SPORTS

The Olympic Trade Effect

Countries that bid for the Olympics are sending a signal that they are ready to open up trade

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ECONOMISTS are usually skeptical of arguments about the public provision of infrastructure for sporting events, and rightly so. Agents who endorse the construction of new sports stadiums or the staging of mega sporting events usually do so out of naiveté or self-interest. In practice, these events are expensive, especially for developing countries. The opening ceremonies of the 2008 Beijing Games are estimated to have cost well over $100 million—while at least 100 million Chinese live on less than $1 a day.

Rio de Janeiro recently won the right to host the 2016 Olympic Games with a $15 billion bid, a sum equal to over $2,000 for each citizen of Rio, even before the expected cost overruns. A substantial part of this money is planned to go toward upgrading the city's transportation system. But if transport investments make sense for a large city with the Olympics looming, don't such investments just plain make sense, without the spur of hosting the Olympics? Should long-term investment decisions really be tied to peak demand that lasts just two and a half weeks? More generally, the motivation for hosting a mega event like the Olympics seems elusive to economists. Plausibly measured direct net economic effects are rarely large and typically negative; noneconomic benefits are difficult to verify. Can funding mega events possibly be a good use of the public treasury? Perhaps: the doubts of professional economists are rarely shared by policymakers and the local population, which is typically enthusiastic about such spectacles. In practice, countries compete fiercely for the right to host mega events. Is it possible that the economics profession is missing something?

The International Olympic Committee (IOC) certainly believes so. The IOC believes visitors will be drawn to host-city venues and products after being exposed to them through the games. This boils down to a view that hosting the Olympics will promote a nation's exports, especially its tourism. We are dubious of the practical relevance of this argument; any export boost from the Olympics would seem to be both small and transient. We thus began our recent research by examining this theory empirically.

We use a standard "gravity" model of trade, which predicts that trade volumes between two countries will be a function of their distance from each other and a number of other explanatory variables. This model has been widely shown in the literature to explain a large portion of cross-country variation in trade levels. We add a variable to allow for persistent Olympic effects. We find strong evidence of a large positive effect (some 30 percent higher) of the Olympics on exports. Our skepticism therefore seemed unwarranted; the permanent "Olympic trade effect" on exports is large and positive.

In other results reported in our 2009 paper, we show that all trade rises; imports rise just as much as exports. Our

Opening ceremony for Barcelona Olympics, 1992.

results are also subjected to a battery of other sensitivity checks. The Olympic trade effect remains positive and significant throughout. We then look at other mega events, such as the World Cup and world fairs, and find that these also have large positive effects on trade.

Why is hosting a mega event associated with extra trade? Anecdotal evidence suggests that hosting a mega event is linked in practice with trade liberalization. In July 2001, Beijing was awarded the right to host the Games of the XXIX Olympiad. Just two months later, China successfully concluded negotiations with the World Trade Organization (WTO), thus formalizing its commitment to trade liberalization. Nor is this a one-off coincidence. Rome was awarded the 1960 games in 1955, the same year Italy started to move toward currency convertibility, joined the United Nations, and, most important, began the negotiations that led two years later to the Treaty of Rome and the creation of the European Economic Community (EEC), predecessor to today's European Union. The Tokyo Games of 1964 coincided with Japanese entry into the International Monetary Fund and the Organization for Economic Cooperation and Development. Barcelona was awarded the 1992 Games in 1986, the same year Spain joined the EEC; the decision to award Korea the 1988 Games coincided with Korea's political liberalization. The correlation extends beyond the Olympics; the 1986 World Cup was held in Mexico, coincident with its trade liberalization and entry into the General Agreement on Tariffs and Trade, the predecessor to the WTO.

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So the real explanation of the Olympic trade effect seems to be that countries that liberalize trade simultaneously host mega sporting events like the Olympics. Perhaps hosting a mega event induces trade liberalization thanks to the activity or infrastructure associated with hosting the Olympics. Not so fast. We subject *unsuccessful* bids to host the Olympics to the same methodology that we did successful bids and find that they also have a positive impact on trade, as large as the effect of actually hosting the games.

Given that the act of hosting the games has no measurable effect beyond that experienced by an unsuccessful bidder, we conclude that becoming a serious bidder, either successful or unsuccessful, has a signaling impact. Because these bids are commonly followed by moves toward liberalization, it seems logical that the action of attempting to become a mega event host sends a signal that a country wishes to liberalize trade.

Why should a country wish to send this costly signal? We introduce a model in which sending such a signal generates irreversible extra trade-related investment and, more important, creates a political atmosphere in which backsliding on either the mega event or trade liberalization becomes prohibitively costly. Big trade liberalizations, just like mega events, are rare and expensive occurrences that are highly visible and have long lead times. But the long-term benefits from trade liberalization can more than compensate for the short-term costs of hosting a mega event, so linking the two in the public's mind seems like a wise strategy. And the costs of hosting a mega event are also typically borne by the sectors of the economy that benefit most from trade liberalization, such as the host city and the national government. This alignment of costs and benefits makes bidding for a mega event an effective signal of liberalization.

Our work ignores a number of mega-event issues. Brazil is hosting the 2016 Olympics, but it's also hosting the almost equally visible soccer World Cup just two years earlier. If countries use a bid for a mega event as a signal that they're opening up to the world, why should anyone want to bid repeatedly for such events? Vancouver hosted the 2010 Winter Games and London will host the 2012 Summer Games. Why should liberal economies ever bid for a mega event? What could the United States have possibly gained from its failed bid for Chicago to host the eighth American Olympiad? Clearly, something else motivates multiple bids from liberalized economies, although the basic argument here could easily be expanded to incorporate multiple bids in an environment where reputation depreciates over time and needs to be reinforced with repeated signaling. In addition, other paths can be used to signal international liberalization. What's so great about hosting a sporting mega event? There's clearly more to the story, and much room for future research. Still, our argument seems intuitive, especially when applied to emerging economies on the verge of establishing themselves as international players. Sochi, Russia, is hosting the 2014 Winter Olympics; the 2010 World Cup is being held in South Africa. For such countries, and perhaps for Brazil, hosting a mega event amounts to a clear declaration that the country is becoming a committed member of the international community. The associated benefits may more than offset the staggering costs of hosting the games.

Liberalization is always difficult; most countries that start down the path never arrive. So when a country is really serious about opening up, it seems natural for it to send a costly signal. Succinctly, when a country wishes to enter the world stage, it can indicate this both to domestic and international constituencies by offering to host a mega event. ■

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Reference:

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