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The Asian Consumer

The Chinese Tourist Boom

Where Now, Where Next?

China's outbound tourism is set to bloom over the next 10 years and leave its mark on a wider range of destinations. Fueled by experience-hungry millennials and a growing middle class, the number of Chinese passport holders is forecast to swell by 100 million over the decade – equal to almost 1.5x all US outbound tourists today. While Hong Kong and Macau will remain important destinations, the surge will lead to dramatic increases in visitors to destinations across Asia, Europe and beyond.

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This is an abridged version of "The Chinese Tourist Boom: Where Now, Where Next?" originally published November 20, 2015.

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The Chinese Tourism Boom: By the Numbers

PASSPORT POTENTIAL

4%

The **passport-owning population in China** (vs. 35% in the US). We expect this figure to reach 12% within 10 years. (Page 16)

MIDDLE-CLASS MOBILITY

28%

The percentage of outbound **Chinese tourists from the “urban middle” class**, compared to just 3% from the “urban mass.” (Page 17)

THE 10-YEAR TRAVEL OUTLOOK

220 mn

The number of **Chinese residents who will travel overseas in 2025**, up from 120 mn this year. (Page 13)

GRADUATE AND GO

74 mn

The number of **travel-ready millennials** who will graduate from Chinese universities in the next 10 years. (Page 18)

HEADED TO HONG KONG AND MACAU...FOR NOW

70 mn

The number of **Chinese travelers who will visit Hong Kong and Macau** in 2015—two destinations that don’t require a passport. (Page 27)

NEXT STOP(S): JAPAN AND BEYOND

16 mn

The number of **Chinese residents who will visit Japan in 2025**, up from 5mn in 2015. We also expect Korea, Australia and Europe to become tourist hot spots. (Page 26)

“HAVING FUN” BUDGET

\$230/yr

The average **amount that Chinese residents spend on “having more fun.”** This is less than 10% of the per capita amount in the US, Japan and Korea, but poised to grow as China spends more on leisure. (Page 24)

VACATION COSTS

\$2,000

The average **cost of a package tour to Japan**, including money spent on shopping (\$1,000). (Page 21)

THE ACCOMPANYING RETAIL BOOM

\$450 bn

The **amount Chinese tourists will spend on travel overseas in 2025**, an increase of \$250 bn from today’s figures. (Page 35)

BARGAIN HUNTING

20-30%

The **discount Chinese tourists can expect** when shopping in Japan, Korea and Hong Kong, adding to these locations’ appeal. (Page 39)

VISA RESTRICTIONS LIMIT TRAVEL

45

The number of **countries that offer Chinese tourists visas upon arrival**. In contrast, 172 countries offer visas on arrival for Japanese and Korean tourists. (Page 60)

UP IN THE AIR

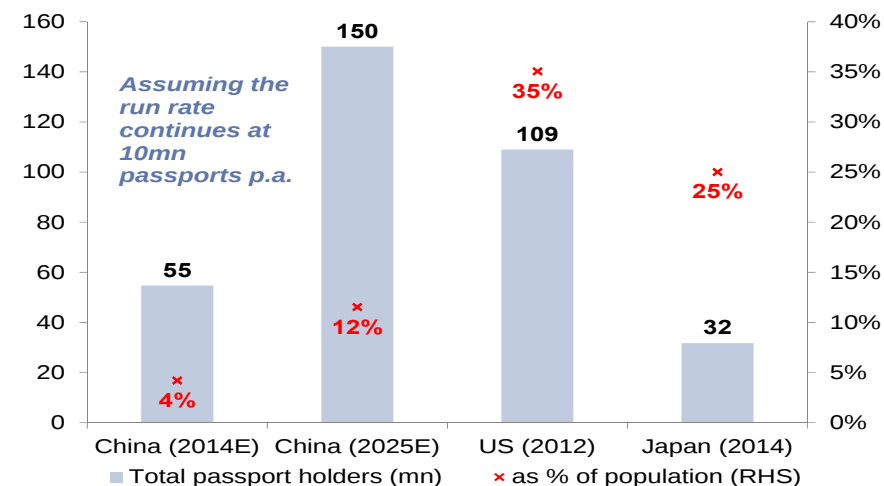
3 hours

The flight time **from Shanghai to Tokyo**. Chinese tourists can fly to most Asian countries in four hours or less. (Page 29)

Chinese tourism in eight charts

Exhibit 1: We estimate only 4% of the Chinese population owns a passport...

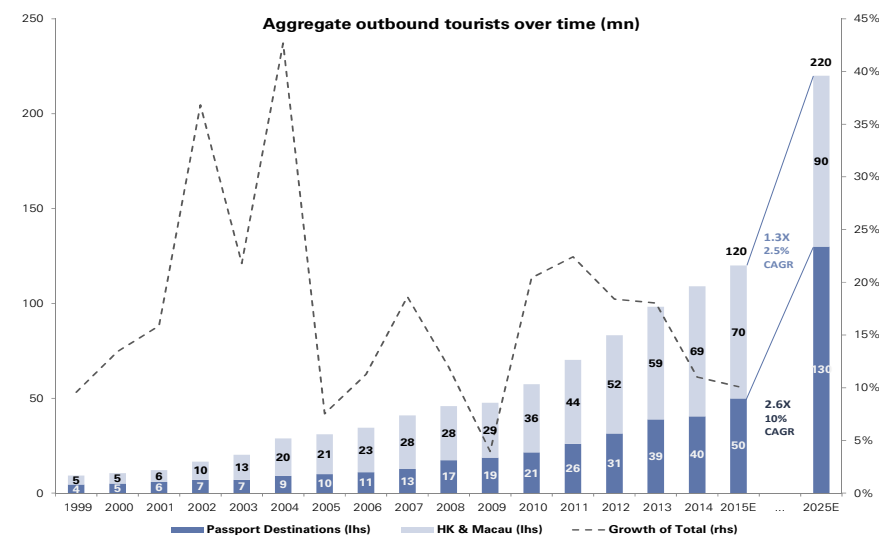
Passport ownership by country



Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 3: ...potentially to 130 mn vs. 50 mn in 2015 (ex. Hong Kong/Macau)

Chinese tourist volume to Hong Kong/Macau, and other regions



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 2: ...as such, we expect Chinese tourist numbers to keep growing...

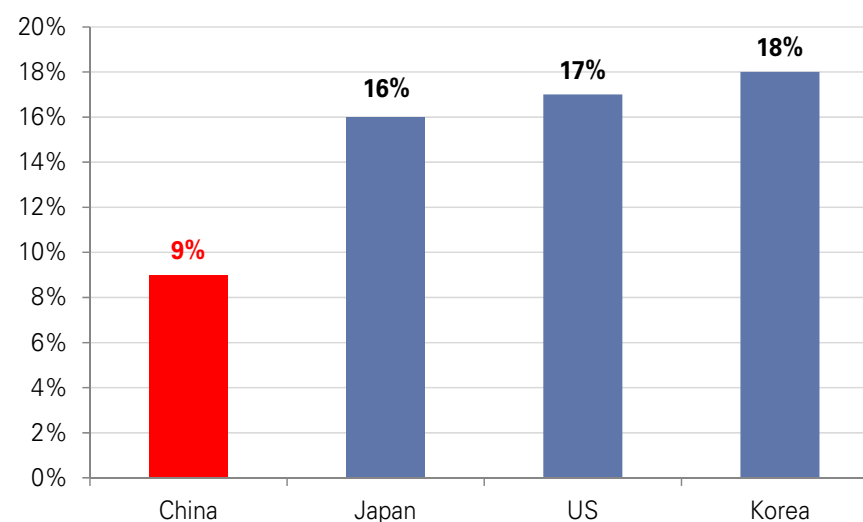
Chinese tourist growth outlook by destination (GSE)

(mn)	2015E	2025E	
HK/Macau	68.0	86.4	1.3X
Korea	5.9	14.1	2.4X
Taiwan	4.1	9.2	2.2X
Japan	5.0	16.0	3.2X
ASEAN	12.0	35.0	2.9X
Thailand	2.5	6.0	2.4X
Australia	1.0	2.0	2.0X
US	2.2	5.0	2.3X
Europe	10.0	22.5	2.3X
Other	11.8	29.8	2.5X
Total	120.0	220.0	1.8X

Source: Goldman Sachs Global Investment Research.

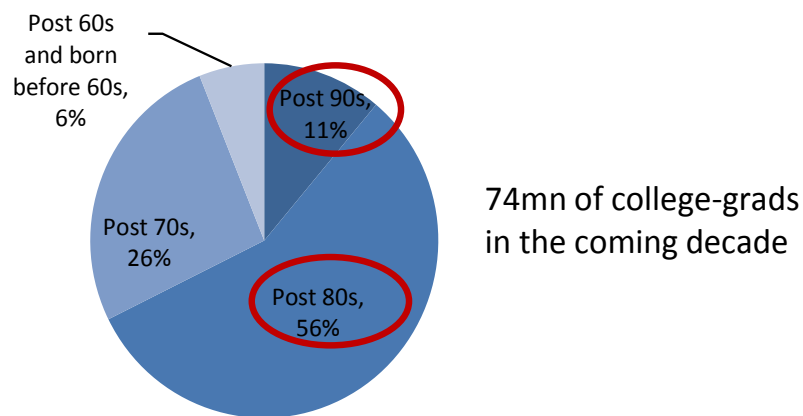
Exhibit 4: "Fun" related spending is under-indexed in China...

Comparison of per-capita spending on "having fun" (FY2013, US\$)



Source: Euromonitor

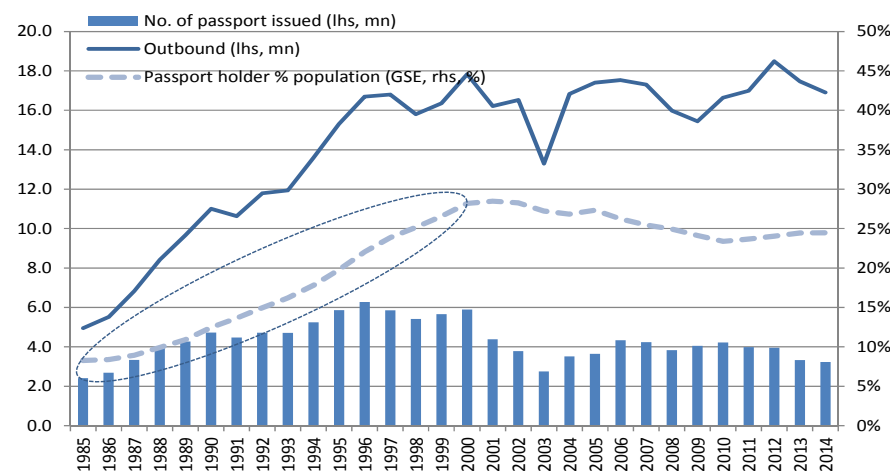
Exhibit 5: ...74 mn millennial college grads in next 10 years is a key driver
Breakdown of Chinese overseas tourists by generation (2014)



Source: World Tourism Cities Federation

Exhibit 7: Japan: Passport issuance is a more important driver of outbound travel growth than the economy

Japan: No. of overseas tourists and no. of passports issued



Source: Goldman Sachs Global Investment Research.

Exhibit 6: Various countries are relaxing visa requirements

Countries relaxing requirements for Chinese tourists	
Asia Pacific	Japan, Korea, Taiwan, Thailand, Indonesia, Singapore, Australia
Europe	UK, France, Germany
America	US

Source: Goldman Sachs Global Investment Research.

Exhibit 8: Key risks to passenger growth mainly surround pricing and potential visa changes

Risk factors	
FX rates	May impact the pricing advantage of key destinations (e.g. HK, Japan Korea), although the relationship between visitor numbers and FX may be more limited in the fast-growth stage
Visa policies	HK and Macau saw significant declines in Chinese tourist numbers on visa tightening and are typical examples of the risk
Brands cutting prices	Would impact the selling prices of products in China, hence affecting the attractiveness of buying goods in other countries
Tariff/tax cuts	

Source: Goldman Sachs Global Investment Research.

Overview: Six key questions

Q1: How many could travel?

- **We estimate 120 mn Chinese tourists will travel overseas in 2015**, with c.70 mn traveling to Hong Kong/Macau, around 5 mn to Japan, Korea, and Taiwan, 12 mn to ASEAN, and 2 mn to the US.
- **We expect the number of outbound passengers to almost double to 220 mn in 2025**. If we exclude Hong Kong and Macau, we expect Chinese tourist numbers to increase c.2.5 times to 130 mn in 2025 from 50 mn in 2015.

Q2: Who are they?

- **They are somewhat affluent:** We estimate **28% of the “urban middle” cohort has a passport vs only 3% for the “urban mass”**. Per head spending on travel is US\$1,400 – equal to 1-2 month’s salary for a typical middle-class worker.
- **They are young:** Two thirds of current outbound travelers are millennials (15-35 years old). We expect the 74 mn college students graduating over the next decade to further boost passport ownership.

Q3: Why do they travel?

- **To have fun:** Millennials are aspirational, leading to structural upside in fun related experience based spending. This includes sports, travel, online gaming, media and eating out. “Fun” related spending is under-indexed in China, at 9% of per capita expenditure vs 16-17% in the US and Japan.
- **To shop:** In the short-term, we still see shopping as a one of the key drivers for Chinese tourists when selecting travel destinations. Chinese tourists spent US\$200 bn (US\$ 450 bn in 2025) in overseas spending in 2015 and 30% was on shopping.
- The number of travelers should increase on three key drivers: (1) a **passport ownership rate of just 4%**, (2) a **growing urban middle class** which is increasingly willing to spend more on fun, and (3) the boost from **millennials’ travel**.

Q4: Where do they go?

Today’s HK is tomorrow’s Japan/Korea: We expect high outbound traveler growth to Japan, considering multiple factors such as the relatively short travel distance from China, price differentials, relaxing visa conditions, and tourism assets.

- **Distance:** Many Asian countries are just a three to four hour flight from China, much closer than European and North American countries. However, many countries require visas for travel from China, making them seem even further away.
- **Relaxation of visas:** A number of key countries have already relaxed (or are in the process of relaxing) visa requirements for Chinese tourists over the past 18 months, which could help boost tourist numbers. The addressable market of Chinese tourists to Japan has increased to c.50 mn Chinese residents from <10 mn following a visa change in January 2015.

- **Price differentials:** Our proprietary GS tourist price tracker suggests that prices of merchandise in China are c.20-30% more expensive than HK, Japan and Korea on average. The greatest differences are mostly for goods, not services—a Zojirushi rice cooker is more than 2X expensive in Shanghai vs Tokyo, but a taxi ride is 80% cheaper.
- **Tourism assets:** This is becoming an increasingly important driver of tourism, as millennial travelers crave fun. Japan has the second highest number of world heritage sites in Asia after China, making it an attractive destination for Chinese tourists. Hong Kong, on the other hand has had limited additional attractions since Disneyland.

Q5: Is capacity an issue?

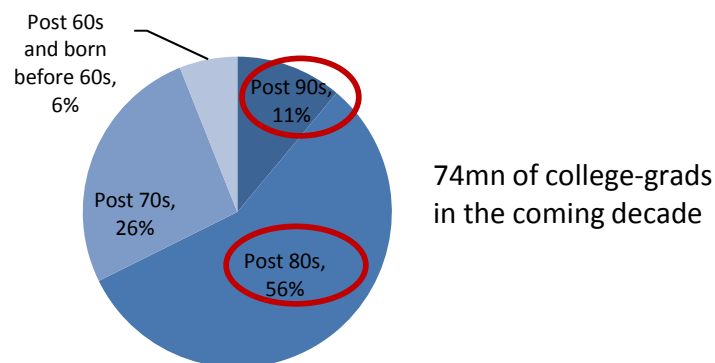
- Countries set to experience high inbound tourist growth from China have sufficient capex plans for both hotels and airports but **Japan is lacking sufficient hotels**. We do not anticipate any major capacity issues in HK, and Korea's airport/hotel expansion plans are enough to support double-digit Chinese inbound growth CAGR, in our view.

Q6: What could slow the tide?

- **China economic slowdown?** Looking at past experiences in Japan, the UK, Korea, and others, suggests overseas travel has a higher correlation with passport growth than the economy. Given only 4% of China's population has a passport at present, we think it is far too early to say there will be a change in the overall upward trend, even if the economic slowdown has more than a slight impact.
- We think **FX rates** and **visa policies** are two major swing factors to look at, while **brands cutting prices in China** and the **government lowering the tariff/tax** would be another two risks.

Exhibit 9: We estimate millennials account for the majority of Chinese overseas tourists

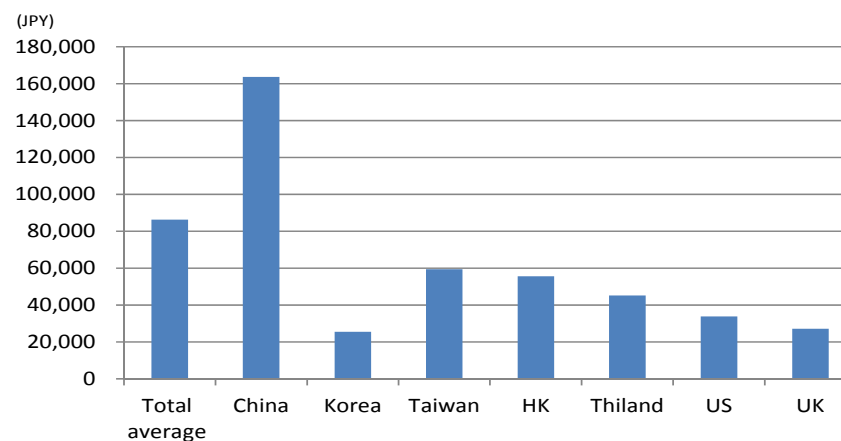
Breakdown of Chinese overseas tourists by generation (2014)



Source: World Tourism Cities Federation

Exhibit 10: Chinese tourists spend far more than other tourists on shopping in Japan

Shopping outlays by foreign tourists in Japan (April-June 2015)



Source: Japan Tourism Agency

Chinese tourism by numbers

4%→12%: Chinese passport ownership (2014 vs. 2025E)

We calculate the passport ownership rate in China is 4%, much lower than 25% in Japan and c.35% in the US. We expect the number of Chinese passports to almost triple from 55 mn (2014) to 150 mn in 2025E (12% ownership) versus a c25% increase in the number of passports globally (we estimate there are 400 mn passports on issue).

74 mn: Total number of college-grads in the coming decade

We see Chinese millennials as the key driver of our projected 100 mn increase in Chinese passport holders over the next 10 years. Over the next decade, 74 mn millennials at Chinese universities are set to graduate; we think they will look to travel overseas in large numbers given they are well informed and do not consider language barriers to be prohibitive.

US\$33 vs. US\$500: Household spending on travel (China vs. Japan/US, FY2013)

Chinese travelers spend less than 10% of what Japanese and Americans spend on travel. We expect them to increase spending on having more fun.

120 mn→220 mn: Number of Chinese tourists (2015E vs. 2025E)

We expect 120 mn Chinese will travel overseas by the end of 2015, less than 10% of the 1.3 bn population. We forecast this number to nearly double to 220 mn by 2025E.

70 mn vs. 4-6 mn: Chinese tourists to HK/Macau vs. Korea/Japan/Taiwan (2015E)

Of the 120 mn Chinese traveling overseas in 2015, we assume that around 70 mn will visit Hong Kong/Macau. By comparison, visitor numbers to Korea, Japan, and Taiwan will likely be in the 4-6 mn range. As per-capita GDP increases and appetite for travel outside Chinese-speaking regions grows, we expect a significant increase in outbound visitors to Japan and Korea.

US\$200 bn→US\$450 bn: Overseas spending by Chinese tourists (2015E vs. 2025E)

In 2015, Chinese tourists spent roughly US\$60 bn on shopping overseas. We see this figure doubling to US\$130 bn by 2025, in line with the growth in tourist numbers (we assume flat spending per head).

US\$2,000: The avg cost of a package tour to Japan and money spent on shopping (2014)

A package tour from China to Japan costs around US\$1,000 on average; after adding in local spending on shopping and other goods and services, Chinese tourists spend an average of roughly ¥250,000 (US\$2,000) on trips to Japan.

20-30%: The price differential between items bought in China vs. Japan/Korea/HK

Our proprietary GS tourist price surveys in Tokyo, Seoul, Shanghai, and Hong Kong found an average price differential of c20-30% for the same item (as of Aug 2015). Some items sold in China are more than double overseas prices.

45 vs. 172: No. of countries that don't require visas for tourists (China vs. Japan/Korea)

Around 60% of Chinese travelers regard visa applications as the greatest impediment to traveling overseas. This is not surprising as Chinese passport holders require a visa to visit most destinations abroad (North America, Europe, Japan, Korea, Hong Kong, etc.). Obtaining a visa upon arrival is only possible for a few destinations, including Thailand, Indonesia, Korea's Cheju Island, and the Maldives, and most other countries that do not require a visa are in Africa. By contrast, Korean and Japanese passport holders can travel visa-free to 170 or more countries out of a total 195 countries. (Source: The Henley & Partners Visa Restrictions Index).

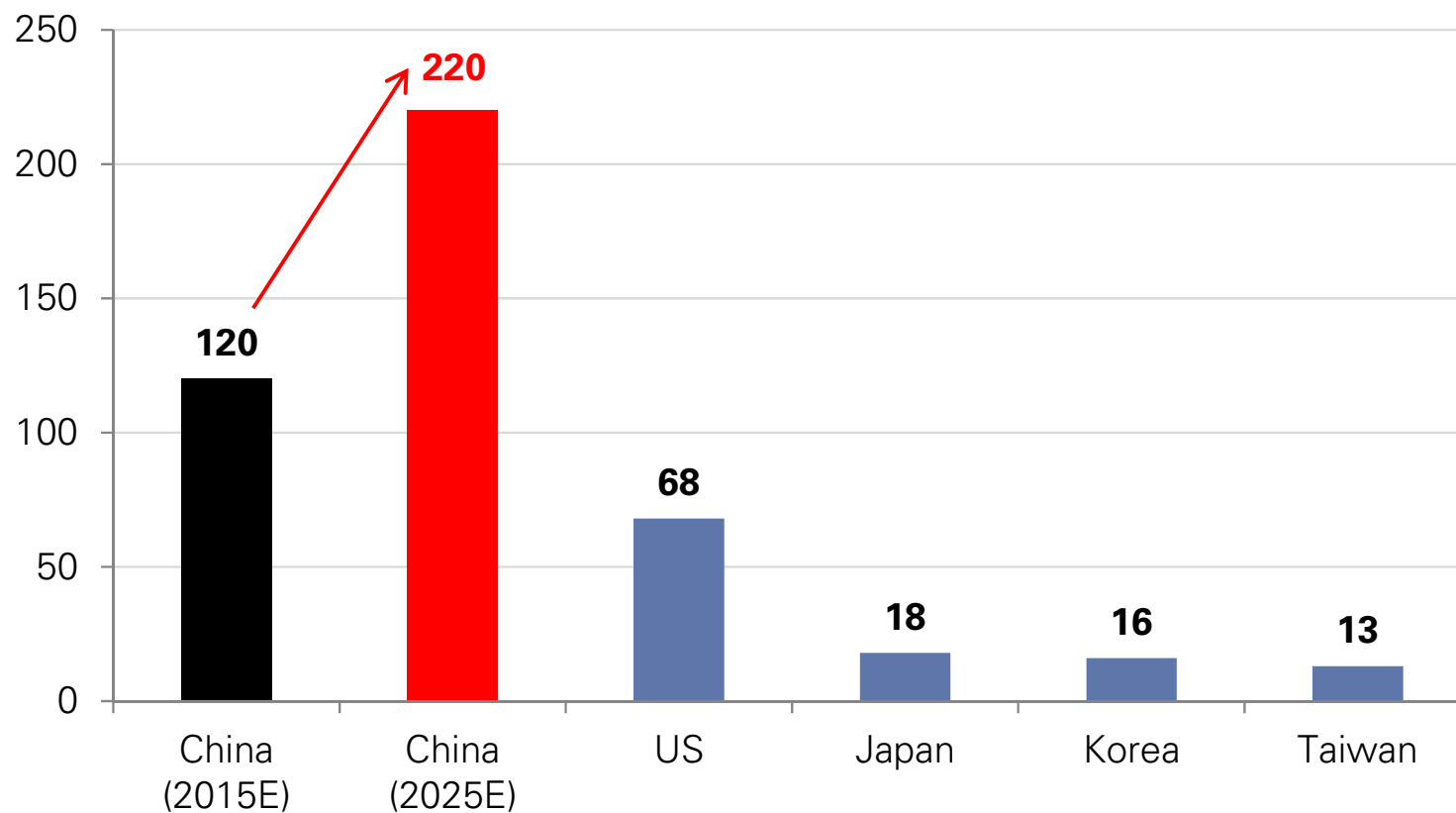
Chinese tourist boom: Six key questions

Q1: How many could travel?

We estimate Chinese tourists will total 120 mn in 2015, with 70 mn traveling to Hong Kong/Macau, around 5 mn each to Japan, Korea, and Taiwan, 12 mn to ASEAN, and 2 mn to the US (see Exhibit 13: for a breakdown).

Exhibit 11: We expect outbound tourists in China to rise to 220 mn in 2025 from 120 mn in 2015 (130 mn from 50 mn ex-HK/Macau). The incremental size is more than the total number of US outbound tourists (68 mn) in 2015.

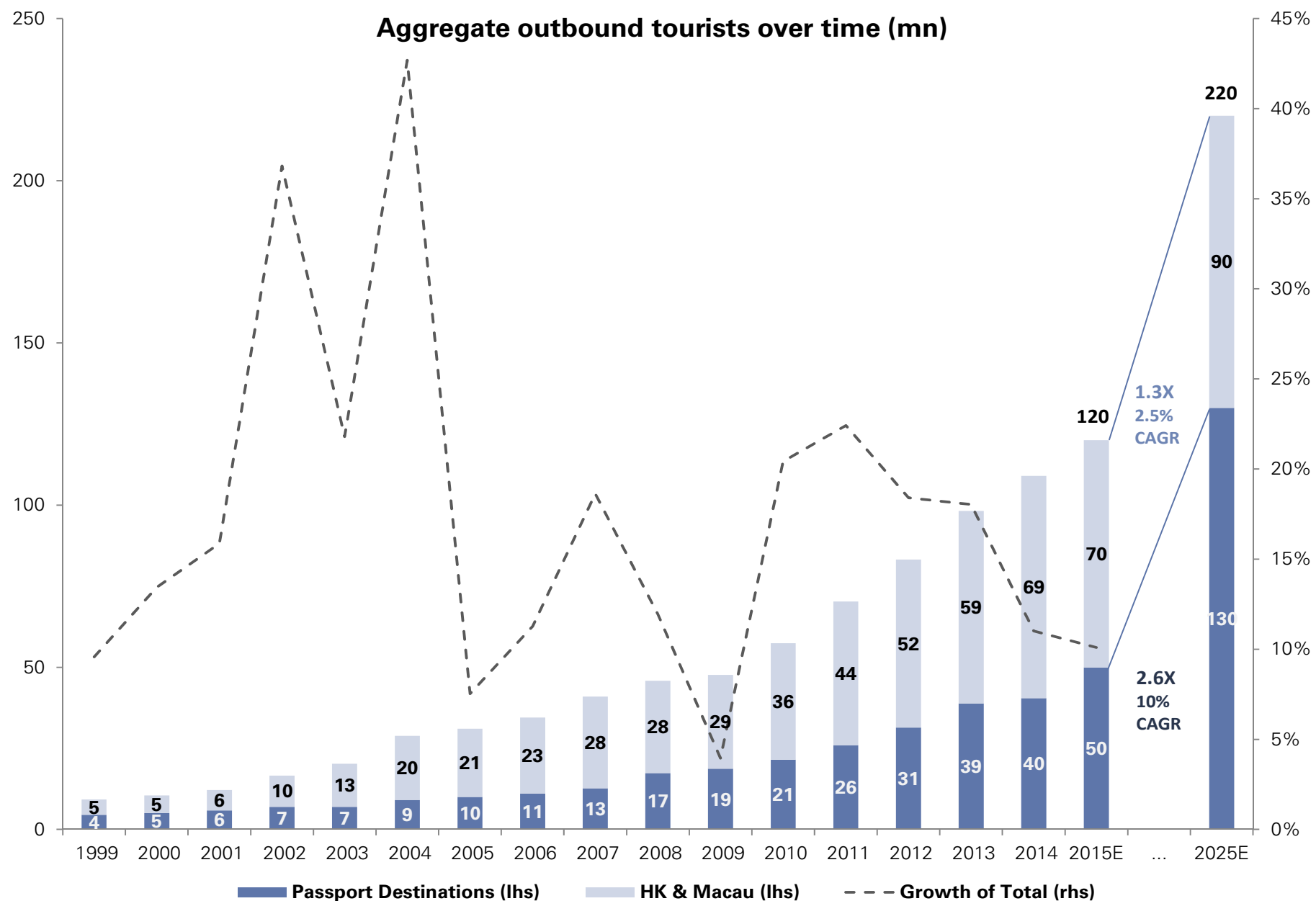
Outbound tourist numbers (mn, 2015E)



Source: Goldman Sachs Global Investment Research.

Exhibit 12: Outbound tourists (other than to Hong Kong/Macau) to rise c2.5X to 130 mn in 2025 from around 50 mn in 2015

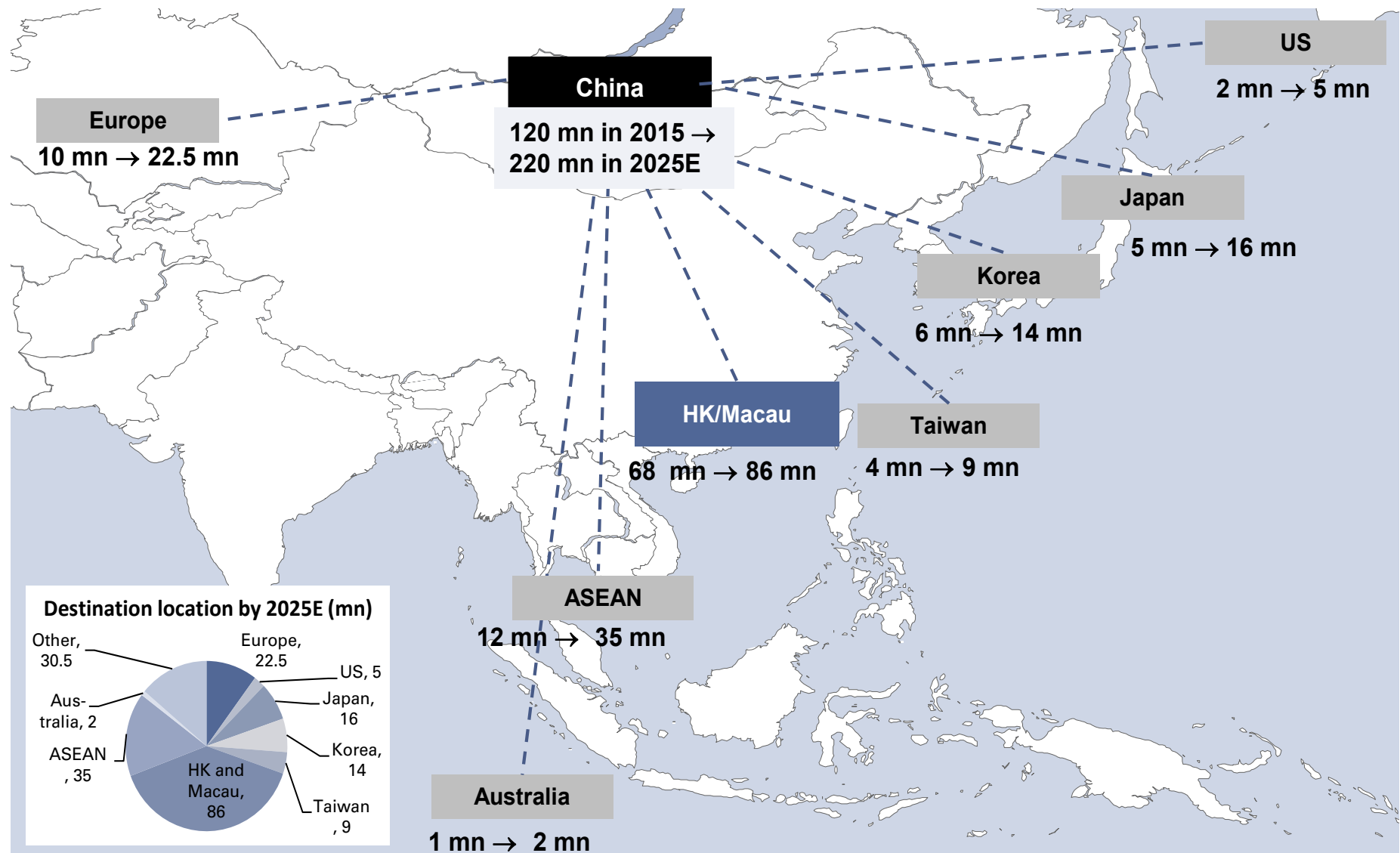
Breakdown of Chinese tourists visiting Hong Kong/Macau and other destinations



Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 13: Where do Chinese tourists go?

Main travel destinations for Chinese tourists (current forecast for 2015, extended forecast for 2025)



Source: Goldman Sachs Global Investment Research.

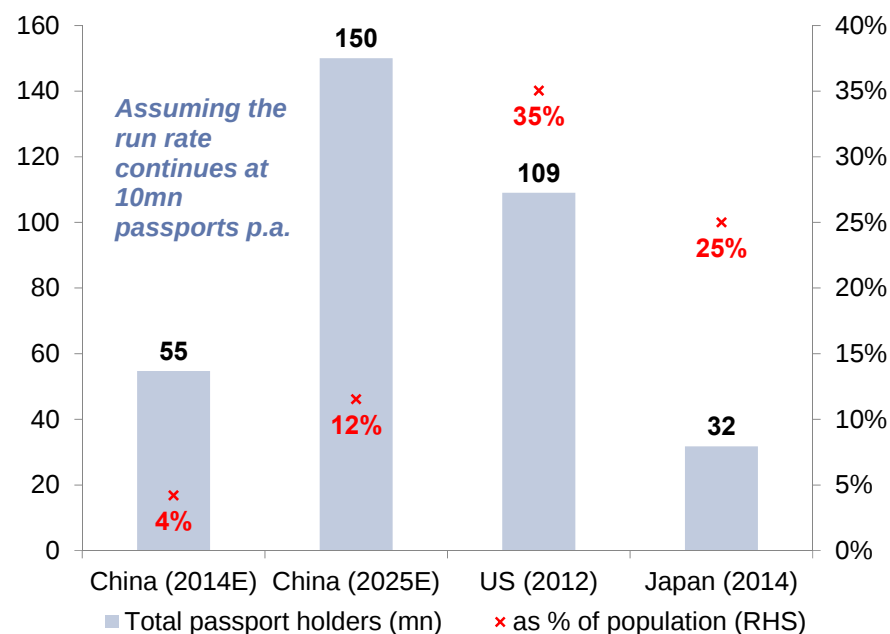
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They are somewhat affluent: We estimate that **28% of the “urban middle” cohort has a passport, vs only 3% for the “urban mass”**. Per head spending on travel is US\$1,400, which is equal to 10-15% of a typical middle class’ annual salary.

They are young: Two thirds of current outbound travelers are millennials (15-35 years old). With 74 mn college grads in the next decade, we expect this to further boost passport ownership.

Exhibit 14: Only 4% of China’s population hold a passport, far lower than 25% for Japan and 35% for the US

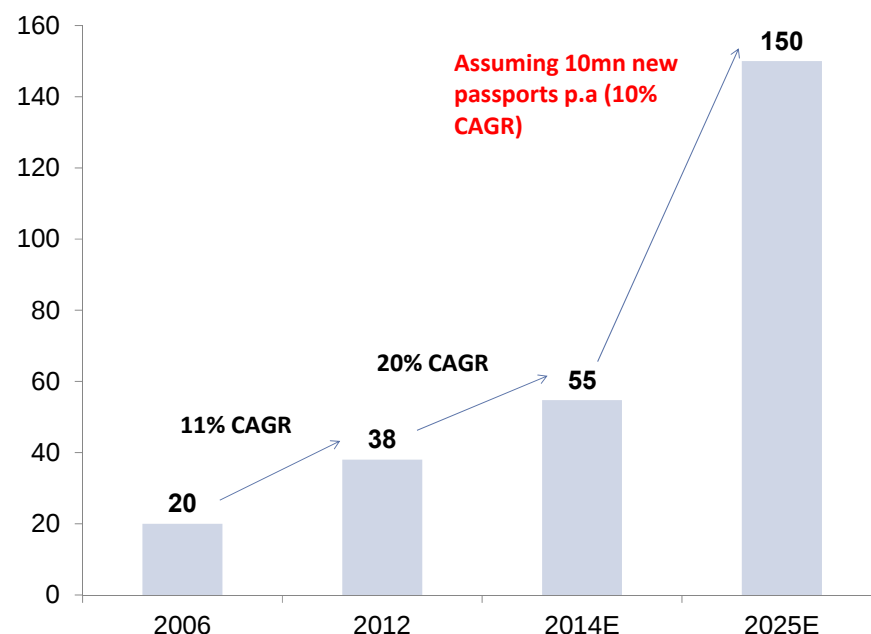
Number of passports and passport ownership ratios



Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 15: We expect the number of Chinese passports to increase by 10 mn a year and for the passport ownership rate to increase to 12% in 2025

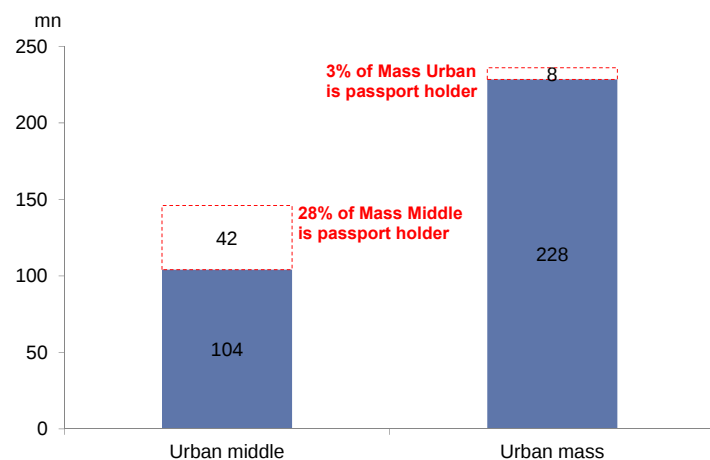
Number of Chinese passports



Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 16: We estimate passport ownership rates are 28% for the “urban middle” and 3% for the “urban mass”

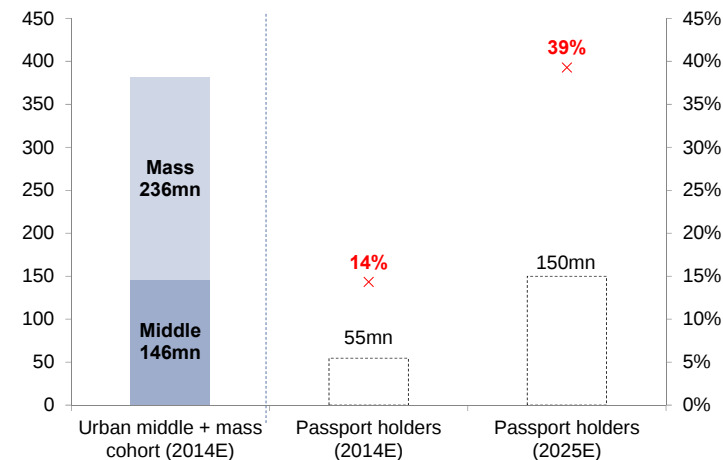
Passport ownership rates by population segment



Source: Goldman Sachs Global Investment Research.

Exhibit 17: We forecast around 40% of China's urban middle + mass cohort will hold passport in 2025

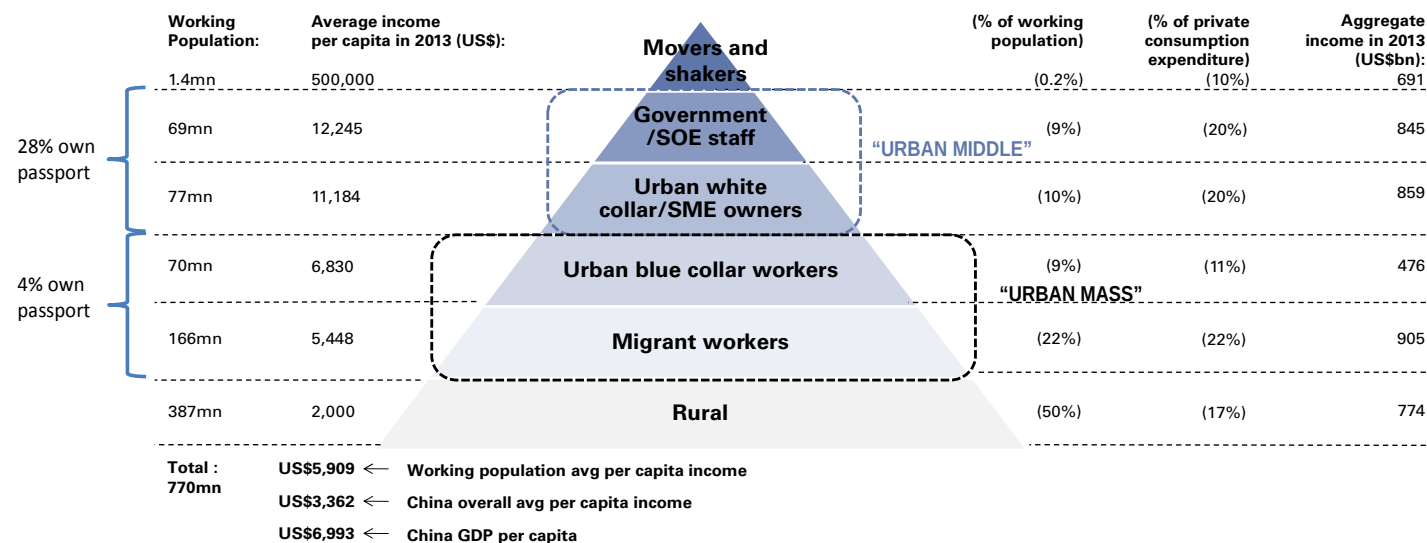
Passport ownership rate with “urban mass” and “urban middle” as the denominator



Source: Goldman Sachs Global Investment Research.

Exhibit 18: We assume the “urban middle” are the main overseas travelers, but we think more households in the “urban mass” will be able to travel overseas as their incomes grow

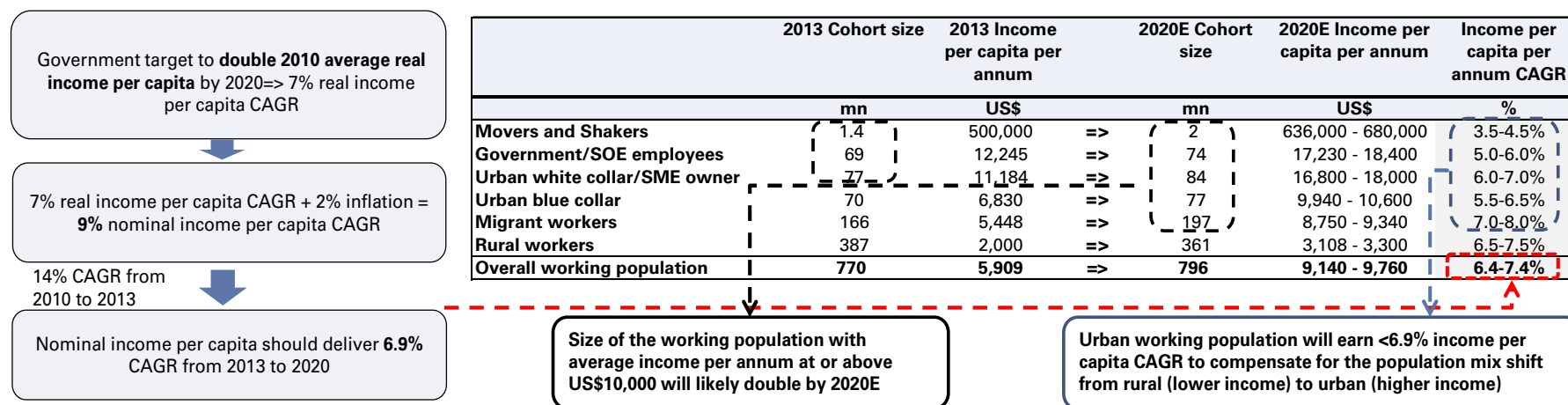
The Chinese population divided into six segments



Source: Goldman Sachs Global Investment Research.

Exhibit 19: The Central Government targets a doubling of average income per capita from 2010-2020, implying a doubling of the size of the working population with an average income of US\$10,000+ p.a.

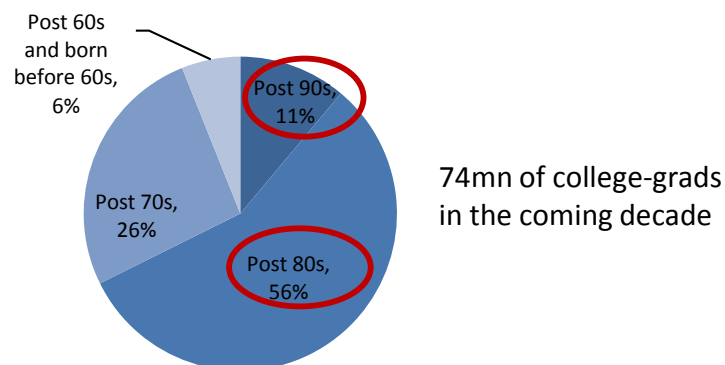
Population and income forecasts for six Chinese consumer segments



Source: Goldman Sachs Global Investment Research.

Exhibit 20: We estimate millennials account for the majority of Chinese overseas tourists

Breakdown of Chinese overseas tourists by generation/year of birth (2014)



Source: World Tourism Cities Federation

Exhibit 21: Assuming half of the 74 mn students set to graduate from Chinese universities over the next decade obtain a passport and 70% of them travel overseas, the number of overseas trips would rise by 26 mn

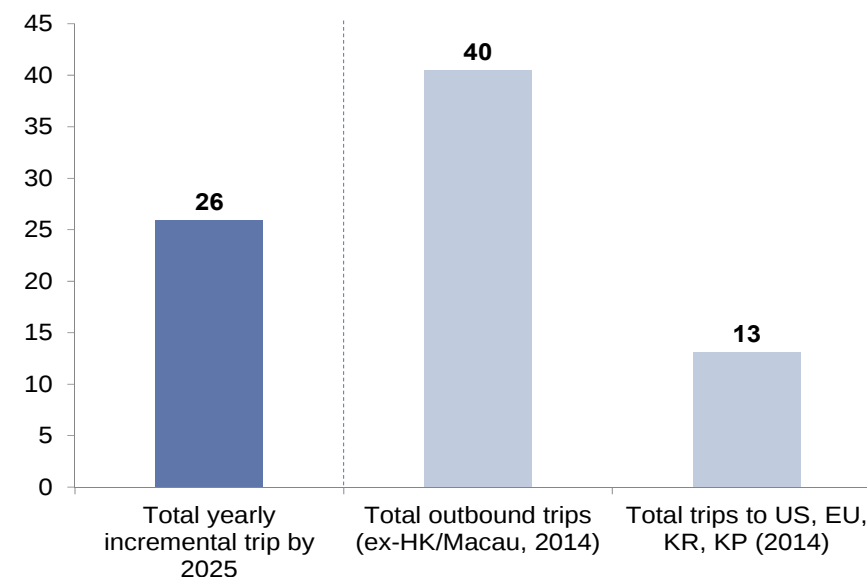
Simulation of the number of overseas graduates and overseas travel

Total number of college graduates in China (2015-25, mn)	74
% which will apply for passports (GSE)	50%
Total incremental passport count from college grads	37
% conversion to additional annual trips (based on 2012-14 actual)	70%
Total annual incremental trips for year 2025	26

Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 22: The significance of the additional 26 mn is clear given the number of overseas trips by Chinese tourists was c. 50 mn (excl. HK/Macau) in 2014

Comparison of outbound trips



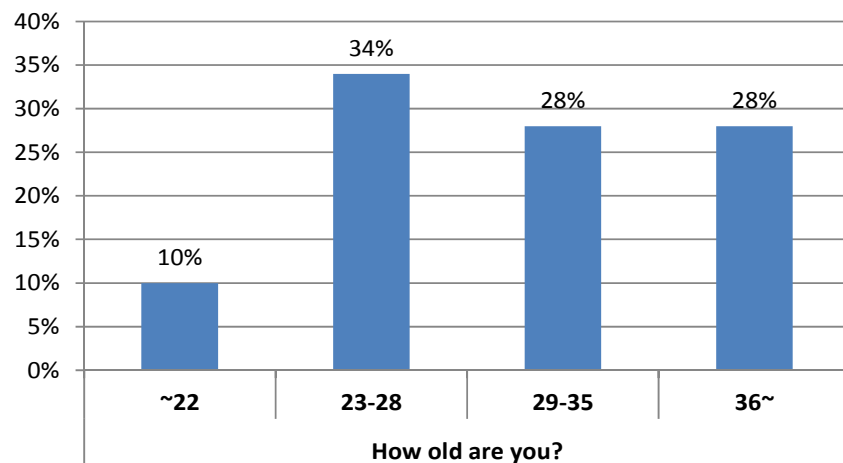
Source: CEIC, Goldman Sachs Global Investment Research.

What is their travel budget?: Survey respondents planned to spend around US\$1,000 (Rmb6000) on package tours to Asia. Per data from the Japan Tourism agency, Chinese tourists spent more than US\$1,000 in Japan on average (Jan-June 2015). However, the amount spent on shopping locally differs by destination.

What are the challenges they face traveling overseas?: Most Chinese travelers cited visa applications as the greatest impediment to overseas travel, followed by language, budget, and other factors (per a survey by sojump.com).

Exhibit 23: Millennials (aged 35 or below) account for the majority of respondents

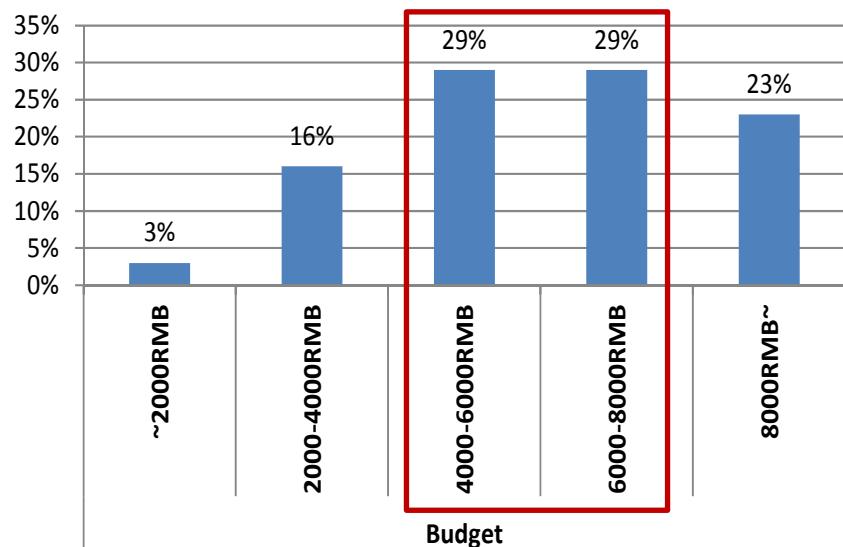
Age breakdown for 1,000 survey respondents



Source: Sojump.com survey.

Exhibit 25: A majority indicated that they plan to spend around Rmb6,000 (=US\$1,000)

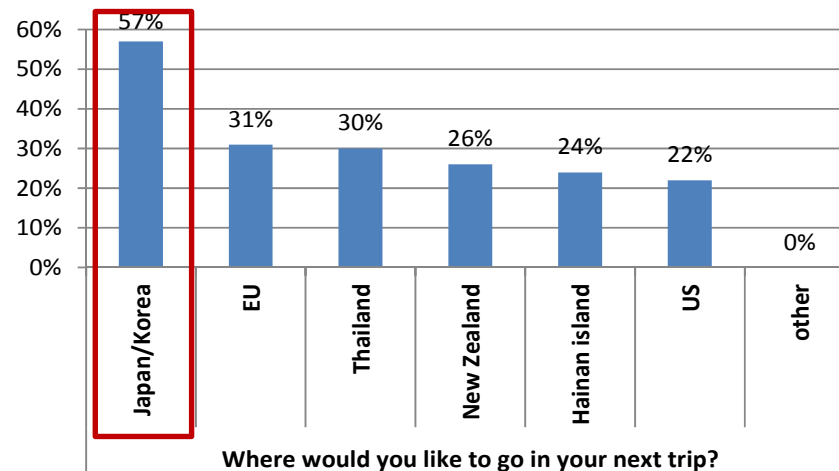
Survey question on overseas travel budget



Source: Sojump.com survey.

Exhibit 24: Japan and Korea are the preferred destinations

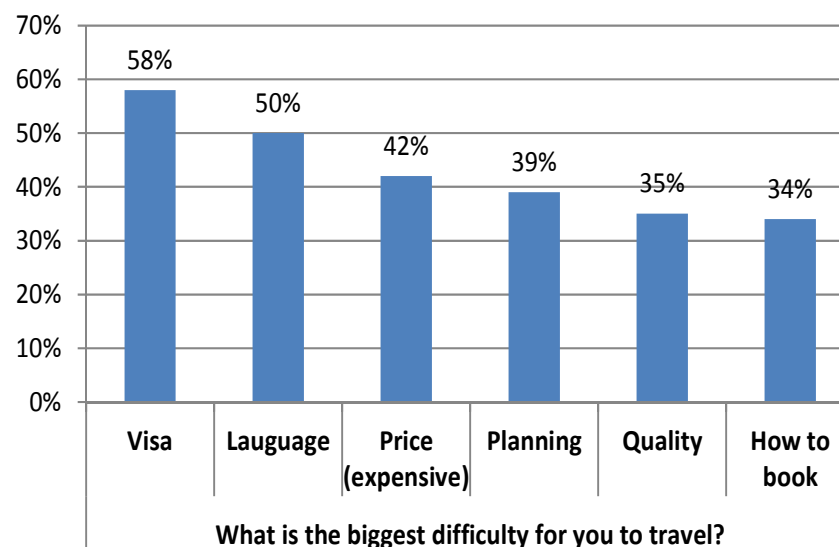
Survey question on the next intended overseas travel destination



Source: Sojump.com survey.

Exhibit 26: Visa application was cited as the greatest impediment to overseas travel

Survey questions on the largest impediment to overseas travel



Source: Sojump.com survey.

Exhibit 27: A flight from a major Chinese city to an Asian destination costs Rmb2,000-3,000 (about ¥50,000/US\$500)

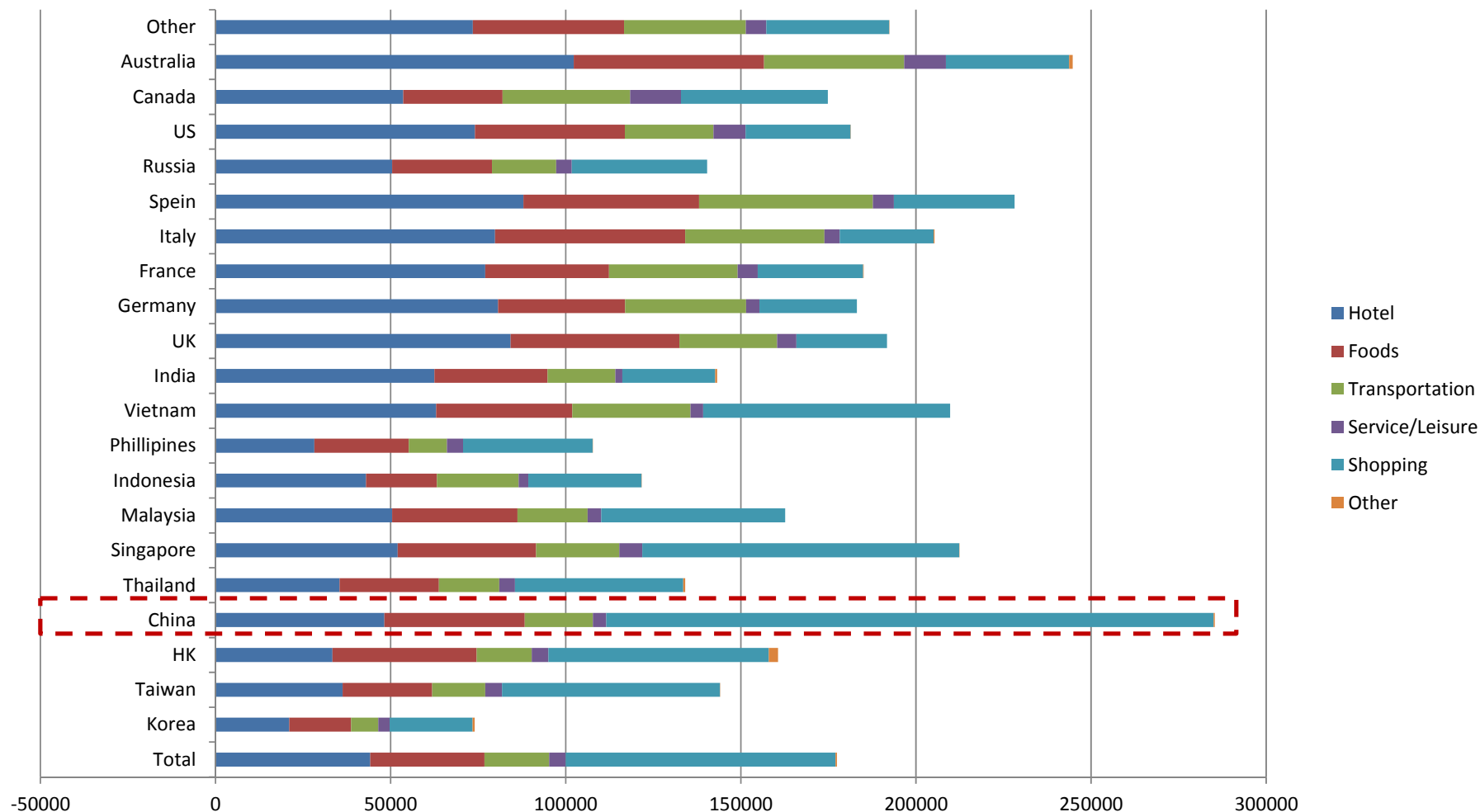
Ticket prices from major Chinese cities to overseas destinations

RMB	Round Trip (3D2N / 1x Adult)			
Country	From Beijing	From Shanghai	From Guangzhou	
Hong Kong	¥ 2,768	¥ 1,670	¥ 2,222	
Macau	¥ 1,928	¥ 1,544	¥ 2,758	
Korea	¥ 2,544	¥ 2,115	¥ 2,757	
Thailand	¥ 2,223	¥ 2,482	¥ 1,322	
Taiwan	¥ 1,834	¥ 1,586	¥ 1,744	
Japan	¥ 4,513	¥ 3,308	¥ 5,019	
Vietnam	¥ 1,866	¥ 2,322	¥ 1,732	
Singapore	¥ 2,499	¥ 2,290	¥ 1,677	
Malaysia	¥ 2,198	¥ 2,821	¥ 2,255	
Philippines	¥ 1,767	¥ 2,271	¥ 1,702	
US	¥ 10,385	¥ 10,949	¥ 12,829	
UK	¥ 13,556	¥ 13,401	¥ 11,805	

Source: Ctrip (as of end of August 2015)

Exhibit 28: Besides tour packages, Chinese tourists spend a lot of money on shopping, spending close to ¥200,000 on average in Japan, but we expect spending levels to decline to similar level as other developed countries (¥100,000)

Breakdown of spending by Chinese tourists in Japan (January-June 2015)



Source: Japan Tourism Agency.

Q3: Why do they travel?

To have fun: The young millennial customer (which makes up to two thirds of outbound travelers) is more prone to experience-based consumption, which has resulted in a surge in “fun related” consumer spending. Fun related spending includes travel, eating out, sports, media, and online gaming – all of these segments have held up well despite softer economic growth.

To shop: The fact that outbound markets offer cheaper goods is another key driver for tourists. In short, prices in China are too high, especially for consumer goods relative to other destinations. Our checks suggest that Chinese goods for international brands are on average 20-30% higher than the tourist destinations we surveyed. In the long term, we expect tourist motivation to gradually shift away from “shopping for cheap goods” to “having more fun.”

Looking ahead, the trend of Chinese outbound tourist growth should continue, and almost double by 2025, given:

1. A very underpenetrated market: passport ownership rate of just 4%

Only 4% of Chinese people hold a passport (55 mn passport holders), far lower than 25% of Japanese and 35% of Americans. We forecast the number of passports will increase at the current run rate of roughly 10 mn per year from now to a total of 150 mn in 2025 (passport ownership rate of 12%). The number of people traveling overseas has risen along with a rise in the passport ownership rate in the past in Japan, the UK, and Korea.

2. A boost from younger millennials

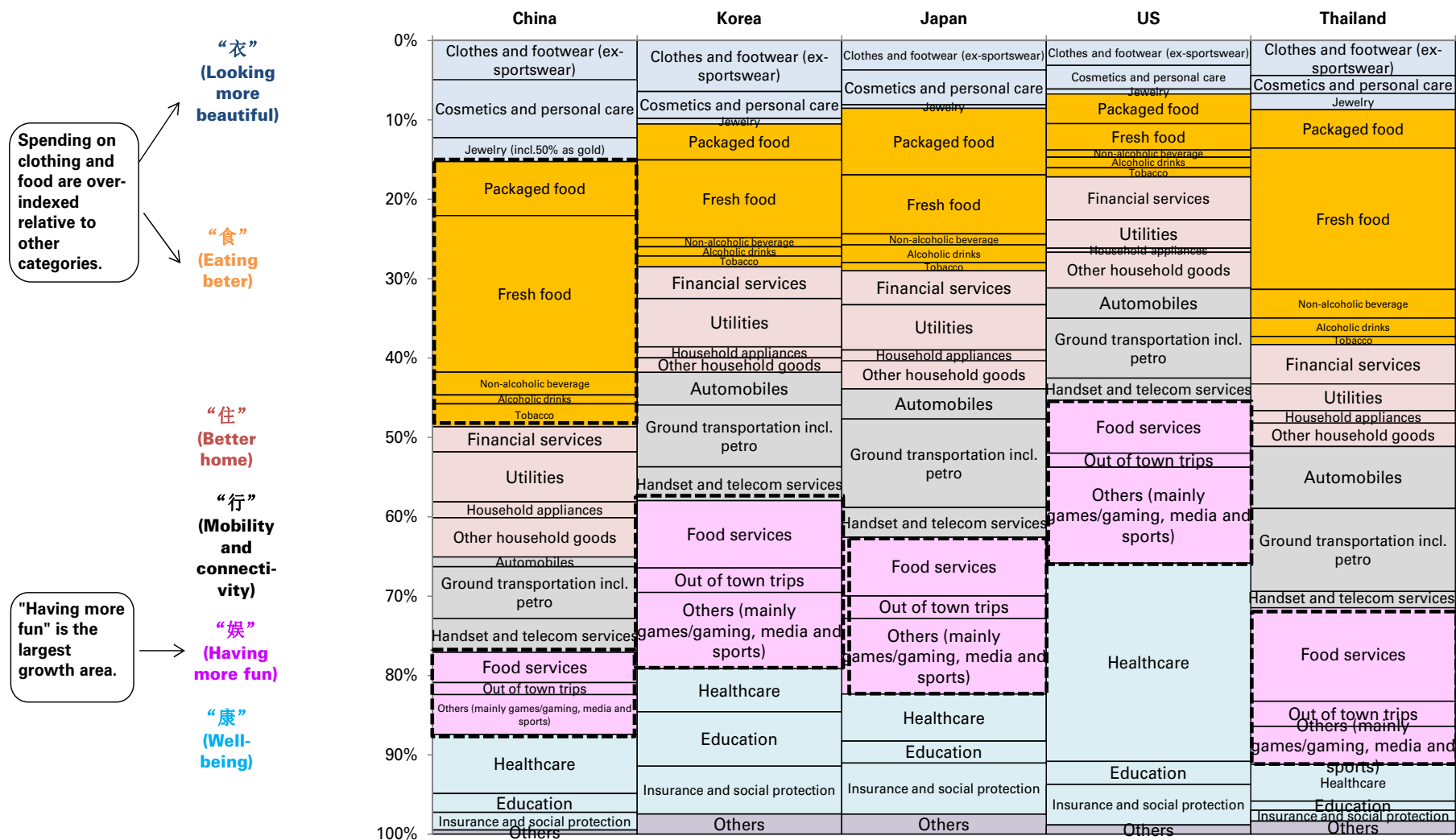
A change in tourism demographics is another point to watch. We believe the 74 mn students set to graduate from Chinese universities over the next decade will have more opportunities to travel overseas before and after university. By and large this generation (people born between 1980 and 2000) is familiar with the internet, has access to overseas information, has usually studied a foreign language, and is not averse to overseas travel.

3. A growing middle-class population with higher incomes and a willingness to travel overseas; increased spending on having fun

- a. We believe per-capita GDP growth will be accompanied by an increase in the urban middle-class population who will have the income to afford overseas travel. As incomes rise, we expect to see more people upgrading from domestic travel and their travel horizons from Hong Kong and Macau, for which they do not need a passport, to other Asian destinations, and later to Europe and the US.
- b. The percentage of household income devoted to leisure activities in China and many other Asian countries is low compared with Japan, Europe, and the US. In absolute terms, average annual per-capita expenditure on travel in China is US\$33, which is less than 10% of the amount spent in Japan, the US, and Korea. We expect more households to travel as they spend more on leisure activities.

Exhibit 29: We expect Chinese to spend more on having more fun

Six categories of household expenditure by country (2013)



Source: Euromonitor, Goldman Sachs Global Investment Research.

Exhibit 30: Spending on having more fun and travel in China is still low

Breakdown of personal consumption expenditure per capita (FY2013, US\$)

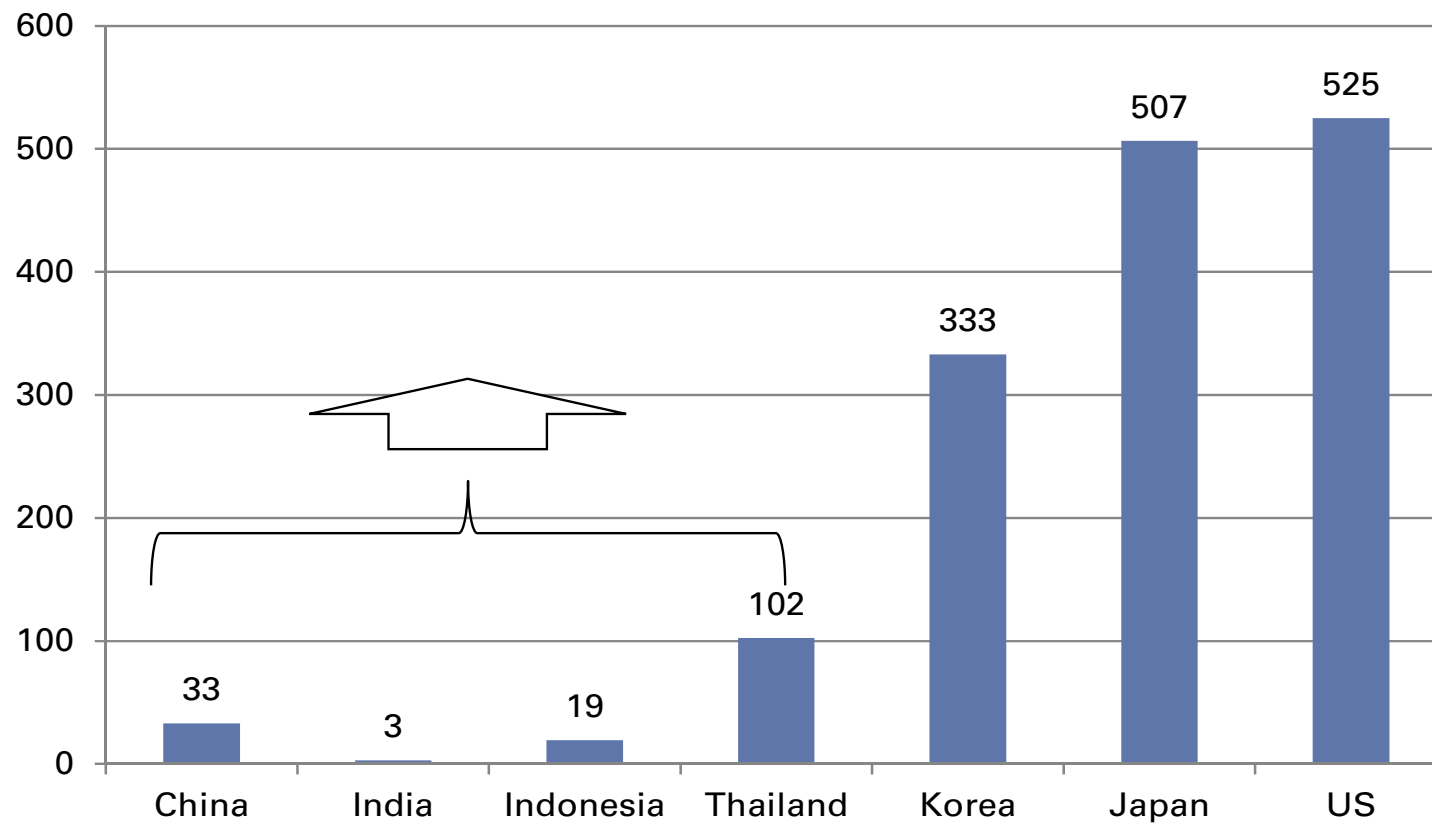
PCE per capita by category, US\$, 2013	China	India	Indonesia	Thailand	Korea	Japan	US
"Looking more beautiful"	339	113	107	283	1,134	1,539	2,014
Clothes and footwear (ex-sportswear)	195	62	58	143	680	669	937
Color cosmetics and skincare	18	2	7	18	115	175	78
Jewelry	67	29	5	67	75	77	189
Others (mainly personal care)	59	21	37	55	265	618	810
"Eating better"	743	289	759	959	1,941	3,694	3,129
Food	590	251	609	734	1,546	2,858	2,118
Packaged food	152	27	98	157	488	1,514	1,118
Fresh food	438	224	510	577	1,058	1,344	1,000
Non-alcoholic beverage	64	13	44	117	120	248	272
Alcoholic drinks	25	10	2	75	128	404	401
Tobacco	65	15	104	33	147	184	338
"Better home"	646	194	426	582	3,089	7,497	9,779
Housing	282	75	229	166	1,657	4,810	5,582
Utility	140	41	116	109	655	1,029	1,071
Household appliances	45	8	20	51	149	245	158
Financial services	70	45	10	161	431	771	1,621
Other household goods and services	110	27	51	96	199	643	1,348
"Mobility/connectivity"	268	156	257	661	1,744	3,399	4,271
Automobiles	28	15	59	253	445	683	1,142
Ground transportation/services, incl. petro	145	129	136	339	838	2,012	2,265
Telecom equipment	21	3	7	7	72	18	43
Telecom services	74	7	55	60	386	662	789
Postal services	1	2	0	2	4	24	32
"Having more fun"	230	37	286	640	2,284	3,559	6,151
Food services	85	22	174	382	916	1,331	2,001
Out-of-town trips	33	3	19	102	333	507	525
Media	19	7	63	72	327	644	849
Sports	28	3	4	16	194	284	665
Other recreational goods and services	66	3	26	68	515	793	2,112
Gaming and online games	42	n/a	n/a	n/a	n/a	n/a	450
"Well-being"	267	65	128	231	1,973	2,733	9,883
Healthcare	166	31	52	150	586	1,071	7,480
Education	53	11	68	37	736	498	872
Insurance and social protection	49	23	8	44	651	1,165	1,531
Others	12	39	3	54	275	455	349
Total	2,506	892	1,967	3,409	12,439	22,876	35,576

As % of aggregate PCE per capita, 2013	China	India	Indonesia	Thailand	Korea	Japan	US
"Looking more beautiful"	13.5%	12.7%	5.4%	8.3%	9.1%	6.7%	5.7%
Clothes and footwear (ex-sportswear)	7.8%	6.9%	3.0%	4.2%	5.5%	2.9%	2.6%
Color cosmetics and skincare	0.7%	0.2%	0.3%	0.5%	0.9%	0.8%	0.2%
Jewelry	2.7%	3.2%	0.3%	2.0%	0.6%	0.3%	0.5%
Others (mainly personal care)	2.4%	2.3%	1.9%	1.6%	2.1%	2.7%	2.3%
"Eating better"	29.7%	32.4%	38.6%	28.1%	15.6%	16.1%	8.8%
Food	23.5%	28.1%	31.0%	21.5%	12.4%	12.5%	6.0%
Packaged food	6.0%	3.0%	5.0%	4.6%	3.9%	6.6%	3.1%
Fresh food	17.5%	25.2%	25.9%	16.9%	8.5%	5.9%	2.8%
Non-alcoholic beverage	2.6%	1.4%	2.2%	3.4%	1.0%	1.1%	0.8%
Alcoholic drinks	1.0%	1.1%	0.1%	2.2%	1.0%	1.8%	1.1%
Tobacco	2.6%	1.7%	5.3%	1.0%	1.2%	0.8%	0.9%
"Better home"	25.8%	21.8%	21.7%	17.1%	24.8%	32.8%	27.5%
Housing	11.2%	8.4%	11.7%	4.9%	13.3%	21.0%	15.7%
Utilities	5.6%	4.5%	5.9%	3.2%	5.3%	4.5%	3.0%
Household appliances	1.8%	0.9%	1.0%	1.5%	1.2%	1.1%	0.4%
Financial services	2.8%	5.0%	0.5%	4.7%	3.5%	3.4%	4.6%
Other household goods and services	4.4%	3.0%	2.6%	2.8%	1.6%	2.8%	3.8%
"Mobility/connectivity"	10.7%	17.4%	13.1%	19.4%	14.0%	14.9%	12.0%
Automobiles	1.1%	1.6%	3.0%	7.4%	3.6%	3.0%	3.2%
Ground transportation/services, incl. petro	5.8%	14.5%	6.9%	9.9%	6.7%	8.8%	6.4%
Telecom equipment incl. handsets	0.8%	0.4%	0.3%	0.2%	0.6%	0.1%	0.1%
Telecom services	3.0%	0.7%	2.8%	1.7%	3.1%	2.9%	2.2%
Postal services	0.0%	0.2%	0.0%	0.1%	0.0%	0.1%	0.1%
"Having more fun"	9.2%	4.1%	14.6%	18.8%	18.4%	15.6%	17.3%
Food services	3.4%	2.4%	8.9%	11.2%	7.4%	5.8%	5.6%
Out-of-town trips	1.3%	0.3%	1.0%	3.0%	2.7%	2.2%	1.5%
Media	0.7%	0.8%	3.2%	2.1%	2.6%	2.8%	2.4%
Sports	1.1%	0.3%	0.2%	0.5%	1.6%	1.2%	1.9%
Other recreational goods and services	2.6%	0.3%	1.3%	2.0%	4.1%	3.5%	5.9%
Gaming and online games	1.7%	n/a	n/a	n/a	n/a	n/a	1.3%
"Well-being"	10.7%	7.3%	6.5%	6.8%	15.9%	11.9%	27.8%
Healthcare	6.6%	3.5%	2.6%	4.4%	4.7%	4.7%	21.0%
Education	2.1%	1.2%	3.5%	1.1%	5.9%	2.2%	2.5%
Insurance and social protection	2.0%	2.6%	0.4%	1.3%	5.2%	5.1%	4.3%
Others	0.5%	4.4%	0.1%	1.6%	2.2%	2.0%	1.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Euromonitor.

Exhibit 31: Travel spend in China and ASEAN countries is still low in absolute terms

Comparison of per-capita spending on travel (FY2013, US\$)



Source: Euromonitor

Q4: Where do they go?

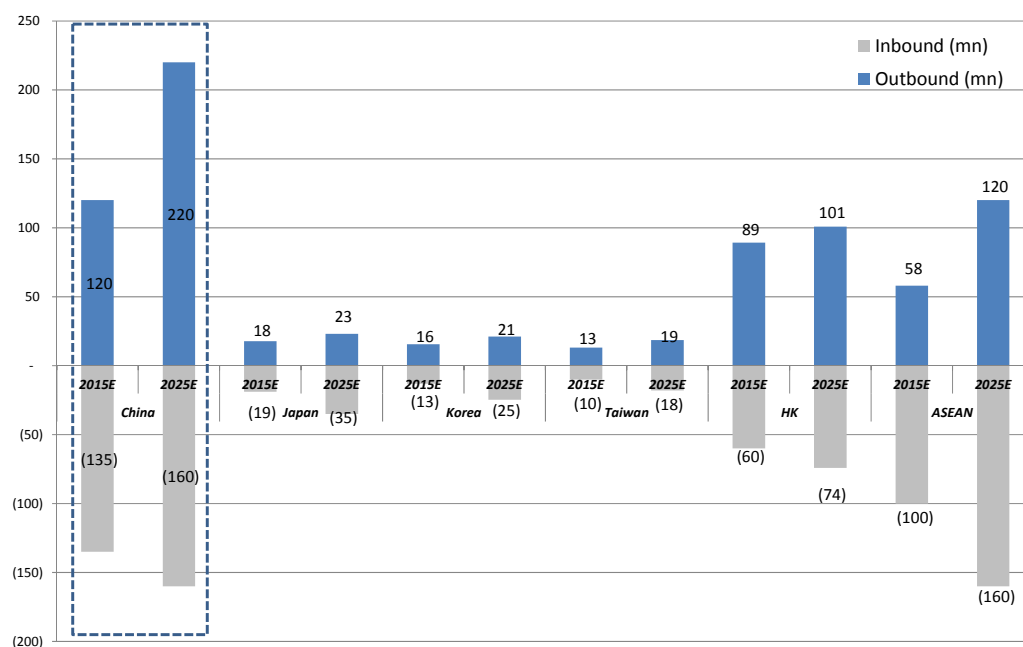
We believe Chinese tourists' travel destination preferences are driven by three main factors: (1) distance and visa regulations (2) shopping and pricing differentials, and (3) sightseeing.

Over half of China's outbound tourists travel to HK/Macau and while we think most tourists will continue to visit Hong Kong/Macau, we expect the strongest visitor growth in Asia to be to Japan and Korea; we also anticipate sharp growth in travel to Europe and Australia.

We have come up with rough forecasts for inbound/outbound travel numbers on a global basis, taking into account numerous qualitative and quantitative factors including physical distance and price of travel between countries, visa regulations, tourist attractions, and merchandise prices (see Exhibit 35).

Exhibit 32: We see outbound travelers from China reaching 220 mn in 2025 and anticipate increased Chinese inbound demand in Asia/Europe

Inbound/outbound travel outlook for each country/region



Source: Goldman Sachs Global Investment Research.

Exhibit 33: We expect all countries/regions to see substantial growth in inbound tourism

Forecast change in inbound tourism to each country/region

(mn)	2015E		2025E	
HK/Macau	68.0	→	86.4	1.3X
Korea	5.9	→	14.1	2.4X
Taiwan	4.1	→	9.2	2.2X
Japan	5.0	→	16.0	3.2X
ASEAN	12.0	→	35.0	2.9X
Thailand	2.5	→	6.0	2.4X
Australia	1.0	→	2.0	2.0X
US	2.2	→	5.0	2.3X
Europe	10.0	→	22.5	2.3X
Other	11.8	→	29.8	2.5X
Total	120.0	→	220.0	1.8X

Source: Goldman Sachs Global Investment Research.

Exhibit 34: Growth in Chinese tourist numbers will not only impact Asian countries but also Western countries, albeit to a lesser degree

Global inbound/outbound model (GSE, 000')

		To										Total
		China	Japan	Korea	Taiwan	HK	ASEAN	US	EU	Macau	Other	
From	China	NA	5,000	5,893	4,106	46,925	12,000	2,200	10,000	21,040	12,836	120,000
	Japan	2,888	NA	1,824	1,553	996	4,500	3,600	1,000	309	1,438	17,800
	Korea	3,969	3,600	NA	644	1,276	4,500	1,000	500	610	11	15,500
	Taiwan	3,431	3,960	611	NA	1,956	1,900	572	163	973	436	13,029
	HK	70,861	1,320	570	1,458	NA	1,600	250	250	6,427	6,462	89,197
	ASEAN	5,797	2,200	2,102	1,413	2,768	40,000	500	500	1,057	2,719	58,000
	Total	135,000	19,000	13,222	10,156	60,066	100,000	--	--	31,371	--	313,526
		To										Total
		China	Japan	Korea	Taiwan	HK	ASEAN	US	EU	Macau	Other	
From	China	NA	16,000	14,083	9,151	59,674	35,000	5,000	22,500	26,756	31,836	220,000
	Japan	4,154	NA	2,000	1,961	1,113	5,815	4,652	1,292	345	2,014	23,000
	Korea	5,237	4,000	NA	849	1,548	5,298	1,248	624	740	2,195	21,000
	Taiwan	4,871	4,350	881	NA	2,284	2,762	789	245	1,136	2,318	18,500
	HK	78,275	1,450	942	2,030	NA	2,227	348	332	7,099	15,241	100,843
	ASEAN	11,994	7,500	4,575	2,773	3,656	75,000	1,088	1,088	1,396	12,327	120,000
	Total	160,000	35,000	24,830	18,000	74,188	160,000	--	--	38,998	--	503,343

Source: Goldman Sachs Global Investment Research.

Exhibit 35: Japan is a relatively attractive travel destination; Hong Kong, Korea, and Europe are also highly regarded (for more details on the scoring, please refer to the appendix)

Overseas travel index by country (larger numbers indicate countries with greater travel incentives for Chinese tourists; GSE)

Index		To							
		China	Japan	Korea	Taiwan	HK	ASEAN	US	EU
From	China	X	9.0	8.0	6.0	8.5	6.0	6.8	7.8
	Japan	6.7	X	7.7	5.7	6.3	5.7	6.7	7.0
	Korea	6.7	8.3	X	6.0	6.0	6.0	6.7	7.0
	Taiwan	6.0	7.3	6.7	X	7.7	6.0	6.7	7.0
	HK	5.7	7.3	6.7	6.7	X	6.0	6.3	6.7
	ASEAN	6.0	7.0	6.3	5.7	6.7	X	6.3	6.7
	Average	6.2	7.8	7.1	6.0	7.0	5.9	6.6	7.0

Source: Goldman Sachs Global Investment Research.

To help us calculate our regional tourist volume forecasts, we created a scoring system focused on the three areas (shopping, travel distance and sightseeing destinations) based on the views of our consumer goods analysts in the respective regions. Our estimates include roughly 10mn Chinese visitors to “other” destinations in 2015, the main destination is Africa at around 3-4 mn (was 2.7 mn in 2014, 2X vs 2013), Australia with 1.5-2 mn visitors (1.1 mn in 2014, +20% vs 2013), south/middle America 1-2 mn, with the remainder to other beach resort destinations (like the Maldives/Palau where there is no need for a visa). Many African countries are very close to China in terms of economic relations (and many Chinese workers go to Africa too) and do not need visa. Our 2025E 32 mn 2.8X growth is in line with the pure outbound increase (ex HK/Macau, from 50 mn to 130 mn).

Japan is the most appealing destination for Chinese tourists but Korea still has room to increase

Japan ranks as the most appealing destination for Chinese travelers, based on our travel index analysis; it has the second highest number of world heritage sites in Asia, abundant cultural assets, is only a three hour flight from mainland China, and has relatively cheap product prices. The first time visitor ratio is still high at 75% (Exhibits 93 and 94), and we see expect the number of Chinese tourists visiting Japan continuing to increase. On the other hand, we think Korea has a relative advantage over Japan in terms of: 1) shorter flight time (less than 2 hours), and 2) more relaxed visa policy compared to Japan. The flight time to Korea is half Japan's, and there are many cruise lines, making Korea an appealing destination for weekend or shorter stay vacations. 2) Visa is a more important driver of travel destination selection; Chinese tourists do not need a visa to visit Jeju island (and from this year will not need a visa to visit mainland Korea if they have plans to transit to Jeju after the stay). While visa relaxation in Japan is ongoing, Chinese tourists still face a complex visa application process, which involves the preparation of several documents and takes a few weeks. Japan has many appealing places to visit but to obtaining a multi entry visa is still very difficult for most of the Chinese citizens.

1) Distance: Number of flight hours, Visa regulation

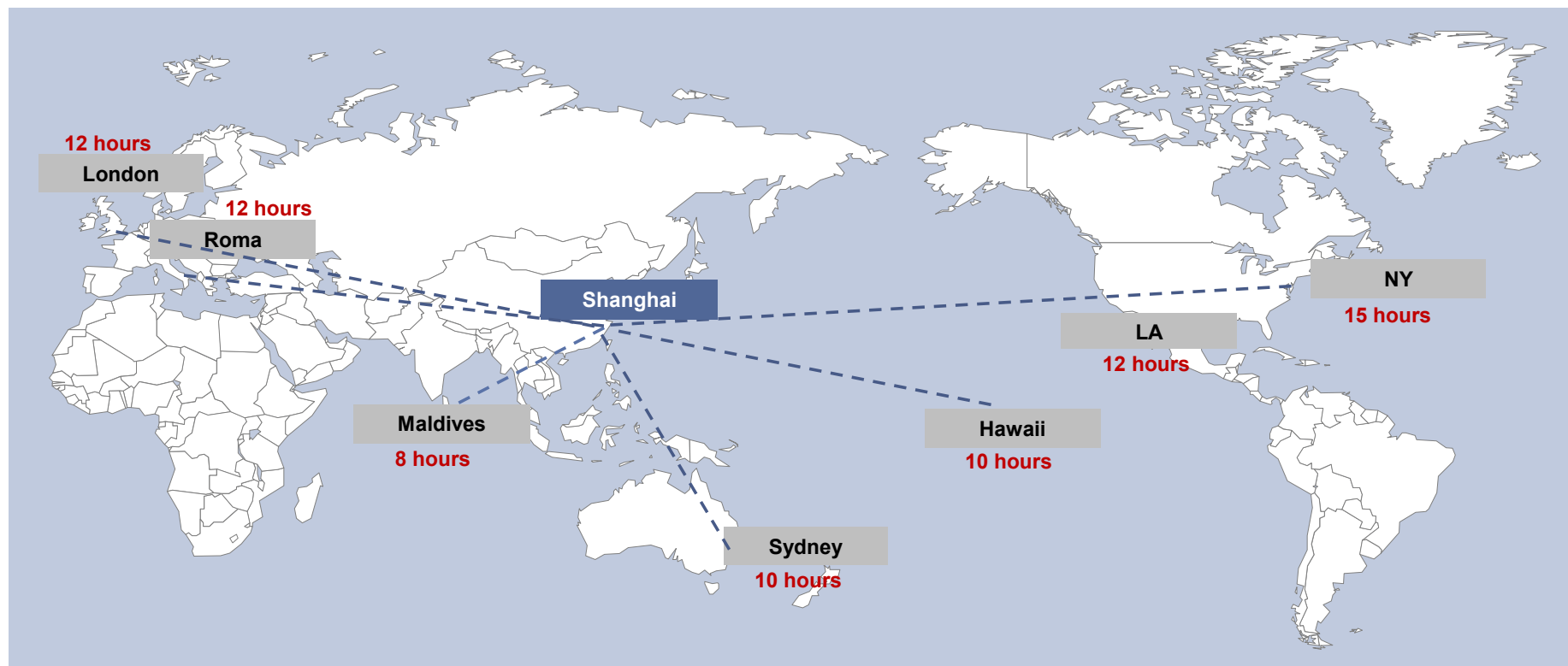
Exhibit 36: From Shanghai, most Asian countries can be reached in four hours or less

Flight times from Shanghai (within Asia)



Source: Goldman Sachs Global Investment Research.

Exhibit 37: But travel time to the US and Europe is over 10 hours
Flight times from Shanghai (global)



Source: Goldman Sachs Global Investment Research.

Recent visa relaxation has increased the “power” of the Chinese passport

We believe the ease of obtaining a visa, along with pricing differences, are two of the key reasons why tourist numbers have and are likely to continue to rise. Exhibit 38: -Exhibit 39: shows that a number of countries – from Japan, Korea to UK, Germany France and US – are relaxing visa requirements for Chinese tourists, in order to boost the number of tourist arrivals. New measures include: lengthening visa validity, granting multi-entry visas (not only single-entry), and lifting quotas, etc.

Looking at Japan as an example, in Jan 2015 it lowered the income threshold for PRC individual travelers’ multi-entry visa to Rmb100k from Rmb250k. This means the addressable market has increased to c.50 mn Chinese residents from <10 mn, according to our cohort analysis. This also implies that c.1/3 of the current middle class now have access to individual travel to Japan, up from <10%. With Japan and Korea making the most significant changes to their visa policies, we expect recent travel trends to continue and forecast strong growth in outbound tourism numbers to these countries.

Similar to many Chinese consumer categories, traditional “first mover” beneficiaries of higher Chinese tourist numbers are now challenged. Hong Kong has historically been the easiest market to access for Chinese tourists. Looking ahead, we expect incremental pressure on Hong Kong/Macau as other “second mover” markets such as Japan/Korea further relax requirements and offer the incremental middle class HK tourist new travel destinations to explore.

Going forward, we acknowledge it is difficult to assess whether further relaxations will come through. However, we still believe directionally key destinations are likely to further relax their visa requirements, given:

- The HK visa relaxation cycle lasted for close to five years before relaxing ceased. It took another five years before the first visa restrictions to curb tourism arrivals were introduced (Exhibit 40:);
- We expect destination countries to be willing and able to relax visa requirements, as long as tourist spend boosts company sales and capacity is still not an issue. We address both issues in the following sections.

Exhibit 38: Various countries are relaxing visa requirements for Chinese tourists

Summary of visa policies by countries

Destination	Total tourist arrivals (2014, mn)	Year when access was allowed	Current visa policy for Chinese tourists	Recent changes	Sources
Asia/Australia					
Japan	2.4	2000	- Maximum length of stay is 15 days/trip - For individuals traveling, annual salary of over Rmb100k is required - Multi-entry visa within one/three years is only open to travelers from Shanghai, Zhejiang, Jiangsu, Anhui, and Jiangxi. Also required to stay in one of four specified Japanese cities on the first day of the trip - Air tickets and lodging facilities should be booked by travel agencies	- In Jan 2015 Japanese govt relaxed multi-entry visa requirements for Chinese tourists - For individual Chinese tourists applying for a multi-entry visa, the annual salary requirement was lowered from 250,000 yuan to 100,000 yuan - High-income Chinese tourists are eligible for new multi-entry visas without a previous travel record and validity was extended to 5 years (from 3 years) with unrestricted travel throughout Japan	SCMP, ecns.cn, WSJ online, China Daily
Korea	6.1	1998	Group tourist - Visa-free entry to Jeju up to 30 days - When travelling to Jeju, can transfer via 7 designated airports (Incheon, Gimpo, Gimhae, Yangyang, Cheongju, Muan, and Daegu) and stay up to 120 hours visa-free - When travelling to Japan, can transit in Korea and stay up to 15 days visa-free - \$15 visa fee waiver until Dec 2015 Individual tourist - Visa-free entry to Jeju up to 30 days - When travelling to Europe (30 countries), can transit in Korea and stay up to 30 days visa-free Teenage group tourists - Visa-free entry if it is a school field trip	- Since Sep 2014, Chinese group tourists to Jeju can transit at 7 in-land airports and stay up to 120 hours visa-free - Since Jul 2015, Chinese group tourists to Japan can transit in Korea and stay up to 15 days visa-free - Given MERS, validity of visas issued between March and June 2015 was automatically extended to 6 months from 3. - Since Jul 2015 to Dec 2015, \$15 group tour visa fee waived for Chinese	Ministry of Justice of Republic of Korea
Taiwan	3.9	2008	- For individual travel, visitors over 20 years old should meet certain conditions (annual salary of over Rmb125k, personal deposit of over Rmb50k etc). Parents are required to accompany visitors under 18 years old - 36 cities are open to individuals traveling to Taiwan (by application)	- Starting Apr 2015, Taiwan plans to introduce a special visa for bigger-spending Chinese tourist with a 5,000 quota per month vs. its current 5,000 visas for group tours and 4,000 for solo Chinese tourists. High-end tourists will be on tours that spend more than US\$450 per person per day	SCMP, CAN
Thailand	5.3	1988	- Maximum length of stay is 15 days for each trip - Visa can be registered upon arrival for Chinese tourists	- In Aug 2014, Thailand waived visa fees for Chinese tourists for a period of 3 months. Despite the end of the fee-waiver period, Chinese arrivals in Thailand rose 2.5% m-o-m in November - New 6-month multiple entry visa introduced on Aug 2015 that will cost slightly more than US\$140, compared to single-entry visa that costs about US\$28	CNBC, Chinadaily, CNA
Indonesia	1.0	2002	- Visa-free travel currently	- From Jun 2015, visa free status officially granted	The Jakarta Post, Jakarta Globe
Singapore	1.7	1990	- Maximum length of stay is 4-30 days for short trips, and over 3 months for long trips - Varying requirements for different visa types	- From Jun 2015, 10 year Multiple Journey Visas validity can be extended to 10 years and applies to traveller's spouse and children below 21 years old as well - There are no changes to fees or application processes	ICA
Australia	0.8 (2013)	1999	- Visitor visa required for tourism or business related activities up to 3 months - Organised tour groups can opt for Approval Destination Status stream to ensure qualified guided tours.	- New multiple-entry, 10-year visa granted on Jun 2015	Australia Embassy in China, Australia Trade Commission

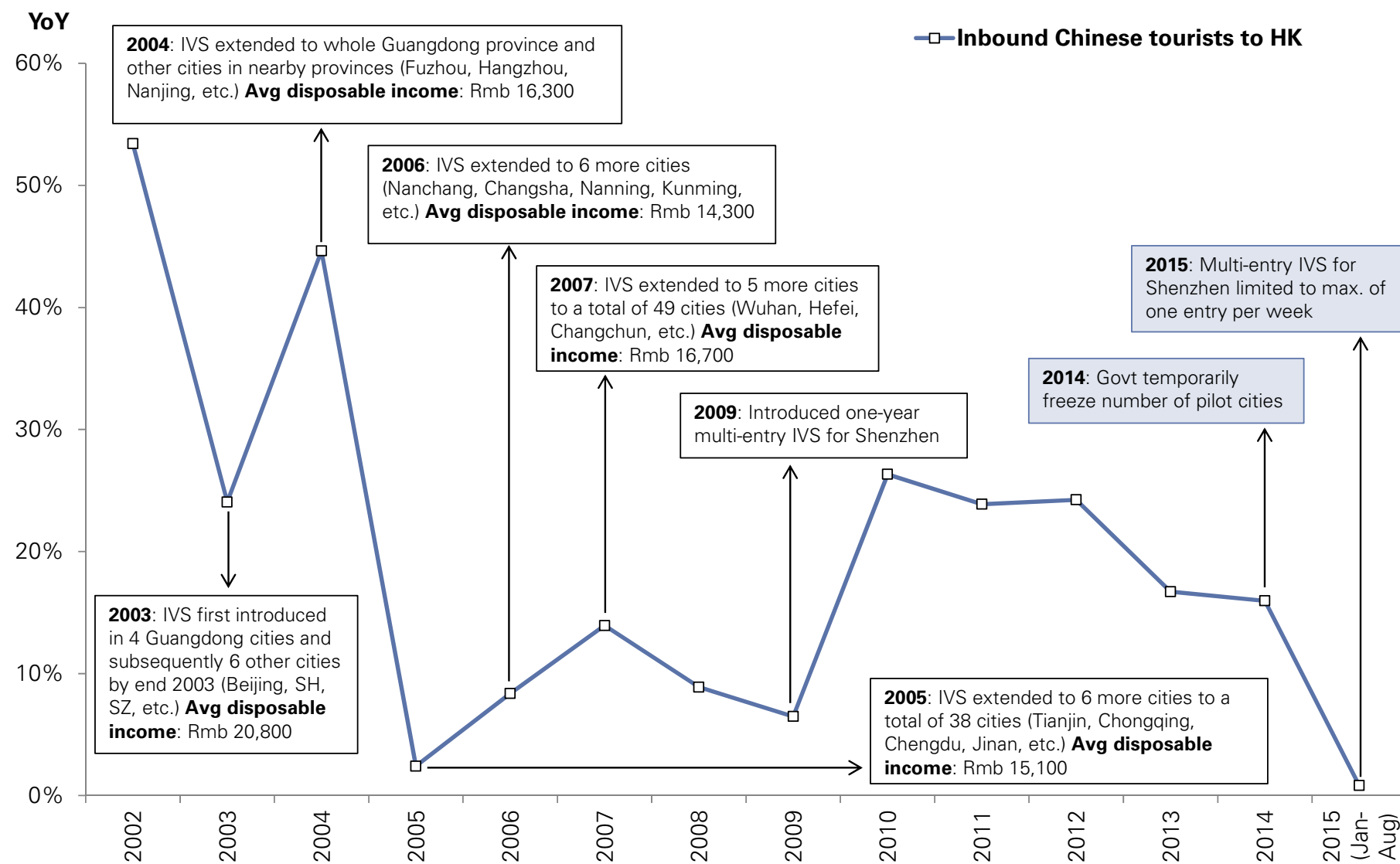
Source: Various media reports (as shown in the table).

Exhibit 39: Various countries are relaxing visa requirements for Chinese tourists (cont'd)

Summary of visa policies by countries

Destination	Total tourist arrivals (2014, mn)	Year when access was allowed	Current visa policy for Chinese tourists	Recent changes	Sources
US/Europe					
US	2.2	2008	- Business and travel visas have lengths of stay up to 6 months - Visitors also have to provide evidence of their intentions to return to China	- In Nov 2014, US significantly ease the visa application process for Chinese tourists and increased visa validity limits to 10 years (from 1 year), allowed duration of stay remains unchanged and is only known at point of arrival - From Dec 2014 to Jan 2015, US issued 351,650 Chinese visas, up 68% yoy	SCMP, Chinadaily, Forbes, US Embassy in Beijing
UK	0.5 (2013)	2005	- Standard visitor visa with 6 months validity (multiple entry allowed), and long-term visa with 2/5/10 years validity - Visa is required for tourism or business-related activities	- From January 2016, the standard visitor visas will be extended from 6 months to 2 years multiple entry (with plans to introduce a new 10 year multiple entry visit visa for the same price) - Mobile fingerprinting service (which is needed to apply for the UK visa) will be extended to an additional 50 Chinese cities, making it more convenient to apply for the visa	UK Prime Minister's Office, UK Visas and Immigration
France	0.4 (2013)	2004	- Visa required for short stays lasting less than 90 days, or succession of stays totalling less than 90 days in any period of 180 days	- Starting from Jan 2014, Chinese travelers can obtain a visa in 48 hours versus 10 working days previously - On Jul 2015, it was announced that more five-year multiple entry visas will be issued to Chinese nationals. More visa agencies will also be opened in Chinese cities to facilitate the application process	France Diplomatie, CNTV, China Daily
Germany	0.4 (2013)	2003	- Similar to France as they are both in the Schengen area	- From May 2015, Chinese business travellers can get visas within 48 hours instead of 10 working days - Based on talks from Oct 2014, there are also plans in future to issue more long-term multiple entry visas with more relaxed document requirements in future	German Federal Foreign Office, China Daily
Eurozone	n/a	n/a	- Schengen visas allow stays up to 90 days - This can now be applied together with a UK visa	- In Jul 2014, Chinese tourists requiring the Schengen visa for travel to 26 European countries experienced an easier visa application process, shorter processing time, extended window between submission and travel to 6 months from 3 months, while the need for mandatory travel medical insurance was eliminated; new one year tourist visa introduced	Tourism review, Independent online, Reuters, Schengen Visa Info

Source: Various media reports (as shown in the table).

Exhibit 40: Hong Kong's visa cycle has been in relaxation mode for close to 10 years

Source: HK Tourism Board, CEIC, Goldman Sachs Global Investment Research.

2) Shopping: Pricing differentials

Shopping the main driver of travel for now, but this is likely to change over the longer term

We estimate that Chinese tourists will spend US\$200 bn by the end of 2015, with roughly 30% spent on shopping. While we expect shopping to be a key driver of travel destination selection in the near-term, we would not be surprised to see it become less of a driver in around five years, based on what the experience of Japanese/Hong Kong tourists historically. Japanese tourists embarked on a collective shopping spree globally from the 1980s, but that came to an end after around 15 years when the collapse of the economic bubble, shifting exchange rates, and a maturing economy led to less focus on shopping. Given the recent emergence of cross-border e-commerce, we think Chinese tourists will likely reduce their shopping at a quicker rate than was the case in Japan. We forecast per capita consumption by Chinese tourists will be roughly flat out to 2025E given the shift from Hong Kong/Macau to long-haul destinations in Asia, Europe and the US suggests transportation/travel expenditure will account for a larger part of total travel spending.

Exhibit 41: Chinese spending on travel to be US\$450 bn in 2025E

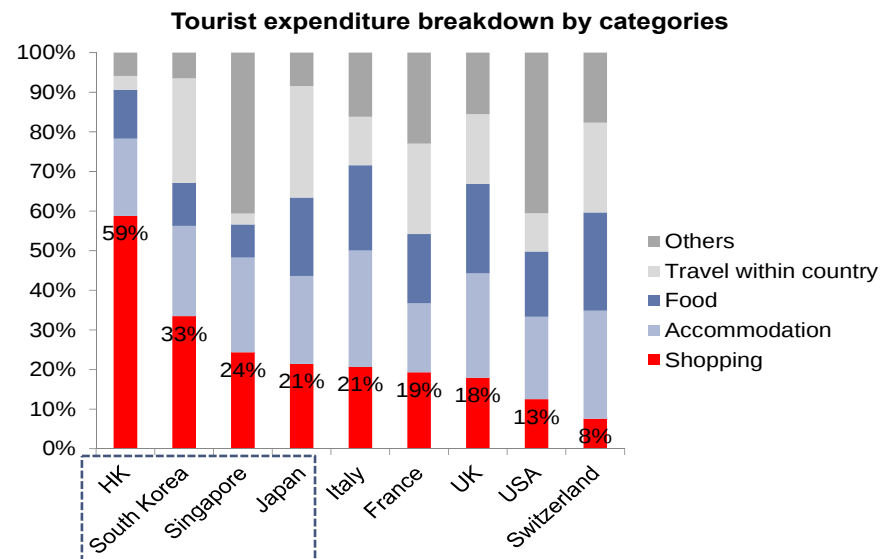
Chinese spending on travel by country

China	2013	2014	2015	2025E	2025E vs 2015 (% change)
Outbound visits (mn)	98.2	109.0	120.0	220.0	83%
Total travel spend (US\$bn)	128.3	160.0	200.0	450.0	125%
Travel spend per head (US\$)	1,306	1,468	1,667	2,046	23%
To HK					
Outbound visits (mn)	40.7	47.2	46.9	59.7	27%
Total travel spend (US\$bn)	27.9	31.1	30.7	37.1	21%
Travel spend per head (US\$)	685	659	655	622	-5%
To Japan					
Outbound visits (mn)	1.3	2.4	5.0	16.0	220%
Total travel spend (US\$bn)	2.0	4.7	10.0	32.0	220%
Travel spend per head (US\$)	1,559	1,944	2,000	2,000	0%
To Korea					
Outbound visits (mn)	4.3	6.1	5.8	14.0	141%
Total travel spend (US\$bn)	9.8	12.8	12.2	29.4	141%
Travel spend per head (US\$)	2,272	2,095	2,100	2,100	0%
To others					
Outbound visits (mn)	51.8	53.3	62.3	130.3	109%
Total travel spend (US\$bn)	88.5	111.4	147.1	351.5	139%
Travel spend per head (US\$)	1,708	2,090	2,361	2,697	14%

Source: Euromonitor, Goldman Sachs Global Investment Research.

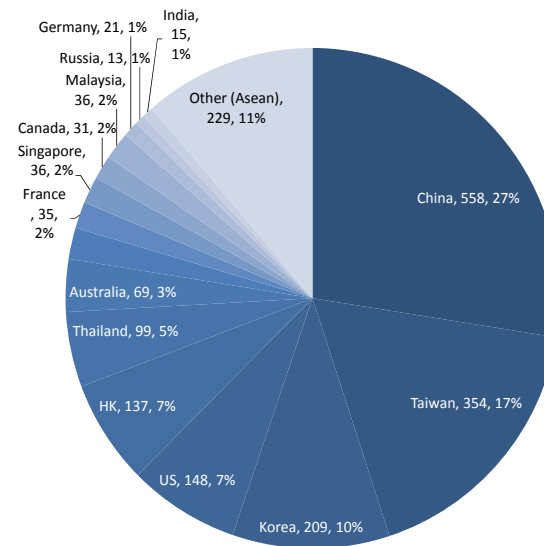
Exhibit 42: Shopping is a key driver of Chinese travel in Asia

Shopping by Chinese tourists by country



Source: Euromonitor, CEIC, Goldman Sachs Global Investment Research.

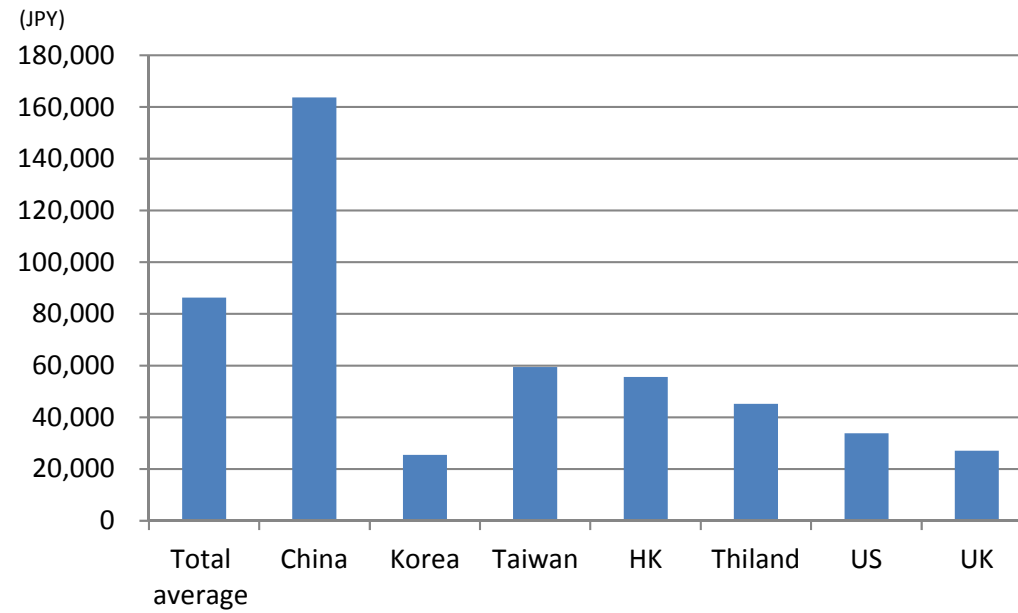
Exhibit 43: Chinese tourist spending accounts for c.27% of spending in Japan. We expect Chinese tourists to represent 25% of travelers (vs. 20% in 2014) and c.50% of spending in 2015 given average spend is c2x other countries
 Breakdown by nationality of foreign tourists' spending in Japan (roughly ¥2 tn in FY2014)



Source: Japan Tourism Agency.

Exhibit 44: Chinese tourists spend far more than other tourists on shopping in Japan

Shopping outlays by foreign tourists in Japan (April-June 2015)

*Source: Japan Tourism Agency*

Window shopping as a tourist – introducing the GS tourist price tracker

With millennials (70% of outbound tourists) being China's savviest consumers (see *"The Asian Consumer: Chinese millennials"* report on Sep 8, 2015 for reference), pricing of goods is clearly a key consideration when they shop overseas. In our previous research (*"China Retail: China tariff cuts: an important step to boost domestic consumption"* on May 4, 2015), we discussed how China prices are typically higher than home markets (Exhibit 45:).

We believe there is no better way to look at pricing differences than to look at prices from a shopper's perspective. We introduce the GS tourist price tracker, which looks at "on the shelf" pricing of a number of goods and services (Exhibit 46:). Our country analysts will track prices for key Asian shopping locations (including China, Hong Kong, Korea (Seoul) and Japan (Tokyo)) on a quarterly basis. This will help us to track the change in the price gap between different countries more accurately, as well as deduce how much is due to like-for-like pricing differences, or influences by currency. Details for our methodology are in the Appendix.

How big is the pricing gap now? Among the three locations, **HK** still has the largest pricing advantage as merchandise is **c.30%** cheaper than China on average, while merchandise in **Japan and Korea** is **c.20%** cheaper than China, on average.

Exhibit 45: Why are prices so high in China?

Why are China prices higher?	
1. Tax	Imported products are charged in a three layer tax structure (VAT, Import Tariff, Consumption tax), generally higher than other countries.
2. Pricing strategy	Industries tend to differ in their strategy on China pricing vs. home market. Soft luxury companies typically earn higher GP margin in China than in home market, but Swiss watch companies tend to earn lower GP margin in China in order to minimize the pricing difference.
3. Channel cost	Multi-layer distribution model (brands often use agents to help them distribute in China) and lack of sales density can result in higher operating cost, necessitating the need of a higher GP margin.
4. Currency	The Rmb has appreciated 25-36% vs USD/EUR/JPY in the past decade, but some brands have not adjusted Rmb denominated prices, which further magnified the price difference.

Source: Goldman Sachs Global Investment Research

Exhibit 46: GS tourist price survey shows prices in China are higher for most product categories than other major tourist destinations

	China (Shanghai)	HK	China	Japan (Tokyo)	Korea (Seoul)	China
	RMB	HKD	RMB premium	JPY RMB	KRW RMB	China premium
Cosmetics						
Estee Lauder Advanced Night Repair 50ml	850	628	513 66%	14,040 748 14%	155,000 872 -3%	
L'Oreal Revitalift® Anti-Wrinkle + Firming Eye Cream (15g)	210	165	135 56%	4,104 219 -4%	20,000 113 87%	
Innisfree green tea pure skin toner 200ml	115	108	88 30%	- - -	14,000 79 46%	
Sulwhasoo 150ml clarifying lotion	280	260	212 32%	- - -	42,000 236 18%	
Shiseido Ultimune Power Infusing Concentrate 2.5 oz. 75 ml	1,040	1,050	857 21%	12,960 691 51%	198,450 1,117 -7%	
Personal care / Mother baby products						
Merries 54 pieces for L size	170	179	146 16%	2,030 108 57%	21,500 121 41%	
MEIJI Hohoemi Starting Formula from 0 to 12 months 800g	199	-	- -	2,260 120 65%	NA	
Johnson's Baby Lotion 27 oz.	44	37	30 45%	753 40 9%	8,100 46 -4%	
Pigeon doublehart feeding bottle, glass, PPSU, 240 ml	90	50	41 120%	1,414 75 19%	18,000 101 -11%	
Electronics						
iPhone 6 contract free 16GB	5,288	5,588	4,563 16%	93,744 4,996 6%	850,000 4,782 11%	
Samsung Galaxy S6 contract free 32GB	4,488	4,400	3,593 25%	81,000 4,317 4%	944,000 5,311 -15%	
iPad Air 2 16GB Wifi+Cellular Model	4,488	4,888	3,991 12%	73,224 3,903 15%	760,000 4,276 5%	
Canon 70D (body only)	5,399	5,580	4,556 18%	109,944 5,860 -8%	1,275,000 7,173 -25%	
Zojirushi rice cooker (1.0L)	4,960	5,488	4,481 11%	29,800 1,588 212%	892,000 5,019 -1%	
Soft Luxury						
Chanel 2.55 RAYURES REISSUE 226 FLAP BAG - Small	33,200	34,000	27,763 20%	599,400 31,947 4%	5,380,000 30,269 10%	
Coach Stanton Carryall 29 In Crossgrain Leather	4,500	4,600	3,756 20%	62,640 3,339 35%	630,000 3,545 27%	
Burberry Long Heritage Trench Coat - The Sandringham	16,500	17,000	13,882 19%	248,400 13,239 25%	2,800,000 15,754 5%	
Hard luxury (Jewelry / watches)						
Tissot men's watch (T41.1.483.33)	3,780	4,230	3,454 9%	71,280 3,799 -1%	650,000 3,657 3%	
Seiko Astron SAS033J1	15,030	18,800	15,351 -2%	319,694 17,039 -12%	2,590,000 14,572 3%	
Rolex Daytona 116515LN	214,600	214,600	175,236 22%	2,959,200 157,721 36%	36,000,000 202,546 6%	
Tiffany Victoria™ pendant in 18k rose gold with diamonds, 0.32	45,600	29,200	23,844 91%	475,200 25,327 80%	4,700,000 26,443 72%	
Apparel / footwear						
Uniqlo skinny fit tapered jeans (mens)	299	249	203 47%	4,309 230 30%	59,900 337 -11%	
Nike Flex Run 2015 running shoes - Men	529	669	546 -3%	7,581 404 31%	- - -	
Nike Jordan Super Fly 4	859	1,299	1,061 -19%	17,280 921 -7%	127,200 716 20%	
Zara Long Bomber Jacket	699	799	652 7%	13,990 746 -6%	129,000 726 -4%	
Zara Wool Coat	999	1,199	979 2%	19,990 1,065 -6%	189,000 1,063 -6%	
H&M Long Bomber Jacket	599	599	489 22%	7,990 426 41%	89,000 501 20%	
H&M Faux fur jacket	799	799	652 22%	11,990 639 25%	119,000 670 19%	
Restaurant / F&B						
Big Mac	19	19	15 24%	390 21 -9%	4,300 24 -21%	
Coca Cola six pack (350ml)	14	21	17 -19%	543 29 -52%	5,080 29 -52%	
Transportation						
Taxi cost for 5km	19	46	38 -49%	1,630 87 -78%	6,100 34 -45%	
Exchange rate (Oct 19, 2015): Rmb vs Local currencies			1.22	18.8	177.7	

Source: Company data, Goldman Sachs Global Investment Research.

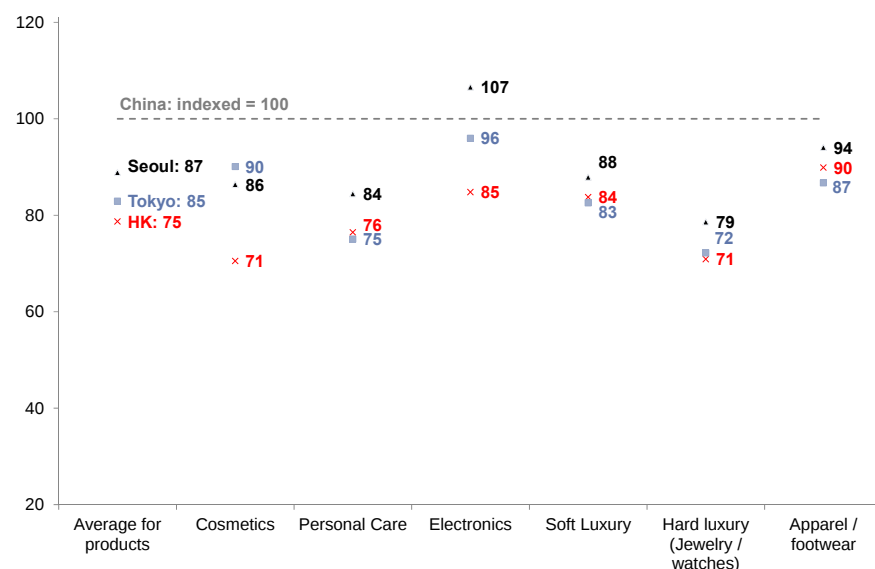
Not all categories have the same price gap

Looking further into the detail, while HK has the largest pricing advantage overall, the differential varies across different product categories. In particular, **Japan and Korea have real edge in personal care and soft luxury products** – thanks to both the pricing advantage and the greater availability of brands/products, especially for the “domestic” brands (i.e. Japanese brands selling in Japan, Korean brands selling in Korea).

FX moves in the past year have cemented Japan and Korea's price advantage

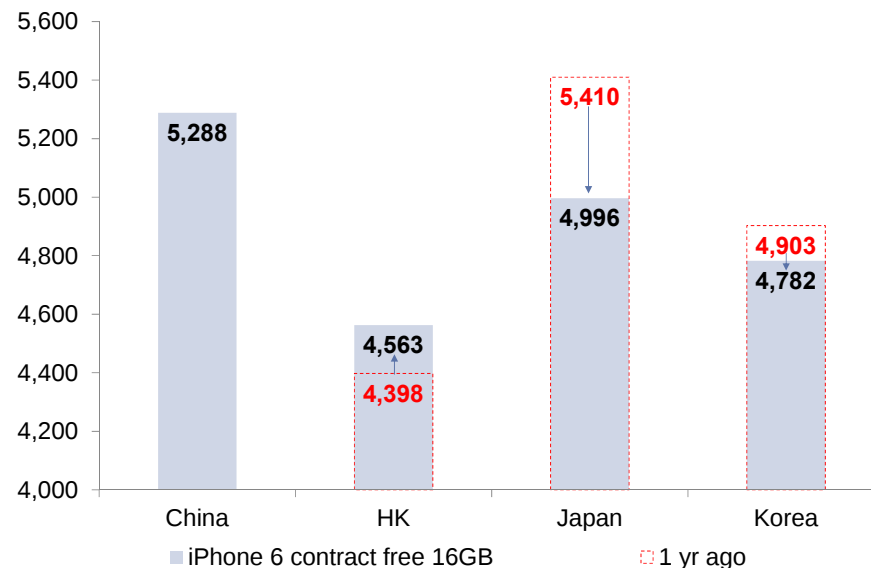
While the price premium in China is partly a result of brands' pricing strategies (i.e. brands may set higher selling prices in China vs other markets), the **FX rate** also plays a key role in the build-up of price premium – JPY and KRW have depreciated 8%/3% vs RMB over the past year. On the other hand, HKD has strengthened 4% against RMB over the past year. Given our macro team expects Asian currencies (including RMB, JPY, KRW) to continue to depreciate against US\$ (hence HKD), the competitiveness of HK as a shopping destination could be affected.

Exhibit 47: Overall, HK has the largest pricing advantage (in cosmetics, electronics and hard luxury), while Japan and Korea have real edge in personal care and soft luxury
Pricing comparison across product categories



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 48: FX rate plays a key role in the build-up of price premium
iPhone 6 pricing – China vs key tourist destination (current FX rate and FX rate 1 year ago)



Source: Company data, Goldman Sachs Global Investment Research.

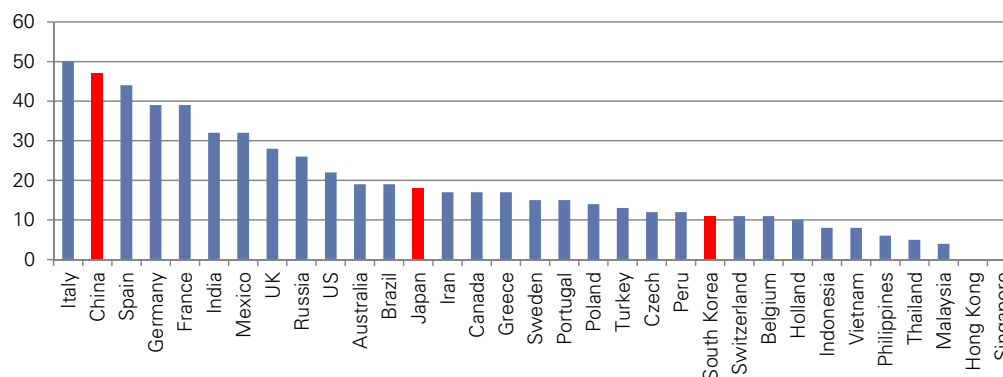
Is everything more expensive in China? Not services and accommodation

It is also important to note that the pricing advantage of HK/Japan/Korea over China is mainly for physical merchandise. If we consider the services and accommodation categories (e.g. price of movie ticket, taxi fare, hotel room rate), China is in fact lower than the major tourist destinations – which we think is related to the lower salary level in China.

3) Sightseeing

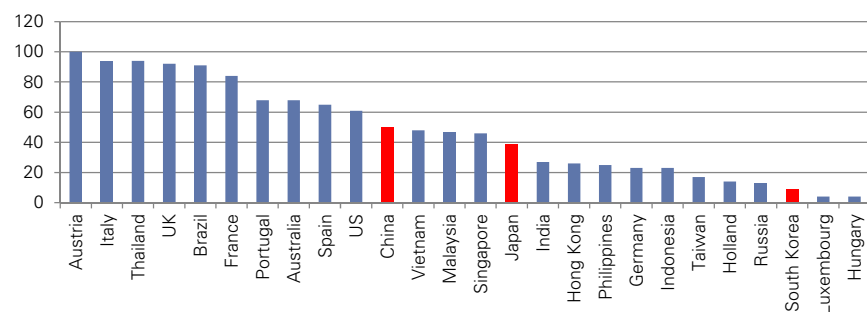
As tourists' travel needs shift from shopping to having fun, the number of attractions offered by each destination increases in importance. According to UNESCO, Japan and Korea are the two Asian countries with the most world heritage sites. This compares to Hong Kong, which has zero sites. The other interesting indicator is "tourism digital demand", which measures the number of online searches on various tourism aspects. We find that HK still fares well on cultural and entertainment tourism, but is well behind other Asian peers on natural tourism, further suggesting that limitations of heritage of natural scenic spots could impact HK's competitiveness as a sightseeing market vs Japan/Korea.

Exhibit 49: Japan has the second highest number of world heritage sites in Asia after China, Hong Kong has zero
Number of world heritage sites in various countries (as of Jul 2015)



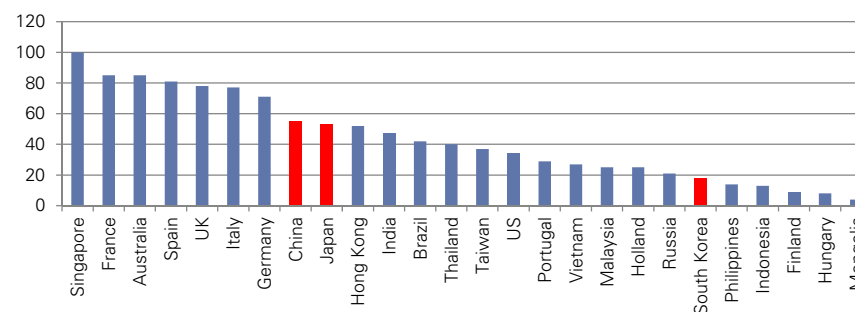
Source: UNESCO.

Exhibit 50: Japan also has relatively high score in cultural & entertainment...
Cultural and entertainment tourism digital demand (2014)



Source: The Travel & Tourism Competitiveness Report

Exhibit 51: ... and natural tourism demand (vs other Asian countries)
Natural tourism digital demand (2014)



Source: The Travel & Tourism Competitiveness Report

Q5: Is capacity an issue?

Tourism capacity hinges on three main factors, in our view: (1) the number of airport arrival and departure slots, (2) accommodation capacity, and (3) internal transport capacity (e.g. buses and trains).

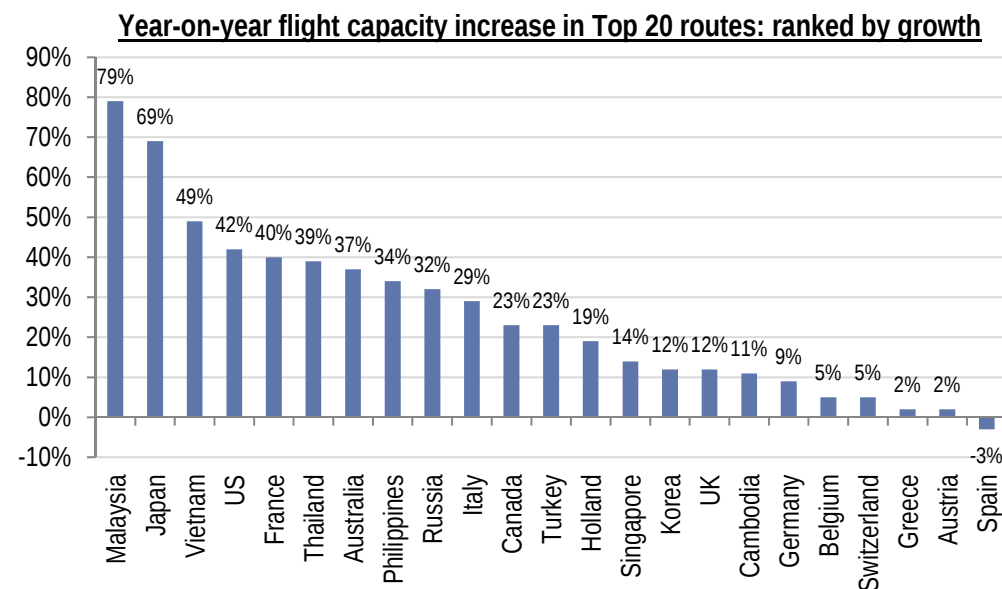
Japan: Hotel capacity is tight; still capacity at airports in the Chubu and Kansai regions

We believe there are three key factors to consider when it comes to absorbing tourist inflow: 1) the number of arrivals/departure slots available at airports, 2) the number of hotels and other accommodation facilities, and 3) the supply volume of buses, trains, and other means of transportation available. In the case of Japan, there are concerns about a lack of supply volume for buses (marked shortage of drivers in particular) to take in group tour demand, but our transport analyst, Kenya Moriuchi believes 3) is not an urgent issue as sufficient transportation capacity can be secured using bullet trains and other alternatives, in our view. For 1), we see tightness in the number of arrival/departure slots at airports in the Tokyo metro (Haneda/Narita), and for 2) we see a clear shortage of hotel/accommodation supply at present.

Airports: Chinese carriers are currently planning to increase the supply of Japan-bound transportation volume by almost 70% through 2H2015 (see Exhibit 52:). By airport, the supply volume is expected to roughly double for Kansai Airport and Chubu Airport (based on government plans) and increase 2.5-fold at Haneda, where slots have been allocated (see Exhibit 53:). However, supply cannot be increased on a continuous basis, and available slots are almost already taken at Tokyo metro-area airports (Haneda/Narita). Both airports are negotiating to increase slots by 40,000 for departures and arrivals by 2020. However, we believe it will be difficult to expand the slots until FY2018 at the earliest, considering the negotiation process involves local residents. Therefore, the increased inflow of tourists expected hereon will likely need to be absorbed by local airports, and we see utilization increasing especially at Kansai International Airport and Chubu Centrair International Airport. We expect Kansai to play an important role in particular, considering the wealth of tourism resources in the region and the opening of its third LCC terminal scheduled from 2017.

Exhibit 52: Chinese carriers are rapidly increasing supply volume, planning a 70% boost for Japan-bound flights

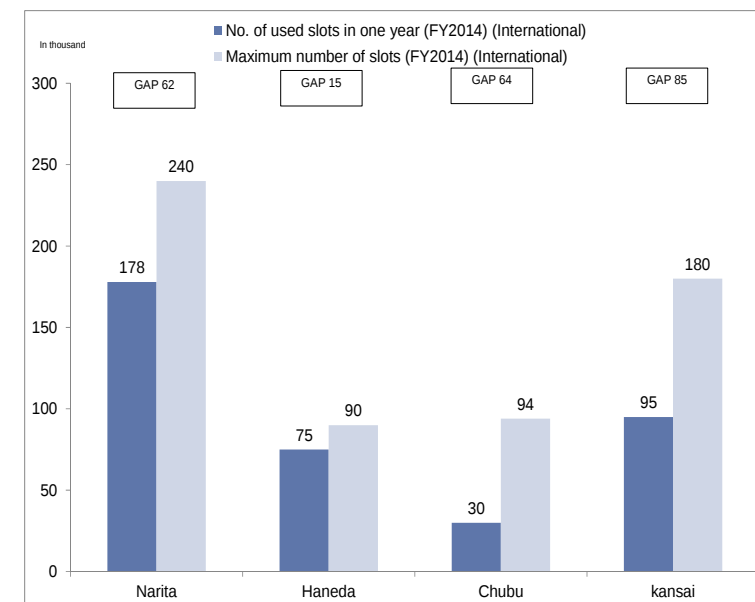
Chinese airlines' supply increases planned for 2H2015



Source: OAG, Carnoc.com

Exhibit 53: We see scope for more slots at Kansai, Chubu, and other local airports

Supply volume growth planned by each airport



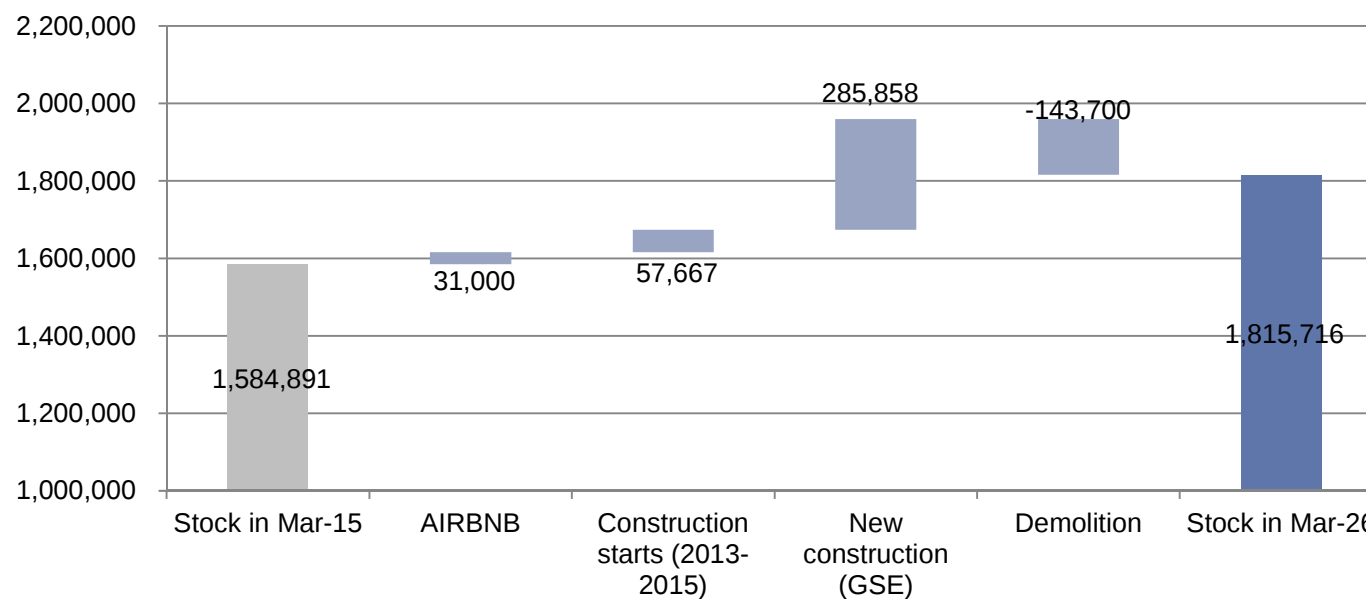
Source: Annual reports

Our Japan Real Estate analyst, Sachiko Okada expects hotels to maintain a high occupancy rate until 2025 (FY3/15: 76%, FY3/26: 82%) as growth in foreign tourists (2015E: 19 mn; 2025E: 35 mn, +84% vs. 2015) puts pressure on supply. (As around 30% of the hotel rooms are old, we calculate the occupancy rate excluding these low-use assets from the total number of guest rooms; Exhibit 56:)

We forecast an increase in the number of hotel and Japanese inn (*ryokan* in Japanese) guest rooms from 1.58 mn in FY3/15 to 1.81mn in FY3/26. We derive this projected net increase as follows: 1) supply from Airbnb and other private lodgings (+31,000 rooms); 2) construction of hotels and Japanese inns started between 2013 and 2015 (57,667 rooms (assuming 35-40 m² per room, 3 years from start of construction to completion); 3) increase in new supply (285,858 rooms, around 26,000 rooms per year) driven by higher sales per room (FY3/15: ¥1.65 mn, FY3/26E: ¥1.99 mn); and 4) closure of old facilities, mainly Japanese inns (-143,700 rooms).

Exhibit 54: We forecast a 19.7% increase in the number of hotel and Japanese inn guest rooms from FY3/15 to FY3/26

Factor analysis of expected change in the number of hotel and Japanese inn guest rooms (FY3/15 vs. FY3/26)

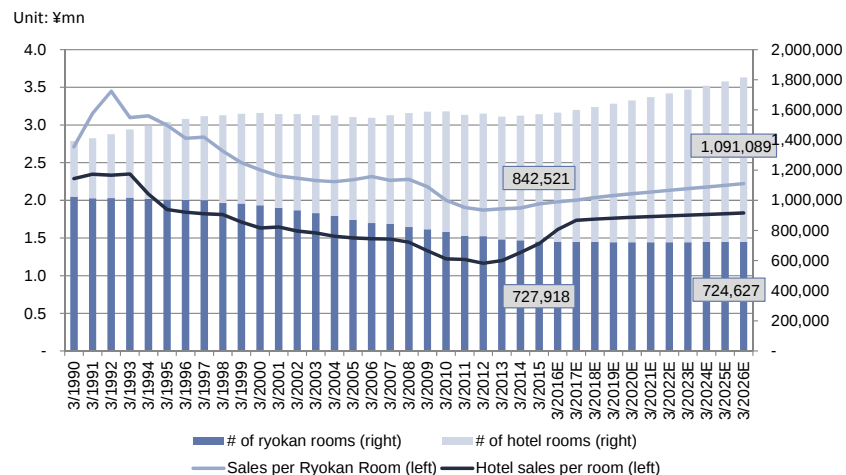


Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Health, Labour and Welfare, Leisure White Paper, Goldman Sachs Global Investment Research.

Total sales for hotels and Japanese inns in 2014 was ¥2.6 tn. We forecast this number to reach ¥3.6 tn in 2025, based on the following assumptions: 1) foreign tourists increase from 19 mn in 2015 to 35 mn in 2025; 2) the number of nights foreign tourists stay increases from 45 mn in 2014, based on an average stay of 3.3 nights per foreign tourist (2014 actual), to 116mn in 2025 (+158% vs. 2014); and 3) higher growth in hotel sales than Japanese inn sales, given foreign tourists account for 30% of all hotel guests, including Japanese, but only 7% of all Japanese inn guests (Exhibit 55:).

Exhibit 55: We forecast a 30% rise in hotel sales per room in FY3/26 from FY3/15, but see Japanese inn sales per room edging down 0.2%

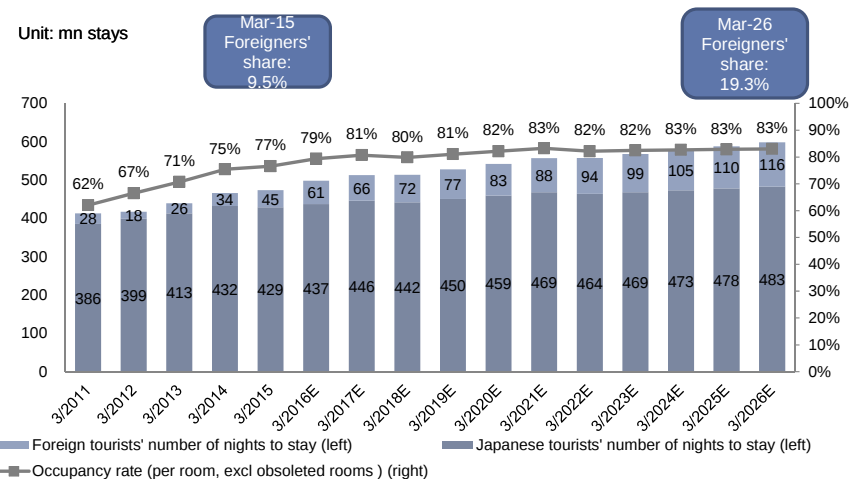
No. of hotel and Japanese inn guest rooms, annual sales per hotel and Japanese inn room



Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Health, Labour and Welfare, Leisure White Paper, Goldman Sachs Global Investment Research.

Exhibit 56: We expect the occupancy rate to remain high as tourists increase

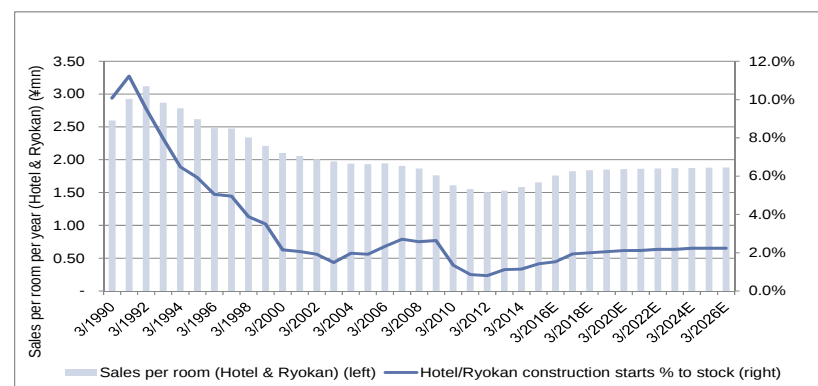
No. of nights stay by foreign and Japanese tourists, occupancy rate



Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Health, Labour and Welfare, Leisure White Paper, Goldman Sachs Global Investment Research.

Exhibit 57: Sales per hotel/Japanese inn room in FY3/15 was ¥1.7 mn

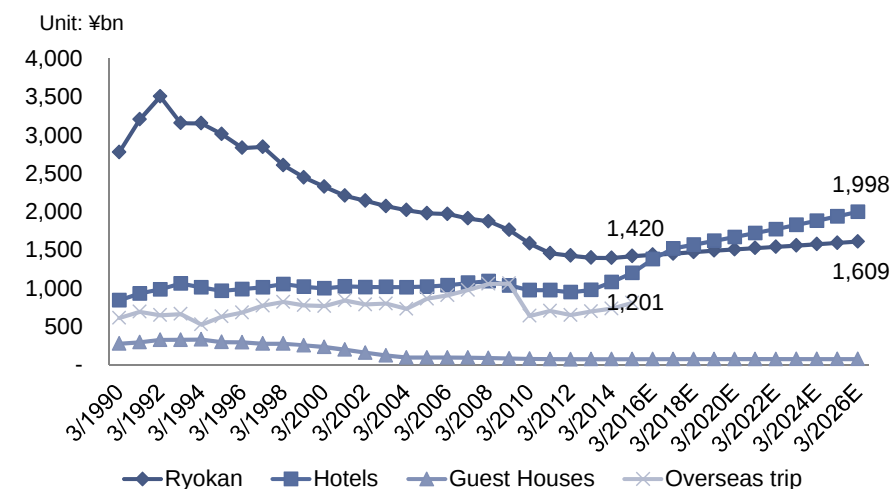
New supply of hotel and Japanese inn guest rooms, and sales per room (annual)



Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Health, Labour and Welfare, Leisure White Paper, Goldman Sachs Global Investment Research.

Exhibit 58: We forecast hotel sales in FY3/26 will exceed the level before the global financial crisis on growth in foreign tourists

Sales of Japanese inns, hotels, guest houses, and overseas trip sales, and forecasts



Source: Leisure White Paper, Ministry of Land, Infrastructure, Transport and Tourism, Goldman Sachs Global Investment Research.

Hong Kong: No major capacity issues expected

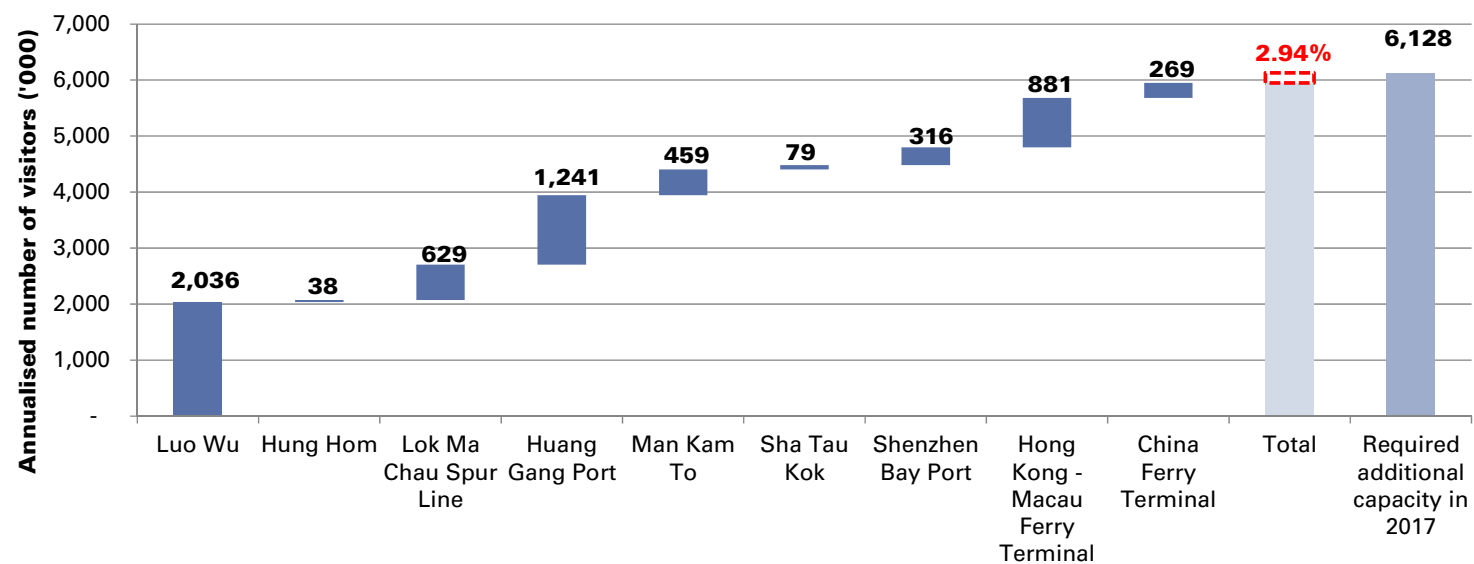
Similar to Korea, our Transport and Real Estate analysts do not expect any major capacity issue (for ports/airport and hotel) in HK.

Ports/Airport: HK has a number of **cross-border ports** through which Chinese tourists may enter HK, together the ports could handle more than 6 mn visitors per year and have no capacity concerns. **For airports**, the HK government approved the construction of a third runway in the HK International Airport earlier this year. The third runway takes around eight years for construction, and could increase the capacity of HK International Airport by over 40% on completion (per the Airport Authority HK) – we think this is enough to cater for the incoming visitors, especially in a lower growth scenario of 2% CAGR (2015-25E).

Hotel: A number of new hotels will be completed in 2017E with a total of 16,000 rooms. The new hotels imply a 5% CAGR in the number of rooms over 2014-17E – which will effectively be able to cater to rising demand from overnight visitors to HK.

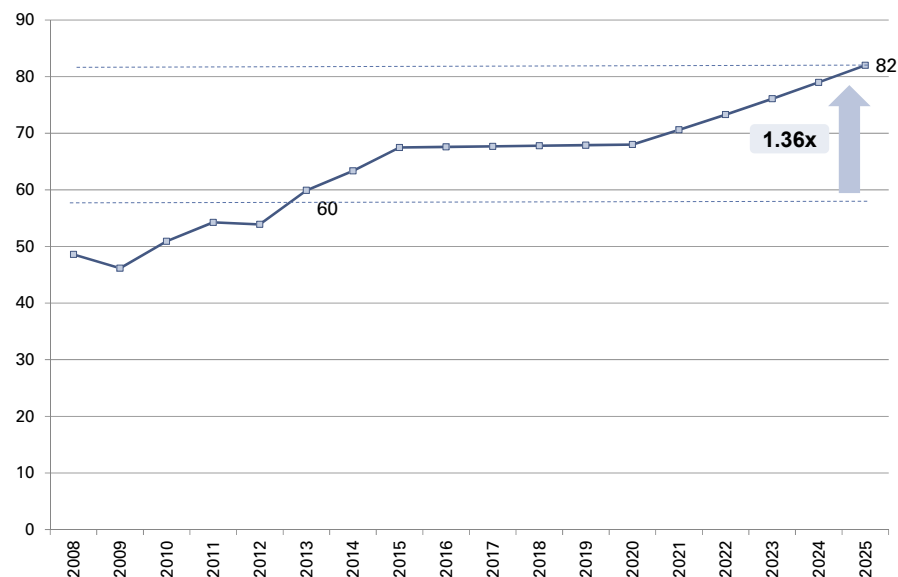
Exhibit 59: No major capacity issue for cross-border ports in HK

Capacity of cross-border ports in HK



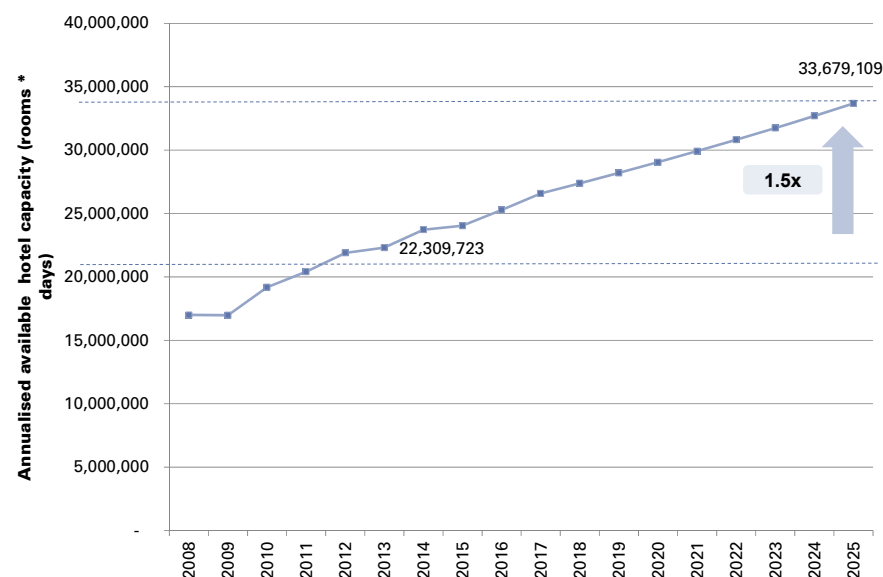
Source: HK Immigration Department, Goldman Sachs Global Investment Research.

Exhibit 60: The completion of a third runway in the 2020s could significantly boost the capacity of HK International Airport
 Airport capacity in HK (mn visitors)



Source: IATA Consulting.

Exhibit 61: A number of new hotels will be opened in 2017E, catering to the rising overnight visitors
 Hotel capacity in HK



Source: HK Tourism Board, Goldman Sachs Global Investment Research.

South Korea: No major capacity issues based on current airport/hotel expansion plans

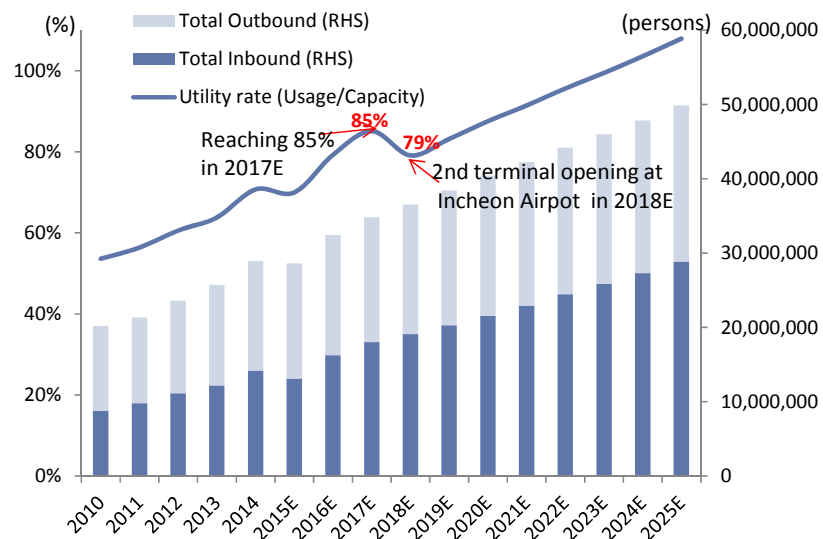
Following strong growth in traveler numbers (inbound and outbound travelers combined grew 9% in Korea during 2010-2014) and the expansion of airport passengers (+7% 2010-2014), some of the major airports in Korea have become more crowded and are running at close to a 90% utilization rate (Incheon, Jeju, and international terminal of Kimhae airport). As four major airports cover most of the flight passengers in Korea (94% as of 2014: Incheon (42%), Jeju (22%), Gimpo (20%), and Kimhae (10%)), we believe that the upcoming capacity expansion in the major airports over the next few years will help to alleviate the current situation.

Notably, Incheon int'l airport plans to add a second terminal by 2017E, increasing passenger capacity to 18 mn (1.4X of current capacity). The government also recently (on Nov 10th) announced its plan to ease traffic at the second busiest airport, Jeju. According to the government release there will be a second airport in Jeju Island set to open in 2025. Gimhae plans to expand the international terminal capacity by 35% by 2016E. Thus, we expect airport utilization ratio to reach the peak in 2017E at 85% and will sequentially ease to below 80% in 2018E.

In terms of hotel capacity, significant hotel capacity expansion has taken place in 2014, with a 16% increase in the number of hotel rooms (vs. growth 09-13 was 4%). According to the government's announcement in January this year, it plans to add another five thousand hotel rooms in Korea by 2017E to support the growth in the tourism industry. That said, hotel occupancy rate has been slowing after reaching the peak in 2011-2012, and Korea's hotel room occupancy rate hovers around 63% (nationwide) to 75% (Seoul) range, and we believe the major additions in 2014-2016E will provide another ample supply.

Exhibit 62: Airport capacity expansion plans in place to support massive growth in inbound traffic...

of outbound and inbound number and the airport utility rate

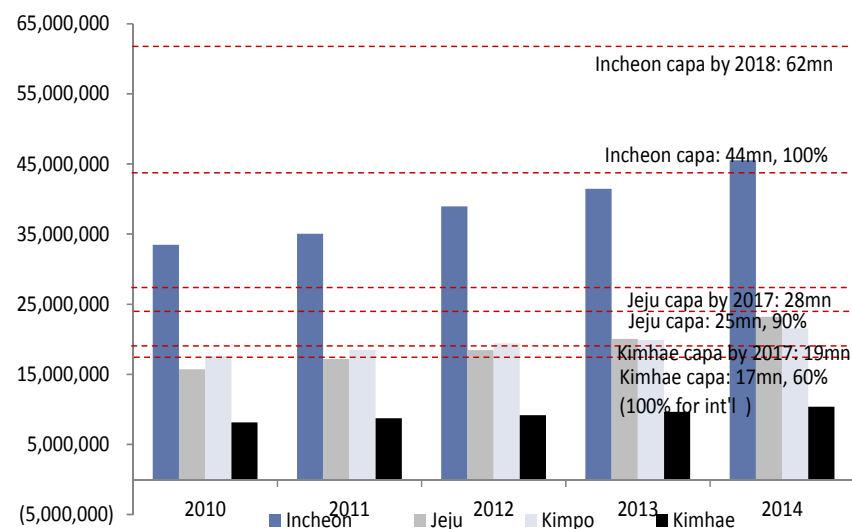


*Note: We have not reflected the new capacity for 2nd Jeju airport to be opened in 2025E as details have not been announced

Source: Korea Airport Corporation, Incheon Airport, Goldman Sachs Global Investment Research

Exhibit 63: Four busiest airports plan to expand their capacity, Incheon expects 1.4X capacity by 2018E

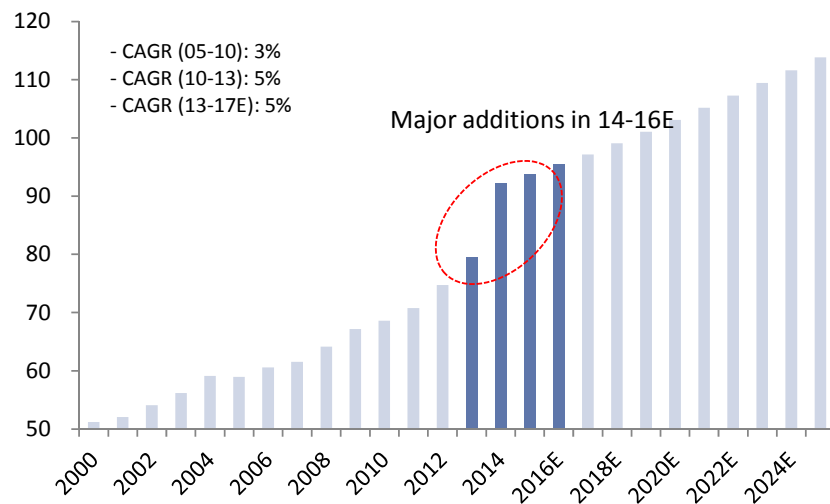
of passengers at the four major airports in Korea and capacity expansion plans



Source: Korea Airport Corporation, Incheon Airport, Goldman Sachs Global Investment Research

Exhibit 64: We forecast significant hotel room additions in 2014-2016E, boosted by strong government support

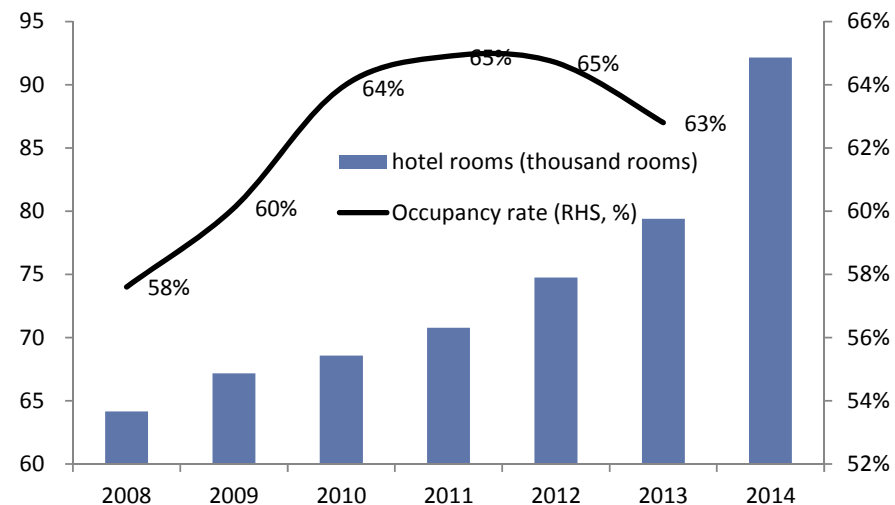
of hotel rooms in Korea (thousand rooms)



Source: CEIC, Ministry of Culture, Sports and Tourism, Goldman Sachs Global Investment Research

Exhibit 65: Hotel occupancy ratio has peaked in 2011-2012, slowing after capacity additions

of hotel rooms in Korea (thousand rooms) and occupancy rate (%)



Source: CEIC, Ministry of Culture, Sports and Tourism, Goldman Sachs Global Investment Research

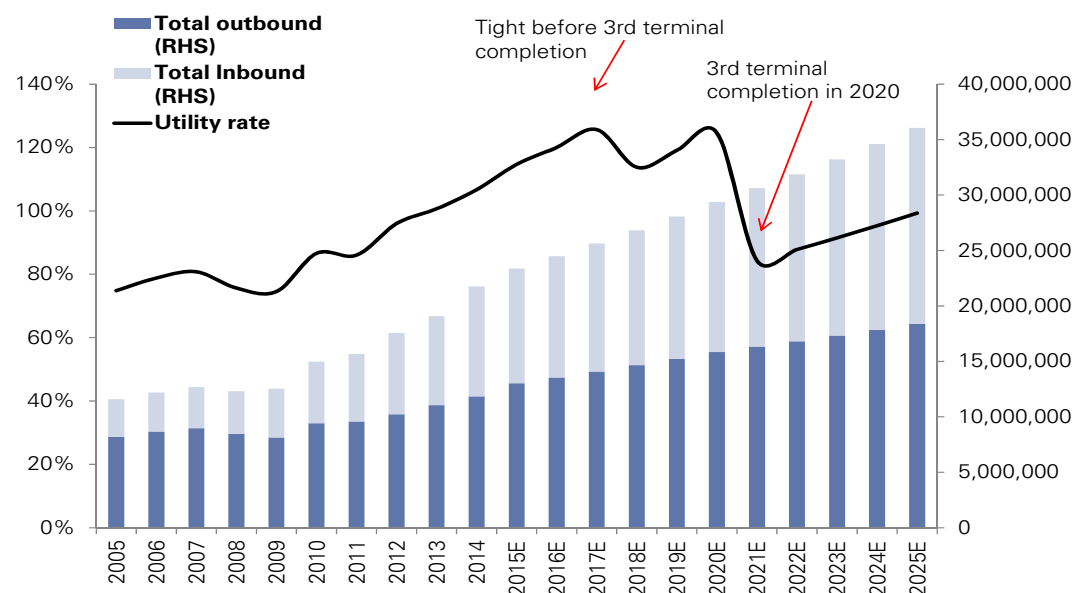
Taiwan: Major airport capacity in Northern Taiwan is tight but the expansion is ongoing; hotel room additions should accommodate rising inbound visitors

The major airport facility in Northern Taiwan (Taoyuan International Airport) has been running at full capacity since 2013. According to the government's current plan, the expansion of Terminal 2 should be finished by end-17, which can add 15.6% of existing capacity. The construction of Terminal 3 is under planning, with additional capacity for 20m passengers, or 54% of combined capacities for Terminal 1 and 2, by 2025 (first stage) and 45m, or 1.2x of combined capacities for Terminal 1 and 2, by 2042 (in total). The first stage expansion should alleviate the tight airport supply marginally. In the meantime, leveraging other smaller airports in Central/Southern/Eastern Taiwan and traveling by boat are alternatives in the near-term.

In terms of hotel capacities, occupancy rates for tourist hotels in Taipei City/Taiwan were 78%/72% in 2014. Based on the Tourism Bureau's data, the number of rooms for tourist hotels in Taiwan will increase by a CAGR of 9% in 2014-2018E, vs 4% p.a. in 2009-2014. Furthermore, some old commercial office buildings have been revamped into budget hotels and there are more home-stays in popular tourist spots that are not counted in the hotel supply. Thus our Real Estate analysts believe hotel supply should be ample to accommodate for increasing inbound visitor numbers.

Exhibit 66: The major airport in Northern Taiwan is running at full capacity; the supply tightness won't be alleviated until the first stage of Terminal 3 starts contributing from 2021E, in our view

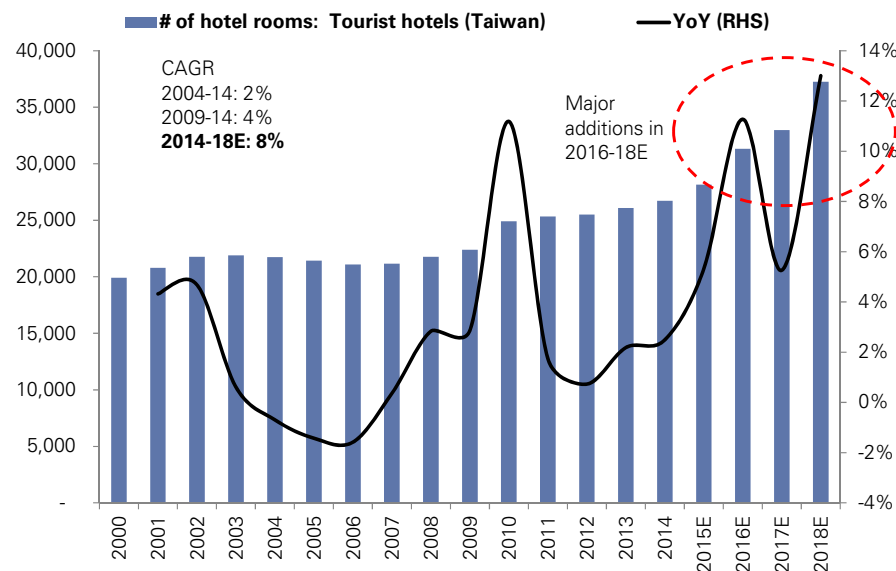
Inbound/outbound visitors vs Taoyuan Airport's utilization rate



Source: Tourism Bureau (Taiwan), Taoyuan International Airport, CEIC, Goldman Sachs Global Investment Research.

Exhibit 67: Hotel expansion is picking up, which implies ample supply for rising inbound visitors

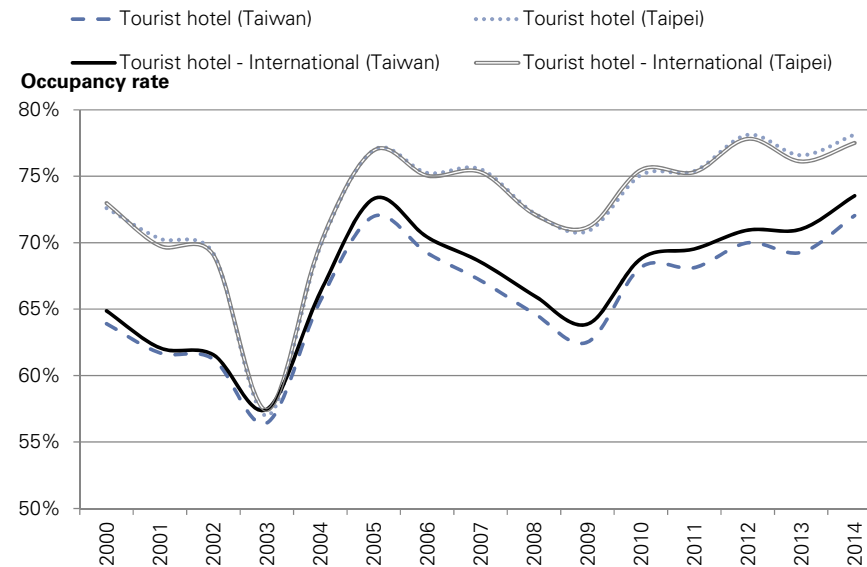
of rooms for tourist hotel in Taiwan vs yoy growth



Source: Tourism Bureau (Taiwan), Taoyuan International Airport, CEIC, Goldman Sachs Global Investment Research.

Exhibit 68: Occupancy rate for tourist hotels in Taiwan is around 72% in 2014, which may decline following aggressive expansion over 2015-2018E

Hotel occupancy rate in Taiwan & Taipei City



Source: Tourism Bureau (Taiwan), Taoyuan International Airport, CEIC, Goldman Sachs Global Investment Research.

Q6: What could slow the tide?

What impact would economic slowdown in China have?

We do not expect economic slowdown in China to have major impact on tourist numbers; rather, we expect tourist numbers to increase given: (1) the Chinese passport ownership ratio is only 4%, (2) middle-class income is rising and households are spending more on having fun, and (3) millennials are not adverse to foreign travel.

We do not expect economic slowdown (either now or in the future) to suppress China tourist's basic desire for foreign travel. We note that there was no decline in the number of Japanese tourists holidaying overseas when Japan's economic bubble burst. Also, in Korea and the UK no correlation is observable between outbound tourist numbers and economic events, including a fall in the stock market, as long as passport issuance is increasing.

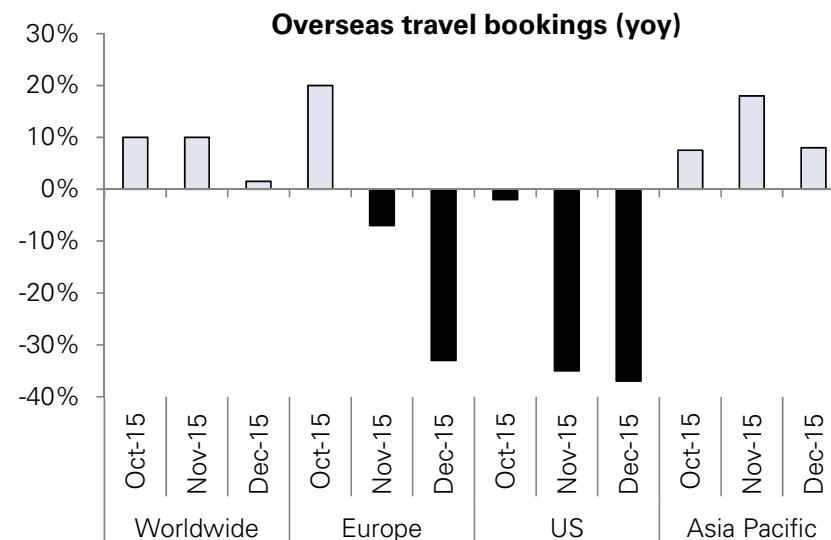
Shorter term, we acknowledge that forward bookings have slowed down, potentially in response the sharp draw down in equity markets. However, it is important to highlight that it is only longer haul, more expensive destinations such as Europe and US which have slowed down the most. Asia countries such as Korea and Japan are still seeing robust 10%+ booking growth.

Exhibit 69: Chinese tourists' overseas travel bookings were impacted by the stock market decline and the mid-year depreciation of the Rmb



Source: Datastream, Wall Street Journal.

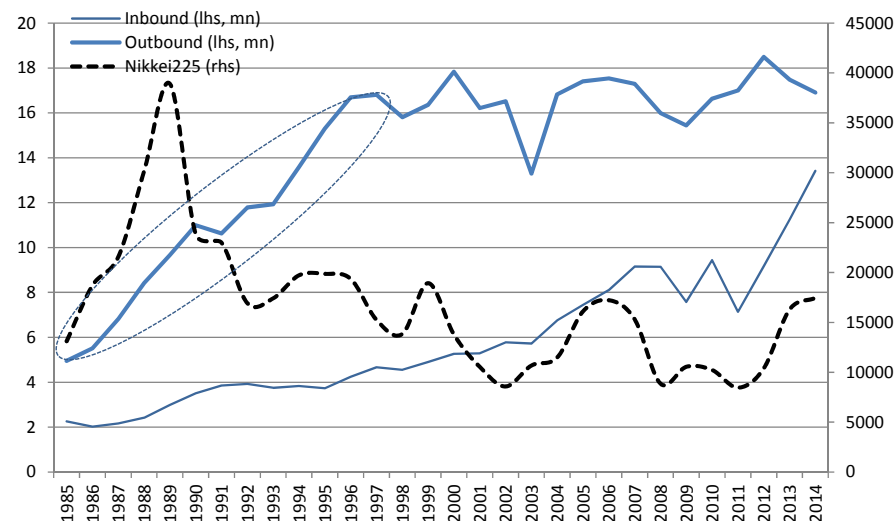
Exhibit 70: ... especially for the long haul trips, while the closer and less expensive destinations in Asia Pacific still saw rising Chinese visitors



Source: Wall Street Journal.

Exhibit 71: Japanese tourists' overseas travel continued to grow in the 1990s after Japan's economic bubble burst...

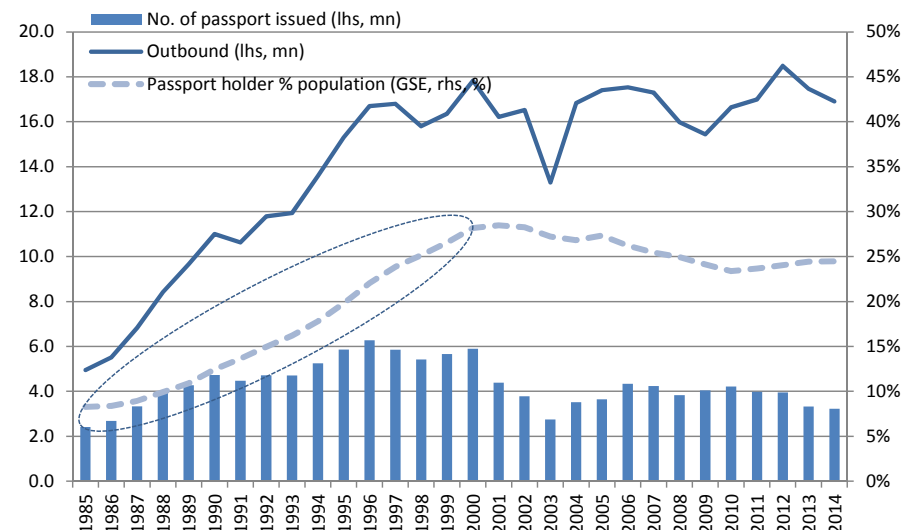
Share prices and the number of overseas travellers : Japan



Source: Japan Tourism Agency, Datastream, Goldman Sachs Global Investment Research.

Exhibit 72: ...we think growth this is explained by passport issuance

Number of Japanese passports issued and ownership ratio (GSE)



Source: Ministry of Foreign Affairs, Goldman Sachs Global Investment Research.

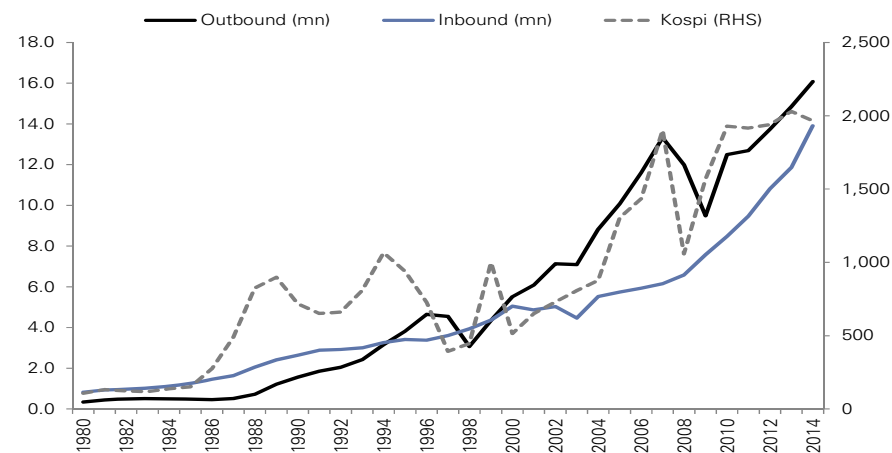
Number of passports and outbound travelers: Korea and UK experience

Similar to Japan, we see a correlation between passport possession and the number of outbound tourists in Korea and the UK.

Korea: The rise in the passport possession ratio from below 20% in 1990s to c.50% in 2014 coincided with the rapid increase in outbound numbers over the period. **UK:** The passport possession ratio plateaued around 2006, which was the same time as the peak in outbound numbers.

Exhibit 73: Overseas travel growth was not correlated to the share price decline in Korea in the 1990s...

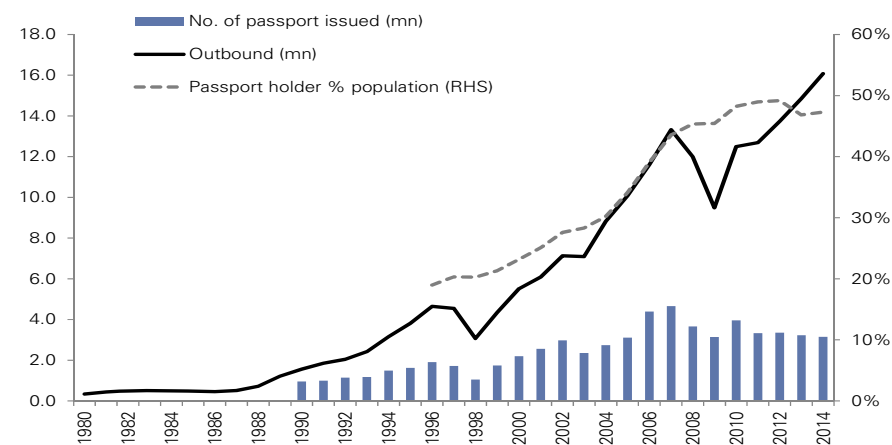
Share prices and number of people traveling overseas: Korea



Source: CEIC, Datastream.

Exhibit 74: ...and the passport ownership ratio increased over this period

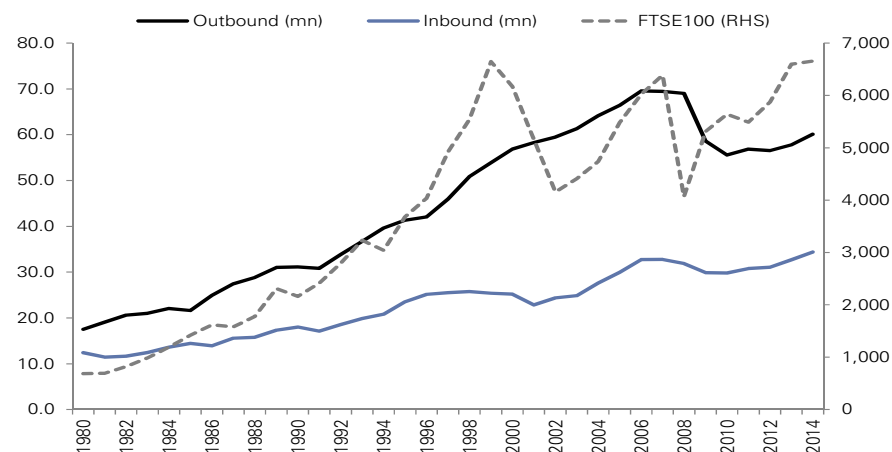
Passport issuance and ownership ratio: Korea



Source: CEIC, Korea Index.

Exhibit 75: Overseas travel from the UK increased when share prices fell around 2000...

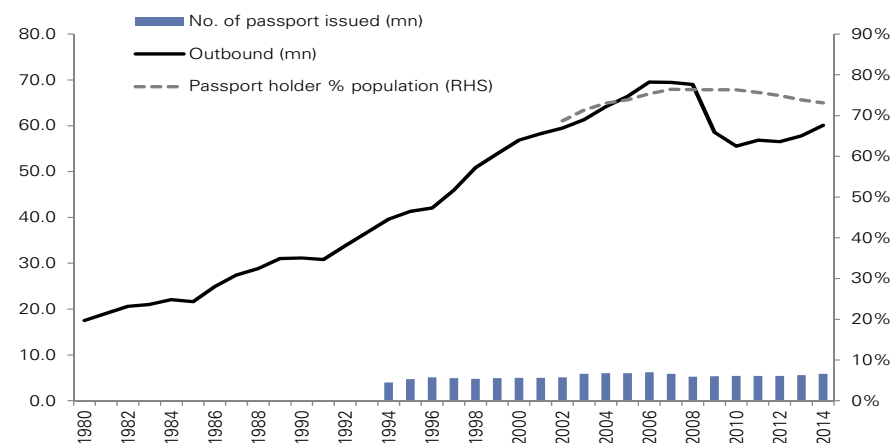
Share prices and number of people traveling overseas: UK



Source: CEIC, Datastream.

Exhibit 76: ...and the passport ownership ratio continued to increase at this time

Passport issuance and ownership ratio: UK

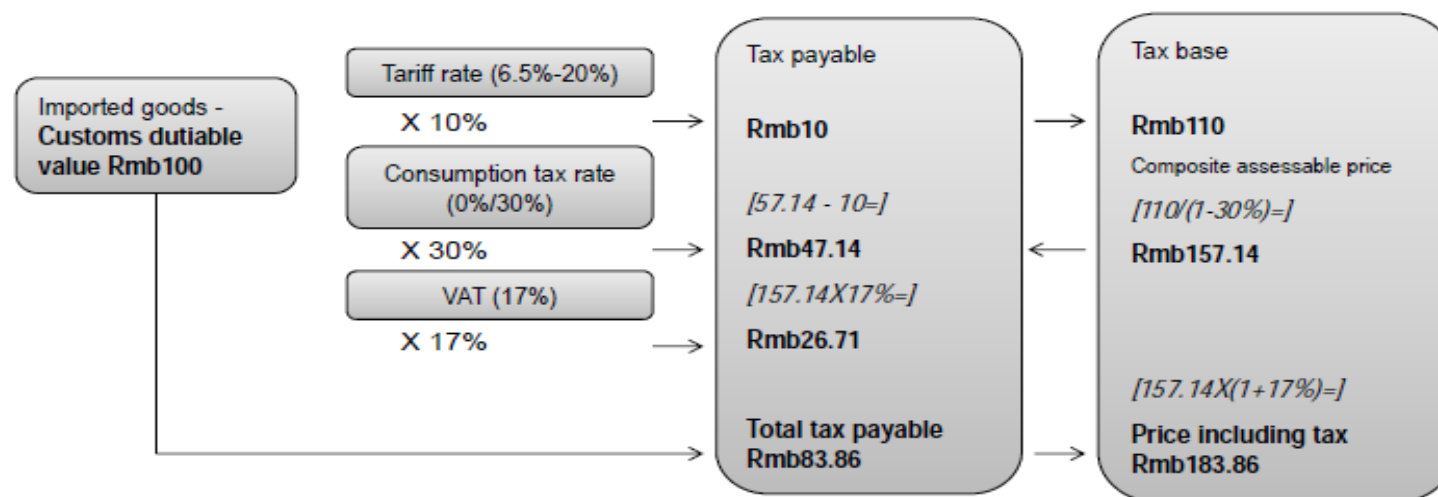


Source: CEIC, UK Passport Office.

Tariff cuts – more of a gesture for now with limited pricing impact, but a risk to watch

The State Council announced measures to reduce tariff rates for imported goods earlier this year, with the aim to “improve domestic consumption” via lowering the cost of domestic goods. However, the real impact of the tariff cuts is quite limited. As shown in the exhibit below, for a skin care product priced Rmb184 (for example), the tariff accounts for only Rmb10– meaning the price would only decrease by c.3% even if tariff rate is halved. Following the change, a number of premium cosmetics/luxury brands have introduced discounts to part of their product ranges (e.g. L’Oreal, Estee Lauder, Chanel, Gucci). However, the cuts are small (<10%), and only on selective products/SKUs. This has clearly not been enough to topple the “China premium”. Nonetheless, if the government introduces more drastic measures on tax cuts, we could see lower China prices – a risk to watch for (further discussion in the “Risks” section).

Exhibit 77: Tariff is only part of the current three layer tax regime in China



Note: Only certain categories like premium skin care and color cosmetics need to pay consumption tax.

Source: Goldman Sachs Global Investment Research.

Exhibit 78: China's various tax rates for merchandise sales are generally higher than other countries

Tax rate comparisons (as of 2015)

Case 1: Imported beauty products

	China	HK	Japan	Korea	US*
VAT / sales tax	17%	0%	8%	10%	4-9%
Import duty	10%	0%	5%	0-8%	0%
Consumption (luxury) tax	30%	0%	0%	0%	0%

Case 2: Imported sports shoes

	China	HK	Japan	Korea	US*
VAT / sales tax	17%	0%	8%	10%	4-9%
Import duty	15-24%	0%	10-20%	0-13%	9%
Consumption (luxury) tax	0%	0%	0%	0%	0%

* For the US we take New York as an example, given tax rates could vary by state

* US sports shoes are taxable if average price is >US\$110

* For KR products, if imported from FTA countries (Asean, Chile, EU, India, USA, Turkey), 0% tariff is applied.

Source: Customs websites for each country.

Brands' pricing strategies, FX rates, visa policies, and loss of repeat travel are key swing factors

(1) Brands cutting prices: Part of the China premium is driven by a brands' conscious decision to charge more in China. Taking Nike as an example, Greater China has been its most profitable region, which partly reflects its higher pricing vs other regions. As tourists continue their search for the same products overseas at cheaper prices, we could see brands further "harmonize" prices to drive domestic spending in China. In fact, we have seen small-scale price cuts from global cosmetics/luxury brands in China.

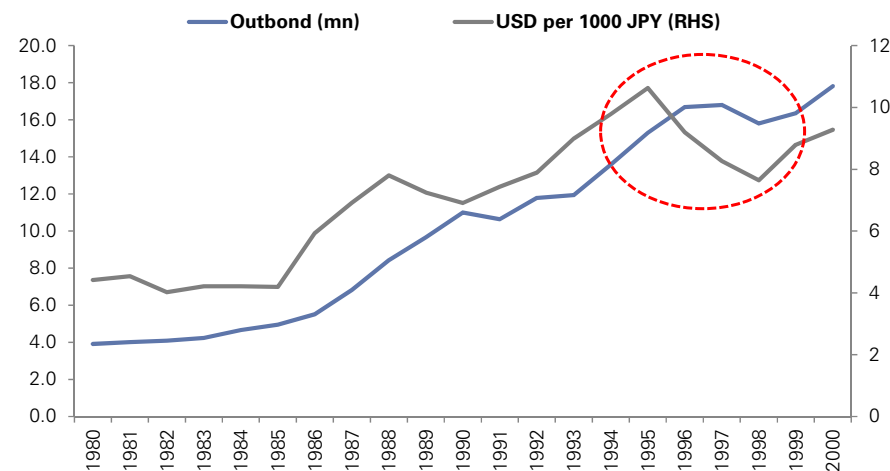
(2) FX rates: As described in the "pricing premium" section, the current price difference between China and the individual tourist destinations hinges on FX rates. Over the past year, we see the pricing advantage of Japan and Korea catching up with HK on the back of currency depreciation versus the Rmb. While our macro team expects Asian currencies to continue to depreciate, the trend may reverse and impact the pricing advantage of Japan and Korea. That said, we think the **relationship between visitor numbers and FX would be more limited during the fast-growth stage** – which we believe is the current stage of growth for Chinese outbound visitors.

Exhibit 79: Pricing advantage vs China hinges on FX rates

Avg prices of products (China=100)	China	HK	Tokyo	Korea
Current FX rate	100	79	83	89
FX rate @ 12m ago	100	76	89	91
FX rate @ GSe 12m forecasts	100	82	79	80
FX rate (bear case *)	100	82	93	95

* Rmb continues to depreciate, while JPY/KRW strengthen (back to 2014 levels)

Source: Goldman Sachs Global Investment Research.

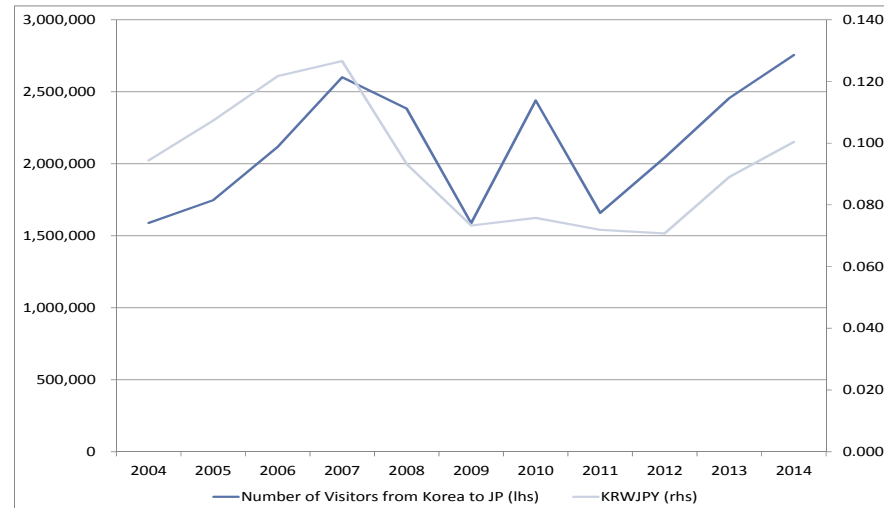
Exhibit 80: Nevertheless, the relationship between outbound tourists and FX could be more subdued in the fast-growing stage (e.g. Japan in 1990s)
 Japan's outbound number vs JPY:US\$ rate


Source: CEIC, Datastream.

Higher prices for travel and merchandise (shopping) due to forex swings have some impact (price differentials between China and other countries average 15%-30%, as we noted earlier), but given the millennials' increasing desire to travel overseas, we expect the number of overseas travelers to continue rising. As Exhibits 81-84 show, a correlation can be seen between tourist numbers and forex swings between mature economies, but for a country like China, where the number of overseas travelers is on the rise, forex has little impact.

Exhibit 81: A correlation appears to exist between forex and the number of Korean tourists visiting Japan

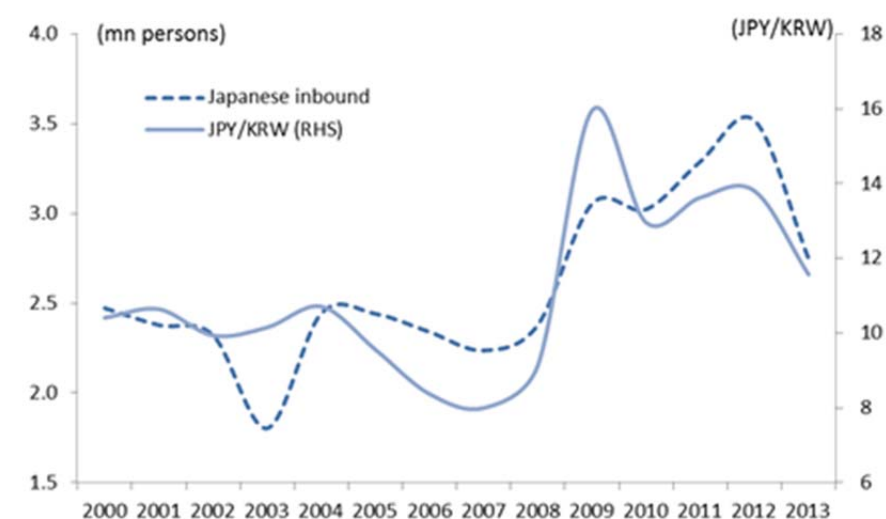
KRW/JPY and Korean tourists visiting Japan



Source: Japan Tourism Agency, Datastream

Exhibit 82: A correlation appears to exist between forex and the number of Japanese tourists visiting Korea

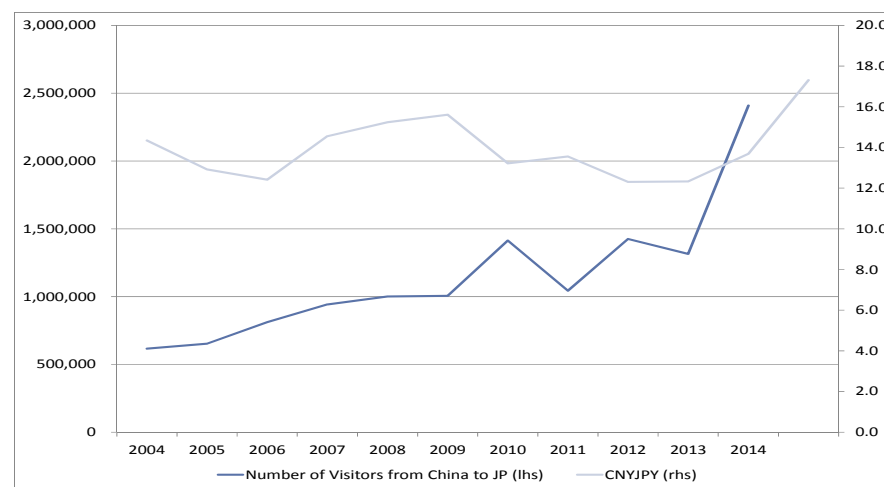
KRW/JPY and Japanese tourists visiting Korea



Source: Japan Tourism Agency, Datastream

Exhibit 83: But forex does not explain the number of Chinese tourists visiting Japan...

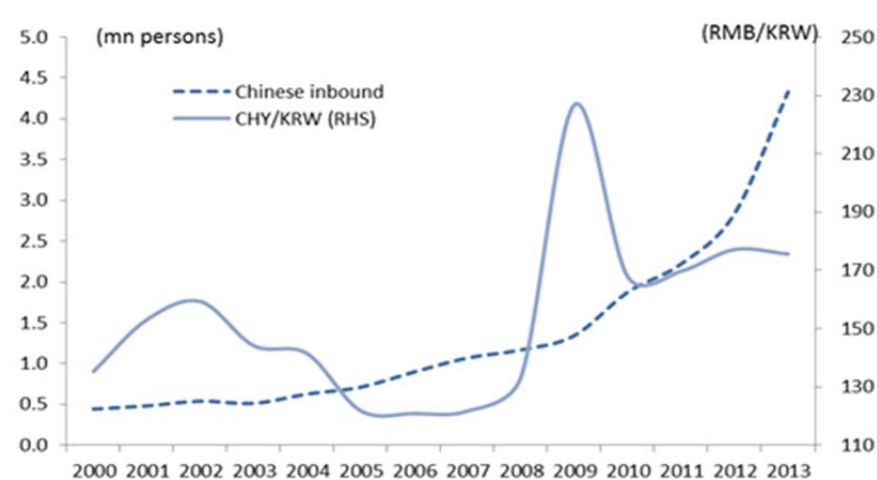
RMB/JPY and Chinese tourists visiting Japan



Source: Japan Tourism Agency, Datastream

Exhibit 84: ...nor does forex explain the number of Chinese tourists visiting Korea

KRW/RMB and Chinese tourists visiting Korea

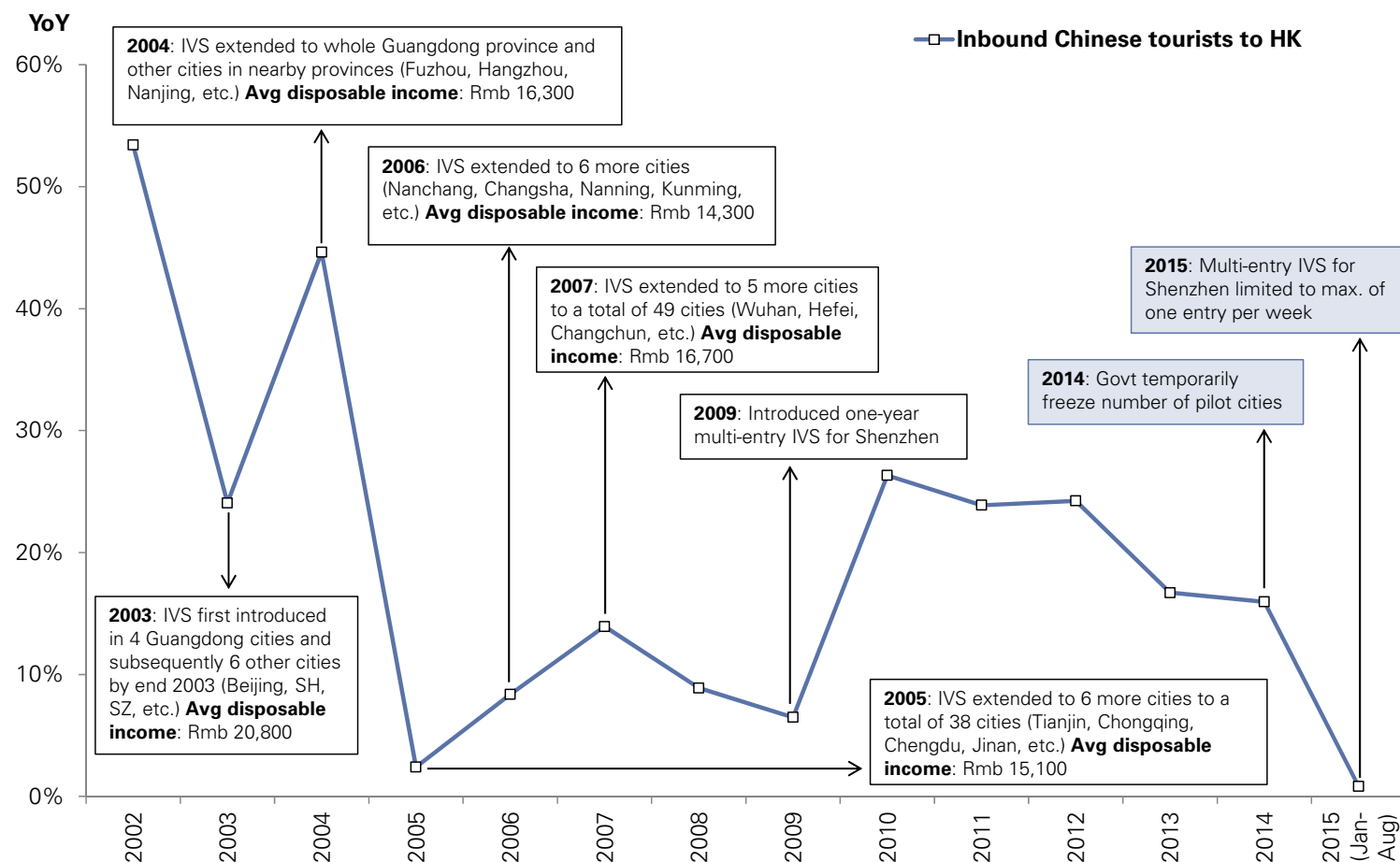


Source: Japan Tourism Agency, Datastream

(3) Visa policies:

The tightening/relaxation of visa requirements poses another risk to tourist numbers. HK and Macau are two examples that illustrate the impact of visa policies on the number of inbound tourists. **HK:** The freeze of the number of pilot cities for IVS (individual visit scheme) in 2014 and the tightening of multi-entry IVS for Shenzhen citizens to one entry per week in 2015 coincided with the slowdown of Chinese visitors to HK. **Macau:** The number of visitors on a “transit visa” has fallen/rebounded significantly on tightening/relaxation of policy.

Exhibit 85: Policy tightening in HK coincided with the slowdown of Chinese visitor growth



Source: HK Tourism Board, CEIC, Goldman Sachs Global Investment Research.

Exhibit 86: In Macau, the transit visa policy was tightened in Jul 2014, and was then relaxed again in 2015...

Summary of transit visa policy in Macau

	Jul 1, 2014 - Jun 30, 2015	Jul 1, 2015 onward
Transit period for first visit	5 days	7 days
Penalties for overstaying	1) 1st offence: transit period reduced to 1 day upon re-entry within 30 days	1) 1st offence: transit period reduced to 2 days upon re-entry within 30 days
	2) 2nd offence: denied entry for 60 days	2) 2nd offence: denied entry for 30 days

Source: CPSP.

Exhibit 87: ...which led to the number of visitors on a “transit visa” rising, then falling before rising again

Macau visitation yoy growth

Macau inbound YoY	Total	Mainland China					
		Subtotal	IVS	Packaged Tour	Others	Same-day	Overnight
Jan-14	8%	15%	35%	7%	-14%	21%	8%
Feb-14	8%	14%	9%	10%	53%	13%	14%
Mar-14	10%	24%	27%	18%	27%	26%	20%
Apr-14	10%	14%	15%	18%	3%	18%	9%
May-14	8%	14%	21%	13%	1%	16%	11%
Jun-14	5%	9%	11%	9%	4%	14%	4%
Jul-14	7%	13%	19%	39%	-78%	17%	9%
Aug-14	7%	13%	19%	36%	-92%	20%	6%
Sep-14	3%	6%	11%	11%	-34%	8%	5%
Oct-14	11%	20%	18%	75%	-65%	25%	15%
Nov-14	15%	28%	35%	71%	-76%	37%	18%
Dec-14	-2%	1%	6%	51%	NA	9%	-7%
Jan-15	-2%	-1%	-8%	31%	-56%	1%	-4%
Feb-15	5%	11%	39%	22%	NA	24%	-5%
Mar-15	-14%	-18%	-10%	14%	-83%	-15%	-21%
Apr-15	-3%	-6%	0%	-7%	-20%	-4%	-9%
May-15	1%	-1%	4%	-2%	-7%	3%	-5%
Jun-15	-8%	-10%	-4%	-16%	-10%	-10%	-10%
Jul-15	-4%	-6%	-5%	-27%	348%	-6%	-6%
Aug-15	-2%	-2%	-1%	-26%	1392%	-1%	-2%

Note: We use visitors under “Others” category as proxy for those by transit visa (as they are not visiting Macau by IVS or package tours)

Source: CEIC, DSEC.

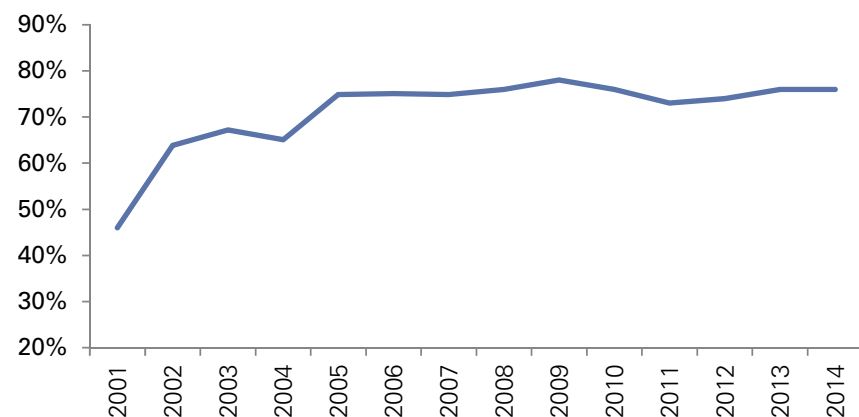
(4) Risks: If the “cool” factor fades, repeat travel to HK could fall... but still many first time visitors for Korea/Japan

The risk for continued tourist growth for new destinations would be a reduction in repeat travelers. Taking Hong Kong as an example, the share of repeat Chinese visitors for overnight travel to HK has increased from 45% in 2001, to 76% in 2004 (Exhibit 89:). The number for same day tourism is even higher, at 93%. With mainland China now one of the markets with the highest repeat tourist share (Exhibit 88:), the risk is that these tourists reduce their travel frequency to HK, especially as new destinations open up. What this means for emerging destination markets such as KR and JP is the risk for a reduction in repeat travel to HK as the “novelty” factor fades and repeat travel takes a significant share of arrivals.

The other angle is to think about the incremental tourist. According to the HK Tourism Board, over 40 mn individuals have visited HK for an overnight visit in the past 15 years and we estimate this number would double if we include same day travelers. This equates to 80 mn visitors which have never been to HK, which is also our “repeat customer” addressable market. Assuming that the first visitors to HK have a higher income, the total 80 mn potential repeat visitors to HK represents already the top half of middle class. So if these repeat travelers are diverting to other destinations, and the new visitors with a lower income level, we could see a reduction in per head spending – which is what is happening to HK now.

Exhibit 88: Most Chinese visitors to HK are now repeat visitors...

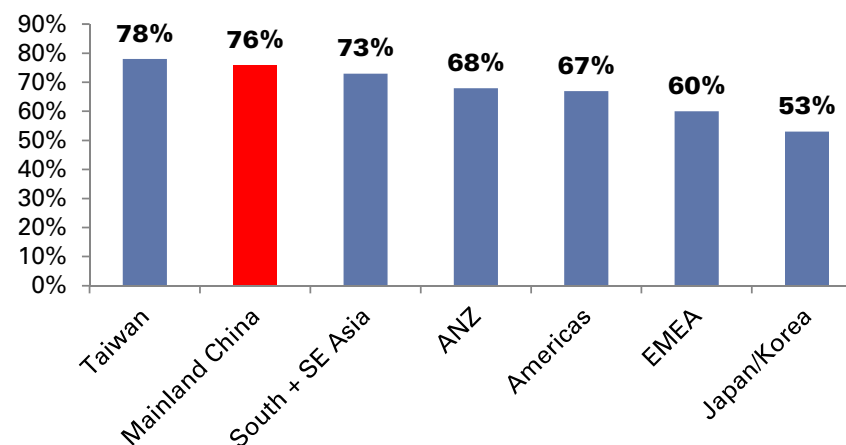
Repeat visitors as % of total overnight visitations to HK



Source: HK Tourism Board, CEIC, Goldman Sachs Global Investment Research

Exhibit 89: ... who may visit HK less frequently as other destinations open up

Repeat visitors as % of total



Source: HK Tourism Board, CEIC, Goldman Sachs Global Investment Research

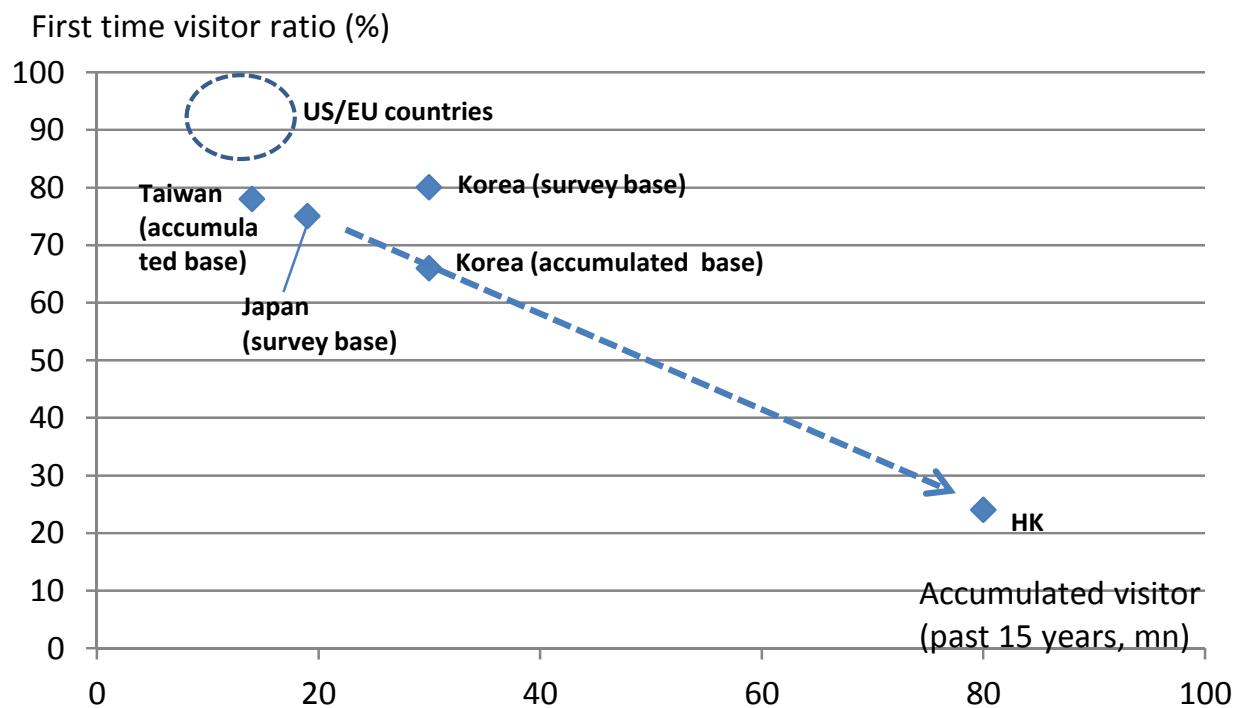
On the other hand, accumulated visitors in Japan/Taiwan/Korea are still between 14 mn - 30 mn, quite a small number compared to HK, and hence, we see limited risk of the Chinese inbound slowdown in these countries.

We are not overly concerned about the potential loss of repeat visitors to Korea currently given:

- First time visitors represent the majority of the foreign visitors to Korea (80% in the last Korea Tourism Organization's 2014 survey) and the first-timer ratio has actually been on the rise (below 60% in 2009 to 80% in 2014).
- An increasing portion of survey respondents responded positively on willingness to revisit, with 86% of respondents answering that they would like to revisit Korea within three years in 2014, up from 71% of respondents in 2009.
- Korea's inbound Chinese tourist number of 6 mn in 2014 is similar to Hong Kong's 2002-2003 levels. If we only count the overnight stays (excl. same-day visits), Chinese inbound visits to Hong Kong grew from 5.7 mn in 2003 to 19 mn in 2014, which implies 12% CAGR. In light of Hong Kong's visitation precedent, we believe the 9% Chinese inbound to Korea CAGR in '2015E-2025E implied by our 14 mn forecast by 2025E is achievable and is not far-fetched given the South Korea's larger scale and wider variety of destinations and experiences amidst the rapid increase in willing (millennials' desire to have fun) and able (middle class earning more) prospective tourists.

Exhibit 90: There are still many first time visitors for Japan/Taiwan/Korea

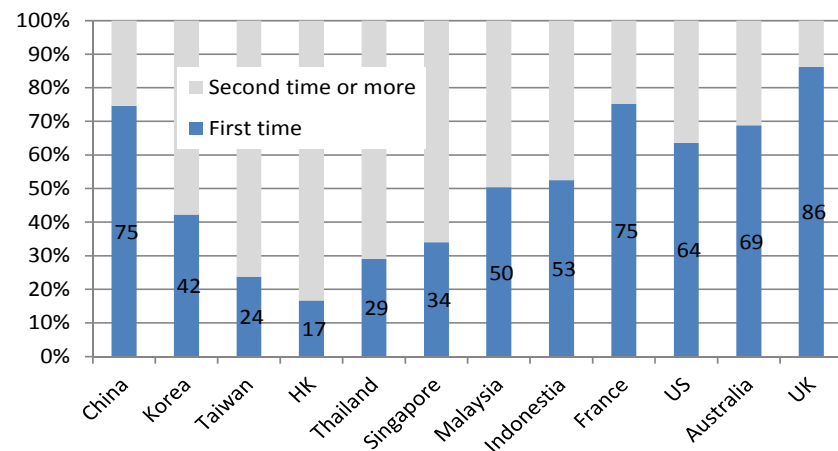
First time visitor ratio (2015) and accumulated visitor number (past 15 years)



Source: MLIT, Goldman Sachs Global Investment Research

Exhibit 91: 75% of Chinese inbound passengers to Japan are first timers

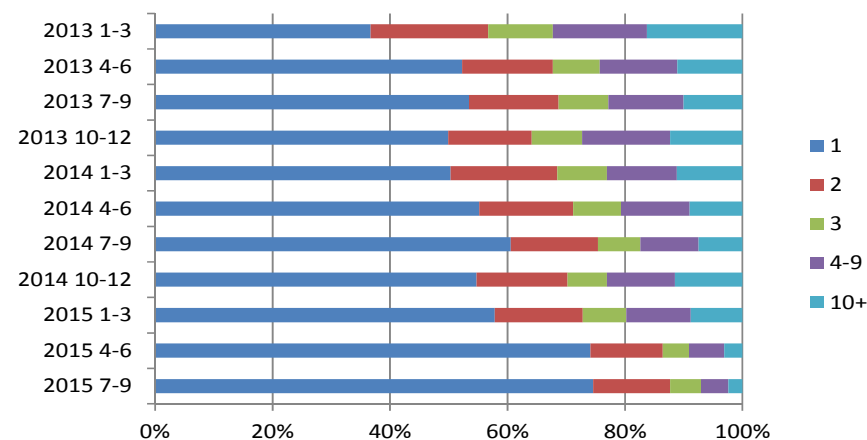
First time visitor ratio for Japan inbound (Jul-Sep 2015)



Source: MLIT, Goldman Sachs Global Investment Research

Exhibit 92: First time visitor ratio from China to Japan is increasing

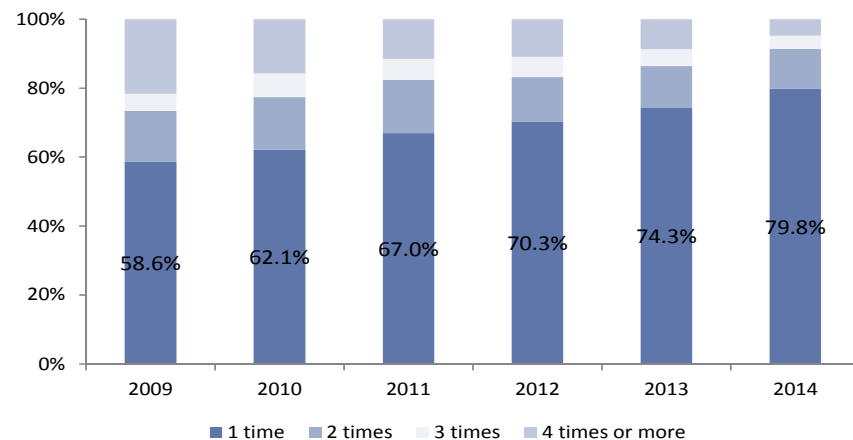
Survey of "How many times have you visited Japan"



Source: MLIT, Goldman Sachs Global Investment Research

Exhibit 93: First-time visitors account for the majority of visitors to Korea and the number has been on the rise in recent years...

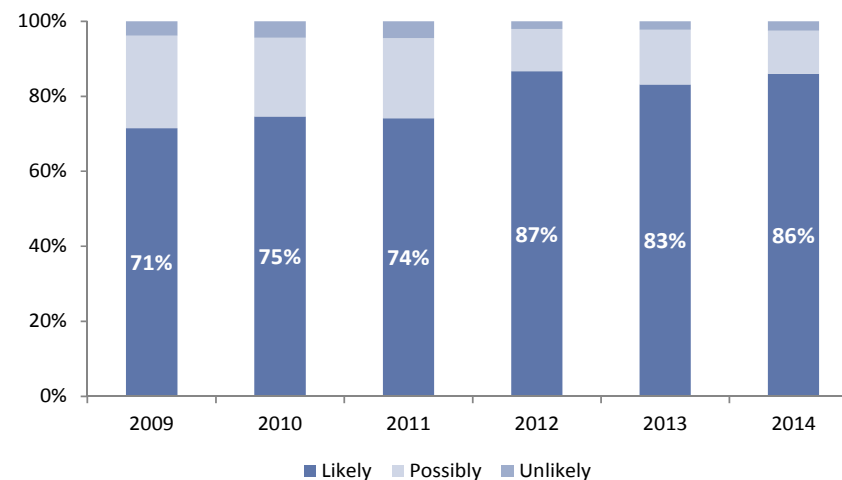
First time visitor as % of total international visitors to Korea (surveyed)



Source: Korea Tourism Organization

Exhibit 94: ... and an increasing portion responded that they want to revisit Korea

Will you revisit Korea in next three years? (surveyed)



Source: Korea Tourism Organization

Appendix

Scoring details for tourist volumes

To help us calculate our regional tourist volume forecasts, we created a scoring system focused on the three areas below based on the views of our consumer goods analysts in the respective regions. We have tried to exclude subjective elements to the greatest extent possible, but note that the scoring inevitably includes some qualitative/subjective aspects.

- **Shopping:** We assume larger price differentials translate into greater traveling incentives. A score of 10 indicates a price differential of 20% or more, a 5 means essentially no differential, and a 0 means a differential of -20% or more. In countries that share the same culture—like Taiwan, China, and Hong Kong—relatively lower product appeal makes for a lower score. Price differentials are based on the survey in Exhibit 45.
- **Distance:** We factor in physical distance (e.g., flight time) and visa restrictions. A score of 10 indicates a flight time of 2 hours or less, a 1 means a flight time of 10 hours or more. The need for a visa lowers the score by 1-2 points, and 1-2 points are added for countries where a visa is not required. Visas are required in most cases for Chinese tourists.
- **Tourist attractions:** We qualitatively assess each country/region's tourist attractions: physical attractions such as world heritage sites, and cultural attractions such as local cuisine and casinos. In countries that share the same culture—like Taiwan, China, and Hong Kong—relatively lower cultural appeal makes for a lower score. 10 is the highest possible score.

Exhibit 95: Japan and Korea are attractive destinations for Chinese tourists

Regional scores

Weight	China	Japan	Korea	Taiwan	HK	ASEAN	US	EU
China								
1/2 Shopping	-	10.0	8.0	5.0	10.0	5.0	8.0	10.0
1/4 Distance	-	7.0	9.0	9.0	9.0	6.0	1.0	1.0
1/4 Sightseeing/Culture/Properties	-	9.0	7.0	5.0	5.0	8.0	10.0	10.0
Total		9.0	8.0	6.0	8.5	6.0	6.8	7.8
Japan								
1/3 Shopping	3.0	-	6.0	5.0	5.0	3.0	7.0	8.0
1/3 Distance	9.0	-	10.0	7.0	7.0	6.0	3.0	3.0
1/3 Sightseeing/Culture/Properties	8.0	-	7.0	5.0	7.0	8.0	10.0	10.0
Total	6.7		7.7	5.7	6.3	5.7	6.7	7.0
Korea								
1/3 Shopping	3.0	6.0	-	5.0	5.0	3.0	7.0	8.0
1/3 Distance	10.0	10.0	-	8.0	8.0	7.0	3.0	3.0
1/3 Sightseeing/Culture/Properties	7.0	9.0	-	5.0	5.0	8.0	10.0	10.0
Total	6.7	8.3		6.0	6.0	6.0	6.7	7.0
Taiwan								
1/3 Shopping	3.0	6.0	5.0	-	8.0	3.0	7.0	8.0
1/3 Distance	9.0	7.0	8.0	-	10.0	7.0	3.0	3.0
1/3 Sightseeing/Culture/Properties	6.0	9.0	7.0	-	5.0	8.0	10.0	10.0
Total	6.0	7.3	6.7		7.7	6.0	6.7	7.0
HK								
1/3 Shopping	1.0	6.0	5.0	5.0	-	3.0	6.0	7.0
1/3 Distance	10.0	7.0	8.0	10.0	-	7.0	3.0	3.0
1/3 Sightseeing/Culture/Properties	6.0	9.0	7.0	5.0	-	8.0	10.0	10.0
Total	5.7	7.3	6.7	6.7		6.0	6.3	6.7
ASEAN								
1/3 Shopping	3.0	7.0	7.0	5.0	8.0	-	7.0	8.0
1/3 Distance	7.0	5.0	5.0	7.0	7.0	-	2.0	2.0
1/3 Sightseeing/Culture/Properties	8.0	9.0	7.0	5.0	5.0	-	10.0	10.0
Total	6.0	7.0	6.3	5.7	6.7		6.3	6.7

Source: Goldman Sachs Global Investment Research.

3. GS tourist price survey details**Exhibit 96: Guidelines for GS tourist price survey**

Prices to compare	Normal (not discounted prices), and tax inclusive
Places to compare	China: Shanghai (major dept stores/malls) HK: Causeway Bay Japan: Tokyo - Ginza Korea: Seoul - Myungdong <i>Note: For products not available in physical stores, online prices are used</i>
FX rate	Rates as of Oct 19, 2015 are used
On-going updates	Periodic updates under planning

Source: Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Sho Kawano, Jingyuan Liu, Ricky Tsang, CFA, Christine Cho, Joshua Lu, Michelle Cheng, June Zhu, Sachiko Okada and Kenya Moriuchi, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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