

A provocative view of globalisation's future

Airlines and original equipment manufacturers are showing signs of wanting to restrict competition, writes **Adam Pilarski**, senior vice-president at Avitas.

The past few decades are the age of globalisation. The world is getting smaller and much more interconnected. Trade has been growing in line with regional specialisation. These developments have been welcomed worldwide by economists, who always believe globalisation and the resulting trade will lead to a better allocation of scarce resources, the holy grail of our science. All those movements of people and goods have been a boon to aviation.

The fact that globalisation is not necessarily good for everybody has been also recognised for a long time. The Luddites were smashing machines two-and-a-half centuries ago protesting against progress, which they saw reducing their welfare. Recently, anti-globalisation movements have been gaining strength, asserting their influence via the political mechanism. Ironically, the two countries which introduced the free-trade ideology to the world and benefited for a long time from globalisation (the UK and US) have turned recently against these principles at the ballot boxes.

The negatives of worldwide globalisation have been widely discussed. While few people argue for downright isolationism, the trade-offs between the overall improved welfare of the world as a whole versus the local costs experienced in some places have been more in focus in the past few years.

These, though, are not the developments I want to discuss here. The lot of the horse and buggy driver who gets replaced by an automobile has been discussed enough. I want to focus on another aspect of the big globalisation issue: concentration of economic power.

Competition leads to higher efficiency, globalisation and specialisation. It also can lead to lower profit margins being competed away by others. The most efficient prevail and will want to keep this status quo forever. This can lead to an abandonment of free markets and a movement away from competition towards more monopolistic market structures. More market power is the goal of most firms competing in the market place but, paradoxically, the more successful they are exploiting free competition, the more



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likely they may be moving into a dominant position and away from the concepts of competition. So, opposition to globalisation comes from two extremes: the poorest parts of the society losing their jobs and status, and the richest elements who, after gaining their position, want to maintain the status quo and forego competition.

The above-mentioned trends are quite prominent in aviation both among airlines and manufacturing. Starting with airlines. In the USA, we have very pronounced movements towards consolidation and concentration of economic power. Airlines claim they cannot make money with too much competition and managed to reduce options to the flying public. There have not been too many significant new entrants in the US domestic market for some time and all mergers have been approved by government bodies.

There have also been restrictions on foreign entities attempting to enter the US market. We have a lower legal maximum ownership by foreign capital in US airlines than many countries and when outsiders

attempted to set up subsidiaries in the US they faced tremendous hurdles. The same for international flying where the attacks on the Gulf carriers and Norwegian cannot be seen as anything but a blatant attempt by those with market power to restrict competition.

Moving to the aircraft manufacturing side, we can also detect interesting developments away from globalisation and specialisation towards brute market power. Trying to reduce costs resulted in moving the production of parts of the final product around the world. That led to lower costs but also reduced the control the prime manufacturer had over the production process and greatly increased risks. The disaster of the 787 production, as one example, led to substantial delays and penalties, causing a rethink of this strategy.

And other original equipment manufacturers, both on the airframe and engine sides, faced similar environments across the world. Maybe outsourcing is not the way to go? Greater control may be better. However, moving that way will not help control costs as originally fantasised. The conflict between outsourcing based on the benefits of free competition for the sake of efficiency and insourcing in the interest of control in line with less competition and more monopoly power is now coming to the forefront of thinking by manufacturers.

The recent developments in manufacturing seem to be moving towards less outsourcing with its loss of control of one's own destiny and toward attempting to reinforce a monopoly position. This is what Boeing is attempting to do by relying more on its unique position and hoping this will lead to greater profits by concentrating on all elements of manufacturing, not just on final assembly. The new goal of attempting to shift future profits from final assembly to the imprecisely defined "services" is an attempt to increase profits by utilising market power. The acquisition of B/E Aerospace by Rockwell Collins and, even more so, the potential merger of this entity with UTC follows the same plot line. All this will lead to interesting developments and potential conflicts between the ever more powerful manufacturers. ▲