Visa Business and Economic Insights

AP Economic Insight

New corridors and hotspots take flight in AP's evolving travel scene

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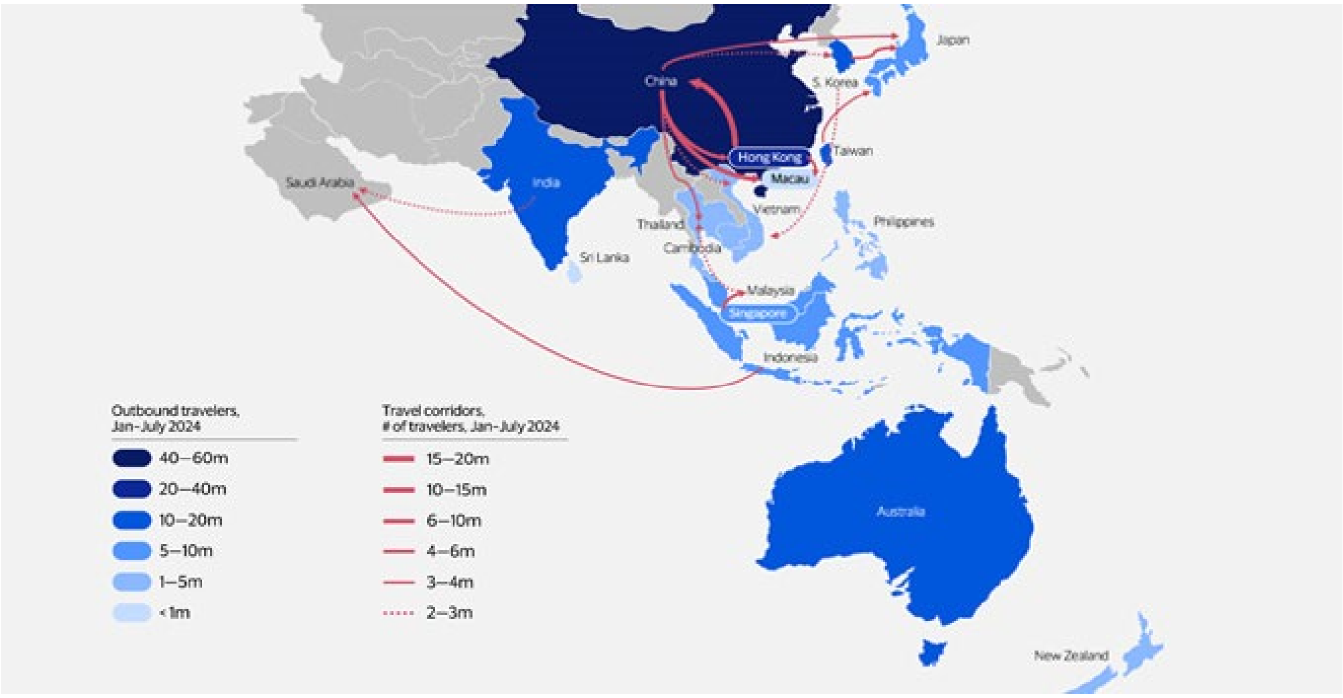
Key Points:

- Asia Pacific travel patterns are changing markedly
- Large currency valuation shifts have drastically altered affordability
- More travellers are leaving from India, Indonesia and Taiwan

The Asia Pacific travel landscape is changing rapidly, with systemic shifts in international relations, currency valuations and economic growth driving new patterns, according to our analysis of data obtained from the Visa International Travel platform. Three key drivers for tourism players as we head into 2025 are a changed economic outlook for Mainland China, currency revaluations, and newly emerging middle classes. Outbound travel from Mainland China is still only at less than two-thirds of its pre-pandemic level, and those who are travelling are more focused on visits to Macau and Hong Kong. Destinations such as Japan and Thailand are seeing a surge in arrivals after the rapid rise of interest rates in the U.S. caused many Asia Pacific currencies—particularly the Japanese yen—to weaken. By the same token, residents of locations affected by currency depreciations are staying close to home. Meanwhile, rising incomes and a growing middle class in places like India, Malaysia and Indonesia are enabling more of the newly affluent to travel abroad, particularly to more affordable destinations in Southeast Asia. We expect outbound visitor numbers in the region to grow by 20-25 percent in 2025.

Fig. 1: Top 15 largest cross-border travel corridors in Asia Pacific



Source: Visa International Travel platform

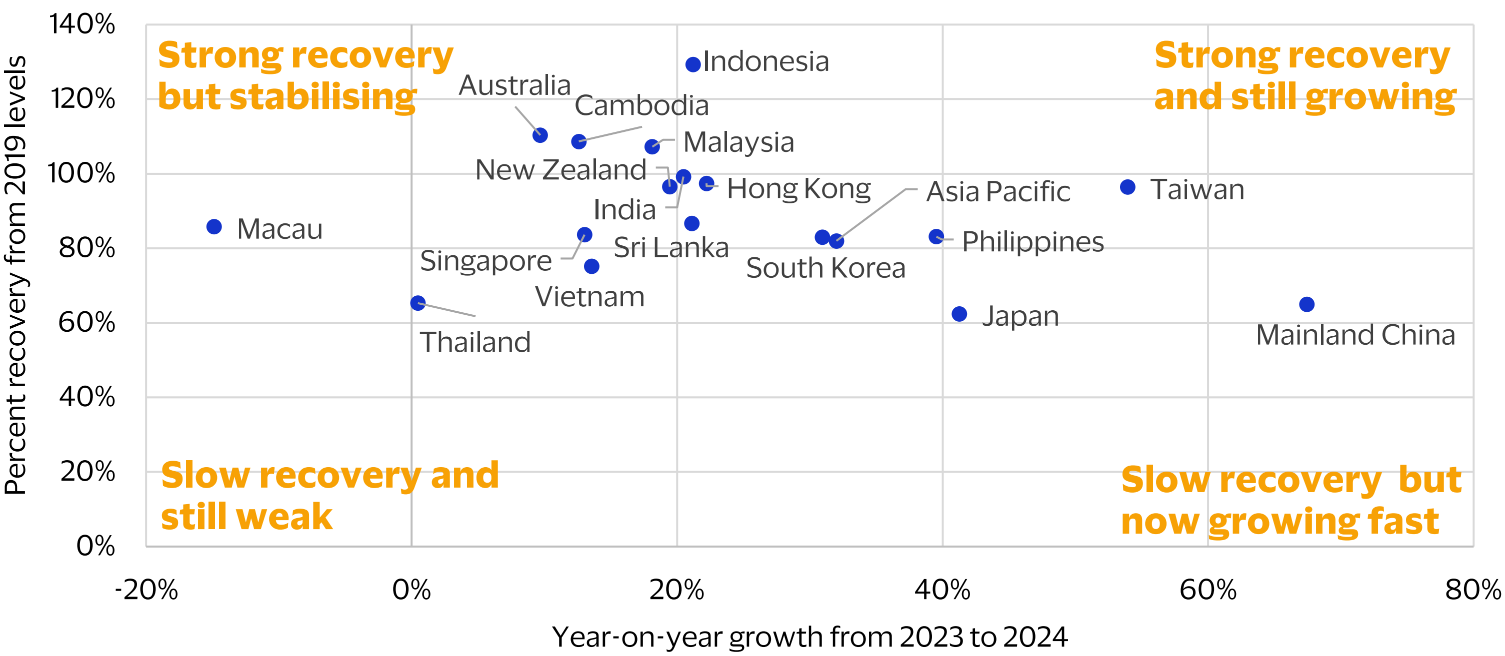
Where do you go?

Markets around Asia Pacific's busiest border crossings typically involve some combination of geographic closeness, economic integration, or cheap shopping on one side of the border.

Despite the major slowdown in outbound travel from Mainland China, the immense scale of that market manifests: Outbound travel from Mainland China to Macau, Hong Kong, Thailand and Japan represents four of the 10 largest corridors in Asia Pacific, while a further two of the top 10 are travellers from Hong Kong going to Mainland China or Macau (Fig. 1). Travel between the three parts of the dynamic Greater Bay Area accounts for a full 25 percent of total trips within the Asia Pacific region. The rest of the top 10 corridors can be attributed to South Koreans and Taiwanese visiting their neighbors in Japan, Singapore residents hopping over the border to Malaysia, and Indonesians travelling to Saudi Arabia, primarily for the Hajj pilgrimage. Cheap shopping is a major pull factor for half of the top 10 routes (Singapore to Malaysia, Hong Kong to Mainland China, and the three inbound Japan routes).

Fig. 2: Indonesia leads travel recovery in the region, while Japan and Mainland China lag behind

Recovery and growth of outbound travel from Asia Pacific markets (January to July 2024)



Source: Visa International Travel Platform

The post-pandemic travel recovery in Asia Pacific has been slower than in other regions, with traveller numbers from January through July 2024 sitting at only 82 percent of their 2019 levels, according to Visa estimates. Still, this is a significant improvement from 62 percent in 2023. That low base of comparison explains why almost all of the top 20 corridors are growing by more than 10 percent in year-on-year terms: Only Hong Kong to Macau, India to U.A.E., Thailand to Malaysia and Australia to New Zealand fail to clear this growth rate hurdle. There is generally an inverse relationship between current passenger growth rates and the post-pandemic recovery, as can be seen in figure 2: Places that are further away from their 2019 volumes have higher growth rates right now as they catch up. Indonesia and Taiwan stand out as having had strong recoveries yet maintaining a sustained increase in visitors. While the overall recovery of outbound travel from Mainland China has been disappointing relative to expectations, momentum is returning, with outbound routes from Mainland China accounting for six of the top 10 fastest-growing in Asia Pacific (of routes with more than 50,000 travellers so far in 2024). A further 10 of the 20 fastest-growing routes are inbound to Macau or Hong Kong, while sun seeking Mainland Chinese returning to Sri Lanka and Thailand on holiday account for a further two of the top 20 routes.

The hardest-hit destinations from Asia Pacific's missing visitors are Taiwan, Mainland China, the Philippines and Hong Kong. Each is welcoming between 30 to 40 percent fewer visitors than in the equivalent period in 2019. The weakest outbound markets are Thailand, Macau and Vietnam, which, despite tepid recoveries to-date, are still seeing sluggish growth (as shown in the lower-left quadrant of figure 2). Specific corridors with notably shrinking traffic include travellers from across the region avoiding eastern Mediterranean destinations such as Egypt, Jordan and Israel due to the war in Gaza, Australians spurning European destinations such as Greece and France in favor of Asian spots, and Thais being less inclined to visit Switzerland, South Korea and Vietnam.

Mainland Chinese dreams of travel

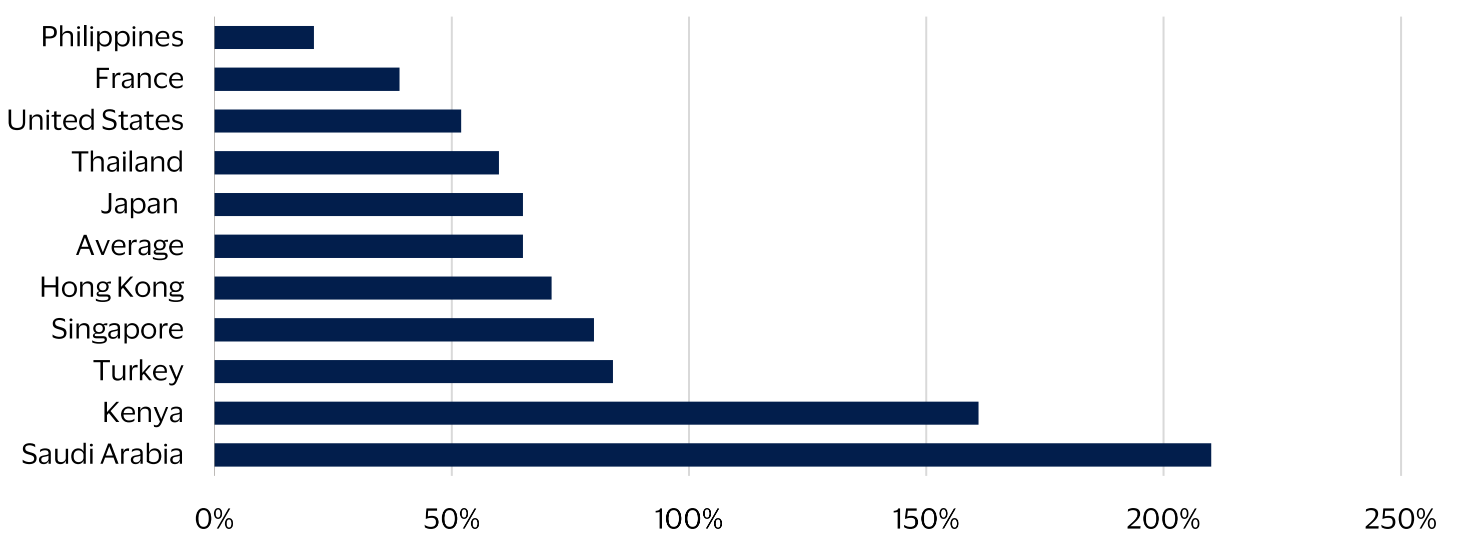
In early 2023, Mainland China re-opened its borders—the last major jurisdiction in the region to do so. The return of travellers from Asia Pacific's largest outbound tourism market was hotly anticipated by the travel industry, but the boom times of the previous decade have not returned.

Slowing income growth and falling property prices have reduced household travel budgets, along with discretionary spend overall, and higher inflation in destinations than at home has cut affordability. Regulations are not helping, either. It has become more difficult for many to get the required permits to go abroad, and governments have yet to rescind certain regulations introduced during the pandemic. Flight capacity is down, with airlines such as British Airways, American Airlines and Qantas cancelling some Mainland China routes. This is partly about a lack of demand, but also due to regulatory asymmetries around the use of Russian airspace.

The shifts in Mainland China's outbound travel have hit Taiwan's tourism industry particularly hard, with the number of visitors from January to July 2024 still 40 percent lower than the equivalent period in 2019. Hong Kong has also had low overall visitor numbers for the same reason. While growth in outbound trips from Mainland China in the last year is, at 67 percent, the highest in Asia Pacific, this is mainly due to the low point of comparison in 2023. Tourism-dependent merchants in many destinations have adapted to the absence of Mainland Chinese travellers, but the ongoing large gap between the number of trips in 2019 compared to more recent figures (Fig. 3) should leave enough room to deliver ongoing growth of around 20 percent in the year ahead. Destinations with weaker currencies and lower inflation, like Japan and South Korea, and places offering visa-free access, like Thailand and Singapore, are likely to be larger beneficiaries as Mainland Chinese visitors edge back towards 2019 levels near the end of 2025 or early 2026.

Fig. 3: Mainland China's outbound travellers are shifting from Europe and the U.S. to the Middle East and Africa

Estimated visitor numbers from Mainland China for selected destinations (January to July 2024 as percentage of same period in 2019)



Source: Visa International Travel Platform

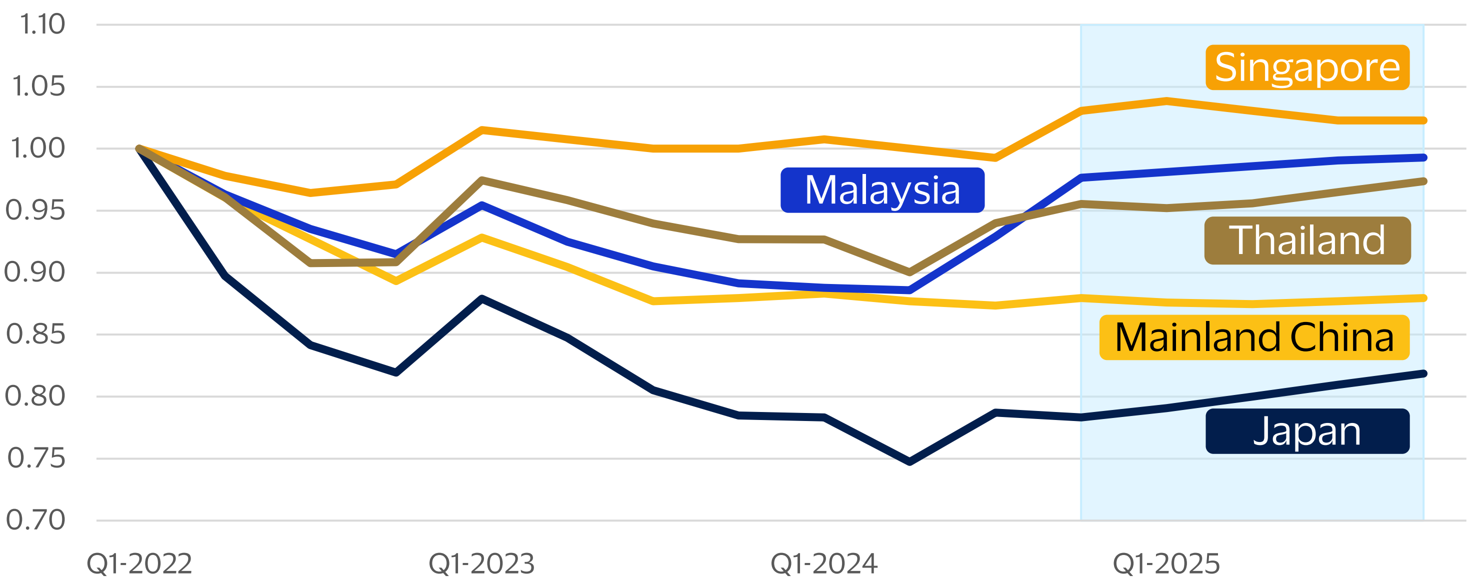
Some things *are* getting cheaper these days

The recent cycle of raising interest rates in the U.S. has not been followed universally in Asia Pacific, leading to substantial currency revaluations.

With the cost of foreign trips rising markedly, it is no wonder that Japan's holidaymakers are looking to domestic travel. As the U.S. Federal Reserve cuts rates over the next year, some of their lost spending power will return, but it is unlikely that Japanese outbound travel will return to its prior trend. The flip side of this is that Japan—on top of having one of the lowest inflation rates in the world—is now 60 percent cheaper for those spending U.S. dollars than it was in 2019. The resulting surge of inbound arrivals has led Japan to become the most popular destination in Asia Pacific, up from fourth in 2019. Bad news if you had a business catering to wealthy Japanese travellers, but excellent news if you are selling luxury goods or accommodation in Japan. Now that interest rates in the U.S. have begun to fall, some currencies, such as the Malaysian ringgit and Thai baht, have already started strengthening, although remain weaker than pre-pandemic (Fig. 4).

Fig. 4: Asian currency valuations diverged markedly during the last interest rate cycle

Exchange rate (local currency units per U.S. Dollar, rebased to Q1-2022=100)



Source: Visa Business and Economic Insights; Oxford Economics

Currency drivers

Many economies in Asia Pacific are open to trade and capital flows: Indeed, putting foreign capital to work in the region's factories and exporting the result has been a major reason growth in the region has been well above the global average for decades. Exposure to global capital markets does, however, mean that interest rate decisions in the U.S. reverberate through the region. In rapid tightening cycles, like those from March 2022 to late 2024, economies in Asia Pacific have either had to hike their rates in lockstep with the U.S. Fed, accept depreciation in their currencies, spend foreign exchange reserves, or take away international investment options from residents using capital controls.

As is befitting of such a diverse region, all these approaches have been adopted by one place or another. The economy that has faced the largest adjustment has been Japan. With the Bank of Japan keeping interest rates all but flat even as the Fed hiked rates in the U.S. by nearly 500 basis points, investors sold low-yielding Japanese assets to buy higher-returning U.S. ones. This resulted in a huge devaluation of the yen, which lost about 40 percent of its value in the last three years. While the yen will appreciate modestly as the Fed cuts rates, it will remain markedly weaker than its pre-pandemic average. Apart from economies that experienced a balance-of-payments crisis such as Pakistan and Sri Lanka, this was more than double the depreciation of any other Asia Pacific currency.

New adventurers

If you catch a low-cost flight in India or Indonesia, you have a good chance of sitting near someone who is flying for the first time. Rising incomes and household wealth in fast-growing economies like India, Indonesia and the Philippines are creating new middle classes and increasing the number of outbound travellers.

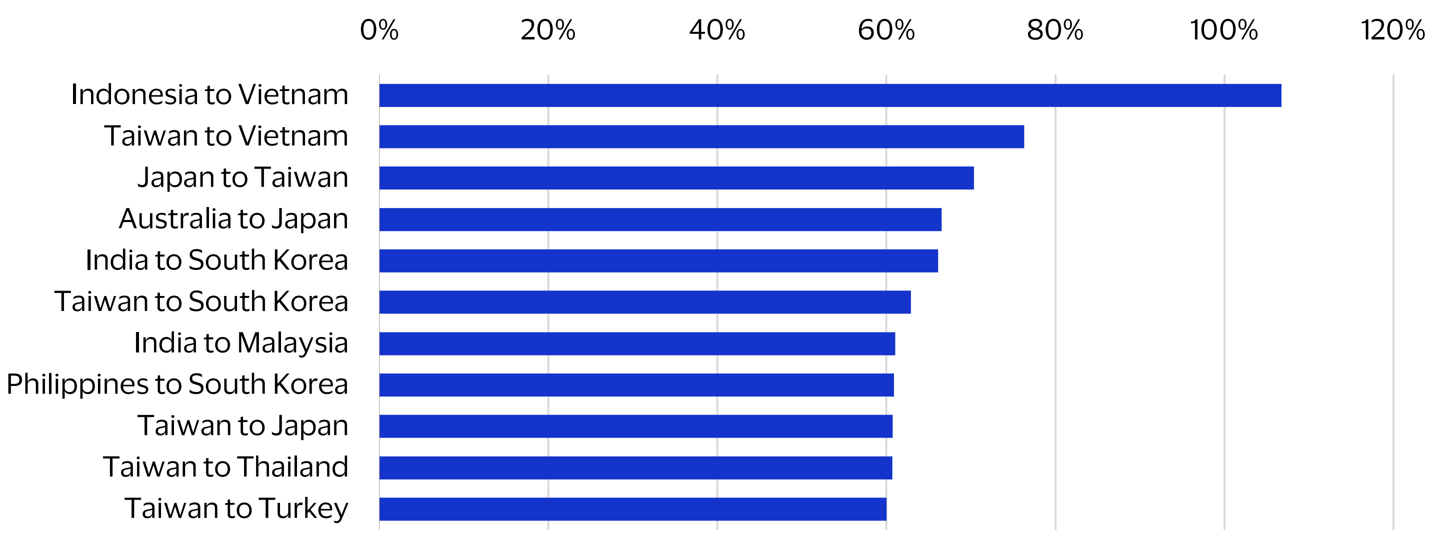
With visitor numbers approaching 30 percent above pre-pandemic levels, Indonesia has seen the strongest outbound recovery in the region, and travel from Indonesia to Vietnam is quickly emerging as a hotspot leisure corridor, while outbound travel from Taiwan has been similarly robust (Fig. 5). The most populous economy in Asia Pacific—India—is undoubtedly on the radar of anyone involved in Asia Pacific's travel industry. Inbound visits are up 18 percent since 2019, the second-highest growth rate in the region (after New Zealand), to reach 9.3 million in the year to July 2024. Outbound visits, at 13.2 million, are back to their 2019 levels after rising by 20 percent in the last year. India is now the fourth-largest origin market in Asia Pacific after Mainland China, Hong Kong and South Korea. Excluding intra-China travel, it would be larger than Hong Kong and nearly two-thirds as big as Mainland China.

The boom in Indian tourism, while also driven by the rising incomes of the middle class and expansion in airport capacity seen in Mainland China in previous decades, has its own characteristics. Family visits with a growing diaspora are a more significant driver of outbound travel, with four of the top five destinations having large diaspora populations (Saudi Arabia, the U.S., the U.A.E. and Singapore). Indians now make up the largest cohort of Asia Pacific visitors to the U.S., with tech and finance employment hubs like New York and San Francisco being major destinations. In these cases, those working abroad might be paying for the trip. Southeast Asia is more favored as a leisure destination by Indian travellers: Visits to Thailand are up 33 percent so far in 2024 (making it the region's third-most popular destination) and those to Malaysia up 61 percent, while Indians are now the second-largest single nationality amongst visitors to Bali, having doubled their share of arrivals since 2019.

The last four years brought marked shifts in travel corridors in Asia Pacific, with substantial changes in market share of both origins and destinations. With Mainland China in a new phase of economic development, plus shoppers hunting for bargains abroad and new, middle-class tourists with distinct travel motivations, now is an opportune time to assess product offerings.

Fig. 5: Selected fast-growing travel corridors from Asia Pacific

Estimated visitor numbers (January to July 2024, percentage year-on-year growth)



Note: Fastest-growing corridors with more than 100,000 estimated travellers January-July 2024, excluding those with origin or destination in Mainland China, Hong Kong or Macau.
Source: Visa International Travel Platform

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