Chinese Tourism and Hospitality Investment in the United States

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with

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Executive Summary

International Chinese tourism has expanded rapidly in the past 20 years. The United States has been a major beneficiary of this trend. In 2015, tourism accounted for 57 percent of all U.S. service exports to China and 15 percent of U.S. exports to China overall.\(^1\) China’s share of tourism spending in the United States has grown almost five-fold in less than ten years, increasing from roughly 3 percent in 2005 to more than 13 percent in 2015.\(^2\) Today China is the second-largest source of tourism spending in the United States and the largest source of international tourists globally. This increase in Chinese tourism has been driven by China’s rising income levels and facilitated by U.S. and Chinese efforts to remove travel barriers such as insufficient U.S. embassy visa facilities and long waiting times for Chinese passports.

The United States has become a top destination for Chinese education and medical travel. Through the quality of its academic institutions, the United States attracts more Chinese students than any other country, and China is the largest source of foreign students in U.S. schools.\(^3\) The United States also appears to attract many Chinese citizens for medical procedures, particularly childbirth, and this trend may continue as Chinese birth travel to Hong Kong has recently become restricted.

Despite this growth, the future expansion of Chinese tourism faces potential limitations. Passenger aviation between the United States and top Chinese cities is nearing caps created by U.S.-China treaties. In 2015, U.S. airlines had only nine remaining weekly flights to China’s three largest cities available to them under the U.S.-China Air Transport Agreement. Negotiations to provide more flights have been put on hold over concerns that U.S. airlines do not have fair access to take-off and landing times at Chinese airports. U.S. tourism vendors have also largely been unable to sell outbound travel from China despite Chinese joint venture programs designed to open this sector. In spite of these hurdles, there is potential for greater travel from China to the United States. More than three-quarters of Chinese tourists to the United States come from Beijing, Shanghai, and Guangzhou.\(^4\) As incomes rise in other cities, more tourists from more destinations may be able to travel to the United States.

In addition to the growth of Chinese tourism in the United States, looser Chinese restrictions on outbound investment have sparked dramatic growth in Chinese investment in the U.S. hospitality sector, which increased by an estimated factor of six in 2015 compared to 2014.\(^5\) Chinese insurance companies have dominated this investment, driven by a desire to secure stable foreign assets to diversify their China-heavy portfolios.
Overview

Chinese outbound tourism has increased dramatically over the past two decades. Buoyed by growing middle class incomes and looser travel regulations, total Chinese international travel increased nearly ten-fold from ten million departures per year in 2000 to 98 million in 2013 (see Figure 1). Since 2012, China has been the largest source not only of outbound international tourists, but also of tourism-related expenditures: according to Chinese government statistics, Chinese tourists in 2015 spent $164.8 billion overseas. Chinese spending abroad has also increased at a faster rate than any other country in the world, growing 40 percent from 2011 to 2012 and 28 percent from 2013 to 2014.

Figure 1: Chinese and U.S. Outbound Tourists, 1995–2013

Source: World Bank, “International Tourism, Number of Departures.”

Chinese visits to the United States constitute a large and rapidly growing share of the U.S. tourism industry. While significantly more Chinese tourists visit nearby destinations such as Hong Kong, South Korea, or Thailand, a growing number of Chinese tourists traveled to the United States over the past decade. As Figure 2 shows, since 2007 the number of Chinese visitors to the United States grew by 451 percent, and total expenditures by Chinese tourists increased nearly four-fold. Today China is the United States’ second-largest source of foreign tourism expenditures behind Canada, with Chinese tourism spending in the United States totaling $24 billion in 2014 and increasing quickly (see Figure 3). According to a U.S. Department of Commerce survey, many Chinese visitors travel to the West Coast and the Middle Atlantic, with each region claiming 50 percent and 33 percent of Chinese tourist spending respectively in 2014.

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2 Although Hong Kong is a part of mainland China, it is treated as a foreign destination by China for the purposes of travel and trade.


4 The Middle Atlantic, as defined by the U.S. Department of Commerce, refers to New York, New Jersey, and Pennsylvania.
Chinese Tourism by Sector

Under international and U.S. balance of payments standards, tourism is broadly defined to include travel and related expenses for business purposes—including employees traveling on behalf of their employers, self-employed business travel, and seasonal or short-term workers—and travel and expenses for personal purposes, such as vacation, education, and medical services. As Figure 4 shows, growth in Chinese travel to the United States has increased in nearly all of these sectors, particularly in education and vacation tourism. This dramatic uptick in Chinese tourism has been accompanied by a remarkable increase in Chinese investment into the U.S. hospitality...
sector. This paper examines key aspects of the growth of Chinese outbound tourism, factors that facilitate the growth of Chinese hospitality investment, and opportunities for further growth in Chinese tourism to the United States.

**Figure 4: Chinese Tourism in the United States by Purpose, 2009–2014**

![Bar chart showing Chinese tourism by purpose from 2009 to 2014](http://travel.trade.gov/outreachpages/download_data_table/2014_China_Market_Profile.pdf)


Education Tourism

The United States is the top destination for Chinese students studying abroad for postsecondary education (see Figure 5). Despite the high costs associated with studying in the United States as a foreign student, the United States attracts more Chinese students than the next two highest-ranked destination countries combined. In 2013, more than 260,000 Chinese students traveled to the United States—an amount equal to 37 percent of all Chinese college students studying abroad. In 2014 more than 350,000 Chinese students traveled to the United States to attend U.S. primary and secondary schools and universities. As of 2015, 31 percent of all foreign students studying in the United States came from China, making it the largest single source of U.S. international students. Globally, China is the largest source of international post-secondary students in the world, contributing more than 700,000 college students worldwide in 2013—almost four times the number of students from India, which is the next highest source. At the same time, China has faced considerable difficulty reclaiming the students it sends overseas. As of 2011, the latest year for which data are available, 63.5 percent of Chinese students who studied abroad did not return to China, opting instead to remain abroad.
The United States attracts Chinese students for several reasons, including:

- **Global competitiveness.** U.S. academic institutions are often perceived as offering the highest-quality education available worldwide. According to Hansi Men, an immigration lawyer at Streit & Su Law Firm, “Most people in China still think America is number one. Many parents … take their children to America to show them top schools like Yale and Harvard.” U.S. colleges tend to dominate both U.S. and Chinese global college rankings. In 2015, U.S. colleges accounted for 53 of U.S. News and World Report’s top 100 rankings of global universities and 51 of the top 100 spots in a similar ranking by Shanghai-based Academic Ranking of World Universities (ACRWU). Chinese colleges by comparison claimed only three of the top 100 rankings from U.S. News and World Report and none from ACRWU’s top 100. Chinese interest in top U.S. universities is high enough to create a need for Mandarin-language guided tours of universities like Massachusetts Institute of Technology (MIT) and Harvard.

- **Prestige.** Chinese students also appear to study abroad to gain prestige. According to a survey conducted by China Youth Daily, 61 percent of parent and student respondents reported the purpose of studying abroad is to improve a student’s social status. The prestige of U.S. schools is reinforced by the practices of China’s senior officials, many of whom send their children to top U.S. colleges. Chinese President and General Secretary of the Chinese Communist Party Xi Jinping’s daughter enrolled in Harvard in 2010, while the son of former Chongqing party boss Bo Xilai studied at the Harvard Kennedy School of Government. As of 2012, at least five of the nine members of the Politburo Standing Committee had children or grandchildren who have studied in the United States. The cost and prestige associated with the United States’ best schools can make a degree the “ultimate status symbol,” according to Orville Schell, director of the Asia Society’s Center on U.S.-China Relations.

- **Difficulty gaining access to top Chinese schools.** For Chinese students outside of major cities, obtaining access to China’s best universities is difficult, since Chinese universities hold open more application spaces for students from their home provinces. For example, a university in Beijing will have a larger quota for students from Beijing and accept lower test scores on China’s National Higher Education Entrance Exam (known as the gaokao) for Beijing applicants than students applying from outside the city. This poses a significant challenge, as many of China’s top-rated schools are located in cities like Beijing or Shanghai. Acceptance rates for out-of-province students are significantly lower. For example, in 2013 Peking University and Tsinghua University—both prestigious schools based in Beijing—accepted 84 out of every 10,000 Beijing applicants, ten out of every 10,000 Shanghai applicants, and only two out of every 10,000
For students denied access to China’s best schools, U.S. institutions can be an attractive alternative.

- Flexibility. U.S. universities also offer significantly more flexibility in course selection than Chinese schools. Chinese academic institutions frequently determine which subjects a student will take based on his or her test scores. The ability to chart one’s own academic course abroad has been cited as a draw for many Chinese students to the United States. At the secondary education level, teaching experts have also noted that Chinese teaching is often dominated by rote learning and preparation for tests. Schools are ranked by the test scores of their students; teachers, education administrators, and even local government officials receive job evaluations based on student test scores. This focus on test scores incentivizes educators to deliver a curriculum focused on test preparation. Some Chinese teachers and officials see U.S. education, by contrast, as better promoting independent judgment and creativity. Ni Minjing, head of the Shanghai Education Commission’s basic education department, once noted that compared to their U.S. counterparts, Chinese students “have fewer opportunities to do scientific experiments and exercise independent thinking.”

U.S. academic institutions, and the tourism sector as a whole, benefit significantly by the presence of Chinese students, who contributed at least $8 billion to the U.S. economy in 2013. Chinese students typically pay full tuition or, in some cases, additional surcharges that can offset reduced funding for U.S. public universities. For example, Purdue University charges international students a $1,000 surcharge above tuition, and University of Illinois at Urbana-Champaign imposes a $2,500 surcharge. In an effort to compensate for reduced public funding, colleges such as the University of Washington have increased admission offers to international students—many of them from China—who pay three times as much as in-state students. The three top public U.S. schools for foreign students have all seen recent increases in international admissions. Arizona State University’s foreign student population has more than doubled from 2010 to 2014, the international student population at University of Illinois at Urbana-Champaign increased 40 percent from 2010 to 2015, and Purdue University increased its international student population by 37 percent from 2010 to 2015. Chinese students constitute the largest group of foreign students at each of these schools—36 percent at ASU, 51 percent at Urbana-Champlain, and 48 percent at Purdue. U.S. demographics also push U.S. colleges to admit more international students. The population of prime customers of U.S. colleges—U.S. citizens or residents aged 18—has declined almost nine percent from 2009 to 2014 (from 4.6 million to 4.2 million people). Looking ahead, the U.S. college-bound population will continue to decline for the next 17 years, shrinking 5 percent from 2016 to 2033 (4.19 million 18-year-olds and 3.97 million respectively). As the U.S. population declines, U.S. schools may lean more heavily on international students to fill classrooms.

A small but growing number of Chinese students travel to the United States for primary and secondary education at public and private schools. As of November 2015, there were 34,578 Chinese K-12 students enrolled in the United States—an increase of 290 percent from 2010. Chinese students currently account for roughly half of the nearly 67,000 international students enrolled in U.S. primary and high schools. Some analysts believe Chinese students enroll in U.S. secondary schools to avoid tight competition for China’s best high schools and increase their chances of attending U.S. universities.

Total spending by Chinese students in the United States has increased dramatically during the past five years. As Figure 6 shows, expenditures from Chinese students in the United States quadrupled between 2007 and 2013, growing on average 27 percent per year. Similarly, the number of Chinese students enrolled in U.S. academic institutions has also increased: in 2014, more than 350,000 Chinese tourists came to the United States for the main purpose of education, a 900 percent increase from 34,000 Chinese tourists in 2008, the earliest year for which data are available.

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* Under the quota system, Chinese students from other provinces have to score better than home-province students to attend their universities due to different minimum score requirements. For example, a student from Guangdong will have to score better than a student from Beijing on the gaokao to attend a prestigious Beijing university. Yiqin Fu, “China’s Unfair College Admissions System,” Atlantic, June 19, 2013. http://www.theatlantic.com/china/archive/2013/06/chinas-unfair-college-admissions-system/276995/.
The Chinese government has recently curtailed some China-based English-language programs designed to prepare Chinese students for study overseas, which may make it more difficult for Chinese students to study in the United States. These programs typically operate autonomously in Chinese public schools and are run with help from overseas partner schools and companies. Chinese students can attend these programs as an alternative to traditional Chinese schools, although attendance fees are typically higher to support foreign teachers. As of December 2015, the city of Beijing reportedly stopped approving new English-language secondary education programs designed to prepare students for study overseas.\textsuperscript{48} In Shanghai, the government has also placed budgetary pressure on these programs by reducing admission fees, making it more difficult for the schools to hire the English-speaking teachers they rely on.\textsuperscript{49} These efforts seem to be based on a concern that Chinese students who participate in English-language programs will bypass the state-controlled Chinese curriculum; the restrictions come amid government warnings that Chinese professors should limit the spread of “Western ideas” in Chinese universities.\textsuperscript{50} The Chinese government may also seek to push back against study abroad in an effort to improve the reputation of its domestic schools as an increasing number of Chinese students choose international over domestic study.\textsuperscript{51}

Chinese students have been associated with several cases of academic dishonesty often brought about by poor performance or English language skills.\textsuperscript{52} Like all foreign students, Chinese students who struggle academically in the United States face losing their student visas and returning to China which can incentivize them to compromise their academic integrity. A recent survey of U.S. public universities conducted by the Wall Street Journal found that international students in general are more likely to be associated with cheating in U.S. colleges, with 5.1 cases of cheating reported per 100 international students versus one case of cheating per 100 U.S. students.\textsuperscript{53} In the survey, faculty members singled out cheating among Chinese students as a particular problem, often driven by poor language skills.\textsuperscript{54} In 2015 roughly 8,000 Chinese students were expelled from U.S. schools, mostly for poor academic performance, though some were expelled for cheating.\textsuperscript{55} A survey of 2,700 expelled Chinese students in the United States released in 2016 found that 40 percent had been dismissed for poor grades, 33 percent for academic dishonesty, and 8 percent for low attendance.\textsuperscript{56}

What appears unique to Chinese students is the array of China-based firms that help them misrepresent application materials to U.S. universities and cheat on college exams once they matriculate. Chinese-run businesses send advertisements in Chinese to Chinese students studying in the United States offering to complete homework or exams for a fee.\textsuperscript{57} These firms offer Chinese stand-ins for exams, paper-writing services, and have doctored application materials to U.S. schools, including high school grades, letters of recommendation, and admission essays.\textsuperscript{58} The extent of this problem is difficult to ascertain. An estimate from 2014 suggests that roughly 10 percent

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**Figure 6: Chinese Tourist Expenses in the United States, 2007–2013**

of all Chinese applications contain falsified material. It appears Chinese officials have had difficulty licensing education agencies and cracking down on dishonest practices. In 2014, the government licensed 454 agencies to do business; however, official estimates placed the number of nonaccredited agencies in Beijing alone at over 1,000. Some U.S. universities find it difficult to screen out fraudulent application material for international students given the limited number of available staff to review international applications. For example, at the University of Iowa, four to five transcript evaluators were responsible for verifying the applications of roughly 1,000 foreign prospective students each for the fall 2015 term.

Some Chinese test prep companies have also provided SAT answers or test questions to students to give them an advantage as they seek to study in the United States. Because the College Board—the non-profit that administers the SAT—recycles test questions from earlier tests, Chinese and other foreign test prep companies can collect questions and answers from past tests and compile them into guides that contain answers and questions that may appear in future tests. According to Reuters, in June 2013 a Chinese website provided test content that appeared in 4 of the 18 SAT exams the College Board had in its inventory for international testing. Since October 2013, Reuters has identified 14 instances worldwide of SAT content being publicly exposed before an international testing session. In addition to China, tests were also compromised in Egypt, Saudi Arabia, and South Korea. While the College Board reduced the number of tests taken in these three countries—a measure meant to reduce opportunities to game the test—it did not initially do so in China. China is the College Board’s largest overseas market. However, the College Board canceled tests in China in January 2016 after it discovered that Chinese test-takers had already seen test material. The College Board has taken some steps to protect tests from test prep companies by banning non-students, such as prep-center tutors from taking the test. However, the practice of recycling test material continues, which allows some foreign companies to obtain material that will be included on future SATs.

The SAT’s chief competitor, the ACT, has also canceled tests for June 2016 in Hong Kong and South Korea after it received evidence that the contents of the test had been compromised. This was the first time the ACT had canceled a test for an entire country.

Medical Tourism and Birth Tourism

While exact statistics are hard to obtain, an increasing number of Chinese citizens visit the United States for medical attention—particularly for difficult procedures or childbirth. For example, the Mayo Clinic reports the number of Chinese patients it treated in 2014 had doubled from the year before, and according to the University of San Francisco Medical Center, it has seen roughly 25 percent annual growth in Chinese patients for the last several years. It is difficult to determine the motives of Chinese patients, but superior medical care appears to drive some affluent Chinese to the United States for medical treatment. According to one Chinese couple that traveled to Seattle for childbirth, they selected a U.S. hospital because the care they received there was more “personal” and afforded them more choices in terms of procedures. By contrast, the Chinese medical system is perceived as overstretched and lacking attentive care or trustworthy diagnoses; in a 2013 survey of 250,000 Chinese, 66.8 percent of respondents did not trust Chinese medical professionals’ diagnoses or treatment. As of 2012, China had roughly 1.6 doctors per 1,000 citizens, significantly below the average of 3.2 for Organization for Economic Co-operation and Development (OECD) countries. Chinese physicians also receive modest civil service salaries and augment their income through costly surgical procedures, incentivizing misdiagnosis. Distrust of Chinese physicians is so great that it has manifested as widespread violence against medical professionals. According to the China Hospital Association, in 2012 doctors and nurses on average suffered 27 serious physical assaults per hospital in China, an increase of 35 percent from 2006. Anecdotal evidence suggests even wealthy Chinese can receive substandard treatment. According to Cai Qiang, the CEO for Saint Lucia Consulting, a Beijing-based overseas medical consultancy, patients often require political connections for top-quality medical care. Mr. Cai remarked, “Unless you are a very powerful person, you will not get the best medical service in China.... If you just have money and you want to be treated by a top doctor you still need to pull some strings. Even so, the time and care doctors can give you is very limited.”

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* The OECD includes Japan, the United States, and most of the countries of Western Europe. OECD member countries are often regarded as economically developed countries internationally.
hospitals devote entire wings to the care of government officials, leaving wealthy patients without connections to receive diminished care.\textsuperscript{79} A patient at one of China’s top 1,000 hospitals waited five hours to see a doctor who saw him for five minutes and recommended a dangerous surgery to treat a tumor; the patient later opted to travel to San Francisco for radiation therapy.\textsuperscript{80} Another wealthy patient took her epileptic daughter to top Chinese hospitals in Beijing, Shanghai, and Guangzhou, but was only able to receive a few minutes of attention from doctors who told her there was no effective treatment.\textsuperscript{81} She later sought treatment in Japan, where she received a thorough examination and medication.\textsuperscript{82}

Chinese patients also go abroad for cancer treatment. Saint Lucia Consulting reports that 80 percent of its customers who seek treatment overseas do so for life-threatening diseases, the most common of which are lung, breast, and skin cancer.\textsuperscript{83} The United States appears to treat cancer patients more effectively than China—according to the National Cancer Prevention and Research Center in Beijing, the five-year survival rate of Chinese cancer patients is only 30 percent, compared to 60 percent for the United States.\textsuperscript{84}

Delays in Chinese drug approval may also drive patients to the United States. China is particularly slow to approve foreign drugs, and currently only has enough regulatory capacity to process about 6,000 new drugs a year.\textsuperscript{85} China receives more than 10,000 new drug applications to review per year, and the current administrative backlog stands at more than 21,000 applications.\textsuperscript{86} Rather than wait for new treatments to be approved—which can take years—some Chinese patients receive new medication overseas.\textsuperscript{87} For example, Hope Noah Health Management Co., a Beijing foreign medicine consultancy, reports that many of its patients with hepatitis C travel to the United States to take an effective oral treatment that has not yet been approved by the Chinese government.\textsuperscript{88}

Chinese medical tourism consultancies have emerged to help Chinese patients select U.S. hospitals to best meet their needs. Some firms charge roughly $10,000 to help patients find an overseas hospital and arrange medical and travel plans.\textsuperscript{89} This appears to be a growing industry: one consultancy noted the number of its clients had doubled from 2012 to 2013.\textsuperscript{90} For childbirth alone there are estimated to be 500 agents in China helping patients find treatment abroad.\textsuperscript{91}

The United States attracts many Chinese visitors for childbirth. According to state-owned China Central Television, Chinese birth tourism to the United States increased from 4,200 visits in 2008 to more than 10,000 in 2012.\textsuperscript{92} While many Chinese patients choose to give birth in the United States for medical reasons, others may do so to obtain U.S. citizenship for their children or, until recently, to circumvent China’s “one-child” policy. Prior to 2015, the Chinese government imposed a heavy fine on parents who had a second child, and failure to pay the fine would exclude the child from most education and state benefits.\textsuperscript{93} Some Chinese saw giving birth abroad as a way to avoid this fee, although China’s birth policies vary by province and in some cases additional children born abroad cannot register in China’s national registry or gain access to education and state benefits.\textsuperscript{94} Obtaining U.S. citizenship can also be risky. China does not recognize dual citizenship for Chinese nationals, and if the foreign citizenship of a Chinese infant is discovered, it must be revoked to maintain Chinese citizenship.\textsuperscript{95} In the long term, giving a child U.S. citizenship can open doors to the U.S. public education system, and after reaching the age of 21, a child can sponsor his or her parents for U.S. residency.\textsuperscript{96}

Traveling to the United States for the purpose of giving birth is not illegal under U.S. law. During the visa process, consular officers may ask for proof that travelers can pay for the procedure and that they have arranged for a hospital to accept them. Many Chinese expectant mothers, however, do not disclose the purpose of their travel to consular officers either for fear they will be rejected for a visa or—reportedly—because a consultancy advised them not to.\textsuperscript{97} Providing false information to a consular officer under oath constitutes fraud under U.S. law.\textsuperscript{98}

Many “maternity hotels” have emerged in the western United States to tend to Chinese citizens after childbirth. Some of these establishments have come under scrutiny recently for evading taxes or defrauding hospitals, leading to raids of roughly 20 locations in March 2015 in the Los Angeles area.\textsuperscript{99} No arrests were made during these raids.\textsuperscript{100} Historically, many Chinese mothers have looked closer to home when opting to give birth abroad. Hong Kong in particular was a popular destination for mainland Chinese mothers until 2013. In 2010, roughly half of the 88,000 babies born in Hong Kong were from mainland Chinese mothers.\textsuperscript{101} Children born in Hong Kong receive the “right of abode,” which gives them free access to Hong Kong’s education system; Hong Kong residency, which grants
visa-free access to significantly more countries than would a Chinese passport; and greater political freedom associated with Hong Kong residency. Children born in Hong Kong were also exempt from China’s one-child policy. The popularity of Hong Kong among mainland mothers sparked a backlash from Hong Kong residents, and in 2013 Hong Kong Chief Executive CY Leung banned mainland couples from booking childbirth appointments at Hong Kong hospitals. Since the ban was put in place, mainland Chinese birth tourism to Hong Kong has significantly declined. After 2013 only about 800 Chinese mothers traveled to Hong Kong per year to seek residency for their children (usually by appearing at a Hong Kong hospital as an emergency case), down from a peak of over 35,000 per year before the ban. It is not clear to what degree they have been diverted from Hong Kong to the United States.

**Chinese Investment in the U.S. Hospitality Sector**

As Chinese tourism to the United States steadily increases, Chinese investment in U.S. hotels and hospitality properties has grown dramatically, with a sharp jump in 2015. Chinese hospitality investment in the United States in 2015 is estimated to have reached at least $2.4 billion, more than double the combined Chinese hospitality investment for the previous five years and more than six times the value of such investment in 2014 (see Figure 7).

![Figure 7: Tracked Chinese Investment in U.S. Hospitality Sector, 2010–2015](chart)


Chinese investors tend to focus on hotels in cities that are attractive to Chinese tourists. As depicted in Figures 8 and 9, most Chinese hotel investment has been concentrated in the top two U.S. cities for Chinese tourism: New York and Los Angeles. These cities feature direct flights to Shanghai, Beijing, and Guangzhou, from which more than three-quarters of Chinese visitors to the United States originate. Chinese investors have also remodeled U.S. hotels to cater to Chinese visitors. After purchasing the Waldorf Astoria New York in 2015, Chinese investors incorporated a restaurant serving Chinese haute cuisine; some analysts more broadly remarked that Chinese investors may use their hometown advantage to better cater to Chinese needs, such as providing better Chinese-language services, traditional Chinese breakfast options, Chinese bankcard services such as China Union Pay and AliPay, and Chinese-language entertainment. A Hotels.com survey found all of these features to be the “most important” to Chinese travelers.

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Looser Chinese regulations on outbound finance facilitated the rapid increase in investment in 2015. Prior to 2014, outbound investment greater than $100 million was subject to a review and approval process by the Ministry of Commerce of the People’s Republic of China (MOFCOM). On October 6, 2014, MOFCOM waived this approval requirement through its Outbound Investment Administrative Rules and replaced it with a simple notification requirement. According to analysts, this simpler administrative process boosted global Chinese outbound hotel investment.

* Under the new regulations, an outbound investment in excess of $100 million requires only notification to MOFCOM of the transaction unless the investment is in a country that does not have diplomatic relations with China or a country under UN inspections. Outbound investment in excess of $1 billion still requires approval from the National Development and Reform Commission, however the removal of the MOFCOM review is anticipated to greatly reduce the time required to win government approval of outbound investment which...
investment from less than $1 billion in 2014 to more than $5 billion in 2015.\(^{112}\) As shown in Figure 10, prior to 2015 most Chinese investment in the hospitality sector tended to fall below the $100 million threshold that would trigger a MOFCOM review.\(^ {113}\) The removal of this review encouraged much larger purchases in 2015.

![Figure 10: Average Dollar Value of Chinese Hospitality Investment Transactions in the United States, 2010–2015](http://rhg.com/interactive/china-investment-monitor)

**Note:** The red line corresponds to the $100 million MOFCOM review threshold.


Chinese insurance companies made the two largest Chinese hospitality investments in 2015. In February, Anbang Insurance Group purchased the Waldorf Astoria New York for $1.95 billion—the largest amount paid for a single hotel in U.S. history.\(^ {114}\) That same month, Beijing-based Sunshine Insurance purchased the New York Baccarat hotel for $230 million.\(^ {115}\) Chinese investors paid top dollar for these purchases. The Baccarat sale was the second highest on a price-per-room basis in New York, at $2 million per room.\(^ {116}\) The Waldorf Astoria sold for significantly less—$1.38 million per room—but Anbang Insurance still outbid two undisclosed competing parties.\(^ {117}\) Anbang is attempting to expand its collection of U.S. hospitality properties in 2016. The company purchased a portfolio of U.S. luxury hotels including the Essex House in New York and the Hotel del Coronado in San Diego for $6.5 billion from the Blackstone Group, a U.S. investment firm.\(^ {118}\) A group led by Anbang also offered $14 billion for American hospitality firm Starwood hotels in March 2016, an offer which was later retracted but, if accepted, would have been the largest acquisition of a U.S. company by a Chinese firm in history.\(^ {119}\) Reportedly, Chinese regulators were close to rejecting Anbang’s bid for Starwood as it would give Anbang too many foreign assets (see below for limits on foreign acquisitions imposed on Chinese insurers by the Chinese government).\(^ {120}\) Additionally, some analysts at Bloomberg, Reuters, and the New York Times suggested that the acquisition could be reviewed by the Committee on Foreign Investment in the United States (CFIUS) although most believed that Anbang would pass such a review.\(^ {121}\) Anbang is also purportedly highly leveraged and could face liquidity problems by buying difficult-to-sell assets such as hotels while running up against short-term liquidity demands from the financial products it offers its customers.\(^ {122}\) Starwood ultimately agreed to a bid from Marriott.\(^ {123}\)

Chinese insurance companies have been encouraged by the government to invest overseas as a way to diversify their risk away from the Chinese real estate market and make them more resistant to downturns in Chinese asset markets.\(^ {124}\) In 2013, the government cleared insurers to put up to 30 percent of their net wealth into foreign assets.\(^ {125}\) Prior to 2012, insurers were permitted to invest only in China or Hong Kong.\(^ {126}\) This left them overly exposed to fluctuations in the Chinese economy, particularly Chinese real estate, the value of which some analysts considered could take months under the previous system. O’Melveny & Myers LLP, “New MOFCOM Rules to Further Facilitate China Outbound Investments,” September 22, 2014. [http://www.omm.com/new-mofcom-rules-to-further-facilitate-china-outbound-investments/](http://www.omm.com/new-mofcom-rules-to-further-facilitate-china-outbound-investments/).
overvalued.\textsuperscript{127} Prime real estate purchases in U.S. cities such as New York and Boston are seen as safe investments that will provide reliable returns regardless of fluctuations in Chinese markets.\textsuperscript{128} The acquisition of U.S. hotels appears to be part of a larger trend of acquisition of foreign real estate by Chinese insurers. A forecast by real estate services firm Cushman and Wakefield predicts Chinese insurers will acquire $73 billion worth of overseas real estate in the next five years.\textsuperscript{129}

Beyond single-asset purchases, Chinese companies have also attempted to acquire equity stakes in U.S. hospitality firms. In addition to Anbang’s bid for Starwood hotels, Hainan Airlines purchased a 15 percent share of Red Lion hotels for an estimated $21.5 million in June 2015.\textsuperscript{130} HNA Group—the Chinese consortium that owns Hainan Airlines—significantly expanded its holdings of U.S. hotels by purchasing 100 percent of U.S.-based Carlson Hotels in April 2016.\textsuperscript{131} This purchase gives HNA ownership of roughly 1,400 hotels in 115 countries, including brands such as Radisson, Park Plaza, and Country Inn and Suites.\textsuperscript{132} The purchase price was not disclosed; however, Bloomberg estimated earlier this year that Carlson Hotels could sell for as much as $2 billion.\textsuperscript{133}

Chinese hospitality acquisitions and potential acquisitions have triggered some security concerns. For example, the security implications of Anbang Insurance’s purchase of the Waldorf Astoria prompted Anbang to seek a review from CFIUS.\textsuperscript{134} Given the Waldorf Astoria’s role in housing foreign leaders to the United Nations, many experts expected the purchase might come under review given the possibility of Chinese espionage.\textsuperscript{135} Although no public evidence of surveillance at the hotel has surfaced, President Barack Obama chose not to stay at the Waldorf Astoria in 2015.\textsuperscript{136} Many analysts speculated this break with tradition—the president traditionally stays at the hotel during the UN General Assembly—was motivated by security concerns regarding Anbang’s government ties.\textsuperscript{137} Wu Xiaohui, the chairman of Anbang Insurance, is well connected to the Chinese government and part of Deng Xiaoping’s family through his marriage to Deng’s granddaughter.\textsuperscript{138} Deng Xiaoping’s family still carries considerable influence in Chinese politics.\textsuperscript{139} Anbang’s board includes other well-connected businessmen such as Chen Xiaolu, a former member of the People’s Liberation Army and son of the war hero and former foreign minister Chen Yi.\textsuperscript{140} Anbang announced it will extensively remodel the hotel, prompting concerns that surveillance infrastructure may be installed.\textsuperscript{141} CFIUS ultimately approved the transaction in February 2016.\textsuperscript{142}

### U.S. and Chinese Efforts to Boost Tourism

The United States and China have held a series of promotional events designed to boost tourism flows. These promotion efforts are likely to increase as presidents Obama and Xi declared 2016 to be “U.S.-China Tourism Year,” which will feature several events to jointly promote tourism.\textsuperscript{143}

Both the United States and China have taken administrative steps to boost tourism flows. Since 2002, China has worked to make it easier for Chinese citizens to obtain passports for travel.\textsuperscript{144} While in the past travel abroad was tightly restricted by Chinese authorities, today Chinese citizens can visit the United States for travel either in groups or individually.\textsuperscript{145} For the majority of Chinese citizens, the Chinese government has implemented a fast-track passport system that requires officials to issue passports within 15 days of an application or provide an explanation for the delay.\textsuperscript{146} As of 2014, this new system has been applied to 89 percent of China’s prefectures; however, areas with high Muslim or Tibetan populations, such as Xinjiang\textsuperscript{7} and Tibet, still use a much slower passport process.\textsuperscript{147}

The United States has taken administrative steps to boost Chinese tourism, most notably through a 2014 reciprocal visa agreement.\textsuperscript{148} With the rise in Chinese tourism to the United States, visa processing times increased significantly as limited embassy staff attempted to meet a growing demand.\textsuperscript{149} As depicted in Figure 11, business and tourism visas issued to Chinese travelers increased five-fold to 2.2 million annually from 2008 to 2015.\textsuperscript{150} This increased demand for visas resulted in significantly longer wait times for Chinese tourists—over 100 days in 2010 and 70 in 2011.\textsuperscript{151}
Slow visa processing appears to deter Chinese tourism, as a significant number of Chinese travelers base their travel plans on the ease of obtaining a visa. According to a Hotels.com survey, 25 percent of 3,000 Chinese respondents who had recently traveled reported that difficult visa procedures would stop them from visiting a destination.¹⁵² Chinese travelers cite visa policies as their second most important factor in choosing where to travel, according to a White House briefing.¹⁵³

The 2014 visa agreement removed a key constraint in Chinese travel to the United States by extending the validity period of tourism visas from one to ten years—the longest period allowed under U.S. law.¹⁵⁴ This significantly decreased the administrative resources needed to process visas, as repeat travelers do not have to apply for visas annually.

Prior to the visa agreement, in response to the long wait times, the United States expanded embassy capabilities to process tourism visas. In 2012, President Obama issued an executive order to increase nonimmigrant visa processing staff in China by 40 percent and mandated that 80 percent of all nonimmigrant visa applicants receive an interview within three weeks of applying for a visa.¹⁵⁵ These measures appear to have been successful in reducing the wait for a tourism visa. According to the Department of State, interview wait times for nonimmigrant visas averaged less than one week in U.S. embassies in China in 2012 and 2013.¹⁵⁶

**Future Trends**

While tourism flows from China have dramatically increased and the United States and China have each taken steps to reduce administrative barriers to travel, there is still significant room for growth. Comparatively, Chinese travel to the United States only accounts for as little as 2 percent of Chinese international tourists.¹⁵⁷ While the United States compares well with countries a similar distance from China—such as Western Europe—most Chinese tourists opt to travel to nearby countries such as South Korea and Thailand, as shown in Figure 12.
An impasse in U.S.-China negotiations over aviation access may limit Chinese travel to the United States in the future. The current U.S.-China aviation agreement places a hard cap on the number of flights between the United States and China's largest cities. The U.S.-China Air Transport Agreement of July 9, 2007, defines the number of direct flights per week (known as “frequencies”) each country may operate between the two countries. Under the agreement, U.S. airlines are permitted to operate up to 160 trips per week to Guangzhou, Beijing, and Shanghai. If a U.S. airline wishes to run a route to one of these cities, it applies to the U.S. government for one of the permitted frequencies under the agreement. Due to travel increases, U.S. airlines have claimed nearly all frequencies to Guangzhou, Beijing, and Shanghai. As of January 2015, only nine spare U.S. weekly frequencies to these cities had not been apportioned. This shortage of frequencies marks a significant barrier to greater tourism between the United States and China. In 2014, 99 percent of all direct flight capacity between the United States and China went through these three cities, and as many as 76 percent of all Chinese passengers to the United States come from them. Moreover, not only are most U.S.-China frequencies already apportioned, they also appear to be almost fully utilized by both U.S. and Chinese airlines. On average, U.S. airlines ran 128 flights from the United States to Guangzhou, Beijing, and Shanghai in July and September of 2015. This left them with room for only 32 more weekly flights under the agreement. Chinese airlines are also approaching the limit of their apportioned flights, running an average of 148 flights to the United States from these three cities out of an administrative cap of 180 frequencies. While the number of permitted frequencies has been increased in the past, negotiations to increase them are currently stalled due to U.S. concerns that Chinese authorities are discriminating against U.S. carriers and awarding the most attractive takeoff and landing time slots to Chinese airlines. In May 2015, Chinese negotiators offered to increase U.S.-China frequencies, but U.S. officials declined to pursue further negotiations until China presented a plan to ensure U.S. airlines had equal access to time slots. Although it is difficult to obtain comprehensive evidence that U.S. airlines have been denied access to favorable time slots, in at least one case a U.S. airline was forced to significantly alter its routing to China after receiving an unworkable time slot: in 2010, American Airlines canceled its Chicago to Beijing service the day it was to be launched after receiving a Chinese time slot requiring a 2:20 a.m. departure from Beijing and a 4:00 a.m. Beijing arrival on the return flight. There have also been examples of corruption playing a part in the distribution of Chinese time slots. Chinese authorities have arrested at least nine managers of state-owned China Southern Airlines on allegations of bribing Chinese aviation officials. In 2010, the Chinese government arrested Zhang Zhizhong, the CEO of Beijing Capital International Airport, as part of an antigraft investigation into allocation of time slots. Zhang was later convicted.
for accepting $740,000 in bribes. Huang Dengke, an official responsible for approving new airline routes, was arrested in 2009 for selling favorable time slots to Chinese middlemen. Si Xiamin, the chairman of China Southern Airlines, has noted that paying bribes for Chinese time slots is not limited to his airline, but rather is an issue across the industry.

Finally, travel to and from China’s top cities has in many cases exceeded the designed passenger capacity of Chinese airports. As shown in Table 1, China’s two most trafficked airports (Beijing Capital International and Guangzhou Baiyun International) exceeded their capacity in 2014, and Shanghai Pudong and Shanghai Hongqiao are using 87 and 95 percent of their designed capacity, respectively. Significant airport expansion is planned in each of China’s top three cities and will effectively double travel capacity in Beijing and Guangzhou, but will not be complete until the end of the decade. In the meantime, the number of Chinese visitors to the United States is anticipated to increase by roughly two million (nearly 69 percent) from 2016 to 2020 (Figure 13). Both domestic and international flights to these airports have increased. At Beijing Capital International Airport for example, domestic flights increased 58 percent from 2008 (42.5 million flights) to 2015 (67.4 million flights). International flights grew 69 percent over that same period (13.4 million flights in 2008 versus 22.58 million flights in 2015). This growth will put significant pressure on the U.S. and Chinese governments to increase frequencies for their airlines. While expansions are underway, China’s airports can only service so many flights—this may limit the number of operating routes in the near future.

Table 1: Passenger Traffic versus Current and Planned Capacity of China’s Top Four Airports

<table>
<thead>
<tr>
<th>Airport</th>
<th>Passengers in 2014</th>
<th>Designed Passenger Capacity</th>
<th>Planned Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing Capital International Airport</td>
<td>86 million</td>
<td>76 million</td>
<td>Construction of new airport with 72 million passenger capacity by 2025</td>
</tr>
<tr>
<td>Guangzhou Baiyun International Airport</td>
<td>55 million</td>
<td>40 million</td>
<td>Additional 40 million passenger capacity by 2020</td>
</tr>
<tr>
<td>Shanghai Pudong Airport</td>
<td>52 million</td>
<td>60 million</td>
<td>Additional 20 million passenger capacity by 2019</td>
</tr>
<tr>
<td>Shanghai Hongqiao Airport</td>
<td>38 million</td>
<td>40 million</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Various.

Despite limits on U.S.-China flights, analysts anticipate U.S.-Chinese tourism to more than double over the next five years. Rising Chinese incomes—slowing economic growth notwithstanding—will likely give more Chinese citizens the means to travel abroad in the future. As depicted in Figure 14, Chinese gross domestic product (GDP) per capita has increased more than three-fold from 2005 to 2014. While growth may slow in the future, the International Monetary Fund (IMF) currently predicts China’s GDP per capita will increase 46 percent from 2015 to 2020 (from $8,280 to more than $12,000).
Due to the costs of trans-Pacific travel, the average household income of Chinese travelers to the United States tends to be slightly higher than that of Chinese travelers to other countries. According to the World Tourism Cities Federation, the average annual income of Chinese international tourists was $21,000 in 2013. As shown in Figure 15, the average and median incomes of Chinese visitors to the United States have consistently been higher (on average $71,000 and $44,000 from 2008 to 2014, respectively). While the United States remains a more expensive vacation destination than most Asian countries, as Chinese incomes rise, more Chinese tourists will have the resources to make the trip.
Figure 15: Average and Median Household Income of Chinese Travelers to the United States, 2008–2014.


U.S. travel agencies would benefit from greater market access to sell travel packages to this steadily increasing source of tourists. Foreign companies are currently banned from selling outbound travel to Chinese citizens in China, except as part of a limited pilot program that creates joint ventures with Chinese companies. To date, relatively few companies have participated in this program. Three companies—American Express Business Travel (United States), JTB (Japan), and TUI (Germany)—created joint ventures to sell outbound travel under the program. American Express appears to have created a successful partnership in China: it has maintained a joint venture with China International Travel Service since 2002 and has been deemed the best corporate travel company in China five years in a row by a jury of Chinese government and travel industry experts organized by Chinese travel website Travel Weekly China. To date, no other companies obtained permission from the Chinese government to create a joint venture, although it is not clear why this has been so. In addition to the joint venture program, the Shanghai Free Trade Zone also allows joint venture foreign tourism firms to sell outbound travel packages to Chinese customers; even so, once again there has been little success in setting up joint ventures. As of 2015, only one company has succeeded in setting up a travel agency joint venture under the Shanghai Free Trade Zone. While Chinese companies can sell travel packages both to Chinese tourists going to the United States and U.S. tourists traveling to China, most U.S. companies appear to still be unable to create China-based outlets to sell outbound travel packages to Chinese citizens. Fully opening Chinese outbound travel would give U.S. travel agencies an opportunity to sell outbound travel to the largest global source of international tourists.

Implications for the United States

The tourism industry is the United States’ largest service export, earning roughly $220.6 billion from international tourists in 2014 and making up an entire percentage point of U.S. GDP. Tourism is also a vital component of U.S. exports to China—in 2015, U.S.-China tourism accounted for 57 percent of all U.S. service exports to China and 14 percent of U.S. exports to China overall. Growth in Chinese tourism will significantly increase U.S. service exports to China and U.S. exports overall. As the second-largest source of tourism expenditures in the United States, Chinese visitors are a significant commercial opportunity for U.S. businesses. Including airfare and education costs, Chinese travelers spent on average $10,800 per trip to the United States in 2014. Rising income

levels in China and decreased administrative hurdles have also made China one of the fastest rising sources of tourism spending in the United States, increasing 44 percent from 2013 to 2015.\textsuperscript{191}

Looking forward, while Chinese tourism has already grown substantially, there are opportunities and challenges to further growth. Increasing Chinese income and consumption provides the United States with a growing source of international visitors, and the relatively untapped markets outside of Beijing, Shanghai, and Guangzhou suggest a large portion of the Chinese population still does not regularly travel to the United States. However, U.S. and Chinese negotiators have not succeeded in raising the impending cap on Chinese-U.S. flights. This cap stands to limit Chinese travel to the United States. Additionally, despite two Chinese joint venture pilot programs, U.S. travel companies still do not appear to have sufficient market access to tap into Chinese international travelers through outbound tourist sales.

At a sectoral level, Chinese travel to the United States for the purposes of education has increased dramatically and provides significant fiscal support for U.S. academic institutions from primary to tertiary education.\textsuperscript{192} Several China-based firms have emerged to help Chinese students misrepresent application materials and cheat on exams such as the SAT. The SAT could reduce the effectiveness of this cheating by ending the practice of recycling test material, although this would significantly increase the cost of the exams.\textsuperscript{193} Medical tourism also appears to be on the rise, although it is difficult to track this trend in the absence of reliable data. When done within the parameters of U.S. law, growth in both of these sectors has a positive effect on the U.S. economy—particularly education tourism, which provides U.S. education institutions with valuable financial resources.

Although the number of Chinese citizens coming to the United States for the purposes of birth tourism is difficult to determine, efforts can be made to prevent fraud during the visa application process. This could be done by making the consequences of lying to consular officers—which include being barred from travel to the United States—more publicly known in China through media communication, while reminding applicants for visas that travel for medical purposes is permitted under U.S. law.\textsuperscript{194}

Accompanying the increase in Chinese tourism to the United States, Chinese investment in the U.S. hospitality sector has increased dramatically following Chinese regulatory reforms that encourage Chinese insurance agencies to invest abroad and looser administrative review for overseas Chinese investment. Chinese hospitality investment will likely continue to grow until Chinese investors have sufficiently diversified their portfolios, and may grow alongside Chinese travel to the United States as Chinese investors seek to cater to U.S.-bound Chinese tourists.
Endnotes


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