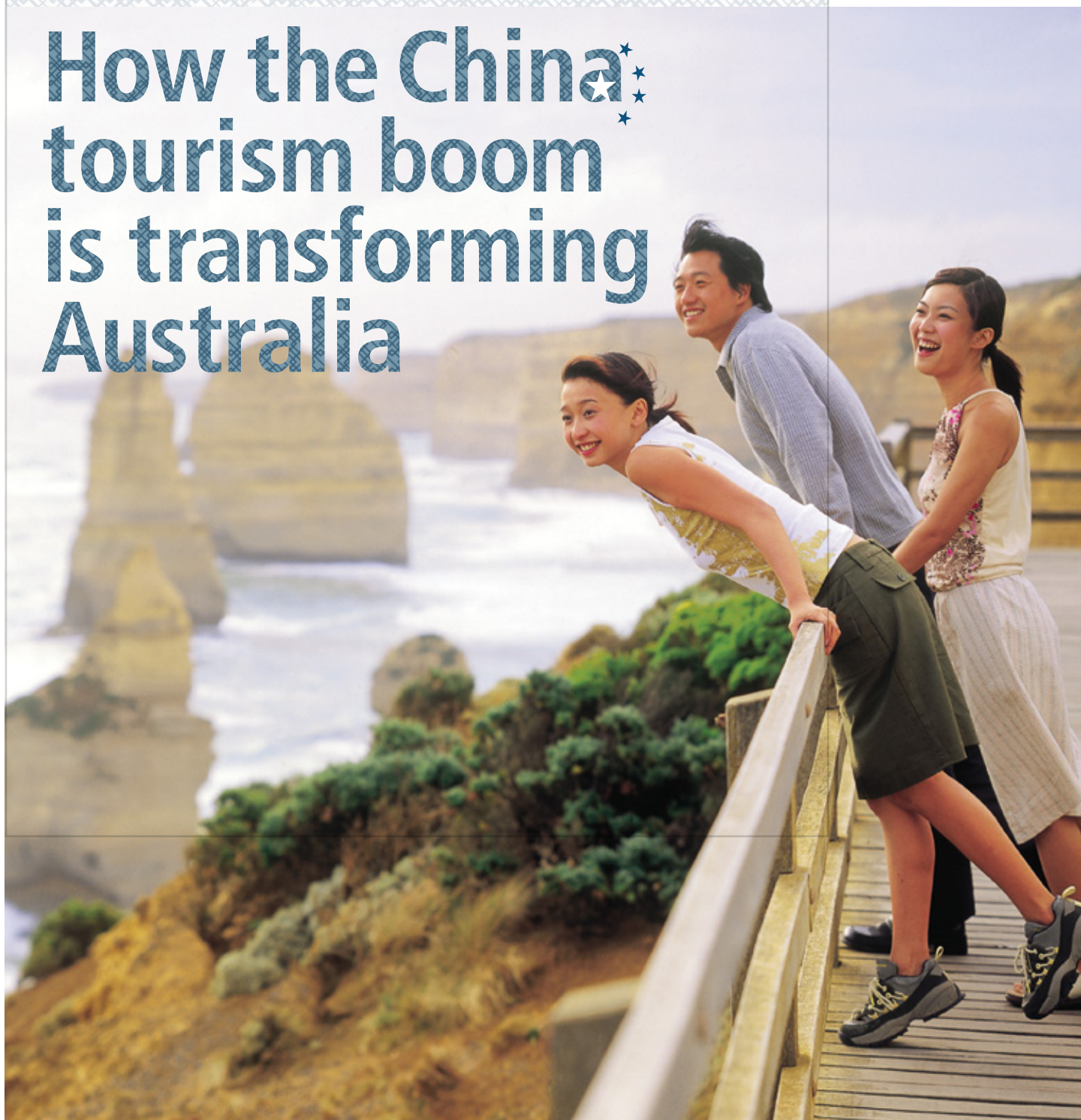


L.E.K.

Enter the dragon:

How the China[★] tourism boom is transforming Australia



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

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Jacobs Creek, Barossa Valley, SA
Credit: Tourism Australia
Photographer: Adrian Brown

Cover: Twelve Apostles, Great Ocean Road, Vic.
Credit: Tourism Australia
Photographer: Richard Powers

Message from John Brumby

Chairman, Australia China Business Council



"I am delighted to support this important research paper from L.E.K. Consulting on the broader impacts of Chinese tourism for the Australian economy. The report offers fresh insights into the nature of Australia's emerging China trade, and the linkages between tourism and sectors like education, real-estate investment, business investment and the export of Australian produce. Better understanding these linkages will be a key driver of success in Australia's trade relationship with China, and makes this paper important reading for government and business leaders. I congratulate L.E.K. on this distinctive and insightful research initiative."

About the author



Simon Barrett is the chairman and a senior partner of L.E.K. Australia with over 25 years of experience advising governments and the private sector on transport, tourism and economic development. He was previously the regional head of L.E.K. in Asia and has worked intensively across the Australia-Asia region and Europe throughout his career.

Simon's primary focus is on transport and tourism; he develops influential strategy for aviation, airports, passenger transport and related tourism operators. He has deep expertise leading public policy, long-term planning, commercial strategy, M&A, organisational design and operational performance improvement projects. Simon has also led national and state level reforms over the last 15 years.

Simon is a member of the Transport and Tourism Forum's advisory board, and chairman of its passenger transport panel. He has a BSc from Melbourne University and a PhD from Cambridge, where he was a Cambridge Australia Trust scholar.

We acknowledge the support of the Australia China Business Council.



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Overview

Chinese tourism represents a large and growing opportunity for Australia. Understanding how the experience of Chinese tourists translates into broader economic opportunities for Australian offerings and exports is key to unlocking the full value of the Chinese travel and tourism market.

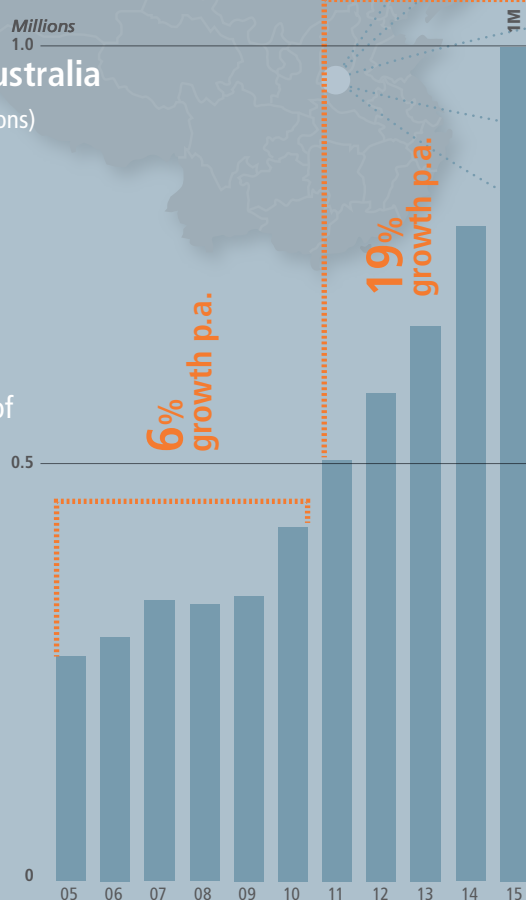
46%
of Chinese visitors
to Australia are
repeat visitors.

Chinese
visitors to Australia
2005–15 (millions)

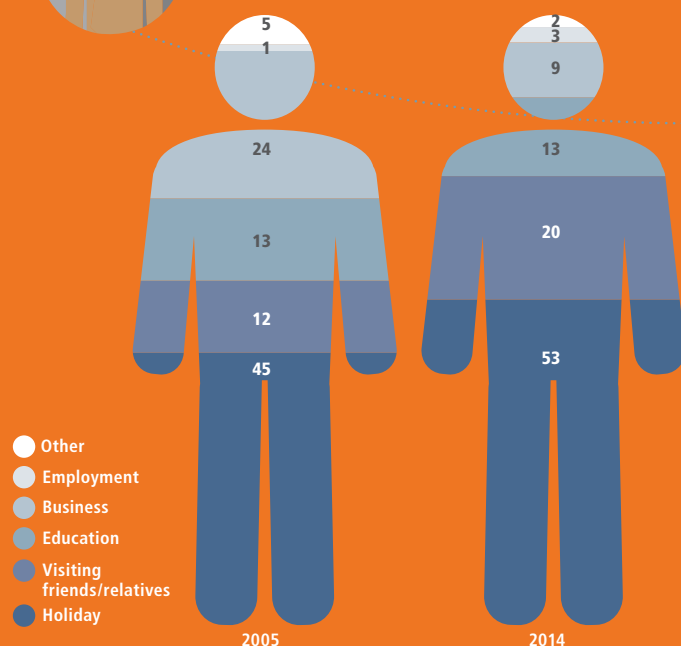


19%

Annual growth of
Chinese visitors
to Australia
2011–2015



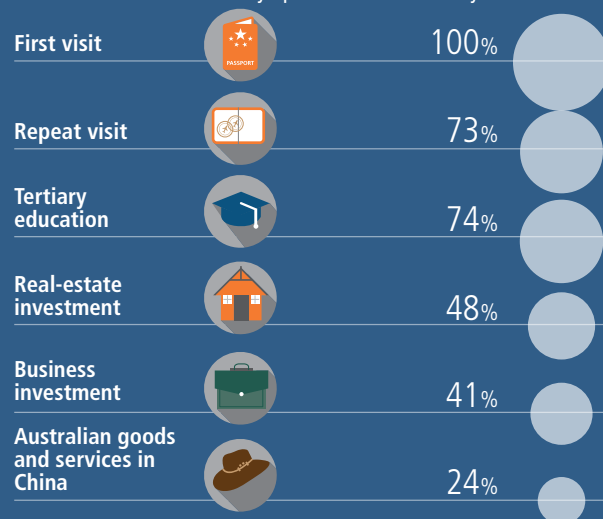
Chinese visitors to Australia
by category 2005–14 (percent)



Illustrative potential value of
Chinese visitors' economic engagement
with Australia, based on stated intentions,
2015 and 2025



Percentage of visitors who have pursued or "would probably or definitely" pursue further activity with Australia



*Source: Tourism research Australia international visitor survey; AusTrade; L.E.K. research.

20% of visitors say they already have Australian permanent residence (PR), even though they live in China.

50% of visitors say they "probably or definitely will pursue deeper economic engagement."

85% of these visitors said that their visit was "very influential" in shaping their attitude toward future economic engagement.

Visitors are more likely to buy Australian products and services after they return to China, with their average annual spend rising by **40%** after their trip.

Average spend per visitor by country of origin 2014 (A\$)

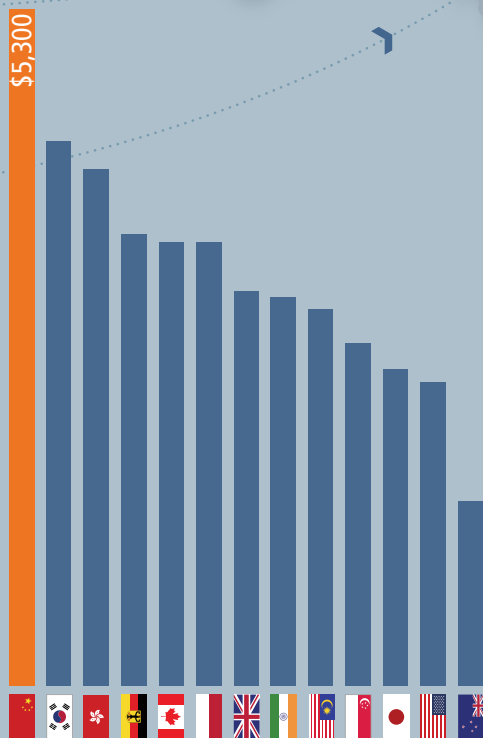


\$5,300

Average spend
(includes short-term education)

\$3,800

Average spend
(when excluding short-term education)



In tourism, Australia only has a 1% share of Chinese travelers, but it holds an outsized share in a number of other areas.



In wine, Australia has a 14% share of Chinese imports by volume but a 23% share by value, indicating premium positioning.



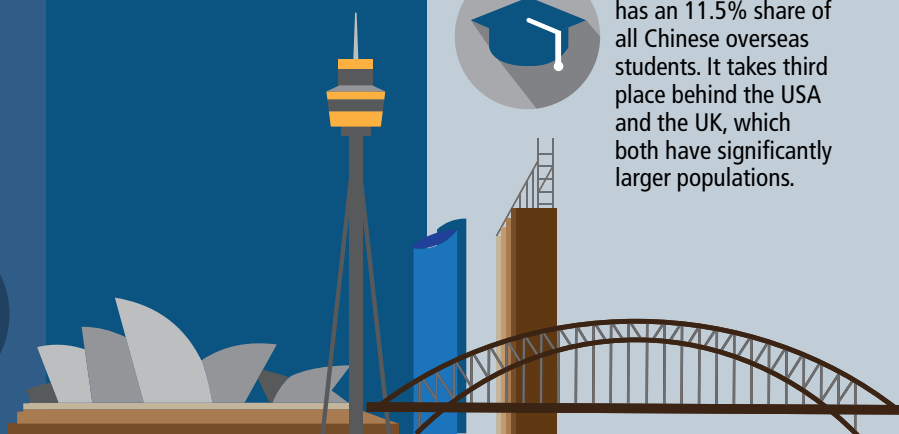
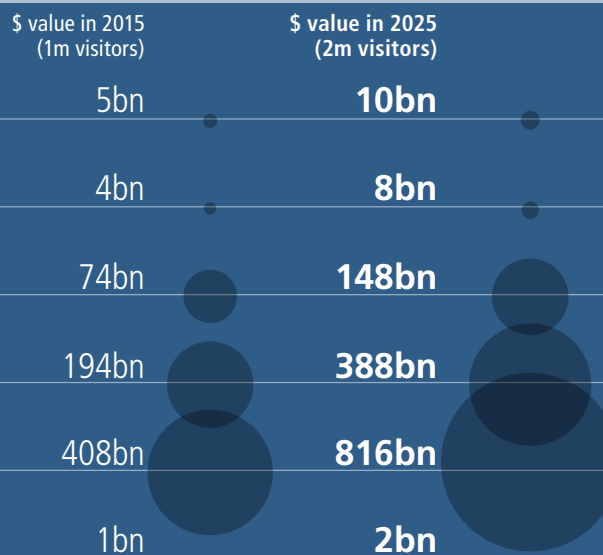
In beef, Australia has a 40% share of the Chinese import market, worth \$750m per year.



In vitamins and supplements, Australian firms have already reached \$230m per year in sales to China, with Blackmores alone reaching \$100m in 2015.

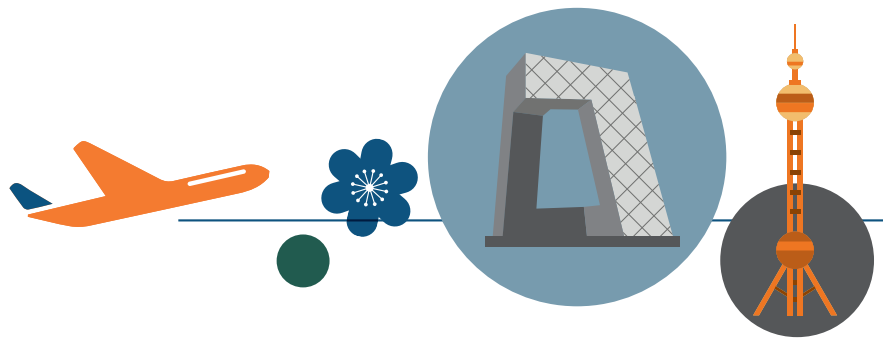


In education, Australia has an 11.5% share of all Chinese overseas students. It takes third place behind the USA and the UK, which both have significantly larger populations.



Executive summary

China is now Australia's largest trading partner.¹ Two-way trade between the two countries amounted to \$150 billion in 2014–15 and accounted for the largest single-country share of Australia's exports (28%) and imports (17%).²



In the aftermath of the commodities boom, Australian exports to China are now becoming more diverse. There is strong growth in the export of services such as education and tourism, and growing Chinese investment in Australian real estate, infrastructure and different types of businesses.

Growth in tourism has been particularly strong. Visitor arrivals from China hit 1 million per year for the first time in 2015, on the back of 19% annual growth between 2010 and 2015.³

The recently signed China–Australia Free Trade Agreement (ChAFTA) is likely to further accelerate trade growth, with tariff reductions and other changes offering considerable potential for sectors including agriculture and health to benefit from reduced trade barriers. Australia already has an outsized market share in some specific imports to China, including wine, beef and vitamins.

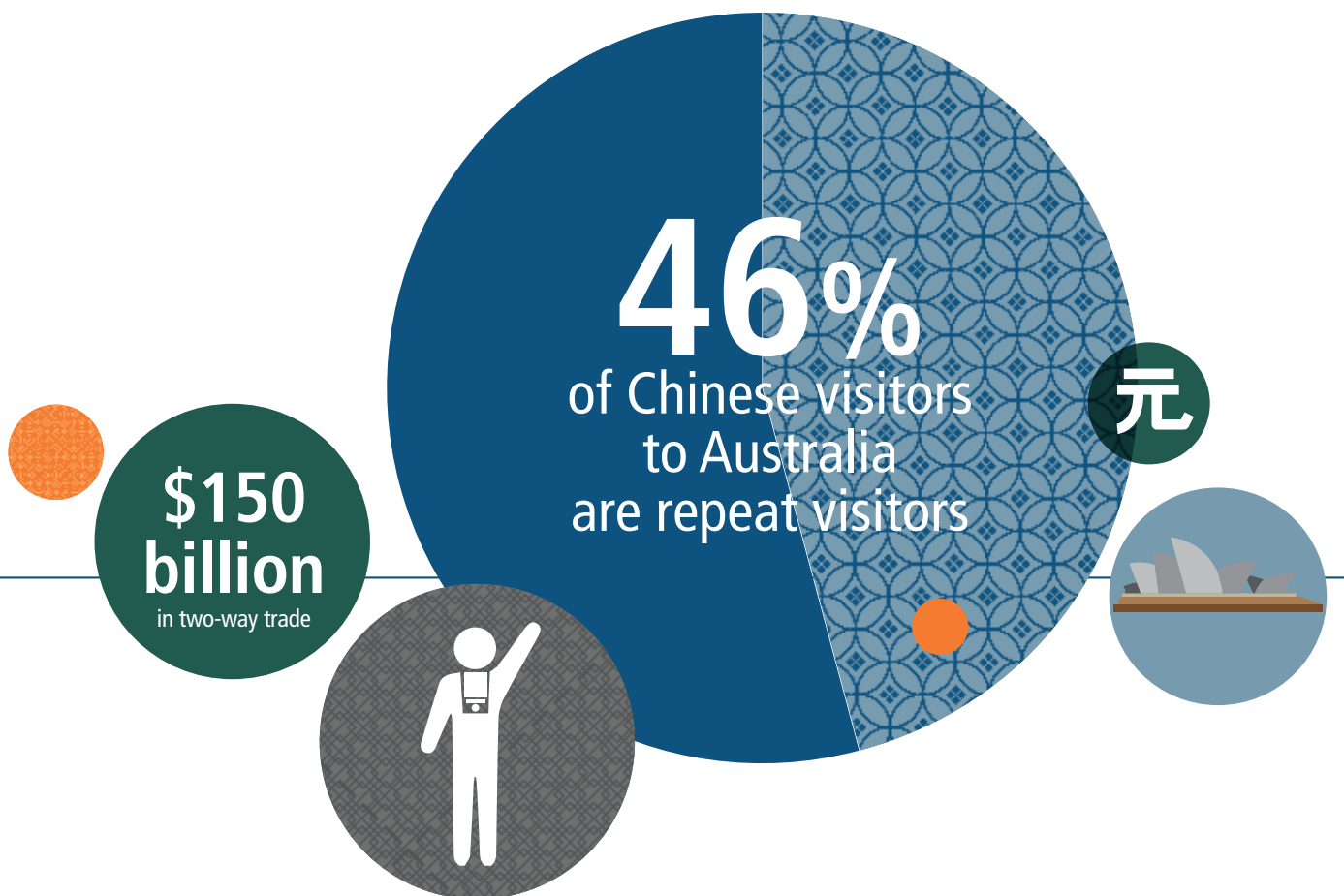
An emerging risk for Australian policymakers and businesses is that they could fail to adequately take into account the very strong linkages between some of these trade sectors. There is a danger that if each industry views its trade with China in isolation, collectively they could fail to capitalise on the full business opportunity and on potential synergies.

Other countries that do a better job of taking a holistic approach to China trade would then gain a greater share of business with the world's largest economy.

By undertaking a targeted survey of Chinese residents who have visited Australia in the past three years, L.E.K. Consulting has established that there are already very powerful links between Chinese tourism and other sectors of the Australian economy, which are not yet well understood.

Key findings include:

- 46% of Chinese visitors to Australia are repeat visitors.
- A significant proportion of visitors—20% of our survey sample—already say they have Australian permanent residence (PR), even though they live in China. This group has an especially high propensity to participate in education in Australia, and to invest in real estate and businesses.
- A large proportion of all Chinese visitors say that they “probably” or “definitely” will pursue deeper economic engagement with Australia through either tertiary education (64%), real-estate investment (43%) or business investment (38%).



- Of those who “probably or definitely” intend to engage further, 85% said that their visit to Australia was “influential” or “very influential” in their decision-making.
- Visitors are more likely to buy Australian products and services after they return to China, with their average annual spend rising by 40% after their trip.
- Given that Chinese tourism numbers are expected to continue to grow strongly, projections see at least 2 million Chinese visitors to Australia each year by 2025. Their visits will provide an extraordinary opportunity to showcase Australia’s products and services, which will help accelerate overall trade growth if properly utilised. If even a small proportion of the visitors who say they will pursue deeper economic engagement in Australia follow through on their intentions, it will be worth many tens or even hundreds of billions of dollars to the Australian economy over time.

In light of this, government and businesses need to:

- invest more in ensuring Australia can continue to attract Chinese tourists
- devote attention to giving Chinese tourists a positive experience by improving visa processes, airports, hotels, public transport and so on
- capitalise on the promotion opportunities these visits create for other sectors, such as education, investment, and the export of goods and services
- ensure that institutions, regulatory frameworks and infrastructure are adequately prepared for the high demand that is anticipated

Booming visitor numbers herald an economic windfall for Australia



L.E.K. Consulting recently undertook a survey of Chinese visitors to Australia, with the aim of quantifying the wider potential impact of their tourism on the Australian economy in the medium to long term.

The results of this research have borne out the hypothesis that inspired it: that the immediate economic benefit of Chinese tourism, in terms of revenue for tourism-related businesses and retailers popular with visitors, is in fact only the first sign of a massive trade opportunity for Australia. The evidence we gathered supports the further observation that present trends in Chinese tourism have significant implications for business and for policymakers. Put simply, Australian government and industry need to change their view of tourism, and particularly Chinese tourism, in accordance with the true magnitude of the opportunity.

The nature of Australia–China trade is changing

Australia has long been known as an exporter of natural resources and agricultural commodities. Iron ore, coal, natural gas, gold and beef are major export earners, joined by education and tourism in the list of Australia's top 10 export industries (Table 1).

Of this trade, a significant amount is dominated by China, now Australia's largest trading partner. The two countries exchanged two-way trade worth \$150 billion in 2014–15 (Table 2).⁵ China accounts for 28% of Australian exports and 17% of Australian imports—the largest shares of any country. The 2014 *Australia–China Trade Report*, sponsored by the National Australia Bank and issued by the Australia China Business Council, estimated that 200,000 Australian jobs were linked to trade with China in 2011,⁶ a figure that will only have grown in the past five years.

The *Australia–China Trade Report* also observed that:

The engine of growth is shifting from resources to other sectors and industries. Australian non-resources exports to China are growing in agriculture, manufacture and services. Twenty percent of Australian non-resources exports go into Chinese final consumer markets... Chinese demand for premium and high quality Australian food products, such as beef and meats, has increased dramatically in the last two years.⁷

This report focuses on the role Chinese tourist visits to Australia are playing in this evolution of the Australia–China trade relationship.

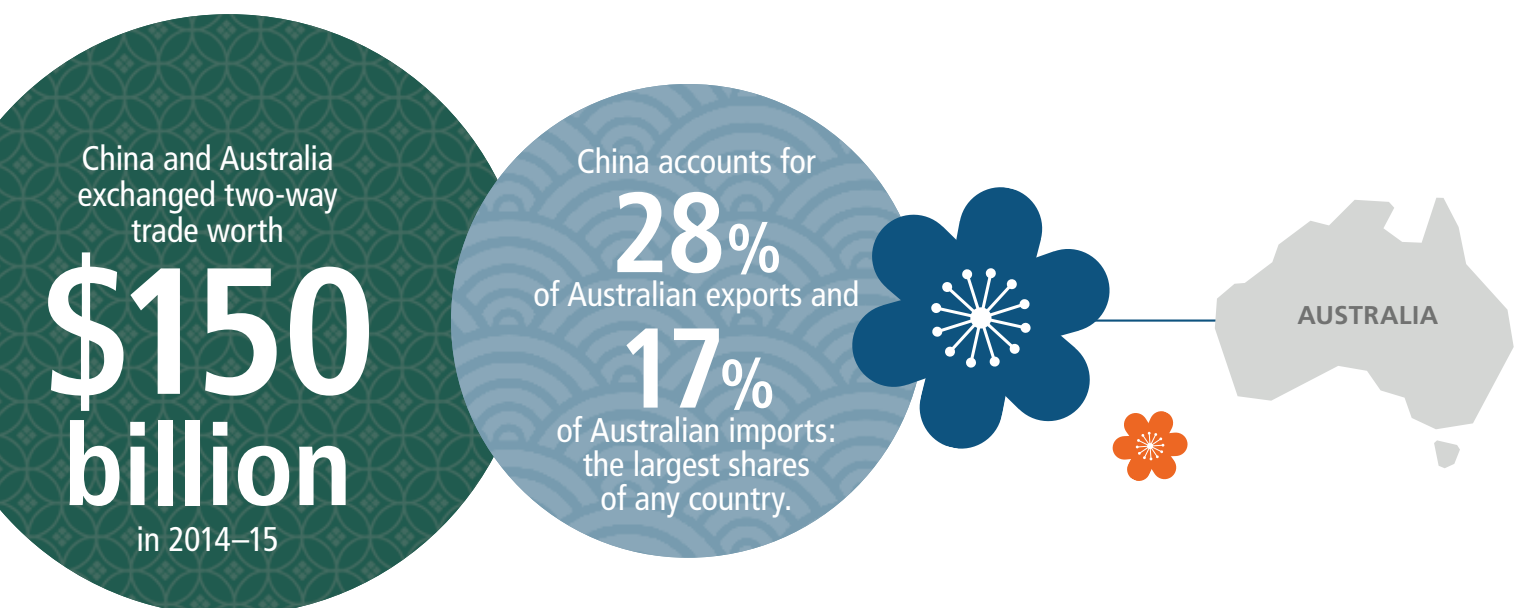


Table 1: Top 10 Australian export industries (Source: DFAT, "Australia's Trade")

2014-15 (A\$ billion)

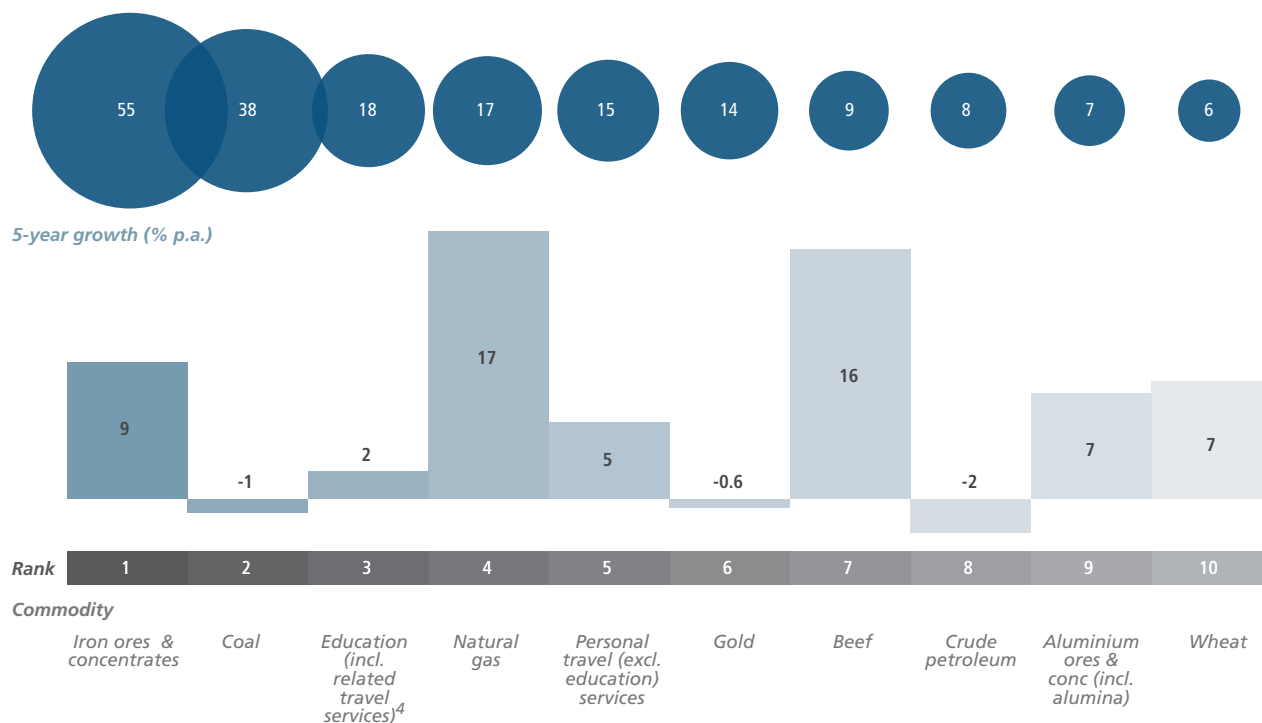


Table 2: Australia's top two-way trading partners (Source: DFAT, "Australia's Trade")

2014-15 (A\$ billion)

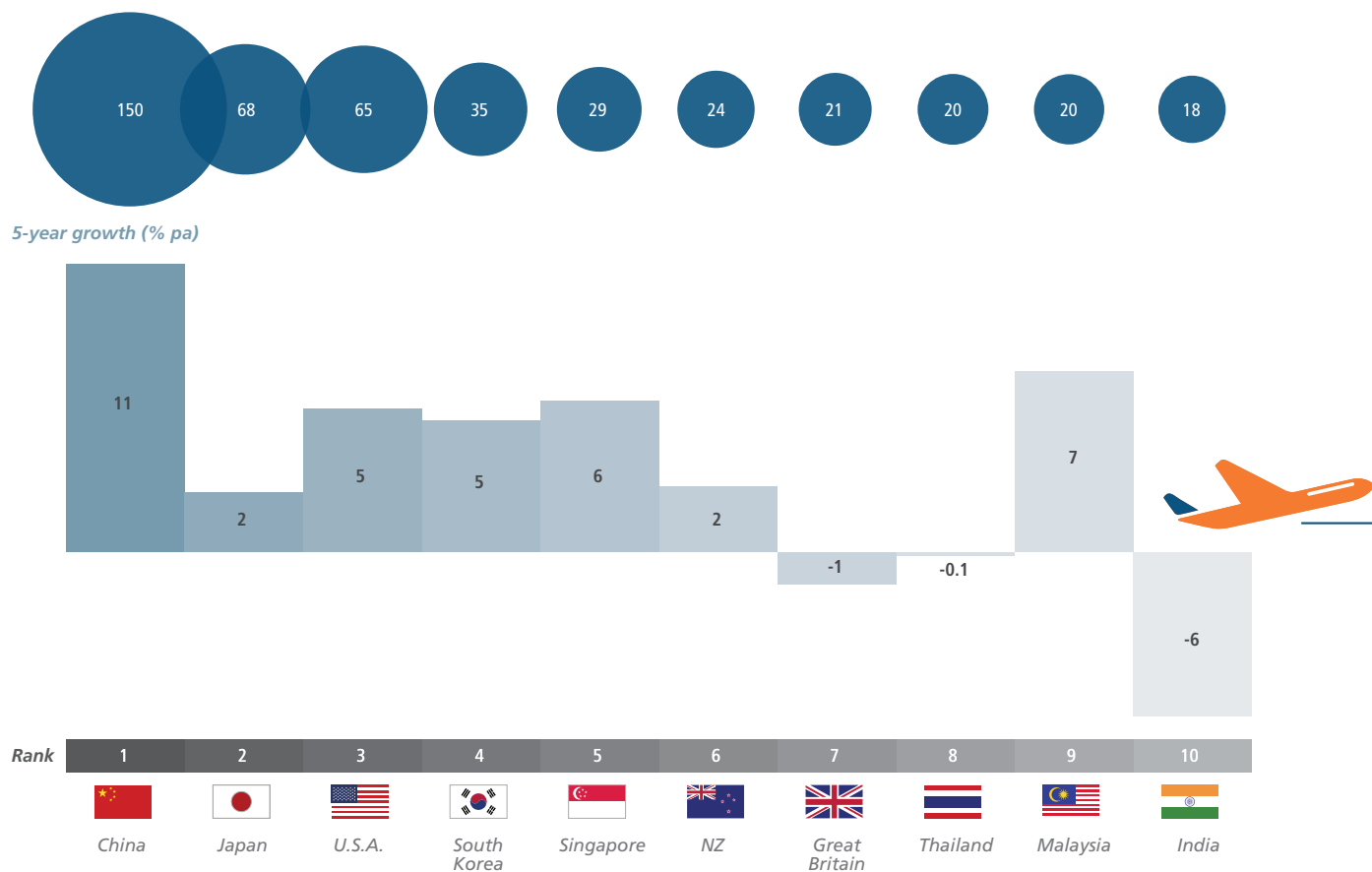
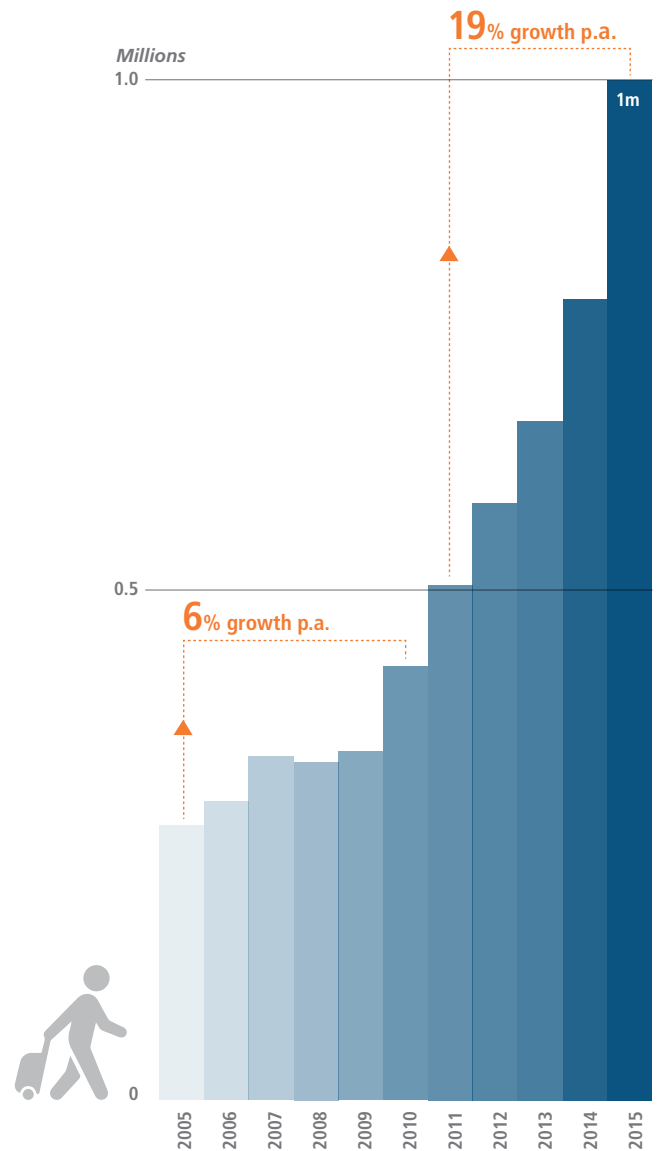


Figure 1: Chinese visitors to Australia 2005–15



Outbound tourism is growing rapidly

Driven by rising levels of household income, Chinese overseas tourism is surging. In 2015, Chinese residents made an estimated 120 million visits to foreign destinations.⁸

As part of this phenomenon, Chinese visits to Australia have been growing incredibly strongly over the past decade. Though this may seem an obvious trend, many may not yet fully appreciate the extraordinary speed at which it is occurring. From 2005 to 2010, Australia saw steady growth in Chinese visits of around 6% per year.⁹ But between 2010 and 2015, the rate of increase has been 19% per year. Australia reached 1 million Chinese visitors per year for the first time in November 2015.

This growth is expected to continue, though perhaps at a slightly slower pace. Australia is only just holding its share of total Chinese outbound travel at around 1%. However, its share of Chinese long-haul travel has actually fallen slightly, from 7% in 2009 to 6% in 2014. Still, we can reasonably expect Australia to hit 2 million Chinese visitors per year by 2025.

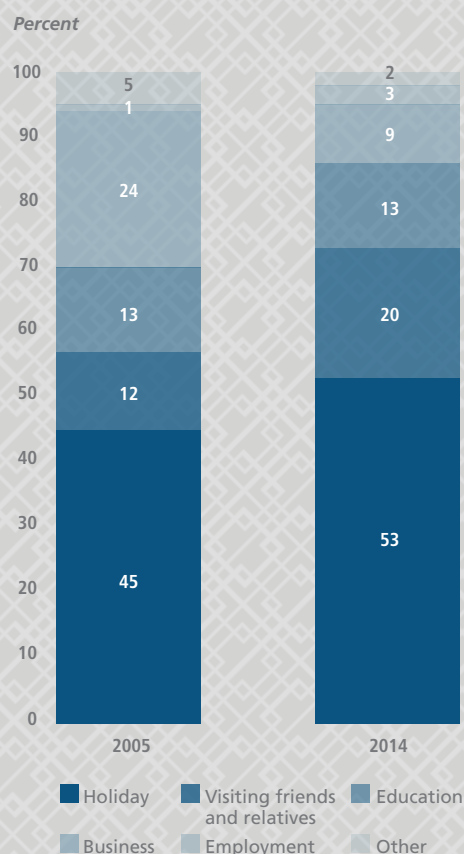
The growth in Chinese visits to Australia is itself a great story and opportunity, but it also has much broader implications.

**Education
and tourism**
are in the top 5
Australian export
sectors

Just one of the well-known but unexpected effects of increased Chinese tourism is that Australian businesses manufacturing vitamins, minerals and other dietary supplements have seen a major upswing in sales to Chinese customers. While some of these sales are to intermediaries who make a business of buying such products in Australia and shipping them to China, many are simply to tourists “clearing the shelves” while travelling.

As we begin delving further into these wider implications, it is worth recounting some of the most crucial facts and figures related to Chinese tourism. These reveal important nuances behind the headline stories about growth in Chinese visits to Australia.

Figure 2: Reasons for Chinese visits to Australia, 2005 and 2014



Chinese visitors come to Australia for varied reasons

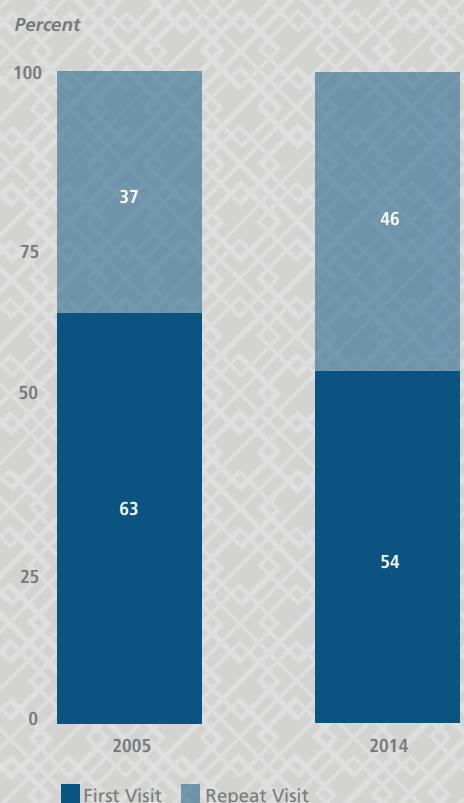
One of the most interesting things to consider about Chinese visitors to Australia is *why* they come. These reasons do not differ greatly from why the Chinese visit other countries, but they are changing.

- 53% of visits are for holidays and tourism
- 20% are to visit friends and relatives (VFR)
- 13% are for education: these numbers are holding steady¹⁰

Business visits are holding steady in absolute numbers but have reduced significantly as a proportion of total Chinese visits to Australia, going from 24% of total visits in 2005 to 9% in 2014. At the same time, visits for holidays and VFR have each grown in share by 8 percentage points (Figure 2).¹¹

The data also shows that when Chinese visitors come to Australia, they like to come back, and rates of repeat visitation are increasing. Today, 46% of Chinese visitors are repeat visitors, up from 37% in 2005 (Figure 3).¹² This is already higher than for Koreans (33%) and Germans (41%), and looks set to overtake the repeat visitor rates for Japan (46%) and the United States (47%) in the near future. While the positive experiences that these repeat visitors have had when first in Australia are likely to be a large part of why they return, we should also consider the role of more deeply established economic engagement. Repeat visits to friends and relatives, for instance, may be the result of a family having sent a child, or multiple children (across an extended family), to Australian universities.

Figure 3: Chinese repeat visits to Australia, 2005 and 2014



46%
of Chinese travellers
arriving in Australia
are repeat visitors

Figure 4: Average spend per visitor to Australia by country of origin, 2014

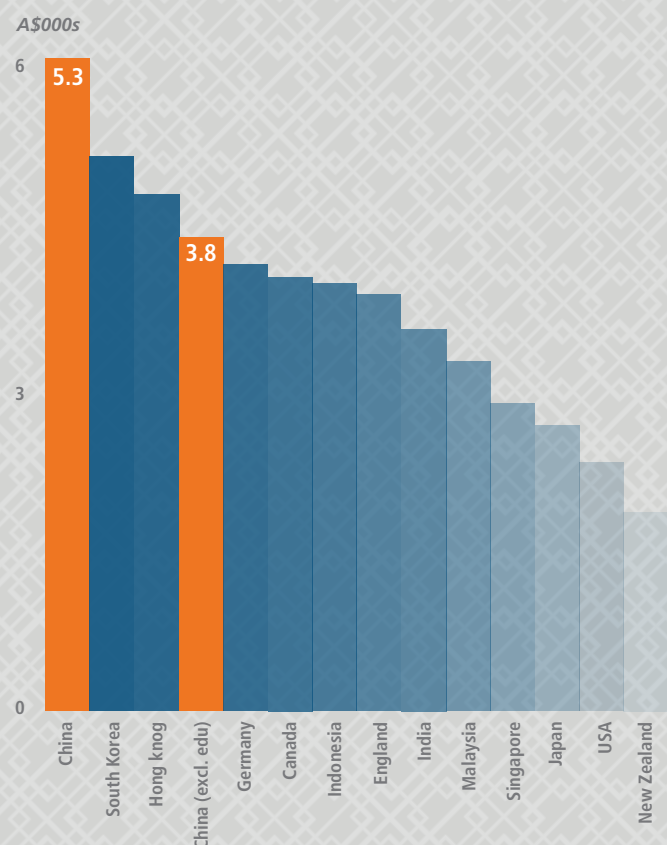
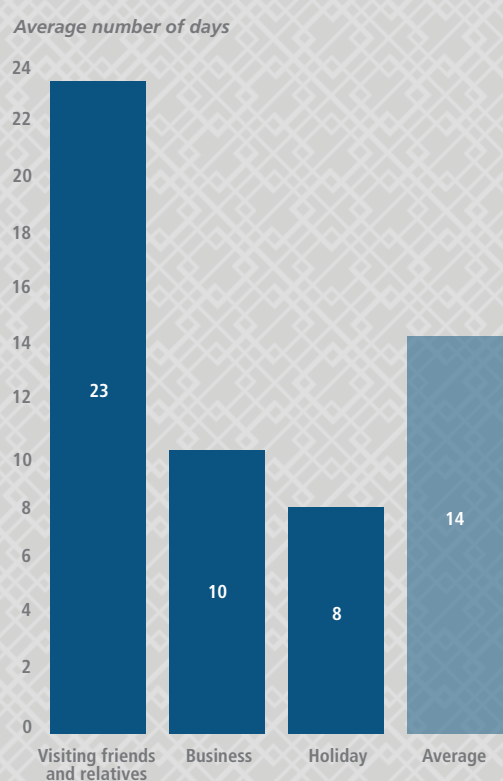


Figure 5: Length of Chinese visitors' stays in Australia, by purpose, 2014



Source: Tourism Research Australia; L.E.K. research and analysis

Another striking observation is that relative to visitors from other countries, the Chinese are big spenders, averaging \$5,300 per visit (Figure 4). This is significantly higher than for some countries with much higher nominal GDP per person: visitors from the United States average \$2,377 in spending, and those from Japan \$2,472. However, we cannot take the Chinese spending figures at face value: excluding short-term education (such as language classes), the figure drops to around \$3,800.¹³ Nevertheless, this is still a significant value for each visitor.

On average, Chinese visitors stay in Australia for two weeks, a figure that sits between the average holiday visit of 8 days and the average VFR trip of 23 days (Figure 5).¹⁴ This gives us another point of comparison with visitors from other countries. For instance, the average American visitor stays for a similar period—13 days. Yet the Chinese spend is much higher, even when education is excluded. This looks to be a result of Chinese visitors' propensity to shop while visiting Australia: shopping accounts for 28% of their spending. Chinese consumers are known to place especially high value on the trustworthiness and quality of Australian goods. In contrast, visitors from the United States and similar countries may shop less because they know they have reliable and affordable access to similar goods at home.¹⁵

We are also seeing the nature of visits changing; anecdotal reports suggest the visitor mix is shifting to favour independent travellers rather than tour groups.

It is instructive to assess how Australia is faring in its competition to attract Chinese tourists. Around 120 million Chinese travelled last year, and Australia's share was around 1 million, or 1%. This percentage share has remained roughly steady over the last five years even as the absolute number of total visitors has risen, from around 356,000 in 2009 to the 2015 figure of 1 million.

But looking at this from a slightly different perspective, Australia's share of long-haul travel from China (which excludes countries in north-east, south-east and central Asia) has fallen slightly from 7% to 6%. Other markets, including long-haul destinations like the United States and Switzerland, and short-haul destinations such as South Korea and Thailand, have gained share. Factors influencing this could include the easing of visa requirements for Chinese visitors in the United States and Europe, the popularity of Europe as a luxury shopping destination, and the strengthening of the yuan against the euro. Australia is not the only country that sees value in attracting Chinese travellers, and it will have to work hard to maintain or grow its share of the increasing numbers.

Even as airline capacity grows to meet demand, more direct services are established between Australian and Chinese cities, and tourism businesses benefit from the ongoing surge in arrivals, the boom in Chinese visits will create new pressures. Infrastructure may be strained, and key tourism sites could struggle to accommodate visitor volume. Perhaps most crucially, Australia may find it difficult to supply sufficient labour with the Chinese-language skills and cultural knowledge needed to deliver these visitors a compelling, high-quality experience that encourages them to return and to deepen their economic engagement with Australia. One recent study estimated that there were only 130 Mandarin speakers in Australia, of a non-Chinese background, that were proficient enough to teach it effectively or to conduct an entire business meeting in the language (“Australians’ Chinese-language Skills are Lagging”).

Australians’ Chinese language skills are lagging

“The current number of proficient adult speakers of Chinese in Australia of non-Chinese background is 130 at most, and half of those are already over 55 years of age. Obstacles and disincentives discourage non-Chinese students from taking up or persevering with Chinese as a second language, to the point where only 5 per cent of those who enrol in it at secondary school continue it to year 12. Last year, there were 400 year 12 students of Chinese as a second language – 20 per cent fewer than in 2008.”

“Australians are too Lazy to Master Chinese,”
Jane Orton, *Sydney Morning Herald*, 15 March 2016



Australia’s
40% share of
Chinese beef imports
is worth

\$750m
per year

Tourism is linked to other industrial sectors

In Table 1, we saw the top 10 categories of Australian exports. These are a mix of natural resources, services, agricultural commodities and manufactured goods.

While Australia only has a 1% share of Chinese tourism, it holds an outsized share in a number of other areas:

- In **wine**, Australia has a 14% share of Chinese imports by volume but a 23% share by value, indicating premium positioning.
- In **beef**, Australia’s 40% share of the Chinese import market is worth \$750 million per year.
- In **vitamins and supplements**, Australian firms have already reached \$230 million per year in sales to China.
- In **education**, Australia has an 11.5% share of all Chinese overseas students. It takes third place behind the USA and the UK, which both have significantly larger populations.



The vitamin export story

"Consumers in China have flocked to online sites such as Alibaba, while Chinese tourists and entrepreneurs visiting Sydney and Melbourne are cleaning out the vitamins section on the shelves of chemist warehouses and supermarkets to take bottles back home.

After a series of contamination scares in China involving milk powder, frozen berries and infant formula, the Blackmores name has been latched onto by shoppers in Shanghai and Beijing as a bastion of 'clean and green' quality and trust.

The demand for Australian vitamins is also helping other firms such as Swisse Wellness, which has experienced a strong profit surge. Even some of the almost forgotten names in healthcare have benefited. The Faulding brand, with smart new packaging for a range of vitamins and probiotics, produced a 29 per cent surge in sales in 2014–15 for its owners, the Australasian firm EBOS Group."

"Supercharging Blackmores Vitamins Profits via Chinese Celebrities Li Na and Fan Bingbing," Simon Evans, *Sydney Morning Herald*, 25 August 2015

A range of vitamins and probiotics produced a

29%

surge in sales in 2014–15 for its owners, the Australasian firm EBOS Group



In all these areas, trade is growing strongly. Chinese investment in Australia is also significant, with the main destinations being business acquisitions and real-estate. The ChAFTA will only accelerate the growth we have been seeing in both trade and investment.

While China–Australia trade flows in individual industries are understood increasingly well, the links between them, and the links with Chinese tourism (Figure 6), are topics on which there has yet been little research.

Our campaign of targeted market research, including the survey that is the centrepiece of this study, has sought to uncover the relationships between Chinese visits to Australia and other types of economic activity. This is a first step towards establishing a formal base of knowledge on this important topic.

Figure 6: The complex links between Chinese visits, trade and investment

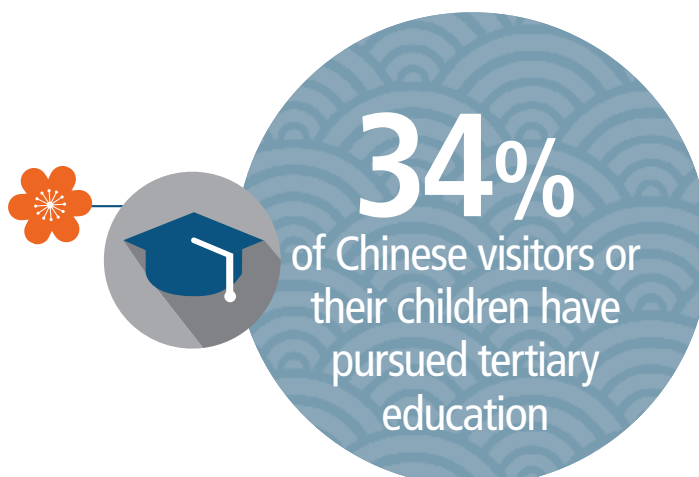
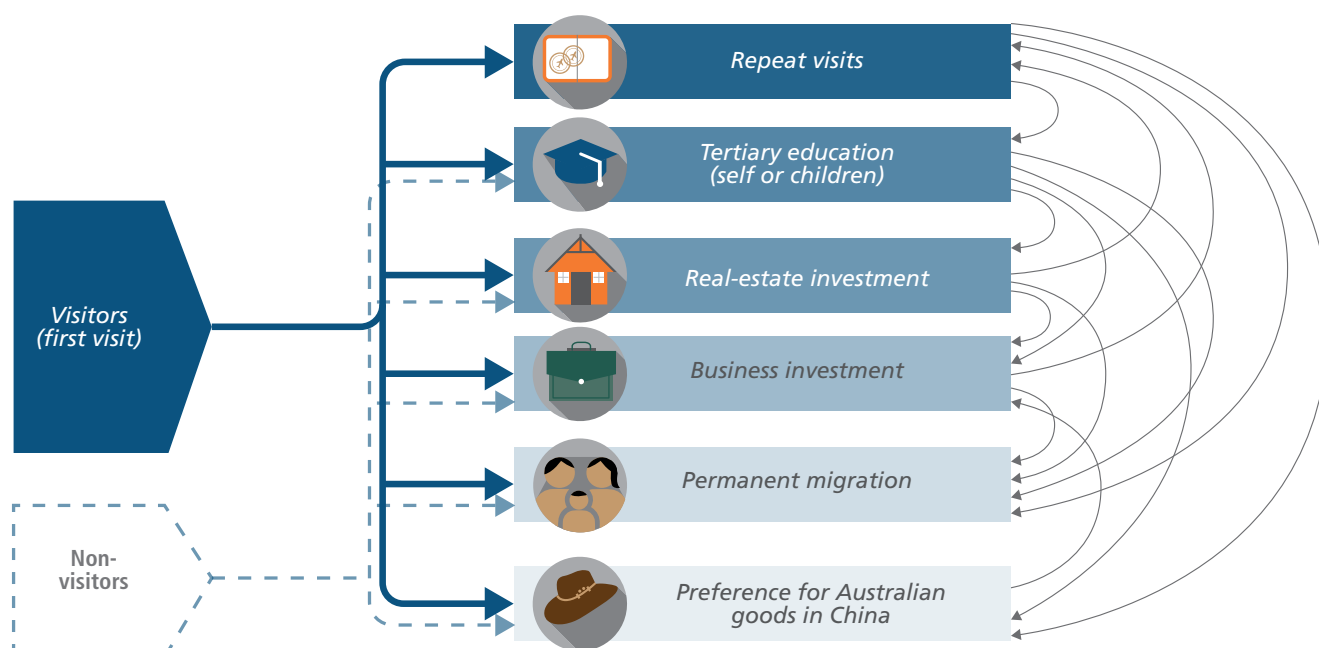
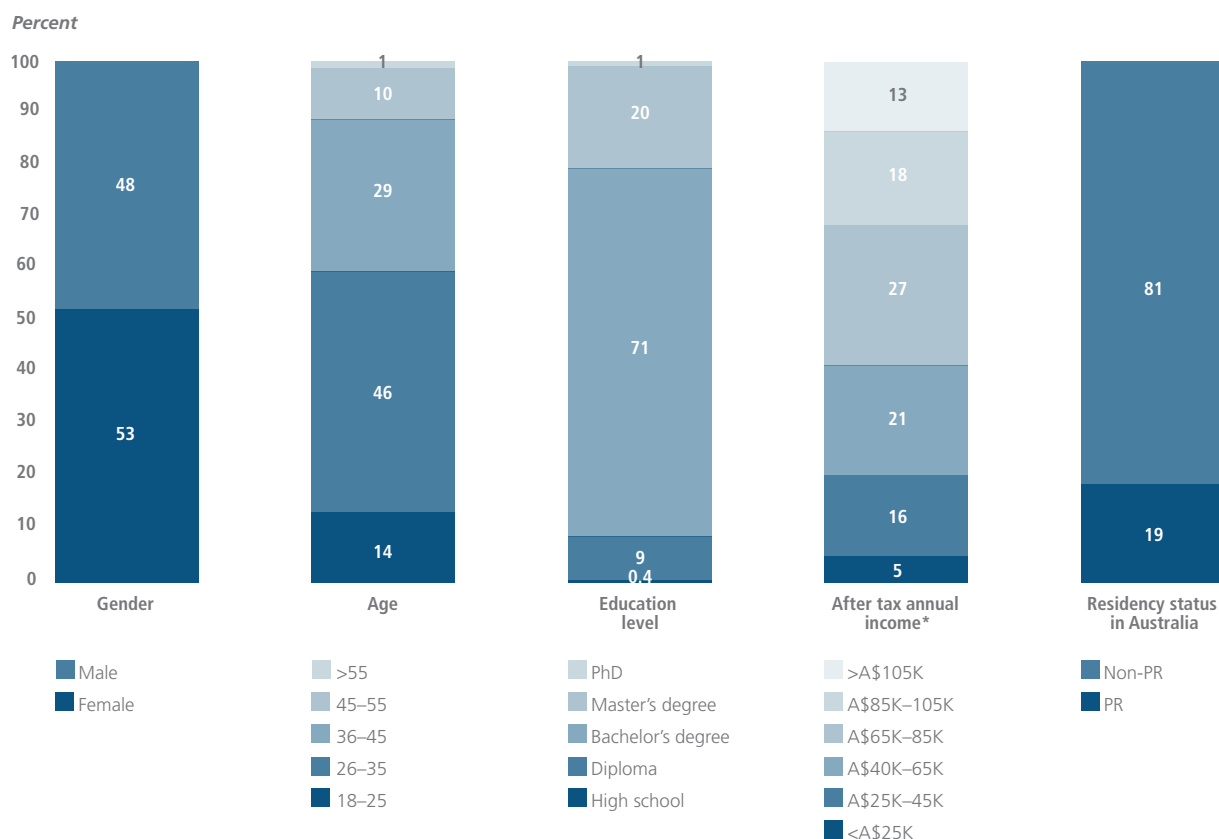


Figure 7: Survey respondent demographics



About the L.E.K. survey

In the first quarter of 2016, we conducted a survey of 514 recent Chinese visitors to Australia. The aim was to understand their existing and potential levels of economic engagement *beyond tourism*. We wanted to quantify the likelihood that these visitors would pursue deeper economic engagement with Australia after their initial visit, and also to understand the extent to which their recent visits had influenced them to pursue (or not pursue) that engagement.

The survey consisted of 50 questions and was conducted online over a one-week period. The majority of respondents came from Tier 1 cities such as Beijing, Shanghai and Guangzhou. All were in China at the time of taking the survey, and had travelled to Australia in the past three years. We selected this time frame not only to focus on recent visits, but also to broadly reflect the effects of current visa requirements, which have made it easier for the Chinese to visit Australia over time.

Survey respondents were distributed across both sexes and a range of income levels, though most were relatively young and highly educated (Figure 7). The sample contained equal numbers of males and females, mainly between 26 and 45. Ninety-one per cent had a bachelor's degree or better. The visitors' weighted average salary after tax of \$71,290 compares favourably even to the average Australian income, which stands at around \$78,000 per year *before* tax.

So, what did the survey uncover about the broader implications of Chinese visits to Australia?

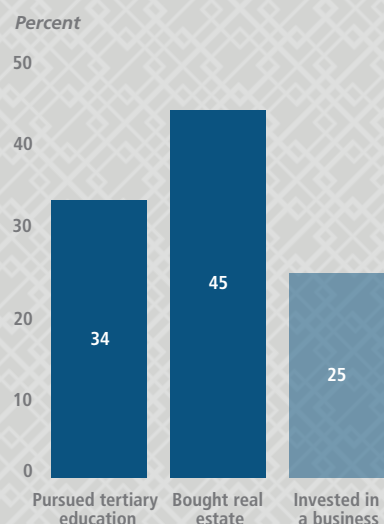
Nearly half of Chinese visitors to Australia are repeat visitors

Today, almost half of Chinese visitors to Australia are *repeat* visitors. We were interested in what kind of deeper connection with Australia this might represent, and to see what specific links there might be between tourism and other types of economic engagement. Some of our questions were:

- How many visitors have their children in education in Australia?
- How many have invested in real-estate or in a business?
- Did the visit change people's intended future behaviour?
- When they returned to China, did it change their consumption of goods and services from Australia?
- How significant could the effects of these changes be?

The results of our research bring much-needed data to the conversation around these issues. Our interest here was not to get precise numbers about what Chinese visitors to Australia are doing at a micro level, but to validate our overall intuition that Chinese visits could have greater economic potential outside the tourism and retail industries, and to broadly estimate that potential's magnitude.

Figure 8: Deeper economic engagement pursued by Chinese visitors with Australian PR



Source: L.E.K. research and analysis

Figure 9: Deeper economic engagement pursued by Chinese visitors without Australian PR

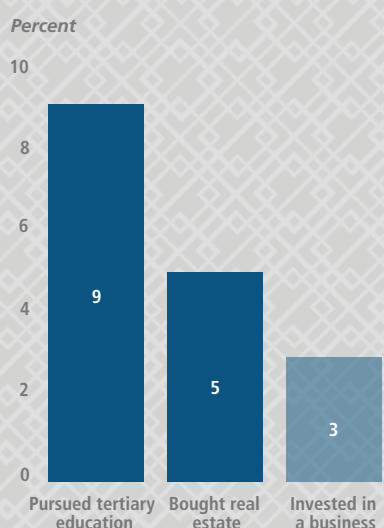
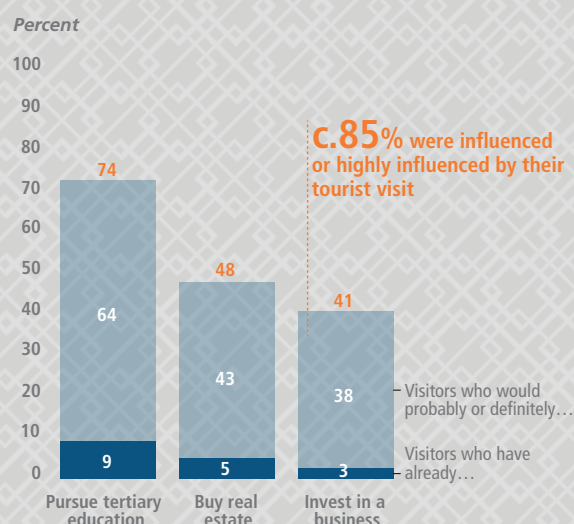


Figure 10: Intentions for deeper economic engagement of Chinese visitors without Australian PR



A large proportion of Chinese visitors claim to be permanent residents

Somewhat to our surprise, we found that even though all of the survey respondents live in China, 20% of the sample claimed to have Australian permanent resident (PR) status. We are inclined to treat this observation with some scepticism. Yet, these claims point to an important phenomenon—that many Chinese visitors already have significant economic engagement with Australia that goes well beyond mere tourism.

Since the high proportion of PRs could skew the results of our analysis, we chose to examine self-reported PRs and non-PRs as separate groups.

When looking at PRs alone, the level of broader economic engagement is significant (Figure 8):

- 34% had pursued tertiary education for themselves or their children
- 45% had bought real-estate
- 25% had invested in a business

Clearly, many in this group already have a deep economic engagement in Australia. On one level, this is not surprising, but it does become more noteworthy when one considers that they all said that they still reside in China.

For the non-PR group, the proportion that had pursued these activities was still significant: 9% had sought education in Australia for themselves or their children, 5% had bought real-estate and 3% had invested in a business (Figure 9).

While smaller than the percentages we found for the PR group, in absolute terms these still represent significant numbers: just 3% of 800,000 non-PR visitors investing in a business is 24,000 people in total.

When we asked this non-PR group not just what they had already done, but also what they were definitely or probably *going to do*, the numbers became much greater (Figure 10).

- 74% planned to pursue education in Australia, either themselves or for their children, or already had
- 48% planned to buy real-estate, or already had
- 41% planned to invest in a business, or already had

When asked how significant their first visit was to their decision-making, 85% said they had been influenced or highly influenced by coming to Australia.

Figure 11: Chinese purchases of Australian goods and services, before and after first visit

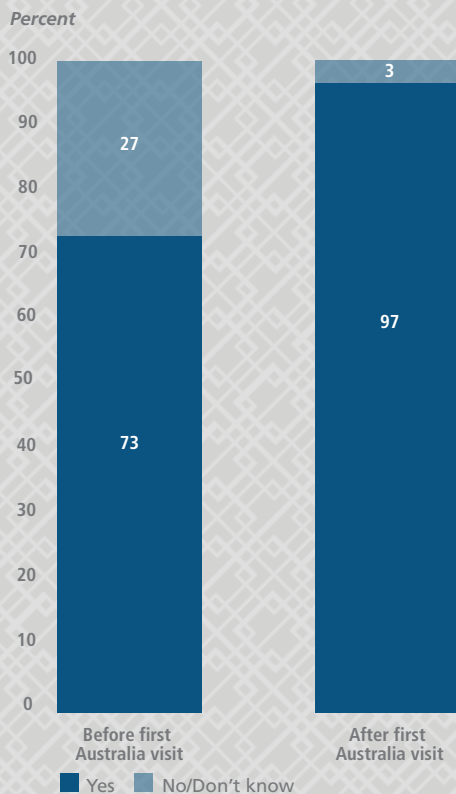
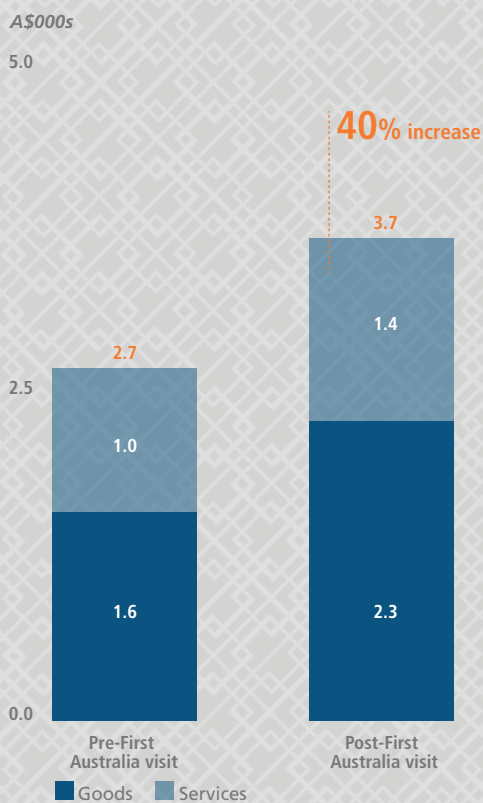


Figure 12: Increase in average annual spend on Australian goods and services inside China, before and after first visit



Average value of each purchase

c.A\$108

c.A\$118

Chinese visitors buy more Australian products at home

We also asked survey participants about their consumption of Australian goods and services while in China.

Chinese visitors to Australia are already alert to the attractions of Australian products, particularly meat, dairy, wine and vitamins. Before their first visit to the country, 71% already bought Australian goods and services regularly. However, this rose to 97% after the visit (Figure 11).

These respondents' average spending on Australian goods and services rose from \$2,700 per year to \$3,700 per year after their visit: a 40% increase (Figure 12). Such changes in spending are fuelling the phenomenal and well-known growth of companies like Blackmores and Swisse in the Chinese market.







97%
of visitors from China
buy Australian
products regularly



Table 3: Value of potential spending by category

Category	Value
 <i>Repeat visit</i>	\$5,300 Average spend per Chinese visitor per visit
 <i>Tertiary education</i>	\$50k per year Spend in tuition and living expenses
 <i>Real-estate investment</i>	\$400k Average value of property bought
 <i>Business investment</i>	\$1 million Average annual turnover of business investment
 <i>Australian goods and services in China</i>	\$3,700 Average annual spend on Australian goods and services after first visit to Australia

Table 4: Estimated total value of Chinese visitors' engagement with Australia, 2015

	Actual percentage of visitors	Value in 2015 (1m visitors)
 <i>First visit</i>	100%	\$5.3bn Focus today
 <i>Repeat visit</i>	73%	\$3.9bn
 <i>Tertiary education</i>	9%	\$9bn
 <i>Real-estate investment</i>	5%	\$21bn
 <i>Business investment</i>	3%	\$31bn
 <i>Australian goods and services in China</i>	24%	\$0.9bn
		Categories of significant value

Chinese tourism to Australia creates an enormous broader opportunity

Having some of these basic numbers, we are able to illustrate the dollar value of the broader opportunity arising from Chinese tourism to Australia.

Though it would be dangerous to view extrapolations from a sample of 500 people as definitive, we nevertheless offer them to give a general estimate of the potential economic impact.

First, we needed to find the average value of the transactions we expect visitors to engage in (Table 3):

- A repeat tourism visit is worth **\$5,300**.
- Those engaging in education are estimated to spend **\$50,000 per year** on tuition fees and living expenses combined, for two years on average.
- Real-estate investment is estimated at an average of **\$400,000** per investor.
- We assume average annual turnover in business investment of **\$1 million** per respondent expressing this intention (although survey respondents recorded values for planned investment of up to \$7 million).

Taking these figures at face value, we can extrapolate the total value of this activity to Australia.

Australia generates \$5.3 billion per year from tourism alone, based on the observation of a \$5,300 average spend multiplied by 1 million total visitors per year in 2015 (Table 4). But now we can also look at the potential scale of Chinese visitors' broader engagement with the Australian economy.

- The 73% of respondents who said they planned a repeat visit are worth a total of \$3.9 billion in spending each year.
- The 9% that have already commenced education will be worth an estimated \$9 billion (assuming two years of study).

These are big numbers that begin to dwarf the immediate tourism spending.

But what if we looked at these visitors' *potential* economic engagement in the future, not just what is happening right now?

Clearly, we need to take our survey figures with a grain of salt: there is no guarantee that people will be able to follow through on all of their intentions. We also need to acknowledge the implausibility of some of the numbers it is possible to come up with by extrapolating from this data. For instance, the entire international education market in Australia is worth only \$15 billion per year today. But if 74% of the 800,000 non-PR Chinese visitors to Australia this year followed through with an intention to pursue tertiary education in this country for themselves or their children, the value of that market would rise to \$74 billion dollars per year (Table 5).

Then we can look at real-estate and business investment, which in 2015 had a potential value of \$194 billion and \$408 billion respectively.

These are very big numbers.

Taking all of the activities we considered together—repeat tourism, education, real-estate and business investment, and purchases of Australian goods and services in China—if only 1 in 10 people expressing an intention to engage in economic activity followed through with that intention, it would be worth \$70 billion annually. By 2025, given a doubling in visitor numbers, the annual value would be \$140 billion, dwarfing the economic impact of tourism alone.







There is further work to be done in establishing more certainty and precision around these figures. But from these extrapolations, and by taking the holistic approach that sees tourism as just one particularly visible indicator of Chinese economic engagement with Australia, we can clearly see the enormous scale of the potential opportunity.

Industry and government must seize the moment

Recent growth in Chinese tourism is an enormous economic boon to Australia, but focusing on tourism alone misses the full scale of the opportunity. It also misses the nuances of how that opportunity has come about and how to maximise the broader benefits.



Table 5: Illustrative potential value of Chinese visitors' engagement with Australia, based on stated intentions, 2015 and 2025

	Percentage of visitors who have pursued or "would probably or definitely" pursue activity	Value in 2015 (1m visitors)	Value in 2025 (2m visitors)
 <i>First visit</i>	100%	\$5bn	\$10bn
 <i>Repeat visit</i>	73%	\$4bn	\$8bn
 <i>Tertiary education</i>	74%	\$74bn	\$148bn
 <i>Real-estate investment</i>	48%	\$194bn	\$388bn
 <i>Business investment</i>	41%	\$408bn	\$816bn
 <i>Australian goods and services in China</i>	24%	\$1bn	\$2bn

Even if only 10% of this value was realised, it would amount to between c.\$70bn and c.\$140bn for the Australian economy

Figure 13: Chinese investment in Australian real-estate, 2013–15

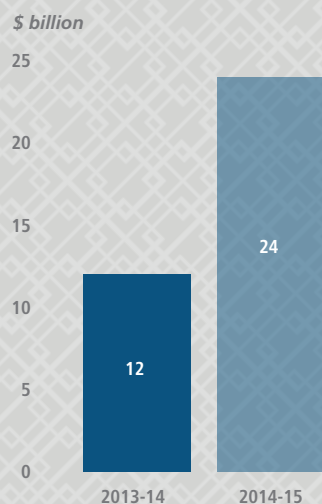


Figure 14: Chinese and American investment in Australia, 2014–15

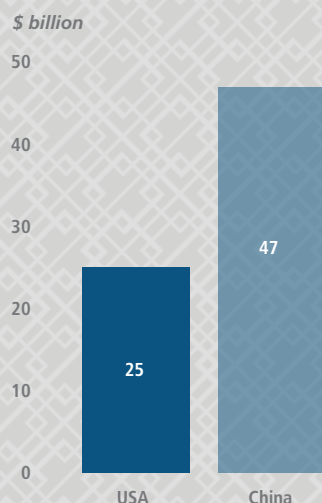
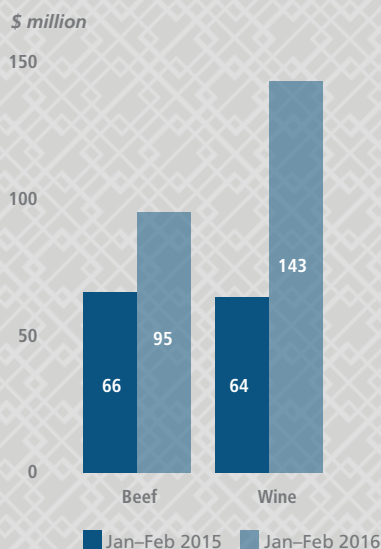


Figure 15: Australian beef and wine exports to China, 2015 and 2016



Chinese investment in Australia

Chinese investors in Australia continue to pile into the property market, with investment in real-estate growing to \$24 billion in 2014–15, double the previous year's figure.¹⁸ But they are also choosing to invest their wealth across other sectors of the economy, including agriculture, finance and manufacturing.

In 2014–15, China was the largest foreign investor in Australia, with investments almost double the value of that of those originating from the United States, the second-largest source of foreign investment in Australia.¹⁹

Early figures following the launch of the China–Australia Free Trade Agreement (ChAFTA), show a promising future for not only for Chinese investment in Australia, but also for Australian exports to China. For example, in the first two months of 2016, frozen beef sales to China rose to \$95 million, up 44% on the same period last year, while bottled wine sales climbed 122% to \$143 million.²⁰



Conclusion

When we begin to think about tourism as the front door to much deeper economic engagement, we quickly see that a range of implications and responsibilities arises. To harness the full economic potential of Chinese tourism, government and business will need to take action.

First, there is a need for continued investment in research into the links between Chinese tourism and economic engagement with Australia. Our own preliminary research has only scratched the surface, albeit by firmly establishing that this is an area worthy of far greater attention.

Second, because of the magnitude of the economic opportunity that Chinese tourism opens up, business and government will need to invest in making sure that Australia remains an attractive destination and that visitor numbers continue to grow. At present, Australia is at best merely holding its share of Chinese tourism, and may even be losing share gradually. Other countries, such as the United States, Canada, New Zealand, South Korea and Singapore, have also spotted the opportunity and are investing: Australia's efforts must match theirs.

A good deal of this investment must go towards ensuring that Chinese visitors to Australia have not just a positive experience, but an excellent one. On the government side, there is work to be done in making sure that visa-application processes, for the right kind of visitor, run smoothly and are easy to navigate. Other problematic aspects of the traveller experience, such as long queues at airports for the Tourist Refund Scheme, may also be in need of government attention. Government can also play a role in facilitating or encouraging investment to ensure that our airports and other transport facilities are among the world's best.



At best we are holding our share of Chinese tourism. We must invest in making sure Australia remains an attractive destination

Other, "softer" aspects of the travel experience for Chinese visitors also need attention, and this indicates further areas where government investment or policy could be lacking. Australia is blessed with a substantial number of people who are of Chinese birth or descent, including many who are fluent in both Chinese and English. Yet, a frequent lack of signage and customer service in Chinese suggests a need for more education in the language for Australians not of a Chinese background. Promoting the acquisition of such skills is a matter not just of investment, but also of appropriate policy.

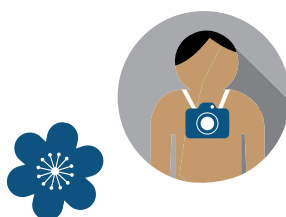
Provided that Australia is able to maintain or even increase its attraction to Chinese visitors, it is then necessary to more fully harness the opportunities for broader economic engagement that this opens the door to. There is a particular need for savvy promotion.

In light of this opportunity it is an even greater priority for Commonwealth and State governments to increase their focus on tourism and related trade such as education. It is laudable that Tourism Australia has promoted not just the country's outstanding dining scene, but also its related produce, wine, accommodation, transport and tourism industries through the Restaurant Australia campaign. This is one example of well-thought-out cross-promotion, and more needs to be done in this vein. Such promotion should ideally position "Brand Australia" as more than just a tourism destination, highlighting the country's even more economically important role as a provider of services such as education and of high-quality export products.

Finally, all of these activities and improvements will need to be built on top of appropriate planning, institutions, regulatory frameworks and infrastructure. Key regulation, particularly for foreign investment, will need to be reviewed in light of a forecast major upswing in demand. We need to avoid the pitfalls that have already occurred when regulatory oversight was not in place, such as in the monitoring of legitimate investment in high-end residential real-estate.

A wide range of industries will need to take potential future demand from Chinese visitors into account when planning capacity growth, pricing, quality-assurance efforts and so on. And infrastructure will need to keep pace not only with the increased flow of visitors that China is set to provide over the next decade, but also with the massive potential economic activity that it will stimulate as a flow-on effect.

To respond adequately to this tremendous opportunity, planning efforts will require comprehensive and accurate information about trends in Chinese visits to Australia and demand for associated products, services and investment opportunities. L.E.K. Consulting is committed to deepening the body of knowledge in this area. But this phenomenon cannot be grasped in its totality by just a single firm. It involves Australian business and government in its entirety, and an exceedingly broad range of organisations and institutions will be called upon to study and fully seize the deeper economic potential of Chinese tourism in this country.



2 million
visitors from China
annually by 2025

Notes

- ¹ In this report, *China* means mainland China and excludes Hong Kong, Macau and Taiwan; references to *Chinese* as a language are to Mandarin Chinese.
- ² "Australia's Trade in Goods and Services 2014–15," Australian Department of Foreign Affairs and Trade (DFAT), accessed 6 April 2016, <http://dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2014-15.aspx>.
- ³ International Visitor Survey, Tourism Research Australia, 2 November 2015. A summary of results from the latest report can be found at "International Visitor Survey Results," accessed 11 April 2016, <http://www.tra.gov.au/research/latest-ivs-report.html>.
- ⁴ The original table lists this as item as "Education-related travel services (c)." Despite the name, this "includes student expenditure on tuition fees and living expenses." We have renamed the item for the sake of readability.
- ⁵ "Australia's Trade."
- ⁶ Australia China Business Council, *The 2014 Australia–China Trade Report* (2015), 4.
- ⁷ *Ibid.*, 3.
- ⁸ "Top Ten News of Chinese Tourism Industry in 2015," China National Tourism Administration, 4 January 2016, http://en.cnta.gov.cn/syhd/201512/t20151224_755626.shtml.
- ⁹ International Visitor Survey.
- ¹⁰ *Ibid.*
- ¹¹ *Ibid.*
- ¹² *Ibid.*
- ¹³ International Visitor Survey data and L.E.K. Consulting analysis.
- ¹⁴ International Visitor Survey.
- ¹⁵ *Ibid.*
- ¹⁶ The Chinese figure is based on an exchange rate of ¥4.9 to A\$1. The Australian figure gives full-time average weekly ordinary time earnings data from "6302.0 – Average Weekly Earnings, Australia, Nov 2015," Australian Bureau of Statistics, last updated 25 February 2016, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>.
- ¹⁷ International Visitor Survey.
- ¹⁸ Jamie Smyth, "Chinese Seek to Boost Investment in Australian Property," *The Financial Times*, 10 April 2016, <https://next.ft.com/content/ff0b254c-fecf-11e5-ac98-3c15a1aa2e62>.
- ¹⁹ "Annual Report 2014–15," Foreign Investment Review Board, accessed 15 April 2016, <https://firb.gov.au/about/publication/annual-report-2014-2015/>; "Annual Report 2013–14," Foreign Investment Review Board <https://firb.gov.au/about/publication/annual-report-2013-2014/>.
- ²⁰ Rowan Callick, "China FTA Delivers Early Surge in Trade," *The Australian*, 12 April 2016, <http://www.theaustralian.com.au/business/china-fta-delivers-early-surge-in-trade/news-story/268391f03d9e5cec2b16f64666c19f58>.

About L.E.K. Consulting

L.E.K. is a global management consulting firm with 21 offices across the Asia-Pacific, Europe and the Americas. We are recognised as one of the world's leading consulting firms, helping clients to deliver tangible results. We do this through a combination of deep business experience and expertise, applying analytics and strategic thinking to complex issues—we help organisations make and apply critical business decisions with certainty.

The L.E.K. approach is founded on rigorous economic, financial, market, competitive and operational analyses applied to the areas of corporate and business unit strategy, performance improvement and mergers & acquisitions.

Founded in London in 1983 by three partners, we now employ more than 1,000 professionals worldwide. We advise and support global companies that are leaders in their industries, national and state governments, and financial investors. In Asia we have offices in Melbourne, Seoul, Shanghai, Singapore, Sydney and Tokyo.

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Opera Bar, Sydney, NSW
Credit: Anson Smart
Photographer: Anson Smart



