

A COMPARATIVE ANALYSIS OF THE IMPACT OF LIBERALIZATION OF AIR TRANSPORT ON TOURISM: IRAN, TURKEY AND UAE

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This paper examine the impact of the liberalization of international air transport on the development of international tourism by comparing Iran with Turkey and the UAE in a 10 year period 2000-2010 , using comparative-longitudinal method. It is assumed that the liberalization of international air transport leads to the development of international tourism through the growth of traffic, mainly via the Growth of the tourist's quantity and quality. Our investigation concludes that First, the liberalization of air transport made air traffic passengers to be increased considerably in the UAE and Turkey, as compared to Iran. This, in turn, resulted to development of tourism in both countries through a considerable increase of their number of tourists and visitor exports. Second, as compared to the UAE, Iran and Turkey have more potential to develop tourism, however, the UAE, owing to the adoption of more flexible air transport liberal policies, could surpass Iran and Turkey in gaining the higher amount of visitor exports.

Keywords: *Tourism development, air transport, liberalization, passenger traffic, visitor exports*

JEL Classification: *L83, M1, O1*

INTRODUCTION

Transport has traditionally been considered as a main facilitator of economic development and critical in the process of nation-state building. It is said that "the Roman Empire relied on upon a comprehensive road and seaport infrastructure to conduct commerce and to keep its domain intact" (Button, 2004: 8). Transport, likewise, has been a major component of tourism, providing the vital link between the tourist

generating areas and destinations. Air transport is, amongst other modes, an increasingly important mode of transport for tourism markets (Graham, Papatheodorou and Forsyth, 2008: 1). It has rapidly expanded in the last few decades, playing a crucial role in the process of international integration as well as the development of other sectors of an economy (e.g. Rauch and Trindade, 2002; Herander and Saavedra, 2005). Passenger traffic grew annually at an average of about nine percent between 1960 and 2000 and five percent between 2000 and 2005 (WTO, 2007). Likewise, cargo shipped by air experienced an annual growth rate of 10 percent in the period 1997-2004 (Piermartini and Rousova, 2008: 1).

By reducing the time required to reach a distant location, air transport is a primary factor in determining the choice of the mode of transport to remote areas. For this reason, it is essential to the development of the international tourism sector, particularly in distant locations. By the same token, air transport and tourism are natural complements – hence, air transport has become the preferred means of travel for many trips, and even for some trips, especially at the international level, it is the only means (Dwyer and Forsyth, 2006: 224). As the UNWTO Tourism Highlights reported about inbound tourism mode of transport in 2011, over half of travelers (51%) arrived at their destination by air transport, while the remainder (49%) travelled over the surface – whether by road 41%, rail 2%, or over water 6% (UNWTO Tourism Highlights, 2012). Over time, the trend has been for air transport to grow at a faster pace than surface transport, so the share of air transport is gradually increasing. As reports reveal, the percentage of people using air transport increased from 43.7% in 1998 to %51 in 2011 (UNWTO Tourism Highlights, 2012 and 2000).

The development of tourism over the last half century is closely intertwined with the liberalization of international air transport which has traditionally been a highly regulated market. As many writers have stated, the liberalization of international air transport has played a crucial role in the growth of traffic at the international level, making a great opportunity of development for the tourism industry (e.g. Dwyer and Forsyth, 2006; Piermartini and Rousova, 2008; Grosso, 2008; Lohmann and Else 2009; and Martin 2009). This is due to the fact that, as Lohmann and Else (2009) state, the growth of air transport networks and liberalization have allowed small, low-populated, places like Singapore and Dubai to become major international tourism destinations. So, countries having the potential to become an international or regional hub make an attempt to

take advantage of this situation by liberalizing their international air transport.

International air transport network in the Middle East region requires one or more international hubs to make a link between the West and the East. It is worth mentioning that for an international hub, formation of some basic infrastructures such as an internationally advanced trade and financial transaction and institutions is essential. The economic liberalization in general and air transport liberalization in particular play a main facilitating role in this process. In other words, those countries adopting air transport liberalization policies have more chance to become an international hub, consequently to experience the growth of air passenger traffic and tourism development. For example, available data show that the most visited cities in the world in 2010 and 2011 mostly are international hubs in their own regions (Table 1). This is particularly applicable for such cities of Singapore, Kuala Lumpur, Bangkok and Dubai whose international hub status has provided them a foremost and prominent opportunity to attract tourists (ibid).

Table 1. The most visited cities number of international visitors in 2010 and 2011 (International visitors millions)

City	International visitors
Paris	15.6
London	15.2
Antalya	10.5
New York	10.3
Singapore	9.2
Kuala Lumpur	9
Dubai	9
Hong Kong	8.7
Istanbul	8.1
Bangkok	7.2

Source: 1. asp.zone-secure website; 2. vlstatic website; 3. ministry culture and tourism website; 4. Nycgo website; 5. Malaysia official tourism website; 6. UNWTO Tourism Highlight 2012; 7. Department of tourism and commerce marketing website; 8. discoverhongkong website; 9. Thailand department of tourism website.

From the geo-economical point of view, three countries including Iran, Turkey and the United Arab Emirates (UAE) have the greatest potential to become international hubs in this region¹. Nevertheless, the

three foregoing countries are not identical in adopting or implementing the liberalization of air transport. While Turkey and the UAE, during the past decade, have practically granted more air freedoms to other countries in the framework of air services agreements (ASAs), while Iran has resisted giving any air freedoms and as a consequence, its ASAs with other countries has remained limited. Regarding a positive relationship between air transport liberalization, air passenger traffic and, accordingly, international tourism development, this paper aims to examine the fact that to what extent the liberalization of international air transport has affected the development of international tourism in the three countries .

REVIEW OF THE LITERATURE

Tourism is a component of a system-based product. It does not have a unique base as an industry as its related commodities are viewed as heterogeneous in terms of consumption and production processes. Nonetheless, transport and hospitality services are functionally linked, indicating demand and cost complementarities and supporting the holistic production of tourism experience (Eadigton and Redman, 1991). In this context, the relationship between air transport and tourism is one of a substantial overlap. As several authors emphasized, air transport is important in supporting the growth of the tourism industry; in turn, leisure travel is stimulated by tourism development (Harrison, 1995; William and Shaw, 1998; William and Balaz, 2000). At the same time, air transport and tourism industry are parts of the general economic system of a country. Development of these industries in different countries in the last few decades, especially at the international level, has depended on their politico-economic perspectives towards the prevailing global processes and relations, and particularly their standpoints towards such issues as incorporating into the world economy, and adopting its required and complementary policies like the liberalization of social and economic activities and businesses, including air transport. However, many difficulties in these liberalizations are concerned with countries' different expectations on the effects of alternative policy. As a consequence, uncertainty has prevented many governments from adopting significant regulatory changes (Oum, Zhang and Fu, 2010: 385).

Historically speaking, the liberalization of international air transport has had a root in the liberalization of international trade, going back to Reagan and Thatcher's neo-liberal policies, respectively, in the United States and the United Kingdom that led in Bermuda II agreement. Neo-liberalism as a theory of political economy strongly emphasized on the

free market economy and the least government interference as a main solution to cope with the inefficiency problem of countries as a general and that of socio-economic businesses in different fields in particular. This thought followed by economic liberalization primarily, in few developed market economy-based countries helped to facilitate the development of various branches of industries and businesses with an effective function.

For this purpose, after the collapse of the Soviet Union and the end of the Cold War, the World Trade Organization (WTO) was formed as a powerful global organization to facilitate international trade relations and processes. Since its formation, different countries have found that to function globally and effectively mean to incorporate their economy into the global one. This has been only possible through liberalization in different socio-economic sectors including air transport. Many argued that the liberalization of international air transport, to a large extent, has been an important area that mirrors development of trade liberalization and that of tourism (e.g. Oum and Yu, 1998: p. 1; Hubner and Sauve, 2001; Hummels, 2007; Martin, 2009). In fact the liberalization of international trade and development of tourism could not be effectively occurred unless an easy and fast mode of access to various locations and destinations over the world to be feasible via such means as air transport. This means that the liberalization of international trade and that of air transport as well as development of tourism are currently bound in a cycle.

The logic behind the positive impacts of liberalization policies on trade in general and air transport in particular can be outlined as follows. First, liberalization leads to substantial economic and traffic growth, mainly because of increased competition and efficiency gains in the airline industry, as well as externalities to the overall economy; second, liberalization gives rise to airlines to optimize their networks within and across continental markets, consequently leading to the increase of traffic flow patterns. As Robyn et al. state, "in a liberalized market, more efficient airlines would replace efficient ones, or less efficient airlines would adopt the practices of more efficient ones, leading to significant cost savings and an increase in industry efficiency" (p. 58). Third, increased competition and successful restructuring of the air transport industry lead to three different types of cost savings: "economies of scale – owing to higher passenger base; economies of scope – derived from the development of hub airports; density economies – better co-ordination of flights in airline's network leading to higher load factors" (Martin, 2009: 12). Fourth, liberal environment works as accelerator of the emergence of

low-cost carriers (LCCs), which in turn leads to stimulated traffic and the competitiveness of a national air transport industry (Forsyth et al., 2006: 147).

Table 2. Nine Freedoms of the air

1 st Freedom: fly over a foreign country	
2 nd Freedom: make technical stop in a foreign country	
3 rd Freedom: carry traffic from home to foreign country	
4 th Freedom: carry traffic from foreign country to home	
5 th Freedom: pick up traffic in foreign country and carry to other country	
6 th Freedom: carry from foreign country to other country via home	
7 th Freedom: pure foreign flight; foreign country to another foreign country	
8 th Freedom (Cabotage): city A in foreign country to another city in that country; flight must originate in home country	
9 th Freedom (pure Cabotage): city A in foreign country to city B in same country; flight need not originate in home country	

Source: Zhang, 2004: 42-43

Generally speaking, liberalization refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. In 264

some contexts this process or concept is often, but not always, referred to as deregulation (liberalization) (Sullivan and Sheffrin, 2002). Liberalization here is when government reduces its role and allows industry greater freedom in how it operates. The liberalization of international air transport, in particular, refers to freer contracting or signing ASAs between each pair-country. According to WTO secretariat (WTO, 2006), ASAs include seven features: grant of rights; capacity clause; Tariff approval; withholding; designation; statistics; and cooperative arrangements. However, Grant of rights included air freedoms is regarded the most important prerequisite for a country wishing to become an international hub (De Leon, 1992; Weber and Gjemulla, 2011).

The table 2 indicates Nine Freedoms of the air. In the context of air transport, granting the fifth freedom is the least condition that a country should do to liberalize its air transport. This could mean that granting the fifth freedom and then, in the form of more liberalized contracts such as Open-Skies, makes a country accessible and attractive for international airlines. This, in turn, leads to the increase of passenger traffic and, consequently, to development of tourism internationally. This study attempts to indicate this fact .

METHODOLOGY

This section provides a brief explanation of the research method and concepts. As mentioned above, this study aims to investigate the impact of the liberalization of air transport on tourism development at the international level. As indicated in Figure 1, it is assumed that the liberalization of international air transport brings about the development of international tourism through the growth of traffic. In other words, the higher the extent of liberalization, the more the increase of international air traffic and, as a consequence, the higher the development of international tourism, mainly via the growth of the tourist's quantity and quality². Comparative-longitudinal method has been used to examine these relations focusing on the three countries, including Iran, Turkey and the UAE in a 10- year period, 2000-2010. The reason for choosing this decade is that Turkey and the UAE started to sign Open-Skies agreement with USA from 2000 and since then they indicated more flexibility in practice in their ASAs, whereas Iran did not.

The study is based on a longitudinal comparative method. In this method, basically, an attempt is made to examine variation of a process, a

variable, between/among, two/more groups (countries, societies etc) over a period of time, usually one decade and more. The method is based on the chronic presence and absence of a phenomenon in two or more groups to see the impact of an occurrence in a particular period. For this purpose, a specific choice is made to represent a comparison of the selected phenomenon under observation in relation to other social phenomenon (May, 1997: 183). That is, two or more groups under study are distinguished with respect of occurrence of a cause, then variation(s) is (are) detected over a defined time period (Ragin, 1989). In our study, the liberalization of international air transport has been present in the UAE and Turkey but absent in Iran over the period under study, so it is expected that changes in Tourism in these countries could be resulted from liberalization policies³. To see the impact of the liberalization of air transport on tourism development at the international level, we used descriptive method by comparing the available data and statistics, mainly official countries' year books/reports, over a decade ,2000-2010.

In this study, the liberalization of international air transport refers to granting the fifth freedom and thereafter in ASAs with other countries. The growth of the international passengers refers to the number of arrival and departure passengers at the international Traffic airports. And, the development of international tourism refers to the growth of the tourist's quantity and quality. Quantity and quality respectively refer to the number of international tourists and the amount of revenue from international tourism .

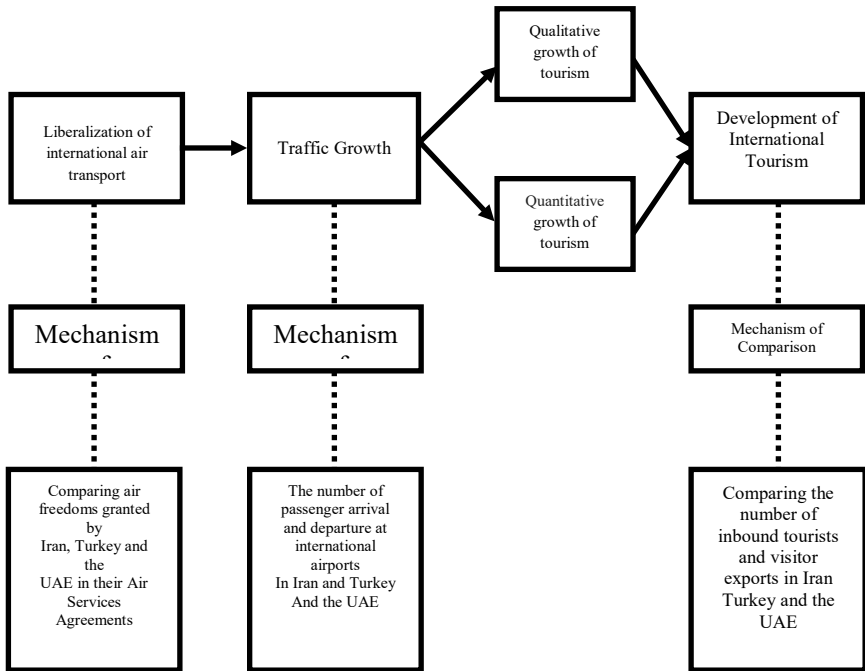


Figure 1. The research process

COMPARING AIR FREEDOMS GRANTED BY IRAN, TURKEY AND THE UAE

The review of the ASAs in different countries shows that the UAE and Turkey in numerous bilateral agreements have granted the fifth freedom, an average of 60%. As summarized in table 2, the UAE has taken more practical steps to develop Dubai as an international hub in the Middle East region, mainly through signing Open-Skies agreement with over 20 different countries; while so far Turkey has only signed it with the United States. On the other hand, Iran has not yet granted the fifth air

freedom in any case and not signed the Open-Skies agreement, consequently, taking no real effective action to become an international hub yet (For Turkey's and the UAE's ASAs see InterVISTAS-EU, 2009 and for Iran's ASAs see Institute of Transportation, 2008).

Table 3. Air Freedoms Granted By Iran, Turkey and the UAE

Freedoms of the air	5th Freedom	6th Freedom	8th Freedom	9th Freedom	Open-Skies with other countries	Open-Skies with USA
Iran	-	-	-	-	-	-
Turkey	+	+	+	+	-	+
UAE	+	+	+	+	+	+

Granted: +, No Granted: -.

Source: Authors' compilations are based on InterVISTAS-EU, 2009 and Institute of Transportation, 2008.

THE GROWTH OF TRAFFIC

As seen in Table 4 and figure 2, the UAE has increased the number of traffic passengers from 16 million in 2000 to 58.2 million in 2010, an increase of 42.2 million. Over this period, Turkey did manage to increase its traffic passengers from 21.6 to 52.2 million, an increase of 30.6 million. But during the same period, Iran could only raise its traffic passengers from 2.8 to 8.09 million, only an increase of 5.2 million. While the air traffic gap of Iran with the UAE and Turkey has been 14 and 19 million passengers respectively in 2000, it has been augmented to 50 and 44 million passengers respectively in 2010. This could mean that the latter countries could promote their status to an international hub in the Middle East region. Although, the difference of the figures, at the first glance, does not appear much critical at the beginning of the decade, it became larger and significant at the end of the period. This is particularly more evident from 2006 onwards when the passenger figure rose to 24 million for the UAE and 20 million for Turkey, indicating the cumulative impact of liberalization policies.

From the foregoing data, we may conclude that while, the UAE and Turkey could highly improve their air transport status at the international level and consequently become international hub, through adopting further air transport liberalization policies, namely via granting the fifth freedom, Iran due to not adopting more liberal policies, not only has not

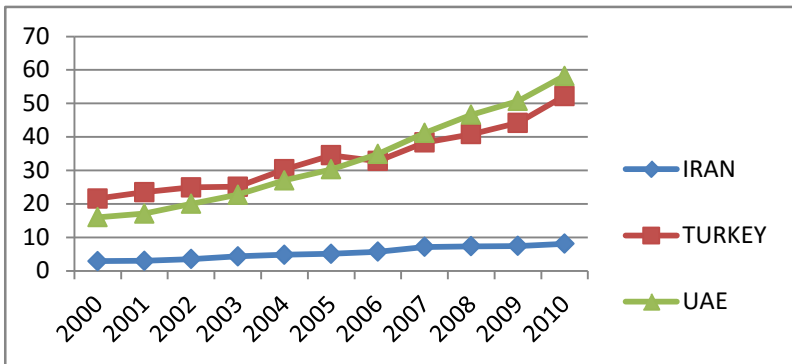
added to its number of international passengers but also has remained far behind its regional rivals. The impact of flexible liberal policies on the growth of traffic could be seen by comparing the UAE with Turkey, so that the former could remedy its gap of 5.6 million air passengers in 2000 and, even, surpassed Turkey in 2010 by raising 6 million more passengers. As seen in figure 2, the pace of growth in the UAE is more regular than Turkey

Table 4. The number of passenger arrival and departure at international airport in Iran, Turkey and the UAE during 2000 to 2010 (million passengers)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Iran	2.87	2.99	3.54	4.34	4.81	5.10	5.68	7.12	7.30	7.41	8.09
Turkey	21.6	23.5	24.9	25.1	30.3	32.8	32.1	38.3	40	44.2	52.2
UAE	16	17.1	20	22.7	27	30.3	34.9	41.2	46.6	50.7	58.2

Source: Statistical Yearbook of Air Transport Civil Aviation Organization of Iran, Statistical indicators the Institute of Statistics of Turkey and Turkey's Statistical Yearbook, 2011, Dubai and Abu Dhabi International Airport website.

Figure 2. The number of passenger arrival and departure at international airport in Iran, Turkey and the UAE during 2000 to 2010 (million passengers)



THE DEVELOPMENT OF INTERNATIONAL TOURISM

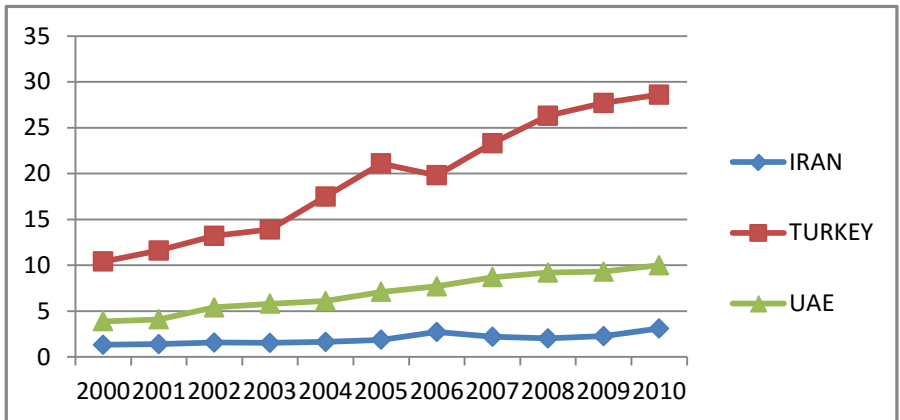
As already noted, the development of international tourism is examined by two indicators: the number of inbound tourists and the amount of income from international tourism or visitor exports (the expenditure carried out by international tourists for both business and leisure trips, inside the country including transport costs). The examination of the data indicates that the number of inbound tourists in the UAE and Turkey increased from 3.9 and 10.4 million tourists in 2000 to 10 and 28.6 million tourists in 2010 respectively, showing an increase of 6.1 and 12.2 million tourists respectively. While, in Iran, the number of inbound tourists raised from 1.3 million in 2000 to 3.1 million in 2010, indicating only the growth of 1.8 million tourists (table 5 and figure 3). It is worth mentioning that the UAE has much lesser potential than that of Iran in the light of Iran having such resources as geographical size, historical background, variety of climate and the like to develop its international tourism; however the number of its inbound tourists has been about three or four times further than that of Iran over a decade. This could be attributed to the implementation of the UAE's air transport liberalization policies. Similarly, but in a different way, Iran and Turkey, regarding owning tourism sources, have to some extent similar conditions. However, as the data indicate, the number Turkey's inbound tourists have been 9 times more than that of Iran (table 5). As seen in figures 2 and 3, the number of tourists is well-matched with international air traffic, showing the effectiveness of the liberalization of international air transport.

Table 5. The number of inbound tourists in Iran, Turkey and the UAE (Million inbound tourists)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Iran	1.34	1.4	1.58	1.54	1.65	1.88	2.73	2.21	2.03	2.27	3.1
Turkey	10.4	11.6	13.2	13.9	17.5	21.1	19.8	23.3	26.3	27.07	28.6
UAE	3.9	4.1	5.4	5.8	6.1	7.1	7.7	8.7	9.2	9.3	10

Source: Economic Reports of Presidential Deputy Strategic Planning and Control of Iran, Statistical Indicators and Turkey's Statistical Yearbook 2011 of Turkish Statistical Institute and Dubai and Abu Dhabi Tourism Authority Website.

Figure 3. The number of inbound tourists in Iran, Turkey and the UAE (Million inbound tourists)



According to the data provided by the Travel and Tourism Council's Economic Data Search Tool (WTTC), shown in table 6 and figure 4, while the UAE and Turkey's visitor exports have been reached from \$6.5, 8.4 billion in 2000 to \$25.4 and 24.5 billion in 2010 respectively -- showing an increase of \$18.9 and 16.1 billion dollar respectively --, Iran's visitor export could only reach from \$1 to 2.4 billion during this period -- indicating merely an increase of \$1.4 billion.

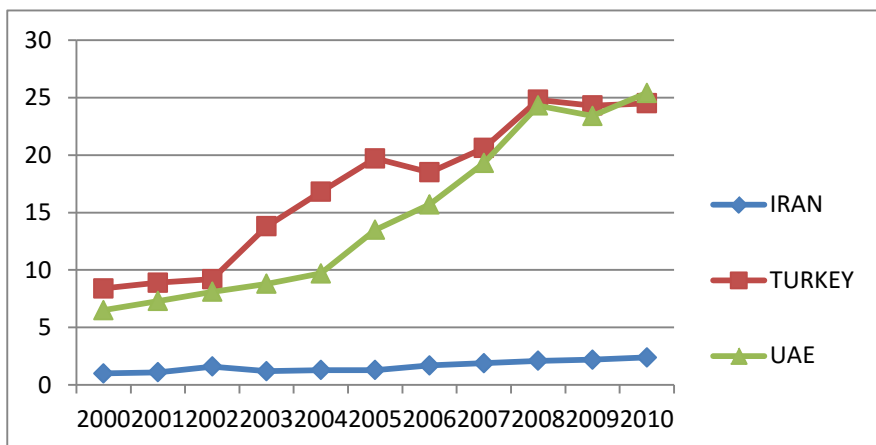
An interesting point is that despite the fact that the UAE has had 18 million inbound tourists lesser than that of Turkey, its visitor exports tends to be higher, particularly at the end of the decade. This is mainly associated with the nature of transport means used by tourists. That is, the quality of tourists using air transport is higher than those using other modes of transport. Higher tendency of the UAE's visitor exports becomes conceivable by examining the fact that about 70 percent of Turkey's inbound tourists via air transport. While about the whole UAE's inbound tourists arrives through air transport. This is more observable by comparing Iran with Turkey and the UAE. The visitor exports of both Turkey and the UAE are about 12 times more than that of Iran.

Table 6. Visitor Export of Iran, Turkey and the UAE (US\$ Billion Dollar)

year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Iran	1	1.1	1.6	1.2	1.3	1.3	1.7	1.9	2.1	2.2	2.4
Turkey	8.4	8.9	9.2	13.8	16.8	19.7	18.5	20.6	24.8	24.3	24.5
UAE	6.5	7.3	8.1	8.8	9.7	13.5	15.7	19.3	24.3	23.4	25.4

Source: Economic Data Search Tool, World Travel & Tourism Council (WTTC).

Figure 4. Visitor Export of Iran, Turkey and the UAE (US\$ Billion Dollar)



CONCLUSION

This paper probed the impact of the liberalization of international air transport on the development of international tourism by comparing Iran with Turkey and the UAE in the 10- year period, 2000-2010. The idea was that, the implementation of air transport liberalization policies provides a great opportunity for those countries willing to become an international hub, consequently affecting largely their air passenger traffic and tourism development. From the geo-economical point of view, three countries including Iran, Turkey and United Arab Emirates are potentially suited for becoming an international hub in the Middle East region to facilitate the link of the West and the East. Nevertheless, both Turkey and the UAE succeeded to become international hubs, while Iran could not.

This paper attempted to indicate the liberalization of international air transport as the main reason responsible for these successes and failures.

The liberalization of international air transport is defined as freer contracting or signing ASAs between each pair-country. In this study, it mainly refers to granting the fifth freedom as the least condition that a country should do to liberalize its air transport. We believed that granting the fifth freedom and then, in the form of more liberalized contracts such as Open-Skies, make a country accessible and attractive for international airlines. This, in turn, could lead to the increase of passenger traffic, which in turn helps to enhance the quantity (numbers) and quality of tourists (visitor exports) as indicators of development of international tourism.

The study of the liberalization of international air transport in the three countries from 2000 to 2010 made clear that Turkey and the UAE have practically granted more air freedoms to other countries in the framework of ASAs; while Iran has resisted giving any air freedoms. The examination of the data over a decade under study revealed that, the number of traffic passengers was increased in the UAE up to 42.2 million; in Turkey up to 30.6 million, and in Iran only 5.2 million. The positive impact of flexible liberal policies on the growth of traffic became further clear by comparing the UAE with Turkey, that the former could remedy its gap of 6 million air passengers in 2000 and, even, surpassed the latter in 2010 by raising 6 million extra passengers.

Likewise, while the UAE and Turkey could add 6.1 and 12.2 million tourists during a decade respectively, Iran could only add 1.8 million in the same period. The examination of visitor exports, also, revealed a similar result. That is, while the UAE and Turkey could raise their revenue from international tourism up to \$18.9 and 16.1 billion respectively, Iran merely increased its visitor exports up to \$1.4 million. We concluded that the variation of the foregoing variables -- namely, air traffic passengers, the number of inbound tourists and visitor exports -- among the three countries is mainly due to the adoption of the liberalization of international air transport for the following reasons. First, the liberalization of international air transport made air traffic passengers to increase considerably in the UAE and Turkey compared to Iran. This, in turn, resulted in development of tourism in both Turkey and the UAE through a considerable increase of their number of inbound tourists and visitor exports. Second, compared to Iran, the UAE has much less potential to develop tourism, mainly because of geographical size, historical background, variety of climate etc. However, from the point of

view of the indices examined in this study, the difference between the UAE and Iran is notable. The similar conclusion could be attained by comparing the UAE with Turkey is that, while the UAE has much less potential than Turkey, the former's visitor export is higher than the latter's which is well developed in tourism industry.

However, it should be emphasized that other factors, not merely the liberalization of international air transport, but perhaps socio-political and cultural ones as well as marketing, hospitality, management etc. may well have played a more important role and are worthy of additional research.

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1. On the base of socio-economic indices, researchers concluded that compared with Turkey and the UAE, Iran has the most chance to become a regional hub (as a consequence an international hub) in the Middle Eastern region (For more information see, Adler and Hashay 2009).

2. The contribution of tourist quality on the development of international tourism is based on the assumption that tourists using air transport are from high income class, and consequently, have higher potential for spending in destination.
3. It is worth noting that the development of tourism may be affected by various other factors than the liberalization policies such as cultural, social and economic factors, infra-structures, individual attractions and so on. In this study we focused only on liberalization factor. The comparative longitudinal method is logically a more helpful to conduct such studies (for more information see, Rokkan et al., 1969; May 1997; Przworski and Teune 1970).
4. For the UAE statistics, we use the statistics of Dubai and Abu Dhabi.