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The impact of China on stock returns and volatility in the Taiwan tourism industry[☆]



Chia-Lin Chang^a, Hui-Kuang Hsu^b, Michael McAleer^{c,d,e,f,*}

^a Department of Applied Economics, Department of Finance, National Chung Hsing University, Taiwan

^b Department of Finance and Banking, National Pingtung Institute of Commerce, Taiwan

^c Department of Quantitative Finance, National Tsing Hua University, Hsinchu, Taiwan

^d Econometric Institute, Erasmus School of Economics, Erasmus University Rotterdam, The Netherlands

^e Tinbergen Institute, The Netherlands

^f Department of Quantitative Economics, Complutense University of Madrid, Spain

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ABSTRACT

This paper investigates the stock returns and volatility size effects for firm performance in the Taiwan tourism industry, especially the impacts arising from the tourism policy reform that allowed mainland Chinese tourists to travel to Taiwan. Four conditional univariate GARCH models are used to estimate the volatility in the stock indexes for large and small firms in Taiwan. Daily data from 30 November 2001 to 27 February 2013 are used, which covers the period of Cross-Straits tension between China and Taiwan. The full sample period is divided into two subsamples, namely prior to and after the policy reform that encouraged Chinese tourists to Taiwan. The empirical findings confirm that there have been important changes in the volatility size effects for firm performance, regardless of firm size and estimation period. Furthermore, the risk premium reveals insignificant estimates in both time periods, while asymmetric effects are found to exist only for large firms after the policy reform. The empirical findings should be useful for financial managers and policy analysts as it provides insight into the magnitude of the volatility size effects for firm performance, how it can

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* Corresponding author at: Department of Quantitative Finance, National Tsing Hua University, Hsinchu, Taiwan.
E-mail address: michael.mcaleer@gmail.com (M. McAleer).

vary with firm size, the impacts arising from the industry policy reform, and how firm size is related to financial risk management strategy.

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1. Introduction

According to the World Tourism Organization (UNWTO), international tourism has experienced continuous expansion and diversification during the past six decades to become one of the largest and fastest-growing economic sectors in the world. International tourist arrivals have shown virtually uninterrupted growth over this period, from a mere 25 million in 1950 to 277 million in 1980, 435 million in 1990, 675 million in 2000, 935 million in 2010, and a growth of 6.5% to 996 million in 2011. These growth figures are amazing, especially in light of the Global Financial Crisis that erupted in 2007–2008.

With growth slated to continue by 4% to 1,035 million in 2012, international tourism has hit a major milestone, namely one billion international tourist travelers worldwide in a single year. International tourism demand has been steady over the years and also during each year, and international tourism markets have so far not been seriously affected by the economic and financial volatility caused by the Global Financial Crisis. It has been projected that growth will continue in excess of 3.8% each year, on average, for the decade 2010–2020, in line with UNWTO's long-term forecast of international tourism toward 2030.

From the supply side of tourism, as stated by UNWTO, emerging economies (+4.1%) are tipped to regain the lead in tourism growth of international tourist arrivals in 2012 over the advanced economies (+3.6%). By region, with stronger growth, Asia and the Pacific (+7%) was the best performer in 2012, especially by sub-region, with South-East Asia (+9%) topping the rankings. Excellent international tourist arrivals in this region included Japan (with 1.7 million additional tourists, for an increase of +41%), which is recovering from the 2011 Tohoku earthquake and is on track to returning to the 8 million tourist mark, as well as Taiwan (R.O.C.), which saw nearly 1 million additional tourist arrivals, which is an impressive growth of 24%. In terms of international tourism receipts, these were led in the region by Japan and Taiwan, with double digit increases of +48% and +11%, respectively.

However, from the tourism demand side, Chinese demand for tourism is predicted to quadruple in value in the next ten years (2007–2017), according to the forecasts of the World Travel & Tourism Council (WTTC). Indeed, the number of Chinese visits abroad reached 47million, which is 5 million more than that of foreign visitors to China for the first time in 2007. At present China ranks a distant second, behind the USA, in terms of tourism demand, but by 2018 it is expected to have closed much of the current gap.

Given the appreciation of the potential spending power of Chinese tourists, the Taiwan Tourism Bureau has been actively exploring this emerging Chinese tourism market. A series of gradual policy reforms in government policy have been introduced and encouraged, such as Chinese tourists to Taiwan for travel purposes that were approved in July 2008. As stated by the Taiwan Tourism Bureau, this was not only a breakthrough for Cross-Straits tourism, but also an important milestone in the history of the development of Taiwan tourism. In particular, such tourism policy reforms allowed Taiwan to firmly claim its rightful place on the global tourism map.

Historically, the era of Cross-Straits tension between China and Taiwan inevitably drew the world's attention because of an important security dilemma in the Asia-Pacific region. For China and Taiwan, the pre-1990 relationship was a tension under significant threat, as a declaration of independence by Taiwan could have provoked military action from China in a state of suspicion and anxiety.

Since 2005, after much effort on improving the Cross-Straits economic relationship by the Taiwan Government, China has overtaken the USA to become Taiwan's second largest source of imports after Japan. Moreover, China is also Taiwan's number one destination for foreign direct investment. Closer

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