

A study on Effects of Visa Waiver Program with the USA on Korean Tourism Industry

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Abstract

The Visa Waiver Program of the United States increases the number of Korean tourists to the US but also affects the number of the US tourists to Korea. One of the most important factors in the tourism industry is the increase in the demand for tourism and other related services. In this regard, the VWP is expected to be a new opportunity which generates such demands.

It should be reminded that the sustainable development in the industry is essential rather than limiting to the effects of the VWP. Transportation and communication has recorded unbelievable advancement which will be continued in the future.

Key Words : Service trade, international tourism industry, visa waiver program

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I . Introduction

The results of discussions with the USA regarding the VWP which has started in 2004 began to take more detailed outlines this year. Starting November 17, 2008 Korean nationals may visit the United States without visa. Such development was realized in less than one year from the summit meeting of the two countries in Washington DC last April to admit Korea to the VWP favorably within the year. The VWP stands for the Visa Waiver Program which admits nationals of designated countries to the USA without a visa for stays of 90 days or less. The VWP is expected to bring improved country image, strengthened alliance between Korea and the USA as well as increased business and tourists between the countries.

Tourism industry is arising as one of the new growth drivers of the 21st century. As estimated by the World Tourism Organization, the tourism industry consists 20%of the total GDP in 2008, increased from 12% in 2003. Tourism industry consists 8% of the total worlds trade and 35% of the service exports. It has been developed as one of the top three industries of the world together with petroleum and automobile industries. Tourism industry in Korea has considerably high growth potential since the proportion to the GDP remains less than half of advanced countries.¹⁾

Hence, how would the Visa Waiver Program and the introduction of the electronic passport affect the tourism industry? As mentioned earlier, the tourism industry is a high value-added industry consisting 8% of the total world trade. It has a significant influence on other industries such as restaurant, lodging and air transportation. As it is expected that the VWP would increase travelers for both business and tourism purposes, detailed ripple effects of the VWP as well as quantitative analysis of the effects will be provided in this study.

II. Overview of the Visa Waiver Program (VWP)

1. Visa Waiver Program (VWP) of the United States

1) Outline of the VWP

The Visa Waiver Program (hereinafter referred to as the VWP) of the United States Government is a

1) "Details of the 10 Projects" of Samsung Economic Research Institute

program that enables nationals of designated countries to travel to the United States for tourism or business for up to 90 days. The United States Government expects to enhance the alliance with its allied nations, to eliminate barriers to travel, to promote tourism industry and to facilitate consular affairs with the VWP.²⁾

The US Congress established the VWP in 1986 through enactment of the Article 217 of the Immigration and Nationality Act, and delegated the operation to the executive branch. As the VWP is related to the entry to and exit from the United States as well as immigration, the legislation and operation rest ultimately with the authority of the United States Government. On the other hand, because VWP allows only tourism and business purpose travels to the USA, travelers for other purposes such as study, work, entertainment, investment and report are still required obtain appropriate visas. In addition, even for tourism and business purposes, a traveler should obtain a visa if his has been refused a visa, deported from or denied entry into the USA previously.

2) Eligibility

To be eligible to the VWP, the following conditions must be met.

- ① Tourism or business purpose visit
- ② Short-term stay for 90 days or less
- ③ Electronic passport
- ④ Prior approval through the Electronic System for Travel Authorization
- ⑤ No previous history of visa refusal or deny to entry into the USA

With a prior ESTA travel authorization, a traveler may be eligible under VWP even if he enters into the USA from a country other than Korea by air, land or sea. Additionally, Korean nationals holding US visa may use it until its validity.

3)VWP Procedures

If a traveler wishes to enter into the USA under the VWP, an electronic passport must first be obtained. Then the traveler may connect to the site of ESTA (esta.cbp.dhs.gov) to see whether he is eligible by providing 17 required information including name, date of birth, nationality, gender, telephone number and passport number as well as optional information such as address. If the traveler fails to obtain approval through ESTA, he must obtain an appropriate visa from the US Embassy in Korea through a separate verification procedures. There are three responses to an ESTA application; approved, travel not authorized or pending.

2) Visa Waiver Program of Ministry of Foreign Affairs and Trade "<http://www.vwpkorea.go.kr>"

For pending application, final response shall be given within 72 hours. Accordingly, a traveler are required to finish ESTA procedures at least 72 hours prior to the time of departure in order to avoid undesirable inconvenience.

All VWP travelers with an approved travel authorization via ESTA may travel to the USA for two years without additional approval procedures. In summary, a VWP traveler will go through the following procedures.

Obtain an electronic passport → Access to the ESTA site → File an application by providing personal as well as travel information → Confirm the application number → Confirm the approved travel authorization → Departure

2. VWP Countries in the World

- Asia

Japan, Singapore, Brunei

- Oceania

Australia, New Zealand

- Europe

Norway, the Netherlands, Denmark, Germany, Luxembourg, Liechtenstein, Monaco, Belgium, San Marino, Sweden, Switzerland, Spain, Slovenia, Iceland, Ireland, Andorra, the United Kingdom, Austria, Italy, Portugal, France, Finland

3. Qualification and Implementation of VWP

1) VWP Qualification Criteria³⁾

To participate in the VWP, there are criteria that must be met by the USA, by the candidate country as well as the agreement between the two countries. Besides, the US Government should establish securities systems such as ESTA and Exit-Control System.

| Qualification | Description |
|----------------------------|--|
| Refusal rate less than 10% | The non-immigrant visitor visa (i.e. tourist, work or student visa) refusal rate for nationals of a country who have applied at the US Embassy or Consulate in the country must average less than 10% of the total applicants. |

3) Visa Waiver Program of Ministry of Foreign Affairs and Trade “<http://www.vwpkorea.go.kr>”

| | |
|---|---|
| Reciprocity | The VWP participating countries must provide reciprocal visa-free travel for the US nationals equivalent to the VWP. |
| Machine-readable passports with bio-data | A VWP traveler who wishes to enter into the USA without a visa must hold a machine-readable with bio-data. Bio-data include facial image such as digital photo and fingerprints. Korean government issues the electronic passports with facial image of the traveler. |
| Law-enforcement Cooperation | The VWP must not threaten the law enforcement of the countries. The cooperation between the law enforcement agencies of the USA and the VWP participating country must be well established. |
| Share of Lost or Stolen Passport Information | In order to avoid abuse of a lost or stolen passport issued by the US or the candidate country by a third party, the related information must be regularly shared. |
| Introduction of ESTA of the US Government | The VWP participating country must cooperate with the US government to implement the ESTA to the nationals wish to travel to the USA. |
| Cooperation to deport illegal immigrants and criminals | The VWP participating country must accept its nationals who received final deportation order by the court. |
| Share of traveler information | The two countries must share information of travelers who may threaten the security and welfare of the counter party. |
| Strengthened Airport Security | Security conditions such as restricted areas of the airport must be strengthened. |
| Inboard Security Agent | To protect the aircraft from terrorism inboard security agents are required. |
| Strengthened documentation standards for the passport and travelers | Security over the passport and traveler documents must be strengthened in order to avoid forgery and abuse. |
| Cooperation for anti-terrorism | Cooperation between the judicial authorities and information bodies of the USA and the participating country must be well established to face the international terrorism. |

2) Implementation

The US Embassy in Korea announced on October 31, 2008 that Korean nationals may travel to the United States without a visa under the VWP starting November 17, 2008. Also, US President George Bush declared on October 17 seven new VWP participating countries including Korea, Hungary, the Czech Republic, Latvia, Lithuania, Slovakia and Estonia.

Although the VWP is implemented, not all Korean nationals are exempted to obtain a visa to enter into

the United States and a separate authorization is mandatory unlike other countries that no visa is required to travel such as Japan. However, it may be more efficient to save cost and time compared to the existing system for short-term travelers.

III. Ripple Effects of the Visa Waiver Program (VWP)

1. Overview of Tourism Industry in Korea

1) Importance of Tourism Industry

Tourism industry is a composite industry that provides comprehensively goods and services related to the tourism such as transportation, communication and accommodation. Tourism industry is steadily developing due to economic development and advancement of technologies such as transportation and communication. It is also considered as a new growth driver with unlimited potential in the 21st century. The development is rapidly accelerating based on the demands for more comfortable life, rest and exposure to new cultures as well as changes in the attitude toward life arising from the increased leisure time and improved quality of life. The tendency is expected to be continued.

World Travel and Tourism Council (WTTC) projected that tourism industry would consist 11.6% of the total GDP and 9% of the employment of the world. Also, the number of tourists would increase by 4.1% annually from 1995 for 15 years, reaching 1.56 billion in 2020.⁴⁾

International Tourists Outlook

(Unit: Million Persons, %)

| Region | 1995 | 2010 | 2020 | Annual Growth Rate (95-2020) | Market Share | |
|--------------|-------|---------|---------|---------------------------------|--------------|------|
| | | | | | 1995 | 2020 |
| World | 565.4 | 1,006.4 | 1,561.1 | 4.1 | 100 | 100 |
| Africa | 20.2 | 47.0 | 77.3 | 5.5 | 3.6 | 5.0 |
| America | 108.9 | 190.4 | 282.3 | 3.9 | 19.3 | 18.1 |
| Asia-Pacific | 81.4 | 195.2 | 397.2 | 6.5 | 14.4 | 25.4 |

4) Federation of Korean Industries "Policies Directions to Enhance Competitiveness of Tourism Industry" (2006)

| | | | | | | |
|------------------|-------|-------|---------|-----|------|------|
| Europe | 338.4 | 527.3 | 717.0 | 3.0 | 59.8 | 45.9 |
| Middle East Asia | 12.4 | 35.9 | 68.5 | 7.1 | 2.2 | 4.4 |
| South East Asia | 4.2 | 10.6 | 18.8 | 6.2 | 0.7 | 1.2 |
| Internal Tourism | 464.1 | 790.9 | 1,183.3 | 3.8 | 82.1 | 75.8 |
| External Tourism | 101.3 | 215.5 | 377.9 | 5.4 | 17.9 | 24.2 |

Source: World Tourism 2020 Vision (World Tourism Organization, 2003)

According to the information presented above, it can be inferred that the number of foreign tourists increases by time passes. The projection was made considering the advancement of transportation and economic development. Taking into account of increasing foreign tourists visiting Korea would generate varied added-value and source of foreign currencies aside from providing sight seeing and entertainment. Moreover, the development of tourism industry is directly related to the demand of manpower as the industry has a significant influence on the employment. Thus, promotion of the tourism industry would help solve as well the employment problem.

2) Trend of Domestic Tourism Industry

In 2007, the total number of foreign tourists visited Korea was 6,448 thousand, increased by 4.8% from the previous year. Asians composes the largest part of the total foreign tourists by recording 4,746,808 persons, 4,746,808 tourists, consisting 73.6% of the total foreign tourists in 2007 were from Asian countries. The number of Asian tourists was increased by 3.0% from 2006. Tourists from America amounted to 716,336 persons, consisting 11.1% of the total and those from Europe amounted to 559,464 persons, consisting 8.7% of the total. Tourists from America and Europe were increased by 6.4% and 4.6%, respectively. Tourists from other continents, such as Oceania, Africa and Korean residing in foreign countries composes 6.7%, among which the number of visits by Korean residing in foreign countries was increased by 29.7% from 2006. During the first quarter of 2007, the number of Japanese tourists was highly increased due to large-scale group of tourists at the beginning of the quarter. After Chinese New year (by lunar calendar) the number of foreign tourists was sharply increased mostly due to Chinese tourists, since then strong Korean Won caused decreased Japanese tourists. As a result, the growth rate of foreign tourists was only 2.2% during the quarter. Similarly in the second quarter, major markets including Japan and Southeast Asia continued to decline due to strong Korean Won. Despite the large increase of Chinese market, the number of foreign tourists remained relatively same, increased only by 1.4%. Steady increase of Chinese and Southeast Asian

markets as well as significant growth of American market was recognized during the third quarter. Increased number of stop-over flights was the major reason for the growth of the American market. During the fourth quarter, the decreasing trend of Japanese market was slightly recovered for the demand for visit by student groups. Also, through tourism campaign and incentives for tourists inducement, Chinese and Southeast Asian markets were highly increased by 10.5%.⁵⁾

Recently, the number of foreign tourists is expected to increase attributable to the drop of won value caused by the global financial crisis. It requires therefore to continue the foreign tourists inducement for long-term through improvement of services and diversification of tourism in Korea.

2. Effects on Tourism Industry in Korea

So, what effects will the VWP bring to the local tourism industry? The result of survey shows that 61.8% of the general public in Korea considers that the VWP would help promote tourism industry in Korea. The response is even lower than other positive effects expected such as improvement of country image and strengthened alliance between Korea and the United States, to which 82.7% and 80.7% answered favorably. 33.6% answered negatively, either not much or not at all. Interestingly, it was found that the higher the level of income and education of the respondent, the more favorable was the answer.⁶⁾

Referring to the result above, it can be therefore analyzed that the expectation for the promotion of the tourism industry is relatively low. Rather, the increase in the number of Korean travel to the United States is more likely as reported by foreign press such as LA Times that the Korean tourists to the US would reach 1.8 million a year, more than double of 800 thousand in 2007, in two to three years. However, promotion of the tourism industry in Korea is reasonably expected considering the increase of the number of foreigners traveling to Korea for business purposes. More detailed analysis will be presented in the following chapter.

5) Ministry of Culture, Sports and Tourism "Annual Report on the Trend of Tourism"(2008)

6) Ministry of Foreign Affairs and Trade "Effects Expected from Participating in the VWP of the United States"(2008)

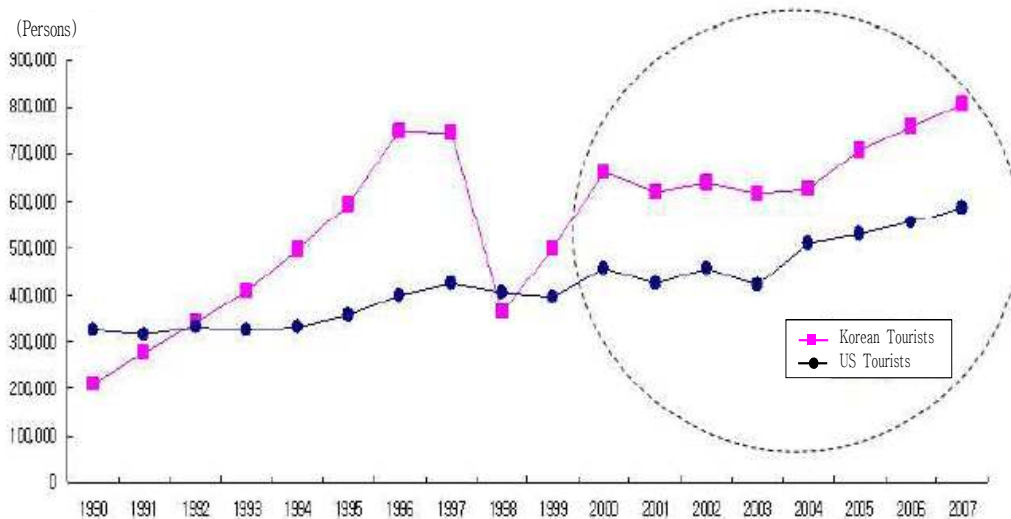
VI. Analysis of the Ripple Effects of the Visa Waiver Program (VWP)

1. Analysis of Ripple Effects of VWP on Tourism Industry

1) Projection of the US Tourists to Korea

The correlation coefficient between the number of Korean national traveling to the United States and the number of the US tourists to Korea is significantly high, showing directly corresponding increase/decrease to that of the counter party. From 1990 to 2007, the correlation coefficient⁷⁾ between the number of Korean national traveling to the United States and the number of the US tourists to Korea is measured at 0.78, proving the high correlation. More importantly, by eliminating the data during the 1990s during which external factors seriously affected the industry such as the period of IMF, the correlation coefficient during the 2000s is assessed as 0.90, showing even stronger correlation between the variables. Accordingly, the number of Korean tourists to the United States will be estimated by regression analysis.

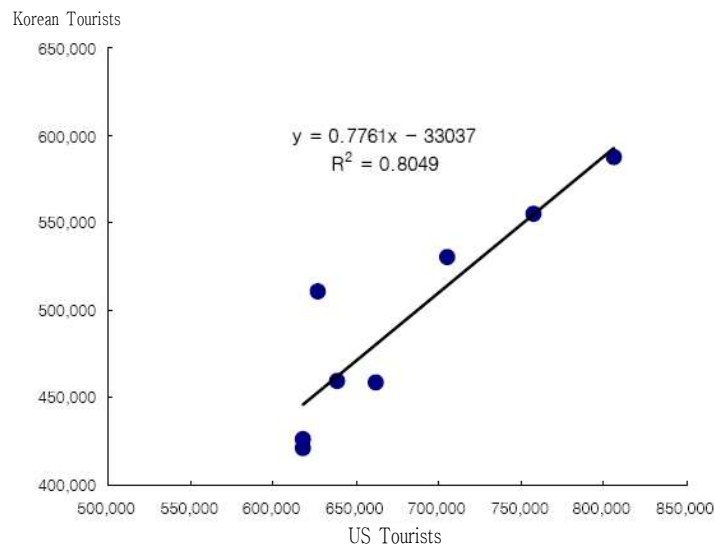
Number of Korean Tourists to the US and the US Tourists to Korea



7) 11) Correlation coefficient is an indicator showing the linear relation with the value ranging from -1 to 1. The closer the value to 1, the higher positive correlation between the variables and vice versa.

By regression analysis, the number of the US tourists to Korea is projected to be 734,034 in the year of participation in the VWP, 851,082 after one year and 889,871 after two years. For regression analysis based on the data from 2000 to 2007, the regression equation was formulated as $Y = 0.7761X - 33037$ and the coefficient of determination (R^2)⁸⁾ was computed as 0.8049, giving valuable significance to be used as projection model. The result shows that the number of the US nationals increase by 0.78 persons for every one Korean national travel to the US.

Regression Analysis of the Korean Tourists to the US and the US Tourists to Korea



The number of the US tourists to Korea was estimated as follows by applying the number of Korean tourists to the US as assessed previously to the regression equation ($Y = 0.7761X - 33037$).

Estimation of the US Tourists to Korea

| | 2008 | 2009 | 2010 | 2011 |
|-------------------|---------|---------|-----------|-----------|
| X=Korean Tourists | 876,819 | 988,366 | 1,139,181 | 1,189,161 |
| Y=US Tourists | 647,462 | 734,03 | 851,08 | 889,871 |

8) Coefficient of determination is an indicator showing the linear relation of the regression equation, ranging from 0 to 1. The closer the value to 1, the higher is the linear relation of the regression equation.

The changes in the demand caused by the VWP were assessed as follows. The net increase of tourists due to the VWP is computed as following by deducting the estimated number of the US tourists to Korea before considering the effect of the VWP from the estimated number of the US tourists to Korea after considering the effect of the VWP.

Ⓒ Net increase in the number of tourists attributable to the VWP= Ⓓ US tourists to Korea estimated before considering the effect of the VWP - Ⓔ US tourists to Korea estimated after considering the effect of the VWP

Net Increase of the Number of the US Tourists to Korea after the VWP

| | 2009 | 2010 | 2011 |
|---|---------|---------|---------|
| Ⓔ Estimation after considering the effect of the VWP | 734,034 | 851,082 | 889,871 |
| Ⓓ Estimation before considering the effect of the VWP ⁹⁾ | 592,637 | 607,571 | 622,882 |
| Ⓒ Net Increase attributable to the VWP (Ⓒ = Ⓓ - Ⓔ) | 141,397 | 243,511 | 266,989 |

The direct effect on the tourism industry for three years from the participation in the VWP as estimated by multiplying the average expenses per tourist by the net increase of the US tourists to Korea attributable to the VWP as KRW 126.1 billion, KRW217.2 billion and KRW 238.2 billion in 2009, 2010 and 2011 respectively, in total of KRW 582.5 billion for the three year of estimation period.

·Direct effect on the tourism industry in 2009 = Net number of US tourists attributable to the VWP in

2009 141,397 persons X ¹⁰⁾Average expenses per tourists KRW 892,000 = (Apprx.) KRW126.1 billion

·Direct effect on the tourism industry in 2010 = Net number of US tourists attributable to the VWP in

2010 243,511 persons X Average expenses per tourists KRW 892,000 = (Apprx.) KRW 217.2 billion

·Direct effect on the tourism industry in 2011 = Net number of US tourists attributable to the VWP in

2012 266,989 persons X Average expenses per tourists KRW 892,000 = (Apprx.) KRW 238.2 billion

9) Korea Culture and Tourism Institute "Outlook of Tourism Demand in 2006", Lee Gang Wook

10) Tourism Knowledge Information System (www.tour.go.kr). Korea Tourism Organization

Direct Effect on the Tourism Industry of the VWP

| | 2009 | 2010 | 2011 |
|--|---------------------|---------------------|---------------------|
| Increase in the number of the US tourists to Korea | 141,397 | 243,511 | 266,989 |
| Effect on the tourism industry | KRW 126,126,135,000 | KRW 217,211,399,000 | KRW 238,154,065,000 |

2) Analysis of the Ripple Effects

In the precedent section, the correlation between the number of Korean tourists to the United States and the number of the US tourists to Korea was analyzed. Unlike the expectation of the general public, the result of the analysis shows that the number of the US tourists to Korea also increases. Hence, the effects of such increase in the number of the US tourists to Korea on the local tourism industry will be reviewed in this section.

The increase in the number of the US tourists to Korea accompanies the increase in the tourism industry. The projection of direct effect of the VWP on the tourism industry shows that the tourism industry would record more than KRW 200 billion in 2010 because the tourism is a composite industry related to various others such as lodging, beverage and restaurant, transportation, passenger service, travel, culture, entertainment and sports by generating added-values not merely obtaining foreign currencies. In summary, similarly to the increase in the number of Korean tourists to the US, the number of the US tourists to Korea also increases which will bring development of local tourism industry. The economic effect is expected to be higher than KRW 200 billion in 2010. Moreover, the boost of tourism industry will provide solutions to the unemployment problems as well as surplus in the labor market due to growth without employment. It will also increase revenues in other industries as well related to the tourism and generate added-values.

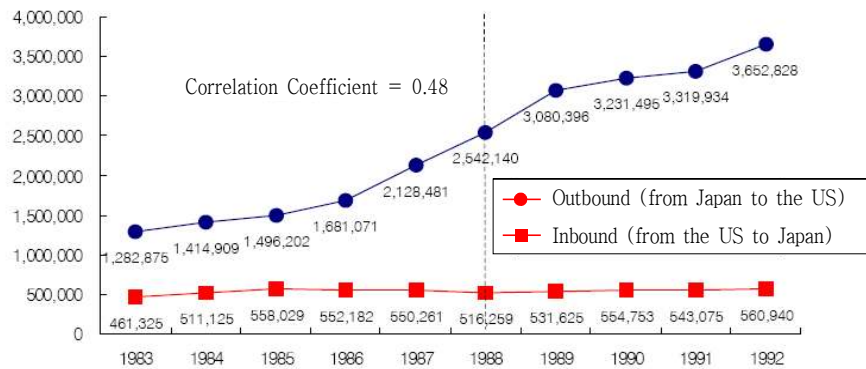
2. VWP Participating Countries and Case Analysis of the Visa Waiver

After participation in the VWP, the number of tourists to the United States was increase by 12.7% in the year of participation, and 15.3% and 4.4% after one year and two years from the participation, respectively. In addition, in case of Japan and Singapore, immediately after the participation in the VWP, the number of the US tourists was also increased in the similar pattern as the increase in the number of local tourists to the US.

1) Japan

The correlation coefficient between Japanese tourists to the US and the US tourists to Japan was 0.48 before the VWP. However, it was increased to 0.92 after five years from the participation in the VWP.

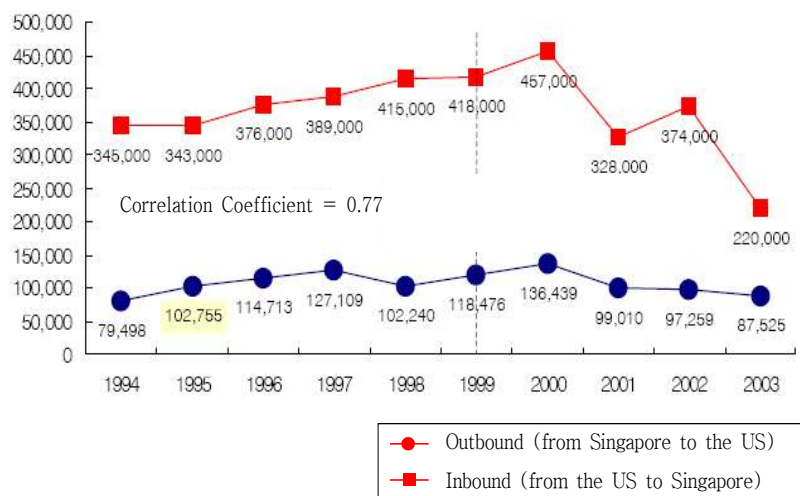
Trend of Inbound and Outbound Tourists in Japan after the VWP



2) Singapore

The correlation coefficient of between Singaporean tourists to the US and the US tourists to Singapore was 0.77.

Trend of Inbound and Outbound Tourists in Singapore after the VWP



V. Conclusion

The Visa Waiver Program of the United States increases the number of Korean tourists to the US but also affects the number of the US tourists to Korea. One of the most important factors in the tourism industry is the increase in the demand for tourism and other related services. In this regard, the VWP is expected to be a new opportunity which generates such demands.

Tourism is a composite industry related to a varied range of industries. The development and scale-up of the tourism industry is directly related to the demand for labors. Particularly in Korea, the tourism industry composes only a minor proportion of the total GDP compared to advanced countries or other countries with similar economic conditions. In this regard, the tourism industry in Korea has a room for improvement. Accordingly, through overall improvement of infrastructure, development of various tourism products and establishment of exhibition facilities for business and exchange, the tourism industry in Korea would face a new phase of development.

It should be reminded that the sustainable development in the industry is essential rather than limiting to the effects of the VWP. Transportation and communication has recorded unbelievable advancement which will be continued in the future. Such advancement of transportation and communication would contribute significantly to the increase in the exchanges with the world. Therefore, it will be possible to develop the importance of the tourism industry in Korea by continuing to attract foreign tourists increasing due to the new trend toward the value of life as well as domestic and international tourists who desires rest in or away from the cities.

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