

Travel, Logistics & Transport Infrastructure Practice

What can other countries learn from China's travel recovery path?

In May, we asked how much the world could learn from China's postpandemic travel recovery. Now, we explore where lessons from the latest data from China may be relevant for other countries.

by Guang Chen, Will Enger, Steve Saxon, and Jackey Yu



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While the path of the travel and tourism recovery will vary by market, China's distinct experience may hold lessons for other markets—particularly those where, as in China, COVID-19 transmission rates are low and traveler confidence has recovered quickly.

In May 2020, we conducted a survey of Chinese travelers¹; based on these results, we predicted that the domestic travel market would recover quickly. A follow-up survey in August further explored the key emerging travel trends, how traveler behavior and sentiment has evolved, and the implications for global travel industry players. Using the same methodology, we surveyed respondents from eight Chinese cities,² all of whom had traveled domestically or overseas in the past year. We

compared data collected from August 22 to August 28, 2020, with the previous two rounds of surveys.

In this article, we update our survey findings and offer insights on what lessons other markets, individual global travel and tourism companies, and the industry as a whole might take from China's recovery.

What are we seeing in China?

Demand for domestic travel is approaching prepandemic levels. Hotel-occupancy rates and numbers of domestic flight passengers bounced back to around 90 percent of 2019 level by the end of August, and railway travel also shows a strong recovery (Exhibit 1).

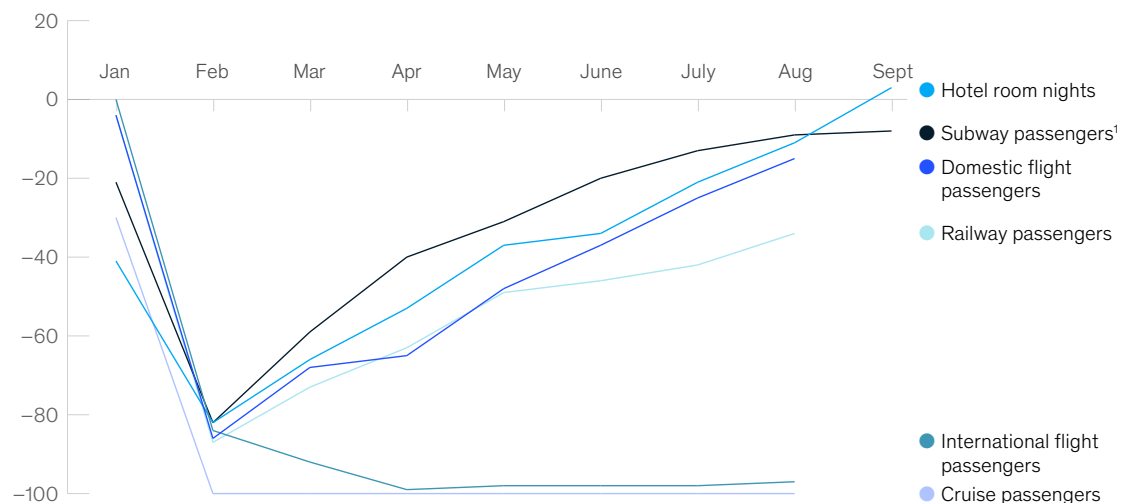
¹ Will Enger, Steve Saxon, Peimin Suo, and Jackey Yu, "The way back: What the world can learn from China's travel restart after COVID-19," May 11, 2020, McKinsey.com.

² We surveyed approximated 2,000 respondents from Beijing, Chengdu, Guangzhou, Shanghai, Shenzhen, Xi'an, Xiamen, and Wuhan.

Exhibit 1

The domestic tourism market in China is recovering rapidly, while international tourism is still dormant.

Tourism recovery in China, year-over-year change from 2019 to 2020, %

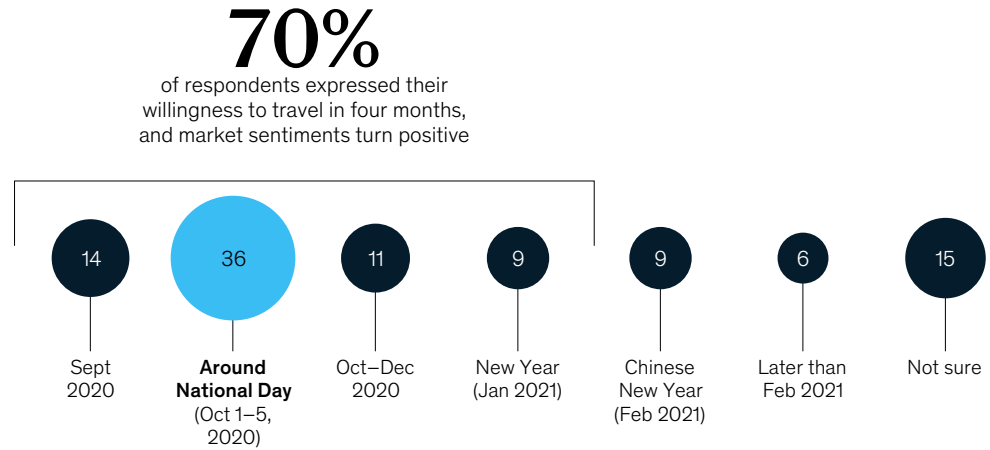


¹Based on Chengdu, Guangzhou, and Shanghai.
Source: Ministry of Transport; STR; Wind Investment Terminal; monthly reports of airlines

Exhibit 2

Most are willing to travel starting around National Day.

“When do you expect your next leisure trip?,” % of respondents

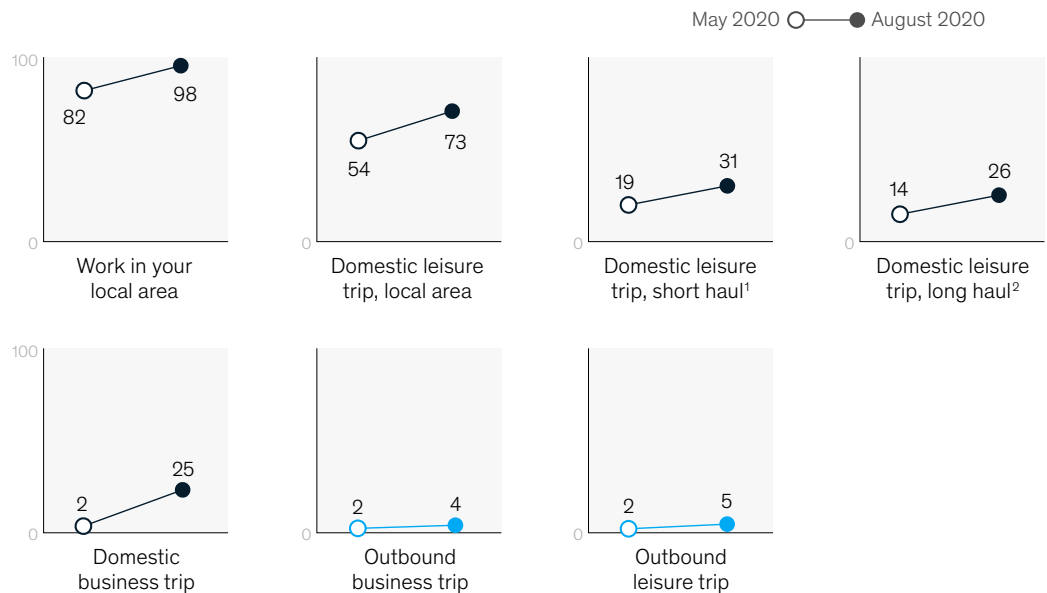


Source: Travel Sentiment Survey of Chinese tourists, August 2020 (n = 1,532)

Exhibit 3

Domestic travel sees significant increase while outbound travel is still paused.

“In the past two weeks, did you go out for the following activities?,” % of respondents (weighted)



¹One to two nights, or fewer than three hours' drive.

²Three or more nights.

Source: Travel Sentiment Survey of Chinese tourists, May 2020 (n = 1,569), August 2020 (n = 1,532)

People of all ages are willing to travel again. The proportion of China Travel Sentiment Survey respondents that had travel plans in the four months following the survey rose from 15 percent in May to 70 percent in August. About half of these respondents expected to take their next leisure trip around the National Day holiday at the start of October (Exhibit 2).

Looking at age demographics, 75 percent of the young (those aged 25 to 34 years), 77 percent of the elderly (aged 55 to 64 years), and 78 percent of retirees expressed a particularly strong willingness to travel.

All types of domestic travel have bounced back. Since May, all types of domestic travel—including local leisure trips, domestic short haul and long haul,

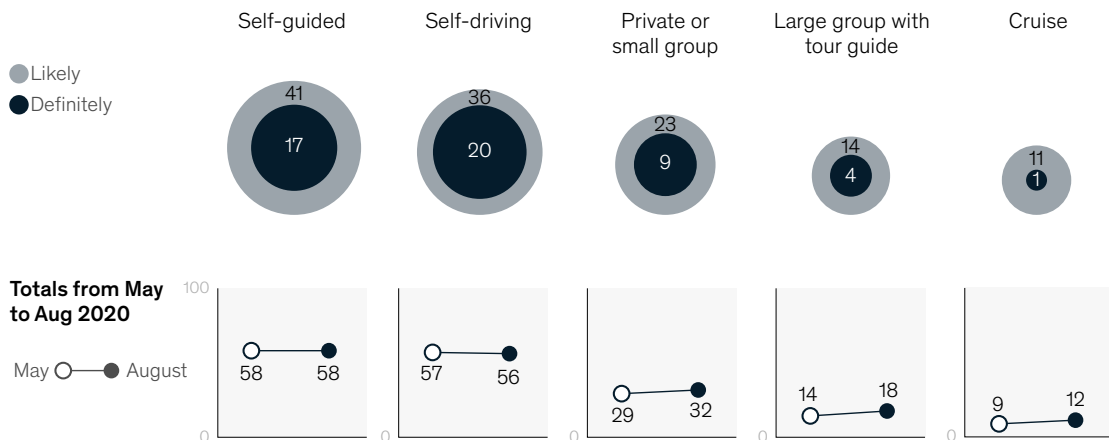
and domestic business travel—have experienced a significant resurgence (Exhibit 3). The proportion of respondents who had taken local urban leisure trips in the preceding two weeks increased from 54 percent in May to 73 percent in August, for example. The percentage of respondents who took domestic short-distance trips also increased from 19 percent to 31 percent over the same period, and those who had taken a domestic business trip increased from 2 percent to 25 percent.

The preferred format of leisure trips has seen little shift. As in May, most survey respondents would likely choose a self-guided tour or road trip for their next leisure trip (Exhibit 4). However, the proportion of respondents who would consider group tours or a cruise for their next trip has increased modestly: 32 percent of August respondents would “definitely”

Exhibit 4

Self-guided or self-driving tours are still the most popular types of travel in August, as they were in May.

“How likely would you choose the following options for your next leisure trip?” % of respondents who rated 4 or higher on a scale of 1–5



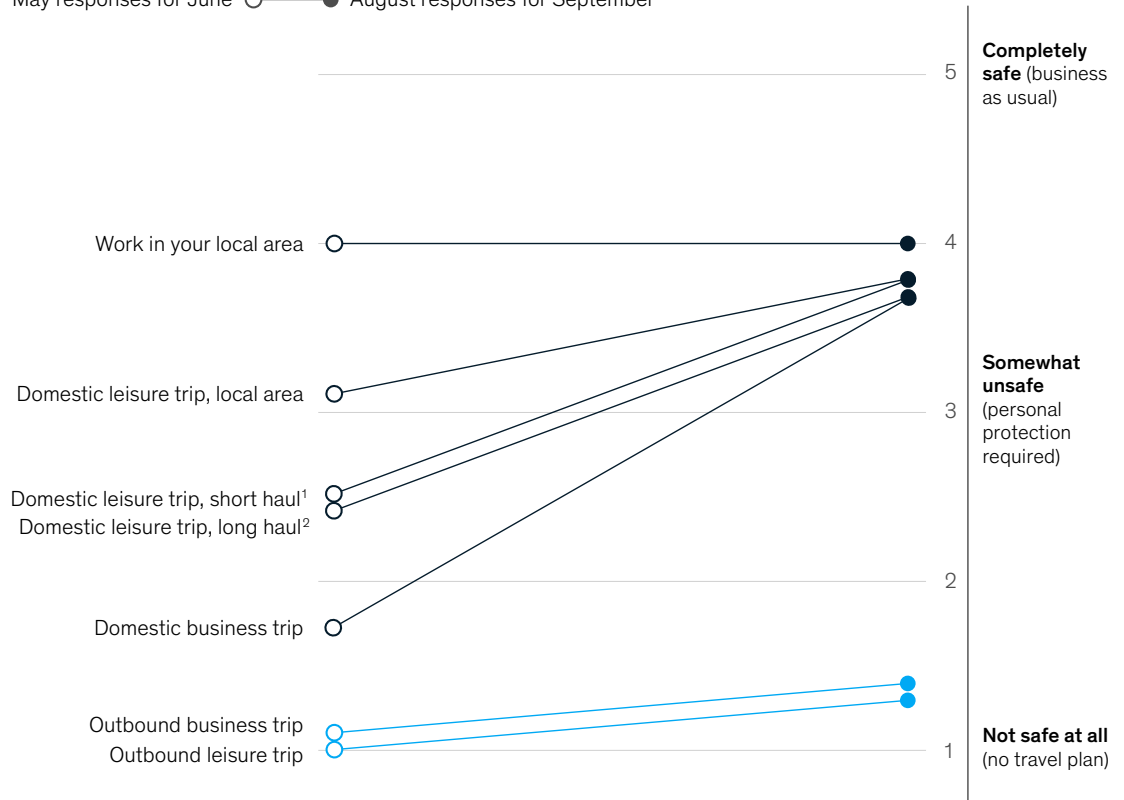
Source: Travel Sentiment Survey of Chinese tourists, May 2020 (n = 1,569), August 2020 (n = 1,532)

Exhibit 5

Confidence in domestic travel is nearing ‘completely safe,’ while that in outbound travel remains at ‘unsafe.’

“How safe do you feel about the following types of travel in the coming one month? Please rate on a 1–5 scale,” average safety-assessment score by respondents (weighted)

May responses for June ○ —● August responses for September



¹One to two nights, or fewer than three hours' drive.

²Three or more nights.

Source: Travel Sentiment Survey of Chinese tourists, May 2020 (n = 1,569), August 2020 (n = 1,532)

or “likely” choose a small group tour for their next leisure trip, for example, compared with 29 percent in May.

Confidence in domestic-travel safety continues to rise—but has not yet reached precrisis levels.

Consumers were asked to rank their confidence in a number of different forms of travel on a scale of one to five, where one represented “not safe at all” and five represented “completely safe.” Safety

perceptions have increased significantly since May for domestic leisure trips, and—should this trend continue—would rapidly approach completely safe levels (Exhibit 5). Outbound trips, by contrast, are still considered unsafe.

Restrictive measures are being lifted, though some rules remain. The number of local cases has hovered around zero in most parts of China, leading these low-risk areas to lift many restrictions, such as

physical-distancing measures and mandatory nucleic acid testing, for traveling in and out of certain areas. Within the dynamically defined safe zones, traveling and daily activities are almost back to normal, though some precautions—such as health QR-code monitoring, travel tracking, and the mandatory mask wearing on public transport—do remain in place. In addition, institutions such as schools continue to implement their own travel restrictions.

Some types of travel, especially high-end travel, are booming. Borders remain closed for outbound travels, which means that domestic high-end leisure trips are booming. Occupancy rates at luxury and high-end hotels were back at 85 percent of 2019 figures by the end of August,³ representing a significantly faster recovery rate than that seen by midrange and economy hotels.⁴ In September, the average price for five-star hotels on leading online-travel-agency (OTA) platforms was up 10 to 15 percent year over year for trips over the National Day holiday in October. Furthermore, leisure travel to destinations in Western China and

Hainan Province—which boast beautiful scenery, outdoor activities, and beach resorts—have seen significant growth.

Price cuts were initially used to stimulate demand.

Many travel and tourism businesses offered discounts in the immediate aftermath of the crisis in order to compete for business and stimulate demand. Some airlines, such as China Eastern, offered unlimited-flight passes, and airfares fell by a national average of 40 percent from January to June.

International travel remains off the table. With strict restrictions on the number of weekly international flights per week and mandatory centralized quarantine for international arrivals, international travel is still mostly limited to essential trips. Yet latent demand for trips abroad appears to be significant, however, with the proportion of respondents who expect to go overseas for their next leisure trip rising from 25 percent in May to 31 percent in August (Exhibit 6).

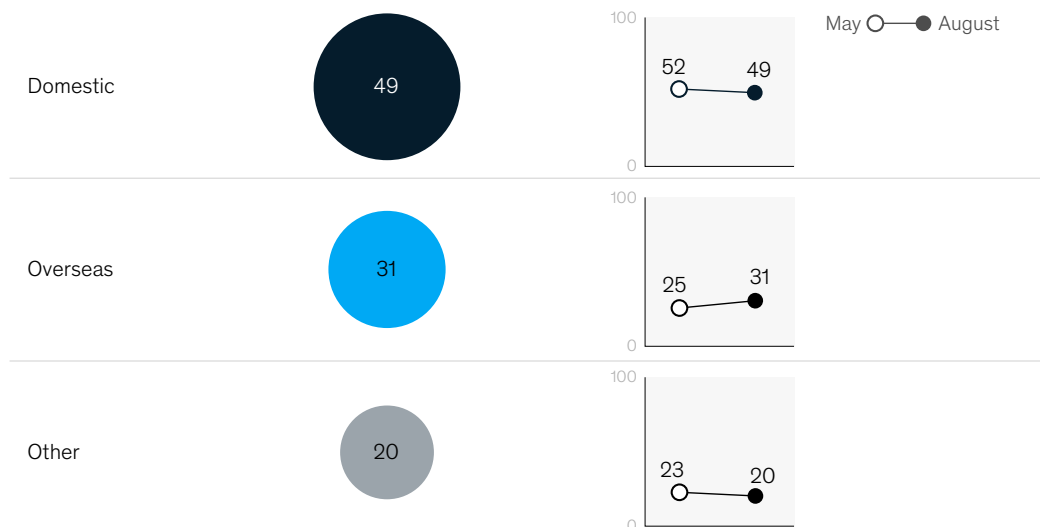
³Will Enger, Steve Saxon, Peimin Suo, and Jackey Yu, "The way back: What the world can learn from China's travel restart after COVID-19," May 11, 2020, McKinsey.com.

⁴Seth Borko, Wouter Geerts, and Haixia Wang, *The travel industry turned upside down: Insights, analysis, and actions for travel executives*, September 22, 2020, McKinsey.com.

Exhibit 6

The attractiveness of domestic attractions sees a slight dip, while that of overseas countries increases.

"Where do you expect to go first for your next leisure trip?," % of respondents (weighted)



Source: Travel Sentiment Survey of Chinese tourists, May 2020 (n = 1,569), August 2020 (n = 1,532)

The recovery of international travel is likely to be gradual. Keeping COVID-19 contraction rates close to zero is a high priority of the Chinese government; rising rates of local contraction in any region would lead to a risk-level reassessment in a manner that would significantly disrupt daily life.

As a result, China has not yet established any international travel bubbles. Mainland China has, however, begun the process of opening its border to the special administrative region of Macau, which is currently classified as low risk. The border between Macau and Guangdong Province opened in August, and tourists from other low-risk regions on the mainland were able to apply for travel permits starting in September. These travelers will be spared mandatory quarantine, though they will still need a nucleic-acid-test certificate and a health QR code. This gradual process could serve as a model for further easing cross-border travel restrictions in the near future. Preconditions for additional border openings are likely to include mutual formal recognition of low-risk status, transparency around health data and COVID-19 monitoring, and consensus around protocols to manage the risk of further epidemics.

What implications does the China's experience have for the rest of the world?

In order to understand which trends and strategies may apply to other countries, and which may not, it is useful to first distinguish between two broad categories of recovery strategy. Some countries and regions appear to be pursuing a “zero case first” strategy, while others appear to be taking an approach that we refer to as “balance and manage.”

The zero-case-first strategy is associated with markets where COVID-19 contraction rates are low and—as a result—traveler confidence level is relatively high. Various types of travel activities (for example, hotels stays and air travel for leisure and business trips) could therefore show a strong domestic recovery.

The focus of the travel and tourism industry in zero-case-first markets may be to accelerate demand recovery and explore more active revenue-management strategies. International travel will likely recover more slowly and be contingent on travel bubbles or corridors forming. China's recovery experience, with its focus on accelerating the return to normalcy for domestic tourism activities, will be of direct relevance for these markets.

The balance-and-manage strategy is associated with markets where the contraction rate of COVID-19—and the resulting level of anxiety around travel—tend to be higher. For example, contraction rates in the United States remained high in May, when 49 percent of survey respondents said they were “extremely anxious” about flying. Travel in balance-and-manage markets tends to be limited to essential trips, which means the rate of recovery is low, and key metrics (such as hotel occupancy and flight bookings) still show a large year-over-year performance gap.

The primary focus of balance-and-manage markets could be to rebuild confidence through the implementation of health and safety measures. Opening international travel to other countries with similar strategies and risk levels and allowing economic activity to resume may be possible earlier than for markets adopting the zero-case-first strategy. Lessons from China may be less directly relevant in these balance-and-manage markets, though looking at Chinese consumer-behavior patterns may be valuable in predicting the general shape of the recovery once travel confidence is restored.

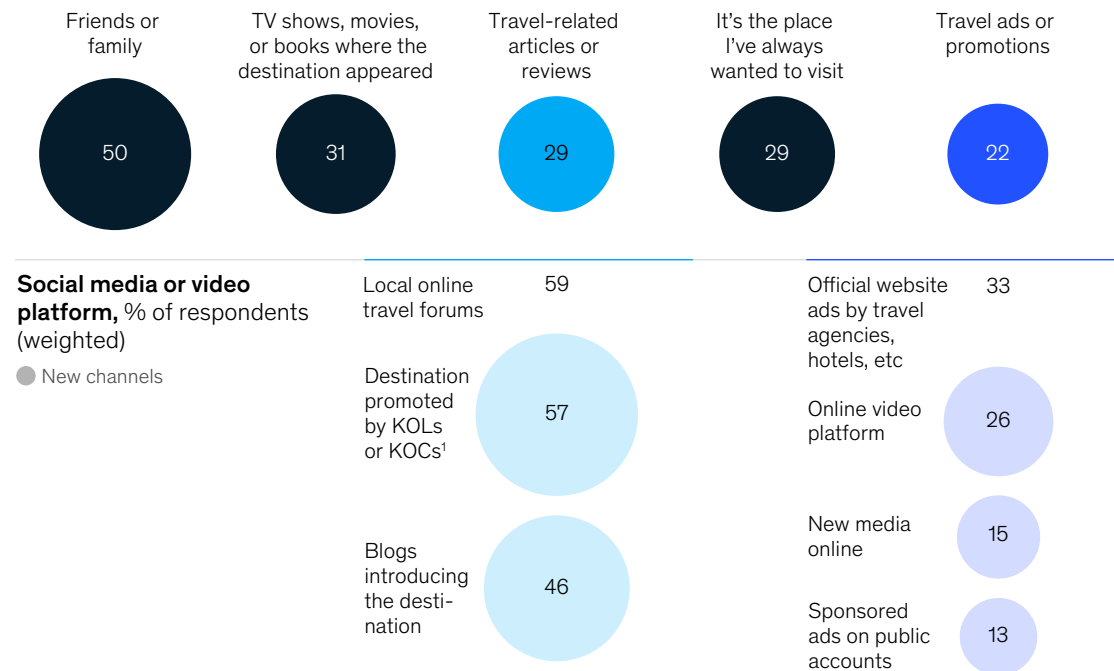
Lessons for companies operating in a zero-case-first market

Companies operating in markets with very low transmission rates may focus on rebuilding domestic demand, finding new channels, or exploring opportunities for travel bubbles.

Exhibit 7

Major sources of information include local online travel agents, traditional travel agencies, and friends and family members.

“Where did you get the inspiration for the destination of your latest trip?” top 5 sources of inspiration (% of respondents, weighted)



Source: Travel Sentiment Survey of Chinese tourists, August 2020 (n = 1,532)

Rebuild demand, then enhance value

Rebuilding demand and propelling volume (such as through discounts and presales) are key during the early stages of recovery. As demand grows and confidence increases, indicators such as hotel occupancy and the number of domestic air travel passengers might approach prepandemic levels. Companies could explore opportunities to bundle products (thereby offering upsell and cross-sell opportunities), as well as to diversify their revenue stream, and enhance premium product and pricing.

Hotels in Shanghai launched an “afternoon tea in the cloud” experience to attract affluent young people. Other destinations and hotels could capitalize on booming demand for outdoor leisure

experiences by offering scenic riverside cycling or new watersport activities. Travel companies could also innovate by augmenting their online touchpoints and online experiences. This is already starting to happen: some museums have launched video tours with staff and contemporary artists, and cruise lines have launched live-streaming channels to highlight cultural experiences.

As demand grows, there are opportunities to refine optimal pricing mechanisms. This is not something that all countries are getting right; for example, many hotels in Germany may have missed a pricing or revenue-management opportunity when demand for summer travel reemerged.⁵

⁵Lorraine Ehrlichmann, Evgeni Kochman, Jürgen Schröder, and Nina Wittkamp, *Ready for check-in? Lessons from the German travel recovery*, July 24, 2020, McKinsey.com.

Focus on domestic

Countries are still in different stages of local lockdowns, and domestic travel may not yet be possible in every market. But, where appropriate, domestic demand can be augmented through a focus on emerging domestic destinations—particularly those that offer outdoor leisure opportunities. This may be best done through cooperation with local government, or with other tourism ecosystem players such as OTAs, attractions, hotels, and airlines. For countries where—as in China—the outflow of high-end tourism-related spending is significant, it will again be important to focus on providing new or improved high-end domestic offerings.

The time for digital is (really) now

The pandemic has accelerated the adoption of mobile and digital tools. Building digital touchpoints and experiences will therefore be essential. In China, social media and new media are now major sources of inspiration and information for travel decisions (Exhibit 7). OTAs and hotel players are adopting livestreaming as a way to boost the sales of travel packages. Some attractions are exploring “cloud travel” to increase broad digital engagement and diversify revenue streams through the online sale of themed products. Strategic collaborations—such as OTAs providing ticket-booking services via instant messaging and through social-media platforms—could also offer an opportunity for increased market penetration.

Reopen gradually, in line with travel bubbles where possible

In order to capture early outbound-travel demand, travel players may benefit from tracking the development status of potential travel bubbles. Nearby regions with strong economic ties, low contraction rates, the ability to control their borders (which tends to be easier, for example, for islands), and mature health-risk-management infrastructure could be high potential zones for pilot border-reopening projects. Travel companies will need to be flexible and nimble to capture early international-travel demand—and should be prepared to implement strict health and safety protocols that fulfill the stipulations of both domestic and destination security policies.

In the short term, zero-case-first markets like China should focus on accelerating and capturing emerging growth opportunities and enhancing their high-end offerings, while balance-and-manage markets should continue to focus on building traveler confidence. Thinking ahead, however, travel companies in both markets will need to be adaptive and agile in order to seize postcrisis opportunities and position themselves to thrive within the tourism economy of the future.⁶

⁶Margaux Constantin, Steve Saxon, and Jackey Yu, “Reimagining the \$9 trillion tourism economy—what will it take?,” August 5, 2020, McKinsey.com.

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