

SPECIAL REPORT

By Michael Maynard, Senior Airport Planner, Wilbur Smith Associates

THE GLOBAL ROLE OF AVIATION

Consultant says industry often overlooks its role, impact on world commerce

We are in the midst of profound economic changes known as globalization; and yet, the topic is rarely discussed at any length at aviation conferences or in trade journals. Globalization is the movement to a more connected world — a world organized around nation-states and yet increasingly conjoined in a global marketplace. Globalization is an economic development platform supported by three legs: 1) global security, 2) global finance and trade, and 3) global connectivity.

On 9/11, terrorists attempted to knock the legs out from under the globalization process. Terrorists typically use high-concept, low-technology methods when operating their missions. Explosive-laden rafts strike a U.S. warship; truck bombs attack embassies; hijacked civil aircraft kill thousands. Such attacks are intended to drive the globalization movement from their part of the world.

One of the unique aspects of the

new global economy is a public policy shift, primarily at the macro level, from supporting less government intervention to encouraging more private enterprise and, simultaneously, reducing barriers to trade and investment. Since the 1970s many countries have decided to remove restrictions on capital flows.

Coupled with other domestic policies designed to promote competition among firms, these types of market liberalizations in trade and investment

have helped reduce costs to consumers and promote technological innovation.

Since the 1980s, market-oriented ideas (deregulation, privatization, and competition) are replacing the "government managed economies" paradigm. (Remember China's "jobs for everyone" program?) The result is greater confidence in the ability of competition and markets to deliver better outcomes, thereby encouraging businesses to expand abroad through foreign direct investment (FDI).

FDI occurs, for example, when an investor sets up an enterprise in a foreign country or obtains a large enough share in an existing foreign enterprise to influence managerial decisions. FDI flows not only from a developed country to an undeveloped country but also from one developed country to another, particularly through multinational companies (MNCs). The share of total investment in the U.S. economy that is financed by FDI now reaches close to 20 percent, while in the 1970s it averaged 5 percent.

MNCs undertake FDI when they establish overseas operations through foreign affiliates. They also engage extensively in international trade. Worldwide, some 60,000 parent opera-

tions of MNCs and their 500,000 foreign affiliates account for roughly 25 percent of global output, one-third of it in host countries. U.S.-based MNCs account for a large share of U.S. production, trade, and employment. They produce about 19 percent of U.S. GDP through their parent operations.

CONNECTIVITY

Connectivity is required in order for globalization to work. Connectivity is driven by telecommunications, information technology, and transportation of goods and people. In today's new

In today's global economy, aviation is at the forefront:

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global economy, aviation is at the forefront: Air cargo accounts for 42 percent of the value of today's world trade but only 2 percent by weight. The Boeing Forecast places world air cargo growth for the 20-year outlook period at 6.2 percent and passenger growth at 5.2 percent annually for the same period, while world GDP is forecast to grow at 3 percent.

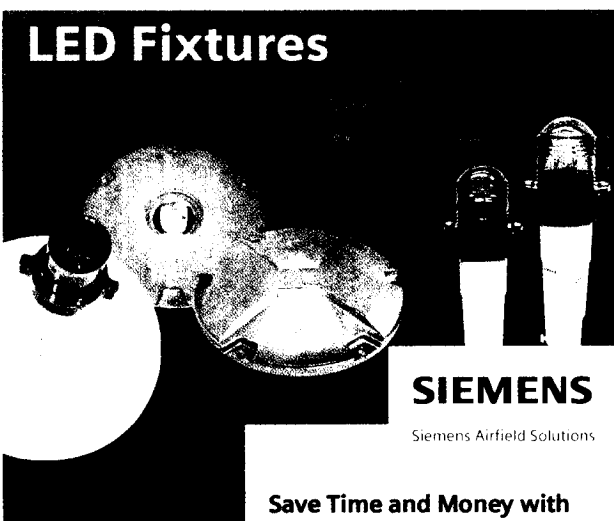
Obvious aviation activities connected to globalization are persons traveling for business on a commercial flight from Chicago O'Hare to London Heathrow or a corporate jet transporting business executives from Teterboro to Frankfurt. There are, however, other activities that take place in aviation that are less conspicuously connected to globalization. A few examples:

- An MNC such as Honda may invest in a manufacturing facility in your community through FDI. Honda executives then travel to your community via corporate jets both during and after construction. In Ohio, FDI comprised 11 percent of private investment for capital projects in 2003, up from 8 percent in 2002 and 2001.

- In Cozad, NE, an agricultural sprayer applies pesticide to wheat crops which, in turn, is sold to consumers in Japan. The latter ranks second in U.S. wheat exports — some 3.1 million metric tons in 2004. Apples and other produce grown in Washington State

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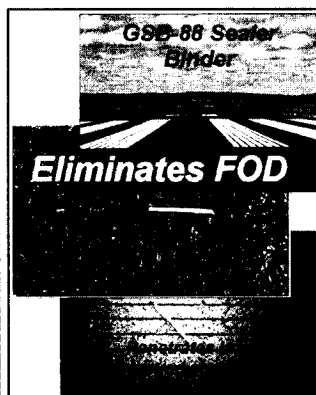
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are commonly shipped to Japan by air.

- In King Salmon, AK, a Lockheed Hercules L-100 departs for Tokyo with containers of sockeye salmon and salmon roe (eggs) during the summer fishing season. Some 98 percent of Alaska salmon roe is exported and most of that (87 percent) goes to Japan.

- Helicopters shuttle bank checks between the finance district in Lower Manhattan and Europe to inbound and outbound aircraft. Helicopters are the necessary mode of transport for these checks, many of which are in the amounts of millions of dollars, to minimize each minute of accrued interest.

- Air cargo companies are increasingly being used for supply chain management by manufacturers. Dell Computer in Austin has disk drives manufactured in Malaysia and transported via air cargo aircraft to the final assembly plant in Round Rock, TX — meeting Dell's just-in-time schedule.

- The Ohio Department of Development maintains that Cincinnati has business location advantages because of the Cincinnati/Northern Kentucky International's direct international flights. In fact, over 200 companies located in the Cincinnati-Northern Kentucky region are owned by foreign firms from Japan, Western Europe, the U.K., and Canada.

- A study by the Atlanta Chamber of Commerce, which surveyed 264 foreign-based establishments, found that availability of direct international flights was the third most important factor in location decisions by these firms.

- In the fall of 2004, Delta Air Lines applied to the U.S. DOT for rights to begin daily Atlanta-Beijing service in 2006. China is the fastest growing economy in the world and airlines and cargo carriers are competing for over 100 new airline routes between the US and China. Delta enlisted its largest business customers to lobby the U.S. DOT for the route, including Coca-Cola, GE Energy, Equifax Inc., and Cox

Enterprises Inc. The annual economic impact of the route on Atlanta's region is estimated at over \$400 million.

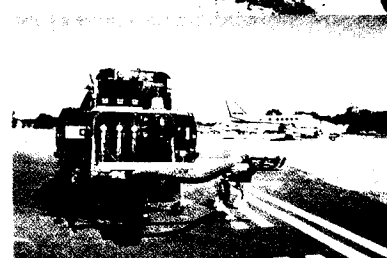
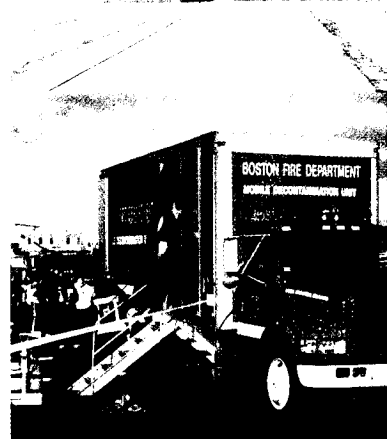
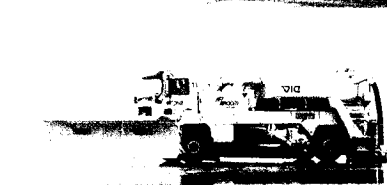
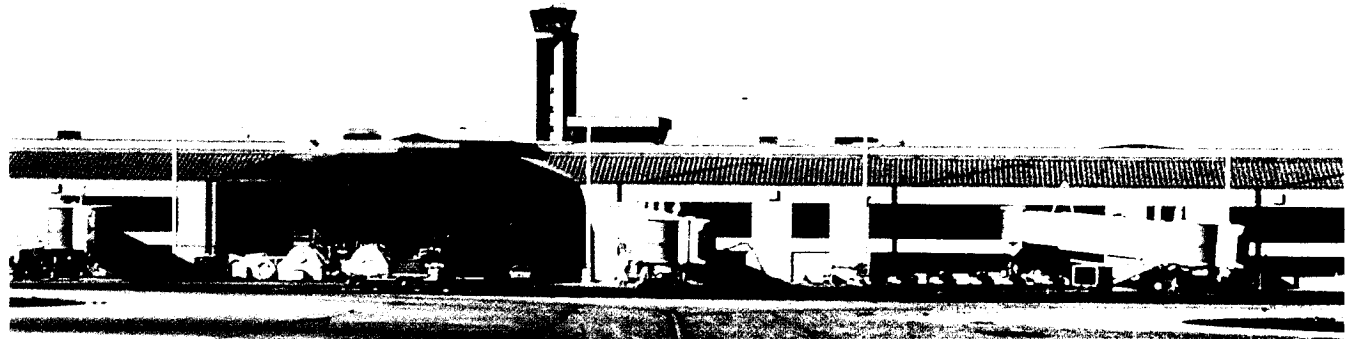
- In a report by USA BIAS (United States Airports for Better International Air Service) it was noted that New Economy employers have a 50 percent

higher demand for air travel than traditional industries. Consequently, they seek locations close to airports and, as a result, cities are forming around airports just as cities formed around seaports in the 18th century.

- In January, the U.S. and India

reached an open skies aviation bilateral agreement that will lead to more flights, lower fares, and stronger economic ties between the two countries. Trade between the two nations totaled \$18 billion in 2003, a 13.5 percent increase from the previous year. ➤

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SEMINARS

Seminars will be held on Monday and Tuesday with some of the topics including:

Runway incursion issues, Pavement Maintenance, Grounds Maintenance, Lighting and electrical, 139 regulations, Lightning arresting systems, Painting, Security and access control, Wildlife, Groundwater recovery systems, Safety during construction, and Winter operations.

REGISTRATION

To exhibit at this event, register as an attendee, or for more information about AOA visit www.aoaexpo.com.

Questions? Please contact:

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Meet the Airport

Mike Maynard is a Senior Airport Planner with Wilbur Smith Associates and is based in Cincinnati. He has been an airport consultant for 10 years and has experience in airport economics, airport system planning, airport site selection, air cargo, and as an airline planning analyst with DHL Worldwide Express. Mike has a Master of Arts degree in Geography from Miami University (Ohio) and a Bachelor of Arts degree in Geography from Valparaiso University.

