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## Beijing games may trigger economic downturn

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HONG KONG -- In the heaving bars of Hong Kong's financial district, celebrations to mark the opening of the Beijing Games will result in more than a few Olympic-sized hangovers this morning. But, despite some concerns here that the Games may mark the beginning of an economic downturn, many of the traders and bankers cheering on

last night are optimistic the Olympics will have no lasting negative effect on the region's economy and could even spark renewed vigor in flagging stock markets in Hong Kong and on the mainland.

"It's the beginning of the next chapter of the Chinese story," said Neil Cotton, a brand consultant who works with global financial services clients, as he watched the opening ceremony at a downtown bar.

"We're hoping any dip after the Games will be short-lived."

Share indexes in China and Hong Kong have gone way off the tracks in recent months - Chinese stocks are down by about 50% this year while the main Hong Kong index is off about 25%. Rising commodity prices have not helped China's manufacturers and exporters either, and there is genuine concern, too, about the spectre of rising inflation.

As well, there are widespread concerns of further economic troubles once the Olympic party comes to a close, and dire warnings of an investment slowdown now that the extraordinarily high levels of public spending on state-of-the-art stadiums and other ultra-modern facilities has come to an end.

Some also fear measures to help the world's top athletes breathe more easily by shutting down industrial plants to improve air-quality have been achieved only at the cost of a large dent in China's productivity for years to come.

Indeed, "doomsayers," could point to a slowdown that has already started, said Peter Hall, chief economist of Export Development Canada, in a report Thursday. Slowing global growth caught China in the April-June period, as growth eased "rapidly" to 10.1% from 11.9% - unfortunate timing that "may tarnish China's gold-medal performance," Mr. Hall noted.

There's also the possibility the Games - China's global coming-out party - will backfire as a public relations exercise.

"We are very concerned about how authorities will handle the protests," said Shanghai-based China analyst Andy Rothman of Hong Kong brokerage house CLSA Ltd. A mis-step by the Chinese regime - comparable to the woeful attempts to control protesters trying to block the global journey of the Olympic flame - would "undermine the purpose of holding the event." In the worst-case scenarios China's companies may find it harder to attract foreign investment, and Chinese funds could run into problems when they try to invest overseas, Mr. Rothman said.

Yet despite the possible own-goals for Beijing, many informed analysts here - including Mr. Rothman - say fears of an unpleasant Olympic legacy for China's economy and the region's stock markets are well wide of the mark.

In fact, if China follows recent trends, stock prices in the regions will actually jump by more than a quarter through 2009, according to Jim Trippon of China Stock Digest.

"In the last six Olympic Games, there had been an average 19.12% increase in the hosting countries' stock indexes in the six months following the games," said Mr. Trippon. "In the 12 months after the Olympics, the stock indexes had a strong 26.14% average increase."

Even without an Olympic effect, Chinese equities may be in line for a recovery rally in 2009.

"The sharp correction to mainland share prices year-to-date, plus continuing strong economic growth, augurs well," Geoff Lewis, head of investment services at Hong Kong-based JF Asset Management, said in a recent report.

Mr. Rothman said fearmongers are pandering to "Olympic myths" that are unlikely to have a lasting impact.

Sure, Beijing has splashed out - depending on whether you believe official sources - somewhere between US\$35-billion and US\$43-billion on the Olympics, dwarfing the costs incurred by other host cities.

But less than a quarter of Beijing's total Olympic outlay has been directly tied to purpose-built venues. A much larger slice of the budget has gone toward permanent infrastructure including subway extensions, road improvements, and an airport rail link, for instance.

And while Beijing's spending is partly responsible for a fixed-asset investment bubble the Chinese government has been struggling to control for several years, a more optimistic view is that the Olympic

bill, which equates to a 1.1% boost to China's public spending, is the equivalent to "a moderate fiscal stimulus package," Mr. Lewis said.

Fears about a looming productivity problem are over-egged too. Despite the public mask-wearing by some athletes arriving in Beijing this week, measures to curb pollution have been successful. But most of the focus has been on reducing emissions from vehicles not factories, Mr. Rothman argues, and many industrial plants have been successfully relocated outside the city.

In any case, Beijing is "a very small part of China," accounting for only 4% of gross domestic product, and 1% of the national population, compared with 29% for Athens, 18% for Sydney and 25% for Seoul - previous Olympic cities.

"Limiting construction and industrial activity in the capital city for three months will not have a significant impact on full year national economic growth, [while] spending by tourists, athletes, officials and media will mitigate much of the impact," Mr. Rothman said.

"The macro-economic consequences of the Olympic Games are relatively small, viewed from a national growth perspective," said Mr. Lewis.

Though there are certainly tests for the Chinese economy just ahead - including inflation, rising commodity prices, and pressure, principally from the United States, to move towards a free-floating currency - expected GDP growth of 8% to 9% in 2008 and 2009 is still the envy of most other countries.

Meanwhile, some of the more positive outcomes of Beijing's Olympic preparations may be among the most permanent, said Mr. Lewis. Measures introduced on a temporary basis may force Beijing to consider more permanent ways to improve the quality of life of its citizens and to build an economy

that is more environmentally sustainable, while the international attention that has lately been focused on China will also increase pressure for the country to continue to accelerate the pace of modernization.

*Financial Post*

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