ANALYZING TOURIST FLOW FROM JAPAN TO TAIWAN

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ABSTRACT
This paper tries to investigate long and short-run relationships between international tourist arrivals from Japan, Japan GDP, living cost, and substitute prices. For relationship and impact, the cointegration test and vector error correction model are used, respectively. Three cointegration vectors are obtained by the Johansen method based on VAR, which means the long-run relationship between the four model variables exists. In addition, the short-run equilibrium adjustment processes are discussed by generalized impulse response analysis. Basically, the short-run results confirm theoretical findings such that the tourist arrival has positive relationship with GDP and negative one with the cost of living.

Keywords: cost of living, substitute price, cointegration test, vector error correction model, generalized impulse response

INTRODUCTION
Tourism has become one of the major players in international commerce, and represents at the same time one of the main income sources, especially for many developing countries (World Tourism Organization, 2006). There are some reasons which Schubert (2010)[34] generalized from the early literatures such as Andriotis (2002)[2], Croes (2006)[8], Fagance (1999)[14] and Lin & Liu (2000)[28]. First, tourism is an important earner of foreign exchange, allowing to pay for imported capital goods or basic inputs used in the production process. Second, tourism plays a significant role in spurring investments in new infrastructure and competition between local firms and firms in other tourist countries. Third, tourism stimulates other economic industries by direct, indirect and induced effects. Fourth, tourism contributes to