

# Move towards Gradual Liberalization of International Air Transport

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Thank you Dr. Rochat.

Ladies and gentlemen, good afternoon.

It is a privilege and pleasure for me to be invited to attend ICAO Global Symposium on Air Transport Liberalization to share with you the experiences China has on the path to air transport liberalization. My speech includes three parts: **First**, undergoing process of gradual international air transport liberalization in China; **Secondly**, impacts of progressive liberalization of international air transport; **Thirdly**, challenges facing the fast development of China's air transport;

## **First, Undergoing Process of Gradual International Air Transport Liberalization in China**

With closer connection of industry chains and more intensified economic integration among different countries in the world, there is increasing demand of free flow of production factor and people movement in a global scale, which calls for corresponding regulatory reform in the air transport field. In recent years, especially since the ICAO Fifth Worldwide Air Transport Conference, more

and more countries have furthered international air transport liberalization and exerted more efforts to push forward this process. China, like other countries accelerated after 2003 the liberalization process of international air transport in an active, gradual, orderly and safeguarded manner.

China is one of the biggest developing countries in the world. China has been increasingly integrating its economy into global economy, especially after its entry into WTO in 2002. Chinese people, thanks to great improvement of living standard in the past decade, want to have more convenient, efficient and cheaper air services to travel abroad. With enhancing trade and people exchanges between China and other parts of the world, there is an ever more increasing need in international passenger and cargo services to be provided to meet domestic and foreign customers' demands and national interests. This surely calls for Chinese aeronautical authorities reforming regulation and accelerating open-up paces. However, at the same time China is still undergoing a gradual economic transformation period in the course. After more than 20 years of economy reform, China has gradually transformed from plan economy to market economy. So while China liberalizing its international air transport market, the process of liberalization, taking into account China's gradual economy transformation, should

be progressive.

Against the trend of liberalization and integration of international air transport and taking into consideration of its own conditions and special circumstances, China actively adapted itself, and timely made adjustment on its international air transport policy by the process of liberalization under the principle of “**active, gradual, orderly and safeguarded**”.

Under this principle, China exerted great efforts in developing bilateral civil aviation relations with other countries, substantially expanded air traffic rights arrangements with major aviation powers and prioritized in relaxing restrictions of air traffic rights with neighboring countries. During the past five years, China signed bilateral air services agreements or air traffic rights arrangements involving various liberalizing elements with 42 countries mainly in Asia Pacific, North America and Europe. China also explored the process of regional liberalization of air transport between China-ASEAN, deepened its cooperative relations with Korea, Japan, Singapore, Vietnam and the U.S. by establishing bilateral cooperation and consultation mechanism or forum.

Meanwhile we launched the pilot project in liberalizing the third, fourth and fifth freedom traffic rights in Hainan Province in 2003. In 2005, we also issued and implemented several policies and measures

so as to lead the impetus to domestic carriers to further expand international air services.

**Secondly, Impacts of Progressive Liberalization of International Air Transport.**

Against rapid and sustainable development of China's economy, and through the above creative policies and measures of international air transport liberalization, China's civil aviation industry has achieved fast growth in recent years.

In the past five years, China's air transport scored an average annual growth rate of 16.4% in total turnover, 15.5% in passenger traffic and 13.8% in cargo traffic. In 2005, the total air traffic volume in China was as high as 26.13 billion ton-kilometers, ranking the 2<sup>nd</sup> in the world in terms of total air traffic turnover.

By the end of 2005, fleet of Chinese carriers expanded quickly to 863 airplanes with the net additional of 336 units to that of 2000. There were 142 civil transport airports, 7 of which handled more than 10 million passengers in 2005. Especially, Beijing Capital International Airport handled a total of 41 million passengers in 2005, becoming one of the busiest airports in the world. Meanwhile, Chinese carriers have operated 233 international air routes connecting China with 75 cities in 33 countries.

The fast development of China's civil aviation industry and the

accelerating paces of opening up air transport market to the world have greatly impacted the world as well as China itself. In a short time, China's international air transport market has attracted a lot of foreign carriers to operate air services. Let me give you some statistics. In 2005, passenger traffic volume carried by all domestic and foreign carriers on the routes between China and foreign countries increased by 20%, among which, growth rate of passenger traffic volume on the routes between China and the U.S. and Canada reached 54%, on the routes between China and Middle East 39%, on the routes between China and Europe 21%, on the routes between China and Asia Pacific 16%. For most of foreign carriers, the routes to and from China are among the most profitable ones of their international routes. The gradual liberalization of international air transport makes a win-win outcome, not only benefits China, but also benefits the whole world. It has urged Chinese carriers to improve awareness and capabilities of competition, promoted development of national and local economy, provided more business opportunities for foreign carriers, strengthened bilateral and multilateral relations with other countries and regions, promoted fast growth of air transport market in Asia-Pacific and other parts of the world and made its due contributions to the liberalization process of international air transport.

Here I would like to take example of China- Korea air transport market to further elaborate the impacts of gradual air transport liberalization. Since the late 1990s', the air services arrangements between China and Korea has been liberalized gradually, which directly stimulated fast development of China-Korea air transport market.

Since 1999, the annual growth rate of China-Korea air passenger traffic has been up to 25.1%. In 2005, the passenger traffic volume between the two countries scored 6.35 million person times and the cargo traffic volume exceeded 300 thousand tons. Currently, Korea is the country which has most points of call served and air routes linked to China. More than 30 Chinese cities and 6 Korean cities have established schedule or non-schedule air services. The rapid development of China-Korea air transport market has greatly facilitated people-to-people contacts, promoted trade and tourism and boosted local economy of two countries. There are 89 pairs of friendship provinces and cities between the two countries. The annual growth rate of bilateral trade volume has been up to 26.5% since 2000. In 2005, the bilateral trade volume reached 111.93 billion US dollars. China is now Korea's largest trade partner, export market and investment destination. Korea is China's third largest trade partner. Until 2005, Korean enterprises have invested more

than 30,000 projects with the total actual investment amount 31.1 billion US dollars. In addition, China is Korea's largest tourist destination country and second largest inbound traffic source, while Korea becomes the largest inbound traffic source of China.

### **Thirdly, Challenges facing the Fast Development of China's Air Transport**

While the gradual liberalization of air transport contributes to the fast development of China's civil aviation industry and results in positive impacts domestically and internationally, China is now facing various challenges which we are taking active measures to cope with.

#### **First, High Pressure on Aviation Safety**

The rapid increase of air traffic volume and the outbreak of emergencies lead to high pressure on aviation safety.

In recent years, China's civil aviation experienced some special emergent situations like SARS and Bird Flu. When SARS broke out in 2003, China's passenger traffic volume increased only by 1.9%. To cope with the negative influence, we carried out the Revitalization Program to stimulate air transport growth while strengthening the aviation safety management. Over the past 5 years, China has significantly improved its aviation safety level, with 0.29 accident rate per million flight hours, a reduction of 55% over the

same period in late 1990's. With the view of system safety management, we are and will be enhancing the management of airworthiness and maintenance, aviation security and ATC safety, improving the safety operation level of air carriers and airports, strengthening the international exchange and cooperation, implementing aviation safety and security auditing program, speeding up aviation safety information system construction.

### **Second, Regulation Changes**

With the changes of domestic and international regulations, we need to find new solutions on industrial regulation and enterprises management, which are in line with market economy rules and the trend of air transport liberalization.

In recent years, China's civil aviation industry implemented series of reform and restructuring. Airlines and service enterprises were consolidated and separated from government. The ownership and management of airports were localized. Civil aviation administration system was reformed to enable the aeronautical authorities to function as industrial regulatory body. ATC management system was reformed. Air marshal team was established. A series of regulations on aviation safety, security and economy were issued and implemented. Some economic regulations are under adjustment, including fuel sales prices reform, airport

charge reform and airport franchising pilot program and slot allocation regulation. China's civil aviation will continue to reform at a new stage.

### **Third, Inadequate Infrastructure**

There are problems of inadequate infrastructure with regard to both airports and ATC.

Currently, China does not have enough civil airports, and the distributed density of civil airports in China is less than 1 per 10,000 square km. Some airports are operating beyond their capacity, quite a number of airports are operating at their full capacity. It is anticipated that 29 airports will reach their capacity between the year 2005 and 2010.

In addition, the airspace, air route, slot and the efficiency of the function of automation could not meet the demand of ever-increasing flights.

Therefore, we speed up the construction by expanding large airports, perfecting medium airports and increase the number of small airports. Each year, several dozens of airports are built or expanded. Airports in remote areas are built. By that, China will establish a fairly reasonable distributed airport system within the whole country, with adequate scale and functions. China has also utilized communication, surveillance, control and meteorology

techniques to enhance the ATC system. Up to now, 3 regional Air Traffic Control Centers in Beijing, Shanghai and Guangzhou respectively have been constructed and put into operation.

#### **Fourth, Human Resources Shortage**

Within the next 5 years, China will increase its fleet number by 680 aircrafts. Roughly 10,000 pilots and 3,630 licensed air controller and large number of maintenance technicians are in demand. The aeronautical authorities, airlines, airports are all short of high-level managing personnel.

Given this situation, we have set up education plan for the next 5 years in human resources development by improving civil aviation universities and colleges, promoting international cooperation and exchanges, starting up ATC education reforms and boost 3-level training system for ATC as well as developing various training programs. For example, Chinese airlines, flight schools have recruited captains, teachers from other countries to improve China's pilot training system.

#### **Fifth, Incomplete Competition**

There exist the problems of unbalanced development of passenger services and cargo services, domestic services and international services in China. Now the air cargo and international air services are relatively slow in development.

To promote competition, we lower the market access barriers for private and foreign capital investment. Up to now, 5 private airlines have acquired licenses and another 5 are in preparation. Some joint venture airlines were set up in China as well. We also adjusted domestic and international air transport regulations and policies. Most domestic air routes and schedule services are to be filed. Only a small number of air routes and services are to be filed for approval. We also expand bilateral traffic arrangements to provide more opportunities for domestic and foreign carriers to further explore international air transport market.

To promote the air cargo development, China encourages private and foreign capital investment in air cargo industry. Regulations on domestic and international air cargo services are given priority to be relaxed. Establishment of all cargo airlines, establishment of new routes for air cargo are encouraged.

### **Sixth, Unbalanced Development in Different Regions**

The uneven economic development in eastern and western China leads to the unbalanced development of air transport in China. The air traffic volume in eastern coastal area takes 80% of the total traffic volume, while the air transport in western China develops slowly. Medium and small airports haven't enough flights and suffered loss.

To make a harmonized development of air transport among different regions, China further pushes forward network structure adjustment and takes preferential measures to speed up the air transport development in western and north-eastern China as well as the regional air transport development. Favorable special civil aviation fund is allocated to western and north-eastern China for investment. More traffic rights are granted to airlines of other countries in operating to the western, north-eastern and mid part of China. In 2005, air transport development in western hub cities like Chengdu, Kunming, Chongqing, Xi'an and Urumqi is faster than the average development of the whole country.

#### **Seventh, Imperfect Customs-Immigration-Quarantine Procedures**

CIQ personnel shortage and the imperfect regulations and procedures of customs and immigration lead to complicated procedures and lots of difficulties for airline's operation. Development and application of new generation CRS and departure system, tariff system, self check-in system, billing data system is slow.

To solve the above mentioned problems, China actively boosts the facilitation work and establishes National Air Transport Facilitation Committee, push forward the IT application in civil

aviation industry. Currently 9 Chinese airlines start up e-ticketing services which account 20% of all the tickets sold. Self check-in kiosks have been set up in many airports. Research on GDS development strategy has been carried out.

### **Conclusion,**

Ladies and gentlemen, the prosperity of China's economy produces the fast growth of China's air transport. Currently, China makes up for about 5% of global GDP, ranking the 4<sup>th</sup> in the world. Its trade volume accounts for 6.1% of the world's total, which is the 3<sup>rd</sup> largest amongst all countries of the world. In 2005, China's import and export volume stood at 1400 billion US Dollars, up by 23.2%. China's contribution to the world economy and trade growth is estimated to be 18.2% and 16.26% respectively. In 2005, 120 million foreign travelers came to China. At the same time, in 2005, the number of Chinese traveling abroad increased by 7.5%, reaching 31.03 million person-times. As estimated by 2020, the inbound foreign tourists to China will rise to 300 million and Chinese tourists will be 3.6 billion. China will become the largest tourist destination and generate the largest number of outbound travelers. Domestically, the sound social and political environment, the sustainable rapid economic development and the fast growth of trade and tourism domestically and internationally provided favorable conditions for

China's air transport development. Internationally, economic globalization, growing world market, speeding up of productive factor flow and steady world economy growth laid sound basis for global air transport development. The above factors bring a bright future for China's air transport growth, which would drive air transport development in Asia and other parts of the world.

China has been moving ahead with the gradual approach in international air transport liberalization, which is suitable to China's own development. Experiences show that this gradual liberalization path is in line with China's own situation, is beneficial to the development of China's civil aviation industry and national interests, as well as is conducive to the promotion of global air transport and economy prosperity. China's path of gradual liberalization not only diversified solutions to the global international air transport liberalization, but also provided useful experiences for developing countries in liberalizing their international air transport and developing their national aviation industry.

China will continue its liberalization process in an "active, gradual, orderly and safeguarded" manner by relaxing bilateral traffic arrangements and exploring regional liberalization process starting with negotiation on regional liberalization arrangement of air transport between China and ASEAN. China will realize the

overall, harmonized and sustained development of air transport in China through building the new-generation air transport system and improving the overall operation of aviation industry.

Thank you!