

Olympics and Economics

Overall, the Beijing Olympics have been going very well and the image presented may make China even more attractive for foreign investors. To the Chinese at least, Michael Phelps’ “8” gold medals is yet another lucky number! As George Bush senior aptly remarked, for those whose image of China was still associated with the Cultural Revolution, the Olympics have been a revelation, and this is good.

But will it be worth the estimated \$50 billion investment? The economic picture is not so clear. The global economy is under heavy pressure with stock market declines, high jobless levels, inflation, exploding commodity prices, and continuing fall-out from the sub-prime fiasco. For China, the pressure has been increased by terrible natural disasters – the Sichuan earthquake and disabling snow storms of a magnitude far beyond “normal” expectations. Add to this China’s rising energy and labor costs, the weak dollar, 7.5% inflation (well above the government’s target), and shrinking exports, and the picture becomes much more problematical.

Chinese companies are stressed. We know many that exported with *no* profit margin and looked for their profits from the VAT rebate only. At the same time that the government is phasing out rebates, raw material prices continue to rise, the dollar continues to weaken, and foreign demand continues to decline. It is hard – and often impossible – for these companies to remain competitive in this erosive environment. Even China’s booming tourist industry has been hit. So far, 2008 revenue is half of last year’s for the same time period.

China’s response has been a change of tone. The government now “hopes” for GDP growth of 9% in 2008, down from earlier estimates of 10-11%. But the government really wants to keep GDP around 10% to maintain employment and minimize bankruptcies. China’s advantage in this regard is its enormous size. Smaller countries like Japan really depend on the performance of a few sectors – like vehicles. But China can adjust and promote many market sectors. So the good news is that China will continue to invest heavily in infrastructure development, and, importantly, in moving up the value chain in a number of different markets.

But let’s keep it real: 9% is still incredible growth. The Beijing Olympics have really helped China to open its door wider to the outside world, despite these monumental obstacles, and so opportunities abound.

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