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Past and Future Development of the Airline Industry in South- and North East Asia

Topic and Research Question

Aviation is at the heart of global economic development, and global economic growth will shape future aviation. After Europe and North America, Asia-Pacific is currently the third major region in the field of global aviation.

This will change in the future with the Asia-Pacific region becoming the world premier region in the field of aviation. Especially in North- and South East Asia, air transportation is extremely important as it does not only serve to stimulate the economic development, e.g. trade and growth in the tourism industry, but also helps to improve the people's mobility. More generally speaking, the air transportation and therefore the airline industry helps to weave together a modern society.

In terms of research questions, the paper does not only want to show that there can be found clear correlations between the growth of economies of South- North East Asian countries and the growth of their airline industries but also which countries of South- and North East Asia sport the most pronounced growth in the aviation sector within the last two decades and what factors can be seen as the reasons for this growth. Furthermore the thesis aims to identify which airlines were best able to cope with and profit from the changes in the North- and South-East Asian aviation sector, and what the key reasons for their success are. The thesis will also answer the question why the penetration of South- and North East Asian countries by Low-Cost Carriers still very uneven and how has the Low-Cost aviation sector in North- and South-East Asia developed within the last years.

State of the Art

Research related to the field of airline industry is still a field where the majority of researchers comes from the United States and a lot of research is related to single U.S. airlines or the North American airline industry when focusing at a specific geographic area. As the airline industry as a field that consists of daily changes is an area where you cannot rely on papers and books that have been written years or even months' ago. Therefore the paper does not outline literature in depth.

Methodology and Approach

As there is no comprehensive model for analysing and comparing the development of the airline industry

existing that does not focus on certain issues only or just compares the time of two or three years, the paper is developing such a model based on two pillars. After giving an introduction to the topic the airline industry is divided into sub-categories such as airlines, airports and aircraft manufacturer that will be analysed in case studies as the first pillar of the analytic model. Therefore statistic material of various airlines has been compiled and certain key indicators of airline development, e.g. Profitability- as well as Efficiency Indexes, are analysed and compared as well as its financial and operational performance. The development of airports in the regions that are in focus of the case studies (People's Republic of China, Japan, Singapore and Malaysia have been chosen, mainly because of their different developmental stages including political, demographic and economic factors such as political systems, economy growth rates and population structure) is also be shown and analysed in terms of passenger numbers development. The second pillar on which the theoretical model is built are growth factors in the airline industry and how they influenced the development of the airline industry. Various factors (see Table 1) are defined and then analysed as part of every case study whether their development benefitted to the development of the airline industry positively or negatively. This analysis is done in the light of up to the past 20 years as far as numbers are available and airlines already existed.

The aim of this work then lies in the comparison of important passenger airlines in the regions of research. This comparison takes place on various levels. First, airlines are be compared with their competitors on a local level, e.g. comparing Air China to China Eastern and China Southern. Secondly, the airlines will be compared on a regional level. Lastly, this thesis will explore how they performed on the global stage.

The future development of the airline industry in East Asia will then make up the smaller second main part and is mainly based on forecasts conducted by aircraft manufacturers.

Main Facts

By comparing these results of the first pillar from Asia-Pacific and the world, on finds that all three Chinese airlines performed better than the average of Asia-Pacific and the world, both in terms of passenger development as well as in terms of the operating ratio. The two Japanese airlines performed inferior to Asia-Pacific and world airlines in terms of traffic development

but were at the same level of world airlines regarding their operating ratios. Singapore Airlines achieved a remarkably good operating ratio during the past two decades, the best of all Full Service Airlines in focus of this thesis and much better than the averages of Asia-Pacific and world airlines although the company did not achieve traffic growth as high as many of its competitors. Malaysia Airlines can be regarded as the weakest performing airline that is in focus of this paper, also compared to world- and Asia-Pacific airlines both in terms of traffic development as well as in terms of operating ratios. Last but not least, the Air Asia Group has to be mentioned. It stands out with an operating ratio of 83,5% for the past 8 years and traffic growth rates of more than 20%.

The main facts of the second pillar are concluded below.

	within the time span from 1993 until 2012			
	China	Japan	Singapore	Malaysia
Economic growth (GDP)	++	o	+	++
Impact of crises	-	--	--	--
Population growth/structure	++	+	++	++
Competition/falling prices	-	+	++	++
Alternative transportation	--	--	o	o
Government regulations	-	+	++	+
Tourism growth	++	++	+	++

Table 1 shows in what extent growth factors of the airline industry have developed during the past two decades and therefore influenced the airline industry of the particular countries.

Results

In regard to the first research question, which countries of South- and North East Asia sport the most pronounced growth in the aviation sector within the last two decades and what factors can be seen as the reasons for this growth: China and its "big three" have to be named in terms of FSC-growth in the aviation sector, driven by changes in the population structure, economic growth and growth in the tourism sector. Regarding South East Asia, Malaysia can be named in terms of growth in the Low Cost Carrier aviation sector, driven by falling airfare prices due to increased competition, economic growth, an emerging middle class and increasing tourism.

Answering the second question, which airlines were best able to cope with and profit from the changes in the North- and South-East Asian aviation sector, and what the key reasons for their success are, the Air Asia Group must be named as it was highly successful with its Low Cost Carrier strategy. Singapore Airlines on the

other hand was also successful by positioning itself as a Full-Service long-haul carrier benefitting from an extreme high reputation and relatively low CASM.

Regarding the third question, why the penetration of South- and North East Asian countries by Low-Cost Carriers is still very uneven and how has the Low-Cost aviation sector in North- and South-East Asia developed within the last years it can be said that this thesis has shown that especially the regulatory conditions have been and still are much better in the South East Asian countries than in China and Japan. Numbers have shown that the LCC-sector now accounts for nearly 60% of intra-ASEAN travel while this figure ranges below 10% for the intra North East Asian travel. Anyhow, especially during the last two years, a lot of LCC have established in North East Asia so that the North East Asian LCC sector is likely to grow in the future.

The paper has shown that China, Japan, Singapore and Malaysia have differently developed airline industries, which will, for various reasons like the different development of airline industry growth factors will continue to develop in different ways. The future for the aviation industry in both regions generally looks very bright, especially if seen in global context. Growth will continue and bring further development, new jobs and better travel opportunities that will also benefit economic connections between countries in the Asia Pacific area.

References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at/>

About the Author



Christian Nau holds a Bachelor degree in Business & Law from the Westcoast University of Applied Sciences, Germany. In the course of his Bachelor studies, he spent one internship-semester as Management Trainee in Singapore. This thesis is part of the Master's program East Asian Economy and Society at the University of Vienna, Austria.

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