THE ECONOMICS AND POLITICAL ECONOMY OF AFRICAN AIR TRANSPORT

Edited by
Kenneth Button, Gianmaria Martini
and Davide Scotti

ROUTLEDGE

'This book is most welcome for many reasons. It comprehensively examines a rarely analysed region, covering the policy background to African aviation, explores the airlines and their networks, and assesses the infrastructure, labour market and efficiency problems they face.'

—*Peter Forsyth*, Monash University and
Southern Cross University

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The Economics and Political Economy of African Air Transport

Africa is the smallest of the 'regional' aviation markets but one that Boeing and others expect to expand over the medium term. Developments on the continent that require the creation of robust and efficient air transport include growth in tourism, the export of 'exotics', and the emergence of modern manufacturing and high-tech industries. Africa's regional aviation markets generally lack good airports and air traffic control, viable airlines, and adequately skilled labour. Airline safety is also a major concern.

Written by a 'Who's Who' of aviation specialists and policy makers, *The Economics and Political Economy of African Air Transport* fills an emerging void in the literature regarding Africa's aviation markets. Its original papers focus explicitly on the economic and political dimensions of the subject, although with relevance to the strategic planning and management of airlines and their associated infrastructure. Topics discussed include external and internal market efficiencies, air service liberalization, the emergence of new carriers, safety and security, low-cost airline and other business models, and airport economics.

Focusing on the broader issues surrounding the subject, this book will be of interest to both the aviation community and those with an interest in economic and social development.

Kenneth Button is a University Professor of Public Policy at the George Mason School of Policy, Government, and International Affairs, USA, and a world-renowned expert on transportation policy. He has published, or has in press, some 80 books and over 400 academic papers in the field of transport economics, transport planning, environmental analysis and industrial organization.

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Preface

The motivation for collecting these original papers was an appreciation of just how under researched some air transportation markets are. The aviation sector, and especially since the global spread of economic deregulation began nearly 40 years ago in the United States, has attracted immense academic interest as a sort of test-bed experiment for the way market forces can cause industry to evolve and stimulated new managerial practices. At a very rough guess, however, we would say that about 95 percent of this work was been focused on North America and Europe, with a gathering body of analysis looking at the Asian situation. Africa, and to a lesser extent South America, have attracted less interest.

This is understandable because data on Africa is sparse and the amount of both passenger and freight traffic is, by global comparisons, small. But on the other hand, Africa represents a large part of the global landmass and has a growing population that is also enjoying a degree of economic development. It is a place where air transportation would seem to have a role to play even now, let alone in the future.

With this in mind, we asked a set of experts in the aviation field, who also have some considerable knowledge of Africa, to write papers that address some of the main issues regarding the interacting economic and political economy features of the African aviation situation. The papers are all non-technical in the sense that they are designed more to explain what is going on, and likely to go on, in the African aviation scene, than to develop and estimate complex technical models. They are aimed at the proverbial broadly educated person rather than the narrow expert, although we do hope the latter may find interest in them in that much of the material is designed to set specific trends and issues in a broader context.

Assembling a set of papers of this sort inevitably means a certain amount of nagging and prodding of contributors, and we hope we have not been excessive in doing this. Indeed, the various writers have been generous with their time in preparing their material and, when requested, modifying and editing to produce a relatively even level of presentation and analysis for readers.

We hope that readers will find the finished result both interesting and useful.

KJB, GM, DS.

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1 Introduction

Kenneth Button, Gianmaria Martini, and Davide Scotti

It is rather ironic that while modern economists generally trace the origins of the current core of their subject to Adam Smith's *Wealth of Nations*, they are not very good at explaining why some nations are wealthier than others, or why some are growing faster. Abstract models abound that point, in various degrees, to the roles of natural resources, stable political regimes, access to markets, cultural traits, and so on, but experience suggests that none is better at forecasting the next big economic superpower, or the timing of a major recession than simply tossing a die.

But going back to Adam Smith, his main explanation revolves around the economic progress that accompanies the division of labour and the economies that accrue from specialization. He uses his famed labour specialization in pin production as empirical evidence of this. But with this comes the need for trade, the people who spend their time sharpening the pins need to be able to trade with those who card them or add the cap. Trade is, in this sense, at the core of wealth creation; without it there can be no specialization or division of labour. And here we are not talking about international trade, which in the day of short-hand journalism is often seen as the only form of trade, but the more generic, everyday trade that takes place between individuals, firms, and government, and every combination thereof, at the micro level.

Most trade in physical goods involves some form of transportation, and this includes, in the modern world, electronic transportation of money and information. What emerges from this, when approached from this generalized framework is that, in general, the parts of the world with the greatest wealth are also those with the most efficient transportation systems. Of course, one can debate issues of causality – does transportation lead to wealth creation, or does the acquisition of wealth facilitate investment in transportation? But at the mega, geographical level there is clearly correlation, and at the very least, appropriate transportation does seem to act as a facilitator, if not always the driver, of economic growth and wealth creation.

Remaining at the mega level, the part of the world that has the least wealth per capita is Africa; e.g. while according to the United Nations, in 2000 (the last year data is available) North America held 27.1 percent of the world's net wealth in purchasing parity terms but only had 5.7 percent of the population,

and Europe 26.4 percent of the wealth with 9.6 percent of the population, Africa share of the wealth was only 1.52 percent with 10.7 percent of the global population. If one looks at the dynamic situation, rather than Smith's focus on stocks of wealth, then there is little evidence of convergence. The wealthier parts of the world have the largest increases in absolute money GDP, although for periods, in percentage terms, their increases may be slower.

Of course, there may be many reasons for this distribution, but, by looking at the very basic statistics, the pattern corresponds with the quality of transportation in the various continents. Africa has, for example, by all the measures used by the World Bank, the worse road, railroad, and airport infrastructure, both in terms of quantity and quality of any Continent (Gwilliam, 2011). It also has the least number of cars, trucks, and commercial aircraft.

While there are important differences in the roles of the various forms of transportation in facilitating the trade that fosters the growth of wealth, the focus here is on the aviation sector. Of course, given the network nature of transportation, together with the multimodal nature of most trips or goods movements – you cannot ship flowers by air without adequate surface transportation to and from the airports involved – this does involve drawing a rater artificial boundary, but it is a practical one and institutionally aviation does tend to be treated separately, even if this is often inappropriate from an economic perspective.

The papers in this volume, all of which are original contributions, and that are outlined at the end of the Introduction, cover some of the main themes that have become important in ongoing debates about the African air transportation market, and the political economy of its development. Before moving on to explain the justification for the structure of the book, in the following pages the papers are essentially set within the larger context of African aviation. To this end we begin with a look at the larger picture of African air transportation in the early part of the 21st century, and to highlight some of the ongoing trends that would seem of an enduring nature.

African aviation

Over the past 15 years or so, Africa in general, and especially sub-Saharan Africa, has, albeit unevenly, been enjoying something of an economic boom. The demand for its raw materials has been one factor in this, as has the relative political stability of many of its constituent countries. Outside aid and investment strategies may also have removed some of the burden of limited local resources. This economic situation both provides resources for upgrading the continent's infrastructure while at the same time placing increasing demands on it. In this context, there has been considerable interest by non-African countries, in addition to former colonial powers, both for political-military and commercial reasons, in investing in African infrastructure and production. For example, China has shown considerable interest,