

## Aviation in China

**Dog fight**

Sep 27th 2007 | HONG KONG  
From The Economist print edition

**A fight in Shanghai between two airlines ends Chinese-style: mysteriously**[Get article background](#)

CONTROL of the world's aviation hubs is so thoroughly locked up that the possibility one of them might be up for grabs is almost inconceivable. Hence the excitement when a fight broke out over access to Shanghai, before coming abruptly to a halt on September 24th.

It is hard to overstate Shanghai's attractiveness to airlines. The number of passengers handled by the city's two airports, Pudong and Hongqiao, has increased by more than 20% a year for five years, compared with single-digit growth at most of the world's big airports. Companies' operations in China require personal attention, so as business expands westward from the coastal cities, demand for easy access by air will only increase.

The dominant airline in Shanghai, with a market share of 37%, is China Eastern Airlines. Barely profitable, poorly managed and in need of investment, it has been in talks for more than a year with Singapore Airlines, one of the world's best airlines. China Eastern's share price began to move up sharply in May and nearly tripled during September on the announcement that Singapore Airlines would take a 15.7% share in the company and that Temasek, the Singaporean state-owned investment company, would purchase 8.3%. The deal, which would provide almost \$1 billion for new investment, was approved by Chinese officials at cabinet level.

The prospect of a better managed, well-capitalised competitor sent a shudder through Air China, another government-controlled airline, which has a 20% market share in Shanghai. It also alarmed Air China's partner, Hong Kong's Cathay Pacific, which dominates the lucrative Hong Kong route through a subsidiary, Dragonair. Rumours abounded that Cathay was preparing to announce a rival bid for China Eastern. Both airlines' share prices shot up. On September 21st Cathay's shares were suspended pending an announcement about "a proposed transaction". But instead Cathay Pacific said on September 24th that it had no plans to bid for China Eastern. It gave no reason, but political pressure from the Chinese government is believed to have scuppered its plans.

Passengers probably do not mind whether it is Singapore or Cathay that takes a stake in China Eastern—service is bound to improve either way. There is talk of some sort of a tie-up between China Southern, the third of China's big airlines, and Air France-KLM, which would also lead to improvements. But evidently the government's enthusiasm for genuine competition goes only so far. This week's pre-emption of a bidding war left no doubt about who in China controls not just the ground, but the skies too.