



The air transport market in Central and Eastern Europe after a decade of liberalisation – Different paths of growth



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ABSTRACT

This paper describes the changes which are taking place in air transport for the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia in the context of liberalisation. It also attempts to identify the common and specific factors that influence these processes in different markets of the region. The indicators for the development of the aviation market were designed using, among other things, statistics describing the infrastructure facilities and the level of activity in the market. Composite indicators and the weights for their individual components were constructed using a Multidimensional Comparative Analysis. The conditions under which changes were taking place in Central and Eastern European Countries were described with the help of selected socio-economic panel data. Finally, One-Way Fixed Effects and Seemingly Unrelated Regressions (SUR) models describing the development of the aviation markets were estimated. The adopted procedure made it possible to identify the most important common and specific factors that exerted the greatest influence on the situation of air transport in CEE Countries. The very initiation of the liberalisation process undoubtedly had a significantly beneficial effect on the development of route networks and aviation activities as broadly understood. However, the pace of change depended not only on the progress of liberalisation itself, but also on the diverse socio-economic conditions in the individual countries. As a result of the analysis, the markets were divided into two separate groups, which in many respects are distinctly different from each other. The results of the estimation models also showed that there are strong unobservable determinants of development which are specific to individual countries.

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1. Introduction

Over the past 25 years the economies of Central and Eastern European countries have undergone a significant transformation. In most cases, this process has also been accompanied by profound political changes which started after the collapse of the communist system in 1989. What is more, this breakthrough opened up the possibilities for the international transfer of people and goods, which had been significantly suppressed by the communist authorities. These decades of centralised management had left a deep mark on the functioning of air transport.

Before the political transition, air transport markets of all communist bloc countries had much in common (Janić, 1997). Their airport infrastructure consisted mainly of one central airport located near or in very close proximity to the state capital. Other airports, if there were any, provided services for the armed forces

or combined commercial and military traffic. Regulation in the aviation sector involved bilateral agreements, the aim of which was to protect the interests of the national airline and to create institutional foundations for agreements between the countries of the Bloc (Janić, 1997).

The airline sector was dominated by national flag carriers (the largest were: LOT Airlines in Poland, CSA Airlines in the Czech Republic, and Malev in Hungary) whose fleets consisted mainly of Russian aircraft (Yak, Tupolev, and Antonov) (Symons, 1993). Carriers from the countries of the Eastern Bloc rarely competed with airlines from Western Europe (Ivy, 1995). To some extent, the route network of the region was focused on the countries of the former Eastern Bloc; but in some countries, like the Baltic states, air services were dominated in particular by flights to the Soviet Union, which thus fed the Aeroflot global network in Moscow. Airlines in the Baltic countries, particularly Lithuanian Airlines in Lithuania, Latavio in Latvia, and Estonian Air in Estonia, were established after the collapse of the Soviet Union. All these carriers had previously represented the local divisions of Aeroflot Soviet Airlines.

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The political and economic reforms which took place after the fall of communism brought about a gradual change in the air transport sector of CEE countries (Ivy, 1995). After the 1989 breakthrough, many of these companies underwent a process of ownership transformation. Those local authorities that became one of the shareholders invested in infrastructure to develop an aviation business that would serve regional needs (among many examples of such airports there are Ostrava, Debrecen and Wrocław). However, in the pre-accession period, in the years 1989–2004, air transport in these countries developed very slowly. Significant growth in aircraft operations and passenger movements was observed in the air transport industry only during preparations for the accession of CEE countries to the European Union and integration with its structures.

The rapid development of civil aviation in Eastern Bloc countries copied the development model of deregulated Western markets (Graham, 1998). Since 2004 the so-called low-cost airlines have been the main driving force behind the changes which broke the monopoly established by national carriers, thereby increasing competition (Francis et al., 2006; Fu et al., 2010). The immature market including, among other things, unused airport infrastructure and a relatively large potential demand offered substantial growth opportunities to new companies. The new air travel business model, whose main features are operating from regional airports, point-to-point routes and relatively low fare air services (Hunter, 2006; Graham and Shaw, 2008; Dobruszkes, 2009), led to very significant changes in the airline industry of post-communist countries. Lower ticket prices meant that air travel became available to a wider range of customers. Moreover, the rising disposable incomes of the population along with growing economies created a favourable environment for the aviation business. The supply of air services increased dramatically (in 2002, the number of scheduled point to point routes between Polish and foreign airports was 101, which rose to 419 in 2013; the airport in Katowice, Poland offered 2 international destinations in 2002, while in 2013 it had 31, 28 of which were operated by low-cost airlines). The average air fare was reduced, resulting in changes to the demand structure, for example, the dynamic growth of non-business travel (from 15% in 2002 to 47% in 2011 at Poznań airport) (Huderek-Glapska, 2011). Moreover, the changes in the volume and structure of demand were stimulated by opening of the labour market in Great Britain and Ireland, which caused large migration due to the high rate of unemployment in post-communist countries (Burrell, 2011).

According to Hamilton (2005), the population size, economic development, and economic performance of a country in the period of economic transition are internal factors that affect the size of air traffic volume. The external factors are, inter alia, the openness of the economy and its ability to attract investment and tourism. Liberalisation of the air transport markets in CEE countries coincided with adopting European standards.

The relationships between the economic condition and the air transport market have been the subject of many studies (Button and Taylor, 2000; Brueckner, 2003; Green, 2007; Mukkala and Tervo, 2013; Allroggen and Malina, 2014). Their results, however, do not clearly indicate the direction and strength of these relationships, especially as applied to rapidly emerging new markets. Beyzatlar et al. (2014) argue that as long as a country completes the process of economic transition, the endogenous relationship between its GDP and transport sector activities is not observed. In the literature, there is a lack of testing for the impact of socio-economic variables on the development of passenger transport markets in post-communist countries. However, taking into consideration the fact that in 2005–2008 air transport in Poland was characterised by the highest growth rate in the world and where changes in other CEE countries were significant, it is worth

analysing the impact of the economic environment on these processes. The statistical and econometric analysis of data from different countries not only allows the identification of the key socio-economic factors that acted as stimulants or hindrances to market development, but also provides an opportunity to identify the differences in these respects.

The analysis presented in this paper concerns the EU8 countries which include Poland, the Czech Republic, Slovakia, Lithuania, Latvia, Estonia, Hungary and Slovenia. This group of countries was chosen for analysis because of their long-term participation in one political-economic bloc, their geographical location, and most importantly, the almost simultaneous opening of their air transport markets.

The aim of this paper is twofold. Firstly, it is to identify the changes that have occurred in the aviation markets of these countries during a decade of liberalisation in this sector. Secondly, it attempts to compare the development paths of the airline industry in the context of characteristic conditions in particular countries. Synthetic indicators of market development were constructed for this purpose and the methodology of panel econometrics was also utilised. Some socio-economic factors were taken into account in the latter stage of the analysis, when similarities and differences and the ways they affect the development of passenger transport markets in different countries, were analysed.

In Section 2 of this paper the characteristics of air transport markets and the changes that have occurred to them during a decade of liberalisation are shown against a background of the descriptions of CEE countries. Section 3 shows the design and evolution of development indicators for particular air transport markets. Section 4 presents the results of analysis using single and multi-equation econometric models. A summary is given in Section 5.

2. The background context for change in the air transport market in Central and Eastern Europe

The macroregion of post-socialist countries stands out compared to other developing economies; such as in Africa, Latin America and parts of Asia. Firstly, the countries of Central and Eastern Europe are located relatively close to highly developed economies (Germany, the United Kingdom, and France), a factor which stimulates the flow of people, goods and capital. This localization creates possibilities regarding the movement of people for migration, work, and tourist (VF&R travel) purposes. This also facilitates the export and import of goods, and contributes to the inflow of direct investment. Secondly, CEE countries relatively quickly, and almost simultaneously, adopted liberalised air transport policies (Augustyniak et al., 2015). Post-socialist countries completely removed the barriers to entering their aviation markets after their accession to the European Union, whereas in Western Europe, the process of deregulation lasted 10 years.

The air transport markets of CEE countries are characterised by similar features because of their shared political and economic experience, but there are also significant differences between them. In order to illustrate the situation of air travel sectors in the countries surveyed, the most important characteristics that describe them are presented against a background of basic socio-economic data, additionally comparing them to the average for the whole of Europe (Table 1).

In the group of eight countries analysed the largest ones in terms of area and population are Poland, the Czech Republic and Hungary; with Poland clearly standing out. These countries are also characterised by the highest absolute air passenger traffic, confirming the thesis that the size of the country (population and area) is an important factor determining air transport volume

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