ASSESSING THE YAMOUSSOUKRO DECISION: ACCOUNTING FOR DETERMINANTS OF AIR TRANSPORT LIBERALIZATION IN AFRICA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2018
DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University- Africa for academic credit.

Signed: ___________________________ Date: __________________________

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Student

This thesis has been presented for examination with my approval as the appointed supervisor

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Signed: ___________________________ Date: __________________________

Ambassador Prof. Ruthie Rono
Deputy Vice Chancellor Academic Affairs
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I am deeply indebted to you all.
DEDICATION
I dedicate this study to all determined African airline personnel working towards a safe and successful Aviation environment that contributes to the sustainable development of the continent by connecting Africa to the world.
ABSTRACT

In the wake of global developments towards the penultimate decade of the twentieth century, the post-colonial itch to be competitive became vital as engagement for African states at the international stage changed. The political economic models employed needed to be reviewed. Air transport, a key driver of many economies had to be realigned with the global changes. African states sought ways in which air transport could be modelled to increase intra-African connectivity through concerted liberalization efforts. These considerations informed the adoption of the Yamoussoukro Declaration in 1988 whose implementation was followed through the Yamoussoukro Decision (YD) in 1999, a political multilateral agreement set to encourage openness of air transport between African states in the hope that it would stimulate economic growth. Its successful implementation would culminate that intra-African air services had been successfully liberalized. This study sought to assess the implementation of the YD by analyzing the impact of the three determinant variables which are tariffs, business competitiveness, and perceptions of dominance on the level of air service liberalization. The three form the independent variables of the research. Data for objectives one and two was sought from World Trade Organization (WTO) using the Air Services Agreement Projector tool that measures air liberalization index (ALI), the dependent variable in the study and Most favored Nation (MFN) principle for tariff data while Expert interviews were used to collect thematic data for the third objective. Thus, the study is based on three main objectives. The first and second objectives highlighted the economic perspective with the first objective depicting a negative correlation between tariffs and ALI revealing that 2.3% changes in ALI were attributed to government tariffs. Second was the business competitiveness which was reflected through the profit margin of the dominant designated airlines of the ten states and this showed that there is a positive relationship between ALI and business competitiveness with 5.6% changes in ALI being contributed by business competitiveness. The final objective on the political sphere sought to analyze challenges and prospects that impact on regional integration informed by perceptions of air transport hegemonic dominance and its impact on ALI and surprisingly, this showed that it is patriotism and governments using airlines as strategic tools of development rather than fear of domination by other successful carriers in the region. This exploratory research links the three determinants of the study to the levels of air transport liberalization thereby highlighting their specific impact to the implementation of the Yamoussoukro Decision.
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<tr>
<td>ADD</td>
<td>IATA code for Bole international Airport, Addis Ababa</td>
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<tr>
<td>AFCAC</td>
<td>African Civil Aviation Commission</td>
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<tr>
<td>AFRAA</td>
<td>African Airlines Association</td>
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<td>ALI</td>
<td>Airline Liberalization Index</td>
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<td>ASAP</td>
<td>Air Services Agreement Projector</td>
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<td>ATL</td>
<td>Air Transport Liberalization</td>
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<td>AU</td>
<td>African Union</td>
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<td>CFTA</td>
<td>Continental Free Trade Area</td>
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<td>DAR</td>
<td>IATA code for Julius Nyerere International Airport, Dar es Salaam</td>
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<tr>
<td>EAC</td>
<td>East African Community</td>
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<td>ECA</td>
<td>Economic Commission for Africa</td>
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<td>ET</td>
<td>Ethiopian Airlines</td>
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<td>EU</td>
<td>European Union</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IATA</td>
<td>International Air Transport Association</td>
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<td>ICAO</td>
<td>International Civil Aviation Organization</td>
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<td>KCAA</td>
<td>Kenya Civil Aviation Authority</td>
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<tr>
<td>KQ</td>
<td>Kenya Airways</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>LPA</td>
<td>Lagos Plan of Action</td>
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<td>LCC</td>
<td>Low cost carrier</td>
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<td>MFN</td>
<td>Most favored nation</td>
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<td>NBO</td>
<td>IATA code for Jomo Kenyatta International Airport, Nairobi</td>
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<td>Open Aviation Area</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Agreement</td>
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<td>OSA</td>
<td>Open Sky Agreement</td>
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<tr>
<td>PIDA</td>
<td>Programme for Infrastructure Development in Africa</td>
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<td>RECs</td>
<td>Regional Economic Communities</td>
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<td>SAATM</td>
<td>Single African Air Transport Market</td>
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<td>SADC</td>
<td>Southern Africa Development Community</td>
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<td>SES</td>
<td>Single European Sky</td>
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<td>WB</td>
<td>Rwanda Express</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>US</td>
<td>United States of America</td>
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<td>YD</td>
<td>Yamoussoukro Decision</td>
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</table>
OPERATIONAL DEFINITION OF TERMS

Africa: In this study the sample representation of African is as follows; KE=Kenya; ET=Ethiopia; EG=Egypt; ZA=South Africa; MA=Morocco; MU=Mauritius; DZ=Algeria; TN=Tunisia; NG=Nigeria; MW=Malawi

Airline: In this study, this is in reference to an Air service company operating scheduled transportation of people or cargo/goods or both by means of an aircraft for commercial purposes.

Air Transport: This term was used in the study to refer to the movement of people and cargo/goods through use of airplanes

Air Services: Term in the study depicting scheduled commercial services offered by airlines in movement of people and cargo/goods.

Carriers: Airlines (the two terms are used interchangeably)

Civil Aviation: Term according to the I.C.A.O doc 7300/9 which describes civil aviation as a form of non-military air transport of people and cargo/goods

Government Regulatory Policies: According to OECD, this refers to legislative decisions, strategies or intentions by governments aimed at improving development

Legacy carrier: In this study, these are major airlines operating scheduled Air services and with an annual traffic capacity exceeding over one million passengers

Open Skies: The study refers this as an air service agreement between states with the intention to create a very liberal market between two signatory states. It allows any number of airlines from either nation unlimited rights to fly between any city-pair involving the two countries, without significant restrictions on capacity, frequency or price. It generally also includes the right to operate fifth and sixth freedom services.
**Passenger Journeys:** Term used in study to explain the travel combination for people between points of departure and point of arrival

**Traffic Rights:** The study indicated this as the freedom of an airline to operate as per ICAO’s freedoms of the air as stipulated in doc 7300 of the Chicago convention
CHAPTER ONE

1.0 INTRODUCTION

The introductory chapter highlights the background of the research study, problem statement, the objectives, significance of the study, definition of terms, and finally, the chapter summary.

1.1 Thesis Statement

The implementation of the Yamoussoukro Decision by African states has not been successful because of the differences in government policies such as tariffs which determine the overall trade openness, level of business competitiveness in air transport industry, and challenges in regional integration upend by perceptions of air transport hegemonic dominance which stagnates air transport liberalization efforts.

1.2 Background of the Study

A liberalized air transport is an economic environment where the actors have relatively low entry costs which creates a deregulated environment whose macroeconomic impact has numerous political implications such as granting of rights for other airlines from other states (Gudmundsson, 2011; Pukar, 2012). The concept of air transport liberalization therefore is referenced to the relaxation of rules such as bilateral agreements (between two states) and replacement of the bilateral agreements through a multilateral instruments which involves many states and is informed by the degree of restrictions ranging from most restrictive such as designation controls which may involve restricting the number of carriers from another state to fully open competition which is permitting any carrier regardless of the designated states (The World Bank Group, 2009).
Air transport is fundamental to the political, economic, and social development of a state as transport infrastructure uplifts the living standards which alleviates poverty through lowered transport costs (Irlandu 2008). Additionally, it is a catalyst to development through the creation of connectivity that serves as an infrastructure asset in bridging distant geographical markets and secondly; the sector acts as a channel of economic flows in movement of people, goods and ideas from one point to another thereby being a key contributor of improving the living standards of developing states by expanding their opportunities to join the global economy (ATAG, 2012; ATAG, 2005).

Wahnschafft, (2014) argues that economic growth, social development, and global trade ride on transport and mobility, a view validated by a 2007 Oxford economic report which shows that air transport is a key contributor of economic development through support of direct employment of an estimated 8.5 million people and financial value of US$1 trillion to the world GDP by 2026.

Governments use regulatory policies to achieve efficiency which in turn creates a competitive environment conducive for the airlines to operate in which acts as a stimulus for air transport development by harnessing airline competitiveness (Winston and Yan 2015). Air transport liberalization efforts such as the 1993 open aviation area (OAA) multilateral agreement between the European Economic Community (EEC) and the United States of America (U.S) was estimated to benefit the community with 26 million additional passengers, creation of 72,000 jobs across the two geographical areas, increase of between 100,000 to 170,000 tons of freight within the first five years of implementation (Von Den Steinen, Joerss and De Leon, 2007).

These agreements states Piermartini and Rousova (2013), had a significant impact on market competition, lowered transport costs, and increased traffic volumes. This was
displayed in the reduced nominal Air cargo transport costs between 1990 and 2003 for middle and high-income states; however, no significant effects of OSA on low income states.

African governments began deliberating on Air transport issues through the Yamoussoukro declaration in 1988 signed by forty-four ministers in charge of aviation in Africa in Yamoussoukro, Ivory Coast in a bid to focus on airline cooperation and integration with the main objective being more of Pan–African cooperation than the need for competitive market strategy (Schlumberger, 2010).

The Key focus of the agreement was to promote cooperation in Air transport through elimination of traffic right restrictions especially the fifth freedom rights. The declaration was to be carried out within eight years and in three phases including; the focus on maximizing capacity usage between carriers (two years), commitment by airlines to joint operations on international routes (three years), and finally complete integration of airlines by establishing joint airline operations or entities (three years) (ECOSOC, 1988).

InterVistas (2016) shows that through liberalization in the East Africa region, additional 46, 320 jobs were created and US$ 202.1 Million per annual GDP for the five East African Community (EAC) countries since the inception of the Yamoussoukro Decision (YD) in 2000The result was an annual average growth posting of passenger traffic of 4.4 percent between 1992 – 2002.

The Yamoussoukro Decision is the decision relating to the implementation of the Yamoussoukro declaration concerning the liberalization of access to air transport markets in Africa was adopted by the African ministers in charge of civil aviation in Yamoussoukro, Ivory Coast on 14th November 1999. This political decision required implementation of the articles by individual governments pursuing competitive business
environments that would create a sustainable environment within which air transport companies would operate (ECOSOC, 1999).

The InterVistas 2014 report shows slight positive improvements for major aviation states in Africa (Algeria, Egypt, Tunisia, Senegal, Ghana, Nigeria, Kenya, Ethiopia, Tanzania, Angola, Namibia, and South Africa) whose cumulative benefits shows an increase of over 4.9 million passengers, consumer benefits summing to US$ 1,023 million, 155,100 jobs created, and a GDP of US$ 129.7 million.

The principles of liberalization in the YD were to allow gradual liberalization of scheduled and non-scheduled intra-African Air transport services in terms of access, capacity, frequency, and tariffs (Schlumberger, 2010). This entailed among others; granting of rights up to fifth freedom privileges based on ICAO’s ‘freedoms of the Air’, recommended practice on the structure on tariff filing, capacity and frequency, designation and authorization, eligibility criterion, revocation of authorization which spelt out compliance with established ICAO safety standards and recommended practices, competition rules, settlement disputes. The oversight bodies such as the African union (AU), African Airlines Association (AFRAA), African Civil Aviation Commission (AFCAC), and the Economic Commission for Africa (ECA) were mandated to oversee the successful implementation of the YD with the regional economic communities (RECs) being the agents of process (ECOSOC, 1999).

In the wake of global air transport liberalization of which other intercontinental carriers realize this benefit, most African carriers are struggling to stay afloat, most of which are labeled as national carriers (Gwilliam, 2011). The question then remains as to why while Africa is home to 12 percent of the global population, the African carriers can only account for 3 percent of the global Air service (Bekele, 2018).
The YD notes Kato (2018) was meant to be similar to the Single European Sky (SES) an Air transport liberalization within the European Union which has been lauded as an overall success as it was accompanied with strict control of any public subsidy given to any airlines, clear procedures on consumer protection related to delays, cancellations and baggage damages. The YD on the other hand, (Irandu, 2008) was established on the principles of developing Air transport in Africa through a policy framework which aimed at providing safe, efficient, reliable and affordable air services to consumers.

It is natural that most governments respond to specific trade interests based on the productivity and impact of the sector on the nation’s economy by using trade policies such as tariffs (Topalova, 2011) and aviation is no exception. These tariffs act as a barrier to trade and account for the low participation of Africa at the global trading stage and its loss of competitiveness in comparison with other parts of the world (Bouet, 2017).

The propensity to analyze regional hegemons in the traditional sense of International Relations does not seem to apply anymore since they have now taken new forms whereby regional powers can be taken in new forms and values (Prys, 2010). This is clearly manifested on the African aviation environment where the dreams of having a national carrier that is protected from other perceived regional hegemons is the basis that African governments use to change strategic visions as witnessed in Uganda and Tanzania who view the big four Ethiopian Airlines, South African Airways, Rwanda Airlines, and Kenya Airways as dominant enough to curtail their dreams of owning a national airline (Olingo, 2018).
1.3 Statement of the Problem

The World trade organization (WTO) facilitates the filing of commitments for services under the General Agreements on Trade in Services (GATS). However, this does not translate to open air market for transport services cites Narendra (2013) as strictures are placed on national policies and domestic regulations which have compounding effects on the liberalization of air transport. Abate (2016) concurs that the right set of regulatory policies that promote the aviation development in Africa is crucial to change the course of African Air service liberalization narrative.

The ratification of the Yamoussoukro Decision in 2002 exhibited efforts by African governments to promote the development of air transport through easing on trade strictures and engaging in policy frameworks that would develop the infrastructure of air transport which would enhance airline competitiveness in the region. While this was a much-celebrated affair, there is little to show for air transport development on the continent and African airlines account for less global traffic while the intra-African connectivity is still yet to be realized, making the decision almost futile. The successful implementation of the decision has been compounded with differentiated individual government strategic policies such as tariffs, business competitiveness and fear of domination by other airlines making the playing field unequal to players in the aviation industry.

The study gives an assessment of the impact of set regulatory strategies (regulated, deregulated and reregulated) by the ten governments and the overall impact on policies employed. Interestingly, this reveals the political economy of the states that did not pursue recent liberalization efforts such as Nigeria, Africa’s most populous state and this validates the assumption that strategies inform policy which do impact on the level of
implementation of the YD. The states chosen characteristically have dominant or designated airlines. While some of the airlines are listed companies, majority are fully government owned.

The seemingly dragging of feet by the states to liberalize was clearly displayed at the recent policy upgrade in January when only half of the African states signed up with the biggest economic giant, Nigeria opting out indicating the lack of confidence by governments to either have the capacity to fully implement or whether perceptions of dominance by other hegemonic states with dominant airlines on the continent created this hesitation questioning the understanding of the YD whose one main pillar advocates for co-operative arrangements to facilitate liberalization and growth.

1.4 General Objectives

The Main objective of the study was to account for the level of impact that some key political and economic determinants namely tariffs, business competitiveness and perceptions have on air transport liberalization which is a yardstick of the level of implementation of the Yamoussoukro Decision on ten specific African states for the period 2006-2016.

1.5 Specific Objectives

1. To establish the relationship between government tariff policies and air transport liberalization index (ALI) in Africa

2. To examine the correlation between the level of air transport business competitiveness and air transport liberalization (ALI) in Africa

3. To explore prospects and challenges in regional integration perpetuated by perceptions of dominance in air transport liberalization and their impact on ALI in Africa
1.6 Research Questions

1. How have government tariff policies impacted the different levels of Air liberalization index in Africa?

2. To what extent has the business competitive environment impacted the air transport liberalization index?

3. Are there any perceptions of dominance that impact prospects of regional integration in regard to air transport liberalization?

1.7 Justification of the Study

Following the ardent call to liberalize air transport, the research study attempted to show how applied government policies in various economic and political spheres impact on yielding positive results from liberalization efforts. Thus, the intention of this research is to give visibility on the actual impact of specific political and economic determinants on the implementation of the Yamoussoukro Decision. Governments that are currently resuscitating their national carriers may use this research study to make comparatives which would inform them of the overall impact of the political economy on air transport in order to come up with sustainable measures of air transport development. This study is crucial for government policy makers in charge of steering air transport as a strategic tool for development in Africa.

1.8 Scope and Delimitation of the Study

This study is limited to ten specific African states that have a designated and dominant airline and represent each of the four parts of Africa; East, West, North, and South. These are; Kenya, Ethiopia, South Africa, Mauritius, Morocco, Tunisia, Algeria, Egypt, Nigeria, and Malawi.
1.9 Organization of the Study

The study was structured into five main parts beginning with chapter one which gives a brief background of the research and outlines the three key objectives of the entire study. Chapter two contains the literature review which is divided into two major parts; the empirical review and the theoretical review. The third chapter contains the methodology the author pursued in order to achieve the objectives of the study. The empirical findings and data analysis of the study are found in chapter four while the final chapter five presents the study conclusions, policy implications and author’s suggested areas of further research in the air transport liberalization.
CHAPTER TWO

2.0 LITERATURE REVIEW

This chapter is divided into three main areas; the first part sets to expound on the three determinants namely tariffs, business competitiveness and perceptions of dominance accounting for liberalization in trade. This is followed by the empirical review which focuses on efforts of liberalization by regional economic blocs in Africa. The final part is the theoretical review which is based on the three types of strategic policies that governments use to form policy and it analyzes two major contending theories; Economic liberalization and Neo-mercantilism with the former advocating on regulation policies and the latter informed on liberal policies of deregulation and reregulation.

2.1 Air Service Liberalization Concept

Liberalization of Air services stems from the economic concept of opening up markets for the free flow of goods and services also termed as market liberalization which ultimately should lead to growth according to Stiglitz (2006); however, it has been unsuccessful for poor states in areas of international trade agreements, a fact that is echoed by Sundaram (2009) who notes that in general, trade liberalization often impedes rather than foster development in poor counties. This is refuted by (Dettmer, 2014; Aloo, 2017) who support Air service liberalization in Africa noting that a more liberal market for Air cargo services will foster integration on the continent as a result of reduced transport costs. These, being highlighted in the “four freedoms” namely; free movement of goods labor, services, and capital.

Jensen (2010) highlighted that economic modelers most often are slow to incorporate services in their models making it difficult to wholly assess the impact of liberalization on
business service providers which are usually impacted by policy regimes of the regulatory regimes in business services.

In their study on Air transport liberalization, (Fu, 2010), notes that increasing the competitiveness of national aviation industry, domestic markets enhance liberalization policy for international aviation and this may also steer democratic development in the state according to Grosjean (2011) stemming from the East European reform path that experienced rapid simultaneous economic and political development in the early nineties.

2.1.1 Tariffs, business competitiveness, and Perceptions as determinants of Trade

Business competitiveness is a direct impact of adjusted tariffs which reveals a causal link between policies and economic industrial sectors and as a key measure to illustrate the complementariness between trade liberalization and policy reforms (Topalova, 2011). This follows that high trading costs reflected in tariffs, non-tariff measures and other trading costs result in weak trade integration, reduced number of trading partners and generally low product diversification cites (Bouet, 2017) this also results to discriminative trade practices that reduce business competitiveness, a practice that is witnessed on sub-Saharan Africa where the tariffs levied by EU counterparts using the MFN principle of the World Trade organization (WTO) renders these states poorer (Chowdhury, 2012).

The WTO prepares a detailed annual report indicating the average tariffs imposed by each individual economy. While tariffs are supposedly custom duties levied on imports (World Trade Organization, 2018), these acts as a cushion to protect domestic industries from foreign competition, a source of revenue to the government and at times used as a punitive measure to distort market remedies and they could also include non-tariff measures on both goods and services which represent barriers to trade (World Trade Organization, 2012). In the case of aviation, monopoly in airport providers and airport
system providers creates an illusion of artificial high tariffs in airline operations (World Economic Forum, 2017).

Regional hegemonies in Africa are referred to as ‘pivotal states’ a label given to them from the perspectives of geopolitical prominence and regional leadership and at times find themselves in subtle competition with the other lesser dominant states and it is this ‘perceived’ hegemonic status that make the others act without conscious reflectictions of the cost benefit to themselves (Munene, 2014; Hopf, 2013). This breeds perceptions which inform the formulation of protectionist measures which end up impeding on the growth in the aviation sector (Muchira, 2017) fear of stiff competition and potential loss of regional dominance by the hegemonic airlines sets in cites Andae (2018) instead of practising smart business strategies such as divestiture which encourages private investments participation which ultimately disjoints regional integration efforts (Wakabi, 2018).

2.2 Empirical Review

2.2.1 Air transport Liberalization and Regulatory Policies

Levi-Faur (2017), identifies regulatory policies simply as a form of bureaucratic legislation which is categorized in three distinct types; regulation whose concept stems from constraint and some form of government control, deregulation which is a favored strategy among neoliberals that calls for the removal and elimination of regulation while reregulation analyses the content, instruments, and outcomes of deregulation reflecting a new form of regulation.

Open Skies Agreements (OSAs) date back into the United States President Carter’s administration in a bid to liberalize bilateral agreements which would then define markets
as the determinants of fares and capacity with the first sign off between the United States and Netherlands in 1992 (Piermartini and Rousova, 2013; Winston and Yan, 2015).

The World Trade Organization (WTO) formulated indicators also known as the Airline Liberalization Indicators (ALI) measured through the WTO tool, the Air Services Agreement Projector (ASAP), a tool, according to Piermartini and Rousova (2008) based on the mandate by the general agreement on trade in services (GATS). The parameters below are listed as the key indicators used to measure the index level of air liberalization in a state.

i. Grant of rights with key focus on the fifth, seventh and cabotage rights. Fifth freedom is the right to transport passenger or freight between two states by an airline of a third state on a route with origin or destination in its home state. Seventh freedom allows the transportation of passenger and freight between two states by an airline of a third state with no connection to its home state. Cabotage rights on the hand refers to the right to carry passenger and freight within a state by an air operator of another state on a route with origin or destination in its home country.

ii. Capacity regime which may or may not require airline operators to disclose the volume of traffic, frequency of service, and/or aircraft types. Capacity clauses are defined in three ways; Predetermination whereby capacity is agreed before commencement of service, Bermuda which gives air operators limited rights to set their own capacities without government approvals and free determination which does not require any capacity control

iii. Tariff approval This is the regime to price Air services with dual approval being the most restrictive as tariff are subject to both parties approving and the most
liberal being the free pricing where Air prices are not subject to approval by any party.

iv. Withholding refers to conditions required for an Air operator of a foreign state to operate in another. The most restrictive conditions require the Air operator to be a designated carrier of the foreign state a condition referred to as ‘substantial ownership and effective control’. The liberal regime is that of ‘principal place of business’ which does not require substantial ownership and effective control.

v. Designation governs the number of services an Air operator can operate between two states.

vi. Statistics refers to the exchange of statistics between States or their Air operators. A request for exchange of these data means that the environment is restrictive.

vii. Cooperative arrangements which is a liberal feature which allows Air operators to enter into marketing agreements such as codeshares and alliances. This feature also gives airlines competitiveness strength in feeder access.

Wang, Bonilla, and Banister (2015) note that the strategy employed by the Chinese government on Air service liberalization ensured that the local “big three” (Air China, China Eastern and China Southern) airlines remained competitive by use of two measures of market competition, analyzing the historical evolution of competition and finally understanding the role of geography of the competition in the China market. Amankwah and Yaw (2008) advocate that by removing constraints to Air liberalization such as stringent policies that restrict full utilization of resources, African governments will be making great strides in improving the competitiveness of their carriers.
The great disparity on Air service development between the states in Africa has impeded its liberalization strategies unlike other parts of the world (Schlumberger, 2010) a factor that is further impacted by the level of preparedness of each state. Amankwah-Amoah and Yaw (2008) also cite the limited amount of research which could help governments and policy makers to identify areas of improvement towards the competitiveness of the industry as a contributor to lack of progress as compared to other parts of the world.

Fragmentation, dependency of past colonial masters, institutional weaknesses, and poor co-operation arrangements cites Tchouamou (2016) are some of the challenges that impeded policy formulation on liberation of Air services in post-colonial Africa. The business models pursued promoted profitable bilateral international networks with their former colonial masters (Schlumberger, 2010) ignoring the regional development of intra-African Air services and making domestic expensive.

Market command and State-led development strategies have informed the types of policies that have been pursued by states such as Ethiopia before 2001. This, followed by minuet and gradual transition to market-economy making the largely populous Sub-Saharan state to follow in the footsteps of Chinese transition strategy that was highly regulated (Geda, 2017).

Tesfaye (2017) argues that government policies are informed by a state’s strategic policies and ideologies, and in the case of Ethiopia, the ancient polity of imperial feudalism created feudal elites with ideological power and a privileged tradition forming a centralization of power which resulted in a dysfunctional and unstable political authority. Even within this political system, (Teferra, 2014) argues that the African economies need command growth rather than democracy in the early stages of
development. Regulatory policies will be reflected in market behaviors through the command economy which is characteristically a central authority.

As the wave of privatization of state owned enterprises in the late 1980s and 1990s ensued, Air transport sector in Africa remained dominantly untouched (Amankwah-Amoah and Yaw, 2008) making it inefficient in a rapidly globalizing world. In the end, failure to fully liberalize lies in government strategic policies which were met with skepticism and apprehension (Abate, 2016). The domesticated policies have not been enforced or fully implemented, a fear stemming from ‘national airline pride’ syndrome (Olingo, 2018).

Regulation strategies of prescriptive policy measures were ironically what resulted into the success of the air service deregulation in China that was geared towards a command and control of the Air market by the ‘big three’ carriers, a process rolled out in phases by the government (Wang et.al, 2015). Regulation therefore can actively be sought, (Stigler, 1971) designed and operated for the benefit of that industry. Seamless regulatory policies across trading partner states is crucial for the success of Air service liberalization cites Kulundu (2018), a contrast that exists between most African states as depicted in Ethiopian airlines and Rwanda express which are operated like government agencies rather than commercial entities like Kenya Airways, a public limited company operating for profit the result being unfair competition. By acceding to the commissioning of the African open skies agreement commonly referred to as SAATM for example, the Kenyan government agrees to eliminate any commercial involvement in the running of the national carrier KQ.

The government ideology often has a strong influence on deregulation process as evidenced in the OECD states where market-oriented governments promote deregulation
(Potrafke, 2010), a concept missing in Africa’s general trading policy due to the fact that it has weak trade integration making trading costs high reflected in tariffs, non-tariff measures, and other trading costs (Bouet, 2017).

The level of implementation of agreements by African states is hampered by concerns by governments on giving up sovereignty and revenue while what should annul these concerns is that the main argument for air transport deregulation lies in the connectivity and accessibility, key benefits of air travel (Cox, 2015; Wang et. Al, 2015). SAATM is meant to create a new benchmark for the regional policy making process in Africa as it is built to remove any capacity flight limitations between the signatory states and act as a catalyst for regional integration (Trade Mark East Africa, 2018). This, however, questions the possibility of a single aviation market through liberalized air services in a highly fragmented continent (Tchouamou, 2016).

New regulatory responses have mostly been generated by a crisis as witnessed in the most recent economic crises of 1997-1998 when the focus to reregulate acquired momentum as market self-regulation was proving to be insufficient (Helleiner, 2009). Despite having liberalization policies set by African governments, the continent still experiences uneven geographical distribution of intra-African air passenger traffic which is predominately centered in the large and medium sized cities while the collapse of major carriers such as Air Afrique in 2002, Nigerian and Ghana Airways in 2004, and Cameroun Airlines in 2008 attributed to liberalization and corruption (Tchouamou, 2016). Air transport will require a new evaluation of policies such as alliances and partnerships such as ASKY airlines in West Africa which create opportunities for states to learn from each other and exploit market opportunities while at the same time remaining competitive (Kimanthi, 2018; Amankwah and Yaw, 2008).
The full implementation of the Yamoussoukro Decision is a precursor to the establishment of SAATM, a crucial aspect in the operationalization of the African Continental Free Trade Agreement (CFTA) a declaration made by the assembly heads of states in a boost to the intra-African trade and as a fast track to the continental free trade area adopted by ministers of AU member states based on the framework plan for action on the development of aviation infrastructure on the continent (PIDA, 2017).

2.2.2 Air Service Liberalization in Africa

Stagnated growth in the intra-EAC trading remains one of the biggest impediments on air service liberalization with most restrictive markets being topped by Rwanda and Tanzania (Olingo, 2018) as Kenya, Uganda, and Burundi have fully liberalized their markets to each other, and on the other hand, Tanzania has only opened up for Ethiopia which is not a current EAC member state. Gertz (2010) notes that Kenya has made great strides in pursuing development strategies that promote market liberalization, ensuring a balance of global and regional integration with focus on job creation that will ensure maximum trade benefits.

Survival in the open-Air market requires equal fair game to all players (Kato, 2018) since Ethiopian Airlines, the regional heavyweight enjoys strong government support with direct government subsidies, state financed fleet, massive tax exemptions, and internal Ethiopian policies that work towards the disadvantage of other African carriers.

Free trade area (FTA) concepts such as the EAC further suffers from poor coordination of economic policies which have resulted in poor regional integration with each member state seeking to optimize on national interests. Tanzania for example belongs to both the Southern Africa Development Community as well as the EAC and was at one-point negotiating on both platforms on the Economic Partnership Agreement with the European
Union (EU) this disharmony stalls any form of unified strategic policies to the block (Reith, 2011).

Chingosho (2012) highlighted the challenges faced by the African civil Aviation commission (AFCAC) in the full implementation of the decision as policy implementation was either incomplete or stagnated on most parts of the continent hindering full actualization and benefit. Trade liberalization policies are aimed at economic efficiencies and stimulation of growth (Read and Parton, 2009) which in turn reduces poverty in developing world. Diplomacy impasses such as that experienced by KQ in 2015 stall any form of agreement (Achuka, 2015; Mugarula, 2015) such as the BASA that the two states have implemented. The benefits of implementing the Yamoussoukro Decision (Kiminyei and Obiero, 2017) such as promotion of competition gives customers value for money as well as improved services and fares fostering regional integration and promoting development through investments and reduced costs should motivate the EAC member’s states to pursue liberalization policies.

I.A.T.A (2014) report cites that the Southern Africa Development Community (SADC) members have failed to make any substantial advances towards the implementation of the necessary legislative and regulatory elements of the YD posting dismal performance in this region. Mhlanga (2018) notes that some governments oblivious that the economic costs surpass the political costs use the pretext of dominance by some carriers to restrict them market access on the basis that their national carriers are not ready for the competition brought by liberalization. Regardless of these constraints as identified by Adeyeye (2016), key derivers of growth such as urbanization, intra-regional trade which brings rise to an expanding middle class, emerging mega cities and a multitude of tourism spots have facilitated the minimal growth in air transport.
2.2.3 Regional Integration and Liberalization

Regional air service liberalization (Fu, 2010) such as the one for the lucrative route Kuala Lumpur – Singapore route are examples of restriction policies placed by states that were later removed to allow LCCs to operate and the result was lowered Air fares that promoted movement a crucial element in development; however, the fear of liberalization is always placed on the demise of the full service airlines (Trade Mark East Africa, 2017) with the notion that these carriers face stiff competition from the no frills LCCs.

Regional integration in Africa faces challenges that are only synonymous to the continent (Jiboku and Uzodike, 2016) with impediments to movement of people and goods caused by the governments themselves due to ineffective coordination and harmonization of development policies and programs. This, notes Bouet et. Al (2017) is compounded in the high non-tariff measures (NTMs) and non-tariff barriers (NTBs) that exists. The heterogeneity of the African landscape thus further impacts external trade relations that would further hinder development, the EAC for example does not carry out any mandate for any of the partner states unless granted privileges and immunities, a hindrance to full integration and engagement in global economy trade (Aloo, Masinde, and Omolo, 2017). In the 2004 Montreal conference, (Schlumberger 2010) African states affirmed that challenges and opportunities to air service liberalization would be revoked through regional economic groupings streamlining competition regulation.

The EAC for example has a huge role to steer Air service liberalization as an agent of implementation of the Yamoussoukro Decision (Schlumberger, 2010) The benefits of liberalization include inward investment, growth in tourism figures thereby greater foreign direct investment, productivity growth, increased employment and economic development displaying a clear linkage between aviation and development (East Africa
The expansion of aviation sector in a region also promotes social ties allowing for deeper integration of the labor market as the case of the EU (Fu, 2010). The member states have initiated the Northern Corridor Initiative Project which is a partnership geared towards multilateral Air transport agreements. This arrangement was encouraged by Rwanda Express (WB) which vouched for consolidation and mergers similar to the American liberalization strategies through greater cooperation, joint ventures, equity sharing and mergers in a bid to improve long term viability of the aviation sector in East Africa (East Africa Research Fund, 2017).

According to the East African Business Council the need to remove the restrictive tendencies that the carriers within the region have imposed even though they have commitments towards integration efforts through the common market (Karuhanga, 2017) in which integrated liberalization would give the block an estimated revenue return of US$ 202.1 million annually. While these are just regional estimates, IATA study revealed that if just twelve key African states opened up their markets, the GDP of the African economy would be boosted by US$ 1.3 billion (Mumo, 2018).

While some regions have attempted to make liberalization efforts with other parts of the continent, West Africa and North Africa’s efforts have centered on agreements with non-African states with examples such as the horizontal agreement between the West African Economic and Monetary Union (WAEMU) and the EU (Njoya, 2017). Chingosho (2014) argues that these agreements are not reciprocated to fellow African states. With states in the West and North African regions making preference to allow non African states upto fifth freedom while African carriers are denied thus unconsciously making the region to a difficult area to transverse between cities as travel becomes expensive and cumbersome as a result of being isolated from other African regions.
2.3 Theoretical Review

2.3.1 Neo-Mercantilism

Mercantilism is one of the oldest international political economy perspectives and is historically deemed to be connoted efforts by states to promote exports and inhibit imports the result being trade surplus that would generate both wealth and power Neo-mercantilism borrows its ideology from mercantilism with its manifestation in protectionist policies adopted by states which use a wide variety of economic instruments and policy prescriptions to protect their societies albeit a highly interconnected and globalized world (Balaam, 2011, Stiglitz, 2006). In his argument on why developing states should embrace these protectionist policies, (Chang, 2007) alluded that the current developed states used the mercantilist policies to protect their infant industries in a bid to steer them to grow and compete with others globally. Cho (2013) supports this view by highlighting that even though multilateralism is displayed through the WTO most favored nation principle, some states still conduct reciprocal bargains on tariff reductions between each other.

Todaro (2012) described the tendencies of protectionism as economic policies that states employ by erecting infrastructures through regimes that dictate trade restrictions and barriers. Such barriers to trade are employed in order to protect national industries through economic policies of trade in terms of tariff and non-tariff trade barriers such as import quotas for goods and services (human capital), subsidies, and in the case of air transport, control of carbon emissions.

The InterVistas report on Air transport in Africa recorded that while most parts of the globe had largely removed the strictures on Air transport, most intra Africa Air travel remained largely closed due to the strict bilateral agreements (InterVistas, 2014) which
Andae (2018) argued that weak airlines have been protected from competition in Africa which has resulted in frustrated efforts to open up the African airspace. In Africa, these infrastructures extend to issues such as shortage in foreign exchange reserves and burdensome documentation processes.

These protectionist policies then act as an impediment to the development of Air transportation in Africa as the growth low cost carriers (LCCs) is curtailed yet this is what drives domestic competitiveness and by extension impacting international outcomes while at the same time raising the cost of producing the services and allowing monopoly of rent (Fu, 2010; Jensen, 2010). To encourage liberalization policies in domestic markets on the other hand notes Gwilliam (2011) will improve connectivity as has been reflected in Kenya, South Africa and Ethiopia thus cushioning states that lost national carriers since 2004.

Post independent African states formed state owned national carriers to function as transitional economic development tools for integrating national territory, promoting tourism which gave the state political visibility in defense and foreign policy (Mhlanga, 2018). This nationalistic approach to industry has caused the failure to launch by many African carriers who suffer mismanagement and interference such as South African Airways (SAA) cite CAPA 2013 report which indicated that African airlines survive on USD 2.5 subsidy from their governments, a non-sustainable measure of development. Olingo (2018 b) notes that while state regulation paramount in enforcing civil aviation policy. Raguraman (1997) agrees that regulation is key as airlines act as instruments of nation building and national identity and are important national symbols to governments who use them as instruments of international protection noting that the role of airlines as instruments of social and economic development cannot be overlooked.
2.3.2 Economic Liberalism Theory

InterVistas (2006) found that there is a 12 to 35 per cent traffic growth as a result of Air service liberalization, case in point the creation of 1.4 million jobs in the single European aviation market between 1995 and 2004 a double record growth. Africa followed the trend to liberalize domestic and international regulatory regimes in Air travel by initiating liberalization efforts cites Abate (2016) in a bid to liberalize intra-Africa Air transport market and streamline the commercial opportunities for all airlines in Africa through the Yamoussoukro Decision.

The benefits of Air service liberalization according to InterVistas report in 2016 are enormous as liberalization extends beyond the boundaries of aviation industry and has a huge pool of other impacted sectors such as trade, tourism, foreign direct investment, and greater employment. The report further found that liberalization led to 9 per cent lower average fares and 41 per cent increased in frequencies this infusion creates increased passenger demand. Liberalization between the five East African countries is reported to have created additional 46, 320 jobs annually and USD 201.1 million per annum in GDP. Andae (2018) notes that only 23 states in Africa have committed to the full implementation of the YD which is expected to reduce the cost of air travel by 25 per cent.

As an extension of the economic liberalism theory, the YD was a model for Air transport that African states had to embrace to avoid the collapse and demise of many national carriers. The traditional bilateral agreements had to be extended to multilateral agreements that sensitized on intra-Africa Air travel (Schlumberger, 2010). An initiative was driven by UNECA through the Lagos plan of Action (LPA) as a result of many
consultative discussions focusing on the elimination of barriers of trade that hindered intra-Africa Air transportation.

The liberalization of Air service in Africa has been skewed against the local domestic carriers as Abate (2016) points out, even though the conditions to operate Air transport on the continent are favorable, sixty-five per cent of Air traffic to and from Africa is operated by foreign carriers. The answer to this could be (Schlumberger, 2010) that five states on the continent have strong state-owned carriers, twenty have weak state-owned carriers while twenty-five have only private carriers. The result of nationalistic ownership of airlines (Amankwah-Amoah, 2008) is that airline decisions are not supported by commercial reasons but wishes of politicians.

The bilateral air service agreements (BASAs) that have dominated African civil aviation relationships were traditionally set to protect the national carriers while they acted as a hindrance to growth making policy makers to now engage on maximizing macroeconomic benefits through liberalization (Mhlanga, 2018).

2.4 Conceptual Framework

A conceptual framework represents the researcher’s synthesis of literature on how to explain a phenomenon. It maps out the actions required in the course of the study given his previous knowledge of other researchers’ point of view and his observations on the subject of research. In other words, the conceptual framework is the researcher’s understanding of how the particular variables in the study connect with each other. Thus, it identifies the variables required in the research investigation.

It is the researcher’s “map” in pursuing the investigation. A conceptual framework is important because it “sets the stage” for the presentation of the particular research question that drives the investigation being reported based on the problem statement. The
conceptual framework lies within a much broader framework called theoretical framework. The relationship between the dependent variable (Air Transport Liberalization Index) and the independent variables (government policy-tariff and market competitiveness - profit margin) can be explained using the framework in Figure 1.

Please note that the arrow points at the affected variables.

![Conceptual Framework](image)

**Figure 1: Conceptual Framework**

### 2.5 Chapter Summary

This chapter highlights the review of the literature on impact of tariff policies on general liberalization strategies in air transport. The study seeks to establish whether there exists a relationship between the tariff levels and liberalization as the two parameters have been
measured separately in various literature. The study highlights the gap in existing literature on whether a competitive aviation environment means that there exist high levels of air service liberalization in which the study seeks to address in its second objective. Air transport liberalization just like any form of liberalization requires co-operation between states. In the absence of this, fear of dominance breeds conflicts in strategic co-operative arrangements that requires state engagement.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, the data collection methods, research procedure guidelines employed, and the methods of data analysis. The systematic approaches in this methodology explains how the data was collected and analyzed to give a clear assessment of the Yamoussoukro Decision with each approach given a justification of its use.

The study used both qualitative and quantitative research design to give a mixed method approach in data collection. To validate data from the two designs, a triangulation technique for the design, analysis, and data interpretation was used. This technique was most viable in qualifying the quantitative data and quantifying the qualitative data to facilitate comparison and interrelation. The study’s principle research method is quantitative which was analyzed using correlations, regression, and descriptive statistics to identify the relationship between the state regulatory policy adopted and the level of success.

Data collection for the first objective was qualitative methods that analyzed the regulatory policies adopted by the governments through tariffs for the period between 2006 and 2016 and their impact on air liberalization index (ALI). Tariffs were obtained from the WTO MFN data which also includes data from non-member states through by reviewing their exports to WTO members while liberalization index was truncated from the WTO’s airline services agreement projector tool (ASAP).

The research further used quantitative sources of data from airlines websites of the ten countries for the period between 2006 and 2016 to obtain the profit margin for the
designated airlines and correlated his with the data gotten from ASAP on the level of air service liberalization. This was to confirm if there exists a relationship between profit margin and ALI and show if indeed a high liberalization index translates to a more competitive air space which allows carriers to be more competitive.

To obtain data for the third objective, expert interviews from airline officials of KQ and ET, opinion interviews from senior officials at regulatory bodies such as AFRAA, and senior government officials was employed. Questionnaire interviews were employed for the expert opinion used to correlate the decisions undertaken by the governments relating to the level of air transport liberalization and perceptions of dominance by the governments. The results were then used to gauge the impact of these tendencies on the challenges and prospects to regional integration. The objective sought to analyze if perceptions of dominance, which is reflected in government ideology (Potrafke, 2010) informs the regulatory strategy.

3.2 Research Design

This research employed correlation, regression, and descriptive research designs to analyze the association between the independent variables and level of Air Liberalization Index (ALI). This design was chosen based on the three indicative decisions used in mixed methods research of timing, weighting, and mixing (Creswell, 2006). The timing decision for this research was informed by the fact that both qualitative and quantitative data was collected at the same time and are interrelated. On the weighting criterion, even though the qualitative data collection is the primary research method, both methods carry similar weighting and play an equally important role in the research as the level of liberalization is directly impacted by the type of government policy. The mixing decision
was important as the two types of data sets are connected through correlation. This was achieved through careful selection of expert interviewees.

3.3 Sampling Design

Simple sampling was used to choose the ten states that acted as sample of the research. It comes as expected then that the national carriers of the ten states would be the used as parameters in the research. The national carriers of these ten states have a history of government control while others are listed companies and are greatly impacted by regulatory policies adopted, furthermore, they are the longstanding carriers within the states’ territories and act as good samples of research compared to other airlines within the Africa.

Purposive sampling was used to identify high-ranking officials who are experts in the field of air transport. These were subject matter experts from airlines, civil aviation bodies and officials from transport industry in the two governments. Experience, knowledge and skills acquired over time in the industry was key to this study. The overview bodies such as AFRAA also gave progressive indicators by the states and airlines over the same period.

3.4 Data Collection Methods

Both Primary and secondary sources of data were employed for data collection methods for all three objectives. These included articles from authentic official statistics from the WTO.

Ranjit (2011) noted that Government and semi-Government agencies usually collect data which is readily available at request. In this study, a lot of the data required for objectives
one and two already existed and the information relevant for this research extracted from secondary sources.

The first objective reviewed how government regulatory policies have impacted the level of Air service liberalization against the performance of each state under the WTO airline liberalization index (ALI) measurement known as the Air Services Agreement Projector (ASAP) comparatively to the current index of 34. An index devised by the WTO secretariat in the interest of reviewing its Air transport services which was mandated by the General Agreement on Trade in Services (World Trade Organization, 2013).

In order to get in-depth interviews with the subject matter experts, careful sampling by determining how many people are needed is crucial (Ranjit, 2011; MacDonald, 2009). Interviewees were sampled carefully by virtue of their years of experience and rankings in the organizations such as airlines, government and non-governmental agencies. The research intends to use six subject matter experts, three from each state representing the bodies mentioned above.

Primary sources of semi-structured interviews were used to obtain qualitative data, expert opinion and experiences through standardized and open type questions. The third objective used qualitative methods of data and this gave the interviewer a good position to judge the quality of the responses and allowed the respondent to give their own personal perspective on regards to how domestic carriers would be able to remain competitive in a liberalized market. According to Amankwah-Amoah (2011), Airline competitive advantage is the ability to leverage on the resources and capabilities at the disposal impacted by specific government policies that promote Air service liberalization.
3.5 Data Collection Instruments

Data for the first and second objective was obtained using content analysis of existing statistical data using computational techniques. Interviews acted as the instrument of data collection for the third objective. This was informed by qualitative aspect of the objectives that sought to assess the thoughts and feelings of the experts, which gave more insight into the study as personal experiences and expertise formed part of the study enquiry.

3.6 Data Analysis Methods

The study identified common themes from expert’s responses and critically analyzed them through the statistical packages for social sciences (SPSS) so as to achieve research aims for objective one and two. This was done through content analysis of the WTO MFN average country tariff figures and the level of ALI through interpretation of existing data found from the WTO tool ASAP and the market competitive data through analysis of the profit margin from annual airline financial reports.

Secondary data analysis involves using data collected in previous research to address a different research question (Salkind, 2007). The main element in secondary data analysis is application of the theories and concepts to utilize existing data to address the research questions using data from previous sources of data that may not have addressed issue being researched on (Johnston2014; Boslaugh, 2007). The primary data collected for the study on the other hand, intended to produce the unrecorded and new information based on the ideas, assumptions, experiences, feelings and realities of the interviewees. The information collected from these interviews was analyzed using an excel sheet with various outputs using graphs and pie charts.
3.7 Ethical Considerations

This research study was guided by the principles of social research where the principle of informed consent was key to voluntary participation and no coercion was used to obtain any interview. The exercise was voluntary and data collected was handled with utmost confidentiality which is informed by the principle of anonymity.

The principle legality was applied through obtaining a permit to conduct the research through the United States International University-Africa (USIU-A) research office as well as National Commission for Science and Technology (NACOSTI) to serve as official communication for the conduct of research. All persons who participated in the research were respected and their objective opinions considered.

3.8 Chapter Summary

This chapter gives the comprehensive overview on how the research process was undertaken. The approach in the research design is mixed method which included both qualitative and quantitative methods of data collection to give a rich analysis of the output for the two states. The sampling method gives a narrowed down specification of national carriers’ competitiveness, an indirect impact of government regulatory policies in Air transport.
CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This section of the research provides detailed analysis of the data collected to determine the association between the dependent and independent variables. The dependent or response variable was air liberalization index (ALI) represented by a sample size of ten African states while the independent variables included tariffs as government policies, profit margins as a measure of business competitiveness in air travel, and the perception of dominance in air travel liberalization. The analysis revolved around the three major objectives identified earlier in chapter 1. From the purposes of analysis, it became necessary to transform the objectives into the following hypothesis:

4.2 Hypotheses

4.2.1 Hypotheses 1

H0: there is no relationship between government policies such as tariffs and air liberalization index (ALI) in Africa

H1: there is a relationship between government policies such as tariffs and air liberalization index (ALI) in Africa.

4.2.2 Hypothesis 2

H0: there is no correlation between the level of business competitiveness in air travel and air liberalization (ALI) in Africa.

H1: There is a correlation between the level of business competitiveness in air travel and air liberalization (ALI) in Africa.
4.2.3 Hypothesis 3

H0: The prospects and challenges of regional integration do not result from the perception of dominance in air transport liberalization.

H1: The prospects and challenges of regional integration result from the perception of dominance in air transport liberalization.

4.3 Findings

4.3.1 Government Tariffs and Air Transport Liberalization Index (ALI)

The analysis of the first hypothesis (4.2.1) required the use of secondary quantitative data. The World Trade Organization (WTO) provides comprehensive data on Most-Favored-Nation (MFN) applied tariffs at the standard codes of Harmonized System (HS) for all member countries. The organization also provides data and information at the HS subheading level on applied tariffs regimes for non-MFN, which a country allows to its export partners. Therefore, the data relating to tariffs was sourced from the submissions each country made to the WTO Integrated Data Base (IDB) for applied tariffs and from the Consolidated Tariff Schedules (CTS) database for the bound duties of member nations. The analysis compared tariff and air liberalization index (ALI) data for the select states between 2006 and 2016.
Table 1: Most-Favored Nation (MFN) Applied Tariffs – Data for African Countries between 2006 and 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>MFNKE (App Tariffs), %</th>
<th>MFNRT (App Tariffs), %</th>
<th>MNREG (App Tariffs), %</th>
<th>MFNZA (App Tariffs), %</th>
<th>MFNMA (App Tariffs), %</th>
<th>MFNMG (App Tariffs), %</th>
<th>MFNMA (App Tariffs), %</th>
<th>MFNMG (App Tariffs), %</th>
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<td>1.1</td>
<td>18.0</td>
<td>15.5</td>
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<td>12.7</td>
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<tr>
<td>2014</td>
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<td>17.3</td>
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<td>1.0</td>
<td>18.0</td>
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<td>11.7</td>
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<td>12.25</td>
<td></td>
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<td>18.1</td>
<td>12.3</td>
<td>11.9</td>
<td>18.8</td>
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</tr>
<tr>
<td>2016</td>
<td>12.8</td>
<td>17.4</td>
<td>16.8</td>
<td>8.5</td>
<td>8.9</td>
<td>1.0</td>
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<td>16.6</td>
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<td>19.5</td>
<td>11.8</td>
<td>13.5</td>
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<td></td>
</tr>
</tbody>
</table>


Figure 2: Comparative Analysis of Applied Tariffs for African Countries

Source: Analysis from SPSS Version 22.0, Simple Line Charts.
Table 1 shows the cross-border tariff data for specific select African countries between 2006 and 2016. That table also shows the average tariff per country according to the WTO report. On the hand, the data corresponding to Air Transport Liberation Index (Table 2) for each country were retrieved from the WTO’s Air Services Agreements Projector (ASAP), which is an analytical tool for assessing information on signatory’s network and air traffic flows. The research expected the effect of tariffs as an enabling business environment on ALI based on the 5th freedom to be significant.

Table 2: Air Transport Liberalization Index (ALI) Data for the Selected African Countries between 2006 and 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>ALI_{KE}</th>
<th>ALI_{ET}</th>
<th>ALI_{EG}</th>
<th>ALI_{ZA}</th>
<th>ALI_{MA}</th>
<th>ALI_{MU}</th>
<th>ALI_{TZ}</th>
<th>ALI_{NG}</th>
<th>ALI_{MW}</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
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<td>3.13</td>
<td>4.33</td>
<td>4.21</td>
<td>4.27</td>
<td>4.66</td>
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<td>4.76</td>
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</tr>
<tr>
<td>2007</td>
<td>3.62</td>
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<td>4.24</td>
<td>4.18</td>
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<td>4.63</td>
<td>3.67</td>
<td>4.76</td>
<td>3.30</td>
</tr>
<tr>
<td>2008</td>
<td>3.53</td>
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<td>3.50</td>
<td>5.28</td>
<td>3.03</td>
</tr>
<tr>
<td>2009</td>
<td>3.60</td>
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<td>4.09</td>
<td>4.10</td>
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<td>4.43</td>
<td>3.31</td>
<td>4.37</td>
<td>3.02</td>
</tr>
<tr>
<td>2010</td>
<td>3.65</td>
<td>3.51</td>
<td>4.01</td>
<td>4.32</td>
<td>4.08</td>
<td>4.32</td>
<td>3.96</td>
<td>4.65</td>
<td>3.38</td>
</tr>
<tr>
<td>2012</td>
<td>3.82</td>
<td>3.76</td>
<td>3.88</td>
<td>3.58</td>
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<td>4.33</td>
<td>3.96</td>
<td>4.52</td>
<td>3.07</td>
</tr>
<tr>
<td>2014</td>
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<td>3.63</td>
<td>4.37</td>
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<td>3.79</td>
<td>4.06</td>
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<tr>
<td>2015</td>
<td>3.58</td>
<td>3.03</td>
<td>3.49</td>
<td>4.08</td>
<td>3.81</td>
<td>3.90</td>
<td>2.93</td>
<td>3.54</td>
<td>2.79</td>
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<tr>
<td>2016</td>
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<td>3.10</td>
<td>3.64</td>
<td>4.01</td>
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<td>3.92</td>
<td>3.07</td>
<td>3.50</td>
<td>2.82</td>
</tr>
<tr>
<td>Average</td>
<td>3.66</td>
<td>3.29</td>
<td>4.0</td>
<td>4.1</td>
<td>4.0</td>
<td>3.9</td>
<td>3.6</td>
<td>4.4</td>
<td>3.10</td>
</tr>
</tbody>
</table>

Figure 3: Comparative Analysis of ALI (Selected African Countries)
From figure 3 it becomes clear that Mauritius air Travel Industry is doing better concerning the implementation of regional air transport liberation. The Air Travel Liberation indexes for Mauritius and South Africa across the eleven years were higher than the indexes for the rest of the African counties. The study proposed that these variances might have resulted from the differences in business environmental enablers such as tariffs.

![Graph Showing the Relationship between Countries Average ALI and Tariffs](image)

**Figure 4: A Graph Showing the Relationship between Countries Average ALI and Tariffs**

**4.3.2 Correlation between Business Competitiveness in Air Travel and Air Transport Liberalization Index (ALI)**

Just like the first hypothesis, the analysis of the second hypothesis (4.2.2) also involved the use of secondary quantitative data. The data for Air Transport Liberation Indexes were obtained from the 2006 – 2016 WTO reports. On the other hand, profit margin was used as a measure of business competitiveness and the data were obtained from the airline corporate sites. Table 4 compares the profitability indexes in air transport industry among African Countries.
Table 3: Profit/Loss Margin for African countries

<table>
<thead>
<tr>
<th>Year</th>
<th>P/M (KE), %</th>
<th>P/M (ET), %</th>
<th>P/M (EG), %</th>
<th>P/M (ZA), %</th>
<th>P/M (MA), %</th>
<th>P/M (MU), %</th>
<th>P/M (DZ), %</th>
<th>P/M (TN), %</th>
<th>P/M (NG), %</th>
<th>P/M (MW), %</th>
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</thead>
<tbody>
<tr>
<td>2006</td>
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<td>0.34</td>
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<td>4.26</td>
<td>2.01</td>
<td>0.14</td>
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<tr>
<td>2007</td>
<td>7.0</td>
<td>1.9</td>
<td>7.26</td>
<td>-4.30</td>
<td>4.11</td>
<td>6.01</td>
<td>0.01</td>
<td>5.00</td>
<td>3.66</td>
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<td>6.94</td>
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<td>3.61</td>
<td>3.67</td>
<td>4.00</td>
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<tr>
<td>2009</td>
<td>-5.7</td>
<td>11</td>
<td>11.30</td>
<td>1.52</td>
<td>6.10</td>
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<td>-0.18</td>
<td>3.09</td>
<td>4.22</td>
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<tr>
<td>2010</td>
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<td>10</td>
<td>10.11</td>
<td>2.61</td>
<td>12.40</td>
<td>5.00</td>
<td>1.96</td>
<td>4.19</td>
<td>1.69</td>
<td>3.60</td>
</tr>
<tr>
<td>2011</td>
<td>4.1</td>
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<td>8.35</td>
<td>4.81</td>
<td>7.22</td>
<td>10.10</td>
<td>2.21</td>
<td>4.46</td>
<td>5.72</td>
<td>3.33</td>
</tr>
<tr>
<td>2012</td>
<td>1.5</td>
<td>2</td>
<td>8.56</td>
<td>3.60</td>
<td>5.01</td>
<td>11.52</td>
<td>2.08</td>
<td>4.71</td>
<td>8.80</td>
<td>4.02</td>
</tr>
<tr>
<td>2013</td>
<td>-8.0</td>
<td>5.34</td>
<td>9.95</td>
<td>2.56</td>
<td>10.62</td>
<td>6.80</td>
<td>3.05</td>
<td>5.02</td>
<td>-1.33</td>
<td>4.11</td>
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<tr>
<td>2014</td>
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<td>6.74</td>
<td>9.80</td>
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<td>6.80</td>
<td>3.29</td>
<td>2.10</td>
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<tr>
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<td>7.14</td>
<td>10.40</td>
<td>5.55</td>
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<td>6.61</td>
<td>4.00</td>
<td>6.12</td>
<td>1.54</td>
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<tr>
<td>2016</td>
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<td>11.26</td>
<td>11.01</td>
<td>6.93</td>
<td>3.35</td>
<td>7.70</td>
<td>3.91</td>
<td>5.31</td>
<td>3.65</td>
<td>4.26</td>
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<tr>
<td>Ave</td>
<td>-2.79</td>
<td>6.26</td>
<td>9.17</td>
<td>2.20</td>
<td>5.72</td>
<td>7.26</td>
<td>2.19</td>
<td>4.78</td>
<td>3.39</td>
<td>2.75</td>
</tr>
</tbody>
</table>

P/M= Profit Margin

Figure 5: Comparative Analysis of Profit Margins/Profitability (African Countries)

a. Correlation between Profit Margin and ALI
4.3.3 Prospects and Challenges in Regional Integration and the Perception of Dominance in Air Transport Liberalization

Unlike the first and second hypotheses, the analysis of the third hypothesis (4.2.3) required the use of primary qualitative data. The fact that the analysis focused on expert opinion meant that even a small sample size could still give the desired result. Therefore, a sample size of 10 professionals who are experts in the industry was considered adequate because the information they gave seemed to be similar.

The interview questions were administered through Skype video calls for 4 respondents and face to face interviews for 6 respondents and their views/perceptions recorded for the purposes of analysis. While some questions required a comparison of the experts’ opinions, others could easily be converted into quantitative data using different nominal values for the respondents. The analysis of the experts’ opinions required the use of descriptive statistics. Ideally, the study hypothesized that the prospects and challenges of regional integration result from the perception of dominance in air transport liberalization.

A sample questionnaire used during the study is attached in the section of the appendix.

From the descriptive analysis, it became clear 40% of the individuals interviewed were workers from the countries’ airlines, 40% worked for civil aviation body while 20% worked for the government. The analysis revealed that the majority of those who were interviewed were professional from different fields working for the relevant organizations, particularly those directly involved in the development and implementation of air travel policies and regulations.
The second question aimed at determining the years of experience of interviewees, and from the analysis, majority of the respondents had worked within their respective organizations for over ten years. This means that they had sufficient information on both internal and external factors that affect the implementation of air transport policies at national and regional level.

The third question in section one of the interview asked the respondents to identify the indicators of government intervention in Air Transport Liberalization. From the analysis, majority of the respondents (50%) demonstrated their belief on tariff to be the best
indicator of government’s intervention in ATL. 30% cited market access while 20% identified other government regulations.

Figure 8: Perceptions on Government Intervention
When it comes to regulation strategies for economic climate, 70% of the respondents indicated that mixed method (reregulation) is the best strategic approach for regulating a country’s economic climate while 30% favored deregulation. Those who supported mixed regulation strategies argued that unlike other industries in the economy, air transport is highly regulated, volatile, and extremely costly.

Figure 9: Types of Regulation Strategies
For question 1 section 2, the respondents were asked to highlight the specific factors that influence government propensity for air liberalization. The analysis revealed that national pride is the most significant factor affecting government’s propensity for air liberalization. National flag carriers give a sense on national identity which fosters patriotism in the citizenry and confidence in political leadership.

![Figure 10: Factors That Influence Government Propensity for Air Liberalization](image)

The analysis of the second question in section two showed that 50% of the respondents held the view that the presence of Air liberalization initiative by the government is the driving force behind the competitiveness of national carriers. On the other hand, 20% held contrary opinions citing other factors while 30% had divided opinions.

![Figure 11: Air liberalization](image)
The respondents were then asked whether having a national carrier in a priority. According to the results, 80 percent of the respondent agreed that a national carrier is a priority for the state.

![Graph showing perceptions on owning a national carrier](image)

**Figure 12: Perceptions on Owning a National Carrier**

**4.4 Chapter Summary**

The chapter gives the findings from the two types of methods employed in collecting data with the analysis using the SPSS model. Secondary sources of data from the WTO analysis tool were used to analyze data for objective one and two while objective three used primary methods of data collection using expert interviews to collect data and analyze government policies and perceptions of hegemonic dominance with analysis using descriptive representations of graphs and pie charts.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the findings from chapter four in three main parts; the introduction, the discussions, and recommendations by analyzing the variables in the study. It reviews the impact of tariffs as government policies while reviewing the impact the policies have on ALI. It further correlates the profit margin for each country designated carrier and air service liberalization levels. The perceptions impact on regulatory policy is also discussed. Finally, the study gives recommendations and suggestions for further research.

5.2 Discussions

5.2.1 Government Tariffs

Table 1 gives data relating to countries Tariff levels. On average, Tunisia registered the highest tariff level of 19.5 throughout the periods followed by Algeria with a tariff level of 18.4. Ethiopia and Egypt tied at position three with a tariff level of 17.2. Mauritius recorded the lowest average tariff level of 2.0 followed by South Africa at 7.9. Figure 1 compares the ten countries in terms of tariff levels. The wide gap in tariff levels between these countries reveals significant differences in government policies and business levels. It is also difficult to establish an open business environment when each country operates under different tariff policy. When it comes to years, the highest average tariff level was recorded in 2006 (15.58%) while the lowest was recorded in 2014 (12.25%). The trend, however, shows an overall reduction in average tariff level between 2006 and 2016. Such
reductions in tax levels can only occur when governments decide to adopt more favorable tariff systems.

5.2.2 Performance in Terms of Air Transport Liberalization Index

Table 2 compares the countries performance in terms of Air Transport Liberalization Index using data between 2006 and 2016. Figure 2 gives a visual comparison of the countries in terms of the levels Air Liberalization Indexes. From Table 2 and Figure 2, it becomes clear that Tunisia performed better with an index level of 4.4 followed by South Africa at 4.1. Egypt and Morocco tied at position three with an index of 4.0 each. On the contrary, Algeria performed poorest in terms of ALI at 3.10 followed by Malawi at 3.20 and Ethiopia at 3.29. A comparison of the countries average tariffs and ALI reveals that Mauritius, which had the lowest tariff (2.0), registered the highest level of ALI (4.4). Similarly, South Africa that had an average tariff level of 7.9 (Second Lowest) registered the second highest average level of ALI (4.0). Algeria registered the second highest average tariff (18.4) but the lowest value of ALI (3.10). This seems to be the same case for Ethiopia, and the situation already reveals a negative relationship between the countries’ implied tariffs and ALI.

5.2.3 Relationship between Tariffs and ALI

Table 3(a) gives the connection between tariffs and ALI in terms of means and standard deviations. According to the table, the mean countries average ALI was 3.7250 with a standard deviation of 0.42862. On the contrary, the mean countries average tariff was 14.3100 with a standard deviation of 5.53623. A comparison of the two standard deviations reveals significant changes in tariff levels compared to corresponding changes in Air Liberalization Indexes. In other words, the changes in indexes are not as much as the changes in tariff levels.
Correlation is a measure of the strength of relationship between one or more variables. Correlation analysis is essential for a researcher who wants to determine if there is any possible connection between factors. A correlation between two variables, for instances, means that a systematic change in one variable is expected to cause a corresponding change in the second variable when other factors are held constant. It is also important to note that a correlation can be positive or negative depending on the numerical values.

Table 3(b) gives the correlation coefficients between the countries’ tariffs and ALI as -0.152. Based on the “Pearson’s product-moment coefficient,” that analysis reveals a weak negative correlation between tariffs and ALI. The weak correlation simply means that there are other factors excluded from the model that have comparable effects on ALI than tariffs.

Table 3(c) shows that the variables entered into SPSS for analysis were two: (1) Countries’ average tariffs as independent variables and Countries’ average ALI as dependent variables. All the requested values corresponding to each variable were entered into the software and relevant analysis performed. The values corresponding to R-squared and Adjusted R-squared in Table 3(d) summarize the behavior of the regression model obtained by comparing the relationship between the two variables. From the value of the R-squared, it is correct to argue that the changes in countries’ tariffs only explain 2.3% of the changes in ALI. In other words, 97.7% of the changes in ALI are explained by other factors not included in the model.

Table 3(e) gives the one-way of variance (ANOVA) results. The values determine if there are any statistically significant differences between the means of independent variables. The ANOVA test may not be applicable for this study because there is only one independent variable under investigation. However, the mean of the independent variable
as a stand-alone factor is important towards the interpretation of the relationship between the predictor variable (applied tariff) and response variable (ALI).

The goal of this study under the first objective was to determine if there is a relationship between tariff as a government policy and ALI as an indicator of Air Transport Liberalization in Africa. The study assumed a regression model given in the form $y = \alpha + \beta x + \mu$, where “$y$” is the dependent variable (ALI), “$\alpha$” is the y-intercept or the value of ALI when no tariff is applied, “$x$” is the tariff level, “$\beta$” is the coefficient of tariff, and “$\mu$” is the error term. From Table 3(f), the y-intercept and coefficient of tariff are 3.893 and -0.012 respectively. This means that the regression model, $y = 3.893 – 0.012x$ or ALI = 3.893 – 0.012*Tariff defines the relationship between countries’ tariffs and ALI. From the model, it becomes clear that the relationship between the two variables is negative. The negative relationship means that an increase in tariff reduces air transport liberalization index while a decrease in tariff increases air transport liberalization index. This relationship is also revealed in Figure 3. In other words, the lower the tariff level in the ten African countries, the higher the opportunity for air transport liberalization. This probably explains why Mauritius is leading the rest of African countries in terms of air Transport Liberalization.

Over 200 free trade agreements have been formed since the early 1990s according to the World Trade Organization. During this period the world has also witnessed increasing levels of trade between states which is necessitated by liberal policies in deregulated economies, and the air travel industry is not an exception. The main issue that arises is whether the two phenomena are independent from each other. From the results, it becomes clear that that they are not. There is evidence that participation deregulated
environment through elimination of government policies such as tariff can destroy protectionist rents, a move that is expected to result in air transport liberalization.

If undoing FTAs is not costless, they serve also as commitment devices to destroy future mechanisms of highly regulated market environments, which seem to affect market openness. Such rents are attractive for non-democratic ideals steered by nationalistic tendencies, FTAs can lower their incentives to seek market power and achieve more control. While this has little value in established liberal markets, where the rule of law is strong and the risk of regulation disruption is negligible, it can be very important markets that are not self-controlled. Trade gains aside, these threatened states should therefore be particularly keen to seek involvement in FTAs rather than operating on favorable trade policies.

At any trade regime, domestic firms exchange contributions for protection with the government, which cares about nationalism and the contributions it receives. The key to understanding the impact of an FTA is the recognition that external tariff game changes with the constraint imposed by the agreement on air Transport Liberalization. Considering this, one can show that, even though an FTA still permits lobbying for protection against excluded countries, the volume of protectionist rents falls with the formation of the agreement. This explains why countries that have moved towards liberalizing their airlines register relatively lower tariff levels compared to those that have not.

**5.2.4 Profit Margins**

Table 4 compares the profit margins of the ten African countries selected for the study. The study used profit margin as measure of business competitiveness because it reveals the progress of firms in terms of how best they convert resources into income. As a
profitability ratio, profit margin becomes the accurate measure of part of sales that the company keeps as earnings. A high profit margin is better than average because it demonstrates higher business outcomes. If the business environment is competitive enough, it is expected that each company will be earning more than average level of profit. From the table 4, Egypt performed better in terms of profit margin with the average value of 9.17% followed by Mauritius at 7.26%, and Ethiopia at 6.26%. Kenya performed the poorest with average profit margin of -2.79% followed by Algeria at 2.19%, and South Africa at 2.20%. Figure 4 gives a visual comparison of the data. The graphs on figure 4 shows that on average, only the Kenyan Airways traded on negative profit margins. The negative profit margins might have resulted from unfavorable business climate such as high tariffs and low business competitiveness. During the same period, the remaining nine countries of Africa registered positive average profit margins. This can only be translated to show that these countries operate under favorable business conditions compared to Kenya.

5.2.5 Correlation between Profit Margin and ALI among African Countries

Table 4(a) compares the means and standard deviations of the countries’ ALI and profit margins. From the analysis, it becomes clear that countries’ profit margins recorded a higher mean of 4.0930 with a standard deviation of 3.34164 compared to ALI’s 3.7250 with a standard deviation of 0.42862. However, the change in the countries’ ALI from the mean value is smaller (0.42862) than the corresponding changes in profit margin from the mean (3.34164). This means that the response by the countries to Air Transport Liberalization is slow despite the positive changes in profit margins. Such a situation can only arise when each country feels comfortable with the current business activities.
Correlational analysis can be used to determine the strength of the relationship between profit margin and ALI. The value for Pearson correlation, r, should fall between +1 and -1 with a value below 0.5 indicate weak correlation. From Table 4(b), the Pearson correlation coefficient, r, is +0.236. Although the coefficient is positive, the value is less than 0.5. The interpretation for the coefficient is that there is a weak positive correlation between countries’ average ALI and average profit margin. Table 4(c) is a list of variables analyzed. Countries average profit margins were directly entered as independent variable while countries average ALI were used as dependent variable. Table 4(d) gives a summary of the regression model that can be used to describe the relationship between the two variables. The R-Squared shows that the changes in profit margin explain about 5.6% of the changes in ALI. This means that 94.4% of the changes in ALI are explained by other factors apart from profit margin.

The coefficient \( \beta = 0.03 \) shows that the relationship between ALI and profit margin is positive. In other words, a rise in profit margin would raise the level of ALI. It is important to note that profit margin was used as a measure of business competitiveness. It, therefore, follows that as the business environment becomes more competitive, countries tend to work towards liberating their air services sectors. This positive relationship is also shown in Figure 5.

From the regression model, it becomes clear that market competitiveness is crucial to any liberalization process, where regulatory authorities should retreat and economic agents take over (in the airline industry as well for airports). Market competitiveness facilitate the establishment of a free and open markets, in fact, force companies to compete on their merits. If market competitiveness, by its nature, implies rivalry and foreclosure, the issue
is to keep the competitive strategies within the space of compliance to competition law so that airlines can benefit from those strategies.

In this contest, the role for regulating bodies such as governments should not be to influence the market outcomes (in terms of number of players, price and quantities), but operate as a referee with the aims of preserving the contestability of the air transport markets in the light of the current regulation. By this way, the sub-set of market competitiveness and distorting strategies put in practice by operators (leading to exploitation of market power in terms of output restriction and price increase) would be reduced.

On the contrary, the sub-set of efficiency-promoting strategies (including those aiming at excluding less efficient competitors) would be maximized, with the likely result of increasing the chances for the implementation of air transport liberalization. Some key elements of the industry state of the art need to be highlighted, in terms of both the institutional framework and emergent market forces, in order to properly discuss about the role of competition policy, which now probably represents the main current form of public intervention in the sector. Public action needs to be non-distorting, consistent with the AU liberalization schemes, and clearly different from the past governmental policy action in the aviation business. Due to the radical involvement of national interests (in terms of ownership, foreign relationships and safety), these schemes can heavily be improved by the industry equilibrium as countries approach the beginning of the third Millennium. At the same time, no dogmatic approach on the “neutrality” of the antitrust intervention should be emphasized.

The market itself is a “social institution” (implying the interaction of private and public economic agents, including regulators) and the public intervention (in terms of rules and
market control) is a necessary element—not necessarily a distorting or oppressive one—in consideration of the many deviations experienced from the perfect competition model. Competitiveness policy, therefore, needs to be clearly market oriented in the application of its leading principles to a concept of workable business outcomes in order to perform as a public intervention that does not affect, as a per se, efficient market outcomes, but promote incentive to maximize both social and economic benefits of air transport liberalization.

5.2.6 Government Regulation (Tariffs), Market Competitiveness (Profit Margin), and Air Transport Liberalization

Apart from the single factors, it was necessary to look at the combined effect of tariffs and market competitiveness on ALI. Table 6(a) is a descriptive analysis of all the three variables. According the table, the African countries registered a mean of 3.7250 in terms of ALI with a standard deviation of 0.42862. The mean for tariff was 14.3100 with a standard deviation of 5.53623 while the mean for profit margin was 4.0930 with a standard deviation of 3.34164. Based on the variables’ standard deviations, it is true to state that the countries’ tariffs registered high fluctuations between 2006 and 2016.

The figures on Table 6(f) are important when developing a regression model that explains the relationship between countries’ average ALI, tariffs, and profit margin. According to this model, the relationship between ALI and Tariff is negative while the relationship between ALI and profit margin (business competitiveness) is positive. An increase in tariff level reduces chances for African countries to liberalize the air transport industry while an increase in business competitiveness encourages a move towards air transport liberalization.
Civil aviation in Africa makes a very important contribution to the African economy. In terms of figures, several airlines are currently operating, carrying huge number of passengers in the perceived liberated African market. Within a network of highly competitive airports and providers of air travel services, the whole sector (airlines, airports, and related logistics) contributes a significant percent to African GDP.

This significant scale is mainly a consequence of the struggles to liberalize air transport and the creation of an internal open market. The increase in the number of airlines is clearly a sign of the dynamic nature of the sector. Once countries remove regulatory barriers, especially in consideration of the several carriers that have been taken over or ceased trading in the meantime, there is high expectation that the airline industry in Africa will become more competitive than it is now. African transport policy such as the 5th Freedom would have profoundly transformed the air transport industry, by creating the conditions for competitiveness and ensuring both quality and safety of service. Travelers would be the principal beneficiaries, as this policy will lead to more routes, greater choice, and an increased overall quality of service.

As to market equilibrium, the partial liberalization of the aviation sector and airports and the free market access regime for intra-regional routes seems to have made it possible for newcomers to join the market, making life difficult for the monopoly power of the national flag carriers. Some of these carriers were suffering badly from the “distressed state airlines syndrome”, since their corporate culture focused on rent exploitation in uncontestable markets, could not adjust to the mechanism of the free market system and related competitive environment.

On the other side, steps in opening up the international aviation markets are harder to be implemented. The difficult road map from bilateral air service agreements between
governments - which still represent a considerable degree of public interference by restricting a deregulated market tends to increase the number of market players, creating additional pressure on airport infrastructure. There is a consensus upon the fact that the actual slot allocation rule – mainly based on 5th amendment - represents a barrier to entry, but alternative market solutions are not a panacea for all the likely distortions. They in fact may incur in failures or worst competition outcomes.

Along with the liberalization process, the government intervention in the airline sector, which was quite significant till the 1990s, is partially decreasing, but not completely fading out, although representing a less relevant element of interaction for competitiveness policy than in the recent past. A part from the issue of state aid control by governments, in fact, the policy of protecting the weak “state-controlled” carriers from real competition, corresponds to a significant distortion of the competitive process. As a paradox, in many cases, such a policy shows also to be shortsighted in the end, implying a faster road to weakness for the protected player. In fact, by allowing extra profits and/or extra costs, the incentive for the incumbent to increase efficiency and effectiveness as a way to compete has been reduced for the incumbent.

5.2.7 Tariffs as a Government Policy and Market Competitiveness

After looking at the relationship between profit margin as a measure of market competitiveness and ALI, which turns out to be positive, the main question that remains is whether the impact of market competitiveness on ALI is direct or indirect. Does government tariffs trigger the changes in business competitiveness, which then affect ALI or does market competitiveness operate as a single factor.

From the analysis of tariffs and profit margin, it becomes clear that tariff as a government policy imposes trade barriers between countries, hence the negative effect on market
competitiveness. With the information given in Table 5(h), it is possible to develop a regression model that explains the relationship between countries average profit margin (a measure of market competitiveness) and tariffs. The relationship between these two variables is defined using the regression model, Profit Margin = 3.932 – 0.011*Countries AvTariffs. The negative coefficient simply means that the relationship between profit margin and tariff is negative. In other words, a rise in tariff level reduces countries’ profits margins because tariff imposes trade barriers. However, from Table 5(f), it becomes clear that the changes in tariff explain on 19% of the changes in business competitiveness. This means 81% of the changes in business competitiveness are explained by other factors a part from tariffs.

Despite recent free market trends in Africa, markets in general remain a subordinate instrument of national political systems and their policies. Government interventions work to facilitate market competition and to help the market achieve national policy objectives. Government policies and interventions address more than the objective of "liberalizing" business activities, which often results in efforts to make marketing practices conform mechanically to a modern model. Market interventions should consider the proven capability of the marketing network. Policies should be aimed at working with the existing system, not at replacing it.

Government attempts to interfere with free market systems have often raised the costs of business activities, which in turn impacts of the opportunity for carriers to participate on an equal playing ground and damaging the true spirit of air transport liberalization. Efforts to liberalize are curtailed through stiff regulatory policies such as tariffs thereby stagnating the economic development of the continent. It is important that policy makers
view airline business as a necessary and socially desirable activity that should be carried out in an open business environment.

The questions to be asked in considering any intervention are: What informs the interventionist policies? Do they support air transport liberalization efforts? What would happen if the intervention were removed? A study of air transport systems in Africa have, in fact, shown that markets often perform well when left to self-controlling mechanisms than when exposed to government regulations. It is a recommendation that the government should play a facilitating rather than a direct role in markets. Regulatory interventions should be limited. Appropriate interventions are thus indirect in nature and have three general aims: (1) to improve market infrastructure through interconnectivity (2) to improve information and (3) maintain safety and security of the air transport industry. These interventions then form part of the necessary re-regulating mechanisms that African governments should employ to ensure connectivity in Africa is developed.

5.2.8 Perceptions, regional integration and air service liberalization

The research also indicated that most African governments put effort on the pillar of granting of rights while they can also aggressively pursue the pillar on co-operative arrangements using the foreign policy agenda, a crucial element in international relations as they form the integral part of statecraft. Most regional blocks on the globe have pursued and enjoyed immense benefits when the airlines consolidate and co-operate in joint ventures and stronger alliances. Even without perceptions of dominance of the dominant carriers, it is quite visible that integration and co-operation between states and economic regions is marred with unequal operating opportunity with non-African states gaining more access to the continent’s market share. Initiations made by state governments give concrete commitment as opposed to those made at airline level.
5.3 Conclusion

Air transport is strategic in the development of a state. Tariffs as government policies have some stimulants or hindrances to air transport liberalization. The first objective gave the general finding is that tariffs have a negative impact on air service liberalization, however, it shows a diverse output in each of the African states. Other compounding factors seem to have a greater impact on air service liberalization and this is out of scope of the study.

For the second objective, economists would argue that the posting of a positive profit margin should indicate a liberalized economy, this is the general finding of the study, which validates that business competitiveness depicted in the form of profit margin correlate positively with ALI. The economic terrain on the African continent for the sample states does not go by this underpinning, with less liberalized states posting better profit margins that those that are liberalized, the comparative case of Kenya and Ethiopia being an example.

Finally, perceptions of hegemonic dominance do not impact of the efforts towards air service liberalization. These findings are seemingly interesting in that the general assumption has been that that governments guard their national carriers out of fear of dominance by other regional carriers by imposing high tariffs that hinder economic liberalization. The study also revealed that African regional economic relationships need to start fostering partnerships through co-operative strategic arrangements that will ensure the survival of new emerging airlines on the continent. These arrangements are key in regional integration which steers economic development on the continent.
5.4 Recommendations and Suggestions for further Research

The findings of the study reveal that tariffs as government policies impact on the level of a liberalized air transport which translates to the level of implementation of the Yamoussoukro Decision; however, it also revealed that there are other compounding factors. This suggests that these factors have a huge contribution to air service liberalization as shown in examples such as Ethiopia where high tariff have minimal impact on liberalization. The study recommends a granulated research on what these factors are will be crucial in the strategic planning of the newly revived airlines.

Secondly, the general maxim is that liberalization has a direct impact on profitability. Retrospectively, the study has shown that profitability is a positive indicator of liberalization and therefore more research would be required to assess the recent developments in African air transport where liberalized economies such as Kenya and South Africa would have their national carriers posting negative profit margins as compared to other less liberalized economies.
REFERENCES


Centre for Aviation. (2013). *Africa’s ailing national airlines survive on USD2.5 billion of government subsidy. Not sound policy*. CAPA.


Von Den Steinen, E., Joerss, I., and De Leon, P.M. (2007). The Economic Impact of an Open Aviation Area between the EU and the US. London: Booz Allen Hamilton.


APPENDICES

Appendix 1: Interview Questions

DECLARATION CONSENT

Project Title:
Assessing the Yamoussoukro decision: accounting for determinants of air transport liberalization in Africa

Researcher
Full Name: Sabina Night Bwire
Faculty: School of Humanities and Social Sciences
School: United States International University (USIU-Africa)
Proposed qualification: Master of Arts in International Relations
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Email: sbwire@usiu.ac.ke

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Assistant Professor
Contacts: + 254 715 408641
E-mail: emunyi@usiu.ac.ke

Research Office
Full Name: Prof. Amos Njuguna
Dean – School of Graduate Studies, Research and Extension
Contacts: +254 730 116 442
Email: amnjuguna@usiu.ac.ke
I, Sabina Bwire student ID 614154 intend to carry out a research entitled: “assessing the Yamoussoukro decision: accounting for determinants of air transport liberalization in Africa. This research questionnaire is aimed at assisting in data collection for completion of the research study. Your participation will enable me to gain understanding of perceptions to the study. I guarantee that your response will not be identified with you personally and your participation is voluntary. Please sign on the dotted line to show that you have read and understood the contents of the letter. This interview will take approximately 45 minutes to complete.

I……………………………………………………………………………………

(Full Name) hereby confirm that I have read and understood the contents of this letter and the nature of the research project has been clearly defined prior to participating in this research project.

I understand that I am at liberty to withdraw from the project anytime, should I so desire.

Participant

Signature……………………………………………………………………………………

Date………………………………………………………………………………………...

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Instructions

Write your narrative to support your answer on lines provided.

Section A: Government Regulatory Policies

1. What is your current role?
   a.) Airline  
   b.) Government  
   c.) Civil Aviation body

2. How many years of experience do you have in aviation related roles?
   a.) 0-5 years  
   b.) 5-10 years  
   c.) over 10 years

3. Based on below options, which do you think should inform government decision to intervene in air transport policy?
   a.) Market access  
   b.) Regulations  
   c.) Tariff

4. What has been the level of Government commitment in the full implementation of the Yamoussoukro Decision?
   a) High  
   b.) Medium  
   c.) Low

5. Among the three types of regulatory strategies, which of them do you think favor the economic climate of air transport in Africa?
   a.) regulation -Government controlled;  
   b.) deregulation -market controlled  
   c.) reregulation -mixed method controlled)

6. Do you think African airlines enjoy reciprocity among each other with regards to air transport liberalization?
   a.) YES  
   b.) NO  
   c.) MAYBE

7. Are current consultative meetings between African airlines sufficient to drive air transport sector in Africa?
   a.) YES  
   b.) NO  
   c.) MAYBE
8. Do you think African airlines pursue and enjoy co-operative arrangements among themselves?
a.) YES  
b.) NO  
c.) MAYBE

9. Do you think the market competitiveness of Africa promotes the implementation of ATL?
a.) YES  
b.) NO  
c.) MAYBE

10. Do you think there is genuine fear related to air transport liberalization by African governments?
a.) YES  
b.) NO  
c.) MAYBE
Section Two: Perceptions and Regional Integration

1. What do you think influences government propensity for air transport liberalization?
   a.) Market access development
   b.) National pride
   c.) Strategic

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..

2. Has the presence of air transport liberalization initiatives been the driving force behind the competitiveness of national carriers?
   a.) YES
   b.) NO
   c.) MAYBE

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..

3. In your opinion, is having a national carrier a priority?
   a.) YES
   b.) NO
   c.) MAYBE

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..

4. Strategic alliances among carriers seem to be successful in the West African region, can the same be replicated in other parts of Africa?
   a.) YES
   b.) NO
   c.) MAYBE

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..

5. Has air transport liberalization promoted amicable relations between African States?
   a.) YES
   b.) NO
   c.) MAYBE

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..

6. Do you think the perception of regional air transport hegemonic dominance has impacted on the implementation of the Yamoussoukro Decision?
   a.) YES
   b.) NO
   c.) MAYBE

   ……………………………………………………………………………………………………..
   ……………………………………………………………………………………………………..
7. In your opinion, is having a national carrier a necessity?
   a.) YES    b.) NO    c.) MAYBE

8. Is opening up African skies through air transport liberalization encouraging dominance?
   a. YES    b.) NO    c.) MAYBE

9. Why do you think there is competition to revive former loss making national carriers in Africa?
   a.) National Pride    b.) Strategic tool for development    c.) Promote connectivity

10. Do you think Africa will enjoy an Open Aviation Area (OAA) such as the one of the EU in next 20 years?
    a.) YES    b.) NO    c.) MAYBE

Thank you
Appendix 2: Tables

a. Relationship between tariffs and ALI

Table 3(a): Descriptive Statistics

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Table 3(b): Correlations

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a. Dependent Variable: CountriesAvALI
b. All requested variables entered.

**Table 3(d): Model Summary**

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<sup>a</sup> Predictors: (Constant), CountriesAvTariffs

<sup>b</sup> Dependent Variable: CountriesAvALI

**Table 3(e): ANOVA**

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<sup>a</sup> Dependent Variable: CountriesAvALI

<sup>b</sup> Predictors: (Constant), CountriesAvTariffs

**Table 3(f): Coefficients**

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4.5 Tariffs and Market competitiveness
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b. All requested variables entered.
Table 5(d): Correlations

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<td>Pearson Correlation</td>
<td>1.000</td>
<td>.019</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CountriesAvProfitMargin</td>
<td>.019</td>
<td>1.000</td>
</tr>
<tr>
<td>CountriesAvTariffs</td>
<td>.480</td>
<td>.480</td>
</tr>
<tr>
<td>N</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 5(e): Variables Entered/Removed

<table>
<thead>
<tr>
<th>Mode</th>
<th>Variables Entered</th>
<th>Variables Removed</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CountriesAvTariffs</td>
<td>.</td>
<td>Enter</td>
</tr>
</tbody>
</table>

a. Dependent Variable: CountriesAvProfitMargin
b. All requested variables entered.

Table 5(f): Model Summary

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.019a</td>
<td>.000</td>
<td>-.125</td>
<td>3.54373</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CountriesAvTariffs
b. Dependent Variable: CountriesAvProfitMargin

Table 5(g): ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.035</td>
<td>1</td>
<td>.035</td>
<td>.003</td>
<td>.959b</td>
</tr>
<tr>
<td>Residual</td>
<td>100.464</td>
<td>8</td>
<td>12.558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.499</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
a. Dependent Variable: CountriesAvProfitMargin

b. Predictors: (Constant), CountriesAvTariffs

Table 5(h): Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.932</td>
<td>3.252</td>
<td>.019</td>
<td>.000</td>
</tr>
<tr>
<td>CountriesAvTariffs</td>
<td>-.011</td>
<td>.213</td>
<td>.053</td>
<td>.959</td>
</tr>
</tbody>
</table>

5(i): Residuals Statistics

<table>
<thead>
<tr>
<th>metric</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Value</td>
<td>3.9548</td>
<td>4.1513</td>
<td>4.0930</td>
<td>.06215</td>
<td>10</td>
</tr>
<tr>
<td>Residual</td>
<td>-6.86493</td>
<td>5.04456</td>
<td>.00000</td>
<td>3.34107</td>
<td>10</td>
</tr>
<tr>
<td>Std. Predicted Value</td>
<td>-2.224</td>
<td>.937</td>
<td>.000</td>
<td>1.000</td>
<td>10</td>
</tr>
<tr>
<td>Std. Residual</td>
<td>-1.937</td>
<td>1.424</td>
<td>.000</td>
<td>.943</td>
<td>10</td>
</tr>
</tbody>
</table>

4.6 Tariff, Market Competitiveness, and Air Transport Liberalization

Table 6(a): Descriptive Statistics

<table>
<thead>
<tr>
<th>metric</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>CountriesAvALI</td>
<td>3.72</td>
<td>.42862</td>
<td>10</td>
</tr>
<tr>
<td>CountriesAvTariffs</td>
<td>14.3</td>
<td>5.53623</td>
<td>10</td>
</tr>
<tr>
<td>CountriesAvProfitMargin</td>
<td>4.09</td>
<td>3.34164</td>
<td>10</td>
</tr>
</tbody>
</table>
### Table 5(b): Correlations

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>CountriesAvALI</th>
<th>CountriesAvTariffs</th>
<th>CountriesAvProfitMargin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

| CountriesAvALI | .1000 | -.152 | .236 |
| CountriesAvTariffs | .-152 | 1.000 | .019 |
| CountriesAvProfitMargin | .236 | .019 | 1.000 |

### Table 6(c): Variables Entered/Removed

<table>
<thead>
<tr>
<th>Mode</th>
<th>Variables Entered</th>
<th>Variables Removed</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CountriesAvProfitMargin, CountriesAvTariffs</td>
<td></td>
<td>Enter</td>
</tr>
</tbody>
</table>

a. Dependent Variable: CountriesAvALI
b. All requested variables entered.

### Table 6(d): Model Summary

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.283a</td>
<td>.080</td>
<td>-.183</td>
<td>.46619</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CountriesAvProfitMargin, CountriesAvTariffs
b. Dependent Variable: CountriesAvALI

### Table 6(e): ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
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<td>2</td>
<td>.066</td>
<td>.304</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>1.521</td>
<td>7</td>
<td>.217</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Total</td>
<td>1.653</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: CountriesAvALI
b. Predictors: (Constant), CountriesAvProfitMargin, CountriesAvTariffs
### Table 6(f): Coefficients\(^a\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.773</td>
<td>.465</td>
<td>8.108</td>
</tr>
<tr>
<td></td>
<td>CountriesAvTariffs</td>
<td>-.012</td>
<td>.028</td>
<td>-.430</td>
</tr>
<tr>
<td></td>
<td>CountriesAvProfitMargin</td>
<td>.031</td>
<td>.047</td>
<td>.239</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: CountriesAvALI

### Table 6(g): Residuals Statistics\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Value</td>
<td>3.5338</td>
<td>3.9706</td>
<td>3.7250</td>
<td>.12116</td>
<td>10</td>
</tr>
<tr>
<td>Residual</td>
<td>-.55770</td>
<td>.71667</td>
<td>.00000</td>
<td>.41114</td>
<td>10</td>
</tr>
<tr>
<td>Std. Predicted</td>
<td>-1.578</td>
<td>2.027</td>
<td>.000</td>
<td>1.000</td>
<td>10</td>
</tr>
<tr>
<td>Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Residual</td>
<td>-1.196</td>
<td>1.537</td>
<td>.000</td>
<td>.882</td>
<td>10</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: CountriesAvALI
Appendix 3: NACOSTI Research Permit

THIS IS TO CERTIFY THAT:

Ms. Sabina Night Bwire

of United States International University, 1464-200 Nairobi, has been permitted to conduct research in Nairobi County

on the topic: Assessing the Yamoussoukro Decision: Impact of Political Economy on Liberalization of Air Transport: Case Study of East Africa

for the period ending: 19th June, 2019

Permit No.: NACOSTI/P/18/62096/23210
Date of Issue: 21st June, 2018
Fee Received: Ksh 1000

Applicant’s Signature

Director General
National Commission for Science, Technology & Innovation