

China to the World:

A look at the international
markets driving growth





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China to the World

A look at the international markets driving growth

Chinese President Xi Jinping has been busy travelling the world this year, making numerous official visits overseas and attending summits and meetings. This reflects China's status as the world's largest trading nation and the outward looking nature of the current Chinese leadership. We know trade discussions often include commitments to increase air services on a bilateral basis; in September the visit of India's Prime Minister Modi to California was swiftly followed by the announcement of a new Air India service between New Delhi and San Francisco. In October the Chinese State visit to the UK included the announcement of a new service operated by Hainan Airlines between Manchester and Beijing.

With trade being a high priority for discussions on President Xi's trips, it's timely to look at the growth of international air travel to and from China.

From strength to strength

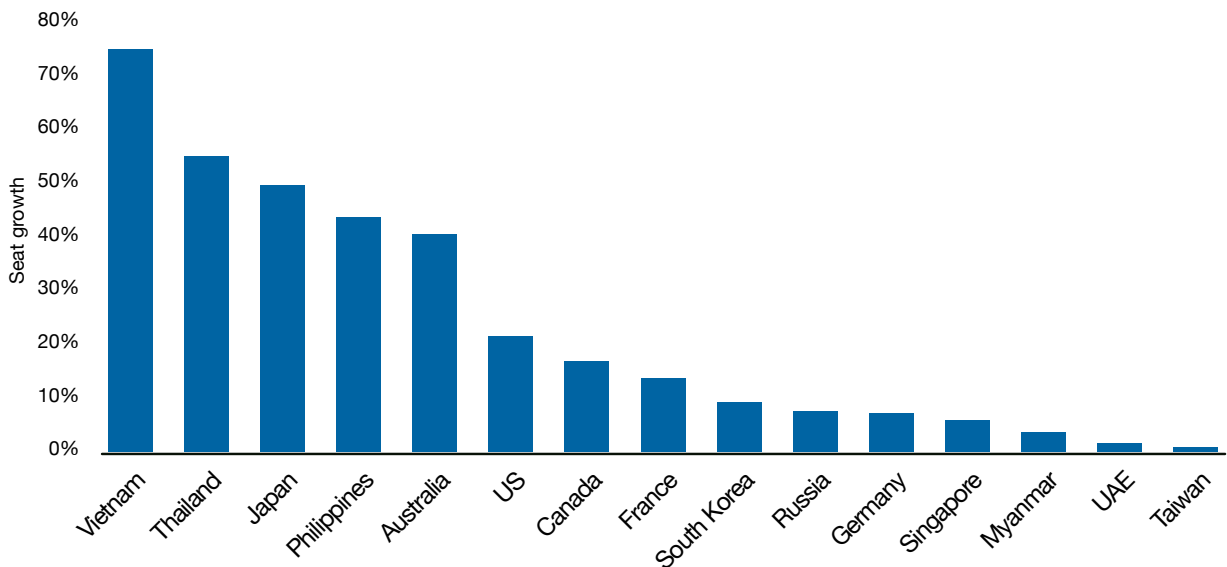
In contrast to news reports of weakness in the Chinese economy, there is no sign of weakness in the Chinese aviation market. In the month of November 2015 there are 298,353 scheduled flights leaving Chinese airports for destinations in China or internationally, according to OAG Schedules Analyser. That equates to 47.6m airline seats a month and 9,945 aircraft movements every day. The average aircraft size is 159 seats. Eighty nine percent of capacity is provided on routes within China, including Hong Kong and Macau, while the remaining eleven percent is on routes between China and elsewhere.



47.6m seats from Chinese airports
November 2015

The capacity growth is enviable. There are 3.1m more domestic airline seats available in November 2015 compared to November 2014, an 8% increase. Although smaller in absolute terms, international capacity growth is a staggering 20% year-over-year, which is nearly 900,000 more airline seats in November 2015 than this time last year.

Airline capacity to/from China – Nov 2015 vs Nov 2014 growth in Top 15 markets

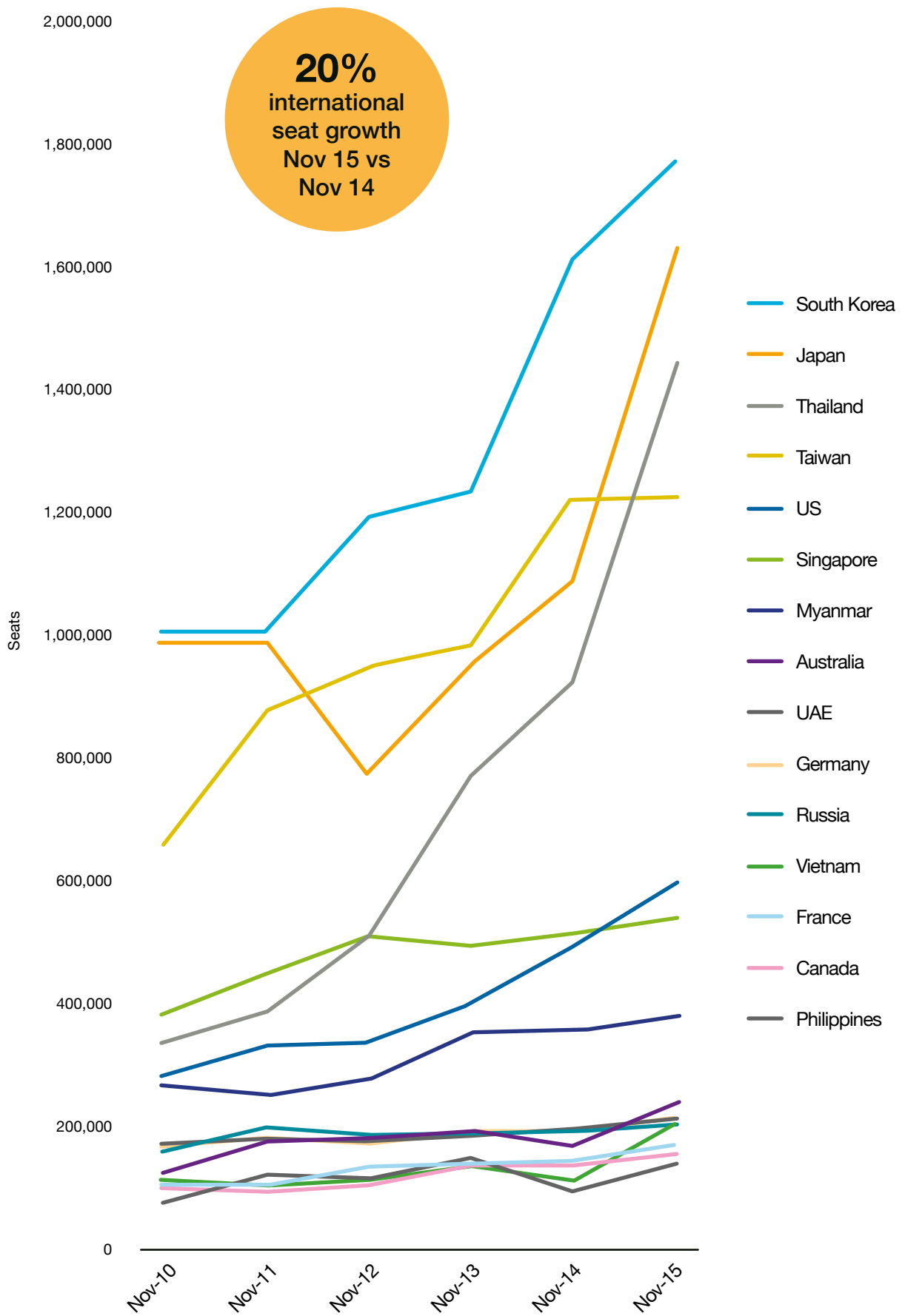


Source: OAG Schedules Analyser

The top 15 largest international markets account for 86% of all international capacity in November, with South Korea and Japan leading the way in terms of available capacity.

We take a look at six of the star performer country markets for air services from China over the past year to understand the airlines and airports that are driving this level of growth. These include two markets in North East Asia – South Korea and Japan, two markets in South East Asia – Vietnam and Thailand which have seen especially strong growth, and two long haul markets – Australia and the US.

Scheduled airline capacity to/from China

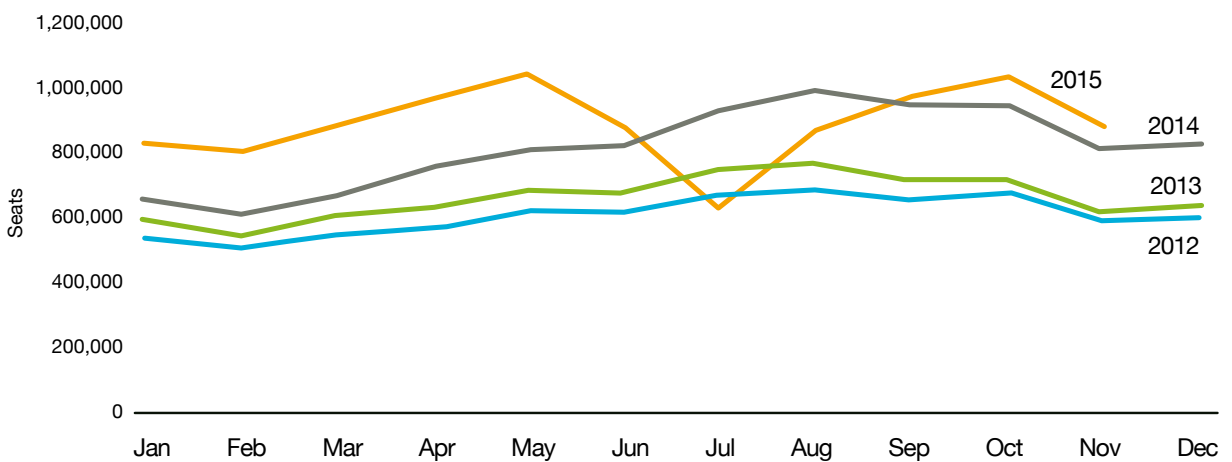


Source: OAG Schedules Analyser

South Korea - The star performer

Five years ago scheduled airline capacity from China to Japan and from China to South Korea was almost identical at around a million seats in November 2010. In the intervening years, the China-South Korea market has grown rapidly and continuously, and capacity is now 75% larger than it was back then. Both China and South Korea have experienced steady economic growth over this period, albeit China's was somewhat more rapid. Year-over-year (November) seats from China have grown by 10% and frequencies by 11%, making South Korea the 9th fastest growing international market for China. The dip in seats in mid 2015 reflects the effect of an outbreak of Middle East Respiratory Syndrome (MERS).

China to South Korea Capacity

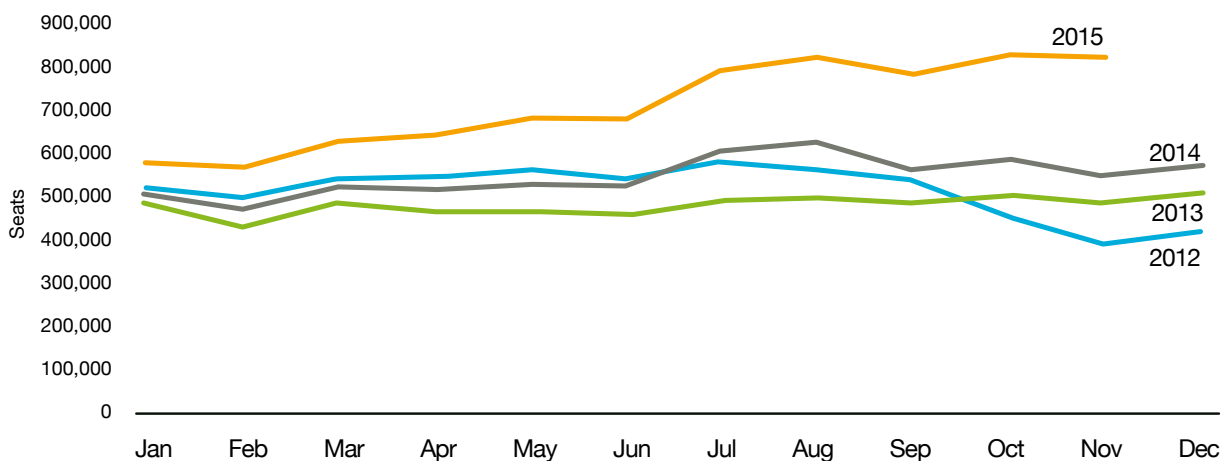


Source: OAG Schedules Analyser

Dramatic increase in routes to Japan

In contrast to China-South Korea, the China-Japan aviation market declined by 20% in 2012 and has been recovering ever since. The Japanese economy has continued in the doldrums but this has not stopped the growth of air services. Comparing November 2015 with November 2014 capacity has grown by a remarkable 48%, placing Japan as the third fastest growing international market to and from China in the past year.

China to Japan Capacity



Source: OAG Schedules Analyser

According to OAG Schedules Analyser, airlines have added 1,516 new frequencies from China to Japan over the past year (November 2014 vs November 2015), as well as 264,116 seats. Of these, just over 40% provide additional capacity on existing routes. More striking is the fact that the remaining 60% (893 frequencies) are on 48 newly operated routes.

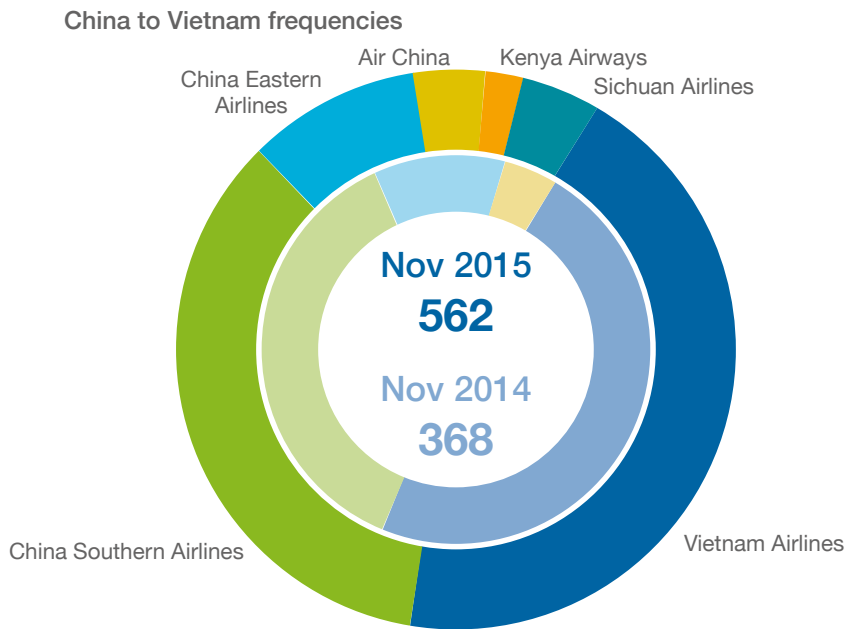
The opening of Tokyo Haneda International Airport to services from China accounts for some - but by no means all - of this. A total of 164 frequencies have started on the Shanghai-Haneda route (PVG-HND), a further 120 on Guangzhou-Haneda (CAN-HND) and 17 on Tianjin-Haneda (TSN- HND). Similarly, this rapid expansion is not a phenomenon only at China’s main international airports. Over half of all the new frequencies are to and from secondary airports in China i.e. not from Beijing, Shanghai or Guangzhou.

The most remarkable feature, perhaps, of this market growth is that the vast majority of new frequencies - 94% - is operated by Chinese airlines.

Vietnam becomes China’s fastest growing market

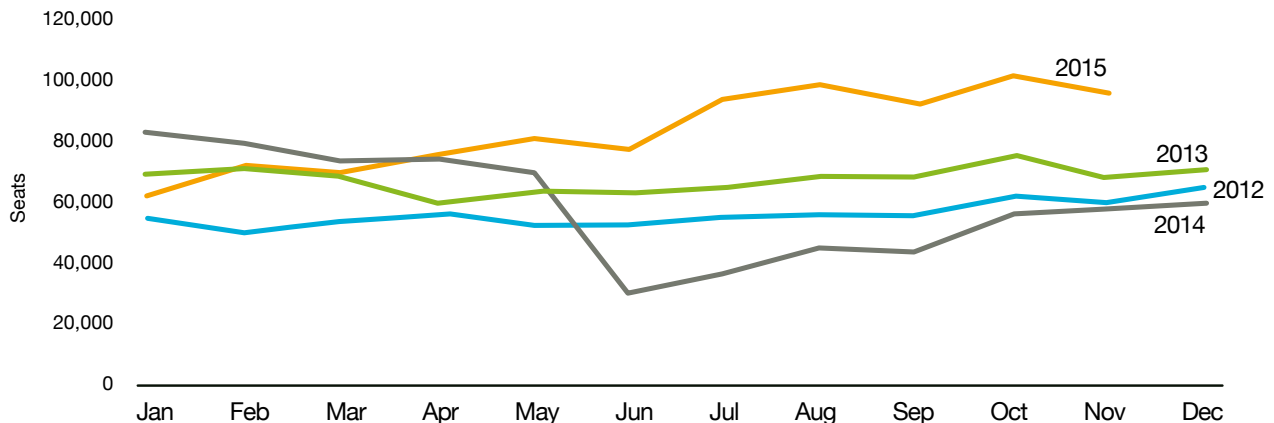
While Japan might be the third fastest growing air market from China in the past year, Vietnam is the fastest. Capacity is much smaller at just over 200,000 seats from China to Vietnam in November but has grown by 75% compared to November last year.

The major players are Vietnam Airlines and China Southern Airlines, the Skyteam partners operating 79% of the seats in the market, down from 90% a year ago.



Source: OAG Schedules Analyser

China to Vietnam Capacity



Source: OAG Schedules Analyser

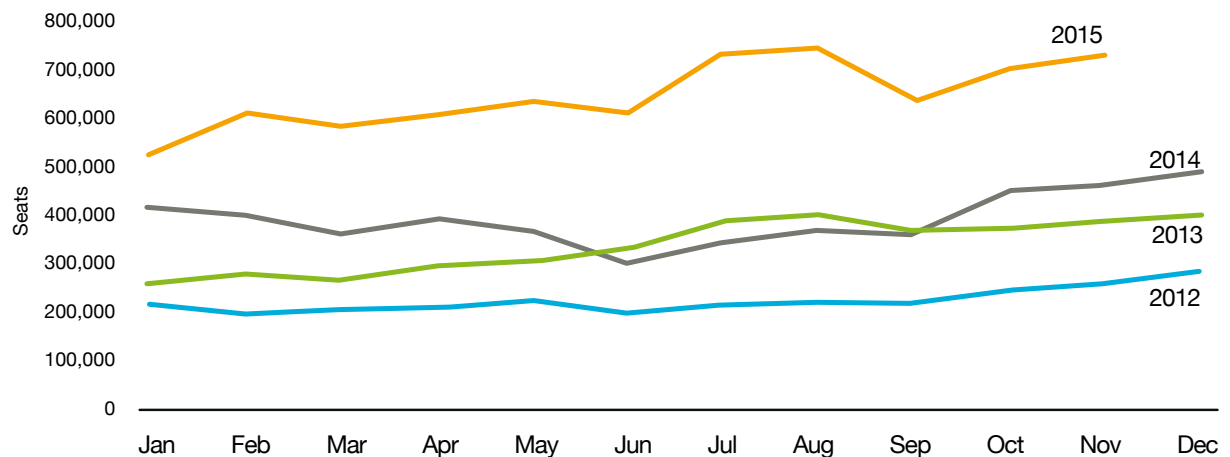
Both carriers have added capacity but have seen market share fall with the arrival of Sichuan Airlines and Kenya Airways (which operates to Guangzhou via Hanoi three times per week), and with the growth of Air China and China Eastern Airlines' frequency additions.

Thailand benefits from services from secondary airports

Not far behind Vietnam in terms of growth is Thailand, with 57% more available seats in November than a year earlier. That is more than half a million more seats and nearly 1,400 new airline frequencies. This brings the total number of airlines seats from China to Thailand in November to 1.5m, not much smaller than the China-Japan market in size. Over half (53%) of all frequencies operate to or from Bangkok (BKK).

Of the new frequencies, 452 have been added from the three main Chinese airports in Beijing, Shanghai and Guangzhou. The remaining 932 (67%) have been added from smaller and secondary Chinese airports.

China to Thailand Capacity

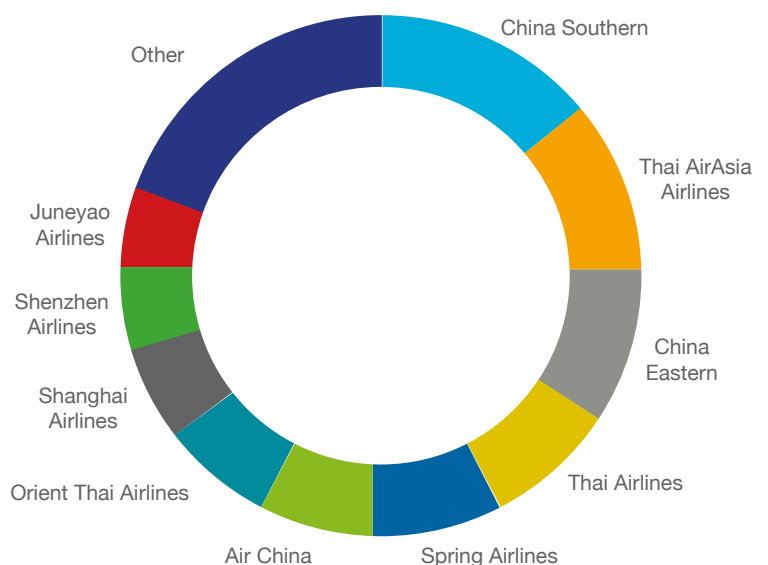


Source: OAG Schedules Analyser

In the year since last November twenty-two new routes have been launched bringing the total number of routes to 85. Orient Thai Airlines has made the largest contribution to new frequencies with 274, although some of the new operations may represent a switch from charter to scheduled flights. The next largest contributor to new services is Spring Airlines, the Chinese low cost carrier. Over the year the airline has added 107 frequencies from Shanghai (PVG) to Thailand and 143 frequencies from smaller and secondary airports in China such as Chengdu (CTU) and Hangzhou (HGH) to Thailand, mostly Bangkok (BKK).

Three other LCCs have also started services between China and Thailand in the past year - Nok Air, Thai AirAsia X and NokScoot – all of which now have 109 frequencies in the month of November.

China to Thailand – Frequencies by airline, November 2015



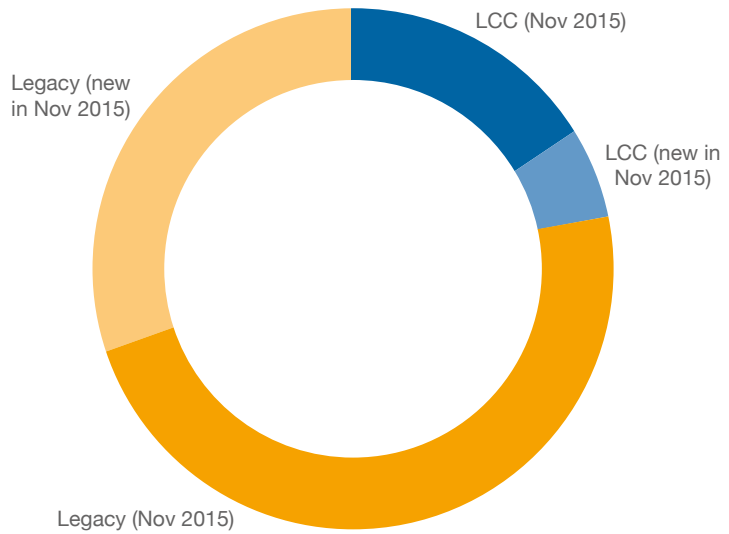
Source: OAG Schedules Analyser

Meanwhile Thai AirAsia has scaled back its operations with the loss of 139 frequencies in November although this still leaves them with more operations between China and Thailand than any airline except China Southern.

However, the majority of new frequencies have been added by Chinese legacy carriers – Air China, Shenzhen Airlines, China Southern, Sichuan Airlines Xiamen Airlines, Beijing Capital Airlines, Hainan Airlines and 11 others.

Delving further into the past, the Thai political crisis that occurred between November 2013 and May 2014 clearly disturbed scheduled traffic flows between China and Thailand through much of 2014, and so year-over-year growth is measured from a depressed 2014 base figure. However, the underlying attractiveness of the market appears relatively secure and charter traffic appears to be helping establish markets ready for scheduled air services. Since the dip in capacity in mid-2014, growth has averaged 5% per month.

China to Thailand – Frequencies by type of airline, 5 growth



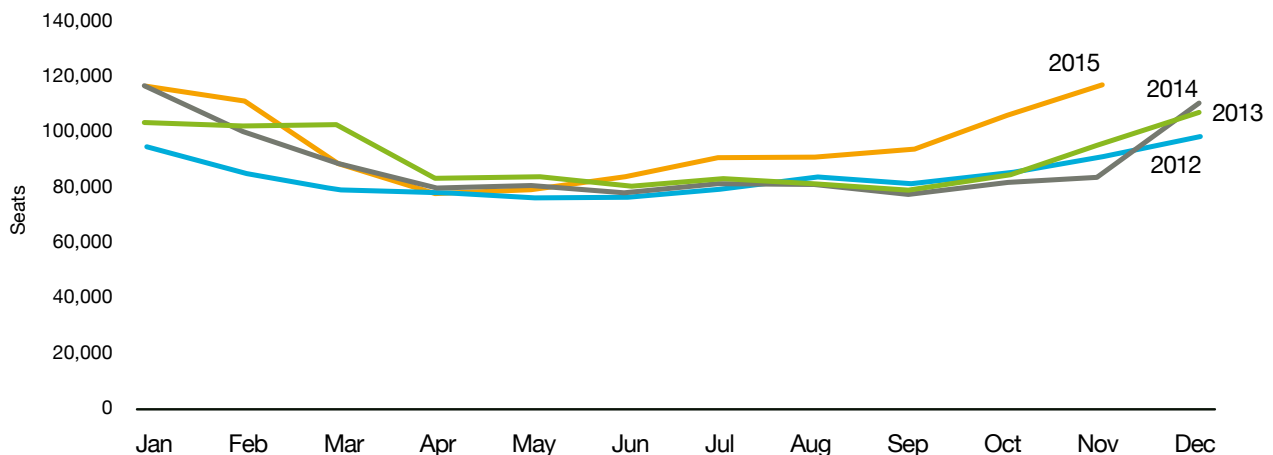
Source: OAG Schedules Analyser

Chinese airlines strengthen position to Australia

A pattern is emerging which continues with markets further afield - that is of strong growth in airline capacity over the last year and especially by Chinese carriers. Australia is a good example. In November there are 40% more seats in the China-to-Australia market than a year previously. Between them seven airlines have 237,000 airline seats in the market spread over 13 routes; the latest market entrant is Xiamen Airlines which starts operations between Fuzhou and Sydney in November 2015. In November 2015 there are 438 frequencies, up 109 on the previous year. However, all but two of the airlines are Chinese.

Qantas has made no change to its daily Shanghai (PVG) service from Sydney (SYD), while Jetstar Airways is operating eight flights a week between Gold Coast (OOL) and Wuhan (WUH), a service which wasn't in place last year.

China to Australia Capacity

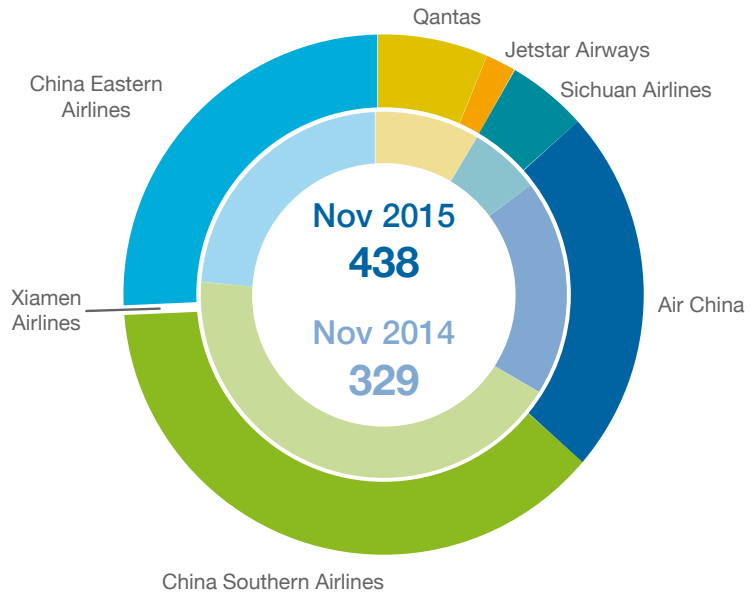


Source: OAG Schedules Analyser

This means that over 90% of direct frequencies are on Chinese airlines. However, there is plenty of scope for one-stop services via hubs such as Singapore and while Qantas' non-stop capacity to China may be limited the airline does code-share with China Eastern via Singapore. Furthermore it has recently won approval from Australia's anti-trust regulator for a joint venture between the two carriers.

Providing a boost to an already growing market, in January this year Australia and China agreed to a new air services agreement which triples the allowed capacity on major routes between the two countries by 2016, and places no capacity limits on routes serving smaller cities. In the face of strong market growth there was clearly a case for loosening the regulatory constraints.

China to Australia frequencies



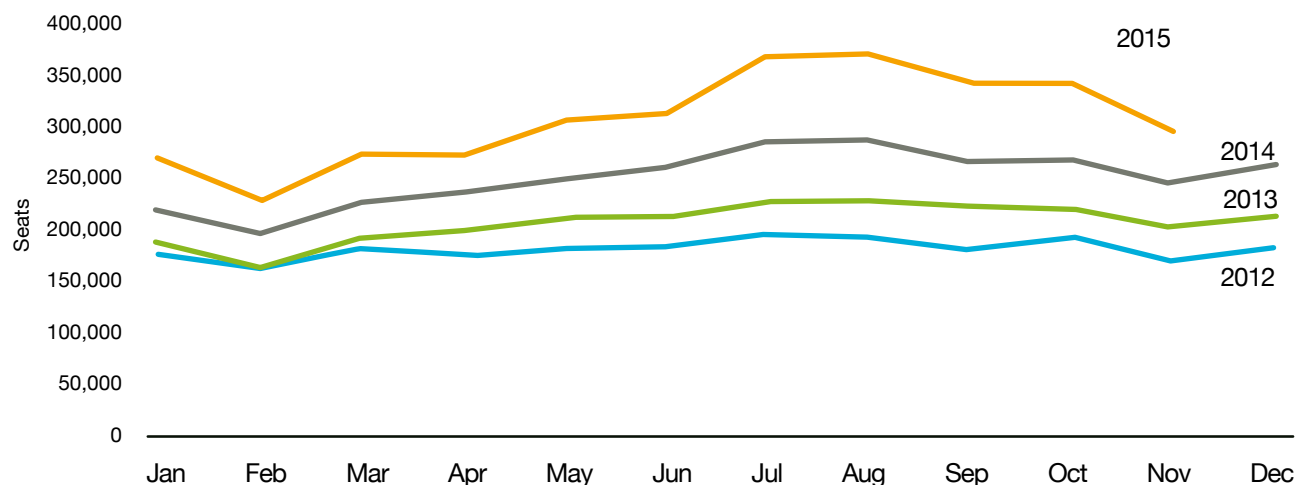
Source: OAG Schedules Analyser

Chinese carriers operate over half the China-US market

Another long haul market which has grown strongly is from China to the US. There are 22% more airline seats this November than this time last year. Looking at November as a snapshot of the market gives the impression that capacity is divided on a strictly 50:50 basis between carriers domiciled in the US and carriers domiciled in China. Eight airlines fly between the two countries, with four from each country.

However, this is coincidence. In fact the share of capacity provided by Chinese carriers has been rising steadily. Between July and October this year Chinese domiciled carriers actually operated more frequencies than US domiciled carriers but in November the share was close to even with Chinese carriers operating just 9 more frequencies over the month than US carriers.

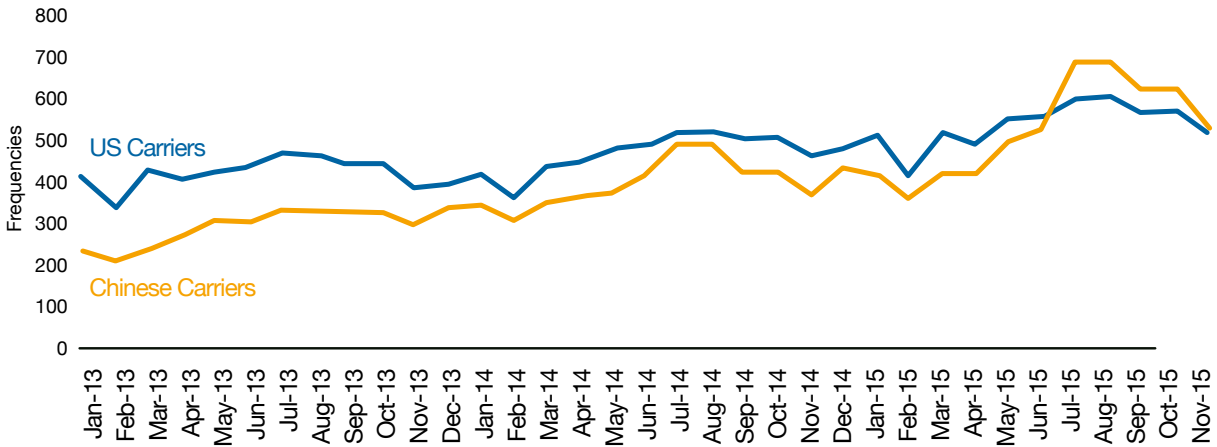
China to US Capacity



Source: OAG Schedules Analyser



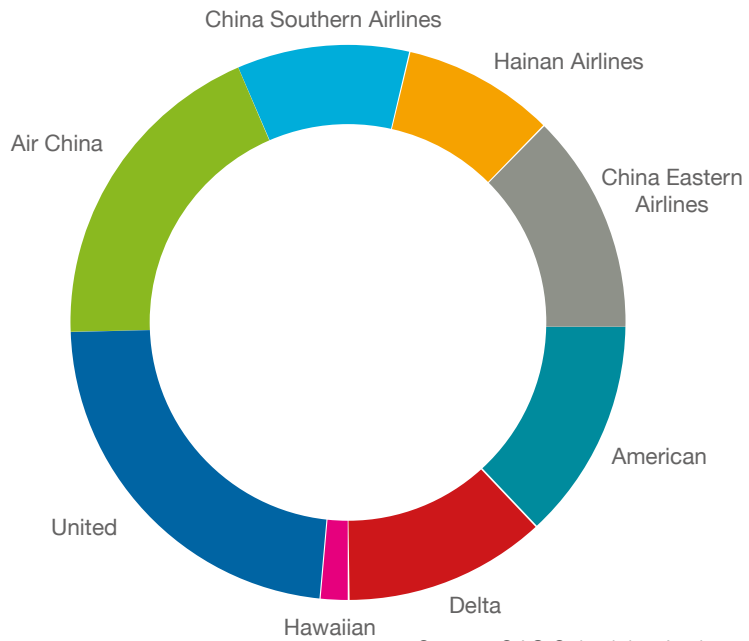
Scheduled frequencies from China to US



Source: OAG Schedules Analyser

In stark contrast to the blossoming of new routes from secondary Chinese cities which characterises airline services between China and Japan and between China and Thailand, all but 36 of the more than 1,000 frequencies in November from China to the US are from just three airports in China; Beijing, Shanghai or Guangzhou.

China to US frequencies, by carrier – November 2015



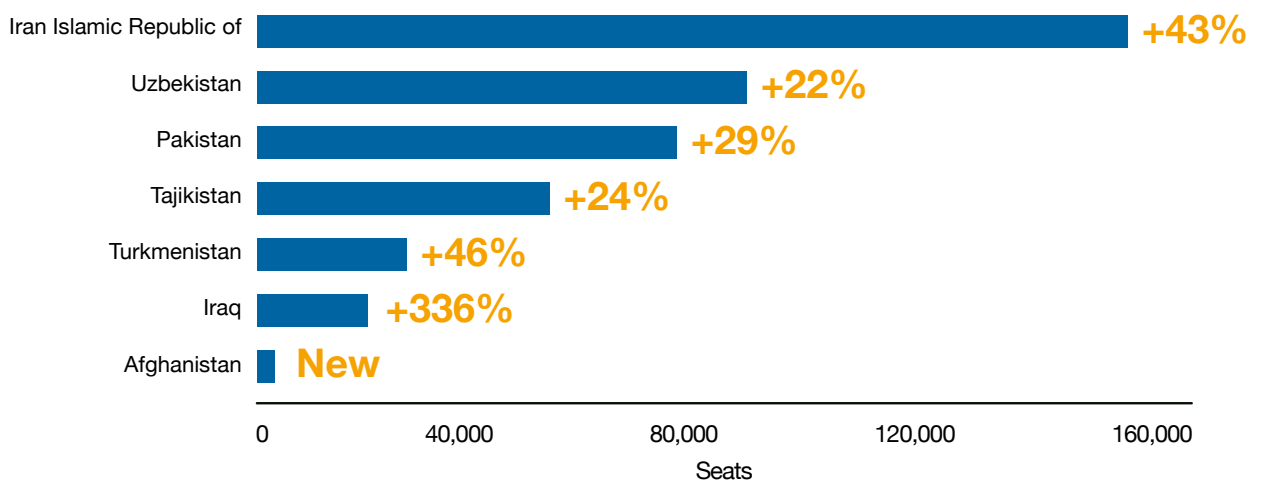
Source: OAG Schedules Analyser

Where next? China's new Silk Road

While the six international air markets profiled here account for a large proportion of China's international aviation capacity, strong growth is also taking place in numerous smaller markets as Chinese carriers expand international services and airlines from other countries see the opportunity of serving the outbound Chinese traveller.

For instance, there are six countries that have had scheduled air services to and from China in 2015 where none existed in 2014. These are Afghanistan, Belarus, Czech Republic, Fiji, French Polynesia and Ukraine. In addition to four of the countries studied here, there are a further 14 which have seen capacity grow in excess of 20% in the first 11 months of 2015 compared to the same period last year.

New Silk Road capacity from China – Jan-Nov 2015 (Growth vs Jan-Nov 2014)



Source: OAG Schedules Analyser

Of particular note is that six of these are in Western and Central Asia; Iraq, Iran, Pakistan, Turkmenistan, Tajikistan and Uzbekistan. While the number of seats and frequencies offered between these countries and China may as yet be relatively small, these are all signs of Xi Jinping's New Silk Road strategy which aims to strengthen trade and economic ties with the countries along the 'new Silk Road, connecting east and west.

These must be markets to watch.

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in the Chengdu Show Dailies!

The collage displays a variety of content from the 'anna aero' dailies, including:

- Routes DENVER**: Features a winter scene with people on skis and a large blue bear sculpture.
- Escapes ABERDEEN**: Shows a large crowd of people at an airport terminal.
- Routes DUNDEE**: Includes a headline about 'World Cup: Latest results just in!' and a photo of a red lion.
- Into the Big Blue Bear's**: A large headline with a blue bear sculpture.
- Routes KUNMING**: Features a tiger and a person in traditional Chinese attire.
- Routes CHICAGO Daily**: Shows a man in a suit and a cityscape.
- Australia**: A headline with a group of people in business attire.
- SEGWAY and the CITY**: Shows a group of people riding segways in a city.
- e's nothing like routes award**: A headline about an award ceremony.
- Beautiful Day!**: A large headline with a group of people holding awards.
- World Routes Marketing Awards: Tourism Ireland is overall winner!**: A headline about a marketing award.
- Air China's Global Business class**: A headline about a new service.
- Mitsubishi All-in-One**: A headline about a new aircraft.
- World Routes Marketing Awards: Best night service in flight**: A headline about an award.
- It's all budget**: A headline about budget airlines.
- Check these facts and facts on who was Top of the Day**: A headline about industry news.

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