

Bilateral Air Service Agreements within the Greater China Area: Implications for Future Cross-Strait Air Transportation Services

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Direct flights across the Taiwan Strait have been the hottest issue in cross-Strait relations since the 1980s. Although Taiwan's policy toward direct flights is not yet clear, many believe that the entry of both sides into the World Trade Organization (WTO) will speed up the flight schedule process. There are, however, some technical problems to be solved before the airlines of either side can operate nonstop flights across the Strait. One critical issue regards the striking of a bilateral agreement between China and Taiwan. If both sides agree to negotiate such an official document, serious political and economic conflicts would likely occur as soon as negotiations are begun.

This paper discusses the history of air transportation services among Macau, Hong Kong, Taiwan, and China. Past and new agreements are examined, their impacts and possible influences on the regional markets are analyzed, and both the business and political considerations related to these agreements are explored. Given the experiences of both past and

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existing agreements, the format as well as the content of any cross-Strait bilateral agreement would need to be carefully constructed in order to be acceptable to both sides. The possibility of a multilateral agreement within these states and zones, and the resulting impacts on this area will also be examined.

KEYWORDS: air transportation; bilateral agreement; direct flights; cross-Strait direct linkages; Greater China.

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Whether and how to open direct flights across the Taiwan Strait has been the hottest issue in cross-Strait relations since the early 1980s. During most of the 1980s, the Kuomintang (KMT, or the Nationalist Party 國民黨) government strictly prohibited any form of travel between Taiwan and China. This so-called "three no's" policy (三不政策)¹ has stayed firm for almost a decade. In the 1990s, Taiwanese were allowed to travel to China if they stopped over in a "third area" before reaching China. Given its geographical proximity to and close relationship with China, Hong Kong has successfully played the role as a gateway to the Chinese mainland over the last twenty years. Most Taiwanese have traveled to China by way of Hong Kong during the past decade, with Taiwanese travelers constituting an average of one-sixth of the total number of passengers through the Hong Kong airport every year.² This flow has helped Hong Kong to continue to be a major hub in East Asia after the 1980s.

Few of the millions of passengers transiting Hong Kong have noticed

¹The "three no's" policy—no contact, no negotiation, and no compromise with the Beijing government—was articulated by ROC President Chiang Ching-kuo (蔣經國) on April 4, 1979 in response to Ye Jianying's (葉劍英) "three links and four exchanges" (三通四流) proposal of January 1, 1979. These two documents are available at <http://www.mac.gov.tw/rpir/3_6.htm> and <<http://www.peopledaily.edu.cn/BIG5/channel1/14/20000522/72536.html>>, respectively. Taiwan's "three no's" policy is different from the new "three no's" declared by U.S. President Bill Clinton when he visited China in 1998. The latter "three no's" are known as "no support for Taiwan independence; no recognition of two Chinas; and no support for Taiwan's membership as a sovereign nation in any international organization." See *Asian Wall Street Journal*, July 1, 1998, 1.

²Zheng-yi Shon, Yu-hern Chang, and Cheng-cheng Lin, "Deregulating Direct Flights Across the Taiwan Strait: The Transformation of Eastern Asian Air Transportation Market and Network," *Transport Reviews* 21, no. 1 (January 2001): 15-30.

that, before 2000, Chinese carriers flew to China more often than Hong Kong carriers. The unbalanced agreement between China and Hong Kong allowed China to operate twice as many flights than could Hong Kong. This agreement, which has existed for decades, changed the structure of air transportation-related service industries in this region. After Hong Kong was handed over to China in July 1997, the bilateral agreement was modified and announced to the public for the first time. The modification of the agreement has not only made the market more competitive, but will also greatly affect the future market across the Taiwan Strait.

The experience of Hong Kong and China is similar to that between Macau and China. In 2001, Macau also signed an agreement with China. This arrangement, which replaced the formal memorandum of understanding between the two sides, has increased Macau's competitiveness in the air travel sector. However, negotiations between Hong Kong and Taiwan, as well as between Macau and Taiwan, have both proved difficult. The 1990 version of the Hong Kong-Taiwan agreement was extended seven times before a new agreement was reached in 1996.³ This agreement expired on June 30, 2001, but negotiations were not able to commence until the end of that year. In the beginning of 2002, the agreement had to be extended again, this time to the end of June 2002.⁴ Similar experiences can be found with the Macau-Taiwan agreement, which should have been updated in 2000. Six months after being signed by the airlines, the agreement was finally approved by both governments in the third quarter of 2001.

Obviously, there are some significant economic and political conflicts concerning air transportation between Taiwan and the rest of China, in-

³The 1990 version of the Taiwan-Hong Kong agreement expired in April 1995, yet a new agreement was not reached until June 1996. During the fourteen months, the old agreement was extended seven times. See *Zhongguo shibao* (China Times) (Taipei), June 14, 1996, 9. Also see Shen Hai-han, *Woguo kongyun hangquan zhi yanjiu* (The studies of aviation freedoms in the ROC) (Taipei: Liming wenhua shiye gongsi, 1994), 20-35.

⁴The 1996 version of the Taiwan-Hong Kong agreement expired in June 2001 but was soon extended to the end of 2001. Before the extended expiration date arrived, the agreement was extended again to June 30, 2002. See the news release of the Civil Aeronautics Administration (民航局) of June 6 and December 28, 2001, at <<http://www.caa.gov.tw/news/900606-1.htm>> and <<http://www.caa.gov.tw/news/901228.htm>>. Also see *Taiwan ribao* (Taiwan Daily) (Taichung, Taiwan), December 29, 2001, 7.

cluding Hong Kong, Macau, and the mainland. These conflicts would likely reoccur when negotiations between Taiwan and China finally begin. There are, however, some possible ways to develop an acceptable solution based on the experiences of past and existing versions of the bilateral agreements within the Greater China area. These experiences are not only changing the air transportation market structure of this area now, but will also stabilize cross-Strait relations in the future.

The History of Air Transportation Between China, Taiwan, Hong Kong, and Macau

Since Hong Kong has played an important role as an intermediary across the Taiwan Strait, the bilateral agreement between Hong Kong and either China or Taiwan has always been a complex political affair. Back in the early twentieth century, Hong Kong, as a colony of the United Kingdom, was one of the first few cities that provided international air transportation services to China.⁵ During the Chinese civil war in the late 1940s, two carriers of the Republic of China (ROC)—the Central Air (中央航空公司) and the China National Aviation Corporation (CNAC 中國航空公司)—maintained all their aircraft in Hong Kong. Some pilots of the two carriers threw their lot in with the communists after 1949 and flew their aircraft to Beijing. These new pilots and aircraft became the basis of the civil aviation industry in the People's Republic of China (PRC).⁶

In addition to the carriers of the ROC, the newly established Cathay Pacific Airways (國泰航空) and Hong Kong Airways (香港航空) of Hong Kong were also operating China-Hong Kong flights before the PRC regime

⁵Chen Yaohuan, *Yinyi chuchu: Zhongguo dalu, Taiwan sheng ji Xianggang minhang shilue* (Silver wings everywhere: A brief history of mainland China, Taiwan, and Hong Kong aviation) (Beijing: Zhongguo huaqiao chuban gongsi, 1990), 4-9.

⁶CNAC changed its national identity from the ROC to the PRC after this incident. See the Editorial Board of China Today, *Dangdai Zhongguo de minhang shiye* (China today: The civil aviation industry) (Beijing: Zhongguo shehui kexue chubanshe, 1989), 39-44. Also see Qu Shao-hua, *Hangkong shiliao* (Historical materials of civil aviation) (Taipei: Guoshiguan, 1991), 658-82.

was established in the late 1940s. The market was focused on the heavy travel demand in the Shanghai-Hong Kong passenger and cargo service markets created during the civil war. After the ROC regime lost the civil war in mainland China and moved to Taiwan, China-Hong Kong links were suspended.

During the period 1949-79, Beijing's closed-door policy prohibited any further development of China-Hong Kong links until China was reopened in the late 1970s. By the end of 1978, Guangzhou (廣州) began providing charter service to Hong Kong again after a thirty-year hiatus. A few years later, Dragon Air (港龍航空) was established to serve specifically the China-Hong Kong market. This new carrier was a milestone for China-Hong Kong air transportation services. In November 1985, Dragon Air began operating Hong Kong-Xiamen (廈門) flights while links between Hong Kong and mainland China increased annually. In 1990, Cathay Pacific acquired majority ownership of Dragon Air and made the airlines a major carrier in the Hong Kong-China market.

The experience of the development of China-Hong Kong air transportation services in the last fifteen years of the twentieth century has reflected the relationship between the British Hong Kong government and Beijing. China has not only initiated unfair policies, but also blocked the entry of foreign companies into different markets. Markets in China were opened at a very slow pace. The first Hong Kong-China link for Dragon Air was Xiamen in late 1985, followed by Guilin (桂林), Nanjing (南京), and Hangzhou (杭州) in 1986. Haikou (海口) and Kunming (昆明) undertook services in 1987, and Dalian (大連) in 1988. After taking over Dragon Air, Cathay Pacific transferred its Hong Kong-Beijing and Hong Kong-Shanghai links to Dragon Air in 1990. In 1991, Changsha (長沙), Chengdu (成都), and Tianjin (天津) were also connected. More links—including Xi'an (西安) in 1992, Ningbo (寧波) in 1993, Qingdao (青島) in 1996, Chongqing (重慶) and Wuhan (武漢) in 1997, and Fuzhou (福州) in 1998—were also established in the 1990s.⁷ In the process of network expansion,

⁷The development of the Hong Kong-China aviation market after 1979 can be found on Dragon Air's website at <<http://www.dragonair.com/english/corporate/index.html>>.

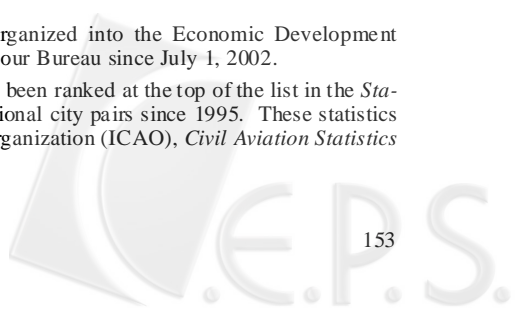
the economy of China and the number of links to Hong Kong grew simultaneously. Flexible charters also performed well and contributed much to market growth. The pattern of market development—from non-scheduled charters to scheduled charters and finally scheduled flights—has been a characteristic of the Hong Kong-China air transportation market.

Two and half years after Hong Kong reverted to Chinese rule, the Civil Aviation Administration of China (CAAC 中國民用航空總局) and the Economic Service Bureau of Hong Kong⁸ (香港經濟局) announced an air service arrangement in February 2000. This arrangement, which is also a form of bilateral agreement, allowed new flights and destinations for Hong Kong carriers and turned all charter flights into scheduled flights. A carrier in Hong Kong could thus operate flights at a much lower cost given economies of scale. The rapidly expanding links between Hong Kong and China also made Hong Kong's air transportation network more complete, and successfully kept the former British colony protected from a possible challenge from Taiwan. This arrangement could possibly change the entire structure of the aviation industry in the Greater China area in the coming decade.

The huge volume of passengers from Taiwan has not only created an air hub in Hong Kong, but also one in Taiwan as well. Taipei-Hong Kong air traffic has ranked number one on the list of all international flights around the world since 1995.⁹ Airlines that operate flights on this special link have an acceptable return on investment, while airports are also enjoying the benefits of having busy carriers. Since the Hong Kong-Taiwan links are economically the most important market to both sides, negotiations of an agreement between Taiwan and Hong Kong have never been easy. From the mid-1960s to the mid-1990s, all flights were operated only

⁸The Economic Service Bureau has been reorganized into the Economic Development Branch of the Economic Development and Labour Bureau since July 1, 2002.

⁹The traffic between Taipei and Hong Kong has been ranked at the top of the list in the *Statistics of Passenger Volume* among all international city pairs since 1995. These statistics can be found in International Civil Aviation Organization (ICAO), *Civil Aviation Statistics of the World 1995* (Montreal: ICAO, 1997).



by China Airlines (中華航空) and Cathay Pacific except for some foreign carriers with the fifth freedom.¹⁰ These two airlines have captured amazing profits in this single market and thus made potential competitors keen to break the entry barrier. For instance, as mentioned above, the 1990 version of the bilateral agreement between Hong Kong and Taiwan was extended seven times before a new agreement was reached in 1996. The major difficulty encountered during the negotiations involved new airlines that desired to enter the market. Another issue was that Hong Kong's sovereignty would be returned to China one year after the new agreement became effective. An agreement extending into the post-1997 handover was very hard to negotiate. Finally in 1996, Dragon Air opened a Hong Kong-Kaohsiung (高雄) link after the company's equity was acquired by CNAC.¹¹ EVA Airways (長榮航空) was also approved to serve Taipei-Hong Kong links with very limited flights.

Meanwhile, Macau also initiated air transportation service by introducing a newly built airport and a new carrier, Air Macau, in late 1995. At that time, Macau was still a colony of Portugal. The only reason Macau established an air transportation service industry was out of desire to earn

¹⁰The term "freedom" refers to air traffic rights granted to foreign nations. The term was formally included in the "Convention on International Civil Aviation" signed on December 7, 1944 after the Chicago International Civil Aviation Conference. There are five degrees of freedom in most bilateral air service agreements. The "first freedom" is the privilege to fly across the territory of a state without landing; the "second freedom" is the privilege to land for non-traffic purpose; the "third freedom" is the privilege to put down passengers, mail, and cargo taken on in the territory of the state whose nationality the aircraft possesses; the "fourth freedom" is the privilege to take on passengers, mail, and cargo destined for the territory of the state whose nationality the aircraft possesses; and the "fifth freedom" is the privilege to take on passengers, mail, and cargo destined for the territory of any other state and the privilege to put down passengers, mail, and cargo coming from any such territory. The 1944 Convention can be found at <<http://www.yale.edu/lawweb/avalon/decade/decad048.htm>>, or in Alexander T. Wells, *Air Transportation: A Management Perspective* (Belmont, Calif.: Wadsworth, 1999), 535.

¹¹The new player was believed to be the PRC government. Since only the Swire group and China Airlines can operate flights in the cross-Straits market, the PRC felt unequally treated and asked to join. After the PRC's China National Aviation Corporation acquired 64 percent of Dragon Air, the 1996 version of the bilateral agreement was finally approved. See Zhonghua jingji yanjiuyuan (Chung-Hua Institution for Economic Research), *Weilai shinian jingji fazhan dui minhang shiye fazhan zhi yingxiang* (The impact of economic development on the development of air transportation on business in the coming decade) (Taipei: Zhonghua hangkong shiye fazhan jiji nhui, 1996), 114-18.



a share of the profits in the cross-Strait market. As will be seen below, the earnings were plentiful.¹²

Both carriers from China and Taiwan have operated flights from different cities to Macau. Although the history of air services between Macau and both China and Taiwan is short, and the air transportation market between China and Macau is not similar, much can still be learned from its cross-Strait transportation experience. First, Air Macau served the Taiwan-Macau-China link with a only single aircraft that had different flight numbers at the end of 1995. The same-flight service shortened the transfer time and attracted many passengers. A few months later, Dragon Air also provided similar services in the Taiwan-Hong Kong-China link. This pattern has been the most significant change in cross-Strait air transportation. Another interesting fact is that Macau is located in China's Guangzhou Flight Information Region (FIR) (廣州飛航情報區). Air traffic to and from the Macau airport cannot avoid flying over the Guangzhou FIR.¹³ A similar situation was a hot issue at the end of 2001 when aircraft flying from Taiwan to Southeast Asia flew over the Sanya FIR in Hainan Province (海南省三亞飛航情報區) due to a route change announced by the International Civil Aviation Organization (ICAO).¹⁴ The anti-terrorist war in Afghanistan in 2001 also caused problems when Taiwanese airlines tried

¹²Air Macau began earning operation revenue within three years after establishment. Even in the worst year during the East Asian financial crisis, Air Macau still made huge profits. In 1999 and 2000, Air Macau's profit was US\$7 million and US\$15 million, respectively, while most carriers in the Greater China lost money in these two years. Compared to the limited initial investment of US\$54 million, Air Macau has done a great job in the market. See the Commercial Department of Air Macau, *Air Macau Saleskit* (Macau: Air Macau, 2000). Also see the financial statement of Air Macau at <http://www.airmacau.com.mo/eng/gen_info/finance/rep2000.htm>.

¹³Macau airport is located in the Guangzhou FIR. Currently all the aircraft movement in Macau is served, or at least monitored, by the Guangzhou FIR. See *Jingji ribao* (Economic Daily News) (Taipei), November 1, 2001, 11.

¹⁴The actual route between Taiwan and Europe via South Asia has been in operation for decades since Taiwanese aircraft are not allowed to fly over China due to the regulations of both sides. Some airlines sought to promote a new route via China during the anti-terrorist war in Afghanistan in 2001 to avoid the risk of being shot. However, this proposal was soon rejected. See *Zhongguo shibao*, December 14, 2001, 13; *Zhongyang ribao* (Central Daily News) (Taipei), November 2, 2001, 6.

to fly over PRC territory in order to avoid dangerous gunfire.¹⁵

The most important issue for Taiwan-Macau air services is that Air Macau is the first PRC airline to provide service to Taiwan. With 51 percent of its shares held by CNAC, Air Macau is an airline controlled by the PRC government. Authorities approved its operations in Taiwan as a "third party" rather than as a Chinese carrier.

These facts have shown the flexibility of Taiwan's policy toward direct flights to mainland China in the mid-1990s. Everything seemed possible and negotiable in 1995. Note that throughout the 1990s, many airlines placed orders for new aircraft that were to be used in the cross-Strait market.¹⁶ However, the deregulation of direct flights across the Taiwan Strait has not yet occurred. The investment in expanding fleet size created huge losses after the East Asian financial crisis in 1997. Those liquidating the aircraft suffered capital losses, and those keeping them have had to bear huge interest payments. Moreover, these excess capacities also ruined domestic market discipline. By not being able to sell in the Chinese market, the nontransferable excess supply has made domestic market fares too low for airlines to survive and created an operational deficit for each airline in Taiwan.¹⁷

Properties of an Air Service Agreement

Air transportation services between Taiwan and Hong Kong have

¹⁵Since November 2, 2001, routes above the South China Sea in the region between China and Vietnam have been reassigned to the Sanya FIR. These routes are crowded given that most aircraft from Northeast to Southeast Asia take these routes. These routes were monitored by Vietnam in the past, but the navigation service was poor. To enhance flight safety, the ICAO decided to reassign this region to China's Sanya FIR in 2001. All aircraft and airlines from Taiwan have therefore had to either receive permission to pass through this region or find another route to their destination. Airlines in Taiwan have yet to get permission, but arguments against granting such permission have also occurred. See *Zhong-guo shibao*, November 1, 2001, 1; *Jingji ribao*, September 12, 2001, 11.

¹⁶*Jingji ribao*, November 8, 1997, 13.

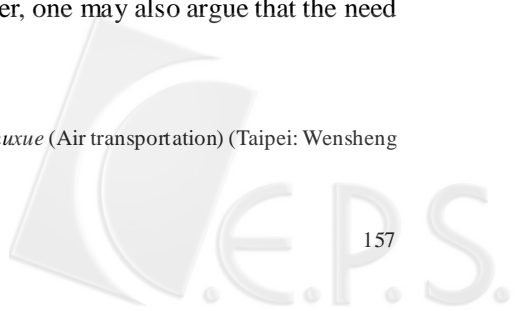
¹⁷Airlines serving Taiwan's domestic market have been suffering operating losses since the mid-1990s. See *Jingji ribao*, February 3, 1997, 17 and December 31, 2000, 16.

lasted for over fifty years, yet there is no official "agreement" between the two regions. No formal document from the first decade of air links is publicly available. Beginning in 1957, Taiwan's Civil Air Transport (民航運輸隊) and Hong Kong's Hong Kong Airways used a contract between themselves rather than an official bilateral agreement between the governments of Hong Kong and Taiwan as the basis from which to provide services in the market. Currently, the contract between Taiwan and Hong Kong is still signed by the airlines instead of the governments from the two sides.

Taiwan's policy in the 1950s was that Hong Kong was a part of China and that the ROC government was the formal representative of China. Such an arrangement solved the problem of bilateral agreements with Hong Kong at that time, since Hong Kong was officially considered a part of the Republic of China. Fortunately, this articulation also solved the problem of Taiwan's status in the 1970s after the ROC was replaced by the PRC in the United Nations. Commercial contracts were broadly used as bilateral agreements for almost half century since many countries acknowledged or recognized Taiwan as a part of China rather than an independent sovereign state. The common belief is that only an independent state has the right to grant traffic rights and commercial privileges to the other states.

Currently there are almost no formal bilateral agreements between Taiwan and other states in the world. There are five different types of bilateral agreements used by the Taiwan government: governmental, semi-official representative, airline, airlines association, and airport.¹⁸ An agreement can be signed by any one of the five parties with a foreign nation's corresponding organization. All organizations involved in the agreement from the Taiwan side are believed to be "informal representatives" of the government. Some argue that the ability to make these kinds of agreements is an acknowledgment of a sovereign state since government bureaus are also involved. On the contrary, however, one may also argue that the need

¹⁸Lin Xin-de and Ling Fong-yi, *Hangkong yunshuxue* (Air transportation) (Taipei: Wensheng shuju, 1997), 84-90.



to use these representatives signifies that the sovereignty of Taiwan is either not recognized by other countries or is infringed upon by the PRC.

Following this ideology in principle, unsurprising is that Macau did not have any official agreement with Taiwan, either. The bilateral agreement was titled a "commercial agreement" (商業協定) and was signed by the Taipei Airlines Association (TAA 台北市運輸業商業同業公會) and Air Macau. Government officials from Taiwan's Mainland Affairs Council (MAC 大陸事務委員會) joined the negotiations in 2001, but the contents of the commercial agreement were not changed.

Similar considerations can also be found in the China-Hong Kong and China-Macau arrangements. "Arrangement" (安排) instead of "agreement" (協定) is used in the two different versions to show that these two places are "special administrative regions" (SARs 特別行政區) with their sovereignty belonging to China. The China-Hong Kong arrangement was settled in 2000, while the China-Macau arrangement was signed in 2001, after their respective sovereignty was returned to China.

In addition to the format of the agreement, some of the contents between the lines of the agreement are also creative. Based on the experiences of scheduled air service agreements, bilateral air transportation agreements can be divided into three different categories:

1. Air navigation, including airworthiness certificates, personnel licensing, and air traffic control
2. Legal subjects, including private law issues and dispute settlement
3. Air transit and transport, as well as other economic matters, including operation of international air services¹⁹

Most items in the first two categories are associated with the positions of both governments; that is why the title "bilateral agreement" is sensitive. To prevent unnecessary disputes regarding these issues, some contents were eliminated or neglected in both the past and current versions of bilat-

¹⁹Marek Zyllicz, *International Air Transport Law* (Dordrecht: Martinus Nijhoff, 1992), 135.

eral agreements between Taiwan and Hong Kong, as well as between Taiwan and Macau.

Current Versions of the Bilateral Agreements Within the Greater China Area

Currently there are four different versions of bilateral arrangements or contracts within the Greater China area. All were negotiated with difficulty, but settled with wisdom. These include the China-Hong Kong arrangement of 2000, Taiwan-Macau agreement of 2001, China-Macau arrangement of 2001, and Taiwan-Hong Kong arrangement of 2002 (see table 1). The Taiwan-Hong Kong agreement has proven the most difficult one to handle.

Taiwan-Hong Kong

The Taiwan-Hong Kong agreement has always been complicated due to both political and economic factors. The billions of dollars of revenue associated with this single link has made this market both attractive and competitive. Moreover, China Airlines and Cathay Pacific have already used the fifth freedom on the Taipei-Hong Kong link for years. This route allows Taipei to connect with Southeast Asia via Hong Kong while Hong Kong can reach Northeast Asia via Taipei. These niches have created amazing profits for both carriers. Other challengers are trying to participate, but have been unsuccessful. However, the best opportunity for participation is yet to come. Minority airlines in the market are seeking to expand their market share with new contracts, while Taiwan is trying to duplicate the Taiwan-Macau model in negotiating a new agreement with Hong Kong. These factors have worked to hinder Taiwan-Hong Kong negotiations.

In 1996, the year when the agreement between Taiwan and Hong Kong was settled, there were some serious political and business conflicts. New entrants tried to break into the market, while the relationship between Taiwan and Hong Kong was not yet well-defined. To solve these problems,

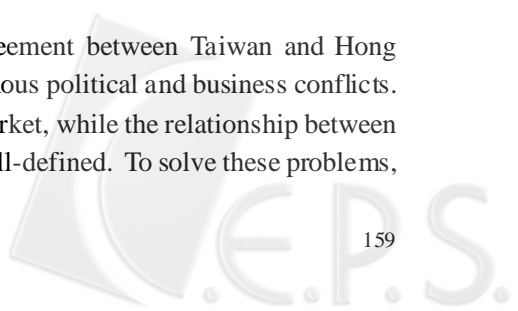


Table 1
Bilateral Air Service Agreements within the Greater China Area

	China-Hong Kong	China-Macau	Taiwan-Hong Kong	Taiwan-Macau
Title	Arrangement	Arrangement	Arrangement	Commercial Agreement
Parties	China: Civil Aviation Administration	China: Civil Aviation Administration	Taiwan: Taipei Airlines Association	Taiwan: Taipei Airlines Association
	Hong Kong: Economic Service Bureau	Macau: Civil Aviation Authority	Hong Kong: Cathay Pacific, Dragon Air, and Air Hong Kong	Macau: Air Macau
Starting from	February 2000	October 2001	July 2002	July 2001
Valid Through	Valid until further notice	Valid until further notice	June 2006	November 2005
Type of Freedoms	1, 2, 3, 4	1, 2, 3, 4	1, 2, 3, 4, 5	1, 2, 3, 4

a version of a multilateral agreement—not between states, but between airlines—was developed. All the carriers in the market (including China Airlines, Cathay Pacific, Dragon Air, and EVA Airways) were involved. One year after the 1996 agreement was reached, the Taipei-Hong Kong link has turned into the busiest route in the world. Five years have passed, and the Taipei-Hong Kong links are still the busiest. As may be expected, new entrants are trying to expand their market share and the political factors involved in this market have proven very hard to settle. After a year of negotiation, Taiwan and Hong Kong signed a new five-year pact on June 29, 2002, to replace the accord inked in 1996.²⁰ For the first time, the term "arrangement" was used between Taiwan and Hong Kong. It seems like the clock has turned back to before the 1996 agreement was reached. The situation was chaotic and complicated; the main difference between now and then is that Hong Kong is part of China and Taiwan has elected a president

²⁰For details of the new pact, see *Taipei Times*, June 30, 2002, 1; *Zhongguo shibao*, June 30, 2002, 1, 3.

from the Democratic Progressive Party (DPP, 民主進步黨).

China-Hong Kong

A similar experience can also be found in the China-Hong Kong agreement of 2000.²¹ This agreement was not only politically meaningful, but also economically critical. After a twenty-year wait, Hong Kong finally received an opportunity to compete with China in a fair market. The better-managed carriers in Hong Kong currently have a chance to improve their business, and the Hong Kong-China market should expand in the short run. The arrangement seems to be a bilateral agreement between Hong Kong and China only, but since Hong Kong has been a gateway to China, the arrangement will also certainly affect the cross-Strait air transportation market.

The importance of a fair competitive environment can be found in the new Hong Kong-China arrangement. Some adjustments have made the network between Hong Kong and China more competitive. In the British Hong Kong government era, carriers in Hong Kong could secure only half the number of flights that the Chinese carriers could. Moreover, some of the links could only be operated by Chinese carriers. Thus, airlines from China had a competitive advantage since they had more frequent flights and convenient services. According to an estimate from the Economic Service Bureau of Hong Kong, the new arrangement made in 2000 will probably increase capacity by 60 percent in the Hong Kong-China market and fares will drop 15 percent. Moreover, some domestic airports will be open only to Hong Kong links. Foreign carriers can hardly compete with Hong Kong-based airlines in such a market.

All airlines based in Hong Kong and Macau that fly into China have already been acquired by the CNAC group. Moreover, their new sovereignty status has turned the China-Hong Kong and China-Macau bilateral agreements from an international into a domestic affair. These changes have created certain limitations for further development of the Hong Kong-

²¹The China-Hong Kong agreement of 2000 is available at <<http://www.edlb.gov.hk/edb/refer/press/020200.htm>>.



China air transportation market. Since the content of the arrangement will be a major factor affecting profit sharing, predictable is that carriers of both Hong Kong and China will design an arrangement that would exclude possible challenges from other competitors.

There are some interesting points listed in the articles of the China-Hong Kong arrangement. Among the seventeen articles, the first is the most important. Art. One states: "Air transport between the Mainland and Hong Kong is specially managed domestic air transport by nature with reference made to the management of international air transport. Documents of international carriage shall be used and in respect of their liability provisions reference may be made to the relevant international conventions." The idea of "by nature with reference made to the management of international air transport" and "reference may be made to the relevant international conventions" is very important to the future of cross-Strait links because it has defined the pattern of air transportation between Hong Kong and China as an international affair. The macroscopic strategies between Hong Kong and China should allay Taiwan's concern of being treated as a provincial entity in terms of negotiating and managing cross-Strait direct flights. Still, there are some phrases used in the articles that remain debatable. The word "domestic" is a good example of a term both sides must clarify before an agreement can be reached.

Taiwan-Macau

Compared to the status of Hong Kong, Macau is not only politically less sensitive, but also economically less important. However, the current agreement between Taiwan and Macau has also caused some unnecessary controversies. During the negotiations, the Mainland Affairs Council, rather than the Ministry of Foreign Affairs or the Civil Aeronautics Administration, joined the negotiation as a team leader for the Taiwanese airlines. However, the PRC does not want to negotiate with representatives of the MAC, a Taiwanese government organization. Some believe that the one major reason China stopped negotiations is simply because Beijing did not want the MAC to get involved in civil business activities.

The content of the Taiwan-Macau agreement of 2001 is the same as

a commercial agreement rather than a bilateral agreement between two governments.²² Economic matters are the only issues addressed in the agreement. Although the Taiwan-Hong Kong agreement faced the same obstacles in the mid-1990s, this less-sensitive agreement between Taiwan and Macau took months to be approved by the MAC of Taiwan.

China-Macau

Four months after the Taiwan-Macau agreement was approved, China signed another arrangement with Macau at the end of 2001. Air transportation services between China and Macau began shortly after the Macau airport was built at the end of 1995. During its five years of operation, there was just one memorandum of understanding between the Portuguese government and China. After Macau was transferred to China, the arrangement between China and Macau was modified (as also occurred in the arrangement between China and Hong Kong) since the old version was signed as a colony of a foreign power, Portugal. Nevertheless, the China-Macau air travel market in 2000 expanded nearly three times over that of 1996.²³ The commercial considerations in the original version were not enough to compensate for the increasing demand. For further development of the air transportation industry in Macau, one solid version of the bilateral agreement was necessary. This was signed in the fourth quarter of 2001 with content that was almost the same as the Hong Kong-China agreement.²⁴

The Market and the Agreement

Undoubtedly, these four arrangements/agreements have had a huge impact on the Greater China market (see table 2). The busiest Taipei-Hong

²²This agreement has been kept "confidential" and is thus not available to the public.

²³The number of passengers passing through the Macau airport was 1.3 million in 1996. The volume grew to 3.8 million in 2001. See Macau airport's website at <<http://www.macau-airport.gov.mo/chinese/news/presrelease.htm>>.

²⁴*Aomen ribao* (Macau Daily News) (Macau), October 17, 2001, B 11.

Table 2
Commercial Matters within Greater China Air Agreements

	China-Hong Kong	China-Macau	Taiwan-Hong Kong	Taiwan-Macau
Basic Rules	Fair and equal opportunity	Fair and equal opportunity	Fair and equal opportunity; fifth freedom; foreign carriers ¹	Fair and equal opportunity
Carriers	Hong Kong: 1 China: 6	Macau: 1 China: 6	Hong Kong: 3 Taiwan: 3	Macau: 1 Taiwan: 2
Frequency	478	100 ²	340	184 ³
Current Links	38	10	2	2

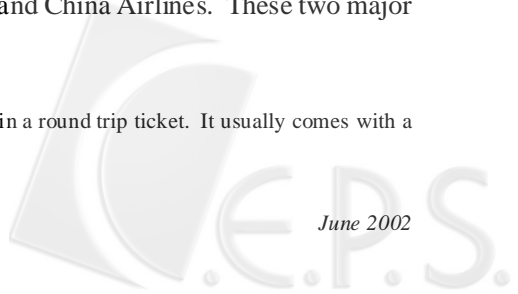
¹Seventy extended flights to Southeast and Northeast Asia are approved by China Airlines and Cathay Pacific. In addition, all the foreign carriers are using the fifth freedom to reach a third destination through Hong Kong and Taipei.

²Service frequencies between China and Hong Kong or China and Macau are calculated based on the schedule of year-end 2001. New agreements have given Hong Kong and Macau some flexibility to adjust their flights to meet the market demand. These numbers vary by season.

³Capacity was controlled by passenger volume instead of service frequency in the Taiwan-Macau links. Passenger volume was set at 22,800 in the beginning and then 30,800 after 2001. The data is available at <<<http://www.airmacau.com.mo/big5/news/news23.htm>>>.

Kong link was the first one to be reshaped. The 1996 version of the bilateral agreement between Taiwan and Hong Kong offered EVA Airways and Dragon Air an opportunity to share the market. EVA is taking the advantage of the dual destinations of both Hong Kong and Macau by applying new marketing strategies to endorse tickets freely between Taipei/Kaohsiung and Hong Kong/Macau. The convenience of the "open jaw"²⁵ ticketing strategy has attracted many passengers and created very high load factors. Meanwhile, Dragon Air is also making a huge amount of profits from the Kaohsiung-Hong Kong market. Dragon Air consistently turned a profit since 1996, including during the East Asian financial crisis. Despite such a strong performance, these two airlines trail the other two major airlines in the market: Cathay Pacific and China Airlines. These two major

²⁵"Open jaw" refers to multiple city pairs within a round trip ticket. It usually comes with a same origin or destination requirement.



carriers have made amazing profits on the Taipei-Hong Kong route with probably the highest revenue per passenger-kilometer (RPK) in the global market. The so-called golden routes in the Taiwan-Hong Kong market have contributed approximately 15-25 percent of the total revenue of both these two airlines;²⁶ this success has attracted many competitors from around the world. Foreign carriers are allowed to share this market. However, compared to the 85 percent market share of the biggest two, all the other carriers are negligible. According to the new agreement signed on June 29, 2002, both Taiwan and Hong Kong will have a third airline company share the new flight routes: Taiwan's Mandarin Airlines (華信航空), which is owned by China Airlines, and Hong Kong's Air Hong Kong (華民航空), which is owned by Cathay Pacific, will join the Taiwan-Hong Kong flight route operation from July 1, 2002.²⁷

Compared to the Taiwan-Hong Kong market, the China-Hong Kong market is even more profitable. During the 1980s, capacity was limited given that China only came to adopt the "reform and opening-up" policy in the late 1970s. As of the 1990s, however, an increasing number of Taiwan travelers to China began to push the old, small Kaitak (啟德) airport to its limits. Air transportation services in Hong Kong did not improve until the late 1990s. In July 1998, the new Chek Lap Kok (赤鱘角) airport, the largest airport in Asia, began operation. Eighteen months later, a new agreement between Hong Kong and China—one that would double the capacity of the market—was finally reached. This arrangement and the new airport were believed to be the salvation of the air transportation industry in Hong Kong. The negative aspects of the market—such as the congested Kaitak airport, inefficient Chinese carriers, uncertainty of the future of Hong Kong, and even conflicts between the United Kingdom and China—have all offered Taiwan opportunities to promote direct flights across the Taiwan Strait and replace Hong Kong as a regional hub in the mid-1990s. Even after most of the problems in Hong Kong have been solved, direct

²⁶See note 2 above.

²⁷See note 20 above.

flights between China and Taiwan could still have a very negative impact on Hong Kong's air transportation industry. According to previous research,²⁸ approximately 33 percent of the current volume in the Taiwan-Hong Kong link will shift to direct flights when the four major nodes—Beijing, Xiamen, Shanghai, and Guangzhou—in China are connected. However, updated data for the year 2000 has shown that doubled service frequency could lead to a maximum demand shift of only 16.5 percent.²⁹ The percentage would be lower if a 15 percent lower fare is considered.

Hong Kong has so far managed to survive threats from Taiwan. The new competitive power of the former British colony derives in large part from its service network structure. By the end of 2000, the flight density of the China-Hong Kong route was four times that of its Taiwan-Hong Kong counterpart. Although most of the aircraft that served the China-Hong Kong market were single aisle planes, the Taipei-Hong Kong link was still the busiest, boasting the highest flight frequencies on earth in 2000. This higher density proves that Taiwanese travelers have had limited impact on Hong Kong's air transportation industry at present. This impact will be even smaller in the future since half of the passengers headed to China via Hong Kong are non-Taiwanese.³⁰

²⁸See note 2 above.

²⁹Zheng-Yi Shon, "The Experiences of Bilateral Air Transport Agreement Between China and Hong Kong: Some Implications for Future Cross-Strait Air Transport Services," in *Proceedings of the 14th Annual Meeting of the International Chinese Transportation Professional Association* (Miami, Florida, April 2001).

³⁰For instance, the number of air traffic passengers between China and Hong Kong/Macau was 3.76 million in 1999. There were 2.58 million Taiwanese visiting China that same year. However, approximately 46.4 percent of the Taiwanese passengers were traveling to the neighboring cities of Hong Kong and Macau according to other studies. These passengers would mostly take ground transportation between Hong Kong/Macau and China since there are no air transportation services between the cities. That is to say, around 1.38 million Taiwanese were taking flights into China in 1999—constituting approximately 36.7 percent of the passengers flying between Hong Kong/Macau and China. For details, see Institute of Transportation, *A Survey Study of Air Passengers from Taiwan Area to Hong Kong/Macau* (Taipei: Institute of Transportation, 1998), 153. For other statistics, see Zhongguo minyong hangkong zongju guihua keji, *Cong tongji kan minhang* (Statistical data on civil aviation of China) (Beijing: Zhongguo minhang chubanshe, 2000), 3 and Zhonghua renmin gongheguo guojia luyouju (China National Tourism Administration), *Zhongguo luyou tongji nianjian 2000* (Yearbook of China tourism statistics 2000) (Beijing: Zhongguo luyou chubanshe, 2000).

The flexibility allowed within the China-Hong Kong arrangement is detrimental to the carriers of other regions. Carriers in the Hong Kong-China market can easily determine their fares and service frequencies when new competitors arrive. This is very different from how the CAAC currently regulates China's domestic market. Thus, the position of Hong Kong as a regional hub and a gateway to China will hardly change. Future direct flights between Taiwan and China will only change the behavior of some Taiwanese travelers as well as a few from other countries.

Two years after Macau was handed over to China, the CAAC moved to protect Macau from the threat of Taiwanese competition with a new arrangement between China and Macau. Unlike Hong Kong, the air transportation industry in Macau has mostly served as a transfer station for cross-Strait passengers. Except for those in China and Taiwan, very few cities are connected to Macau. Direct flights across the Taiwan Strait could, however, possibly ruin Macau's air transportation industry. Thus, the strategy for future development of the air transportation industry in the former Portuguese enclave is to at least be able to break even. Although solely for self-protection, this strategy will still have a negative impact on the cross-Strait market. That the wait for direct flights across the Taiwan Strait has been long bodes well for Macau's minimalist survival strategy. Thus, Taiwan is likely only to lose in the distribution of benefits of direct flights across the Taiwan Strait as time goes by.

In addition to the strategy of different governments and airlines, alliances between different carriers from different states will make the situation even more interesting. Currently EVA Airways has already acquired 10 percent of Air Macau from the CNAC; China Airlines is also trying to merge with the cargo division of China Eastern Airlines (中國東方航空公司). If mergers and acquisition between the different airlines from different states are allowed, a potential China alliance—one that includes Taiwanese carriers—can be expected. Compared to the current "One World" or "Star Alliance,"³¹ the alliance of all the Chinese carriers will be one of

³¹"One World" and "Star Alliance" are currently the biggest global airline alliances. "One

the most powerful in the entire Asian market.

Impact of the WTO

One interesting issue relating to any cross-Strait agreement is the role of the World Trade Organization (WTO). Both China and Taiwan have wanted to join the WTO for decades and both candidates were approved in late 2001. Some believed that the WTO's General Agreement on Trade in Services (GATS) will coerce Taiwan to grant traffic rights to China, but this is not necessarily the case. The air transport service agreement under GATS is a loose or "soft" one, as described by the ICAO. The Air Transport Annex of the GATS has clearly defined the "soft" rights, that is, the liberalization of the following three air transport services: (1) aircraft repair and maintenance services; (2) the selling and marketing of air transport services; and (3) computer reservation system (CRS) services.³² Traffic rights were believed to be of the tight or a "hard" variety that was excluded by Art. 2 of this Annex.

Members of the WTO are required to allow foreign enterprises from any other WTO member to operate maintenance, ticketing, and/or CRS services. Currently, the WTO is still "reviewing the developments in the air transport sector and the operation of this Annex with a view to considering the possible further application of the Agreement in the sector."³³ Nevertheless, the impact of the WTO on the air transportation industry will

World" is composed of American Airlines, British Airways, Cathay Pacific, Finnair, Lan-Chile, Qantas, Aer Lingus, and Iberia. "Star Alliance" is composed of United Airlines, Lufthansa, Singapore Airlines, Air Canada, Air New Zealand, All Nippon Airways, Austrian Airlines, British Midland, Luda Air, Thai Airways, Mexicana Airlines, Scandinavian Airlines, and Tyrolean Airways.

³²The original texts of GATS and the Annex on Air Transport Services is available at the WTO website at <http://www.wto.org/english/docs_e/legal_e/26-gats.pdf>.

³³The viewpoints of ICAO on GATS and the Annex on Air Transport Services can be found at the ICAO website at <<http://www.icao.int/icao/en/atb/ecp/ts.htm>>. Also see Gu Jingyi and Ho Fang, *WTO falu guize yu Zhongguo fuwu maoyi* (WTO regulations and trade in services in China) (Shanghai: Shanghai caijing daxue chubanshe, 2000), 53-56.

be minimal at best, given that traffic rights have yet to be addressed.

There are, however, other influences on the cross-Strait market other than direct flights within the WTO agreement. In addition to the "soft" rights, market access and national treatment clauses as described in Arts. 16 and 17 of the GATS have forced every single member in the WTO to allow other WTO members to hold equity in any firm in the air transportation industry. Any foreign business or individual from a WTO member can easily set up and operate—whether through a joint venture or otherwise—airlines, catering services, ground handling devices, or cabotage services in any other WTO member country. Taiwan and China must thus allow each other's airlines to invest in their airlines or related businesses. Further integration or reorganization of the airline groupings and air transportation industry within China, Taiwan, Hong Kong, and Macau will thus become very possible. The concept of bilateralism will be a challenge for different parties engaged in bilateral negotiations since they might have similar backgrounds and even have the same shareholders. Two interesting cases can be found in the China-Hong Kong and China-Macau negotiations. Since both Dragon Air and Air Macau have already been acquired by the CNAC of China, the commercial matters within these arrangements better resemble a domestic rather than international affair.

The most lasting impact that the WTO will have on agreements across the Taiwan Strait is via multilateralism. The multilateral negotiation structure of the WTO is certainly welcomed by Taiwan since the island is always trying to be treated as an equal with China in international affairs. The mechanisms of the WTO can provide the opportunity for both sides to sit and talk, yet will not guarantee fair negotiations given China's greater influence in both politics and economies around the world. Moreover, the multilateral structure of air transportation has yet to be clarified. However, Beijing holds that all disputes between China and Taiwan are China's domestic affair and should therefore be settled bilaterally, as China desires to prevent possible intervention from foreign nations. Since China has accused Taiwan of dumping in the WTO, China could also use this same mechanism to deal with cross-Strait economic matters. China may accuse Taiwan of blocking traffic rights or other related business opportunities

for Chinese airlines in the future as soon as the air transportation scheme for WTO members is well defined. By then, multilateral negotiations will be a new issue for cross-Strait direct linkages since different parties with their own interests may all enthusiastically get involved.

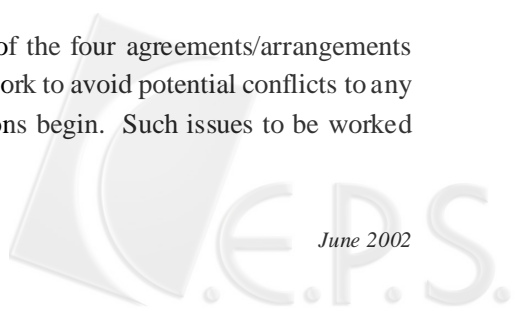
Possible Conflicts and Suggested Solution in a China-Taiwan Agreement

Although there already exist bilateral agreements and negotiation mechanisms within the Greater China area, conflicts in a cross-Strait agreement could still prove numerous and complex. The experiences of past negotiations between Taiwan and both Hong Kong and Macau were hardly pleasant due to both political issues and economic factors.

In both format and content, the arrangement between Hong Kong and China was conducted as a domestic rather than international affair after Hong Kong was handed over to China, especially after both carriers of Hong Kong and Macau were acquired by the CNAC. The arrangements between China and both Hong Kong and Macau were designed to not only enhance passenger convenience, but also to enrich the competitive power of both Hong Kong and Macau. However, the arrangements will also affect profit distribution and human resource planning among different carriers because the CAAC controls most of the carriers in China.

The agreement between Taiwan and Hong Kong has always been a commercial one, as is the current one between Taiwan and Macau. Business matters and not political concerns are found in the content of the agreements. Compared to the domestic China-Hong Kong and China-Macau agreements, the Taiwan versions are much more sensitive. The consensus reached by all parties involved has been to try to stay away from possible political conflicts.

Based on the past experiences of the four agreements/arrangements noted above, China and Taiwan can work to avoid potential conflicts to any settlement before the main negotiations begin. Such issues to be worked out in advance include:



1. Title

The terms "commercial agreement" and "air transportation arrangement" are currently used in the four bilateral agreements/arrangements within the Greater China area. Neither of the current titles is unacceptable to either side. Nevertheless, the title can still be an issue if any party should seek to promote its political agenda. For this simple reason, even the 2002 version of the Taiwan-Hong Kong aviation pact has already used the title "arrangement"; the term "commercial agreement" would still be better than the alternative "air transportation arrangement" since the former is currently used in the Taiwan-Macau aviation pact. The term "air transportation arrangement" currently used in the China-Hong Kong and China-Macau markets could easily be recognized as a domestic document by Taiwan since Hong Kong and Macau both belong to China. The word "commercial agreement" is also a neutral term that could be employed if a delicate solution is necessary; China is already involved in two commercial agreements between Taiwan, Hong Kong, and Macau.

2. Format

Since the title is labeled as a commercial agreement, the content should also refer to commercial issues. That is to say, addressing issues other than the commercial matters of air transportation should be kept to a minimum. This means ignoring necessary subjects such as air navigation and legal issues, as was done in the Taiwan-Hong Kong and Taiwan-Macau air transportation agreements.

3. Foreword

One very special characteristic found in the arrangement between China and Hong Kong is the "foreword" or "preface" paragraph. The foreword can sometimes also be found in other copies of bilateral agreements, yet has never been a critical part and thus has been left out when necessary. The foreword of the China-Hong Kong arrangement mentions that the arrangement was "for the purpose of maintaining Hong Kong's long-term prosperity and stability and its status as an international and regional aviation center, and promoting the development of air transport between the

Mainland and Hong Kong." If a preface similar to this is placed in the agreement between Taiwan and China, the paragraph will make a strong political statement. Since too many political considerations are involved in direct flights issues, the foreword seems unnecessary and should be omitted in order to preempt any meaningless disputes. A complete bilateral agreement can still be maintained even if this part is removed.

4. *Certificate and License*

Although air navigation and legal subjects can be ignored in the agreement, the problems of airworthiness certificates, personnel licensing, air traffic control, private law issues, and settlement of disputes should be verified and discussed. Only international conventions should be applied to cross-Strait links no matter if they are defined as regional or domestic. Since China decided to manage the Hong Kong and Macau markets through the international conventions, as has Taiwan, there is no reason for both sides to disregard this solution. The easiest solution for either side is to accept the other side's licenses and certificates as both currently do under the Taiwan-Hong Kong and Taiwan-Macau links. More difficulties will occur if new licenses or certificates—especially for the pilots, crew members, aircraft, and maintenance sites—from the other side need to be issued. The most difficult situation would be if the validation of the other side's licenses and certificates is denied. All relevant employees will then need to pass examinations or tests to obtain new licenses or certificates in order to operate the aircraft on both sides. Obviously, this testing would take a long time and would disrupt transportation along all direct links. The first option is highly recommended. If there are difficulties with political considerations under the first option, the second option is also acceptable.

5. *Legal Subjects*

One potential political conflict concerns legal issues. Each side's jurisdiction is only partially recognized by the other side. This will certainly cause serious problems when negotiations begin. Conflicts of laws do exist in the international air transportation industry, and a Taiwan-China dispute could be a very difficult one to resolve since Beijing holds that

Taiwan is a Chinese province while Taipei insists that the island is a sovereign and independent entity. If both sides examine sovereignty issues from a legal perspective, direct flights will not take place. Since air transportation between China and Hong Kong is "by nature with reference made to the management of international air transport," a similar arrangement should also be applied to cross-Strait air transportation. Thus, each side should be able to exercise its domestic jurisdiction over its national aircraft. This is probably the one and only solution that would be acceptable to both Taiwan and China. Another important issue that must be dealt with is dispute settlement. Hong Kong and Macau, as "special administrative regions" of China, are different from Taiwan. Both SARs have given decision-making power to the PRC government, an approach that would never be an acceptable way to settle cross-Strait disputes. Establishing one special organization by both the authorities of Taiwan and China to settle all disputes is highly recommended. Although utilizing a third party as a coordinator could be another solution, finding a party that both can trust would likely prove to be quite difficult.

6. Economic Matters

In addition to political considerations, the key issues in any air service agreement would still concern economic matters. The cross-Strait market is a sensitive one, with many factors affecting profit sharing in the market. Such factors—including type of freedoms, destinations, hub selections, service frequencies, and charters—all highly influence an individual airline's success in the world's biggest international air transportation market. Disputes may occur in the following areas: (1) number of destinations airlines from each side are allowed to serve; (2) possibility of both sides receiving the fifth freedom and extending their service to a third nation; (3) possibility for both sides to get cabotage rights and extend their service to domestic cities on the other side; (4) airlines to be included in the agreement; (5) airlines allowed to service a specific route; (6) service frequency on a specific route; (7) possibility for foreign carriers to service the market; and (8) regulations for charter services.

In most cases around the world, a sovereign state is not likely to give

away its cabotage right to a foreign nation. Foreign carriers can only serve the international market with the third, fourth, and fifth freedoms. However, this is not the case across the Taiwan Strait. If both Taiwan and China can be categorized under the "one China" principle, cabotage is negotiable. Foreign carriers would like to see "state-to-state" relations across the Taiwan Strait in order to increase the possibility of serving the market. Unfortunately, economic matters in this agreement are as complicated as political factors. Not surprisingly, this issue could take a long time to resolve.

7. Representatives in Negotiations

Negotiation representatives have been an issue since Taiwan decided to send MAC officers to serve as consultants during the Taiwan-Macau negotiations in 2000. Taiwan even tried to promote these officers as negotiators in the following Taiwan-Hong Kong negotiations of 2001. However, this negotiation strategy would not be acceptable to China in any negotiations on establishing Taiwan-mainland air links since it involves formal contact between the two governments. During the China-Hong Kong and China-Macau negotiations, China, Hong Kong, and Macau all sent officers from related bureaus as representatives—including China's CAAC, Hong Kong's Economic Service Bureau, and Macau's Civil Aviation Authority. Since these bureaus have central-local SAR government relationships, these representatives were quite acceptable to China, Hong Kong, and Macau. However, negotiations between Taiwan and both Hong Kong and Macau focused solely on business issues in order to prevent problems of defining the "relationship" between the representatives. Airline officials and not government officers were the negotiators in the talks before 2000. Since Taiwan decided to include government officers in the negotiation team, the possibility of government-to-government negotiation is also increasing, but will probably not become fully realized. Such arrangements as airlines-to-airlines or authorized representatives-to-authorized representatives are still the simplest ways to avoid most sensitive issues. Unless the relationship between Taiwan and China can be clearly defined, asking for any type of government negotiation is pointless.

Conclusions

The negotiations of air service agreements within the Greater China area have proven one very important issue in the air transportation market: the format and the content of any bilateral agreement critically impact airline revenue, development of the air transportation industry, and stability of bilateral relations. Not surprisingly, a future air service agreement between China and Taiwan will also be a factor affecting cross-Strait relations. Resources among airlines will be reallocated. The competitive power of different cities and airports will quickly be verified. Politics will also factor into such an agreement. There is, however, too little research and analysis on the issue of direct flights across the Taiwan Strait. This topic is thus worthy of further discussion.

This study has provided some information on the agreements and arrangements among China, Taiwan, Hong Kong, and Macau. Any future agreement between Taiwan and China will not be very different from current versions of the agreements with both Hong Kong and Macau. Different parties can at least accept, if are not totally satisfied with, their own current market situation. Both Taiwan and China should use the arrangement or agreement with Hong Kong or Macau as a template for future negotiations. The same conventions used should be accepted and differences should be discussed and adjusted. Still, there is not enough research focusing on the agreements between all parties—Hong Kong, Macau, China, and Taiwan.

As the economy grows in China, future air travel demand within the Greater China area will create the biggest market in Asia. This highly concentrated market will make the eight major airline groups within the market very profitable. Currently, most major factors are still changing and should still be monitored. The strategy used to develop the individual carrier market will also be the biggest variable that might affect each carrier's performance in the coming decade. Some sensitive and critical issues regarding direct flights across the Taiwan Strait might even affect the political stability of both Taiwan and China.

Finally, a regional agreement is one issue left to be discussed. While

the possibility of a multilateral agreement in the Greater China area has not been discussed, multilateral negotiations and agreements are a popular option under WTO mechanisms. The rest of the world has provided successful cases to be studied—such as the AFCAC in Africa, LACAC in Latin America, CACAS and ACAC in the Middle East, and the ECAC in Europe.³⁴ If each state within the Greater China area gives their fifth freedom to any other in the market (as Hong Kong and Taiwan are currently doing), a multilateral agreement can thus be initiated. Airlines from different regions within the area could then start services in any route they desired. A more competitive market would possibly be formed, while a more complex multilateral relationship among China, Taiwan, Hong Kong, and Macau could also be expected.

Direct flights across the Taiwan Strait have been suspended for over half century. Obviously, the political and economic dynamics within the Greater China area could be affected by cross-Strait direct flights. Issues involving the market—including cargo transport, hub and spoke network design and development, and marketing strategies in different states—are undoubtedly important related issues. All should be studied further by academic researchers and policymakers. Air transportation practitioners should also pay more attention to these issues that would certainly affect their future business operations.

³⁴Tang Mingyi, *Xiandai guoji hangkong yunshufa* (Modern international air transport law) (Beijing: Falu chubanshe, 1999), 123-49; Michale E. Levine, "Scope and Limits of Multilateral Approaches to International Air Transport," in *International Air Transport: The Challenges Ahead* (Paris: Organization for Economic Cooperation and Development, 1993), 75-91.

