

Individual vs. integrated privatization of complementary airports under air-rail competition*

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Abstract

This study investigates strategic effects of airport privatization arising from competition with high-speed rail. It also compares the outcomes of individual privatization of two complementary airports with those of their integrated privatization. We develop a model with two airports located in distant regions, which are connected by two transport modes: air and high-speed rail. Three scenarios are analyzed: full nationalization, individual privatization, and integrated privatization. We find that when the degree of substitution between the two modes is moderate, airport privatization can enhance social welfare through strategic effects stemming from competition with the railway, even without improvements in cost efficiency. Furthermore, we show that integrated privatization can enhance social welfare even when the degree of substitution is so low that individual privatization would reduce it.

JEL: L13, L22, L33, L38, L92, L93, R48.

Keywords: Airport, Degree of substitution, High-speed rail, Individual privatization, Integrated privatization.

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