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Economic Impacts of the FIFA World Cup in Developing Countries

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ECONOMIC IMPACTS OF FIFA WORLD CUP IN DEVELOPING COUNTRIES

by

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I. Introduction

Hosting mega events have traditionally been a privilege of developed nations, but since 2008 developing countries have successfully obtained the right to host those international competitions. For example, China hosted the 2008 Summer Olympics, India the 2010 Commonwealth Games, South Africa the 2010 World Cup, Russia the 2014 Winter Olympics and Brazil the 2014 World Cup. In addition, Russia is selected to host the 2018 World Cup and Brazil the 2016 Summer Olympics (Peeters, Matheson, & Szymanski, 2014). Although this seems to be a positive step for the developing nations, there are speculations concerning the real benefits and expenses those games generate.

Events such as the World Cup give the incentive to create infra-structure, promote international exposure and increase tourism and business alliances. It is also a way to speed investments in certain areas and infra-structure that otherwise would be forgotten or would not passed through the political process (Barclay, 2009).

On the other hand, the opportunity cost is high. Investing in infra-structure for a mega event means a reduction in other public services, greater government borrowing or higher levels of taxation (Barclay, 2009). This issue is recognized by the public and a proof of that are the several protests that occurred in Brazil before and during the 2014 World Cup. Although in 2007, when Brazil was chosen to be the 2014 World Cup host the Brazilians were supportive, the huge amount spent in stadiums enraged them a few years later. Besides that, developing nations tend to have an inefficient and corrupted government, an extra challenge when it comes to investments.

There are several studies that try to weight the benefits and costs of mega events. Some of them are mentioned in this paper, such as Barclay (2009) and Peeters, Matheson

and Szymanski (2014). However this research aims to analyze if it would be recommended for a developing country to host a FIFA World Cup by comparing the results from South Africa and Brazil. With the data from both countries, the intention is to determine if the benefits of hosting the FIFA World cup exceeds the costs of it.

II. Comparing South Africa and Brazil

The two countries being analyzed in this study have many similarities, allowing us to compare their effects with less bias. To start, both South Africa and Brazil are leading political and economic powers of their continents, Africa and South America, respectively. They also have very similar economies which comprise of a big agricultural and mining sector, as well as a well-developed manufacturing division. They are both considered upper middle income countries by the World Bank. Brazil had in 2013 a gross domestic product (GDP) of USD 2.246 trillion and gross national income (GNI) of USD 11,690 per capita. In the same year, South Africa's economy resulted in a GDP of USD 350.6 billion and a GNI per capita of USD 7,190.

Regarding their politics, both countries are relatively new democracies, with their left-wing political parties in power since 1994 in South Africa and since 2003 in Brazil. The problem is, however, that according to the World Bank Governance Indicators, both countries have low levels of corruption control. In 2013, South Africa and Brazil had a control of corruption estimator of -0.12, which ranges between -2.5 and 2.5 with higher numbers indicating better governance. In terms of government effectiveness, South Africa has a higher indicator than Brazil. The average between 2002 through 2013 was

0.52 and -0.07 for South Africa and Brazil respectively (The World Bank Group, 2015). Overall the BRICS¹ countries have similar government characteristics, as seen in Table I.

The poor governance indicators from most developing countries can compromise the benefits the country would receive from the mega-event. As seen in Figure I, the World Bank indicators for BRICS countries and Qatar go against what is considered being the optimal characteristics of good governance. When dealing with high amount of spending and numerous projects, good governance plays a more important role than democracy, which can fail due to gridlock and extremist parties like as happens with the BRICS.



Figure 1 - Characteristics of good governance (Sheng, 2009)

III. Effects in South Africa

South Africa became the first African country to host the World Cup. According to the Deputy Minister of Finance Nhlanhla Musa Nene, the South African government hoped the World Cup would be a “catalyst for development and investment in infrastructure, targeting the creation of employment and economic growth, rather than

¹ Brazil, Russia, India, China and South Africa.

funding just a one-off event". Besides that, the event could possibly enhance the country's international image and the sense of national pride among the South Africans (OECD Observer & Nene, 2013).

a. Economic impact

According to the Department of Sport and Recreation of South Africa, the government spent a total of USD 3.12 billion on transportation, telecommunication and stadia. Although the investment was high, it provided great organizational lessons for the developing country, such as how to budget, manage and implement new mega projects and to improve communication between different spheres of the government (OECD Observer & Nene, 2013).

It was also reported by the national government that the 2010 World Cup generated a positive economic impact: it contributed USD 509 million to the 2010 real GDP. Moreover, it created USD 769 million in benefits for households, of which USD 228 million designated to low income families (OECD Observer & Nene, 2013). The event also generated a direct impact on labor: 130,000 jobs were created through constructions in stadia and infrastructure and hospitality (Sport & Recreation South Africa (SRSA), 2012).

The numbers for the direct impact of the event seem very satisfactory, but very debatable. Usually, those results are calculated through the direct impact of stadia construction, and from total commercial activity during the event. The problem is that this calculation approach uses "gross" numbers instead of "net" ones. Consumers are usually inflexible regarding leisure expenditure, meaning they might only be substituting their spending in regular leisure for the World Cup tickets. The reallocation of spending

means there is barely effect on local community, and consequently, the calculations for the direct impact might be exaggerated (Barclay, 2009).

b. Infrastructure

For a developing country, a mega event can be a huge benefit, as it accelerates the speed with which infrastructure projects are approved. South Africa invested USD 364 million in ports of entry, USD 1.35 billion in train stations, airports and roads, and USD 156 million in broadcast technology. The country also spent USD 135 million on safety and security, resulting in 40,000 new police officers that remained in the force even after the event. (Sport & Recreation South Africa (SRSA), 2012). All these investments can be enjoyed by the population after the event.

South Africa's expectations regarding the World Cup are exactly what most countries, especially developing ones, aim to achieve when hosting a mega event. The problem is that those expectations are not usually met. Nhlanhla Musa Nene declared in the same interview, that the maintenance of some stadia has been an issue, and they have been looking for ways to make them more sustainable.

The areas where the investment occurred are also questionable. Train stations and roads were improved around airport and stadia surroundings, which are usually already well developed regions. Because the government tries to allocate the tourists in low-crime parts of the cities, it ends up investing in areas that would not require as much rehabilitation as others (Matheson & Baade, 2004).

c. Tourism

One of the expectations of the South African government was that the World Cup would boost the tourism industry in the country. The sector accounted for 8.7% of the

GDP in 2009 and accounted for 575 000 direct and 825 000 indirect jobs (Department of Tourism, 2013).

It was predicted that approximately 450,000 spectators and tourists would visit South Africa for the World Cup, but only two thirds of the expectation was met. The government estimated that around 306,600 tourists visited the country for the event, spending USD 444 million, mainly in shopping, food and accommodation. Even with the visitors average spend in 2010 being 24% higher than the previous years, based purely on the numbers, it can be said that South Africa recovered only a tenth of the USD 3.12 billion invested for the World Cup (Sport & Recreation South Africa (SRSA), 2012).

A study by Thomas Peeters, Victor Matheson and Stefan Szymanski (2014) calculated that around 220,000 visitors from non-Southern African Development Community (SADC) countries attended the 2010 World Cup. They also reported that:

“Taking into account the possible dynamic and legacy effects over the following months and years, this number increases to around 300,000 extra arrivals. While this constitutes a substantial effect (around 12% additional growth for the year), this implies that South Africa spent more than USD 13,000 per visitor. Of course, tourism growth is not the only channel by which a host country may recoup its investments, and indeed some event-related investments might create beneficial economic effects. However, even if we take a very conservative view and only consider the cost of stadium construction, our most realistic estimates still point to a cost of over USD 4,400 per additional non-SADC visitor.”

As seen, the amount spent by the government to boost the tourism sector in the country might not have been worth it. South African Tourism Strategic Research Unit reported that the tourism arrival to South Africa grew only by 3.3% on 2011, while the global growth was 4.4% (South African Tourism Strategic Research Unit, 2012).

A positive view however is the fact that there was an increase in the number of visitors coming from countries that generally have ties to South Africa, which means the country was able to improve their international image (Peeters, Matheson, & Szymanski, 2014).

d. Social impact

For a country that has been under Apartheid for 46 years, an event that promotes national unity and pride could potentially be very beneficial. The FIFA studies on South African residents and tourists revealed that 91% of the South Africans believe the event united the population of the country (Sport & Recreation South Africa (SRSA), 2012). One issue with this research is that it was done in August 2010, right after the event. The long term effects cannot be measured through it. Another study claims the World Cup was an opportunity for the country to showcase its effort in becoming a leader in the continent.

Moreover, it was a way for the government to enhance its credentials by delivering a successful event and a chance for the South Africans to demonstrate patriotism for a month. On the other hand, there were threats of xenophobia at the end of the event (Ndlovu Gatsheni, 2011). That contradicts the belief that the World Cup truly united the population.

One can say that the South African population might have been benefited in terms of work skills. For those who participated in facilities construction, they acquired skills that can be used for future construction projects.

South Africa was also aided from FIFA World Cup Legacy Trust. FIFA has contributed USD 100 million to the trust, of which USD 80 million are designated to social projects linked to football, education and development and humanitarian work. There was no academic research measuring the real impact of this project found by the time this paper was being written.

IV. Effects in Brazil

Unlike South Africa's World Cup, there are not many studies and official reports about the Brazilian World Cup, as it just happened in June 2014. Thus, the approach for the analysis of the 2014 World Cup was different. For this section, the main focus are on estimations the government released so far, and the impacts on the economy are hard to measure even at short term.

When Brazil was confirmed as a host in 2007, the economy was performing satisfactorily. The real GDP growth was 6.1% and inflation averaged about 3.6%, according to the International Monetary Fund. A year later, the country's economy was affected by the 2008 financial crisis. The government expenditures continued to rise and so did the inflation. By 2014, the Brazilians became furious with the costs generated by the World Cup.

Even with the high expenditure the event generated and the negative opinion from the population, the government believes the 2014 World Cup was a success.

a. Economic impact

In June 10, 2014, FIFA reported that the Brazilian government had, at that point, spent USD 15 billion with the World Cup (FIFA, 2014). Later on, in December 2014, Federal Court of Accounts of Brazil (TCU) published the country totalized USD 9.63 billion on expenses related with the mega-event. USD 2.64 billion was designated to urban transportation and USD 3.02 billion with stadia. The airport expenses added up to USD 2.34 billion (Brandão, 2014).

A study conducted by the Economic Research Institute Foundation (FIPE) determined that the World Cup would inject USD 13.43 billion in the overall Brazilian economy. The estimation for the tourism sector alone was expected to be around USD 3 billion, generated by the 3.7 million domestic and foreign tourists during the event (João Saldanha Open Media Centre, 2014). The same study also estimated that the World Cup created close to 1 million jobs, of which 710,000 were permanent jobs and 200,000 temporary. Of this total amount, approximately 50,000 workers entered the tourism sector directly (João Saldanha Open Media Centre, 2014).

Vicente Neto, President of Embratur (Brazilian Tourism Institute), revealed that hosting the cup was essential to put the country on the international spot. Between 2003 and 2013, Brazil “climbed 10 positions in the ranking of the International Congress and Convention Association (ICCA), from 19th to 9th in the world in number of conferences and conventions hosted. The total number of events held in Brazil increased from 62 to 315 (and the number of cities hosting events increased from 22 to 54) during that period, the result of a decentralization policy adopted to attract international events” (João Saldanha Open Media Centre, 2014).

The government also believes the World Cup enabled the small businesses to earn USD 223 million during the event and with the infra-structure construction (EMBRATUR, 2014).

The reports published by the government do not mention how those numbers were calculated, so it is important to take into consideration there might be calculating the gross direct impact of the infra-structure investments and consumption by the tourists, without accounting for how the locals reallocated their leisure spending. As nicely written by Peeters, Matheson, and Szymanski, “most of the spending by local residents on the sporting event does not generate new economic activity but simply reallocates spending within the economy”.

b. Infrastructure

According to FIFA, a host country needs to provide either eight, ten or twelve stadiums (FIFA, 2014). The Brazilian government opted to have twelve stadiums. Even considering that Brazil is known as the country of football, having to invest in infra-structure for twelve different cities was very costly. The choices for the host cities are also debatable. For example Brasilia, the country’s capital, reconstructed its stadium and increased its capacity to 71,000 people. However, none of the city teams are part of the division A of the Brazilian Soccer Series and the stadium is most likely to be underused. It might be argued that the stadium can be used for concerts and other cultural events, but this will not necessarily pay for the stadium maintenance expenses. Same issues might be encounter by Manaus and Cuiabá’s soccer infra-structure.

Regarding the airports, the Federal Court of Accounts of Brazil (TCU) reported in June 2014 that only 10 out of 26 of the constructions under Infraero, Brazil’s national

airport authority, were completed by February 2014 (Tribunal de Contas da União, 2014). In fact, there are still airports under construction, such as Tancredo Neves International Airport in Belo Horizonte, MG and Viracopos International Airport in Campinas, SP.

As for the transportation infra-structure projects, most of them were delayed. From the 34 proposals, 20 of them did not even have 50% of its expenses paid for (Tribunal de Contas da União, 2014).

It is important to also notice that in most host cities, the area where the stadium is located is already considered to be safe and well developed. That means investments occurred in regions of the city that did not deeply need renovations. An example is Maracanã Stadium in Rio de Janeiro, RJ. It is located in the north region of the city. It might not be the safest part, but it serves as residence for middle/upper middle income families and it is easily accessed by the train, subway and numerous city buses. From the Brazilian host cities, São Paulo might be considered the exception for that rule. The new stadium, Arena Corinthians, is located in a more remote part of the city and residence for low income families. However, the improvements in the area increased land value, which forced families to move out of the stadium surroundings (Souza, 2014).

c. Tourism

Brazil was expecting to welcome around 600,000 foreign visitors. Preliminary data shows that 484,483 foreign tourists entered the country between June 1 and 20, which represents 121% increase comparing to the first 20 days of May. This number also reflects an increase of 42% in relation to June 2012. The Central Bank estimated that those tourists spent, until June 18, 2014, USD 365 million (EMBRATUR, 2014).

Also on the positive side, the hotel sector in the 12 host cities saw an increase of 45% on the expected occupancy rate for the first week of the World Cup. The Forum of Brazilian Hotel Operators (FOHB) anticipated 240,000 hotel rooms would be booked, but as of June 11, an extra 100,000 hotel rooms were booked in the country (João Saldanha Open Media Centre, 2014).

The revenue generated by the tourists represents only 2.5% of the USD 15 billion invested by the government. Even considering Brazil might receive more international tourists in the next few years, as suggested by Fourie and Santana-Gallego (2011), the amount invested to receive a new tourist might not be worth it. The study also reminds that there are only gains from tourist arrival in the three years immediately after the event (Fourie & Santana-Gallego, 2011).

d. Social impact

The Brazilian government claims that there were USD 7.3 million invested in Pronatec Tourism, a governmental program that trained more than 160,000 Brazilian nationals to receive domestic and foreign tourists (João Saldanha Open Media Centre, 2014). This knowledge can be reused for the 2016 Summer Olympics as well as for the tourism sector.

However, investing in educational programs and infra-structure was not enough to please the Brazilians. Riots and strikes occurred around the country prior and during the World Cup. Many ended up in violence and confrontations with the police, resulting in injured participants and reporters. Protesters complained about the corruption and government expenditure with the World Cup. Their main criticism was the contrast between the spending in the mega-event compared to health and education. In 2013,

Brazil spent USD 34 billion in education and USD 36 billion in health. Both together comprise 8.6% of the total government expenditure in 2013. Expenses in health and education increased in 2014, but only represented 8.4% of the total expenditure (Controladoria-Geral da União, 2014).

Although the health and education spending were higher than the expenses with the World Cup, Brazilians realized that the opportunity cost was big. The country still needs basic investments on education and health before being able to afford soccer infrastructure.

V. Fédération Internationale de Football Association (FIFA)

When the Brazilians started protesting about the World Cup and the government expenditure, all kinds of criticism against the event arose, including negative commentaries about FIFA.

The main debate regarding the international organization was about the requirements it imposed for countries willing to host the World Cup. The requisites were said to be unnecessary. Most requirements published in FIFA's "Football Stadiums – Technical recommendations and requirements" and "Regulations – 2014 FIFA World Cup Brazil" are about the stadium safety, specifications and game rules. It is hard to judge those specifications without a visual analysis of how absurd they can be.

On the other hand, it is relevant to see what FIFA is publishing as the possible economic impact on the host countries. As Peeters, Matheson and Szymanski (2014) stated:

“There is a clear conflict of interest for a sporting organization to publish an economic impact study when that organization will be using any estimated economic gains as bargaining chip for the host government to supply large taxpayer subsidies for the event.”

FIFA states that hosting the World Cup can have benefits such as improving country’s infrastructure, increasing commercial activity and enhancing partnerships. They reported that the 2010 World Cup “generated total revenue of USD 3,655 million for FIFA (excluding ticketing revenue) and incurred total expenses of USD 1,298 million” (FIFA, 2011). They also announced that the 2014 World Cup created revenue of USD 4,826 million and total cost of USD 2,224 million. Both cases the events generated profit and according to the organization, this amount is later distributed to football clubs and used in other FIFA events.

VI. Conclusion and Recommendations

Just as in South Africa, the Brazilian officials reported the 2014 World Cup as a success. They believe the event was a huge opportunity for foreign visitors to learn about Brazil, the culture and its people. Both countries were about to be exposed internationally and to accelerate the investments on infra-structure in the host cities.

South Africa invested USD 3.12 billion on transportation, telecommunication and stadia. In return, the 2010 World Cup generated USD 509 million to the 2010 real GDP. It also created USD 769 million in benefits for the households. Brazil went bigger: it spent USD 15 billion on the 12 host cities infra-structure. The impact on GDP is still unknown, as there is not many reports released by the government on the World Cup. But the Economic Research Institute Foundation estimated the event expenses would inject

USD 13.43 billion in the overall economy. For both cases, one must take into consideration those are gross numbers and they do not account for the reallocation of spending by locals.

The biggest legacy left by the World Cup are the transportation and telecommunications infra-structure (Sheng, 2009). South Africa and Brazil have very inefficient governments, and if it was not for the mega-event, these investments would not happen so quickly. However, the locations where those investments occurred are mostly well developed and safe areas and they are definitely not the areas that needed the most rehabilitation. Regarding tourism, both countries received less visitors than expected. Tourists spending returned 10% and 2.5% of the total expenditure on the World Cup for South Africa and Brazil, respectively.

Brazil and South Africa consider a huge benefit for the population the fact that they invested in tourism related courses and that this knowledge can be used later in the tourism industry. Moreover, the population can enjoy better transportation and airports facilities that would not probably have been improved if it were not for the event.

As seen, both countries spent a lot on specialized sports infra-structure and on operations for the event but the World Cup was not able to generate enough financial gains. This is generally true in most cases international mega events, as discussed by Peeters, Matheson and Szymanski (2014). The hope that the World Cup can increase future tourists' arrivals must also be analyzed. As Fourie and Santana-Gallego (2011) estimated, there is no lasting impacts on tourism after the event. Number of international visitors only increases for the following three years.

Probably the most significant impact on a developing country is the opportunity cost related to the World Cup. The investments with sport infra-structure are too high, and could have been invested in education and health, sectors that those two developing countries desperately need to improve.

The next hosts of the FIFA World Cup are also developing countries: Russia and Qatar. They were not able to measure if it is worth it or not for them to be hosting the event, but both can certainly learn a lot from Brazil and South Africa. The biggest problem is that, as the two previous hosts, Qatar and Russia have not very efficient governments. Qatar has higher corruption control and effectiveness than the other three countries, but still the high amount being spent by the government leaves room for embezzlement of public funds.

In general, one can say the World Cup can bring benefits to a developing country, especially in terms of speeding investments and project management know-how for the government. On the other hand, the benefits can easily disappear because of the corrupted and inefficient governments most developing countries have. They end up spending way more resources than needed and planned, just as what happened to both Brazil and South Africa.

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Appendix

Table I

Estimates of Governance Indicators by the World Bank (The World Bank Group, 2015)

| Estimate | Brazil | | Russian Federation | | India | |
|---------------------------------|-------------------|-------|--------------------|-------|-------------------|-------|
| | Average 2002-2012 | 2013 | Average 2002-2012 | 2013 | Average 2002-2012 | 2013 |
| Control of Corruption | -0.03 | -0.12 | -0.93 | -0.99 | -0.45 | -0.56 |
| Government Effectiveness | -0.07 | -0.08 | -0.41 | -0.36 | -0.05 | -0.19 |
| Political Stability * | -0.10 | -0.28 | -0.99 | -0.75 | -1.22 | -1.19 |
| Regulatory Quality | 0.11 | 0.07 | -0.30 | -0.37 | -0.34 | -0.47 |
| Rule of Law | -0.29 | -0.12 | -0.86 | -0.78 | 0.04 | -0.10 |
| Voice and Accountability | 0.45 | 0.37 | -0.78 | -1.01 | 0.40 | 0.41 |

| Estimate | China | | South Africa | | Qatar | |
|---------------------------------|-------------------|-------|-------------------|-------|-------------------|-------|
| | Average 2002-2012 | 2013 | Average 2002-2012 | 2013 | Average 2002-2012 | 2013 |
| Control of Corruption | -0.55 | -0.35 | 0.25 | -0.12 | 1.03 | 1.24 |
| Government Effectiveness | 0.05 | -0.03 | 0.52 | 0.43 | 0.65 | 1.07 |
| Political Stability * | -0.50 | -0.55 | -0.07 | -0.06 | 1.06 | 1.22 |
| Regulatory Quality | -0.24 | -0.31 | 0.55 | 0.41 | 0.44 | 0.74 |
| Rule of Law | -0.42 | -0.46 | 0.09 | 0.13 | 0.75 | 1.04 |
| Voice and Accountability | -1.59 | -1.58 | 0.61 | 0.58 | -0.70 | -0.86 |

*Political Stability and Absence of Violence/Terrorism