

SECTION 3: THE MALAYSIAN CIVIL AVIATION SECTOR TOWARDS 2030 – STRATEGIC POSITIONING

Given the baselines and precepts for the sector outlined in the previous sections, the following stylized facts are observed:

- The two main constraints for the sector, which prevent it from maximizing its contribution to Malaysia’s economic growth, are low connectivity and sub-optimal airports
- Air connectivity and the strength of economic activity—particularly tourism and international trade—are mutually reinforcing. While air connectivity is strongly linked to international trade in particular, especially in terms of a country’s ability to participate in the GVCs, it is also very dependent on the strength of a country’s economic base, as airlines and cargo operators choose to operate in countries where there is a high demand for their services
- Lessons from airports around the world indicate that airports’ financial performance and service delivery are correlated with their ability to operate on a purely commercial basis, with minimal to no government interference, regardless of their ownership structure. Indeed, this applies to all segments of the sector, including airlines and ground-handling
- Pursuing growth objectives for the sector should not be at the expense of consumer welfare, which needs to be safeguarded in terms of consumer protection measures, as well as, initiatives to ensure high standards of service delivery

A Liberalized and Competitive Aviation Sector

Based on the observation that Malaysia, in particular KUL, has very strong hub connectivity, it would seem that the most optimal strategy would be to focus on strengthening FSCs at the expense of LCCs growth, and by extension, focusing on the development of a strong hub-and-spoke network.

However, it should be noted that the airlines sector is very dynamic. Already business models are merging, with LCCs like EasyJet providing premium services, while traditional FSCs like British Airways are beginning to adopt pay-per-service, such as for food purchases on certain routes. Also, in 2013, Norwegian Air, an LCC, commenced long-haul operations. On the other hand, aviation experts are forecasting that secondary hubs will develop in smaller towns, which may portend the continuing growth of LCCs driven by point-to-point traffic.

Finally, the relationship between air connectivity and airlines’ business models are also affected by technology. The development of more powerful jet engines such as that used in the Boeing 787-9 Dreamliner has enabled ultra-long-haul flights, such as that between UK and Australia, a journey which previously required at least one transit. While previously such routes contributed to the rise of megahubs such as SIN and Dubai Airport (DXB), the rise of ultra-long-haul flights poses challenges for the continued growth of these hubs.

Given its dynamism, the most optimal strategy for the development of Malaysia’s civil aviation sector is one which safeguards the continuing commercial operation of the airlines sector, while also ensuring that the country’s airports are sufficiently competitive to attract as many airlines and routes as possible. This needs to be achieved without sacrificing consumer welfare, service levels, and financial resilience.

Therefore, rather than pursuing a strong hub-and-spoke strategy, where KUL for instance, is designated a “master air hub” while other airports are deemed to feed into KUL, we propose that the airports network in Malaysia should be driven by commercial considerations. The overarching vision is for airports to compete for airlines and passengers based on the following driving factors—financial efficiency and service delivery.

This strategy may even impact the way that airport developments relate to air freight. KUL for instance, may focus on establishing itself as a belly-cargo hub, in line with the development of the Digital Free Trade Zone, while PEN may be able to overcome its current capacity constraints to leverage its position as the air cargo hub for the Penang E&E sector. Again, such decisions should be based solely on the commercial considerations of each airport. This requires a shift from the concepts of KUL as a “master air hub” and PEN as a “regional hub” as outlined in the LTFMP and 11MP, respectively.

Market liberalization is perhaps a more important consideration for the airlines and ground-handlers. For airlines, liberalization may not only be in terms of ownership requirements—which may take a longer time to implement—but also of ATRs or freedoms of the air. In this case, liberalization will enable increased participation of airlines, which has a direct positive impact on air connectivity, as well as, the potential to provide players with the opportunity to improve on service delivery and/or airfare offerings due to increased competition.

The overriding strategic objective for the sector, therefore, is to maximize Malaysia’s air connectivity by attracting as many airlines to operate out of Malaysia as possible, coordinated with efforts to strengthen the country’s tourism and trade sectors. This objective is achieved through increasing market liberalization for all aviation sub-sectors, and hence, enhancing their competitiveness.

Enabling Factors

Such a strategic positioning requires the support of a strong human capital base that is productive and able to adapt to a dynamic business environment, particularly to meet the challenges of increasing competition and technological advances. Meanwhile, the establishment and maintenance of a fair and competitive commercial environment would allow the sector to thrive without sacrificing consumer welfare.

Finally, it is also acknowledged that the implementation of this strategic positioning, as well as, the Master Plan as a whole, is dependent on the effective functioning of ANS. Apart from ensuring the safety of passengers and service providers, high-performing ANS are critical in developing an efficient civil aviation sector. Suboptimal ANS will, at best, lead to negative economic consequences due to air traffic congestion and constrained traffic growth and at its worst, cause loss of lives. Although ANS are currently not within the scope of the Master Plan, the Plan’s recommendations will be coordinated with related current and future overall developments in the civil aviation sector so as not to hinder the sector’s development.