The 2010 FIFA World Cup to be hosted in South Africa has created extensive expectations especially surrounding the expected benefit to the South African economy. While forecasts are by their nature uncertain there is substantial literature on the benefits that these events generate. While such a mega-event is scheduled at least once every year somewhere in the world, these events are rare occurrences for the host cities and countries. The benefits of such events seem lucrative; the very fact that many countries bid to host these events suggests that the benefits – be they tangible or intangible – more often than not outweigh the costs. Tourism is one of the leading growth sectors in international services trade. While many factors influence tourism growth, one of the more perceptible contributions – at least, in the public eye – comes from global events, or mega-events. Mega-events, are ‘large-scale cultural (including commercial and sporting) events, which have a dramatic character, mass popular appeal and international significance’.

1 Introduction

The 2010 FIFA World Cup to be hosted in South Africa has created extensive expectations especially surrounding the expected benefit to the South African economy. While forecasts are by their nature uncertain there is substantial literature on the benefits that these events generate. While such a mega-event is scheduled at least once every year somewhere in the world, these events are rare occurrences for the host cities and countries. The benefits of such events seem lucrative; the very fact that many countries bid to host these events suggests that the benefits – be they tangible or intangible – more often than not outweigh the costs. Tourism is one of the leading growth sectors in international services trade. While many factors influence tourism growth, one of the more perceptible contributions – at least, in the public eye – comes from global events, or mega-events. Mega-events, are ‘large-scale cultural (including commercial and sporting) events, which have a dramatic character, mass popular appeal and international significance’.

the gain (or size of displacement) is dependent on the type of mega-event (not necessarily its size), the participating countries, the host country’s level of development, and a number of event-specific factors. This note aims to inform the reader as to the latest estimates available on the expected impact of the 2010 FIFA World Cup on inbound tourism into South Africa.

2 Background

The Econex tourism economics unit has been forecasting expected air arrivals from the major source markets for the past two years using advanced econometric techniques coupled with substantial industry experience. The results of this approach indicate a very substantial effect, not only during the second quarter, but also due to the strong anti-cyclical impact of the event as it takes place during the low season. Secondly, researchers from Stellenbosch University and La Laguna University in Spain have approached the topic from another angle (the FSG approach). The researchers found that the impacts on tourism arrivals were positive in most instances. Tourism in the South African context is an increasingly important sector of the economy since being readmitted into the international market in the 1990s. Statistics are available for the tourism industry but they are fairly limited in scope. While updated versions are not currently available, a detailed Tourism Satellite Account was published by StatsSA for the year 2005. Key findings include the following:

- Tourism sector contribution to GDP was calculated at 3%.
- Tourism direct gross value added for the year was R42.355 billion.
- Inbound tourism expenditure totaled R51.09 billion or 48.4% of total.
- Domestic tourism expenditure totaled R54.499 billion or 51.6% of total.
- 4.3% of total employment or 527,630 people were employed directly in producing goods and services for tourists.

3. The note is a summation of two recent studies on the probable impact of the FIFA World Cup on the South African Inbound Tourism Market and as such quotes extensively from both sources. Sources: Venter, C. The Econex Tourism Tool, Q1 2010 www.econex.co.za and Fourie, J. & Santana-Gallego, M. 2010: “The impact of mega-events on tourist arrivals” Stellenbosch University, South Africa and La Laguna University, Spain
4. Comprising directors Cobus Venter (also senior economist B.E.R.) and Willem Boshoff (also lecturer Dept. Economics Stellenbosch University).
5. Johan Fourie (Stellenbosch University, Dept. Economics) and Maria Santana-Gallego (La Laguna, Dept. Economics).
The value of inbound tourism can be likened to the value of exports and this has become a very important source of foreign currency to the SA economy. The level is equal to approximately 10% of exports. The indirect effect of tourism spend is harder to quantify as the industry is diverse and affects many sectors. The TSA indicated that there were over 500 000 people employed in the tourism industry making the industry one of the leading sources of job creation over the past decade. While the ratio is probably extremely fluid, the TSA found a near 50/50 split between the value of domestic tourism to international tourism even though the volumes of people are obviously different. Figure 1 depicts the growth in total quarterly arrivals from the three most important source markets namely the United Kingdom, Germany and the USA from 1998 to the end of 2009. These three markets equate to more than 40% of total air arrivals and can be used as a proxy for total air arrivals. The trend is clearly positive until the onset of the recent major global recession. Total quarterly arrivals from these markets reached more than 250 000 visitors during the high season from 2004 and into summer 2007/8 before dropping rapidly to levels not seen since 2003. The series also clearly reflects the very seasonal nature of arrivals to South Africa. The high season roughly corresponds to the summer months. The FIFA 2010 World Cup takes place in South Africa during June and July this year and not only is this the low season for inbound tourism but it also comes at the end of a strong decline in international air inbound tourism following the recent international recession. Table 1 provides some insight into the dramatic annual declines in international

![Figure 2: SA air inbound from three major source markets (annually)](image-url)

**Table 1: SA Inbound Volumes from 3 Major Source Markets**

<table>
<thead>
<tr>
<th>Source Market</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>-2.8%</td>
<td>-9.5%</td>
</tr>
<tr>
<td>USA</td>
<td>4.1%</td>
<td>-21.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>-3.8%</td>
<td>-19.3%</td>
</tr>
<tr>
<td>Combined series*</td>
<td>-1.16%</td>
<td>-14.0%</td>
</tr>
</tbody>
</table>

* Please note that the combined series is weighted to the actual volumes rather than simple averages.

Source: StatsSA and Econex
arrivals, experienced by the SA tourism industry from 2008 to the present. In addition to the substantial declines in arrivals, the domestic market has also contracted during the last two years with the Econex SA Composite Domestic Business Travel Index declining by more than 6% during 2009. This implies that volumes probably declined to the same extent.

3 International Literature on Mega Events

The appeal of hosting a mega-event, or more specifically a mega-sporting event, has grown significantly over the last few decades. Countries and regions increasingly consider these events as possible lucrative opportunities encapsulating large potential tangible and intangible benefits for the host. What has been less apparent is the size of these benefits. Although scholars have attempted to measure the economic gains that result from hosting a mega-event since the 1980s, it is in the most recent decade that the debate about the potential gains, both in terms of economic returns and intangible benefits (including various non-quantifiable advantages as broad as national pride, patriotism and country image), has intensified. Comparisons are fraught with difficulties and there is no definitive way of measuring the full cost and or benefit of hosting these events. However, the central problem remains similar across the spectrum: isolating the impact of one mega-event and determining its counterfactual. Put more plainly: Are the costs for infrastructure, stadia, security and marketing worth the gains from tourism, trade and tickets? And, if not directly, does the event spark – maybe indirectly – long-run economic development? While measuring the true economic cost and benefit is an extremely complex endeavour and one that is littered with data and theoretical problems it is much simpler to measure the one visible benefit of these mega events namely any increases in tourism numbers for the country in question. Rose and Spiegel (2009), investigating the impact of hosting the Olympic Games on international trade flows find strong support that hosting a Summer Olympic Game increases trade flows significantly. Furthermore, they posit a theory of signalling, whereby countries that bid for a mega-event send a “policy signal that is followed by future liberalisation”. The benefits of the mega-event is therefore not limited to the increase in event-related activities (tourists visiting to support their teams, for example) but also through the signal a country sends by hosting (or being willing to host) the event. Measuring the behaviour of tourists from a comparative perspective also allows for an examination of tourism displacement or crowding-out.


About ECONEX

ECONEX is an economics consultancy that offers in-depth economic analysis covering competition economics, international trade, strategic analysis and regulatory work. The company was co-founded by Dr. Nicola Theron and Prof. Rachel Jafta during 2005. Both these economists have a wealth of consulting experience in the fields of competition and trade economics. They also teach courses in competition economics and international trade at Stellenbosch University. Director, Cobus Venter, who joined the company during 2008 is also a Senior Economist at the Bureau for Economic Research (BER) in Stellenbosch. For more information on our services, as well as the economists and academic associates working at and with Econex, visit our website at www.econex.co.za.
Whereas some tourists may be attracted to an event (event-specific tourists), some ‘normal’ tourists visiting the region frequently, may opt to shift their visit when a mega-event occurs. This could be for a variety of demand- or supply-side reasons, including escalating prices, supply constraints in terms of accommodation and transport, security concerns, or visitor preferences. However, quantifying these crowding-out effects is troublesome as tourist behaviour is determined by many different country- and time-specific factors. There is little empirical proof of mega-events yielding cross-country tourism gains, as the existing literature usually evaluates only one event or, at most, one type of mega-event. The FSG methodology empirically measures across different mega-events the change in tourism arrivals for a country hosting a mega-event. The researchers use a gravity specification standard in the trade literature to estimate the increases in tourism from hosting six different mega-sport event types, namely Summer and Winter Olympic Games, FIFA World Cup, Rugby World Cup, Cricket World Cup and British/Irish Lions tour over the period 1995-2006.

**4 2010 FIFA Specific Research and Initial Estimates**

The World Cup is eagerly anticipated in South Africa and initial forecasts, generated in support of the event, created expectations of around 450 000 additional unique visitors. Such a number of visitors would surely be hugely beneficial to the host country’s economy. The initial estimate prepared for South Africa’s bid committee in 2004 amounted to a GDP contribution of R21.3 billion but was subsequently raised to over R50 billion. The latest release from Grant Thornton forecasts total economic impact (spend) at R93 billion with 0.54% of GDP being added during 2010 alone. Much of the contribution was to be made up from massive infrastructure projects undertaken specifically for the event, such as the stadiums, or in support of the event such as Gautrain. This major fiscal stimulus led to substantial growth in the construction and services sector and while the full benefits (and costs) can only be assessed accurately after the event several studies have attempted to provide some indication of the likely outcome of hosting the tournament for South Africa.

**5 How is all this Relevant to the World Cup in South Africa?**

The following section provides details of the forecasted volumes and their potential impacts on the South African tourism sector.

**5.1 Results from the Two Approaches**

The FSG approach finds that there is a meaningful difference between tourism growth returns between developed and emerging economies. They also found that there is a very meaningful difference in growth between events hosted in high season versus those that are hosted in the off (low) season. Typically, countries that host mega events in the high season experience high levels of crowding out and annualized returns indicate that the net effect might be negative. In comparison, countries that host mega events during the low season typically increase predicted tourism by as much as 16%. On average the non OECD countries benefitted with growth in tourism arrivals from participating countries of approximately 15% while OECD member states that hosted

9. ibid
10. Grant Thornton for SA Tourism
12. Grant Thornton, news release 21 April 2010
mega events returned growth of less than 10% during the year in question. The findings of the FSG model therefore indicate that South Africa might expect a net growth of around 16% in international arrivals from event participating countries (on average). This value is however static as it implies nothing of the underlying trend, or base, onto which this value should be attached. The Econex approach is more dynamic and firstly analyses the underlying trend using econometric techniques before allowing for the “extra push” from the mega event. South Africa, like most of the world, is emerging from recent dramatic recession and tourism arrivals were badly affected. A certain amount of normalization to volumes should first be factored in before any additional volumes resulting from the mega event can be added. The fact that the FIFA event takes place in the middle of the low season coupled with the assumption that that there will be limited crowding out allows a more robust scenario to emerge. While the Econex forecast models include only the three major sources of inbound air arrivals, all three the countries are also participants to the FIFA World Cup. The Econex approach used a qualitative approach to quantifying the net additions that might result from the mega event and surveyed major industry participants while also using in-house experience on likely scenarios. The end result was strikingly similar to what the FSG model found even though both indicate total levels for the mega even that are lower than the initial forecasts of around 450-500 000 unique visitors. Both sets of models predict volumes of approximately 200 000 additional air arrivals. The Econex approach firstly assumed a return to more normalized tourism flows, as indicated by their econometric models, onto which the additional expected flows were then added. The end result is a set of forecasts that are very positive for the expected inflow of tourists for the year.

5.2 The Final Scenario

Given the return to positive growth and the large inflow of people expected during the FIFA World Cup, 2010 will prove to be a very good year for tourism and much of the volumes lost in the past year will be restored during 2010 and into 2011. There is valid concern regarding crowding out of the traditional markets around the World Cup, but the net effect will be very favourable – even if these models’ total net addition of visitors forecasted does fall short of other estimates. It is assumed that the period directly before, but especially directly following the event will be characterised by (relatively) large contractions over historic periods as visitors avoid the pre and post event rushes. As this period coincides with the low season for arrivals the impact on annual volumes will not be excessive. The inbound market is expected to show strong positive

**ECONEX Services**

Econex has extensive experience in competition economics, international trade and regulatory analysis. Strategic analysis was recently added as practice area. We have an established reputation for providing expert economic advice for high profile mergers and complaints that appear before the competition authorities. Some of the more recent highlights include the complaint against British American Tobacco, the merger between MTN and iTalk, the complaint against Senwes and the acquisition of KayaFM by Primedia. Apart from competition work we have also been involved in trade matters which included analyses of the effects of tariffs, export taxes and anti-dumping tariffs.

As a result of our work in competition analysis we also have invaluable experience in some of the sectors of the South African economy where regulation continues to play a role, e.g. the telecommunications, health and energy sectors. We use economic knowledge of these sectors to analyse specific problems for some of the larger telecommunications, health and energy companies.
year-on-year growth, but some caution is advised as the second quarter results strongly influence the annualised figures. The World Cup is spread over a very short period of time and most operators view the event as a peak season month in the middle of low season, i.e. the World Cup will provide a strong anti-cyclical stimulus. Table 2 shows the combined arrivals from the three most important source markets for air arrivals – the UK, Germany and the USA in annualised format. These three source markets constitute nearly of 50% of total air arrivals and while air arrivals only constitute approximately a fifth of all tourist arrivals, there can be little doubt that this group is the most relevant as they make up the most important sector in the traditional tourist market. For this reason this series can be used as a proxy for air arrivals from the developed economies. In real terms it implies that the scenario created following from the Econex mode assumes that the World cup will see 2nd Quarter arrivals for 2010 grow strongly while the underlying trend also contributes to a growing base. During 2010 it is forecast that the United Kingdom will add an additional 65 000 while Germany will add 50 000 visitors to the annualized numbers. The USA is expected to add in the region of 40 000 extra visitors this year. The actual volumes of arrivals forecast using the different approaches are depicted in the table 3 and it becomes apparent that the Econex approach is the most conservative.

Table 2: Forecasted annual arrivals growth (%), including adjustments for FIFA World Cup related arrivals

<table>
<thead>
<tr>
<th>Source Market</th>
<th>2008</th>
<th>2009</th>
<th>2010 #</th>
<th>2011 #</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>-2.8%</td>
<td>-8.74%</td>
<td>&lt;15%</td>
<td>Slightly negative</td>
</tr>
<tr>
<td>USA</td>
<td>4.1%</td>
<td>-21.2%</td>
<td>&gt;15%</td>
<td>Slightly Positive</td>
</tr>
<tr>
<td>Germany</td>
<td>-3.8%</td>
<td>-17.4%</td>
<td>&lt;15%</td>
<td>Flat</td>
</tr>
<tr>
<td>Combined series</td>
<td>-1.16%</td>
<td>-14.3%</td>
<td>&lt;15%</td>
<td>Slightly positive</td>
</tr>
<tr>
<td>SA Domestic Business</td>
<td>-6.45%</td>
<td>&lt;5%</td>
<td></td>
<td>Strongly positive</td>
</tr>
</tbody>
</table>

Source: Econex

# The actual forecast values for 2010 and 2011 are only available to subscribers of the Econex Tourism Tool.

13. Please note that the combined series is weighted to the actual volumes rather than simple averages.
14. This series refers to the composite industry series created by Econex.

More Information
ECONEX regularly publishes Research Notes on various relevant issues in South African competition, trade and applied economics. For access to previous editions of Research Notes, or other research reports and published articles, go to: www.econex.co.za
If you wish to add your name to our mailing list, please send an e-mail to iris@econex.co.za
6 Concluding Remarks

South African inbound tourism can expect a very positive year ahead and while there are minor contractions in 2011 these are mainly due to base effects. In addition to the inbound market, the Econex SA Domestic Business Tourism Index, compiled from industry sources, also returns to positive growth during the second quarter of 2010 and remains positive for the forecast period. The general indication from our analysis is that, after almost 18 months of contraction, the South African tourism sector is set for a much improved period, including a return to positive trend growth. While the FIFA World Cup is very important to the expected volume growth for 2010, it is not the main driver for this year as the underlying trend growth is also normalising. Further analysis is planned to ascertain the costs and benefits of hosting the event to South Africa. This study can only be undertaken when the final arrivals have been verified but it is probable that the findings will indicate lower benefits than originally anticipated - specifically around direct spend during the event.

Table 3: Forecasted annual arrivals growth (%), including adjustments for FIFA related arrivals

<table>
<thead>
<tr>
<th></th>
<th>2010 annual air arrivals</th>
<th>Forecast number of unique FIFA spectators (total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSG approach</td>
<td>+16.0%</td>
<td>291 000</td>
</tr>
<tr>
<td>Econex approach</td>
<td>+13.9%</td>
<td>250 000</td>
</tr>
<tr>
<td>Grant Thornton</td>
<td>n/a</td>
<td>373 000</td>
</tr>
</tbody>
</table>

Source: Econex