



Changes in cross-strait aviation policies and their impact on tourism flows since 2009



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ARTICLE INFO

Keywords:

Cross-strait
Aviation policy
Tourism
Charter flight
Scheduled flight

ABSTRACT

This paper reviews the changes in cross-strait aviation policies that have occurred since 2009 and assesses the effects of those changes on tourism flows, focusing on the routes served by charter flights. This study is unique because it explores the linkage between aviation and tourism policies in a newly established market. Based on three distinct sets of time series data from 2009 to 2015, various statistics and vector autoregression methods are applied to examine the impacts of the changes on tourism as well as the relationships among scheduled services, charter services, and tourism flows. Our main findings are as follows: First, the changes have promoted scheduled services constantly and aggressively, which contributed to the transformation of cross-strait tourism into a thriving business. Second, through regulation, the changes have created a policy framework for charter flight business. Third, charter flights have become a supplement to scheduled flights in the tourism market. Our contribution is threefold. First, our study contributes to the literature on the effect of aviation policy regimes on the tourism market with respect to charter operations. Second, it provides practical guidance for regions with similar situations, such as the Korean Peninsula. Third, it has crucial policy implications for regulators and governments and provides advice for airlines in the cross-strait market.

1. Introduction

Mainland China (hereafter, the Mainland) and Taiwan have been political rivals since the end of the civil war in 1949. Until 2003, direct flights between them were banned by their respective governments; however, they had meanwhile tried to develop cross-strait ties. In 1987, Taiwanese citizens began travelling to the Mainland to visit relatives. In the 1990s, the Taiwanese were allowed to travel to the Mainland in groups for various purposes. In 1993, Mainland residents were also allowed to visit Taiwan to see their relatives. Because there were no direct flights, passengers took indirect flights. Hong Kong was most frequently used as a transfer hub due to its location and cordial relationships with both regions (Shon et al., 2001). Following economic development and political negotiation, the Mainland and Taiwan opened direct charter flights across the Taiwan Strait during the Spring Festival of 2003 (Chang et al., 2011).

Since 2003, restrictions limiting charter operations in the cross-strait

market have gradually been lifted through several semi-official announcements. In 2003, 16 charters were operated by Taiwanese airlines during the Spring Festival. Only Taiwanese businessmen and their families were allowed to take charters. All flights were one-way charters with a required layover in either Hong Kong or Macau. In 2005, Mainland airlines were allowed to operate charters, and nonstop charters (flights without layovers that were required to pass through Hong Kong airspace) became available. In 2006, all Taiwanese residents were allowed to take charters during four Chinese holidays: Spring Festival, Qingming Festival, Dragon Boat Festival, and Mid-Autumn Festival.

Few changes occurred until the two governments formulated their aviation and tourism policy rationales in 2008 through institutional talks (the Chiang–Chen Talks¹). In the first Chiang–Chen Talks, which were held in June 2008, representatives signed the “Minutes of Talks on Cross-Strait Charter Flights” and “Cross-Strait Agreement Concerning Mainland Tourists Travelling to Taiwan.” The first agreement authorized weekend charter operations and removed the requirement that charters must fly

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¹ The Chiang–Chen Talks are a series of meetings between Chiang Pin-kung, who is the chairman of the Straits Exchange Foundation (SEF), and Chen Yunlin, the president of the Association for Relations Across the Taiwan Straits (ARATS). SEF is a semi-official organization set up by the government of Taiwan to handle technical or business matters with the Mainland. ARATS is an organization set up by the Mainland government to handle technical or business issues with Taiwan.

through Hong Kong airspace. The second agreement allowed Mainland residents to visit Taiwan in groups and permitted them to take nonstop flights. In November 2008, the Cross-Strait Air Transport Agreement was signed in the second Chiang–Chen Talks. This agreement allowed the operation of daily passenger charters and announced that the greatest possible efforts would be made to open scheduled direct flights within 6 months of the implementation of the agreement. In the third Chiang–Chen Talks, held in April 2009, the Cross-Strait Air Transport Supplementary Agreement was signed. In line with this agreement, scheduled direct flights on most charter routes officially started to operate on August 31, 2009. This indicates that cross-strait air transportation entered a regular period.

The Mainland and Taiwan have different perspectives on the opening of scheduled direct flights (Chang et al., 2011). The Mainland wishes to increase its own airlines' traffic volumes and market competitiveness, increase links to more regional cities, and develop the economic zone of the west coast of Fujian. By contrast, Taiwan hopes to boost tourism from the Mainland to Taiwan, facilitate the export of Taiwanese agricultural products to the Mainland, realize a "cross-strait commuting," and develop Taoyuan International Airport as one of the main hubs in East Asia. The polarization of perspectives indicates that each government holds different opinions that it intends to maintain in aviation talks after 2009 and that some changes would occur in the new air transport agreements.

As a new phenomenon, cross-strait air transportation has attracted the attention of researchers in various respects. In the earlier period, researchers studied the potential effects of direct flight operations on the East Asian air transport market (Shon et al., 2001), the cross-strait tourism market (Guo et al., 2006), and passengers' cross-cultural perspectives (Lu and Ling, 2008). Believing that low-cost carriers (LCCs) would grow quickly in the cross-strait market after direct flights were allowed, Chang et al. (2008) built a framework to select destinations for LCCs. Chang et al. (2011) then reviewed the developing cross-strait aviation policy processes before 2009 and discussed the perspectives of the Mainland and Taiwan on the opening of direct flights. Recently, researchers have assessed the impact of direct flight operations on aviation industries (e.g., Chung and Wong, 2011; Lau et al., 2012; Lin and Fu, 2014). Yen and Chen (2017) modelled the preference for business charters. Cross-strait tourism is an important issue that has attracted the attention of numerous researchers (e.g., Chen, 2010; Qiu et al., 2015). It is expected that the opening of direct flights could cause more Mainland tourists to visit Taiwan (Guo et al., 2006). However, few studies have investigated the changes in the aviation policy after 2009 or their impact on cross-strait tourism.

Based on the aforementioned studies, this paper has two main purposes. One is to document the cross-strait air transportation policy change process after 2009 and explain how those policies have been implemented. The second is to assess the impact of those changes in the aviation policy on cross-strait tourism, with a focus on the scope of the routes served by tour charters. This paper does not consider the impact of LCCs due to their small share in the cross-strait market. In 2016, LCCs provided only 2.03% of the scheduled air seats in this market, which is considerably lower than that in the Taiwan–Korea (26.58%) or Taiwan–Japan (25.78%) markets. This study is unique because it explores the linkage between aviation and tourism policies in a newly established market as well as the substitution of charters by scheduled flights. Our contribution is threefold: First, our study contributes to the theoretical understanding of the effect of the aviation policy regimes on tourism markets with respect to charter services. Second, it provides practical guidance for regions with similar situations, such as the Korean Peninsula. Third, it has policy implications for regulators and governments, and provides advice for aviation businesses involved in the cross-strait market.

The remainder of the paper is organised as follows. We review related literature in Section 2. In Section 3, we describe the data and methodology. Section 4 analyses changes in air transport agreements reached

after 2009. This section also illustrates the changes in scheduled services and their impact on tourism. Section 5 analyses policies relating to charter services and characterises the current charter market. Section 6 uses a vector autoregression model to assess the relationships among scheduled services, charter services, and tourism throughputs. Finally, the conclusion and discussions are presented in Section 7.

2. Literature review

2.1. Linkages between the aviation policy and international tourism

International air transportation is one of the most regulated industries (Button, 2006), and aviation policy deregulation is the most effective measure to promote international tourism development (Papatheodorou, 2010). Researchers have studied the linkages between the aviation policy and international tourism from a trade-off perspective. In most countries that wish to develop international tourism industries, policy makers are required to balance airline interests with tourism interests for determining their aviation policies. This is the trade-off between the airline and tourism industries (Forsyth, 2010). Nearly all published papers have focused on the situation in post-deregulated or deregulated markets. By contrast, developing destinations and regulated/constrained markets were largely neglected.

It has been noted that for many EU and Mediterranean countries, the trade-offs are very harsh. The acceptance of charter airlines in the 1960s is the major liberalization of the aviation policy in Europe. Wheatcroft (1998) observed that some destination countries enjoyed a boom in foreign visitors due to unrestricted charter operations. Forsyth (2010) found that Spain sacrificed its aviation interests but succeeded in stimulating its tourism industry. By contrast, other countries that were opposed to the free operations of charter services, such as England, tried to insulate scheduled airlines from the threat of charter airlines (Papatheodorou, 2010). Over the last decade, numerous countries, such as Malta, Morocco, and Tunisia, have deregulated their aviation policies to attract more foreign carriers and promote inbound tourism (Graham and Dennis, 2010; Dobruszkes and Mondou, 2013; Dobruszkes et al., 2016).

Countries in the Asia-Pacific region are also aware of the linkages between aviation and tourism. In the 1980s, the Australian government ceased to control capacity on South East Asia–Australia routes and succeeded in promoting international tourism (Forsyth, 2010). The countries of the Association of South-East Asian Nations (ASEAN) have adopted a policy of moving to "open skies" within their region since the 1990s. ASEAN countries' attitudes towards to open skies are influenced by the relative importance of intra-ASEAN tourism (Forsyth et al., 2006). For example, Singapore and Thailand have adopted liberal aviation policies, whereas Philippines shows greater enthusiasm for opening up Northeast Asian markets with Japan and China than for ASEAN (Forsyth, 2010). Zhang and Findlay (2014) found a positive correlation between aviation deregulation and tourism flows in Australia and Singapore. They concluded that further aviation deregulation could help build stronger tourism flows between Australia, Singapore, and Southeast Asian nations.

Historically, Northeast Asian countries have had restrictive bilateral air service agreements (Oum and Lee, 2002). Northeast Asian countries, such as Japan and China, have different attitudes towards the aviation-tourism policies trade-off. Since the early 2000s, Japan has been deregulating international aviation policy, especially charter policy, to realize the "Tourism-Oriented Nation Strategy" embarked on by the Koizumi Cabinet (Wu, 2016). By contrast, the Chinese government always regards outbound tourism as a political tool for managing diplomatic relations (Arlt, 2006) and views aviation deregulation as a method to help its major airlines (Zhang and Round, 2008; Wang et al., 2014; Fu et al., 2015b; Zhang et al., 2013, 2014, 2017). Wu et al. (2012b) explored the influence of Chinese aviation networks on its inbound tourism and argued that China should expand these networks to increase inbound tourist arrivals. However, few studies have examined the Chinese

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