

Research on the Development Trends and Strategies of China's Tourism Industry under the Background of RMB Exchange Rate Fluctuations

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Abstract:

Nowadays, with the globalization continuously deepening, currency exchange rate fluctuations have a far-reaching impact not only on the country's financial stability but also on its national economy and specific sectors like tourism. This paper delves into the analysis of exchange rate volatility's impact on inbound and outbound tourism, drawing from past data and literature review. It proposes relevant strategies for businesses, government policies, and industry stakeholders. Findings reveal that exchange rate fluctuations would affect the tourist's affordability, and have an influence on tourism enterprises' operations and financing. Both governments and businesses must consider the multifaceted effects of exchange rate fluctuations and implement targeted responses. Future research can also be based on the content of this article to further explore the impact of exchange rate fluctuations on tourism travel among different age groups, and it should refine empirical analyses of various exchange rate indicators, such as nominal and real effective exchange rates, to provide more scientific theoretical support for China's tourism development.

Keywords: Exchange Rate Fluctuations; RMB; Inbound and Outbound Tourism.

1. Introduction

According to the Finance Department, based on the results of a domestic tourism sampling survey, the number of domestic tourists in the first half of 2024 was 2.725 billion, a year-on-year increase of 14.3%. By quarter, the number of domestic tourists

in the first quarter was 1.419 billion, a year-on-year increase of 16.7%; In the second quarter, the number of domestic tourists reached 1.306 billion, a year-on-year increase of 11.8%. In the first half of 2024, domestic tourists spent a total of 2.73 trillion yuan on travel, a year-on-year increase of 19.0%. It can be seen that the tourism industry is flourishing and is an

important component of the real economy. In June 2024, the Japanese yen exchange rate experienced a significant decline. According to the first quarter of 2024 National Travel Agency Statistical Survey Report and the second quarter of 2024 National Travel Agency Statistical Survey Report by the Market Management Department, there was a significant increase in the proportion in the second quarter, which can be seen in the Figure1 and Figure2, indicating that the fluctuation of the exchange rate has sparked a wave of Chinese tourists traveling to Japan in a short period of time. After the epidemic, the global economy gradually recovered. According to the 2020 National Travel Agency Statistical Survey Report released by the Market Management Department of the Ministry of Culture and Tourism, the operating revenue of national travel agencies in 2020 was 238.969 billion yuan, the operating cost was 228.86 billion yuan, the operating profit was -6.915 billion yuan, the total profit was -7.177 billion yuan, the total amount of taxes payable this year was 1.277 billion yuan, the operating revenue of tourism business was 137.456 billion yuan, and the operating profit of tourism business was 327 million yuan. This shows that the tourism industry has made great contributions to the real economy.

Since the reform of China's RMB exchange rate in 2005, the exchange rate has generally been in the trend of appreciation. With the economic development, people's income level has increased significantly, and they are more tolerant of cross-border consumption; Meanwhile, with the continuous deepening of reform and opening up, China's outbound and inbound tourism industries have achieved sufficient development. Due to the continuous emergence of major international events in recent years, the fluctuations in exchange rates have become more apparent.

Therefore, it is particularly important to conduct research and analysis on exchange rate fluctuations and the tourism industry based on constantly updated data, in order to provide guidance for the development of the tourism industry. Against the backdrop of global economic turbulence and tourism recovery, the impact of exchange rates on China's tourism industry has become increasingly profound. The issue of how to stabilize exchange rates and respond to exchange rate fluctuations urgently needs to be addressed. Firstly, the article analyzed the current situation of China's tourism industry based on data from the Chinese cultural and tourism sector. Then, based on existing literature, we will discuss from two perspectives: inbound tourism and outbound tourism. In terms of inbound tourism, this article first discusses the price and income effects of exchange rates; The third-party market effect in tourism; Price elasticity of tourism demand from different countries and regions towards China; The long-term and short-term impacts of exchange rate fluctuations were discussed in four aspects, including the impact of exchange rate fluctuations on tourists; Next, we will explore the impact of exchange rate fluctuations on the performance of tourism enterprises from two aspects: operating profits and financing risks. In terms of outbound tourism, this article elaborates on the impact of exchange rate fluctuations on travelers' relative spending power and psychological expectations. Subsequently, based on the analysis of the current situation and theoretical analysis of the tourism industry, strategies and measures for the government and enterprises to cope with exchange rate fluctuations and promote the development of tourism services were summarized. Finally, provide the conclusions and prospects of the current research.

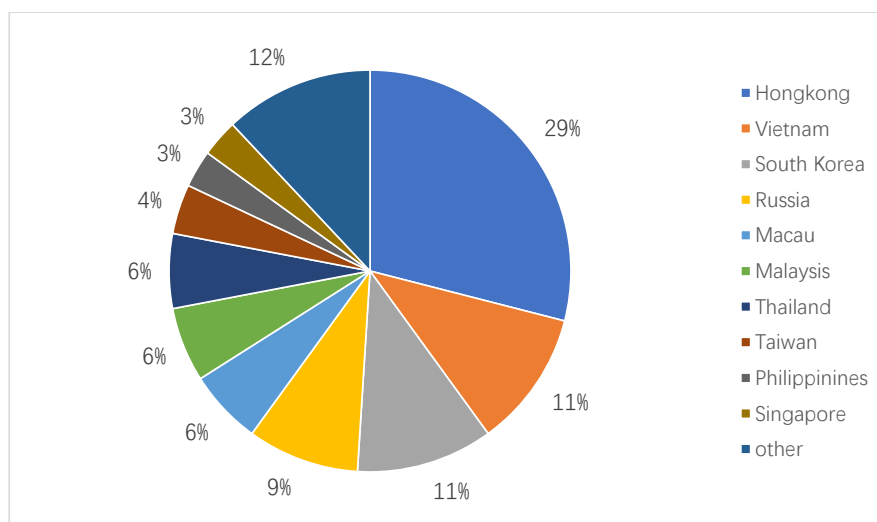


Fig. 1 Top 10 destination countries or regions in terms of outbound tourism organization visits in the first quarter in 2024 [1]

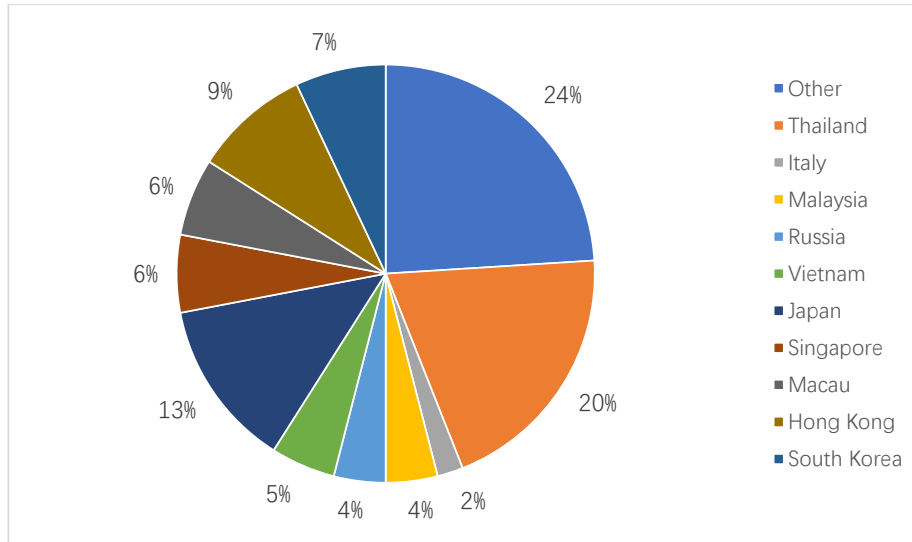


Fig. 2 Top 10 destination countries or regions in terms of outbound tourism organization visits in the second quarter in 2024 [2]

2. The Current Status of China’s Tourism Industry and Economic Landscape

With the development of globalization and people’s aspirations for a better life, the tourism industry has flourished in recent years and has become an important component of the real economy, injecting new vitality into development and driving the development of diverse service industries.

After the epidemic, the global economy gradually recovered. According to the 2020 National Travel Agency Statistical Survey Report released by the Market Management Department of the Ministry of Culture and Tourism, the operating revenue of national travel agencies in 2020 was 238.969 billion yuan, the operating cost was 228.86 billion yuan, the operating profit was -6.915 billion yuan, the total profit was -7.177 billion yuan, the operating revenue of tourism business was 137.456 billion yuan, and the operating profit of tourism business was 327 million yuan. Recently, according to the 2023 National Travel Agency Statistical Survey Report released by the Market Management Department, the operating revenue of national travel agencies in 2023 was 444.273 billion yuan, operating costs were 420.517 billion yuan, operating profit was 3.737 billion yuan, total profit was 3.482 bil-

lion yuan, total tax payable for the year was 3.703 billion yuan, tourism business operating revenue was 267.316 billion yuan, and tourism business operating profit was 5.609 billion yuan. It can be seen that the tourism industry is significantly affected by the overall environment, and there has been a recent rebound phenomenon. Guiding the development of the tourism industry will become one of the means to develop the economy in the future.

Since the reform of China’s RMB exchange rate in 2005, the exchange rate has generally been in the trend of appreciation. (Figure3 and Figure4 illustrate the recent fluctuation of exchange rate of RMB.) With the economic development, people’s income level has increased significantly, and they are more tolerant of cross-border consumption; Meanwhile, with the continuous deepening of reform and opening up, China’s outbound and inbound tourism industries have achieved sufficient development. Due to the continuous emergence of major international events in recent years, the fluctuations in exchange rates have become more apparent. Therefore, it is particularly important to conduct research and analysis on exchange rate fluctuations and the tourism industry based on constantly updated data, in order to provide guidance for the development of the tourism industry.



Fig. 3 CFETS RMB Exchange Rate Index [3]



Fig. 4 SDR Currency Basket RMB Exchange Rate Index [3]

3. The Impact of Exchange Rate on China's Inbound Tourism

3.1 Tourist

Chen found that the appreciation of RMB would significantly reduce the number of Chinese inbound tourists and the amount of consumption [4]. Jiang et al. found that the increase of the exchange rate between the RMB and the currency of the source country led to the relative increase of tourists' travel prices in China, and the increase of tourism costs would eventually weaken the travel domestic demand of tourists [5]. Zhang and Zhang, Baggs et al. Dwyer et al., found that a lower exchange rate would increase the relative income of tourists. The increase of income enhanced the consumption power of passengers and stimulated the travel domestic demand [6-8]. Luo, based on the data of Japanese tourism to China, found that the appreciation of the yuan reduced the willingness of Japanese tourists to travel to China to some extent, and the exchange rate was negatively correlated with the demand for Japanese tourism to China [9].

According to Hericourt and Nedoncelle, McKinnon, in addition to paying attention to the exchange rate between local currency and the currency of the source country, it is also necessary to consider the exchange rate between the surrogate country and the currency of the source country [10,11]. Wang and Huang found that the tourist country determines the relationship between China and the alternative country in the tourism market: If there is a complementary relationship between China and alternative destinations, the rise in the currency value of the alternative country will reduce the demand of tourists for tourism in China; If it is a competitive relationship, the rise in the currency value of the alternative country will increase the demand of tourists for tourism in China. Rising exchange rates in Singapore, Japan, Hong Kong and Taiwan will reduce demand for U.S. travel to China [12].

Seetaram found that the sensitivity of the country of origin to exchange rate changes also affects tourism demand [13]. Wang and Huang found that different countries and regions are affected by the economic environment and their own economic level, and have different price elasticity of tourism demand when facing the appreciation or depreci-

ation of the RMB. The United States, Japan, and Thailand lack price elasticity of demand to China, while Canada, the United Kingdom, Singapore, South Korea, France, Germany, the Philippines, and Australia have price elasticity of demand to China [14].

The impact of exchange rate on inbound tourism is different in different time dimensions. Li found that the change of RMB exchange rate had little impact on American tourism demand in China in the short term, but had certain impact in the long run [15]. Seetaram found that inbound tourism demand is inelastic to real exchange rate changes in the short term and elastic in the long term [16]. Based on the seasonal perspective, Zhao studied the different effects of the exchange rate on the inbound tourism industry in Shanghai in the off-season and peak season, and found that the exchange rate plays an important role in the seasonal changes of tourism [17].

To sum up, exchange rate mainly affects passenger travel demand through price effect and income effect; The likelihood of entry is affected by “third-party market effects”; When exchange rate changes, different regions produce different price elasticity of tourism demand].In addition to paying attention to the impact of exchange rate on different subjects (that is, the impact of exchange rate on the spatial dimension), we should also pay attention to the extent of the impact of exchange rate on inbound tourism in different time dimensions.

3.2 Enterprise

Exchange rate changes will have an impact on the operating profits of tourism enterprises. Li found that the devaluation of the RMB reduces the cost of tourists visiting China, promotes the number of tourists in China, and thus increases the foreign exchange income of tourism enterprises. On the contrary, the depreciation of the RMB reduces the foreign exchange income of tourism enterprises [18]. Chen et.al found that for tourism enterprises, sales profit rate is the intermediary way for exchange rate to affect their financial performance. The rise of RMB real effective exchange rate reduces the sales profit rate of tourism enterprises, which leads to the decline of return on equity [19].

The change of exchange rate will affect the financing risk of tourism enterprises. Chen et al. found that exchange rate changes would cause foreign exchange rate risks for companies: nearly 80% of tourism companies in the United States have exchange rate risk exposure problems [19], and the cash flow of tourism-related companies is significantly affected by the exchange rate. For tourism enterprises, if the corporate debt is derived from foreign exchange borrowing or overseas shopping, during the du-

ration of the debt, exchange rate fluctuations will directly lead to exchange gains and losses. If the foreign currency exchange rate decreases when the debt is repaid compared with the borrowing or shopping, exchange gains will be generated; On the contrary, if the foreign currency exchange rate rises, it will cause exchange losses. For tourism enterprises with small degree of financing constraint, the negative impact of exchange rate on their financial performance is less [20].

To sum up, exchange rate fluctuations affect the financial performance of enterprises through two aspects: daily operating income and financing risk.

4. The Impact of Exchange Rate on China's Outbound Tourism

4.1 The Impact of the Internationalization of Renminbi (RMB) on Outbound Tourism

Qiao and Chen's research found that macroeconomic fluctuations and exchange rate changes have significant impacts on inbound tourism development, while the influence of inflation is limited [21]. Although nominal and real exchange rates belong to different categories of exchange rate indicators, they do not exhibit substantial differences in their impacts on tourism. Zuo and Wu discovered that an appreciation of the domestic currency against the destination country's currency enhances the relative consumption power of Chinese residents [22]. Li and Liu concluded that settling transactions in domestic currency can significantly reduce exchange rate risks arising from global economic fluctuations [23]. Yang and Zhao found that with the reduction of currency transaction costs and the gradual elimination of exchange rate risks, the direct use of the RMB for transactions not only facilitates access to tourism products from more countries and regions but also stimulates network effects in consumption and investment, thereby opening up broader prospects and opportunities for the development of international tourism, the internationalization of the RMB, and cross-border investment activities by enterprises [24]. Zuo and Wu pointed out that the internationalization of the RMB can be regarded as a favorable policy for promoting outbound tourism in China, influencing the demand for inbound and outbound tourism in an asymmetric manner [22].

4.2 Psychological Expectations

Yang and Dai point out that the consumption expenditure of outbound tourism is primarily manifested in two parts: the fees charged by travel agencies and the expenses incurred by tourists for shopping overseas. Since the fees

paid to travel agencies are denominated in RMB, they do not significantly impact tourists [25]. Liu et al. argue that exchange rate fluctuations primarily affect overseas spending power. Following the appreciation of the RMB, residents' overseas spending power relatively strengthens, further stimulating overseas shopping. Some potential tourists also join the ranks of outbound travelers due to the psychological effect of the appreciation, leading to the emergence of the so-called "traveling with the exchange rate" behavior pattern [26]. Jing discovers that tourists' "psychological anticipation" of exchange rate appreciation often transcends its "actual economic effects," and this psychological factor can propel exchange rate appreciation into a crucial driver of the outbound tourism boom [27].

5. Strategies or Measures

5.1 Government policy support

The government ought to perfect and enhance relevant measures to sustain exchange rate stability and cope with exchange rate variations. To begin with, when formulating exchange rate policies, a one-size-fits-all approach should not be adopted; instead, comprehensive considerations from multiple perspectives are necessary, and targeted measures and policies should be implemented [28]. After the epidemic, the global tourism industry has been stricken. To alleviate the impact of RMB exchange rate fluctuations on inbound tourism from neighboring countries and regions, the internationalization process of the RMB should be accelerated and the RMB should be promoted to become a major currency in Asia [29]. The appreciation of the exchange rate also indicates the improvement of comprehensive national strength. China should proactively implement policy measures to promote the steady appreciation of the RMB and enhance its exchange rate risk management capabilities in international tourism trade through various means in the economic and trade fields [30]. To facilitate a steady rise in the exchange rate and avoid the negative influence of significant fluctuations on inbound tourism, as well as to alleviate inflationary pressure, stabilize commodity prices, and reduce the impact of the increase in the CPI on inbound tourism [31]. Furthermore, flexible and appropriate utilization of tourism trade tools that fully incorporate exchange rate variation factors and have exchange rate preferential properties should be carried out. On this basis, a standardized model for monitoring RMB exchange rate fluctuations should be constructed [30].

Secondly, the government should increase its support for the tourism industry. With the advancement of internation-

alization and the development of tourism, China's tourism surplus may gradually shrink, and there might even emerge a tourism trade deficit. However, it is unnecessary to adopt radical measures to restrict outbound tourism. Instead, measures should be taken to fully leverage the positive effects of outbound tourism by targeting emerging major outbound tourism countries as primary source markets, adopting tailored marketing strategies based on their tourists' cultural and tourism consumption characteristics, and striving to attract more emerging tourist sources to the country, thereby gaining an upper hand in future international tourism competition [32]. Compared with enterprises in other industries, Chinese tourism enterprises hold a smaller number of patents, with a higher proportion of intangible assets but a very small fraction of technology assets that have the greatest impact on enterprises, resulting in a low degree of leveraging technological innovation to generate substantial profits [33]. Industry regulatory authorities should actively establish a national tourism innovation fund to encourage tourism enterprises to innovate and create new business models, and explore ways to enhance national tourism innovation capabilities [34]. In the future, efforts should also be made to continuously expand tourism exchanges and cooperation between China and major tourist source countries by enhancing people-to-people exchanges, promoting international cooperation among regional industries, and improving international tourism facilitation, thereby actively leveraging inbound tourism to facilitate policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and closer people-to-people ties under the Belt and Road Initiative [35]. Emphasis should be placed on the development of tourism resources and the enhancement of the overall tourism image, including strengthening the investment and construction of scenic area facilities, improving tourism service quality, intensifying overseas promotion efforts, implementing win-win marketing strategies, and, more importantly, strengthening government supervision to establish a favorable tourism market environment [36].

5.2 Enterprise response

For enterprises, the utmost priority lies in optimizing the quality of tourism products and services. To propel the vigorous development of domestic inbound tourism, we need to strengthen the design and development of tourism commodities catering to foreign tourists [9]. Greater progress can be achieved through interconnection and complementary advantages with overseas tourism enterprises [19]. It is essential to fully leverage the spontaneous promotion and referral channels of the foreign market for

perceived high-quality services, enhance the management level and service standards of tourism reception facilities, provide excellent after-sales services, prioritize improving tourist satisfaction, innovate service methods, and establish a long-term mechanism for continuous improvement in tourism service quality and orderly regulation of the tourism market [37].

In the era of globalization, enterprises are confronted with comprehensive competition from both domestic and international markets, and it is impossible for them to remain unaffected by exchange rate fluctuations [19]. When exchange rates fluctuate, enterprises should promptly adjust their production and operation strategies, including export and import, based on the changes in exchange rates to better adapt to these fluctuations and achieve better corporate performance [28]. Enterprises should also appropriately utilize foreign exchange derivatives to mitigate their exchange rate risks [38]. Relevant diversification strategies should be implemented to alleviate financing constraints faced by tourism enterprises, and executive equity incentives should be adopted to avoid the negative impacts of exchange rate fluctuations [39].

6. Conclusion

This paper explores the differential impacts of exchange rates on outbound and inbound tourism based on the current status of China's tourism industry and existing articles related to exchange rates and tourism. The study finds that exchange rates primarily influence travelers' relative spending power through price and income effects, ultimately affecting their internal demand for travel. Drawing on the "third-market effect," the possibility of increased inbound tourism from a third-party country, beyond the two directly involved, is also evident, with Singapore, Hong Kong, and Macau exhibiting such effects for China. Different regions exhibit varying price elasticities of demand for Chinese tourism in response to exchange rate fluctuations, reflecting the varying responsiveness of travel demand to changes in the RMB across nations. Furthermore, the impact of exchange rates on inbound tourism varies across time dimensions, with distinct outcomes in the short and long term. Corporate operating revenues, particularly for travel companies involved in cross-border activities, are affected by exchange rates, while financing capabilities are also challenged, as exchange rate appreciation increases financial risks.

For the Chinese government, firstly, targeted measures and a standardized exchange rate monitoring model should be established to mitigate the impact of exchange rate fluctuations on the tourism industry. Secondly, efforts should be made to enhance China's cultural tourism image, intensify

tourism support and supervision, and attract more tourists with high-quality tourism services. For enterprises, optimizing the quality of tourism products and services to enhance customer satisfaction is paramount. Additionally, they should promptly adjust their business models in response to exchange rate fluctuations and strengthen the management and control of exchange rate risks.

Exchange rates encompass various indicators, such as nominal exchange rates, nominal effective exchange rates, real exchange rates, and real effective exchange rates. Current research lacks empirical analysis and comparative studies on the impacts of different exchange rate indicators on the tourism industry. Given the period of pronounced social unrest, exchange rates can serve as a crucial tool in currency wars. In the future, countries may leverage exchange rate-based regulations to directly or indirectly drive economic growth across major economies. By integrating the influence of exchange rates on various industries' economic development and leveraging AI and big data for analysis and forecasting of domestic and international changes, nations can better navigate economic transformations.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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