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## China's reopening a boost for ASEAN

- The end of quarantine and testing restrictions for Chinese travelers is likely to benefit ASEAN tourism
- Key destinations such as Thailand set to enjoy a direct economic uplift
- However, over-expectations regarding the pace of normalization could lead to disappointment

### Chinese tourists let loose

This week saw the lifting of China's Covid-related travel restrictions for outbound travellers, with many Chinese residents already making plans to go abroad for the first time in three years. The pent up demand is likely to be huge given that, prior to the lockdown, Chinese tourism spending was the largest in the world. In 2018, Chinese tourists spent US\$277 billion, almost double that of their US counterparts and almost a fifth of the global total<sup>1</sup>.

<sup>1</sup> Forbes, September 2018, 'New Rankings of the World's Fastest-Growing Tourism Destinations'



**Figure 1: Top 5 countries with the highest tourism spending (2018)**

1	China	US\$ 277 billion
2	United States	US\$ 144 billion
3	Germany	US\$ 94 billion
4	United Kingdom	US\$ 76 billion
5	France	US\$ 48 billion

Source: United Nations World Tourism Organisation

### **ASEAN's benefactors**

While Chinese tourists are known to travel far and wide, the majority still head to their Asian backyard. Based on 2018 and 2019 online booking data, ASEAN countries comprised four out of the five most popular destinations for Chinese tourists.

**Figure 2: Top 5 travel destinations for Chinese tourists (2018/2019)**

1	Thailand
2	Japan
3	Vietnam
4	Singapore
5	Indonesia

Source: Ctrip (2018); Forbes (2018); China Travel News (2018); Travel China Guide (2019); ETC (2019).

Over 32 million of them visited the region in 2019, accounting for nearly a quarter of its total foreign arrivals into ASEAN countries<sup>2</sup>. Overall, the ASEAN region received 143.5 million foreign visitor arrivals in 2019. This figure dropped precipitously to 26.1 million in 2020, leaving a hole in the region's economy that many countries hope Chinese arrivals can help to fill again.

### **Thailand eyeing strong recovery**

No country more so than Thailand. As the number one destination for Chinese tourists, Thailand welcomed eleven million such arrivals in 2019. In the wake of China's re-opening, the country now expects a quick rebound to above seven million Chinese arrivals in 2023, up from an earlier estimate of five million<sup>3</sup>.

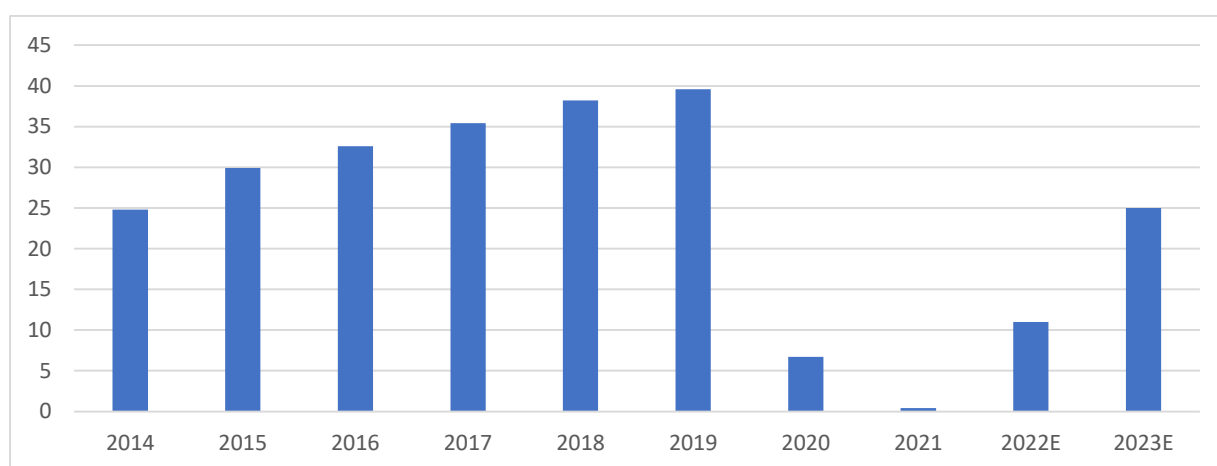
<sup>2</sup> China Daily, July 2022, 'Tourism lift seen closer to home first'

<sup>3</sup> Reuters, Jan 2023, 'Thailand U-turns on COVID vaccination rule for visitors'

This is critical given the Thai economy's high sensitivity to tourism. This sector contributes to more than 21 percent of Thailand's GDP (direct and indirect exposure), considerably higher than for its neighbours, Singapore (10 percent) and Malaysia (13 percent). As such, we estimate that every one million additional tourist arrivals can help boost Thailand's GDP by as much as 0.2 percent.

With 11 - 14 million more people expected to visit Thailand this year compared to 2022, the country's forecast GDP could lift from 2.8 percent in 2022 to around 4.5 percent in 2023, which is in line with World Bank estimates. This lift would have a knock-on effect for some of Thailand's other industries, including banking, commodities and healthcare.

**Figure 3: Thailand tourist arrivals 2014 – 2023E (millions)**



Source: UOBAM

### **The problem of over-optimism**

While we believe that China's re-opening has upside potential for some of Thailand's key sectors, we think this may take time to flow through. A sudden large increase in tourist arrivals seems unlikely given that outbound flights from China are currently just one tenth of their pre-pandemic levels. It is likely that capacity by Chinese and more so foreign airlines will only be increased gradually.

This adds upward pressure on airline ticket prices. Alongside in higher supply chain expenses and inflation, for some itineraries total travel costs have risen by as much as four times what they were pre-pandemic, not including extras such as travel insurance and Covid tests. Given this, in the short term, Chinese tourists may prefer to keep to traditional destinations such as Hong Kong and Macau in order to keep travel affordable. To date, Singapore hotels are reporting a surge of enquires from China but bookings have not yet materialised.

Investors interested in capturing sustained positive returns from China's re-opening will therefore need to be patient.

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