

Talking Points

Economic Impact of the World Cup

By KC Rottok, RSM Betty & Dickson

International sporting events offer significant potential benefits to host countries: modernization of infrastructure; upgrading of tourist facilities; increased foreign commerce; heightened global prestige and visibility.

Emerging and developing countries stand to reap particular gains from hosting such events. The 1988 Summer Olympic Games in Seoul brought South Korean multinationals (LG Electronics, Samsung, et al) to international prominence, while the 2008 Beijing Olympics showcased the rising commercial power and technological prowess of China. The 2016 Olympic Games in Rio de Janeiro is widely anticipated as Brazil's arrival as a major global player.

However, the economic record of international sporting events is highly uneven. The 1976 Summer Olympics was a financial disaster for Montreal, leaving that city with \$2.7m of debt that took 30 years

to retire. The 2004 Athens Games went five times over budget and is now viewed as a harbinger of Greece's current financial woes.

World Cup in South Africa

Against this backdrop, the 2010 FIFA World Cup in South Africa presents an interesting case of the economic impact of international sporting events. The recently completed World Cup provides a unique opportunity for the Republic of South Africa to burnish its standing as the international gateway to the Sub-Saharan region. Investments in transportation and housing help alleviate the infrastructural deficiencies that have hindered exploitation of South Africa's economic potential. And the "halo effects" of a successful World Cup promise to boost foreign trade, investment and tourism in a country traditionally viewed as physically dangerous and politically unstable.

Tony Twine, a director and economist at consulting firm Econometrix, offered the following summary of the potential rewards of the 2010 World Cup:

"Over four billion television viewers have been bombarded before and during the World Cup with positive images of South Africa. From these, people will take decisions that we may not be able to readily quantify. It could be an investment decision, a decision to purchase a South African product or a visit to the country which impacts tourism".

(Telephone interview with RSM Betty Dickson)

Industry Effects

In the short term, it is clear that South African industries such as accommodation, catering, retail, and transport have benefitted from the World Cup.

Alan Payne, the chairman of the Thornybush Collection (a group that owns several game lodges in South Africa) reports that his

group members have performed better than expected during the month long tournament. He said:

“Our turnover in three weeks in June has been two and a half times as high as October 2009 which was our best month during that calendar year. And this has happened during the South African winter which is traditionally our worst time of the year.”

(Telephone interview with Betty Dickson)

The economic spillover was equally impressive in South Africa’s food and beverage industry. Industry giant Famous Brands recently released to the press figures that showed a 24% increase in June compared to the same month last year.

South Africa’s automotive industry also benefitted from the World Cup. The Sunday Times (4/7/10) reported that the National Association of Automobile Manufacturers of South Africa indicated a 21 percent increase in car sales in June 2010 compared to the same month last year.

In the same article, Finance Minister Pravin Gordhan was quoted as saying that South Africa will recoup the R38 Billion spent on hosting the tournament given that it had attracted over 500,000 visitors and created about 130,000 jobs.

But one must be cautious in interpreting these short-term effects. The hospitality and car rental figures may show a rise, but this was to be expected given the large number of temporary visitors who needed local transportation and lodging. The lasting impact of

the 2010 World Cup will only be known in a few years time when one can meaningfully compare annual tourist flows preceding and following the event.

The same qualification applies to the impact of the World Cup on job creation, the bulk of which stemmed from one-off construction projects that will retain few full time employees for maintenance purposes. The few thousand construction-related jobs resulting from the World Cup will certainly not have a significant impact on a national unemployment rate that rose during the global financial crisis.

Infrastructural Shifts

The World Cup’s impact on South African infrastructure is evident. The country now has its first high speed rail link, the Gautrain. The upgrading of highways and creation of new bus lanes will shorten commuting times, lower absenteeism and increase labour productivity.

However, economists are dubious about the impact of World Cups on the host country’s GDP growth. Sports economist Markus Kurscheidt of the University of Bochum estimated that the 2006 World Cup in Germany boosted GDP by barely 0.2% in the years following the event, despite inflows of 2-3 million foreign visitors. South Africa (which unlike Germany does not enjoy wealthy neighbouring countries to support tourist revenue) appears unlikely to fulfill the government’s estimate of an extra 0.4 percentage points of GDP growth this year resulting from the World Cup.

Public Relations Value

Economists generally agree that improved public relations are the foremost benefit of hosting international sporting events. The public relations value of the World Cup is likely to be especially significant for South Africa, which since the 1990’s has developed a reputation for violent crime in some of its cities.

Owing to that reputation, it was not surprising that stories emerged prior to the World Cup of stab-proof fan vests being marketed in England. But aside from a break-in at a team hotel reportedly by an English journalist, the tournament was largely incident free. In addition, many South African adults of European decent who had never boarded the local train or visited Soweto enjoyed pleasant rides on the metro rail to Soccer City, near the famous township.

Conclusion

International perceptions will therefore improve in the wake of the World Cup, with South Africa being viewed not only as a safe place for tourism and investment. Two major foreign companies (Boygues Travaux and Bombadier) jointly own 50% of the Bombela Consortium that built the Gautrain rail system, whose implementation was timed to coincide with the World Cup. In its inaugural year of operation, the high-speed rail system is broadly viewed as a success that promises to stimulate additional foreign direct investment in the South African economy.

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