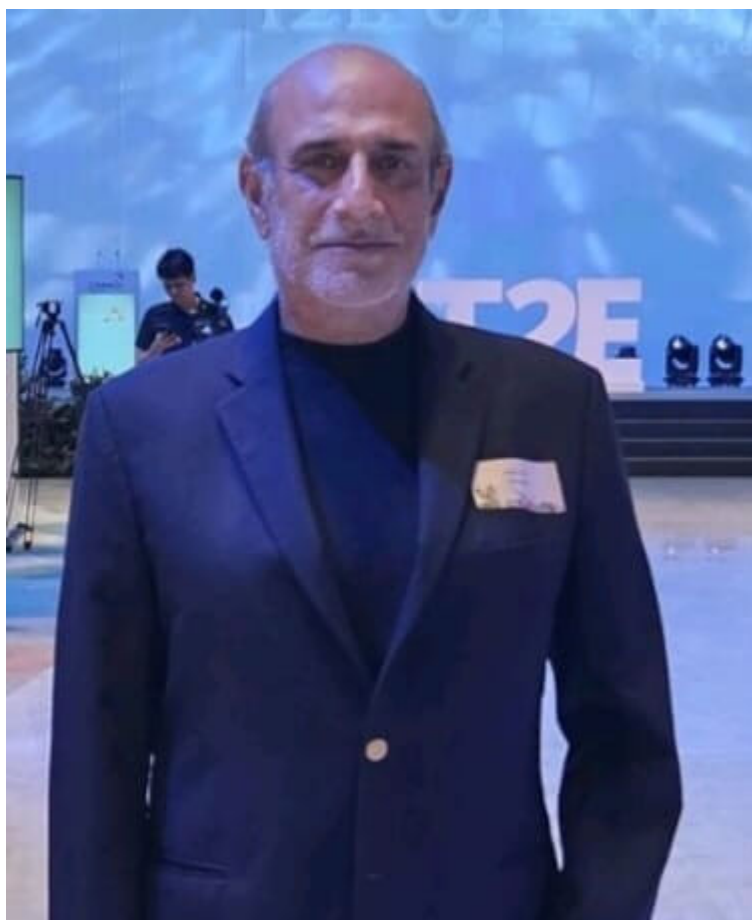


“A Year of significant milestones”: Sunil Tuli welcomes the Year of the Dragon



APTRA President and King Power Group (Hong Kong) Group Chief Executive Sunil Tuli welcomes the Year of the Dragon and outlines significant milestones for the Asia Pacific region.

The start of the Lunar New Year in 2023 gave the global travel industry the hope of a rapid resurgence from the COVID crisis after China launched a surprise relaxation of restrictions. This inspired optimism that China would rapidly rebound from the crisis and that the resulting resurgence would accelerate growth regionally and across the global economy. The travel retail world would soon be spinning at full speed once more.

The reality has been a little different.

After decades of unprecedented growth in the Chinese economy, much of the world seems startled that China is, just like every other economy on the planet, vulnerable to the slings and arrows of downturns. Since the economic reform began in the late 1970s, as the World Bank has reported, China's average growth in GDP has been around 9%, including peak years that reached 19.3%. In 2023 it was 5.2%. The sheer scale of importance of China is emphasized by the fact that many of the countries looking dubiously at this performance are struggling themselves to achieve growth remotely close; for example, the EU saw GDP growth of just 0.7% in 2023 - and expressed relief at avoiding recession.

The Chinese government looks likely to introduce further stimulus measures to counter inflationary pressures, high youth unemployment, the property slump and declining birth rate, but any such

measures to date have had limited effect. The rebound of the Chinese economy hoped for in Q1 2024 now looks even less likely; a Reuters poll of economic forecasts suggest China's economic growth may slow to 4.6% this year and to 4.5% in 2025.

In January, Vice Transport Minister Li Yang said at a conference that a record high nine billion trips will likely be made during the 40-day Spring Festival holiday period welcoming in the Year of the Dragon, with 7.2 billion of those by road. However, despite some recovery, China's international air passenger traffic in December 2023 was just 63% of its 2019 level. For the full year, international passenger traffic was only 39% of what it was in 2019.

It's clear that, when China catches a cold, the whole region - in fact the whole world - gets the sniffles. But let's not lose sight of the bigger picture yet across APAC. While China has long been the engine room of regional and global economic growth, the pace of change is accelerating as other players in APAC achieve stronger positioning.

India rising

APAC is no longer a single engine economy. India is set on a path that is likely to echo significant elements of China's fast-paced development journey of the past forty years, including learning lessons from China's experience. With robust domestic demand, strong growth in manufacturing and services, economic reforms in infrastructure, a rising middle class, India is currently the world's fastest-growing major economy and the IMF projects it will contribute over 16 % of global growth, rising to 18% over the next five years. Certainly, it has much to do to match China's economic scale but, in everything from new airports and space programs to female education and digital industries, India is on a transformative journey.

We can only imagine what the region could do when powered by the twin engines of China and India! On a smaller scale but still highly encouraging, the rising development of economies across the region, such as Thailand, Indonesia and Vietnam, is further strengthening the scale and robustness of the APAC economy.

Growing middle class

At the heart of Asia Pacific growth and its astonishing possibilities for the next decade is the surging growth of its middle classes. Research by World Data Lab (WDL) expects 113 million people to join the global middle class (currently estimated at around 4 billion) in 2024, with the vast majority coming from Asia - adding around 91 million per year.

Economic forecasters suggest that India is expected to outperform China for the rest of this decade and is the single-largest contributor to the growth of the middle class audience, adding 33 million new consumers this year, closely followed by China's 31 million. In terms of both consumer numbers and total spending, APAC is home to the world's largest consumer. WDL also reports that, in 2024, for the first time in the history of the Asian continent, the consumer class will outnumber the vulnerable and poor. By 2030, more than 1 billion Asians - 75% from Indian and China - will join the middle class.

Perhaps even more pertinent to India's rising role, WDL also predicts that, by 2030, India will also be the largest young consumer market in the world, offering a market audience of over 350 million of the consumers who will be shaping global consumer trends and behavior.

Traffic problems

We still have a gap to fill although there is encouraging progress. Earlier in February 2024, the

Association of Asia Pacific Airlines (AAPA) reported that international passenger traffic carried by Asian airlines grew solidly by 161% in 2023. Passenger numbers averaged 72% of 2019 levels, up significantly from 28% in 2022.

Also this month, the Pacific Asia Travel Association (PATA) released its forecast figures for international visitor arrivals across three scenarios of recovery, ranging from exceeding 2019 figures by the end of 2024, or less optimistically, by the end of 2026.

The economic environment is obviously a factor in these traffic patterns but the relative slowness in the recovery of international capacity and traffic in China remains stubbornly low at almost 40% below pre-pandemic levels. The relatively high level of air fares (especially on international routes) seen throughout 2023 inevitably impacted traffic levels. The news that some airlines are paying their staff profit-related bonuses makes the impact of their fares strategy on traffic even more frustrating.

Passion for travel

More positively, the surge in domestic travel, especially in China, at least offers some encouragement that the passion for travel remains. India is already at a capacity level 30% above 2019 levels and is forecast to reach capacity levels 50% higher than 2019 before the middle of this year. As airlines continue to address their staffing and operational issues and capacity edges upwards, we hope to see air fares set to levels that will entice those rising new middle classes to travel further and more often. Our industry is working hard to be fully prepared for them.

Safeguarding the dynamics of Travel Retail

At APTRA, we continue to fight the industry's corner, including working on several different issues in the region, including support for the case for increased allowances in priority markets and also in responding to the continuing threat of Tobacco legislation (as seen in New Zealand and Malaysia). The 'zero tobacco' initiative has been remains an active consideration with many governments who are also increasing their focus on regulatory reforms, especially regarding track and trace labelling, sugar, sustainable packaging and threats to duty free allowances. The work APTRA does, in collaboration with our members, is vital in safeguarding the unique dynamics of our market. We do not compete with domestic markets, and we add important commercial revenues to airports which in turn benefits governments - and these are key intrinsics that we seek to embed with regulators and government influencers on a regular basis across the region.

APTRA India Conference - a Milestone for APTRA

In an exciting new initiative that reflects the rise of India, APTRA has created the India Conference (March 19 to 21, 2024), focusing on the major opportunities that the country's dramatic growth in its airport infrastructure and its surging middle classes can deliver for our industry.

I believe it's a very healthy strategy to ensure we focus on the range of opportunities, large and small, that the entire APAC region provides. Even with a slower China engine, the region remains the powerhouse of the global travel retail industry for the decades ahead.

Despite all the pressures and the slower pace of recovery than we hoped, 2023 has seen many successes and the regional trend has many positive dynamics. We have the most appealing audience on the planet, and it's fast-growing. It's an audience that is getting more money in its pockets, with a powerful element of youth, better education and personal economic prospects, with a thirst for travel, adventure and experiences.

APTRA will continue to strive to ensure that our industry is in the best possible position to deliver 3

traveler needs. By working together and sharing information, strategies and innovations, we can meet that audience with an experience that will delight them and bring them back for more.