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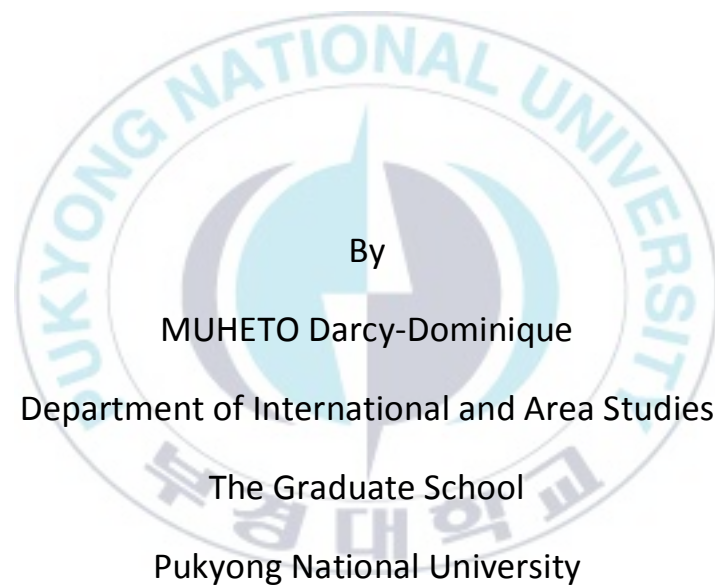
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Thesis for the Degree of Doctor of Philosophy

The Impact of Open-Sky Agreements on Regional Integration. Focused on case studies of the EU and ASEAN



February, 2021

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Regional Integration. Focused on case
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항공 자유화 협정이 지역 통합에 미치는
영향 : EU ASEAN 사례연구를 중심으로

Advisor: Professor Sang Wuk AHN

By

Muheto Darcy Dominique

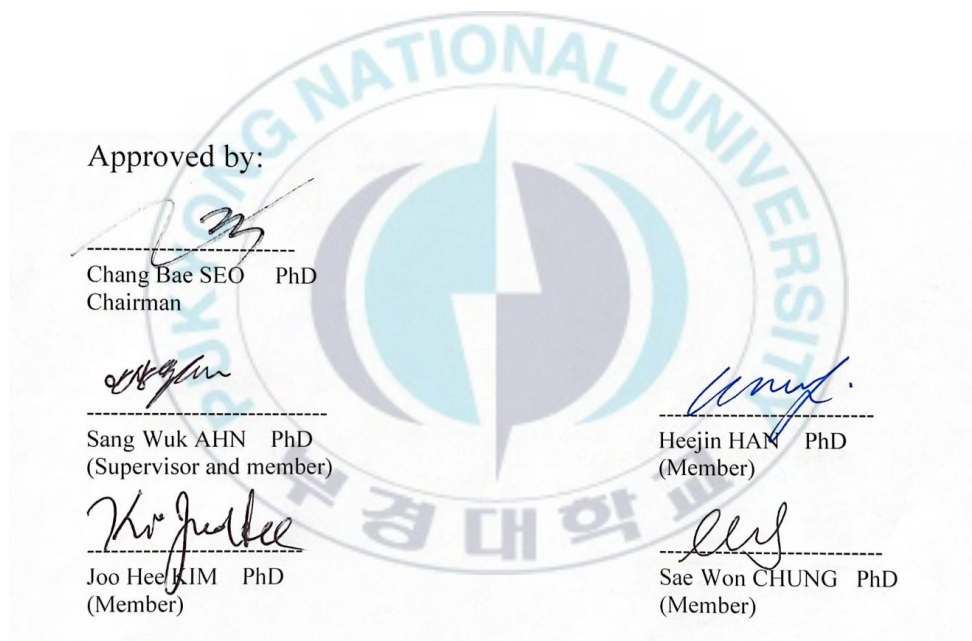
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The Impact of Open-Sky Agreements on Regional Integration.
Focused on case studies of the EU and ASEAN

A Ph.D. Dissertation
By
MUHETO Darcy-Dominique



February 19, 2022

Dedication

Every challenging task requires self-motivation as well as support of loved ones. This thesis is dedicated to the clan SAKUBU and my beloved wife who always stood beside me to accomplish my dreams



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항공 자유화 협정이 지역 통합에 미치는 영향 : EU ASEAN 사례연구를 중심으로

요약

ASEAN 에 항공산업은 지난 십년간 괄목할만한 성장을 거두었다. 국내선 정규항공편 여객수가 2017 년에 10.7%까지 성장했다. 이에 따라서, 아세안 항공시장은 세계의 가장 역내 항공시장이 되었다. ASEAN 이 아직 완벽한 항공자유화를 달성하지 못하였지만, 저 가항공의 역내선 시장점유율이 과거 30% 미만에서 2018 년에는 50%이상으로 성장하였 다. 이것은 역내시장에서 중요한 역할을 하고 있는 회원국 간 Joint-Venture 항공사가 설립된 덕분이다. ASEAN 은 EU 와 포괄적인 항공운송 협정이 거의 완성단계에 있다. 본 논문은 현재 운영되고 있는 항공자유화 단계에서 ASEAN 회원국간 항공사 Joint-Venture 의 효율성에 대해서 분석하는 것을 통해서 아세안 단일 항공시장에 대한 전 망을 내리고 있다. 또한 본 논문은 EU 와 ASEAN 간의 포괄적인 항공운수협정에 포함된 제 6 자유 항목은 EU 와 중동, 중동과 ASEAN 간의 포괄적인 항공운수협정의 제 6 자유 항 목과 경쟁을 할 것인지에 대해서 분석을 하였다. 본 논문은 회원국 간 항공사 Joint-Venture 의 설립이 ASEAN 의 항공 산업의 빠른 성장 에 기여했다는 것을 밝혀내었다.

The impact of Open Sky Agreements on Regional Integration. Focused on case studies of the
EU and ASEAN

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Abstract

Economic integration in air transportation has been an area of interest for some regions. This is observed with the concept of open sky agreements. Open sky agreements have been successful in concept and implementation in European Union, however open sky agreements are still an ongoing project for the ASEAN region. The study offers an analysis on the rationale of open agreement in ASEAN taking the European Union as benchmark. Aviation in ASEAN accounted a remarkable expansion over the last decade. Domestic scheduled traffic passenger grew by 10.7% in 2017, making it the world's largest domestic market. Despite the fact that ASEAN is still not a complete open sky, Low-cost carriers' penetration grew from less than 30% to over 50% in 2018. This was mainly due to the introduction of cross border joint ventures that captured an important share of the domestic market. The purpose of this research is to understand the rationale of a fully integrated sky in ASEAN by assessing the prospects of ASEAN single aviation market. In other terms, the research assists ASEAN in forecasting and achieving the long/short term goals (full integrated sky) by analyzing the effectiveness of cross border joint ventures with the open sky already in place and if the new CATA would contain the sixth freedom carriers as the agreement suggests. The research found that the establishments of cross border joint ventures have contributed to the rapid expansion of ASEAN aviation industry. Their market share within and outside the region proves that joint ventures are indispensable to ASEAN aviation industry regardless of the open sky already in place. With the new Comprehensive air transport agreement between EU and ASEAN, cross border joint ventures might robust the airline industry of ASEAN and presumably there is not much that the comprehensive agreement can do to stem the loss of traffic to the 6th freedom rights. The two regions should not allow the agreement to be based on the sole desire of neutralizing the 6th freedom. They should rather focus on other area of liberalization that stimulate mutual profit such as trading relations and market philosophy.

This research also evaluates the prospect of the comprehensive air transport agreement in regards to the pandemic that tremendously affected the airline industry and found that the airline consolidation, ASEAN-EU CATA will eliminate market access limitations. More ASEAN and EU airlines shall be able to enter existing hub-to-hub operations to compete with the current players, for example the Middle East and Gulf-based operators. The creation of new joint-venture operations should allow competing players on hub-to-hub routes to cooperate and engage in joint marketing and revenue-sharing, which can reduce shares of existing dominant players while at the same time decreasing average travel costs. The entrance of foreign operators into ASEAN domestic air operations should not be seen as a loss of sovereignty. It is a fast and realistic strategy to recover the entire aviation industry while at the same time sustaining connectivity within the ASEAN region to maintain the competitiveness of regional production networks and the attractiveness of the region as an investment destination. The strategy will also increase regional air transport market competition and improve efficiency and bringing down costs. ASEAN countries on the other hand might need to set up cabotage principles that ensure certain minimum of domestic shares ownership of the foreign companies and must elaborate and implement high market entrance standards in areas such as safety and security.

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I. Introduction

Aviation plays a significant role in any economic regional integration.

With the concept of open sky agreements, flights within the region are considered to be domestic. Open sky agreements had great impact in the previous two decades where it has enhanced the aviation industry mostly with the elimination of freedom rights and the growing of low-cost carriers which now have an important share of the market. The only successful region in open sky agreement is the European Union.

The Association of Southeast Asian Nations Open Skies agreements, also known as the ASEAN Single Aviation Market (ASEAN-SAM), intended to expand regional and domestic connectivity; It enhanced regional trade by permitting airlines from every one of the ten ASEAN member states to fly uninhibitedly all through the region; It was done through the liberalization of air services under a single, unified air transport market; ASEAN ratified all the agreements towards a fully integrated sky in April 2017 which however limits to the 5th freedom rights.

Even though it is ostensibly not a totally "single" liberalized market contrasted with what the European Union has accomplished, it flaunts various advantages to the aviation sector and passengers with competitive prices and more options. ASEAN has made great evolvement towards the

liberalization of the sky; However, the process and implementation are still sluggish.

Aviation in ASEAN has experienced a considerable growth in last decade. Domestic scheduled traffic passenger which grew by 10.7% in 2017, making it the world's largest domestic market to North America in 2016¹. Seat capacity registered more than double from slightly over 200 million seats in 2008 to close to 530 million seats in 2018². Growth has been in the high single digits or low double digits most years, making Southeast Asia one of the fastest growing regions. LCCs have captured most of the attention, due to their rapid expansion and massive aircraft orders. LCCs have added nearly 200 million seats this decade, resulting in Southeast Asia's LCC penetration rate increasing from less than 30% in 2008 to nearly 50% in 2018³.

Despite the remarkable growth of the domestic market, ASEAN is still not a complete open sky region. Airlines came up with concept of cross border joint ventures (JV) to access foreign market within the region. ASEAN was a pioneering region in establishing the cross border joint ventures model. There are now 13 cross-border JVs operating in six Southeast Asian countries

¹ <https://www.icao.int/annual-report-2017/Pages/the-world-of-air-transport-in-2017.aspx>.

² <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

³ <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

and several new JVs are planned or are under consideration (Jae Woon, Michelle, 2015, p.231)

The cross-border JV model enabled ambitious airline groups to circumvent airline ownership regulations and expand rapidly throughout Southeast Asia prior to open skies. It is important to note that the model remains necessary for accessing new domestic markets since open skies does not permit foreign airlines to operate domestic services (lee j, 2019, p.186). However domestic competition is already intense and at times irrational, since Southeast Asian airlines have historically prioritized strategic expansion and market share over profitability.

Meanwhile there have been plans for the creation of an ASEAN community carrier, where ownership and control restrictions are removed; circumventing the requirement that majority ownership and control resides with nationals of that country's airline (Alan Khee, 2017). As part of this, ASEAN member states would recognize community carriers designated to operate in each other's countries. The starting point would be amending air service agreements with non-ASEAN countries to recognize these airlines. Many scholars and researchers are arguing on whether these JVs are needed since ASEAN has already an open sky. The suggested ASEAN community carrier would unravel the concept of cross border joint venture as it was done for the case of European Union (EU).

As of April 2019, a comprehensive air transport agreement between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) is nearing completion. The Proposals for an open sky deal between the EU and ASEAN which were first announced in February 2014 would provide a significant boost to air traffic and connect a combined population of 1.2 billion and could generate economic benefits of €7.9bn during the first seven years⁴

1. Purpose of Study

The impetus of this entire research is to understand the rationale of a fully integrated sky in ASEAN in assessing the prospects of ASEAN single aviation market. In other terms, the research would assist ASEAN in forecasting and achieving the long/short term goals (full integrated sky) after analyzing the effectiveness of cross border joint ventures with the open sky already in place and if the new CATA would contain the sixth freedom carriers as the agreement suggests. Research would highlight the impact of joint ventures in the ASEAN aviation industry and the unequal bargaining position that hinders the two regions in their common aviation market. The disproportionateness between the EU full integrated sky and the ASEAN incomplete ASAM will prove the aero-political realities influencing the

⁴ https://ec.europa.eu/transport/facts-fundings/studies_en.

proposed agreement which in return can affect the market share and competitiveness of EU and ASEAN's aviation towards their rivals.

Understanding other variables like the regional disclose, the existence of joint ventures and the plan for the creation of an ASEAN community carrier, where ownership and control restrictions are removed; circumventing the requirement that majority ownership and control resides with nationals of that country's airline (Alan Khee, 2017, p 27) would help formulate a better strategy in implementing a well-established single aviation market. The real kicker would be if the new comprehensive air transport agreement would contain up to the sixth freedom carriers to overcome the fierce competition of the sixth freedom carriers already operating under designed bilateral agreement between EU and ASEAN member states. ASEAN in that case would be amending air service agreements with non-ASEAN countries to recognize these airlines. Many scholars and researchers are arguing on whether these JVs are needed since ASEAN has already an open sky. The suggested ASEAN community carrier would unravel the concept of cross border joint venture as it was done for the case of European Union (EU). The following are a few key objectives of this research:

- Evaluate the open sky agreement in ASEAN and EU
- Explore some of the interesting theoretical contradictions and strives to seek explanations to get a better understanding of the

applicability of the theories to the case of ASEAN open sky integration

- Assessing the relevance of the cross joint ventures already existing in ASEAN and the open sky agreement in place.
- Determine if ASEAN is ready to enter into a comprehensive air transport agreement with the European Union
- Analyze the new comprehensive agreement and if it can contain up to the sixth freedom carriers

In due course, this study explores the possibility of a fully integrated ASEAN open sky agreements despite the loopholes that are hindering the whole process. It also takes into consideration the outcome of the yet to be completed comprehensive air transport agreement with the European Union, the only success of open sky agreement. In regard to ASEAN open sky agreement and the joint ventures operating within the regions and internationally, this study explores the impact of the JV's in ASEAN; in they are still needed or will be indispensable with the agreements between member states. Moreover, it will not only provide credibility to the completion of ASEAN open sky agreement but may also have direct/indirect impact on the strategic implications toward the OSA present and the comprehensive air transport agreement under negotiation.

2. Contextualization

Despite significant growth of the domestic airline industry, Indonesia was hesitant to ratify the ASEAN Open Skies Policy (OSP) until 2016. One of the recent findings exposed the increasing concern over foreign–domestic airline competition with too little attention in exploring airline aspirations and the potential interplay between the airline preferences and the state interest.

Open sky agreements have played a significant role in any region especially in the case of the European Union. Despite the protection of state sovereignty in ASEAN, the path towards liberalization proves that air liberalization contributes to a greater extent in boosting the economy.

A number of studies have focused on measuring the economic impact of the OSP but left the domestic interplay of resistance empirically unanswered. For instance, the study of Hanaoka, Takebayashi, Ishikura, and Saraswati (2014) highlights the relevancies of joint ventures between the low-cost carriers (LCCs) and the full-service carrier (FSC) as a strategy to tackle the potential impact of LCC expansion before and after the implementation of the OSP. To our knowledge, there was continuously growing interest to study the political economy of the OSP in a multilateral perspective. The study of Woll (2012) on EU–US Open Skies has shown that the EU and the UK reluctance to sign the EU–US was to provide a room for competing actors to respond.

Specifically, in ASEAN and Indonesia, the study of Saraswati and Hanaoka (2013) suggests that Indonesia’s reluctance to fully implement the OSP was due to mutual benefit issue that Indonesia might gain from the policy. Indonesia would rather step into the OSP gradually, to provide a

period of adjustment, particularly for the airlines to adapt, as well as for the infrastructures to keep up. Besides, Azalia (2017) argued that ASEAN regional characteristics have affected domestic approach on decision making and the postponement of the OSP implementation itself.

It is in that prospective that the study focusses on the success of open sky agreements in both regions. The ongoing region to region air transport agreements between the EU and ASEAN, will require ASEAN member states to act quickly in order to overcome the fierce competition already existing within the region and outside the region. That is to say that the existing bilateral agreements between ASEAN member states and the EU stand a better position than the new entrants.

3. Problem Statement

Aviation is a key facilitator for any economic integration project, open sky agreement has been meaningful in the aviation sector for the last two decades. The exception is European Union, after full liberalization, all flights within the member states were considered domestic. Open sky liberalization has boosted the aviation industry mostly with the removal of freedom right and the growing of low-cost carriers which now have an important share of the market.

Open sky agreement in ASEAN on the other hand is not a new project even though the liberalization still present some loopholes and restrictions, it has had the same effect as of the European Union; The growth of low-cost carriers since 2001 especially with the emerging of Air Asia has been tremendous. The ASEAN market's potential is impressive; 49 city pairs with population more than one million, within two hours' flight from one city to

another and 30 per cent of these served by only one airline (Hooper 2004:5–6).

Open Sky give prolific conditions in which LCCs can develop in the ASEAN region. LCCs have extended consumer choices and enhanced the efficiencies of airline industries (Forsyth 2005). They have likewise constrained actors to change old rules of the diversion that had a tendency to protect FSCs and their key markets. It is likely that an open sky environment in ASEAN that removes restrictions on designations, capacity and fares will support the development and improvement of the LCCs. Then again, the rise of more LCCs in the region will apply weight for the quickening of the ASEAN Open Sky.

Despite the remarkable growth of the domestic market, ASEAN is still not a complete open sky region. Airlines came up with concept of cross border joint ventures (JV) to access foreign market within the region. ASEAN was a pioneering region in establishing the cross border joint ventures model. There are now 13 cross-border JVs operating in six Southeast Asian countries and several new JVs are planned or are under consideration (Jae woon, Michelle, 2015, p.240)

The cross-border JV model enabled ambitious airline groups to circumvent airline ownership regulations and expand rapidly throughout Southeast Asia prior to open skies. It is important to note that the model remains necessary for accessing new domestic markets since open skies does not permit foreign airlines to operate domestic services (Lee, 2019, P.190).

However domestic competition is already intense and at times irrational, since Southeast Asian airlines have historically prioritized strategic expansion and market share over profitability.

In due course, this study explores the possibility of a fully integrated ASEAN open sky agreements despite the loopholes that are hindering the whole process. It also takes into consideration the outcome of the yet to be completed comprehensive air transport agreement with the European Union, the only success of open sky agreement. In regard to ASEAN open sky agreement and the joint ventures operating within the regions and internationally, this study explores the impact of the JV's in ASEAN; in they are still needed or will be indispensable with the agreements between member states.

4. Problem responses

This section offers some of the other author's suggestion in regards to the incomplete open sky in ASEAN. It gives an insightful review on how ASEAN member states should put more effort toward regional integration and not the benefits of each country.

At the theoretical level, preferences on regional economic integration are formed by a translation process of state interest as well as business interest which stems from the domestic level. In a review of liberal

intergovernmentalism (LI), Schimmelfennig (2015) suggests that European integration was shaped by national preference rather than geopolitical interest. The integration was constructed from the aggregation of domestic preference formation by looking at the possibility of maximizing national welfare. Therefore, political actors would advocate the integration as long as they are convinced that integration could maximize the benefits. LI illustrates that a move towards integration at regional level is a result from common perceptions of economic interdependent among the actors. As from Moravcsik and Schimmelfennig (2009), the most fundamental element that constructs integration is commercial interest with the assumptions that states play a role that conducts policy coordination and bargaining. The member states channel economic preference of producers in alliance with the ruling government's rational choices.

Similarly, Jones (2016) has argued that regional integration can only be possible with a dialogue between economic interests and ruling coalition rather than regional normative approaches. Jones (2016) thus explains in political economic point of view, 'regionalism is contested, its outcome fundamentally shaped by socio-political conflict' (Carroll & Sovacool, 2010 and Jones, 2016 cited in Jones, 2016). Taking some lessons from sectoral integration in ASEAN, Jones (2016) further describes that regional integration is shaped by micro-level conflicts in certain sectors. Thus, the future of

integration is depending on struggles over structural adjustments in each sector that are being negotiated with the dominant economic interests and the politicians.

It is important to note that a traditional approach of aggregating business in a single frame of commercial interest might be problematic because the interest of business might be changing over time, depending on business and political environment at the time the policy was launched vis-a-vis the period of implementation. To frame the business preference, Verdier (1993) posits the Industrial Calculus, 'producers have fundamentally mixed preferences, seeking competition on what they consume but a rent on what they produce. For instance, import sensitive producers can either benefit from lower tariffs on their inputs or from higher tariffs from their outputs'. Chase (2003), on the other hand, has proposed two conditions on whether the businesses as domestic groups would likely to support or against regional trade liberalization. First, when it enables the producers to reach economies of scale and second, when it allows them to operate across borders. Furthermore, Woll (2005) argued that businesses sometimes have to make decisions based on incomplete information and uncalculated moves

A conventional perspective often assumes that the government aims at 'the public interest'. Vaubel (1986) opposed the assumption by asserting that international commitments could further constrain national leaders and

bureaucrats' freedom of discretion. As a result, the actors seek an agreement which potentially satisfies them personally, helps them to gain votes and reduces the cost of losing support by implementing their own favored domestic policies. In other words, the political actors might deny any potential of unpopular domestic policies that were introduced by international agreements.

Mattli (1999) proposed two types of conditions for regional integration to succeed. First, there are significant potential economic gains that drive a market player to demand for regulations, rules or regional policies. Second, the supply conditions must be fulfilled. The conditions are when political leaders have a willingness to accommodate the integration process step by step. Their willingness builds upon the payoff of integration for their political motivation such as retaining power through the betterment of domestic economic condition. However, domestic political willingness is not a sole factor, regional coordination matters to ensure fair economic distribution among the member states in the region. A state would likely to commit for an integration to serve as a focal point of regional policies, as well as to ease the tensions that may arise.

In the context of this research, both regions offer significant results of open skies in the airline industry; However, ASEAN's efforts of open sky

should be geared towards a full ratification of open sky policies on a regional level and not states level.

5. Organization of study

The first chapter covers the basic concepts. The purpose of this whole research is to understand the rationale of a fully integrated sky in ASEAN in assessing the prospects of ASEAN single aviation market. In other words, this research points out the impact of open sky agreements on regional integration. Further it briefly explains the contextualization of this research which comprise of the aspects in which the ASEAN should review its airline integration policy taking the EU as benchmark. It later explains the problem statement and the problem response which encompasses of other authors' response to the matter, followed by the methodology and scope of the dissertation.

In the second chapter, the study shows the conceptual background of the study. It elaborates different paths taken by each region towards the open sky agreements. the aftermath of the open sky is discussed and the impact it had on the aviation industry. Despite the incomplete air liberalization in ASEAN, the existing agreements shows that the airlines industry has boosted since the introduction of open sky policies. Based on the data shown in this part of the research, the introduction of open sky

agreement led to the creation of low-cost carriers which now have an important share of the market.

In the third chapter, the study traces the development of different theories of integration and their applicability in this study. The approach of neo functionalism and liberal intergovernmentalism theories offers an insightful approach to regional integration in both regions whereas inter regionalism and utilitarian theories offer a policy approach and attitudes which can be useful in helping ASEAN achieve a fully integrated sky.

The fourth chapter points out the impact of open sky agreement on the airline industry. The emphasis is on how open sky policies have impacted the market share of airlines, the seat capacity and the aviation industries in each region. It also points out how the EU and ASEAN have responded to the matter despite the loopholes that were hindering the integration process

The next chapter of the dissertation discusses the possibility of a fully integrated ASEAN open sky agreements despite the loopholes that are hindering the whole process. It also takes into consideration the outcome of the yet to be completed comprehensive air transport agreement with the European Union, the only success of open sky agreement. This part of the study also tackles the impact of the soon to be completed EU-ASEAN air

transport agreement in regards to the pandemic that affected the aviation industry.

The last chapter concludes the dissertation. it explains the impact of open sky agreement on regional integration. It describes open sky agreement as a fast and realistic strategy to recover the entire aviation industry while at the same time sustaining connectivity within the ASEAN region to maintain the competitiveness of regional production networks and the attractiveness of the region as an investment destination. The strategy will also increase regional air transport market competition and improve efficiency and bringing down costs. ASEAN countries on the other hand might need to set up cabotage principles that ensure certain minimum of domestic shares ownership of the foreign companies and must elaborate and implement high market entrance standards in areas such as safety and security.

6. Methodology and scope

The research design is achieved by conducting qualitative methods on open sky agreement in the European Union and the Association of East Asian Nations which entails a detailed comparison of open sky agreement in both regions, taking the European Union as benchmark.

This research is based on the two fundamental theories of regional integration; Neofunctionalism and liberal inter-governmentalism. Based mainly on the concept of spill-over which in practice, the spill-over-principle

follows the pattern of a transformation from basic economic collaboration (functional spill-over) into extensive political integration (political spill-over). If ASEAN integration followed similar patterns in the past and should be capable to maintain it if gradual steps are taken. This includes the likes of gaining more authoritative powers from the member states and the emergence of a supranational organization. It means that the formation of the AEC acts as an intermediate step that will be followed up by an economic or political union. Eventually, the organization takes over the leading role from national governments and non-state actors and set the rate of integration. These theories lead to the same goal (integrated sky).

The understanding other variables like the regional disclose, the existence of joint ventures and the plan for the creation of an ASEAN community carrier, where ownership and control restrictions are removed; circumventing the requirement that majority ownership and control resides with nationals of that country's airline would help formulate a better strategy in implementing a well-established single aviation market. The real kicker would be if the new comprehensive air transport agreement would contain up to the sixth freedom carriers to overcome the fierce competition of the sixth freedom carriers already operating under designed bilateral agreement between EU and ASEAN member states.

Further the scope of this study is in threefold: Evaluating Open sky agreement in EU and ASEAN, assessing the relevance of the cross joint ventures already existing in ASEAN and the open sky agreement in place, and determining if ASEAN is ready to enter into a comprehensive air transport agreement with the European Union and if so, analyze the new comprehensive agreement and if it can contain up to the sixth freedom carriers



II. Conceptual Background

Open Skies in ASEAN comprises of liberalization of the aviation routes between ASEAN member countries. It will include removal of capacity control on routes, removal of entry barriers and authorizing ownership arrangements (Reddy, M.A., 1994). These can be expected to lead to efficiency gains in the ASEAN air transport industry, leading to net overall gains in economic welfare. The gains from liberalization will come about from two sources gains from trade, and gains from more competitive markets (Oum, T.H., 1996).

Gains from trade in airline services come about when liberalization leads to airlines best suited to particular routes gaining an increased market share on those routes. Accordingly, the general cost of serving these routes falls, and product quality increases. Under regulation, a high-cost airline will be guaranteed a market share under liberalization, a lower cost airline from a partner country will gain market share (Matthias, 2014).

Gains from competition come about when there is stronger competition between incumbents (which are no longer limited by regulation in the market share they can attain) and from new entrants. Initially, competition puts pressure on prices, and consumers gain at the expense of airlines and aviation producers. In the short run, airlines may not fall, and airlines lose out. In the long run, airlines can be reduced to levels sufficient to ensure

profitability if they cannot, exit of airlines will result in fares rising, though not to original levels.

In practice the competitive process is much less ordered than this suggests, and airline industries experience long periods of poor and good profitability (Doganis, 2001). Competition also stimulates the introduction of new products and the serving of market segments which were not well served before. Thus, the LCCs have stimulated demand from new market segments which the full-service carriers (FSCs) did not serve well before.

The European experience suggests that new entrant LCCs play an important part in the competitive process immediately after liberalization, competition between the FSCs did not increase sharply, and the benefits from liberalization were modest (Civil Aviation Authority, 1998). It was the entry of LCCs which really made a difference to the European market (Lawton, 2002; Williams, 2002).

The main gains and losses will be experienced by the consumers and producers of air transport. However, tourism industries will also be affected by airline liberalization. Lower fares mean more travel, and more business for tourism industries.

1. Open Sky in EU

Various regions have moved towards different types of regional Open Skies aviation markets. The most significant of these is Europe. European liberalization has been a staged procedure, prompting a substantially deregulated internal market. The focus has been basically internal, and the members' country still operates their own air transport policies regarding non-members states. Specific issues have gotten to be imperative, for example, the rising of low-cost carriers. Lawton (2002) and Williams (2002).

The most thorough move towards open skies in a region has been accomplished in European Union. A substantial liberalization was accomplished about years prior. The European Union experience is of direct significance for ASEAN area; however, the outcomes from it cannot as a matter of fact be connected to the ASEAN case

1.1. Background

Before liberalization, E.U for the most part had a restrictive air transport policy. This approach was extended in the bilateral ASAs between the individual countries. Under these agreements, there was constrained degree for competition on most routes, and these routes were dominated by the scheduled airlines. There was an essential special case to this general rule; the charter market (Forsyth2004). In several countries, particularly the UK

and Germany, there was a substantial charter airline industry oriented to carrying passengers from their country of origin to different destinations for holidays, especially those in Southern Europe (Baumgartner2014).

These airlines worked on a low cost, no frills basis, and they were designed to appeal to holiday travelers. The packages they offered were quite restrictive: for example, they would offer a full holiday package, not just the airfare. Later on, the items they offered turned out to be less prohibitive. The impact of these confinements, alongside limitations on the routes they served, implied that they did not compete specifically with the planned airlines. They did give some indirect competition, and on some routes, they had an impact on the fares the scheduled airlines were able to charge. In the main scheduled airline sector, airfares were generally high: fares were higher than in other vast markets such as that of the domestic US market, and airline profitability was lower.

1.2. Path to liberalization.

The European Union case gives an uncommon case of significant liberalization inside of a geographic region (there are samples of open skies agreements between non-contiguous countries). European open skies were not the consequence of states meeting up to network an air transport agreement (EC 2003).

Rather, it was the somewhat unintended result of a broader procedure of economic integration. The countries of the European Union had signed the Treaty of Rome, which incorporates general prerequisites about competition and opening up markets inside of the region it does not indicate airlines liberalization particularly.

The EU additionally has a central service, the European Commission. While individual countries in the European Union had contrasting states of mind to open skies, the Commission favored it (Molders 2012). In 1986, the European court of Justice decided that competition policies were applicable to airline industry. The packages of measures which were implemented were not as a matter of fact those which the individual countries would have consented to during the negotiation process. There were a few pressures for liberalization; for instance, a few states had signed liberal ASAs with different countries such as the US, and were generally well predisposed towards liberalization.

Open Skies occurred in Europe as part of a very extensive liberalization of markets in the region. The EC perceived that full liberalization would not function admirably if forced instantly. Maybe it also recognized that a staged procedure would work best for the region. It additionally perceived that a few exemptions would be allowed for exceptional services for a period, and for some anticompetitive practices.

1.3. Liberalization

The process adopted consisted of three primary stages, yet there were some sub stages, and special cases. The first stage started in December 1987. This took the type of some liberalization of fare setting, alongside an authorizing of capacity controls and some extra market access (xiowen fu 2010).

The June 1990 package included further relaxation of capacity and fare controls, and it introduced multiple designations. The last stage was accomplished in January 1993, and this conveyed to an extremely significant liberalization to air transport markets within Europe. It basically created a single market. It brought an open market access, and fifth, seventh degree and cabotage, for airlines which were majority owned within EU.

Consequently, an Irish owned airline operating out of the UK could offer services between Germany and Italy. The regulatory distinction between charter and scheduled operations was removed. Mergers and alliances would have the effect of monopolizing routes were made more difficult. Measures to open up ground handling and access to airports were also introduced.

1.4. Aviation liberalization

The European Commission (EC) has looked for after and gained more competency to regulate in the area of air traffic control and management (ATM) (Button 2006). This, in turn, must be found with regards to a much more extensive European liberalization agenda, which had officially given the

EC the powers to liberalize air transport and airplane terminals (Dempsey 2005).

To review, air transport liberalization, the so-called "ninth freedom" (which means the competition among the European airlines in Europe) was accomplished in three discrete steps: in the principal Aviation Package (1987) "code-sharing" was authorized and the part of the country states in deciding transport airlines was genuinely restricted. In the second bundle (1990) the supposed "fifth freedom (also known as "cabotage") was presented, implying that the airlines could embark travelers amid a stop while in transit to a third state (kosenina 2013). In the third bundle (1997) the "ninth freedom "was at long last launched. This freedom permits the airlines of a European Member States to work to and from any EU member state, including on local flights (Mc dougall 2006). A European operator license was set up and pricing was totally liberalized. It is this last stage of the air transport liberalization process which has prompted the rise of low cost or rather low-fare airlines, remarkably Ryanair and EasyJet. Low-cost airlines, today represent around 25% of the traffic (Euro control, 2012:21).

Some investigation anticipates up to a 55% market share of the intra-European traffic for the low fare airlines (Wulf et al., 2010). Towards the end of air transport liberalization, three principle parallel measures were taken by the European Commission, all went for supporting competition in the

European air transport segment, by encouraging the access of airlines to key infrastructures and services.

In 1995 the Commission began to manage airplane terminal opening via its regulation 93/1995, which, as such, remains the main bit of European enactment in this matter. The point of this regulation was to offer certain priorities to new entrants with regards to designating newly accessible slots. In any case, after 8 years the viability of this regulation remains much challenged by new entrants, and by specialists (Kosenina, 2013). Capacity stays rare at numerous European airplane terminals at top hours. There is indeed “a shortage of slots at slot restricted airports, which seems to be a hurdle particularly for new entrants” (Kosenina, 2013: 4). The consequence of this situation is that “incumbent carriers are protected from effective competition and that the benefits of the internal market cannot be fully exploited” (Kosenina, 2013: 6).

As a result, the commission is currently proposing new legislation focusing in particular on a slot-trading approach. This legislation, however, has not yet been adopted. In the same context, the market sector for ground-handling of services was opened by EU directive 67 (EC 67/1996). The main purpose of this directive was to make ground-handling of service more cost-effective and in addition to improve their quality. This directive is as of now

being altered by the commission, but the progressions proposed are minor (De Bournonville, 2013).

At last, a set of principles for computer reservation frameworks was presented by regulation 89 in 1999 (EC 89/1999). Its purpose was to "guarantee that the distribution of airline products was neutral and non-oppressive between airline" (EC, 2003). The liberalization of the European airspace called the Single European Sky (SES) is just the latest, yet unequivocal, component of the European commission's flight liberalization agenda.

1.5. Aftermath

For the last two decades, the European aviation has been widely liberalized, at first there was no sensational changes, there were more competition on some routes especially in the most important ones. During the first five years, the region experienced productivity growth, however it was not staggering (Lawton 2002).

There was very little change in flexible fares, and there were a few increments in the higher fares. Some lower fares were offered, yet altogether, numerous more seats at lower fares were made accessible. There was very little change in the structure of the airline industry initially, consolidation had been expected.

There were a couple of mergers and some new alliances were built up, however there was no shakeout. Some of the new alliances had stringent conditions put on them, since they had the potential to be anticompetitive (Button and Stough2000). The huge changes came with the development of the Low-Cost carriers (LCCs). Some of these started before, yet it was not until about five years ago that they started to have much of an impact. Some of these have now turned out to be quite large airlines, with market capitalization more noteworthy than those of the established flag airlines (Forsyth 2008).

They kept on growing fast. Since they had broad systems, they were extensive networks and they were beginning to have an impact on the incumbents. They offered low fares (sometimes very low) and the occupants had been compelled to react. Here and there this has taken the type of offering similarly low fares on a restricted basis. In a few cases, the incumbent airlines have set up LCCs of their own. This strategy does not appear to have been exceptionally effective, and the LCC subsidiaries have been sold off. The major airlines were concerned about competition from the LCCs, and they had experienced difficulties in devising 14 strategies to combat them. Competition from LCCs is a factor in the poor profitability of the full carriers, though they are not the sole cause.

The impact of the LCCs has been particular, since they have not been covering the entire of the European market. To date, the most grounded airline has been those based in the UK, and latterly, Germany. They are now a competitive force in more than half the market, and their networks are expanding (Forsyth 2004). A single LCC can make a considerable difference to fares, especially at the lower end of the range. Thus, airline competition does not need to be characterized by large numbers of airlines for it to be working.

1.6. Emergence of Low-Cost Carriers

The liberalization of the EU air transport was systematically implemented through three progressive stages of legislation between 1988 and 1997. Full implementation took place in 1997 and all EU airlines could use practically all routes within the 15 member countries by then, and Iceland, Norway and Switzerland later in 1998. The resulting amplifications of the union in 2004 and 2007 have included a further 12 states, generally in central and Eastern Europe, to the single aviation sector. To start with in North America, then in the EU and, now, somewhere else in the world, the sensational development of LCCs has been the most imperative result of liberalization (Francis, 2006).

The low-cost model was spearheaded by Southwest Airlines in the United States and has been generally copied by other north American, European and now Australasian airlines (Graham and Goetz, 2008). In

exploiting the determined demand for air transport by selling mobility at low cost, the LCCs are advancing behavioral changes in leisure and travel designs. The meaning of a European LCC is somewhat questionable, the member incorporates airlines extending from the Irish state airline, Aer Lingus, (which has changed itself into a "predominant" LCC) through previous sanction airlines, for example, Air 15 Berlin which have now entered the planned market sector, to the devoted low-cost administrators, for example, the market sector pioneers, Ryanair and EasyJet.



Figure 1: European LCCs

Some leading European low-cost carriers, 2006

LCC	Home country	RPK (million) ^a	Passengers carried (million)
Ryanair	Ireland	40,118	42.5
EasyJet	UK	27,608	28.0
Air Berlin	Germany	24,450	19.7
Thomsonfly ^b	UK	24,019	9.6
Monarch ^b	UK	14,642	5.8
Aer Lingus	Ireland	13,363	8.6
Transavia	Netherlands	10,397	5.1
Germanwings	Germany	5956	7.1
Norwegian	Norway	4223	5.1
Jet2.com	UK	3740	2.8
Bmibaby	UK	3499	4.1
Hapag-Lloyd express	Germany	3489	4.6
Vueling	Spain	3253	3.5
Flyglobespan.com	UK	3028	1.3
SkyEurope	Slovakia	2801	2.6
Flybe	UK	2500	4.5
<i>Comparator network carriers</i>			
British Airways	UK	112,851	33.1
Lufthansa	Germany	110,330	53.4
Iberia	Spain	52,493	27.8

Source: Airline Business, August (2007).

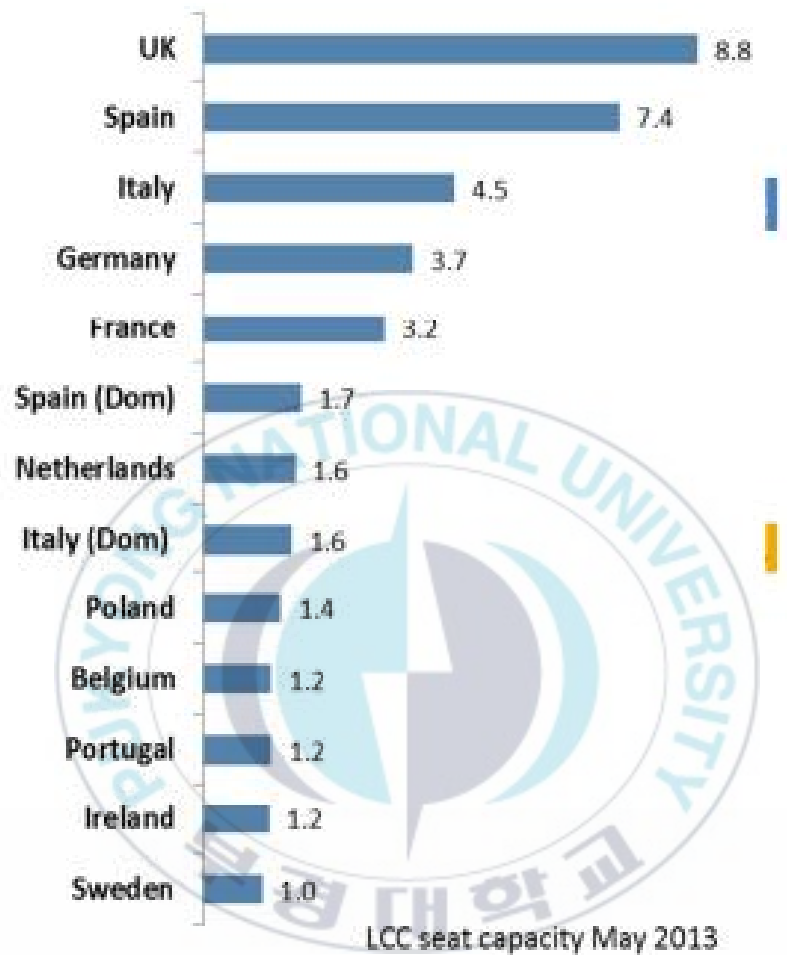
Especially since 2001, the European low-cost sector has pulled in a large number of new entrants; it is assessed that around 50 LCCs were working in 2005. Gaining by their "first-mover" advantage (Francis, 2006), Ryanair and EasyJet conveyed 42.5m and 28.0m travelers, individually in 2006, setting both on the world's main 20 airlines by this measure. In round terms, LCCs represented around 20% of all European air traffic in 2005, despite the fact that this rise to around 50% the British Isles–continental Europe market, while

the area's development rate is much more prominent than that of the system airlines. Ryanair and EasyJet had 31% and 26%, separately, of LCC seats in the mid-year of 2006 (AEA, 2006).

In addition, expanding the utilization of benefits, Dogbanes (2001) recognizes three other basic zones in cost reduction. To begin with, labor unit airlines (which represent somewhere around 25% and 35% of aggregate expenses) must be contained and the efficiency of that labor expanded. Furthermore, airlines themselves need to implement e-market deals, ticketing and conveyance (15–20% of aggregate expenses). Finally, airlines can be further decreased through operational and service changes including: diminishments in cabin crew (and staff); outsourcing of maintenance; and increase airline utilization.

Doganis gauges that a LCC can work reasonably at 40–50% of the unit cost of the normal network carrier. LCCs have unit airlines up to 60% lower than network carrier accomplished through an arrangement of working frameworks. The development of LCC in EU has been exceptionally noteworthy throughout the previous two decades, this is seen from the number of seats capacity expanding and in addition the domestic routes.

Figure 2: EU countries LCC seats capacity (millions)



Source OAG 2013⁵

As indicated by OAG (May 2013) LCC have LCC capacity inside Europe, by Contrast, has developed at an average rate of 14% every year, and the main state is UK. The UK has the biggest LCC market in Europe, with 8.8 million International LCC seats in May 2013, more than twofold seat capacity of 10

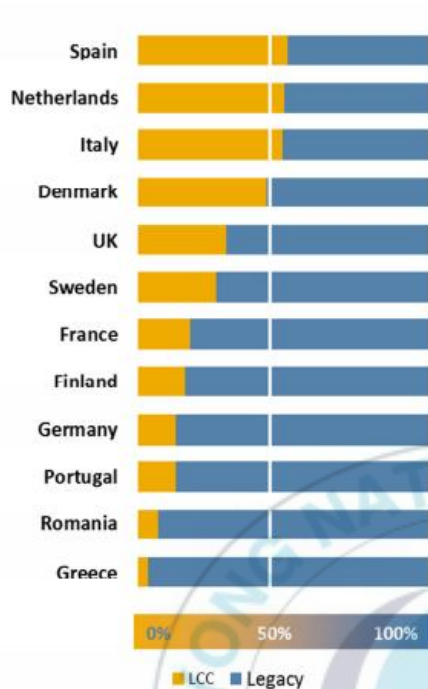
⁵ OAG fact-May 2013 (OAG 2013:3)

years prior in 2004. The UK's worldwide LCC capacity saw development of 15% versus last May in huge part because of critical development from Ryanair and EasyJet who by and large added 779,000 seats contrasted with last May more than balancing the loss of bmibaby's global capacity of 202,000 last May (OAG, May 2013).

Spain LCC's have likewise made tremendous growth with 7.4 million global seats Spain has the biggest local LCC market in Europe, with 1.7 million seats in May 2013. LCCs dominated the air transport market in Spain where they have 51% of local and 54% of global capacity. Of the bigger European states, Spain is the one and only where LCCs have more than half of both universal and residential markets (OAG, May 2013).



Figure 3: EU countries LCC vs FNCS

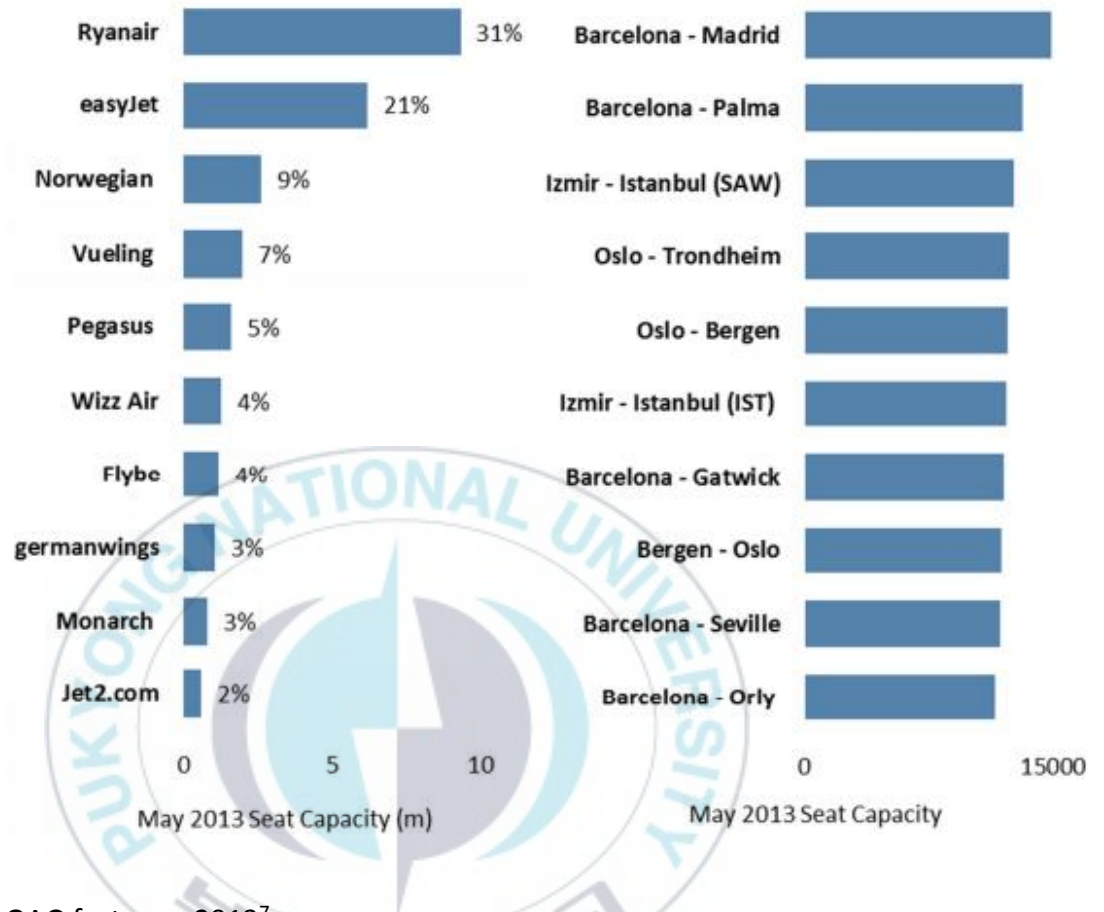


Source: OAG 2013⁶

When it comes to airlines and routes Ryanair remain the dominant LCC airline for Within Europe capacity. With 9.3 million seats in May 2013, they represented nearly one third of all LCC seats.

⁶ OAG fact-May 2013 (OAG 2013:4)

Figure 4: Top 10 LCC airlines per seats capacity and routes by capacity



Source: OAG fact-may 2013⁷

Brian Graham in “Environmental sustainability, airport capacity and European air transport liberalization: irreconcilable goals?” analyzed the growth of LCC traffics at some principal airport and found out that from 1996 to 2015, due to the increase in traffics and seats capacity EU will have to ameliorate its infrastructures, in other word the growth of LCC and air transport liberalization are reconcilable.

⁷ OAG fact-May 2013 (OAG 2013:6)

Table 1: EU airport capacity 1996-2015

Airports	1996	2015	% increase
Amsterdam	86	140	62.8
Athens	32	80	150.0
Barcelona	30	55	83.3
Brussels	60	80	33.3
Copenhagen	69	89	29.0
Dusseldorf	36	65	80.6
Frankfurt	70	100	42.9
London Gatwick	43	48	11.6
London Heathrow	82	85	3.7
Madrid	43	50	16.3
Munich	70	110	57.1
Paris CDG	76	120	57.9
Paris Orly	70	80	14.3
Rome Fiumicino	56	70	25.0
Stockhol Arlanda	66	100	51.5
Zurich	60	100	66.7
Median			47.2

Source: Brian Graham 2015⁸

One important study (CAA, 2006) has challenged a few regular assumptions concerning LCCs. Regardless of their quick growth, it discovered

⁸ Brian Graham in "Environmental sustainability, airport capacity and European air transport liberalization: irreconcilable goals?"

little proof that, in total terms, LCCs have "essentially influenced general rates of traffic development" which have remained genuinely consistent at 5–6% for each annum since the mid-1990s (CAA, 2006, p. 3). Singular airports may indicate high-rate increments in traffic (regularly from low bases) yet LCC development has been to the detriment of the network carriers and, considerably all the more along these airlines, Subsequently the key step-change is not development essentially but rather the accessibility of low and unlimited fares, arrival of latent demand at regional airports and an exceptionally impressive expansion in the choice of destinations and airports

The liberalization of EU aviation has understood the potential for direct non-stop air routes on city-pair once in the past served by connecting services through hub while the provisions of new services has opened the inactive demand from travelers needing to go from nearby airplane terminals (CAA, 2005). One evident service differential, be that as it may, is the airport served. Ryanair frequently utilizes auxiliary airplane terminals situated at some distance (100 km and no under 120 km, separately, in the instances of Frankfurt Hahn and Oslo Torp) from the urban areas they imply to serve.

These are plainly extremely price sensitive especially with the consumer that trade off the low-cost airlines to full carriers. In contrast, Ryanair's competitors, for example, EasyJet and bmibaby for the most member utilize the primary airplane terminals serving each of their destination city (space

accessibility allowing). Given a choice, in any case, there is next to no proof to recommend that travelers are ready to pay a cost premium for extra service elements, for example, more available however costly airplane terminals which, in addition, increase airline cost.



Figure 5: European Union Air Transportati



Source IATA 2013⁹

⁹ Association of European Airlines Ascend, International Air transport Association, air companies, own estimates p.54

2. Open sky agreements in ASEAN

The ASEAN was established on August 8, 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei later joined in 1984 followed after by Vietnam (1995), Laos and Myanmar (1997) and finally Cambodia (1999) ASEAN Secretariat, 1996. ASEAN was framed to accelerate economic growth, social progress and cultural development in the area, and promote regional peace and strength (Leonard, H., 1997). The most significant boost to trade inside of ASEAN was the choice of the Fourth ASEAN Summit in 1992 to build up the ASEAN Free Trade Area (AFTA) by 2008. The Economic Commission was all abrogated and the Senior Economic Officials Meeting (SEOM) was organized as the component to direct all parts of financial cooperation (Oum, T.H., 1996).

In September 1994, the ASEAN member countries consented to accelerate the establishment of AFTA by reducing the initial timeframe to 10 years; that is by 2003 (Pearson, A., 1997). The essential target of AFTA is to ameliorate ASEAN's position as a competitive production base designed towards servicing the global market. This was to be accomplished through the expansion of intra-ASEAN exchange, making conceivable both greater specialization and economies of scale. In addition, AFTA aims to energize foreign direct investments in the region. ASEAN is rising as a single market.

Liberalization of trade and investment is coordinated closely with the development of transport infrastructure, to facilitate the movement of goods and people (Jariyasombat, 1997). An interconnected, effective, multimodal transport system will help accelerate trade growth within ASEAN and reduce transaction airlines in trade. On the other hand, poor transport planning can prompt bottlenecks with critical negative financial outcomes through blockage, late conveyances and eventually loss of business. Reforms are implemented based on consensus by all members.

2.1. Background

The move towards open sky is embodied in various ASEAN declarations. In 1995 the ASEAN leaders received the Agenda for Greater Economic Integration in Bangkok which incorporated the improvement of an Open Sky Policy as a region of collaboration in the Plan of Action for Transport and Communications (1994–1996).

The ASEAN Vision 2020 arranged in 1997 went for manufacturing closer monetary combination inside of the area. Besides, the Successor Plan of Action in Transport 1999–2004 distinguished improved administrative and rivalry approach alternatives for the ASEAN common avionics part as one of its key pushes (ASEAN, 1999). It intended to advance a more aggressive environment for air transport administrations and operations, by method for liberalization activities and assertions that may be a progressive step towards

an open sky policy in ASEAN. In particular, it required the accompanying: (a) improvement of the liberalization strategy for airship cargo administrations; and (b) reception of more liberal and adaptable air administrations plans, at first in the ASEAN sub-territorial groupings like Brunei–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA), and the Cambodia–Laos–Myanmar–Vietnam bunch (CLMV). In 2001, the ASEAN Transport Ministers at the seventh Air Transport Meeting (ATM) consented to dispatch a territorial activity for the dynamic and staged liberalization of air administrations in ASEAN, by giving more noteworthy business sector access, adaptability and capacity in air administrations operations. The ASEAN Memorandum of Understanding (MOU) on air freight Services marked in September 2002 is an initial move towards the full liberalization of airship cargo administrations in ASEAN.

During the previous 10 years, the ASEAN Air Transport Working Group (ATWG) developed the "Roadmap for the Integration of ASEAN: Competitive Air Services Policy" the liberalization steps and indicative implementation timeframes which was endorsed by the ninth ATM in Myanmar in October 2003. Taking after on from the ASEAN leaders' mandate to accelerate the integration of the air travel and tourism areas, the Ministers guided their authorities to build up regional action plan for staged and progressive implementation of open sky arrangement in ASEAN and to prepare an

updated transport co-operation plan for 2005–2010 for the adoption of the 10th ATM. for the appropriation of the tenth ATM.

An exceptional meeting on ASEAN open sky held in Ho Chi Minh City in February 2004 delivered a draft outline for the ASEAN Action Plan and approved during the ninth ATWG Meeting in Manila in March 2004. This outline drew on a Report to the ASEAN Secretariat to which the present authors contributed (Monash International, 2004). ASEAN Open Sky includes involves internal regional liberalization. It does not include liberalization of routes between ASEAN members and non-members countries. This is a vital issue which stays to be taken care of on a bilateral basis.

2.2. Rationale for open sky

Open Skies in ASEAN comprises of liberalization of the aviation routes between ASEAN member countries. It will include removal of capacity control on routes, removal of entry barriers and authorizing ownership arrangements (Reddy, M.A., 1994). These can be expected to lead to efficiency gains in the ASEAN air transport industry, leading to net overall gains in economic welfare. The gains from liberalization will come about from two sources gains from trade, and gains from more competitive markets (Oum, T.H., 1996).

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product quality increases. Under regulation, a high-cost airline will be guaranteed a market share under liberalization, a lower cost airline from a partner country will gain market share (Matthias, 2014).

Gains from competition come about when there is stronger competition between incumbents (which are no longer limited by regulation in the market share they can attain) and from new entrants. Initially, competition puts pressure on prices, and consumers gain at the expense of airlines and aviation producers. In the short run, airlines may not fall, and airlines lose out. In the long run, airlines can be reduced to levels sufficient to ensure profitability if they cannot, exit of airlines will result in fares rising, though not to original levels. In practice the competitive process is much less ordered than this suggests, and airline industries experience long periods of poor and good profitability (Doganis, 2001).

Competition also stimulates the introduction of new products and the serving of market segments which were not well served before. Thus, the LCCs have stimulated demand from new market segments which the full-service carriers (FSCs) did not serve well before. The European experience suggests that new entrant LCCs play an important part in the competitive process immediately after liberalization, competition between the FSCs did not increase sharply, and the benefits from liberalization were modest (Civil Aviation Authority, 1998). It was the entry of LCCs which really made a

difference to the European market (Lawton, 2002; Williams, 2002). The main gains and losses will be experienced by the consumers and producers of air transport. However, tourism industries will also be affected by airline liberalization. Lower fares mean more travel, and more business for tourism industries.

2.3. Airline liberalization in ASEAN

The proposal for an effective “open skies” regime for ASEAN had been mooted as early as 1995 by the ASEAN leaders’ summit held in Bangkok, Thailand (Forsyth et al., 2006). The discussions have since taken place in the larger context of greater economic integration across all sectors through the harmonization of trade and investment policies.

In this regard, air travel is but one of 12 designated priority sectors for economic integration in the region. It is an important component in the proposed establishment of an ASEAN Economic Community (AEC), itself targeted to be in place by 2015.² In November 2004, the 10th ASEAN Air Transport Ministers’ Meeting in Phnom Penh adopted an Action Plan for ASEAN Air Transport Integration and Liberalization 2005–2015 (ASEAN, 2004).

The Action Plan, together with a document known as the Roadmap for Integration of Air Travel Sector (RIATS), laid down the target 2015 date for achieving an effective “open skies” regime for the region. The following goals and deadlines were identified (ASEAN, 2004):

- (i) for air freight (cargo) services, significant liberalization by 2006, and full liberalization by 2008;
- (ii) for scheduled passenger services:
 - Unlimited third and fourth freedom flights for all designated points within ASEAN sub-regions by 2005, and for at least two designated points in each country between the ASEAN sub regions by 2006;
 - Unlimited fifth freedom traffic between designated points within the ASEAN sub-regions by 2006 and at least two designated points in each country between the ASEAN sub regions by 2008; unlimited third and fourth freedom flights between the capital cities by 2008;
 - Unlimited fifth freedom flights for the capital cities by 2010. Several ASEAN members states have concluded agreements among themselves that are narrower in scope.

For instance, Singapore, Thailand and Brunei are parties to the 2004 Multilateral Agreement for the Liberalization of Air Passenger Services (MALPAS). This agreement followed on an earlier agreement adopted in February 2004 by the same three countries for the liberalization of cargo services. The MALPAS Agreement accords unlimited third/ fourth freedom rights (but not fifth freedom rights) to all carriers designated by the state parties. As for ownership and control requirements, MALPAS retains the

traditional “substantial ownership and effective control” rule, necessitating majority ownership (more than 50%) and effective control by the designating state and/ or its nationals (Tan, 2006). Separately, Cambodia, Laos, Myanmar and Vietnam had adopted a Multilateral Agreement on Air Services in December 2003. Known as the CLMV Agreement (after the initials of the state parties), this Agreement is more far-reaching in providing for unlimited capacity and traffic rights among all designated carriers from the state parties, including third, fourth and fifth freedom rights.

Table 2: ASEAN integration protocol

	Implementing Protocols
MAAS 2009	Protocol 1. Unlimited third, fourth freedom traffic rights within the ASEAN Sub-region.
	Protocol 2. Unlimited fifth freedom traffic rights within the ASEAN Sub-region
	Protocol 3. Unlimited third, fourth freedom traffic rights between the ASEAN Sub-region
	Protocol 4. Unlimited fifth freedom traffic rights between the ASEAN Sub-region
	Protocol 5. Unlimited third, fourth freedom traffic rights between ASEAN capital cities
	Protocol 6. Unlimited fifth freedom traffic rights between ASEAN capital cities
MAFLPAS 2010	Protocol 1. Unlimited third, fourth freedom traffic rights between any ASEAN cities

Protocol 2. Unlimited fifth freedom traffic rights between any ASEAN cities

Source: MAAS and MAFLPAS Agreements

2.4. Current status

In this section we will analyze the current status of liberalization in ASEAN, assess whether it has fully implemented all that is stated in MAAS and MAFLAS and evaluate the outcomes to date.

2.5. Implementation of protocols.

What is to be pointed out here is the ratification status of ASEAN member states toward implementing protocols of MAAS and MAFLPAS. As explained before, the protocols require market access relaxation among cities in ASEAN, and these protocols must be individually accepted by member states. It is important to note that open skies in ASEAN require the ratification or acceptance of a minimum of three states before it can enter into force, and it is only among those states that have ratified or accepted it.

As of July 2013, not all 10 member states have accepted and ratified the protocols of MAAS and MAFLPAS as shown in Table 1 and 2. The parent agreement of MAAS and the implementing Protocols 1 to 4 have been ratified by all member states; however, Protocols 5 and 6 have not been ratified by Indonesia and Philippines. As of MAFLPAS, only seven member states have ratified the agreement and protocols. Cambodia, Indonesia, and Laos have not ratified the parent agreement and the two implementing protocols

Table 3: Ratification of MAFLAPAS by July 2013

Memb er	Bru nei	Camb odia	Indon esia	La os	Mala ysia	Philip pines	Singa pore	Thail and	Viet nam
MAFL APAS	✓	X	X	X	✓	✓	✓	✓	✓
Protoc ol1	✓	X	X	X	✓	✓	✓	✓	✓
Protoc ol2	✓	X	X	X	✓	✓	✓	✓	✓

Source: ASEAN Secretariat (2013)

Table 4: Ratification status of MAAS by July 2013

Memb er	MA AS	Protoco le1	Protoc ole2	Protoc ole3	Protoco le4	Protoc ole5	Protoco le6
Brunei	✓	✓	✓	✓	✓	✓	✓
Cambo dia	✓	✓	✓	✓	✓	✓	✓
Indone sia	✓	✓	✓	✓	✓	x	x
Laos	✓	✓	✓	✓	✓	✓	✓

Malays ia	✓	✓	✓	✓	✓	✓	✓
Myanm ar	✓	✓	✓	✓	✓	✓	✓
Philippi nes	✓	✓	✓	✓	✓	x	x
Singap ore	✓	✓	✓	✓	✓	✓	✓
Thailan d	✓	✓	✓	✓	✓	✓	✓
Vietna m	✓	✓	✓	✓	✓	✓	✓

Source: ASEAN Secretariat (2013)¹⁰

In terms of air traffic volume, it is clear that Protocols 5 and 6 in MAAS have much greater significance as these cover the capital cities (i.e., Bandar Seri Begawan, Phnom Penh, Jakarta, Vientiane, Kuala Lumpur, Yangon, Manila, Singapore, Bangkok, and Hanoi).

To see the impact of protocols in ASEAN, it is of great importance to evaluate the two extreme cases of open sky liberalization in within ASEAN,

¹⁰ ASEAN Sub region: Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA Cambodia-Laos-Myanmar-Vietnam (CLMV)

that is the liberalization in sub regions (BIMP-EAGA) and liberalization in main cities (Singapore and Kuala Lumpur.)

a. BIMP- EAGA liberalization (protocol 1, 2)

Officially launched in 1994, the BIMP-EAGA cooperation was created in order to participate in the abduction of poverty in less developed countries within the region. The main objective of this cooperation was to increase trade, promote investments and tourism in the sub region which is mainly composed of island economies of Brunei; North, Central, South and Southeast Sulawesi, Central, East, West and South Kalimantan, Maluku and Irian Jaya in Indonesia; Sabah, Sarawak and Labuan in Malaysia; and Mindanao and Palawan in the Philippines.

In 2007, the BIMP-EAGA Transport Ministers came to three transport understandings mainly aimed at facilitating cross-border air, sea and land connectivity which incorporates the landmark open skies agreement granting fifth freedom traffic rights to selected international airports in the sub-region. One of the key objectives is to build tourism development in the EAGA sub-area by 20% by 2010. Then again, until November 2013 there are just four direct routes between the assigned points in BIMP-EAGA sub-region that are effectively served by scheduled airplane (table5). MASWings suspend its twice week by week Kota Kinabalu– Balikpapan administration in October 2013 (Borneo Insider, 2013).

Table 5: Airline services in BIMP-EAGA

Routes served in BIMP-EAGA	Carriers	Frequency /week	Type of Aircraft
Bandar Seri Begawan – Kinabalu	Royal Brunei Airlines	13	Royal Brunei Airlines
Bandar Seri Begawan – Kuching	Royal Brunei Airlines	2	A319
Bandar Seri Begawan – Kuching	Express Air, MASWings	3 (per airlines)	B737
Kota Kinabalu – Puerto Princesa	MASWings	3	ATR72

Source: Official Airline Guide (OAG) October 2013

b. Route liberalization between Singapore–Kuala Lumpur
(Protocols 5)

The Singapore–Kuala Lumpur route had for years been restricted under 34-year-old bilateral air service agreements, and was dominated by Malaysian Airlines and Singapore Airlines as a duopoly. In February 2008, the Malaysian government finally allowed low-cost carriers AirAsia and Tiger Airways to operate on the route. The liberalization started with allowing two flights daily from each low-cost carrier, and was extended to six daily flights in September 2008. There is now unlimited capacity between Singapore and

Kuala Lumpur for all airlines from the two countries. In 2013, the frequency is extended into ten daily flight for AirAsia and five daily flights for Tiger Airways. There are other low-cost carriers serving the route nowadays, namely Silk Air and Jetstar Asia. The entry of low-cost carrier into the route forced the two incumbents to lower their fares. From around \$180 on average, the price went down into \$30 in the third quarter of 2008 (Zhang et al., 2008). As a result, there was a significant traffic growth. According to CEIC data, the airlines carried about 1.7 million passengers between the two cities in 2007 and the traffic jumped by 46.25% in 2009.

Figure 6: seat capacity Singapore–Kuala Lumpur



Source: CEIC Data¹¹

¹¹ CEIC. Global Database. <http://www.ceicdata.com>

2.6. Relevance of Low-cost carriers in ASEAN

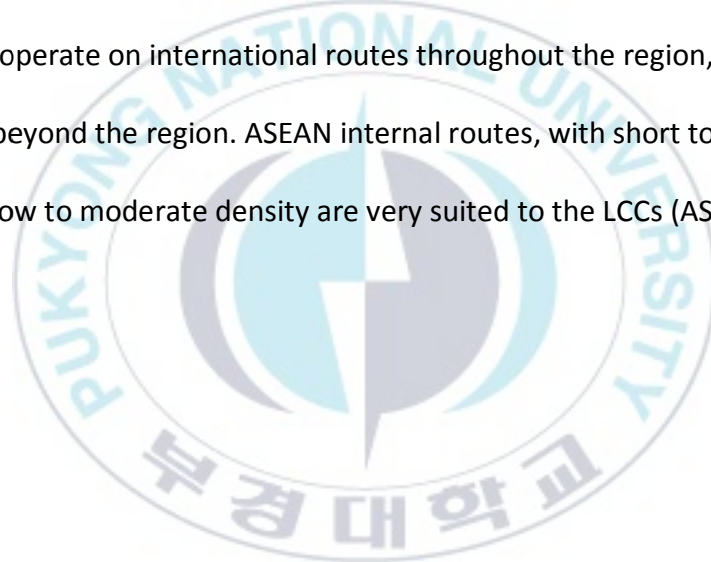
Open Sky provide prolific conditions within which LCCs can develop in the ASEAN region. LCCs have extended consumer's choices and enhanced the efficiencies of airline industries ventures (xiowen fu et al. 2010). They have likewise constrained regulators to change old rules the game that had a tendency to secure FSCs and their key markets. It is likely that an Open Sky environment in ASEAN that removes limitations on designation, capacity and fares will support the growth and development of LCC's. On the other hand, the rise of more LCCs in the region will exert pressure for the acceleration of the ASEAN Open Sky.

At present, LCCs are working to a limited extent in the ASEAN region, frequently in domestics markets simply because of limitations forced by existing bilateral ASAs in terms of designation, capacity and fares. Their achievement in the domestic markets have shown exhibition impacts such that consumers are looking to enjoy the same advantages of more services and better fares in the regional markets (lelieur 2003).

They are working in secondary markets or portals, indirect competition to incumbent's carriers. Since these routes are more averse to be served by major carriers, they offer the LCCs the scope to develop during the early stages without experiencing head-to-head competition from strong airlines. However, even this indirect competition is forcing incumbent FSCs to review

their productivity and cost competitiveness to address their low productivity labor arrangements and inability to respond to market changes. Some FSCs have responded to new competition by setting up their own low-cost subsidiaries (e.g., SIA has a 49% stake in Tiger Airways).

The rapid growth of LCCs in Singapore, Indonesia, Malaysia, and Thailand is now becoming a threat on regulators for access to more international routes. Having exhausted domestic opportunities, the LCCs are seeking to operate on international routes throughout the region, as well as on routes beyond the region. ASEAN internal routes, with short to medium hauls and low to moderate density are very suited to the LCCs (ASEAN report 2009)



III. Theoretical Framework

This study is based on theories of regional integration theory. The theories supporting this study are neofunctionalism and liberal intergovernmental theories and interregionalism.

Neofunctionalism is the oldest (developed during the 1950s) and most prominent of the two regional integration theories (Risse, 2005, p.292). The building blocks lie in the theory of functionalism, which focused on the consolidation of international cooperation based upon the common interests of state and non-state actors (interest groups, social movements and corporations) and the leading role of technocrats (Haas, 1958, pp.139-140). Ernst Haas looked into Mitrany's academic conceptions of Functionalism and tested the theory on the case of the European Coal and Steel Community (ECSC). He modified certain essential elements, like the exchange of a technocratic vision for a politically feasible one (Schmitter, 2005, p.256). Haas stressed the positive, mutual implications (security, economic, and political) of international cooperation and highlighted the role of interest groups and social movements in pluralistic democracies to stimulate the process (Haas, 1958, p.141). This theory predicts an influential role for non-state actors in the course of the integration progress, because they could exert pressure on the national governments to engage in more regional integration arrangements. If non-state actors perceive larger benefits than costs from

regional integration then they try to realize more extensive arrangements what simultaneously set the speed of this conflicting, incremental and self-reinforcing progress. In the context of ASEAN, the stimulating role should be fulfilled by the small and middle-sized enterprises (SMEs) (Chia, 2013, pp. 23-25). These privately-owned, local businesses are labelled by the first Blueprint (roadmap with tasks and objectives) as the drivers of the equal regional economic development and get special attention by ASEAN to improve their economic participation. By increasing their share in the regional economy, they should be able to limit the importance of the state-owned and foreign enterprises and increasingly gain leverage to push the central governments. The central concept of spill-over symbolizes the persistency in which the integration process operates (Schmitter, 2005, p.257). In practice, the spill-over-principle follows the pattern of a transformation from basic economic collaboration (functional spill-over) into extensive political integration (political spill-over) (Rosamond, 2000, pp.60-61). ASEAN integration followed similar patterns in the past and should be capable to maintain it if gradual steps are taken. Furthermore, the theory assumes that a regional organization will eventually pass through all stages of integration (Rosamond, 2000, pp.61-62). This includes the likes of gaining more authoritative powers from the member states and the emergence of a supranational organization. It means that the formation of the AEC acts as an intermediate step that will

be followed up by an economic or political union. Eventually, the organization takes over the leading role from national governments and non-state actors and set the rate of integration. This latter element is regarded as the cultivated spill-over.

1. Assumptions & predictions neofunctionalism

Element	Assumption	Prediction for ASEAN
Main actors	Non-state actors (corporations, social movements and interest groups)	Bigger share of LCC
Driving mechanism	Spill-overs (functional, political and cultivated)	Spill-overs in the ASEAN aviation dimensions
Governance scope	Evolution to supranational organization	Progression towards further stages of integration
Method	Incremental, conflicting interactor negotiations	Inter-actor negotiations (SMEs and MNCs vs states)
Goals	Welfare maximization	Economic integration; full liberalization of airspace

The alternative theoretical explanation, liberal intergovernmentalism, is based upon a combination of the theories of rationalism, liberalism and

intergovernmental institutionalism (Moravcsik, 1993, pp.480-481). The theory is characterized by the predominant role of national states and their subsequent bargaining. Non-state actors do not have decisive influence on the outcomes of the negotiations due to their distinct differences and lacking organizational structures (Andersson, 2015, pp.40-41). The liberal intergovernmentalist theory was developed during the 1990s as a framework to correctly explain the various events of the European integration process, which were not predicted as suggested by existing integration literature. The consolidation of regional integration is based on a theoretical model, which is

Element Assumption Prediction for ASEAN Main actors Non-state actors
 (corporations, social movements and interest groups) Bigger share for SMEs
 Driving mechanism Spill-overs (functional, political and cultivated) Spill-overs
 in the three ASEAN Community dimensions Governance scope Evolution to
 supranational organization Progression towards further stages of integration
 Method Incremental, conflicting interactor negotiations Inter-actor
 negotiations (SMEs and MNCs vs states) Goals Welfare maximization
 Economic integration divided into three stages: national preferences,
 interstate bargaining, and the institutional decision-making (Moravcsik, 1993,
 pp.483-486). There is a clear distinction set between the two-level playing
 fields (domestic and international).

The first stage acts as a domestic preparation for the forthcoming interstate discussions. On the national level, the relevant nonstate and state actors discuss the various consequences of integration and try to determine a collective, national preference in which the central government has a decisive role (Andersson, 2015, p.41). In the context of ASEAN, it means that the political elites and relevant stakeholders explore ways to maximize the collective interests.

In the international stage, there are negotiations between the representatives of the member states about the concerned issues. These states have asymmetric bargaining positions depending on defining factors like the economy (Rattanasevee, 2014, p.117). It suggests that regional powerhouses, like Indonesia should have superior advantage above the others during the talks. These unfair positions should be reflected in the outcomes of the negotiations and in the forthcoming, institutional design (powers, policy scope, and legal framework).

Based on these elements, the national governments should maintain its dominating voice during the developments towards the AEC with minor interference from domestic non-state or extra-regional actors.

The obtainment of greater gains acts as the driving motive behind the integration efforts of the governments (Cockerham, 2010, p.166). States

pursue arrangements in areas in which they conceive integration will lead to more beneficial outcomes than individualistic behavior. In times of ever-growing globalization, the level of interdependence is regarded as a considerable factor during the calculus of ASEAN integration.

More integration signifies a deepening and widening of the transnational economic networks, which could provide many economic advantages in the contemporary world. On the basis of the calculation between the potential costs (losing sovereign powers) and benefits (global integration), states decide whether or not they engage in regional integration (Cockerham, 2010, pp.168-169). This weighing of interests fits in the concept of 'rational state behavior' where states base their actions on rational grounds. The supranational organization only acts as a tool to bind the respective member states with international agreements and does not get the powers to control the integration process (Sweet & Sandholtz, 1997, p.301).

In relation to ASEAN, member states have already acknowledged the many positive consequences of integration viewing the comprehensive OSA plans and their desire to integrate. The high degree of mutual benefits should drive the members to an as planned OSA integration. However, this theory could not forecast the integration developments after the OSA, as it depends on the respective calculus if deeper integration is deemed necessary.

2. Assumptions & predictions liberal intergovernmentalism

Element	Assumption	Prediction for ASEAN
Main actors	National governments	ASEAN members
Driving mechanism	Congregation of interests based on the cost-benefit calculus	Prioritization for collective, mutually beneficial ASEAN interests
Governance scope	Depending on rational cost benefit calculus	Depending on rational cost benefit calculus
Method	Unequal inter-state negotiations	Leadership roles for powerful states
Goals	Welfare maximization	Economic integration; full liberalization of airspace

The two concerned theories have their own general predictions of the course of the integration process. Neofunctionalism emphasizes the driving role for SME's during the procedure. Their influence will greatly determine the speed of passing all the integration phases. The other theory focuses more on the governments' cost-benefit calculus of the collective interest as a determinant of the integration procedure. The larger the benefits, the more likely national governments stimulate the developments.

Both the models have different explanatory features, but share the positive, timely AEC-integration as it increases the common welfare of a state and more specifically economic integration.

Viewing theoretical predictions in both tables, it becomes clear that there are major theoretical contradictions. Predicted elements, like driving roles for SME's (neofunctionalism) or leadership roles (liberal intergovernmentalism) did not appear. Instead, there emerged unexpected points, like the problematic implementation of integration plans or the major influence of external actors. These points have, along with other issues, contributed to the unpredicted, slow integration process. It turns out that the existing theoretical material is unable to correctly predict the region's integration process. These contradictions question the general applicability of the theories and affect their acclaimed scientific value. Therefore, this research takes up the important task to discover the explanations for the contradictions and aims to test the scientific relevancy of the theories.

3. Research Context: Applicability of the Theories

In relation to the theoretical framework, there are a number of academic scholars who are already trying to explain the developments towards an OSA with existing theories. Starting off, many academics noticed the distinct regional characteristics as an obstacle of the theoretical application to the case of ASEAN (Kim, 2014, p.376).

Fundamental aspects, as the existence of a democracy and the freedom of association, are not always present in the political systems of the member states of ASEAN. In fact, there are no 'fully democratic regimes' in the region in 2015 (The Freedom House, 2016). This could lead to problematic interpretations. Hence, the applicability of the two theories as analytical instruments can initially be challenging, but not impossible (Kim, 2014, pp.390-391). This can be showcased by the pertinent parts of the theoretical material in explaining the previous ASEAN-integration stages. Characteristics, as the gradual nature of creating arrangements (neofunctionalism) and the congregation of national interests (liberal intergovernmentalism) are illustrated by the steady evolution of integration plans, as tariff reductions in non-vital industries to comprehensive accords in economically more significant sectors (Hew, 2005, p.14). This indicates the persistent value of the theoretical material to ASEAN and simultaneously signals a change in the mechanics of ASEAN-integration.

According to Capannelli & Filippini (2010, pp.181-183), the theories could also function as a theoretical base for learning lessons by noting the positive implications and overcoming the limitations of European integration, such as the significance of implementation tools. As the process is still ongoing, these learning lessons can be of great value when ASEAN member states timely assess the obstacles the Europeans faced in their respective integration

history and implement measures to prevent similar situations. Jetschke and Rüländ (2009, pp.185-186) emphasized the reactive stance of ASEAN in looking at the European integration, evidenced by strengthening the CEPT as a response to the as threat regarded Single European open sky. Plummer (2006, pp.437-439) highlighted the long path the EU had to walk to the position it nowadays stands as a comparative example for ASEAN.

The EU needed almost a half century for the realization of the political union and three decades to fully liberalize the airspace. ASEAN could learn from this case by tempering the high expectancy level and assess the integration process as realistic as possible. Throughout the existing literature, it became clear as well that the role of ASEAN's unique institutional and legal elements is very important in examining the existing integration developments. Cockerham (2010, pp.183-184), addresses the significance of the ASEAN Way as a contributor to the reluctant stance of the members to delegate enforcement mechanisms to ASEAN sub-institutions. Moreover, the path towards the end-goal of introducing the full open sky in 2025 is getting closer than ever (Chia, 2013, p.34). This means that scientific insights are of meaningful value in addressing the hindrances of the process, as it could be potentially utilized by ASEAN representatives to accelerate the developments. Academics recognize this decreasing time frame and engage in delivering a fitting, scientific contribution to increase the amount of

literature on this issue area (MacGillivray & Carpenter, 2013, pp.2-3). This research follows this trend as well. Viewing the existing literature, there has been a relatively low number of studies that directly apply the concerned theoretical concepts to the case of ASEAN open sky. Most of the literature are focusing on the practical side of assessing the integration problems and neglect the many theoretical contradictions in explaining the process. These unpredicted factors form the core of the slow integration process, which affect the key scientific feature of the general theoretical applicability.

The theories have considered all concerned elements in forecasting the course of integration, like the economic attributes or the role of relevant actors in shaping the process. However, there appeared, especially in these categories, unexpected events that stalled the integration process. Hence, it is essential to examine these factors, as they greatly contributed to the theoretical inapplicability. Specifically, the following factors are going to be addressed in the analytical parts: developmental gaps (economic), institutional characteristics (institutional) and conflicting strategic interests (strategic).

3.1. Economic factors

Firstly, the concept of functional spill-overs needs to be briefly discussed to understand its mechanics. A core element of Haas' theory is the presence of functional spill-overs as a modest sign of regional integration (Schmitter,

1969, p.162). Non-state actors push the domestic government to engage in more regional integration in the economic-related sections, where integration is relative convenient to materialize (Mattli, 1999, p.26). In reality, this is often interpreted as measures that intend to lower the conventional trade barriers, like intraregional tariffs.

This early integration step will gradually direct to related fields and eventually to politicized issue areas. The functional spill-overs, as described by Schmitter (1969, pp.162-163), are based on the characteristics of a region's pre-conditions, like existing arrangements and governmental capacities to initiate its self-reinforcing nature

The attributes of these original factors are of great significance in expanding the level and scope of the cooperation in the future. The terms level and scope refer in this specific context respectively to the members' participation and the width of the policy areas. Governmental capacities, like institutional structures, play an essential role in managing future expansions, because it facilitates the needed adjustments of integration. If the intend to expand the integration exists, but the supporting state capacities are missing, then the operation of the functional spill-overs could be halted (Haas, 1958, pp.142-143).

In relation to the case of ASEAN, the existing developmental gaps between the ASEAN and MCLV hinder the realization of functional spill-overs due to the severe quality of the existing capacities, but before jumping into that part, there needs to be more elaboration on the gaps themselves. With the accession to ASEAN, these states opened up their economies to the global market and unintentionally created within ASEAN wide developmental gaps in socio-economic terms (Chia, 2011, p.44).

These disparities in the dimensions of trade, income and human capital are immense if statistical data is displayed in the time frame of a decade (2000-2010): In 2010, in terms of the GDP, the MCLV-states produced a total GDP that is fifteen times lower in comparison to that of the other member countries and their respective economies (AEC, Chartbook 2011, p.10). In that same year, they only contributed ten percent to the total share of GDP in the region. MCLV-states are also bottom-ranked (average of \$3600) when considering the average income per capita adjusted to the purchasing power parity (World Bank, 2017).

The medium-low categorization of these states in the Human Development Index (cumulative indicator for human development, HDI) further underlines their comparatively underdevelopment (UNDP, 2010, pp.143-146). The most striking divide is that of the (slightly increasing) income differences between MCLV and ASEAN (MacGillivray & Carpenter, 2013, p.31).

Despite ASEAN ambitions to equally upgrade the intra-regional connections, the large distinctions in the quality and quantity of the infrastructure between states complicate the creation of efficient production networks (MacGillivray & Carpenter, 2013, p.84). As every nation has its own infrastructural capacity, not every state has the ability to equally participate in the planned activities to create the networks, which negatively influences the operation of functional spill-overs. ASEAN needs more amount of time and capital to analyze these problems, because the current programs do not sufficiently address it. There needs to be larger and more extensive investments to equalize the linkages and to bring the regional connectivity to a suitable and trade-efficient level. Moreover, the gaps affect the plans of improving the members' participation level in other sectors. ASEAN tries to raise this level by improving the coordination of the individual policies and harmonizing technical regulations (Chia, 2013, pp.13-14).

An enhanced coordinated region should increase the degree of commitment states have in pursuing the collective ASEAN economic interests, because it facilitates intra-regional interactions and highlights the benefits of increasing regional economic participation (Plummer & Chia, 2009, pp.59-61). The coordination of the logistical sector, a vital area to enhance the intra-regional transport, meets significant hindrances due to the fact that MCLV-members lack the basic institutional and technical capacities to incorporate the

necessary alterations (MacGillivray & Carpenter, 2013, pp.100-101). States need to take domestic reforms to adjust the institutional and technical circumstances to fit the uniform, regional standards (Nguyen, Nguyen & Hoang, 2016, pp.121-123).

The costs of these alterations are relatively high, especially in the MCLV states where logistics are originally designed to only serve the domestic markets. States are reluctant to take the costs, which do not positively contribute to the realization of functional spill-overs. Subsequently, it leads to delays to the coordination and harmonization initiatives. MCLV-nations are falling more behind the ASEAN where the governments have the needed capacities.

Therefore, MCLV need more (external) financial and technical assistance to execute the domestic changes and to align the policies.

The severity of intra-ASEAN disparities greatly affects the integration developments. Some member states lack the crucial capacities to initiate the functional spill-overs and equally participate in the integration procedure. These large disparities were not taken into consideration by neofunctionalism.

An improvement of the existing circumstances through more investments is required to minor the developmental gaps and materialize the functional spill-overs.

3.2. Institutional factors

Starting off, the role of norms and values in the theories needs to be succinctly discussed. Both neofunctionalism and liberal intergovernmentalism are materialistic-oriented theoretical paradigms and emphasize the stimulating effects of mutual economic benefits in the integration procedure (Cockerham, 2010, pp.166-167). They do not pay much attention to the meanings of informal norms and values, because they are based on the EU-case where the binding character of the agreements and built-in legal enforcement mechanisms act as foundations in the style of operation (Jetschke, & Rüländ, 2009, p.199).

This differs to ASEAN where states greatly comply with norms and values (Katsumata, 2003, pp.116-118). In light of the various threats during the Cold War, the head of states explicitly stress the inclusion of rules, like the mutual respect for the national sovereignty in the organizational design of the then yet-built regional organization (Katsumata, 2003, pp.111-113). These strict set of principles were informally incorporated into the ASEAN Way. Strikingly, there was an absence of a severe, military conflict between the nations in the 50-year-old existence of ASEAN (Jetschke and Rüländ, 2009, p.192). This

indicates a great sense of adherence to (parts) of the principles of the ASEAN Way. However, besides the positive implications, there are also negative consequences of the great respect for these normative principles. Elements, like the non-interference, create space to evade unfavorable arrangements by modifying the interpretation and implementation of the contents of the accords (Yoshimatsu, 2006, p.117). In such situations, states tend to pursue the self-interest and not the collective ones.

From a theoretical perspective, the existing limited scope of the Secretariat contrasts the emergence of corresponding elements according to the level and scope of the integration advancements (Kim, 2014, pp.388-389). When the 'window of opportunity' arises to go to the next step of the integration process, governments get pressured to delegate more of its sovereign powers to the regional organization for the sake of integration, like what happened in Europe (Hew, 2005, p.15).

Neofunctionalism emphasizes the role of the non-state actors as the main drivers and liberal intergovernmentalists state the instrumental use of the regional organization as factor for the transfer of competences. According to former ASEAN Secretary-General Surin Putsiwan, ASEAN member states need to empower the Secretariat with more mandates to realize the AEC-goals (Chongkittavorn, 2012). The members respect ASEAN's egalitarian notions and refuse to present themselves above the others in the fear that it could

lead to an interstate, leadership-seeking power struggle that could deteriorate the integration developments (Mattli, 1999, p.14) Indonesia, as most populous and economically significant state, have manifested itself only as 20 the diplomatic representative of ASEAN in forums, as the G20 and is likely to hold that status (Rattanasevee, 2014, p.120). ASEAN needs to differentiate the decision-making procedure based on the relative importance of the issues. To sum up, the distinct institutional circumstances play a very significant role in the theoretical inapplicability of both theories. ASEAN is based upon entirely different institutional foundations than the EU, like the adherence to informal norms. Consequently, it leads to an alternative style of operation, which largely contributed to the sluggish integration procedure. Adjustments are needed to the institutional mechanics in order to improve the flow of the integration process.

3.3. Strategic factors

This part focuses on the consequences of the strategic interests for the integration process. As argued by Moravcsik (1993, pp.483-485), liberal intergovernmentalism state the obtainment of greater benefits from integration as the main motive why states want to engage in regional integration.

A regional organization could accommodate to the various individual demands of the member states by, for instance, delivering a facilitating

function. Furthermore, the theory suggests interdependence as notable factor in the rational calculus, as markets, production chains and whole economies are ever-getting interconnected during the process of integration (Moravcsik, 1993, p.486).

Even though ASEAN has contributed to the intra-regional connectivity and stability, many ASEAN member states do not perceive the progress in the regional integration as part of its core strategic interests what partly explains the sluggish integration process. Strategic interests are defined as follows in this section: the vital, long-term interests for the survival of state (Tsuruoka, 2011, pp.96-98).

4. Relevance of the theories on ASEAN integration

Although both NF and LI have limits that keep them from being a theory of ASEAN integration, despite everything they offer some important bits of knowledge to the understudies of ASEAN integration. For instance, NF's weight on world class learning and tip top socialization, which runs as one with constructivists' accentuation on socialization impact on state conduct, can influentially clarify where the activities and mishaps of ASEAN joining originate from.

Like the EU, ASEAN speaks to a supranational association where the elites of its member states coordinate their national approaches to discover an

answer for basic provincial problems. Elite learning furthermore, tip top socialization happens in this procedure of interstate dealing and global principle making in ASEAN.

For ASEAN expresses that look to advance their participation at the territorial level however in the meantime are exceptionally impervious to pooling their power to supranational establishments, NF's ideas of first class learning and world class socialization clarify how and under what conditions ASEAN integration pushes ahead. Likewise, given ASEAN states' affectability to power and their solid feeling of nationalism acquired from the frontier experience, NF's accentuation on the "depoliticize" system is another valuable understanding that a theory of ASEAN integration should regard. Truth be told, the purported ASEAN Way that ASEAN states maintain as a controlling rule of ASEAN integration highlights provincial society, territorial standards and local personality, for example, regard for national power, strategic distance in the household issues of different states, basic leadership on the premise of agreement and conference as opposed to lion's share rules, and the shirking of dubious also, politically touchy issues, all of which generally relate to the depoliticize methodology.

A solid match between the ASEAN Way standards and NF's depoliticize methodology exhibits that an integration of ASEAN incorporation needs to consider ASEAN states' political will to ensure power, which is perceptible

from that of EU states to share power and make solid supranational establishments to oversee the incorporation venture. Given ASEAN pioneers' emphasis on the detachment of governmental issues and financial matters, the depoliticize technique seems, by all accounts, to be achievable as well as very viable in the ASEAN coordinate setting. From various perspectives, it has as of now been embraced by ASEAN states in the region of monetary integration, as exemplified by the advancement of AFTA. To some degree incomprehensibly, a few deficiencies of NF likewise offer essential experiences for building up a convincing integration of ASEAN integration.

Case in point, the NF presumption that the incorporation process (specifically, practical overflow) is quasi automatic demonstrated experimentally defective in the experience of European integration. The principal reason is that, as Beeson focuses out, regionalism is not only a practical reaction to intra-territorial financial improvements yet "a basically political process educated by multidimensional monetary and key factors. This is completely valid for ASEAN integration, where little and politically frail states ruled by tyrant pioneers seek after local coordinate as a method for upgrading both their service security and their haggling position against major financial powers on the planet (e.g., the United States, the EU, China, and Japan). Henceforth, an integration of ASEAN mix, in the event that it is to be convincing, necessities to give careful consideration to the member of key

political performing artists (most importantly, governing elites) and their impression of local coordinate and additionally the dynamic exchange among local, provincial, also, worldwide components that shape joining results.

On account of LI, its accentuation on the focal member of the state in European integration gives an effective lens through which we can clarify the ASEAN integration process. Without a doubt, it is certain that ASEAN states instead of social performers or supranational establishments have up to this point been a primary driver of ASEAN mix. They started, pushed forward, and pulled back ASEAN mix taking into account their count of national hobbies. Likewise, the member of the state and its intention to augment national increases through local collaboration are fundamental to understanding the ASEAN mix process.

The focal member of governments in interstate dealing over local coordinate, in this manner, could be a firm establishment on which a convincing integration of ASEAN integration is constructed.

Another knowledge that LI offers for an integration of ASEAN mix needs to do with its accentuation on national inclination about standardization. LI battles that profound standardization in Europe mirrors states' longing for trustworthy duties. At the end of the day, to secure the substantive agreements that they have made what's more, to guarantee consistence by

remote governments, states pool and delegate sway to worldwide institutions.⁴⁵ However, ASEAN integration has up to this point been entirely intergovernmental, rather than supranational.

As Jetschke and Ruland call attention to, a major issue of the ASEAN participation example is the crevice in the middle of talk and practice that is, ASEAN states have proclaimed their aim to advance territorial collaboration, however usage has as often as possible not taken after the rhetoric. It abandons saying that the comprehension of ASEAN states' genuine inclination on systematization is significant to clarifying this inconsistency in the middle of talk and practice.

To be sure, the managing guideline of the ASEAN Route (specifically, its basic leadership process taking into account accord and meeting) also, the shirking of profound organization in the ASEAN incorporation procedure must be clarified when ASEAN states' inclination on territorial joining are taken into account. Correspondingly, given ASEAN pioneers' profound situated taste against any unintended misfortune of power, LI's accentuation on the basic member of the foundations that capacity as a guard of national hobbies (e.g., the Council of Ministers, the European Chamber) offers a significant understanding for ASEAN joining. What is imperative to stress here is the focal member of the ASEAN Summits and ASEAN Ministerial Gatherings in deciding the way of ASEAN integration and in addition the absence of intrigues among

ASEAN pioneers in making solid supranational organizations, such as the ASEAN Court of Justice, the ASEAN Commission, and the ASEAN Parliament. Obviously, as major "intergovernmental" foundations that give ASEAN states with the general political bearings and needs of ASEAN mix, ASEAN Summits and ASEAN Ministerial Meetings capacity to secure national hobbies and power of ASEAN individuals.

This shows that NF and LI without a doubt have genuine inadequacies that keep them from being convincing records for ASEAN incorporation. In any case, the article battles that it is incautious to dispose of them totally. While there is no doubt that ASEAN incorporation is not the same as more legalistic what's more, organization based European mix, it is important that both European what's more, ASEAN states now have the same key objectives (e.g., political dependability, financial development, local aggressiveness) and face normal difficulties (e.g., worldwide budgetary emergency, ecological debasement, terrorism).

Thus, as examined above, European integration theories, for example, LI and NF, can offer important experiences for building up an honest to goodness integration of ASEAN integration. Truth be told, numerous specialists and additionally approach producers keen on ASEAN mix see the experience of European coordinate as insignificant for the wrong reasons. ASEAN coordinate does not need to take after the same institutional way as the EU however it is

critical not to disregard conceivable lessons that could be usefully adjusted to a local connection. The general lesson of the European coordinate is realism conforming to nearby needs and being willing to try different things with different problem-solving methods, which is relevant to ASEAN coordinate.

5. Interregionalism Theory

The interregional relationship between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) has a long and varied history. Of all interregional relationships, that between the EU and ASEAN is the oldest proper group-to-group dialogue (only preceded by the EU-African, Caribbean and Pacific Group [ACP] relationship) and likely the one that has attracted most of the scientific attention regarding interregionalism. The relationship has seen much change over time, particularly after the end of the Cold War. Meanwhile, the EU and ASEAN have carried out considerable but qualitatively different internal reforms and have weathered several internal and external crises. All these developments have affected not only the internal workings of the two organizations, but also their external relations.

While there has been an increase in analytical interest in the relationship in recent years, researchers have been challenged by the very intangible nature of interregionalism, consisting of shallow institutions,

diffuse objectives and a dense network of relations on several political levels. Combined with the tradition of Eurocentrism in the related study of regionalism, there is the added complication of understanding the regional project that is ASEAN and the motivations of its member states.

While a deepening of political or economic cooperation between the two regional organizations has not materialized, the most notable fact about the EU-ASEAN relationship is that the original group-to-group dialogue is increasingly being rivaled by other interregional linkages between the organizations; both trans-regional and region-to-state. Through the Asia Europe Meeting (ASEM) and the signing of Free Trade and Partnership and Cooperation Agreements (FTAs and PCAs) with individual ASEAN states, the group-to-group dialogue has little in the way of exclusivity in the realms of economic and political relations. Instead, both regional organizations are participants in a system of complex interregionalism in which they interact simultaneously on several levels.

5.1. EU-ASEAN Interregionalism: State of the Art

Given that interregionalism is a relatively new area of scientific interest, a respectable amount of research has been conducted on interregionalism in general and on the EUASEAN relationship in particular. As research exists in all major schools of international relations inquiry – Realism, Institutionalism and Constructivism – the field of interregionalism is no longer in its infancy

but is moving towards a theoretical and empirical maturity – although it continues to have its detractors.

The literature concerning the EU-ASEAN relationship can be broadly classified into two sections: Conceptual works focused on the phenomenon of interregionalism in general and studies concerned with the specific example of EU-ASEAN interregionalism. Both fields of study are worth considering since this thesis builds upon the insights of previous conceptual discussions as well as the state of the art of empirical EU-ASEAN interregionalism studies.

A recurring issue in the empirical literature concerning the relationship is the fact that they appear to be mainly period pieces concerned with the current state of affairs. Articles in this mold are those of Dent (2006), Gilson (2005), Lim (2012), Robles (2006) Ørstrøm Møller (2007) and Jetschke & Portela (2013). Hänggi et al. agree that the majority of articles are “descriptive and policy-oriented in an often narrow and at times anecdotal way” (2006, p. 7). Another feature of the existing literature is a preoccupation with possible future institutional dividends of interregional processes (Dent, 2006; Gilson, 2005; Robles, 2006), particularly connected to multilateralism. The neighboring research complex regarding the EU as a foreign policy actor (Börzel & Risse; 2004; Manners, 2002) has equally lofty expectations for interregional cooperation.

Given these theoretical antecedents and the empirical reality of EU-ASEAN interregionalism, it is no surprise that Mathew Doidge’s (2012) latest article on EU-ASEAN interregionalism is entitled ‘Expectations Unmet’. On the theoretical side, Roloff (2001) analyzed the causes of the emergence of interregionalism from an explanatory angle. For him, interregionalism is a

tool for coping with the process of globalization in line with the processes of internal balancing, multilateralism and regionalism (Rolloff, 2011). Rolloff's analysis is heavily focused on the competition between the regional triad of Europe, the Americas and the Asia-Pacific, a focus that is recurrent in research regarding East Asian interregionalism. Just as the empirical phenomenon of interregionalism is intimately connected to the emergence of regionalism, so too are the academic discussions of both phenomena closely related. Early research on the interregional system was focused on the 'hub-and-spokes network' of the EU, as a central actor in interregionalism, and its partners (Edward & Regelsberger, 1990; Dreis-Lampen, 1998). The end of the Cold War brought with it a proliferation of interregional linkages outside the EU coupled with a newfound awareness of the phenomenon of new regionalism. This resulted in scientific interest in the impact of different kinds of regionalism (Söderbaum & Van Langenhove, 2005) or regionness (Hettne & Söderbaum, 2000; Hettne, 2014) on the process of interregionalism.

This tendency to regard regionalism and interregionalism as two phenomena 'joined at the hip' (Doidge, 2007) has remained central in the research discourse through the concept of regional actorness. Apart from the interest in interregionalism itself, an awareness of different interregional arrangements emerged throughout the late 1990s and 2000s. Particularly after the creation of the trans-regional arrangements of the Asia-Pacific Economic Cooperation (APEC) in 1989 and ASEM in 1996, but also the ASEAN Regional Forum (ARF), ASEAN Plus Three (APT) and the East Asia Summit (EAS), researchers increasingly directed their attention towards differentiating between and comparing the objectives and functions of these arrangements. Most notably, Hänggi (2006) took stock of 82 interregional arrangements, many of which have since become dysfunctional or have disbanded.

A common expectation in these new interregional arrangements at the time was that they would revive interregional cooperation that had stalled, most notably in the EU-ASEAN relationship. While this did indeed happen in some cases, the persistence and overlaps between different group-to-group and trans-regional dialogues have led to the employment of the term 'complex interregionalism' (Hardacre & Smith, 2009) to denote the permanently multilayered system of interregional relations.



IV. Open Sky Agreement in EU and ASEAN: The Impact of single aviation market on airline industry

Over the last 3 decades the EU has experienced tremendous change in the airline industry. Since 1987, the air transport services between EU member states were fragmented and limited by a legal framework. Since then, the EU has moved towards single aviation markets which succeeded in three legal packages (1987-1992). The impact of the integration is quantified by the level of growth the airline industry through the market supply prior and after the integration, the degree of competitiveness and the evolution of airline companies.

With effect of different regulations adopted during the path of liberalization, the data gathered consists of different surveys conducted by EU commission and IATA and ICAO for Europe and BAP for ASEAN.

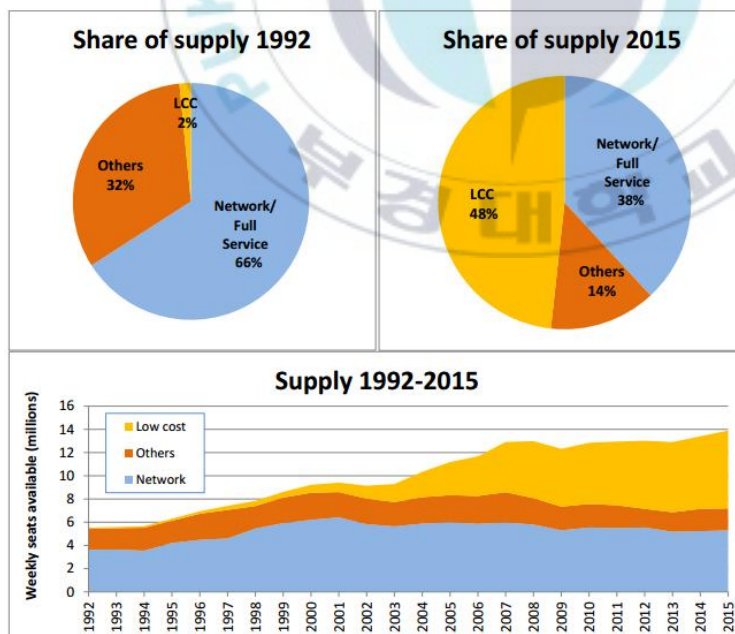
In this part, to better understand the impact of single aviation market, the data analyzed will be from 1992 to 2018(case of EU), that is to say after the implementation of the single aviation market and different growth. The chart below shows the market supply of airlines (LCC, FSNC and other airlines), it clearly shows that from 1992 to 2015 the trend of market supply is mostly dominated by LCC after liberalization.

1. EU air liberation and impacts

1.1. EU market share

The number of scheduled weekly seats available within the EU has expanded from 5.5 million in 1992 to 13.9 million in 2015 (+152%) (EC 2015). Growth rates for the different types of airlines were similar from 1992-2001. Virtually non-existent until 1995, and with a share of below 10% of weekly scheduled seats prior to 2002, the low-cost sector outperformed and by 2012 left behind the network airlines' sector. In 2015, LCC accounted for 48% of seat capacity while network airlines provided fewer weekly seats than in 1992.

Figure 7: EU market share 1992-2015

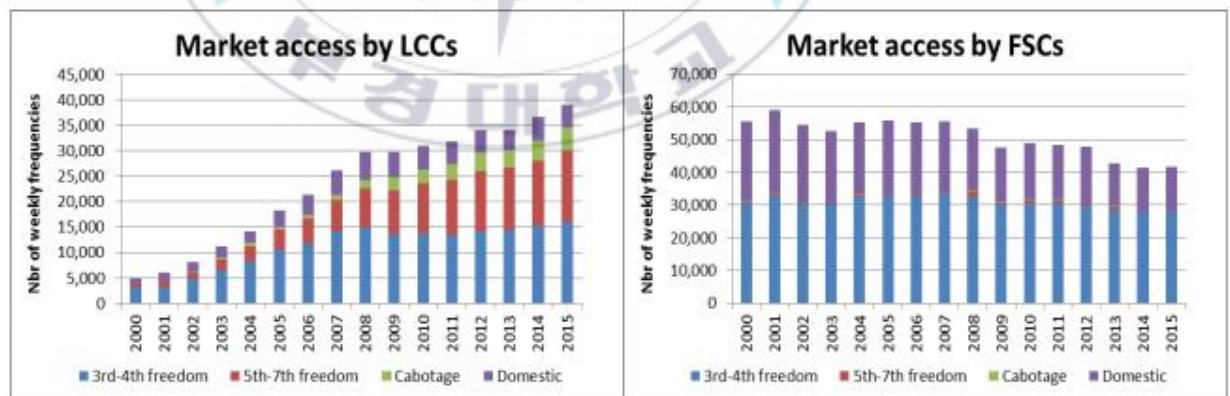


Source: EC 2015¹²

1.2. Market access after liberalization. LCC vs FSNC

The studies clearly show that with the formation of a single aviation market, low-cost carriers benefit more to other airlines, that is LCC make use of the 5th/7th degree of freedom right within EU as indicated in turquoise and green on the chart yet FSNC use mostly the 3rd and 4th freedom right (direct, cross-Member State intra-EU traffic) as indicated in blue on the chart and domestic traffic provided by an airline licensed in the respective Member State. As an implication to that FSNC tend to lose their market within EU and LCC expand their routes.

Figure 8: EU Market share LCC vs FSC 2000-2015



¹² European Commission, communication from the commission to the European Parliament, the council, the European Economic and Social Committee and the committee of Region: An aviation strategy for Europe (com (2015)598 final), (2015), p.16.

Source: EC 2015¹³

1.3. Seats capacity: LCC vs FSNC (2004-2009)

The low-cost sector has largely contributed to the growth of the European traffic, also compensating the stability of the full-service airlines, registered in the same period.

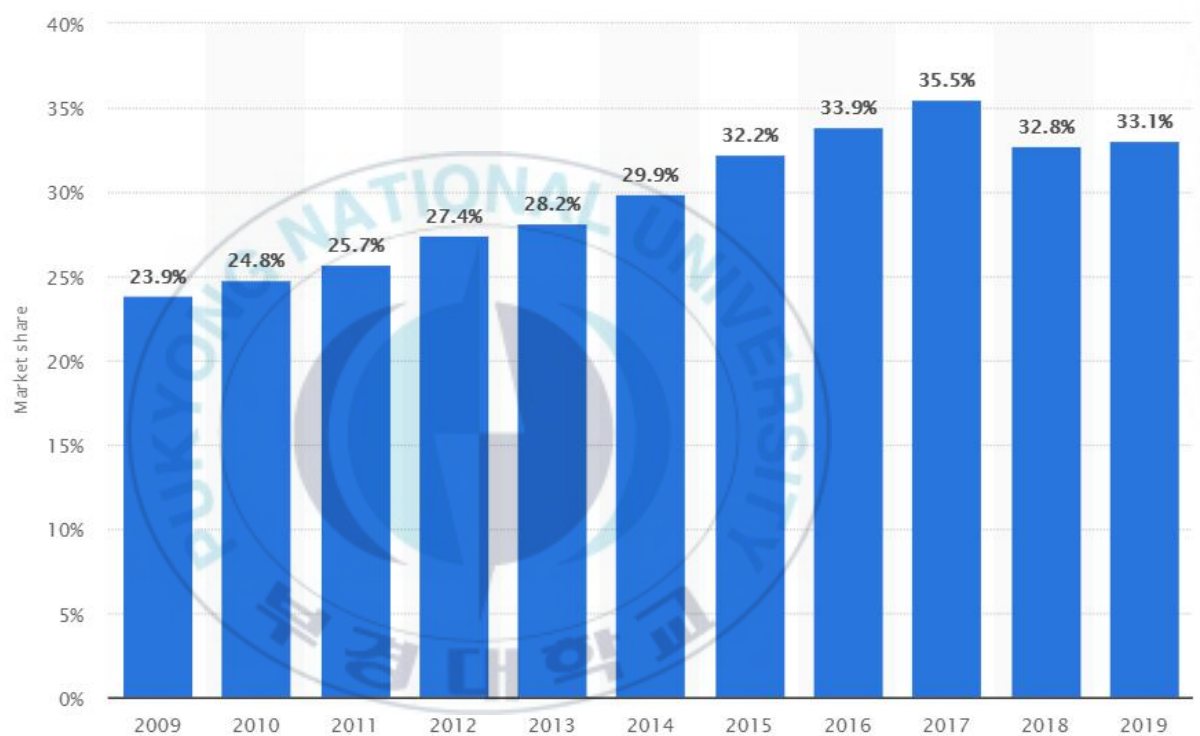
As a comparison to the top three LCCs (Ryanair, EasyJet and Wizz air), the main three European network airlines, namely Lufthansa, Air France, and British Airways, transport together 18% of the total intra-EU market, equivalent to 93m passengers(fig8). They operate intra-European routes to feed their hubs and to maintain a short-haul network which is also attractive to point-to-point passengers. Without such a short-haul network, it becomes more difficult to sustain long-haul services. In average, it is estimated that between 30 and 40% of long-haul flights are fed by regional or other intra-EU feeders. Critical factor for success is to focus strictly on airlines and efficiency.

The graphs below show global trends especially amongst network airlines versus low-cost airlines. It clearly shows that with the granting of the 6th-8th freedom rights, LCC occupy a big place in the airlines sector in Europe. LCCs account for 25% of globally available seats and 15% of average seat kilometers

¹³ European Commission, communication from the commission to the European Parliament, the council, the European Economic and Social Committee and the committee of Region: An aviation strategy for Europe (com (2015)598 final), (2015), p.16.

(ASKs), a reflection of their focus on short and medium haul markets. Their position is especially strong in Europe (both domestic and cross-border within Europe). LCCs now supply a quarter of scheduled seats worldwide.

Figure 9: EU LCC market share



Source: data gathered from statista¹⁴

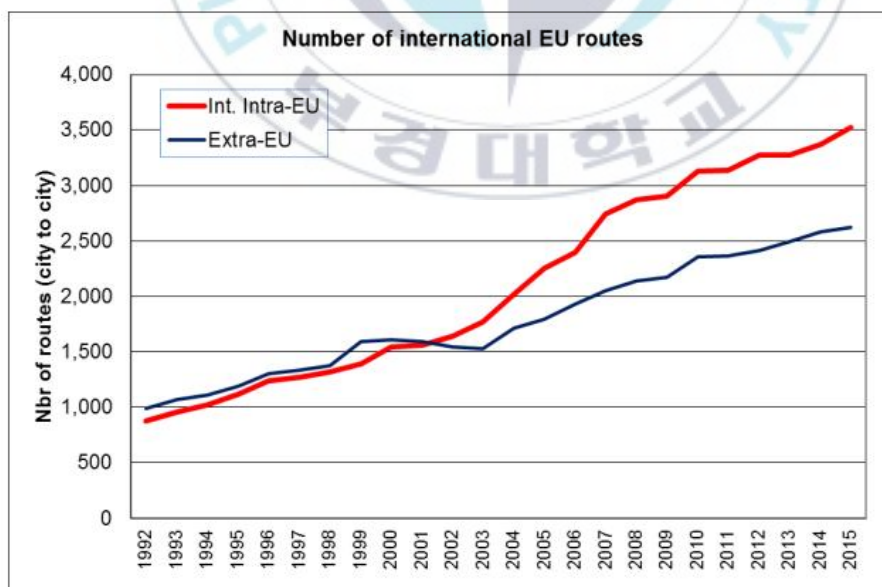
Although low-cost carriers' (LCCs) market share in the European aviation industry increased by ten percent in 2019 compared to 2009 levels, there has been a fierce competitive response by the traditional full-service carriers

¹⁴ <https://www.statista.com/statistics/1117218/low-cost-carrier-market-share-europe>

during this period to sustain their market position. For instance, full-service carriers started to offer some alternative cheaper flight options called budget-economy class. Nevertheless, LCCs have a well-advanced cost-minimization strategy so that they can operate at a much lower expense. In 2019, the average cost per passenger of Ryanair and Wizz Air were 31 and 39 euros respectively. Usually, LCCs operate on a shorter distance, this requires them to have a dispersed airplane fleet across cities rather than having one main hub for all the flights as it is the case for traditional carriers. An example could be that Ryanair had some 334 airplanes in Germany in 2020

1.4. Expansion of routes

Figure 10: intra and Extra EU routes



Source: OAG Summer schedule¹⁵

Liberalization has started the number of intra-EU routes between EU Member States which expanded from 874 in 1992 to 3,522 in 2015(+303%, 6.2% normal development p.a.). The number of additional EU routes expanded from 988 in 1992 to 2,621 in 2015 (+165%, 4.3% normal development). Development rates for intra EU routes and additional EU routes have been comparative from 1992-2001, while development of additional EU routes was more grounded from 2001 to 2014. Development of local routes of EU Member States was nearly level (from 818 in 1992 to 939 in 2015), leveling at 1,037 routes in 2010. While the number of intra-EU routes, additional EU routes and domestic routes all expanded in total terms, amid the procedure of completely changing the market sector for air transport benefits, the offer of intra-EU routes expanded firmly, the offer of additional EU routes stayed stable while the offer of household activity declined.

The expansion of intra-EU routes was joined by a solid movement towards more competition on these routes: The number of intra-EU routes served by more than two airlines expanded from 93 in 1992 to 599 in 2015 (up by more than 540%) and the number of additional EU routes with more than two airlines expanded from 77 in 1992 to 308 in 2015 (up by 300%).

¹⁵ Steer Davies Leave 2015 – Study on employment and working conditions in air transport and airports, commissioned by the European Commission

2. ASEAN air liberalization and impact

On the other hand, liberalization in ASEAN though it has started years later compared to the liberalization in EU, the agreements of forming a single aviation market were ratified for the first time in 2007, in 2009, the ASEAN member states signed multilateral agreements removing the 3rd and the 4th freedom and later on, liberalization extended to secondary cities and the removal of the 5th freedom,

Yu hen et al., in analyzing the strategies of air service liberalization stated that the liberalization in the ASEAN region has boosted the development of low-cost airlines and there have been tremendous changes in the aviation market. The entry of low-cost airlines (LCCs) in the region of Southeast Asia has dramatically changed the aviation market in recent years. And now, as the headline said in Asia Pacific Low-Cost Airline Symposium 2006: "It is crunch time for low-cost airlines."

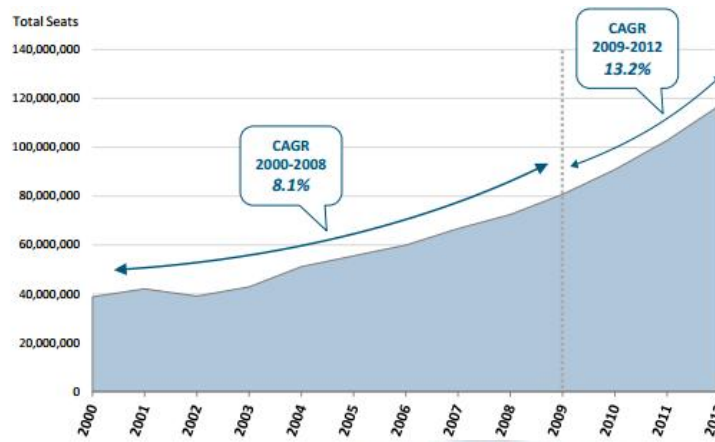
From the data observed below Thus, liberalization within the region has improved over time, but has not reached the same extent as embraced in other global regions (e.g., intra-European Union). For both regions EU and ASEAN, liberalization led to the development of low-cost airlines and has influenced the decrease of fares for full services airlines.

In the ASEAN region, the entry of LCCs in this region has brought on the built-up premium airlines to forcefully bring down their fares to hold up against competition. It made the civil regulators consider creating terminals meant for the LCCs. It made the standard ground travelers consider flying. It achieved the improvement of significantly more cost-sparing software programs implied for the LCCs. It absolutely made the consumer more web-savvy.

2.1. Capacity and traffic

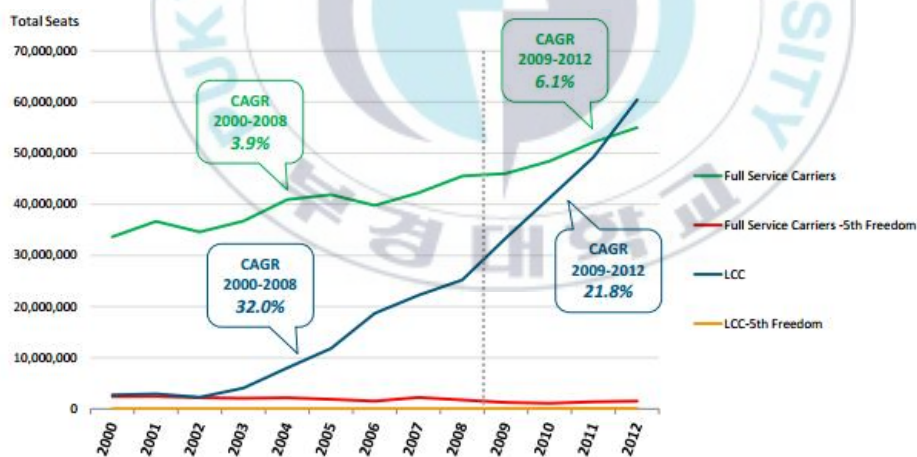
The traffic in the region in general has been one of fastest growing in the world for years especially in ASEAN. The table below (figure11) shows that from 2000 through 2012, passenger traffic grew at a compounded annual rate of 9.6 percent. However, the growth following the ASEAN-SAM agreement was significantly faster than prior to the agreement. Between 2000 and 2008, growth in the region averaged 8.1 percent annually. From 2009 through 2012, growth averaged 13.2 percent.

Figure 11: Annual seat capacity in the ASEAN market 2000-2009



Source: Innovata Schedules via Diio¹⁶

Figure 12: Annual seat capacity in the ASEAN market. FNSC vs LCC (2000-2012)



Source: Innovata Schedules via Diio¹⁷

¹⁶ Economic impact of Air service liberalization, June 11 2015, p 112

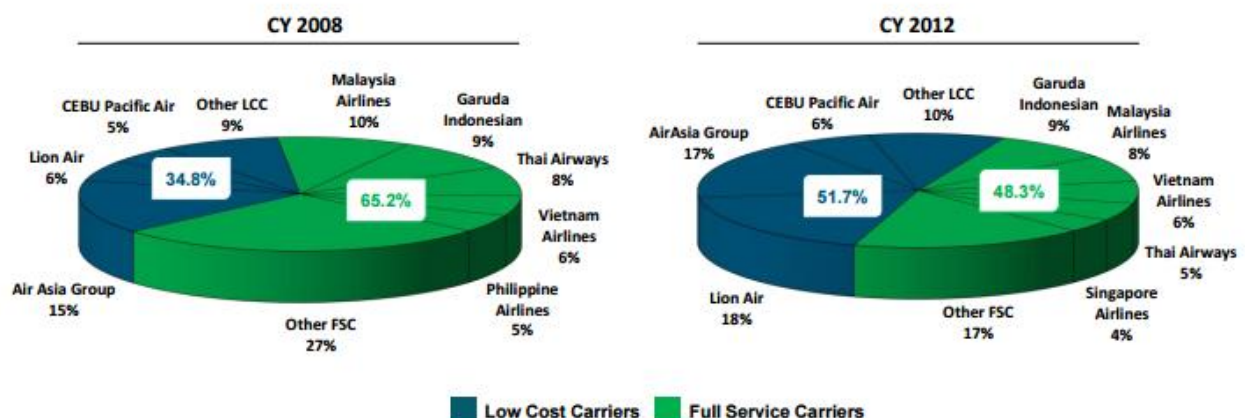
¹⁷ Economic impact of Air service liberalization, June 11 2015, p 44

Fifth freedom airlines also operated in the ASEAN market but they captured a smaller share of the market in 2012 than they did in 2000, as shown in Figure 12. Seat capacity of fifth freedom full-service airlines decreased by 3.7% annually from 2000 through 2012. In addition, other low-cost fifth freedom airlines also offered some service in the market.

2.2. Market share

It is important to note that the total market share captured by low-cost airlines increased significantly after the MAAS and MAFLPAS agreements. As Figure 13 shows, the share captured by low-cost market share increased from about 35% in 2008 to 52% by 2012. Both Lion Air and the AirAsia Group operated more seats in the ASEAN market than the top 5 incumbent full-service airlines. By CY 2008, low-cost airlines had established themselves in a large number of nonstop markets within the ASEAN community.

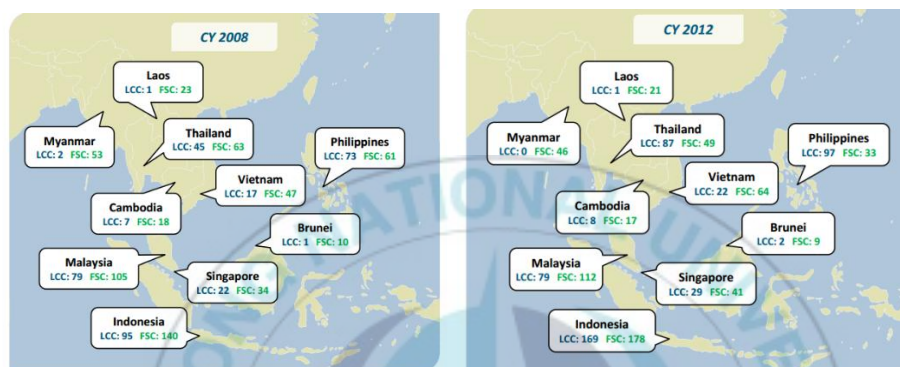
Figure 13: Market share of airlines (FSNCvs LCC) in ASEAN (2008 & 2012)



Source: Innovata Schedules via Diio¹⁸

2.3. Expansion of routes

Figure 14: ASEAN routes FSC vs LCC 2008-20012



Source: Innovata Schedules via Diio¹⁹

Figure 14 demonstrates the quantity of routes served by full-service airlines (FSCs) and low-cost airlines (LCCs) by state of birthplace. By and large, ease airlines gave booked service in marginally under half of the aggregate of 543 relentless ASEAN air terminal sets served. The state with the most elevated ease carrier infiltration rate was the Philippines, where low-cost airlines worked in 84% of relentless routes. Furthermore, low-cost airlines worked in

¹⁸ Economic impact of Air service liberalization, June 11 2015, p 21

¹⁹ Economic impact of Air service liberalization, June 11 2015, p 24

50-60% of routes in Indonesia, Malaysia, Singapore and Thailand. In Laos and Myanmar, under 5% of all relentless routes were served by low-cost airlines.

It additionally indicates constant routes served in the ASEAN market by state in CY 2012. A sum of 663 airplane terminal sets were flown by all airlines in 2012, an expansion of 120 markets more than 2008 (21 percent). That increment in is altogether because of the extension of low-cost carrier service. Full-service airlines worked the same number of market share in 2012 as they did in 2008. The quantity of routes served by low airlines expanded by 50 percent somewhere around 2008 and 2012

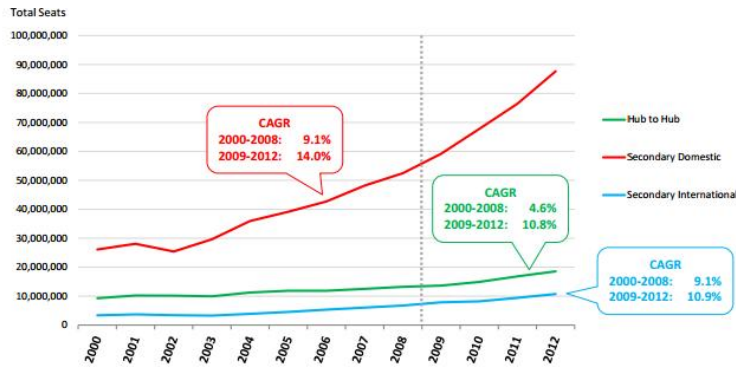
Low airlines progressively contended in more markets in 2012. Low cost worked in 99% of relentless routes from the Philippines. In Thailand and Indonesia low airlines worked in more than 65% of constant routes and more than half of routes in Malaysia and Singapore. Also, low-cost entrance rates were somewhere around 20% and 45% in Cambodia, Vietnam and Brunei. Inside and out, of all constant routes served in the ASEAN, low airlines carriers worked in 60 percent of the market share.

The biggest increment in limit has been in optional household and universal markets. As appeared in Figure 14. Center to-center (money to-capital) limit between ASEAN states expanded by 10.8% every year since 2009, yet limit in auxiliary markets expanded by 13.7% a year (14% in optional

residential markets and 10.9% in auxiliary universal markets). While low-cost carriers kept on serving center to-center point (cash-flow to-capital) markets, they quickly extended services in optional markets (which may have included routes in the middle of centers and littler destinations). In 2008, low-cost airlines CY 2012 Brunei LCC: 2 FSC: 9 Cambodia LCC: 8 FSC: 17 Indonesia LCC: 169 FSC: 178 Laos LCC: 1 FSC: 21 Malaysia LCC: 79 FSC: 112 Myanmar LCC: 0 FSC: 46 Philippines LCC: 97 FSC: 33 Singapore LCC: 29 FSC: 41 Thailand LCC: 87 FSC: 49 Vietnam LCC: 22 FSC: 64, 26 worked 23.9% of limit in center to-center markets. By 2012, LCCs offered about 40 percent of all accessible seat limit in center to-center point services.

In optional residential and global markets, low-cost airlines LCCs enormously extended their general piece of the overall industry. In 2008, LCCs offered around 37% of seat limit in those market share. By 2012, that had developed to about 55% of seat limit. The top auxiliary routes incorporate Jakarta-Surabaya, Hanoi-Ho Chi Minh City, Bangkok-Phuket, Cebu-Manila, Kota Kinabalu-Kuala Lumpur and Surabaya-Makassar.

Figure 15: Annual Scheduled Seat Capacity in ASEAN Markets, CY 2000-2012



Source: Innovata Schedules via Diio²⁰

3. The Relevance of Open Sky Agreements in EU and ASEAN

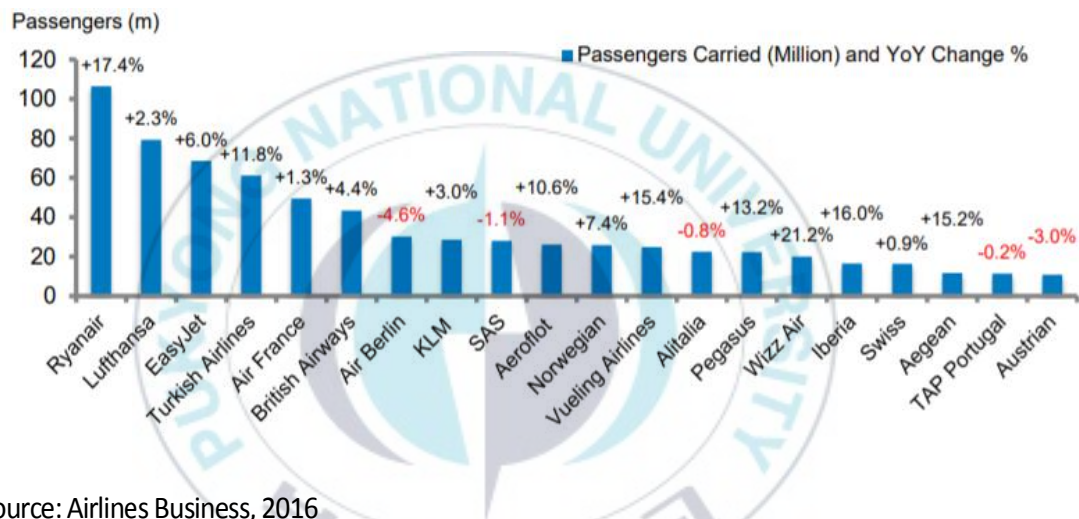


The idea of Open Sky Agreement is regularly connected with the liberalization of the airspace between two nations or inside a region. OSA accompanies the development of carriers typically known as low-cost carriers that operate mostly in domestic airports and are helpful for the consumer's welfare.

²⁰ Economic impact of Air service liberalization, June 11 2015, p 33

The Association of European Airlines reports that member airlines conveyed 311 million passengers in 2015, which was a 4% growth more than 2014, while the average load factor stayed consistent at 81%. The European Low Fares Airline Association announced a substantial 37% expansion in travelers between July 2014 and June 2015.

Figure 16: EU Passenger Traffic in 2015

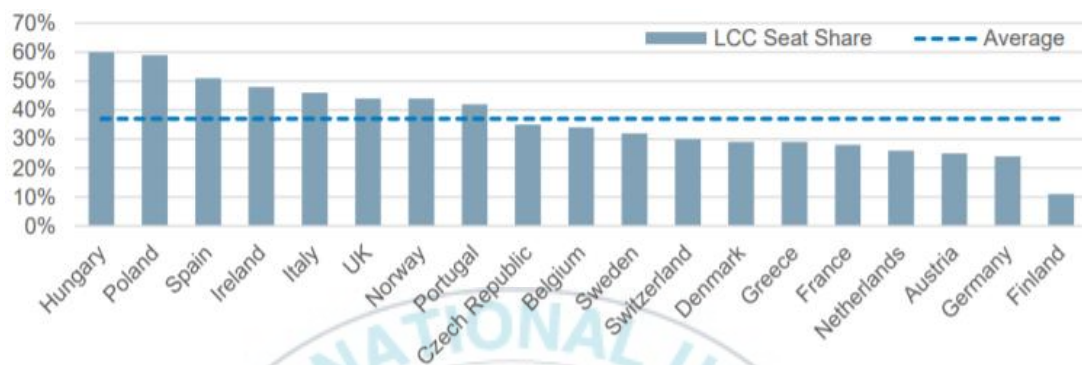


Source: Airlines Business, 2016

The figure above demonstrates the strong growth in passenger traffic for 2015. LCCs kept on assuming a unique role in the European air traffic market amid 2015 and saw probably the most astounding increases in Passenger traffic, for example, Ryanair (17%), Easy Jet (6%), Vueling (15%) and Wizz Air (21%). This demonstrates that the airline operation in Europe keeps on developing with the dispatch of new ventures, courses, and plans of action. To adjust to the changes in the airline business, Norwegian Air Shuttle keeps on growing long-haul low-cost carrier operations while Lufthansa has propelled a whole deal LCC subsidiary to compete for

leisure passengers. European operators have been on the edge of this pattern, with 96 long haul routes presented since 2012 the vast majority of any region.

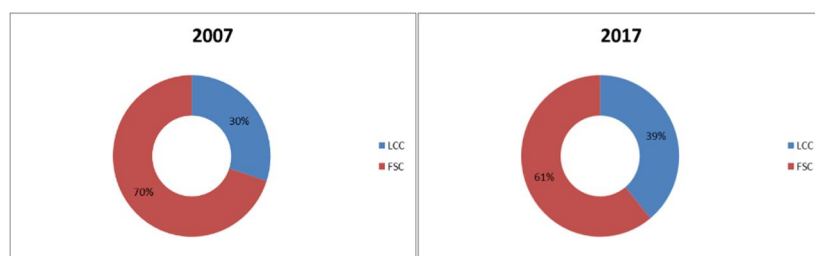
Figure 17: Low-cost Capacity across Europe in 2015



Source: CAPA Centre for Aviation, OAG, 2016

The average low-cost capacity across Europe was 40% in 2015, while mostly the substantial LCC's home countries positioned over the low-cost capacity share. Hungarian transporter Wizz Air proceeded with its extension in Eastern-European countries; Ryanair (Ireland) pushed its growth crosswise over European markets, including Spain and Portugal. Interestingly, low-cost capacity in countries such as France, the Netherlands, and Germany were beneath the normal mainly due to the strong presence of full-service carriers namely Air France, KLM, and Lufthansa.

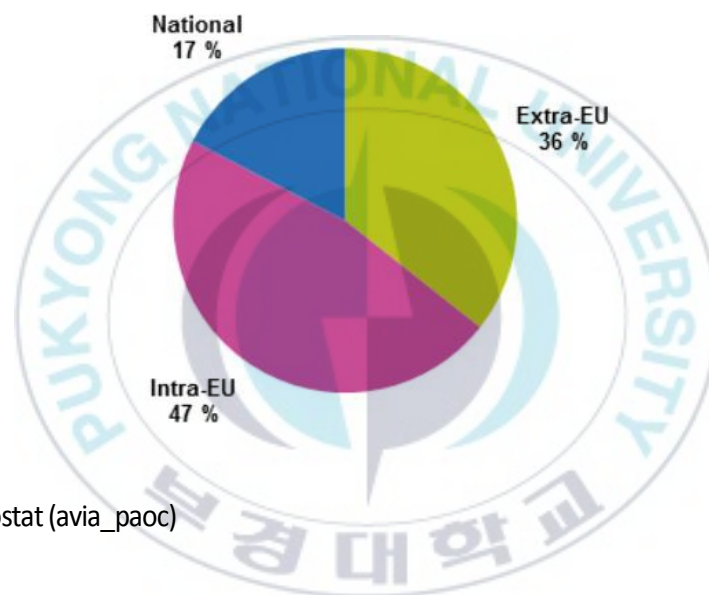
Figure 18: LCC vs. FNSC Capacity Share within EU (% of seats)



Source: CAPA with data provided by OAG

European Low-Cost Carriers continue to perform well. The figure shows the LCC capacity share growth within the EU, from 30% in 2007 to 39% in 2015. This proves that LCCs are more profiting the liberalization than FNSC.

Figure 19 EU-28 Air Transport Passengers in 2016



Source: Eurostat (avia_paoc)

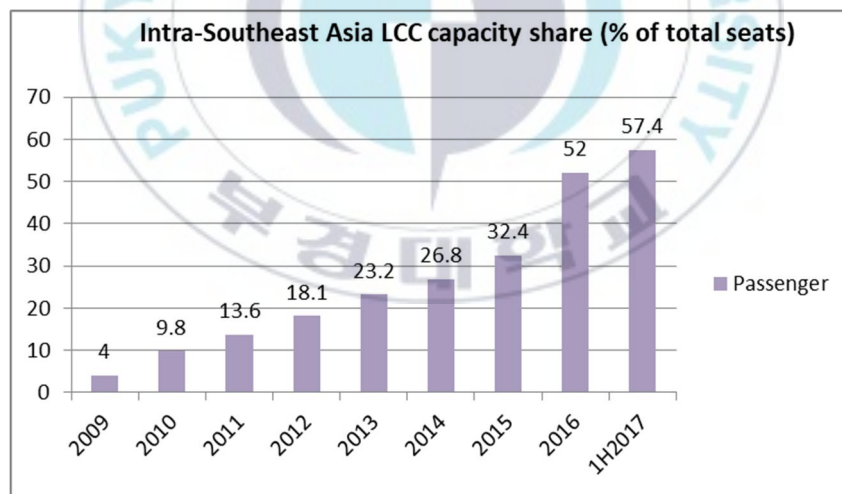
The figure below shows the overview of the EU-28 air transport passenger in 2016. It indicates how the intra EU share evolved and was established at 47%. It was the main destination ahead of extra-EU transport (36 %) and domestic passenger transport (17 %). This goes in accordance with the expansion of LCC that offers good deals to passengers that is cheap fares and more connectivity.

In ASEAN then again, under the deregulated conditions, LCCs tended to flourish. This was to a great extent because of their dynamic cost structure, enabling these organizations to be deft

as they invalidate through great occasions and difficulties while breaking into new markets. On numerous occasions, the LCCs have been able to proliferate and gain a significant amount of market share in routes which were once dominated by FSCs.

In ASEAN, a good number of the FSCs have sought after the multi-branding technique by acquainting their very own LCC brand with catch the growing LCC market segment while holding their presence within the FSC sector. Eminent precedents incorporate Thai Airways-Nok Air, Garuda-Citilink and SIA-Tiger Air while the best three free LCCs inside ASEAN are the Air Asia Group, Cebu Pacific and Lion Air.

Figure 20: Intra-Southeast Asia LCC Capacity Share (% of total seats) (from 2009 to 1H2017)



Source: Data collected from OAG, CAPA, MIDFR

In 2016, LCC penetration rate within ASEAN exceeded 50%, after more than ten years of steady growth which started from a low base of 50% LCC penetration rate namely, Indonesia, Malaysia, and the Philippines. The Myanmar and Vietnam market should see more room for

the LCCs to grow as LCC penetration rates in 2013 is only 23% and 26.8% respectively in 2014.

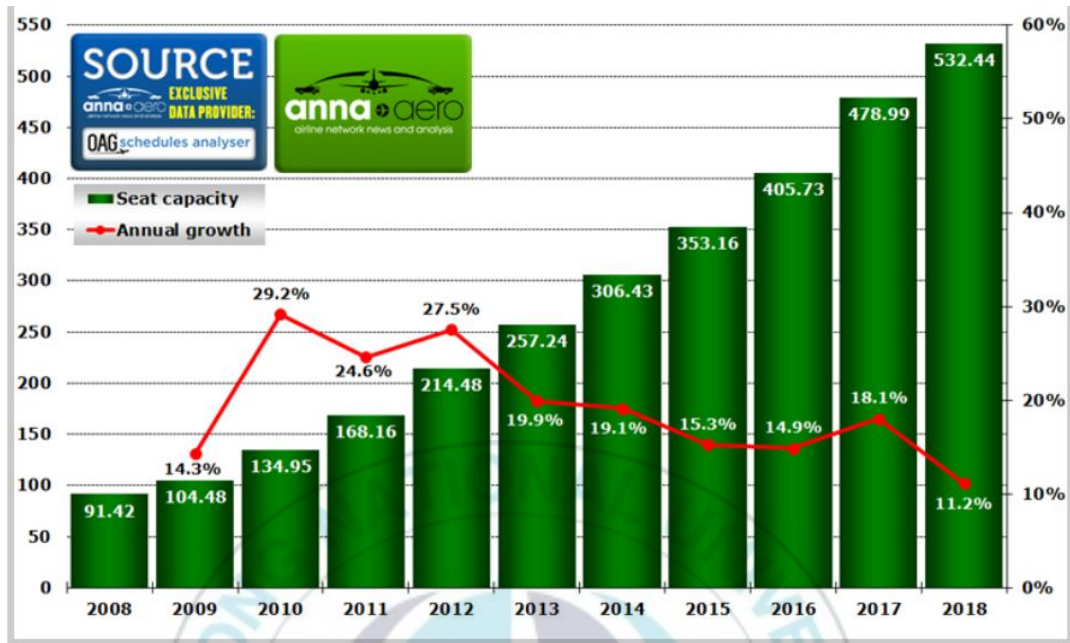
Laos, a landlocked country, remains one of the poorest countries in ASEAN. The potential of LCC demand in Laos would be dependent on the future growth of the regional spending power.

A more liberalized aviation market tends to benefit established LCCs which can use on a bigger working scale because of their expanded systems and dynamic cost structure. Competition would also intensify as the removal of capacity and route restrictions would see more extensive choices being made available to travelers at lower fares.

4. EU-ASEAN Single Aviation market share

With the incomplete open sky, and with the development of low-cost carriers, over the last decade ASEAN has had the lead of market share in Europe. The business model has advanced in the most populated part of the world. Home to around 4.54 billion people, up from roughly 3.73 billion in 2000 according to Worldometers, a forecasting company which uses an algorithm to process data collected from the United Nations Population Division, the continent is certainly fast-paced when it comes to growth. This statement can certainly be applied to its aviation market, with the number of departing seats flown from Asian airports growing by 111% between 2008 and 2018, with a forecast of 1.90 billion departing seats being flown in 2018. Of these seats, 28% will be flown by a low-cost operator.

Figure 21: Low cost in ASEAN (2008-2018): Annual departing seats

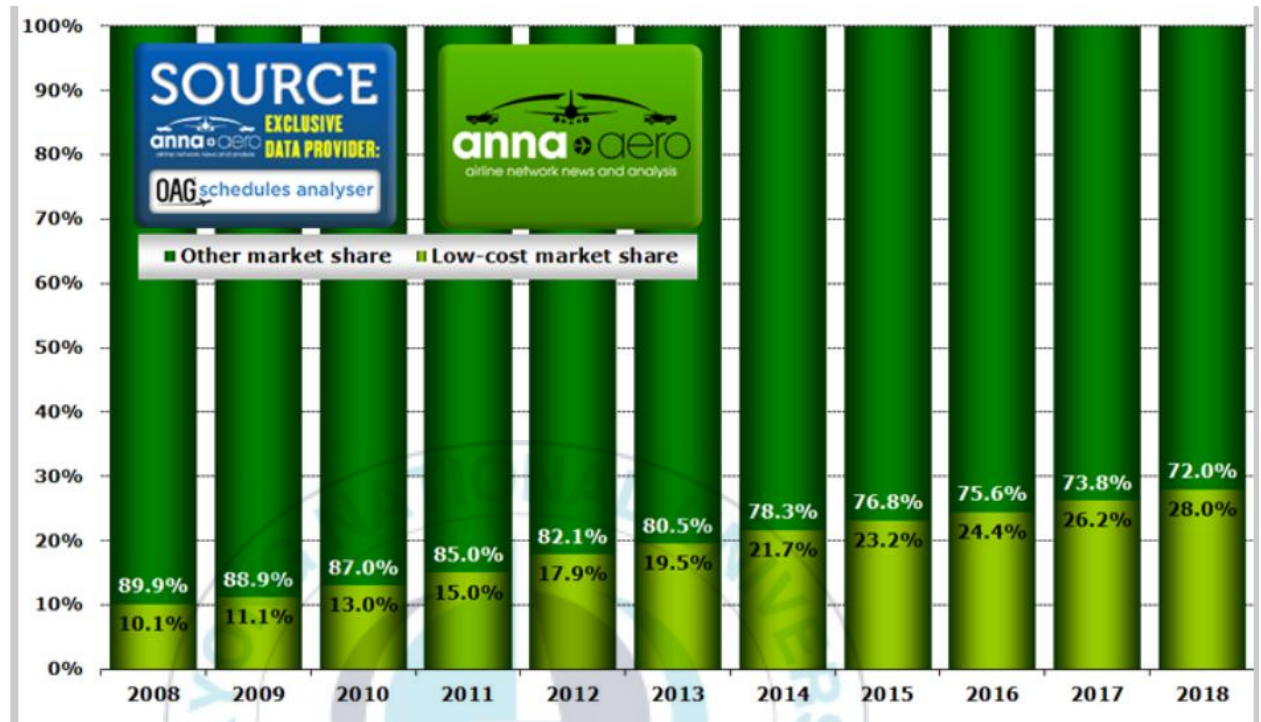


Source: OAG schedule analyser data²¹

While low-cost seat capacity from ASEAN advanced by just under 53.45 million seats this year, the rate of growth has slowed down versus 2017, when seat capacity grew by 18% (73.26 million extra seats). In fact, the rate of growth forecast for 2018 is the slowest on record in the period analyzed, with the best years for advancement being 2010 and 2012 respectively, with both of these years seeing growth of over 25%. Based on the average annual growth rate of 19% recorded over the past decade, low-cost seat capacity could reach 630 million in 2019. This could not be the case because of the pandemic that affected the aviation sector.

²¹ <https://www.anna.aero/2018/07/25/asian-low-cost-market-overtook-europe-2017/>.

Figure 22: Low-cost market share 2008-2018



Source: OAG schedule data analyzer²²

The market share of low-cost airlines in Asia, in terms of seat capacity, has risen by 18 percentage points between 2008 and 2018, going from a share of just over 10% 10 years ago to 28% this year. Since 2008, the market share of all seats in Asia flown by low-cost airlines has grown on average by 1.8 percentage points per annum, eclipsing the 1.4 percentage point growth rate averaged by European LCCs in their home market.

²² <https://www.anna.aero/2018/07/25/asian-low-cost-market-overtook-europe-2017/>.

V. The rationale of EU-ASEAN Open Sky Agreement

Aviation in ASEAN has experienced a considerable growth in last decade.

Domestic scheduled traffic passenger which grew by 10.7% in 2017, making it the world's largest domestic market to North America in 2016²³. Seat capacity registered more than double from slightly over 200 million seats in 2008 to close to 530 million seats in 2018²⁴. Growth has been in the high single digits or low double digits most years, making Southeast Asia one of the fastest growing regions. LCCs have captured most of the attention, due to their rapid expansion and massive aircraft orders. LCCs have added nearly 200 million seats this decade, resulting in Southeast Asia's LCC penetration rate increasing from less than 30% in 2008 to nearly 50% in 2018²⁵.

Despite the remarkable growth of the domestic market, ASEAN is still not a complete open sky region. Airlines came up with concept of cross border joint ventures (JV) to access foreign market within the region. ASEAN was a pioneering region in establishing the cross border joint ventures model. There are now 13 cross-border JVs operating in six Southeast Asian countries and

²³ <https://www.icao.int/annual-report-2017/Pages/the-world-of-air-transport-in-2017.aspx>.

²⁴ <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

²⁵ <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

several new JVs are planned or are under consideration (Jae Woon, Michelle, 2015, p.238)

The cross-border JV model enabled ambitious airline groups to circumvent airline ownership regulations and expand rapidly throughout Southeast Asia prior to open skies. It is important to note that the model remains necessary for accessing new domestic markets since open skies does not permit foreign airlines to operate domestic services. However

domestic competition is already intense and at times irrational, since Southeast Asian airlines have historically prioritized strategic expansion and market share over profitability. Meanwhile there have been plan for the creation of an ASEAN community carrier, where ownership and control restrictions are removed; circumventing the requirement that majority ownership and control resides with nationals of that country's airline. As part of this, ASEAN member states would recognize community carriers designated to operate in each other's countries. The real kicker would be amending air service agreements with non-ASEAN countries to recognize these airlines. Many scholars and researchers are arguing on whether these JVs are needed since ASEAN has already an open sky. The suggested ASEAN community carrier would unravel the concept of cross border joint venture as it was done for the case of European Union (EU).

On the other side, as of April 2019 a comprehensive air transport agreement between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) is nearing completion. The Proposals for an open sky deal between the EU and ASEAN which were first announced in February 2014 would provide a significant boost to air traffic and connect a combined population of 1.2 billion and could generate economic benefits of €7.9bn during the first seven years (Hsieh,2019, p.199)

This part of the study seeks to assess the prospects of ASEAN single aviation market by analyzing the effectiveness of cross border joint ventures with the open sky already in place and analyze if the new CATA would contain the sixth freedom carriers as the agreement suggests. This will be done by pointing out the impact of joint ventures in the ASEAN aviation industry and the unequal bargaining position that hinders the two regions in their common aviation market. The disproportionateness between the EU full integrated sky and the ASEAN incomplete ASAM will prove the aero-political realities influencing the proposed agreement which in return can affect the market share and competitiveness of EU and ASEAN's aviation towards their rivals.

1. ASEAN's Airline Cross Border Joint Venture

In ASEAN, the concept of cross border joint venture, also known as the 51-49 rule, is a business model that allows foreign airlines to co-own an airline but the majority owned by the locals; this allows carriers to be capitalized by foreign investors beyond the customary 49% limit mandated by the substantial ownership rule (Christopher, 2005, p.14). There are now 11 cross-border JVs operating in six Southeast Asian countries and several new JVs are planned or are under consideration. Note that all except one (Malaysia's Malindo) are low cost airlines.

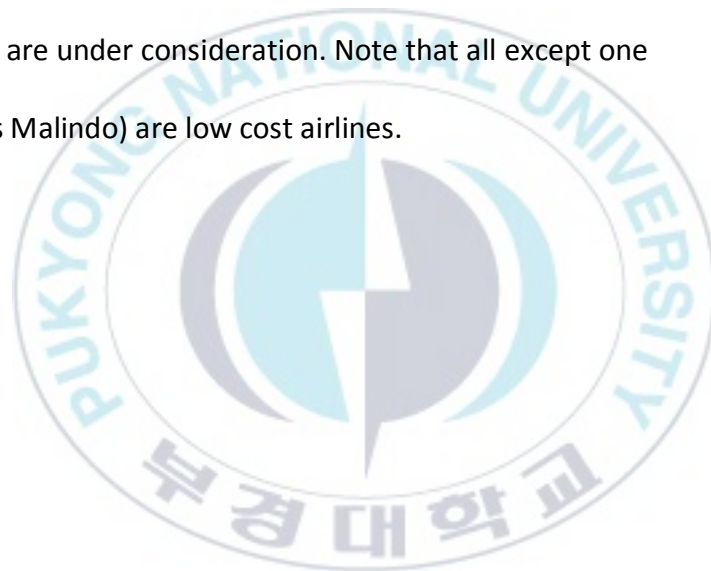


Table 6: Cross joint ventures operating in ASEAN

Airline	Country	Launch date	Overseas partner	Country partner	Fleet number as of 2018
Thai Air Asia	Thailand	2004	Air Asia	Malaysia	59
Jet star Asia	Singapore	2004	Jetstar/quantas	Australia	18
Indonesia Air Asia	Indonesia	2005 ²⁶	Air Asia	Malaysia	23
Jet Star Pacific	Vietnam	2008 [^]	Jetstar/quantas	Australia	17
Philippines Air Asia	Philippines	2012	Air Asia	Malaysia	21
Tiger Air Philippines ^{*27}	Philippines	2012	Tiger Airways	Singapore	N/A
Tiger Air Mandala*	Indonesia	2012	Tiger Airways	Singapore	N/A
Malindo Air	Malaysia	2013	Lion Air	Indonesia	46
Thai Lion Air	Thailand	2013	Lion Air	Indonesia	31
Thai Air Asia X	Thailand	2014	Air AsiaX	Malaysia	7
Thai Viet Jet Air	Thailand	2014			4

26 [^]Jet star was a pre-existing airline known as Pacific Airlines, but adopted the LCC model and was relaunched as Jetstar Pacific in 2008 and Indonesia Air Asia was a pre-existing airline known as AWAIR, but adopted the LCC model and was relaunched as Indonesia Air Asia in 2005.

27 Note:* In 2014, Tigerair Philippines was sold to Cebu Pacific and Tigerair Mandala ceased operations.

Indonesia Air	Indonesia	2015	Air Asia X	Malaysia	2
Asia X					
Nokscoot	Thailand	2015	scoot	Singapore	4

Source: CAPA - Centre for Aviation and CAPA Fleet Database²⁸

The table above shows the cross border joint venture per date of launch and their number of fleets as of 2018. Out of the five cross border JVs are affiliated with Air Asia and Air Asia X with the highest number of fleets operating in the six countries. Note that out of the seven main ASEAN countries, Myanmar does not accommodate any joint ventures yet it is the fifth largest ASEAN country by population and the seventh largest by GDP²⁹.

1.1. Cross Border Joint Venture: The future of ASEAN Single Aviation Market

The establishment and rapid expansion of cross border joint venture have impacted significantly the aviation market in ASEAN over the last 15 years. In spite of the discussions that reckon them unnecessary since the creation of open sky, joint ventures show a significant growth in both domestic and international market.

²⁸ <https://centreforaviation.com/analysis/reports/cross-border-airline-jv-model-is-there-still-room-in-southeast-asia-406747>. Accessed 05 August 2019

²⁹ Source: CAPA - Centre for Aviation and World Bank

Low-Cost Carriers (LCC) penetration in ASEAN increased considerably from 30% in 2008 to 50% in 2018³⁰. The following figure shows the seat capacity of low-cost carriers versus the full-service carriers.

Figure 23: ASEAN LCC vs. FSC annual seat capacity 2008-2018



Source: CAPA - Centre for Aviation and OAG³¹

Low-cost carriers account for at least 50% of the capacity in the five main domestic markets (Malaysia, Indonesia, Thailand, Vietnam and the Philippines). Low-cost carriers account for more than 70% of the domestic market in Thailand and nearly 70% and the Philippines.

All five countries have large domestic markets of at least 25 million annual passengers. Combined these five domestic markets generate over 220 million annual passengers, led by Indonesia with around 100 million³².

³⁰ <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

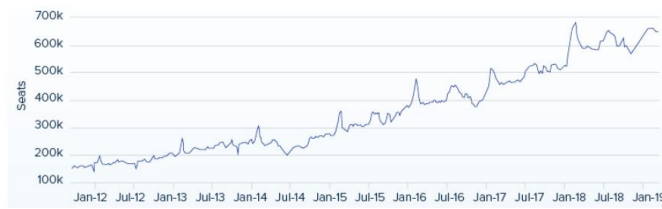
³¹ <https://centreforaviation.com/analysis/research-publications/63>.

³² <https://centreforaviation.com/analysis/reports/emirates-etihad-qatar-continue-to-pursue-rapid-expansion-in-southeast-asia-western-europe-market-120471>

Cross border joint venture has experienced a slow decline this year. This was mainly because the markets have started approaching saturation after several years of rapid growth driven by LCC stimulation. Fares are already very low, and with a large portion of the population having already started to fly in recent years the opportunity for more rapid domestic growth is limited. On the other hand, the international market accounts a significant growth. The cross border joint ventures from the main five main domestic market are experiencing faster international growth than domestic. In response to the saturation of the market within the region they are shifting their attention to international expansion. An example to that are Air Asia and Air Asia X that account more of the international market share.

The following figure shows the weekly seat capacity of low-cost carriers from ASEAN countries to china. The JVs account between 30 and 40% of the international seat capacity led by Malaysia (the home of Air Asia, the largest low-cost carriers' brand in ASEAN) with a remarkable 50% of the market.

Figure 24: ASEAN-China weekly seat capacity jan2012-jan 2019



Source: CAPA - Centre for Aviation and OAG³³

China is becoming a focal point for Southeast Asian LCCs (and to some extent FSCs) as Chinese visitor numbers to Southeast Asia have been increasing rapidly. There are now 12 Southeast Asian LCCs operating at least 20 weekly frequencies to China³⁴. Air Asia is the largest foreign airline group in China and Lion is the third largest.

Southeast Asia-China seat capacity has quadrupled over the past seven years. LCC capacity has increased tenfold and FSC capacity has tripled. Over the past two years, LCC capacity in the Southeast Asia-China market has doubled and FSC capacity has increased by close to a third.

However, China can be a fickle market, with growth that is hardly linear.

Chinese visitor numbers can suddenly contract, impacting Southeast Asian airlines that rely heavily on the Chinese market.

The passenger growth trend for ASEAN nations will track the expansion of economic activity in the region, which is projected to generally maintain a

³³ <https://centreforaviation.com/analysis/airline-leader/southeast-asia-airline-2019-outlook-in-this-fast-growth-market-low-costs-are-essential-457920>.

³⁴ <https://blueswandaily.com/airasia-china-network-reaches-20-destinations-cementing-its-position-as-leading-low-cost-brand/>.

robust trajectory or see a mild moderation, in line with larger Asian nations like China and India. Notable examples of the latter include Malaysia (+5% in 2019F, from +5.7% in 2018E) and Singapore (+3%/+3.2%). On the other hand, Thailand (+4%/+3.8%), Indonesia (+5.3%/+5.1%) and the Philippines (+6.7%/+6.7%) are expected to see the continuation of the strong momentum³⁵.

With the rapid economic growth of the region, the unit gap between full national carriers and low-cost carriers is most likely to reduce this year. Cross border joint ventures are pursuing further expansion within and outside the region despite the overcapacity and the fierce competition that were already in place. With the Higher airport charges being implemented in a range of major markets³⁶; that could impact demand in 2019 unless airlines reduce already low fares to offset the higher taxes.

The establishments of cross border joint ventures have contributed to the rapid expansion of ASEAN aviation industry. Their market share within and outside the region proves that joint ventures are indispensable to ASEAN aviation industry regardless of the open sky already in place. With the new

³⁵ <https://www.iata.org/publications/economics/Reports/Industry-Economic-Performance/Airline-Industry-Economic-Performance-December-18-Datatables.pdf>.

³⁶ <https://theaseanpost.com/article/are-airport-taxes-rising-across-region>.

Comprehensive air transport agreement between EU and ASEAN, cross border joint ventures might robust the airline industry of ASEAN.

2. The EU- ASEAN Comprehensive Air Transport Agreement (CATA)

As of April 2019, a comprehensive air transport agreement between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) is nearing completion. The Proposals for an open sky deal between the EU and ASEAN which were first announced in February 2014 would provide a significant boost to air traffic and connect a combined population of 1.2 billion and could generate economic benefits of €7.9bn during the first seven years³⁷. If the process goes well, soon, the aviation world will have its first inter-regional open skies agreement to have ever been concluded.

However, it is questionable whether the two regions will be able to regain the traffic that is operated by the sixth freedom carriers from the Middle East (Brian, 2009, p.12). While negotiations are still ongoing, it is in the interest of the two regions to come with an adequate solution to the challenge. This part focuses on the current status of open sky in each region. This will be done by taking into consideration the already existing bilateral agreements between

³⁷ https://ec.europa.eu/transport/facts-fundings/studies_en.

EU and ASEAN countries and assessing the feasibility of the agreement along with policy recommendations.

2.1. EU-ASEAN unequal bargaining position

For this agreement to come into implementation, all the pieces of the puzzle need to fall in place. There is no doubt that the EU is all set to put the agreement into implementation since it has a well-integrated sky within the region (Raguraman,1997, p.240)

The EU open sky policy is strongly sustained by three main features: a “one door” external policy, a regulatory convergence and joint bodies/offices respectively. The one door external policy is that the EU has the Economic Community (EC) which is a centralized authority body that deals with open skies regulations. The EC acts as the representative of the EU member states. Hence dealing with the EC is regarded as dealing with the 28 EU member states. The coordination among member states operated under the “one door” external policy has been proven to be effective and efficient within the region.

The regulatory convergence implies that the EU member states recognize an internal legal system with clear sanctions. It brings the member states to the successful implementation any obedience of any policy agreed upon, the

open skies inclusive whereas the existence of joint bodies/agencies serve the purpose related to Euro control, European Aviation Safety Agency (EASA), etc.

The features have effectively divided up the complex area of aviation into special agencies that ease the EC's task of monitoring the implementation of the EU open skies agreement. It is important to note that the EU has more experience in engaging in such agreements with its main partners such as Canada and the USA in 2009

Although those experiences happened at a different level, in this case, a State and a regional organization, those experiences will buoy the EU's confidence in dealing with open skies with other new partner(s), including regional organizations like ASEAN. Interestingly, the three characteristics of the EU, which hold a vital role to the success of the implementation of the EU open skies policy, cannot be found in the ASEAN open skies policy.

Unlike EU, ASEAN uses a different approach in concluding air transport agreement. It still uses a traditional bilateral agreement with its key partners. Instead of having a regulatory convergence like the European Union, ASEAN has a fragmented internal legal system that has no recognition of law and legal standard within the region

Further, ASEAN has no centralized authority like the EU has with the EC, the European Parliament, and the Court of Justice of the European Union.

Subsequently, inside, ASEAN has no authority in managing the implementation of the open skies approach, then, remotely this result into ASEAN's key partners dealing with each of the ten member states instead of one institution with a group of nations. Finally, the remarkable attribute of ASEAN open skies is that ASEAN has MAAS, MAFLPAS, and MAFLAFS as its open skies policy guidelines of which each is open to reservation from the member States.

The reservation will impede full implementation of the policy within the region. These ASEAN characteristics are completely hampering the full implementation of the ASEAN Single Aviation Market ("ASAM")/ASEAN open skies policy in the region. From the ASEAN side, the above conditions make realization of the Plan look too ambitious. For the time being, the ASEAN States are obviously not ready to implement the Plan. There is plenty of internal homework needing to be fixed so that ASEAN is able to compete with the EU in the future under the framework of the inter-regional open skies policy. Adopting the three EU characteristics within ASEAN will be a good starting point, which at the same time will also be the hardest point for the ten member States to be realized. Why? Because some ASEAN States still see this regional policy as a threat to their national interests. Thus, ASEAN States put their sovereignty above all. In fact, sovereignty issues complicate the prospects for example in harmonizing competition policies as well as safety,

security and air traffic management issues. Thus, having those three EU characteristics will only be another ambitious goal if each ASEAN Member State still insists on upholding its sovereignty above all.

Considering the above facts, both from ASEAN and EU side, one would conclude that the contemporary agreement is feasible to be implemented since each region has a well-established open skies system. Interestingly, with its incomplete single aviation market, ASEAN readily negotiates with third countries and blocs even as its own internal market is not yet genuinely "single".

2.2. ASEAN and bloc of the agreement

To date, the European Commission has concluded "horizontal" agreements with only 4 out of the 10 ASEAN states (Indonesia, Malaysia, Singapore and Vietnam) to allow for the automatic designation of all E.U. carriers to enjoy the traffic rights between individual E.U. states and these ASEAN states³⁸.

Four other ASEAN member states - Brunei, Cambodia, the Philippines and Thailand - have agreed to E.U. designation in a more limited way, which is through amendments of bilateral agreements with individual E.U. states. The

³⁸ European Commission, Bilateral Air Services Agreements brought into legal conformity since the Court of Justice of the EU judgments of 5 November 2002, [https://ec.europa.eu/transport/sites/transport/files/modes/air/international_aviation/external_aviation_policy/doc/table - asa brought into legal conformity since ecj judgments-january 2013.pdf](https://ec.europa.eu/transport/sites/transport/files/modes/air/international_aviation/external_aviation_policy/doc/table_-_asa_brought_into_legal_conformity_since_ecj_judgments-january_2013.pdf)

two remaining ASEAN states, Laos and Myanmar, have not yet entered into any agreement for E.U. designation.

i. EU designation agreement with ASEAN

In essence to that, E.U. designation allows carriers such as Lufthansa (and for that matter, all E.U. airlines) to be designated to fly between, say, Paris and Singapore even though they are not French carriers. However, actual traffic capacity remains governed by the relevant bilateral agreements. If these have finite entitlements (e.g., the France-Singapore agreement), the E.U. carriers will have to share that limited capacity between themselves following E.U. Regulation 847/2004³⁹. The table below shows the direct routes operated by EU and ASEAN airlines between the two regions.

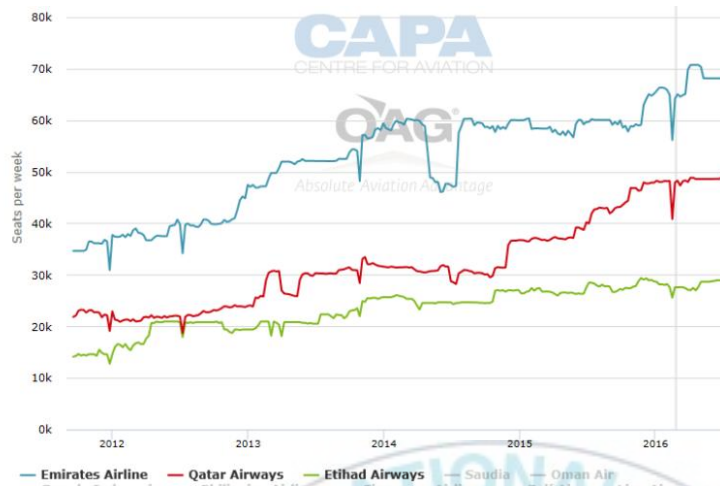
³⁹ Regulation (EC) 847/2004 of the European Parliament and of the Council of 29th April 2004 <https://publications.europa.eu/en/publication-detail/-/publication/76381cf7-4841-4b06-bbb4-ed18f9d4af1f/language-en>

Carrier (Region)	Originating Points/Hubs	Destination Points	Total Seats Weekly	% of Total Capacity
Thai Airways (ASEAN)	Bangkok	Brussels, Copenhagen, Frankfurt, London Heathrow, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Zurich	64,410	26.1
Singapore Airlines (ASEAN)	Singapore	Amsterdam, Athens, Barcelona, Copenhagen, Frankfurt, London Heathrow, Manchester (via Munich), Milan, Munich, Paris, Rome, Zurich	61,792	25.0
Malaysia Airlines (ASEAN)	Kuala Lumpur	London Heathrow, Frankfurt Paris, Amsterdam	27,516	11.2
KLM (E.U.)	Amsterdam	Bali (via Singapore), Bangkok, Kuala Lumpur, Jakarta (via Kuala Lumpur), Manila (via Taipei), Singapore	15,620	6.3
Vietnam Airlines (ASEAN)	Hanoi, Ho Chi Minh City	London Heathrow, Frankfurt, Paris	13,508	5.5
Air France (E.U.)	Paris	Bangkok, Ho Chi Minh City, Kuala Lumpur, Singapore	13,394	5.4
Lufthansa (E.U.)	Frankfurt	Bangkok, Jakarta (via Kuala Lumpur), Kuala Lumpur, Singapore	11,648	4.7
British Airways (E.U.)	London Heathrow	Bangkok, Singapore	11,284	4.6
Finnair (E.U.)	Helsinki	Bangkok, Singapore, Hanoi, Krabi, Phuket	9,992	4.0
SWISS (E.U.)	Zurich	Bangkok, Singapore	6,132	2.5
Austrian (E.U.)	Vienna	Bangkok	4,312	1.7
Norwegian (E.U.)	Stockholm, Oslo	Bangkok	3,492	1.4
Garuda Indonesia (ASEAN)	Jakarta	Amsterdam	3,140	1.3
Condor (E.U.)	Frankfurt	Bangkok, Phuket	498	0.2
		TOTAL	246,738	100.0

Source: Centre for Aviation (CAPA) and Innovata⁴⁰

⁴⁰ <http://centreforaviation.com/analysis/emirates-etihad--qatar-continue-to-pursue-rapid-expansion-in-southeast-asia-western-europe-market-120471>.

ii. Operations by sixth freedom carriers to ASEAN



Source: CAPA- center for aviation and OAG⁴¹

It can be seen that the Middle Eastern and Turkish carriers' penetration into both regions, particularly in the E.U., is hugely impressive. Hence, they have tremendous capacity to compete for traffic in the E.U- ASEAN market. Qatar Airways currently serves 12 destinations in eight Southeast Asian countries, compared with eight destinations in six countries for Emirates and seven destinations in six countries for Etihad. Qatar is currently the only Middle Eastern airline serving four of these destinations.

The best strategy in boosting the market is to ease the agreement between airlines that are in joint venture to apply the neutral operation. This will lead

⁴¹ <https://centreforaviation.com/analysis/reports/qatar-airways-to-continue-southeast-asia-expansion-with-new-nonstop-routes-to-cebu-and-hanoi-268399>.

to reduce the fierce competition between operators on a particular route and opt to engage in joint cooperation and sharing of revenue.

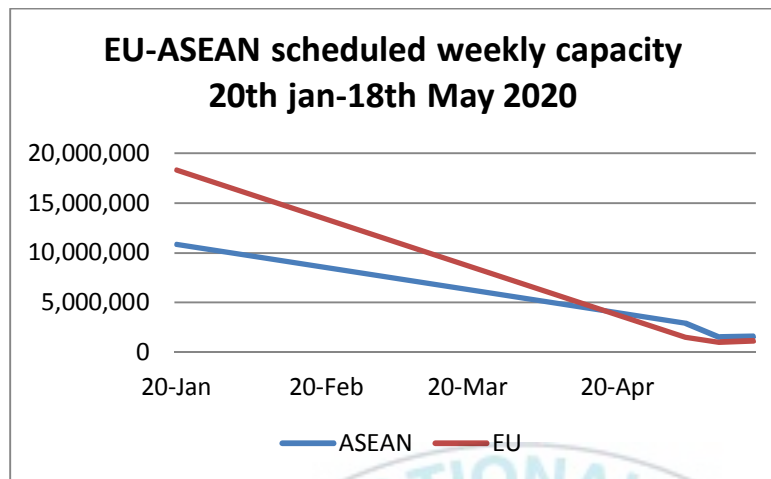
3. The Pandemic and EU-ASEAN aviation market

With the COVID-19 outbreak, all the ASEAN member states restricted the air travel which refrain foreign visitor from entering. According to IATA, ASEAN revenue experienced a fall of 49% in passenger demand in 2020 compared to 2019. From January this year, the demand in passenger in ASEAN and EU dropped by 71.4% and 91.3% respectively⁴².

Even though the seat capacity remains some 83 million seats below the same week last year or a “modest” 73% lower, ASEAN and EU recorded two weeks of consistent growth in weekly scheduled capacity seats (5.7% and 2.1% respectively).

⁴² OAG, “Weekly Corona Update,”
https://www.oag.com/blog/coronavirus-update-week-eighteen?utm_source=hs_email&utm_medium=email&utm_content=88070726&_hsenc=p2ANqtz-9x6An01HRAev5I4YAtUfXnO3T3Sd2gsH_gmQ4fPpfa9CdSeYLB6edFSgVxPx64z3F0_a8yGvCP1Cp9A6_ylu6Pp6avmA&_hsmi=88070726 (Accessed 2020.05.19)

Figure 25: Scheduled Airline Capacity

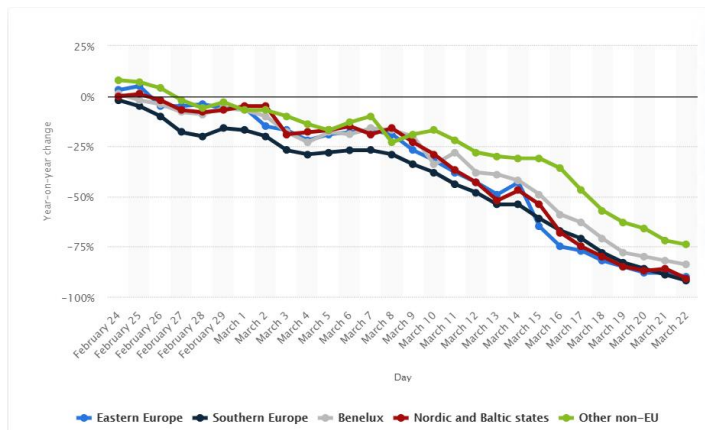


Source: Data collected from CAPA and OAG by author

Figure 25 illustrates the weekly scheduled capacity from the beginning of this year to this week. There was a tremendous fall in capacity in both regions. However, there is a record-breaking positive week for weekly capacity growth for the past two weeks since the outbreak. The increase is mainly due to the domestic flight returning to the skies amid the covid-19 pandemic.

4. EU aviation sector

Figure 26: Year-on-year change of daily airport passenger traffic in Europe from February 24 to March 22, 2020, by region



Source: Data gather from statista

Amid the coronavirus (COVID-19) pandemic, countries and organizations began to implement precautionary measures to contain the spread of COVID-19 for a public purpose. Some of the preventive methods included imposing lockdowns or encouraging no travel unless necessary by governments. Similarly, businesses adopted a multitude of strategies to cope with the challenge, such as avoiding business travels or minimizing them. When aggregated, these measures by the governments and businesses affected the aviation industry adversely. Starting from February 2020, the year-on-year revenue-passenger kilometer (RPK) change on international routes continued to decline, reaching roughly 99 percent of decline by April 2020.

This decline implies an almost complete cancellation of air travel across the globe. Just like previous months, the enormous negative effect of COVID-19 on passenger aviation continues to persist as of September 2020.

Consequently, airlines were desperately urged to request government aid.

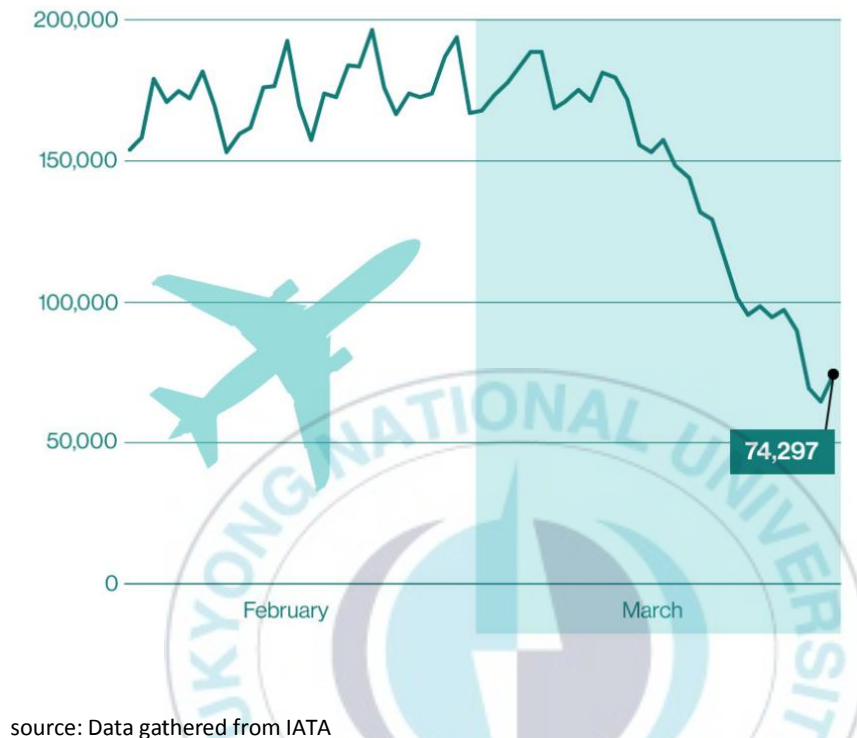
For instance, Lufthansa Group received over 12 billion U.S. dollars and Air France KLM roughly 11.7 billion U.S. dollars in government bailout package.

Despite all, the vulnerability of airlines perseveres as the coronavirus pandemic exposes the globe to the second wave of infections across countries.



5. ASEAN aviation sector

Figure 27: Number of flights tracked (Feb-march2020)



The COVID-19 novel coronavirus has prompted many to cancel their flights and travel plans amid the global health crisis. In March, it was reported that 10 percent of flights were cancelled compared to the same period of time last year. By April, over 80 percent of all flight movements were restricted across all regions.

The International Air Transport Association (IATA) estimates that global airlines will lose up to a maximum of US\$314 billion in 2020 revenues. The IATA also added that air traffic will not bounce back to where it once stood before the pandemic until at least 2023

Other airlines in Southeast Asia are facing a bleak outlook too. With empty tourist hotspots in the region and many barred from traveling – some airlines have grounded most of their planes and have cancelled new aircraft purchases.

Singapore Airlines considered one of the world's best carriers recently recorded its first-ever annual loss, citing poor fuel hedging bets and a drop in demand driven by the coronavirus crisis. The airline reported an estimated SG\$212 million (US\$149.14 million) net loss for the financial year ended 31 March, down from a profit of SG\$683 million (US\$483) a year earlier. Singapore Airlines will also cut 96 percent of its capacity through the end of June. Whereas Scoot – the low-cost airline and subsidiary of Singapore Airlines – has already cut 93 percent of its capacity,

VI. Conclusion

This study analyzed the prospects of ASEAN aviation by addressing the impact of cross border joint ventures in the aviation industry and drawing out the significance of the new EU ASEAN Comprehensive Air Transport Agreement under negotiation by pointing out the unequal bargaining that both regions present, and the position that this agreement stands in regard to the COVID-19 outbreak.

The establishments of cross border joint ventures have contributed to the rapid expansion of ASEAN aviation industry. Their market share within and outside the region proves that joint ventures are indispensable to ASEAN aviation industry regardless of the open sky already in place. With the new Comprehensive air transport agreement between EU and ASEAN, cross border joint ventures might robust the airline industry of ASEAN.

Presumably there is not much that the comprehensive agreement can do to stem the loss of traffic to the 6th freedom rights. The two regions should not allow the agreement to be based on the sole desire of neutralizing the 6th freedom. They should rather focus on other area of liberalization that stimulate mutual profit such as trading relations and market philosophy.

Since ASEAN member states operate on the 49% cap of foreign ownership, the same deal should be offered to the European Union if ASEAN agrees. It

would simply settle for a 49% ownership and leave it to its member states if they wish to adopt it. This would be more realistic for countries where it might be difficult to amend it in the constitution.

The EU-ASEAN Comprehensive Air Transport Agreement constitutes a major breakthrough for ASEAN's aviation industry recovery. The agreement will improve the right to fly between countries, or what the International Civil Aviation Organization classifies as the "5th Freedom", for both ASEAN and EU carriers. For example, ASEAN carriers that fly from Chiang Mai to Amsterdam with a stop in Paris will be allowed to pick-up passengers and cargo for the leg between Paris and Amsterdam; a freedom that does not currently exist. Similarly, EU carriers will be able to fly from Dusseldorf in Germany to Surabaya, Indonesia with a stop in Singapore, Kuala Lumpur, or Jakarta. The agreement will lift existing restrictions on code-sharing agreements between the respective states' carriers, permitting them to code-share freely on trunk routes as well as on each other's regional and domestic networks. This is expected to increase the "point-to-point" traffic in both ASEAN and EU countries, thus strengthening the position of both regions' airports, creating additional demand that can help build the critical mass for new connections, including reopening connections abandoned during the pandemic.

Regarding the airline consolidation, ASEAN-EU CATA will eliminate market access limitations. More ASEAN and EU airlines shall be able to enter existing hub-to-hub operations to compete with the current players, for example the Middle East and Gulf-based operators. The creation of new joint-venture operations should allow competing players on hub-to-hub routes to cooperate and engage in joint marketing and revenue-sharing, which can reduce shares of existing dominant players while at the same time decreasing average travel costs.

The entrance of foreign operators into ASEAN domestic air operations should not be seen as a loss of sovereignty. It is a fast and realistic strategy to recover the entire aviation industry while at the same time sustaining connectivity within the ASEAN region to maintain the competitiveness of regional production networks and the attractiveness of the region as an investment destination.

The strategy will also increase regional air transport market competition and improve efficiency and bringing down costs. ASEAN countries on the other hand might need to set up cabotage principles that ensure certain minimum of domestic shares ownership of the foreign companies and must elaborate and implement high market entrance standards in areas such as safety and security.

In the light of gaining more understanding about the contradictions and how to overcome the integration problems, the theories analyzed proved to be essential in the success of an open sky agreement.

Despite the existence of large economic distinctions between European and ASEAN integration. Institutionally, the insignificant roles for norms and values in both the theories are in line with the great adherence to the principles of the ASEAN Way. In addition, the existing limited scope of the Secretariat contradicts the suggested increased institutional scope during integration advancement; Furthermore, the consensus-based decision-making style and equal negotiation position of all members are also not operating in accordance to the liberal intergovernmentalist assumption of distinct bargaining positions.

These points contributed to the slowdown of the rate of integration and gave evidence to the, by various scholars mentioned, assumption that the great socio-political divides between ASEAN and the EU act as factors to the theoretical inconsistencies; It is important to note that many of these flights are government subsidized and solely for the purpose of transporting cargo. Though some are open to public bookings, others will only issue tickets to emergency personnel or essential workers who need to get around. One should think of these flights as a dress rehearsal for a gradual re-upping of the aviation industry.

Despite the uncertainties that lay ahead in the travel industry, the global demand will most likely to bounce back at least partially by the second semester of this year. Nevertheless, one should point out that the demand could be much lower than the forecast due to the significant economic impact of the pandemic in ASEAN especially. This will lead to the elimination of small operators and less established routes.

While lower demand is economically bad for hub airports and bigger airlines, some smaller point-to-point direct routes may disappear completely under this situation, and instead shift to hubs resulting in the consolidation of bigger hubs and airlines. At the same time, some smaller hubs would lose the critical mass to allow efficient transit operations and would be limited to serving mainly point-to-point connections. For ASEAN countries, this consolidation and dispersion should affect both intra-regional and long-distance (intercontinental) air passenger trips.

First, for intra-regional ASEAN air trips, the consolidation might reduce the number of airlines that compete in the heavy traffic routes such as between Kuala Lumpur and Jakarta or Singapore. The impact can also be significant domestically in the Philippines and Indonesia, where domestic travel restrictions affect some heavy traffic routes. In those two countries, the need to decrease fixed operational costs in the low demand period would push

low-cost carriers to adapt their operation, meaning cancelling of some lower demand connections and/or abandoning some smaller hub airports.

Second, intercontinental traffic is impacted more severely than intra-regional trips in terms of passenger demand, financial loss and recovery time.

Currently, the drop in intercontinental demand is caused by travel restrictions, but in the future, this demand will remain low mostly due to the severely damaged economic sector.

According to a recent report of the International Air Transport Association, international traffic demand dropped 65.5 percent for Asia-Pacific airlines in March 2020 compared to March 2019 which is the highest drop among the world regions. However, despite some decrease in traffic, airlines from Gulf and Middle East regions, as well as hub airports of those regions, should be able to maintain their domination whilst smaller operators from Asia Pacific will face significant difficulties in maintaining operations in those corridors.

One strategy that can address the impact of low demand on ASEAN carriers would be the adoption of agreements between ASEAN and other world regions such as the on-going ASEAN-European Union Comprehensive Air Transport Agreement (EUCATA). The European path to open sky agreement is not to be neglected. Even though the two regions differ on some aspects,

they have some policies that can help ASEAN get on the way to full integrated sky.



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