VISA POLICY AND CHINESE TRAVEL TO EUROPE
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1. BACKGROUND

1.1 The importance of visa facilitation

International tourism is an important driver of European economies in terms of its size and growth potential. International tourism arrivals in European countries accounted for over half of arrivals worldwide in 2017, and the region includes seven of the World’s top ten destinations ranked by visitor volume. Travel to the region has grown at an average rate of around 5% in each year since 2010.

However, travel restrictions limit the growth potential of international travel, especially from key emerging markets which are taking a growing share of global tourism demand and will continue to rise in prominence. According to UNWTO research 61% of the global population would have required a visa for international travel in 2015. The same research also suggests that European destinations are less open than the global average. European nations, as defined by UNWTO, required 74% of the global population to obtain a visa for travel in 2015, and the proportion for EU 28 was even higher at 77%.

Liberalisation of travel has been observed to generate substantial increases in travel spending and job creation. Benefits have been identified in previous research published by UNWTO and WTTC (carried out in conjunction with Tourism Economics (TE)) for G20 countries as well as for APEC and ASEAN countries.

Other studies have also identified visa policy benefits including the analysis carried out by TE on behalf of the Organisation of Islamic Countries as well as the European Commission study focussing on the Schengen area. All studies noted a clear benefit in terms of travel demand and economic impact from visa facilitation measures.

Similar methodology is followed in this report to identify the potential benefits of visa facilitation policy for European nations. The main benefits and types of visa facilitation policy are described below. The purpose of this report is to quantify the potential impacts of such visa facilitation should it be aimed at Chinese travellers.

1.2 Benefits of visa facilitation

Numerous case studies clearly demonstrate the benefits to travel demand from visa facilitation policies. Visas are viewed as a formal constraint by travellers, involving additional trip costs in terms of either monetary cost or indirect costs in the form of time spent waiting or completing complex application procedures. If these costs exceed a threshold, the process can act as a deterrent to potential travellers to that destination, or a deterrent to a trip taking place altogether.

Visa facilitation policy has clear benefits to destinations of promoting ease of travel and raising visitor volumes. The relative attractiveness of a destination is raised allowing greater competition in global travel markets and gain of market share as well as potentially raising total international travel demand for source markets, depending on the existing level of constraints. Greater visitor volumes result in higher spending within a destination and subsequent impacts on GDP and employment.

These findings are not new; 87 delegates at the 1963 United Nations Conference on International Travel & Tourism in Rome agreed that “Governments should extend to the maximum number of countries the practice of abolishing, through bilateral agreements or by unilateral decision, the requirement of entry visas for temporary visitors.”

However, sovereign states retain the right to control access of foreign nationals, with no international agreement to open borders beyond granting the right to citizens to exit and re-enter their home countries.
1.3 Challenges facing facilitation

It has to be acknowledged that visas do serve vital roles for states beyond tourism, as listed below. Any facilitation of visa policy has to be balanced against these valid functions:

- Security is often listed at the top priority in establishing or retaining a visa requirement to limit flows of undesirable visitors.
- Immigration can also be controlled by visas to protect national labour force amidst concerns that visitors will overstay to seek work.
- Limitations on length of stay and activities undertaken by visitors can be imposed through visas.
- Revenue generation is also a function of visas. There is often substantial offset from the costs of administering visa programs, but these are typically dwarfed by revenue streams.
- Reciprocity of policy often occurs as countries feel compelled to impose a visa on another because that country requires a visa for travel. Visas are also used as political tools to retaliate against other policies or actions taken by other countries; visas are also sometimes relaxed in support of other policies.
- Capacity limits can be managed by the imposition of visas to limit demand in order to protect local industry or the environment.

2. CASE STUDIES & METHODOLOGY

2.1 Case studies

Past case studies of visa facilitation give a guide to the likely impact of future similar policy changes and form the basis of the economic model in this study. Grouping case studies by type of visa policy change does not give a definitive figure for the impact of that change but suggests a likely range of benefits which could be realised by European destinations with more facilitative policy.

![Case study impacts by policy type]

Each dash represents the estimated growth premium for a case study. Red squares are median values for that policy type and diamonds are the inter-quartile range.

Source: Tourism Economics
Each of the case studies and bilateral flows were identified as belonging to groups of similar policy changes, with similar attributes and impacts. These case studies also included some more restrictive policy changes whereby lower travel to destinations has been observed in response to the increased barriers to entry. These negative cases are still instructive of the impact of visa policy on travel demand and the inverse impact is taken. For example, the inverse of higher visa fees is grouped with the impact of reduced visa application fees to understand an overall effect of cost changes.

Three broad groups have been defined according to comparable observed policy impacts. These three aggregated average policy impacts form the basis of the scenario analysis to determine different expected levels of policy effect across European destinations from the constrained source markets. This analysis will assess the potential benefits to European destinations of changing visa policies towards China.

2.1.1 Best practice

28 case studies of bilateral flows helped gauge the impacts associated with adhering to “best practice”, which includes reducing fees payable upon application, a visa’s validity period, and other changes to application procedures. These included Oman reducing the fee for its visa and Indonesia increasing the validity of its visa from 7 days to 30 days.

More restrictive practices have also been included in the analysis, encompassing a wider range of observed impacts. However, on average these negative impacts have the same magnitude of impact as facilitative policy changes. The median impact of these restrictive policies on subsequent travel was an annual average fall of 4.5% compared with annual average growth premium of 3.5% for the facilitative measures. Taking an average of all inverted negative policy impacts and positive impacts gives greater confidence that the true average policy effect is captured due to the higher sample size. The wider range of impacts for these negative impacts is skewed by accompanying negative sentiment between some countries, which can be the original reason for the imposition of the more restrictive visa process. For example, the outlier in this group is the estimated 33% growth premium calculated as the inverse of the impact for travel between Syria and Egypt in recent years.

By taking the median growth premium and also focussing on the inter-quartile range for groups of impacts these outliers can be excluded from calculation of expected growth premiums for European destinations as the basis of scenario analysis. The median impact for fee changes is an average 4.5% growth premium in subsequent years. The other best practice policies to facilitate current visa practices had a median growth premium of 4.3%. The overwhelming majority of cases suggest a growth premium of less than 10% per annum following policy changes.

As in previous analysis by TE, a proportion of the remaining volatility in observed growth impacts is due to the relative attractiveness of the destination and the relative response in leisure travel to the reduction of costs and barriers to entry.
2.1.2 New visa types

New visa types account for a total of 57 travel flows in case studies, including 24 cases of electronic visas (eVisa) and 33 cases of visa on arrival. The latter includes both the introduction of new visa on arrival for countries and also the inverted negative impacts of the cancelation of some previous policies. Key case studies for analysis were Turkey and Australia which have successfully opened borders to a wide range of source markets through the use of new visa types.

Initial analysis of the growth premiums following changes in visa type showed a wide range of impacts. Even excluding the obvious outliers, the observed impacts following imposition of both visa on arrival and eVisa was in a wider range than for the best practice facilitation. On average, observed growth premiums for new visa types were comparable to that for other policies but with some higher observed impacts.

Closer analysis of each case study for new visa types showed a correlation between the growth premium and policy before the new visa was introduced. The higher observed impacts were for cases where there was no notable visa facilitation before the new visa was introduced. In a majority of instances, some previous policy changes and visa facilitation measures had taken place before the introduction of the visa on arrival or eVisa. Positive benefits had already been realised from the earlier policy change and the observed impact relative to counterfactual growth following the new visa introduction is an incremental change.

A total growth premium for the new visa types, relative to a baseline of no facilitation, was derived as the sum of the observed premium plus the median “best practice” impact where such changes had already occurred.

The estimated average benefit to destinations is very similar for the imposition of visa on arrival and eVisa. Annual average growth is estimated to be 8% higher per annum in the years following imposition of one of these new visa types, relative to a baseline of no facilitation. Excluding outliers, there is some observed range of impacts, but the lower quartile of observed impacts is towards the top end of the impacts seen for best practice facilitation.

2.1.3 Visa free travel

Moving to visa-free travel provides the largest growth premiums in case studies, with a wide range of impacts. Similar to the analysis of new visa types, some of the difference across examples can be explained by the visa policy in place before this change. In these cases, to estimate the growth premium over a baseline of no facilitation we calculate the cumulative impact by adding on the median estimated impact for prevailing policy.

Of the 35 observations of visa-free travel impact in our analysis, around half had some active visa facilitation policies before fully waiving visa requirements, explaining some of the low responses to policy changes. Within this, we include the example of bilateral travel between Nigeria and South Africa which was subject to a visa on arrival until 2013, after which travel became fully visa-free. These bilateral flows accounted for some of the lowest growth premiums in initial analysis before adding other cumulative effects.

Of course, visa waiver is not feasible in all cases for political or security reasons, but this is presented here as an upside example of the positive benefits of visa facilitation policies.
2.2 Policy impact calculations

The analysis uses baseline forecasts from Tourism Economics’ global tourism model for travel from China to each country within the EU. Data within this model are taken from UNWTO and national data sources, while forecasts are generated according to estimated relationships with key identified economic demand drivers and Oxford Economics’ global macroeconomic model.

Alternative scenarios are generated by applying the relevant growth premiums to travel flows from China to each country within the EU to quantify the potential uplift from visa policy changes. Growth premiums vary by destination according to the relative attractiveness of that destination consistent with prior TE modelling of visa impacts on behalf of WTTC and UNWTO. Hence the growth premium for each destination is within the range of impacts identified by visa type rather than the exact median value.

Once additional visits from China have been identified under different visa policy scenarios the typical average length of stay and average spending is applied within the model to derive total spending impacts. Further multipliers are then applied to derive GDP and employment benefits, including direct and total impacts (including indirect and induced).

Scenarios are run under the assumption that policy change occurs during the remainder of 2018, with the total impacts estimated to accrue over the years to 2023. Some minimal impact is estimated for late 2018, with stronger policy driven effects accumulating over the next 5 years.

3. VISA POLICY FOR CHINA

3.1 European visa constraints

Within this study Tourism Economics consider the impacts on EU 27 destinations only (excluding the UK). In the original 2015 study three different European geographies were considered, with impacts estimated...
for each of these geographies. These geographies were Schengen area, EU 28, and Wider Europe which consisted Schengen area and EU 28 destinations, plus an additional five countries.

Analysis in this report will focus on travel to EU 27 destinations from China only. Previous analysis considered travel from ten key focus markets, including China. This approach recognises the important role of visas in controlling arrivals but also demonstrates the clear benefits that can be realised from a targeted relaxation of visa policy.

3.2 China: a constrained source market

Following the Schengen Agreement (1985), signatories began a process of abolishing internal border controls and harmonising visa policy. Citizens of many countries are free to visit the Schengen area without a visa, such as citizens of the EU, the United States, Brazil, and the United Arab Emirates. Around 40 countries in total are exempt from a visa requirement to enter Schengen area countries. If a visa is granted it allows travel within the zone, to multiple countries during the same trip. Visas allowing multiple entries within a time period are also available. The Schengen area receives the majority of arrivals to the EU.

To lodge a successful application for a Schengen visa, multiple criteria must be met with supporting documentation provided, with a processing fee also often applicable.

China is one of the many long-haul source markets for which visa-free access to the EU, including the Schengen area, is not available.

Chinese travel demand to Europe has been strong in recent years, and the outlook equally so. Yet, China is subjected to some of the most stringent visa requirements imposed by European destinations. China is also the largest of the visa constrained markets.

European destinations are host to less than half of Chinese long-haul travel; a proportion which is largely unchanged from ten years ago. This is despite some rapid growth in Chinese travel demand over the same period.

There remains a large opportunity for even faster growth in the coming years. The growing size of the Chinese market means that more facilitative visa policy should generate an even larger uplift in visitor volumes and spending than in the prior research. The magnitude of this uplift, however, will depend on the specific policy approach adopted.

3.3 Alternative scenarios

It is clear from numerous cases studies around the world that changes in visa policy are followed by a period of clear gains in travel demand, higher than growth on comparable flows. It is also clear that higher travel demand can boost economic activity and job creation within the wider economy.

A more relaxed approach with regards China will undoubtedly generate a significant amount of additional tourism demand for European destinations from one of the world’s most lucrative source markets. Alternative scenarios have been generated to quantify the potential increase via more lenient visa policy. The positive impact on GDP and job creation, within the tourism sector specifically and the wider economy more generally, would likely be considerable.

Any visa liberalisation measures need to be balanced against security and immigration concerns. But large benefits can be realised for relatively minor changes including targeted policy changes for China and with minimal effect on the other key functions that visas serve.
In this analysis Tourism Economics has assessed the potential uplift for the EU 27 (excluding UK) under three different policy approaches, consistent with prior analysis:

- Adoption of industry best practice
- Improvements in available visa types
- Full visa liberalisation

In the baseline forecast, TE anticipate average annual arrivals growth from China to EU27 to be 7.4% over the 2018-23 period compared to 18.4% in the full visa liberalisation scenario. Arrivals from China currently account for less than 2% of all visits to the EU and in all scenarios this share is expected to increase. In the full visa liberalisation scenario this share is expected to reach 3.9% by 2023 compared to 2.3% in the baseline outlook.
The analysis suggests that adoption of industry best practice (e.g., reduced fees, increased validity, less paperwork) would yield 2.2mn more visitor arrivals from China in 2023 compared to the baseline; 16% uplift for that market. This is equivalent to 0.4% uplift in total EU arrivals.

Improvements in available visa types (e.g., visa on arrival or eVisa) would likely result in Chinese arrivals to Europe being 17% higher in 2023 than if there was no policy change, equating to 4.4mn additional arrivals in 2023 and equivalent to 0.7% increase in total arrivals.

![Additional arrivals over baseline from China](chart)

Source: Tourism Economics

Full visa liberalisation would likely yield 71% increase in Chinese arrivals, equivalent to 1.6% increase in total EU arrivals in 2023 relative to a baseline of no visa policy changes.
The uplift on inbound tourism revenue would follow a similar pattern to the arrivals impacts, but some higher percentage increases are estimated. This is consistent with the relatively high length of stay and spend per trip for Chinese visitors. The percentage uplift on tourism sector GDP and employment will be lower than that for international arrivals and revenue due to the size of the domestic tourism markets.
Under the best practice scenario, inbound revenue would likely be 0.7% or €2.8bn higher than the baseline outlook for 2023. As a result, Travel & Tourism’s (T&T) direct contribution to GDP & employment would be 0.2% higher than the baseline outlook. This would equate to 25,000 additional jobs within the wider economy once indirect effects are taken into account.

Under the scenario of new visa types, inbound revenue would be 1.3% higher than baseline; an additional €5.5bn per annum by 2023. T&T’s contribution to GDP and employment would be 0.4% higher than under the baseline outlook, representing an additional 105,000 jobs within the economy in 2023.

Full visa liberalisation would generate additional inbound spending of €12.5bn of spend per annum, 2.9% higher than the baseline by 2023. T&T’s contribution to Europe's GDP would be 1.0% higher with a total employment uplift of 0.9%, representing 237,000 additional jobs, including 120,000 directly within the T&T sector.

**Scenario impacts over baseline from China in 2023**

<table>
<thead>
<tr>
<th>% increase over baseline</th>
<th>Adopt best practice</th>
<th>Introduce new visa types</th>
<th>Visa free travel</th>
</tr>
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<tr>
<td>Arrivals</td>
<td>0.5%</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Inbound revenue</td>
<td>3.0%</td>
<td>2.5%</td>
<td>3.5%</td>
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<tr>
<td>GDP: direct</td>
<td>1.0%</td>
<td>1.0%</td>
<td>2.0%</td>
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<tr>
<td>GDP: total</td>
<td>0.5%</td>
<td>0.5%</td>
<td>1.0%</td>
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<tr>
<td>Emp: direct</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Emp: total</td>
<td>0.0%</td>
<td>0.0%</td>
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Source: Tourism Economics
### Baseline outlook for EU27 and scenario impacts over baseline

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<tr>
<th></th>
<th>2018</th>
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<td>132</td>
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Source: Tourism Economics
4. ANNEX

Comparison to prior analysis

Chinese travel to both Europe and other global destinations exceeded prior expectations in recent years. In prior analysis growth to Europe over 2015-17 was expected to average 4.6% per annum, however, latest available data suggest growth averaged 8.9% per annum. Some non-visa travel facilitation, such as increased connectivity, as well as a greater appetite for foreign travel paved the way for this growth. This also came despite some disruption from terrorism over the period proving the resilience of the sector and demand for European destinations over the longer-run.

In the full visa liberalisation scenario, the expected impact on arrivals, inbound revenue, GDP, and employment relative to baseline impacts are higher than in the prior analysis in the end year of respective time periods. This is due to the increasing importance of China as a source market and highlights the increasing cost of policy inaction.

The chart (above right) compares the estimated uplift in arrivals after 5 years in this analysis (impact by 2023) and in the prior analysis (impact by 2020). Comparison is between the impact on the EU28 in the prior analysis and on the EU27 (excluding UK) in the latest analysis. The higher estimated arrivals impact in the latest analysis, even with the exclusion of the UK, are due the growing importance of the Chinese market.

There uplift for spending is less evident due to the exclusion of the UK in the comparison. Partly due to the fact that the UK is outside of the Schengen Area, Chinese travel to the UK involves a relatively high average length of stay and high spending per trip. Hence, the exclusion of the UK from the EU aggregation has a greater impact on revenue than on visits.

On a more comparable basis, the potential uplift in revenue from Chinese travellers is now higher for European destinations due to the growing size of the market.