



# Causality between business travel and trade volumes: Empirical evidence from Hong Kong



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## HIGHLIGHTS

- We analysed the relationship of business travel and travel volumes between Hong Kong and its three key trading partners.
- A long-run equilibrium relationship between Hong Kong and the US was found.
- The US showed bidirectional causality relationship between business travel and travel volumes with Hong Kong.
- Business travel does Granger-cause trade volumes between Hong Kong and Mainland China, as well as between Hong Kong and Taiwan.

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## ABSTRACT

The study employed the Engle–Granger vector autoregressive model to investigate the causality relationship between business travel and trade volumes among Hong Kong and Mainland China, Taiwan, and the United States (US) from 2002Q1 to 2012Q4. This study presented evidence that a long-run equilibrium relationship (cointegration) between Hong Kong and the US. Additionally, the US showed bidirectional causality between the two time series variables; however, business travel does Granger-cause trade volumes for the case of Mainland China and Taiwan. The concept of the linkage between business travel and trade volumes was demonstrated in this study. Significantly, this study is expected to benefit Hong Kong policy makers by enabling better planning to attract and understand the fluctuations in international business visitors from its three key trading partners.

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## 1. Introduction

Business tourism (e.g. business travel) is one of the main contributors to the economic development of a country or city, and it also concerns people travelling for purposes that are related to their work or business (e.g. Dwyer, Forsyth, Madden, & Spurr, 2000; Oh, 2005; Pablo-Romero & Molina, 2013; Swarbrooke & Horner, 2001). It is generally accepted that international business visitors may lead to increased international trade volumes as they travel to another nation or city and negotiate the sale (export) or purchase (import) of perishable and/or valuable goods from or to their countries, and then transport the goods using air transport.

Hong Kong is one of the key international financial and banking

centres worldwide and one of the main international hub airports in the Asia–Pacific region, as well as the gateway to the Pearl River Delta (PRD) in Mainland China (García-Herrero, 2011; Tsui, Balli, Gilbey, & Gow, 2014). Its prominent role in international trade and business transactions attracts millions of business travellers to Hong Kong every year for work and business purposes. According to Hong Kong Tourism Board, business visitors to Hong Kong grew from 5.45 million in 2004 to 7.60 million in 2013, equalling an average annual growth rate of 3.94%. In 2013, tourism expenditure associated with inbound tourism amounted to HK\$332.05 billion (Hong Kong Tourism Board, 2013). Furthermore, international business visitors are considered to be a major source of foreign exchange and other tourism-related activities for a country (Heung & Quf, 2000). For example, Hong Kong's three major tourist sources (i.e. Mainland China, Taiwan, and the US) had a total of approximately 4.84 million business visitors travelling to Hong Kong for work or business purposes during 2013. The number of business visitors from Mainland China, Taiwan, and the US were 4.07 million,

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0.38 million, and 0.39 million, respectively; the average trip expenditure and length of stay per business visitor from Mainland China, Taiwan, and the US were HK\$8937 (3.4 nights), HK\$5730 (2.6 nights), and HK\$7300 (4.0 nights), respectively. It is worth noting that business travel develops in line with business cycles, and the main driving force is economic growth (Denstadli, 2004; Hiemstra & Wong, 2002). Often, business travellers are sent by their organisations unwillingly on overseas business trips and involved hard work with little opportunity for pleasure compared to leisure travellers (Kulendran & Wilson, 2000b). These two types of travellers (business travellers and leisure travellers) are very different in nature.

However, the demand pattern of Hong Kong's international business travel, just like that of international tourism and other economic indicators is not smooth. The time series of international business travel always shows frequent fluctuations and exogenous shocks. Since 2000, the main reasons behind the fluctuations in international business visitors to and from Hong Kong consisted of the Asian financial crisis in 2001, the 9/11 terrorist attacks in 2001, the serious acute respiratory syndrome (SARS) outbreak in 2003, the global economic downturn in 2008, higher aviation fuel prices, and economic conditions in the origin countries/regions (e.g. Goh & Law, 2002; Pine & Mckercher, 2004; Song, Wong, & Chon, 2003; Song & Lin, 2009; Tsui et al., 2014). The trading activities of Hong Kong were also affected by other determinants such as seasonality and the calendar-related patterns (Goh & Law, 2002; Hiemstra & Wong, 2002). Hong Kong's total trade volumes increased from HK\$4130.24 billion in 2004 to HK\$7601.83 billion in 2013 (Hong Kong Census and Statistics Department, 2014a). It is evident that international trade flows become a major contributor to rapid growth in business travel (or business tourists) in Hong Kong (Hiemstra & Wong, 2002; Kulendran & Wilson, 2000b).

Fig. 1 indicates that there is a close relationship between the number of international business visitors to Hong Kong and the total trade volumes, which both show similar patterns. Note that the causal relationship between international business travel and international trade has been widely studied by many academics. In general, there is a support in the literature for the idea of international travel overcoming obstacles to creating international trade between countries or regions.

The Granger causality approach is one of the more popular methods to study the causality (link) between international business tourism (international business travel) and international trade. For example, Kulendran and Wilson (2000a) claimed that there was a strong long-term relationship between international

travel and international trade among Australia and its four largest trading partners (i.e. Japan, New Zealand, the United Kingdom, and the US) between 1982Q1 and 1997Q4, and also demonstrated that business travel Granger-caused total bilateral trade flows between the US and Australia. Shan and Wilson (2001) investigated the causal relationship between international trade and tourism in China using the Granger causality test. The results suggested that trade flows were linked with China's tourism for the period of 1987Q1–1998Q1. Similarly, Khan, Toh, and Chua (2005) suggested a robust link between Singapore's business tourism and its trade volumes between 1960 and 2005, highlighting a strong link that was found between business visits and imports. Furthermore, Oh (2005) used the Engle–Granger two-stage approach and the bivariate Vector Autoregressive (VAR) model to investigate the causality between South Korea's tourism growth and economic expansion from 1975Q1 to 2001Q1, and the findings indicated that there was no long-run equilibrium relationship between two time series variables and the tourism sector did not lead to South Korea's economic growth. In addition, Akinboade and Braimoh (2010) used the Granger causality test to show unidirectional causality running from international tourism earnings to real gross domestic product (GDP) in South Africa between 1980 and 2005, both in the short- and long-run.

Our contribution to the literature emerged from a thorough investigation of the causal relationship between international business travel and trade volumes of Hong Kong and its three key trading partners (i.e. Mainland China, Taiwan, and the US). Again, it is generally accepted that international business travel and trade volumes play important roles in Hong Kong's economic development, and there are only a few empirical studies and reports in the area of Hong Kong's business travel. Therefore, we developed the econometric model to investigate whether a long-run relationship existed between business visitors and bilateral trade volumes between Hong Kong and its three main trading partners (i.e. Mainland China, Taiwan, and the US), given that these three countries took a combined share of 63.68% of Hong Kong's total international visitor numbers and 62.75% of its total trade volumes in 2013, respectively (Hong Kong Tourism Board, 2013; Hong Kong Census and Statistics Department, 2014a). Simply, a clear knowledge of the causal relationship between business visitation and the bilateral trade volumes between Hong Kong and its three key trading partners may offer better estimation of Hong Kong's economic outlook.

Another reason makes our paper meaningful relating to its contribution to increase and promote Hong Kong's international business tourism. For the strategic planning and decision-making,

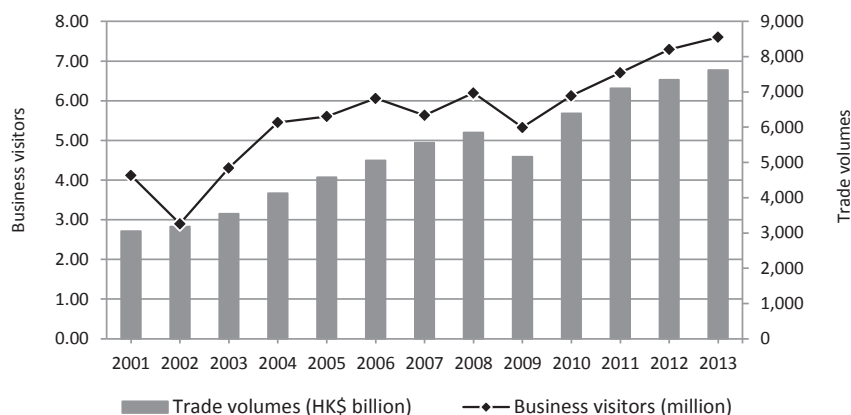


Fig. 1. Business visitors and trade volumes for Hong Kong (2001–2013).

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