

Future Challenges and Prospects for Air Transport in Malaysia

George A. Skadiang*

A lot has been recently said and written about the asia-pacific region with many reports in the international media casting this region in a negative light. There has been some concern that the current financial crisis in this region will have an impact on the future of aviation in the region. Although the current situation is challenging, there is optimism that the region will rise again despite the doom and gloom prevailing due to the fall in currencies and stock markets. I believe that this region will rebound and come out stronger and fitter.

Air transport in malaysia cannot be viewed in isolation from the uncertain economic scenario currently being experienced in the region. Up until 6 months ago the prognosis for growth of air transport in the asia-pacific region was a glowing one. It was estimated by the international civil aviation organization(ICAO) that air traffic in the asia-pacific grew by approximately 10.3% per annum between 1985 and 1990 and 8.6% per annum between 1990 and 1995. Icao had also forecast that the asia-pacific would attain growth rates in air traffic of 7.5% per annum between 1995 and the new millennium 2000, and about 7% from 2000 until the year 2010. More spectacular was the forecast that the asia-pacifics share of world-wide scheduled passenger traffic would grow from 25.5% in 1985 to 51.1% by the year 2010. I have not seen any recent revisions to these forecasts but we can anticipate that the current economic situation could

* Area Manager Korea, Malaysia Airlines.

certainly impact on the actual attainment of such growth rates.

Air transport is in reality a complex, dynamic system in which technology and policy decisions interact with and are part of total social and economic environments. The air transport industry is being continuously transformed by forces from within and externally. These forces of change affect the air industry worldwide in very rapid and significant ways. Rapid technological advancements, airport constraints, the current shifts in regulatory framework and controls, globalization of the airline business, competition and rising costs are some of the forces that airlines need to recognize in planning and managing the air business. Furthermore, the needs and expectations of the public are becoming more sophisticated and airlines need to tailor their products and services to cater to these changing needs in order to survive in this highly competitive industry. As we move along, the issues are becoming more dynamic and complex. It is important that the industry address these forces with strategic decisions in order to stay ahead.

As an integral part of the asia-pacific, malaysias air transport industry will, to a certain extent, be influenced and affected by the developments in air transport in the region. It can be surmised that the air transport industry in malaysia will face a time of trial and challenges. However, we should consider the current period as a testing ground of our determination and resolve to gear ourselves to meet the challenges that lie ahead.

In 1997, both the department of civil aviation and the national airline-malaysia airlines-celebrated their 50th anniversary. I allude to this fact simply because it highlights that the air transport industry in malaysia has a 50 year history and consequently 50 years of experience. This 50 years of experience will stand us in good stead in meeting the trying times ahead.

Air transport in Malaysia has been both a precursor to, and a result of economic growth. It is a key capability in the promotion of trade, commerce and tourism as well as the promotion of international relations.

A total of 29.8 million passengers were handled at Malaysian airports in 1996, 2.5 million or a 9.1% increase over 1995. Commercial aircraft movements touched 441,596 an 8.7% increase over the previous year. Cargo movements increased to 541,416 metric tones reflecting a 12.3% growth over 1995. Under the seventh Malaysia plan period (1996-2000), passenger and cargo traffic is expected to grow by 8.0 and 9.0% per annum respectively. An estimated 37 million passengers are expected to be handled at Malaysian airports in the year 2000 with about 38% comprising international passengers. Air cargo traffic is also expected to increase to about 608,000 metric tones of which 74% will be international cargo.

Among the main global trends in international air transport today are deregulation, liberalization and the privatization of government-owned airlines. There has been action by governments toward less economic control of airlines, promotion of competition and greater reliance on market forces, in contrast to government control on the determination of the level of access and air services. This has led to multiple designation of airlines, enhanced access in some markets and more competition. There are moves toward complete or partial privatization of airlines and more liberal regulations on foreign equity in airlines. Many airlines are seeking bilateral cooperative arrangements to obtain access to new markets and to better serve existing ones. The trend is also toward regional cooperation. Apec and asean transport ministers are discussing more competitive air services. More countries are recognizing the economic benefits of deregulation. As countries liberalize their aviation markets, the airline industry is consequently also deregulated.

Against this backdrop, Malaysia will pursue its policy of liberalization to enhance accessibility into Malaysia and promote trade and tourism. The

government will continue to actively establish more liberal air services agreements and traffic rights arrangements with other countries. Recent major developments in this area include the signing of open skies agreements with the united states of america and new zealand as well as very liberal traffic rights arrangements with the peoples republic of china and the scandinavian countries. Malaysia has also designated several new airlines like air asia, saeaga air and transmile to take advantage of the growing liberal environment. Malaysia will also continue to be a firm advocate of any liberalizing moves or initiatives in the international arena.

Deregulation and liberalization present both threats and opportunities. More opportunities in terms of more frequencies, more traffic rights, more destinations. These, however also mean greater competition and escalating costs. Better turnovers have only been seen recently following years of low yields and low growth rates. However, weak local currencies against the us dollar, fuel costs, declining yields and increasing competition could eat into airlines financial performances.

The government considers the facilitation of trade as a high priority. The air cargo industry in this regard is a key sector in the facilitation and the enhancement of trade. A developed and efficient air cargo transportation system is a crucial factor in the growth a nations economy.

The government will continue to lay emphasis on the development of facilities and infrastructure necessary to support the growth of the air cargo industry. The planning and implementation of new airports as well as the upgrading of existing ones will take into account the needs of the air cargo industry. Air cargo capacity will be expanded through the acquisition of more freighter aircraft and securing more landing rights.

Cost and technology are two other issues that could affect the future of the air transport industry. Costs must be kept low so that the advantages

of air transport will not be mitigated by high costs and technology must be continually upgraded so that the best systems will be deployed. The threat of technological obsolescence is another challenge that has to be carefully managed. The human dimension too cannot be under-emphasized as skills and knowledge must be continually upgraded through continuous training, particularly when the country is facing an acute manpower shortage.

The country's macro-economic policy under the seventh Malaysia plan between 1996 and 2000 will focus on higher value-added, greater capital, information and technology intensive industries. The seventh Malaysia plan has identified aviation and aerospace as one of the critical sectors which offers opportunities for the exchange and absorption of advanced technologies by our work force.

The government has initiated the setting up of the Malaysian industry government group for high technology (might) to spearhead Malaysia's entry into the aerospace and aviation industry. Although aviation and aerospace is seen as a high risk, capital intensive venture, Malaysia wants a share of this global industry which is already experiencing sales turnover far in excess of US 200 billion per annum. Furthermore the huge demand for aircraft by Asia Pacific countries estimated at one quarter of the 1500 aircraft or US 400 billion in value by 2014 creates tremendous opportunities for off-set work, flight training, repair and maintenance of aircraft engines as well as the manufacture and assembly of airframe parts and components.

In respect of the aerospace industry in Malaysia, this fledgling industry has made significant progress. We are one of the first few countries in Asia to achieve FAA certification for our industry, a result of the bilateral aviation safety agreement concluded between Malaysia and USA in May 1996.

Air transport in malaysia is today very much in the hands of the private sector. With the exception of regulatory functions and air traffic services, airlines and airport authorities are privately owned. Under the governments privatization programme, airport operations, including aviation security and airport emergency services are handled by a corporatised body, malaysia airports berhad. The time has now come for the next stage of privatization to privatize the provision of air traffic control services.

In line with the global trend, the government has decided that the air traffic services be privatized. This is expected to be completed within the next few months. Upon privatization, the concession holder is required to further enhance air traffic services and commit the necessary capital expenditure to improving air traffic control infrastructure, including the introduction of cns/atm (satellite technology) within the time frame stipulated by icao for the asia pacific region, a decision that will be much welcomed by airspace users. The air traffic services provider is also mandated to hold dialogues and consultations with airspace users on service standards and user charges to ensure the level of service and charges are fair and equitable.

As has been the case in most countries, privatization, despite some hiccups has generally proven successful in malaysia. In line with our prime ministers vision for malaysia to be a fully developed nation by the year 2020, it is imperative that we have an efficient and vibrant civil aviation industry. The government fully believes privatization is the best way to simulate further economic growth and optimize the benefits to the country through increased efficiency and productivity.

Although the asia pacific region is projected to handle more than 50% of international passenger traffic by 2010, this projected growth will not be a reality if the current problems of airport congestion and airspace

constraints are not overcome. In respect of airport infrastructure, countries in the region are staking billions of dollars in building new airports to cater for the projected future demand.

Resolving airspace congestion within the region constitutes an important and necessary step in ensuring sustainable aviation growth of the region well into the next century. In respect of aviation infrastructure, Malaysia currently has a comprehensive network of airports with adequate capacity to handle the demand for air traffic well into the next century especially with the opening of the new Kuala Lumpur International Airport for commercial operations in June 1998. This ultra-modern airport is capable of handling 25 million passengers annually on its opening date. It is built within a 10,000 hectare site and capable of future expansion to cater for the ultimate traffic volume of 100 million passengers annually. In the final analysis, Malaysia has ambitious plans of making the new KLIA a regional aviation hub.