

Thoughts on the Real Macroeconomic Effects of Beijing 2008 Olympics on Chinese Economy

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Abstract: Although, the Olympic Flame with the closing of the Beijing 2008 Summer Olympics, extinguished, the enthusiasm of the world towards the Olympic Games keeps going. So the thoughts of the effects from Olympics onto the host country. This study, after presenting the general ideas of the Olympic economic effects that is boom to bust, briefly analyzed the macroeconomic effects of the Beijing Olympics on Chinese Economy. And based on authorized statistics and through the methods of comparison and deduction, the study concluded that those effects will keep functioning on transformation of Chinese economic growth pattern and through the sectors of transportation, banking, insurance and travel consumption in a long term.

Key words: Olympic economic effect, macroeconomic, economic growth pattern, effect essence, economic recession

INTRODUCTION

In 1984, Ubeross a wizard in the U.S business circle creatively combined the Olympic Games with commerce, thus made the Los Angeles Games the first ever money making Olympics. Since then, the concept Olympic Economy appeared. After years of academic research and exploration, there roughly come out two main globally accepted ideas.

Firstly, the host city could take advantage of the resource strengths and business opportunities generated from the Olympics to roll out series of economic activities around the Olympic year, thus lifting the local economic development and speeding the national economy (Yu and Wen-Hui, 2003). Typical cases can be seen in Germany (1972), Spain (1992), Atlanta (US, 1996), Australia (2000) etc. Secondly, due to the could-be over-investment during the pre-Olympic period, the Host city or country may suffer the so-called post-Olympic recession, while the economy slows down or even moves back which can be demonstrated in the examples of Japan (1964), Mexico (1968), South Korea (1988), Canada (1976), Los Angeles (US, 1984), Greece (2004) etc.

As the 2008 Beijing Olympics ended in a splendor of fireworks concerns over a post-Games downturn for the Chinese economy have been re-emerging. Some argued that China would follow the same path as historical

Olympic experience showed from boom to bust, while others expected China would maintain a steady growth under the support of the three major remaining-vigorous drivers investment, consumption and exports (Chen and Gao, 2008). Well in order to obtain correct conclusion or result, this study will analyze the happening process by discussing from macroeconomic viewpoint what Olympics have already brought into Chinese Economy.

Theory explanation-the channels of Olympic effects onto host country's economy: The effects of Olympic Games onto host country's economy are mainly through two channels that is from industry to industry and from region to region (Meng, 2008). Transmission between industries means the Olympics as a middle industry would induce other related industries development, while transmission between regions indicates Olympic economy could spread from the host city into other domestic regions (Yinghua, 2007).

Generally, the whole Olympic economic effects could be divided into three stages, Pre-Olympics, Olympics and Post-Olympics. Take Beijing as an example. The pre-Olympic period is between 2003-2007, the during stage is in 2008 and the Post-period is from 2009-2010. The main phenomena in each stage are shown as follows. Pre-Olympic preparation time, the Olympic effect

functions through investment, direct and indirect. Direct investment is for Olympic infrastructure constructions, including Olympic venues, athlete, reporter village and media communication facility etc. Indirect investment is not only for Olympics but because of the Olympic it needs to be brought ahead of schedule or commit more efforts, like improving road, airport, subway and other traffic projects like supply of water, power, gas and other civil projects like pollution control and environment protection, etc.

Since indirect investment is not totally for Olympic, the only more than regular part could be calculated into Olympic investment. Olympic investment will drive the development of Beijing's architecture, building material, telecommunication, environmental protection and comprehensive technical service, etc. and then through transmitting and radiating effects influence relevant up and down flow sectors and other domestic regions.

Olympic opening, the increase of effective external demand comes to take the turn of pushing economy, which focuses around transportation, mail/post, sanitation, social service, commerce, catering, education, radio and TV broadcasting, etc. To large extent, Olympic investment can be viewed as investing in advance to provide effective supply in order to meet the later-happening external demand.

Post Olympic Games, as the host city and country have upgraded its popularity under the wind of Olympics and much lifted its economic scale and basic soft and hardware facilities, its future economic interactions and travelling sustainable development would be injected fresh momentum.

MATERIALS AND METHODS

After presenting the general ideas of the Olympic economic effects and functioning channels in above, this section based on authorized statistics and through the methods of comparison and deduction will briefly analyze the macroeconomic effects of the Beijing Olympics on Chinese Economy.

The effects scale more regional than national: From historical experience, the ways that the Olympics influence the host country's economy are primarily through the relative infrastructure constructions and the travel consumptions. Any how deep this influence could be lies on the percentage of the Olympic investment in the Host country's economy as well as the economic weight of the Host city onto the host country.

Starting from 2001, total investment of Beijing Olympics reached RMB280b or USD41b doubling the original budget mostly due to inflation. This makes the

Olympics the most expensive sports event in history. However, compared with China's USD4t economy moving up and down at strong momentum, there is not much observable effects from Olympics per se. After all US\$41b in investment in 7 years is <1% of annual GDP and much lower than the relative Olympic investment in Japan, South Korea and Greece as shown in Fig. 1a. Meanwhile, Beijing accounts for <4% of overall economy, ranking the second lightest city and leaving Atlanta at the last as shown in Fig. 1b.

According to official statistics, Beijing cagr GDP is 12.06% during the 5 year period until 2000 around 2001, the cagr GDP reached 13.16% and between 2006 and 2007, the cagr GDP is up to 14.36% (Fig. 2a). It is obvious that the Olympic event does promote the high speed development of the regional economy.

Meanwhile, the Chinese economy also witnessed fast development in recent 8 years (Fig. 2b). Besides domestic consumption and exportation, investment is viewed as the No. 1 pushing force of the Chinese economic development. Then to assess the effects from Beijing investment onto Chinese economy, we need check how much the investment in Beijing.

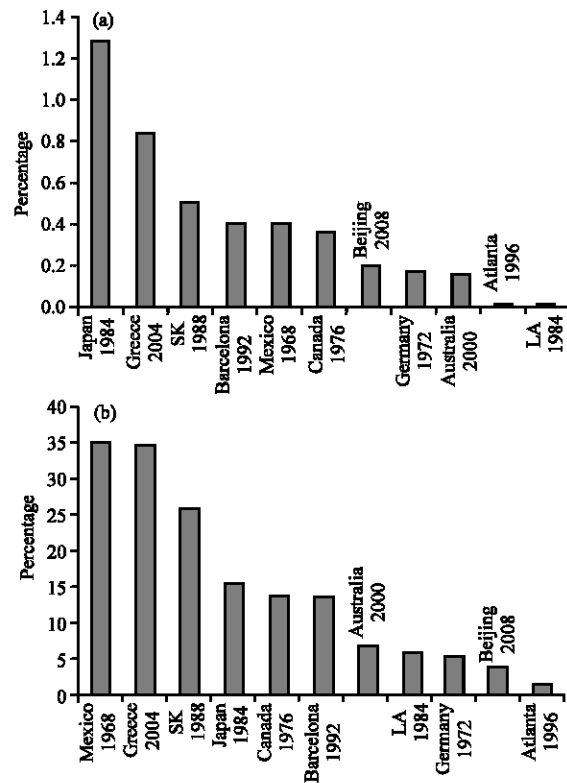


Fig. 1: Ratio among Olympic investment. (a) ratio of Olympic investment to the host country's GDP and (b) ratio of host city's GDP to host country's GDP

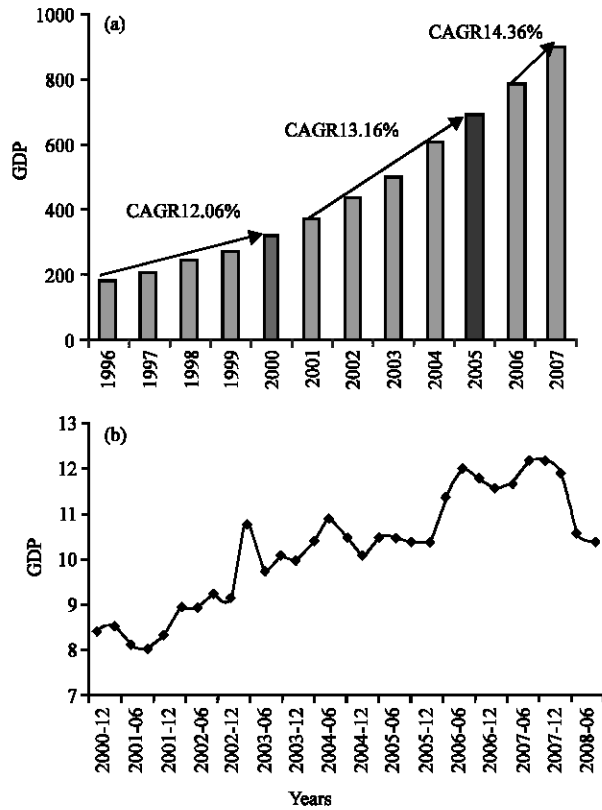


Fig. 2: GDP growth in recent years. (a) Beijing 's GDP growth in recent 10 years and (b) China's GDP growth in recent 8 years

contributes to the whole national investment. From the curves below (Fig. 3a), we can see just before 2001, the year China applied for hosting the Olympics, the growth rate of Beijing Fixed Asset Investment (FAI) kept increasing, peaked at 50.56% in 2001 and then lowered to 30.64% in 2002. And since 2002, the growth speed of the FAI in Beijing has been beneath the national average level. Thus it is hard to deduce the boom of the national FAI originated from the FAI in Beijing. Thus the fast development of Chinese economy in recent years can hardly attribute to the fast economic development in Beijing.

Although, total investment of Beijing Olympics reached USD \$41 billion, nearly half of it was for environmental protection rather than fixed asset investment. From expenditure direction as shown in Fig. 3b, 30% of total investment was input in transportation, about USD12b; USD \$9 and 6 billion were distributed to environmental protection and clearance, respectively for tele communication, the input totaled 4 billion US dollars. And those would bring economic and environmental positives to Beijing and its surrounding regions during

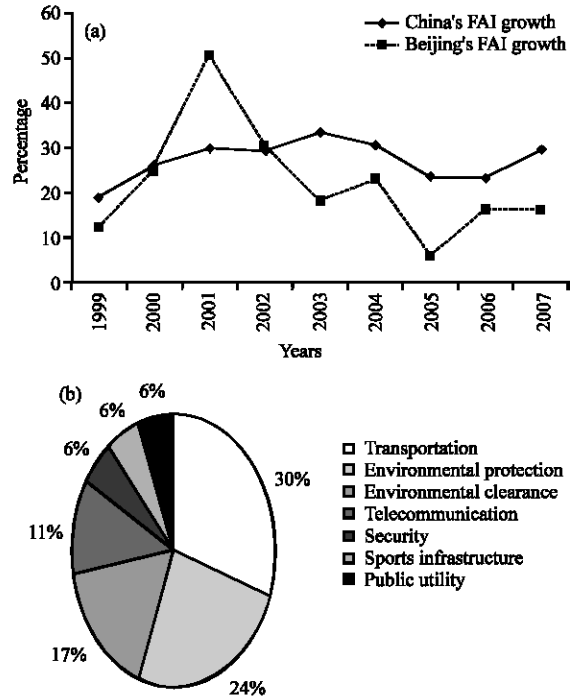


Fig. 3: Beijing's FAI growth in recent years. (a) 10 years and (b) 8 years

a long term post-Olympic period. Therefore, the first macroeconomic effect from Beijing Olympics is that it is more regionally influential than nationally.

The effects essence-economic growth pattern transformation: Environmental issue has kept on being one of the key controversies since Beijing started applying for the right of Host. So in order to fulfill its commitment, Beijing has been making great efforts in special programming of environmental protection. Official statistics show that until the end of 2007, the rate of woody plant cover in Beijing already reached 51.6%, urban percentage of greenery coverage achieved 43%, average green space area per person arrived at 48 m² and the average public green space per person came around 12.6 m².

To large extend, the recent Chinese high-speed economic growth sacrificed the efficiency of resource utilization. Thus, beneath the wind of Olympics, the concept of Green Olympics was proposed. Following this direction, the heavy chemical industry was gradually fading away from Beijing (Table 1) and thousands of high-pollution and high-energy consumption factories around were shut down. While looking like adjustment of economic structure, it is actually more of

Table 1: Energy consumption in different industries in Beijing

| Industry consumption | Energy consumption (10,000 ton std. coal) | | Energy cans/10,000 RMB added value (ton std. coal) | |
|----------------------|---|------------|--|------------|
| | Cans. | Growth (%) | Unit cans. | Growth (%) |
| Total | 6285.04 | 6.45 | 0.714 | -6.04 |
| Primary industry | 96.44 | 4.49 | 1.058 | 2.27 |
| Secondary industry | 2793.83 | 0.75 | 1.107 | -10.61 |
| Tertiary industry | 2389.51 | 12.22 | 0.387 | -1.38 |

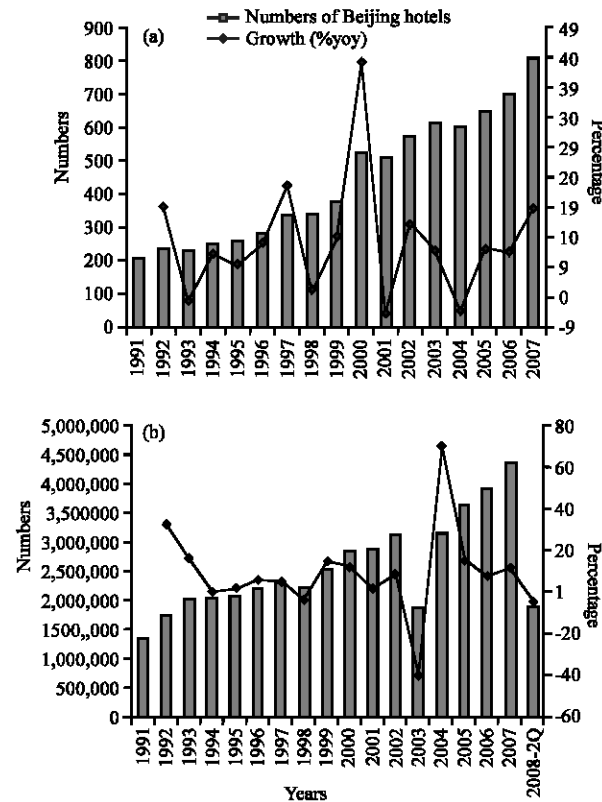


Fig. 4: The changing of Beijing hotels and tourists. (a) Beijing hotels numbers and growth rates and (b) the number of tourists to Beijing number's and growth rates

the transformation of the economic growth pattern from extensive to intensive, which will promote other Chinese regions to speed their steps to follow.

The effects segment-consumer, travel, transportation, insurance and banking: The Olympics influence on consumption and travel lies in long term. The most direct impacts that people can sense from the Olympics is on consumption and travel (Jun, 2006).

For consumption, the real income growth is the basic decisive factor, while the Olympics as an occasional factor can only exert impulse effects which could not shift its fundamental trend. Thus, to purely discuss how much the

total retail sales have been increased by hosting the Olympic Games has few meanings. Instead, the improvements in consumption environment, payment environment and commodities quality and security are worthy of attention as they normally influence residents consumption in a relatively long time after the Olympics.

During the Games, travelers to Beijing clearly declined. In June, the number of travelers to Beijing totaled 299,000, down 19.9% yoy. The performances of the main tourist's countries are also negative. Travelers from USA reduced 15.1%, from Japan down 49%, from South Korea down 22%. Reasons of those reductions includes more visa restrictions for security purpose, more concerns of terrorist's attack and much higher price in local hotels. However, the trend will turn around after the games, since Beijing has already improved its travelling environment and infrastructures and its international image has been largely advanced.

Figure 4 shows the changing situations of Beijing's hotel and tourists around the application year 2001. In Fig. 4, the absolute quantity of Beijing's hotel almost kept increasing, while the corresponding yoy growth rate sharply declined in 2001 from the peak in 2000. In Fig. 4, the total number of tourists to Beijing is obviously contracted in 2008 compared with in 2007.

The Beijing Olympics has highly lifted the developing space for transportation: Transportation occupied a large part of fixed Asset Investment in Beijing Olympics, by upgrading constructions ranging from track transportation, road net, goods transportation hub, railway to civil aviation. Those infrastructure constructions have visibly changed passengers and goods traffics in Beijing within 5 years. In the aspect of passenger transport (Fig. 5a), the shining point is that airplanes and railways become much more popular. Concerning goods transport (Fig. 5b), Beijing mainly depends on highways, accounting for >90%, while the ratio of airplane transport declined a little. In all, those transportation investments along with Olympics will gain great momentum for Beijing's economy.

The Olympics brings model effects to China's financial innovation: Hosting the Olympic Games is a globally gigantic project, filled with profitable opportunities as well as losing risk in human casualties and properties. So the host party commonly intends to cover insurance in high-credited insurance companies, which produced the so called Olympic Insurance and could promote updating or upgrading China's insurance management, in such aspect as product innovation, service innovation

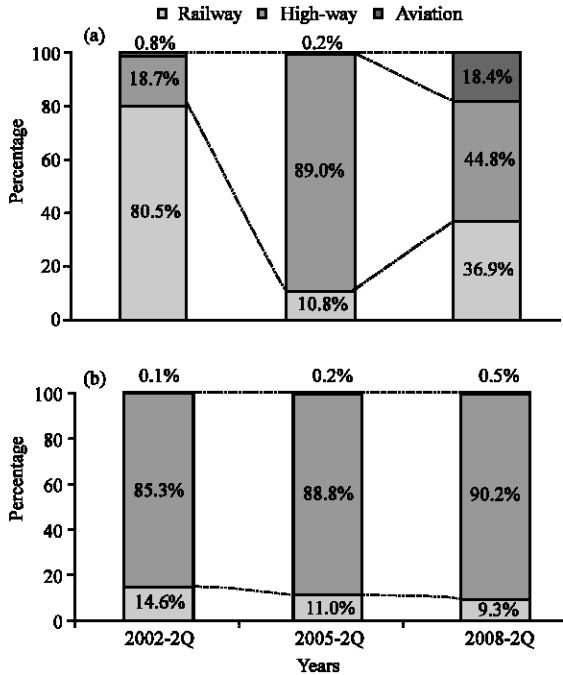


Fig. 5: Popularity of transportation. (a) popularity changing of passenger transportation and (b) popularity changing of goods transportation

Table 2: Direct gains from Olympics to Insurance sector

| Olympics games | Benefits (*000 USD) |
|------------------|---------------------|
| Barcelona (1992) | 18000 |
| Atlanta (1996) | 30000 |
| Australia (2000) | 16400 |
| Greece (2004) | 30000 |
| Beijing (2008) | 1500-1800 |

and establishment of modern enterprise system etc. It could also better the national risk environment. Besides, the Olympics could also strengthen people’s insurance awareness and create more insurance demand. It is roughly estimated that the direct gains from Beijing Olympic to Insurance sector is between USD \$1.5 and 1.8 million (Table 2).

Hosting Olympics also provides developing opportunities for the bank sector. Basically, middle business incomes will be significantly enlarged, as various commercial banks will expand their such middle businesses as bank card and currency exchange, as well as improve related financial service equipment like ATM and Money Exchange, in order to satisfy the public financial demand during the Olympics.

Consequently, the relevant technical guarantee will be inevitably in need of upgrading, including applying the advanced Funds Transfer and Accounting System and Payment Online System etc. And also during those

practical processes, China’s state-owned banks will intensify their cooperation’s with international banks, which will faster the evolution of Chinese banks’ internationalization.

CONCLUSION

In summary, while the total investment of RMB 280 b in Beijing Olympics occupied only 0.2% of the national GDP and Beijing’s GDP occupation in national GDP is just around 3.7%, hosting Olympics evidently stimulated Beijing’s economic development but limitedly contributed to the huge Chinese economy. Thus, whether China will suffer economic recession after the Olympic Games will mainly depend on China’s own economic cycles and policy measures. And the Olympics only represent the window of this time. But it does provide great opportunities to transform Chinese economic growth patten to be healthier intensive from extensive. Its macro effects on consuming and travel will keep functioning in a long term. For transformation, it has highly lifted the developing space, while for insurance and banking, it exerts model effects to promote service innovation. Finally, return to the issue proposed in the beginning, whether there are post-games downturn for the Chinese economy?, what we can conclude now is that as statistics already showed the Chinese economic growth already peaked during the over-heating phenomenon in 2007 and the first half of 2008 already displayed some sort of growth slowdown, if the high-speed economic growth time in China is supposed to be over, then after the Olympics, the slowing-down trend, under the force of economic cycle, would much probably be more clear.

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