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**Title: Multilateral Approach to Forming more Liberalized Air Logistics' Market
on Northeast Asia Region**

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INFORMATION PAPER

SUMMARY

This paper provides information on alternatives which can be applied to the Northeast Asian airlines industry so as to bring about the integration of regional air transport. The Northeast Asian countries will be able to establish regular venues through which to exchange opinions on the integration and liberalization of the air cargo market so as to induce the gradual liberalization of the actual market.

The liberalization of the air transport in Northeast Asia will prove to be a daunting task in the short term. Over the last twenty five years the air transport has undergone tremendous changes. The most important factor behind these changes has been the increased liberalization of the market. As a result, rates have decreased while demand has increased. This has resulted in turning the air transport industry, which was long perceived as an industry in decline, into a high-growth industry. The only method of increasing regional exchanges in the air transport is to pursue further liberalization. The country which implements this liberalization process at the earliest date may very well emerge as a leading force within the air transport industry.

1. Introduction

The Northeast Asian air cargo market has expanded tremendously as a result of the opening up of the Chinese market. The importance of the Asia-Pacific region in the global air transport market has also increased. Especially impressive has been the growth of the Korea-China route opened in 1994, which has increased by an average of 24.2% a year (in terms of the number of air passengers flying per year since 1997), thus exhibiting the highest growth rate of all international air transportation markets.

In addition to this, gradual increase in exchanges of human resources, materials, services and information, further liberalization of passenger connections and air cargo transportation will be required in Northeast Asia. With this in mind, this paper suggest the process through which air transportation markets are being integrated through regional agreements, while also searching for measures which could feasibly be applied to the case of the Northeast Asian air transportation market. Furthermore, as far as the manner in which the air cargo sector should be integrated is concerned, I attempt to suggest alternative measures which could be rapidly implemented at the policymaking level.

2. Preconditions to the Establishment of a Air Logistics Hub in Northeast Asia

The increasing liquidity of capital markets as a result of globalization has in turn resulted in further invigorating the competition to attract foreign capital between countries. As a result, many countries have come to regard the attraction of foreign capital as one of the central tenets of their national policies. In order to cope with the new international economic environment, Korea has adopted a logistics hub strategy which has involved it, in order to attain these goals, attempting to become the regional logistics center for multinational corporations, as well as their regional headquarters and call centers, while also further opening up the country and upgrading its infrastructure. A logistics hub can be regarded as the foundation which links different economic blocs within a specific region, and as a place where comprehensive services pertaining to information on the flow of human and material resources within a specified regional economic bloc are provided. To establish the above-mentioned logistics hub, the necessary human and material factors must be secured, with the liberalization of services also brought about. To this end, it is primordial that international airports and harbors capable of taking on the role of a regional hub be created.

With regards to the liberalization of human and material resources, as well as services, there is a need to ease the regulatory policies currently serving as obstacles to the conducting of economic activities in each country, and to establish a liberalized environment between the countries. More to the point, as the air transportation sector has long been governed by bilateral regulations, with this being especially true in Northeast Asia, a region that has put in place more conservative policies regarding air transportation than any other- it is necessary to activate the flow of human and material resources in the region by implementing regional integration and liberalization policies centered around the air transportation industry. Furthermore, the rapidly growing air

cargo sector has been widely expected to become the future engine of the air transportation industry. The world's two largest producers of passenger airplanes, Boeing and Airbus, have estimated that the air cargo sector will increase by 0.8-1% more than the expected growth in passengers. Meanwhile, inter-regional air cargo transportation in Asia and domestic air cargo in China are expected to lead the way in terms of the global air cargo market. In 2003, China recorded a 9.4% growth in air cargo, which was more than twice the size of the global average of 3.9%. This growth even outstripped the rugged 6.7% growth rate posted by the entire Asian region. In this regards, Chinese air cargo transportation is expected to continue to exhibit high growth in the future. Based on this high growth rate in Northeast Asia, it can be surmised that once the regional market is increasingly liberalized inter-regional exchanges will gradually increase.

In places such as North America and Europe, the liberalization of the air transportation market has facilitated the movement of goods by increasing competition while decreasing rates. There is also a clear pattern evolving in which those nations that have implemented liberalization policies are emerging as logistics hubs in their particular regions.

3. The Alternative Measures to Forming more Liberalized Air Logistics' Market on Northeast Asia Region

I would like to suggest alternatives which can be applied to the Northeast Asian airlines industry so as to bring about the integration of regional air transport while also searching for measures which could feasibly be applied: First, It is necessary a need for individual Northeast Asian nations to alter their policies towards the airlines industry. Second, each country should further liberalize their respective domestic air transport. Third, there is a need for freer air service agreements to be signed between the nations of Northeast Asia. Fourth, the strategic alliances between the airlines operating in Northeast Asia should be further strengthened. Fifth, this liberalization process should be carried out in an incremental manner, beginning with more competitive airports and routes, or with less-in-demand routes. Sixth these three nations jointly develop aviation safety and security systems that are in accordance with international standards. Seventh, the liberalization process of the aviation industry should be undertaken in conjunction with other related fields. Eighth, organizations linking together civil aviation organization in the Asia-Pacific area should be formed, as should each government linking together. By doing so, these countries will be able to establish regular venues

through which to exchange opinions on the integration and liberalization of the air cargo market so as to induce the gradual liberalization of the actual market.

The liberalization of the air transport in Northeast Asia will prove to be a daunting task in the short term. Over the last twenty five years the air transport has undergone tremendous changes. The most important factor behind these changes has been the increased liberalization of the market. As a result, rates have decreased while demand has increased. This has resulted in turning the air transport industry, which was long perceived as an industry in decline, into a high-growth industry. The only method of increasing regional exchanges in the air transport is to pursue further liberalization. The country which implements this liberalization process at the earliest date may very well emerge as a leading force within the air transport industry. - End -

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