Impact of Air Services Liberalisation on Growth of Tourism in Asia

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ASEAN—Association of Southeast Asian Nations

- 10 member countries
- Land area 4.46 million sq km
- Population around 600 million
- In 2010, combined nominal GDP had grown to US$1.8 trillion
- If ASEAN is a single entity, it would rank as the 9th largest economy in the world, after US, China, Japan, Germany, France, Brazil, the UK and Italy.
ASEAN Economy

- “Three pillars” of regional cooperation:
  1. Security
  2. Socio-cultural integration
  3. Economic integration

- High average economic growth of member nations. During 1989-2009, Singapore and Malaysia grew above 6%, and Thailand and Indonesia above 5%.

- The economic growth rate for ASEAN was greater than the Asia-Pacific Economic Cooperation (APEC) economic growth, which averaged 2.83% during this period.
ASEAN Economic Community

- For economic integration, the region adopts
  - ASEAN Vision 2020
  - Creation of an ASEAN Economic Community (AEC) by 2015
Vision of ASEAN Economic Community

“Transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities”

-ASEAN Vision 2020
ASEAN Economic Community (AEC)

• 1997  Decide on ASEAN Vision 2020
• 2003  Declared ASEAN Economic Community (AEC) by 2020
• 2007  Agreed on establishment of ASEAN Economic Community by 2015, a region with free movement of goods, services, investment, skilled labour, and freer flow of capital
Characteristics of AEC

• Establish ASEAN as a single market and production base
• Highly competitive economic region
• Region of equitable economic development
• Fully integrated into the global economy
  ➢ Accelerate regional integration in priority sectors and facilitating movement of business persons, skilled labour and talents
Four Main Thrusts

A. Single Market and Production Base
B. Competitive Economic Region
C. Equitable Economic Development
D. Integration into the Global Economy
The ASEAN single market and production base comprise five core elements:

- Free flow of goods
- Free flow of services
- Free flow of investment
- Free flow of capital
- Free flow of skilled labour

The single market and production base include integration of 12 priority sectors (including tourism) and enhancing the competitiveness of food, agriculture and forestry.
• Increase competitiveness of the region by adopting Competition policy, Consumer protection, and Intellectual property rights

• Establish an efficient, secure and integrated transport network to realize potential and enhance attractiveness of the region.

• One of the measures is to implement the ASEAN Single Aviation Market through liberalisation of the air sector
• Accelerate the pace, competitiveness and dynamism of ASEAN small and medium scale enterprises and deepen the technical and development cooperation among member countries for closer economic integration and narrowing the development gap
Integration into the Global Economy

- For ASEAN businesses to compete internationally, there’s need for
  - Integration into the global economy by adopting a coherent approach towards external economic relations and
  - Enhancing participation in global supply networks
Asean Tourism Strategic Plan
2011-2015
“By 2015, ASEAN will provide an increasing number of visitors to the region with authentic and diverse products, enhanced connectivity, a safe and secure environment, increased quality of services, while at the same time ensuring an increased quality of life and opportunities for residents through responsible and sustainable tourism development by working effectively with a wide range of stakeholders.”

Source: ASEAN Tourism Strategic Plan 2011-2015
Three Strategic Directions

1. Development of innovative regional products and creative marketing and investment strategies

2. Increasing quality of human resources, services and facilities within the region

3. Enhancing and accelerating travel facilitation and ASEAN connectivity
   - Liberalize market access for air services by 2008
   - Full liberalization of Passenger Air Services by 2010
   - Preparation of ASEAN Tourism Marketing Strategy 2012-2015 to chart out marketing and promotional efforts
Integration of Air Services
• **ASEAN** to work towards a Single Aviation Market
• Introduce an open-sky arrangement in ASEAN region
• Fully liberalize air travel between its member states so that ASEAN can directly benefit from the growth in air travel around the world
• This will also freeing up tourism, trade, investment and services flows between member states.
Roadmap for Air Services Liberalisation

- Beginning 1 December 2008, remove restrictions on the third and fourth freedoms of the air between capital cities of member states for air passengers services.
  - **Third Freedom** – the right to fly from one’s own country to another. E.g. MAS to fly from Kuala Lumpur to Thailand
  - **Fourth Freedom** – the right to fly from another country to one’s own. E.g. MAS to fly from Bangkok to Kuala Lumpur
- By 1 January 2011, liberalisation of fifth freedom traffic rights between all capital cities.
  - **Fifth Freedom** – the right to fly between two foreign countries with flight originating or ending in one’s own country. E.g. MAS to fly from **Hanoi—Bangkok—KL** and **KL—Bangkok—Hanoi**
Roadmap for Air Freight Services

- From 1 January 2009, full liberalisation of air freight services in the ASEAN region
Cases of Air Liberalisation in Malaysia
CASE 1
Liberalisation Between Malaysia-Thailand

- For many years, the Malaysia-Thailand market was dominated by Malaysia Airlines and Thai Airways
- Both could serve any points in each other’s country while maintaining capacity profitable for both flag carriers
- In 2004, AirAsia entered the Malaysia-Thailand market causing a surge in seat capacity
- Bilateral agreement between Malaysia and Thailand permitted AirAsia to expand in the market by new designations and frequency
- AirAsia’s low cost structure helped spur traffic while generating increased competition from the incumbent flag carriers
TOTAL MONTHLY ROUNDTTRIP SEAT CAPACITY
MALAYSIA-THAILAND NONSTOP SCHEDULED SERVICES

Source: OAG Schedules - February 2001 - May 2006
TRENDS IN CAPACITY AND TRAFFIC
MALAYSIA-THAILAND NON STOP SERVICES 1996

Source: OAG Schedules
TRENDS IN CAPACITY AND TRAFFIC MALAYSIA-THAILAND NON STOP SERVICES 2006

Source: OAG Schedules
Economic Impact

• In 2005, 1.3 million passengers travelled between Malaysia and Thailand
• Of this total, over 370,000 can be attributed to the combined liberalized regime and the entry of a new low cost carrier, causing 37% market expansion
• Malaysia and Thailand obtained more than 4,300 full-time employment and a stimulus of over $114 million to their GDPs

Source: InterVistas Study
CASE 2:
Liberalisation of Kuala Lumpur-Singapore Route

- The Kuala Lumpur-Singapore route was dominated by the national flag carriers, Malaysia Airlines and Singapore Airlines.
- Passengers travelling on AirAsia from Kuala Lumpur to Singapore would have to fly to Senai in Johor and take a bus into Singapore. Passengers from Singapore would travel by road to Senai to fly into Kuala Lumpur.
- In preparation for the Phase 1 of ASEAN for Open Sky by Dec. 31, 2007, the route was finally opened up in Feb 2008 to AirAsia (Malaysia), and Tiger Air and Jetstar Asia from Singapore.
## Liberalisation of KL-Singapore Route

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<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td><strong>AIRCRAFT MOVEMENTS</strong></td>
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<tr>
<td>(K.LUMPUR – SINGAPORE)</td>
<td>192,304</td>
<td>209,681</td>
<td>225,251</td>
<td>244,179</td>
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<tr>
<td><strong>(GROWTH)</strong></td>
<td>5.3%</td>
<td>9.0%</td>
<td>7.4%</td>
<td>8.4%</td>
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<td><strong>TOURISM ARRIVALS FROM</strong></td>
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<tr>
<td>SINGAPORE (‘000’)</td>
<td>10,493</td>
<td>11,003</td>
<td>12,733</td>
<td>13,042</td>
</tr>
<tr>
<td><strong>(GROWTH)</strong></td>
<td>8.6%</td>
<td>4.9%</td>
<td>15.7%</td>
<td>2.4%</td>
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The liberalisation in 2008 resulted in 27% increase in aircraft movements between the two cities within 3 years, which also contributed to tourist movements between the two countries.

In 2010, the number of tourists Malaysia received from Singapore rose by 24.3% over 2007.

The opening is viewed as a significant development in the history of ASEAN airline industry and an important first step toward the liberalisation of air services in the ASEAN region.
Malaysia Aviation Policy to Support Tourism

1. Develop a network of modern airports systems
2. Promote a liberal/open skies aviation policies with 18 countries
3. Multilateral Agreements among ASEAN countries to accelerate open sky arrangements for both Full-Service-Carrier and Low-Cost-Carrier
4. Develop KLIA as a hub for passenger and cargo
4. Develop Malaysia as low cost carriers hub, especially after the completion of KLIA2 as a low cost carrier terminal
Role of Low Cost Carriers in Developing Tourism

- AirAsia and AirAsia X played an important role to develop tourism within ASEAN and the Asia Pacific region by increasing capacity to existing destinations served by other operators and well as unserved routes.
- AirAsia entered into JVs with airlines in Thailand (Thai AirAsia), Indonesia (Indonesia AirAsia), the Philippines (Philippines AirAsia) and India to enhance air connectivity from these countries.
## Development of AirAsia

<table>
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<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>2001</td>
<td>AirAsia sold to Tony Fernandes for the purpose of establishing a low-cost carrier based in Malaysia</td>
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<td>2003</td>
<td>Established a second hub at Senai Airport in Johor Baru, near Singapore; Established Thai AirAsia as a joint venture with Shin Corporation. Launched its first international flight to Bangkok</td>
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<td>2004</td>
<td>Acquired Awair, an Indonesian Airline. In 2005, rebranded Awair as Indonesia AirAsia</td>
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<td>2006</td>
<td>As part of MAS route rationalization program, 96 non-trunk routes, in addition to 19 domestic trunk routes, were transferred to AirAsia</td>
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<tr>
<td>2007</td>
<td>Long-haul services from Kuala Lumpur to Australia and People’s Republic of China using Airbus A330 offered by AirAsia X.</td>
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<td>2010</td>
<td>VietJet AirAsia. Later aborted because failed to reach agreement with Vietnam Government</td>
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<tr>
<td>2010</td>
<td>AirAsia Philippines</td>
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<tr>
<td>2011</td>
<td>AirAsia Japan. Joint venture with All Nippon Airways. Operate out of Narita International Airport</td>
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Developmental Routes in Asia Pacific

**Operated by AirAsia**
- Kuala Lumpur-Chiangmai
- Kuala Lumpur-Bandung
- Kuala Lumpur-Clark
- Kuala Lumpur-Solo
- Kuala Lumpur-Danang
- Kuala Lumpur-Bandar Aceh
- Kuala Lumpur-Ujung Pandang
- Kuala Lumpur-Balikpapan
- Kuala Lumpur-Jakarta

**Operated by AirAsia X**
- Kuala Lumpur-Christchurch
- Kuala Lumpur-Gold Coast
- Kuala Lumpur-Perth
- Kuala Lumpur-Tianjin
- Kuala Lumpur-Hangzhou
- Kuala Lumpur-Sydney
AirAsia Routes Not Served by Malaysia Airlines

- AirAsia and AirAsia X serve 36 additional routes not operated by Malaysia Airlines (MAS)
  - Australia (2)
  - Indonesia (10)
  - India (3)
  - China (5)
  - Japan (2)
  - Philippines (10)
  - South Korea (1)
  - Yangon (1)
  - Macau
  - Laos (1)
THANK YOU