

# A Study on the Status and Causes of Growing Service Trade Deficit

-Focused on Korean Tourism Industry-

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## Abstract

The study is examined to illustrate Korea's status in service trade, including travel deficit, outbound travel market, and inbound travel market. This research will also illustrate what factors generate the growth of travel deficit and suggest some alternatives to solve it even if government notes a steady increase in exports of cultural products and programs and entertainment services, driven by the Korean Wave sweeping across Asia. The study suggested some possible alternatives such as growth of travel balance, improvement of low image on Korean tourism, aggressive participation of government, strengthened role of Korean Tourism Organization(KTO), and appropriate control on overseas studies to lessen an increase of travel deficit.

In addition, the study concluded, even if a tourism industry includes a higher multiplier effect, the spontaneous participation intention by Koreans themselves and the strong supports from local governments should be another major successful factors to settle down the travel deficit.

Key Words : service trade, travel deficit, inbound travel market, KTO

## I . Introduction

For the past two decades, Korea has been one of the fastest developing nations in the world-both in economic and social terms. Rapid industrial and economic growth has seen Korea reach the status of a developed nation in a remarkably short time. Therefore, Korea is the 11th trade country in the world. In 2006, Korea's total amount of export was 298.1 billion dollars, while import was 283.0 (Korea International Trade Association, 2007).

On the other hand, the balance of current account surplus in 2006 was 6 billion dollars, only 40% of 14.9 billion dollars in 2005. Especially, service trade deficit was 18.7 billion dollars with an increase, 5.1 billion dollars from 2005 while commodity trade surplus was 29.2 billion dollars. Among 37 major economies, Korea's service account deficit in 2006 was the second largest after Russia (The Bank of Korea, 2007).

In general, service trade account is divided into three categories such as transportation, travel, and extra. According to the World Tourism Organization (WTO), services are the largest and the most dynamic component of both developed and developing country economies. Important in their own right, they also serve as crucial inputs into the production of most goods. Services could move over the world where they want to go. Especially, travel services shared 28.3% of total service trade balance, 685 billion dollars in 2005 (WTO, 2007). It increased to 8% over 2004. As a result, Korea's service trade deficit, 18.7 billion dollars, is a major factor generating a decreasing current account even though tourism is a very important sector in service trade in the world.

Tourism is one of the successful stories in the 21th century, Recently, WTO not only mentioned that tourism is the largest business in the world, accounting for about 12% of the world's gross national product, but also forecasted East Asia area will be an important tourist destination in an international tourism market. In addition, the successful hosting of the 1988 Summer Olympics and 2002 Korea-Japan World Cup not only was take-off time for tourism on both sides of quality and quantity in Korean tourism, but also appeared to have convinced many foreign observers of Korean bright circumstances that the country now has welcoming and stable atmosphere for tourism. Furthermore, 2002 Korea-Japan World Cup played an important role in warming of ties between the Korea and all countries in the world, and Korea has become a hub destination in an international tourism market. Even if it is little doubt that Korea is one of the most potential countries in the third world as a destination in international travel market, the outbound travel market in Korea was a relatively late starter, enacting complete liberalization on overseas travels for all of the public just from 1989. However, the increasing number of tourists in outbound has caused unbalanced service payment, deficit, to go up fast. Last year, travel deficit recorded 12.9 billion dollars, which was the highest after the complete liberalization on overseas travels (The Bank of Korea, 2007). Korea is finally facing the challenge of attracting more inbound tourists compared with the rapid rate at which locals travel abroad for educational purpose or leisure.

Therefore, the purpose of this study is to illustrate Korea's status including travel deficit, outbound travel market, and inbound travel market through the secondary data. This research will also conclude what facts generate travel deficit and suggest some alternatives to solve it. Even if government notes a steady increase in exports of cultural products and programs and entertainment services, driven by the Hallyu sweeping across Asia, it is time to look back at why service deficit widens steadily, especially travel deficit.

## II. Literature Review

Within the field of Korean service trade, two groups of researchers majoring in tourism and international trade, have studied since the end of 1980s because all of Koreans began to travel abroad freely from 1987. Due to the free outbound travel, Korea have confronted with a serious deficit on tourism balance.

Most researchers predicted a service trade deficit would increase in near future under the trade circumstances by WTO. Of studies, Chae (2005) studied globalization orientation of service sector in trade under WTO. His study showed that Korea's competitiveness in service trade became continuously weakened for some time because Korea did not have enough time to prepare for WTO. Besides, Korean government was not good at service trade in the world market and how to negotiate with counterpart countries. He resulted in a warning sign that Korea's service sector was vulnerable to foreign countries under WTO.

Park (2005) studied some problems about FTA negotiations focused on service trade and suggested the operating strategies to succeed in negotiations with other countries. The results indicated that Korean governmental policy-makers should scrutinize who a counterpart was, and then compare pros and cons with it. Finally, the policy-makers determined the feasibility of signing a free trade agreement between both sides. Especially, Korea should be careful to sign a trade agreement because of the shortage of knowledge in service sector and take more time to do it.

On the other hand, Yoo (2006) and Ahn (2005) pointed out the exports of service products would improve the balance of payment and the service products were easy to transfer to other cultures. Because they possessed intangible attributes, the economic impacts of countries exporting them were huger than any other exporting product. The study concluded that the reinforcement of exporting service products would increase a country's trade account better, and then its national competitiveness would be strengthened together.

However, the earlier studies did not mention about a travel service account. According to Park (2006), Korea planned to be one of the Big Eight in the world trade market by 2012. But, Korea would encounter accidental problems should Korea not prepare the effective strategies in service trade because of the fast growing global

competition and interest on service sector. The study revealed that three service sectors such as system integration, marine transportation, and travel service were analysed to identify the inherent problems and risks related to trade practices. He concluded that trade process should be analyzed into subdivision, that global business strategies should be remodeled for the balance of trade in goods and in services, and that research field of service trade should be posed in global trade era.

Some researchers studied a concrete relationship with a travel account. Mo (2005) studied in a forecast for a travel demand and a travel account. The study resulted in a forecast of the continuous growth of travel deficit due to the outnumber of outbound tourists. But, the study did not illustrate why the travel deficit would increase for the future, just using a model of demand and forecast to show how much a travel account in Korea was. Mo's study also stressed that the relationship between economic impacts and travel accounts was very closed because a travel industry was a sensitive to multiplier effect.

Lim (2005) and Kim (2002) examined the ways to improve a travel deficit in service trade as the nation had seen a large outflux of outbound tourists in recent years. Lim's study was so interesting and its main idea to downsize the travel deficit of Korea was that Korea's travel market should come back to the previous year of 1987 when all people began to take an overseas trip freely. Government had to enact the appropriate regulations such as age limitation, high qualified overseas study, and limited credit card usage. Consequently, the study suggested that the improvement of travel deficit seek a solution at new inspiration of all Korean people. On the other hand, Kim pointed out that attracting more foreign visitors was the best way to increase a travel account in a long term. Kim's study showed that Japanese tourists were the most important origin in inbound travel market because the Japanese were the most visitors to travel in Korean with 43.4% of the total. She suggested in the study that there were two marketing strategies to attract Japanese visitors to Korea more in both long-term goal and short-term goal. In short-term goal, Korea had to supply the Japanese with more active tourism products, which induce them to participate in and experience themselves. In long-term goal, tour suppliers had to try to eliminate dumping tour packages. But, right now Japanese tourists took 38% of the total in 2006 (KTO, 2007)

All of researchers agreed that a travel account in service trade was very important for all countries, especially for Korea, one of developing countries. Last year, Korea experienced a dramatic travel deficit, 12.9 billion dollars even if trade balance in goods did a surplus. All studies were not enough to find the solutions to lessen a growing a travel deficit. It is the time to reveal why a travel deficit has been decreasing in Korean service trade market in recent years when outbound tourists have been increasing consecutively. Furthermore, this study would recommend what the deterrent factors to increase a travel deficit are and the countermeasures to improve a travel account in Korea are.

### III. Method and Measures

This paper used secondary data. The existing data mainly provided from KTO and Bank of Korea were used to analyze the status of Korean tourism, including a travel account, outbound travel market : total departures, total expenditures and average expenditure per capita, and inbound travel market; total arrivals, total receipts and average receipt per capita. Consequently, the data were used to analyse the status of Korea travel market in both outbound and inbound and to show an increasing travel deficit in recent years.

In a next step, the author conducted interviews with specialists, who have been working in tourism fields such as a hotel, a travel agency, a public organization, and a school in order to find out what solutions to lessen a travel deficit are in Korea travel market. The interviews were done by the author with face to face. The gathered suggestions were reflected in possible factors to show how to decrease a travel deficit. The author would find out some results to settle down deterrent factors to lessen a travel deficit and to make a plan to promote Korean inbound travel market.

### IV. Korea's Status

#### 1. Travel Deficit

The Bank Of Korea divided a travel payment into two, general travel and educational trip. In 2006, the deficit of general travel sector widened a record 36% to 8.48 billion dollars from a year ago and educational trip sector reached 4.42 billion dollars with an increase 32% over 2005 (The Bank of Korea, 2007). The total travel deficit in 2006 recorded 12.9 billion dollars, which showed an increase of about 34% over 2005 while transportation sector recorded \$2.46 billion surplus. It decreased to \$1.27 billion from 2005 (The Bank Of Korea, 2007).

On the other hand, Korea as an importer in 2006 shared 2.4% of travel services in the world and placed 12th country and 3rd country in Asia while Japan was the 1st country in Asia and 4th in the world. Japan has gone down continuously, but Korea shows a fast increase in international travel market. It is interesting that China is 1st exporter in Asian travel services and 6th in the world with 4.3% share because China's economic growth has remarkably been great in world trade market (WTO, 2007).

Table 1. Travel &amp; Transportation Payment (\$billion)

Year	Travel			Transportation
	General	Educational	Total	
2004	(-)3.80	(-)2.47	(-)7.27	4.87
2005	(-)6.26	(-)3.36	(-)9.62	3.73
2006	(-)8.48	(-)4.42	(-)12.9	2.46

Source : The Bank Of Korea, 2007

## 2. Outbound Travel Market

### 1) Outbound Tourists

As Korea's economy improved during the late 1970s and the early 1980s, the latent demand for overseas pleasure travel grew through, but it remained prohibited. In January of 1983, it was finally permitted, but only on a limited basis with several restrictions. Foremost was the age restriction. Only Korean aged 50 or more were permitted to obtain a single use passport for the purpose of tourism. Other notable restrictions were bank deposits and the lengthy intervals imposed between overseas travels. In the end of 1987, the age limitation was lowered to 45. In January of 1988, it was lowered to 40, and in July it was lowered to 30. Then in January of 1989 all age restrictions were removed and multi-use passports were issued for periods of three to five years (Korean Tourism Organization, 2007). Just 1988 and 2002, the year of the Seoul Olympics and Korea-Japan World Cup, were the landmark year for Korean inbound tourism, while 2005 became the landmark year for Korean outbound tourism because exceeded 10,000,000 outbound tourists initially. Korean tourism industry finally became a fully fledged member of the international tourism community.

From 1984 to 1987 total outbound tourists of Koreans were about 500,000 each year. In 1988, with the outbound age restriction reduced to 40 and then to 30 for the second half of the year, the total jumped to 725,000. In 1989, there was tremendous increase in outbound departures, more than 1.2 million people, and this was followed by another large increase in 1990 over 1.5 million departures. Moreover, last year, outbound tourists rose 15.2% to 11.6 million while inbound tourists increased to 6.15 million with 2.2% (KTO, 2007). Outbound travel market has went over 10% every year since 2001 in spite of late starter from outbound travel. Only 2003 decreased slightly because of Severe Acute Respiratory Syndrome (SARS).

Table 2. Outbound Tourist Departures

Year	Total Outbound Departures(person)	Change(%)
2002	7,123,407	17.1
2003	7,086,133	(-)0.5
2004	8,825,585	24.5
2005	10,080,143	14.2
2006	11,609,879	15.2

Source : Korean Tourism Organization (KTO), 2007

## 2) Tourist Expenditures

Korean outbound tourists in 2006 spent about 13.7 billion dollars, up 14.6% from 12.0 billion dollars in 2005 (KTO, 2007). The total tourism expenditures have been increasing since 2002 while in 2003 total expenditures did not increase. It is SARS that Koreans were reluctant to travel abroad.

A Korean tourist expenditure per capita was 1,187 dollars in 2006, which down by 60 dollars, 5% decrease over 2005 (KTO, 2007). An average, 1,187 dollars, is not bad, but is not use of this figure because total expenditures increased.

Table 3. Total Expenditures &amp; Average Expenditure

Year	Total Expenditures (\$billion)	Change(%)	Average Expenditure(\$)
2002	9.0	38.0	1,333
2003	8.2	(-)8.7	1,224
2004	9.8	19.5	1,169
2005	12.0	22.0	1,247
2006	13.7	14.6	1,187

Source : Korean Tourism Organization (KTO), 2007

## 3. Inbound Travel Market

### 1) Inbound Tourists

Korean inbound market experienced two dramatic turning-points, 1988 Seoul Olympics and 2002 Korea-Japan

World Cup after enacting complete liberalization on overseas travels for all of the public in 1997. Korean inbound tourism has been in a boom cycle for the past several years since hosting 2002 Seoul-Japan World Cup. It seems that Korean Government, however, fails to keep pace with a nation's continuous growth in tourism because in 2003 there was a decrease in total foreign arrivals, even though 2002, 2004, 2005, and 2006 experienced an increase. Also, although Korean government has operated Korea Visit Year to increase inbound foreign tourists every two years since 1994, it registered modest growth. As a result, Visit Korea Year fell the considerable visitors short of its original goal arrivals in 1994, 1998, 2000, 2004, and 2006.

Especially, the dramatic downturn in 2003 was due to Severe Acute Respiratory Syndrome (SARS), which prevented foreign tourists from visiting Korea. They avoided traveling to East Asia because SARS was prevalent. Furthermore, WTO (2004) also pointed out that SARS, in particular, had a huge impact on the demand for air travel, and as a result, became a great challenge for the tourism industry. Although Korea was not a SARS-inflicted country, Korea experienced a decrease in the number of foreign tourists because Korea is located in East Asia.

In 2006, Korean inbound tourism topped 6,155,752 visitors, a 2.2% increase over 2005. This number did not even reach the 3.5% growth of 2005, due to the shortage of tourist resorts and facilities, and the low growth of Japanese visitors, who have been regarded as a very precious customer because they were the first place in the number of tourists visiting Korea for last 30 years. Since 2000, the growth of Korean inbound tourism has remained in single digits as opposed to the double digits growth experienced in 2001 to 2006 (KTO, 2007).

Finally, Korean inbound tourism is today playing a tough game in an international destination market. Korean inbound tourism is still poised at a stage of stagnation.

Table 4. Inbound Tourist Arrivals

Year	Total Inbound Arrivals(person)	Change(%)
2002	5,347,468	3.9
2003	4,752,762	(-)11.1
2004	5,717,138	22.4
2005	6,021,764	3.5
2006	6,155,752	2.2

Source : Korean Tourism Organization (KTO), 2007

## 2) Tourist Receipts

The total tourism receipts spent by foreign tourists in Korea in 2006 amounted to a total 5.2 billion dollars



It went down 8.6% over 6.0 billion dollars in 2005 (KTO, 2007). In overall, the total tourism receipts have been decreasing since 2002, which showed that foreign visitors intend not to open their wallets more for Korea.

A foreign tourist per capita spent 860 dollars in 2006, which went dramatically down by 108 dollars, 11% decrease over 2005 (KTO, 2007). The expenditure per capita plunged into triple digits from 2005. Especially, it is the worst situation that Korean inbound market experienced a slight increase of total arrivals and a dramatic decrease of total receipts in 2006.

Table 5. Total Receipts & Average Expenditure

Year	Total Receipts (\$billion)	Change(%)	Average Expenditure(\$)
2002	5.9	(-)7.1	1,100
2003	5.3	(-)9.7	1,129
2004	6.0	13.3	1,045
2005	5.7	(-)4.3	968
2006	5.2	(-)8.6	860

Source : Korean Tourism Organization (KTO), 2007

## V. Analysis & Results

### 1. Imbalance between outbound and inbound tourists

The Ministry of Culture and Tourism is aiming at 7 million foreign tourist arrivals for 2007. In the area of international tourism, however, such goals have little meaning as annual records often fall short of the target figures. Last year, for example, the number of foreign tourists visiting Korea was expected to reach 6.15 million, which was way below the ministry's ambiguous target of 6.5 million. In 2006, Korean tourism experienced the biggest imbalanced number of outbound and inbound tourists. The outbound tourists grew 15.2% from a year ago to 11.6 million while the inbound tourists rosed to 2.2% to 6.15 million (KTO, 2007). There are 5.5 million surplus in outbound tourists because of outbound surge. Such a surge accelerates the imbalance of tourists between outbound and inbound in Korean tourism.

According to KTO in 2006, the most popular destination regions were Asia (72.6%), the Americas (8.1%), Europe (5.8%), and the Pacific(4.5%). China and Japan were the most popular countries, attracting about 3.66

million and 2.24 million Koreans respectively. Both countries captured about 51% of total Korean outbound.

Mr. John Koldowski, a director of Pacific Asia Travel Association(PATA), says the Korean outbound tourism miracle has been the dramatic product, and at the time. painful structural reform in the economy following financial collapse in 1997-98 and adds over time, as the Korean people's spending power strengthened, so did their resolve to spend it on overseas experiences, especially in Asia.

A KTO official also said that overseas travel is becoming more common these days. Owing to the five-day workweek system, more and more people visit neighboring countries like China, Japan and Southeast Asia for golf trips or sightseeing tours, taking advantage of free time in the weekends.

Finally, KTO organization said if the current trend continues, the total number of outbound travelers this year is expected to reach an all-time high of more than 13 million people. In spite of a warning sign, a growing travel deficit, Korean outbound travelers are arousing their enthusiasm to travel abroad more and more, sweeping all over the world.

## 2. Imbalance of travel account

Korea's service account deficit hit 18.7 billion dollars last year (The Bank of Korea, 2007). That is a record high and a worse fact is that the deficit has been growing for eight straight years. The outcome is in large part due to the money Koreans spent overseas either for trips or study, which has snowballed in recent years. Because of outbound travelers exceeding inbound travelers, Korea recorded 12.9 billion dollars including studying abroad in deficit in the travel account, up 34.1% over the last year, which is two-thirds of the entire service account deficit.

For this reason, the current account surplus more halved to 6 billion dollars over last year 14.9 billion dollars a year earlier (The Bank Of Korea, 2007). That indicates that Korea has poured the money it earned through exports into overseas trips and study.

With the Korea currency, won, retaining its strength, the trend is expected to last for the time being. Given that the pileup of account deficits in the mid-1990s caused the currency crisis, the service account deficit record in 2006 is more than worrisome. Koreans in 2006 spent 13.7 billion dollars on trips abroad while foreign tourists spent a mere 5.2 billion dollars in Korea (KTO, 2007). That is in a way a natural outcome, given that Korea is not particularly entertaining, nor does it have low consumer prices.

In addition, another problem is imbalance of average expenditure and receipt per capita in travel account. In 2006, a foreign tourist spent 860 dollars per visit in Korea, but a Korean outbound traveler spent 1,187 dollars overseas (KTO, 2007). A foreign tourist from Japan said without reserve, "I am so afraid I got ripped off whenever spending money and there is no worth things to spend money." As a result, it is implied that Korea

has to extend foreign tourists' stays through more attracted factors such as more exciting sightseeing things, various ranges of accommodations, affluent guides speaking foreign languages, etc.

Overseas study and foreign travel in Korean society have become familiar terms. It is easy to see fathers who have sent their wives and children overseas to study while they stay and work. Education is another sector that makes Koreans spend an immense amount of foreign currency. Students leaving for foreign countries for short-term or long-term education surpassed 100,000 in 2006, spending about 4.45 billion dollars. There was a 4.42 billion deficit. Only 28 million dollars was spent by foreign students in 2006 (The Bank of Korea, 2007). The students are not only leaving for developed countries but also small nations in Southeast Asia, which were previously less popular. It would have not happened if Korea's education system was adequate. Right now, Korea's atmosphere on overseas study is in excessive boom to learn English. Especially, overseas studies at early age sharply increase. Kim, Pil-goo, head of the Commerce Ministry's export and import division, said overseas trips during the summer and spending needed for education abroad widened the service import figures. He added that it is the first factor to leave for overseas study that people are dissatisfied with the condition of education in Korea.

### 3. Interviews

The interviews were conducted to increase the reliability of study even if the study did not conduct a primary method, a survey. The interviewees were categorized into 4 groups : a hotel, a travel agency, a public organization, and a professor. The authors asked them what alternative factors to decrease a travel deficit are in Korean travel market and he also suggested some multiple factors to help their interviews. As a result, the alternative factors the interviewees suggested were divided in such factors as improvement of low perception on Korea, more balanced development of attractions, enough cultural assets, KTO's initiatives, development of Hallyu trend, shopping, use of Korean national carriers, holding high valued tourism industry like a convention business, control on overseas study, stable political situation, and governmental supports. Of suggestions, all interviewees insisted the improvement of low perception on Korea be the first in order. On the other hand, director of outbound travel Cha, soo-wook in OK Tour and professor Kim, Chul-won in Kyunghee University also suggested KTO's initiatives be important. Cho, Duck-hyun, a senior researcher in KTO, insisted development of Hallyu trend and appropriate control on overseas study be more important.

According to general manager, Seo, Gap-seok in Sofitel said it would be more reasonable that such factors as shopping and holding high valued tourism industry like a convention business should be more direct method to earn foreign exchanges.

Table 6. Alternative Factors Pointed by Specialist in Interviews

Factors	Cha	Kim	Cho	Seo
Improvement of low perception	*	*	*	*
More balanced development of attractions	***			
Enough cultural assets			****	
KTO's initiatives	**	**		
Development of Hallyu trend			**	
Shopping				***
Use of Korean national carriers				
Holding high valued tourism sector		****		**
Control on overseas study			***	****
Stable political situation	****			
Governmental supports		***		

\* responses chosen by interviewees in order

\* first(\*), second(\*\*), third(\*\*\*), fourth(\*\*\*\*)

## VI. Alternative Suggestions and Possible Actions

It is inferred that Korea now is confronting with travel deficit that will be more serious in near future even though during the past two decades Korea became one of the most attractive countries. However, there are some suggestions to improve travel deficit because tourism industry has greater multiplier effect than any other industry.

### 1. Attracting more inbound tourists

Firstly of all, Korea has relatively low perception as an international destination, regardless of hosting '88 Summer Olympics and 2002 Korea-Japan World Cup. Most of the foreign tourists regard Korea as a second or third destination while in Asia, Japan, Hong Kong, or Singapore are considered as a main destination to them. Although foreigners know the existence of Korea in the world, exactly they do not know where Korea is, what its attractions are, and who Korea is. If we try to compare Korea as a destination to Stanley Plog's theory, even if Korea's position in international tourism destinations has been improved in its image, Korea's position is still in near allocentrics, which means it is not a popular destination by a traveler.

Generally, people act to the world as they perceive it to be, not necessarily as it is; thus image is extremely important to choose a destination. It is not excessive to say that poor image and low perception are big problems for Korean tourism.

To overcome the low perception with which Korea are facing as an international destination, the best alternative is to use Korea Tourism Organization (KTO). This organization is a non-profit government agency and solely responsible for the management of international promotional offices, marketing and promotion of international cooperation on tourism development of Korea, research work, education and training of tourism personnel, conducting examinations for license of tour guides and hotel employees, and operation of tax-free shops. KTO now operates 23 overseas offices in 13 countries and a tourist information center at its head office in Seoul (KTO 2007). Actually, KTO is the most useful to remove Korea's barrier, low perception, as an international destination in the world tourism market. If KTO makes efforts to promote and develop Korea in the world destination market without cease, Korea will be more prospective to improve its image and to expand potential origin markets. Therefore, KTO has to suggest possible actions to solve some problems that will impede tourism growth and to boost Korean inbound tourism in international destination market. Finally, KTO will be a leading runner to develop Korean tourism.

KTO can implement some actions to promote Korea as an attractive destination in the world. The overseas tourism promotion and publicity activities are the most vital aspect of KTO's missions. In order to carry out its missions and activities, KTO maintains overseas branch offices in America, Europe, Japan, Australia, and Southeast Asia. There are some examples : to furnish those traveling or promoting travel with the latest travel information on Korea, to supply those traveling or promoting travel with free color guide books and posters in several languages, to provide the color slides and films on Korean tourism for presentations to potential clients, to invite or support personnel engaged in travel trade and mass media, to make sales calls and presentations on Korea tourism, to place advertisements of Korean tourism in the mass media, to take part in a variety of international fairs and seminars, to maintain a local chapter for each international tourism organization, to distribute periodic press releases to foreign mass media, to cooperate with other countries and world tourism organizations.

KTO has also led the way for the private sector to develop Korea's three other most popular tourist destinations : Kyongju, Cheju island, and Mount Sorak National Park. In addition, KTO conducts research on overall tourism resources for balanced development, maintenance and construction projects, leading to the evolution of new tourism resort complexes. Especially, recently KTO has projected international tourist resort areas such as Namwon and Kyongju for foreign tourists as well as domestic travelers. And, KTO is looking for tremendous potential from the Japanese markets awaiting the establishment of direct transport links across the East sea between area of Mount Sorak and Japan by ship.

Nowadays, in international travel markets, some barriers which we have not seen before are emerged as the barriers can impede international travels. Such problems are security, health, and taxes on arrivals and departures. So, KTO is trying to remove these barriers for travel in Korea through VISA waivers, easy entrance procedure,

good security, and intensive checking health conditions, as requesting a cooperation with government.

Secondly, another alternative is to develop more balanced attractions than existing those on both natural and man-made. That means decentralization on tourist attraction areas is necessary and more sightseeing should be supplied for inbound tourists. Since 1978, under the government Korea have developed 5 circles such as Seoul Capital circle, Honam circle, Solak circle, Kyongju-Pusan circle, and Cheju Island circle (KTO 2007). However, their outcomes are still not enough to balance demand and supply on tourists.

Especially, one challenge for Korean tourism is that Korea has more to be shown than Seoul. Last year, more than 60% of inbound tourists restricted their travels to the capital area (KTO 2007). According to the Travel and Trade Journal's McGahey, " The Seoul problem is due to a gateway function and its concentrated attractions". " But, now Pusan and Cheju with their ferry and airline services are becoming transportation hubs." Actually, Solak Mountain, Kyongju, and Cheju island areas not only have enough conditions given as good international destinations with beautiful natural scenes and affluent historic and cultural resources, but also are regarded as historic and natural landmarks in Korea.

In addition, Korea has affluent natural and cultural attractions that can be interested for foreign tourists enough. Especially, because Korea in history has about a half of ten thousand years, visitors in Korea are able to look at various flavors of cultural assets and historic sites easily. Outside the largest city, Seoul, Kyongju, which for a thousand years from the time of Julius Caesar served as the capital of the Shilla Dynasty, was designated by Unesco as one of the ten most important historic cities in the world. Known as the "Museum without Walls", Kyongju's many ancient attractions have been carefully preserved, and its tourism infrastructure has been developed sufficiently to handle the large influx of domestic and international tourists. Nowadays, of tourist attractions in destinations, cultural tourism is being placed as an important factor which can draw potentially motivated visitors.

On other hand, an official in the Culture & Tourism Ministry pointed out the large investments from local and foreign sources need to be promoted in long-term development projects to create new tourist attractions such as the southwestern coastal island belt and the Incheon free economic zone and added the present administration's "hub of Northeast Asia" program should continue to put emphasis on tourism development promotion in addition to financial facilities.

Another is to enlarge foreign arrivals by origin visitor market in Korea, In tradition, Asian countries accounted for 74.7% of total foreign visitors in 2006 after 1999 when it was the first time for Asians to exceed 70% of total foreign visitors. Of visitor countries to Korea, Japan was the first visiting country with 38% (KTO, 2007). Considering some of the countries such as Spain and Greek that took over 15% of balance of payment in 2006 from foreign tourist receipts (WTO 2007), they are showing a fact that there are most of the tourists from diverse origin regions. Therefore, it is very dangerous for Asian countries to be heavily focused as visiting countries for

Korean inbound tourism market in the future. Korea has to make efforts to expand origin markets to come to Korea. For example, Hallyu boom has swept the Asian regions since the early of 2000s. Drove of Japanese and Chinese enthusiasts often outnumber local fans on the sets of television dramas and at the event where Korean superstars appear. Samsung Economy Research Institute indicated that the export of cultural contents on Hallyu has increased over 40% since 2000 and Hallyu in 2006 induced about 1.4 billion dollars in travel account. Hallyu has also improved the Korea's image in Asian visitor market.

However, Hallyu has drastically decreased for the last year because Japan and Chinese people started to think of Hallyu as a cultural invasion to themselves. They are reluctant to buy Korean travel products related to Hallyu. It is time to develop a new trend to expand origin market. It is recommended that highly popular Korean IT and fashion goods should help bring in new foreign tourists.

## 2. Opening inbound tourists' wallets

Most of the developing countries agree that tourism is a major tool to get foreign exchanges. Of course, So does Korea. In 2006, total tourism receipts in Korea inbound market went down by 8.6% to 52 billion dollars. In addition, an average expenditure from a foreign tourist per capita was 860 dollars, 11 percent decrease over 2005 (KTO, 2007). They do not open their wallets for Korean visits anymore while outbound tourists spent the most money ever last year. As a result, Korean travel account experienced 12.9 billion deficit in 2006 (KTO, 2007).

In general, it is the best for foreign tourists to open their wallets by themselves. According to a KTO report, shopping is the best way to do so because Korea is one of the best shopping circumstances in the world due to good quality compared to a price. The visitors to Korea will be agreeably surprised by the low prices asked for good quality commodities. Korea's best buys include superb silk and furs, brocade, topaz, brass, ceramics, tailor-made clothing, exquisite art and antiques. If you should try testing Ginseng, Korea's would be considered as the world's best. Shopping in Seoul is a fascinating treasure. There are elegant and western modern stores and tiny shops on Itawon's back streets. The traditionally famous markets are near the two ancient city gates-Tongdaemun and Namdaemun, where anything and everything can be bought at an affordable price. These areas are also fun places to browse through just to get a glimpse of the ordinary Korean daily life. Thus, shopping itself can be one of the most powerful incentives to open foreign tourists' wallets in Korea.

On the other hand, it recommended that buyers, who plan Korean tour products, be willing to select transportation operated by Korea through a reasonable price policy. An expenditure on transportation in travel budget usually ranges 45 to 55%. If a foreign tourist gets on Korean national carriers, Korean travel deficit will decrease considerably. But, there is why foreign travel agencies do not use Korean national carrier. Korean

national carriers heavily depend revenues on Korean people because they are willing to pay more money to them due to a language problem, which is nonsense in Korean outbound tourists. Korean national carriers do not need to sell their seats to foreign tour operators with complex distribution channel. They feel Korean people are enough to make a profit for themselves. Finally, foreign tour planners do not try to get Korean national carriers because of expensive fares. It is a good example for Korean inbound market to lose international competitiveness in the world market.

Another is to explore a new market to make relatively a lot of profits, a high valued sector. Convention Liaison Council (CLC) in United States discloses the conventions and meetings industry is the best sector to create high profits of tourism businesses in 21th century. Korean government enacted a law, which promoted a convention industry in 1996 and was amended in 2002. Today, there are 7 convention centers; especially KOEX in Seoul and KINTEX in Goyang have a world scale exhibit spaces enough to hold any international convention. As a result, a new market, convention sector, will give a chance to overcome Korea's travel account deficit because government give a lot of benefits to an agency hoping to held any convention through a promotion law.

### 3. Appropriate control on overseas study

Traditionally, there is Korea's more educational passion than other countries in the world. Most of the parents in Korea think English is the first competitive factor to success in Korean society. That is why every year the great number of students leaves for a study abroad. Such a trend helped to cause a serious problem, the most service deficit, to bring up. Last year, the overseas study account recorded 4.45 billion expenditure while 28 million receipt. There was about 4.42 billion deficit, 32% increase over 2005 (The Bank of Korea, 2007).

A parent living in Gangnam area said that studying abroad is necessary to survive a competitive Korean society and stresses English is the arms to protect his children for the future. Last year, the number of young age students studying abroad shared 15% of total overseas students and over 90% of total people studying abroad aimed to learn knowledge based on English (The Bank of Korea, 2007). As a result, it is estimated that more and more people try to study abroad and more and more overseas study account deficit will be increasing fast.

Even if it is inferred Korea is not good enough to learn knowledge based on English, Korean Council for University Education (KCUE) strongly suggests a government's regulation is the best way to come down such an overseas study boom and also recommends the new establishment of international schools to stop people intent to study abroad.

To improve this situation, if government's policy and better educational environment to satisfy people hoping to study abroad are firstly considered, educational deficit will stop widening.



## VII. Recommendations

Even though the possible actions presented earlier and others can improve Korean inbound tourism, downsizing the travel deficit, followed recommendations will support and help the development of Korean inbound tourism more effectively.

Firstly, the development of tourism industry is very closely influenced from government's intention and policy because in general tourism industry need huge investments and infrastructures. The government's strong tourism policy can help missions of alternative suggestions. The government has enacted, amended and supplemented appropriate laws and regulations to foster the development of the tourist industry if necessary, or at the request and recommendation of the travel trade. Accordingly, the Tourism Promotion Law and the Tourism Business Law has been rectified to meet requirements and at the same to relieve deterrent factors imposed on the travel industry. And, in order to support development of Korean tourism, government can offer other opportunities; for example, financing loans funded by Ministry of Construction and Transportation for tourism suppliers, tax incentives on tourism business, low taxes on joint investment projects related to tourism industry, and taxes exemption on goods purchased by tourists. Under well-planned policy by government, KTO's works will be also facilitated to improve Korea's image to attract more foreign tourists in the world, maximizing KTO's ability to do so. As a result, Korean government has to draw spontaneous participations from private tourism sectors, giving some incentives above for cooperative works.

Secondly, among many barriers to attract foreign tourists to Korea, political problem is one of the worst environments because tourism is very sensitive to political situation. For example, Fiji took a sudden turn to the worse because of the coup and the world travel market was shrunken because of 9.11 terrors, experiencing a serious decrease on numbers of tourists (WTO, 2007). Especially, the most unstable political situation, 9.11 terror, could give serious stagnation to tourism industry. After the terror, most of the travel agencies experienced about 50 to 70% decrease of profits in terms of international tours (WTO, 2007).

Now Korea's political situation is not good. Civil demonstrations to the government, struggles between parties, and confrontation with North Korea are causing some difficulties in attracting foreign visitors to Korea. Last July, North Korea's missile launchings triggered the unstable tourism flows in both outbound and inbound travel market and then Kumgangsán travel business temporarily quit. Kumgangsán Tourist Region is a special administrative region of North Korea. It was established in 2002 to handle South Korean tourist traffic to Kumgangsán (Diamond Mountain, the second tallest mountain in North Korea). So, in order to get a reverse opportunity, Korea has to keep going to seek political stability in domestically and internationally political surrounding because it is essential to support development of Korean tourism.

Thirdly, less recognition and awareness of the importance of financial support by policy makers is still prevailing. The little knowledge on the important role of tourism in a national economy results in insufficient budget allocation for tourism field, lack of cooperation among the government agencies concerned and serious travel deficit.

Mr. Park who is a chief of KTO in New York office says, "KTO received 19 million dollars of budget to promote Korea overseas from the government last year, however, this not enough to work for Korean tourism. At least, we need more than 25 million dollars". Like Mr. Park's suggestion, KTO has to be guaranteed by Korean government through some methods like tourism activation taxes, some fees of museums or any attraction entrance, and assistant promotion funding from the world tourism organizations such as WTO, UNDP, and APTA. If KTO is supported by enough financing, it will plan, administer, and promote Korea as a well advertised destination in the world more effectively and easily.

It is strongly recommended that the tourism authorities' efforts to persuade the budget agency within government and congress to secure more budget allocation should be doubled.

## VIII. Conclusion

Because Korea has some problems as an international destination like above, consecutive travel deficits for last years have resulted with the imbalanced number of tourists in outbound and inbound travel market. However, in overall, Korean tourism is bright for the future and now is "take-off" time to improve travel deficit if private and public sectors develop Korea's merits and make insufficient points better.

The improvement of KTO's role mentioned and growing political stability in domestic and international will accelerate the development of Korean tourism; for example, because only more than ten years ago Korea implemented the election of local self-government, local government that was revived at 30 years will make efforts to control and develop their areas better than before. That means decentralization will make better environment for tourism development because tourism can give big motivation to local communities for economic growth.

Furthermore, in terms of relation between North and South Korea, recently the North and the South are handing to make reconcile atmosphere for peace of Korean peninsular through the mutual coming and going for Kungangsan and Gaesung tours and multiple negotiation meetings. Peaceful unification or coexistence between two governments could promote Korea as one of the most attractive destinations for world tourists in the future; for example, Kungangsan tours between two Koreas have been performing by ship and road for 8 years.

Another point is that residents are a major factor to attract foreign visitors. The cooperations among government,

owner companies of facilities, and local businessmen and residents are necessary in development of tourist area. However, the participation of local businesses and residents is often excluded. This results in the cause of residents' antipathy against tourists, so that unhappy accident will be able to happen. For example, too much exposure of visitors' own culture to the local people sometimes offends local residents. There are the growing number of Japanese wearing their traditional clothes and behaviors which are generally hated by Koreans because they remained Korean people of those unhappy and tragic days of Japanese occupation. Education and persuasion of the local people are necessary to ally their hostile felling. Participation of residents in the development of local tourism is necessary to solve these kinds of problems. Under the well-organized and completed planning, government and residents should collaborate to be a winner in international tourism market.

Finally, called the "Land of Morning Calm", Korea offers 5,000 years of art and culture, historic places, spectacular scenery, splendid shopping malls, fine hotels and friendly people who have a traditionally warm waiting to welcome many incentive foreign tourists with a wealth of attractive locations.

As a result, Korea is poised as having a healthy conditions overall in the world's tourism market. Now, there is no argument that Korean tourism is "take-off " time to go into reverse on travel deficit in international destination market even if the decrease of the number of foreign visitors and total tourism receipts is a fundamental problem and Korea experienced serious travel deficit for last years.

## IX. Limitations and Further Study

There are some limitations in the study. One is not to use primary data. In general, a survey can be more reliable and valid. To lessen it, even if the interviews from specialists in tourism sectors were conducted, it is not enough to settle down the shortage of objectivity from the study. The solutions suggested from specialists and the author could not cover why Korea is facing a serious travel deficit completely.

Another is that the limited usage of secondary data in the study is short to illustrate all of Korea's trade status exactly because the study mainly used tourism statistics from KTO.

The author is very sorry that a further study will be needed, using a survey and various secondary data. It is necessary to use a variety of analysis methods to study more systematic and in details.

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# 서비스 무역 적자 증가의 현황과 원인에 관한연구

- 관광산업을 사례로 -

## 국문요약

2006년 우리나라의 경상수지 흑자는 2005년도 대비하여 60%가 축소된 60억달러를 기록하였다. 이는 281억 달러의 흑자를 기록한 2004년에 비하면 매우 축소된 흑자규모로 그 결과는 매우 충격적인 것이다. 특히, 해외여행과 유학 및 연수등이 포함된 서비스 무역 적자는 187억을 기록하였으며, 그중 여행(유학 및 연수포함)수지 적자는 전년보다 33억달러가 증가한 129억 달러를 기록하여 역대 최고 수준인 것이다. 결국, 여행수지적자가 서비스무역 수지적자의 주된 이유가 된 것이다. 여행수지 적자의 주요 원인은 아웃바운드 관광객의 숫자가 인바운드 관광객의 거의 2배에 육박하여, 결국은 국외에서 한국인들이 사용한 달러가 관광수입으로 들어온 외화를 크게 앞지르면서 관광수지적자를 야기 시킨 것이다. 한편 유학 및 연수비용도 크게 성장하면서 관광수지적자의 폭을 더욱 넓힌 계기가 된 것이다.

그리하여, 지난 수년간의 관광수지적자의 원인을 분석한 결과 인바운드 관광산업의 촉진과 함께 국가의 정책적 지원이 향후 여행수지 적자의 폭을 감소시킬 뿐만 아니라, 장기적으로는 서비스무역 수지 개선이 예상되며, 이를 위해서는 민관이 긴밀한 협조를 통해 서비스무역 수지 관리에 보다 많은 시간과 노력을 기울여야 할 것 이라고 사료되는 바이다. 또한, 외래 관광객들의 느끼는 남북한 대치 상황의 개선, 즉 정치적 안정은 한국 인바운드 관광의 안정성을 가속화시키는 밑거름이 될 것이다.

결국, 여행수지 적자의 폭을 줄임으로써, 무역수지 개선을 가져온다면, 한국관광의 위상이 올라가면서 국가 경쟁력이 상승되고 국가이미지 또한 상승되어 한번에 두 마리의 토끼를 잡을 수 있는 win-win 구도가 형성되어, 한국 서비스산업 발전과 무역 발전에도 긍정적인 영향을 미칠 것으로 확신하는 바이다.