

## 03 Culture & Tourism

### Characteristics and Prospects of South Korea's Inbound Tourism Markets

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#### Summary

Korea needs to prepare a customized strategy for each of its Asian target market in anticipation of increasing international tourist arrivals.

#### 1. Introduction

##### **There needs a comprehensive mid-to-long-term analysis of trends in Korea's inbound tourism markets**

Korea recorded over 12 million international tourist arrivals in 2013. Over a year, the number grew by a record high growth rate of 17 percent. It reached 14.2 million in 2014. Amid such a boom in tourism, Korea has witnessed positive changes in its major inbound tourism markets. For starters, the number of Japanese traveling to Korea has plummeted since 2012 - Japan used to be Korea's largest inbound tourism market. In the meantime, the population of tourists from China has soared by on average 34 percent a year since 2010. In 2014, Japan and China each sent 2.28 million and 6.13 million to Korea, respectively. Meanwhile, the Southeast Asia has emerged as a new market to Korea. At the moment, it is small compared to two aforesaid markets. Yet it has been growing steadily.

At present, there is no comprehensive long-term analysis of trends in Korea's inbound tourism markets. It is necessary to take anticipatory measures to cope with

any sudden or long-lasting changes that might happen in those markets. In this context, this research first examines patterns in global and regional tourism markets. Next it studies trends in Korea's main inbound tourism markets. The study then closely looks at the characteristics of changes found in international tourism demand for Korea. Lastly it derives conclusions and policy recommendations from those analyses.

## 2. Main Findings

The analysis of international arrivals in Korea shows that the characteristics of visitors vary by region, country, and the purpose of visit. The following also includes the forecast of international tourism demand for Korea.

### **The Asian tourism market is clearly on an upward trajectory with the East and Southeast Asian markets growing by leaps and bounds**

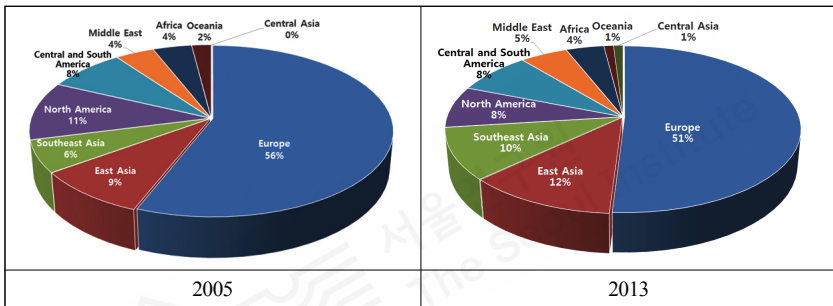
In Korea, tourism is one of the fast-growing economic sectors. The number of international tourists worldwide exceeded 1.1 billion in 2013. It was a result of steady growth at the average annual rate of 4 percent from 1995 to 2013. Since 2013, the figure has been growing faster by on average 4.7% per year.

For long, Europe has been the most-visited destination in the world. From 1995 till 2013, the number of international arrivals in the region increased at the average annual growth rate of 3.7 percent. This has given Europe the largest share of international arrivals among other nation. The second runner-up is Asia. The number of inbound tourists to East and Southeast Asia grew each by on average 7.6 percent and 6.8 percent a year, respectively. Owing to this trend, Europe experienced a decline in its share of international tourism market: from 56 percent in 2005 to 51 percent in 2013. Meanwhile, East and Southeast Asia enjoyed increase in their shares - each rose by 3 percent point and 4 percent point, respectively.

[Table 1] International Arrivals by Region of Origin

(Unit: million, %)

Region / Year	No. of int'l tourist arrival					Annual growth rate			
	1995	2000	2005	2010	2013	1990s	2000s	2010s	'95~'13
World	550	706	837	980	1,123	4.4	3.0	4.7	4.0
Europe	284	370	447	486	546	4.8	2.7	3.9	3.7
East Asia	34	58	87	111	127	11.2	5.9	4.4	7.6
Southeast Asia	32	41	55	80	105	3.1	6.3	9.6	6.8



[Figure 1] Each Region's Share of Total International Arrivals

Inbound and outbound tourists in each country have been studied. It has been discovered that the majority of international travels takes place within travelers' own regions. Their choices of destinations are largely based on the advantage of traveling to neighboring countries - that is, it is relatively cheaper and less time-consuming. This finding suggests that China and developing nations in East and Southeast Asia are the main sources of increased number of tourists to Korea. Thanks to strong economic growth, tourists from those countries can now afford and demand overseas travel.

According to this study, people tend to travel to culturally familiar places even it takes long to get there. For instance, Britons and Americans often choose one another's country for their travel destinations. Drawn to cultural similarity, French are inclined to make a trip to Canada.

The study also shows that political or diplomatic conflict between countries do not hamper the flow of tourists. Oftentimes, there exists conflict of interests among nations close to borders or territorial waters. The same is true of countries in Asia. In particular, there has been relentless strife between Korea and Japan; the Philippines and China; and Japan and China. Yet, they all have welcomed visitors from each other. This is also the case with Korea and Taiwan: Many Taiwanese hold anti-Korea sentiment. The animosity was set on fire, for a referee made unfair calls against a Taiwanese player in Taekwondo competition at the 1988 Seoul Olympic Games. Though Korean pop culture has swept the country, the feeling still prevails. Nevertheless, the number of Taiwanese making a trip to Korea is increasing every year.

### **Korea reported 14 million international tourist arrivals in 2014, with a record high growth rate since the Seoul Olympic Games**

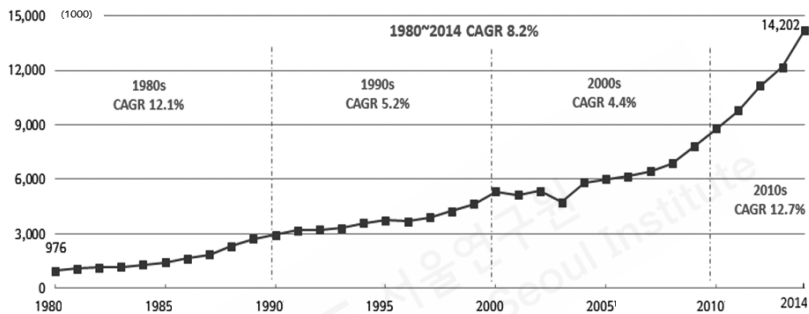
The number of international visitors in Korea has been on the rise for the past 25 years. In 1980, the country had slightly less than one million arrivals. The number kept increasing by on average 8.2 percent a year. Finally, it surpassed 10 million in 2012 and then reached 14.2 million in 2014. In the 1980s, the average annual growth rate was as high as 12%. However, it diminished to 5.2 percent in the 1990s and further to 4.4 percent in the 2000s. Fortunately, the fall ceased in 2010. From then till 2014, the number of international arrivals went up by on average 13 percent annually.

The Korean tourism economy has proved resilient. It has experienced a few declines in the number of international arrivals - namely, in 1996, 2001 and 2003. Each fall was, however, offset by increased flow of inbound visitors in the following year. The international tourism market suffered severely from the global financial crisis and the outbreak of H1N1 in 2009. Yet the Korean tourism sector was not as badly affected by them: The number of incoming tourists continued to increase unabated. As a result, Korea reported over 14 million inbound tourists in

2014. It was a 17 percent increase from the previous year. Not only that, it marked the highest growth rate since the 1988 Olympic Games.

[Table 2] Total Number of International Arrivals in Korea

Total number(1,000)					Annual growth rate(%)				
1980	1990	2000	2010	2014	1980s	1990s	2000s	2010s	'80-'14
976	2,959	5,324	8,798	14,202	12.1	5.2	4.4	12.7	8.2



Source : Tourism Knowledge Information System

[Figure 2] Total Number of International Arrivals in Korea

## **Eight of Korea's top ten inbound tourism markets are in either East or Southeast Asia**

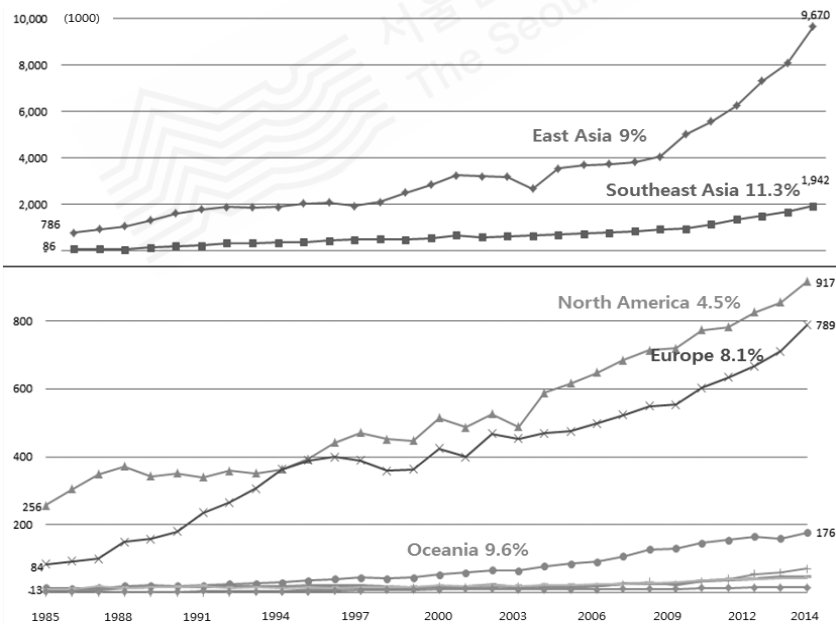
East Asia represents the largest source region of international visitors to Korea. Next is Southeast Asia, followed by North America. Among Korea's top ten inbound tourism markets, eight are located in either East or Southeast Asia - the rest are each in North America (the U.S.) and Europe (Russia). Since 2010, the number of international arrivals from East Asia and Southeast Asia has grown fast by each on average 15 percent and 14 percent a year, respectively.

At the country level, China and Japan were the largest inbound tourism markets to Korea as of 2014. That represents 60 percent of total market share. However, the number of Japanese travelers has dropped drastically since 2012. Meanwhile

tourists from other major Asian nations has grown at a faster rate: China at 45 percent; Taiwan at 12%; Hong Kong at 25 percent; Thailand at 16 percent; the Philippines at 10 percent; Malaysia at 21 percent; and Indonesia at 22 percent. Like this, Korea has emerged as a popular travel destination. It largely owes to the Korean wave, so-called “Han Ryu”.

[Table 3] The Number of Visitors from Korea’s Top Ten Inbound Tourism Markets  
(Unit: 1,000, %)

Rank	Country	No. of int'l arrivals	Annual Growth	Rank	Country	No. of int'l arrivals	Annual Growth
		2014	'00~'14			2014	'00~'14
1	China	6,127	20.6%	6	Thailand	467	12.7%
2	Japan	2,280	-0.6%	7	The Philippines	435	4.1%
3	The U.S.	770	3.8%	8	Malaysia	245	10.6%
4	Taiwan	644	12.3%	9	Russia	214	2.3%
5	Hong Kong	558	7.6%	10	Indonesia	208	9.4%



Source : Tourism Knowledge Information System

[Figure 3] Number of Visitors by Region of Origin

## Visitors have different purposes of travel, but most comes for leisure, and recreation

As of 2014, the majority of international visitors in Korea was consisted of tourists. The second largest group is those whose purpose of visit is “other.” Next is professional businessmen, followed by students and public officials. Service attendants at airlines and cruise lines usually report their purposes of travel as “other.” And their number is on the increase. This is fundamentally why “other” ranked the second.

Visitors’ trip purposes are found to vary by region. As of 2014, travelers from North America were mostly public officials. They outnumber students and businessmen. Meanwhile, visitors from Central and South America are not so much as business people as students. Unlike them, those from the Middle East are mostly businessmen. Their number surpassed that of people reporting their purposes of visits as “other.” Since 2008, less and less international visitors have traveled to Korea for business. One plausible explanation is that the global economy has not fully recovered from the 2008 crisis. Alternatively, it may be simply a result of businessmen ticking the box besides “leisure, recreation and holidays” on the disembarkation form - they often do so as they plan to spend some time in sightseeing after serving their professional purposes.

[Table 4] Inbound Tourism by Purpose of Visit

Purpose of visit	No. of visitors(1,000)			Annual growth rate(%)		
	2005	2010	2014	'05-'09	'10-'14	'05-'14
Leisure, recreation and holidays	4,304	6,293	10,778	6.9	14.4	10.7
Business and Professional	258	269	259	0.8	-0.9	0.1
Government Mission	38	30	40	-3.4	6.9	0.4
Education	35	135	157	36.2	3.9	18.1
Other	1,033	1,627	2,432	8.5	10.6	10.0

### Income is the most influential determinant of tourism demand, while cost plays an insignificant role

China, Japan, the U.S., Taiwan, and Hong Kong are the top five inbound tourism markets to Korea. In order to identify what affects tourism demand in each market, regression analysis has been conducted. For each income, cost, a real GDP per capita, exchange rate, and SARS has been used, respectively. According to the analysis, tourism demand in all the five markets is influenced by income. In the case of Japan and the U.S., their demand is found to be also susceptible to other two variables.

[Table 5] Regression Analysis of Korea's Top Five Inbound Tourism Market

	China	Japan	The U.S.	Taiwan	Hong Kong
GDP per capita	3.58***	1.998***	5.541***	3.044***	7.797***
Exchange rate for a foreign currency to won	-1.146	0.597***	0.98***	-5.99	1.283
SARS	Refer to the note below	-0.248**	-0.157**	0.0452	Refer to the note below

\* p<0.10 \*\* p<0.05 \*\*\* p<0.01

(Note: SARS is not applicable to China and Hong Kong, for each is analyzed for the period since 2008 and 2007, respectively)

### The number of international arrivals in Korea is expected to reach 20 million by 2018, while Seoul will take another two years to attain the same score

A curve fitting model has been used to forecast international tourism demand for Korea. The trend function for the model has been calculated with a least square method. In the forecast, the inbound flow of Japanese shows a linear function. In contrast, total inbound traffic of international visitors demonstrates an exponential function. It is also the case with the sum of visitors from China, the U.S., Hong Kong, and Taiwan.

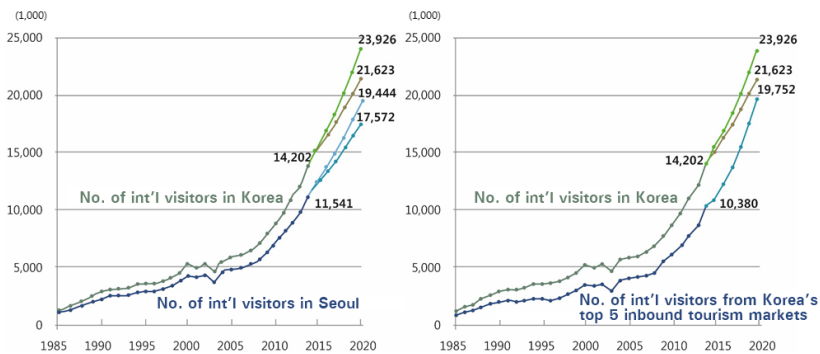


[Table 6] Trend Function of International Visitors to Korea

Nationality	Trend Function	
Total no. of international visitors in Korea	Optimistic forecast	$f(x) = 3607643e^{0.09x} + 3$
	Conservative forecast	$f(x) = 1521886e^{0.07x} + 3$
Visitors from the top five inbound tourism markets	$f(x) = 155e^{0.13x} + 1606111$	

The forecast of Korea’s inbound tourism demand based on the trend function estimates that the demand would grow at a rate of 7-9 percent each year. The estimate is rather conservative, being lower than the current annual growth rate. According to the forecast, the number of international tourists in Korea would reach 16.4-17 million by 2016. It would then increase further, arriving at 18.9-20.2 million by 2018. Not stopping there, it would keep rising and reach 21.6-24 million by 2020. On the assumption that the annual growth rate stays high at 12-15 percent like now, this forecast will be realized a year earlier.

The number of inbound tourists in Seoul has been predicted by applying the average Seoul visit rate between 2012 and 2014. The result shows that the number would reach 12.3-13.8 million by 2016. Then, Seoul would record 20 million international tourists by 2020. Again, the city will attain those numbers a year earlier if the demand continues to grow at two digit rate.



[Figure 4] Forecast of International Visitors in Korea and Seoul from Korea’s Top Five Inbound Tourism Markets

The Chinese market is forecasted to grow at the most rapid rate. Meanwhile, the number of Japanese visiting the country would continue to rise, maintaining its title as Korea's second biggest inbound tourism market. The forecast also shows that there would be more visitors from Taiwan than America. In the meantime, the number of visitors from Hong Kong would go up by on average 6.9~26 percent every year. It may well emerge as the second fastest-growing market behind China. Yet, it is premature to make such a conclusion, for the margin of forecast is large.

[Table 7] Forecast of International Visitors in Korea  
(Unit : 1,000, %)

	2016	2018	2020	Annual growth rate
No. of int'l visitors in Korea	16,353-16,962	18,804-20,145	21,623-23,926	9.0-7.2
No. of int'l visitors in Seoul	13,289- 13,785	15,281-16,371	17,572-19,444	9.0-7.2
Total no. of visitors from Korea's top five inbound tourism markets	12,293	15,531	19,752	12.6
China	8,847-9,739	12,183-16,611	17,656-28,334	18.9-30.6
Japan	2,684-3,257	2,757-3,409	2,856-3,562	1.6-2.3
The U.S.	843-1,093	928-1,316	1,024-1,547	5.0-9.1
Taiwan	755-776	913-981	1,104-1,272	10.0-13.1
Hong Kong	639-764	730-1,151	835-1,943	6.9-26.3

### 3. Conclusions and Policy Recommendations

The following conclusions and policy recommendations have been derived from the analysis of trends in Korea's inbound tourism markets.

#### **Entice visitors from a wider range of countries besides China and Japan**

China and developing countries in Southeast Asia have great potential as inbound tourism markets to Korea: First, they are geographically close to the country.

Second, their economies are booming. Their development progress did not stop even during the global economic crisis. As a result, their fast-growing middle class are demanding for overseas travel more than ever. Korea needs to be geared up for this.

International visitors travel to Korea for different reasons: business, education, government work, and others. They often engage in leisure activities while serving those purposes. In fact, a recent coinage “bleisure (business combined with leisure)” reflects this trend. Korea should map out a plan to deal with this new change. Other countries already have taken actions. For instance, Southeast Asian countries such as Thailand and Singapore have launched marketing programs in accordance with the rising popularity of the so-called “MICE (meeting, incentives, convention, and events) trip.” Another example is New Zealand. It has long been investing its resources in promoting tourism to international visitors, whose main purpose of visit is to study. Like these countries, Korea ought to come up with a strategy to attract and satisfy international visitors with various purposes of trip. Certainly, Seoul should participate in the endeavor.

In the past, the Korean tourism economy heavily depended on the Japanese market. Now, it does so on the Chinese market. Consequently, the economy always has been dependent to the conditions of those two markets. In order to overcome this problem, Korea must put more efforts into attracting a wider range of international visitors besides Chinese and Japanese. This asks for a tailored strategy for each target group. This, in turn, requires a careful study of historical, cultural, political and economic backgrounds of other countries. For example, China and Taiwan both belong to the Greater China region. Yet they use different languages: The former uses traditional Chinese while the latter uses the simplified version. On top of this, Taiwanese culture is considerably different from the mainland. It is largely due to their long exposure to Japanese media contents. Given that, a strategy found effective with China may not work with Taiwan. Another example is ASEAN member states. Though Southeast Asian nations can be grouped as one, they all have different political systems, economies, and cultures. Thus, a customized strategy must be devised for each nation.

There have been some changes in the characteristics of tourism demand in a number of countries. In the case of Japan, it is one of the most rapidly aging countries worldwide. A recent study has estimated that people older than 60 would represent 60 percent of total population of Japanese tourists. Meanwhile, less and less Japanese in their 20s would travel overseas. The number is forecasted to be lower than in 2000. Korea Tourism Organization recently has released a report on the marketing survey of Japanese tourists. It shows that they consider cost the foremost factor in deciding where to travel. In particular, young generations in 10s and 20s prioritize cost above all. By contrast, older groups regard other factors like convenience equally important. Under such circumstances, Korea should consider shifting the focus of its current tourism marketing strategy from affordability to quality experience.

### **Continue to target the Chinese and Taiwanese markets, while implementing a new strategy for the Japanese market**

As mentioned earlier, there has been precipitous increase in tourist traffic from China. Inevitably, Korea's tourism policy focuses on the Chinese market. This report suggests the country also attends to the growth of other markets in East and Southeast Asia.

China has established itself as the biggest inbound tourism market to Korea. Its GDP per capita is expected to continue to rise. Its tourism demand for Korea is also likely to maintain high for a while. Therefore, Korea should keep its eyes on this market. Taiwan is another market that requires attention.

Korea had once severed its diplomatic relation with Taiwan. Consequently, there had been a very little inflow of visitors from Taiwan. However, Taiwanese tourism demand for Korea picked up in 2000. Since then, it has been growing steadily. Nevertheless, Taiwanese still much prefer traveling to Japan and Hong Kong. Korea ought to find a way to attract Taiwanese tourists. A specially tailored

marketing strategy is to be implemented. Then, Korea may be able to welcome at least one million Taiwanese visitors in a short time.

Many experts blame the exchange rate for decrease in the number of Japanese tourists. Yet, it doesn't explain the increased flow of Japanese tourists to other countries. A new strategy needs to be planned out for the Japanese market.

Finally, the number of tourists from Hong Kong has been growing fast since mid-2000. It would rise further in a short time if Korea pours more efforts into enticing them.