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Powers to Be

The two emerging nations of China and India are drawing much attention for their potential to become economic powerhouses.

■ By Hans Belle and Vera Lye | *Ascend* Contributors

Participate at any airline industry conference these days, and you'd almost always see China and India featured as key topics for discussion. This is not a surprise, however, since corporations around the world are wide-eyed about the attractively healthy economic figures that come out of these countries — and most are scrambling to get the first cuts of the pie.

There's no doubt China and India will be economic strongholds during the coming years, but questions still remain: Who will be the forerunner? How big is big? When will they fulfill all the expectations and predictions that have been made of them? What kinds of challenges are present today?

One thing is for certain, it is not going to be an easy road to the top.

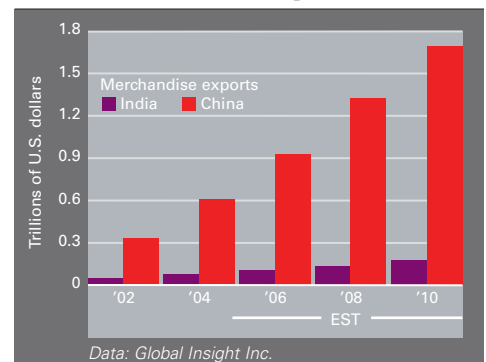
China's Economy

Reforms in China started in the late 1970s with the phasing out of collectivized agriculture, followed by liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets,

the rapid growth of the non-state sector, and the opening up of the country to foreign trade and investment. Last year's key moves included the sale of equity in China's largest state banks to foreign investors and refinements in foreign exchange and bond markets. According to the U.S. Central Intelligence Agency *World Factbook*, these moves have resulted in a more than tenfold increase in the country's gross domestic product since 1978. Measured on a purchasing-power-parity basis, China, in 2005, stood as the second-largest economy in the world after the United States, although the country still ranks lower in terms of income per capita, and 150 million Chinese fall below international poverty levels.

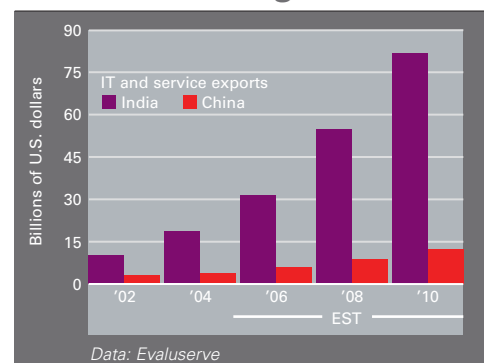
The robust growth in economy, albeit in sporadic areas within the country, has led to a fast-growing middle class, eager to collect stamps in their passports and grow their travelogues. As such, China's travel figures are equally impressive. Outbound travel from China is growing at high rates, and its numbers are staggering. By 2020, outbound travelers from mainland China are estimated to reach 115 million annually, becoming the world's

China's Strength



While China and India run neck and neck in terms of a booming economy, China remains the manufacturing powerhouse over India, and it is expected to hold its top position for years to come.

India's Strength



India takes the lead over China in information technology and services exports, and with each year, the gap between the two nations continues to widen. By 2010, India is expected to earn nearly US\$80 billion in these areas, while China will produce less than US\$15 billion.



Photo by Luisa Fernanda/Dreamstime.com

During the next decade outbound passengers from China are expected to reach 115 million a year, which will become the largest source of outbound tourists globally.

largest source of outbound tourists. Currently, only 2 percent of its population travel out of China, according to the Pacific Asia Travel Association. In 2003, the number of Chinese overseas travelers surpassed that of Japan, making it the largest outbound market in Asia. In 1988, with the exception of Macau and Hong Kong, Chinese citizens could only travel to Thailand. Today, more than 70 countries have approved destination status. According to the World Tourism Organization, China is among the top 10 nations for outbound tourism. From 1994 to 2003, the total number of outbound Chinese tourists reached nearly 100 million, at an annual growth rate of 13.87 percent.

The opening up of China and the subsequent flurry in tourism development has also led to growth in inbound tourism. The World

HIGHLIGHT

... India's share in the world's gross domestic product is set to rise from 6 percent to 11 percent by 2025 ... By 2025, the Indian economy is projected to be about 60 percent the size of the U.S. economy ... And by 2035, India is predicted to be a larger growth driver than the six largest countries in the European Union ...

India's service industry — including financial institutions, hotels, restaurants and trade services — holds the largest portion of gross domestic product and accounted for about 48 percent in 2000.



Photos by Dindia Photo Library

Tourism Organization reports that in 2004, China had already risen from fifth to fourth position in the world's top tourism destinations, displacing Italy. International visitor arrivals went up 26.7 percent to 41.8 million.

"China could replace the United States as the third-most visited destination soon, with the United States just 4.3 million arrivals ahead of China," according to a Centre for Asia Pacific Aviation report. "Staging the Olympics in Beijing come 2008 will undoubtedly bolster these numbers even more."

India — the Competing Neighbor

Despite shared borders and similar successes in recent years, India's growth path and future looks different than China's. India's economy is diversified — from traditional village farming to a range of modern industries and high-tech services. The service sector is the fastest growing and has the largest share in gross domestic product, accounting for about 48 percent in 2000. Business, communications, financial, community and trade services as well as hotels and restaurants are among the fastest-growing sectors.

The relaxation of government controls has been a boon for foreign trade and investment in some areas. However, high tariffs and limits on direct foreign investment are still in place. Last year, the Indian government liberalized investment in civil aviation, telecom and construction.

Economic analysts, quoted in *Economy Watch*, said India's share in the world's gross domestic product is set to rise from 6 percent to 11 percent by 2025, while that of the United States may fall from 21 percent to 18 percent. By 2025, the Indian economy is projected to be about 60 percent the size of the U.S. economy. And by 2035, India is predicted to be a larger growth driver than the six largest countries in the European Union, though its impact will be a little more than half that of the United States.

India, which is now the fourth-largest economy in terms of purchasing power parity, will overtake Japan and become the third major economic power within 10 years, according to *Economy Watch*.

Like China, the growing middle class has led to an explosion in travel — especially outbound travel. India's outbound tourist market is now hot on every tourism marketer's list. Just the fact that Indians have overtaken the Japanese as the highest per diem spenders in the world, averaging US\$200 a day, is enough to bring tourism practitioners knocking on India's doors. And this high spend is backed by high volumes of traffic as well. In 2004, 6.2 million Indians traveled abroad.

Although still lagging in relation to outbound numbers, inbound tourism is not fairing badly either. India's Ministry of Tourism reported that international visitor arrivals in the

first 10 months of 2005 rose 13.5 percent from the previous year, to 3.6 million, while tourism earnings increased 20 percent to 229.6 billion rupees (US\$5.1 billion).

China's and India's Health and Wealth

However, it is not a rose-petaled path to the top. Numerous challenges confront the governments of these two countries. In both China and India, wealth and development is disparate, owing to the sheer largeness of each country and the relative newness of economic development. In China, for instance, about 69 percent of the population is still rural, and most of the wealth exists in the coastal cities.

China's banking system presents one of the largest challenges for its government. A recent Deloitte & Touche report suggests two critical areas that need immediate action: corporate governance issues arising from the changing legal status of state-owned commercial banks into joint-stock companies, and the implementation of a deposit insurance system and necessary controls.

"To ensure that the government will achieve rapid and robust progress, China's financial system should be enhanced in a way that will foster greater transparency, build international investor confidence and reduce the likelihood of conflicts of interest," the report said.



In India, the disparity in wealth distribution is also an issue. Almost two-thirds of its population still lives in rural poverty. However, to address the matter, India's government recently passed a bill in parliament to embark on an ambitious antipoverty program to help spread more widely the benefits of the country's rapid economic growth.

Challenges in India's financial infrastructure also exist. Simplifying procedures and relaxing entry barriers for business activities is important, as is the ease with which firms are able to enter into and exit from business activities.

India also faces other concerns — controlling population growth (India is the second-highest populated country in the world after China). In terms of density, India exceeds China since India's land area is almost half of China's total land, and developing world-class

With low-cost carriers firmly footed in the aviation scene, secondary cities are prospering.

In an increasingly liberal aviation environment, foreign players are also jumping on the bandwagon. Key markets such as the United Kingdom, Germany, France, Singapore and the United States are seeing capacity expand.

"Strong economic growth of 8 percent, increasing international trade and enhanced destination marketing of India overseas is likely to see continued strong demand for inbound and outbound services," according to a CAPA report on India.

Who Will be the Forerunner?

With such staggering numbers and optimistic predictors, the challenge for China and India is to have supporting infrastructure match the

growth — a challenge that, though not insurmountable, will not be simple.

For all the analyses and commentaries about which country will lead, there is perhaps something to be said about cooperative success — one country's success will likely spur the other to higher grounds. And for foreign players looking to these two countries for new market share, there are probably synergies and opportunities to ride both waves. India and China both represent huge opportunities for growth, and businesses would be remiss to overlook either one. **F**

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Photo by Bijoy Ghosh/The Hindu



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infrastructure to sustain growth in all sectors of the economy presents challenges.

In the Skies

As their economies evolve, the aviation industry in both countries has taken similar flight plans. Last year, the Chinese aviation industry ordered 580 aircraft from Boeing and Airbus — propelling the two manufacturers toward a record year. The General Administration of Civil Aviation of China forecasts Chinese airlines will take delivery of 100 to 150 aircraft each year between now and 2010, according to a CAPA report about Chinese aviation. The report also indicated the country's fleet will rise from 900 at the end of 2005 to 1,600 by 2010.

Interestingly, China's aviation industry saw more earnings in one year alone (2004) than in the entire previous decade. However, much like the other world's airlines, Chinese airlines struggled with profitability, mostly due to high fuel prices.

India was more of the same story. In 2005, international and domestic air traffic grew by 20 percent or more; at least five new carriers took to the skies, and massive fleet orders were recorded. The expansion comes not exclusively from news players — senior airlines have also been in the spending mood, buying new aircraft and announcing route and capacity expansion plans along the way.



Photo courtesy of The Boeing Company

In December 2005, Boeing and Air India formally announced an order agreement for 68 airplanes, valued at more than US\$11 billion at list prices. It is the single-largest commercial airplane order in India's civil aviation history.