The Handover of 1997 and Its Effects on the Hong Kong Aviation Industry

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ABSTRACT

This paper explains the logistics behind the Handover Hong Kong on July 1st, 1997— an event transition Hong Kong from a sovereign British state to the special administrative region status of the People’s Republic of China. More importantly, it propounds that the Handover of Hong Kong had an indirect but nevertheless negative effect on Hong Kong’s Aviation Industry— most notably affecting the leading Hong Kong airline and air transport company Cathay Pacific. It explores this idea through a critical secondary literature review— intended to analyse the events occurring in Hong Kong prior and during the year 1997 alongside its effects on the industry. Furthermore, employing a case study design on Cathay Pacific enables the research paper to carry out a more structural analysis of the company’s performances in the late 20th century. It takes a macro-to-micro approach for its structure; first explaining the general trends and resilience of the global aviation sector, through developing an analytical lens. Then it uses Cathay Pacific’s performance to evidence the generalised theories. Overall, Hong Kong’s aviation industry saw only slightly deviated results to both empirical and theoretical behaviours of global aviation and air transport airlines following events often causing what is known as a career shock: a disruptive and extraordinary event caused by factors outside an individual’s control.

Introduction

An event concluding 156 years of British colonial administration. The Handover of July 1st, 1997 marked Hong Kong’s transition from a sovereign British state to the special administrative region status of the People’s Republic of China (Press, 2022). Hong Kong was no longer a British colony and would return to China, leading to a shift in political, social and economic conditions and normalities. Within that year, major structural changes took place in the Hong Kong economy, with the aviation industry drastically affected. Whether the consequences of 1997 and the Handover, alongside its main quasi-monopolistic firm Cathay Pacific, benefited or harmed the sector, remains a debate. Post-Handover statistics of Cathay Pacific’s annual reports range from a net profit loss worth billions of Hong Kong Dollars to never achieved rates of growth— all in a matter of less than 10 years following the year 1997.

Prior to 1997, Hong Kong’s economic policymaking provided an environment which maintained business confidence and encouraged market forces (Hussain, 1997). However, 1997 not only marked the permanent change in Hong Kong’s economic structure, but also the building of the new Chek Lap Kok Airport, the 1997 Asian Financial Crisis, all which pronounced that year as different to the rest. The chapters below intend to achieve the assessment of the growth and setbacks of the Aviation Industry in Hong Kong, especially targeting the 1990s and early 2000s, a period of both optimism and uncertainty.

Specifically, Hong Kong’s main carrier, Cathay Pacific would follow an era of constantly changing behavioural gains and losses. The outcome of the company’s ownership structure would also transition from the hands of more Laissez-Faire British shareholders to mainland Chinese corporations who held rigorous regulations to the Hong Kong airline. For this specific topic, the following paper also attempts to unscramble the complexities of internal affairs within Cathay Pacific— arising due to the Handover and the British-Sino Joint of 1984 (Dunn, 1985), and whether this played a specific role in Cathay Pacific and Hong Kong’s subsequent performances following the Handover.
Thus, this paper will first foreground the typical dynamics of the Hong Kong aviation industry, then, using a structural analysis on the industry’s resilience on a global scale, analyse how much of an impact the Handover had on Cathay Pacific and Hong Kong’s aviation.

**Methodology**

This research paper will follow a three-part structure: a basic case study entailing the detailed and intensive analysis of Cathay Pacific and their change in structure, presenting literature on qualitative research of Hong Kong’s aviation industry under the Golden-Biddle and Locke structure, and secondary analysis of both quantitative and qualitative data comparing statistics before and after the event. *(Dale, Corti et al, 1995)*

This paper will follow in this chronological order:

1. Change in dynamics of the Hong Kong aviation industry prior to the Handover
2. Features and typical dynamics of the global aviation sector
3. The occurrence of the Handover and its measurable effects to Hong Kong

To truly weigh the effects of the Handover of 1997 on Hong Kong’s airline sector, this paper attempts to integrate drastically different literatures to come to a non-bias evaluation of the effects of the Handover. Furthermore, this research paper analyses statistical and numerical data to compare this case study with foregrounded hypotheses and cycles on typical global behaviour of the airline industry presented in certain literatures analysed. Ultimately, this paper aims to collate politically opposing literatures to structure an unbiased and politically neutral conclusion on the Handover’s financial and social effects to the aviation sector, with its monopoly Cathay Pacific.

Several advantages do arise using these specific methods, for example, the high-quality secondary data employed—due the rigorous sampling procedures and developed structures of controlled procedures to quality check emerging data *(Bryman, 2008)*. In addition, the utilisation of a variety of research papers and their political standpoints allows for a more externally valid and reliable piece of qualitative research, whilst simultaneously reducing the impact of subjectiveness of this paper and its findings. Finally, the intensive analysis of Cathay Pacific whilst engaging in a theoretical analysis enables the paper to specific answer this research topic questions with concision, alongside the information retrieved not needing to be generalized for the global sector.

On the other hand, it is an honest practice to understand the disadvantages that can arise from Secondary Research. This includes the lack of familiarity with the data obtained and he absence of several key variables that cannot be brought into this study *(Bryman, 2008)*. Therefore, this paper tries to use a similar approach to a multivariate analysis to prevent any major gaps appearing within the research paper and its case study analysis. Yet overall, given the diversity of data this paper has engaged in, from specific annual results of Cathay Pacific to the usage of more left-field literatures, it qualifies the paper to be organised in a macro-microstructure, going from the typical global behaviours of the aviation sector to the deviations of Cathay Pacific’s specific resilience.

**Structure of the Hong Kong Aviation Sector 1980s**

The aviation sector in Hong Kong traces back to 1911, however, major breakthroughs began in 1946 when Cathay Pacific, Hong Kong’s main flag carrier, was established. Following the years of World War II, Hong Kong then experienced a rapid succession of political regimes in a few short decades *(Wong, 2020)*. For the first 30 years, Cathay Pacific represented itself as a British airline, with Hong Kong under United Kingdom’s sovereignty and the main stakes of the private company in British hands. Yet with the Handover of 1997 edging closer, the structure of Cathay Pacific became drastically modified, leading to momentous changes in the aviation industry.
During 1980, conflict of representation of Cathay Pacific— the main flag carrier of the Hong Kong aviation industry, occurred as questions arose whether Cathay would act as Hong Kong or British Airways in a Hong Kong to London flight route (Wong, 2020). The carrier claimed it was working under Hong Kong’s representation, and as a result, British Airways sold 15% of its stake in the leading Hong Kong airline. This dispute would be further enhanced as it was in the years before the making of the Sino-British Joint Declaration between China and the United Kingdom in 1984— a treaty aimed to set the conditions for the governance of the territory following the return of Hong Kong to Chinese authoritarian control scheduled on 1 July 1997. The terms within the declaration stated Hong Kong’s economic and social policies would enjoy a ‘high degree of autonomy’, and implicitly implied a ‘One country, Two systems’ policy (House of commons library, 2023). Yet despite this relative freedom Hong Kong were reassured to experience in comparison to mainland Chinese sectors, much of the arrangement of industries was to face a battle, with the airline and transport industry being a crucial sector facing change.

**Shifting Ownership Structure and the Preparation of the Handover 1997**

Following the act of British Airways selling 15% of Cathay Pacific’s stake in 1980, and the explicit terms of the Sino-British in 1984—a treaty settled between Britain and China on the future of Hong Kong (Basic Law Hong Kong)— up to 25% of the airline’s share would now be listed to public, which came into act in 1986 on the Main Board of the Stock Exchange of Hong Kong. It was deemed a ‘resounding success’ (South China Morning Post), allowing consumers in the market to invest in the airline for the first time. Yet, the following year, anticipating a new government in Hong Kong, Swire Group announced it would reduce its shares of the airline, whilst China would invest in the company through the China International Trust Investment Corporation (CITIC). The share of ownership was drastically reduced from Swire and HSBC owning 70% and 30% respectively in 1983. In 1992, HSBC holdings officially pulled out from shareholding of Cathay Pacific, subsequently increasing Chinese ownership of the airline in CITIC and CNAC (China National Aviation Corporation), removing the monopolistic power of British shareholding in the company, which had lasted over 40 years. Furthermore, by 1996, Swire further reduced its holdings to 43.9%, leading to the new shareholding structure of Cathay Pacific. Swire: 43.9%, CITIC: 25.0%, and other shareholders with 31.1%, including CNAC with 4.2%.

Despite China’s plea to not fully interfere with the monopolistic power in the Hong Kong aviation market, aviation consultant Steve Miller claimed that it was ‘unlikely that the British majority-controlled airline would be allowed to retain its dominant position in Hong Kong after 1997’. An important challenge that arose was the proposition of CNAC for an air operator’s certificate (AOC) in March 1995 (Flight International, 1995), which threatened to undermine the airline's virtual monopoly and ‘one airline one route’ policy. The airline strongly objected to this measure during the eight months in which it was required for the application to be processed. Within a day of the proposition, Cathay’s share price fell by 6%. The airline claimed that the granting of operating rights for CNAC would break the treaties declared in the Sino-British Joint, requiring a designated carrier to be incorporated and have its main business operating in Hong Kong (Lydia Dunn, 1985), which the CNAC did not satisfy. Nevertheless, reactions and predictions to the upcoming Handover were often economically exaggerated as the cross ownership of CITIC and Swire was intended to minimise unnecessary competition (Wong, 2020), though not avoiding the addition of competing companies, between Cathay and other airlines.

**Theoretical Framework of the Aviation & Air Transport Industry**

From the beginning, the aviation and air transport industry has been characterised as a volatile environment, with airlines operating in a cyclical pattern of ups and downs (Rosini & Roble, 2021). The sector, often influenced by national and international circumstances, has had periods of huge profitability and growth, but also times of structural and cyclical unemployment, as a cause of recessionary reasons, with cyclical hits in the sector being endogenous.
Like other industries in the economy, airlines and their financial indicators largely deviate following events— depending on the scale of the issue. As seen in Figure 1, net income profit of global airlines fell from +14.7 billion U.S. dollars in 2007, to -26.1 billion U.S. dollars in 2008, following the Great Recession occurring from late 2007 to June 2009.

Further empirical analysis using aggregated data has shown that important events—such as the September 9/11 attacks in 2001—harming the air transport industry have taken 18 months at minimum to readjust and go from an annual income deficit to surplus. Many researchers have even concluded that these ‘profitability cycles’—a measure of a key variable influenced by many exogenous and endogenous factors—that have arisen last around 10.5 years, which consists of the peak, recession, valley and recovery phase (Sussman & Bozdogan, 2003). Where it was estimated that at least one external impediment would cause a recessionary phase in world airlines every decade. In addition, it was also claimed that the events, though contributing to the amplitude of the change in financial income, did not change the length of the cycle. Therefore, this emphasises the resilience of the industry, where with many disruptions to the growth of the sector with unforeseeable events, disaster recovery remains slow globally (McKinsey, 2023). Most notably, the recent global pandemic—Covid-19, gaining prominence in the start of 2020—led to a 137.7 billion U.S. dollar deficit in 2020, which remained in a deficit till the end of 2022. Only till late-2023, it is predicted that airlines will post a small net profit of 4.7 billion U.S. dollars (IATA, 2023). Understanding the resilience of a global aviation industry and its typical dynamics will be vital in determining the magnitude of 1997 and its effects on Hong Kong’s aviation industry. Furthermore, a comparison between the Handover that year and other events like the Asian financial crash can be explored through utilising the ‘profitability cycle’ framework.

![Figure 1: Net Profit and Loss of Airlines Worldwide From 2004 to 2022 (In Billions USD). Source: (Statista, 2022)](image)

**Features of Hong Kong’s Aviation & Air Transport Industry following a ‘Career Shock’**

The features of Hong Kong’s aviation industry, though with slight deviations from the aggregated global statistics, remain relatively true to the ideology of volatility. Following the Covid-19 pandemic, a study in 2021 concluded that within the hospitality sector, job insecurities arise from potential layoff plans and likely causes higher turnover intent (Jung et al. 2021)—a measure of an employee’s willingness to leave their current occupation at some point of the near
future due to several factors. Subsequently, leading to a more unstable workforce post pandemic. An online questionnaire—conducted by Cho Yin Yiu on undergraduate and postgraduate Hong Kong students studying aviation-related education—evidenced that many experienced internal impediments following the pandemic, including the inability to work in the new online environment. In addition, some trends of external impediments were shown including the lack of ability and flexibility of the respondents due to government restrictions following the Covid-19 recession. Therefore, the nature of the resilience within the Hong Kong aviation industry in relation to this specific event characterises the industry’s typical response following what is deemed a ‘career shock’: a career shock is defined as ‘a disruptive and extraordinary event that is, at least to some degree, caused by factors outside the focal individual’s control’ (Akkermans et al., 2020). Like the Covid-19 pandemic, the Handover of 1997 was out of the Hong Kong population’s control. Therefore, recognising career shocks and its impacts on individuals can determine the disadvantages and advantages that the Handover brought to the workforce. It is important to note that the respondents are only representative of young apprentices in the aviation industry, which can neglect the typical reactions of more experienced workers. Furthermore, whether the Handover of 1997 can be deemed as a ‘vocal shock’ for workers and citizens, is also a debatable topic.

Nevertheless, the slow recovery from vocal shocks in the aviation sector within Hong Kong can also be seen through Cathay Pacific’s loss of HK$6.5 billion in 2022 and HK$5.5 billion in 2021 in revenue, in comparison to the pre-pandemic year of 2019, where a profit of HK$1.7 billion was recorded within the company (Cathay Pacific, 2022). Emphasizing how the period of recession and slump tends to be longer lasting than other industries.

However, apart from the incidence of one or several ‘vocal shocks’ in the 1990s, deregulation in the Chinese airline market with subsequent mergers occurring will also prove to be a challenge that Cathay Pacific will have to navigate through.

The 1990s and Increasing Competition

Traditionally a semi-military organisation, the Chinese airline industry remained in an environment politically and economically isolated from the outside world (Zhang & Round, 2008). Only by 1980, China had decided to move away from a centrally planned system, subsequently changing the market structure of the aviation industry. Subsequently, six regional aviation bureaus were set up under the CAAC. These business departments were to now be ‘half-corporatised’, transitioning from a government organisation to a proprietorship structure with a 50-50 split between public and private ownership. In 1994, another step away from centralization occurred when foreign investment was allowed in the airline industry, allowing foreign firms to invest in the existing airlines and to construct airports. Total revenue rose over 100 billion Yuan from 1993 to 1994 as a result of foreign investment (Civil Aviation Administration of China, 2003), and expansion of airlines quickly occurred. However, it was in 1996 when competition between regional airlines started to be because of price competitiveness and stronger deregulation.

The years 1996-97 were filled with increased customer and airline demands for deregulation, due to inconsistent and controversial government intervention in that era. Pricing of lower airfares and mergers were then granted in 1997, which now threatened to hurt Cathay Pacific’s dominant position not only in Hong Kong but East Asia that they held in the early 1990s due to lack of national competition. Airlines like China Eastern Airlines Co. Ltd were listed in New York, Shanghai and even Hong Kong’s stock exchanges, arguably marking the start of a new stage, and another complication for the Cathay Pacific and the Hong Kong Aviation Sector. Prior to this, Cathay Pacific existed as the only airline listed in the public market following the inauguration in 1986. Yet it can also be argued that the deregulation of Chinese airlines could make Hong Kong the gateway for connection between local Chinese cities and international airlines. Like the deregulation, many of the upcoming events evolving around the year 1997 would cause a whirlwind of uncertainties.
1997 and Its Eventful Nature

Aside from the buildup of the Handover of Hong Kong in 1997, several major events were to occur which would deviate the industry from its regular cycle.

The construction of the Chek Lap Kok Airport commenced in 1992, in which the core program would cost more than $20 Billion US Dollars (Airport Technology, 2002). Though the estimated cost of investment was arguably over costly, the replacement of the old Kai Tak airport—which was designed to only be able to handle 24 million passengers a year—would predictably remove the old capacity limitations which often had a knock-on effect on the rest of the tourism industry in the territory (Hobson, 1995). By 1997, the previous airport had projected losses of around 12 million passengers and 59,000 flights per year due to capacity issues.

Having its first successful landing on 20th February 1997, the airport subsequently bolstered the connectivity and efficiency of the aviation services in Hong Kong. In addition, the now-called Hong Kong International Airport, would annually hold 71 million passengers a year, and its newly constructed cargo airport with state-of-the-art facilities would make it the busiest cargo traffic in the world (ICE, 2023). Furthermore, the wide range of facilities that had opened up within the airport earned Hong Kong the title of being recognised as having one of the best airports in the world.

However, many of the anticipated immediate advantages of the newly constructed airport, which would act as an international hub, was arguably offset by the 1997 Asian financial crisis, which broke out on 2nd July 1997, a day after the official Handover date. The financial crisis, which had severe macroeconomic-level effects, caused sharp reductions in values of currencies and stock markets in predominantly the South-East Asian region (Carson, Clark, 2023). Hong Kong’s currency, which has been pegged to the U.S Dollar since 1983 at a rate of HK$7.8 to US$1 (Chan, 2013), came under several speculative attacks on the currency in August and October 1997 (Chan, 2019). Luckily, Hong Kong—starting in a stronger position relative to other Asian nations prior to the crisis, fended off the attacks relatively well, and only suffered short periods of high deflation.

With many drastic changes to the structure of the Hong Kong market, the Handover of 1997 would most likely only enlarge changes to the structure.

1997 and the Build Up to the July 1st Handover

In fear of the Handover of Hong Kong from British sovereignty to a SAR status of Republic of China, many citizens and Hong Kong residents emigrated from the region to countries such as Canada, Australia, and New Zealand (Hobson, 2023). Furthermore, a spike of acquisition of a foreign passport or dual citizenship occurred to prepare in the event that the situation in Hong Kong was to become ‘intolerable’. Secretary of Labour and Welfare Matthew Cheung claimed that in 1997, approximately 600,000 citizens emigrated (Skelton, 1999). Arguably, this decreased the domestic demand and limited the temporary supply of skilled youthful labour. However, an important note is that the growth rate of Hong Kong’s population was still rising at a rate of 1.7% (Macro Trends, 2023), deeming how this event did not cause a net emigration in the region. As though many seek to emigrate to nations where they believed permanent residence was more secure, accelerating immigration into the city also occurred from mainland China and other Asian nations—reflecting skilled foreign personnel looking for a high-salary and low-tax environment (Shu, 2023).

Whilst considering the external factors of the economy that can be seen as affecting the aviation industry, internal affairs would soon develop because of the Handover and its new requirements. After 1997, all air traffic rights had to be agreed by China—to ensure international flights were operational—which led to fear and expectations of increased inefficiency (Hobson, 2023). In addition, a shift in political dynamics led to uncertainties of a new ‘ownership structure’ and that the business environment of Cathay Pacific would now be affected. Cathay Pacific was to be seen to serve Taiwan whilst their ex-rivals—prior to being purchased as a subsidiary- DragonAir, would be seen as
the mainland China carrier. Due to political conflicts within China and Taiwan, the Handover of Hong Kong reinstated that ‘mainland carriers’ could not also serve Taiwan. Therefore, it was crucial for Cathay Pacific to perform geopolitical jockeying—by positioning themselves as complementary to the economic and political goals of the host nation (Lubinski & Wadhwani, 2019)—to keep their reputation as both an international and regional hub since it was no longer a ‘foreign carrier’ post-Handover. This manoeuvre would ensure the airline’s capability—subsequently the main part of Hong Kong’s aviation industry—would be positively affected by the opening of new mainland Chinese markets following the handover, rather than losing its image both as a reputable ‘foreign’ and ‘national’ carrier.

Market performance following the Handover: A Maelstrom of Disasters or Harmonious Growth?

At the start of 1997, Cathay Pacific’s stock-market capitalization was around $5.5 billion USD. However, by August 1998, the value had more than halved to $2.6 billion USD. Evidentially, the airline and industry had suffered throughout the year of 1997. To this day, economists and researchers are unsure which event within the year had the largest contribution to this regressive period of growth.

A cause that arguably increased the severity of the change in stock-market capitalization would be the sufferings of many partnering economies of the Hong Kong aviation industry. Despite Hong Kong’s currency not devaluing drastically, due to the pegging with the U.S Dollar, alongside spending around $456 million Hong Kong Dollars on buying and selling blue chip shares, Japan and Taiwan both lurched into a recession, leading to the effects of devaluation in a period of uncertainty, and subsequently less demand for the local currency. The Japanese Yen devalued by over 20% against the Hong Kong dollar, whilst the NT$, the Taiwanese currency, also fell in relative value. In addition, more direct effects to the Hong Kong aviation performance would be the 60% decrease in Japanese tourists to Hong Kong in the first quarter of 1998. This was a significant contributor to the subsequent 10% fall in tourist arrivals for Cathay Pacific from 1997 to 1998, continuing a downward trend in tourism following a 17% fall the previous year. (Aviation strategy, 1998)

Furthermore, passenger yield within Cathay Pacific continuously fell from 1996 to 1998, falling from around 57% to 31% within two years. In addition, the group’s attributable loss was $542 million HKD by the end of 1998, compared to a profit of nearly $1.7 billion HKD at the start of 1997. Subsidiaries within the company also suffered similar to the passenger airline, including the Hong Kong Aircraft Engineering Company Limited (HAECO), which had a profit post-tax of $146 million HKD, lower than that of the previous year.

Many competing airlines in nations operating with other currencies have seen their yield rise due to the devaluing of the currency, despite their traffic slump (Aviation Strategy, 1998). Yet Cathay Pacific suffered from both a fall in traffic and severe yield erosion, leading to a 22% decline in passenger unit revenues.

The recessionary cycle seemed to fit the general ideology of the ‘profitability cycle’, with recessions lasting around 2 years—similar to the performance of the airline post pandemic— evidenced by Cathay Pacific’s annual report in December 1998, claiming that 1998 ‘was a difficult year’, but that ‘management remains optimistic about the future’.

Cathay Pacific’s chairman at that time Peter Sutch claimed that Cathay Pacific, alongside the industry as a whole, had the strategy of ‘benefitting from the next market upswing’, utilising benefits from the Handover—like the opening of mainland Chinese markets—and the launch of the Chek Lap Kok airport, to once again strive as an economically booming airline.

By 1999, the Cathay Pacific group made an attributable profit of $2.19 billion Hong Kong Dollars, in comparison to the annual loss of $542 million in 1998. Whether the Handover was responsible for the airlines 18-month recession remains a debate.
Relationship between Structural Change of the Industry and the Handover

Building up to the Handover, due to the fears of the complications following the event, many Hong Kong citizens emigrated because of uncertainty. It can then be seen that Cathay Pacific and Hong Kong’s aviation industry suffered from a fall in both passenger traffic and yield erosion from 1997 to 1998 (Cathay Pacific Airways Limited, 1999). On surface level, the Handover of 1997 seemed to be the causality to this decline in performance, however, several external factors mentioned above blurs the clarity on what truly caused the downturn of the sector within mid-1997 to the end of 1998.

The Asian Financial Crisis of 1997 which occurred the day following the Handover—on July 2nd—is often seen as the leading fountainhead. Yet the positive net income seen in Figure 2 of the aggregated financial indicators of world airlines in 1997 and 1998 argue otherwise. World airlines saw a substantially positive level of net income until the year 2000 (Airlines, 2019). This can suggest that regional factors were crucial in differentiating Cathay Pacific and Hong Kong’s aviation industry’s performance from the rest of the world. The supposed immediate benefits of the Chek Lap Kok airport in 1998 seemed to be delayed whilst the loyalty programs that benefit the airline dramatically to this day—the Oneworld Alliance and the Asia Miles—were only founded in 1999.

Therefore, it is not plausible to come to a definite conclusion on whether the Handover of Hong Kong in 1997 was the core reason to the local aviation industry’s economic recession. However, through literary analysis Hong Kong suffered from almost the worst of both worlds. Their pegging to the U.S Dollar reduced yield erosion in at a period where other Asian nations saw a rise due to the devaluing of the currency. Subsequently, Hong Kong’s main airline Cathay Pacific suffered a 22% decrease in passenger unit revenues, and the company’s stock-market capitalisation halved within a year, between 1997 and 1998 (Aviation Strategy, 1998). Furthermore, with all the conspiracies that arose prior to the event on Cathay Pacific losing their monopolistic position and reputation as a world carrier, uncertainties around the new environment, that the industry had to settle into, turned from a looming event to reality.

Theoretically, the terms of the Handover still allowed Hong Kong a ‘high degree of autonomy’ and functioning in a ‘One Country, Two Systems’ principle, operating in a separate economic and political system from mainland China. However, this can be argued otherwise by many Hong Kong citizens, many of which speculated in the future of the region and how its status would change. The event remains relevant to present day, as the countdown of the end of 50 years of autonomy edges closer. By 2047, or possibly earlier, will Hong Kong return to the mainland Chinese legislative system, and if so, will the aviation industry remain independent, let alone industries of the region as a whole?

Figure 2: Evolution of World Airlines’ Aggregated Financial Indicators. Source: (ICAO, 2018)
Conclusion

The Year of 1997 evidentially negatively impacted Cathay Pacific and the Hong Kong aviation sector— with all the external and internal impediments they had to face. These included consequences arising from events alongside the Handover of 1997, like the Asian Financial Crisis of 1997 and the delaying of the supposed revolutionary Chep Lap Kok airport. The weighing of these events and their impacts cannot be systematically measured; however, what is certain is that the Handover— in the short term— was an event included in a time of more disastrous than successful performance of the airline and the industry. Following a period of success in early 1997, the combinations of many events led to 18 months of negative performance in the airline industry, as evidenced through the case study research on Cathay Pacific.

Furthermore, the theorised ‘profitability cycles’ (Sussman & Bozdogan, 2003) and ‘career shocks’ (Yiu, 2022), can be used to evidence the Handover’s lasting effects on Hong Kong’s airline sector, as the length of the recessionary cycle and the impediments placed on workers within the sector following this specific event fits into the general conceptual data. Therefore, even though the magnitude of Handover’s effects on Cathay Pacific and the industry cannot be fully calculated with justification, this paper has emphasised that correlations between the two factors exist. Finally, it has detailed the qualitative and quantitative factors affecting the industry’s performance prior to and following 1997— using analytical tools deriving from distinct theoretical perspectives.

The research paper has come with its own challenges; including the absence of several key variables— including changes in daily performance in Cathay Pacific immediately following the day of the Handover of July 1st, 1997— that cannot be utilised in this study. This has limited the argument that the Handover directly affected Cathay Pacific in quantitative terms. Whilst the direct causal evidence for this event is hard to prove, the correlation between the factors can be seen.

Therefore, to build upon this research in the future, especially as political tensions between China and the western world are arising around Hong Kong’s stance, utilisation of primary research and directly communicating with Cathay Pacific’s senior management team and employers who experienced the Handover in first-hand, will further deepen the quantitative effectiveness of this research paper and its purposes. The Handover was such a unique event in which a global city switched between drastically different political, economic and cultural environments, dramatically changing the trajectories of the region’s futures. This paper will only increase in relevance with political dramas at an all-time high. If Hong Kong returns to China in the year 2047, after the expiration of 50 years under the ‘One Country, Two Systems’ rule, the Handover of Hong Kong and the analysis of its consequences will be revisited by many— seeking for an answer on when and how Hong Kong changed— in an effort to estimate the future of Hong Kong post 2047.

Bibliography


