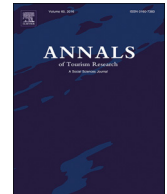




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RESEARCH NOTE

Can tourism be a policy tool to moderate trade balance? ☆

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Introduction

The trade war between the United States and China started in early 2018 when the US initiated an additional 25% of tariffs on many imported goods from China. The trade dispute persisted to the end of 2019 after a few rounds of escalations. Many commentaries agree that the US-China trade war is a struggle for technological and geo-strategic dominance (Gros, 2019) and has a political motive (Lai, 2019). Numerous articles have analysed the effects of the trade war on GDP, manufacturing and non-manufacturing goods, welfare, employment, export and import for both countries and attempted to explain why the dispute persists (Li, He, & Lin, 2018). The discussions have focused on the trade in goods (Lau, 2019) and few included trade in services (e.g., tourism). International tourism provides economic benefits to the destination country and could correct the balance of trade (Song, Dwyer, Li, & Cao, 2012). Political instability decreases the incoming number of visitors and hamper tourism revenues (Dogru, Isik, & Sirakaya-Turk, 2019), further intensifying trade deficit. This research note discusses whether international tourism could be used as a policy tool in a trade war. This study is timely and important, given that the geo-strategic competition and economic rivalry is likely to persist.

Tourism as a policy tool

The US-China trade deficit, if measured by domestic value-added, was estimated at around US\$150 billion in 2017; but the US enjoyed about US\$50 billion surplus in trade in services (Chen, Lau, Tang, & Xiong, 2018, cited in Lau, 2019). Travel and tourism receipts account for 31% of U.S. services export and 10% of all U.S. exports in 2018 (NTTO, 2020). Regarding real value added, 'travel and tourism' contributed 2.9% to GDP of the US in 2018 (BEA, 2019). In 2019, 'accommodation and food services' contributed about 3.1% to U.S. GDP and 'education services' 1.2%; in contrast, 'agriculture' contributed 0.8%, 'mining' 1.4%, and 'utilities' 1.6% (BEA, 2020). Travel and tourism's contribution to GDP is larger than many significant industries, e.g., agriculture.

China had given a travel warning to the US (effective until 31 Dec 2019), which was interpreted as aiming to lower the number of Chinese travellers to the US (e.g., White, 2019). Chinese arrivals to the US experienced a 5.7 and 5.4% decrease respectively in 2018 and 2019 over the previous year (NTTO, 2020). The decline could be the outcome of the trade war and the provocative rhetoric associated with it (White, 2019). Even commentators who do not regard the decline as a result of deliberate action by the Chinese government, they posit that tourism could be a potent weapon if the trade war persists (Lynch, 2018). Some argue that China needs to

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include services trade in the friction (Hu, 2018). There were precedents when China moderated Chinese travelling to South Korea during political disputes, resulting in a decline of above 50% of Chinese tourists to South Korea in 2017 (Jin, Qu, & Bao, 2019). Especially, China halted indefinitely Chinese travelling individually (FIT) to Taiwan as a policy tool in the hope of influencing Taiwan's social sentiment for the 2020 election.

Apart from tourism, education and the entertainment industry comprise an important part of US exports to China. In 2016, American movies earned \$6.7 billion in China, which makes China the second largest market for the productions directed in the US (Jaskula, 2019). Overseas Chinese students top the list of international students in U.S. universities. If implemented a ban on all Chinese student visas, it would reduce the US trade surplus in services by US\$18 billion (Lau, 2019). Overseas students and the entertainment industry also create demand in tourism (Bao, Jin, & Weaver, 2019). Sentiment and mood could be indicators for tourism demand, alongside with other non-economic factors such as advertising, habits, immigration, political instability (Dragouni, Filis, Gavriilidis, & Santamaria, 2016). Nationalistic sentiments have been used as a factor in the trade war by both countries and the decline in tourism likely correlates to decline in the consumption of education and entertainment products.

Discussions of the trade war on China's media could have aroused opposition toward the US. And the US has made visa applications allegedly more difficult. All of these could partly explain the decreased number of Chinese visitors to the US. However, if China does not resolve by instigating other ways of moderation, these may not be regarded as weapons in the trade war. Thus, questions arise as to whether tourism could be used as a policy tool for moderating the balance of trade, and if so, what are the premises for using this tool.

A few policy tools could change the balance of trade, including imposing tariffs on imported goods, providing subsidies to exporting firms, devaluing or depreciating the local currency against the other currencies. Same as manufacturing goods, tourism generates revenues, employment, skills, and human per capita development. Tourism has a spillover effects and decrease in tourism may impact on multiple sectors of an economy (Alola, Cop, & Alola, 2019). Also, favourable exchange rate propels tourism demand and a depreciation in local currency could lead to a decrease in outbound tourism since tourism consumption becomes more expensive (Song & Li, 2008).

If used as a policy tool, a contraction in international tourism within the destination economy could be felt more immediately than levying tariffs on manufactured goods. In the case of US-China tourism, Chinese tourists spend about \$60 billion each year on America travel and tourism services (Lynch, 2018). Considering the jobs in the US directly and indirectly reliant on tourism, US economy will feel the impact if China dissuades spending on international travel.

If used as a policy tool, tourism is more complicated and difficult to manage than imposing tariffs on manufacturing goods. However, it is not totally implausible. There could be different ways to use tourism as policy tool, including issuing travel warning, reducing flights/access, devaluing currency, creating negative sentiments via media, giving oral indications to travel operators dissuading organising group tours, removing products from online travel portals, issuing official notice to travel operators, ban FIT, removing cultural (entertainment) products, making visa applications difficult.

Commentators indicate that restricting travels to the US would hurt the feelings of the Chinese middle class as America is their priority for education [of their children] and destination for travels (Lynch, 2018). This will subject to whether there are alternative products that Chinese middle class could turn to. It is likely to see the rise of Chinese tourists and students in other English-speaking countries.

Some may argue that arbitrarily constraining travels is likely to more severely damage bilateral relations than a trade war. The counter argument could be that the damage on bilateral relation could be short-term and subject to the geo-political relations aftermath. For example, China's ban on selling South Korea tours is still effective at the time of writing, but there are signs for a positive political relation evidenced in the recent meeting of top leaders between China, Japan and South Korea in Chengdu in Dec 2019.

Refraining travels to the US would be far difficult than deterring Chinese travellers to South Korea (Lynch, 2018). China relies on the US market for continued economic and social growth and the US economy is currently strong, which make it easier to bear the costs of the higher tariffs (Lai, 2019) as well as the costs of a decreased tourism revenue. Also, China is deemed as more willing to compromise (e.g., Lai, 2019) and thus unlikely to use extreme methods. The case might be different if inbound tourism accounts for a large proportion in the destination country.

Whether China resolves to use tourism as a policy tool may also subject to the degree of Chinese economic dependence on exports, that is, how badly the economy could be hurt by the trade war. Chinese economic growth today is increasingly a result of domestic demand (Lau, 2019). Unless trade war became catastrophic to national economy, it is unlikely that sanction on tourism will happen.

Avenues for future studies

This research note discusses the capacity of tourism to be used as a policy tool to moderate trade balance in a trade war. This paper complements existing studies in that it included additional factors in weighing the position of tourism in a political crisis, i.e., mutual economic dependence, dependence on exports of both the source and the destination countries, willingness to compromise, apart from reiterating the important role of media influence and nationalistic sentiments.

Compared to other goods, tourism is easier to recover after a political crisis (in this case, the trade tension). Destination characteristics determine how quickly tourism bounces back. In the case of the Chinese travelling to the US, there could be a 'drop-rebound-overshoot' effect given the image of the US in the minds of especially Chinese middle class. Considering the discussion in this research note, future studies may estimate tourism revenue in terms of domestic-added value to compare the contribution of tourism to national economy versus other sectors. Studies may also empirically test the relationship between nationalistic sentiments and a

support of travel constraints at different levels as well as test sentiment as moderators or mediators between tourism and the increased expenses induced by political crisis. Only Chinese perspective is discussed in this research note. Future research could argue the practice and implications from the US perspective. Future studies could also integrate international examples to establish theories on tourism and balance of trade from macroeconomic perspectives.

Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.annals.2020.102946>.

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