

IMPACT OF AVIATION ON GLOBALIZATION

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ABSTRACT

The study aims at investigation of the impact of globalization on operational and financial performance of European airlines before pandemics. The impacts of globalization on national and international policy making processes are illustrated by an examination of the effects on air transport industries. Trends towards the liberalization of air transport activities have been noted in many countries, mainly, to date, those of developed or rapidly developing status. Airline industry is very important for modern society as the biggest player in the globalization process by connecting regions, promoting global trade and tourism, facilitating economic and social development. However, here is a lack of research on relationship between globalization and airline industry in India. It remains unclear how to measure the impact of globalization on performance of airline companies and industry. The study examines trends towards the privatization of airline companies in the context of (a) the development of so-called global 'alliances' or 'partnerships' and (b) liberalization at regional level and within trade groups such as the European Union. The new challenges of the General Agreement on Trade in Services (GATS) are considered, especially in terms of how developing countries can develop appropriate policies in response to the forces of globalization, increasing liberalization and competition.

Keywords: globalization, air transport industries, General Agreement on Trade in Services (GATS), Airline industry, Aviation, tourism industry.

INTRODUCTION

In recent decades, the air transport industry has burgeoned significantly due to increased global connectedness, accelerating the growth of most economies and especially the top earners in the

tourism industry. Given this phenomenon, the role of air transport cannot be over-emphasised and the demand for air transportation has grown in accordance with the ascending relevance of the tourism sector. Air transportation is a major industry in its own right and it also provides important inputs into wider economic, political, and social processes. The demand for its services, as with most transport, is a derived one that is driven by the needs and desires to attain some other, final objective. Air transport can facilitate, for example, in the economic development of a region or of a particular industry such as tourism, but there has to be a latent demand for the goods and services offered by a region or by an industry. Lack of air transport, as with any other input into the economic system, can stymie efficient growth, but equally inappropriateness or excesses in supply are wasteful. Economies, and the interactions between them, are in a continual state of flux, and although economists' notions of equilibrium have some very useful intellectual content, and also validity in the very short-run, in reality the world is dynamic. This dynamism, of which the particular thrust of globalization is the concern here, has implications for industries such as air transport that service it. But there are also feedback loops, because, developments in air transport can

shape the form and the speed at which globalization and related processes take place. In effect, while the demand for air transport is a derived, the institutional contexts in which air transport services are delivered have knock-on effects on the economic system.

LITERATURE REVIEW

Daniel Balsalobre-Lorente (2020) This study presents a new direction for future studies by considering the relevance of the fourth industrial revolution, particularly in the US. To achieve the stated claim, this study considers as additional explanatory variables how ICTs moderate the impact of Foreign Direct Investment (FDI) on GDP. The empirical result confirms a connection between the Industry 4.0 era and the role of ICTs, which promotes substantial changes in the way of life and productivity. This has led to a vast technological advancement, which is in line with but at a faster pace than the technological advancement of previous revolutions. From empirical results, the study provides relevant policy recommendations related to the role of natural resources, new technologies and tourism on US GDP, while it also provides evidence of the positive effect of ICTs over FDI under the Industry 4.0 era.

Jose M. Carbo (2020) Air transport capacity expansions are often justified on the grounds that they will improve economic performance and induce growth. Such causal impacts are hard to identify empirically due to the fundamentally endogenous nature of the relationship between air transport and the economy. This paper contributes to the empirical literature on aviation-economy effects by conducting a case study of the impacts of

air transportation activity on productivity in Chinese provinces. For exogenous variation we exploit a policy scenario created by the 2003 deregulation of the Chinese aviation sector, which was applied in all provinces of China except Beijing and Tibet. We find that this policy intervention resulted in substantial growth in air transport passengers and cargo.

Brian Slack (2016) This expanded and revised fourth edition of *The Geography of Transport Systems* provides a comprehensive and accessible introduction to the field with a broad overview of its concepts, methods and areas of application. Aimed mainly at an undergraduate audience, it provides an overview of the spatial aspects of transportation and focuses on how the mobility of passengers and freight is linked with geography. The book is divided in ten chapters, each covering a specific conceptual dimension, including networks, modes, terminals, freight transportation, urban transportation and environmental impacts, and updated with the latest information available.

Bruce A. Blonigen (2015) While significant work has been done to examine the determinants of regional development, there is little evidence on the role of air services. This paper exploits the large and swift changes to air traffic induced by the 1978 Airline Deregulation Act to identify the link between air traffic and local economic growth. Using data for 263 Metropolitan Statistical Areas (MSAs) over a two-decade time period, we estimate the effects of airline traffic on local population, income, and employment growth. Our most conservative estimates suggest that a 50-percent increase in an

average city's air traffic growth rate generates an additional stream of income over a 20-year period equal to 7.4 percent of real GDP, the equivalent of \$523.3 million in 1978 dollars.

Sumangal Narendra (2014) This study explores the status of the Air Transport in General Agreement on Trade in Services (GATS) vis-à-vis opening of the Aviation Ground Handling market. The study is focused on the developments in terms of open market access to aviation ground handling services and developments in the GATS Air Transport Review. The study attempts to find answers to the questions: Is there a need for extending the GATS coverage to include some more auxiliary services, especially the aviation ground handling services? India shows a steady growth prospects for the aviation sector. Recently, it has opened up the sector to Foreign Direct Investment of upto 49% in the airlines. The study reveals that India, though having a steady growth in aviation sector, has been cautious in opening of the sector, especially the ground handling services market to foreign participation. It had followed the 'gradual change' policy in this service market since 2007.

Aviation Industry of India

The Indian aviation industry can be broadly classified into public sector and private sector airlines, operating in the domestic and international sectors, offering passenger and cargo services. The domestic airlines in the public and private sector can be classified further into Full service Carriers, Low Cost carriers and Regional Airlines. Major developments that took place in the Indian Domestic Aviation Industry (IDAI) in the post-privatization era include introduction of

LCCs and Regional Airlines, mergers and acquisitions of airlines, upgradation of existing airports and construction of Greenfield airports. Similarly, major challenges that the industry had to face during this period include soaring prices of aviation fuel, high airport charges (for landing, parking and navigation), infrastructure bottlenecks, shortage of pilots and other skilled professionals and the global economic downturn. Major developments in the IDAI are discussed below.

Aviation: A Major Contributor to Global Economic Prosperity

Aviation provides the only rapid worldwide transportation network, which makes it essential for global business. It generates economic growth, creates jobs, and facilitates international trade and tourism. According to recent estimates by the cross-industry Air Transport Action Group (ATAG), the total economic impact (direct, indirect, induced and tourism-connected) of the global aviation industry reached USD2.7 trillion, some 3.5 percent of world's gross domestic product (GDP) in 2014. The air transport industry also supported a total of 62.7 million jobs globally. It provided 9.9 million direct jobs. Airlines, air navigation service providers and airports directly employed over three million people. The civil aerospace sector (the manufacture of aircraft, systems and engines) employed 1.1 million people. A further 5.5 million worked in other on-airport positions.

Frequency as an airline strategic tool

Some of the trends identified above thus contradict arguments that the projected growth of demand for air transport can, at least in part, be accommodated by the use

of larger aircraft, even though part of Airbus's business strategy is predicated on this case. Larger aircraft have better seat/mile costs and do offer a means of enhancing capacity at given airports without increasing departures. They also offer better fuel consumption per passenger than smaller aircraft. However, the downward pressure on aircraft size created by both hub-and-spoke and fragmentation point-to-point strategies is compounded by the importance of frequency. "Airport congestion has had only a modest influence on airline fleet requirements".

Economic contributions of air transport

The aviation sector is a major contributor to the global economy, accounting for \$3.5 trillion (4.1%) of GDP. Commercial aviation drives 5% of the GDP in the United States alone, or an astounding \$1.25 trillion in 2022. Approximately 87.7 million jobs are supported by this industry worldwide, of which 11.3 million are direct work opportunities. One of the significant aspects of the aviation industry is the functioning of airports and carriers. Bogotá-based Avianca made a significant leap from sixth place in the rankings in 2022 to become the world's most punctual airline in 2023, with just under 86% of its flights arriving on time. Closely behind are Brazilian airline Azul (85.51% on time), US airline Delta (84.75% on time), Qatar Airways (85.72% on time), and Madrid-based Iberia (84.38% on time). On the other hand, with 84.44% of flights leaving on time, Minneapolis-St. Paul International Airport emerged as the world's most punctual airport. Rajiv Gandhi International Airport (HYD) came in second with 84.42%, Kempegowda

International Airport (BLR) third with 84.08%, El Dorado International Airport (BOG) fourth with 84.01%, and Salt Lake City International Airport (SLC) third with 83.99%.

Passenger traffic and future projections

The United States dominated the list of nations with the biggest airline sectors in terms of passenger volume, with over 666 million passengers flying commercially there in 2021. With an astonishing 440 million travelers, China achieved the second position in terms of passenger traffic. With almost 97 million passengers, Russia came in third position. Ireland and India concluded the top five with 74 million and over 83 million passengers, respectively. Remarkably, the demand for passengers using air travel increased by more than 64% worldwide in 2022, recovering from the difficulties caused by the COVID-19 pandemic. When we focus on specific countries, the aviation sector in the US contributes a significant \$2.7 trillion (3.6%) to the country's GDP. This industry has a significant impact on the job market and national economy, sustaining 4.9 million jobs either directly or indirectly. Reducing the carbon impact of air travel is the goal of innovative technologies and alternative fuels.

Future of Aviation

Mobility and its pillars of transport (air, inland and maritime) are at the very center of our socio-economic fabric. They underpin social connections and facilitate access to goods and services, including trade, jobs, health care and education. In today's world, mobility by air, road and water is all about efficiencies, speed, interconnectivity and accessibility by all. However, this raises the issue about

sustainability. The UN predicts that by 2050 two thirds of the world population will live in cities¹. How can we adapt and enhance today's already-stretched mobility system for it to respond to our expectations and increased demands? How can mobility be reinvigorated for it to be sustainable and support the 2030 Agenda of Sustainable Development and its 17 Sustainable Development Goals (SDGs)? For a start, mobility actors should come together in a shared vision. This is where the World Bank-led Sustainable Mobility for All (SuM4All) steps in. For the first time ever, the SuM4All provides the transport sector and its modes of transport with the opportunity to speak with one voice and jointly unpack a Roadmap of Actions that is tailored to countries and cities to implement on a voluntary basis.

RESEARCH METHODOLOGY

The data for the purpose of this study was collected from both the primary and secondary sources. The primary data was collected by administering a questionnaire to passengers and also by conducting interviews with airline officials and industry experts. The structured questionnaire designed was aimed at collecting micro-level primary data from passengers who fly regularly. The sample of respondents chosen for the purpose of primary data collection comprised passengers having diverse background in terms of educational qualification, age groups, gender and occupation. Structured interviews of senior executives of some domestic airlines were also conducted to understand their views about the impact of privatization on India's domestic aviation industry. Respondents, many of whom were frequent fliers were informed about

the objectives of the study and purpose of data collection. They were also requested to express their views about the impact of privatization on IDAI through an open-ended question and they were requested to provide their suggestions on how to improve the performance of the aviation industry. The primary data collected was analyzed using the software tool called Statistical Package for Social Sciences (SPSS). The tool used basic analytical technique called 'cross tabulation' for examining the relationship between variables and computing frequency distribution of variables. The secondary data was collected from various sources such as reports, books, magazines, newspapers, and websites. The conclusions were drawn based on the analysis of primary and secondary data and suitable recommendations were made.

RESULTS AND DISCUSSIONS

The questionnaire was administered to 250 respondents to gather their feedback during the collection of primary data. The analysis of the primary data is presented hereunder.

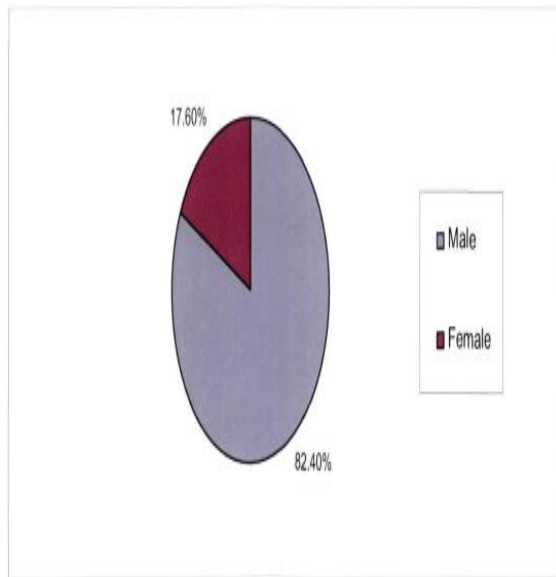
Gender-wise Classification of Respondents: An attempt was made to classify the respondents on the basis of gender, with an intention to find out the percentage of male and female passengers traveling by air.

Table 1: Gender-Wise Classification of Respondents

Gender	Percentage of Male and Female Respondents
Male	82.4
Female	17.6

The data in the above table / graph shows that the percentage of female passengers

traveling by air is significantly lower than male passengers.



Graph 1: Gender-Wise Classification of Respondents

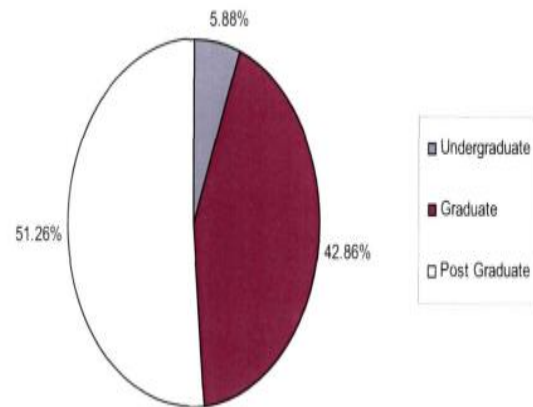
Academic Qualification of Respondents

An attempt was made to classify the respondents on the basis of their academic qualification, with an intention to find out whether there is any correlation between the percentage of passengers traveling by air and their academic qualification.

Table 2: Academic Qualification of Respondents

Educational Qualification	Percentage of respondents
Undergraduate	5.88
Graduate	42.86
Post-Graduate	51.26

The data shows that there is a high level of literacy among airline passengers. The percentage of undergraduates is very low compared to graduates and post-graduates.



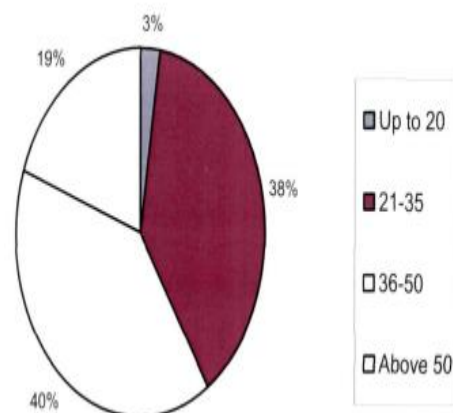
Age Group of Respondents

The following data shows the classification of the respondents, based on their age group. The idea was to find out whether there is any correlation between the percentage of passengers traveling by air and their age group.

Table 3: Age Group of Respondents

Age group	Percentage of respondents
Up to 20 years	3
21 to 35 years	38
36 to 50 years	40
Above 50 years	19

The data indicates that the percentage of travelers who are less than 20 years old travel less by air as compared to other age groups which is above 20 years.



Graph 3: Age Group of Respondent

This is expected because typically, the students and children belonging to this category do not travel regularly by air. Majority of the travelers (78.16 per cent) belong to the age group between 21 and 50. This is also expected because people in this age group need to travel for business reasons / office work.

CONCLUSION

As posited in the introduction to the paper, it can be argued that globalization and liberalization strategies have rationalized the airline industry into a more efficient operation that enhances long-term sustainability. Air transportation has become one of the most important pillars of India's economic infrastructure. The open skies policy launched after the liberalization of the Indian economy in the 1990s is chiefly responsible for the phenomenal growth of the aviation sector. Almost all airlines have incurred huge financial loss in the last three years because of the high operating costs mainly due to the high prices of ATF, high airport charges, and infrastructure bottlenecks. The imposition of heavy taxes on the aviation fuel by the Government proves that it does not consider aviation industry as a core infrastructure. More flexible policies need to be adopted for the industry to grow and flourish. The majority of these challenges are beyond the control of airlines. It is high time that policy makers should take into account the positive impact made by the privatization of the IDAI and make suitable changes in the aviation policies to encourage the growth of private airlines. LCCs, which have a collective market share of more than 50 per cent, are expected to be more prominent than the full service carriers

(FSCs) in India in near future. Before the introduction of LCCs, only rich people could travel by air. LCCs have broken social barriers and have provided air connectivity to remote areas and have changed the lifestyles of people.

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