

The Impact of Hosting the FIFA World Cup
Case Study: Developed vs Developing Nations

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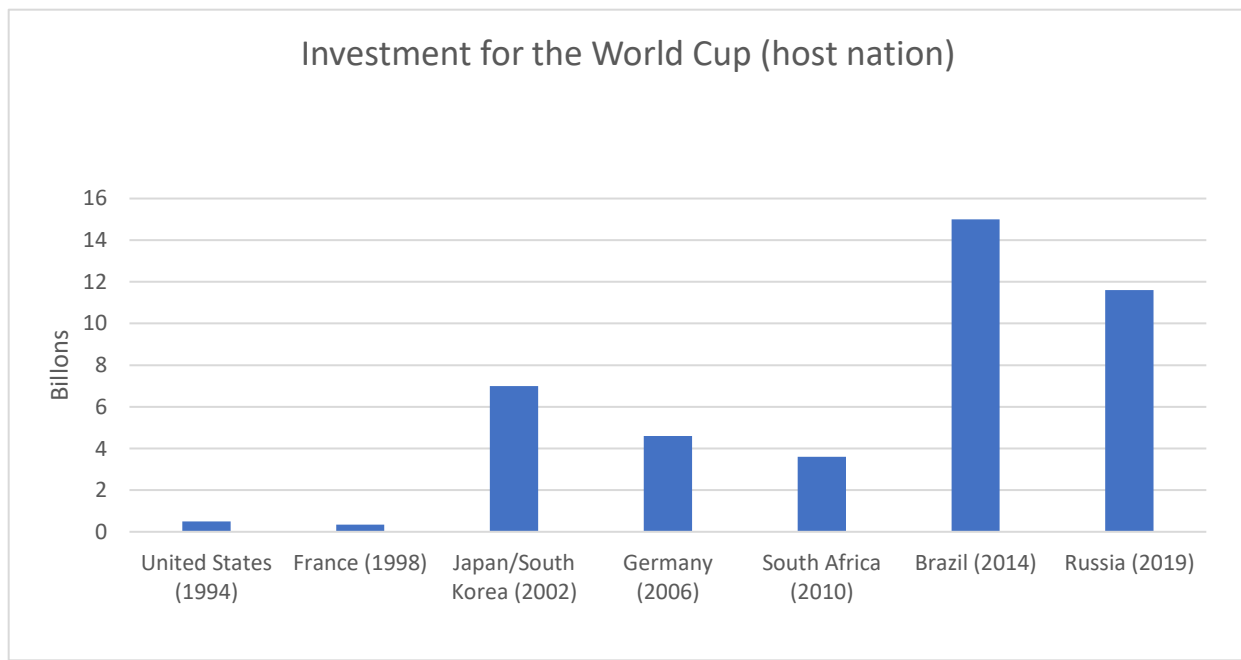
Abstract

This thesis is a microeconomic study of the economic impact hosting the FIFA World Cup can have on both developed and developing nations. It will examine the economies of Germany and Brazil, three years prior and three years subsequent to hosting the tournament in 2006 and 2014 respectively. The pressures imposed by the Fédération Internationale de Football Association (FIFA) require significant investments for the World Cup to be successful, but have countries been allocating it effectively? The purpose of this thesis is to determine, from an economic point of view, the extent to which it is beneficial for a nation to host an event of such global prestige. The study will consist of examining a series of variables that tend to be major determinants of economic growth. I will analyze the results in order to determine which components have the greatest impacts and ask whether the benefits of hosting the World Cup outweigh the costs.

Introduction

Does the world cup provide enough dividends for host nations? Although the World Cup is one of the most viewed sporting-events in the industry, few people think about the economic impact it could have, and even less consider the possibility that, in fact, it could hurt the host nation. While the tournament takes place in the span of less than two months, the preparation needed to build and develop all the facilities¹ and organize the event takes nearly a decade. There are a multitude of variables that need to be considered when planning for the World Cup. These can be as simple as organizing the dates and host cities for the tournament or determining the investment needed to build infrastructure to support the incoming hundreds of thousands of fans.

Over past three decades, the cost of hosting the FIFA World Cup has risen from a mere \$450 million in 1994, when the United States hosted the tournament, to approximately \$15 billion



¹ Such as: stadiums, airports, hotels, highways, train stations, among others

when Brazil was the host in 2014 (DiNuzzo). The figure below shows the marked increase on investments over the past two decades.

In addition, casual observers fail to realize that after the final match is played, most, if not all, of the stadiums built specifically to host the games become deserted. For example, the Cape Town Stadium in South Africa cost an estimated \$530 million to build; this stadium held eight FIFA official matches in 2010, bringing in just over sixty-thousand spectators per game, the most being 64,100 spectators to watch Argentina-Germany face off in the quarter-finals. Today, the Cape Town Stadium hosts events² and concerts less than 5% of the time during a year while the operational costs to maintain the 55,000 seat stadium are roughly \$6 to \$10 million per year (York). Taking these figures into account, of just one of the many stadiums built specifically for the FIFA World Cup, why do countries continue to believe that these economic losses will not happen to them?

Literature Review

Various studies have been conducted to analyze the impact of hosting the World Cup; some compare the positive economic impact on the local economy, while others have examined certain variables such as how investments were distributed throughout the nation, or how the stock market or domestic currency was impacted.

Millions of fans are willing to travel just about anywhere to watch their national team compete in FIFA World Cup. Hotels are fully booked, streets are crowded, restaurants use tree trunks for extra seating, and the country is the center of attention for the soccer world for two months. Tourists immerse themselves into the local atmosphere by buying local merchandise and appreciating every culture, and before a game, the only tears are those of happiness.

² Such as “private functions, birthday parties, weddings and anniversaries” (York)

Circus Maximus, written by Andrew Zimbalist, discusses the economic gamble involved behind hosting events of such prestige. Zimbalist argues that there are three main claims for long-term positive impacts from hosting the FIFA World Cup. First, hosting the tournament polishes the image of the host nation, promoting trade, tourism, and foreign investment. Second, with such large investments, the local infrastructure improves in addition to transportation, security, and hospitality. Third, the World Cup provides intangible benefits “improving or modernizing cultural traits, the feel-good factor, management abilities, and administrative efficiency” (Zimbalist, 33).

John Nauright expanded on Zimbalist’s study by researching the reason developing nations are increasingly interested in hosting the FIFA World Cup. He finds that they are slowly moving towards “event-driven economies” in order to stimulate tourism and economic development (Nauright,1325). Moreover, there are multiple benefits for having a developing nation host the World Cup. For example, lower wages should decrease operating and infrastructure costs, and such large investment budgets help improve the general infrastructure and provide greater potential for economic development³. Another major factor is that such infusions of capital in the economy contribute to decrease unemployment rates while stimulating funds flow within the economy.

Hosting an event with such history and prestige is part of a country’s effort to improve its brand, returns on investment, and reposition itself as an attractive location through job creation, which should be the legacy of the World Cup. Swantje Allmers and Wolfgang Maennig’s research shows that a large majority of the host nations’ population expect new opportunities such as: jobs, growth that translate in disposable income, and an improved country image that would help lure foreign investors to sustain this virtuous cycle.. For example, prior to the 2010 World Cup in South

³ For example, the \$500 million Wembley Stadium built for the London 2012 Olympics had additional \$150 million allocated to ‘general’ infrastructure improvements, including a completely modernized underground station and new roads.

Africa, more than a third of the population expected to personally benefit from job opportunities and positive externalities. Allmers and Maennig also touch upon the 'feel-good' effect and how there are multiple intangible effects, such as image building and self-marketing, that produce "lasting improvements for the host nation's competitive environment" (Allmers, 510).

Although there may be positive outlooks for developing nations to host an event of such prestige to stimulate the host nation's economy, do they outweigh the substantial risks and future costs involved in order to stimulate the host nation's economy? Victor Matheson sheds light on this question by claiming that benefits are exaggerated due to multiple reasons such as 'gross vs net measure' and the 'multiplier effect'. For example, Matheson argues that since match ticket spending by local residents goes directly to FIFA, instead of remaining within the local economy, money is displaced as it would have been spent on other activities within the community. In addition, he points out that multiple economic studies that estimate direct expenditure by foreign visitors do not take leakages into account.

The investments related to the World Cup are one of the most critical components to be considered. These are not only explicit ones, such as those required to update stadiums or airports, but also the environmental and social impacts. Berkeveld discusses that the economic costs are just as important as implicit impacts due to chain reactions that ultimately impact the nation on an individual level, as seen through people's education or even income.

James McBride further researches the costs behind the mega sporting events by discussing exaggerated and nonexistent benefits of the Olympics along with implicit and opportunity costs. For example, it took the city of Montreal thirty years to pay off its debt from the 1976 Olympic Games, and the spending for the 2004 Olympics in Greece contributed to the Greek debt crisis. McBride also provides examples of the possible financial risks for hosting and touches on the

problematic ‘white elephants’, which are expensive stadiums and facilities that have been built specifically for the tournament but have little to no post-World Cup use.

One of the most critical components for allocating investments is determining how much will be spent on building and renovating stadiums versus investing in public works. Expanding on McBride’s work, Christopher Gaffney discusses stadium expenditure and their opportunity costs across different World Cups. He argues that costs should not be seen in their monetary value, but rather in terms of the value they bring to society. For example, the stadium costs for the Brazilian World Cup more than doubled between the time construction began and the tournament began. As a result, not only did costs increase, investments in land transportation were excluded from original plans, and other plans made for the World Cup were not completed. Another case to examine is when the Nigerian government spent over \$300 million on a new soccer arena, more than the budget for health or education expenditures resulting in huge opportunity costs for those basic needs within the nation. As a result, mass demonstrations took place against the stadium.

Jorge Viana analyzes the economic impact of hosting the FIFA World Cup, comparing developed and developing host nations. One of the major components that is studied is tourism, and the impact it has had in the host nation during the year of the tournament. Viana’s journal argues that in general, tourism is not statistically associated economic growth or development within a nation as a result of hosting the FIFA World Cup.

Another study, by Jonah Fourie and María Santana-Gallego expands on the idea behind tourism, arguing that it is one of the most important elements of hosting the FIFA World Cup. Without tourists, there are no ticket sales, no fully-booked hotels and restaurants, and no passionate fans roaming around the streets. Fourie and Santana-Gallego break down tourism flows, measuring the direct benefit of events of such global importance. Their study shows that tourism does increase

as a result of hosting mega-sport events, but varies greatly on the event itself, the country hosting it, and the time of the year. A key element when countries bid to become host nations is the long-run impact tourism; the results show that there are significant gains during the year of the event, but little to no increases in tourism even three years following an event.

All of the studies have consistently found that ultimately there is little to no evidence for a positive economic impact as a result of hosting the tournament. The general consensus has also been that changes need to be made in order for it to be more affordable for host nations. The term ‘winners curse’ was also mentioned multiple times in different articles arguing that the host nation is left worse off because of the World Cup.

Model Development

There are five independent variables that I will use in order to determine whether or not the FIFA World Cup has a positive effect on the host nation’s economic development: inflation, unemployment, tourism, investments made for stadiums, and investments made to other sections of the tournament. The dependent variable is the GDP of the host nation, in this case Germany and Brazil. Quarterly data will be gathered for all variables, analyzing the year of the tournament, and three years prior and succeeding the hosting.

$$\text{Gross Domestic Product} = B_0 + B_1(\text{Inflation}) + B_2(\text{Unemployment}) + B_3(\text{Monthly Tourism}) + B_4(\text{Investment in Stadium}) + B_5(\text{Investment in Other})$$

$$H_0: B_1 = 0, B_2 \geq 0, B_3 \leq 0, B_4 \leq 0, B_5 \leq 0$$

$$H_a: B_1 \neq 0, B_2 < 0, B_3 > 0, B_4 > 0, B_5 > 0$$

Independent Variables:

Inflation: This variable is impacted by the general increase in prices of products and the decrease of purchasing value. It plays a major role in influencing GDP because in developed nations inflation should have a positive relationship, while in developing it have an inverse. It will be important to compare how the GDP Brazil and Germany was impacted by inflation.

Unemployment: An unemployed individual is considered to be someone who is actively looking for a job but is unable to find work. This is a critical variable because due to significant investments made during the years prior to the World Cup, short-term employment should have increased, thus increasing GDP. Unemployment is the only variable that is inversely related with GDP because if an economy is a poor state unemployment tends to rise.

Tourism: Tourism is the number of people living abroad who visit a nation either for pleasure or business. This variable plays a major role as the more tourism, the greater flow of money in a nation, ultimately increasing GDP.

Investment in Stadium: This variable looks at the total amount of money that was invested in stadiums specifically for the World Cup. This variable plays a major role as millions of US dollars are spent in building and renovating stadiums for the World Cup.

Investment in Other: This represents the amount of money that was invested in all components of the World Cup, except for stadiums. Investing in multiple sectors of the economy positively impacts GDP as infrastructure becomes more efficient to meet the influx of tourists more efficiently and construction costs could potentially be lower.

Presentation of Data

The data I have gathered for my research comes from multiple sources, mainly from CEIC Data, Statista, and The World Bank. These sites were used to retrieve data for inflation

figures and tourism statistics for Brazil and Germany. They are reliable sources as data is collected on a monthly and yearly basis, compiled correctly, “following standard practices and methodology” (World Bank). Data on the allocation of money, or government expenditure, in preparation for the FIFA World Cup was taken from ‘A Time To Make Friends’ for Germany and Brandão’s article for Brazil.

It is important to note that there were manipulations made to the data, specifically regarding GDP figures for both Germany and Brazil. Since only monthly data was available, I took the average of three months to calculate quarterly figures. Modifications were also made to the financial costs of constructing stadiums. For Germany, since all of the stadiums were completed before 2005, a straight-line method was used to evenly divide the costs in the years prior to the start of the World Cup. On the other hand, Brazil efficiency was questioned as it did not meet the deadline imposed by FIFA to complete the stadiums’ construction (Gayathri). In addition, multiple Brazilian sources mention that not only was the construction of the stadiums held back, but “many of the longer-term investments in rapid transit systems in Brazil’s main cities [were] delayed” and completed by the 2016 Rio Olympics (Boadle, Rapoza). For this reason, only half of the \$10.4 billion investment was allocated within 2011 and 2017, splitting it evenly throughout all quarters.

The gathered data is useful because it considers important economic variables that affect GDP per capita. For example, with regards to inflation, developing nations such as Brazil should have relatively higher rates, as according to the Phillips Curve, it could lead to lower rates of unemployment, implying positive economic growth. On the other hand, the data shows that developed nations such as Germany have lower inflation rates suggesting steady prices and purchasing power. Tourism figures are critical to my research because it is correlated with the

amount of money circulating within the economy. As a result, higher tourism should benefit the economy as local firms are stimulated, resulting in the creation of jobs and opportunities within the local economy. It can also potentially improve the image and perception of a nation as tourists who return to their home country can share their experience with others.

Although these data points are valuable for my research, ideal data would consist of being able to analyze the impact certain investments had in different areas of the economy and the opportunity costs⁴. For example, if three hundred million dollars were allocated specifically to completely renovate a stadium for the World Cup, what is the long-run economic impact of the investment, and if this money was allocated differently, could there have been another way to benefit the local economy to a greater extent. Having information of this detail would allow me to further compare the cases of Brazil and Germany, specifically how budgets could have been expensed differently.

In addition, having the constant tourism statistics would have benefitted by analysis significantly. Since I could not find the same type of data, I decided to use quarterly tourism for Germany and quarterly tourism revenue for Brazil. Having the same measurements would have been ideal in order to determine the impression the host nation gave the effects from tourism.

Methodology

In order to compare the impact of hosting the World Cup, two regressions were necessary for each nation. The first regression uses data from three years up to the year of the World Cup, while the second regression takes into account the year of and three years after the tournament. This was done in order to analyze any short-term economic impact. Regressions for each nation consisted of two-hundred and thirty observations.

⁴ with regards to how they were allocated

The regression method used was the Ordinary Least Squares (OLS) regression, that estimates the relationship between the independent and dependent variables. Multicollinearity was also tested to determine if one variable can be predicted by others to a significant degree of certainty. This was done by using the collinearity matrix. Multicollinearity inflates the values of the standard error, which in result increases the p-value, making it less likely to reject Ho.

Results (2-4)

Regression Analysis for Germany

Sample: Germany prior to the 2006 World Cup

Dependent Variable: GDP

Method: Ordinary Least Squares

| <i>Variable</i> | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> |
|----------------------------------|---------------------|-----------------------|---------------|----------------|
| Intercept | 601.857833 | 79.49876059 | 7.57065681 | 0.0001294 |
| Inflation (%) | 24.0846947 | 9.998329535 | 2.40887186 | 0.0468515 |
| Quarterly Tourism (millions) | 10.9892389 | 9.601955936 | 1.14447921 | 0.2900457 |
| Unemployment (%) | -4.6514839 | 7.878059083 | -0.5904352 | 0.5734583 |
| Investment in Stadium (millions) | -201.03481 | 105.1581814 | -1.9117372 | 0.0975080 |
| Investment in Other (millions) | 255.137188 | 105.3036933 | 2.42287027 | 0.0458983 |
| R-Squared | 0.72362253 | | | |
| Adjusted R-Squared | 0.52621005 | | | |
| S.E. of Regression | 12.4384488 | | | |

Prior German GDP = 601.86 + 24.08(inflation) + 10.99(tourism) - 4.65(unemployment) - 201.03(stadium) + 255.14(other)

By evaluating the regression output, the overall goodness of fit (R-Squared) is rather good for the years leading up to 2006. The Adjusted R-Squared is 0.526210. Out of the five independent variables, only Inflation and Investment in Other are statistically significant at the 95% confidence interval. Although this is true, it is important to note the negative impact that the Investments in Stadiums variable had on the German GDP. For every one million dollars that were spent in stadiums, German GDP would be negatively impacted by around \$201 billion dollars. The coefficient of -201.03 stands out because prior to the World Cup, Germany had already modernized infrastructure and the investments made were both privately and publicly financed; so although relatively little was invested into stadiums, it negatively impacted GDP. The other variable that comes to a surprise is Unemployment, and how it is the least statistically significant variable. Prior to 2006, around half a million jobs were created in preparation for the tournament. Usually, the creation of jobs allows more money to circulate within the economy, which should have increased GDP (A Time To Make Friends).

Sample: Germany from 2006 and onwards

Dependent Variable: GDP

Method: Ordinary Least Squares

| <i>Variable</i> | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> |
|------------------------------|---------------------|-----------------------|---------------|----------------|
| Intercept | 754.3254532 | 41.13126712 | 18.33946547 | 1.35153E-09 |
| Inflation (%) | 7.749077429 | 4.478280643 | 1.730368878 | 0.111481997 |
| Quarterly Tourism (millions) | 8.104475837 | 9.739584484 | 0.832117206 | 0.423040033 |

| | | | | |
|--------------------|-------------|-------------|-------------|-------------|
| Unemployment (%) | -11.1404522 | 4.279009814 | -2.60351173 | 0.024539838 |
| R-Squared | 0.520371887 | | | |
| Adjusted R-Squared | 0.389564219 | | | |
| S.E. of Regression | 16.72753787 | | | |

Post German GDP = 754.33 + 7.75(Inflation) + 8.10(tourism) - 11.1(unemployment)

By evaluating the regression output, the overall goodness of fit (R-Squared) is fairly low for the years subsequent to 2006. The Adjusted R-Squared is 0.38956. The only significant variable is Unemployment. It is very interesting to note that in the latter regressions, unemployment had a greater impact on the German GDP. As mentioned previously, hundreds of thousands of jobs were created preceding and following the tournament, which should have left a positive mark on the economy. One area that led to an increase in employment was the German Football League. Over €50 million were pumped into the Bundesliga to bring long-term benefits to the game. The country's passion for soccer was seen by numerous global companies in which more teams received sponsorships. As a result, allocating significant funds into the Bundesliga allowed teams to buy better players, increase the level of play, and most importantly increased the global viewership as well.

Germany experienced constant GDP growth, from about \$592 million US Dollars in the first quarter of 2003 to nearly \$800 million in the fourth quarter of 2006. This is about a 33% increase in just three years. Quarterly GDP growth was also positively impacted as a result of hosting the World Cup. In 2003 GDP growth was negative, while in 2006 it ranged from 2.8% to 5.0%, proving that the year of hosting had the greatest growth (German GDP).

Regression Analysis for Brazil

Sample: Brazil prior to the 2014 World Cup

Dependent Variable: GDP

Method: Ordinary Least Squares

| <i>Variable</i> | <i>Standard</i> | | | |
|--------------------------------------|---------------------|--------------|---------------|----------------|
| | <i>Coefficients</i> | <i>Error</i> | <i>t Stat</i> | <i>P-value</i> |
| Intercept | 531.65214 | 88.708234 | 5.9932671 | 0.0005459 |
| Inflation (%) | 0.4513574 | 5.5292968 | 0.0816301 | 0.9372258 |
| Quarterly Tourism Revenue Growth (%) | -0.009454 | 0.0555889 | -0.1700832 | 0.8697559 |
| Unemployment (%) | -45.35935 | 14.358043 | -3.1591601 | 0.0159469 |
| Investment in Stadium | 89.719754 | 27.972343 | 3.2074449 | 0.0149108 |
| Investment in Other | -51.98177 | 58.923079 | -0.8821972 | 0.4069423 |
| R Square | 0.94986821 | | | |
| Adjusted R Square | 0.91405978 | | | |
| Standard Error | 8.49157552 | | | |

Prior Brazilian GDP = 531.65 + 0.45(inflation) - 0.009(tourism) - 45.35(unemployment) + 89.72(stadium) - 51.98(other)

By evaluating the regression output, the overall goodness of fit (R-Squared) is very good for the years leading up to 2014. The Adjusted R-Squared is 0.91406. Out of the five independent variables, only Unemployment and Investment in Stadium were statistically significant at the 95% confidence interval. The results show that Investment in Other had a negative impact on the Brazilian GDP. One of the main reasons this variable negatively impacts GDP was because during the years of construction, there was a global economic crisis, which over the next couple of years,

increased the expected costs by around seventy-five percent (Gaffney). As a result of the price increase, “Brazil was forced to divert its resources away from general infrastructure projects that may have had greater long-run growth potential” (Matheson).

Dependent Variable: GDP

Method: Ordinary Least Squares

Sample: Brazil from 2014 and onwards

| <i>Variables</i> | <i>Standard</i> | | | |
|--------------------------------------|---------------------|--------------|---------------|----------------|
| | <i>Coefficients</i> | <i>Error</i> | <i>t Stat</i> | <i>P-value</i> |
| Intercept | 384.72110 | 23.215669 | 16.571613 | 1.337E-08 |
| Inflation (%) | -1.937355 | 1.9629670 | -0.986952 | 0.3469435 |
| Quarterly Tourism Revenue Growth (%) | -0.062273 | 0.0289008 | -2.154732 | 0.0566105 |
| Unemployment (%) | 4.9244940 | 1.7660948 | 2.7883519 | 0.0191739 |
| Investment in Other | -24.411032 | 67.036044 | -0.364147 | 0.7233293 |
| R Square | 0.8888269 | | | |
| Adjusted R Square | 0.8443577 | | | |
| Standard Error | 7.7450414 | | | |

Post Brazilian GDP = 384.72 - 1.93(inflation) - 0.06(tourism) + 4.92(unemployment) - 24.41(other)

By evaluating the regression output, the overall goodness of fit (R-Squared) is fairly good for the year of 2014 and after. The Adjusted R-squared is 0.84436. The only significant variable is Unemployment. It is important to note that the coefficient for Unemployment is most likely wrong

because this suggests that Brazil's GDP increases with higher unemployment rates. It is also important to note that Quarterly Tourism Revenue Growth had a negative impact on the Brazilian GDP both before and after the hosting of the World Cup.

Unlike with the regression done on Germany, Investment in Other is included in the Post World Cup regression because not all of the planned construction was finished for tournament. As a result, Brazil decided to push back some of the investments, and ultimately raising costs, causing a negative impact on the Brazilian GDP. This is the reason why Investment in Other has a large negative impact on Brazilian GDP. Five of the twelve host cities admitted that they had not even completed the promised transportation developments in time for the World Cup (Zimbalist, 96).

Brazil saw a decline in GDP, from about \$2.6 trillion US Dollars in 2011 to ending in just over \$1.7 trillion USD by the end of 2016. These figures show that GDP decreased over 30% in just five years. Quarterly GDP growth was also negatively impacted as a result of hosting the World Cup. From 2011 quarterly GDP growth was positive, ranging up to 2.3%, while from 2014 until 2017 it ranged from -0.1% to -2.2%, proving evidence that hosting the tournament caused negative economic growth (Brazil GDP).

Socio Economic Impact

Due to the countless expenses⁵ that need to be planned, it becomes almost inevitable that there will be a misallocation of money; Brazil was no exception, scoring many 'own-goals' leading up to the world cup.

⁵ Such as those associated stadiums, transportation, housing, medical infrastructure (ex. sewage system) to name a few (Global Banking).

One of the main causes behind this is because the Fédération Internationale de Football Association (FIFA) has multiple requirements for nations to be ‘good’ hosts. These include such as having “appropriate infrastructure, tax preferences, and various hospitality services” (Circus Maximus, 34). For example, they require host nations to have at least eight modern stadiums with at least 40,000 seats, one stadium for the opening match of the tournament with a capacity of 60,000, and one more stadium to be able to hold 80,000 spectators for the final, all which must be distributed across different cities. The costs associated to stadiums are only half of the requirements as there are also over one hundred other facilities that need to be constructed, as shown on the right.

In addition, although FIFA does not cover local operating expenses, they keep the majority the revenue generated from the World Cup.

Short-run boosts to the

local economy should come from when a local buys tickets for a match. For example, when Brazil hosted the 2014 World Cup, it came to no shock that the majority of the spectators were Brazilian. Unfortunately, instead of remaining within the local economy, the money spent on tickets by roughly 600,000 local and foreign fans during the months of the tournament went directly to FIFA. In addition, the costs of tickets nearly tripled at some stadiums because of the occasion (Zimbalist). Considering these facts, over \$350 million went to FIFA solely from ticket sales, “suggesting that over \$200 million that would otherwise have contributed to domestic demand in Brazil did not do so.” (Circus Maximus, 39). This data directly relates to what Victor

| Component | Requirements | |
|--|---|--------|
| Stadiums | | |
| Stadiums: minimum net seating capacities | Opening Match | 80,000 |
| | Remaining Group Stage matches | 40,000 |
| | Round of 32 | 40,000 |
| | Round of 16 | 40,000 |
| | Quarter-finals | 40,000 |
| | Semi-finals | 60,000 |
| | Third place play-off | 40,000 |
| | Final | 80,000 |
| Team & referee facilities | | |
| Team Base Camp Training Sites | 48 (with 72 proposals) | |
| Team Base Camp Hotels | 48 (with 72 proposals) | |
| Venue-Specific Training Sites | 2-4 per stadium (with 4 proposals per stadium) ¹ | |
| Venue-Specific Team Hotels | 2-4 per stadium (with 4 proposals per stadium) ¹ | |
| Referee Base Camp Training Sites | 1 (with 2 proposed) | |
| Referee Base Camp Hotels | 1 (with 2 proposed) | |

Matheson suggests: that figures from the direct spending of foreigners within the economy fail to take into account leakages such as the one mentioned above.

In addition, after the tournament, the host nation has the burden of having to sustain the stadiums. The Cape Town stadium in South Africa costs around \$3.5 million per year to maintain, while for the Manaus in Brazil stadium it costs \$3 million per year.

Tensions start to rise and many begin to question whether this was the most effective and rational manner to use the nation's financial resources and scarce land. As a result, even before the start of the World Cup, multiple violent protests broke out, with thousands of people complaining about the millions of dollars spent on stadiums instead of being allocated to other sectors of the economy such as low-income housing. Tamarés Mota, a university student complains saying "We're in a country where the money doesn't go to the community, and meanwhile we see all these millions spent on stadiums." (Rumsby). An estimated one million took part in protests against the FIFA World Cup and Brazilian government.⁶

There are three types of costs that have to be considered when hosting such an event: financial costs, opportunity costs, and social and environmental costs. One of the biggest financial and opportunity costs result from a question that is always left out: how are the games paid for? If a government takes out a loan of \$10 billion at a 5% interest over a thirty-year period to subsidize the games, they will be paying over \$600 million on a yearly basis for the next three decades. As a result, taxes must be raised or government services must diminish, both putting a huge toll on economic development. The money that is used for these stadiums and infrastructure

⁶ Leading up to the World Cup, planning was not allocated efficiently causing many to be overworked. The "World Cup has gone massively over budget and has seen several workers die in the rush to complete stadiums..." (Rumsby).

is opaque as it “comes in the form of public grants, tax benefits, or low-interest loans” (Zimbalist).

Furthermore, there are often costs that are overlooked which affect communities on the individual level. The stadium Arena das Dunas, built on the coast of the beautiful yet humble city of Natal, where a quarter of the residents don't have running water, cost \$450 million dollars to construct. Prior to the World Cup, Maria Oliveira, a local to Natal, would sell ice out of her house to those walking to the popular beaches. As a result of the Arena das Dunas being built for the 2014 World Cup, Maria can no longer afford to pay off her expenses (Macur). A 420-page manual published by FIFA states that new stadiums “provides many benefits for the local community” and enhances community pride (Zimbalist, 73). Situations like these really make you wonder how much effort FIFA really puts into trying to make the hosting a success for everyone.

There were multiple white elephants leading up to the 2014 World Cup. Four of the twelve stadiums that were constructed were built in cities that had no soccer team in the top division of Brazilian soccer. In one of cities, Manaus, there was a second-division team that had an average of 1,500 spectators per home game (Zimbalist, 98). Now they have a stadium that seats 42,000 and costs over \$300 million to maintain yearly.

Resources could have been used more efficiently. Although financially it is better to have a developing nation host the World Cup, the opportunity costs of capital are significantly higher versus hosting it in a developed nation. “From an economic point of view, the cost of building a new stadium is not best described by the amount of money needed to build the facility but rather the value to society from the same amount of capital spent on the net best public project.” (Matheson, 1092).

In addition, there are hidden costs within FIFA showing that they care more about money rather than passion for the sport. For example, in June of 2014, a report in the London *Sunday Times* said that the Qatari Vice President of FIFA bribed senior officials over \$5 million to have Qatar be the host for the 2022 World Cup. This is the first time that a scandal of such magnitude broke out regarding bidding, but it is no surprise if there have been many more in the past.

Conclusions and Suggestions

Hosting the FIFA World Cup can be a huge opportunity to welcome hundreds of thousands of visitors that could learn about the host nation's, culture, and people. It should be a stimulant for economic growth and improving the infrastructure in host nations, but as of late, as seen with the analysis of Brazil, it does not seem that this has been the case.

For this event to be successful, governments, business, and nations should ask themselves one question: who is the World Cup for? For athletes? For tourists? Or for the locals? Some have argued "that the World Cup is not for the fans, and much less for [construction] workers. The Cup is another way for large companies to profit by exploiting workers and getting billions in public money." (Pacs).

In order to improve World Cup hosting, I would like to propose some suggestions. One of the most critical but least known facts is that "FIFA prefers that stadiums be spread throughout the country" (Cernel). I propose that FIFA abandons the idea of having stadiums scattered all over the host country and instead focus on making right venue selection by consulting with the host government who should be in a better position to know local economic circumstances. A more careful study should be done to prevent World Cup stadiums from being scattered as the majority end up as venues that are not sustainable in the long-term from either an economic or a sporting point of view. FIFA and the host country should also take greater advantage of suitable existing

venues instead of completely renovating or building new ones that are highly unlikely to play a major role in the local sporting or cultural life after the World Cup.

Although host countries also have a responsibility as they officially choose which venues will be presented in their bids, FIFA should take a more critical stance that would fall more in line with the organization's official motto: 'For the Game. For the World'. I would like to stress that the objective of FIFA should be not only benefit themselves, but the local community as well. If the organizers do not consciously think about improving on the experience from past games, "there will be [even more] pressure on FIFA to ensure that future World Cup tournaments do not leave countries with billions of dollars' worth of debt and empty stadiums." (Gready).

Three years from now, in November of 2022, Qatar will be in the midst of hosting the FIFA World Cup. Their infrastructure costs are expected to be around \$200 billion; that's 13 times more than the most expensive World Cup to date (Fattah). Such investment is more significant with the fact that Qatar's GDP is \$160 billion, or about forty percent less than the planned investment. They will be building seven brand new stadiums with incredible quality, designs, and features such as climate-controlled stadiums (Knecht).

Several, including ex-FIFA president Sepp Blatter, have argued that having Qatar host the World Cup is a mistake due to its high expected costs, climate, limited history of the sport, and its human rights record. On the other hand, others such as Fyfe has argued that it is an incredible opportunity "because it's a big project in a relatively small economy...[it] will bring in a lot of people and investment", stimulating economic growth to a great extent (Fattah).

Future Research and Contribution to Literature

A future line of analysis could build upon the findings of this research and analyze the extent to which Blatter's predictions came to fruition, or whether it end up being another massive

investment with no tangible positive results for the local population. The judgment upon the relevance of the FIFA World Cup and its effects upon local economies is still open for debate. However, preliminary findings indicate that FIFA should review its current policies to make it more inclusive of host nations.

One distinct contribution provided by my paper relates to the type of analysis done on the World Cup. Unlike most papers which only consider analyzing one nation, or focus specifically on developing or developed nations, my research compares developed and developing nations. Not only do I analyze two recent hosting's, but I present an example where one hosting was profitable while the other was not.

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