Thoughts on China’s Economy and Tourism Markets

By Dr. Richard Kelley

The high-level Asia-Pacific Economic Cooperation (APEC) meetings in Waikiki beginning November 7 will bring a great deal of focus on the huge importance of the Asia-Pacific area in today's global economy. Among the 21 nations – or, as APEC prefers to call them, “economies” – that are part of this grouping, none even comes close to China in the size of its population or (except for the United States and Japan) economy. Now the world’s second-largest economy, China is also one of the most vibrant and important players in the area of Travel & Tourism.

This was brought home to me once again earlier this month as I visited Hong Kong for four days to attend the Hotel Investment Conference Asia Pacific (HICAP). Several members of Outrigger’s Asia-Pacific and Hawai’i offices plus members of Outrigger’s board of directors were there too.

Hong Kong itself is always amazing. When I first visited there about 50 years ago, there was not enough power available to run the city. Lights, air conditioning and water pressure were rationed and available only a few hours a day. Today, China is the world’s largest consumer of energy, and Hong Kong is an unbelievable hive of activity. Somehow they keep finding space to wedge another high-rise right into the middle of it all.

We visited the recently opened, 312-room Ritz-Carlton, Hong Kong, which occupies the top 17 floors (102 to 118) of the International Commerce Center, the world’s fourth-tallest building, located in the West Kowloon district. The 118th floor includes the world’s highest swimming pool and a bar aptly named OZONE. On the 117th floor, the Presidential Suite is available for a cool HK$100,000 per night (US$12,863)!

The lower floors of the International Commerce Center include a shopping plaza and offices for companies such as Morgan Stanley, Deutsche Bank and Credit Suisse.

Almost every major hotel company in the world has plans for aggressive expansion in China. For example, Marriott International reports that it will open 20 hotels in China this year, according to livemint.com. In all, over 500 hotel projects are currently under construction or in the planning stage across China. If all are completed, they

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will increase the country’s existing room stock by 13 percent, according to STRGlobal.com.

Very likely, not all will succeed and be built. Damien Little, who heads hospitality consultant Horwath HTL’s China operations, warns that developing hotels in China requires very different, specialized skills, knowledge and contacts. Quoting Dorothy in the “Wizard of Oz,” he quips, “Toto, I’ve a feeling we’re not in Kansas anymore.”

Nonetheless, Darren Edmonstone, Managing Director of Outrigger’s Asia-Pacific office, reports that on China’s Hainan Island, the exciting Outrigger Clearwater Bay Resort & Spa – with 499 rooms and multiple food and beverage outlets – is in the final design stage with construction to begin early next year for a scheduled opening in the first quarter of 2014.

With broad, white sand beaches, warm waters and a tropical climate, Hainan Island is often called China’s Hawai’i. Besides Outrigger Clearwater, there are 60 new hotels and over 25,000 new hotel rooms mushrooming across Hainan. The prime Sanya area has 35 projects and over 17,000 units under way.

Where will Hainan’s visitors come from?

The prime market will be China, one of the world’s largest generators of travel, with 1.61 billion in-country (domestic) visits and over 57 million outbound travelers annually. (Compare: U. S. – 67 million and Japan – 17 million outbound travelers annually). Hainan Island itself is expected to receive over 30 million visitors in 2011.

There is a rapidly growing middle class in China as vividly described by Forbes magazine writer Helen H. Wang. She notes that “three years ago, people in the United States did not even believe there was a middle class in China. Today, China’s middle class is already larger than the entire population of the United States and is expected to reach 800 million in 15 years.”

Many Chinese travelers are capable of traveling first class and staying at five-star hotels worldwide, and that demographic will surely help fill Hainan’s rooms.

Travelers from Europe, Russia, Japan, Australia, New Zealand and South Korea will also come to Hainan, as they do to our properties in Thailand.

Mr. Jens Traenhart, president of Dragon Trail, a leading travel technology and digital marketing company in China, believes the newly empowered, nouveau riche, middle-class traveler from China is acting very much like a similar demographic in Japan did in the 1980s. They shop at deluxe stores like Armani, Gucci, Cartier and Bvlgari. They are also generating the huge profits at the casinos in Macau and Singapore.

In Hawai’i, Chinese visitors have quickly established themselves as shopping VIPs, spending on average $368 per person per day, compared to $275 per day for Japanese tourists, the previous high-spending record holders.

The immediate future looks good, but how long will it last? In the 1980s, the Japan economic bubble burst, as did the more recent building bubble in the Persian Gulf emirate of Dubai, in the United Arab Emirates. Many are questioning whether China’s bubble may soon deflate as well.

Strategic planner James Quinn writing in the Casey Report makes a reasoned case that today’s China is a house of cards that may soon tumble. I urge readers of Saturday Briefing to read Casey’s article, available at http://tinyurl.com/ChinaBoomOrBubble, and thoroughly consider the pros and cons of his arguments.

If the China bubble pops, the reverberations will be felt around the world, and they will be prolonged and enormous.