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"The Impact of Globalization on International Air Transport"

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ABSTRACT

Air transportation is a major industry which also provides important inputs to global 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. The analysis here is focused on the multi-dimensional and dynamic nature of globalization and focuses on one small sector which is international commercial aviation. Another objective of the present research is to study the implications of globalization for this sector. It has been observed that lack of air transport, as with any other input into the economic system, can impede efficient growth likewise inappropriateness or excesses in supply are also wasteful.

Keywords: *Globalization, Transportation, Aviation, Waste Management*

1. INTRODUCTION

Globalization, in its most literal sense, is the process of making, transformation of things or phenomena into global ones. It can be described abstractly as a process by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, socio-cultural and political forces. The idea of globalization is, however, also often used to refer in the narrower sense of economic globalization involving integration of national economies into the international economy

through trade, foreign direct investment, capital flows, migration, and the spread of technology.

Globalization of trade, outsourcing, supply-chaining, and political forces have changed the world permanently, for both better and worse. The pace of globalization is quickening and will continue to have a growing impact on business organization and practice.

Much of these processes have been technology-driven, although facilitated by broad political shifts, such as the demise of the Soviet system, the gradual emergence of international free trade bodies, such as the EU and World Trade Organization, and reductions in global political tensions. Many of these technical changes have been in transport. In particular, there have been massive developments in the technologies that we use to transport information. While traditional transport analysts often see the "telecommunications revolution" as somehow different and outside their field of study, it is, in fact, the first major transport-change since the widespread adoption of mechanized transport in mid-19th century. Air transport, although still a child of the mechanized age, has been closely linked with globalization and the telecommunications revolution. It has also, in turn, benefited from the communications revolution in terms of air traffic control, navigation, and safety enhancement, but also in making possible the airline logistics of bringing the elements required in moving millions of people and tons of cargo across complex networks.

2. HISTORICAL PERSPECTIVE

Air transport has always been seen to have an inherently strategic role. It has obvious direct military applications and in some countries was seen as a "flag carrier", a symbol of international commercial presence. From its earliest days, airlines were seen as having potential for providing high-speed mail services, and subsequently medium and long-term passenger transport. Technology now allows the carriage of much larger cargo pay-loads in a more reliable way. These strategic functions were used to pursue internal national policies of social, political and economic integration within large countries.

Air transport was highly regulated and protected with the intention of it being used as a lever for larger political and economic objectives. But even in these roles, its importance, largely because of the technology until after World War II was small. Technology shifts as an offshoot of military developments in World War II changed this with the introduction of planes with far longer ranges, faster speeds, enhanced lift, and the increasingly ability to cope with adverse

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weather conditions. Air traffic control, navigation, communications, and airport facilities have also improved considerably and more recently the underlying management structure of the supplying industries has enhanced efficiency. There has been universal tightening of regulations on matters such as the environment, safety, security, and consumer and labor protection.

These are areas that have been traditionally dealt with at the international level by the International Civil Aviation Organization (ICAO) set up under the Chicago Convention, and in accord with some peculiar international accords such as the Warsaw Convention that dates back to 1929 and deals with liabilities in the case of accidents. More recently, regional or national actions have also taken international significance; e.g. the extension of carbon trading within the EU to embrace all air transport, and the US's introduction of stricter security measures, such as the provision on passenger information, for all flights into the country.

3. OBJECTIVES OF THE STUDY

- To study the current perspective of globalization in International Air Transport activity
- To study the impact of globalization on International Air Transport Activity

4. RESEARCH METHODOLOGY

This study is descriptive in nature. Here, we have explained the Impact of Globalization on International Air Transport Activity. For this secondary data has been collected through different articles, research papers and reports published about Globalization in International Aviation Industry.

5. CURRENT SCENARIO

The modern air transport industry is one that increasingly operates within a liberal market context. While government controls fares, market entry, and capacity in many smaller countries, they are gradually and almost universally being removed or relaxed. International controls under the bilateral ASA structure are increasingly moving towards broad Open Skies formulations, allowing free provision of services between the countries involved.

The EU area has effectively been the largest international free market in air transport services in the world since 1997. The supply and operation of air transport infrastructure is also

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becoming more market driven with on-going privatizations of airports and air traffic control systems, or the use of franchising mechanisms to involve private capital and expertise. It is also becoming more coordinated.

The air transport industry is now large – it accounts for about 1% of the GDP of both the EU and the US and is vital in many industries such as tourism, exotics, and hi-technology. It is an important transporter of high-value, low-bulk cargoes. International aviation moves about 40% of world trade by value, although far less in physical terms. The market is served by a diversity of carriers, some specializing in long-haul international routes and others in short-haul markets. To handle the interface between land and air transport the world's major airports have grown to handle millions of international passengers and tonnes of cargo each year. In 2008, passenger air services globally linked around 15,500 airports; with the fastest growth in air services over the past two decades being in the Europe-Asian Pacific markets. The air transport industry itself has established international bodies to both interact with national governments and institutions such as the ICAO, the International Air Transport Association (IATA) that were established to assist airline companies to achieve lawful competition and uniformity in prices.

Air cargo connects the world. It provides a vital bridge to global markets. Without air shipments, global supply chains could not function, and the availability of many time and temperature sensitive products, such as flowers, fruit, and life-saving pharmaceuticals would be restricted. The industry brings significant economic and social benefits to the global economy. Air cargo's growth in 2017 exhibited a renewed commitment by the air transport industry to transform and strengthen its position as the preferred mode of transport for the global economy's high value to weight manufactured products. Among these items are microelectronic devices, pharmaceuticals, aerospace components and medical devices.

Safety is the industry's priority. Global standards and regulations are in place to ensure the safe transport of dangerous goods, including lithium batteries. IATA intensified its efforts to improve regulatory compliance and called on governments to step up their enforcement of dangerous goods regulations.

In particular, IATA asked that governments to take a tougher stance on rogue shippers and impose significant fines and custodial sentences on those violating the regulations. In March 2018, the industry took a significant step forward in the digitization of the dangerous goods

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supply chain following the adoption of the e-Dangerous Goods Declaration (e-DGD). The e-DGD is an electronic approach to managing the IATA Dangerous Goods Declaration (DGD) and leverages industry initiatives to digitize data and to embrace data-sharing platform principles.

There was further evolution of air transport markets and airline business models in 2017. The long-haul, low-cost (LHLC) model continued to gather momentum, particularly in the North Atlantic market, with a number of legacy carriers having established LHLC subsidiaries. More broadly, low-cost carriers (LCCs) are pursuing practices previously thought to be part of the full-service carrier (FSC) model, the use of global distribution systems; of frequent-flier programs; and of connecting or feeder traffic, including the LHLC services of other airlines. The FSCs are also adopting many of the cost efficiency practices pioneered by LCCs.

Supported by strong demand and a healthy economic backdrop, the airline industry generated an estimated net post-tax profit of $38.0 billion in 2017. This was the third consecutive year of robust financial outcomes in the broader historical context of the industry. This outcome was boosted by tax credits, and a number of one-off financial transactions, even as trading conditions became more challenging. The operating profit margin eased moderately in 2017 as unit costs outpaced unit revenues. At an estimated 7.5% of revenues, the operating profit margin also remains around historical highs. Prior to 2015, industry wide operating profit margins of this order were last seen in the 1960s.

Regionally, the industry's financial performance is mixed. There has been some convergence in profitability, but wide differences remain. North America continues to outperform, with an operating margin of around 11%, solidly above the industry average of 7.5%.

As with all industrial sectors, air travel must mitigate its environmental impact. The successful delivery of a robust sustainability strategy will provide the industry with a license to grow and enable increasing numbers of people to enjoy the social and economic benefits of air connectivity. The Carbon Offset and Reduction Scheme for International Aviation (CORSIA) was IATA's primary focus in 2017. IATA sought to ensure increased voluntary participation by countries and that preparations for CORSIA implementation by airlines continued.

In addition, the industry continues to push for progress on operational, technical and infrastructure improvements that complete the industry's long-standing, four-pillar strategy.

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The aim is to deliver on its commitments for carbon-neutral growth from 2020 and a 50% cut in 2005 carbon emissions by 2050. The widespread deployment of sustainable aviation fuels (SAF) will also be crucial.

6. IMPACT OF GLOBALIZATION

The implications of globalization in its many manifestations have been profound for the international air transport industry, not just on the demand side, where the scale, nature, and geography of demand in global markets has led to significant shifts, but also on the supply side, where implicit and explicit international coordination of policies by governments (e.g. regarding safety, security, and the environment) and the private sector (e.g. the internationalization of airframe and aero-engine production) have affected the institutional and technological environment in which air transport services are delivered. Some of most important implications are:

Linkages between domestic and international air services: There is a further aspect to liberalizing international services stemming from the interaction of domestic air transport with international markets. The growth of international trade in general that accompanies globalization, obviously leads to more demands for international air services, and changes in the air transport regulatory environment has added to this effect, but trade also increases demands for domestic transport, including air services, and especially so within larger countries. The economic structures are required to produce the additional exports and to distribute additional imports, also needs supplementation by further layers of domestic economic structures to satisfy the new internal demands that come from a more prosperous economy.

International markets: Globalization inevitably means higher demands for the movement of people and goods between countries which, given the largely commercial orientation of modern air transport, will bring forth additional supply. Given the economies in air transport, most notably the decreasing costs involved in infrastructure use, this in turn can bring about further fare reductions. In addition, international trade increases global income that results in more international tourist travel and shipment of higher value goods, such as exotics, in which

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air transport often has a comparative advantage. Finally, globalization entails greater factor mobility, with an increase in both temporary and permanent migration. Over longer distances, international air transport is normally the cheapest mode for this.

Domestic feeder services: International air transport enjoys significant economies of scale, scope and density and the main international airports and their associated long haul carriers, benefit from feeder services that take domestic traffic to and from more distant locations within a country. Increases in international air transport inevitably have implications on the demands for feeder air services as well as for the main international service. In some countries, these feeder services may involve collecting and distributing passengers from nearby countries as well as domestically.

Trade-generated domestic air services: Globalization involved increased economic activity, and this in turn leads to the need for more domestic transport as part of the enlarge value chain. In countries with a small land mass much of this additional transport is provided by surface modes that enjoy a comparative advantage over shorter distances, although adverse terrain may give a comparative advantage to air transport in some contexts. In larger countries, however, personnel and freight movements where speed is important will require more air transport as the globalization process takes place. This is a purely domestic implication of increased globalization and may be quite remote from the international air transport market.

Income-generated domestic air services: Globalization as a result of the increased overall economic activity, leads to higher income and consumption in each country, although the affluence is not spread evenly. Air transport facilitates some of this consumption. Again, in larger countries, as incomes rise, people spend more on domestic vacations and make more frequent visits to family and friends. Again, as with trade-generated domestic air movement, this internal activity may be remote economically and institutionally from international movements, but it is nevertheless a result of it.

Airline profits: That the financial conditions of airlines are strongly influenced by international economic trade-cycle effects. There have been demonstrable downturns in the past coinciding with international financial crises (the early 1990s) and major international

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incidents (the terrorist attacks on New York and Washington and the SARS epidemic). All these types of factors affect all air transportation markets, albeit with different intensities. But, in addition, even during relatively good times, the returns earned do not compensate for the bad.

Loyalty payments: Major international partners operate frequent flier programs that reward regular customers with free flights and bonuses, such as up-grades to higher classes of service and access to airport lounges. The miles earned on carriers within airline alliances are normally interchangeable, albeit not perfectly, providing passengers with an extensive range of services for redemption. More recently, it has been possible in many programs to obtain miles with non-airline purchases such as credit card use, car rentals, and dining. The airlines effectively sell their miles to other industries that then give them as rewards to their own customers. The long-term problem is that there is an inherent tendency for the currency to be debased, with ever increasing numbers of miles being required to buy flights and the number of flights for sale shrinking. The impact has been that loyalty-incentives have been weakened, reducing the incentive to make multiple trips by one carrier.

Cost cutting: To gain an advantage over competitors, many airlines have sought to reduce costs. If other carriers cannot match the lower costs, then either fare remain at the competitive level of the higher-cost airlines, allowing the low-cost carrier to earn a margin towards fixed costs, or the higher-cost airlines leave the market. This has been the strategy of low-cost international airlines. The low-cost carrier business model, with numerous variant, centers on the ability of an airline to undercut its rivals and thus obtain market power. This generally entails standardization in its operations (the use of a common family of aircraft and a homogeneous network of services), maximizing the use of its labor force, serving less congested airports, providing a no-frills service on the plane and at the airport, limiting methods of booking to the Internet, charging for non-core services (such as refreshment) and offering only one class of service. Such measures can reduce costs by 30% or so compared to those of traditional airlines. Low-cost carriers have thus trimmed their costs considerably and the traditional carriers have been forced to follow often going through bankruptcy, by re-

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negotiating labor contracts, replacing older aircraft with fuel-efficient planes, increasing automation and unbundling some services.

Subsidies: Subsidies have long been used to recover capital costs. One argument is that once an investment has been made, it becomes economically efficient to maximize its use subject to the willingness of users to pay their incremental costs. The current trend to unbundle attributes of an airline service – such as charging for food and second checked bags by some airlines – attempts to separate the activities in which the fixed costs are concentrated and to charge explicitly for the incremental costs. The fixed costs in this sense can then be isolated and the other attributes – the food and bag service – are sold in the market at competitive prices. Direct subsidies are then used to cover the fixed costs that cannot be recovered from customers. In the airlines case, however, where the fixed cost is that of a commitment to a schedule, it is difficult to isolate the fixed cost in the traditional sense. Further, there is the generic problem that subsidies reduce the incentive toward efficient production. If the recipient knows that losses are going to be covered by external sources, there is less incentive to restrain costs – a moral hazard issue. Further, there is less incentive to provide the goods and products that customers seek. These problems have led to considerable reductions in subsidies for international airlines services.

7. CONCLUSION

The 21st century has seen the continued internationalization and globalization of the world's economy. There is also evidence of deeper globalization of cultures and politics. Air transport has played a part in fostering these developments, but airlines, and to a greater degree, air transport infrastructure has had to respond to changing demands for its services. Air transport is a facilitator and as such, the demands for its services are derived from the requirements for high-quality, speedy, and reliable international transport.

Globalization, almost by definition, means demands for greater mobility and access, but these demands are for different types of passengers and cargoes, to different places, and over different distances than was the previous norm. International air transport is less than a century old, but is now a major contributor to globalization and is continually reshaping itself to meet the demands of the economic and social integration that globalization engenders.

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Economically, in static terms, globalization occurs to facilitate the greater division of labor and allows countries to exploit their comparative advantage more completely. Perhaps, however, more importantly, in the longer term, globalization stimulates technology and labor transfers and allows the dynamism that accompanies entrepreneurial activities to stimulate the development of new technologies and processes that enhance global welfare. To allow the flows of ideas, goods and persons that facilitate both static and dynamic efficiency on a global scale, air transport has played a role in the past and it seems inevitable that it this role will continue in the future.

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