World Tourism Alliance | Horwath HTL 浩華

July 2021

2021/H2

China Domestic Tourism Market Sentiment Report

Snow Sculpture in Sun Island Park, Harbin, China

Special Thanks To:

Images Supported By:

Contents

Volga Manor, Harbin, China

2021 H2 China Domestic Tourism Market Sentiment Report

China's domestic tourism industry was rapidly developing from 2010 to 2019. Throughout this time, it had been smoothly run until it was disrupted by the novel coronavirus outbreak in early 2020. A global pandemic was declared as it rapidly spread across the world. As a result, the country's domestic tourism was negatively affected.

Efforts by the central government and the cooperation by Chinese citizens have resulted in the virus being effectively under control in the country in a relatively short period of time. Gradual liberalization of restrictions on domestic tourism, the return of outbound tourists and several other favorable factors have led to the positive recovery starting in the second half of 2020 to the first half of 2021. Unfortunately, the same cannot be said of the global situation which has remained volatile. Vaccination programs throughout the world have not eliminated COVID-19. The risk of small-scale imported cases remains high and the road to recovery for China's domestic tourism is still plagued by uncertainty.

To assess China's domestic tourism market and to enable members of the World Tourism Alliance (WTA) and its international stakeholders gain a better understanding of the market and its key trends, WTA, a China-founded international nonprofit, non-governmental organization dedicated to uphold its mission and vision of a "Better Tourism, Better Life, Better World," is partnering with Horwath HTL, a leading global and hotel tourism consulting company to conduct semiannual sentiment surveys of the Chinese domestic tourism markets starting in 2019. This is the sixth report of its kind by WTA and Horwath HTL.

Our special thanks go to Shanxi Provincial Department of Culture and Tourism, Shanghai Municipal Administration of Culture and Tourism, Jiangsu Provincial Department of Culture and Tourism, Fujian Provincial Department of Culture and Tourism, Sichuan Provincial Department of Culture and Tourism, Huangshan Municipal Bureau of Culture and Tourism, China Air Transport Association, China Association of Travel Services, Trip.com Group, Airbnb, Tuniu.com, Tongcheng Network Technology Co., Ltd, JNE Group, Guilin Tang Dynasty Tours Co.,Ltd, Hunan Tourism Association, Hunan Tourist Hotel Association, CYTS-Linkage Public Relations Consulting Co., Ltd, AITS America International Travel Services Inc, Champion Holiday International Travel Service Co., Ltd, Charm Deer, 8Continents, Fresh Tour, HHtravel, Meituan, Pour Tour, Top View Holiday Travel&Tours, ToursForFun by Webeez, Inc., TengXuan Travel Group, Shanghai Utour International Travel Co., Ltd, U-best Holiday, Travel Leisure PTE. LTD., Bravo World, Hisgo, D-LUX Travel. As well, our sincere thanks go to WTA member Harbin Municipal Bureau of Culture, Radio, TV and Tourism for providing us with the images in this report.

Introduction

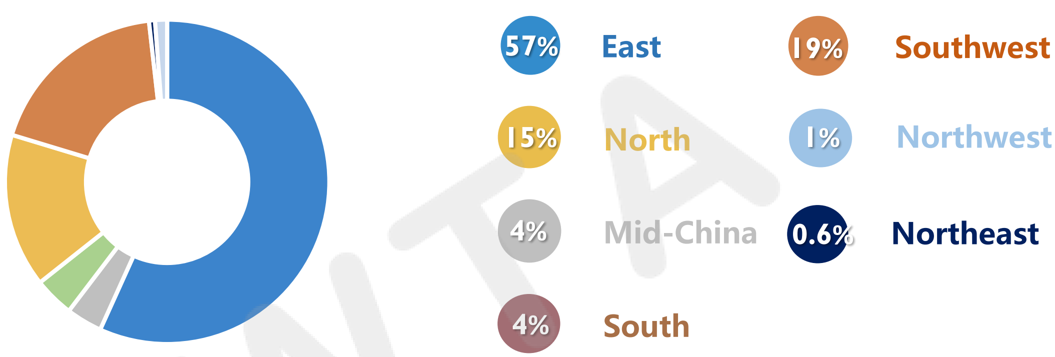
Although there remains a small risk of a recurrence of local COVID-19 cases in China, the epidemic has stabilized and under control since the second half of 2020. The acceptance and embrace of the Chinese government's vaccination program have steered the country's domestic tourism in the right direction, pointing to a recovery and growth. In contrast, the international situation remains fluid even as more people across the world are getting the COVID-19 jab.

A special survey of the epidemic situation that was added in the "2020 H1 China Domestic Tourism Market Sentiment Report," is again included in this sentiment report. This is aimed at making Chinese tourism professionals better understand the impact of the epidemic and empower them to make a reasonable judgment and forecast on the market's performance. Similarly, to better analyze and compare the domestic tourism markets of various regions and cities in China, we use a specific sentiment score model to quantify the respondents' feedback and present it in the form of an index to reflect more accurately their expectations.

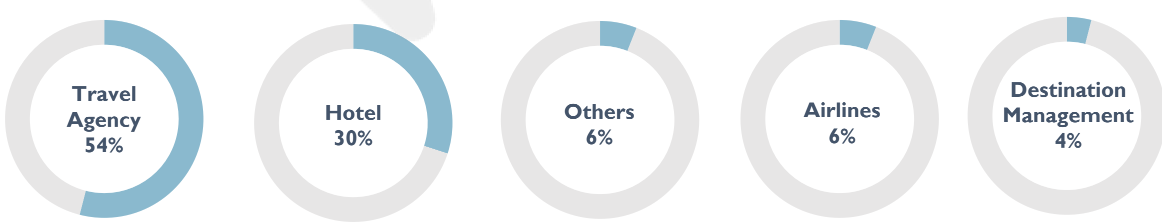
A sentiment score is applied to each question, with scores ranging from negative 150 to positive 150. A negative 150 score indicates a state of absolute pessimism, while a score of zero indicates unchanged expectations. Conversely, a score of positive 150 indicates a highly optimistic sentiment. Respondents were asked to compare the market performance in the second half of 2021 to the actual performance in the second half of 2019. Further, they were asked to identify the factors contributing to the variance and provide their insights into tourism source markets and destination markets.

This is the sixth survey conducted by Horwath HTL and the World Tourism Alliance for the Chinese domestic travel market. This report summarizes our research results based on **502** valid questionnaires from 20 provinces for domestic travel. Questionnaires were received until July 6, 2021. The conclusions are based on respondents' predictions regarding the COVID-19 at the time of the survey.

Sample Analysis by Region. Mainland China



Sample Analysis by Organization Type



Market Sentiment Analysis

Sentiment Score	Period
-30	2021 H2
-39	2021 H1
-85	2020 H2

The domestic tourism sentiment score is trending toward a gradual recovery with the improvement in the number of COVID-19 cases. Although small-scale outbreaks were still recorded in China in the second half of 2020, the overall situation has been stable. Normalization of epidemic prevention and control measures has been integrated into the daily lives of residents and the negative impact of COVID-19 on the tourism industry has gradually dissipated. In the second half of 2021, the comprehensive sentiment score of the domestic tourism market is - 30. Although this remains negative, it is still a record high since the outbreak of the epidemic in 2020, increasing by nearly 80% compared to the same period in 2020.

Although the domestic epidemic situation is significantly under control, a small-scale risk of a recurrence remains. Clearly, the domestic tourism market has to deal with the ongoing impact of COVID-19 mutations and variants. Thankfully, the vaccination efforts by China to expand the national vaccine coverage rate to cover 80% of the population by the end of 2021 is expected to be a game changer that will gradually weaken the impact of the epidemic. In conclusion, the domestic tourism market is heading in the right direction in the second half of 2021, mainly due to the following factors:

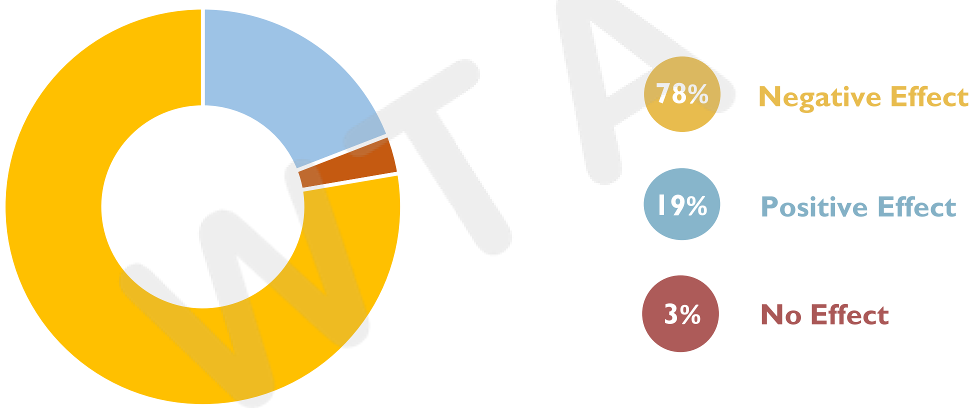
- **Overall Good Domestic Epidemic Situation**
- **Restrictions on International Tourism**
- **Increase of Vaccine Coverage Rate**
- **Support of Tourism Sectors**

The domestic tourism market is on an upward trajectory. Although the International epidemic remains severe and the domestic epidemic moderately regresses from time to time, the outlook is generally good. Negative sentiments held by domestic tourism practitioners are gradually weakening, and the prospect of recovery is optimistically high.

Volga Manor, Harbin, China

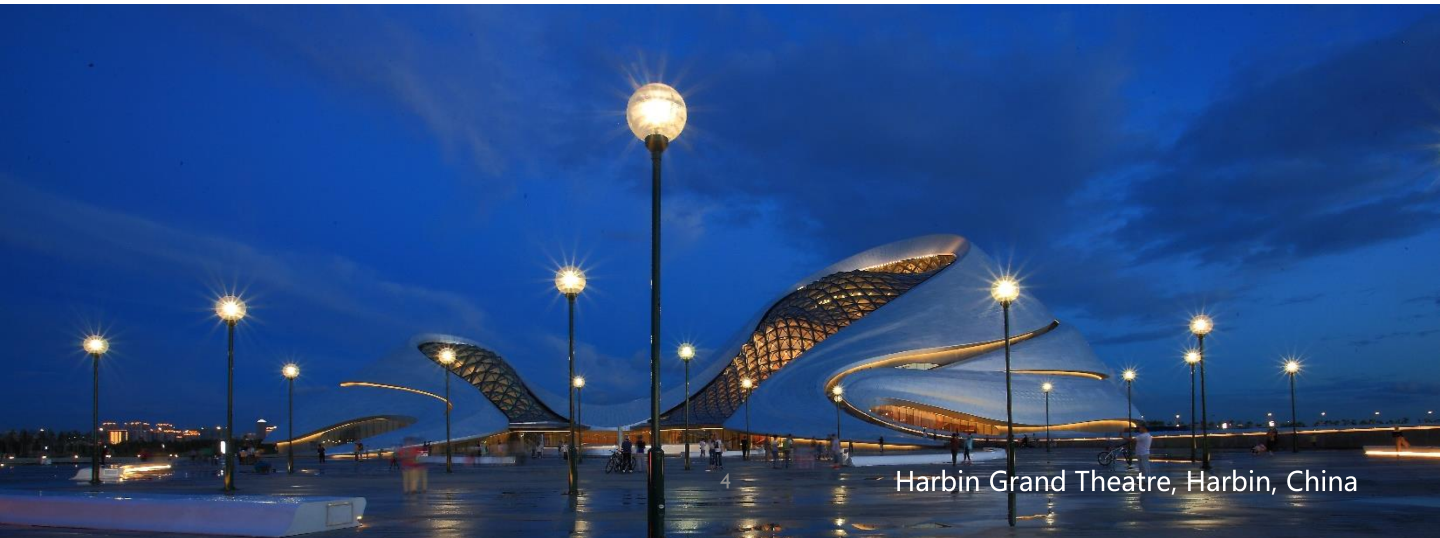
Most respondents have said COVID-19 has had a negative impact on their institutional performance; however, a small number of respondents were fortunate enough to benefit from the epidemic.

Q1. What is the impact of COVID-19 on the performance of your organization?



A majority of respondents have said that COVID-19 has had a negative effect on them. However, 19% of the respondents have conveyed the epidemic has had a positive impact on them. In the early days of the COVID-19 outbreak when the tourism industry pressed the pause button, people were thrown into confusion and helplessness. At the time, everyone had hoped the epidemic would soon end and the industry could start its recovery efforts. As the impact of the epidemic lingers, the virus control and prevention measures have normalized. Tourism practitioners have gradually shifted from hoping for a change in the external environment to actively seeking for a change in established business models to survive and thrive.

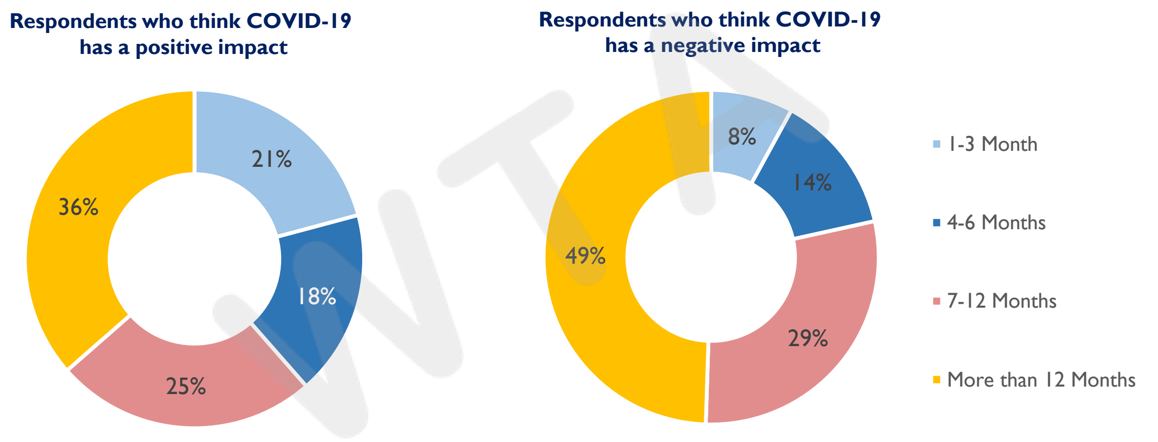
In the second half of 2020, Sanya's tourism market unexpectedly flourished. High-end consumers who used to travel abroad turned to domestic tourism destinations, bringing a glimmer of light to the domestic tourism market. However, these high-end consumers are used to international service standards. Thus, their return has also placed higher requirements for domestic tourism service institutions. Most of the institutions that can flexibly adjust their product structure and provide customized and personalized services have emerged the winners in this new market dynamic. In addition to high-end vacation destinations, there has also been a small-scale breakthrough in the tourism markets of peripheral cities. Self-driving tourism, rural ecological leisure tourism and nimble organizations that can adapt to the latest market trends, focus on market demand and value product quality and service are ushering the springtime of a post-pandemic era.



Harbin Grand Theatre, Harbin, China

Whether holding a positive or negative attitude, most of the respondents expect the impact of the epidemic on the performance of institutions to last for more than half a year

Q2 & Q4. **Based on the current situation, in regard to the Chinese domestic tourism market performances, how long do you expect the impact of this outbreak to last since July 2021?**

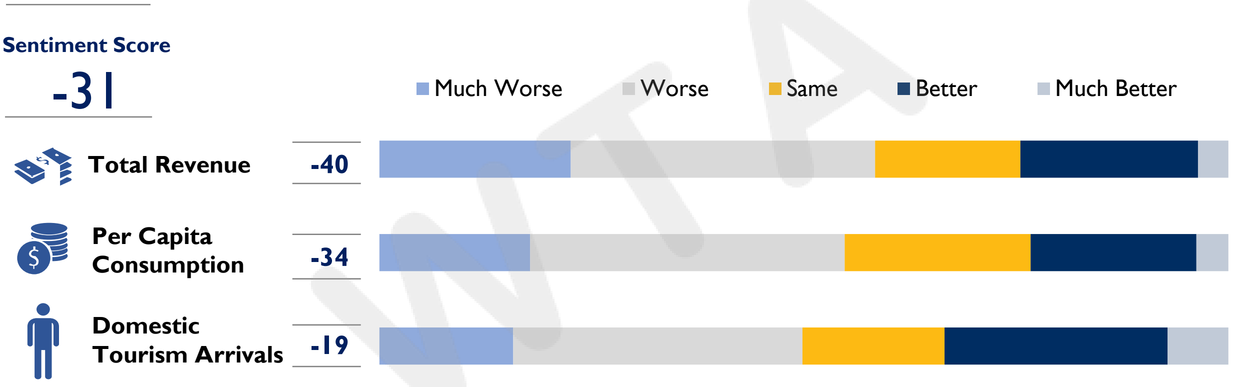


As of press time, the epidemic situation has lasted for one and a half years. Although it is effectively controlled in China, the international situation remains fluid and uncertain. Thus, most tourism practitioners have extended their forecast for the duration of the COVID-19 epidemic. More than 70% of the respondents believe the performance of their institution would be affected by the epidemic for more than 7 months, nearly 40% higher than that of the same period in 2020.

We find that respondents with different attitude towards the epidemic have also a different opinion on the duration of the epidemic. A vast majority of respondents who thought the epidemic had negative impact on their institutional performance said they would be negatively impacted for more than 7 months. Only 22% of them think the impact will not last more than half a year. In contrast, 39% of the respondents who thought the epidemic has had a positive impact on their institutions believe the impact will not last more than half a year. More than 50% of these respondents have said the impact will last for no more than 3 months. Such difference can be explained by their varying perspectives. For respondents who hold a negative attitude towards the impact of the epidemic, the epidemic is a macro influencing factor with strong uncontrollability, leading them to believe the negative impact will last for a long time. However, for respondents with a positive attitude, the epidemic is an excellent chance for transformation. Such opportunity is believed to be fleeting and will have no lasting impact. On the whole, most respondents agree the epidemic will not disappear in the short term, and that it will have a medium to long-term impact on the performance of their institutions.

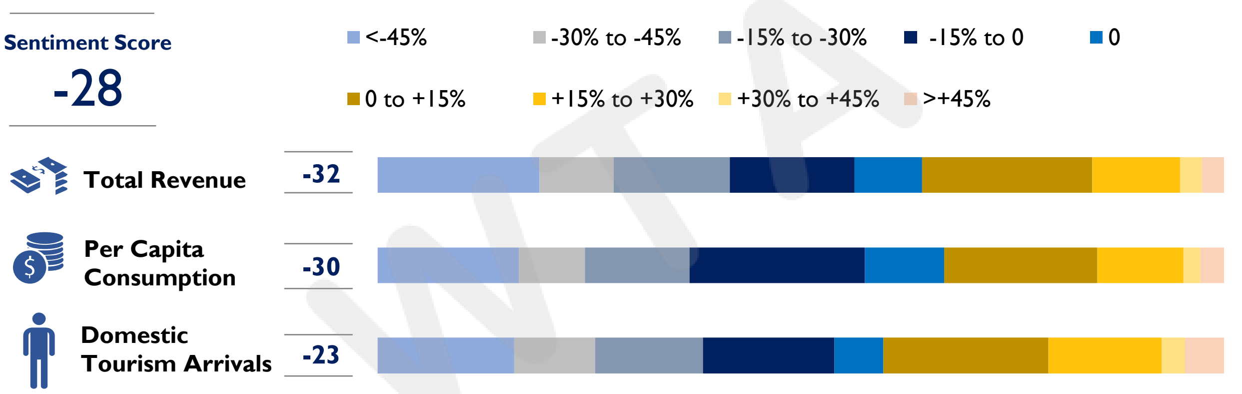
The negative emotions are further alleviated, and the respondents are strongly confident in the performance of their own organizations. Though with limited quantity, domestic tourism consumptions have the best chance of recovery.

Q5. Compared to 2019 H2, what is your assessment of the overall domestic tourism market for the second half of 2021?



In 2021, the domestic epidemic is essentially under control. The coverage of national vaccine has been increasing continuously, and the sentiment score of domestic tourism market has been steadily rising. Nevertheless, the shadow of COVID-19 has not dissipated completely, and respondents maintain a cautiously pessimistic attitude towards the overall performance of the domestic tourism market in the second half of 2021. Similar to the previous studies, domestic tourism arrivals are considered to have the best potential for recovery as they are the beneficiary from the backflow of the outbound tourism market. However, the overall economic environment is affected by multiple factors, leading to the low expectation of future income, consumption intention and the contraction of purchasing power which are aggravating the predicament of insufficient consumer demand. Therefore, respondents generally expect the per capita consumption recovery and the total income indicators to be weak.

Q6. Compare to 2019 H2, what is your assessment of the domestic market performance of your institution for the second half of 2021?



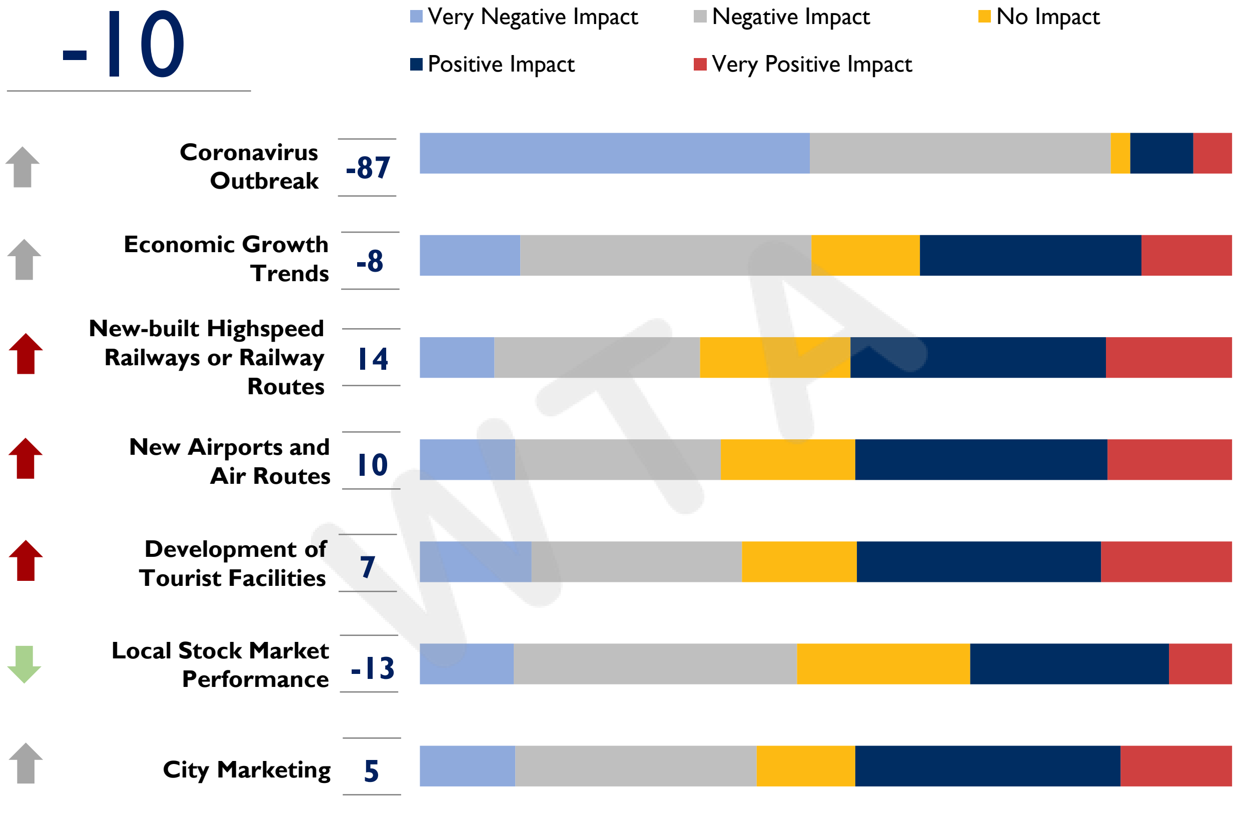
The institutional sentiment score slightly increased by 5 points compared to the first half of the year, achieving a significant increase compared to the same period last year. Among them, the domestic tourism arrivals are expected to be the fastest recovery indicator in the second half of the year. Compared with the performance expectation of the overall market, the respondents have expressed stronger confidence in the recovery of their own institutional performance, indicating the recovery of the domestic tourism market has the opportunity to be better than the overall market expectation. Since the market is the sum total of small individuals, market feedback tends to lag behind individual changes. Expectations by the respondents for their own institutional performance convey a more accurate reflection of the latest trends. In this survey, 33% of respondents expect all 3 performance indicators of their own institutions in the second half of 2021 to achieve a positive growth compared to the same period in 2019. The dawn of domestic tourism recovery has arrived, with the efforts of individual institutions during the crisis playing a vital role.

The improvement of tourism infrastructure and the strengthening of city marketing are considered to be positive factors affecting the performance recovery of domestic tourism market.

Q7. How do you expect each factor below to influence the Chinese domestic tourism market in the second half of 2021?

Sentiment Score

-10



Note: Arrows indicate a change in regional sentiment score in the second half of 2021 compared to the last survey. The red or green arrow highlights the indicators with a significant change.

Continuing the recovery trend in the last round of survey, the sentiment score of factors other than the performance of China's stock market has rebounded in the second half of 2021. **The sentiment score of the 4 indicators: newly-built high-speed railways or railways routes, new airport and air routes, tourism facility development and city marketing are positive.**

The COVID-19 outbreak is undoubtedly a major obstacle to tourism market recovery. Its negative impact is also very far-reaching. In this survey, the sentiment score for the coronavirus outbreak is still at the low -87. **However, the epidemic has also become a catalyst for the transformation and upgrading of the domestic tourism market.** Expectations for domestic economic development and the future trend of local stocks are still uncertain. Respondents are generally worried they will have a negative impact on domestic tourism. **Most respondents agree the continuous improvement of airports, high-speed railways and tourism facilities, as well as urban marketing activities carried out by cities will play a positive role in driving the domestic tourism market recovery.** Strengthening these factors will undoubtedly lay a solid foundation for the long-term development of domestic tourism.

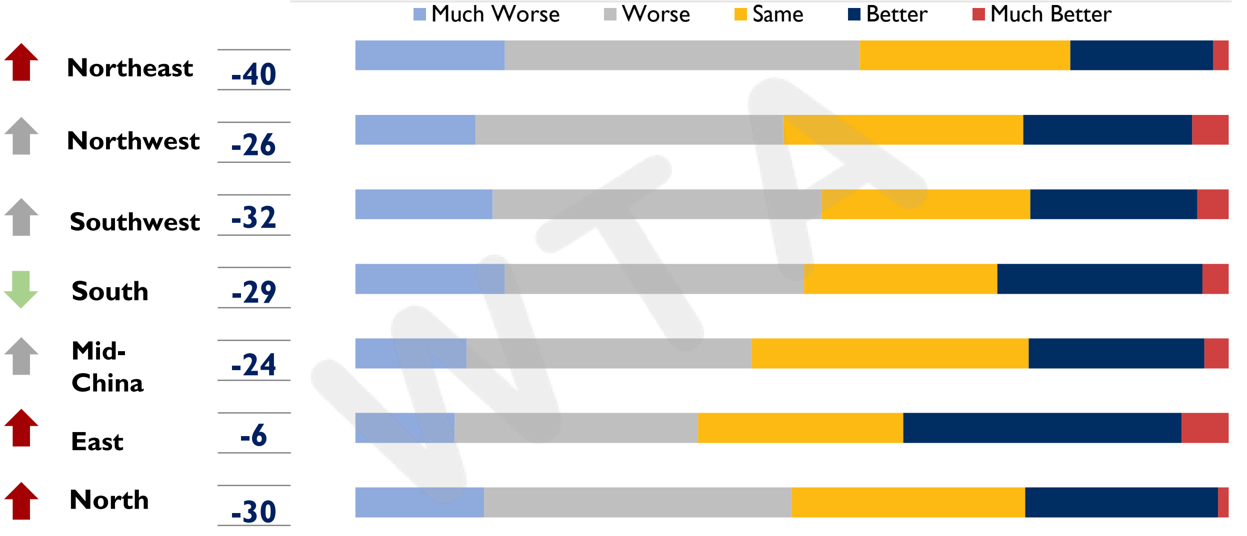
Except for South China, the expectation for all domestic tourism generating regions has improved. As impacted by the local epidemic, the respondents' expectations for the tourist market in South China are relatively negative.

Q8. **Compared to 2019 H2, what is the performance expectation for each domestic tourism generating region below in the second half of 2020?**

Sentiment Score

-27

Although the impact of the epidemic has not disappeared, there is a boost in confidence among the respondents. The sentiment score of all regions has increased significantly compared to the last survey, with the average sentiment score increasing from - 47 to – 27 within a year.



Note: Arrows indicate a change in regional sentiment score in the second half of 2021 compared with the last survey. A red or green arrow highlights the indicators with a significant change.

Northeast market sits at the bottom of all regions in the second half of 2021, even though its sentiment score has significantly improved compared to the first half of 2021. Travel in Northeast China has been subjected to many restrictions since the epidemic. However, with the successful COVID-19 mitigation measures, the tourism market is expected to pick up in the second half of 2021 due to pent-up demand.

South market is affected by the epidemic at the time of our survey, resulting in a slight drop of its sentiment score. The Great Bay Area is the most rapidly developing region in China. People living in this area have strong consumption capability and travel propensity. However, as this survey coincided with the imported cases of the Delta variant in Guangzhou, there is an expected low confidence in the South China market. Nonetheless, South China has always been one of the main domestic tourist sources. Its recovery is expected as soon as the negative impact of the epidemic is eliminated.

East market tops all regions in the second half of 2021. Thanks to the Yangtze River Delta, the most dynamic urban agglomeration in China, its large population and well-developed private economy, the region ranks first. Residents in this area have relatively high consumption capacity and travel propensity. The suburban Yangtze River Delta is strongly resilient and offers various tourism products with broad appeal. The frequency of tours around the city, self-driving and intra-province travel are expected to improve significantly.

Others markets show an increase in sentiment score. However, their score is lower than that of East China. Mid-China, Northwest and the Southwest are located inland, lagging behind eastern coastal areas in terms of economic development. Residents in these regions also have a relatively low consumption ability. Therefore, respondents are relatively cautious in their expectation for these three regions as domestic tourism generating markets.

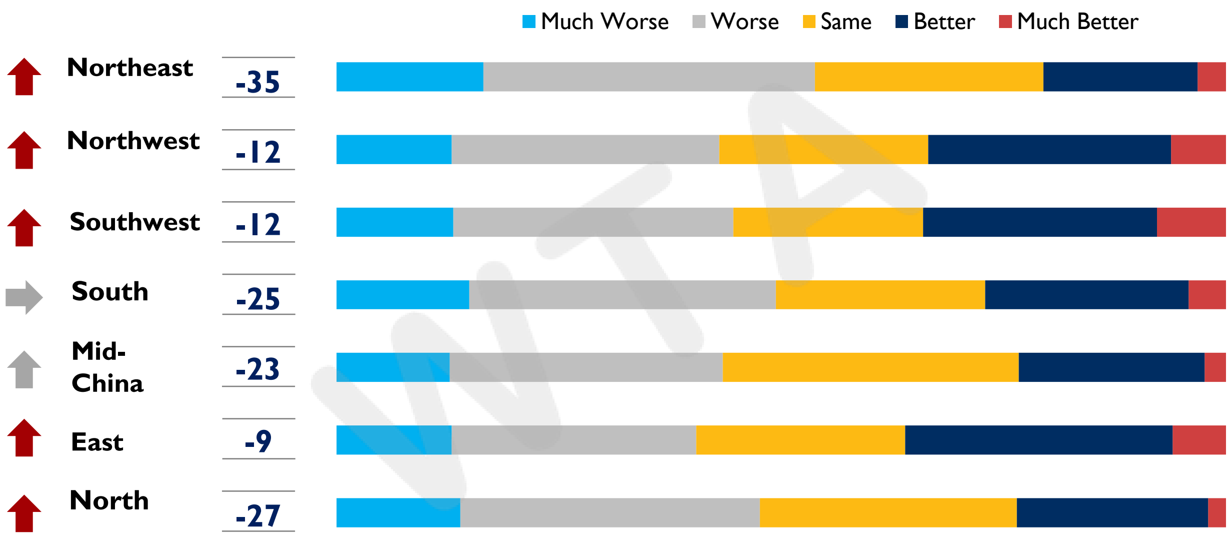
Except for South China, the sentiment score of all regions as domestic tourist destinations has improved, with East China leading the country, followed by southwest and northwest regions.

Q9. Compared to 2019 H2, what is the performance expectation for each domestic tourism destination below in the second half of 2021?

Sentiment Score

-20

The average sentiment score has rebounded significantly, increasing from - 46 to - 20 compared with the same period last year. Respondents' confidence in different regions as domestic tourism destinations shows obvious differences.



Note: the arrow indicates the change of regional sentiment score in the second half of 2021 compared with the last survey; Among them, the red arrow highlights the indicators with significant change.

East market ranks first among all 7 regions. The region is rich in tourism, leisure and vacation products and high development maturity. As well, it has the geographical advantage of being adjacent to the Yangtze River Delta urban agglomeration, the largest domestic tourism generating region in China. It is one of the preferred destinations for outings. Respondents believe it will become the domestic tourism destination to recover the fastest in the second half of 2021.

Southwest & Northwest markets rank second among all 7 regions. With unique tourism resources and a relatively mature tourism development, Southwest China has always been one of the most popular long-distance tourism destinations in the country. In recent years, the northwest region has also developed a number of special niche-targeted tourism routes that appeal to a new generation of consumers who are passionate in their pursuit of fresh adventures and explorations. Thus, before the opening of the country to international tourism arrivals, respondents are generally optimistic on these two long-distance destinations.

Northeast & North markets' sentiment score, although they have increased, remains at the bottom. Hobbled by low tourism development and few mature tourism routes, the potential of these two regions to be a tourism destination is not very promising. The stringent preventive and control measures these regions had implemented during the epidemic have increased the confidence among tourism practitioners. As the epidemic wanes and its effects abate, respondents are still pessimistic about these two regions.

South market is the only region with an unchanged sentiment score due to the regional epidemic. As the market with the highest destination sentiment score in the last round of survey, South China has been affected by the recurrence of a local epidemic in Guangzhou and Shenzhen in this round of survey. Tourism recovery in the region, as it is elsewhere, depends largely on how it manages and controls outbreaks in COVID-19 cases.

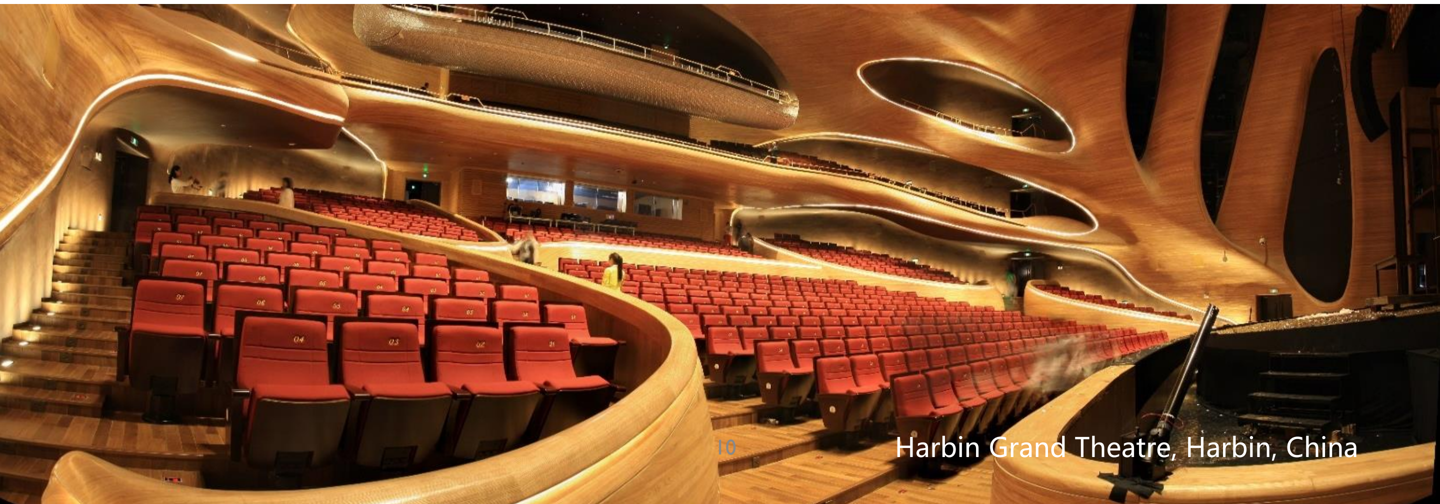
Conclusion

Since the second half of 2020, the COVID-19 epidemic situation in China has already stabilized for nearly a year. Although there are occasional regional small-scale outbreaks, **the impact of COVID-19 has been steadily decreasing as the acceptance of the government's vaccination program has increased. Confidence in the domestic tourism market has been gradually restored.** However, dark COVID-19 clouds continue to loom as variants of the virus have caused worrisome increases in transmission cases in other parts of the world. While the world continues its fight against COVID-19 and its mutations with a comprehensive vaccination programs, several countries continue to impose travel restrictions. In fact, China's domestic tourism market is still subject to many restrictions designed to keep at bay the hard-won battle against the novel coronavirus. Consequently, although we see an upward trend in the overall sentiment score, there still exists a big gap from the pre-pandemic level.

On the impact of COVID-19 on the performance of tourism institutions, nearly 80% of respondents said their institutional performance have been negatively affected, while nearly 20% of respondents believe the epidemic has had a positive impact. More than 70% of the respondents believe the performance of institutions will be affected by the epidemic in the medium and long term (more than 7 months). However, those with a positive attitude towards the impact of the epidemic believe the window of opportunity will be shorter. From the perspective of performance indicators, respondents expect the domestic tourism recovery to be better than the per capita consumption and total income recovery.

As well, they have stronger confidence in the performance of their own institutions than the overall market. COVID-19, its mutations, variants and recurrence remain the biggest threat to domestic tourism recovery. With the small-scale local epidemic outbreak in Guangzhou, the sentiment score of South China decreased slightly, while that of other regions rose slightly. Except for South China, the sentiment score of other regions has increased. However, it is worth noting that getting to the 2019 level is still very much a challenge. According to the fluctuation of the sentiment score of different regions in China since 2020, **it is not difficult to see the tourism recovery in various regions as a reflection of overall situation in the country.**

On the whole, **the domestic tourism market recovery is trending positively,** while outside of China, a pessimistic outlook prevails as several countries continue to struggle with a surge in COVID-19 cases due to the Delta variant. **There's little hope for the recovery of inbound and outbound tourism, as the tourism "internal circulation" mode is expected to continue for the foreseeable future.** In this round of research, we found some respondents hold a positive view of the impact of the COVID-19 epidemic. The key to success for them lie in the early and agile adaptation to changes and the abandonment and skillful modification of traditional experiences to seize the opportunities in the midst of the unprecedented difficulties**. Reading the pulse of the travelers accurately, understanding the changed tourism landscape and retooling their resources to survive and thrive under the New Normal have led them to a place of confidence and strength. The epidemic has brought on structural adjustment, remodeling and upgrading of the tourism industry.** Looking into the future, we believe domestic tourism industry will embark on a higher quality and healthier development road once we overcome the challenges of our time.



Harbin Grand Theatre, Harbin, China

Appendix

About World Tourism Alliance

On September 12, 2017, the World Tourism Alliance (WTA)—the world's global, comprehensive, non-government, nonprofit tourism organization founded in China—was inaugurated in Chengdu, Sichuan Province, China.

Upholding the vision of "Better Tourism, Better World, Better Life" as its ultimate goal, WTA is committed to promoting peace, development and poverty alleviation through tourism, and to driving global tourism exchanges and cooperation at non-governmental level.

Currently, WTA has 211 members from 40 countries and regions. The WTA membership falls mainly into national or regional tourism associations, influential tourism or tourism-related enterprises, tourist cities, academia, media and individuals. Positioning itself as a service-orientated international organization that caters to the needs of its members across the world, WTA aims at setting up multiple platforms for cooperation dialogue and networking, practical and authoritative information, media for resource-sharing and communication for integrative development.

The WTA headquarters and Secretariat are located in China.

About Horwath HTL

Founded in 1915, Crowe Horwath International is an integrated professional organization of accounting and management consulting firm. Horwath also boasts the world's largest and oldest professional hotel and tourism consultancy practice. From its inception, Horwath paved the way by creating the "Uniform Systems of Accounts for Hotels", a system so successful it has become the standard in hospitality accounting around the world. Today, Horwath is a name recognized as the pre-eminent expert in the hotel and tourism sectors.

Established in Asia in 1987, Horwath HTL is the management consulting division of Crowe Horwath International that specializes in hotel, leisure and tourism industries. Our core business cover hotel investment, tourism destination investment, asset management, and strategic research. Horwath HTL now operates offices in several key cities throughout the Asia Pacific region. Our offices work closely together to ensure that our clients receive a multi-skilled international perspective for their projects. Horwath HTL is also supported by the Horwath database, the largest and most complete hotel and tourism related database in the world.

Throughout the Asia Pacific region, Horwath HTL has consulted on over 4,000 hotel and tourism related projects throughout the region (including more than 2,000 projects in China) for clients ranging from individually held businesses to the world's most prominent operators, developers, lenders, investors and industrial corporations.

No other firm is better positioned to meet today's and tomorrow's industry challenges than Horwath HTL - experts in the hotel, tourism and leisure industries.

For more information, please get access to www.horwathhtl-cn.com and www.chatchina.com.cn, as well as follow the official Wechat account of CHAT by Horwath HTL.

Disclaimer

This report is prepared solely for general information purposes. The information on which it has been based has been derived from sources we believe to be reliable but have not independently verified. We do not guarantee the accuracy or completeness of such information. All opinions and estimates included in this report constitute our judgment as of the date of publication. They are subject to change without prior notice. Transactions should not be entered into in reliance upon the information, opinions and estimates set out herein. We accept no responsibility to any person in any way in respect of any action taken or any failure to act in reliance upon the information contained herein.

Any data presented from this publication should attribute the information to the "2021 H2 China Domestic Tourism Market Sentiment Report, World Tourism Alliance (WTA) and Horwath HTL".

Saint Sophia Cathedral, Harbin, China