



# How aviation deregulation promotes international tourism in Northeast Asia: A case of the charter market in Japan



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## 1. Introduction

Japan's domestic economy slipped into an extended period of stagnation due to the collapse of its bubble economy, which caused the country to lose its "leading goose" position in the East Asian economic cooperation of the 1990s. Thus, in the early 2000s, the Koizumi Cabinet embarked on broad structural reforms, including a "Tourism-Oriented Nation Strategy" that would revitalize the economy and revive the charm of Japan. To realize this strategy, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) launched the Visit Japan Campaign in 2003, which aimed to double inbound tourists to 10 million by 2010. Next, the Abe Cabinet positioned tourism as one of the backbone industries of Japanese economy in the 21st century. In 2010, the Hatoyama Cabinet approved The New Growth Strategy, which includes "Becoming a tourism nation" into the seven strategic fields set up to break through the obstacles of Japan. Furthermore, the Second Abe Cabinet includes the tourism nation strategy into 11 strategic fields to revitalize Japan. Realizing the substantial contribution of inbound tourism, Japan currently is aiming to increase inbound tourism by attracting 25 million visitors by 2020.

In the past ten years, Japan central government, regional governments and tourism industries have implemented various measures to promote inbound tourism. These promotions are likely to have contributed to a 157% increase in inbound tourists, from 5.21 million in 2003 to 13.41 million in 2014. In 2014, the expenditure of the overseas travellers reached 2.2 trillion yen, which has contributed to Japan's economic recovery and enhanced Japan's

soft power. In particular, inbound tourism has played a role in resurrecting a powerful Japan by seeking the demand for tourism from Northeast Asia's economic growth, such as South Korea (hereafter Korea), Taiwan, and Mainland China (hereafter China). As illustrated in Fig. 1, Korea, Taiwan, and China were the top three markets for Japan.

Aviation deregulation is one of the key measures adopted by the MLIT. Air travel is the primary form of transportation access to Japan. Believing that aviation deregulation was an essential condition to enlarging inbound tourism, the MLIT deregulated two aspects of its international aviation market. Firstly, international scheduled services were deregulated by expanding bilateral air transport agreements with relevant countries (regions). In 2007, the Asian Gateway Initiative indicated that Japan should change its aviation policy to achieve "Asian Open Skies". Since then, Japan has established Open Skies Agreements with more than 28 countries and regions, which has led to an increase of scheduled flights to Japan, from 2350 flights per week in 2003 to 3782 flights per week in 2014. Scheduled services represented 97% of international air passenger traffic in Japan and contributed to the inbound tourism primarily.

Secondly, non-scheduled services (charter services) were deregulated. In 2003, international scheduled flights are mainly served by the major international airports located in Tokyo, Osaka and Nagoya Metropolitan. For example, in Winter 2003/2004, 56.98% of the scheduled flights bounded to Kanto, while the traditional holiday destinations such as Hokkaido and Okinawa, received only 0.89% and 1.06% of the flights (Table 1). Furthermore, according to number of seats, Hokkaido and Okinawa received only 0.56% and 0.33% of the traffic. Based on these statistics, Japan deregulated charter services to facilitate tourism to remote areas, to utilize regional airports, or to pave the way to introducing regular flights.

In Northeast Asia, the leisure market is dominated by regular services, and charters have been traditionally operated by full-service airlines (FSAs). Due to the traditional domination of regular services, the development of charter tourism has been limited. In recent years, Low cost carriers (LCCs) are growing rapidly. However, the deregulation of LCCs and leisure carriers has played a minimal role in reducing seasonal fluctuations in tourism flows (Chung and Whang, 2011) nor attracting more tourists to

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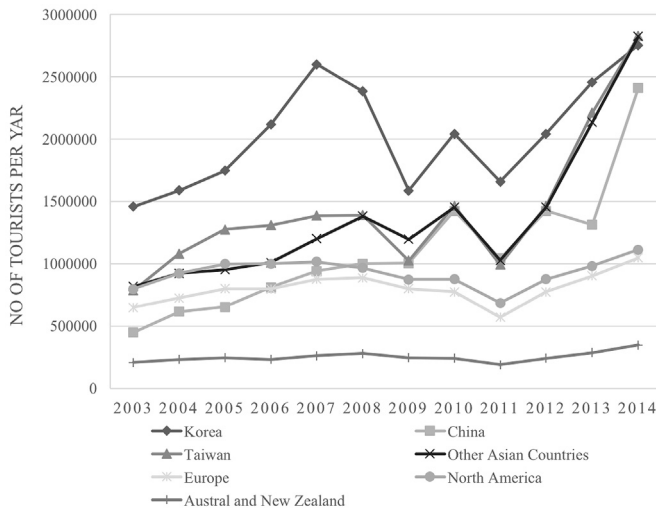


Fig. 1. Increase in inbound tourists to Japan from 2003 to 2014. Data source: Japan National Tourism Organization (JNTO)

traditional charter destinations (Wu and Hayashi, 2014). Alternatively, some countries and regions have been deregulating charters to promote international tourism. However, the effect of charter promotion on tourism industries is unclear.

This study aims to explore the following: (1) the extent to which Japan aviation deregulation has affected charter business in the Japan-Korea, Japan-Taiwan, and Japan-China markets; and (2) the extent to which charter deregulation has affected inbound tourism to Japan. This study focuses on the changes made to charter traffic to Japan's peripheral areas for two reasons. Firstly, in 2007, the cabinet put forward the "Asian Gateway Initiative", intending to establish Japan's leading role in Asia under the new context. The initiative shows strong national interest in the issues related to airline routes and airports, such as the Asia Open Skies (liberalization of aviation services). The Initiative indicates that the primary purpose of charter deregulation is to increase inbound tourism and to pave the way to introducing regular flights. Secondly, the regional community revitalization is the mean value of the Tourism-Oriented Nation Strategy.<sup>1</sup> Japan's experience is expected to provide guidance for other aviation and tourism policy makers throughout the Asia-Pacific region.

## 2. Literature review

Over the last five decades, charter deregulation has been producing a very significant structural development within the leisure industries. During the 1960s, the acceptance of charter airlines led to a sustained boom in tourism from Northern Europe to the Mediterranean (Forsyth, 2006); charter airlines became the main air service providers of leisure travel in Europe (Papatheodorou and Lei, 2006). In the 1980s and 1990s, researchers studied various aspects of charter-based tourism, including demand and supply (Guitart, 1982; Jørgensen and Solvoll, 1996), economic impact (Haitovsky et al., 1987), geographical dimensions of charter flows (Pearce, 1987a, 1987b), airport operations (Lobbenberg, 1995), and

destination development (Gillmor, 1996).

After the EU implemented the third package of air transport liberalization measures from 1993 to 1998, charter airlines lost its significance in the European leisure market. The third package waived distinctions between scheduled and non-scheduled operations; removed restrictions on market entry, capacity, frequency and pricing; and gave all EU carriers unlimited 3rd, 4th, 5th, 6th and 7th Freedom rights and, as of 1 April 1997, the 8th and 9th ('cabotage') Freedom rights within the EU (Papatheodorou, 2002). LCCs gained tremendous opportunities when they were granted full access to the EU aviation market. Thus, many charter airlines re-registered themselves as LCCs (Doganis, 2002) or entered the scheduled market by selling seat-only products (Papatheodorou, 2002). Meanwhile, full-service airlines (FSAs) set-up LCC subsidiaries, and several investors launched new airlines that adopted the model of Southwest Airlines (Budd et al., 2014). Facilitated by direct Internet booking platforms, LCCs rapidly began to gain market share and, by the end of the 1990s, replaced charters on many short-haul leisure routes (Williams, 2001).

Since then, many researchers have mainly studied the effects of LCCs on tourism industries, primarily observing that different airlines affect different travel flows (Table 2). For example, Bieger and Wittmer (2006) indicated that charter airlines played a significant role in facilitating seasonal tourism flows to resorts. Then, researchers studied the effects of LCC deregulation. Researchers argued that the promotion of LCCs may facilitate overall traffic growth, which may result in substantial tourism growth (e.g., Graham, 2013), reduce the seasonality of flows of charter-based tourism (e.g., Donzelli, 2010), or stimulate a demand for travel to new destinations, such as cultural heritage sites (Graham and Dennis, 2010). In many parts of the world, aviation deregulation has consistently led to an increased number of scheduled services that are mainly provided by LCCs but a decreased number of charters (Dobruszkes and Mondou, 2013), albeit there was little evidence showing that such deregulation had indeed increased both travel demand and existing flows of tourism (Dobruszkes et al., 2016).

Charter market of Asia-Pacific region is very different from that of the Europe. Firstly, the market share presented by charter carriers in international ITCs market is relatively low. Alternatively, charter carriers do not play an important role in this region. Secondly, international charter had been traditionally operated by FSAs as a supplement of scheduled services (Wu et al., 2012); while the charter tour is more expensive than the package tour using scheduled flights (Wu and Hayashi, 2013). Thirdly, LCCs started to operate international scheduled flights but their impacts on leisure flows was uncertain (Chung and Whang, 2011). Actually, in this region, the researchers mainly focused on the effects of scheduled services regulation on leisure market. For example, Zhang and Findlay (2014) found a positive correlation between aviation deregulation and tourist flows; Duval and Schiff (2011) argued that the deregulation of direct services on long-haul routes had little impact on international arrivals for holiday travel. Whilst the value-based airlines (including leisure airlines and LCCs) entered Asia-Pacific charter market and had diverse effects on the evolution of the charter network in recent years (Wu and Hayashi, 2013), few researchers noticed the issue of the value-based airlines' performance and their role in charter operations.

Furthermore, few researchers have studied the implications of charter deregulation for tourism industries in the current environment of global deregulation. Some researchers have assessed the role of charters in promoting tourism on thin routes connected to regional cities, the ways in which charter deregulation has promoted outbound tourism from Japan (e.g., Wu et al., 2012, Wu and Hayashi, 2013). Researchers also studied the economic effect of

<sup>1</sup> According to Japan Tourism Agency, the value of promoting Japan as a Tourism-Oriented Nation could be divided into four aspects generally: enhancing the nation's soft power; stimulating economy in days of declining birth rate and aging population; revitalizing regional communities; and improving the quality of lives of people (Japan Tourism Agency, 2009).

**Table 1**  
Changes in international scheduled traffic to/from Japan, based on region.

Region (airports included)	Winter 03 (weekly)		Winter 14 (weekly)		Changes	
	Flight	Share	Flight	Share	Flight	Share
Hokkaido (New-Chitose <sup>a</sup> , Hakodate <sup>a</sup> , Asahikawa, Wakanai, Memanbetsu, Kushiro, Obihiro, Nakashibetsu)	21	0.89%	87	2.30%	66	1.41%
Tohoku (Sendai <sup>a</sup> , Fukushima <sup>a</sup> , Aomori <sup>a</sup> , Akita <sup>a</sup> , Yamagata, Shona, Hanamaki, Miasma)	29	1.23%	22	0.58%	-7	-0.65%
Hokuriku (Niigata <sup>a</sup> , Noto, Toyama <sup>a</sup> , Matsumoto, Komatsu <sup>a</sup> )	26	1.11%	38	1.00%	12	-0.11%
Kanto ( <b>Narita</b> <sup>a,b</sup> , Haneda, Ibaraki)	1339	56.98%	1999	52.86%	660	-4.12%
Chubu ( <b>Chubu</b> <sup>a,b</sup> , Shizuoka, Matsumoto)	198	8.42%	337	8.91%	139	0.49%
Kinki ( <b>Kansai</b> <sup>a,b</sup> , Nanki)	511	21.74%	830	21.95%	319	0.20%
Chugoku (Tottori <sup>a</sup> , Okayama <sup>a</sup> , Hiroshima <sup>a</sup> , Yonago, Izumo, Ube, Iwami, Iwakuni)	34	1.45%	59	1.56%	25	0.11%
Shikoku (Takamatsu <sup>a</sup> , Matsuyama, Kochi, Tokushima)	6	0.26%	18	0.48%	12	0.22%
Kyushu (Kitakyushu, Fukuoka <sup>a</sup> , Oita <sup>a</sup> , Nagasaki, Miyazaki <sup>a</sup> , Kumamoto, Kagoshima <sup>a</sup> , Saga, Tsushima, Tokushima)	161	6.85%	300	7.93%	139	1.08%
Okinwa (Naha <sup>b</sup> , New Ishigaki, Miyako, Iwo Jima)	25	1.06%	92	2.43%	67	1.37%
Total	2350	100.00%	3782	100.00%	1432	0.00%

<sup>a</sup> Airports served international scheduled passenger flights in 2003.

<sup>b</sup> The major international airports in 2003.

Source: Travel Journal, MLIT.

**Table 2**  
Airlines products and target markets.

	Full service airlines (FSAs)	Valued-based service airlines	
		Low cost carriers (LCCs)	Charter airlines
Airline products	Free food, drinks Low seat density Hub city airports Hub-and-spoke Ticket sales at own shops Ticket sales at agents Flexible owe way tickets Unbundled tickets	No High seat density Secondary airports Point-to-point Internet No Yes Unbundled	Free food, drinks High seat density Resort airports Point-to-point Tour operators No No Package holiday
Target markets	Extensive coverage and attempt to increase market share	Specific niche markets, where travel demand is price elastic	Tours and mass tourism flows to resort destinations

Source: Adapted from Bieger and Wittmer (2006) and Doganis (2002).

charter operations. A survey shows that the economic ripple effect on the destination brought by 12 inbound charters amounted to 567,000 US dollars, including direct effect 386,000 US dollars and indirect effect 181,000 US dollars. However, the effect of charter deregulation on destination development remains unclear.

### 3. Data and research method

Surveys, statistics, and econometrics are the typical methods used to assess the effects of aviation deregulation on tourism industries and international tourism flows (Dobruszkes et al., 2015). This study uses the method of statistics by using two sets of time series aviation data, which were provided by the MLIT: (1) International charter traffic data, to and from Japan, and (2) International scheduled services data, to and from Japan. The study period is from fiscal year 2003 (Apr. 1, 2003–Mar. 31, 2004) to fiscal year 2013 (1 Apr., 2013–Mar. 31, 2014). Due to the limited amount of traffic, assessment of the effects of charters is difficult to achieve simply because the share of charters is currently less than three percent. Therefore, this study compares various aspects of charter and scheduled services, mainly including traffic amount, routes, airports services, and networks.

This paper assesses the characteristics and geographical dimensions of charter route network in Japan-Korea, Japan-Taiwan and Japan-China. Because Taiwan is the biggest charter market to Japan, it is selected to analyse the effects of the deregulation on

charter traffic to Japan's regional areas. Three types of passenger charters were operating in Japan: own-use charter, affinity charter and inclusive tour charters (ITC). Currently, the primary type of air charters in Japan-Korea, Japan-Taiwan and Japan-China markets are inclusive tour charters. According to the MLIT, an inclusive tour charter (ITC) refers to the charter of an entire aircraft by one or more tour operators, which combines the round-trip seats with hotel or other accommodations to sell a "package tour" to tourists at a single price.

Japanese airports are classified as either "major international airports", including Narita, Kansai, Nagoya and Haneda, or "all others". In this paper, "regional" or "local" airport refers to an airport in the "all others" category that has or may facilitate international flights. From north to south, the ten regions in Japan are Hokkaido, Tohoku, Kanto, Hokuriku, Chubu, Kansai, Chugoku, Shikoku, Kyushu and Okinawa (Table 1). This study focuses on the regional airports that are located in the Hokkaido, Tohoku, Kyushu and Okinawa regions, which are major tourism destinations in Japan. In this paper, the term "role of charters" refers to role of both charter carriers and charter business.

In the following sections, the analysis focuses on the impact of direct deregulation on the charter traffic, routes and carriers. Section 4 provides an overview of the contents of the charter deregulation and its impact on charter traffic, in terms of the market, carrier, and destinations. Section 5 examines the characteristics of charter business in the markets of Japan-Korea, Japan-Taiwan and

Japan–China. Section 6 provides a case study of the Taiwan market, aiming to assess the effects of charter promotions on international tourism to Japanese regional areas. Section 7 reveals the impact of charter traffic on regional airports. Section 8 provides the discussion and conclusion.

#### 4. Changes in charter policies and charter business in Japan

##### 4.1. Changes in charter policy

In line with the strategy of the Tourism-Oriented Nation, Japan has been deregulating international charter services since the end of 1990s. Table 3 summarizes the main deregulation measures conducted during period of 2002–2014 in terms of traffic rights, carriers, tour operators and airports. Wu and Hayashi (2013) interpreted the contents of the deregulation arrangements during the period of 2001–2010. Initially, the deregulation that was conducted from 2001 to 2006, including the removal of restrictions on market entry, capacity, and frequency, as well as the introduction of a subsidy for airlines to fly charters to regional airports, had profound implications for inbound charter business. Then, the MLIT took further steps towards deregulation in May 2007 and December 2008, mainly aimed to promote outbound charters and charter business in Narita. The MLIT revised the charter rule in 2011 and 2013, enabling tour operators to transfer blocked seats to other tour operators with certain conditions. The new items solved the distribution channel problem of outbound charter products, but also resulted in a chaotic and volatile market.

##### 4.2. Changes in charter traffic

Fig. 2 shows the changes in international charter traffic in Japan from 2003 to 2013, illustrating that the traffic reached 6770 flights in 2005. Since then, there has been very little overall growth, mainly because of Japan's promotion of scheduled services in regional airports in 2007, the global economic crisis in 2008, and the spread of H1N1 influenza in 2009. In addition, the entry of new carriers (mainly LCCs and leisure carriers) and the promotion of charters in major airports have stimulated new demand. As a result, the charter traffic reached a new but saturated plateau during the period of 2010–2012. In 2013, there was a 40% decline in charters, probably caused by LCCs' entry into the international transportation markets, as well as MLIT accelerated open-sky processes, which leads to a transfer from charter to regular flights such as in Japan–China market.

For the benefit of tourism development, it seems that Japan was prepared to trade off advantages for their airlines. The shortage of

narrow body aircrafts was a factor that limited charter business. In 2007, MLIT allowed non-Japanese airlines to operate charters between Japan and a third country, with consulting Japanese airlines on a case-by-case basis. In 2008, MLIT enabled third country carriers to operate charters to Japan without consulting Japanese airlines and no longer imposed equal restrictions on the airlines of foreign countries. Those policies have attracted more carriers to fly charters to Japan. However, the proportion of Japanese airlines in the charter market has decreased continuously from 34% in 2003 to 8% in 2014. Currently, All Nippon Airways (NH) and Japan Airlines (JP) mainly operate outbound charters to long-haul markets (Europe and North America) and the island destinations (Palau and Hawaii).

Affected by scheduled services and other factors, different charter markets reflected different trends (Fig. 3). First, Korea, Taiwan, and China are the top three markets that send charters to Japan. From 2003 to 2013, the number of visitors from Taiwan, Korea, and China increased 260% (2.04 million), 88% (1.3 million) and 437% (2.07 million), respectively. However, the charter growth rate is much lower, which is mainly due to the increase of regular flights in the respective market. Second, the introduction of the seat-only sale policy and LCCs to the charter market led to a boom of charters to/from some Asian countries, such as Thailand. Third, the launch of scheduled services on previous charter routes, including Yuzhno-Sakhalin-New-Chitose and Yuzhno-Sakhalin-Hakodate, led to a decline of Russian charters. Europe, USA, Canada, Australia, and New Zealand are destinations for Japanese tourists. In the outbound market, the decline of scheduled services led to an increase outbound charters, such as to U.S resorts in Hawaii.

#### 5. Characteristics of charter business and their effects on tourism flows in Northeast Asia

##### 5.1. Characteristics of charter routes in Japan

In the entire Japanese market, charters are operated on more routes and reach more airports than regular airlines. For example, in 2013, regular flights were operated on 286 routes, whereas charters were operated on 335 routes. Regular flights serviced 29 airports, whereas 49 airports were serviced by charters. This difference is significant because charters are operated on more routes that otherwise could not be serviced by regular flights, to meet seasonal, location-specific or event-specific leisure demand. While Japan deregulated charter policies, Korea, Taiwan and China continue to regulate many aspects of charter operations. In those three markets, charters always operate on diverse and seasonal routes that cannot be served by scheduled flights. Table 4 shows

**Table 3**

A summary of international charter deregulation measures adopted by MLIT from 2001 to 2014.

	Main content
Traffic rights	<ul style="list-style-type: none"> <li>Removal of restrictions on market entry, capacity and routes for charters bounded to regional airports</li> <li>Enabled charters to be operated on a route or on sector of a route where there are scheduled air services are being operated</li> <li>Does not impose equal restrictions on the airlines of foreign country anymore</li> </ul>
Airlines operated charters	<ul style="list-style-type: none"> <li>Absorbed the limitation on charter carriers, such as allowing the third country carriers to operate charters, or use wet-rent aircrafts to operate charters to Japan</li> <li>Enabled airlines to retail the block to public through computer reservation system on selected routes</li> </ul>
Tour operators	<ul style="list-style-type: none"> <li>Enabled affinity charters to be operated by two or more tour operators</li> <li>Lifted restrictions on charter products, including the 2007 abolishment of the 50% rule which required overnight stays for more than half of the travel itineraries in the countries where the charter arrived</li> <li>Allowed tour operator to transfer blocked seats to another tour operator with certain conditions</li> </ul>
Airports	<ul style="list-style-type: none"> <li>Removed the ban on wholesales sales of seats as inclusive tour products of ITCs</li> <li>Shorten of filing period for charter bound to regional airports</li> <li>Provided a 50% discount on landing charge for charters going to regional airports</li> <li>Promoted charter business at the major international airports, including Narita, Haneda, Chubu and Kansai</li> </ul>

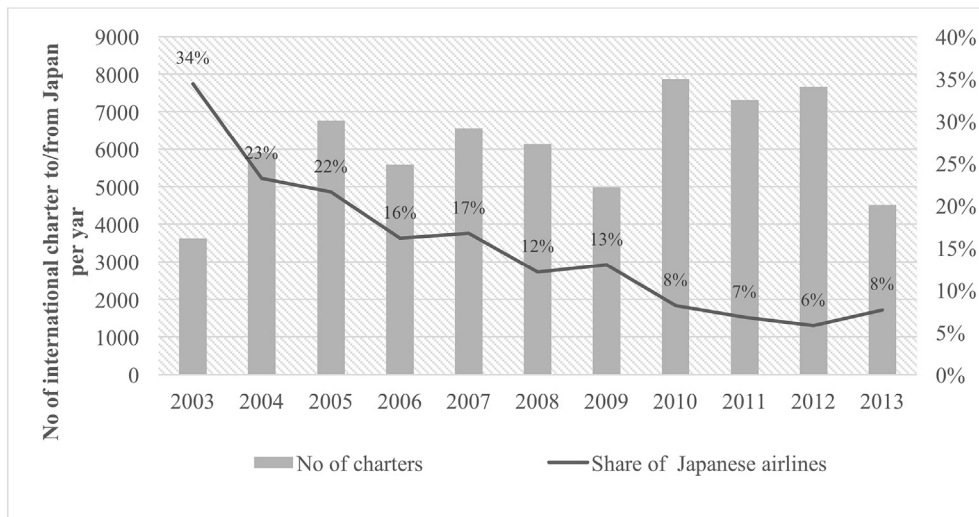


Fig. 2. Changes in international charter traffic to/from Japan and performance of Japanese airlines from 2003 to 2013.  
Data source: MLIT, Travel Journal

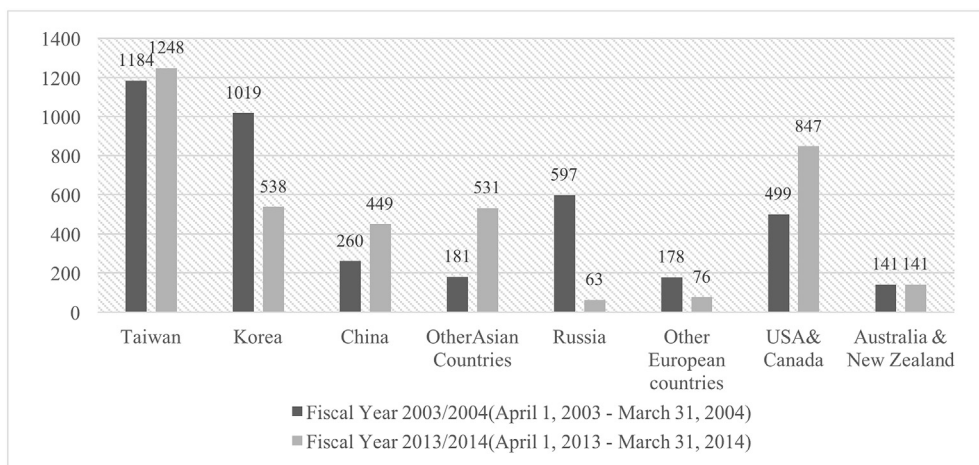


Fig. 3. Changes in charter traffic, based on routes.  
Data source: MLIT, Travel Journal

Table 4

Comparison of scheduled and charter traffic in Japan-Korea, Japan-China and Japan-Taiwan markets in 2013.

	Scheduled services (weekly)				Charter services (annual)			
	Airports in Japan <sup>a</sup>	Airports in relevant market	No. of routes	No. of flights	Cities in Japan <sup>a</sup>	Cities in relevant market	No. of routes	No. of flights
Japan-Korea	25	3	33	643	25	5	40	553
Japan-China	18	28	78	783	5	4	6	359
Japan-Taiwan	17	3	20	391	31	4	42	1246

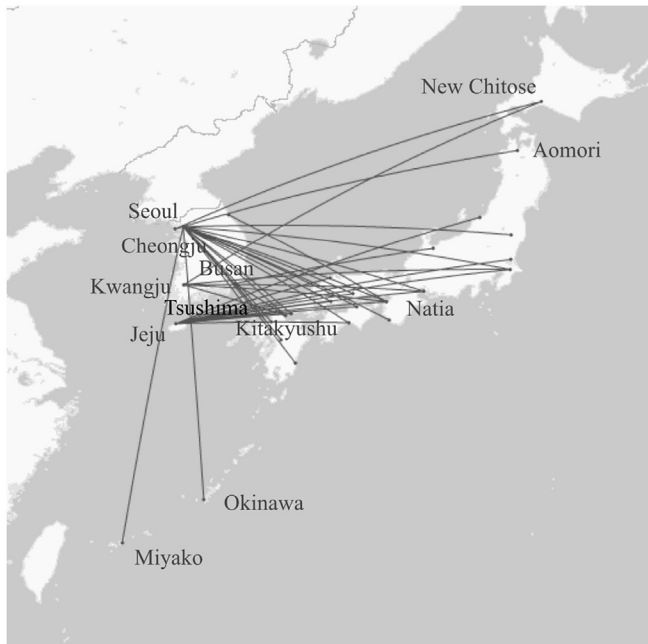
<sup>a</sup> This table uses 'airports' for scheduled flights and 'cities' for charter flights, due to MLIT data did in this way.  
Data source: MLIT, author own calculation.

that charters were operated on more routes and reached more destinations than regular flights in the Japan-Taiwan and Japan-Korea markets.

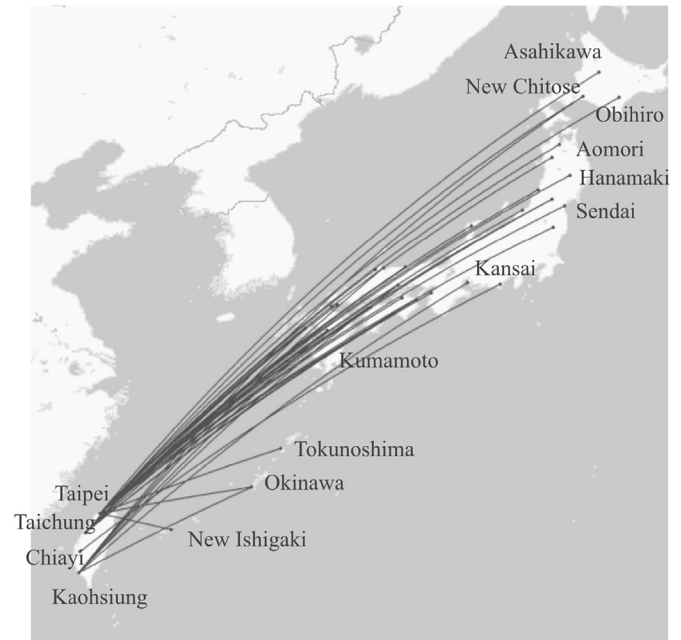
## 5.2. Japan-Korea market

Korea has been the largest inbound market for Japan, as well as the primary destination for Japanese tourists. In this market,

charters are operated on more routes and have reached more airports than scheduled services (Table 4). In 2013, charters were operated on three types of routes: (1) routes between Japan's regional cities and Seoul, the capital of Korea, including Incheon International Airport and Gimpo International Airport; (2) routes between Japan's major cities (Tokyo, Nagoya, and Kansai) and two regional cities (New-Chitose, Kitakyushu) to Korea's regional cities (such as Kwangju and Busan); and (3) routes between all Japanese



(a) Japan-Korea



(b) Japan-Taiwan



(c) Japan-China

**Fig. 4.** Charter networks between Japan and Korea, Taiwan and China in 2013. Data source: MLIT Mapping; Great Circle Mapper. Data input by author.

cities and Cheju, which is the most famous holiday island of Korea (Fig. 4a).

Charters have largely affected tourism flows to island resorts. Cheju is the top destination for Japanese charters. From Japan, regular flights to Cheju depart only from Tokyo, Nagoya, Osaka and Fukuoka. Therefore, Korean LCCs mainly increased charter traffic from airports located in Hokuriku, Chugoku and Shikoku Cheju. By contrast, Tsushima, which is located approximately 140 km from Kyushu (Japan) and 50 km from Busan (Korea), is the most popular destination for Korean charters. In 2009, a regional airline named

Korea Express Air started charter services to this island from Seoul and Busan. In 2013, Korea Express operated 92 charters to this insular island. Now, LCCs and tourism airlines are the main carriers of charters. By providing a lower price, they have stimulated new travel demand on these short-haul leisure routes.

### 5.3. Japan-Taiwan market

In this market, compared with regular services, charters are operated in a different environment. First, charters are operated on

more routes and reach more airports than scheduled services (Table 4). Second, scheduled flights are mainly operated by network carriers, but charters are mainly operated by two Taiwanese regional/leisure carriers - Mandarin and Trans Asia. After Japan and Taiwan reached an agreement to allow two additional Taiwanese carriers to operate charters between them in 2008, Mandarin and Trans Asia started charter services to Japan, soon increasing their total market share to 75%. Third, charters are operated mainly to carry Taiwanese tourists to Japan's regional areas. In 2013, Taiwanese charters represented 40% of charters that were served by regional airports in all of Japan.

In this market, charters provided Taiwanese tourists with more options when selecting destinations. Since the 1970s, Taiwan has become one of the most mature markets for Japan (Huang, 1996). A survey performed by Japan National Tourism Organization (JNTO) in 2010 revealed that only 7% of Taiwanese travellers were 1st time visitors to Japan. The shares of people visiting for the 2nd, 3rd to 5th, 6th to 10th, or 11th or more times were 22%, 18%, 15%, and 17%, respectively. These data reveal that Taiwanese tourists are sophisticated people who enjoy taking charters to new destinations. In 2013, Ishigaki, which is located approximately 340 km from Okinawa Main Island and 277 km from Taiwan, was the top destination for Taiwanese charters.

#### 5.4. Japan-China market

In the Japan-China market, charters used to predominantly flow from the East (Japan) to the West (China), carrying Japanese tourists to China. Now, charters mainly carry Chinese tourists from the eastern region of China to Japan's regional destinations. In 2013, the regular flights were operated on 78 routes between 18 airports in Japan and 28 cities in Japan, and the amount of traffic reached 783 flights per week. However, the charter traffic was so limited (Table 4). In addition to the increase of regular service, three other factors may limit traffic: 1) the characteristics of Chinese tourists, 2) the cost of charter operation and shortage of charter carriers, and 3) the decline of Japanese charters.

##### 5.4.1. Characteristics of Chinese tourists

China is a new market for international tourism. Hardly any outbound tourism existed in China until the early 1990s. Japan began to issue group tourist visas for Chinese tourists in 2001, and it issued group tourist visas for all Chinese outbound groups in 2006. The majority of Chinese tourists are 1st time visitors to Japan, and their primary package tour routing is Tokyo-Nagoya-Osaka. In recent years, some tourists have been expanding their destinations to Hokkaido, Kyushu and Okinawa. However, in this elementary stage, the main destinations for Chinese tourists are metropolitan cities that are serviced by regular flights.

##### 5.4.2. Cost of charter operation

Charter operation is very expensive in the Japan-China market because of the long distance. For example, a charter's (operated by B757) flying time from Chengdu (a main outbound city in China) to New-Chitose is approximately seven hours. Thus, airlines can provide tour operators with only 70% of the seats for sale and must free the remaining capacity to carry fuel. As indicated in Fig. 4c, charter destinations in China are all located in the East Region of China. In addition, CAAC charges airlines a "charter operation compensation fee" (approximately 20%–30% of the charter contract price), making charter products more expensive than products used direct regular flights.

##### 5.4.3. Shortage of charter carriers

Since 1998, Japanese airlines have gradually suspended Sino-

Japan charter operations; after 2007, the Chinese network carriers Air China and China Southern reduced charter operations. Then, the entry of a LCC (Spring Airlines) and the promotion of charters at major international airports led to a rapid increase in the number of Chinese charters, from 172 flights in 2008 to 2879 in 2012. After Japan and China signed an open skies agreement in 2012, many airlines transferred charters to scheduled services. Now, the newly established airlines including Spring Airlines, Juneyao and Lucky Air, are the main carriers of charters. In mainland, CAAC allocates traffic rights according to airlines performance which is evaluated by rates of incidents, abnormal flights, flights operated on time as well as contribution to Civil Aviation Construction and development fund. Flying charters should be the most expedient way for those newly established airlines to enter in international market. Future deregulation of regional airlines in China is expected to bring a boom of charter traffic between these two countries.

#### 5.5. Short summary

Korea, Taiwan and China continue to regulate charter operations, most likely to insulate their network carriers from the threat of charter competition. In those three markets, charters are operated on diverse or seasonal routes that could not be served by scheduled flights. In the charter market, LCCs or leisure carriers have replaced FSAs.

Regarding the flow of charters, things are different. In the Korea-Japan market, charters meet the travel demand for both sides, affecting tourism flows bound for island destinations. In the Japan-Taiwan market, charter operations have provided Taiwanese tourists with a more sophisticated and convenient approach to selecting new destinations. In the Japan-China market, charters now mainly carry Chinese tourists from the eastern region of China to visit Japan's regional destinations.

### 6. Charter operation: a method to promote inbound tourism to regional areas

This section compares the routes and seasonality of charter and regular flights to better understand the unique role of charters in promoting international tourism to Japan's regional areas. Taiwan has been the largest market of originated charters to Japan, with the majority of Taiwanese tourists arriving in Japanese regional areas. It was estimated that Taiwanese charters represented 40% of charters handled by regional airports, and 80% of inbound charters arrived at regional airports throughout Japan. Thus, a case study of Taiwan would reveal the effects of charter promotion on local community revitalization and hospitality industry internationalize in Japan's regional areas.

#### 6.1. Route network

In 2013, scheduled flights were operated on 12 routes between three cities in Taiwan and 17 cities in Japan, with traffic of approximately 391 flights per week. Scheduled flights were concentrated in routes between Taipei and Tokyo, Osaka or Nagoya. In Japan, 67% of flights were handled by major international airports (Narita, Haneda, Chubu and Kansai); 23% were served by major regional airports (Fukuoka, New-Chitose, Naha, Hiroshima and Sendai); and only 10% reached the remaining areas. The network carriers, such as China Airlines (CI) and EVA Airways (BR), and Japanese airlines (JL and NH) are the main carriers of regular flights. The strategy of operating scheduled flights to high demand, high frequency and high population destinations has helped these network carriers to achieve a high year-round passenger cabin factor. However, this highly concentrated network implies that

some niche markets can be serviced by charters.

Compared with scheduled flights, charters were mainly connected with regional airports and with greater diversity. Over those ten years, charter markets in Taiwan have been decentralized from the major metropolitan areas – Taipei to provincial centres, including Kaohsiung, Taichung and Chiayi. According to the number of flights, the share of the market was 61.08%, 19.82%, 18.07% and 0.32%, respectively. By contrast, Japanese airports received a higher number of Taiwanese charters, which increased from 18 to 31, and expanded from North to Central and South Japan, to destinations that were not serviced by regular services. As illustrated by Fig. 5, charter deregulation led to a spread of the international tourism market to Japan's regional areas.

Fig. 5 also indicates that charters bound for certain destinations have disappeared or declined during the same period. A possible explanation for the decrease is the commencement of scheduled services. The decrease in Kushiro was likely caused by a deregulation of scheduled service after 2013, which led to a concentration of passengers travelling to the largest airport in the Hokkaido prefecture. Over those ten years, scheduled services were launched on previous charter routes, initially from Taipei to regional centres, such as Sendai and Miyazaki, and then to holiday destinations, including Asahikawa, Hakodate, Toyama, Shizuoka and Ishigaki. This indicates that, as expected, charter operations have built a market for scheduled services.

### 6.2. Seasonality

Charter business appears to be a method for holiday destinations to promote tourism during the low season. For example, Hokkaido is the traditional destination for Japanese domestic tourists. In 2009, this region received 5.3 million domestic visitors. Seventy percent of these visitors arrived during the summer period, from April to September, and 30% of them arrived during the winter period, from October to March. Alternatively, this prefecture received approximately 47,000 Taiwanese charters, with 51% of these charter tourists arriving during the April–September period, and 49% of them arriving during the October–March period. Overall, Hokkaido's hotel industry was supported by foreign tourists on certain degree, particularly by Taiwanese tourists during the winter season (Shunichi, 2010).

### 7. Factors affecting charter traffic to Japan's regional areas

This section assesses the factors that affect inbound charter traffic to Japanese tourism destinations. Fig. 6 shows the change in international charter traffic at the airport level, based on the number of charters in 2003 and 2013. Three changes could be observed: (1) airports located in Northern Japan (Hokkaido) and Southern Japan (Kyushu) benefited greatly from charters in 2003; (2) charters have expanded their destinations to central Japan (the

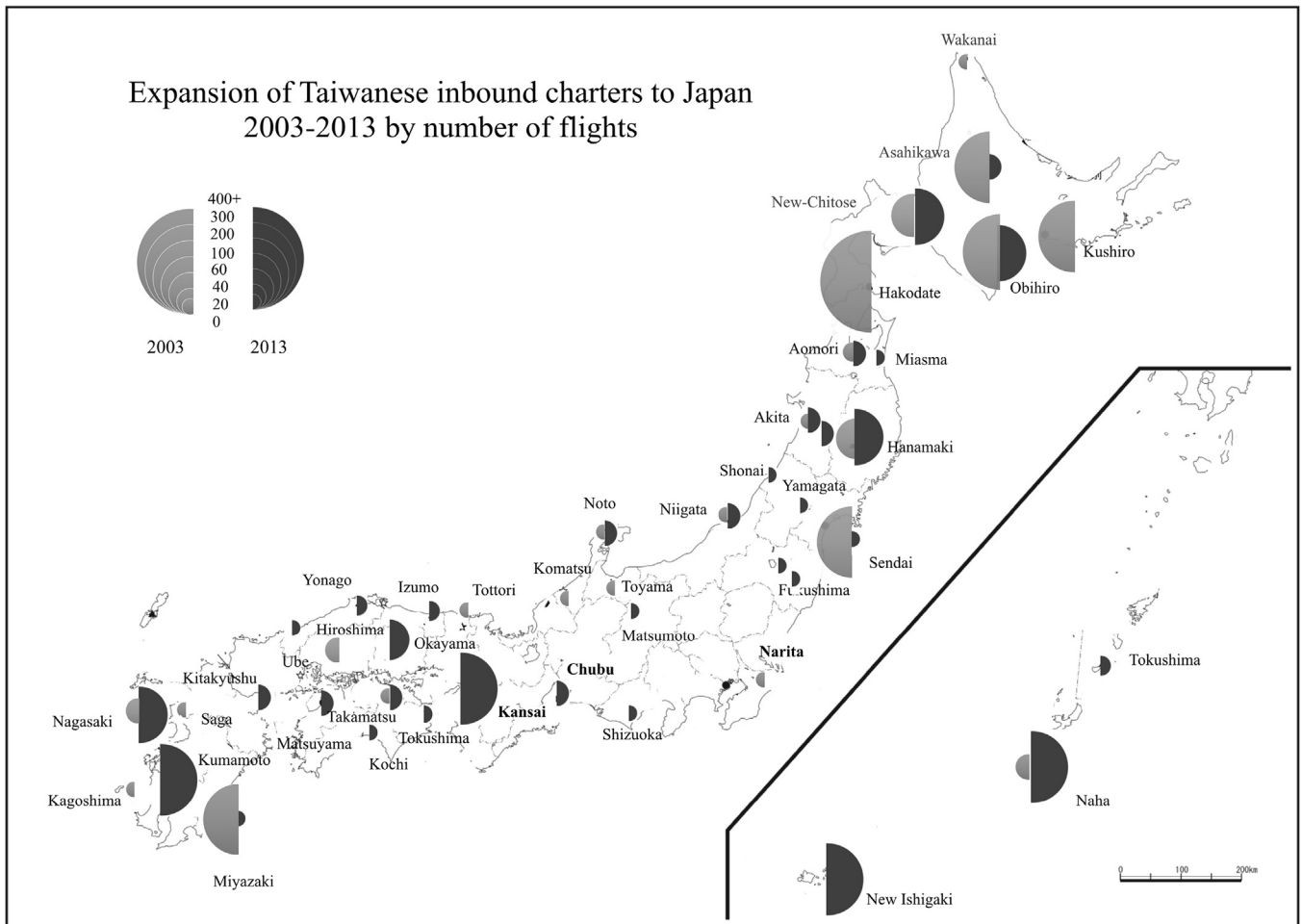


Fig. 5. Evolution of Taiwanese charters to Japan's regional areas: 2003 vs 2013. Data source: MLIT, Travel Journal



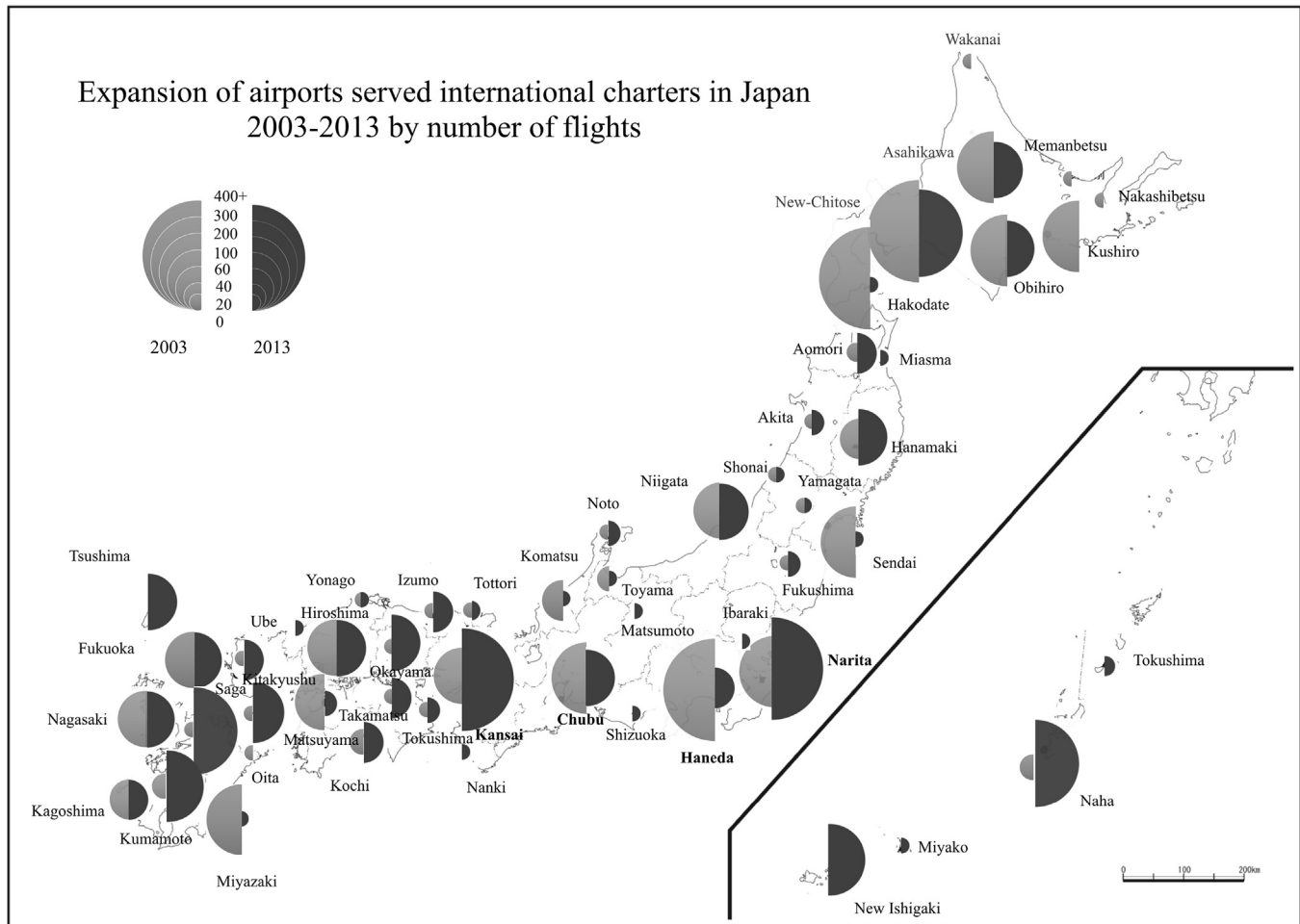


Fig. 6. Evolution of airports served by international charters in Japan: 2003 vs 2013. Data source: MLIT, Travel Journal

Kanto, Chubu and Kinki regions); and (3) island airports located in Southern Japan (Kyushu and Okinawa regions) become new charter destinations. Saga, Naha, Ishigaki, Kyutakushu and Tushima were the top five regional airports to receive inbound charters. However, the reduction in charters to some locations can be observed. The following sectors will explain the reasons.

### 7.1. Hokkaido region

In the late 1990s, Hokkaido was opened to Taiwanese tourists who always have a tendency to visit Japanese ski resorts and hot springs (*Onsen*) as a demonstration zone. In order to attract the Taiwanese tourists, the local government of Hokkaido has conducted ongoing destination promotions in Taiwan, renovated local road transportation and hotels, and improved airport snow removal equipment to facilitate the arrival of charters. This effort soon led to a boom of Taiwanese charters from Taipei to Hakodate, Asahikawa, Obihiro, Kushiro and New-Chitose (see Wu et al., 2012). In 2003, Hokkaido was the leading charter destination in Japan, receiving nearly 80% of all inbound tourism in 2003, including 59% of charters that originated in Taiwan, 32% that departed from Russia, and the remaining charters that came from Korea.

After 2003, the increase in scheduled services led to a decline in charters. From 2003 to 2014, the regular service increased from 21 flights per week to 66 flights per week. By contrast, the number of

charters continuously declined (Table 5). After 2003, scheduled services were launched on previous charter routes. Additionally, regular flights were launched in the Japan-China market, from Asahikawa and New-Chitose to Beijing and Shanghai. After Japan and Taiwan signed an open skies agreement in November 2011, Taiwanese airlines increased traffic on the previous regular routes and commenced regular services on previous charter routes, which led to a concentration of tourists arriving in New-Chitose. In 2013, no charters bound to Memanbetsu, Kushiro or Hakodate.

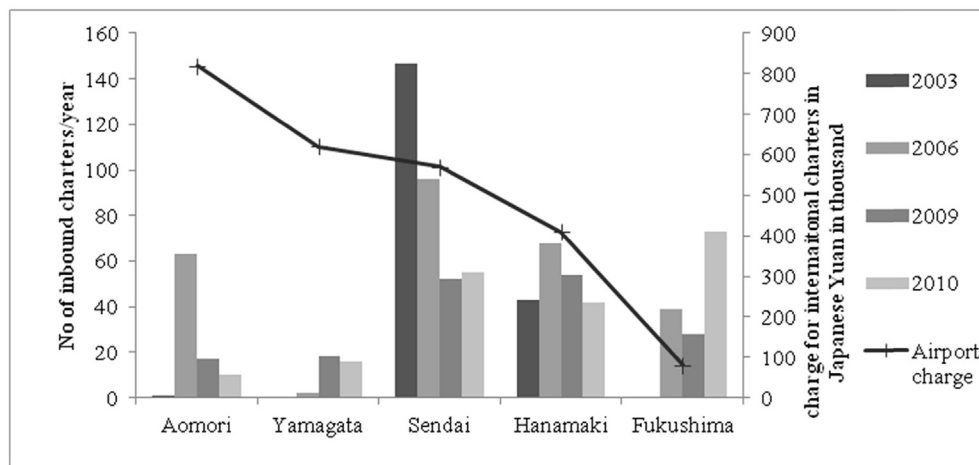
### 7.2. Tohoku region

In this region, all of the airports saw an increase in charter traffic, with the exception of Sendai. Factors that stimulated this transformation included changes in the regular market, an airport subsidy policy, and innovative measures selected by regional governments. Sendai is the largest airport in the Tohoku region. In 2003, Dragon Airlines suspended scheduled flights that were on the Hong Kong-Sendai route, turning to instead promote charter-based tourism. Additionally, there were many Taiwanese charters. Then, charter traffic decreased due to Dragon Airlines concluded the promotion, and Eva Airlines commenced scheduled services.

The aviation subsidy policy that was adopted by regional governments led to an extension of charters to smaller airports. Charter operators are very price-sensitive to airport handling fees. In 2006,

**Table 5**  
Changes in international charter traffic in term of regions: 2003 vs 2013.

Region	2003 (annual)		2013(annual)		Changes 2003-2013	
	No. of flights	Market share	No. of flights	Market hare	No. of flights	Market share
Hokkaido	1655	40.21%	383	8.48%	−1272	−31.73%
Tohoku	337	8.19%	214	4.74%	−123	−3.45%
Hokuriku	147	3.57%	112	2.48%	−35	−1.09%
Kanto	1040	25.27%	1529	33.86%	489	8.59%
Chubu	161	3.91%	113	2.50%	−48	−1.41%
Kinki	87	2.11%	445	9.85%	358	7.74%
Chugoku	103	2.50%	270	5.98%	167	3.48%
Shikoku	104	2.53%	146	3.23%	42	0.71%
Kyushu	454	11.03%	875	19.38%	421	8.35%
Okinwa	28	0.68%	429	9.50%	401	8.82%
Total	4116	100.00%	4516	100.00%	400	0.00%



**Fig. 7.** Change in inbound charter traffic to Tohoku region and international charter landing/departure fee of each airport (for B737-800 by Japanese Yuan/by thousand in 2010). Data source: Travel Journal, Aomori Airport

after the MLIT announced a 50% discount on landing charges for charters arriving in regional airports, some regional governments offered extra incentives to attract charters. Consequently, as Fig. 7 illustrates Fukushima, which charged the lowest landing/departure fee, was the largest charter destination in 2010. By contrast, Aomori and Yamagata, which charged the highest airport fee, faced a decline in the number of arriving charters. After 2012, Aomori and Akita adopted a special project to subsidize charters, which has contributed to a quick increase in the number of Taiwanese charters.

Furthermore, the local tourism industry promoted charters by innovative means. In a field survey conducted in 2005, the author found that the traditional Japanese spring hotels in Fukushima provided Chinese dishes and a guidebook, recruited Chinese-speaking staff members, and constructed parking places for large-size tourist buses. In particular, in Hanamaki, the *Onsen* group invited artists from China to demonstrate Chinese acrobatics for Taiwanese tourists during long and cold winter nights. As a result, inbound charters increased consistently in Hanamaki.

### 7.3. Kyushu and Okinawa regions

From 2003 to 2013, the number of regular flights to Kyushu increased from 161 per week to 300 per week, and the flights to Okinawa increased from 25 to 92. However, the increase had little impact on the volume of charters arriving in those regions. Over

**Table 6**  
Type of airlines operated charters and major markets of selected airports in 2013.

Airports	Major markets	Type of airlines operated charters
Tsushima	Soule (Korea)	Regional carriers
Saga	Shanghai (China)	LCCs
Kumamoto	Taipei, Kaohsiung (Taiwan)	Leisure carriers
Ishigaki	Taipei (Taiwan)	Leisure carriers
Kagoshima	Hong Kong	Regional carriers
Kumamoto	Taipen, Kaohsiung (Taiwan)	Leisure carriers
Nagasaki	Hong Kong	Regional carriers

those years, Kitakyushu, Tsushima, Saga, Kumamoto, Naha, and Ishigaki became the major destinations for inbound charters throughout Japan.

Focusing on target markets and providing subsidies to LCCs/leisure carriers are two factors that boosted the charter business in this area. Table 6 shows the major markets and types of carriers for each airport. For example, among Korean visitors, Tsushima is famous for the heritage “Korea Observation Site”. Over the last two decades, Tsushima has been focusing on attracting Korean tourists. In 2008, approximately 72,000 Korean tourists visited the island, and the high-speed boat was the primary method of transportation. In 2009, a regional airline named Korea Express Air started charter services to this insular destination from Seoul and Busan. Now, Tsushima is the closest short-break overseas resort for Koreans, with shopping, fishing and other outdoor activities provided as

tourist attractions.

Another example is Ishigaki, which is located approximately 277 km from Taiwan. The local government focused on the shorter distance Taiwan market because tourism to this island was affected by the length of the airport runway (1500 m). The consequence of this focus was a boom in charter tourism from Taiwan after two regional airlines, TransAsia and Mandarin, entered the Taiwan–Japan charter market in 2008. In 2010, TransAsia operated all of the charters on the Hualien–Ishigaki route and 70% of the charters on the Taipei–Ishigaki.

## 8. Discussion and conclusion

This study explores the extent to which aviation deregulation has affected charter business in Northeast Asia and the extent to which charter deregulation has affected international tourism, especially inbound tourism flows to Japan's peripheral areas. This study pulls together a wide range of factual materials to answer those two key questions, focusing on the carriers, airports served, routes, and spatial coverage of charter network. The results reveal that Japan's aviation deregulation has brought profound changes to the charter business in following aspects:

Firstly, the deregulation has caused a shift of charter carriers in most routes from the traditional network to LCCs or regional carriers. Now, LCCs and regional airlines are primary providers of charters. By offering competitive prices and sufficient seats, the new entrants have launched charters on routes that connect metropolitan cities with remote island or areas, such as Shanghai–Saga, Soule–Tusima or Taipei–Ishigaki, making the price of charter tours cheaper than before.

Secondly, to a certain degree, charter deregulation has stimulated the development of tourism in regional areas. In the Korea–Japan market, charter operation affects tourism flows to island destinations. In the Japan–Taiwan market, the deregulation led to a spread of Taiwanese tourists to Japanese regional areas, particularly to island resorts and destinations that are relatively unknown or are restricted by a lack of access (Wu et al., 2012). Additionally, charter business is a method for holiday destinations to promote tourism during the low season, making it a sensible approach for the Japan Tourism-Oriented Nation Strategy. For those local regions, charter business is a new approach to revitalize the local community by attracting more visitors and expanding grass-root exchanges, as well as to accelerate innovation with the local hospitality industry.

Thirdly, the global economic crisis, the H1N1 influenza outbreak, and aviation-tourism policies are outside factors that have limited charter traffic to Japan. In many parts of the world, aviation deregulation always led to an increased number of regular flights but a decline in the number of charters (Williams, 2010; Dobruszkes and Mondou, 2013). However, the situation is different in Japan, where some airports experienced a decline of charters, some airports received more charters, and some airports become major destinations. This paper finds that a combination of regional subsidy package, target market and innovation measures transformed some remote areas into major destinations in their own regions, including Hanamaki, Okayama, Saga, Kumamoto, Tsushima, Naha and Ishigaki. Furthermore, the economic and geographic position of a destination should be considered to gain a better understanding of the evolution of charter arrivals in Japan.

Finally, the competitive advantage of charter tourism is derived from the vertically integrated alliances between the tour operators, charter carriers and hotels located in the destinations (Doganis, 2002). Because Taiwanese tourists have special interests in visiting ski resorts and hot springs, Japanese regional tourism industries have improved service quality and provided competitive prices during low seasons, and tour operators have cooperated

closely with airlines. As a result, Hokkaido's hotel industry was supported by foreign tourists, particularly by Taiwanese tourists during the winter season on certain degree (Shunichi, 2010).

This study highlights the effects of LCCs and regional carriers on charter business in Northeast Asia. In this region, charters were traditionally operated by network carriers as a supplement of scheduled service. In 2008, LCCs and regional carriers entered Japan's charter market and stimulated new charter demand on some thin routes (see Wu and Hayashi, 2013). Now, LCCs and regional airlines are primary providers of charters. With a limited share of scheduled services, the trend of new entrants has been to develop charter businesses based on market demand rather than merely supplementing regular services. Thus, as in the European market, holiday resorts (Bieger and Wittmer, 2006) and smaller scale destinations (Williams, 2010) are target markets of these charters. The implication of this shift is obvious: charters are now an independent sector of Japan's transportation and tourism industry.

Since 2008, deregulation has stimulated charter demand to the metropolitan areas of Tokyo and Osaka. Although they were eligible for a financial subsidy from regional governments, the airlines paid more attention to Narita and Kansai, opting to pay a higher landing fee. It seems that regional charter market seems have reached a saturation point. On one side, free entry of charter carriers and deregulation of tour operators have stimulated charter traffic. However, on the other side, it also has caused confusion in the charter market, such as serious flight delays, poor product quality, and a subsidy war between regional governments. Thus, the central government, local government and tourism industry should take measures to supervise market orders. It can be expected that the increase in Japan's inbound charter market will keep declining until Chinese LCCs or regional airlines can receive more traffic rights.

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