The development of the low cost airline industry in asia

Environment, Air

1. Introduction

This report will address the assignment topic. ‘ Discuss the development of the low cost airline industry in Asia. The topic chosen for this report is the development of Low cost airline in Asia Tourism industry. To address the complexities of this topic, it is necessary to begin the report with an understanding of low cost airline and Aisa tourism industry. In a broader area, it is necessary to concern the impacts of Aisa, and implication for the future. It is important to keep in mind the global impact on the Tourism Industry that these changes could have. However, base on the limitation of time and information, this report will focus on China, Hong Kong, and Japan to investigate all of the issuse of low cost airline. Moreover, because these three regions are most popular to discuss and people will familiar with the situations of these regions. Therefore, the following content will investigate these three regions and all of the issues.

2. What is Low Cost Airline?

According to ITF (2002), the operation model of low cost carrier is point to pint services, usually low cost carriers will mainly focus on short haul flight between 400 -600 nautical miles, even they will not have catering and entertainment service inflight.

Moreover, they will use one aircaft type to enhance the utilisation and reduce the maintanace cost; also they will often using secondary airports with cheaper landing charges. In addition, they will focus on the lower income market and base on the time of booking and choice of flight

3. The Developmet of Low Cost Airine

Refer to Thomas Bieger, Andreas Wittmer (2006), in the early 1970s, the first Low cost airline mode was operated by Southwest Airlines in the United Stated. For the charateristics of this mode, the Southwest Airlines was just providing the single class and no frills air travel services that means they will no provide the meal and snacks, and just provide the economic class for passengers. Moreover, the fare price was low and high restriction, that means the fare will have a high penality for those who need to change the time and location of the fare.

Base on the liberalisation, deregulation and release of open skies policy. More Low cost airline was inccur and base on the growth of air travel (WTO 2002), the demand of aircraft was huge. Therefore, air travel was a potental market to develop.

For the development of Asia, In 1998 the two low-cost carriers, Skymark Airlines and Air Do, entered, respectively, the Tokyo-Fukuoka route and the Tokyo-Sapporo route. In South Korea, the LCCs, Hansung Airlines and Jeju Air, entered the domestic market in 2005 and 2006 respectively, and two more LCCs, namely, Yeongnam Air and Jin Air, just entered the market in July 2008. In Hong Kong and Macau, the two Special Administrative Regions of China, Oasis Hong Kong and Viva Macau are the

respective LCCs, both serving long-haul international routes – in effect, established in 2004 Viva Macau is the first long-haul LCC in Asia

In 2005, the first low costairline was established in China which was Spring airline. Spring Airline was established by Spring Travel and their operation model was quite similar to Southwest Airliness, they also just provide single class and no frills services. Spring Airine was just provide the domestic flight and have about 34 routes within

China.

4. Feasibility Study of Potential Market

According to World Airline Report (2008), In 2008 the Revenue passenger kilometreswas about 355, 243. For 2009 the Revenue passenger kilometres was about 313, 469. Although, the revenue was decrease about 11. 8% (Figure, 2). However, it was huge revenue for the airline idustry within Asia Pacific. On the othe hand, in 2009 the amount of passengers was abot 75, 363, 000 and in 2008 the amount of passengers was about 84, 586, 000 (Figure, 2), and decrease about 10. 9%. However, it can prove that the Asian market still have a large demand of the aviation industry.

3. 1 China

Base on the World Tourism Organisation Report (2004), About 108 million foreign visitors travelled to China, and 18 percent increase from 2003 and a 10 percent increase from 2002. Foreign tourists who stayed at least overnight reached 41 million, up 24 percent from 2003 and 11 percent from 2002.

Moreover, foreign exchange revenue from tourism reached 25 billion US dollars, a 47 percent increase from2003 and a 25 percent increase from

2002. In addition, the number of domestic tourists will reach 930 million. Domestic tourism revenue isexpected to exceed 400 billion Yuan, 5. 9 percenthigher than that of 2003 and 3. 1 percent higher than that of 2002.

3. 2 Hong Kong

On the other hand, in 2004, Hong Kong obtained over 21. 8 million tourist arrivals, representing an increase of 40. 4% as compared to 2003. Moreover, the strong performance of the tourism industry was mainly attributable to the spectacular growth of the Mainland arrivals, especially after the implementation and continual expansion of the Individual Visit Scheme which covers residents of Beijing, Shanghai Guangzhou, under the auspicesof the Close Economic Partnership Agreement(CEPA) with Mainland China.

During 2004, over 12. 2 million Mainland tourists visited Hong Kong, with over 4. 2 million travelling under the Individual Visit Scheme. Meanwhile, other major overseas markets also exceeded pre-SARS level andare growing healthily.

3. 3 Japan

According to World Tourism Organisation Report (JNTO) international visitors to Japan in 2004 (January to December) is estimated to be 6. 1million tourists, up 17. 9% from last year.

Base on World Tourism Organisation Report (2004), the total number of Japanese travellers to Republic of Korea in 2004 was 2. 4 million tourists and it exceeded the same figure in 2002. This is attributed to the popularity of

Korean TV dramasinJapan. The total number of Japanese travellers to China in 2004 (January to November) was 3 million.

The total number of Japanese travellers who went to Taiwan, province of China and Singapore was 890, 000 and 598, 000 respectively. Both figures exceeded 2003 figures when SARS was an issue, but did not reach the figure of 2002.

4. Low Cost Carrier Contribution in China

According to Civil Aviation Administration of China Report, In 2007, GDP reached 24. 6619 trillion yuan, an increase of 11. 4%, the fifth consecutive year growth rate of more than 10%.

Base on the CAAC report, over the last five years Chinese civil aviation has seen a rapid growth, averaging 20 % annual growth rate. In 2007, the completion of the total

Transportation turnover 36. 53 billion ton-km, passenger turnover 279. 17billion person- kilometers, passenger transport volume of 190 million passengers, cargo and

Mail turnover 11. 64 billion tonkm, cargo and mail transport volume of 4. 019 million tons, respectively, compared with 19. 5% last year17. 8%, 16. 3%, 23. 5%, and 15. 0% (Figure 1, 3)

Low cost airline to complete a total turnover of 1. 85 billion ton-km, an increase of 216. 9 percent, accounting for 5. 1% of the industry, an increase of 3. 2 percentage points (Figure 2)

4. 1 Low Cost Carrier Contribution in Hong Kong

By the Census and Statistics Department report (2008), In the first quarter of 2008, Hong Kong’s GNP increased by 6. 5% over a year earlier to $427. 3 billion at current market prices. The Gross Domestic Product (GDP), estimated at $409. 3 billion at current market prices in the same quarter, recorded a 9. 6% increase during the period. Compared with GDP, the value of Hong Kong’s GNP was larger by $18. 0 billion in the first quarter of 2008, representing a net external factor income inflow of the same amount, and equivalent to 4. 4% of GDP in that quarter.

Moreover, Hotel occupancy across all categories of hotels in January 2009 was 79%, eight percentage points lower than in January 2009. The geographic locations with the highest occupancy were Yau Ma Tei/Mong Kok, where hotels recorded average occupancy rate of 85%. The average achieved hotel room rate across all hotel categories was HK$1, 117, 10. 3% lower than in January 2008.

4. 3 Low Cost Carrier Contribution of Japan

According to Department of National Accounts Economic and Social Research Institute Cabinet Office, the report of Quarterly Estimates of GDP (2009), the GDP offirst quarterly was about 521, 560 trillion yen, and in 2008 the GDP of first quarterly was about 569, 139 trillion yen. Moreover, for the private consumption between 2008 and 2009, the amount of privateConsumption in 2008 was about 312, 069 and in 2009 was about 303, 639 trillion yen.

5The Drawbacks of Low Cost Carrires

Base on the analysis of China, Hong Kong, and Japan, although low cost carrires canIncrease the econmoic level of these three regions. However, for the econonmic point of view, when the Gross Domestic Product getting increase, the cost of living will also getting increase. Becase of the inflation problem for the goods and products, people may not affordable to purchase the goods and products. Morover, it will also occurthe unequal income distribution, that means rich guy can get more rich and poor guy will get more poor. On the hand, when the demand of low cost airline increase, that mean the demand of air traffic will increase too. For this issue, it may occur the overcrowding for the airport. The capacity of the airport a limit, if too many flight come to the airport, it may occur the congestion of air traffic, the congestion of runway and apron and increase the accident rate of air traffic.

Moreover, air traffic accounts in a sizeable way in the emissions of carbon dioxide – the most credited international estimates go from a minimum of 3% to a maximum of 10%. However, Aviation accounts for 2% of man-made global carbon emissions, and with current global demand for the aviation industry increasing, it is predicted to grow to 3% by 2026.

6. Conclusion

To sum up this report, after the analysis of the development of low cost Airline in Asia, all of the evidents and data can prove that low cost Airline a continue contribute the Asian regions such as China, Hong Kong, and Japan. Airline Industry is one of the key transports within Asia, the government of these regions, need to pay atttention to develop and control.

But for the further development of Low cost airlines within Asia, there are some barrires will affect the expansion of Low cost carriers. The first one is the deregulation issued, China and Japan are more restrict their sky policy such as Chinese government will restirct the route of the flight and the price stucture of the air ticket, because the government will more protect the local airlines.

Second, China and Japan are lack of secondary airport. For China areas, all of the major airports are main airport. If low cost carrires want to entry this market, they can not redcue the operation cost and can not compete with the regional airlines.

Thrid, Hong Kong aviation market was monopoly by Cathy Pacify; the Oasis Hong Kong was a good example to prove that if the market was monpoly by a large airlineCompany, they can not survive. The last one is the fuel cost issue, although the international crude oil prices have recently fallen from the peak of US$70-odd to US$50-odd. However, the fuel cost is one of the major cost of airline companies. If the crude oil prices return to peak of US$70-odd or higher, the lost cost airline can not survive with this issue. Therefore, for the further development of Low cost carrires these kinds of issue are necessary to concern and may to have greater negotiation of all the countries to discuss all these issues.