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China's Economy and the Beijing Olympics

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CRS Report for Congress

China's Economy and the Beijing Olympics

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Summary

China will host the 2008 Olympic Summer Games from August 8 to 24, 2008. Most of the events will be held in the vicinity of Beijing, with selected competitions held in Hong Kong, Qingdao, Qinhuangdao, Shanghai, Shenyang, and Tianjin. Since the International Olympic Committee's decision in July 2001 to select Beijing as the host for the 2008 Olympics, China has spent billions of dollars for facilities and basic infrastructure in preparation for the international event. China anticipates that the 2008 Olympics will provide both short-term and long-term direct and indirect benefits to its economy, as well as enhance the nation's global image. However, the experience of past host cities and China's current economic conditions cast serious doubt that the Games of the XXIX Olympiad will provide the level of economic growth being anticipated. This report will not be updated.

China eagerly awaits the commencement of the Games of the XXIX Olympiad on August 8, 2008 in Beijing. After seven years of preparations, China will host the preeminent sporting event of the year. In the words of Premier Wen Jiabao, the 2008 Olympic Summer Games provide an opportunity to demonstrate to the world how "democratic, open, civilized, friendly, and harmonious" China is.¹ In addition, much like the two previous Asian hosts for Olympic Summer Games — Japan in 1964 and Korea in 1988 — China views the 2008 Olympics as a showcase for its modern economy and a springboard for future economic growth.

To the Chinese government, hosting the Olympics also signifies a turning point in its economic development. It provides an opportunity to begin the shift from an economy based on being the assembly platform for global manufacturing to one geared to providing goods and services for China's growing and prosperous middle class. The 2010 World Expo in Shanghai will be a similar opportunity to highlight China's economic progress.

¹ Lee M. Sands, "The 2008 Olympics' Impact on China," *China Business Review*, July-August 2008.

In an effort to ensure the success of the 2008 Olympics, the Chinese government has invested billions of dollars in sports facilities, housing, roads, mass transit systems, and other infrastructure. China hopes that its investments, when combined with the goodwill generated by the successful completion of the Olympics, will attract more tourists, businesses, and investors to China — and foster future economic growth in its wake. In addition, to counteract possible negative publicity about labor and environmental conditions in China, the government passed new labor laws and is promoting the 2008 Beijing Olympics as the “Green Olympics.”²

If the post-Olympic economic records of past host cities and nations are any indication, however, it is uncertain that Beijing and China will see substantial economic benefits from this summer’s games. Academic research on “mega-events” — such as the Olympics — has found that their economic benefits generally fail to meet pre-event expectations, and sometimes fall short of the costs of staging the event. Certain aspects of China’s current economic circumstances make it more likely that the economic gains from the 2008 Beijing Olympics could be smaller than some pre-event expectations.

The Economic Impact of Mega-Events

There is a vigorous scholarly debate over the correct method of evaluating the economic impact of “mega-events,” such as the Olympics.³ It is difficult to disentangle changes in economic growth, employment, inflation, tourism, and other possible effects caused by the mega-event from changes caused by other factors (currency appreciation, fiscal and monetary policy changes, etc.). In addition, certain types of investments related to mega-events, such as the construction of new stadiums, often fail to generate significant economic benefits after the mega-event is over. Plus, it is uncertain if economic activities undertaken as part of the preparation for the mega-event (for example, the construction of new mass transit lines) might not have taken place even if the mega-event had not occurred. Also, impact assessments of mega-events frequently ignore the “opportunity costs” associated with investments made before the event. For example, assessments often do not consider the possibility that the money spent on the new Olympic stadium might have generated greater economic benefits if spent on hospitals or schools. Finally, while the economic gains associated with the construction of new infrastructure are generally calculated, the economic costs associated with the displacement of people and business (for example, in the demolition and construction of new housing for the mega-events) often are not.

Besides the methodological questions associated with assessing the economic effects of mega-events, there are also serious problems in methodological application. In many

² There is a separate web page — [<http://en.beijing2008.cn/12/12/greenolympics.shtml>] — for Beijing’s “Green Olympics” that includes numerous articles on the various measures taken to reduce the environmental impact of the 2008 Olympics.

³ For brief discussions of the methodological problems of assessing the economic impact of mega-events, see Jon Tiegland, “Mega-events and Impacts on Tourism; the Predictions and Realities of the Lillehammer Olympics,” *Impact Assessment and Project Appraisal*, December 1999, Vol. 17, No. 4, pp. 305-317; and Jeffrey G. Owen, “Estimating the Cost and Benefit of Hosting Olympic Games; What Can Beijing Expect from Its 2008 Games?” *The Industrial Geographer*, Fall 2005.

cases, the companies or individuals conducting the economic impact assessment prior to the mega-event have an incentive to overstate the potential gains and understate the potential costs. In some cases, the assessors present the costs of the mega-event (for example, the construction cost of new sports facilities) as benefits. In other cases, the assessors overstate the certainty and size of the “investment multiplier,” the secondary benefits (for example, increased future tourism) associated with the mega-event.

The Olympic Record

Few studies have been done comparing the pre-event projections of the economic impact of the Olympics to their post-event reality. A study of the 1994 Winter Olympics held in Lillehammer, Norway, determined that the pre-event economic impact studies systematically overstated the potential economic benefits of hosting the event, and that actual economic gains were comparatively small and short in duration.⁴ Another study of the Lillehammer Olympics concluded, “the long-term impacts are marginal and out of proportion compared to the high costs of hosting the [Olympic] Games.”⁵

A Bank of China (BoC) study of 12 host countries for Olympic Games over the last 60 years reportedly concluded that nine of the economies — including Japan and South Korea — experienced declines in their average GDP growth rates in the eight years after the Olympics when compared to the eight years prior to the Olympics.⁶ The Chinese press has run several stories pondering the question, “Will [China] succumb to the so-called Post-Olympics Effect (POE)?”⁷

The Cost of the Beijing Olympics

When China originally bid on hosting the 2008 Summer Olympics, it estimated the cost at \$1.625 billion.⁸ Since then, several revised budgets have been released, raising the official cost to over \$2 billion.⁹ Included in this figure is the expense of building or renovating 76 stadiums and sport facilities in the seven venues — Beijing, Hong Kong, Qingdao, Qinhuangdao, Shanghai, Shenyang, and Tianjin — at which events will take place.

However, these figures only include the direct costs of construction of the Olympic sports facilities and related venues. According to one estimate, the actual total construction cost — including the capital spent on non-sport infrastructure — is expected

⁴ Teigland, op. cit.

⁵ O.R. Spilling, “Beyond Intermezzo? On the Long-term Industrial Impacts of Mega-events: The Case of Lillehammer 1994,” *Festival Management and Event Tourism*, Vol. 5, 1998, pp. 101-122.

⁶ Liu Jie, “No Worries to Post-Olympic Slowdown,” *China Daily*, April 14, 2008. The article did not indicate which host countries did not experience a post-Olympics slowdown.

⁷ “Will Olympics Become a Watershed in China’s Economy?” *MSN*, July 20, 2008.

⁸ “Liu: 13 Billion Yuan Spent on Cost-efficient Olympics,” Press release by Beijing Olympic Committee, August 1, 2008.

⁹ Ibid.

to exceed \$40 billion.¹⁰ By comparison, Greece spent an estimated \$16 billion on the 2004 Olympic Summer Games. At a recent press briefing, The Beijing Organizing Committee for the Games of the XXIX Olympiad (BOCOG) criticized estimates of this sort, indicating that investments on transportation (\$26.2 billion), energy (\$10.0 billion), water resources (\$2.4 billion), and the urban environment (\$2.5 billion) are to be considered part of the budget of the city in which the capital outlay took place and not part of the cost of the Olympics.

The \$41.1 billion on non-sport capital investment went to a variety of projects. For example, in Beijing, 200 miles of roads were refurbished, two additional ring roads completed, and more than 90 miles of subway and light rail lines were added to the city's transportation system. A 9,000 room Olympic Village was also built in Beijing to house 16,000 athletes; it is to be converted into a modern apartment complex after the Olympics are over. Similar projects were also completed in the other six Olympic venues.

Assessing the Possible Benefits and Costs

In 2007, two Chinese economists, Zhang Yaxiong and Zhao Kun, published a study of the projected impact of the Beijing Olympics on the economic development of Beijing, its surrounding areas, and the rest of China.¹¹ According to the authors, "Apart from its significance as a grand societal gathering, hosting the Olympic Games will greatly promote investment and consumption." Their model estimated that Olympics-related investments in Beijing increased the city's economic growth by 2.02% between 2002 and 2007, raised the surrounding area's growth by 0.23%, and advanced the rest of the nation's growth by 0.09%.

The paper recounts other studies of the projected impact of the Beijing Olympics on China's economy. The authors report that a study by Gu et al. published in Chinese in 2003 predicted that the Olympics will increase Beijing's economic growth by 5% between 2003 and 2009. A 2005 study by Wei and Yan (also in Chinese) concluded that the Olympics would increase Beijing's economic growth by 0.8% from 2005 to 2008.

All of these studies appear to suffer from one or more of the methodological problems frequently associated with impact analysis of mega-events. In their input-output analysis, Zhang and Zhao include both sport and non-sport facility investments as part of the Olympics-related investments — contrary to the stance of the BOCOG — coming up with a total investment for the 2008 Olympics of 282.53 billion yuan, or \$41.3 billion.

According to some analysts, the \$41.3 billion in "investments" should be properly classified as a cost — not a benefit — of the Olympics. The paper also implicitly assumes that all the investment made would not have been made if China was not hosting the Olympics. Nor do Zhang and Zhao consider the "opportunity cost" of the Olympics-related capital outlay. For example, could the money spent on the new "Bird's Nest" (National Stadium) or the "Water Cube" (the National Aquatic Center) have been

¹⁰ Brad R. Humphreys, "Rings of Gold," *Foreign Policy*, August 2008.

¹¹ Zhang Yaxiong and Zhao Kun, "Impact of Beijing Olympic-related Investments on Regional Economic Growth of China: Interregional Input-Output Approach," *Asian Economic Journal*, 2007, Vol. 21, No. 3, pp. 261-282.

instead spent in Beijing on housing, medical facilities, or schools? In addition, the paper does not attempt to estimate the losses of the people displaced from their homes or places of employment so that the new Olympic facilities could be built.¹²

Another significant drawback of the paper is its apparent lack of consideration of China's current economic circumstance, particularly its twin problems of overinvestment and inflation.¹³ At a time when the Chinese government is concerned that its economy is overheated, and the rate of inflation is rising (7.1% in June 2008), the expenditures associated with the 2008 Summer Olympics may be exacerbating the nation's economic problems in two ways. First, the direct demand for raw materials, equipment, and labor to construct the Olympic facilities may be increasing upward pressure on prices. Second, materials and resources used in constructing Olympic facilities might have been used on arguably more productive and urgent construction projects.

Given the experiences of past hosts of Olympic Summer Games and the current economic situation in China, many analysts believe the 2008 Olympics are unlikely to provide much of a stimulus — or much of a deterrent — for economic growth in Beijing or the rest of China. Although the Olympics-related capital outlay is seemingly large, it is small when compared to the annual value of construction in China and the overall size of China's economy. During the first half of 2008, the gross value of construction in China was 2.27 trillion yuan, or \$388 billion.¹⁴ In addition, China's economy — 25 trillion yuan (\$3.6 trillion) in 2007 — is already growing at over 10% per year. By comparison, the potential economic impact of the Olympics is small.

It is also unclear if the Olympics will foster greater tourism in China. There are reports that a stricter visa policy was implemented in the run-up for the Olympics, and that foreign business travelers have had a difficult time obtaining visas or have had their multiple entries visa converted into single entry visas. As a result, China's trade shows that historically have been crowded with buyers have seen a decline in attendance. While the visa situation may return to normal after the Olympics have ended, the short-term effect on China's exporters has been considerable.¹⁵

According to China's National Tourism Administration, China received nearly 132 million "inbound tourists" — including over 26 million "foreigners" in 2007.¹⁶ China's domestic tourism has grown over the last decade from 644 million domestic tourists in

¹² There is also a class element to the Olympic construction. According to the Centre on Housing Rights and Evictions, 1.5 million people were displaced between 2000 and 2008 for the construction of Beijing's Olympics. Most of the displaced people were low-income workers, who will be unable to afford the Olympic apartments to be sold when the Games are over.

¹³ For more information about China's current economic problems, see CRS Report RL33524, *China's Economic Conditions* by Wayne M. Morrison.

¹⁴ "The Gross Output Value of Construction Rose in the First Half Year," National Bureau of Statistics of China, August 1, 2008.

¹⁵ Information based on interviews conducted by Dick Nanto, CRS specialist in Industry and Trade during a research trip in China, July 21-24, 2008.

¹⁶ Visitors from Hong Kong, Macau and Taiwan are considered "inbound tourists," but not "foreigners."

1997 to 1.610 billion in 2007. For Beijing, it is unlikely that the new Olympic facilities — including the Bird’s Nest and the Water Cube — will dramatically increase tourism to China’s capital city. Beijing’s tourism bureau reportedly reduced its projection for August’s foreign visitors from 500,000 to between 400,000 and 450,000 — or about the same level as last year.¹⁷ Just like the case of Lillehammer, Beijing hotels built in anticipation of a surge in tourism are experiencing unexpectedly high vacancy rates.¹⁸

There are some possible unexpected economic benefits that might be attributable to the 2008 Olympics. U.S. companies operating in China report that the new labor laws are being enforced. Such changes in labor conditions are unlikely to be reversed after the Olympics are over. Similarly, while the factories around Beijing that were closed down to help reduce air pollution during the Olympics will more than likely reopen, the increased awareness of the sources of pollution may keep China from reverting to its pre-Olympics status.

It would appear that the potential gains that China may hope to acquire from hosting the Olympics will be mostly in its public image, prestige, and soft power. In the week prior to the opening ceremonies, there were some indications that obtaining these gains may prove problematic. Despite repeated government assurances, the air quality in Beijing has remained an issue of concern for the athletes. There has also been controversy over open access to the Internet for journalists covering the Olympics. In addition, there is a “risk” that protests or demonstrations on human rights in China may detract from the image the Chinese government wishes to portray in its motto for the 2008 Summer Games — “One World, One Dream.”

If, once the closing ceremonies are over and the 2008 Beijing Olympics are done, China has obtained neither the economic nor political gains it sought, it can look ahead to the 2010 World Expo in Shanghai as another opportunity to showcase its achievements. Alternatively, the 2010 World Expo could also be a chance to build on the successful 2008 Beijing Olympics. In either case, China will most likely use the next three years to bolster its global image as an economic and political power.

¹⁷ Loretta Chao and Jason Leow, “Beijing’s Luxury Hotels Face a Glut of Rooms — Many New Projects are Posting Vacancies on Visa Restrictions,” *Wall Street Journal*, July 21, 2008.

¹⁸ *Ibid.*