Air Services in Indonesia: India-China Dimension\(^1\)

Anil K KANUNGO, Abhishek JHA

Lal Bahadur Shastri Institute of Management (LBSIM), India
Email: anil@lbsim.ac.in, anikanungo@hotmail.com, abhishek_jha@lbsim.ac.in

Abstract:

Global financial crisis and subsequent protectionist measures of US government motivated Indian government to look for opportunities towards ASEAN nations through ‘Look East Policy.’ While scouting for opportunities it was found that Indonesian air services market is buoyant and promising where Indonesia has recently liberalized its open sky policies for inviting domestic as well as foreign investment. Time is appropriate for Indian government to negotiate on how India can participate in Indonesian domestic market and provide air services to its consumers.

The paper tries to analyze how Indian and Chinese private domestic airlines can enter into the markets of Indonesia and whether they would be able to provide such services. It further tries to examine that certain value addition services in terms of auxiliary air services which is the current requirement of Indonesia, can India and China provide such competitive value addition services? Indonesia is currently witnessing frequent air accidents and making safety as a major concern for consumers. It tries to argue whether India and China can provide technical and other support services to reduce such hazards.

The research methodology includes Input-Output table calculating using WIOD Database. National Input-Output Table for analyzing Indonesian air services was also consulted for authors’ own calculations.

Key Words: Air Services, ASEAN, Auxiliary Services, Input-Output Table, WIOD database, Modes 2 & 3

\(^1\) JEL Classification: F 13, F 14, F15
1. INTRODUCTION

Trade in services in recent years has emerged as one of the key drivers of the world economy. Rapid growth in trade in services especially in the late 1990s and 2000s has inspired, particularly many emerging economies such as India and some of the ASEAN economies to adopt and implement liberalized and complementary policies to take advantage of such worldwide opportunities. World economy therefore has witnessed new trends of services such as outsourcing, rise of BPO, KPO and many retail services. In a fast pace of globalization and busy lifestyles, consumerism in services is noticing a buoyant trend which has considerable potential in giving a perennial boost to the growth of this sector.

As progress of trade in goods sector are largely determined by tariff reduction and non-tariff barriers, services sector is largely controlled through regulation. It is important to see that even if regulation is a key determinant of rise in trade in services, but such regulations need to be deregulated at certain point of time to provide boost to the sector.

While India’s integration with the global services market happened largely through US and EU market, slowdown in India’s services was also felt as these markets experienced effects of global financial crisis and USA turning protectionist. This made India to explore other markets such as East and southeast Asia to find a foothold in services. South east Asia currently looks promising having its macroeconomic fundamentals sound and stable.\(^1\) Earlier on account of the language barrier and other cultural factors, Indian companies were traditionally doing business transactions mainly with the Western companies and not with south east Asian nations. The services sector in ASEAN remains significant and continues to grow steadily. As of 2013, this sector accounted for around 47 per cent of GDP on average for the ASEAN economies. Even among Cambodia, Lao PDR, Myanmar and Viet Nam, the contribution of the sector is significant. In Singapore, around 60 per cent of GDP is contributed by the services sector. In Malaysia and the Philippines, more than 50 per cent of the economy is driven by business activities in this sector. For trade in services under the ASEAN Economic Community (AEC) Blueprint 2025, negotiations are due to commence on the ASEAN Trade in Services Agreement that aims to strengthen the existing ASEAN Framework Agreement on Services (Economic Outlook for Southeast Asia, China and India 2017).\(^2\)

This swelling demand of services in south east Asian nations has allowed Indian companies to look for opportunities here and currently Indian companies are doing more business with Japan, China, and other East Asian and ASEAN countries. Such opportunities are aplenty, and it is possible for Indian firms to join the ASEAN production networks by using computer and information services to develop deeper ties with this region.

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1 World Bank data 2017

Creation of an energetic and competitive services sector is fast becoming a key characteristic of modern economies. For more than two decades, advanced economies are frequently accounting for two-thirds or three-quarters of services as the overall economic activities of GDP. The transition from agriculture through manufacturing to a services economy has been the hallmark of economic development for many countries. In line with this trend, it is noticed that many emerging markets are currently undertaking serious efforts to support and develop services industries, and to put in place the regulatory structures required for more integrated international services markets. India and The Association of Southeast Asian Nations (ASEAN) are largely following this trend in an attempt to make services sector as one of the key drivers of their economic integration with the world economy and potential trade partners. Many emerging economies from ASEAN region and India are currently focusing on the growth of the services sector. This is evident from the fact that India’s contribution of services sector to GDP is overwhelming and bordering around 63 per cent (Kapoor, ICRIER 2014) thus contributing to economic activity, employment and growth.

In the background of these factors, deregulation and liberalization of the service sector and expansion of these activities of service economy play a vital role in securing economic growth. Currently, travel and transport services command a prominent place in the service trade of many ASEAN countries (ITC Trade Map, COMTRADE), and Indonesia is at the forefront of providing such services to a large consumer base. Ever since the Indonesian government deregulated the aviation industry in 2000, Indonesia’s aviation sector has been growing at a brisk pace in terms of passengers, airlines, fleets, flights, and airports. For example, the number of airline passengers has increased from 9 million in 1990 to around 90 million in 2016. The same goes for the country’s airline fleets which have soared in numbers by more than ten-fold from 102 aero planes in 1990 to 1,030 in 2017 (Global Business guide) 3.

Indonesia’s aviation sector offers huge investment opportunities for domestic and foreign investors. There are lots of potential routes that are not yet fully facilitated especially to regions outside Java such as in Kalimantan and Papua. Having a GDP growth rate of 5.2 per cent in 20174 and inflation registering around 4.2 percent it could be a suitable period for India to venture into Indonesian market.

It is well documented that India’s competence in services doesn’t lie in air services sector so effectively compared to the sectors such as IT, computer and information services, financial, accountancy etc., but having known that India’s strength in air services is growing and Indian airline system is an active member of International Air Transport Association (IATA), it is in the realm of exploration that India can venture into providing air services to Indonesian market after its open sky policies and can operate from Indonesian base to provide air services to other

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4 World Bank
south east Asian nation. India’s signing of ASEAN agreement and its “Look East Policy” may provide some stimulus to that extent.

Similarly looking at China’s aviation industry, it was found that Chinese government significant resources to develop domestic manufacturing potential, create new airports, give vocational training to new pilots and surge domestic maintenance capacity. China’s top three airlines—Air China, China Southern and China Eastern—are already among the world’s top 10 carriers in terms of passenger volume. In 2005, the CAAC had announced that it would open China’s aviation sector and encourage private and foreign investment in Chinese airlines. This aims to give a boost to Okay airways, China’s first privately run airline.

Looking at the geographical proximity to Indonesia, China is in a comfortable position to provide air services to Indonesia and participate in air services of Indonesia. In addition, the familiar culture and rich heritage between the two countries may also have further bonding for entering into domestic markets of each other.

According to Hao L (2016), augmented gravity model suggests that the distance is significantly negatively related with the air transport services. This corroborates the above said argument that the close geographic proximity influences the business. Also, the FTA have a positive effect on the services trade which Chines airline undertakes in Asia-Pacific. On the whole, the air transport network in China is maturing rapidly which signals potential competitor for India in providing transport services to Indonesia.

Against this background, this paper makes an attempt to explore if Indian private domestic airlines can enter into the markets of Indonesia and whether they would be able to provide such services. It further tries to examine that certain value addition services in term of auxiliary air services which is a current requirement of Indonesia, India can provide competitive value addition services in that field. It is time that Indian services sector needs to branch out to other sectors where India can replicate its success story like it has done in IT and computer related services. It tries to suggest that India should negotiate providing air services in Mode 3 and Mode 2 services delivery medium as there is opportunity in the sector and India’s economic growth rests on its trade in new services and not just confined to IT and financial. If India needs to witness sustained growth rate of 7 per cent, it is important for the policy makers to realize that such growth is possible when India’s services sector makes significant contribution to the growth.

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5 The Look East policy has emerged as an important foreign policy initiative of India in the post-Cold War period. It was launched in 1991 by the Narasimha Rao government with the aim of developing political contacts, increasing economic integration and forging security cooperation with countries of Southeast Asia. The policy marked a shift in India’s perspective of the world, with the strategic and economic importance of Southeast Asia to India’s national interests being recognized. The second phase, which began in 2003, extends the coverage of the Look East policy from Australia to East Asia, with Association of Southeast Asian Nations (ASEAN) as its core. The new phase thus marks a shift in focus from trade to wider economic and security cooperation, political partnerships, physical connectivity through road and rail links.
2. ANALYSIS OF AIR SERVICES SECTOR

Looking at the business potential and trade opportunities, it is noticed that ASEAN region has a significant contribution of Air Transport Services\(^6\) Industry to its GDP. It shows an upward and lucrative trend, marked by robust growth particularly in certain emerging markets of ASEAN region and more so in Singapore, Indonesia, Thailand.\(^7\) While global air cargo still persists somewhat at abated expectations, passenger progression is showing an upward trend and air travelers are forecasted to double by 2035\(^8\). Globally, the air transport industry now supports 63 million jobs and contributes US$2.7 trillion to global GDP.

The improved performance of the global air services Sector has made investments in air transport more attractive. For a second year, airlines’ return on capital exceeded their cost of capital on a global scale, and many mid-sized airports in emerging markets are able to attract private capital to finance the needed infrastructure expansion. Nevertheless, not all regions experience strong financial performance. For example, while the Asia-Pacific carriers were able to post a profit of US$ 900 million in 2016, African airlines lost US$ 800 million, and many African airports still experience insufficient traffic for being able to finance needed investments (Air Transport Annual Report, World Bank, 2016).

Considering the prospects in the ASEAN region and competency level of Indian air services, it is advisable that with the open sky policies adopted by ASEAN countries, India is in a comfortable position\(^9\) to explore opportunities of providing air services in that part of the world. Therefore, with the signing of India-ASEAN agreement it is important that India should start negotiating to take full advantage of the sector.

Of course, a substantial part of negotiations in services between ASEAN and India haven’t generated much interest, neither among industry nor among the government. Though both have shown keen interest in the area, governmental or industrial levels talks between the two regions have only led to understanding of the potentiality. Both are convinced that the regions offer considerable opportunities which need to be exploited to realize services growth available in the region.

Looking at the broad requirement of ASEAN countries’ demand in services, it was found that major ASEAN countries that are currently witnessing overwhelming demand in these sectors are Singapore, Philippines, Thailand and Indonesia. Initial examination of data\(^10\) and understanding gave us an idea that India has competitive advantage in some of the sectors where demands of services of those sectors are quite high in these four countries. India

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\(^6\) Air transport services includes commercial passenger services and air cargo

\(^7\) World Bank Working Paper (Air Transport Annual Report)

\(^8\) World Bank Working paper (Air Transport Annual Report)

\(^9\) With the adoption of open sky policy and timely and safe delivery of most of the Indian private airlines

\(^10\) Managed by NWO (Netherlands Organization for scientific research)
therefore has distinct advantage in those sectors and can provide such services at competitive prices.

One of the key players in ASEAN countries currently is Indonesia whose requirement in Air services (Air transport) is immense. Data from National Input Output Table provided by World Input Output Database\(^\text{11}\) give us an idea that in 2000 it was 2.28 bn US$ from domestic value addition and imports component was 0.44bn US$. Subsequent years onward, which means from 2001 to 2005 domestic value addition and imports shrank making the difference between the exports and imports to almost nil. From 2006 onwards, it showed a consistent rise to make domestic consumption of air services to 18.5 billion whereas the import component prevailed at 0.53 bn US$. So, the domestic consumption of this air services and import of services witnessed a CAGR of 53 per cent and 1.2 per cent; whereas exponential growth of domestic consumption of air transport services was 4.01 per cent.\(^\text{12}\)

It is noticed that the structural change\(^\text{13}\) that occurred in the domestic air services in Indonesia has given rise to a large number of domestic airlines joining the fray. In a way the industry has been consolidated and immense opportunities for local players are around. With the reopening of the sector in 2001, the entry of airlines has been eased.

A historical perspective gives us an idea that the state-owned enterprises, Garuda Indonesia and Merpati Nusantara dominated the industry. In 1992, both captured about 90 percent of the market. In 1996, however the share of these two dropped to 68 percent (ADB, 1997). In 1993, the government temporally closed the industry for new entry. However, the moratorium was lifted in 2001. As a result, a number of new airlines emerged. By 2004, 28 new airlines were licensed. By this time, Merpati Nusantara and Garuda Indonesia had captured about 38 percent of Indonesia’s air travel market, while the new entrants captured 35 percent of the market (Damuri and Anas, 2005).

This euphoria lasted for some time as some of the airlines couldn’t sustain their services due to lack of technical capacity or because of financial constraints. Towards the end of 2016, it was noticed that about 14 airlines are still in operation and active in domestic market by providing efficient air services (Input Output Model -Value Addition-This can be accessed at www.wiod.org)

Since India signed services agreement with ASEAN and, Indonesia being an important partner of ASEAN, India can explore its possibilities of providing such air services facility for the Indonesian consumers. India has an open sky policy where it has encouraged private participation and currently about 6 private airlines are vying for buoyant and promising market

\(^\text{11}\) Managed by NWO (Netherlands Organization for scientific research)

\(^\text{12}\) Based on author’s calculation by taking into account Nation WIOD database

\(^\text{13}\) Indonesia deregulated its transport sector, including the air transport sector after the 1998 Asian Financial Crisis. The momentum for reform in the air transport sector was provided by the enactment of the Competition Law in 1999 which led to liberalization of air services.
share. House hold consumption of air services both in domestic and imports are 2.6 bn US$ in 2014 in India.\textsuperscript{14}

Some of the important areas where India could possibly explore its business opportunities as far as Indonesian market is concerned are related to air connectivity and air services which are elaborated below. With the liberalization policies of air services of Indonesia, and India already having a cordial and historical relationship with the country, chances of India establishing good business and trade relationship with the country is more likely.

3. Key areas

1) India could become a partner in establishing digital connectivity with ASEAN countries which would provide broadband services to the countries in the region. These digital connectivity projects are of strategic importance and can provide better air connectivity and air services. This can have a transformative impact on the economy and cooperation between ASEAN and India.

2) India is committed to provide financial as well as technological support for projects that could include high-speed fiber optic networks, digital villages, rural broadband, national knowledge network, secured communication networks and telecom training and skill development to avoid air accidents which are currently faced Indonesian government (World Bank Report 2015).

3) India adopts a General Agreement on Trade in Services (GATS) approach, which contains provisions on national treatment, market access, modes of delivery and domestic regulation.

4. INDIA-INDONESIAN TRADE FRAMEWORK

Indonesia is a significant services trade partner of India as India exports 10.2\%\textsuperscript{15} of services to Indonesia among all ASEAN economies. In terms of value addition done in Indonesian air transport services, France and South Korea tops the list and India is unable to capitalize the opportunities thrown open by liberalization policies of Indonesia.

The air transport sector’s knack to bridge Indonesia to emerging countries and fast-growing cities can help drive economic growth of the connecting economy. As per the data provided by Oxford Economics\textsuperscript{16} (there are 108 direct flight destinations among the ten fastest growing countries in the world, on the basis of GDP growth and 119 direct flight destinations among the

\textsuperscript{14} WIOD database 2016

\textsuperscript{15} Calculated from ITC Trade Map, 2017

\textsuperscript{16} IATA, Oxford Economics IMF National Statistics, can be accessed at www.oxfordeconomics.com, accessed on December 20, 2017
20 fastest growing countries. China is leading the league, by connecting maximum direct flights to Indonesia amongst the fastest growing economies followed by Vietnam and Philippines.

As per the same source, there are 7\textsuperscript{17} direct weekly flights among the ten fastest growing cities in the world as measured by GDP growth and over 5,500 direct weekly flights among the 100, growing cities but India is missing in capturing these business opportunities.

![Exports and Imports of Air Transport Services of Indonesia in USD Millions](image)

Source: National Input Output Table (NIOT), World Input Output table

Analyzing this export-import figure of air transport services of Indonesia, it is articulated that exports have truncated from 2011 to 2014 due to several policy actions of Indonesian government implemented in 2010. Few of these stringent policies include, enactment of national aviation safety programme, classification of carrier services into full, medium and no frills. Apart from this Indonesian government also applied surcharge if Avtur\textsuperscript{18} price experience consecutive surge in price\textsuperscript{19}. Due to these convoluted policy implications, services trade of Indonesian air transport plummeted. Looking at this, now India has an opportunity to invest and expand the business of air transport services in Indonesia. The air transport subsector has also been a driver of service sector growth. Albeit smaller than the combined communication sectors, its GDP contributions have doubled in the last decade. After all successful deregulation has again been a key driving force (Basri & Hill, 2010). This argument juxtaposes the potential for Indian air transport service suppliers. An overriding step favouring deregulation will certainly generate revenues and employment in Indonesia, thus could be considered by Indonesian government as viable or doable proposal.

As per ADB Report 2016\textsuperscript{20},

\textsuperscript{17} Oxford Economics.
\textsuperscript{18} Airlines aviation fuel
\textsuperscript{19} APEC Policy Support Unit, May 2017
\textsuperscript{20}http://www.opml.co.uk/sites/default/files/Growth%20in%20Indonesia_Drivers%20of%20recent%20economic%20growth.pdf
The rapidly expanding demand for air transport, enhanced by the upcoming ASEAN Open Skies Policy, already exceeds the capacity of many Indonesian airports, requiring extensions and new airport developments. Since airports and airline operations are typically regarded as economically and financially viable, there is little demand for external support.

As per the Indonesian Government policy, up to 49% of FDI, in the form of foreign equity is allowed. Thus, there is a gateway for the Indian domestic business players of aviation sector to be the part of this lucrative and robust service sector mainly delivering under mode 3 (commercial presence abroad) and mode 2 (consumption abroad)\textsuperscript{21}.

5. SIGNING OF INDIA-ASEAN AGREEMENT A BOOST TO THIS OPPORTUNITY

The implementation of ASEAN Open Sky encompasses three agreements: the ASEAN Multilateral Agreement on the Full Liberalization of Air Freight Services (MAFLAFS), the ASEAN Multilateral Agreement on Air Services (MAAS), and the ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS). Authorization of these three agreements will permit any airlines designated by an ASEAN Member State to function both passenger and cargo scheduled services between its home economy and a point with international airport in another Member State, and then to a point with international airport of a third Member State, without limitations on capacity and schedule (APEC Policy support unit).

Here comes the role of India-ASEAN services FTA which needs to give impetus on Air Transport services and negotiate it in a requisite manner. The issue of enhancing air connectivity between India and Indonesia needs to be one of the pivotal themes under the India-ASEAN services policy modifications. This issue of connectivity may be taken up at the negotiating level as one of the key and front-runner agenda between the two governments. This needs to be stepped up on a fast track basis otherwise any other country will usurp this opportunity. There is a clear need for a comprehensive ASEAN-India Air Transport Agreement and extending it to fall into the scope of bilateral air services agreement (BASA).

Looking at the business activities relating to air services, one of the hurdles that the Indonesian government is currently facing is frequent fatal accidents which has the potentiality to reduce the growth in this sector, unless the government takes immediate action to correct this problem. It was found that considerable number of air accidents are occurring with Indonesian airlines. Air safety is a prime concern which needs to be emboldened if the business is to flourish.

\textsuperscript{21} GATS (General Agreement on Trade in Services) Commitments, WTO
One of the plane safety evaluation website surveyed 407 key airlines of the world, giving each a safety tally out of seven. Of the 10 airlines that scored meager one point or less, all but one was from Indonesia. On one hand, Indonesian airport, i.e. Jakarta is considered as one of the top airports in the world which has recorded and is recording maximum number of passenger in Indonesia, and on other hand, nine out of ten airlines owned by Indonesia are ranked being least safe among all the world. Detailed is mention below in a tabular format.

The airlines awarded the lowest safety rating by the Surveyed website

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airlines</th>
<th>Country it Belongs to</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trigana Air Service</td>
<td>Indonesia</td>
</tr>
<tr>
<td>2</td>
<td>Batik Air</td>
<td>Indonesia</td>
</tr>
<tr>
<td>3</td>
<td>Citilink</td>
<td>Indonesia</td>
</tr>
<tr>
<td>4</td>
<td>Kalstar Aviation</td>
<td>Indonesia</td>
</tr>
<tr>
<td>5</td>
<td>Lion Air</td>
<td>Indonesia</td>
</tr>
<tr>
<td>6</td>
<td>Sriwijaya Air</td>
<td>Indonesia</td>
</tr>
<tr>
<td>7</td>
<td>Tara Air</td>
<td>Nepal</td>
</tr>
<tr>
<td>8</td>
<td>TransNusa Air Services</td>
<td>Indonesia</td>
</tr>
<tr>
<td>9</td>
<td>Wings Air</td>
<td>Indonesia</td>
</tr>
<tr>
<td>10</td>
<td>Xpress Air</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

Source- www.AirlineRatings.com, accessed on December 22, 2017

Global Top 20 Airports – Passenger Traffic 2015

<table>
<thead>
<tr>
<th>Rank 2015</th>
<th>Country</th>
<th>Airport / Code</th>
<th>Total Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>Atlanta</td>
<td>101,491,106</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>Beijing</td>
<td>89,938,628</td>
</tr>
<tr>
<td>3</td>
<td>UAE</td>
<td>Dubai</td>
<td>78,010,265</td>
</tr>
<tr>
<td>4</td>
<td>USA</td>
<td>Chicago</td>
<td>76,949,504</td>
</tr>
<tr>
<td>5</td>
<td>Japan</td>
<td>Tokyo</td>
<td>75,316,718</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>London</td>
<td>74,989,795</td>
</tr>
<tr>
<td>18</td>
<td>Indonesia</td>
<td>Jakarta</td>
<td>54,053,905</td>
</tr>
</tbody>
</table>

Source: Airport Traffic Statistics, 2016
As safety of passengers seems to be a major concern in Indonesia, how India can provide any support services to reduce such hazards could be an area of engagement.

6. INDIA’S STRENGTH

India can possibly ameliorate Indonesian Air transport services by helping in providing better pilot services, improved technicalities, just in time services, which may provide support to reduce such frequent accidents. The strength of Indian airlines such as Air India and others have better performance in safety norm compared to national airlines of Indonesia. 22 Even though Indonesia is part of ASEAN, safety continues to be a concern for the passengers as well as for the government. With the rate of fatal accidents still being one of the highest in the world and most of its commercial airlines are still on the EU blacklist, the government possibly has not paid due attention so far.

7. VALUE ADDITION IN AIR TRANSPORT SERVICES OF INDONESIA

Apart from main transport air services, value addition in other auxiliary services are extremely important to make aviation sector, robust, safe, and people friendly. In these auxiliary services, India’s performance could be better than Indonesia. This is reflected in India’s aviation industry when we look at contribution of this sector to its economy which are noticed in two different ways, namely through taxes and investment and by using advanced technology. The Indian aviation sector rather generates more GVA (Gross Value Addition) per employee 23 than the economy as a whole, raising the overall productivity of the economy. Such value addition, Indian government, can provide to Indonesian market through value chain.

This value addition which are foremost inputs of the airline business, are in the realm of energy, and aircraft and its maintenance. Apart from those core inputs, the airline business also banks on other services, such as food and beverages services, trade, insurance and other services. ICAO (2013) in its assessment of the aviation value chain, suggested to include aircraft leasing services and manufacturing, air navigation services, maintenance repair and overhaul services, fuel supply, ground handling and systems for selling tickets including online systems. For Indonesia, Fuel consists of 35 per cent of the value addition followed by warehousing transport services, administrative services, retail trade of vehicles and food & accommodation services. Manufacturing food and beverages consists of 5.7 per cent of the total value chains. 24 4.8 bn USS 25 is the value-added exports by India to the world in terms of airlines hospitality services which could be one of the components of value addition that can be extended to Indonesian market.

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22 JACDEC Airline Safety Ranking 2017. In this survey Air India stood at 40th position whereas Indonesian airlines stood at 58th position.
23 WIOD Database 2016
24 According to authors’ calculations from WIOD database by using NIOT
25 Calculated from WIOD Table.
8. SCHEMATIC DIAGRAM OF VALUE CHAINS IN INDIAN AVIATION AND AIR TRANSPORT SERVICES

Indonesian air services market has high potential as the government is determined to improve its infrastructure to promote its tourism sector. As demand for air services is growing in Indonesia, more and more airports are going to be built as Indonesia is a partner country of ASEAN, it will be able to connect more to the Asia Pacific region by connecting itself to the East Asian and South Asian economies where India is an emerging economy and currently well positioned because of promising growth and integration with the world economy. There seems to be synergy between India and Indonesia being further linked up through culturally and historically.

9. CHINESE OUTLOOK IN INDONESIA’S AIR TRANSPORT SERVICES

China is the world’s second largest and one of the world’s fastest burgeoning civil aviation markets. The industry has grown at double-digit rates for several years. From 2000 to 2014 exponential growth rate of household consumption of air transport services of China remained at 18.1\(^{26}\)%. This figure is though impressive, but unable to articulate the real scenario. Comparing with world air transport services, role of Chinese’s air transport services is at miniscule. Exports of China’s air transport services for above specified time period is again impressive from growth rate point of view, else is insignificant. China’s air transport network is still a point-to-point network instead of a hub-and-spoke system (G. Qiang, K, 2014). Close to 88% of China’s air transport services are utilized by the domestic passengers itself, thus indirectly making Chinese aviation sector’s predilection for domestic services. Numbers reflect an enervated intra industry scenario for air services between China and Indonesia. According to WIOD, 2014 Chinese’s Air transport’s contribution in the Indonesian’s output of air transport is USD 2 million. But relatively the final consumption expenditure by households of Indonesia is USD 8 million due to Chinese input of air transport services.

\(^{26}\) Author’s calculation from National Input Output table provided by WIOD.
Indonesian Public administration and defence; compulsory social security has received the maximum inputs from Chinese air transport sector, which articulates the non-commercial usage of Chinese air transport services in Indonesian air services.

Still Chinese manufacturing and allied services dominate in the Indonesian domestic production framework. Manufacture of chemicals and chemical products making it on top the list of inputs to all sectors of Indonesian sectors. Chinese services play a minimal role in providing the inputs to Indonesian economy. Out of USD 22 Billion\(^\text{27}\) of inputs provided by Chinese sectors, 93% is coming from manufacturing and allied services. Thus, exercising of China-ASEAN FTA of services becomes crucial at this level from policy implication point of view. Article 8 of China-ASEAN air transport agreement talks about the security and operational framework of aviation industries between China and ASEAN members which could be expedited for expanding trade in air transport services.

10. CONCLUSION

The aviation sector in Indonesia has an optimistic prospect with great potential. With an estimated population of 255 million people, Indonesia is the world’s fourth most populous nation after China, India and the USA. It is also the leading market in Southeast Asia as its population accumulates up to 40% of the 625 million combined population of the ten ASEAN countries. Being an archipelago comprising over 17,000 islands and with poor land-based transport infrastructure, Indonesia naturally necessitates robust air travel network for the mobility of its people and goods, and aviation seems to be the most indispensable sector as far as mobility and trade facilitation are concerned.

In 2017, president of Indonesian agreed to prioritize five sectors which are, Infrastructure, Tourism, Maritime, Energy and Food sectors. The Ministry of Transportation will prioritize infrastructure development programs, especially accessibility that supports the tourism sector, including developing airports close to the leading tourist destinations.

Looking at the analysis, it was observed that the Chines airlines are though growing, yet they haven’t made enough inroads into the Indonesian market as the Central government in China consciously focuses on the manufacturing aspects of aviation and auxiliary services, in stead of directly looking at the growth of the commercial air passenger services. Chinese air services currently circumvented with domestic meeting demand.

To avail these growing opportunities in Indonesian market, Indian government needs to put it negotiation on a fast track assuming ASEAN countries’ engagement with India will move forward as their 25 years of cooperation promises deeper engagement in 2017.

Overall looking at the prospects of India’s entry into Indonesian air services market, it is found that India has relative strength in some of the air services which can be extended to Indonesian

\(^{27}\) WIOD Database author’s calculation
market. India has relative advantage in terms of pricing which can be replicated in Indonesian market if Indian domestic players like Air India, Indigo, Spice Jet, Jet airways are allowed to operate either through modes 3 or mode 2 or through both. This is possible because these are considered as low-cost airlines. Besides, Indian domestic players have already ventured into foreign territories by providing competitive, just in time and safe services which provides an edge to these airlines to operate in the domestic Indonesian market and can provide other destination services to other countries of ASEAN. Service delivery through Mode 3 and Mode 2 are doable for Indian domestic airlines. With the proven capability and services facilities of these Indian domestic airlines such as Air India, Indigo, Jet airways, and Spice Jet, India can deliver such services at competitive rate. Hence, Indian government need to act bilaterally with Indonesian government to push its air services sector through mode 3 and mode 2.

As there is a requirement for building airports in Indonesia, Indian companies such as GMR can build such airports as they have already done it in Philippines which is a neighbour country of Indonesia and also a part of ASEAN region. This can promote India’s overseas foreign direct investment as well as establish brand image and technological capability of Indian companies in the region and in Indonesia in particular. India seems to be having some advantage where it can provide value added services especially in the auxiliary services sector of air services.

There is a scope for India’s air services to be noticed and marketed abroad. Indian government should provide adequate support and cooperation to Indian domestic airlines to be an active player in this global airline services industry.

REFERENCES


28 Jet Airways everyday flight from Delhi to London and return. Similarly, Indigo Airlines is providing air services to UAE, Middle east, Dubai etc.

29 GMR Group is also the only Indian airport developer to have developed and operated airports outside India. GMR Infrastructure in partnership with Megawide Construction Corporation of Philippines is operating and developing Mactan Cebu International Airport.

