

**Strengthen Thai Airline Industry Competitiveness in AEC-China Market:
A Better Position Post Pandemic**

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Received: 22 May 2023

Revised: 30 September 2023

Accepted: 30 November 2023

Abstract

The effects of the COVID-19 pandemic were felt throughout many industries in Thailand, but certainly one of the most heavily affected was the airline industry. Since this was not an issue seen only in Thailand but throughout all of Southeast Asia and the rest of the world, it creates a major opportunity for Thailand to push forward and possibly take a larger stake in the airline industry within the AEC-China market while recovery is happening. Therefore, this article aims to explore the effective strategies, policies, and practices used by airlines as a vital tool for their business survival and competitiveness and to propose some implications that could help strengthen the Thai airline industry's competitiveness in the AEC-China market after the pandemic. This article found that Thai airlines should expand their hub and spoke system in cooperation with the airport authorities, implement the ASEAN Single Aviation Market (ASAM) system and airline alliances, allow larger airline and legacy airlines within Thailand to focus more directly on long-haul international passenger and cargo transportation, open up smaller carriers within the country to increase their domestic and short-haul route numbers, and lastly, place an emphasis on passengers who travel to Thailand for medical tourism by finding ways to enter partnerships with some of the hospitals, which has the potential for incredible outcomes. Thus, it is hoped that the implications suggested in this article will help increase Thai airlines' competitiveness in the AEC-China market and recover from post-pandemic issues.

Keywords: Thai Airline industry, AEC - China, Airline Competitiveness, Post-Pandemic

Introduction

Thailand's aviation industry performs very well within the Association of Southeast Asian Nations (ASEAN); however, when compared to China, it struggles to control and compete with Chinese airlines, which accounted for more than 25% of total international seat capacity in Thailand in 2018 (CAPA, 2018). The competitive nature of the airline industry, combined with Thailand being one of the major tourist destinations in Southeast Asia, makes succeeding in this industry vital to economic and industry success for Thailand, as many jobs and supporting industries in the country rely on a strong airline industry presence to thrive (International Air Transport Association, 2018). The effects of the COVID-19 pandemic were felt throughout many industries in Thailand, but certainly one of the most heavily affected was the airline industry. Since this was not an issue seen only in Thailand but throughout all of Southeast Asia and the rest of the world, it creates a major opportunity for Thailand to push forward and possibly take a larger stake in the airline industry within the AEC-China market while recovery is happening. There are many factors surrounding the pandemic that can aid in Thailand being able to find itself in a better position post-pandemic than it was pre-pandemic. Consequently, this article suggests some implications for strengthening the Thai airline industry's competitiveness in the AEC-China market after the pandemic. This paper, firstly, is to: 1) explore some of the issues surrounding AEC-China's airline competitiveness; 2) explore the effective strategies, policies, and practices used by airlines as a vital tool for their business survival and competitiveness; 3) explore the effects the COVID pandemic had on Thailand as well as some other surrounding Southeast Asian nations and China; and finally, 4) suggest some implications that could help strengthen Thailand's airline industry's competitiveness, both in terms of recovery and increasing its presence in the region from the already impressive numbers seen prior to the pandemic.

AEC – China Cooperation

AEC – China is formed of member nations of the Association of Southeast Asian Nations (ASEAN) as well as China. The nations that make up ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Vietnam, and, of course, Thailand. Founded in 1967 in Thailand, this organization strives for cooperation between nations to support each other in all endeavors to improve the quality of life and economic prosperity within the Southeast Asian region. In attempts to expand ASEAN influence throughout the region and the rest of the world, different agreements and economic incentive deals have been set up with other larger nations within Asia to ensure future success for ASEAN member states. One of the most influential and beneficial agreements has been cooperation and backing, mainly with China in the ASEAN Economic Community (AEC) (Bi, 2021). This

group strives to compete with western expansion through different strategies than those used in the western world.

China is a major contributing country to this cooperative effort as well as an industry leader in many of the different economic platforms that exist. One industry in which China has continually held a major market share is the airline industry. The airline industry can be simply defined as the movement of people and goods through different air services (Rodrigue, 2020). And with China being one of the most heavily populated countries as well as one of the leading producers of consumer goods in the world, it's no surprise to find China at the top of AEC – China's airline industry, as ASEAN airlines face competition distortion, as shown in the agreement, because of traffic rights unbalances between ASEAN airlines and Chinese airlines (Laplace et al., 2019: 2–3). What is surprising is to find Thailand with a secondary majority market share in this industry with a much smaller presence in the transportation of goods and a much larger presence in the business of moving people throughout the world (Lenoir & Laplace, 2016: 7). Since Thailand is a major tourism destination for people around the world, including many within China itself, it can be easy to understand how Thailand sits behind China in the airline industry in AEC-China. While it is still a distant second place, differing world situations in 2022 have created an unprecedented opportunity for Thailand to increase its presence within this organization.

Airline Industry Leaders in AEC – China Market

ASEAN member states have faced many struggles within the airline industries in their respective nations. Though the main goal of ASEAN and AEC is a cooperative effort to boost and maximize economic and quality of life for each other, some nations have prospered much more than others, especially within the airline industry. Lee (2018) helped to outline some of the major issues that ASEAN member states have particularly faced in attempting to implement the AEC Blueprint 2025 for Air Transport. The study showed through collected data from many international regulation agencies that while passenger traffic and growth numbers, revenue passenger kilometers, route numbers, and frequency have increased, many ASEAN partners struggle with meeting the average safety standards that are widely accepted in other regional air spaces. Lee (2018) also mentioned issues with countries seeking sovereignty over their own airspace. That being, they have control over how air traffic is managed within the airspace of their own country. Some member states do not wish to be told by another what to do and how to manage the air traffic in their respective regions, and this leads to continued disputes across borders. Creating and maintaining standards for air traffic management are incredibly beneficial for ASEAN member states and AEC as a whole, and they are also in line with the 1944 Chicago Convention, which was, at the time, signed by all current ASEAN members as an accepted

standard. While there are issues, many nations, such as Thailand, continue to make strides towards success in the airline industry of AEC-China.

In 2010, the AEC signed an agreement with China for air service. Lenoir & Laplace (2016) outlined some of the key advantages of this agreement as well as put a spotlight on which nations throughout the agreement are holding major shares within the AEC – China airline industry. They explained some of the initial economic benefits that led to this agreement, as well as some of the major benefits that China and ASEAN countries have as a result. Most notably, the ability for ASEAN airlines to travel with limited restrictions to and through many airports within China and for China to access all locations within ASEAN for the purposes of transfer, transit, and disembarking passengers and goods. This increase in the liberalization of air freedom rights between China and ASEAN member states has been an incredible boost for many of the nations in ASEAN that rely on tourism, such as Thailand. While China has taken full advantage of this agreement by opening many routes as part of a hub and spoke system, with multiple spoke sites available in ASEAN countries, only Thailand, Singapore, and Malaysia have been able to somewhat keep pace in terms of market share for seats supplied. China controlled over 50% of the market share in 2015, while the next highest shares were 15%, 13%, and 11%, respectively. The case is quite clear: the growth in market share observed for Chinese airlines comes mainly from the Thai market. As many travelers are noted to be visiting Thailand from China as well as transiting through Thailand from China to other ASEAN countries, it would make sense for Thailand to be able to grow through this added traffic. With Thailand being the driving force behind the increase in market share for China, there is a hopeful light at the end of the tunnel for the Thai airline industry in the wake of the COVID pandemic.

The Effects of Pandemic on Airline Industry in AEC – China

Beginning towards the end of 2019, with some of the first appearances believed by the CDC to have shown and been reported from China's Hubei Province, the COVID-19 pandemic had a lasting and persistent effect that is still seen in some countries (Sencer, 2023). One of the major industries struck by this pandemic was the airline and travel industry as a whole. With many countries completely shutting their borders to international travel and heavily restricting travel within their own countries, many airlines had no choice but to halt services and rethink strategies to stay operational during these trying times. Thailand was one of the countries highlighted throughout the world as handling the COVID situation well, as was seen by the surprise uptick in cases stemming from a seafood market and migrant workers in Samut Sakhon Province in late 2020 (Kummetha, 2022). Many nations have learned from others, especially within ASEAN member states. Throughout the pandemic, this organization shared

information and practices that were vital to containing and handling infection rates in a manner that could aid in the reopening of borders as quickly as possible (Djalante et al., 2020). For instance, the ASEAN member states share the COVID-19 Situational Report in their region with each other (ASEAN Biodiaspora Virtual Center, 2022). China, on the other hand, has taken a “zero COVID” response that has led to continued country, region, and provincial lockdowns that continue to have effects on the Chinese economy, especially the airline industry. As other ASEAN countries open their doors and prepare for increased tourism numbers, most notably Thailand, China is struggling to find ways to reopen, leaving an incredible opportunity for Thailand’s airline industry to step in where China cannot (Xuecun, 2023).

Thailand’s Airline Industry through the Pandemic

In an effort to boost Thailand’s market share within AEC-China, Thailand will first have to battle internally with its airline industry to recover post-pandemic. Thai airlines, which never position themselves as low-cost airlines, reduced their airfares to the same level as budget carriers, which has exaggerated the radical competition in Thailand’s aviation industry (Kasemsuk, 2021). To increase flight capacity, many airlines in Thailand tried different strategies to continue operating. This came at the expense of some others during the main COVID case spikes that Thailand saw; however, Kasemsuk (2021) mentioned that for the most part, fares have returned to normal pricing, but passenger rates have not returned. Consolidation or cooperation agreements between carriers may be necessary to aid Thailand’s airline industry during recovery. Kumnak (2020) illustrated this as a possible necessity. While mentioning the “first time in its history” layoffs by Thai Airways Wingspan Co. Ltd., a question is raised about whether the Thai government should step in to bail out the struggling companies, especially the well-established and historic carriers like Thai Airways International, to ensure a strong future for Thailand’s airline industry. While possible government bailouts, consolidations of carriers, or cooperation agreements could serve as short-term solutions to post-pandemic recovery, Thailand’s carriers may seek to maintain sovereignty within their businesses, much like some of the ASEAN member states with their airspace. Much more may be needed to capture a larger market share from China and pull away from Singapore and Malaysia to compete in this AEC-China environment.

While Thailand handled the pandemic better than many countries around the world, there was still a significant effect on many industries, especially the airline industry. Only 1% of travelers booked air tickets three months in advance, as the average lead time was reduced to 7–10 days (Kasemsuk, 2021). With trouble trying to understand what passengers to expect during the outbreaks, many carriers in Thailand were left with little choice but to cut prices or sell aircraft to alleviate profit

losses. Maintaining a large fleet across many Thai carriers will be vital to ensuring the chance to capture more of the AEC-China market in the post-pandemic recovery period. During the pandemic, Thailand and other ASEAN countries worked well together to pass information and control borders according to different outbreak centers, as explained in a joint statement by ASEAN in 2021 (UNODC, 2021). This ability to communicate and pass information, implementation measures, and preparedness measures could also be vital for not only Thailand but also other ASEAN members to help recover and surpass previous numbers to be more competitive in AEC's airline industry. While many countries in ASEAN are opening their borders and starting to see tourism numbers slowly climb, China remains sovereign in its decisions to maintain a "zero COVID" policy in early 2023 that has led to continued lockdowns and hesitant openings for international passengers at airports. In an article for *The Economist* (2022) by an unnamed author, in November 2022, the reality of the effects China's policy has had on internal markets and international travelers has made its mark. The Chinese government may finally be easing some of the intense restrictions placed on individuals and other airlines traveling through and to China. This effort may be too little too late, as similar easements were made in Thailand with almost a year passing before seeing any notable increases in tourism numbers. Thailand beat its target for tourist arrivals in the first quarter of 2023, recording 6.15 million visitors in the January to March 27 period (Bangkok Post, 2023). As tourism rates constantly climb, partly aided by the bustling medical tourism industry in Thailand (Pensuriya, 2022; Nguyen & Yuvejwattana, 2022), more opportunities to help secure a competitive edge in the AEC-China airline industry seem to be emerging.

Considering the level of competition and tension within AEC-China's airline industry, current and previous market share control and performances, as well as taking into account the effects of COVID-19, Thailand seems to be on a path to take a larger share of the market in the coming years. If certain patterns are seen and taken advantage of, such as the strategies used by China to boost market shares after the 2010 AEC-China air service agreement, as well as the vital role medical tourism can play, many options can be taken to ensure the success of Thailand's airline industry.

Nevertheless, there are many other strategies, policies, and practices used by airlines that have been implemented to help their businesses survive and strengthen their competitiveness, apart from the findings mentioned above. It found that there are many factors surrounding the pandemic that can aid in Thailand being able to find itself in a better position post-pandemic than it was pre-pandemic. These might be a great way to help airlines understand the situation; in the meantime, the findings will help the airlines promote themselves to be more competitive in the AEC-China market. The application of hub and spoke systems by Thai airlines in cooperation with the airport authorities, along with the implementation of the ASEAN Single Aviation Market (ASAM) system and airline alliances, and the use

of Thailand's strong positioning as a potential medical hub and a major tourism destination, are considered key strategies to enhance and strengthen their competitiveness in the market. This can definitely help to guarantee their business survival and success, which are suitable for international competition in post-pandemic circumstances.

Conclusion and Suggestions for Thai Airlines' Success

In terms of tourism, Thailand has a number of comparative advantages. In addition to its abundance of natural tourist attractions, the nation is, as previously stated, genuinely welcoming to international visitors. It has a distinct culture. Its fruit and cuisine are well-known across the world. Furthermore, Bangkok's geographical position makes it highly likely that it will develop into a regional aviation hub that connects Europe to Australia and East Asia. The airport's appeal and the competitive standing of airline networks can both be determined by the connections provided by airline hubs (Chaiwan & Tippayawong, 2018). As China has taken full advantage of the 2010 AEC-China airline service agreement, which helped to increase freedom of movement within China for ASEAN members and vice versa, it would seem that while China is still struggling to open borders, Thailand has a chance to follow the lead China has set. By expanding its hub and spoke system, Thai airlines would be able to increase route options, numbers, and frequency as long as a reliable fleet of aircraft is available to support this expansion. In keeping with the idea of expansion, improvements to existing airports for size to accommodate larger international carriers from other countries, which Thailand sets for soft takeoff at Suvarnabhumi Airport's Satellite Terminal (SAT-1) in September 2023 (Connor, 2023), as well as efficiency within the airport to alleviate issues of congestion and passenger discomfort, could be made as well. Recognition of the unique abilities and assets available through Thailand's tourism industry, particularly the medical tourism industry, would help to increase competitiveness in the AEC-China market as well.

Thailand is in a unique position within ASEAN in that it is one of the leading member states for many discussions, policy reforms, and economic forums. If the government and airline industry in Thailand could continue to take the lead to help ease difficulties that have been noted in implementing the ASEAN Single Aviation Market (ASAM) system, it would be a definite way to increase confidence not only in other member states of ASEAN but also with international travelers. The promotion of ASAM will also help to speed up the airline industry's recovery within the regions. (Law & Katekaew, 2022). With Thailand having a below-average safety record, as shown in reports from the International Civil Aviation Organization (ICAO) by Lee (2018), it will take some major overhaul of safety standards within the country and region for Thailand to achieve the status needed to lead ASEAN

regions in this single market management system. Whether or not China would be willing to work with this single management system would be a difficult question to answer; however, if it is already operating smoothly when the idea is proposed to the Chinese airline industry, it may be hard to deny. Taking the initiative to push the importance of a better, more reliable, and safer air travel environment over ASEAN skies would have a lasting impact on Thailand's competitiveness in the AEC-China market.

It seems necessary, especially while there is an obvious period of recovery for all the airlines in Thailand and AEC-China, for Thailand to work towards a large restructuring plan within the country to compete more in this market. Internal partnerships and airline alliances may be necessary to secure differing levels of operations for the airlines within Thailand. Law and Katekaew (2022) also stated that the members of ASEAN nations could promote intra-regional connectivity to make cross-border flows and jointly cooperate to quickly relaunch intra-regional tourism, which will lead to faster industry and economic recovery. Using the full capabilities of differing fleet sizes for different purposes would create an unprecedented advantage for Thai airline companies in comparison to other ASEAN countries and give them a better chance to compete with the quantity of routes available by Chinese airline companies.

Allowing larger airlines and legacy airlines within Thailand to focus more directly on long-haul international passenger and cargo transportation would open up smaller carriers within the country to increase their domestic and short-haul route numbers. This would also allow those smaller airlines to make advancements to their fleets and services to greater expand the entirety of fleet size, route availability, frequency, and overall quality of services. Lenoir and Laplace (2018) reported that there is much work to be done for Thailand to overcome the major differences in route availability between Chinese airlines and Thai airlines. A cooperative effort focused on major overhauls in operations and market segmentation targeted by airlines in Thailand may be one of the only ways forward if any advantage is to be taken in finding success against the Chinese market and pulling away from other AEC airline markets.

While ICAO safety reports for years 2021 and 2022 (International Civil Aviation Organization, 2022) show a clear distinction between traffic patterns and safety records in the Asia Pacific (APAC) region, With these reports in mind, it can be seen that not only can the APAC region compete with western airline markets, but it can also surpass it in traffic numbers moving forward, especially after the COVID pandemic as travelers seek to finally be able to travel freely into idyllic travel destinations like Thailand. Even with a poorer safety record than other regions, according to ICAO, the APAC region and Thailand continue to draw travelers from around the world. Of course, seeing higher traffic numbers combined with some of the lower standards that many of the ASEAN countries have been so hesitant

to fully implement due to sovereignty disputes, it is easy to understand why more accidents have occurred in these regions. These reports, along with those shown by Lee (2018), also indicate awareness of this problem over the years and a positive change for the region. If Thailand works hard to maintain a leadership role while promoting other major tourism draws, the level of success for the Thai airline industry is bound to increase immensely.

Lastly, taking full advantage of the medical tourism business in Thailand could be of vital importance in recovering from the post-pandemic issues that the Thai airline industry has seen. With private hospitals that are incredibly affordable in comparison to many western countries and incredible tourist attractions for many different target groups who would come for medical treatment, finding ways to enter partnerships with some of the hospitals has the potential for incredible outcomes. For instance, Royal Orchid Plus, under Thai Airways International, collaborates with Bumrungrad International Hospital to provide health and wellness privileges to Royal Orchid Plus members who fly THAI or THAI Smile to receive discount vouchers and a complimentary high tea set at the hospital in 2022 (Thai Airways, 2022). Some of the more well-known Thai carriers with larger fleets focus their market segmentation on international passengers from wealthy countries such as those in the European Union, the USA, and the Middle East. This could provide an opportunity to help smaller carriers in Thailand focus on domestic and short-haul international routes within ASEAN. As cooperation with ASEAN member states is one of the main goals of the AEC, it should also be one of the main goals for Thailand's airline industry internally in an effort to secure a larger portion of the AEC-China market and boost competitiveness in the region together.

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