

Airport Policy Brief Executive Summary

This policy brief is about the state of the three “A’s” of Philippine air transport infrastructure—airlines, airports, and air traffic management—and the regulatory and institutional infrastructure that binds these pillars together. As humanly devised constraints, institutions are supposed to create order and reduce uncertainty in the process of exchange¹ between air transport and its users—tourists, overseas Filipino workers, Philippine residents, and shippers. The regulations and functions of transport agencies influence the ability of airlines and destinations to compete in the global marketplace. Citizens need connectivity to expand their choices as they participate in the development process.

Air service connectivity in the Philippines has significantly improved in recent years due to the liberalization process that reduced entry barriers in the industry. However, the poor state of infrastructure – airports, air traffic management, and institutions – has hindered the ability of the country’s hard and soft players to capitalize on growth opportunities and most importantly of consumers to enjoy safe, seamless, and secure travel. In the latest World Economic Forum Global Competitiveness Report for 2016-2017, the Philippines ranks 5th out of the nine² ASEAN economies in terms of connectivity (available airline seat kilometer per week) and lowest in terms of quality of air transport infrastructure. In 2015, the Philippine’s air passenger traffic growth was only 1.5 times the real GDP growth, lower than the regional and global benchmarks of 2.0 and 2.2, respectively. This was an evidence of the inability of the air transport industry and its downstream users such as tourism and trade sectors to capitalize on economic opportunities in the Philippines and overseas.

Two binding constraints – the NAIA congestion and the institutional environment - are explored in the brief. The ability of any country to provide quality air transport infrastructure (i.e. in terms of adequacy vis-à-vis market demand; and in terms of safety) is underpinned by its institutional environment. In the case of the Philippines, there is a need (1) to provide greater coherence and convergence among entities undertaking airport development and their implementation; and (2) to separate regulatory and developmental (i.e. operations and maintenance) functions which are currently in singular entities (i.e. CAAP). The first imperative affects adequacy of infrastructure; the second is paramount for safety.

There are a number of recommended reform initiatives that key stakeholders believe could help improve Philippine aviation infrastructure. We focus on five in this policy brief. These are (1) decongestion and improvement of NAIA, (2) implementation of a multi-airport policy and system in the Greater Capital Region (GCR) and development of Clark International Airport, (3) development of secondary international gateways and provincial airports, (4) modernization and strengthening of transport institutions (i.e. separation of the CAAP’s conflicting functions as regulator, operator and investigator) and (5) improvement of the business environment and travel facilitation programs.

¹ Douglass North, Institutions, *Journal of Economic Perspectives*, 5 (1), p.97.

² There is no country report for Myanmar.

There is greater optimism that long-delayed reforms to achieve competitive, sustainable, and inclusive air transport services in the country will finally happen based on executive actions to decongest NAIA, operate the CNS-ATM, and roll out the airport projects whether PPP or government-funded.

It is the institutional infrastructure, the glue that binds the three A's of air transport infrastructure (airlines, airports, and air traffic management) and the most critical to sustain the executive actions that has been the least prioritized for years. Institutions set the rules of the game and the system of incentives and disincentives for the industry to grow.

As the public and private sectors in the Philippines consider recommendations in this policy brief, it would be prudent to keep in mind the status of investments in aviation infrastructure in competing neighbor economies and their continuing success in capturing large shares of regional tourism flows. Similar successful implementation of reforms in the Philippines are essential to increase inbound international visitor volume and resulting benefits to job creation and inclusive growth.