



# US-CHINA TRADE WAR IMPACT ON INBOUND TRAVEL FROM CHINA

AUGUST 2019

## US expected to lose 1.9m inbound visitors and \$11b in visitor spending from China due to trade war tensions in 2018-2020

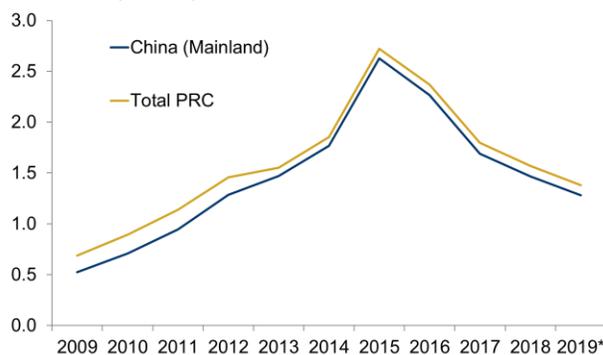
Inbound travel to the United States from China has come under increased pressure from the ongoing trade war. Escalating tariff coverage and rates, punitive travel advisories, critical media coverage, restrictive visa policies, and surging exchange rates have resulted in stifled flows of tourists and tourism spending in the US:

- Inbound visitation from China to the US fell 5.7% year-over-year in 2018, concluding 14 consecutive years of arrivals growth between 2004-2017. Through six months, 2019 inbound visitation is down 2.2% compared to the same period in 2018.
- Visa issuance to mainland China contracted 13.3% year-over-year in 2018, 44.2% lower than its peak in 2015. Through six months, 2019 visa issuance is down 12.5% compared to the same period in 2018.

The Chinese government has shown a willingness to employ tourism policy as a lever in the ongoing trade dispute as each country approaches full coverage of goods imports. In turn, the downside risks to US tourism have risen alongside broader economic and political tensions.

### Nonimmigrant Visa Issuance Volume

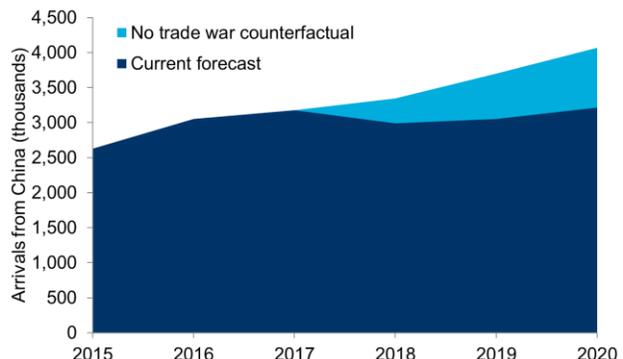
Annual total (millions)



Source: U.S. Department of State. \*2019 YTD growth applied to 2018 volume

### US Inbound - Arrivals from China

Current forecast vs counterfactual scenario



Source: Tourism Economics, NTTO

# IMPOSED AND THREATENED TARIFFS

**25% on \$250 billion**  
Existing US tariffs on Chinese imports

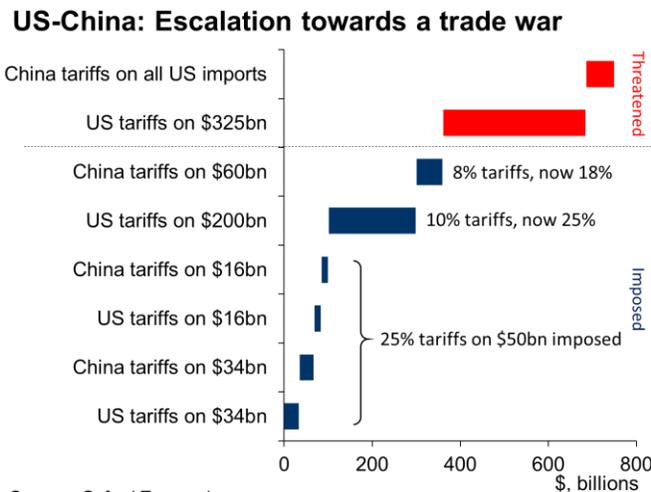
## US tariffs on \$250b in Chinese imports and Chinese reciprocation

On May 10, 2019, tariffs imposed on \$200 billion in Chinese imports rose from 10% to 25% after attempts to reach a resolution to the ongoing trade war again collapsed. Together with tariffs previously levied on \$50 billion in Chinese imports, there are now 25% tariffs on \$250 billion in Chinese imports.

On August 1, 2019, President Trump announced additional 10% tariffs on \$300 billion in Chinese imports, including substantial coverage of consumer goods, set to come into force on September 1, 2019. The administration has since indicated that it will delay tariffs on certain consumer technology and apparel items until December 15, 2019.

China has responded in kind to each wave of US tariffs, first implementing 25% tariffs on \$50 billion in American imports, and later 18% (initially 8%) tariffs on an additional \$60 billion in American imports. China has yet to respond to the Trump administration's newest announcement with tariffs of its own, but de-escalation remains unlikely due to the US and China's conflicting strategic and economic objectives.

**Fig. 1: Consistent expansion of tariff coverage and tariff rates**



# TRADE WAR IMPACT ON US INBOUND TRAVEL FROM CHINA

20%

Chinese arrivals to the US  
annual average growth from  
2008-2017

## New policies caused a sharp deviation from inbound travel growth path

Restrictive policies and growing antipathy have caused a sharp deviation from the course of Chinese inbound arrivals growth. Arrivals volume from China averaged 20% growth per annum over the decade through 2017. Nonetheless, both the US and Chinese governments have employed travel advisories, critical media coverage, and visa policies as tools to curtail bilateral tourism for their own respective benefit.

We discussed in July 2018 the outcome of China's willingness to weaponize services trade, in particular travel and tourism, in response to geopolitical conflict. Following the late-2016 announcement of joint military installation of the US missile-defense system THAAD in South Korea, the Chinese government unofficially ordered its travel agencies to halt group travel to South Korea, among other retaliatory measures. In turn, inbound tourist arrivals fell 48% year-over-year in 2017 and tourism spending followed suit.<sup>1</sup> Following his election in May 2017, South Korean President Moon Jae-in paused development of the THAAD system and soon after group travel from China reopened.

China has not yet directly instated such a ban against the US; however, recent reciprocal travel advisories focused on safety risks have fomented negative sentiment toward the US. The Chinese government's most recent warnings, issued through its Ministry of Foreign Affairs and Ministry of Culture and Tourism on June 4, 2019 highlighted the potential for "harassment" by US law enforcement agencies and the frequency of "shootings, robberies, and thefts."<sup>23</sup> Consequently, there have been increasing reports of cancellations from student and broader tour groups.

The US Department of State issued similar safety warnings in its January 3, 2019 travel advisory which emphasized "arbitrary enforcement of local laws as well as well as special restrictions on dual U.S.-Chinese nationals," exit bans, and detention without access to US consular services.<sup>4</sup>

Official action has been accompanied by broader negative media coverage in each country. Each has portrayed the other as an antagonist and a danger to its citizens abroad, escalating unfavorable sentiment and underscoring the power of travel and tourism as a bargaining tool in the ongoing trade conflict.

<sup>1</sup> (Trade Wars and Tourism 2018)

<sup>2</sup> (Ministry of Culture and Tourism 2019)

<sup>3</sup> (Associated Press 2019)

<sup>4</sup> (U.S. Department of State - Bureau of Consular Affairs 2019)

**Visa issuance policy changes add additional tension**

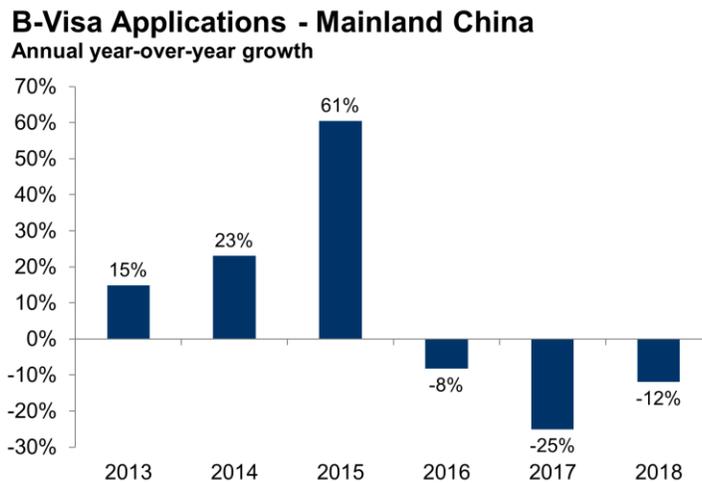
Beginning in November 2014, the US and China entered a reciprocal agreement extending business and tourism visa validity to ten years. Moreover, this agreement led to the implementation of more stringent application standards such as the informal requirement that Chinese applicants travel internationally to another country before applying for admittance into the US.

In response, visa issuance to mainland China spiked in 2015 and has fallen steadily in the years since. In 2018, 1.5 million visas were issued, representing a 13% year-over-year contraction and a level 44% lower than its peak.

B-visas are issued by the US for short-term business and tourism trips and accounted for 85% of all visas issued to citizens of mainland China in 2018. B-visa application volume has fallen 40% from its 2015 level while B-visa refusal rates have risen 2.3% annually, on average, over the same period. In 2018, the B-visa refusal rate reached 17%, compared to 10% in 2015, and refusals appear to be further stifling demand.

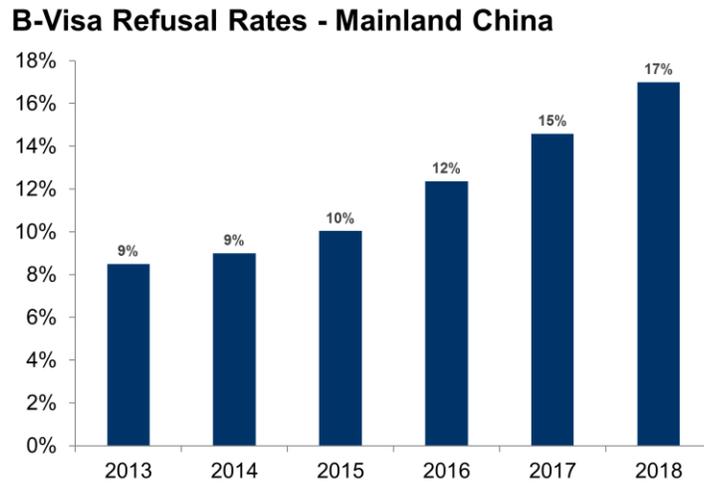
**-44%**  
 Visa issuance volume in 2018 compared to 2015

**Fig. 2: B-visa applications spiked in 2015 then began to fall**



Source: U.S. Department of State

**Fig. 3: Rising B-visa refusal rates put further pressure on inbound visitation**

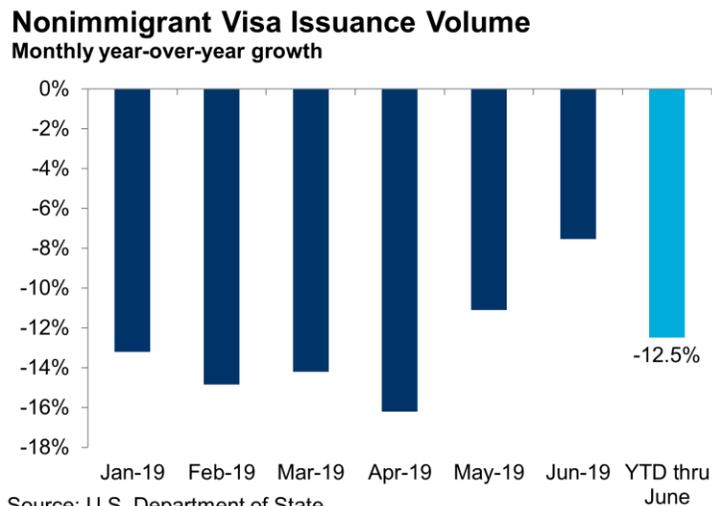


Source: U.S. Department of State

Visa issuance data for the first six months of 2019 indicate that the current downward trend is likely to extend through this year. January-June 2019 visa issuance volume is 12.5% below 2018 levels over the same time period.

**Fig. 4: Monthly and year-to-date 2019 visa issuance data suggest a persistent downward trend**

**-12.5%**  
Jan-Jun 2019 year-over-year  
visa issuance growth



Source: U.S. Department of State

**Arrivals fall short of expectations and compel forecast adjustments**

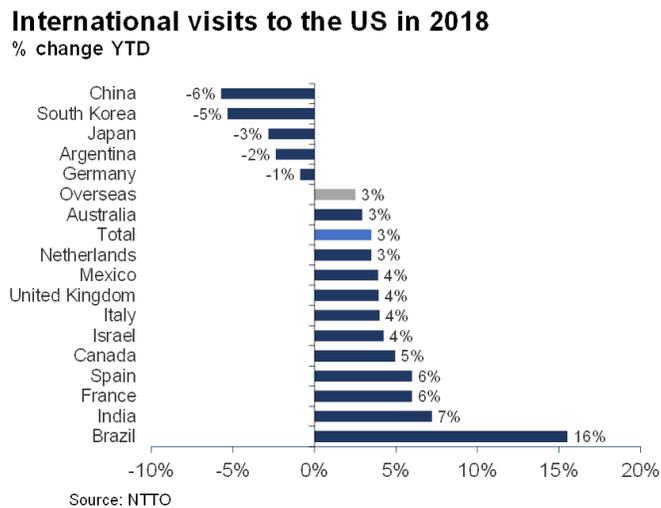
China plays a key role in US inbound travel as the third largest market for overseas arrivals and the largest market for inbound visitor spending. Chinese travelers spend approximately \$5,800 per visitor over the course of their trip. In comparison, visitors from the United Kingdom, the largest market for overseas arrivals to the US, spend approximately \$2,500 per person.

The Tourism Economics US Inbound Travel Forecast of Spring 2018, prior to expectations of a prolonged trade war with China, anticipated 5.3% growth in inbound visitation from China in 2018. Official data from the National Travel and Tourism Office (NTTO) indicated a 5.7% decline in inbound visitation from China in 2018. This was the largest drop in arrivals among all major source markets.

**-5.7%**

US inbound arrivals growth from China in 2018

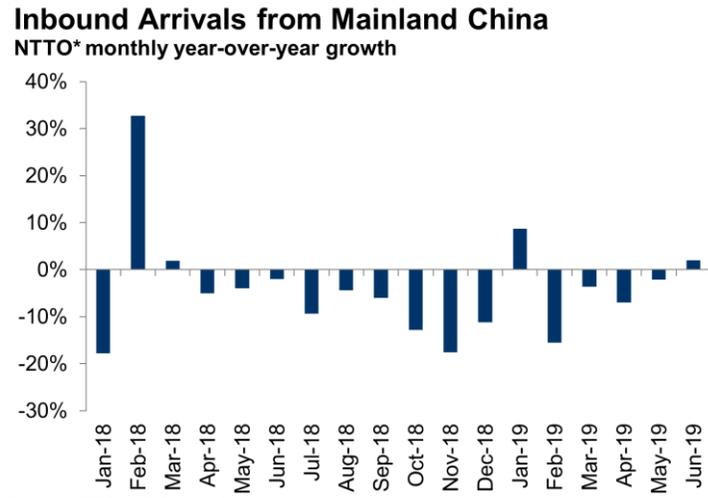
**Fig. 5: Wide variation by origin in US inbound visitation growth in 2018**



The Spring 2018 forecast additionally projected 10.6% growth in 2019 and 10.1% growth in 2020. The current (Spring 2019) forecast, which includes one quarter of NTTO data, revised 2019 expectations down to 1.9% annual growth, and revised the forecast for 2020 down to 5.4% annual growth. Available data is markedly less rosy through the first six months of 2019, inbound visitation is down 2.2% compared to the same period in 2018.

Notably, the Chinese are continuing to travel elsewhere and the growth path for inbound travel to Canada from China provides a strong contrast. Inbound visitation to Canada grew 8.5% in 2018 and is expected to grow 7.9% in 2019. Thus, the fall in US arrivals from China involves a loss in market share rather than a general fall in Chinese travel.

**Fig. 6: Predominantly negative China to US travel performance in 2018 and the first half of 2019**

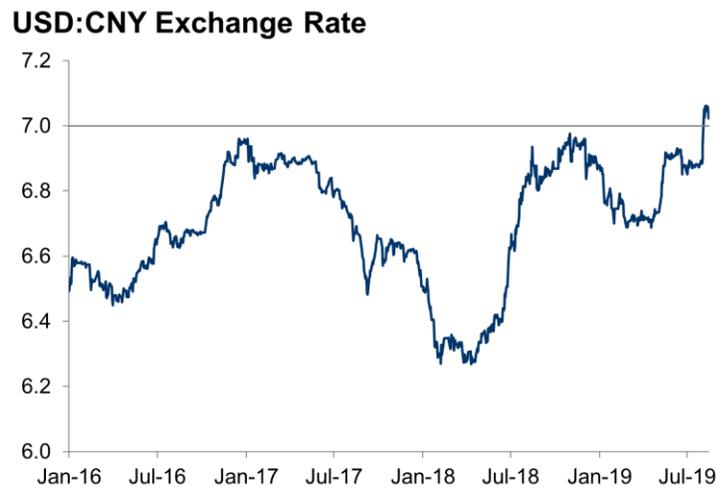


**Currency’s role in the trade war and tourism trends**

On August 5, 2019, the USD:CNY exchange rate crossed the symbolic 7:1 threshold previously averted by Chinese monetary policymakers. In turn, the Trump administration officially branded China as a currency manipulator, deriding their repeated devaluation of the yuan. Currency depreciation can offset a portion of the negative tariff impacts faced by China.

At the same time, a weak yuan will make US goods less competitive for Chinese importers of American goods and less affordable as a destination for Chinese visitors. Now that the 7:1 threshold has been eclipsed, further currency devaluation remains a plausible avenue for Chinese policymakers with waning room to impose new tariffs on the US.

**Fig. 7: USD:CNY exchange rate passes symbolic 7:1 threshold**



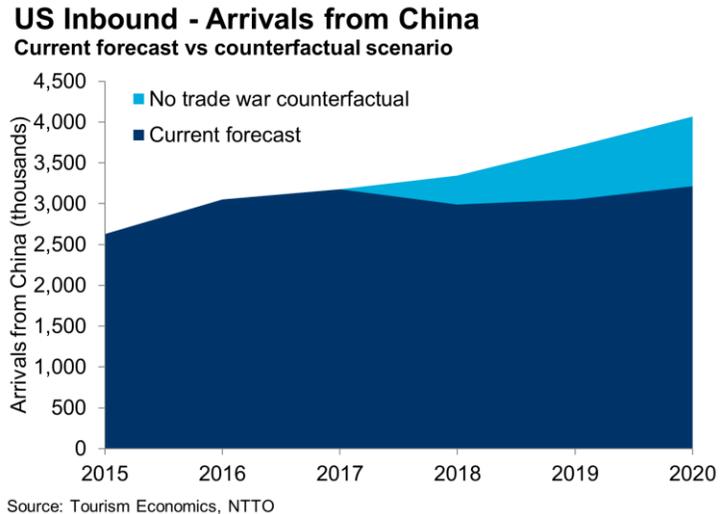
Source: Fusion Media Limited

**351,000**  
Approximate lost visitor arrivals in 2018

**Estimated loss of visitor arrivals and spending in 2018, 2019, and 2020**

By comparing the current data and forecast to counterfactual values for 2018-2020 arrivals, estimates for lost visitor arrivals and lost visitor spending caused in part by the trade war were calculated. The counterfactual values reflect the 2017 official arrivals volume grown by the Spring 2018 forecast growth rates for each year from 2018-2020.

**Fig. 8: Light blue area represents visitors lost in part due to trade conflict**



**\$2.0 billion**  
Approximate lost visitor spending in 2018

According to this method, approximately 351,000 visitor arrivals were lost in 2018. Using Global Travel Service spending data, this indicates a loss of approximately \$2.0 billion in visitor spending for the United States. For 2019, we estimate approximately 648,000 lost visitor arrivals and, in turn, approximately \$3.8 billion in lost visitor spending.

**Fig. 9: Summary of estimated losses 2018-2020**
**US Inbound from China**

Amounts in thousands of travelers and billions of dollars

	2018	2019	2020	3-year total
<b>Current forecast</b>				
Visitor arrivals	2,992	3,050	3,214	9,255
Visitor arrivals growth	-5.7%	1.9%	5.4%	
Visitor spending	\$ 17.4	\$ 18.0	\$ 19.7	\$ 55.1
<b>No Trade War Counterfactual</b>				
Visitor arrivals	3,343	3,698	4,070	11,111
Visitor arrivals growth	5.3%	10.6%	10.1%	
Visitor spending	\$ 19.4	\$ 21.8	\$ 24.9	\$ 66.2
<b>Scenario Comparison</b>				
Lost Visitor Arrivals	351	648	857	1,855
Lost Visitor Spending	\$ 2.0	\$ 3.8	\$ 5.3	\$ 11.1

Source: Tourism Economics, NTTO

If the trade conflict continues without resolution, the US can expect to lose the opportunity to capture approximately 857,000 million additional annual visitors, and an associated \$5.3 billion in visitor spending in 2020. In total, there would be a loss of 1.9 million inbound visitors and \$11 billion in visitor spending from China over the three-year period 2018-2020.

# TARIFF IMPACTS ON US AND CHINA DOMESTIC ECONOMIES

**0.1-0.4%**

Expected US real GDP losses in 2019 and 2020

## Tariffs are expected to impact China moderately more than the US

Pricing, supply chain, and demand effects, as well as the dramatic increase in manufacturing and trade uncertainty have burdened the already-cooling American and Chinese economies. Amiti et al. studied the 2018 outcomes of the Trump administration's trade policy and found, "the full incidence of the tariff falls on domestic consumers, with a reduction in U.S. real income of \$1.4 billion per month."<sup>5</sup>

Ultimately, model-based estimates, including the Oxford Global Economics Model, forecast US real GDP to fall 0.05-0.2% prior to the rate increase to 25%. Expectations have now been adjusted to reflect declines in real GDP between 0.1-0.2% in 2019, and around 0.3% in 2020. If the threatened tariffs on \$300 billion in Chinese imports take effect on September 1, real GDP is projected to fall an additional 0.1% in 2020.<sup>6</sup>

China is expected to experience a deeper GDP impact than the United States due to the larger volume of trade flows from China to the US and predominance of manufactured goods in the composition of their exports. Conversely, China generally imports raw and agricultural materials from the US, the sales volume of which has cratered by 60%. Prior to the rate increase to 25%, Chinese real GDP was expected to fall by 0.3-0.6%. Following adjustments to account for the current tariff levels, the expected loss in 2019 is now over 0.3%, and nearly 0.8% in 2020.<sup>7</sup>

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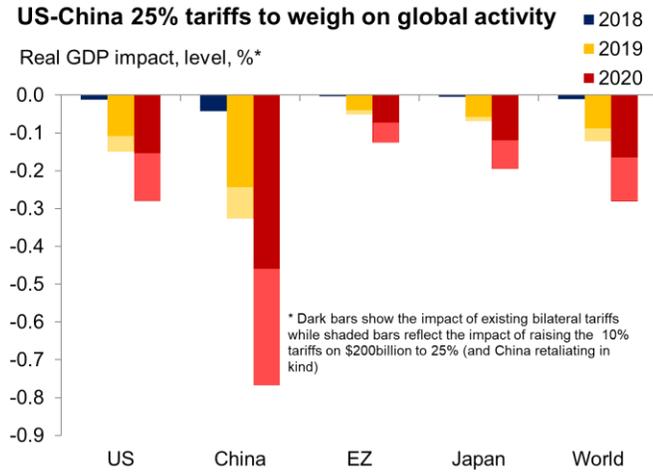
<sup>5</sup> (Amiti, Redding and Weinstein 2019)

<sup>6</sup> (Daco 2019)

<sup>7</sup> (Slater 2019)

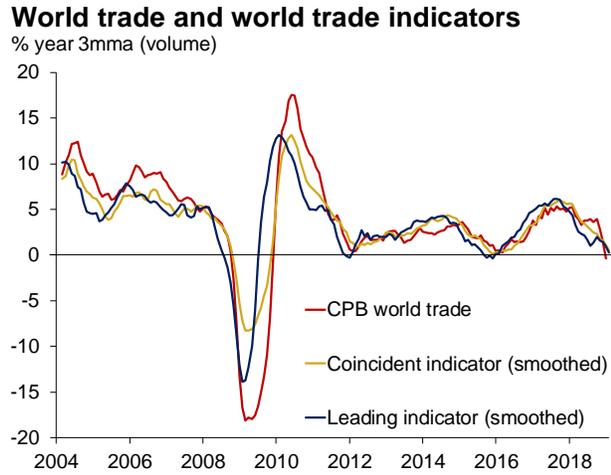
**Fig. 10: Tariff rate hike to 25% sharply increased drag on GDP**

**0.3-0.8%**  
Expected China real GDP losses in 2019 and 2020



Source : Oxford Economics

**Fig. 11: World trade slowdown exacerbated by trade war**



Source : Oxford Economics/Nederland CPB

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