SIDS economic development and the role of air transport

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To represent, lead and serve the airline industry
Air connectivity is a key development driver for SIDS

Source: SRS Analyser
How to measure the degree of air connectivity?

IATA air connectivity measure, seats to weighted destinations as % GDP

Source: IATA, World Bank
Connectivity is a means to an economic end

• Infrastructure asset
  – Bridge to distant markets

• Channel for economic flows
  – Tourists
  – Workers
  – Goods
  – Investment
  – Ideas
  – (Social cohesion)
  – (Competition)
  – (Diversification)

• Flows can be outward as well as inward

• Flows from overseas could just displace flows from residents

• Economic flows not the same thing as resident welfare
Making the economic case for transport investments

• Cost-benefit appraisal or economic impact assessment?
• Welfare and/or GDP?
• Partial or general equilibrium tools?
Standard transport appraisal

• Welfare not GDP
• Value of time savings and choice gains for residents only
• Considers supply chain jobs a cost not a benefit
• Macro effects usually assumed to be crowded out i.e. zero
  – But this assumes an economy in full-employment equilibrium
Focus on welfare of users (residents i.e. outbound)

‘Economic impact’ studies e.g. ATAG focus on GDP/jobs

- Not benefits for users
- Service supplier costs and their use of local labour

Source: [http://aviationbenefits.org/](http://aviationbenefits.org/)

IATA Economics [www.iata.org/economics](http://www.iata.org/economics)
WTTC tourism economic impact studies

Source: http://www.wttc.org/focus/research-for-action/economic-impact-analysis/country-reports/

IATA Economics www.iata.org/economics
Oxford Economics economic benefit studies for the SIDS

Air transport has a large ‘economic impact’ on SIDS

**Caribbean Islands**
Air transport supports over 8% of GDP and 6% of employment

**Indian Ocean Islands**
Air transport supports over 27% of GDP and 25% of employment

**Pacific Ocean Islands**
Air transport supports over 12% of GDP and 5% of employment

Source: Oxford Economics
Economic impact assessments

• Widespread use
• Starting point is the spending on the investment
  – its cost not use of the asset
• Input-output matrix -> ‘multiplied’ spending
  – Direct, indirect, induced and ‘catalytic’ spending
• Assumed ‘additional’ i.e. no crowding out
  – Polar opposite to standard transport appraisal
• Gives nice big numbers
• Projects often add up to more than 100% of economy!
• As a result bad reputation with academics
  – But has its place if used properly
  – Jobs and spending may be additional if under-employment is alternative
A GDP ‘leakage’ for Samoa or a welfare gain?

Source: Dave Lintott  www.lintottphoto.co.nz
Tourism economic effects

• Outbound travellers
  – welfare beneficiaries or spending leakage?

• Inbound tourists
  – Spending diverts labour/capital from other local markets?
  – Spending by tourists crowds out spending by residents?
  – Or are there persistently under-employed resources available?
  – How much of the spending/macro effects are additional?
  – What is the right counter-factual?
The right counter-factual

• Resource use in absence of air transport links?
  – Diverted resources and pressure on wages and prices?
  – Or under-employed labour, under-utilized capital?

• Counter-factual is likely to be under-employment for SIDS
  – All or part of ‘direct’ construction spending and resource employment additional?
  – Additionality of multiplier effects through ‘indirect’ and ‘induced’ spending?
  – Additionality of ‘catalytic’ spending by inbound tourists?
  – What about the ‘leakage’ of outbound travellers?
  – CGE model ideal if feasible and if baseline counter-factual is suitable
  – Partial approach of transport appraisal may be more practical but economic benefits are largely from employing under-utilized resources rather than traditional time savings.
Global Value Chains – diversification and development

Dell’s global supply chain, made possible by air transport

An opportunity for SIDS?

Source: ATAG

IATA Economics  www.iata.org/economics
Air transport clearly does matter for SIDS development

- Air transport connections key channel for economic flows
- Flows can be outward but inbound tourism clearly critical for SIDS
- Standard transport investment appraisal needs to be challenged
- The key for appraisal is getting counter-factual right
- Economic impact assessment often dismissed in developed world
- Large numbers: e.g. 27% of GDP/25% jobs for Indian Ocean Islands
- But GDP and jobs results may well be ‘additional’ in SIDS
- Correctly set up CGE model may produce similar results
- Don’t ignore other economic flows: trade, investment, ideas, competition, social cohesion
- Global Value Chains may offer diversification and development
- Policy should support cost-effective air transport connectivity