PEARL RIVER DELTA DEVELOPMENT – OPPORTUNITIES AND CHALLENGES FOR HONG KONG AVIATION

Cathay Pacific recognises the increasing importance of the Pearl River Delta (PRD) region to Hong Kong’s long-term prosperity. The PRD is an emerging market for international air traffic as well as a key growth driver for air travel demand in the area. This has major implications for Hong Kong’s own position as one of the world’s leading international aviation hubs.

Cathay Pacific believes that to defend its position as an international financial centre and aviation hub, Hong Kong must continue to invest in the infrastructure of Hong Kong International Airport (HKIA). The growth of other PRD airports should never be considered as a substitute for the expansion necessary to maintain the competitiveness of HKIA. However, the provision of seamless transfers for passengers between HKIA and major cities in the PRD is an important element in sustaining the Hong Kong hub and maintaining its long-term competitive advantage.

PRD background

The enormous potential of the Pearl River Delta region in southern Guangdong lies in its large population and consumer spending potential. At 54,000 sq km, the PRD is 50 times bigger than Hong Kong and home to 45 million PRC nationals – a population more than six times greater than that of the SAR to the south. Guangdong is the largest provincial economy in China with a GDP of US$455 billion (roughly half the size of the Australian economy).

The PRD has consistently been among the most affluent regions in China with a GDP per capita of CNY 54,721 in 2007, following immediately behind Shanghai and Beijing. In 2007, the average salary in the PRD was CNY 32,949 while the total savings of the region’s residents amounted to CNY 18.5 trillion.

Aviation in the PRD

The PRD is an emerging market for international air traffic and its potential for future growth is substantial. In 2008, more than 1.9 million travellers flew overseas from the PRD, accounting for just 2% of the region’s total population. (By comparison, the number of international travellers in the relatively mature Hong Kong market has already exceeded 60% of the city’s population.) Total inbound international visitors to the PRD, excluding Hong Kong and Macau residents, were estimated to have reached 7.6 million with an annual growth of 8%.

Ambitious goals and plans are now being formulated for the PRD’s aviation industry. As highlighted in the “Framework for Development and Reform Planning for PRD”, released by the National Development and Reform Commission on 8 January 2009, the Central People’s Government foresees a total airport throughput of 150 million passengers by 2020 and is keen to develop three key airports in the PRD, namely Guangzhou Baiyun International Airport (GBIA), Shenzhen International Airport (SZIA) and Zhuhai Sanzao Airport (ZSA).
Guangzhou Baiyun International Airport (GBIA)
Of the three main mainland PRD airports, GBIA is clearly the most important. As of 2007, the airport had 160 destinations, of which 50 were international. In 2008, GBIA’s passenger and cargo throughput reached 33 million and 690,000 tons respectively. There are ambitious expansion plans in the pipeline with the aim of developing GBIA as an international hub. A third runway will be built by 2012 while a second passenger terminal building will be added by 2015. By 2020, GBIA will have five runways, three passenger terminal buildings and three logistics parks capable of handling 80 million passengers and 4 million tons of cargo annually.

Shenzhen International Airport (SZIA)
Compared to GBIA, SZIA has a stronger domestic focus - 77 out of its 90 destinations are within the Mainland - and a much smaller scale of operation. The passenger and cargo throughput of SZIA in 2008 was 21 million and 620,000 tons respectively.

Zhuhai Sanzao Airport (ZSA)
Over the past five years, ZSA’s passenger throughput has seen a growth of rate of more than 10% annually, yet it still only reached 1.2 million in 2008. With a throughput of around just 1,000 tons per year, its cargo operation is minimal.

The combined passenger throughput of GBIA and SZIA alone exceeded the numbers passing through Hong Kong by 13%. And while the cargo throughput of the PRD airports was just 35% that of HKIA, it has been growing at a much faster pace over the past five years. Given their aggressive infrastructure expansion and strong government support, HKIA must work to ensure it maintains its position of hub supremacy.

Connecting Hong Kong and the PRD
With a vision of boosting integration between Hong Kong, Macau and the PRD, three key cross border infrastructure developments are being considered by the governments of Guangdong and the two Special Administrative Regions.

Guangzhou, Shenzhen, Hong Kong Express Rail Link
Upon its completion in 2015 the rail link will reduce travelling time between Hong Kong and the high-speed rail terminus at Shibi near Guangzhou to just 48 minutes, compared to the current two hours it takes to travel between the two cities.

Hong Kong, Zhuhai, Macau Bridge
The bridge will carry a highway connecting HKIA, Zhuhai and Macau with an expected volume of 60,000 vehicles and 250,000 passengers per day. The project will be completed by 2016.

HKIA and SZIA Airport Rail Link (Hong Kong-Shenzhen Western Express Line)
The rail link will connect HKIA and SZIA with an intermediate stop at Qianhai near Shenzhen. One of the options is to connect the rail link with the PRD intercity rail link network, enabling travellers to reach any city in the PRD within one hour.
HKIA as a gateway to the PRD

HKIA has thrived as a result of Hong Kong’s economic growth and has been able to develop into one of the world’s premier international aviation hubs. Aviation makes a significant contribution to the local economy. A detailed study by the Chinese University of Hong Kong (CUHK) showed that aviation contributed over 8.2% of Hong Kong’s GDP in 2007 and accounted for over 7.7% of the city’s total employment. Aviation is vital to sustaining Hong Kong’s current position as an international financial, trading and logistics hub, and the industry will play a key role in ensuring the city’s continued prosperity in an increasingly competitive world.

HKIA’s role as an international aviation hub contributes not only to Hong Kong’s economy but also to China’s economic growth and development. However, to sustain its growth, HKIA must extend its market beyond Hong Kong’s borders to tap into the proximity, affluence and sizable population of the PRD. At the same time, through its established international network, HKIA will also support the industrial and economic growth of its neighbouring region.

Infrastructure to link HKIA to the PRD

To gain access to the PRD’s huge population of potential travellers, and provide seamless transfers between HKIA and the PRD, the development of new transportation infrastructure is crucial. While a railway between HKIA and SZIA would be beneficial, such a link could only maximize its value to HKIA if it was connected into the region’s intercity high-speed railway network.

Cathay Pacific supports the proposal to feature a mid-point railway station in Qianhai, Shenzhen, with PRC immigration, customs and security facilities. If effectively connected to the intercity high-speed railway network in the region, Qianhai station will provide airport access to the 45 million people living in Guangdong Province, including major cities such as Guangzhou, Dongguang and Zhongshan. Equipping Qianhai with immigration and customs facilities is essential for providing seamless transfers and greater convenience for increasingly time-sensitive international travelers.

Seamless and simplified cross-border movements will strengthen economic ties between Hong Kong and Shenzhen and at the same time increase the usage of HKIA by PRD residents. Cathay Pacific supports extending a 24-hour operation to all Hong Kong-Shenzhen border points for passengers and vehicle movements, as well as the co-location of immigration and customs facilities. Multiple entry permits should be granted to all Guangdong residents, not just those living in Shenzhen.

PRD airports no substitute for HKIA expansion

Hong Kong has thrived on its core strengths of being an international financial centre, logistics hub and prime tourism destination. To maintain these core strengths, Hong Kong needs to grow the infrastructure and capacity of its airport to provide for the city’s economic growth. Diverting traffic to other PRD airports will only serve to weaken HKIA’s position as a dominant international hub, which in turn will undermine Hong Kong’s international standing.
The plan to encourage cooperation between HKIA and SZIA will only bear fruit if both airports are able to focus and leverage on their strengths. Given HKIA’s extensive international network and focus on people and service, the airport should continue to invest in its infrastructure and facilities. This will be a perfect complement to SZIA’s focus on connecting with regional hubs and second-tier Chinese cities where there is insufficient demand to justify mounting direct flights from HKIA.

The need for a third runway at HKIA

A third runway is essential for Hong Kong if the airport is to keep pace with the growth in traffic volumes and maintain its position with regards competing hubs in the Asia-Pacific region. While improved slot coordination would improve runway efficiency and usage, this alone would not be sufficient to meet HKIA’s medium term strategic capacity demands.

Hong Kong’s Civil Aviation Department has announced a plan gradually to increase movements on the existing two runways at HKIA to 68 per hour by 2015. This is an improvement on the current 58 movements per hour but still falls far short of what is needed in the long term. Set against the 7% annual growth rate at HKIA over the last decade to 2007, and in spite of the sharp reversal experienced as a result of the current global recession, HKIA will be fully slot constrained throughout the day by 2018. Even if the recovery from the present recession is slow, the likelihood is high that the airport will reach its capacity before a third runway can be built and commissioned.

A rail-link between HKIA and SZIA could never be a viable substitute for a third runway. As illustrated in many major aviation hubs around the world, including London (Heathrow and Gatwick), New York, and San Francisco, split hub operations are avoided by passengers, and fail to generate the required volume of transfer traffic. Passengers always prefer a same airport transfer if it can offer connection to the ultimate destination.

Clearing the way for cargo growth

Hong Kong’s competitive position as the world’s largest international air cargo hub, and its ability to grow the size of that hub still further, is threatened by an historical anachronism: that the current legislative framework does not yet recognise the needs of the substantial market segment of “transshipment” traffic - cargo that travels through Hong Kong for destinations beyond Hong Kong. The current legislation that adversely impacts this segment is framed under the import and export ordinance which, as the names suggests, treats this cargo on the assumption that it is destined for, or originating from, the HKSAR.

In effect this means that cargo which could be carried across the Hong Kong hub often transits via rival regional hubs because, in order for shippers, forwarders and airlines to lure such cargo over Hong Kong, they must adhere to a restrictive regulatory environment of licensing requirements, permit controls and other requirements. In addition, and because this cargo is determined to be of an import
and re-export nature from a legal and regulatory standpoint, it may also be subject to a trade declaration charge if not transported under a through airwaybill.

Rival hubs recognise that this sort of traffic only resides in their territory for a short transit period and that modern day systems allow for accurate tracking and tracing of cargo flows and for accountability to be delegated safely to logistics industry participants. This helps to minimise the bureaucracy and costs involved.

Cathay Pacific therefore supports the position that Hong Kong should be a more transshipment-friendly legal and regulatory environment. Transshipment cargo brings critical mass and economies of scale to the Hong Kong logistics industry and allows that industry to increase the range of destinations, capacity and frequency options offered at a faster rate than if the industry were wholly reliant on its local hinterland for future growth.

At the same time, Hong Kong could further build its competitive advantage over other regional cargo hubs by synchronising its customs clearance and declaration platforms with those of the PRD government. The current incompatibility in information flows, data formats and platform languages has ruled out the possibility of a seamless and automated customs declaration processes across the border. This in turn has hampered the opportunity for any improvements in terms of time and cost efficiency.

**Recommendations and conclusions**

- To defend its position as an international financial centre and an international and regional aviation hub, and thereby contribute to China and Hong Kong’s economic growth and development, Hong Kong must continue to make long-term investments in HKIA’s infrastructure.
- A series of infrastructure and policy improvements is essential to sustain the long-term strategic advantages of Hong Kong and its airport, ensuring there is sufficient capacity at HKIA to meet demand and encouraging the growth in movements between Hong Kong and the PRD.
- A delay in building the third runway at HKIA will create a bottleneck at the airport and limit its ability keep pace with both increased demand and the competitive threat posed by other hubs in the region.
- A revision of the import and export laws together with a synchronization of the customs clearance and declaration platforms between Hong Kong and the PRD is necessary to defend HKIA’s position as a logistics hub.
- The growth of PRD airports should never be considered as a substitute for the requisite expansion of HKIA.
- The provision of seamless transfers for passengers between HKIA and major cities in the PRD will be of great benefit in sustaining the competitive advantage of the Hong Kong hub.

*Cathay Pacific Airways*
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