

Economic Effects of the Globalisation of Civil Aviation

Rutherford Chayima Kanunkha¹ and Dr. Abhishek Tripathi²

¹Department of Management & Information Systems, University of Ha'il, Kingdom of Saudi Arabia

²Associate Professor, University of Ha'il, Kingdom of Saudi Arabia

Abstract: This article discusses the economic effects of the globalisation of civil aviation. Globalisation may be perceived as the process of world integration through the integration of economies, cultures, technologies, and the governance of the world nations. Globalisation can narrowly be viewed as the international integration of markets in goods, services and capital. It involves the spread of economic transactions across borders; the organisation of economic activities at national borders; and the flow of financial markets around the world. Civil aviation is simply viewed as activities that are directly dependent upon transporting people and goods by air to, from or within a country, region or a continent. These activities include airline and airport operations and these operations cover scheduled and charter flights for passengers and freight, general aviation, airport maintenance, air traffic control and regulation. The existing body of empirical research on the globalisation of civil aviation indicates that the interaction between globalisation and civil aviation has had positive effects. For example, a study by Button (2008) on the United States showed that in 1978 the US airlines carried 275 million passengers; and in 2009, the airlines carried 770 million passengers. On the other hand, the advent of the globalisation of civil aviation has made airlines, airports and other aviation businesses become relatively borderless. Eventually, this has created stiff competition among civil aviation businesses. Accordingly, the survival of civil aviation firms depends on how the firms respond to the competition. For example, other firms have responded by establishing strategic alliances, relocating businesses, re-engineering business processes, diversifying product portfolios, and initiating research and development for competitive advantage.

Keywords: Globalisation, Civil Aviation, Economic Effects .

INTRODUCTION

Economically, the world is increasingly becoming a global village through globalisation. Globalisation is now an indispensable phenomenon in the development era. All types of businesses are experiencing new trends towards globalisation. Globalisation involves the spread of economic transactions across borders; the organisation of economic activities at national borders; and the spread of financial markets around the world (Monsod, 2000). One of two major categories of flying that represents all non-military aviation, both private and commercial, is called civil aviation. Civil aviation is indispensable in achieving sustainable development and growth through accelerating convergence of goods and persons. The development and growth of the aviation industry is a mandatory condition for the development of a more diversified export base. However, the modern civil aviation industry is progressively operating in a globalised market context (Button, 2008).

GLOBALISATION

Globalisation is the process of world integration through the integration of economies, cultures, technologies, and the governance of the world nations. In a narrow sense, globalisation represents an accelerating integration and interweaving of national economies through the growing flows of trade, investment and capital across historical

borders. Generally, these flows include organisational skills, technology, ideas, information, and culture (Yergin, *et al.*, 2000). Monsod, (2000) claims that globalisation can also narrowly be viewed as the international integration of markets in goods, services and capital. It is linked with the spread of economic transactions across borders; the organisation of economic activities at national borders; and the flow of financial markets around the world (Monsod, 2000).

Causes of Globalisation

Trade, multinational production, and international finance are the three primary components of international markets integration. Revolution of information technology, increased costs, and new preferences and coalitions are the most important causes of globalisation among the three major components of international markets integration. Information technology revolution has made it very difficult for governments to control cross-border capital movements, despite political incentives to do so. Governments can still restrict the multinationalisation of production, but they have progressively chosen to liberalise because of the macroeconomic benefits. With regard to trade, the increasing interest of exporters in opening up domestic markets has influenced the trend to globalisation (Garrett, 2000).

Need for Globalisation

Globalisation is perceived as the transformation of the world into a global village, as borders disappear, distances shrink, and time shortens. It is of utmost importance for international businesses in the modern development era. Monsod, (2000) argues that globalisation has contributed to the fall of natural barriers and the shrinking of space and time for international businesses as can be illustrated by the trend in air transport and communication costs. The collapse of the cold war and other artificial barriers to international trade such as tariffs and quotas is a result of globalisation. Globalisation has also weakened dominance over the flows of capital and foreign exchange (Monsod, 2000).

Civil Aviation

Civil aviation is a big industry in its own right, and provides important inputs into wider economic, political, and social processes. Civil aviation is simply viewed as activities that are directly dependent upon transporting people and goods by air to, from or within a country, region or a continent. This includes airline and airport operations, and these operations cover scheduled and charter flights for passengers and freight, general aviation, airport maintenance, air traffic control and regulation, and activities directly serving air passengers, such as check-in, baggage-handling, and on-site retailing and catering facilities (Forecasting, 2006).

Need for Civil Aviation

Many industries grow domestically first and then become international. However, the characteristic of civil aviation is unique in that it has been international from its beginning. Travel through air is naturally a cross-border activity. According to Sengur and Sengur (2017), owing to its international nature, civil aviation contributes to economic development and growth through delivering access to the global market for other international businesses. Technological innovations like the introduction of turbo-propeller aircraft in the early 1950s, the introduction of jets in the late 1950s, and high-tech fast engines in 1970 have contributed to the shrinking of the world into a global village. These developments have resulted into relatively inexpensive, rapid, and safe air transportation of goods and people over prolonged distances (Sengur & Sengur, 2017).

Globalisation of Civil Aviation

Civil aviation has a peculiar and unique relationship with globalisation. While globalisation is one of the determinants of civil aviation, by its international nature, civil aviation is among the indispensable enablers of globalisation. According to Sengur and Sengur (2017), international civil aviation contributes to the globalisation of national economies through enabling the growing flows of trade, investment and capital across historical borders. Technological developments in civil aviation have enabled relatively inexpensive, rapid, and safe air transportation of goods and people over prolonged distances. Civil aviation is, therefore, central to the globalisation taking place in many other industries (Sengur & Sengur, 2017).

From its beginning, international air transportation has operated under strict intergovernmental air service agreements (ASAs) negotiated between countries. According to Sengur and Sengur (2017), the intergovernmental ASAs controlled airline pricing between countries. They also specified which airlines should operate between two countries; which routes should carriers operate; and up to what frequency and capacity the carriers should operate. Besides the intergovernmental agreements, many countries also placed restrictions on foreign ownership of airlines. Owing to these reasons, civil aviation has been unique in that it has remained regulated at international level mainly through intergovernmental agreements (Sengur & Sengur, 2017).

However, since the end of the 20th Century, the growing economic globalisation has extensively influenced states like the United States to progressively deregulate international civil aviation to adopt globalisation in the industry. According to Sengur and Sengur (2017), deregulation of international civil aviation has enabled international air transportation become more borderless. Owing to deregulation of international civil aviation, several regional ASAs that share common civil aviation rules, for instance the European Union (EU), have emerged; and intergovernmental ASAs have transformed into global multilateral ASAs (Sengur & Sengur, 2017). According to Button (2008), adoption of globalisation is mainly illustrated by the emergence of global airline partnership groups called alliances, such as the Star Alliance, Oneworld, and Skyteam. These alliances enable airlines to expand their networks globally, creating

a seamless network and more frequent flights for passengers (Button, 2008).

Effects of the Globalisation of Civil Aviation

The existing body of empirical research on the globalisation of civil aviation indicates that the interaction between globalisation of civil aviation has had positive effects. For instance, a study by Button, (2008) on the United States shows that air travel has increased since 1978 as a result of globalisation. In 1978 the US airlines carried 275 million passengers; and in 2009, they carried 770 million passengers. In 1969 there were 5.4 million flights; and in 2009, there were 10.1 million flights (Button, 2008).

However, with the advent of the globalisation of civil aviation, airlines, airports and other aviation businesses have become relatively borderless. This has created stiff competition among civil aviation businesses. Thus, development and growth of civil aviation firms depends on how the firms respond to the stiff competition among themselves. This competition has resulted in some civil aviation firms to drive for economies of scale and scope in order for them to serve their customers broadly and better; to cut costs; and to be competitive in as many parts of the world as possible. However, economies of scale and scope meaningfully benefit large companies. Many small firms that have adopted economies of scale and scope in the civil aviation industry experience losses. This explains why civil aviation firms in developed countries progressively dominate in the industry. As a result, economies of scale and scope in the civil aviation industry have encouraged consolidation in the face of economic globalisation, and this helps to explain the sharp rise in domestic and cross-border mergers and acquisitions of civil aviation firms (Yergin, *et al.*, 2000).

Responses to the Effects of the Globalisation of Civil Aviation

The challenges of the interaction between globalisation and civil aviation have influenced airlines, airports and other aviation businesses respond accordingly to the challenges. To increase international competitive advantage in the globalised economy, many world governments have deregulated airline industries and labour markets. Other governments, for instance, the US, have pushed further for the liberalisation of international civil aviation services markets. Open sky agreements have been reached, removing capacity and frequency constraints for aviation services between nations. Other firms have

responded by establishing strategic alliances, relocating businesses, re-engineering business processes, diversifying product portfolios, and initiating research and development for competitive advantage (Button, 2008).

CONCLUSION

The business environment is constantly changing, making it inevitable for civil aviation business organisations to continuously adapt to the dynamic environment for them to succeed. Civil aviation business organisations have to adopt contemporary strategies in dealing with the challenges brought about by globalisation. Civil aviation firms that adapted to the external civil aviation business environment have survived in this era of globalisation, and have continued to excel in profitability.

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