

An Analysis of Key Macroeconomic Factors Driving Chinese Tourism Demand for South Korea

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Abstract: This study employs a random effects model to examine the macroeconomic factors that shape Chinese tourism demand for South Korea. Key drivers identified include per capita income, exchange rates, and the consumer price index (CPI). As Chinese incomes rise, there is a notable shift towards more premium travel destinations, which may result in decreased demand for South Korea. Exchange rate fluctuations, though significant, have not meaningfully stimulated tourism, potentially due to non-economic factors such as geopolitical tensions. In contrast, rising CPI in South Korea has not negatively impacted its appeal, indicating that other elements, such as cultural attractions and service quality, may offset price increases. Additionally, trade volume between China and South Korea contributes to shaping demand, highlighting the complex interplay between economic activity and tourism. These findings offer valuable insights for policymakers seeking to strengthen the China-South Korea tourism market by addressing income distribution, exchange rate stability, and enhancing non-price factors in tourism promotion strategies.

Keywords: China-South Korea tourism, Random effects model, Tourism demand.

1. Introduction

In recent years, tourism has emerged as a vital sector in global trade, contributing significantly to international economic exchanges and fostering diplomatic relations. China, as one of the world's largest outbound tourism markets, has shown a growing interest in South Korea due to the close geographical proximity, shared cultural ties, and strengthened bilateral economic cooperation. As the tourism industry continues to evolve, understanding the factors influencing tourism demand is crucial for both policymakers and stakeholders in the industry.

The Chinese tourism market for South Korea is influenced by a range of macroeconomic variables, including income levels, exchange rates, trade volume, and price levels in South Korea. These factors not only affect the affordability and attractiveness of South Korea as a destination but also shape the travel decisions of Chinese tourists. For instance, fluctuations in exchange rates can influence tourists' purchasing power, while changes in income levels may alter their preferences for international travel. Additionally, the economic relationship between China and South Korea, as reflected in trade volumes, could affect both leisure and business-related travel.

This study aims to analyze the impact of these key macroeconomic factors on Chinese tourism demand for South Korea. By employing a random effects model, the research seeks to quantify the relationship between tourism demand and variables such as per capita disposable income, exchange rates, trade volume, and South Korea's Consumer Price Index (CPI). The analysis covers both short-term and long-term effects, providing insights into how economic conditions influence tourism trends. The findings of this study will contribute to a better understanding of the dynamics of the China-South Korea tourism market and offer practical implications for enhancing tourism cooperation between the two countries.

2. Literature Review

The literature on tourism between China and South Korea reflects the growing importance of this sector as a significant element of their bilateral relations, particularly as political, economic, and cultural cooperation deepens. Tourism, as a form of service trade, has emerged as a key driver of economic exchange between the two nations. Several studies have explored the macroeconomic and non-economic factors influencing tourism flows, providing insights into how both countries can strengthen their tourism sectors through targeted policies and strategic cooperation.

Cao's research stands out for its use of PEST (Political, Economic, Social, and Technological) and SWOT (Strengths, Weaknesses, Opportunities, and Threats) models to evaluate the impact of trade agreements such as the China-South Korea Free Trade Agreement (FTA) and the Regional Comprehensive Economic Partnership (RCEP) on the tourism service trade. The analysis suggests that geopolitical and economic competition will remain crucial factors affecting the development of the tourism market [1]. These agreements, while facilitating economic ties, also expose the sector to broader political risks, which must be managed for sustainable growth. Ning's findings support this view by highlighting the fluctuations in tourism demand following the 2017 THAAD missile deployment in South Korea, which led to a sharp decline in Chinese tourism [2]. This incident underscores the vulnerability of the tourism market to geopolitical tensions, even in the face of growing economic cooperation between the two countries.

On a different note, Wang's research shifts the focus to the role of digital platforms and the increasing influence of online word-of-mouth in shaping Chinese tourists' decisions to visit South Korea. Her findings illustrate how trust perception and online reviews have become critical in the digital age, with potential tourists relying heavily on the opinions and experiences shared by others online. By addressing negative

reviews and improving service quality, South Korea can significantly enhance its attractiveness as a destination for Chinese tourists [3]. This suggests that beyond macroeconomic indicators, non-economic factors such as digital reputation and customer satisfaction play an essential role in sustaining tourism demand.

Song’s study takes a broader view of the constraints faced by the tourism service trade between China and South Korea, particularly in light of the dual shocks of the THAAD incident and the COVID-19 pandemic. He highlights the numerous challenges that have emerged in recent years, such as travel restrictions, health-related concerns, and political uncertainties, all of which have significantly affected tourism flows [4]. His research further proposes that policy and industrial cooperation between the two nations is crucial for overcoming these barriers and promoting the recovery and development of the tourism market.

Similarly, Hong’s review of broader cooperation in the services sector between China and South Korea emphasizes the opportunities and challenges that lie ahead. While tourism plays a central role in the bilateral services trade, other sectors such as education, finance, and healthcare also contribute to the growing interdependence between the two nations [5]. Hong’s research highlights the need for a holistic approach to cooperation, one that considers not just tourism but the broader range of services that link China and South Korea.

In addition to these macroeconomic and geopolitical perspectives, Li’s research delves into specific demand factors influencing Korean tourism to Zhejiang Province in China. His findings indicate that key economic variables such as GDP per capita, CPI, and exchange rates are the primary drivers of Korean tourists’ demand [6]. This is consistent with the broader literature on tourism demand, which often points to income levels and price factors as critical determinants of international travel. The importance of exchange rates in particular has been underscored by several studies, including those by Wang and Xiu, who used an endogenous linear regression model to explore how exchange rates, financial crises, and other economic events shape tourism demand from Korea to China [7]. Their results suggest that not only do exchange rates have a significant impact, but so do visa policies and health-related incidents, such as pandemics, which can cause abrupt shifts in tourism patterns.

Cai’s analysis of inbound tourism demand from South Korea to Sanya further expands on the importance of economic factors, noting that per capita GNP, relative CPI, and exchange rates significantly affect the flow of tourists [8]. This aligns with Zhao et al.’s findings, which confirmed through a double-logarithmic model that relative CPI and per capita GDP are among the most important factors driving both inbound and outbound tourism between China and South Korea [9]. These studies reinforce the notion that economic stability and favorable conditions—both in terms of income and pricing—are critical to sustaining tourism demand between the two nations.

From a more macro perspective, Dong’s work provides a systematic analysis of Chinese tourists visiting South Korea, offering strategies for market development. He identifies the characteristics of these tourists, such as their preferences and travel behaviors, and suggests that South Korea can enhance its tourism offerings by targeting specific segments of the Chinese market [10]. By focusing on niche tourism products and improving the overall tourist experience, South Korea can foster stronger tourism exchanges with China.

In conclusion, the literature review demonstrates that both economic and non-economic factors play a significant role in shaping the tourism market between China and South Korea. Economic drivers such as income levels, exchange rates, and CPI are consistently identified as key determinants of tourism demand, while geopolitical events and digital reputation also exert substantial influence. These findings suggest that a comprehensive approach to tourism policy—one that addresses both macroeconomic conditions and non-economic challenges—is essential for fostering sustainable growth in the China-South Korea tourism market. Based on these theoretical frameworks, this study applies a random effects model to further analyze the impact of these factors on tourism demand between China and South Korea, providing additional insights for policymakers and industry stakeholders.

3. Empirical Research

3.1. Data and Variables

The dependent variable in this study is the number of Chinese tourists traveling to South Korea, with tourism demand measured by the total monthly number of Chinese tourists visiting South Korea. The explanatory variables include income level, exchange rate, trade volume, and the Consumer Price Index (CPI). Income level is represented by China’s per capita disposable income, which reflects the economic capacity of tourists. The exchange rate indicates the currency exchange between China and South Korea, directly affecting tourists’ purchasing power. The trade volume between China and South Korea reflects the economic relationship between the two countries, which may influence the demand for business travel. Finally, the CPI represents South Korea’s price levels, which can impact tourists’ cost of living and the attractiveness of the destination. These variables were selected to comprehensively analyze the macroeconomic factors influencing Chinese tourism demand for South Korea.

Table 1 presents the dependent and explanatory variables, along with their sources.

Table 1. Variables and Sources

Variable	Sources of variables
Number of Chinese tourists (dependent variable)	KOSIS (Korean Statistical Information Service)
Income level (per capita disposable income)	China Statistical Yearbook
Exchange rate between China and South Korea	China Foreign Exchange Trade System
Trade volume between China and South Korea	KOSIS (Korean Statistical Information Service)
Consumer Price Index (CPI)	KOSIS (Korean Statistical Information Service)

3.2. Model Setup

This study utilizes a panel data regression approach to analyze the impact of key explanatory variables on Chinese tourism demand for South Korea. The model facilitates the examination of relationships between the variables across both time and individual dimensions, making it suitable for assessing the effects of factors such as income levels, exchange rates, trade volume, and the consumer price index (CPI) on tourist demand. The model is specified as follows:

$$Y_t = \alpha + \beta_1 \times \text{Incomet} + \beta_2 \times \text{ExchangeRatet} + \beta_3 \times \text{Tradet} + \beta_4 \times \text{CPIt} + \epsilon_t \quad (1)$$

Where Y_t represents the number of Chinese tourists traveling to South Korea, and Incomet , ExchangeRatet , Tradet , and CPIt represent income levels, exchange rates, trade volume, and CPI, respectively.

3.3. Empirical Results

The empirical research results are shown in Table 2.

Table 2. Random-Effects GLS Regression Results

Variable	Coefficient	P> z
Income	-15.71	0.000
Exchange rate	-16.23	0.009
Trade	-2.37	0.159
CPI	55.92	0.044

This study employed both fixed effects and random effects regression models. The results of the Hausman test (P-value = 0.1700) indicate that the random effects model is more appropriate for this analysis, as it better captures the temporal variation in tourism demand without controlling for period-specific fixed differences. The focus of this study is to assess the overall influence of macroeconomic variables on tourism demand, rather than controlling for unobserved time-specific factors.

In the random effects model, several key macroeconomic variables significantly affect the number of Chinese tourists visiting South Korea. The dependent variable represents the total number of Chinese tourists visiting South Korea, while the explanatory variables include per capita disposable income (income), the China-South Korea exchange rate (exchangerate), total trade between China and South Korea (trade), and South Korea's consumer price index (CPI).

Per capita disposable income is found to have a significant negative relationship with tourist numbers, with a coefficient of -15.71 and a P-value of 0.000, indicating strong statistical significance. This suggests that as Chinese disposable income increases, the number of tourists traveling to South Korea decreases. This could be due to a substitution effect, where wealthier consumers opt for more expensive or exclusive destinations, perceiving South Korea as a more affordable option for middle or lower-income groups.

The exchange rate has a negative coefficient of -16.23 with a statistically significant P-value of 0.009. While theoretically, a weaker Korean won should increase Chinese tourists' purchasing power, boosting demand for travel to South Korea, the actual results may be influenced by external factors such as geopolitical tensions, particularly the deployment of the THAAD missile system in 2017. Additionally, the COVID-19 pandemic and resulting travel restrictions likely dampened the impact of favorable exchange rates, as non-economic factors played a more prominent role in reducing travel demand.

Trade volume between China and South Korea shows a coefficient of -2.37 with a P-value of 0.159, indicating that while there is a slight negative relationship between trade and tourist numbers, it is not statistically significant. This could be explained by the fact that trade volume primarily influences business-related travel, which tends to be less sensitive to economic factors like exchange rates and CPI compared to leisure tourism, thus having little impact on overall tourism demand.

In contrast, the consumer price index (CPI) has a significant positive impact on tourist numbers, with a coefficient of 55.92 and a P-value of 0.044. This suggests that despite rising domestic prices in South Korea, Chinese tourist demand continues to grow. This could be attributed to non-price factors such as the quality of tourism services, cultural appeal, or effective marketing efforts, which make South Korea an attractive destination even amid rising prices.

3.4. Empirical Results

Based on the empirical research results, the following policy recommendations are proposed to enhance the competitiveness of the China-South Korea tourism market and promote sustainable development in the tourism sectors of both countries.

South Korea should focus on diversifying its tourism offerings to cater to China's growing middle- and upper-income groups. As per capita income rises, more affluent tourists are seeking premium travel experiences. By developing high-end tourism products and services and offering a variety of travel packages tailored to different income levels, South Korea can better attract and retain these higher-income tourists.

Maintaining exchange rate stability is essential for fostering steady tourism demand. While exchange rate fluctuations affect the purchasing power of Chinese tourists, their impact is often mitigated by geopolitical factors. Collaborating with China to stabilize exchange rates and offering favorable exchange rate-related incentives can help increase Chinese tourists' spending power in South Korea, reducing the adverse effects of currency volatility.

Additionally, South Korea should enhance its non-price competitiveness by continuously improving service quality, promoting cultural tourism, and strengthening its tourism branding. Despite rising domestic prices, the demand from Chinese tourists has not diminished, highlighting the importance of factors such as cultural appeal, service quality, and positive travel experiences. These non-price factors can offset the challenges posed by price increases and help maintain South Korea's attractiveness as a tourist destination.

Lastly, deepening economic cooperation between China and South Korea will further support tourism demand, particularly in the area of business travel. Although trade volume has a limited impact on leisure tourism, strengthened economic ties between the two countries can stimulate demand for business-related travel. Enhancing bilateral cooperation, especially in services trade and tourism-related industries, will contribute to the long-term growth of tourism exchanges.

4. Conclusion

In conclusion, this study has provided valuable insights into the factors influencing Chinese tourism demand for South Korea by analyzing key macroeconomic variables such as income levels, exchange rates, trade volume, and South Korea's consumer price index (CPI). The results reveal that rising income levels in China negatively affect tourism demand for South Korea, as wealthier tourists may prefer more exclusive destinations. On the other hand, exchange rate fluctuations, while statistically significant, have not had the expected positive impact on tourism demand due to non-economic factors such as geopolitical tensions and the

COVID-19 pandemic. Despite this, South Korea's CPI has shown a positive correlation with Chinese tourism demand, indicating that non-price factors, such as cultural appeal, service quality, and effective marketing strategies, play an essential role in attracting tourists, even amidst rising prices.

These findings suggest several policy recommendations for enhancing the China-South Korea tourism market. First, South Korea should diversify its tourism offerings to cater to China's growing middle and upper-income groups by developing high-end tourism products and services. Second, exchange rate stability should be prioritized through collaborative efforts between China and South Korea, as currency volatility negatively impacts tourism demand. Additionally, non-price competitiveness must be strengthened by improving service quality and promoting cultural tourism to offset potential challenges posed by rising domestic prices. Finally, enhancing bilateral economic cooperation, particularly in the areas of services trade and tourism-related industries, will help stimulate business-related travel and contribute to the long-term growth of tourism exchanges between the two countries.

Overall, this study underscores the importance of both economic and non-economic factors in shaping tourism demand, offering practical insights for policymakers and industry stakeholders seeking to strengthen tourism ties between China and South Korea.

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