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## BOOK REVIEW

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Findlay, C., Sien, C.L., & Singh, K. (Eds.). (1997) *Asia Pacific Air Transport: Challenges and Policy Reforms*. Singapore: Institute of Southeast Asian Studies. Pp. xix + 208. ISBN 981-230-002-3. U.S.\$39.90, softcover.

Reviewed by Frederick Hansen, University of Nebraska at Omaha.

*Asia Pacific Air Transport: Challenges and Policy Reforms* is an edited book created from a collection of papers prepared for a meeting of the Pacific Economic Cooperation Council held in July 1995. This meeting was held to review challenges to regulatory reform in air transport in the Asia Pacific region. Although much has changed since the 1995 meeting was held, specifically in the area of the economic health of the Asian countries, this collection of papers is still relevant to the needs of the air transport industry.

The combination of new airport capacity, forecasts of above average aviation growth, and the overall privatization trend in air transport has created an environment in which the old structure of bilateral agreements can no longer meet the future air transport needs of the Pacific Asia countries. This book discusses forces that are in motion that will have an extremely profound impact on air transportation in the region. Forecasts still predict that the Asia Pacific region will experience the highest aviation growth rate in the early 21st century. The underlying question of this book then is what policy changes are necessary to allow the Asian countries and their air carriers to become significant players in the global transportation industry.

The term Asia Pacific is used in general terms, especially in economic discussions, to include East Asia, Australia, New Zealand, North America, and the Pacific coast of Latin America. ICAO defines Asia Pacific in a narrower sense that excludes North America and Latin America. In this book, the focus is predominately on the western side of the Pacific — the Pacific Asia region.

The book starts with an overview of the issues facing the Pacific Asia region. In part 2, individual authors examine policy issues concerning the capacity of the air transport infrastructure, privatization, options to reform the existing bilateral agreement system, and an introduction to multiple designation policies. Specific examples are presented dealing with multiple designation policies in Korea, Australia, and Japan. Part 3 presents other examples of regional developments in air transportation, notably the U.S.-Canada open skies agreement, the European Union experience in establishing a unified air transportation market, and the development of a single air market between Australia and New Zealand.

The Asia Pacific market has shown a growth pattern exceeding the North American market during the past two decades and is forecast to be the fastest growing air transportation market for another two decades. These forecasts are based on a continuing sound economy in the region. Unfortunately, most of the major Asian airlines have not been able to take full advantage of the opportunities for growth because of restrictive bilateral agreements. Asian carriers have generally benefited from lower labor costs compared to the North American and European competition but this advantage has been eroded due to a stronger economy. U.S. and European air carriers, however, will continue to maintain an advantage in this marketplace as long as the policy makers of the Asian countries restrict the aviation rights of their neighbors.

Tae Oum provides the opening chapter of this book with a discussion of the challenges and opportunities for the Asian air market. Asian carriers must overcome a number of impediments to liberalization. These impediments include aspects of self protectionism, weak consumer influence, variations between countries in their political systems and the military use of airports and air space, and the costs of operating airlines in different countries - Japan and China representing two extremes. Each of these impediments must be dealt with in order to establish an open sky environment that would optimize the air carrier operations within the region.

European and North American airlines have established significant continental markets through the use of hub and spoke networks. Although Asian countries recognize the importance of gateway hubs in the growth of long haul international air services, their existing bilateral aviation agreements restrict the ability of airports and airlines to develop significant hub operations. Unfortunately, most Asian air carriers are limited to a small network concentrated at a single hub in their home countries. Policymakers are torn between the potential benefits of an open sky policy benefiting their airports and the fear of too much competition for their flag carriers.

Oum suggests several short term and long term objectives for the liberalization of the Asia Pacific air market. Possible short term measures include open charter and freight markets between countries, relaxed code sharing rules, the liberalization of third and fourth freedom rights, relaxed rules on foreign ownership of airlines, and the expansion of bilateral and multilateral agreements among like minded countries. Potential long-term measures include intra-Asian open sky agreements, more liberalized bilateral agreements with countries outside the region, and the development of multilateral general trade agreements. These measures will become increasingly important as the Asian carriers lose their operating expense advantage from low wages.

Dempsey and O'Connor present a summary of capacity problems in the region and suggest three broad responses to these problems. One response is the replacement of inadequate airports with new facilities, e.g. Hong Kong's Chek Lap Kok airport. Another response is the construction of new facilities, e.g. Japan's Kansai airport at Osaka. The final response is the expansion of existing

facilities by adding additional runways and terminals to meet international demand. An important element of the construction efforts at many airport sites has been the effort to include high capacity, intermodal landside links. The authors argue that connections to other transportation modes will be essential in the development of future international airports in the region.

This expansion of ground facilities is the most expensive but perhaps the easiest capacity problem to solve. The other problems to be considered include airway/air traffic control, landing slots, and gate assignments. Airway congestion may also be directly linked to the recent expansion of airport facilities. Many of the Asia Pacific airports lie along the coastlines of Korea, Vietnam, eastern China and Kuala Lumpur creating a general North-South axis for air traffic. This corridor also competes with an East-West corridor of routes from North America, Europe, and the Middle East. The U.S./E.U. hub operations and long flight times associated with many of the East-West routes create an intense peak hour demand for landing slots and gates at Asia Pacific airfields. "In Tokyo, the size of the early afternoon peak passenger movement almost doubled between 1990 and 1994" (p. 31). Pricing systems may provide temporary relief for this congestion but other solutions will be required for the long term.

Forsyth tackles the privatization activities in the Pacific Asia region. Privatization predominately involves airlines in the region but issues of airport privatization are also discussed. This region is following the general world trend towards ever-increasing public ownership of air carriers. Of those airlines that have privatized over the last decade, the majority involved relatively large, economically successful companies. There is a strong correlation between per capita income and the private ownership of the airlines. Richer nations tend to have privatized airlines while the poorer nations tend to remain public.

Privatization of airlines also creates additional problems. The role of the flag carrier and national ownership cannot be completely removed from the political arena due to the close tie between the carrier and the public interest. The trend towards mega-carriers in the United States and Europe have already shown that governments are concerned about foreign ownership of their own airlines. Privatization also impacts regulatory policies and governmental attitudes towards liberalization. During the period leading up to a privatization and for a time thereafter, governments try to protect the airline to generate the largest sale price possible. Liberalization efforts during this period are unlikely, especially if the profitability of the airline might be jeopardized. Over time however, governments may tend to be more interested in liberalization in order to meet national economic policies.

With the exception of Australia, the nations of the Pacific Asia region have been less interested in the privatization of their airports. The high sales price associated with major airports is attractive to governments seeking injections of money into their coffers but it must be balanced against potential problems involving monopoly pricing, continued regulatory obligations, and externality problems such as noise. Somewhat lacking in this discussion was the impor-

tance of mutual support and cooperation between the air carriers and the airports necessary to establish significant hub status.

Tretheway examines in greater detail the impediments to liberalization in international aviation. Bilateral agreements in particular, he argues, are “expensive to administer, especially in high growth markets” (p. 66). A consequence of bilateralism is that gains from trade are only possible when each country believes it is gaining equally. This leads to inefficiency for both partners in the agreement and greatly increases the difficulty of either nation expanding beyond a single hub network concentrated at their gateway airport. This problem is further compounded by the fact that the Pacific Asia region does not have an equivalent trade agreement that includes air transport in the package of goods and services.

Tretheway offers four paths to free trade. First, include air services in trade in other goods and services. The Treaty of Rome established this link for the European Community and led to liberalization of air services. Second, an effort should be mounted to document consumer gains from open air transport markets, e.g. the tourism industry and high-tech industries. Third, start with areas where potential gains are large such as in air cargo. This would have a minimal effect on a flag carrier and could benefit other sectors of the economy also. Finally, develop sub-regional agreements of like-minded nations that believe they will enjoy economic gains from liberalization. These blocks would then have increased power to exert economic pressure on other nations to join.

Two chapters discuss different approaches to the introduction of a new air carrier on international routes (multiple designation). The rules for the allocation of capacity between carriers approximate a formula approach in Korea and an administrative approach in Australia. The formula approach in Korea ties the availability of routes and capacity of the new entrant carrier to those of the established carrier. “The more frequencies the incumbent exercises, the more frequencies are allocated to the newcomer” (p. 78). A unique problem facing Korean airlines however is the military control of ten of the fourteen airports available for civilian use. This control by the military prevents both airlines from optimizing their fleet utilization.

The Australian administrative model in contrast, allocates capacity under two separate sets of regulations — one for start up and another for follow on conditions. The emphasis during the start-up phase is to introduce competition by granting enough capacity to a new entrant to ensure commercially sustainable operations. The key criteria are summarized as “an allocation should be consistent with the development of commercially sustainable operations, by both the Australian entrant and incumbent, which will enhance competition on the route without decreasing inbound tourism, consumer benefits or trade” (p.86). The greater the allocation during the start up phase, the less the new entrant will receive during the second phase.

The last section of this book reports on regional developments that form case studies of the process of liberalization. Although these specific papers do not

directly relate to the liberalization of Asian countries, they are included as case studies in how the process has worked elsewhere. These lessons do have implications for the future liberalization and deregulation of the Pacific Asia market, especially in the application of pressure by alliances on others outside the club. These alliances of like-minded countries may offer the best hope for the Pacific Asia air industry to join the international marketplace as significant partners.

The current economic crisis in Asia has changed the impact of this book. How deep and long lasting this economic downturn will impact the aviation industry of the region is yet to be known. It has already had a significant impact on many airlines in the Pacific Asia region. Several regional airlines have already failed and others may follow before the crisis ends. It has also had a ripple effect on the rest of the international aviation market as aircraft orders and airline yields have responded to the decrease in the Pacific air market. The purpose of this book remains valid however as do most of the policy recommendations. The economic crisis may actually accelerate some policy changes while other changes may drag on longer than expected. Regardless of the short term impact on Pacific Asia countries, this book provides a valuable guide to changes that must eventually occur if Asia wishes to reap the benefits of the growth in air transportation during the 21st century.

