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AGENDA ITEM 6: ECONOMIC DEVELOPMENT OF AIR TRANSPORT

FROM OUR AIRPORTS TO THE WORLD – THE IMPORTANCE OF DEVELOPING AIR CONNECTIVITY

(Presented by Airports Council International (ACI))

SUMMARY

Air connectivity, besides being measured by the conventional indicators that focus on direct and indirect connectivity such as frequency of flights, seat capacity and the number of destinations, should offer a consumer-centric approach that considers affordability, consumer choices and quality of connection. This paper shares a more comprehensive consideration of measuring and defining air connectivity, as well as the importance of air connectivity and the barriers to restoration and future development. More liberal and market-friendly policies are advocated.

FROM OUR AIRPORTS TO THE WORLD – THE IMPORTANCE OF DEVELOPING AIR CONNECTIVITY

1. INTRODUCTION

1.1. The COVID-19 global pandemic has represented a crisis of unprecedented proportions for many industries worldwide. Civil aviation was one of the hardest-hit global industries since the beginning of the crisis, followed by the imposition of travel restrictions and suspension of flights in a global effort to contain the spread of the virus.

1.2. The COVID-19 pandemic and the associated full-scale transportation crisis led to significant cuts in air services, with many routes suspended for an indefinite amount of time, the remaining routes significantly downsized in terms of frequencies and/or capacities, and in many instances, only a few selected lifeline routes retained for humanitarian purposes.

1.3. As the aviation industry is gradually recovering from the adverse impacts of the pandemic at an uneven pace across the vast region of Asia-Pacific, the connectivity aspect of the industry remains unclear. The conventional understanding and way of measuring and defining air connectivity deserve to be reviewed.

1.4. The industry should also evaluate the importance and opportunities, as well as the risks and challenges in the short and medium-to-long term that would influence the recovery and development of air connectivity. The importance and opportunities should include the revival of economic activities, catalysation of travel and tourism, facilitation of investments, exchange of knowledge and better allocation of human and capital resources. The risks and challenges should encompass both endogenous factors originating within the air transport ecosystem (traffic rights), as well as exogenous factors, including macroeconomics and geopolitics.

2. DISCUSSION

RETHINK HOW AIR CONNECTIVITY SHOULD BE DEFINED AND MEASURED

2.1. Besides measuring the conventional indicators focus on direct and indirect air connectivity such as frequency of flights, seat capacity and the number of destinations, ACI Asia-Pacific and the Middle East consider air connectivity should offer a comprehensive and consumer-centric approach, which shall include, at a given market, the ability for its passengers to access the global air transport network through quality connections.

2.2. As such, the ACI Asia-Pacific and the Middle East Connectivity Index also consider the importance of a range of factors that emphasise the affordability, options for carrier categories, options for alliances, connection time and the economic importance of the destinations to the reference market. These factors are not conventionally included in existing measurements of air connectivity.

2.3. The rationale of which is to address the deficiencies of the traditional way of thinking about air connectivity and offer new perspectives that take into account the affordability and parameters that contribute to passenger experience and shed light on the significance of air connectivity in driving economic and social development.

2.4. The comparison between 2022 and 2019 shows a significant drop in the number of direct routes, lower flight frequencies and decreased available seat capacity. A study conducted by ACI Asia-Pacific and the Middle East, based on the Connectivity Index mentioned, found that medium/large airports in the Asia-Pacific region, more largely dependent on international traffic, faced a 38% reduction by August 2022, compared to an 11% reduction reported at small airports which benefited from more resilient domestic traffic markets.

ECONOMIC BENEFITS AND SOCIAL IMPORTANCE OF AIR CONNECTIVITY

2.5. Asia-Pacific was the largest regional aviation market in the world before the pandemic. The industry facilitated 37% of the world's air passengers and delivered a total of 47 million tonnes of air cargo (nearly 40% of the total global volume) from the regions to others. Air connectivity plays a significant role in the development of the economy in the Asia-Pacific region.

2.6. The aviation sector generates economic benefits and contributes to economic growth through activities in the aviation industry and a wide spectrum of other industries, such as tourism, hospitality, retail, and food and beverages. In 2019, in Asia-Pacific, the aviation industry generated about 3.3% of Gross Domestic Product (GDP), which is equivalent to about USD 1 trillion in total contribution. The industry also supports around 56 million employees. It is estimated that around 10% in seat capacity growth is associated with over a 3% increase in GDP in the region.

2.7. Air connectivity catalyses economic activities and facilitates international trade. Corporations commonly globalise their productions, leveraging on the competitive advantages of different economies for delivering parts, materials and services. Improvement in air connectivity enables developing and low-income countries to be connected to more advanced economies and take part in global value chains. The air freight sector of Asia-Pacific grew at a Compound Annual Growth Rate (CAGR) of 3.5% between 2000 and 2019, and Asia-Pacific accounted for the largest proportion of international freight traffic (39%) amongst all regions. Air connectivity enabled many markets to grow their manufacturing and trading industries.

2.8. Improvement in air connectivity facilitates more frequent travel for business and investment activities, which helps countries attract more Foreign Direct Investment (FDI), bring new capital and stimulate economic activities. The FDI net inflow value in Asia-Pacific grew significantly at a rate of CAGR 6.8% between 2000 and 2019. The quality of air connectivity influences companies' decisions in choosing where to invest.

2.9. According to the International Labour Organisation, there were about 169 million migrant workers around the world before the pandemic. Around one-third of these international migrant workers originated from Asia-Pacific. Air connectivity facilitates labour and professionals to travel within and across regions and makes it possible for them to find workplaces where their skills are needed, which in turn enhances specialisation. This does not only help to facilitate knowledge exchange and skill transfer but also stimulates productivity. In addition, the remittances sent by them from abroad provide much-needed foreign exchange and resources to alleviate poverty and raise living standards in their home countries.

2.10. Air connectivity facilitates cultural and religious exchange. Given certain religions have traditions of pilgrimage, air connectivity often makes it easier for pilgrims to visit holy sites of relevancy. Air connectivity also helps drive the convergence of culture and break down geographical barriers to promote greater interdependence between nations.

2.11. Many families are now spread all over the world as people move for employment opportunities, education or simply for personal choice. This has resulted in far greater cross-border ties between individuals and countries. Asia-Pacific is home to some of the largest diaspora. Improving air connectivity and strengthening connections of the diaspora can ensure continuous support of social well-being.

BARRIERS TO RESTORING AND DEVELOPING AIR CONNECTIVITY

2.12. It is clear that improvement in air connectivity can drive national and regional economic and social development and enhance our well-being. Nonetheless, there is a wide range of endogenous and exogenous factors that influence air connectivity restoration in the post-COVID era and could potentially act as roadblocks to air connectivity development going forward. The key factors identified are as follows:

a) **Regulatory constraints** – Uncertainty regarding potential travel restrictions and other limitations in traffic rights and permissions will continue to pose a challenge for air connectivity to recover in the near term. In the medium-to-long term, protectionist policies and conservative approaches to market liberalisation and market access could limit growth and competition to promote air connectivity development. Striking the right balance between competition and regulation is essential to foster efficiency and development.

b) **Infrastructure constraints** - With the recovery of traffic, both domestic and international, increased movements and frequencies lead to slot constraints at airports as one of the key challenges in connectivity development. In addition, air traffic management in some markets has been saturated. As such, it raises the need for adopting technologies, solutions, and slot allocation policies aiming at optimising the use of existing infrastructure and airspace.

c) **Supply-side challenges** – After suffering from the pandemic, airports, airlines, ground handling agents and many aviation stakeholders continue to face financial challenges, which affect the utilisation of infrastructure, equipment, operational readiness and the overall efforts to restore and develop air connectivity. Additionally, workforce shortages in many sectors within the industry continue to be an obstacle to recovery.

d) **Macroeconomic outlook** – The looming economic slowdown in many major economies threatens to disrupt the pace of the recovery from the pandemic. High inflation and high interest rates coupled with sluggish economic recovery have led to low consumer confidence, which translates to lower demand for air travel after the initial pent-up demand right after markets opened up. Additionally, the conflict between Russia and Ukraine further weakened the global economy, disrupting trade and causing an economic slowdown in 2022. The associated rise in energy prices has also been affecting the costs of travel.

e) **High costs of travel** – Air fares have increased by around 50% in some segments in Asia-Pacific compared with 2019 levels, breaking the almost flat trend seen for five years prior. The increased jet fuel prices and inflation have played their parts in driving the increase in air fares, which weigh negatively on demand, representing a downside risk for the industry's recovery and development.

3. ACTION BY THE CONFERENCE

3.1. The Conference is invited to:

a) acknowledge the importance of restoring and developing air connectivity, and urge States to undertake all applicable measures to restore and develop air connectivity, such as the introduction of incentive programmes, partnerships with tourism authorities and other major stakeholders, active participation in route development events, increase infrastructure capacity and capabilities;

b) acknowledge the deficit of workforce in the aviation ecosystem as a barrier to recovery in the short-term and development in the medium-to-long term and encourage States to work with other industry stakeholders and the public authorities who play critical roles in facilitating traffic recovery such as accelerating background checks to make sure new hires can start working as soon as possible and relaxing immigration policies and facilitate cross-border mobility of aviation workers;

c) encourage States to consider further liberalisation of market access policies in terms of traffic rights on a bilateral and multilateral basis in facilitating new routes, higher frequencies, affordable airfares, increased seat capacities, as well as policies to foster higher competition and better value proposition of air transport for the aviation ecosystem; and

d) encourage States to streamline and simplify the visa application process for inbound international travellers, where applicable.

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