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The Importance of Transportation in Economy

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Abstract: Transport is essential to the efficient working of the economy, bringing together the inputs used in the production of goods and services and getting outputs from the production process to customers.

Keywords: Tourism, economy, decision, decree, development, infrastructure

Introduction. The potential economic impacts of transport improvements are not only likely to be significant and wide-ranging, they are also likely to be context specific. For example, some industry sectors benefit from being part of a cluster of similar or related businesses with access to wide and deep pools of specialist skills, other sectors rely more heavily on connectivity to international gateways for access to overseas markets, whilst other sectors function perfectly well wherever they are located.

Developing an understanding of the transport and transport-related challenges and opportunities facing alternative industry sectors is an important first step in the development of an investment programme to improve productivity and competitiveness.

Investment in transport networks can influence the functioning of labour markets, business productivity and competitiveness. These impacts interact over time and can lead to improvements in economic output and the geographical distribution of economic activity. They can also impact on the environment, quality of life and the overall attractiveness of towns and cities.

Improvements in transport connectivity driven by increased network capacity, reduced travel times and costs together with improved network reliability generate improvements in productivity through what are sometimes referred to as 'agglomeration economies'.

Reduced transport costs mean that businesses can:

- Connect with potential suppliers, enabling them to access higher-quality and/or lower-cost inputs.
- Connect with potential customers, enabling them to supply markets further afield.
- Connect with a wider pool of talent in the labour market, allowing skills to be better matched to employment opportunities.

Reduced transport costs mean that individuals can:

- Participate in the labour market.
- Access a wider range of jobs, increasing the chances that they can find a position that provides a better match for their skills.
- Connect with leisure and retail opportunities, allowing them to access a wider range of products or reach similar products at cheaper prices and helping to increase the competitiveness of local businesses.
- Through these mechanisms, improvements in connectivity can drive increases in productivity and employment, resulting in increased economic output.

Where transport investments are 'transformational', they can also influence the location of economic activity, for instance allowing businesses to relocate to more productive locations with better access to skills, other resources and customers. Investing in transport connectivity can not only influence the amount of economic activity in a region, it can also influence where it is located.

The mechanisms for delivering economic impacts include:

- **Benefits to transport users**. Time savings from reduced journey times and improved frequency quality and reliability of transport networks and services. Transport-user benefits can also include amenity benefits from improvements to public realm and/or the attractiveness of the route.
- **Benefits to non-users**. In the case of public transport investments, these include reduced negative externalities from car travel (i.e. reduced congestion and CO2 emissions) and option values (i.e. the value that is placed on maintaining a public asset or service even if there is little or no likelihood of the individual actually ever using it).
- **Productivity effects.** Productivity impacts generated through efficiencies resulting from improved connectivity, which effectively brings businesses, suppliers and workers closer together. These benefits are additional to user and non-user benefits at the national level.
- **Induced investment impacts**. Changes in the level or location of private sector investment as a result of a transport investment. These benefits are context specific and may be partially displaced from other areas.
- **Employment impacts**. Labour market impacts resulting from connectivity improvements, which may allow people to move to more productive jobs or enter the labour market as a result of reduced and cheaper commuting journeys.

Regeneration impacts. Local economic impacts resulting from improved local image and attraction of land use development. In some cases, transport can act as a catalyst of local economic growth. These benefits may not be completely additional at a national level and may arise as a result of displacement of economic activity from elsewhere.

The development of transportation systems takes place in a socioeconomic context. While development policies and strategies focus on physical capital, recent years have seen a better balance by including human capital issues. Irrespective of the relative importance of physical versus human capital, development cannot occur without their respective interactions, as infrastructures cannot remain effective without proper management, operations, and maintenance. At the same time, economic activities cannot take place without an infrastructure base. The highly transactional and service-oriented functions of many transport activities underline the complex relationship between its physical and human capital needs. For instance, effective logistics rely on infrastructures and managerial expertise.

Because of its intensive use of infrastructures, the transport sector is an important component of the economy and a common tool used for development. This is even more so in a global economy where economic opportunities have been increasingly related to the mobility of people and freight, including information and communication technologies. A relation between the quantity and quality of transport infrastructure and the level of economic development is apparent. High-density transport infrastructure and highly connected networks are commonly associated with high levels of development. When transport systems are efficient, they provide economic and social opportunities and benefits that result in positive multiplier effects, such as better accessibility to markets, employment, and additional investments. When transport systems are deficient in terms of capacity or reliability, they can have an economic cost, such as reduced or missed opportunities and lower quality of life.

At the aggregate level, efficient transportation reduces costs in many economic sectors, while inefficient transportation increases these costs. Besides, the impacts of transportation are not always

intended and can have unforeseen or unintended consequences. For instance, congestion is often an unintended consequence of providing users with free or low-cost transport infrastructure. However, congestion also indicates a growing economy where capacity and infrastructure have difficulties keeping up with the rising mobility demands. Transport carries an important social and environmental load, which cannot be neglected.

The economic importance of the transportation industry can thus be assessed from a macroeconomic and microeconomic perspective:

- ✓ At the macroeconomic level (the importance of transportation for a whole economy), transportation and related mobility are linked to a level of output, employment, and income within a national economy. In many developed economies, transportation accounts for between 6% and 12% of the GDP. Further, logistics costs can account for between 6% and 25% of the GDP. The value of all transportation assets, including infrastructures and vehicles, can easily account for half the GDP of an advanced economy.
- ✓ At the microeconomic level (the importance of transportation for specific parts of the economy), transportation is linked to producer, consumer, and distribution costs. The importance of specific transport activities and infrastructure can thus be assessed for each sector of the economy. Usually, higher income levels are associated with a greater share of transportation in consumption expenses. Transportation accounts for between 10% and 15% of household expenditures. In comparison, it accounts for around 4% of the costs of each unit of output in manufacturing, but this figure varies greatly according to sub-sectors.

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