

Business Opportunities for the Vietnam Aviation Industry in the Context of Economic Recession

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ABSTRACT

Economic recession and the aftershocks of the pandemic represent some of the most significant challenges facing the Vietnamese aviation industry in 2023. The aviation sector has had to confront challenges such as a significant decrease in travel demand, reduced demand for air cargo transportation due to the impact of the Covid-19 pandemic and subsequent global economic recession, supply chain disruptions, investment barriers and constraints, labor shortages, etc. However, as the world begins to show signs of recovery, the aviation industry in Vietnam is also demonstrating signs of recovery and adaptation. With strong growth potential and existing advantages from strategic geographical location and developing e-commerce, this is an industry that offers opportunities for investors looking to expand their businesses. This article evaluates the opportunities and challenges of the aviation industry in the context of economic recession, proposing some solutions to help the industry capitalize on opportunities, overcome challenges, and foster development.

Keywords: Aviation Industry, Economic Recession

I. INTRODUCTION

The aviation industry is one of the spearhead sectors of our country, contributing to the promotion of economic and social development, serving national security requirements, and being a crucial link for commerce and international transactions. However, in 2023, amidst the increasingly challenging global economic prospects due to the aftermath of the Covid-19 pandemic and prolonged military conflicts between Russia and Ukraine, inflation remained high, especially in European and American countries. The trend of rising interest rates, tightening monetary and fiscal policies in many countries has led to a global economic recession, burdening businesses with heavy debt costs. Alongside this, the specter of

economic downturn has significantly impacted Vietnam's economy in general and the aviation industry in particular. The aviation sector is facing issues such as reduced demand for air travel due to economic recession, disrupted supply chains resulting in inadequate supply of parts and equipment, investment barriers and constraints, and a shortage of technical and professional manpower due to a portion of this group being unable to return to work immediately after losing their jobs...

Faced with numerous challenges and obstacles as mentioned above, Vietnam's aviation transportation industry has demonstrated strong adaptability, with air cargo volumes both domestically and internationally gradually experiencing stable recovery following the global economic recovery. Furthermore, Vietnam's strategic geographical location in Southeast Asia has solidified the country's role as a crucial logistics hub in the region and the world. Additionally, the use of advanced technology has significantly increased the effectiveness of promoting the development of the aviation transportation industry. Innovations in cargo tracking processes, automation, and digitization have opened up smoother operation pathways and enhanced supply chain control capabilities. However, the biggest concern for consumers today is not the Covid-19 pandemic, but rather increasing inflation, environmental pollution, slow economic growth, and rising unemployment. Concerns about inflation lead consumers not only to buy fewer goods but also to reduce spending, especially on non-essential services. Classified into the group heavily impacted by economic recession, the domestic and global aviation industry is not immune to certain impacts.

In 2023, Vietnamese consumers are forecasted to be more cautious in spending, limiting shopping, and using services, especially for non-essential items like air services. For the aviation industry, the prices of input materials have

also soared along with high energy and transportation costs, leading aviation businesses to face more risks in their operations.

II. OPPORTUNITIES FOR THE AVIATION INDUSTRY DURING ECONOMIC RECESSION IN VIETNAM

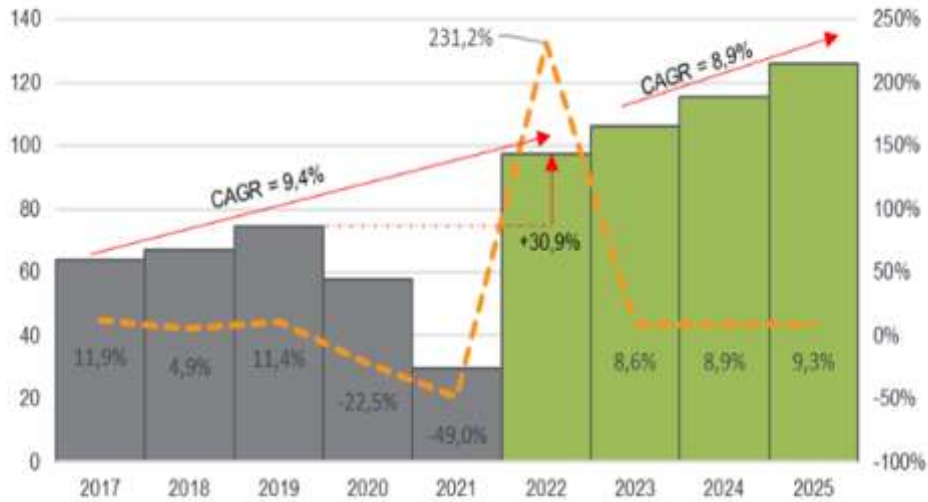
After over 2 years since the onset of the Covid-19 pandemic, domestic travelers have been satisfying their "thirst" for tourism as Vietnam officially reopened tourism on March 15, 2022. The return of the tourism industry also marked the recovery milestone of domestic aviation from April 2022, even surpassing pre-pandemic levels since May 2022 due to the strong recovery demand of the people. In 2023, the global economy shows signs of recovery after the Covid-19 pandemic, however, the recovery rate is slow due to various complex factors intertwined with unpredictable geopolitical risks, posing risks of global recession. Weak demand and increased costs are hindering production, business operations, investment, and trade. However, amidst the "flood" of post-Covid-19 economic recession, the Vietnamese tourism industry is not only recovering but also showing signs of development. Tourism is also one of the rare professions showing positive signs at the present time and before many expectations for economic recovery along with Vietnam's target of 6-6.5% growth in 2024, aviation industry enterprises express optimism when they believe that this industry will grow better.

First of all, the Vietnamese aviation market has potential and opportunities to exploit international markets with large capacities. In particular, the continuous development (even at a faster pace than the world) of the Vietnamese economy, the large and young population, the increasing income of the people, the growing middle class in Vietnam, etc., are factors creating great opportunities from the domestic market for the Vietnamese aviation industry. The surge in

demand for air travel from "revenge tourism" after the period of social distancing due to the pandemic may help Vietnamese aviation businesses boost their operations, thereby quickly recovering and developing. When international aviation is slow to recover, Vietnamese aviation has the opportunity to exploit the domestic market as a stepping stone, the "racing stage" returns to quickly restore activities in the international market when travel restrictions are lifted. For the international market, the recovery rate is slow even though Vietnam lifted restrictions on entry passengers from March 15, 2022, and resumed visa exemptions for 25 countries from May 2022. Most countries in the world have lifted restrictions for tourists, and this will support international tourism demand. China's gradual lifting of travel restrictions from T3.2023 promises to significantly increase total international passenger volume. According to reports, the international passenger flow is changing destinations significantly, as the world situation in the year is turbulent with political conflicts, economic recessions in major tourism markets such as the US and Europe. The Asia-Pacific region is considered a safe destination with appropriate prices. In particular, Vietnam is one of the countries highly rated by the World Tourism Organization for safety along with appropriate spending for most tourist segments.

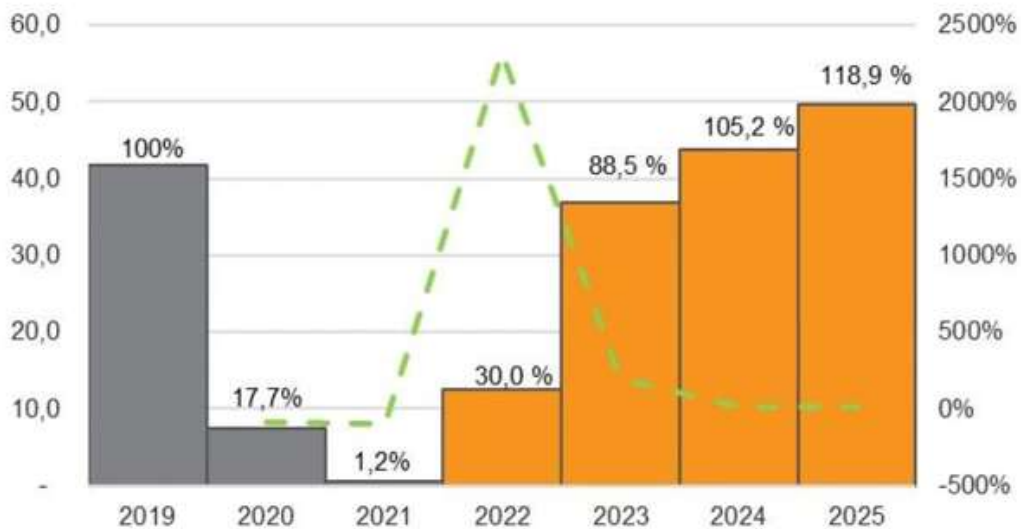
Although the global economic outlook for 2024 remains difficult and challenging, with the possibility of slowing growth, many countries around the world are experiencing significant fluctuations, high inflation, low growth, and the risk of economic recession. The recovery of the international air transport market still harbors many risks: China has only recently selectively opened its borders to some countries for trial purposes, fuel prices continue to rise continuously, the Russia-Ukraine conflict is escalating day by day with no feasible solution in sight to end the conflict... which will affect flights to China, Russia, Europe, etc.

Chart 1: Forecast of Vietnam's domestic passenger volume in the medium term



(Source: Civil Aviation Authority of Vietnam)

Chart 2: Forecast of Vietnam's international passenger volume in the medium term



(Source: Civil Aviation Authority of Vietnam)

Secondly, the rapid application of advanced technology, especially information technology and the expansion of the digital economy, is taking place in several areas, including those directly related to the aviation industry, positively impacting the activities of Vietnam's aviation industry and increasing demand for services of the Vietnamese aviation industry. Freight transportation activities could also be a promising investment opportunity. The explosion of e-commerce and the demand for freight transportation have led to a significant increase in air cargo transportation. In 2022, the Vietnamese aviation industry transported 1.25 million tons of

cargo, significantly contributing to trade promotion. This opens up investment opportunities in commerce-related projects, from establishing cargo airlines to investing in efficient infrastructure and warehouses to support cargo transportation.

Thirdly, infrastructure upgrade projects in the aviation industry. 2023 was also the year when airport infrastructure upgrade projects were simultaneously implemented. Among the 6 key projects that the Airports Corporation of Vietnam (ACV) implemented, 2 projects belong to the key projects of the transport sector, namely: component 3 projects of essential works under the investment project to build Phase 1 of Long Thanh International

Airport; construction of Terminal 3 passenger terminal at Tan Son Nhat International Airport; expansion project of Terminal 2 at Noi Bai International Airport; construction of Terminal 2 at Phu Bai International Airport; expansion project of Dien Bien airport; construction of Terminal 2 at Cat Bi International Airport. The total investment amount for these projects in the 2021 - 2025 period exceeds 110,000 billion VND, the largest to date, to add an additional capacity of over 50 million passengers/year for the entire airport system nationwide managed and operated by ACV.

Fourthly, Vietnamese airlines have established and strengthened their positions, gaining recognition and acceptance from the domestic market, the region, and internationally. Vietnam's low-cost airlines are even ranked highly in the region. Vietnam's aviation has preserved many basic capabilities, while many regional and global airlines have been dissolved, downsized, or directly affected by conflicts in Europe and other regions of the world. The position and capacity of Vietnam's aviation industry have been demonstrated and strengthened through the industry's efforts to adapt and overcome challenges during the pandemic.

Fifthly, the government has implemented proactive policies to support and develop the aviation industry in Vietnam, with important financial investments and solutions for development. Visa policies that facilitate international tourists' entry into Vietnam have made it easier for foreign visitors to come to Vietnam, leading to a continuous increase in foreign arrivals. The State Bank of Vietnam has proposed that commercial banks prioritize lending to airlines, reduce interest rates for loans, and boldly provide unsecured loans. In addition, some other special support policies have also been applied specifically for the aviation industry, such as: reducing take-off and landing fees, flight operation fees; government guarantee fee waiver; reducing environmental protection taxes for airlines.

III. CHALLENGES OF THE AVIATION INDUSTRY DURING THE ECONOMIC RECESSION IN VIETNAM

During the period of 2022-2025, the aviation industry may face several main difficulties and challenges as follows:

Market changes and customer demand: Under the influence of various factors (increasing urbanization, development of the middle class and average income, flexibility and connectivity in people's lives, scientific and technological progress and its increasing application in production and

life...), the demand for aviation services increases and these services become more diverse, leading to changes in the structure of the aviation service market towards greater expansion.

Consequences and aftermath of the pandemic and pandemic adaptation policies for the market and for Vietnamese airlines: Some consequences/effects of the pandemic and their negative impacts on the Vietnamese aviation industry are:

Decreased demand due to economic recession post-pandemic. Although most forecasts from international organizations tend to believe that the global economy will return to growth, the current widespread inflation situation globally adversely affects people's travel demand, leading to a significant reduction in air travel demand.

Supply chain disruptions in the aviation industry have led to a shortage of many parts and equipment. Many aviation businesses, especially airlines, have gone bankrupt or suspended operations during the pandemic and cannot recover immediately when the pandemic subsides or is controlled.

The situation of technical and professional workforce shortage persists as a significant portion of this target group has lost their jobs entirely or partially during the pandemic and cannot return to work immediately. This mismatch will be less severe if the aviation industry gradually recovers, but it will have a significant impact if this recovery occurs quickly. Currently, it is estimated that there is a shortage of about 2 million employees in the logistics sector, including aviation. Furthermore, there is a scarcity of high-skilled labor, with 80.26% of the workforce being trained on-the-job, while only 23.6% participate in formal training courses.

Impact from international disputes and conflicts: Two direct impacts from these disputes and conflicts on the aviation industry are the soaring fuel prices and European-bound airlines avoiding certain countries, leading to increased transportation costs. Additionally, due to these disputes, the number of customers from Russia and Europe to Vietnam has also sharply decreased. Another, albeit less significant, impact is the restriction of transportation between countries, negatively affecting global supply chains, including those directly related to the aviation industry, slowing down recovery efforts or only being remedied by new, less efficient supply chains with lower quality than traditional supply chains.

Increasing competition in the market: In the coming time, not only will Vietnam have new aviation companies, but there will also be more airlines from many countries deploying business

activities in Vietnam. Most of these companies have many competitive advantages over Vietnamese aviation companies: better financial, technical, and human resources capacities than Vietnamese companies, broader cooperation networks than Vietnamese airlines, more diverse services, and more abundant customer sources. Some foreign competitors may even receive greater support from their governments when entering the Vietnamese market. Furthermore, some foreign companies have established strong relationships with customers, creating superior positions, even monopolies in some areas, especially in cargo transportation. Therefore, the competitive pressure on Vietnamese aviation companies is not only greater but also more diverse, requiring Vietnamese aviation companies to make comprehensive efforts to create comprehensive competitive capabilities to maintain and improve their positions. Even among Vietnamese airlines, there is currently fierce competition, requiring the use of extraordinary competitive methods when even the domestic market has not fully recovered, and transportation capacity has not been fully utilized. The financial resources constraint when the pandemic ends will make it more difficult for aviation companies, making it difficult to seize opportunities when the pandemic ends.

Rising interest rates putting pressure on financial costs: In conditions of fluctuating exchange rates and high USD interest rates, the stronger USD makes airlines incur exchange rate losses when re-evaluating USD-denominated debts. Additionally, the cost of investing in aircraft (sold in USD) becomes more expensive, making it difficult for airlines to expand their fleets. However, some of these difficulties are somewhat mitigated when airlines have revenue in USD from international ticket sales. Increasing interest rates while the interest rates for the current fleet financing are usually fixed, so the loan interest costs are not significantly affected. However, when financing new fleets during this period, airlines will have to borrow at higher interest rates, which may affect future business results.

Inadequacy of aviation infrastructure and related infrastructure serving the aviation industry: Although both the state and businesses have made efforts to overcome this situation, the level of inadequacy is still quite large and can hinder the development of the industry. Some airports lack runway capacity and terminal infrastructure, leading to congestion and delays even at major airports. This inadequacy not only occurs within the aviation infrastructure system itself but also in the management and operation of this system and its

connection with the national infrastructure system, especially the transportation infrastructure. Moreover, Vietnam has not yet established a dedicated cargo airline. In the context of the pandemic, Vietnam Airlines, the national carrier, has shown agility by using some wide-body aircraft to carry cargo in passenger cabins and bellies. This creative approach may even be expanded by removing some seats from narrow-body aircraft to facilitate cargo transportation, contributing additional efforts to the recovery of the entire industry.

The demand to restore operations and overcome the consequences of the pandemic, especially the pressure to simultaneously meet the demand for investment to expand production and business with the requirement to repay debts/losses incurred during the pandemic, forcing companies to shrink their operations.

IV. SOME SOLUTIONS FOR THE DEVELOPMENT OF THE VIETNAMESE AVIATION INDUSTRY

To recover, develop the aviation industry, and support businesses in the sector to quickly recover, develop, enhance their capabilities, and position themselves domestically, regionally, and globally in the near future, the State proposes to implement the following solutions:

Continue to invest in building, expanding, and synchronizing the infrastructure system of the aviation industry and related infrastructure systems for aviation activities in Vietnam. On the other hand, the State needs policies to enhance private investment attraction and various forms of public-private partnerships to diversify the infrastructure system and accelerate the upgrading and expansion of this system according to market demand as well as innovation and improvement of organizational and management work to enhance the efficiency of exploiting this system.

The Civil Aviation Authority continues to review and adjust aviation transport policies, especially flexible price regulation policies for air cargo transportation to create room for airlines to accumulate finances; regulate international air transport to support Vietnamese airlines in maintaining and restoring competitiveness in the international market. In addition to the efforts of each enterprise in arranging finances, supplementing capital from various channels, the Civil Aviation Authority proposes the Government to consider special support packages for airlines such as providing 0% interest rate capital replenishment loans to airlines, with a maximum term of 3 years, or

guaranteeing loans for airlines to borrow the 25,000 billion VND support package.

The Government needs to issue resolutions for private airlines to borrow at 0% interest rate to supplement capital as done with Vietnam Airlines (a 4,000 billion VND package for a maximum of 3 years, an 8,000 billion VND package supplemented by the state as equity). This precedent exists, and the National Assembly and the Government need to implement it soon to assist businesses. In addition, the state needs to remove mechanisms in the direction that allows banks to negotiate conditions on collateral, investment plans, and capital use without being strictly regulated by state banks, enabling commercial banks and airlines to proactively negotiate on loan capital, interest rates based on specific advantages of each airline. Thoroughly address the situation where many airlines meet the requirements, satisfy the borrowing subjects, have collateral but still cannot access capital.

Build and coordinate the implementation of a strategy to train and develop human resources for the aviation industry. This demand stems from the fact that 1) the training, nurturing, and development of Vietnam's aviation workforce are still very weak, most professions related to high technology and technology must rely on foreign countries; 2) the current training and development capacity of the aviation workforce is very decentralized, lacking mutual recognition between the businesses in the industry; 3) there are still inconsistencies in the regulations of the state in general, and of the management agencies in particular, regarding the training and use of human resources in the industry; and 4) there is a lack of a credible and capable intermediary to carry out planning and coordination of training and human resource development for the aviation industry. In addition, two other factors need to be mentioned in coordinating the training and development of human resources for the Vietnamese aviation industry: the technical labor force of the industry includes many highly specialized professions but the number needing stable annual training is relatively low and the investment in equipment for large-scale vocational training, especially for highly specialized professions.

Continue to implement support policies so that aviation companies can quickly overcome the consequences left by Covid for early recovery and development. The reality is that the Covid-19 pandemic lasted longer than previous outbreaks, leaving very serious consequences that take many years to overcome, while also causing changes that the aviation industry cannot adapt to for many years. Therefore, state support needs to be maintained until

the aviation market fully recovers. In particular, the state needs to strengthen support for aviation, tourism businesses and directly organize promotional activities about Vietnam to help the aviation and tourism industries attract more international visitors, as well as attract more international investors to invest in general economic development, especially the development of the Vietnamese aviation industry, especially in expanding the industry's supply chain. In the short term, it is necessary to streamline procedures for granting, conditions and visa waiver targets, regulations on residence, disease control to attract international tourists (especially with potential markets for Vietnam's tourism industry), making international flights of Vietnamese airlines quickly recover.

Vietnamese airlines need to vigorously innovate, creatively transform, strongly digitize, and apply artificial intelligence to make breakthrough developments in the context of increasingly fierce competition and adapt to new trends of customers. In which, first of all, innovation must start from organizational restructuring, business management administration in aviation transportation continuously improving service quality towards a 5-star airline, exploiting diverse customer groups. For example, Vietnam Airlines (VNA) has focused on restructuring its fleet, renegotiating all aircraft leasing contracts to delay receiving or not receiving aircraft, successfully postponing payments. To date, VNA has reduced nearly \$1.5 billion in aircraft leasing costs, significantly reducing the financial burden. Besides, VNA is streamlining its operations to be more agile, reducing intermediate departments, shortening administrative procedures. In 2022, VNA merged three Operations Centers at Noi Bai - Da Nang - Tan Son Nhat to be in charge of both domestic and international operations. VNA has focused on improving online care services through the establishment of a 24/7 customer care center (call center), care via automatic messages (chatbot), and upcoming services "Virtual Assistant" applying machine learning and AI to replace staff communication with passengers (callbot). With online applications and utilities, customers can experience all stages of the ticket purchase process from booking, ticket issuance, baggage purchase, online check-in procedures, and changes to tickets... in the digital environment.

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