

Individual Visit Scheme

May 2014

The Individual Visit Scheme ("IVS") was introduced in July 2003. While IVS has benefited the Hong Kong economy, it has aroused concern over the impact of continuous growth in Mainland visitors on the local community. Of particular relevance are the pressures brought by IVS on the local railway system and shop rentals in popular shopping areas. Rising shop rentals have also changed the retail landscape with a surge in the number of shops rented out to business trades catering to the needs of Mainland visitors. Reflecting this, the number of shops selling cosmetics and personal care products surged by 1 500% between 2004 and 2013.

The Government has focused on the adequacy of tourism infrastructure in its study of Hong Kong's tourism handling capacity. According to a European Commission study, the social carrying capacity should also be considered when assessing a city's tourism carrying capacity.

The subject of IVS falls within the policy areas of the Panel on Economic Development.



**Research Office
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1. Introduction

1.1 The Individual Visit Scheme ("IVS") was introduced in July 2003 as a tourism liberalization measure under the Mainland and Hong Kong Closer Economic Partnership Arrangement. It was first implemented in four Guangdong cities and expanded several times between July 2003 and January 2007. The number of cities under IVS has since then remained at 49, comprising all the cities in Guangdong, the main cities in the Pan-Pearl River Delta region as well as municipalities such as Beijing and Shanghai.

Figure 1 – Mainland cities under the Individual Visit Scheme



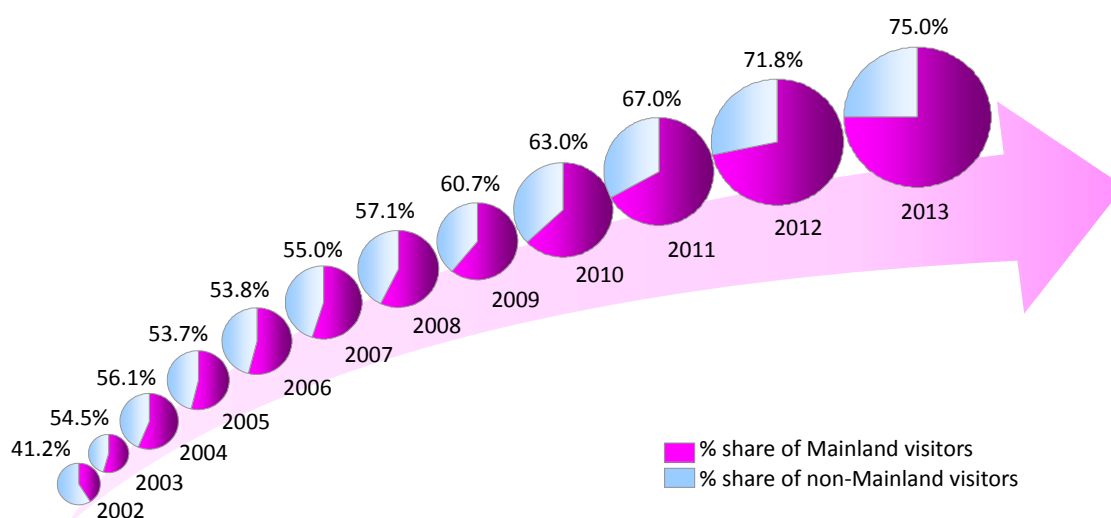
1.2 Under IVS, Mainland residents in the above 49 cities are eligible to apply for Individual Visit Endorsements from the local Public Security Bureau offices to visit Hong Kong in their individual capacity. Previously, most of them could only travel to Hong Kong under business visas or by joining group tours. In 2009, the Central Government allowed eligible residents with Shenzhen household registration to apply for One-year Multiple-entry IVS Endorsements, in a move to give greater convenience to their visits to Hong Kong for leisure and shopping activities.

1.3 The enhanced ease of travel brought by IVS, together with other positive factors such as the increasing affluence of Mainland residents and the appreciation of Renminbi, has contributed to a surge in the number of Mainland visitors in recent years. The surge has helped boost the total number of visitors to Hong Kong to a level exceeding that to an entire nation. For example, Hong Kong received 54.3 million visitors in 2013 which exceeded the amount received by the United Kingdom (31.1 million), South Korea (12.2 million), Japan (10.4 million) and Australia (6.5 million).¹

2. Statistics of IVS visitor arrivals

2.1 The launch and progressive extension of IVS have fuelled the increase in Mainland visitors in recent years. In 2002, before the launch of IVS, Hong Kong received 16.6 million visitors and 41.2% of them came from the Mainland. In 2013, the number of visitors had soared to 54.3 million and 75.0% came from the Mainland (**Figure 2**).

Figure 2 – Share of Mainland visitors in total visitor arrivals, 2002-2013

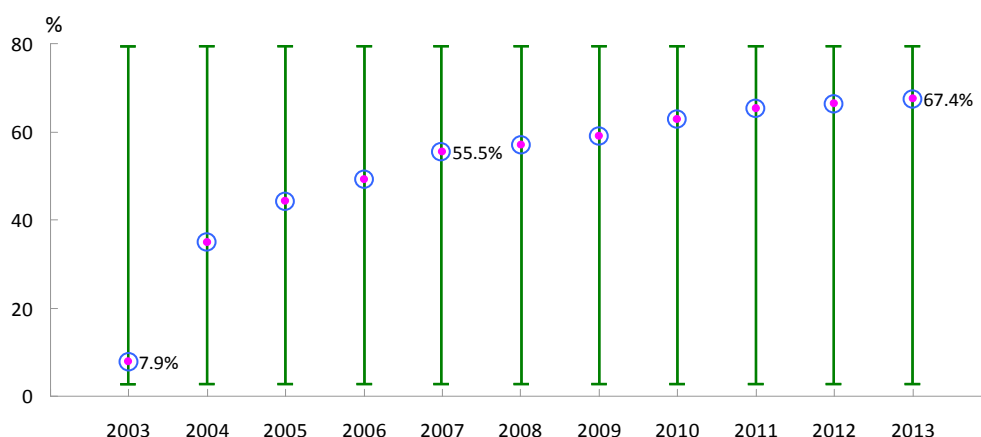


Source: Hong Kong Tourism Board.

¹ See VisitBritain (2013), Korea Tourism Organization (2013), Japan National Tourism Organization (2013) and Tourism Australia (2013).

2.2 IVS has become the major means of entry for Mainland visitors since its introduction in 2003. IVS visitors accounted for only 7.9% of total Mainland visitors in 2003 and the percentage share has increased since then to exceed that of non-IVS Mainland visitors in 2007. The trend continued into the ensuing years with IVS visitors accounting for 67.4% of total Mainland visitors in 2013 (**Figure 3**).

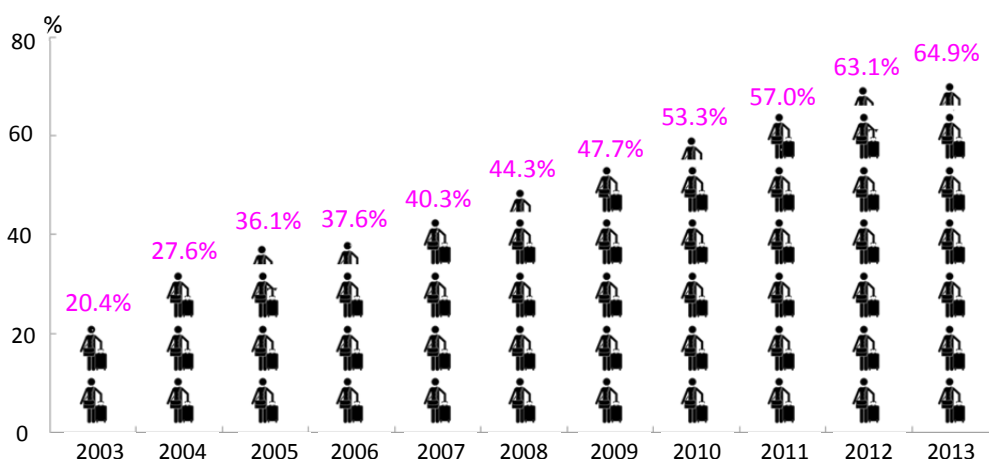
Figure 3 – Proportion of IVS visitors to total Mainland visitors, 2003-2013



Source: Hong Kong Tourism Board.

2.3 IVS visitors tend to stay shorter but come to Hong Kong more frequently than general visitors for sightseeing and shopping. Among IVS visitors, those making same-day trips have increased significantly in the past few years. In 2013, the number of same-day IVS visitors accounted for 64.9% of total IVS visitors (**Figure 4**). Within this total, 62.4% were visitors travelling on One-year Multiple-entry IVS Endorsements.²

Figure 4 – Proportion of same-day visitors among all IVS visitors, 2003-2013



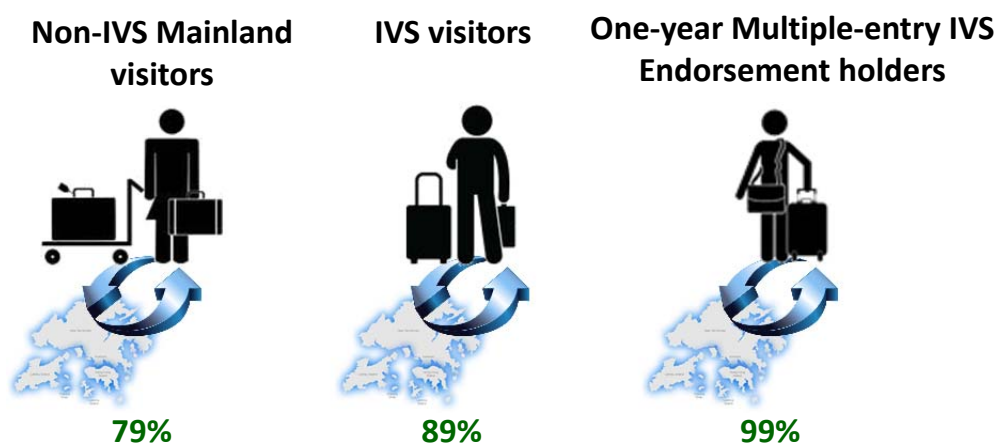
Source: Hong Kong Tourism Board.

² The corresponding share was 23.8% in 2009, when the Central Government allowed eligible residents with Shenzhen household registration to apply for One-year Multiple-entry IVS Endorsements to visit Hong Kong.

3. Characteristics of IVS visitors

3.1 Apart from the rapid growth rate, IVS visitors have displayed other distinct characteristics as observed from the surveys conducted by the Hong Kong Tourism Board ("HKTB"). Benefiting from the simplified procedure of obtaining permits to visit Hong Kong, IVS visitors have a greater proportion of repeated visitors than their non-IVS Mainland counterparts. In 2013, about 89% of IVS visitors took repeated trips to Hong Kong (Figure 5). The percentage share was even higher for One-year Multiple-entry IVS Endorsement holders, at 99%, due to their greater convenience of making leisure and causal trips to Hong Kong on a recurrent basis.

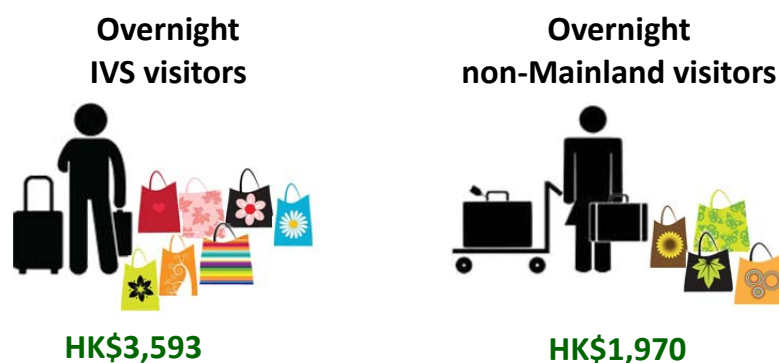
Figure 5 – Proportion of repeated visitors among Mainland visitors, 2013



Source: Hong Kong Tourism Board.

3.2 In addition to the higher frequency for trips, IVS visitors tend to have a higher level of spending in Hong Kong. For overnight visitors, the average daily spending of IVS visitors was HK\$3,593 in 2013, much higher than that of non-Mainland visitors at HK\$1,970 (Figure 6).

Figure 6 – Average daily spending of overnight visitors in Hong Kong, 2013



Source: Hong Kong Tourism Board.

3.3 For overnight IVS visitors, shopping is their largest expenditure category (72.9% in 2013).³ The corresponding share for same-day IVS visitors was even higher at 93.1%.⁴ According to the survey conducted by HKTb in 2013, both overnight and same-day IVS visitors favoured cosmetics and skin care products, ready-made wear, foodstuff, and medicine and Chinese herbs. Overnight IVS visitors also went for high-end consumer products such as leather goods, jewellery and watches, and electrical/photographic goods. For same-day IVS visitors, they also included personal care products such as shampoo and diapers in their shopping lists (Figure 7).

Figure 7 – Itineraries of IVS visitors, 2013

Overnight IVS visitors



Same-day IVS visitors



Source: Hong Kong Tourism Board.

4. Economic contribution of IVS

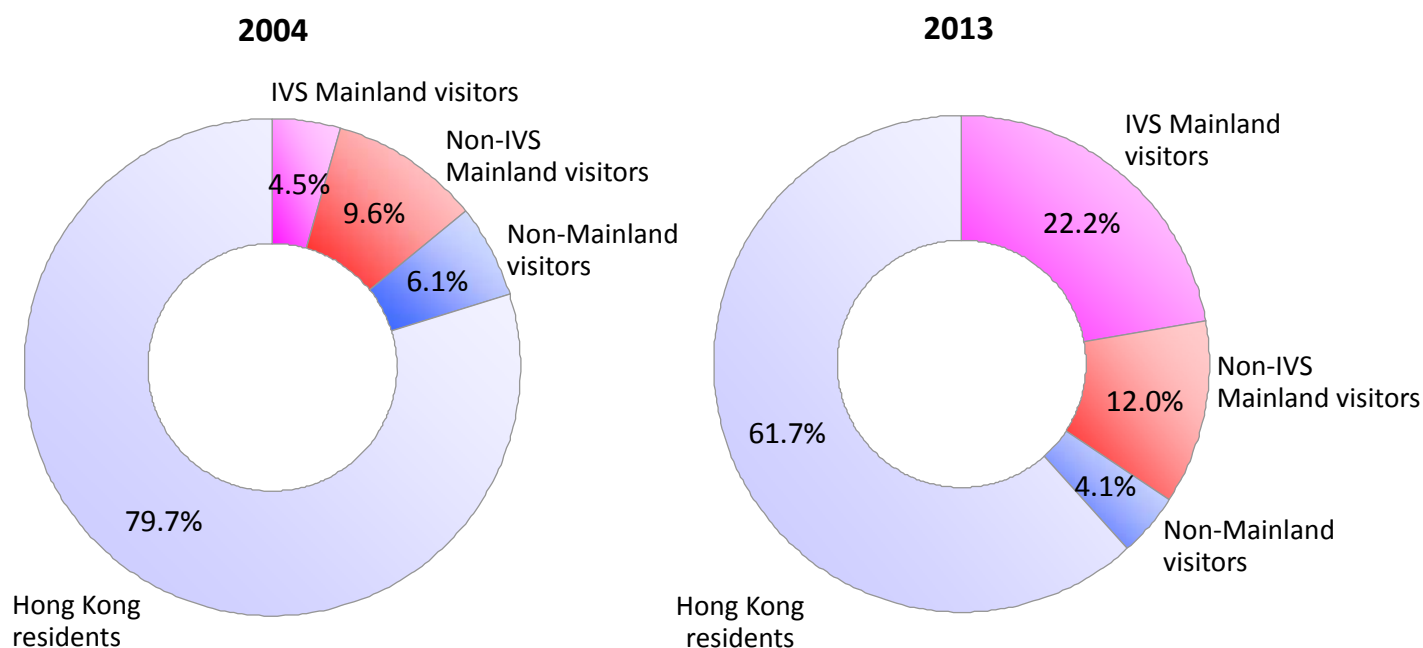
4.1 IVS has benefited Hong Kong in a number of ways, namely:

- (a) retail sales: using the shopping expenditure of IVS visitors as a proxy for their contribution to the value of total retail sales, it is observed that the proportion of shopping expenditure by IVS visitors in the value of total retail sales has been on a steady rise over the past decade, from 4.5% in 2004 (first annual figure available) to 22.2% in 2013 (Figure 8);

³ In 2013, overnight IVS visitors spent relatively less on hotel accommodation, meals outside hotels, and miscellaneous services (including domestic transport, local tours, etc.), with respective shares of 11.6%, 8.9% and 6.6%.

⁴ For reference, the average spending of same-day IVS visitors was HK\$2,887 in 2013.

Figure 8 – Shopping expenditure by visitors and local residents (% share in the value of total retail sales)



Sources: Census and Statistics Department and Hong Kong Tourism Board.

- (b) other beneficiary sectors: IVS also benefited other sectors such as hotel and boarding houses, restaurants, personal services⁵ and cross boundary passenger services;⁶ and
- (c) Gross Domestic Product ("GDP") and employment contribution: taking into account the multiplier effect of (a) and (b) above, the Government estimated that the contribution of IVS to the Hong Kong economy in 2012 amounted to HK\$26.1 billion in value-added (1.3% of GDP) and 114 280 in the number of jobs.⁷

5. Social impact of IVS

5.1 While the introduction of IVS has benefited the Hong Kong economy, there is also concern over the impact of the continuous growth in Mainland visitors on the local community, such as the supply of daily necessities and usage of the public transport system and local facilities/amenities. In particular, some members of the public have expressed concern about the over-crowded Mass Transit Railway ("MTR") and the growing "homogeneity" of shops in popular shopping districts to serve Mainland visitors.

⁵ Personal services include travel agents, airline ticket agents and domestic transport.

⁶ See Financial Secretary's Office (2014).

⁷ See Commerce and Economic Development Bureau (2013).

5.2 According to HKTB's surveys⁸, IVS visitors come to Hong Kong mainly for sightseeing and shopping. Since they travel on their own, their preferred mode of transport is MTR having regard to its easy access to Hong Kong's tourist attractions and shopping destinations. Reflecting this, among various public transport modes used by the inbound tourists (including IVS visitors), railway accounted for 55% of the share in 2012.⁹ This travel preference has added to the pressure of the already heavily patronized railway system¹⁰, as MTR is also the most popular transport mode in Hong Kong for the local people.¹¹

5.3 According to the Government, MTR's operator, the MTR Corporation Limited ("MTRCL"), introduced more than 1 200 additional train trips per week in 2012 to expand its carrying capacity by three million passenger trips.¹² However, the frequency of trains is regulated by the signalling system. According to MTRCL, the train frequencies for the Tsuen Wan Line, Island Line and Kwun Tong Line have already reached their respective maximum level as the signalling system can permit no more additional train trips.¹³

5.4 Apart from the passenger handling capacity of MTR, there is also concern about the rising shop rentals. The limited supply of retail space, coupled with buoyant retail sector fuelled by vibrant inbound tourism, caused rentals for retail space to increase by 69.4% between 2004 and 2013 (**Figure 9**). Not only have shops in traditional tourist districts been affected¹⁴, rising rental pressures have also been spread to the shops in the New Territories (particularly Tuen Mun and those along the MTR East Rail Line such as Sheung Shui, Fanling and Shatin).¹⁵

⁸ See Hong Kong Tourism Board (2014).

⁹ See Commerce and Economic Development Bureau (2013).

¹⁰ On the basis of accommodating up to four standees per square metre, the East Rail Line and Tsuen Wan Line are already at maximum capacity during the peak hours. The carrying capacity for the West Rail Line, Kwun Tong Line and Island Line is at more than 90%, while that of the Ma On Shan Line reaches 80%. See Transport and Housing Bureau (2014).

¹¹ In 2013, MTR accounted for 46.9% of the market share of the franchised public transport market. See Mass Transit Railway (2013).

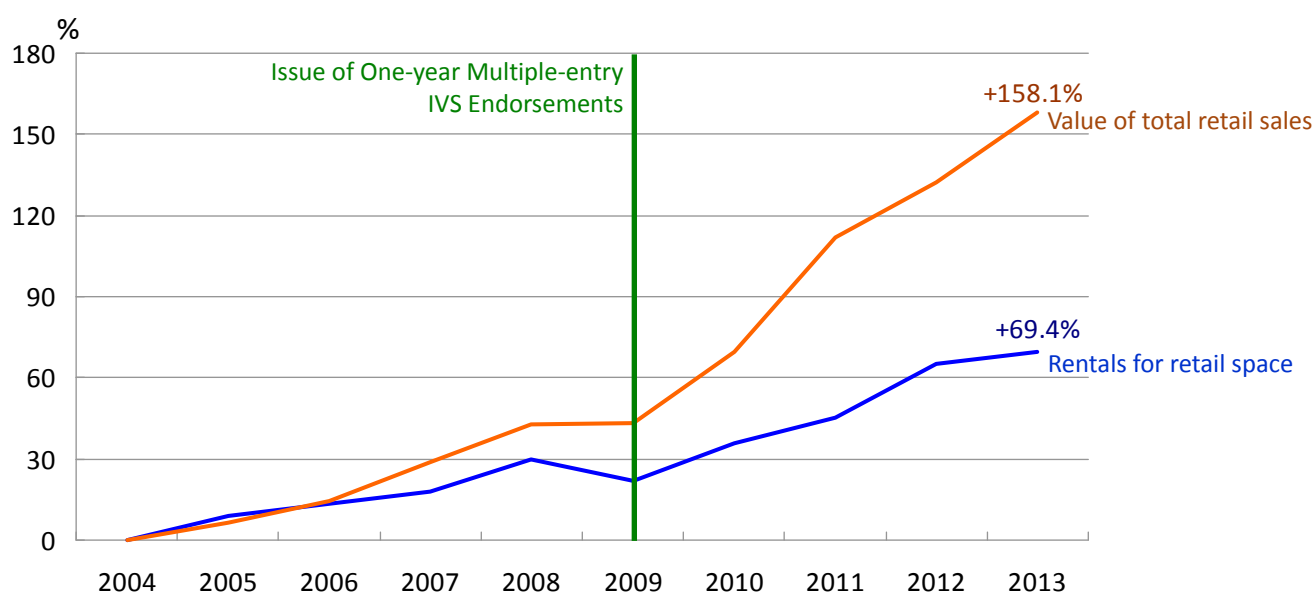
¹² See Commerce and Economic Development Bureau (2013).

¹³ See RTHK (2014).

¹⁴ Prime street shop rentals in Causeway Bay and Mongkok increased by 3.2 times and 1.8 times respectively between the first quarter of 2003 and the fourth quarter of 2013. The corresponding increase for Tsim Sha Tsui was even more pronounced at 3.7 times. See Savills Research and Consultancy (2014).

¹⁵ It is observed that same-day IVS visitors are in general more interested in shopping for mid-priced daily necessities such as beauty or personal care products. Such a trend is benefiting the shopping malls/shops in the New Territories and the average rentals of which increased by 81% between 2002 and 2013. See Rating and Valuation Department (2014).

Figure 9 – Retail sales and shop rentals, 2004-2013



Sources: Census and Statistics Department and Rating and Valuation Department.

5.5 Rising shop rentals have changed the retail landscape in the traditional tourist districts such as Causeway Bay, Tsim Sha Tsui and Mongkok and the districts along the MTR East Rail Line. Shopping malls and shops targeting at Mainland tourists multiplied in these areas. They compete on selling high-end products (e.g. jewellery, watches, luxury leather goods, electronic appliances and fashion) and daily necessities (e.g. milk powder and beauty/personal care products) sought-after by Mainland visitors. Meanwhile, some small shops catering to local people's needs have relocated to other less popular areas where rentals are more affordable.

5.6 Indicative of the above trend, the number of shops selling cosmetics and personal care products surged by 1 500% between 2004 and 2013. Likewise, shops selling high-end products multiplied over the period. In contrast, the number of non-specialized stores¹⁶ and shops selling books, newspapers and stationary shrank by 29.5% and 25.4% respectively during 2004-2013 (**Figure 10**).

¹⁶ Non-specialized stores include groceries of Chinese provisions and general household goods stores.

Figure 10 – Number of retail outlets, 2004-2013



Source: Census and Statistics Department.

6. Social carrying capacity

6.1 The Commerce and Economic Development Bureau published the *Assessment Report on Hong Kong's Capacity to Receive Tourists* ("the Report") in December 2013. According to the Report, "the HKSAR Government understands that the continuous growth in visitor arrivals has indeed exceeded the public's psychological acceptability, and brought about actual impact on the livelihood of the community in some areas". Yet the Report focuses on the assessment of Hong Kong's physical carrying capacity to accommodate a large number of tourists.¹⁷ As to the impact of IVS on the livelihood of the local community, it covers parallel trading and law and order only.

6.2 Apart from the adequacy of tourism infrastructure, whether the local people are socially prepared to receive a large number of tourists should be of equal importance for assessing Hong Kong's tourism carrying capacity. It is noted from a study commissioned by the European Commission ("the EC study")¹⁸ that the social carrying capacity of a city should also be taken as one of the many factors that determines the city's tourism carrying capacity.

¹⁷ The Report studies in detail the handling capacity of control points, capacity of tourism attractions, receiving capacity of hotels, and carrying capacity of Hong Kong's public transport network. According to the Report, "on the basis that projected visitor arrivals would be over 70 million in 2017, the assessment suggests that Hong Kong would generally be able to receive the visitor arrivals in 2017".

¹⁸ The European Commission has commissioned Greece's University of the Aegean to conduct a study on the understanding of the concept of tourism carrying capacity, its analysis and measurement, and efficient application of the findings in European tourism destinations.

6.3 Social carrying capacity, as defined by the EC study, is the level of tourism that (a) will not be resented by the local population, affect their sense of identity or pre-empt their use of public services and amenities, or (b) will not create unacceptable decline of experience of visitors.¹⁹ According to the EC study, the continued growth of visitors to a tourist area may lead to negative social impacts such as conflicts between tourists and local residents over the use of public transport, enjoyment of attractions (museums, public parks, etc.) and recreational amenities (pubs, theatres, restaurants, etc.). To reduce these negative social impacts, consideration should be given to introducing management actions such as controlling access to over-crowded destinations, and developing new attractions to divert visitors from popular tourist areas. Other relief measures include enlisting the support of the local community for the tourism industry, such as involvement of key stakeholders to agree on the goals of tourism development and the optimal tourism carrying capacity.

6.4 The Macao government commissioned the Institute for Tourism Studies to conduct similar EC study annually from 2003 to 2011 (with the exception of 2005) to estimate the optimal social carrying capacity of Macao's tourism industry. According to the latest publicly available study, it was estimated that the optimal social carrying capacity of Macao ranged from 69 000 to 79 000 daily visitors in 2007.²⁰ The report recommended that the sustainability of Macao's tourism development should hinge on the ability to provide high-quality experience to its visitors, rather than on generating ever-increasing quantity of visitors. As such, attention should be given to the better management of industry operations and facilities, manpower training, and professional transportation and town planning.²¹

7. Observations

7.1 The following observations are made based on the findings above:

- (a) IVS has contributed to the local economy since its introduction in 2003, generating value-added equal to 1.3% to GDP and employment opportunities amounting to 3.1% (114 280 people) of the total working population in 2012.²² The retail sector has benefited the most from IVS, followed by the hotel industry;

¹⁹ See University of the Aegean (2001).

²⁰ According to Macau Government Tourist Office (2014), Macao received 27.0 million visitors in 2007.

²¹ See Government Information Bureau (2008).

²² See Commerce and Economic Development Bureau (2013).

- (b) the economic contribution of IVS reinforces the need for the Government to introduce measures enticing Mainland visitors to lengthen their stay in Hong Kong. This is particularly the case for high value-added overnight IVS visitors who tend to spend more than other visitors;
- (c) the recent years have seen a proliferation of shops in popular shopping areas selling high-end consumer goods and daily necessities sought-after by the Mainland visitors. These shop operators are willing to pay higher rentals to compete for the limited supply of shop space in these areas. Rising shop rentals have resulted in the relocation of some small shops to other less popular areas where rentals are more affordable;²³ and
- (d) the Government has focused on the physical carrying capacity, i.e. the adequacy of tourism infrastructure, in the study of Hong Kong's tourism handling capacity. Yet the continued growth of visitors may lead to negative social impacts, such as the conflicts between tourists and local residents over the use of public transport, enjoyment of attractions and recreational facilities.

It is noted from the EC study that the social carrying capacity should also be taken into account when assessing a city's tourism carrying capacity. Social carrying capacity is the level of tourism that (a) will not be resented by the local population, affect their sense of identity or pre-empt their use of services and amenities, or (b) will not create unacceptable decline of experience of visitors. Macao also conducted similar EC study annually from 2003 through 2011 to estimate the optimal social carrying capacity of its tourism industry.

²³ Against the competition for retail space, the Legislative Council passed a motion on "Increasing the business floor areas of the retail industry" at its meeting of 6 February 2013. The Administration was urged to, among other things, conduct a comprehensive review of the changes in the retail industry over the next 10 years, including the future development trends of the retail industry in respect of business floor areas, manpower, locations of businesses and business operators, including their size and number, so as to work out the future development scale of retail floor areas and appropriately increase their supply year by year to ease rental increases. The Administration was also urged to consider proposals such as massively developing underground commercial spaces; and setting up large-scale exhibition and sales venues, factory outlets and publicly-operated shopping arcades, markets, marketplaces and bazaars, etc. so as to increase the business floor areas of the retail industry and alleviate the pressure of rental increases.

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