

MALAYSIA

The decline in China's outbound tourism to SEA is a regional malaise

Decline in flow of Chinese tourists. Much has been said about the decline of inbound Chinese tourists to Malaysia. Many have attributed this to the negative fall-out arising from the MH370 incident. How much of this argument can be upheld? Could there be other reasons behind the decline?

A. THE TOURISM INDUSTRY IN MALAYSIA

Importance of tourism to Malaysia: As a sub-sector of the services industry, tourism in Malaysia brings significant receipt to the country. In 2013, tourists from China accounted for nearly 7.0% of the total overseas arrivals, making Chinese tourist the 3rd largest overseas visitors to Malaysia, behind Singapore and Indonesia. It was the same ranking in 2012, although the market share was less at 6.2%.

In 2013 the tourism in Malaysia generated RM65.4b receipts of which about 18% was received from China, exceeding the incidence of arrivals. This is because Chinese tourists are generally big spenders. The Chinese have a higher propensity to spend versus others as (1) prices of luxury goods tend to be much lower outside China (2) there is a wider selection of brands and products available overseas.

Table 1: TOURIST ARRIVALS AND RECEIPTS TO MALAYSIA

YEAR	TOTAL ARRIVALS (m)	RECEIPTS (RM'b)	FROM CHINA	CHINA TOURISTS as % of TOTAL
2013	25.72	65.44	1.79	6.97
2012	25.03	60.6	1.56	6.23
2011	24.71	58.3	1.13	4.57
2010	24.58	56.5	1.25	5.09

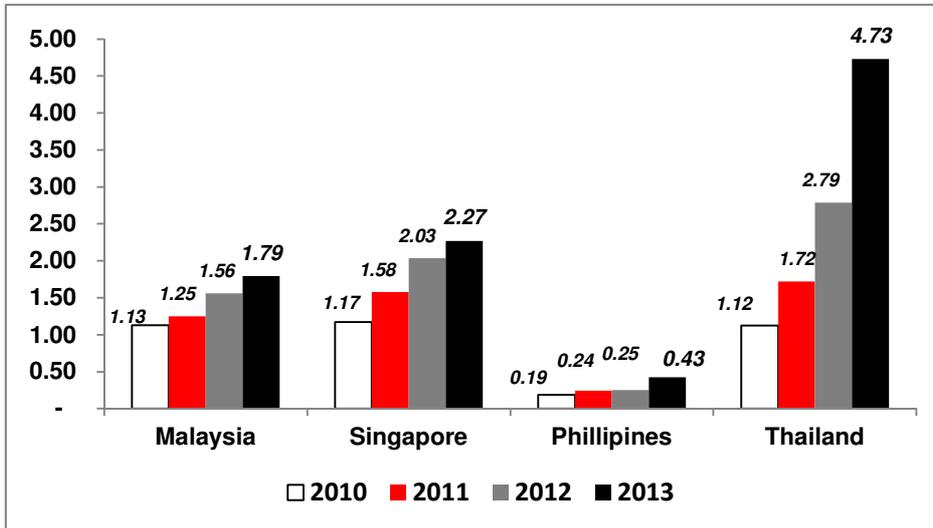
Source: Tourism Malaysia

B. CHINA TOURISTS IN THE SOUTHEAST ASIA (SEA) REGION

Tremendous growth of Chinese tourist arrivals to SEA: The top three destinations in SEA in the last few years among China's outbound tourists are Thailand, Singapore and Malaysia. The influx of Chinese tourists has been particularly strong in Thailand. Between 2010-2013, Chinese tourist arrivals in Thailand grew by a compounded average growth rate of 61.6%. In Singapore, the growth was 24.7%, while that in Malaysia, the growth was 16.6%.

Catalysts for China national's travel to SEA: The Chinese travel to the region has been partly driven by the strength in the yuan exchange rate. The yuan appreciated by as much by 15.6% against the ringgit between April 2011 and Dec 2013, and gained 18% against the Thai baht between Nov 2010 and Dec 2013. Other catalysts include the growth of income in China and the falling cost of air travels, especially due to the growth in budget airlines.

Chart 1: Arrivals of Chinese tourists in selected South East Asia nations (m)



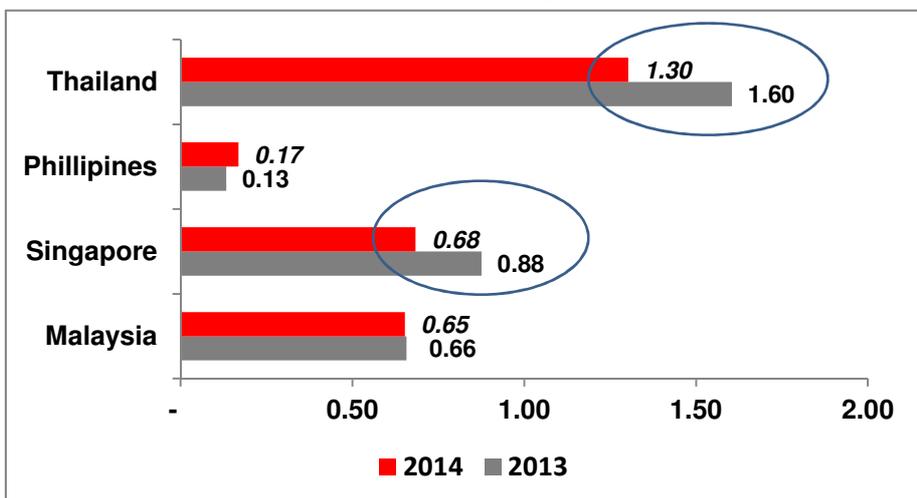
Source: CEIC

C. THE SITUATION SO FAR IN 2014

Slight decline of Chinese tourist arrivals to Malaysia in the first 4 months of 2014: The decline of -0.7% had been relatively insignificant despite adverse sentiment surrounding MH370. Admittedly, it was early days. Although there were cancellations, most tourists may have proceeded with their travel plans. The real impact of MH370 on inbound tourists from China would probably be felt in 2H14 or 2015.

More severe declines in Thailand and Singapore: Statistics from the first four months of the year suggest that the fallout in China tourist arrivals have been more severe in Thailand and Singapore. During the period, Chinese arrivals from China to Singapore dropped -22.7%yoy, while that to Thailand fell -18.8%yoy. The situation appear to have worsened after April (read below). In regional context therefore, the decline in Chinese tourist arrivals to Malaysia has not really been that severe.

Chart 2: Arrivals of Chinese Tourist Jan - April 2013 & 2014 in Millions



Source: CEIC

Table 2: Chinese travellers to the SEA nations: Jan-April 2014

Country	2012	2013	Growth % YoY	January - April		Growth % YoY
				2013	2014	
Malaysia	1,558,785	1,791,423	14.9	657,424	652,624	(0.7)
Singapore	2,034,177	2,269,870	11.6	875,725	683,933	(21.9)
Philippines	250,883	426,352	69.9	132,307	168,155	27.1
Thailand	2,786,860	4,730,507	69.7	1,604,697	1,302,358	(18.8)

Source: CEIC

In Thailand, the political fallout has plagued its valued tourism industry. Chinese tourists make up nearly 25% of its total tourist arrivals, and this has been adversely affected by the political upheavals in the country since November of 2013. Passenger figures passing through Phuket International Airport dropped in June by 12.5 %, the first negative results after constant month of month growth in in five years. In the first 6 months of 2014, Chinese tourist arrivals to Thailand dropped 23.4%yoy, with the number of those travelling to Bangkok slumping by almost 40%yoy. Chinese tourists are more likely than others to cancel their trips in the face of political turmoil. That could be because they generally take large group tours whose operators might worry about insurance coverage, or because they are inexperienced travellers unaccustomed to dealing with social and political upheavals. In an effort to stem the tide, Thailand's military junta have waived visa fees for Chinese and Taiwanese travellers for at least 3 months from August to November which coincides with the peak tourism period in Thailand

In Singapore, the strength of the SingDollar is deterring tourists. Only 780,000 Chinese tourists visited Singapore in the first five months of 2014, a drop of 27%yoy. Industry players have cited a variety of reasons for the dip, including the strengthening Singdollar (especially vis-à-vis the Yuan, against which it has gained 3% in the last 12 months). In addition, labour costs are rising in the Singapore, reducing the price competitiveness of its offerings.

Meanwhile, China introduced a new law last October, which restricted travel agencies from arranging "shopping trips", or organising other activities that tourists have to pay for on top of the tour fee. In addition, Chinese spending has been also been affected by Beijing's anti-corruption enforcement on spending by government officials and state-owned companies.

The drop in Chinese tourists' spending has affected Singapore's retail sales, as Chinese visitors accounted for 40% of total spending in Singapore in the first two months of 2014, with an average spending of SGD1,728 per person, according to its tax free shopping transaction records.



Table 3: Reasons for decline in Chinese nationals to SEA in 2014

Country	Major reasons for the decline	Remedial measures
Thailand	<ul style="list-style-type: none"> ➤ Political Instability 	<ul style="list-style-type: none"> ▪ 3 months waiver of visa fees starting from 9 August. ▪ Organizing the Ratchaprasong Grand Sale 2014, targeting Chinese shopeers. The campaign runs until Aug 31 and offers deals at six Ratchaprasong malls: Gaysorn, Amarin Plaza, CentralWorld, Erawan Bangkok, The Platinum Fashion Mall and President Tower Arcade. ▪ More direct international flights from China to key destinations such as Phuket, Chiang Mai and Chiang Rai. ▪ Working closely and continuously with strategic business partners and travel agencies in China to promote travel in Thailand, especially to non-Bangkok destinations ▪ Last year, the government scrapped import duties on luxury watches, clothes and cosmetics.
Singapore	<ul style="list-style-type: none"> ➤ Strengthening Singapore Dollar ➤ Rising labor costs in Singapore ➤ China's law curbing shopping tours ➤ Slowdown in overall SEA "packaged" tours 	<ul style="list-style-type: none"> ▪ Promoting itself as a standalone tourism destination (distinctively from other SEA countries). Undertaking a RMB 5m marketing campaign until October.
Malaysia	<ul style="list-style-type: none"> ➤ MH370 incident ➤ Safety reasons in Sabah 	<ul style="list-style-type: none"> ▪ Malaysia has stopped Visit Malaysia Year 2014 promotion, especially in China, which will only resume after the MH370 aircraft is found

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NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
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NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.