



Comments on 'ASEAN Open Skies and its implications on airport development strategy in Malaysia'

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Questions in the paper

- Research question – open skies impact
- Policy question – hub strategy





Research question

- The implication of open skies in ASEAN on airport development
 - Open regimes create opportunities for attracting new operators
 - but remove constraints on existing operators to locate within the country to secure traffic rights, ie home base of local carriers
 - Other airports operating in an open regime can reduce demand for services of some airports
 - eg Australia [Malaysia] and Singapore or Bangkok





Open Skies in ASEAN – action this year?

- SENIOR transport officials recommended that Asean members sign a deal that will lead to the full liberalization of freight and other air services (Friday May 30, 2008).
- The region's transport leaders will discuss it during the 14th Asean Transport Ministers' (ATM) meeting in November 2008 in Manila, in time for the implementation of the regional integrated air transport services by December.
 - It was during their plenary sessions that the transport leaders also recommended the signing of the Asean Multilateral Air Services Agreement. This will lead to the gradual removal of restrictions for greater flexibility and capacity in air freight services in the region...The agreement....will also contribute to the creation of a transport network linking the 10 member-states, which seek to build a unified aviation market by 2015.

<http://www.sunstar.com.ph/static/ceb/2008/05/30/news/asean.transport.officials.push.liberalization.of.air.services.html>





Hub airport vs an airport

- How to measure the difference and why does it matter?
 - transshipments compared to domestic movements?





Policy question

- Government policy to position KLIA as a 'regional' hub: Domestic goals
 - Interest of FDI firms in 'cost..of communications in host economy' and air cargo services one of the key determinants of competitiveness of a host country in electronics
 - Requires action to remove policy that adds to costs and prices – supply chain efficiency
 - i) Does it require action to support a local airport? ii) Does it require that airport to also be a hub?
 - i) What is the nature of the market for transshipment airport services? Is there scope to import substitutable airport services and capture the gains from trade?
 - ii) Are there spillovers to local firms from hub operations in addition to domestic movements? Eg scale, density of complementary services, agglomeration...





Policy question (cont.)

- Government policy to position KLIA as a 'regional' hub: regional context
 - Malaysia is competitive in and aims to capture gains from trade in airport services
 - Another reason to provide not just airport services but also hub services
 - Scope depends on the relevant market for airport services (p. 17 onwards)
 - Requires a substantial commitment to lumpy infrastructure (above local demand)
 - Risk management strategy
 - Relieve concerns about 'supply security'/reliance on others?





Policies that matter

- Suppose the goal is to achieve 'hub-airport' status – what policies matter?
 - Two noted in the paper for hub development
 - 'Airline competition policy, privatisation, deregulation'
 - Size and quality of airport infrastructure





Other policy matters too

- Airport pricing
 - Ownership – privatisation of the airport?
 - Market power (?)
 - risk of capture of gains from investments
 - Mechanism of price setting
- Multi-modal liberalisation
 - Road quality (complementary infrastructure) is discussed





Policy suggestions in the paper

- Traffic flows within Malaysia
 - No requirement to development a substitute hub at Senai
- Traffic flows through Malaysia
 - MAS to join a global alliance
 - Tourism promotion
 - ASEAN community





In addition....

- Market analysis
 - Put the analysis in the context of an analysis of the nature of competition in the market for airport services
- Policy analysis
 - Confirm results on the nature and likely impact of ASEAN open skies
 - Discuss other policies and their role such as
 - Airport ownership, airport pricing, policy on complementary services
- Case for cooperation
 - Nature of market failure





Last words

- Two sets of comments
 - First on the scope of research and policy questions in the paper
 - Second on the policy mix which is important if it is accepted that hub airport status is desirable
- Overall, the suggestion was to focus on supply chain performance for local consumers and producers, the scope to gain from trade in airport services, which required some assessment of the relevant market for airport services, and to derive an airport strategy from that perspective, noting the special issues that the lumpiness of the investment might create.

