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Economic Impact of FDI on Indian Aviation Sector

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ABSTRACT

Success of any economy depends on the performance of service sector. Aviation is one of the fast growing service sectors which may pave way for economic growth and development for the developing countries. India is one among the world's fast growing domestic aviation market. It gains the 9th rank in the global aviation market and it is projected to be the 3rd largest by 2020 and largest by 2030. The current study focuses on the economic impact of FDI on Indian Aviation Sector. Chapter one provides basic idea about the Indian Aviation Sector. Chapter two enlists the review of literature. Chapter three envisages the need for the foreign investment in Indian Aviation. Chapter four narrates the role of FDI in aviation. Chapter five elucidates the SWOT analysis of FDI on Indian Aviation. The final chapter concludes the current status of Aviation sector along with the discussion for future studies.

Keywords: Aviation, FDI, Civil Aviation, Automatic route, PPP mode, SWOT.

INTRODUCTION

As far as Indian transport sector is concerned, we are having the highest scope of effectiveness at global as India is the world largest peninsula. In all four modes of transport, Roadways, Railways, Seaways and Airways, India has the opportunity to become one of the best service providers in the world. Indian railway is the largest monopoly in the world and being the largest peninsula country, India is the predominant in seaways. Now it is the time to prove that Indian Aviation sector also is number one in the world as she has more than 80 international airlines which connects more than 40 countries and India's Revenue Passenger Kilometers (RPK) growth of 17.5 percent, which is higher than global average of 7 percent in 2017. The Domestic passenger traffic has crossed more than 100 million mark in 2017. As a matter of fact that India is one of the least penetrated air markets in the world with 0.04 trips per capita per annum as compared to 0.3 in China and more than 2 in the USA (2016)¹. Now India, has realized that Aviation sector is the right destination for Foreign Direct Investment (FDI) and allows 100 percent automatic route for airport projects and other services under the Civil Aviation Sector. It also extends 100 percent allowed under automatic route for Non-scheduled Air Transport Services and Helicopter services/seaplane services requiring DGCA approval.

REVIEW OF LITERATURE

The current study, concentrates on Economic impact of Foreign Direct Investment in the Indian Airways. There are many empirical and case studies are conducted in the various parts of the globe and selected literatures are given below.

Tay T.R. Koo, David Tan and David Timorthy Duval² According to them, a cause-effect structure into the relation between tourism demand and air transport capacity. Specifically, they apply a vector error-correction model to assess if, and to what extent, capacity or passenger demand are first-movers that return to long-run equilibrium following short-run deviations. Using data on international aviation between Australia and our test cases of China and Japan, they find that demand on the Japan-Australia market corrects for short-run deviations from the long-run equilibrium quicker than the China-Australia market. Reasons for such variation in adjustment speeds are discussed and they show that the results are robust to the phenomenon of airlines pre-empting demand when setting capacity.

Rosie Offord, Stefan Kouris, Hannah Capek³ Since the progressive implementation of the single aviation market began in 1992, the air transport market in Europe has undergone many significant changes. Passenger traffic has grown rapidly, stimulated by

new airline business models, a wider choice of air services, and lower air fares. The industry has also been changed by transnational alliances and mergers, and the bankruptcies of a number of carriers.

H.A.Wassenbergh* he suggested that the foreign landing rights for charter services should be regularized, as free as possible from substantial restriction. To accomplish this, intergovernmental agreements covering the operation of charter services should be vigorously sought, distinct, however, from agreements covering scheduled services.

Wang Lu, Li Hongtao Zhu Yaowen* With the trend of global trade to be an integral whole, the requirement of economic development and the change of political situation between China mainland and Taiwan, the air transportation cross the Taiwan Strait will be open gradually. The opportunities and challenges have been taken by the adjustment of cross-strait air transport policy and the realization of the normalization of air transportation.

Button Kenneth J, Taylor Samantha Y* According to them legislation in 1977 and 1978 effectively deregulated the US domestic air cargo and air passenger transportation industries in international air transportation, largely as the result of the 'Open Sky' initiative from 1979 has also gradually been liberalized but progress has been geographically and temporally uneven.

Anming Zhang* In this study, a detailed conceptual frame work for the international air freight and air cargo between the Asia Pacific region with China are discussed. It also provides basic idea about the regional and global market for the aviation.

Need for the FDI in Aviation

There are various challenging factors, which may give rise to invest in aviation sector, According to the Ministry of aviation, the reasons for investing in the aviation sector, India is projected to be the third largest aviation market by 2020, and the largest by 2030. The Indian aviation sector is likely to see investments amounting to USD 15 billion during 2016-2020 of which USD 10 billion is expected to come from the private sector. Airport Authority of India (AAI) plans to revive and operationalize around 50 airports in India over the next 2 years to improve regional and remote

air connectivity. Growth in aviation is also increasing demand for MRO (Maintenance, Repair and Overhaul) facilities.

The government of India has desperately initiate a greater focus on infrastructure development in terms of enhancing the liberalization policy and Open Sky Policy. Further, it extends upgrading the system through AAI driving modernization of airports and Air & Navigation Systems. The main reason for encouraging the FDI in aviation is to maintain world class infrastructure in all five international airports (Delhi, Mumbai, Cochin, Hyderabad, Bengaluru) which are operational under Public Private Partnership (PPP) mode.

In order to improve the Enhanced Skill Development, the foreign trade policy of India has a clear focus on FDI, to leverage India's human capital potential and create job opportunities and there is a provision for applying Innovation and Technology through GPS Aided Geo Augmented Navigation (GAGAN): India's first satellite based navigation system; NO Objection Certificate Application System (NOCAS): streamlines online process of timely NOC for height clearances of buildings around airports; E-Governance for Civil Aviation (eGCA): online delivery of 162 licensing and regulatory processes of DGCA.

The need for the FDI arises because of the sector policy of government as regional connectivity scheme of UDAN (Ude Desh ka Aam Nagrik) initiated by the government in 2016 shall connect 56 unserved airports and 31 unserved helipads across the country. Operations have already started at 16 such airports. In 2017, NABH Nirman, announced, aims to expand airport capacity by more than five times to handle a billion trips in a year. The expansion will be funded by leveraging the balance sheet of Airports Authority of India. The Director General of Civil Aviation (DGCA) tries to make both ends to meet for the financial requirement of MROs – Maintenance, Repair and Overhaul services

Role of FDI in Indian Aviation

Foreign Direct Investment policy of India, has liberalized the foreign investment through FIPB (Foreign Investment Promotional Board) under three category - Airport, Air Transport services and Other Services (MRO)

1) Airports

a) 100% allowed under Automatic route for both greenfield as well as brownfield projects

2) Air transport services

a) **Scheduled Air Transport Service/Domestic Scheduled Passenger Airline/Regional Air Transport Service - Up to 49% allowed under Automatic route. Government approval required beyond 49%**

i) **Non-Scheduled Air Transport Services and Helicopter services/seaplane services requiring DGCA approval - 100% allowed under Automatic route**

3) Other services under the Civil Aviation sector

a) **Ground Handling Services and Maintenance Repair and Overhaul Services**

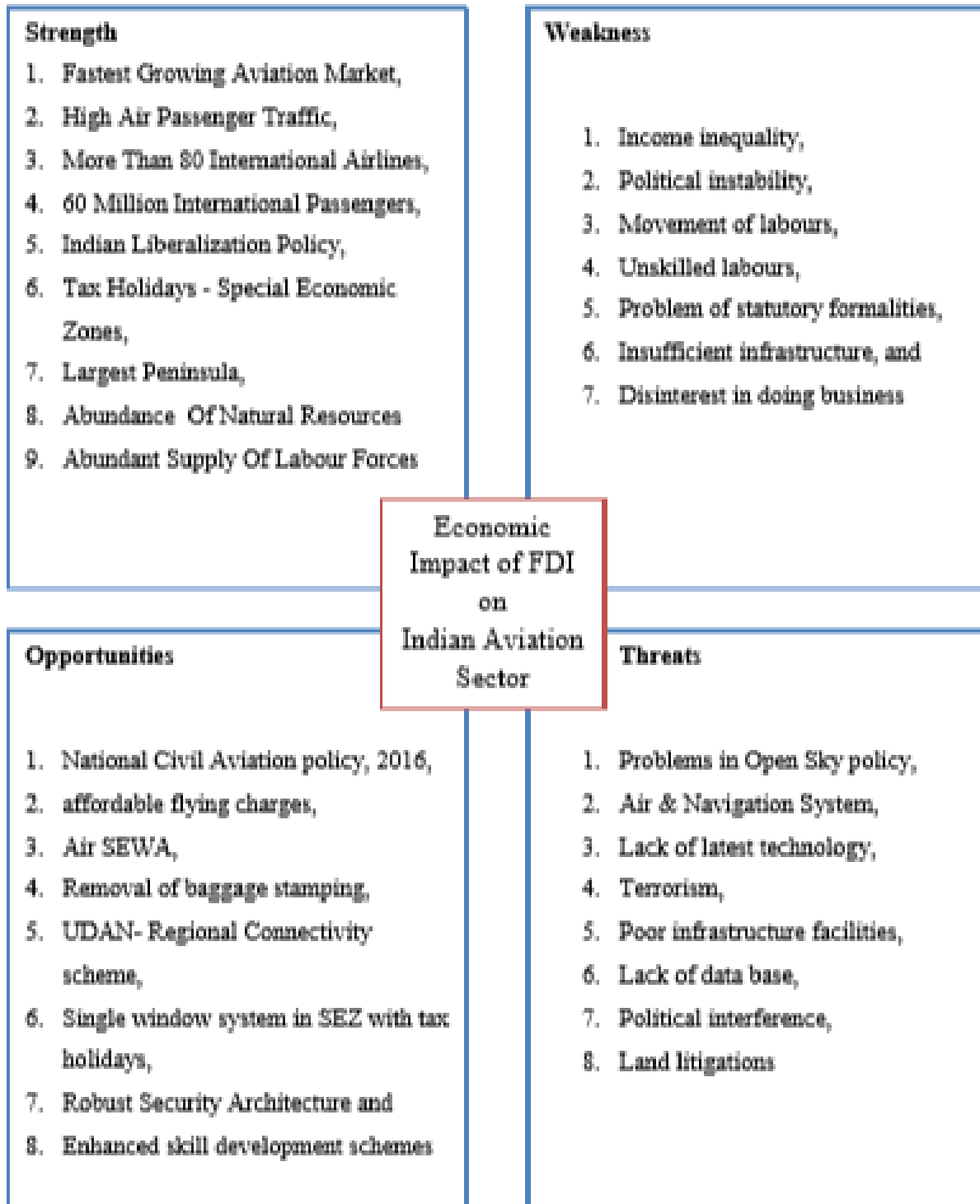
i) 100% allowed under Automatic route

The investment opportunities of Indian aviation sector, has been projected by the ministry of civil aviation, in terms of number of additional air fier in the next five years, requirement of MRO facilities, Construction of new airports, new projects of AAI and Special Economic Zones (SEZ) etc. The FDI for India has to augment investment gap. Firstly, 300 business jets, 300 small aircraft and 250 helicopters are expected to be added to the current fleet of Indian carriers in the next five years. Secondly, demand for MRO facilities is increasing in India, due to growth in the aviation sector. Thirdly, investment opportunities worth USD 3 billion in greenfield airports under PPP at Navi Mumbai and Mopa (Goa). Fourthly, the development of new airports – the Airport Authority of India (AAI) aims to bring around 250 airports under operation across the country by 2020. Fifthly, for development of aviation in the North-east region – the AAI plans to develop Guwahati as an inter-regional hub and Agartala, Imphal and Dibrugarh as intra-regional hubs. Sixthly, AAI has planned to spend USD 3 billion on non-metro projects between 2016 and 2020, focusing on the modernization and up-gradation of airports. Finally, Indian airports are emulating the Special Economic Zone (SEZ) Aerropolis model to enhance revenues, focus on revenues from retail, advertising and vehicle parking, security equipment and services. Some of the Foreign Investors of Indian Aviation are

1. Airbus (France)
2. Boeing International Corporation (USA)
3. AirAsia (Malaysia)
4. Rolls Royce (UK)
5. Frankfurt Airport Services Worldwide (Germany)
6. Honeywell Aerospace (USA)
7. Malaysia Airports Holdings Berhad (Malaysia)
8. GE Aviation (USA)
9. Airports Company South Africa Global (South Africa)
10. Alcoa Fastening Systems Aerospace (USA)
11. Singapore Airlines (Singapore)
12. Etihad Airways (UAE)
13. Fairfax (London)

SWOT Analysis of FDI on Aviation

The SWOT Analysis is a management tool, which expresses the Strength, Weakness, Opportunities and Threats of the concept, for the purpose better understanding and for the comparative study about the pros and cons of the issue. As far as the economic impact of FDI on Indian Aviation is concerned, fastest growing aviation market, high air passenger traffic, more than 80 international airlines, 60 million international passengers, Indian liberalization policy, tax holidays of Special Economic Zones, Largest peninsula, Abundance of natural resources, Abundant supply of labour forces are the strength of Aviation sector. Income inequality, Political instability, Movement of labours, unskilled labours, Problem of statutory formalities, insufficient infrastructure, and disinterest in doing business are the weakness of FDI in Aviation. The government has initiated number of policies and schemes, in order to improve the development of Aviation sector, which are considered as opportunities of FDI in Aviation. The opportunities are National Civil Aviation policy, 2016, affordable flying charges, Air SEWA, removal of baggage stamping, UDAN- Regional Connectivity scheme, Single window system in SEZ with tax holidays, Robust Security Architecture and Enhanced skill development schemes. However, the problems in Open Sky policy, Air & Navigation System, Lack of latest technology, terrorism, Poor infrastructure facilities, lack of data base, Political interference, Land litigations etc. are the threat of FDI in Aviation



Source: Prepared by author.

Fig. 1 SWOT Analysis – Economic Impact of FDI on Indian Aviation Sector

CONCLUSION

The current research article, finds that India is yet improve the standard of aviation sector. India adopted liberalization policy in 1990, but only in the recent past,

aviation has its momentum of improvement with twin effects of Global aviation scenario and liberalization of policy of India. While comparing advantages and disadvantages of aviation sector for foreign investment,

there are more positive impacts on Foreign Direct Investment in aviation sector, as India has an increasing demand on cargo as well as passenger fly. Most of the developing countries are interested in investing in India.

DISCUSSION

While preparing this research article, the data on energy resources for aviation and regional connectivity are having thrust area of research, as availability of sources and allocation of resources finds difficult due to social, economic, political and cultural hurdles. Even though the Ministry of civil aviation extends number of facilities, the sector finds difficult to serve the ultimate clients.

Ethical Clearance: Completed. (Dept. level committee at VELS)

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