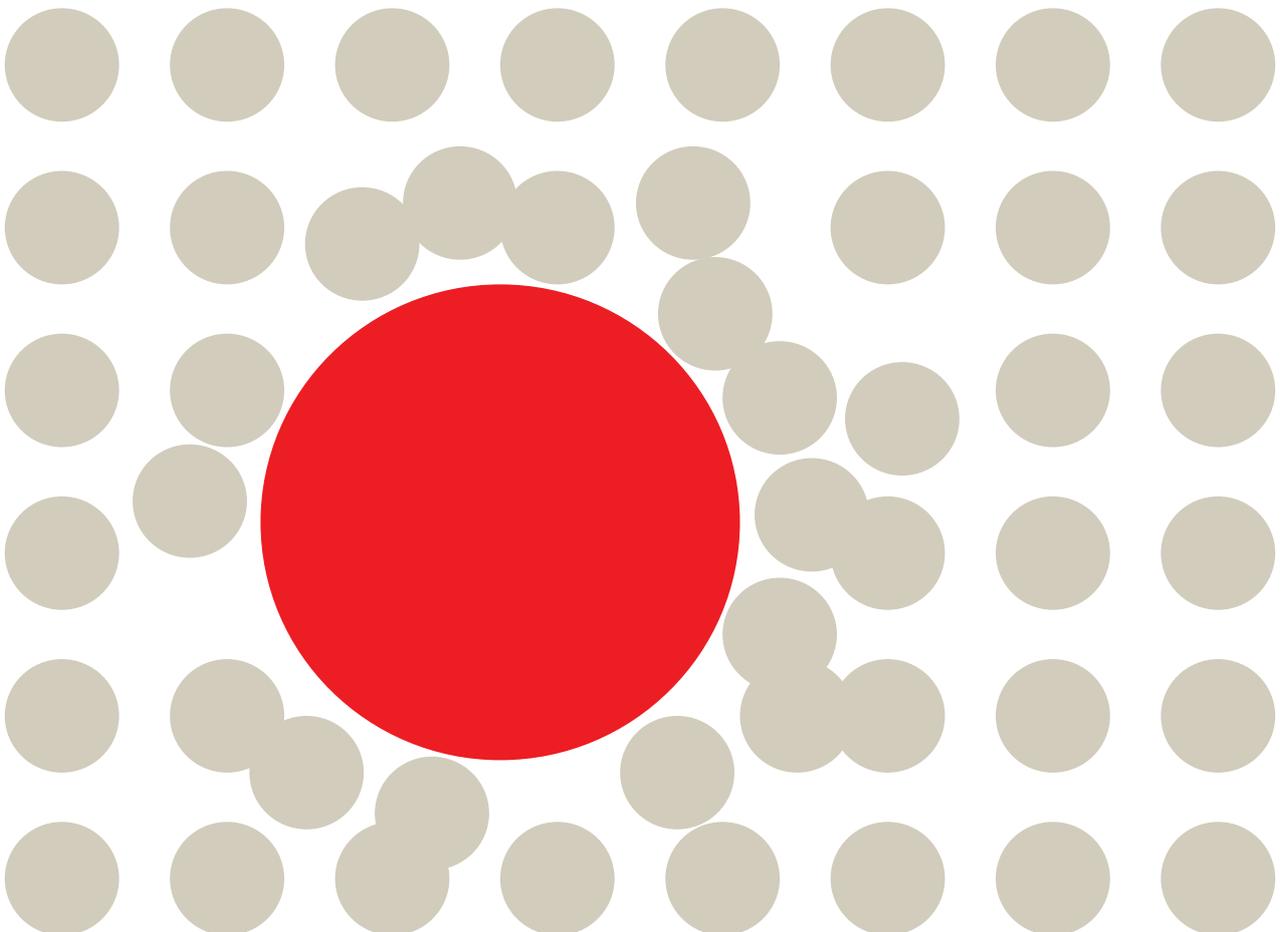


Hotels & Hospitality Group

# The path to tourism recovery in Asia

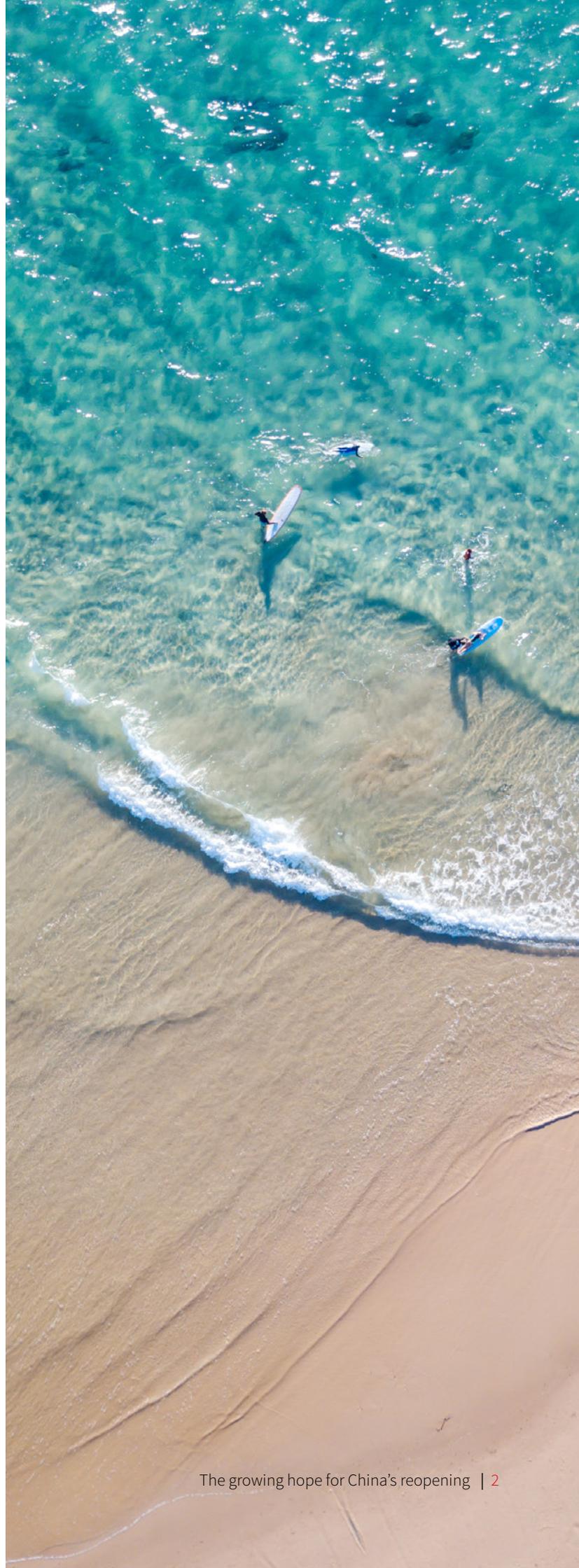
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The growing hope for China's reopening



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# The growing hope for China's reopening

The hospitality sector experienced a transformational year in 2020 as COVID-19 paralysed the global travel and tourism industry. Hotels worldwide were forced to close amidst significantly reduced demand, with international leisure and business travel made almost impossible due to border restrictions, quarantine measures and mandatory lockdowns seen across most major cities.

With the virus hitting China first, Asia was the first region in the world to be impacted. Tourism rapidly registered significant loss, both in the number of visitors and in receipts. According to the UNWTO, the decline in international tourist arrivals has led to around 11 times the loss in international tourism expenditures compared to the 2009 global financial crisis.

With rising vaccination rates, Europe and North America are slowly shifting to an endemic situation, progressively accepting COVID-19 as a part of life. Asia Pacific on the other hand is still willing to battle the virus and continue to adopt a zero-COVID policy. Timid thoughts of accepting COVID-19 as endemic are however sprouting in the region, especially in major global hubs such as Singapore.

As the Delta variant surges across the region, this has led us to look back at the impact on the tourism and hotel sector in Asia Pacific and question ourselves on how the recovery may take shape.

In this series, we will be exploring key trends that have emerged in 2021 as key drivers for determining the shape and trajectory of the recovery across the region. The first topic, which is the subject of this paper, will assess how China will eventually open up to the region and the potential implications of a prolonged closure. China's importance to regional tourism has increased significantly over the last decade, however the impact will likely be uneven as some destinations grapple with an over-reliance on Chinese business.





# How integral is Chinese outbound travel to the recovery of trading in Asia?

With China adopting a zero-COVID policy by thoroughly locking down and testing large swathes of the population, questions linger around how and when China will decide to open its borders. Stakeholders in Hong Kong were expecting borders to first relax in the city in 2021 but borders remain closed even as cases remained well contained. Some politicians in Hong Kong are cautious to reopen quarantine-free travel to avoid jeopardising any possible corridors with China so what impact will this have for the rest of the world?

In this section, we will first cover the region's dependence on China and the incredible growth of Chinese outbound over the last decade in both urban and resort markets. Next, we will examine current government directives around the region towards Chinese-made vaccines and evaluate the potential implications from a travel recovery standpoint. Lastly, as we look forward to the region evaluating early plans around reopening such as the Phuket Sandbox, we will assess what potential impact a continued closure of China will have on the region's overall recovery as one of its key source markets.



# Chinese tourists represented more than 40% of international travellers across Asia historically and will be essential to the tourism recovery within the region.

Since 2012, China accounted amongst the key global drivers of international outbound travel, both in number of tourist departures/arrivals and in tourism expenditure. According to the UNWTO, the country's international travel and tourism expenditure of USD262 billion was the largest globally in 2019, 42% more than the US in second place of USD152 billion.

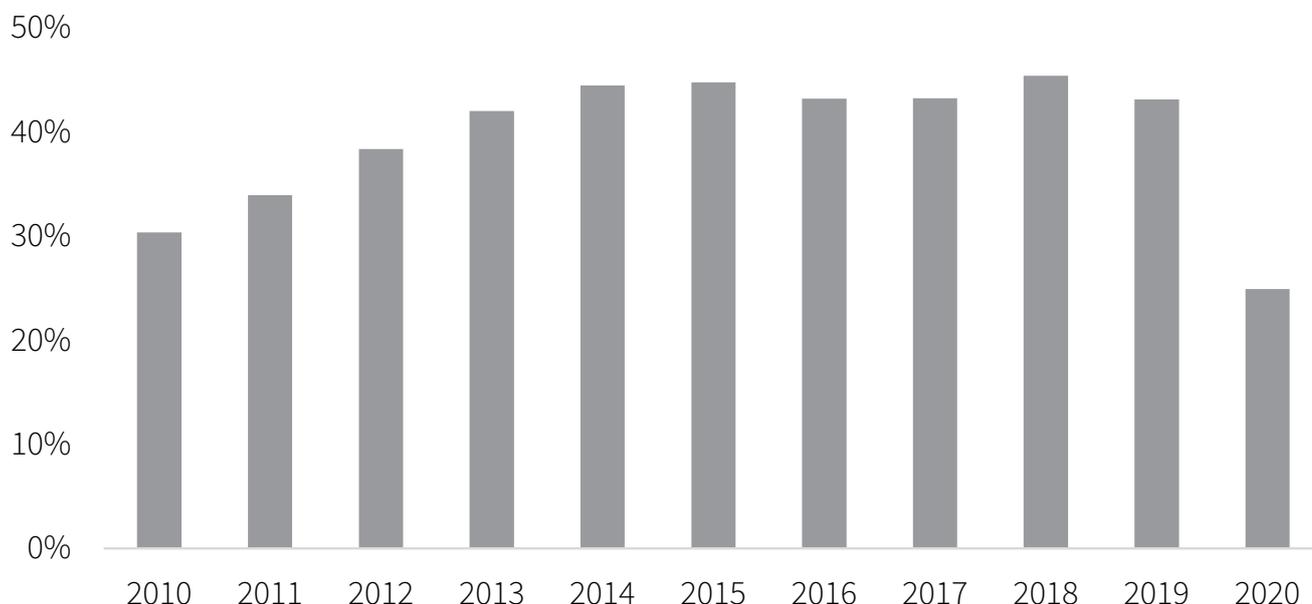
Additionally, 2019 marked a notable figure of almost 169 million of outbound Chinese tourists in the world, more than the 145 million tourists who travelled to China in the same period, according to the Chinese National Bureau of Statistics.

In 2019, the Top 5 markets in Asia that registered the highest proportion of Chinese visitors out of total international arrivals were Hong Kong (78.3%), South Korea (34.4%), Vietnam (32.2%), Japan (30.1%) and Thailand (27.1%), which are all key travel destinations where investors are constantly seeking out opportunities.

In the last decade, China has grown its position as the #1 source market in Asia from two to seven main cities.

Chinese visitors have always accounted for more than 40% of international arrivals in Asia since 2013. But with COVID-19, the future recovery of Chinese outbound business remains in question and is a key determining factor to the recovery of hospitality markets across Asia.

## Total share of Chinese visitors in Asia



\*Note: Proportion of Chinese tourists on total international arrivals in Hong Kong, Indonesia, Japan, Malaysia, Maldives, Singapore, South Korea, Thailand and Vietnam.

Source: JLL

# Will the potential efficacy of Chinese-made vaccines deter China from opening its borders as new variants spread?

	Efficacy on the original virus
Pfizer-BioNTech/ Comirnaty	95%
Moderna	94%
Sputnik V	92%
AstraZeneca	70%
Janssen	66%
Sinovac	50%
Sinopharm	Unknown

Source: Statista

While Asia Pacific is experiencing major waves of new cases, Asian countries are rushing to vaccinate their population to try to contain the spread of the virus. Numerous studies point out that efficacy varies from one vaccine to another.

Countries in Southeast Asia accounted for 29% of China's total vaccine donations and a quarter of its total vaccine sales, according to an ISEAS Yusof Ishak Institute report. China seems to be the major provider of vaccines to those countries but the urge to secure as many doses as possible has led countries to diversify their vaccine portfolio to other brands.

Concerns remain on Chinese vaccines over its efficacy against more contagious variants of the virus. Indeed, countries such as Indonesia, Thailand, Vietnam and Malaysia, which are mostly vaccinated with Chinese vaccines, recorded the highest growth in new cases. Indonesia has even exceeded India in terms of new daily cases, transforming the country into the new Asian epicentre of the pandemic.

If Chinese-made vaccines are less effective at handling new variants and China continues to maintain its zero-COVID policy, there is the possibility that China could keep its borders closed for a longer period of time over fears that Chinese outbound travellers could return home and spread a new variant. This would lead to lower levels of Chinese outbound travel than originally expected until government policy shifts to a more relaxed policy.

A prolonged Chinese border closure would have a significant impact on global tourism markets with Asia feeling the strongest deleterious effects. For investors, key considerations need to be made on where this could potentially impact their hospitality investments the most and to what extent this affects recovery timelines. In the following section, we have further evaluated the potential impact on gateway markets across Asia if China were to keep its borders closed for a sustained period of time.

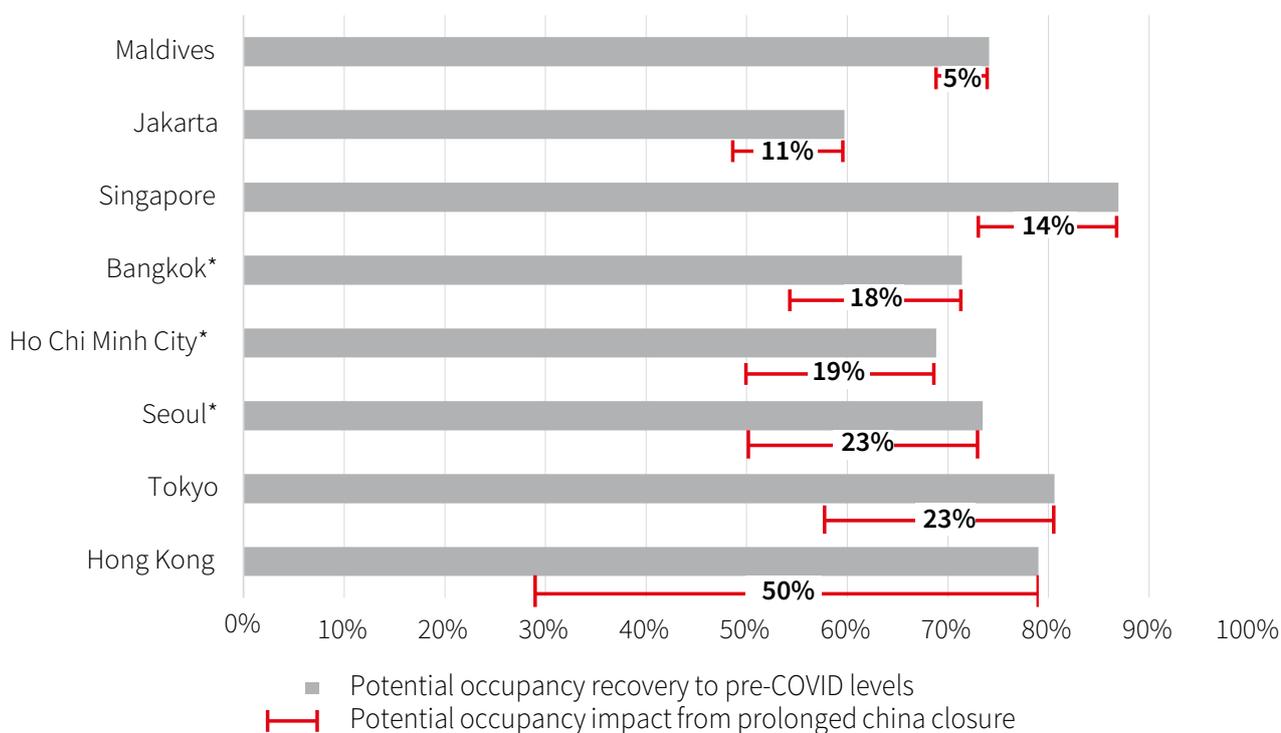
# How does a closure of China's borders affect occupancy around the region?

With a heavy reliance on Chinese visitation across Asia Pacific, a continued border closure or limitation of mass travel from China would have major implications on the recovery for the region. Currently, China's zero-COVID policy has provided limited visibility on what quarantine-free travel could look like and it seems unlikely that mass outbound leisure travel will be feasible if returning Chinese nationals have to quarantine for two weeks.

We have focused on key gateway markets across Asia Pacific in our study below. Key metrics such as pre-COVID occupancy levels, percentage of Chinese guests to overall arrivals, average length of stay and visitors per room were considered to estimate the magnitude of occupancy on each market. While our analysis is on the broader market, different sub-markets and hotels can be more affected than others if they've historically relied more on Chinese visitors.

The order of magnitude on occupancy if China remains mostly closed ranges between c.5% and 50%.

## Potential occupancy impact if China remains closed



Note:  
 (1) the proportion of Chinese travellers in Bangkok, Ho Chi Minh City and Seoul are estimated from their respective countries due to data constraints.  
 (2) Occupancy forecast has not accounted for any changes in supply due to hotel closures

Source: JLL

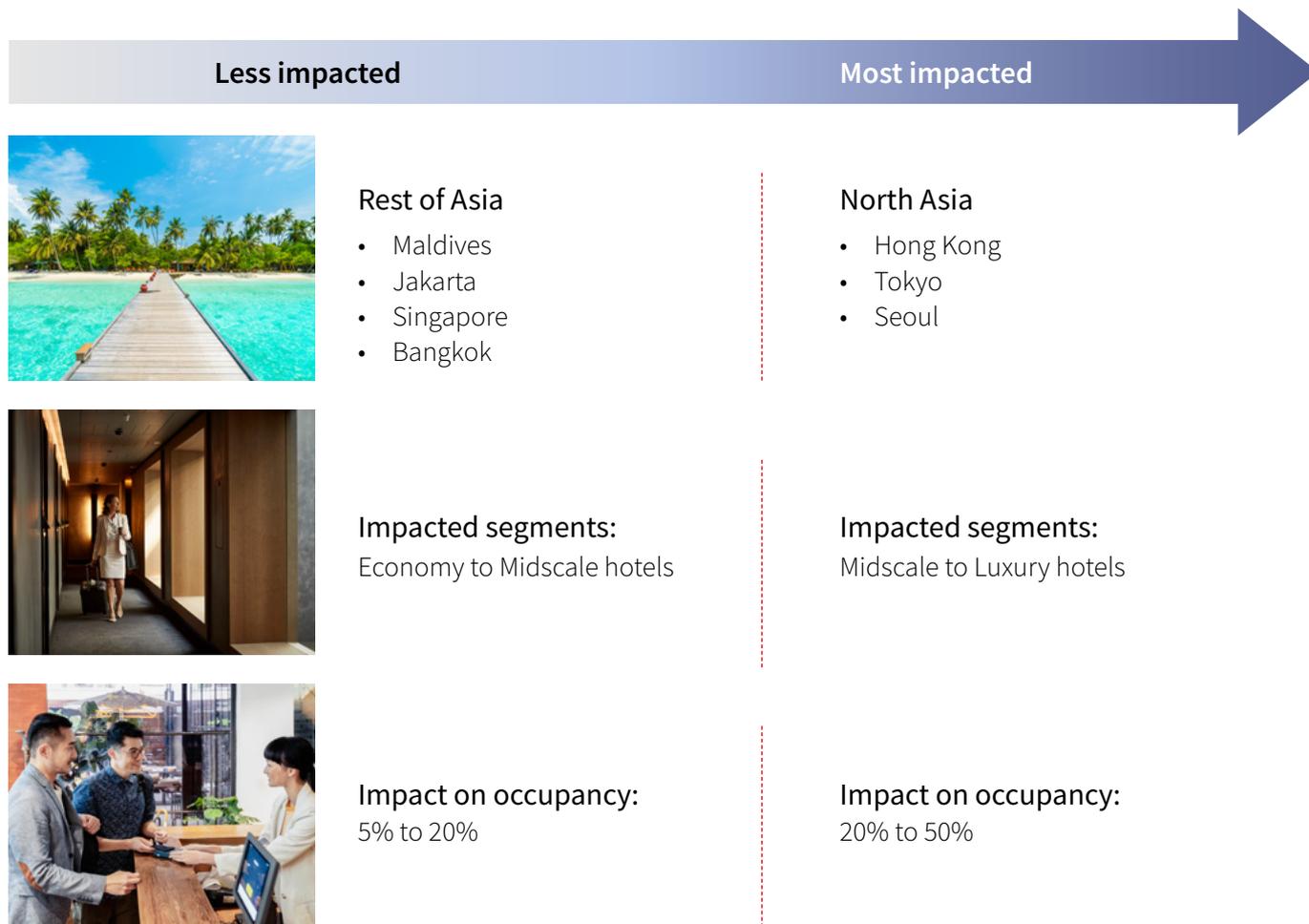
# Can regional hospitality markets thrive without China?

With a high proportion of Chinese visitors during pre-COVID times and a close geographical proximity to China, Hong Kong is unsurprisingly the most affected among all Asian markets if China keeps its borders closed and reinforces the divergence between Hong Kong's travel policies and other global gateways in the region. If successful, this travel policy will undoubtedly raise similar questions for other governments in Asia who want to see the return of Chinese tourism dollars and their impact on hospitality, retail and F&B.

Other Asian markets such as Tokyo, Seoul and Ho Chi Minh City would also be greatly affected should China remain closed, with an average of 30% of visitors from China. Arguably a lot of the new supply that has opened in these markets cater to the growth in Chinese tourism which will be difficult to replace.

On the other hand, some markets such as the Maldives and Singapore are expected to broadly maintain high occupancy levels even if China remains closed. What makes these markets different? The Maldives benefits from other visitors that have a significantly longer length of stay while Singapore has broader diversity in its segmentation. Nevertheless, resorts that have been designed to cater to Chinese tourists in either of these markets will need to reposition themselves in the short term to thrive.

If China remains closed...





## Chinese travellers on the starting block

According to the China Outbound Tourism Research Institute, the Chinese are eager to travel again once the world is better able to control the spread of COVID-19. Representing amongst the key global drivers of outbound tourism in the pre-pandemic time, we can expect a big wave of Chinese tourists travelling abroad in the future once borders reopen. Closer destinations in Asia should be the first to welcome Chinese tourists, similar to what has been observed in Europe and the US during the summer period: leisure travellers have preferred destinations closer to or within their home country. Thus, regional travel should recover first, followed by long-haul travel.

But unlike other parts of the world where countries have accepted moderate number of daily cases coupled with higher vaccination rates – for instance Europe and the United States – the recovery in Asia Pacific would eventually rely first on ‘travel bubbles’ and mutual reopening of borders like China with Macau. It is likely that China will prioritise the establishment of travel links with countries which have managed COVID-19 well in the form of high vaccination rates and the implementation of health certificates.

Looking forward, outbound guest profiles from China are likely to change significantly. Prior to COVID-19, the industry already saw an increase in Chinese FITs and decrease of wholesale groups.

We anticipate that this trend will continue growing in prominence once China reopens, with young travellers (couples and friends) expected to drive the recovery. This trend has been witnessed in Hainan, where young Chinese travellers were the first segment to resume domestic travel while demand from the family group segment remained muted.

Historically, retail shopping has always been prioritised by Chinese travellers but that trend may be diminishing as well. Taking the case of Hainan again, that province is set to become the largest duty-free market in the world in the next two years having benefitted from government policies. With an attractive duty-free retail destination so close to home, that might deter the desire for retail-focused travel for the Chinese traveller and they might instead focus more on experiential travel going forward.

Overall, we expect the recovery in the near-term to remain fragile and entirely dependent on the number of community cases, yet the potential for a brighter outlook in the medium and long term exists as Chinese tourists are at the starting blocks, ready to travel again.



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