

Overhaul of Gateway Strategy to Help Kansai, Chubu

By ITOH Motoshige

The combined volume of container traffic handled at Japan's four largest ports--Tokyo, Yokohama, Nagoya and Kobe--can hardly compare with that at Busan Port. What is more, Hong Kong, Shanghai, Shenzhen and Singapore are ranked even above the South Korean port in the world container port league.

Though the real strength of a port cannot be measured only in container traffic terms, many people in Japan are worried about the fact that Japanese ports lag far behind major ports in the rest of Asia. Various research findings clearly show that Japanese ports are inferior to Singapore and Hong Kong, among others, in terms of cost-effectiveness, and that they are also far less competitive in various other aspects, such as round-the-clock operations.

Japanese airports seem to be in a situation similar to that of seaports. In the international passenger traffic league, Narita Airport lags far behind Hong Kong and Singapore. Major countries in Asia have been rapidly expanding their international airports, resulting in a big change in the environment surrounding Asia's airline industry. In South Korea, Incheon Airport has been upgrading its facilities--some people are talking even about the likelihood of Incheon overtaking Narita as a hub of regional air transportation in Japan.

While Narita Airport can do little to cope better with the changing circumstances as it is operating to full runway capacity, Kansai Airport and Chubu Airport--both of which are supposed to function as leading hubs of air transportation--are in a disappointing position. I could hardly believe it when I was told about flights from Kansai Airport to Europe and the U.S. mainland--Japanese airlines operate only one daily flight, bound for London. This appears to be correct when we exclude code-sharing flights operated by foreign airlines.

The Construction and Transport Ministry has been using airport slots at Kansai and Chubu as a card in bilateral civil aviation talks with foreign countries. Its aim is to enable Japanese carriers to increase the number of flights to airports in China and other countries by offering new slots at Kansai and Chubu--instead of Narita, where there is no room for expansion--to foreign airlines as a reciprocal measure.

In this connection, the government's Asian Gateway Strategy Council, chaired by Prime Minister

Shinzo Abe--on which I served as a working group cochairman--compiled an Asian Gateway Initiative on May 19, calling for a thorough overhaul of Japan's civil aviation strategy. Specifically, the council recommended that an open-skies policy that allows unrestricted airline competition be actively applied to Kansai and Chubu airports, among others. However, it remains to be seen whether the policy recommendation will be translated into action.

For what purpose does the government pursue an aviation policy? This should be the bottom line of the quest of such a policy. In other words, what is at stake is whether the government should protect Japanese airlines' interests in flight allocations, or whether it should make airports more user-friendly and helpful in activating local economies in their vicinities by luring more flights.

Obviously, the aviation policy ought to serve the whole of the national economy rather than the domestic airline industry, but, regrettably, the government has not been behaving that way. Although it is good to enable Japanese airlines to gain as many flight routes as possible, it is more important to see as many aircraft as possible depart from and arrive at airports in Japan.

The world's civil aviation industry is now experiencing a sea change.

The United States and Europe--which together account for more than two-thirds of global demand for airline services--recently initiated an open-skies framework agreement. In Asia, too, there are active moves among those countries that are expanding their airports to entice new flights from abroad.

Those developments mean that the traditional approach--involving governments in bilateral negotiations to allocate flights, choose airlines and designate airports--is evidently outdated. As airports in many countries have been or are being expanded, it is increasingly necessary to deregulate the civil aviation market in a way that allows airlines to determine the number of flights, routes and airports and airfares on their own.

The world's aviation networks have developed under the hubs-and-spokes concept with aircraft flying out of key (hub) airports to other airports (spokes). The importance of the hubs-and-spokes networks will remain unchanged in the future. But some experts are now touting a "point to point" operating strategy. Their view is backed by the fact that low-cost carriers, known as LLCs, are thriving by flying medium-sized airplanes like Boeing 737s between local airports.

LLCs should not be simply regarded as discount airline services--in reality, they are appreciated by many economists specializing in business management as an excellent business model. Southwest Airlines of the United States, for example, is so famous as an LLC success story that it is unnecessary to give further details. In Asia, we have Air Asia Berhad of Malaysia, which took off with only two aircraft in 2001, but now holds half of the domestic airline market. Air Asia plans to set up a subsidiary concentrating on international services, flying to destinations in

China and Britain from Kuala Lumpur.

It would be significant for Kansai and Chubu as well as several of the leading regional airports in Japan to serve a greater number of point-to-point flights by utilizing LLCs. Considering that an increasing number of people are expected to travel from regional areas in Japan to the rest of Asia, it will become more important for Japan's major airports to strengthen their respective links to Asian destinations.

Networks between leading airports in Japan and the other parts of Asia are expected to develop under the point-to-point network concept, in lieu of the hubs-and-spokes operating strategy, given the relatively short distances. To prepare for such a market environment, Japan should actively adopt an open-skies policy and scrap the existing regulations on international airfares. As long as the regulations remain in place, LLCs in the Asia-Pacific region will be unable to extend low-fare services to Japan. It will make no sense for Japan to refuse to clear Asia-Pacific LLCs for landing in Japan because their fares are too low.

It is worthwhile to compare deregulation in the aviation industry and that of other sectors. Japan has so far taken up individual routes and each airline's flight allocations in bilateral aviation negotiations. This approach is similar to sector-centric trade liberalization talks, such as Tokyo-Washington negotiations over U.S. beef exports to Japan. In contrast, negotiations with other Asian countries for open skies agreements are similar to bilateral or regional free trade agreement talks. Common to the two types of negotiations are their purposes to realize across-the-board liberalization on both sides rather than sector-oriented liberalization.

I look forward to seeing the Asian Gateway Initiative prompt bilateral or regional open-skies negotiations. China, South Korea and other Asian countries can presumably be the countries Japan should have in mind as practical negotiating partners. And, as both Narita and Haneda airports cannot afford to offer new landing rights, Kansai, Chubu and other airports are in a better position to benefit tremendously from open-skies agreements.

By the way, there is a more drastic trade liberalization approach--unilateral trade liberalization without seeking reciprocal measures on the part of the other party or parties. In the case of liberalization, it is the people of the country that liberalizes its own market who benefit most from such deregulation.

In this context, it is hardly conceivable that the people will benefit from a tactic to delay their own country's market liberalization for the sake of encouraging the trading partner to liberalize its market. In fact, Britain, which liberalized its financial sector with the so-called Big Bang deregulation in the 1980s, has successfully continued to be the most competitive financial services market in the world, even though its leading players are from abroad.

In the civil aviation industry, too, it is really worthwhile to unilaterally liberalize the airline

market. What is important is that Japan should let as many aircraft as possible--regardless of where they are registered--fly into Kansai and Chubu airports.

(This is the text of an article by ITOH Motoshige, Professor of the University of Tokyo and a Member of the Council on East Asian Community (CEAC), which originally appeared on the *Daily Yomiuri Online* on August 27, 2007)