

China's year of the dog



By **Alud Davies**
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The Chinese zodiac runs on a 12-year cycle. This year, 2018, is the year of the Dog. The last time it was the year of the Dog was in 2006.

Back in 2006 we were almost reaching the height of the last cycle. Business jet deliveries were approaching the 1,000 mark, and we all thought that sub-prime was a sandwich tie-in for an upcoming Transformers movie.

Despite 12 years passing, the business jet environment in China has not changed too much. The issues that operators and companies were facing in 2006 are very similar to the issues they are facing today. The business jet fleet may have more than doubled in the 12 years, but the infrastructure issues that plagued China and that dampened demand for executive jets in 2006 are still in place today.

It has of course not been plain sailing for China during those 12 years. Companies have been set up, and companies have failed.

The business jet fleet grew, and then slowed in 2013 when the government introduced anti-graft measures aiming at stemming corruption within the country.

The charter market also faltered. Ferrying government officials between meetings was the lifeblood of many Chinese charter operators and this market dropped off almost overnight. At the end of the year charter companies reported losses, and a slow-down in new aircraft deliveries had begun.

In its 2013 year-end Greater China Business Jet Fleet Report, Hong Kong-based business aviation acquisition and consultancy company Asian Sky Group said that between 2007 and 2013 the business jet fleet in Greater China, including those aircraft in China, Hong Kong, Macau and Taiwan, had grown at a compound annual growth rate of 34%. This it says compares to the global growth of 5% in 2013.

In 2013 the fleet grew by 21%, but by the end of 2014 the growth had slowed 15.5%. The decline continued in 2015, with growth dropping down into single figures, where it remained in 2016.

But confidence in the market has begun to return slowly. VistaJet, which partnered with locally based operator Apex Air for its entry into the Chinese market, said in its 2017 year-end report that China was one of its fastest-growing countries for charter during the year, attributing this to the Chinese economy being more resilient than many expected.

China's economic growth is largely built on debt, with growth going through cycles, much the same as most other places. In 2006 the economy was at the top of one of these cycles, with GDP growth reaching an official figure of 12.7%. The

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Although the growth of the economy had slowed, 6.7% of growth at its lowest point is still much higher than the global economic growth rate of 2.5% for 2016.

By 2017, the economy had begun to rise again. Although this was originally projected to increase by 0.1 of a percentage point over the previous year, it grew by 0.2 percentage points to 6.9%.

Alongside increased economic confidence in China, the government identified general aviation as a growth area for the country and has put in place measures to speed up its growth.

Although these are mainly centered on building infrastructure, the government also changed rules requiring local companies to apply for a license to register an aircraft in the country, as well as the fees associated with doing so.

Infrastructure remains one of the biggest barriers for growth in the country. Although there are well-developed aviation hubs in all the major cities, current Chinese rules only allow for one Fixed Based Operator (FBO) to operate at each airport.

Worse still is the number of slots that are available for business aviation use in major cities. Business aviation shares main international airports with commercial airlines, and many major hubs are already at saturation point. This gives business aircraft arrival and departure slots at unfavourable times, reducing one of the industry's unique selling points; flying on your own schedule.

Off the back of the government giving special importance to general aviation as a growth area, the HNA group has set up a new investment company specifically to invest in aviation infrastructure.

Although the HNA is best known for its Hainan Airlines division, its Deer Jet division was one of the first business jet operators in China. Deer Jet today operates one of the largest fleets of business jets in China and operates a series of FBOs across the country.



In 2018 China's economic growth is expected to match that of recent years. This growth, hovering between 6.5 – 6.8% is seen as the economy normalising. In past years the economy has gone through cycles, but double-digit growth is seen as unsustainable in the long term.

As confidence returned to the local economy, confidence in the business jet market also returned. In 2017 Chinese operators were reporting that customers were returning, and financiers were talking about the return of buyers. The number of new business jets entering the country will not necessarily be higher. The lag between placing an order and taking delivery of a new aircraft is often as much as two years, so it could be 2019 at the earliest that we begin to see an uptick of new aircraft entering the country.



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