

# Thirty Years in the Making: The Development of China's Hotel Industry Since 1978

## A Review of the Issues and Trends That Have Impacted the Hospitality Market in the People's Republic of China

One simply has to marvel at the pace of progress of China's hotel development industry since 1978 when, at the time, China was in its infant stage of opening up to the world. It was in this year that China's paramount leader Deng Xiao Ping reversed China's direction forever, from a socialist economic state to the capitalistic reforms that have paved the way to China's open-door policy of post-modernisation in all sectors of industry and business.

Deng's famous phrases, "It doesn't matter if it is a black cat or white cat; as long as it can catch a mouse, it is a good cat," and, "Developing is the overwhelming truth" have transcended into the Chinese psyche quite pervasively, as demonstrated by China's rise to global economic prominence. That's why China's hotel industry has become a showcase and, certainly, something of a beacon to the world, transforming the country's hotel industry from the dull and drab 1970's Marxist mode of operations to one of the most innovative, dynamic approaches to marketing strategy and creative design.

### Beginning with Beijing

To understand the remarkable changes in the industry over the past 30 years one must start with China's capital city, Beijing. The city's top hotel was once the iconic Beijing Hotel, a grand old building with huge columns and stately rooms. Other options included the old Minzu Hotel, which was nondescript and grey, and the Overseas Chinese Hotel near Lama Temple. China built a chain of these hotels in the major cities during the early 1970's to woo Chinese expatriates to help build up the motherland at a time when foreign visitors were scarce, except for foreign diplomats and "friends of China".

The 1980's saw the beginnings of China's hotel transformation, probably best illustrated by the well-known Jianguo Hotel. Located close to the city's diplomatic quarter, in the heart of the Beijing Central Business District, this property is synonymous with the dawn of the hospitality transformation in China. It was the first ever Sino-foreign joint venture hotel, opening in 1982 and operated by the Peninsula Hotel Group. The Jianguo Hotel was *the* place to stay for the business community and the hotel's French restaurant, Justine's, is still regarded by many as the best French restaurant in Beijing.

Other properties soon followed, including the Fragrant Hill, designed by pre-eminent and iconic architect I M Pei, and whose opening-night dignitaries included former US First Lady Jacqueline Kennedy (hailing a new era for US-Chinese cooperation and friendship). The Fragrant Hill is still regarded as a design magnet for architects and designers from around the world who travel to Beijing to study I M Pei's classic lines.

Other notable hotels built at the time were Beijing's Great Dragon Hotel, a five-star property donated to China by Hong Kong's shipping magnate Sir Y K Pao (Bao Yu Gang). Significantly, Deng Xiao Ping attended the grand opening ceremony and inscribed the name of the hotel in Chinese calligraphy. Efforts to woo overseas Chinese nationals by the Chinese Government to assist the motherland were richly rewarded. It was evident that Y K Pao truly loved his motherland and wanted to donate this hotel to the Chinese nation as a stepping stone and tribute for future generations.

Another legendary hotel in Beijing built by an overseas Chinese compatriot was the iconic Grand Hotel. Located next to the Beijing Hotel, it was built by Hong Kong's legendary business tycoon Henry Fok, Ying Tung, [Huo Ying Dong] – a long-time China supporter and friend who assisted the country during the Korean War in the 1950's, against the backdrop of the UN trade embargo with China. This controversial move at the time by Henry Fok paid handsome dividends as he became possibly the most influential Hong Kong businessman in China.

Henry also built the beautiful White Swan Hotel in Guangzhou, across the Pearl River. In Canton, the China Hotel, co-developed and built by Hong Kong's King of Super Highways, Sir Gordon Wu together with the New World Hotels and The Garden Hotel, were the hotels in which to stay during the 1980's. However, the late 1990's saw the entrance of the Grand Hyatt Beijing developed by Hong Kong's Li Ka Shing, creating a new luxury landmark on Jianguomen, Beijing's own "Avenue des Champs-Élysées", with the development of the Oriental Plaza.

Fast-forward to more recent hotel developments in 2008. Opposite House, located in Beijing's trendy Sanlitun, was designed by Japan's renowned architect Kengo Kuma. This new hotel bucks many trends and has redefined its operating procedures. For example, there's no check-in desk, hotel staff greet you as you arrive. You check-in wherever you please, be it the bar, restaurant or in your room. Full marks go to Swire for building one of the most amazingly designed hotels in the world. Clearly, Swire is looking optimistically at the Chinese hotel market by opening a property that makes such a mega-statement to the industry. It certainly reflects the company's belief in, and commitment to, the Mainland hotel market.

The Aman at the Summer Palace, developed and built by Beijing's BTG (Beijing Tourism Group) in collaboration with Adrian Zecha's Aman Resorts, has also made a major impact, raising industry standards once again for luxury and design with this new deluxe property. Mr Zecha has even opined that if you have only one Aman Resort to choose to stay in your lifetime, make it The Aman at the Summer Palace. Remember the old Beijing Hotel? It is these same owners (BTG) that have recently also developed and joint-ventured with Fairmont Raffles Hotels to redevelop and transform the old wing of the Beijing Hotel into the Raffles Beijing Hotel.

It has come to a stage now in China where hotels are trying to outdo each other with the most luxurious branding names in the industry. In fact, China has now recognised that it is branding and creative marketing that will guide the next trend in the hotel market.

Other notable developments in Beijing include Gaw Capital's Hotel G, located near the Worker's Stadium. It's a stylish, urban and hip boutique hotel penned by British designer Mark Lintott. The hotel design takes on an art-deco retro "luxe look" which oozes sex-appeal and elegance. According to the managing principals of Gaw Capital Partners, Goodwin and Kenneth Gaw, this will be the first of a chain of Hotel G's in China.

The group has been seeking to amass a US\$1 billion fund to develop further deals in China for Q2 2009, believing that cash-strapped local developers may wish to sell out due to a downturn in the market.

Other major brands that have opened recently in Beijing are Marriott's City Wall Hotel, with 1,312 rooms; Starwood Hotels and Resorts, with the iconic Sheraton Great Wall Hotel Beijing; the St. Regis Beijing, a favourite of many diplomats and top-level business executives, and the latest Westin in Chaoyang. Starwood recently announced its 100th hotel opening in China and plans to double this number in the next three years. IHG will be remembered for the Holiday Inn Lido Hotel, a classic property in the 1980s, and plans to open more than 125 properties throughout China.

What the above translates to is the fact that, according to the UNWTO, China is destined to be the top tourist destination in the world by 2020 (although on current estimates this is more likely to be 2015, or thereabouts). China is also expected to generate more than 100 million outbound trips per year, more than doubling its current number, hence the mad rush into the Mainland by the big brands seeking to solidify their market-share and the jockeying for position in the pursuit of the local Chinese traveller.

## Onto Shanghai

Turning to Shanghai, this city is undoubtedly the business capital of China. Yet in the early 1980's there were really no hotels for the business traveller, save the historic Peace Hotel built in 1929 by Victor Sassoon, whose family dominated business in Shanghai in the early 1920's. The hotel has welcomed many famous politicians and celebrities, among them Charlie Chaplin, George Bernard Shaw and Noel Coward.

Now, this grand old dame is being fully restored to its former glory by China's largest hotel company, Jin Jiang Hotel Management Company, and is to be managed by Fairmont Hotels & Resorts. Jin Jiang has commissioned Hirsch Bedner Associates to faithfully restore the Peace Hotel to its original grandeur to connect with its illustrious past. If there is any hotel that has made an impact in China, it is the Peace Hotel in Shanghai. In 1992, the Peace Hotel was listed as one of the most famous hotels of the world by the World Hotel Association. It remains the only hotel in China to have received this prestigious recognition. Today, it is particularly renowned for its Jazz Band and its roof terrace restaurant, overlooking the now booming district of Pudong across the Huangpu River, strategically located on Shanghai's most prestigious landmark, The Bund.

The Portman Ritz-Carlton Shanghai was the luxury hotel of choice when the hotel opened in 1990. With John Portman's name, the hotel lived up to the American architect and developer's vision of luxury and service. The hotel dominated Shanghai as the tallest building, until 1995 at least, rising to 165 metres. From 1998 to 2007, the tallest building in Shanghai was The Grand Hyatt Jin Mao Tower, becoming the new landmark in Shanghai rising to 421 metres. Shanghai is perhaps the showcase city in China, allowing for the most prestigious brands and the best cutting-edge and innovative design features in the world. The petite boutique hotels have also made a huge impact on Shanghai's hotel scene, starting with the tiny 28-room URBN, the first non-carbon hotel built in China and JIA Shanghai. Both properties were named on the recent *Condé Nast Traveler* Hot List Hotels 2008 in China, providing testament to the creative vision of the owners and the operator's commitment to excellence.

However, luxury and brand is the game in Shanghai, with the Conrad Hotel and Jumeirah HanTang Hotel in trendy Xintiandi. Power branding is reflected by the new Park Hyatt and future openings include the Pu Li, Shangri-la Jing An, Shangri-la Pudong Kerry Centre, Starwood's W Pudong, and The Waldorf Astoria.

## Economy Brands and Business Growth

Of course, it's not all good news for the hotel industry, as the global economic downturn continues to impact upon international and domestic travel trends. With some hotels reporting very lean occupancy levels through the winter months, we can expect to see a slowing of investment and construction in the short- to medium-term, as business plans are adjusted in line with revised industry forecasts. But the major players are in China for the long-term with the knowledge that growth will continue as China's travel, tourism and MICE markets become increasingly sophisticated.

We have also witnessed a rise in "economy" hotel brands in China. Accor has opened its Ibis property in Shanghai (the 800th such hotel worldwide) and now has over 60 properties in China, with a further 80 hotels under development in 29 cities. Mitchell Presnick's Super 8 Hotel chain has become the hottest foreign budget-brand in China with almost 70 openings as of February 2008, with a vision to double that number in the coming two to three years. Jin Jiang takes the top spot, being the largest domestic brand, through its Home Inn brand with over 420 hotels operating and under development throughout the Mainland. The economy sector will remain a popular choice for local and foreign business travellers. Although luxury is the name of the game in the large metropolitan cities, budget brands will be the most successfully performing hotel segment in China in the mid-term. Mitchell Presnick, Chairman and CEO of Super 8, reports that all their hotels have an annual average of 90% occupancy at an Average Daily Rate (ADR) of RMB200 (US\$30). The financial crisis is further supporting the bottom line for investors in budget brands, as business travellers tighten their budgets and seek less expensive accommodation.

Tianjin will be the next development "hot spot", as the Central Government has mandated the port city to be the next "super business city". The decision for European aircraft maker Airbus to create a manufacturing base in Tianjin is one of the primary reasons why this city will become a mega-industrial port. Due to its close proximity to Beijing, and with the new 29-minute fast train link to the capital city, Tianjin is destined to join the first-tier city ranks of Beijing, Shanghai and Guangzhou. Other secondary cities such as Chengdu, Dalian, Xiamen and Shenzhen will also see dramatic increases in hotel development, due in part to the high entry cost of land in the first-tier cities.

## Resorts, Heritage Sites and Green Growth

The growth in the resort destination of Hainan Province will also see more hotels being developed on the beautiful island. Hainan Island is China's tropical paradise. In 1985, Yalong Bay was a breathtaking virgin 50-kilometre stretch of sand, sun and clear water. There was not one hotel on the beach at the time. Now, virtually every major brand has a presence on Hainan Island, particularly in the popular southern resort destination of Sanya. There is already a Marriott, Sheraton, Hilton, Kempinski, Ritz-Carlton, Gloria and Banyan Tree in Sanya. Soon there will be the Mandarin Sanya gracing Dadonghai. It is not surprising that Hainan is being positioned as the "Hawaii of the Orient".

Other growth areas to watch will be speciality locations such as UNESCO World Heritage Sites in China. Yellow Mountain, [Huang Shan], the Silk Road, Urumqi, and Yunnan, as well as other exotic locales, will lead the next wave of creative development. Both local and international hotel developers and investors, along with the major brands, will be vying to define the next trend, and the companies that have the most creative mindset will be setting the pace in this exciting field.

China's image on the international tourism scene has however, suffered several setbacks of late. SARS in 2003, the continuing incidence of air pollution highlighted by international media during the 2008 Beijing Olympic Games and the recent food quality issues, have created image and reputation challenges. The fact is, there have been fewer visitors to China in 2008, in spite of the successful hosting of the Beijing Olympics. According to the China National Tourism Administration (CNTA), visitor numbers dropped by 2% last year compared with 2007, while international overnight visitor numbers declined by 5%. As a consequence, foreign currency income shrank by 5% to roughly US\$40 billion. Nevertheless, these are seen as minor setbacks on the longer-term path and enthusiasm for China's position as a major travel and tourism player remains strong.

Looking ahead, industry leaders and brands will have to raise the bar by developing true eco-hotels and make a conscientious commitment to combat the serious threat posed by greenhouse gas (and other) emissions. Tourism authorities must encourage more cooperation between foreign operators and tourism experts on sustainability. CNTA's launch of the industry standard "Green Tourist Hotel" in 2006 has been a good start in this regard and it should be noted that currently there are more than 2,000 green hotels (according to this standard) already operating on the Mainland. Taking all of this in context, if one looks at the past 30 years and the progress in the hotel development industry, one can only marvel at China's amazing transformation in this sector and recognise the positive impact it has made on the lives of the new China traveller.

### Into the Future

As already stated, however, for China to truly become the top destination in the world, hoteliers and developers must focus on "Green and Eco-Hotels" in both urban and resort destinations. The Chinese authorities are urged to continue to provide incentives to hoteliers who build environmentally sensitive properties. This will set the next standard of luxury accommodation in China. "Luxuriously Green" is the mandate for both development and operational standards. As China maintains its inevitable goal to become the next economic superpower, this trend will set the vision and pace for the next 10 years for the industry stalwarts and leaders. The industry is still in its infancy and has some way to go before the market truly matures. China is still regarded as a developing nation and only has a GDP at a quarter of that of the United States; the majority of the population, for example, still earns an average RMB1,000 a month.

The Chinese leadership, starting with Deng Xiao Ping, has truly opened up a plethora of opportunities in the marketplace, both for international operators and local companies such as Jin Jiang, BTG, Gloria, and the Jing Ling Hotel Group. Jin Jiang has not only become the largest hotel company in China, but is currently ranked the 35th largest in the world, enabling it to implement global systems and marketing strategies with a deep local knowledge of the Chinese market. This alone demonstrates how far the industry has come since 1978. The next 20 years will truly be the test for China in how she will be able to fine-tune the blueprint for success for the industry. International operators, such as Shangri-La who have been in the marketplace since the early 80's with a string of 26 hotels and resorts in the country, will also be strengthening their position in the marketplace. Shangri-La itself is expected to open seven new hotels throughout China in the next two years.

Companies, whether large or small, with a long-term view on the Chinese hospitality market and unique niche and global branding strategies together with a strong foothold, will be well-rewarded in one of the most dynamic markets in the world.

**Condé Nast Traveler: HOT LIST HOTELS 2008 CHINA**

HOTEL CÔTÉ COUR S.L., Beijing
THE REGENT, Beijing
HOTEL OF MODERN ART, Guilin
VENETIAN MACAO-RESORT-HOTEL, Macau SAR
KAYUMANIS NANJING, Nanjing
HYATT ON THE BUND, Shanghai
JIA SHANGHAI, Shanghai
LAPIS CASA HOTEL, Shanghai
URBN HOTEL, Shanghai

**About the author**

Barry Hong is a Canadian developer and hotelier who first travelled to the People’s Republic of China in 1979; since then he has worked with Dunning & Associates and FGI Hong Kong during the mid 1980’s to the 1990’s, when he travelled extensively throughout China seeking development and investment opportunities from Shanghai to Hainan Island. With FGI, he was responsible for the development of the Westin Tai-Ping-Yang, Shanghai and the Westin Resort, Coloane Macau.

Mr Hong has recently launched August Hotels & Properties, Inc., an international hotel and property development company with plans to cooperate with strategic China partners and renowned architects and designers to develop groundbreaking hotels and resorts throughout the Mainland. For example, August Hotels & Properties has recently partnered with Shanghai Profound Investment & Development Co. and China Wall Tourism Co. Ltd. to co-develop an eco-luxury Six Senses Resort & Latitude Residences in the ancient water town of Nanxun, 100 kilometres from Shanghai.

Barry Hong also developed and built The Sheraton Suites Le Soleil, Vancouver, a luxury Starwood hotel voted by *Condé Nast Traveler* as one of the Top 50 Best Hotels in North America, and Oritalia Restaurant, being named among the Top 60 Hottest Tables in the World by the same influential magazine.



*Issues&Trends* is published for the members of the Pacific Asia Travel Association.

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