The Olympic Games are a key event in China, with important expected impacts on the economy. But what are the likely impacts? Will China slide into a recession after the Olympic Games, as have other countries that have hosted these Games? Or will the economy continue its rapid and sustained growth? And as presently anticipated by the Government, is China’s post-Olympic economic performance likely to involve not only quantitative growth, but also improvements in the quality of life? This brief addresses the above issues.

Post-Olympic Blues?

The Olympic Games have a history of at times being followed by economic recessions, a fate suffered by a number of the previous host countries. These “post-Olympic economic blues” have been the result of massive new infrastructure investments undertaken before the Games, followed by a sudden pause in such investments. For example, over 20 new sports facilities are under construction in Beijing for the Olympic Games. In addition, new supporting infrastructure is also likely to be added, including airports, subways, roads, and hotels. Such extensive infrastructure investment will accelerate economic growth leading up to the Games. However, there is a view that once those enormous investment projects are completed, the economy may suffer a period of slowdown or even recession, without the continuing injection of new investment to maintain the pace of growth.

This “pause” in growth is unlikely to happen in China for two reasons. First, the Olympic Games will be followed by two other investment-intensive events: the Shanghai 2010 EXPO and the Guangzhou Asian Games. These events also need enormous investments in infrastructure and supporting services, providing continuing impetus for growth.

Second, China’s economy is of a very different scale than those of other Olympic hosts. A comparison with Greece and Australia is suggestive. Greece, at the time it hosted the 2004 Olympics in Athens had a GDP of $185 billion. The GDP of Australia as host of the Sydney 2000 Olympics was $390 billion. By contrast, China’s economy stood at $3 trillion by 2007, as it prepares to host the Olympics -- or 16 times that of Greece’s and 7.5 times Australia’s at similar stages in the Olympic process. The overall scale of investment for the Olympic Games of all 3 countries is comparable, but with very different implications in the context of China’s much larger economy. Therefore investment for the Olympic Games is relatively small in China, as compared with the country’s total annual investments. This is likely to cushion the impacts of any slowdown in such investment—even if it were to occur.
Sustaining Rapid Growth Beyond the Olympics

More generally, the post-Olympic Chinese economy is likely to continue its rapid and sustained growth for four reasons. First, the overall pace of investment is unlikely to slacken. China, for all its achievements, is still fundamentally a developing economy. The industrial gap between China and advanced economies, though narrowing over time, is still enormous. This provides significant opportunities for future growth. Therefore although China has experienced rapid and sustained growth in investment over the past thirty years, there is a continuing need for significant investment in the foreseeable future in order to upgrade and diversify industries, products, and technologies. An example of what this means in practice is provided by China’s deflation in the period 1998-2002. At that time many domestic industries were faced with surplus capacity, and a corresponding downward pressure on prices. Yet during that same interval investment continued growing at an annual rate of 10%.

In addition to the opportunity and the need for the upgrading of industry, China also continues to have significant space for improving its infrastructure. Transportation provides a clear illustration. The construction of the Beijing-Shanghai High Speed Railway will begin soon. In addition to such major intercity infrastructure investment, Beijing will also extend its subway system significantly, if incrementally, to 197km at the time of Olympics in 2008, to 274km by 2012, and to 561km by 2015 -- by which time Beijing will have the longest subway system in the world. Nationwide, there are close to thirty cities constructing subway systems. Therefore the existing industry and infrastructure gaps in China will provide a large and continuing demand for new investment - a gap that will be filled with investment growing at 15% to 20% annually over the next five, ten, or even twenty years.

The second basis for sustained economic growth is accelerating domestic consumption. Although much of the attention in China’s rapid growth has been on the role of investment, consumption has also been an important factor, exceeding 10% growth in recent years. At the 17th CPC National Congress in October 2007 the government put a greater priority on improving the people’s livelihood and quality of life, with a corresponding emphasis on domestic consumption. As a consequence, urban and rural incomes are likely to increase quickly; and the annual growth rate of consumption should be maintained at 10% or more in the next 5 to 10 years.

Continuing foreign investment provides the third reason for the likely sustained growth of China’s economy. Wage rates in China have increased in recent years. This would seem to limit the attractiveness of China for foreign investment that in the past has often been drawn by inexpensive labor. However, wage rates provide only one of many factors that foreign investors take into account in their production location decisions. Over the past thirty years China’s rapidly growing and diversifying economy has resulted in high quality industrial clusters, transportation facilities and communications infrastructure. All this and more has added up to an attractive business environment that will continue to provide an excellent export processing base for many foreign investors in an evolving global economy. In addition, China’s large market, growing at a sustained annual rate of 10%, will continue to be of great interest to foreign investors producing for the domestic market.

Fourth, the Olympic Games are a unique truly global event, and provide an important opportunity to strengthen the understanding and linkages between China and the rest of the world. Much like the Olympics in Tokyo in 1964, and in Seoul in 1988, the Beijing Olympics will bring to China new and diverse opportunities for international linkages and for economic cooperation. In general, the post-Olympic environment of China will provide the foundations for stronger, wider, and deeper linkages with the global economy.

Given the above, China’s economy will therefore maintain a growth rate of 8% to 10% well after the Olympics are over. Moreover, it is quite likely that this continuing growth in economic performance will involve further improvements in the quality of people’s
lives, and at an ever faster pace than in the past.

**Quality as well as Quantity in China’s Post-Olympic Growth**

China’s record of sustained rapid economic growth of the past 30 years, since the “Opening Up and Reform Policy”, is indeed worthy of the term “miracle”. The economy achieved an astonishing average annual growth rate of 9.8% during this period – far higher than Xiaoping’s original expectations of a 7.2% growth rate, aimed at the time at quadrupling China’s GDP in twenty years. However, the very fast pace of economic growth has not come without costs. Thirty years’ of rapid growth has also brought with it increasing disparity between urban and rural areas, social development that has lagged behind economic growth, and unsustainable environmental degradation.

To address these problems, the 17th CPC National Congress has put forward as a basic strategy the “Scientific Outlook on Development”. This strategy stresses development “all for people”; and places emphasis on a process of coordinated, sustainable and scientific development, and social harmony. It has also resulted in specific policies that shift the focus of economic development. The priority now is simultaneously on both equity and efficiency in resource allocation decisions, and on increasing the share of income going to labor in the form of wages. As a consequence, the structure of China’s income allocation will change significantly.

Yet still more is needed to improve the quality of growth. The government needs to adjust its basic role in managing the economy. It has to give up interventions that were more suited to an earlier era of a planned economy; switch emphasis to tasks such as facilitating the construction of infrastructure; undertake initiatives in the public interest that is the ultimate responsibility of a government; and focus on increasing social expenditures. Some of the needed policies have already been put in practice. These include eliminating tuition and book fees for compulsory education in rural areas; providing subsidies for the accommodation of rural students living far from schools; and launching a reform of the health system. Policies and initiatives such as these, along with an increased focus on social security and environmental protection, and a campaign for constructing a new socialist countryside, will improve the quality of China’s development.

**Concluding Thoughts**

China, a large and complex country, started its “Opening Up and Reform” strategy from a very poor base. Yet its growth in the past thirty years has been rapid, sustained, and stable. Only a highly efficient, effective, and decisive government could have achieved such remarkable results. But in this process the government has focused to date primarily on economic growth. The result has been a rapidly growing economy, but one where social development has been lagging behind. Now the attention of the government and all the instruments it commands are also focused on the goal of harmonious and scientific development. Given achievements to date, this goal can also be realized. In this context, the 2008 Beijing Olympics can provide an important milestone in China’s modernization and economic development. It can serve as a catalyst for improving the quality of development, in addition to contributing to continued rapid and sustained economic growth.