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## How to attract more tourists to Korea? Possible collaborations with China

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### ABSTRACT

Based on the gravity model, this paper analyzes China and South Korea's tourism patterns. Using a panel data set of China's international tourism flows from 32 countries for 1995–2012, and Korea's international tourism flows from 152 countries for 2005–2013, this study finds that the two countries' data sets are generally consistent with the predictions of the gravity model. We further investigated the predicted values of tourist flows with actual values to determine under-represented countries. Policy implications follow regarding how to attract more tourists to Korea.

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### 1. Introduction

The tourism industry is becoming more and more important in Korea as a model for improving service industries. Given that manufacturing sectors are losing their competitiveness due to high input costs for labor and capital and major parts for manufacturing processes are made outside the country, mostly in developing countries, service industries have emerged as the dominant ones. As an important contributor, the tourism sector is expected to play an important role in reinvigorating the local economy, which has been in recession for many years. As shown in Table 1, although Korea's growth rate has stagnated for the past decade, the tourism industry has been booming, with increasing revenues and numbers of international tourists.

Although this is an impressive trend for the country, South Korea is not a big market for tourism, especially relative to its neighbor, China. As shown in Table 2, in terms of international tourist arrivals in 2012, Korea is ranked 23rd, with around 11 million people, while China ranked 3rd, with more than 57 million people. South Korea has collaborated with Japan and issued a joint rail pass that provides foreign tourists with unlimited access to the two countries' rail networks for a certain number of days, similar to

Europe's Eurail Pass.<sup>2</sup> However, this kind of collaboration does not exist between Korea and China, although it would seem to be necessary.

Against this backdrop, this study first examines countries from which tourists actually visit China and Korea and whether the actual numbers are large enough given the countries' economic size, distance from China or Korea, price levels, cultural relationships, and visa requirements. Based on the gravity model, this study finds that China and Korea share a number of under-represented countries in terms of international tourist arrivals. Based on these findings, this study suggests that China and Korea work together to attract more tourists from these countries and that Korea needs to be more active in collaborating with China to 'share' international tourists who visit China.

### 2. Model, data, and methodology

The gravity model is originally from Newton's gravitational law, illustrating a force between two objects being proportional to their masses and counter-proportional to their distance. Applied to social sciences, this model is used to measure determinants of international trade and tourist arrivals, for example.

Tinbergen (1962) provided initial specifications and estimates of the determinants of trade flows using the gravity model. In the previous studies of international tourism, Hanafiah and Harun

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<sup>2</sup> Four Eurail Pass types are available: Eurail Global Pass, for travel in 24 countries, Eurail Select Pass, for travel in 3, 4, or 5 countries, Eurail Regional Pass, for travel in 2 countries (or 2 country-combinations), and Eurail One Country Pass, for travel in 1 country (or group of countries in the case of Benelux).

**Table 1**  
Key facts on Korea GDP growth and tourism.

Year	GDP growth rate (%)	Tourism receipts ( US\$1000 )	Tourist arrivals (number)
2000	8.83	6,811,300	5,321,792
2001	4.53	6,373,200	5,147,204
2002	7.43	5,918,800	5,347,468
2003	2.93	5,343,400	4,752,762
2004	4.90	6,053,100	5,818,138
2005	3.92	5,793,000	6,022,752
2006	5.18	5,759,800	6,155,047
2007	5.46	6,093,500	6,448,240
2008	2.83	9,719,100	6,890,841
2009	0.71	9,782,400	7,817,533
2010	6.50	10,321,400	8,797,658
2011	3.68	12,396,900	9,794,796
2012	2.29	13,448,110	11,140,028

Source: World Bank World Development Indicators (2013); Korean Tourism Organization (2013)

**Table 2**  
Number of international tourists arrivals by country (2012).

Country	Number of international tourists
1.France	83,013,000
2.United States	66,969,000
3.China	57,725,000
4.Spain	57,701,000
5.Italy	46,360,000
6.Turkey	35,698,000
7.Germany	30,411,000
8.United Kingdom	29,282,000
9.Russian Federation	28,177,000
10.Malaysia	25,033,000
11.Austria	24,151,000
12.Hong Kong SAR, China	23,770,000
13.Mexico	23,403,000
14.Ukraine	23,013,000
15.Thailand	22,354,000
16.Canada	16,344,000
17.Greece	15,518,000
18.Poland	14,840,000
19.Saudi Arabia	14,276,000
20.Macao SAR, China	13,578,000
21.Netherlands	11,680,000
22.Egypt, Arab Rep.	11,196,000
23.Korea, Rep.	11,140,000
24.Singapore	11,098,000
25.Croatia	10,369,000
26.Hungary	10,353,000
27.Morocco	9,375,000
28.Czech Republic	8,908,000
29.Switzerland	8,566,000
30.Japan	8,358,000

Source: World Bank World Development Indicators (2013).

(2010) and Kosnan and Ismail (2012) studied tourism demand in Malaysia using a modified gravity model. Bermeo and Oh (2013) analyzed Peru's determinants of international tourist arrivals. As for Korea and China's inbound tourism, Kang (2014) found that the tourism demand is elastic with the income, tourism price and distance with all statistically significant. The empirical results of Ayeh and Lin (2011) indicate that income levels in the origin country as well as the costs of tourism in both China and competing destinations are the crucial factors determining the demand for China's tourism, while Yang and Wong (2012) stated that it is the level of GDP that plays the most important role. All of these studies were based on key economic factors, such as GDP, per capita GDP, consumer price index, distance, population, and exchange rate. These studies all showed that there is a strong relationship between the key economic factors and the number of tourist arrivals.

Based on this, we first examine determinants of international tourist arrivals to China and Korea using all available panel data. For China, the data set is from 1995 to 2012, covering 32 countries, and for Korea, it is from 2005 to 2012, covering 152 countries. The regression equations for the two countries are as follows:

$$\begin{aligned} \text{China :} \\ \ln TR_{cjt} = \alpha + \beta_1 \ln(GDP\_cons_{ct} * GDP\_cons_{jt}) \\ + \beta_2 \ln(PCGDP_{ct} * PCGDP_{jt}) + \beta_3 \ln(CPI_{ct} / CPI_{jt}) \\ + \beta_4 \ln Dist_{cj} + \beta_5 Border_j + \beta_6 Culture_j + \varepsilon_{cjt} \end{aligned} \quad (1)$$

$$\begin{aligned} \text{Korea :} \\ \ln TR_{kjt} = \alpha + \beta_1 \ln(GDP\_cons_{kt} * GDP\_cons_{jt}) \\ + \beta_2 \ln(PCGDP_{kt} * PCGDP_{jt}) + \beta_3 \ln(CPI_{kt} / CPI_{jt}) \\ + \beta_4 \ln Dist_{kj} + \beta_5 Visa_j + \varepsilon_{cjt} \end{aligned} \quad (2)$$

Where  $c$  and  $k$  represent China and Korea, respectively, and  $j$  represents countries where tourists are coming from.  $TR_{ijt}$  is the number of tourist arrivals from country  $j$  to country  $i$  (China and Korea) in year  $t$ ;  $GDP\_cons_{it} * GDP\_cons_{jt}$  is the product of GDP (constant at 2005) of country  $i$  and the tourist's country  $j$  in year  $t$ ;  $PCGDP_{it} * PCGDP_{jt}$  is the product of per capita GDP of country  $i$  and the tourist's country  $j$  in year  $t$ ;  $CPI_{it} * CPI_{jt}$  is the relative price of tourism given by ratio of the CPI of country  $i$  over the CPI of the tourist's country  $j$  in year  $t$ ;  $Dist_{ij}$  is the distance between country  $i$  and the tourist's country  $j$ ;  $Border = 1$  if the tourist's country  $j$  shares a border with China, and 0 otherwise;  $Culture = 1$  if a Chinese language is a majority foreign language and has Chinese culture in the tourist's country, and 0 otherwise;  $Visa_j = 1$  if there is visa requirement for tourists from the country  $j$  coming to Korea, and 0 otherwise;  $\varepsilon_{ijt}$  indicates residuals.

Border and culture dummies are not used in Korea because it does not share a border except with North Korea (not included in this study) and there are no other countries where Korean language and culture are dominant. Also, a visa requirement dummy is not used for China, which requires visas for most countries.

GDP, per capita GDP and CPI are collected from the World Bank's World Development Indicators. GDP is measured in constant 2005 US dollars. Per capita GDP is measured in constant 2011 international dollars and CPI is measured in constant 2010 international dollars. CPI is calculated using the Laspeyres formula and fixed at the year 2010. The distance data of capital cities between country  $i$  and country  $j$  were from [www.distancefromto.net](http://www.distancefromto.net), expressed in kilometers (City to City, & Place to Place Distance Calculator, 2014). The Visa-free entry source is from the Ministry of Foreign Affairs, Republic of Korea.

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