

Economic Review

Coming Jump in Chinese Tourists to Boost Japan's Economy

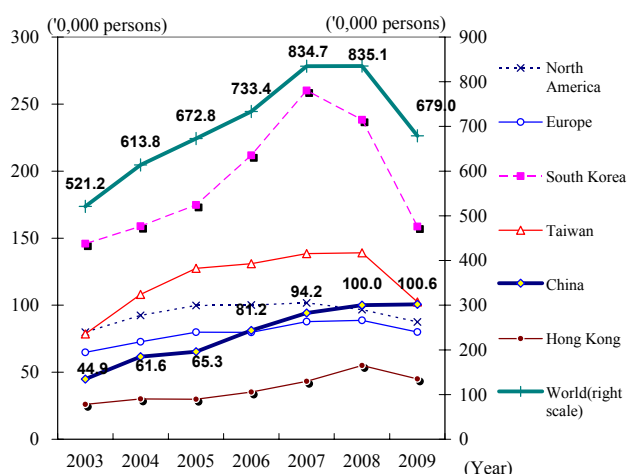
【 Summary 】

- The number of Chinese visitors to Japan, particularly as part of group tours, has been rising, reaching one million visitors in 2009. Chinese tourists now account for 15% of all foreign visitors to Japan.
- The Japanese Government on July 1 agreed to greatly ease visa issuance procedures for individual Chinese tourists. Income conditions were lowered from the current annual requirement of RMB250,000 (approximately JPY3.4 million, USD36,900) to RMB30,000-50,000 (approximately JPY400,000-JPY670,000, USD4,400-7,400). This is expected to boost the number of Chinese households eligible to visit Japan by tenfold, to 16 million households.
- Chinese tourists spend an average of JPY128,000 per visit, more than South Korean (JPY68,000) and Taiwanese visitors (JPY118,000). The sum is also on par with average amounts spent by US (JPY150,000) and British (JPY131,000) tourists. Of visitors from major countries, Chinese tourists spend the most—JPY79,000—on consumer goods, a reflection of their strong purchasing power.
- Demand from Chinese overseas travelers is set to expand as the country's economy grows. Already more than 45 million Chinese citizens have traveled abroad—nearly three times more than Japanese—and the quantitative impact of expanded travel demand from China, with its huge population, will be significantly larger compared to other countries.
- The impact on Japan's overall economy by Chinese visitors' consumption has been limited so far, but given the two countries' close geographic proximity and the ample consumer markets, there is strong desire to visit Japan among Chinese and the demand is expected to grow significantly in the future.
- Domestic demand in Japan is projected to grow sluggishly, so the importance of creating additional demand by welcoming overseas visitors will likely be even more critical. Japan should make an all-out effort to boost tourism as part of its growth strategy and become a leading tourist destination country.

1. Surging number of Chinese visitors to Japan

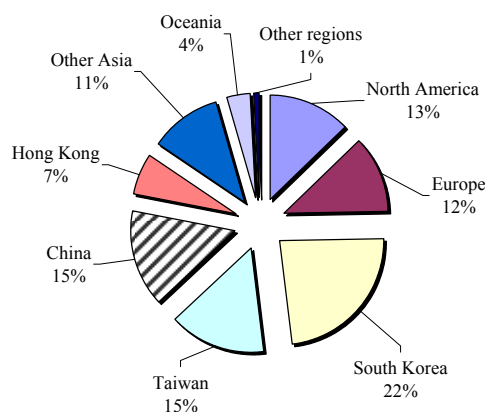
The number of Chinese visitors to Japan has surged in recent years, more than doubling between 2003 (448,000 tourists) to 2009 (1,006,000 tourists, Figure 1). Of particular note is that, as the number of foreign visitors to Japan plunged during the worldwide economic downturn as the financial crisis worsened, only visitors from China edged up slightly (among major countries), a reflection of the strong trend of visitors from China. By 2009, Chinese visitors comprised 15% of visitors to Japan; they are now the third largest group of tourists behind South Koreans and Taiwanese (Figure 2).

Figure 1: Visitors to Japan by Region



Source: Compiled by BTMU Economic Research Office from Japan National Tourism Organization.

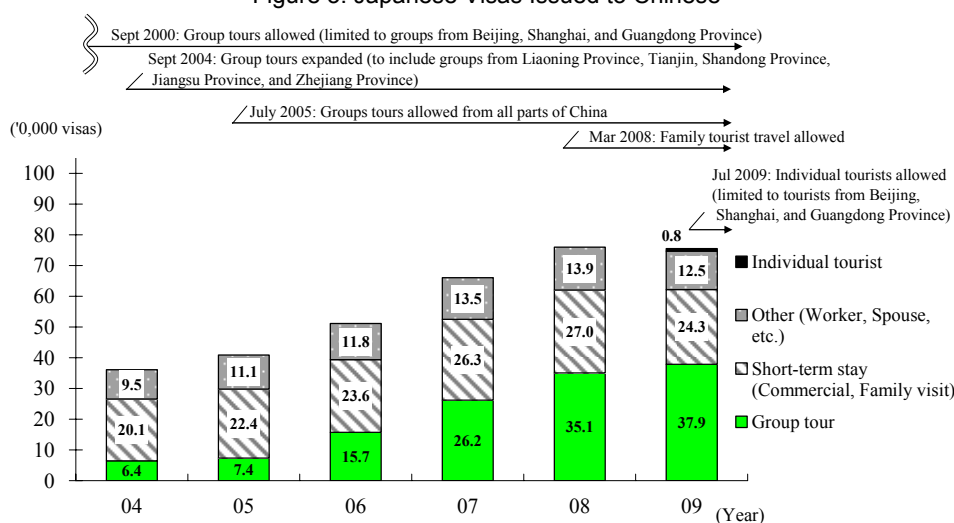
Figure 2: Visitors to Japan by Region (2009)



Source: Compiled by BTMU Economic Research Office from Japan National Tourism Organization.

The trend in Chinese visitors to Japan began to change when a rule restricting Chinese visitors to tour group participants from Beijing, Shanghai, and Guangdong Province was lifted in September 2000 (Figure 3). Thereafter, visitors from more regions were allowed to visit Japan, and the number of tour groups to Japan has surged since July 2005, when visitors from anywhere in China were allowed. Already, family travel has been allowed since March 2008, and in July 2009, individual travelers were welcomed, though certain restrictions still applied. However, because visitors to Japan were still largely restricted to wealthy persons, only 8,000 visas were issued in 2009. The Government of Japan thus decided to greatly ease visa issuance conditions for Chinese individual tourists starting in July 2009.

Figure 3: Japanese Visas Issued to Chinese



Source: Compiled by BTMU Economic Research Office from Ministry of Foreign Affairs materials.

Visa applications for Chinese were made easier in three ways recently: 1) certain conditions were loosened; 2) the number of diplomatic missions accepting visa applications was increased; and 3) the number of recognized travel agents was expanded (Table 1). The first of these three will have a big impact; with the new, looser conditions, the number of Chinese citizens eligible to visit Japan will expand to include those meeting given employment status and income criteria. Individual tourist visas, which were introduced in July 2009, have been restricted to wealthier Chinese with an annual income of at least RMB250,000 (approximately JPY3.4 million, USD36,900); however, the looser regulations are expected to allow Chinese with annual incomes of RMB30,000-50,000 (approximately JPY400,000-670,000, USD4,400-7,400) to apply for visas.ⁱ The Ministry of Foreign Affairs estimates that the eased restrictions will broaden the number of Chinese households eligible for visas to Japan by tenfold, to 16 million households.ⁱⁱ

Table 1: Relaxing Individual Visa Restrictions for Chinese Tourists

1. Ease certain conditions
Visa issuance criteria to change from <u>those with sufficient economic means</u> to <u>those with certain employment status or economic means</u> .
2. Expand number of diplomatic missions accepting applications
Number of Japanese diplomatic missions accepting applications in China increased from <u>three</u> (Beijing, Shanghai, and Guangdong) to <u>seven</u> (Chongqing, Shenyang, Tsingtao, and Dalian added) including missions in central China and northeast China.
3. Increase number of eligible travel agents
Increase eligible agencies to <u>290</u> from <u>48</u> .

Source: Compiled by BTMU Economic Research Office from Ministry of Foreign Affairs press release.

Assuming that, in accordance with news reports, income restrictions are loosened from the current RMB250,000 to RMB30,000-50,000, the number of Chinese visitors to Japan would be expected to rise further, as 40-80% of Chinese urban households would now be eligible for visas to Japan (Table 2).ⁱⁱⁱ

Table 2: Income Distribution of Urban Households

2008 actual		Annual Income			
		Unit: RMB	Unit: JPY 10,000		
Urban average		49,667	66.8		
Income category	Low	0~20%	21,452	28.8	Approximately 80% of households earn more than RMB30,000
		20~40%	33,582	45.2	
		40~60%	43,508	58.5	
		60~80%	56,949	76.6	
		80~100%	96,828	130.2	
		80~90%	74,719	100.5	
	High	90~100%	119,030	160.1	

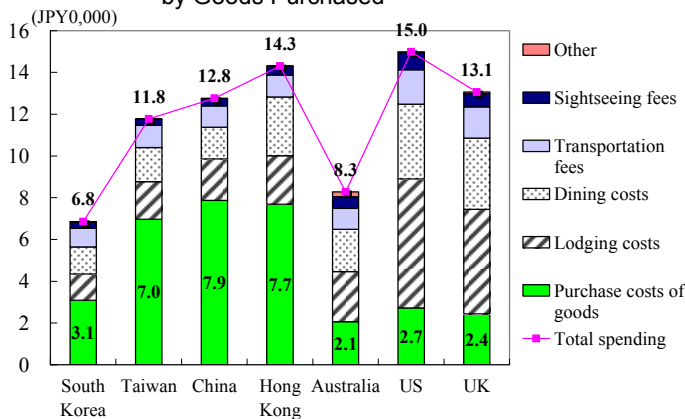
Note: Household income calculated by BTMU Economic Research Office by multiplying individual income by average number of household members.

Source: Compiled by BTMU Economic Research Office from National Bureau of Statistics of China.

2. Chinese tourists boast strong purchasing power, especially for goods

Chinese tourists spend an average of JPY128,000 per visit to Japan, more than South Korean (JPY68,000) and Taiwanese (JPY118,000) visitors, and on par with visitors from advanced countries like the US (JPY150,000) and the UK (JPY131,000). Indeed, Chinese tourists boast strong purchasing power (Figure 4). By consumption item, US and European tourists spend large sums on accommodations, dining, and services like sightseeing, while Asian visitors spend significant sums on goods. Of Asian visitors, Chinese tourists spend an average of JPY79 thousand on goods, the most among visitors from major countries. This suggests that Chinese tourists visit Japan largely for shopping (to purchase goods, Table 3).

Figure 4: Spending by Foreign Visitors to Japan, by Goods Purchased



Note: December 2007 survey. Spending during travel. Does not include fees paid prior to travel, such as air transport, tour package fees, etc.

Source: Compiled by BTMU Economic Research Office from Japan National Tourism Organization *Consumption Survey of Foreign Visitors to Japan, 2007-2008*.

Table 3: Reasons for Visiting Japan by Nationality (2008)

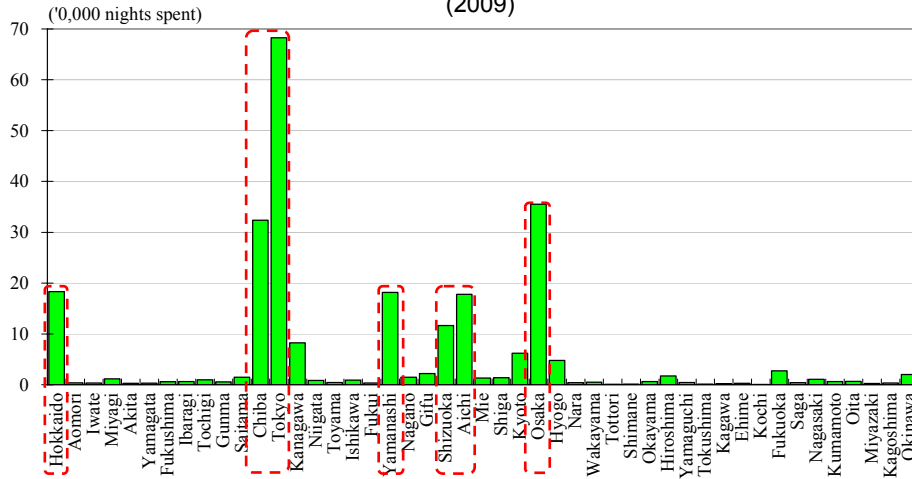
(Unit: %)		
Rank	China	
1	Shopping	50.9
2	Hot springs	39.7
3	Visit historical sites	25.3
Rank	South Korea	
1	Hot springs	41.1
2	Japanese food	38.4
3	Shopping	36.8
Rank	United States	
1	Visit historical sites	56.2
2	Japanese food	36.8
3	Experience Japanese culture	29

Note: Multiple responses allowed.

Source: Compiled by BTMU Economic Research Office from Japan National Tourism Organization *JNTO Survey of Foreign Visitors to Japan*.

In addition to the capital area (Tokyo and Chiba and Kanagawa Prefectures), the Kinki Region (Osaka and Kyoto), and the Chubu Region (Shizuoka and Aichi Prefectures), large numbers of Chinese tourists visit Hokkaido (Figure 5). The big cities in particular not only offer major sightseeing spots, but are also home to many large-scale bulk retailers and department stores that carry cosmetics and household electronics, popular consumer items among Chinese visitors. These sectors appear to benefit from the strong buying power of Chinese visitors.

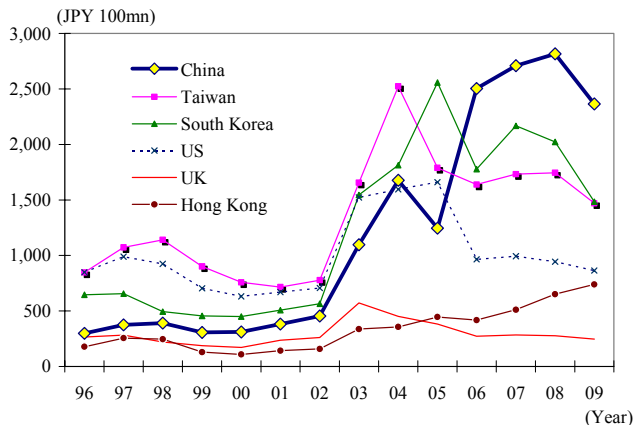
Figure 5: Chinese Tourist Visits to Japan by Prefecture, Nights Spent (2009)



Note: Total nights spent = Number of accommodation guests x Per person average accommodation nights.
 Source: Compiled by BTMU Economic Research Office from MLIT *Overnight Traveler Survey*.

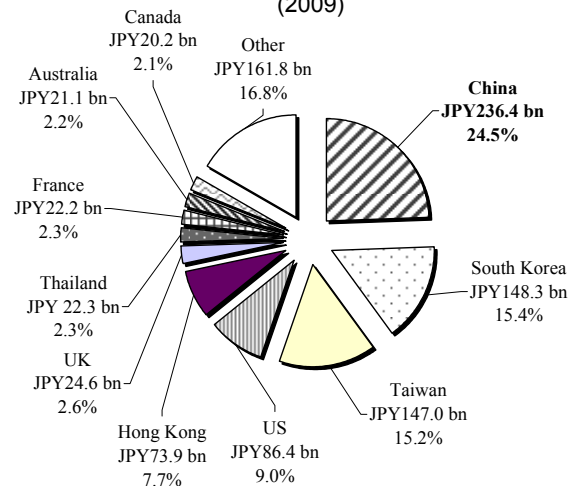
Revenue from travel services oriented toward Chinese visitors has surged in recent years, due to the jump in numbers of tourists (Figure 6). Since 2006, China has been the largest source of tourist revenues for Japan. Though that trend started to decline slightly in 2009, Chinese visitors now account for one-quarter of the JPY236.4 billion in total tourism revenues (Figure 7).

Figure 6: Japan Travel Revenue by Nationality



Note: Spending on goods, services by foreigners visiting Japan. Includes spending on accommodations, dining, transportation, and souvenirs.
 Source: Compiled by BTMU Economic Research Office from BoJ *International Balance of Payments*.

Figure 7: Travel Service Revenue Share by Nationality (2009)

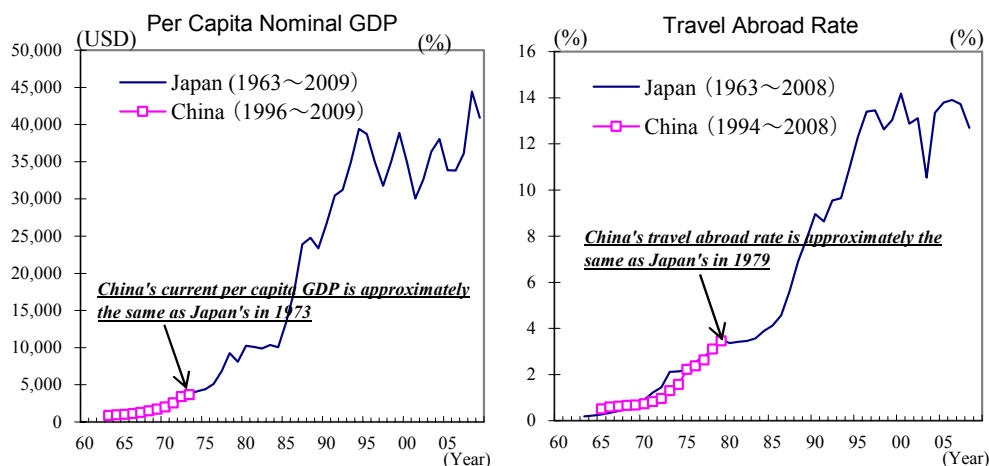


Note: Spending on goods, services by foreigners visiting Japan. Includes spending on accommodations, dining, transportation, and souvenirs.
 Source: Compiled by BTMU Economic Research Office from BoJ *International Balance of Payments*.

3. The impact of projected jump in Chinese tourists on Japan's economy

Demand from Chinese travelers is projected to expand even further as income levels rise as the country's economy develops. Chinese per capita GDP was USD3,700 in 2009; this was approximately the level of Japan's per capita GDP in the early 1970's. Approximately 3.5% of Chinese have traveled abroad; this is roughly the same level as Japan in the latter 1970's (Figure 8). The number of Japanese travelers abroad rose as the country's per capita GDP increased; the number of overseas tourists from China is expected to similarly increase.

Figure 8: China, Japan Per Capita GDP and Travel Abroad Rates

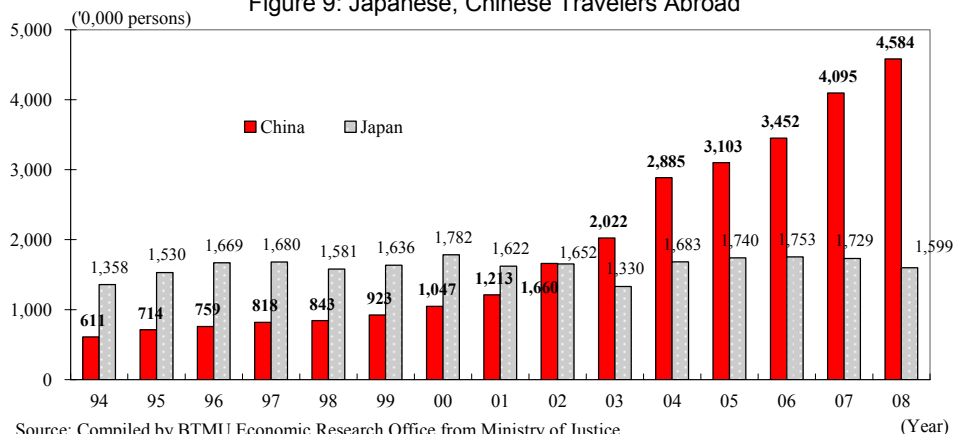


Note: Travel abroad rate (%) = Number of travelers abroad / Total population.

Source: Compiled by BTMU Economic Research Office from Cabinet Office *National Accounting Statistics*, Ministry of Health, Labor, and Welfare *Population Survey Report*, Bank of Japan *Foreign Exchange Market*, Ministry of Justice *Immigration, Emigration Data*, United Nations *National Account Main Aggregates Database*, IMF *World Economic Outlook*.

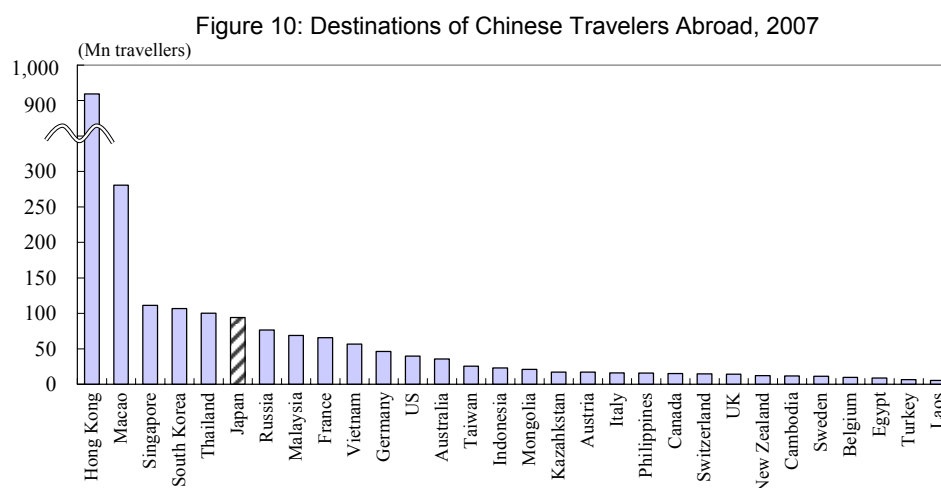
Further, China's rate of overseas travelers is on par with Japan's level in the late 1970's, and the number of foreign travelers has already exceeded 45 million, nearly three times more than Japanese foreign travelers (Figure 9). A higher rate of overseas visitors from China, with a population exceeding 1.3 billion, will have a much bigger quantitative impact compared to overseas visitors from other countries. If China's rate of overseas travelers rises at the same rate as Japan's in the past, China's 45 million overseas visitors will swell to 120 million (an additional 77 million) by 2020.

Figure 9: Japanese, Chinese Travelers Abroad



Source: Compiled by BTMU Economic Research Office from Ministry of Justice (*Immigration, Emigration Data*), National Bureau of Statistics China (*China Yearbook*) materials.

Chinese tourists' potential travel demand for Japan is thought to be significant because of the countries' close geographic proximity, Japan's consumer markets—electronic bulk retailers and department stores—that satisfy Chinese visitors' appetite for spending, and famous sightseeing spots, including world heritage sites. In fact, excluding the special administrative regions of Macao and Hong Kong, Japan ranks as the fourth most popular travel destination in Asia for Chinese tourists, behind Singapore, South Korea, and Thailand (Figure 10).



Note: Top 30 destinations, using data from destination countries.
 Source: Compiled by BTMU Economic Research Office from Japan National Tourist Organization
 2009 JNTO International Tourism White Paper.

Domestic consumption in Japan generated by Chinese visitors (revenue from travel-related services) totaled JPY271.1 billion (approximately 0.1% of private consumption); the direct impact on Japan's economy is still limited^{iv}. However, the recent relaxing of visa regulations will probably be effective in helping to capture demand from Chinese visitors to Japan, anticipated to grow significantly in the future (Table 4). In the past, Chinese visitors to Japan have been part of tour groups, and escorts were required to accompany tourists on tours planned by travel agents and free movement was not allowed. Thus, the recent easing of visa restrictions to allow individual Chinese tourists is expected to allow Chinese tourists who wish to sightsee freely to see more.

Table 4: Travel Revenue and Private Consumption Rate

(Unit: JPY bn)

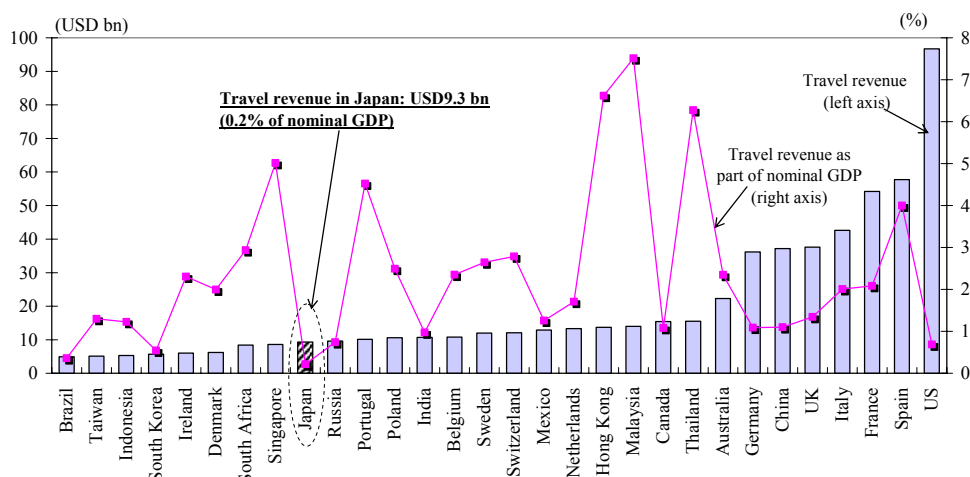
	FY05	FY06	FY07	FY08	FY09
Travel revenue	1,644.7	1,364.1	1,482.9	1,333.1	1,222.8
Of this, from China	157.7	255.4	277.7	271.1	-
vs. Private Consumption (%)	0.57	0.47	0.51	0.46	0.43
Of this, from China (%)	0.05	0.09	0.09	0.09	-

Note: Excluding traveler transportation costs.

Source: Compiled by BTMU Economic Research Office from BoJ *International Balance of Payments*.

Japanese domestic consumption is projected to be sluggish in the future because of the country's ageing and shrinking population. Generating demand by luring overseas visitors will thus be even more critical. That said, revenue from tourism in Japan was approximately USD9.3 billion as of 2007, or 0.2% of nominal GDP. This is an extremely low figure compared to other countries; Japan is clearly not luring sufficient numbers of overseas visitors (Figure 11).

Figure 11: Travel Revenue versus Nominal GDP, Various Countries (2007)



Source: Compiled by BTMU Economic Research Office from UN World Tourism Organization materials, IMF World Economic Outlook, Japan National Tourist Organization materials.

Thus, the Government of Japan is expected to establish tourism as one pillar of its new growth strategy, scheduled to be drafted this month. The strategy is expected to set targets of increasing the number of foreign visitors to Japan to 25 million by early 2020, and later to 30 million. Even considering that 6.79 million tourists visited Japan in 2009 despite a sharp drop following the collapse of Lehman Brothers, a nearly four-fold expansion in visitors over ten years through early 2020 is a lofty goal.

Efforts to boost tourism to Japan should not stop at relaxing visa restrictions to allow Chinese individual visitors. Japan should make an all-out effort to encourage tourism as part of the country's economic growth strategy and become a leading tourist destination country. It can do so by providing traffic and information signs in different languages, training bilingual staff, introducing more expeditious payment services, boosting promotions, and creating scenic facilities.

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i May 9, 19 *Nikkei Shimbun*.

ii May 18 Foreign Minister Okada comment at a press conference.

iii According to an article in the May 19 *Nikkei Shimbun*, some further conditions are expected to be proposed, in addition to the annual income provision. These may include requirements that the visa applicant be a gold card holder of a major credit card, hold at least a section chief-level position at a public office or major corporation, and other conditions.

iv BTMU estimates only travel service-related revenues based on international balance of payments data. According to April 2010 Ministry of Land, Infrastructure, Transport and Tourism materials (*MLIT Growth Strategy* materials distributed at strategy planning meetings and at ministry interviews), in addition to JPY1.3 trillion in travel-related consumption in FY08, foreign visitors to Japan generated a JPY3.2 trillion ripple effect on domestic production, a direct increase in hiring of 120,000 persons, and a ripple effect on hiring of 260,000 persons.

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