

CHAPTER 2

Economic Values of the Olympic Games

As far as earlier host cities were concerned, holding the Olympic Games was nothing but a channel to raise its international reputation. In most of the cases, government had to spend a large amount of budgets to hold the Olympic Games all the time. Rarely did the Olympic Games held before 1984 end up in earning profits. Shih and Chen (2005) took the followings as examples. Montreal 1976 Olympic Games appealed as many as 628 sponsors, which amounted to 7 million US dollars. However, it still caused the city government to have a serious debt problem for twenty years long. The total amount of government deficit was as many as 1 billion US dollars. That was called The Montreal Trap. Besides, Moscow 1980 Olympic Games led to government deficit as many as 9 million US dollars as well.

2.1 Turning Points of the Olympic Games

Los Angeles 1984 Olympic Games was a turning point for earning profits. Shih and Chen (2005) indicated that there were three channels to finance the expenditures of holding the Olympic Games: governmental financing, sports lotteries-issuing and funds-donating. Despite the government of Los Angeles gained the right of holding the Olympic Games, it didn't intend to finance any budget to support it. Moreover, sports lotteries were not legal enough to be issued in Los Angeles. These problems made International Olympic Committee (IOC) an embarrassing situation. Hence, Los Angeles Organizing Committee (LAAOC), the private organization for dealing with the Olympic Games, was set up and permitted to hold the Olympic Games. Peter Ueberroth, a genius in business and the chairman of LAAOC as well, took this responsibility and succeeded in promoting the Olympic Games. The successful marketing strategy made the government earn a lot of profits.

Shih and Chen (2005) mentioned that the marketing strategies included sales of TV rights, number-limited sponsors and tickets. American Broadcasting Company (ABC) paid LAAOC 225 million US dollars for the TV right. Moreover, European Broadcasting

Union (EBU) made a contract as many as 19.8 million US dollars for the TV right as well. Sales of TV right, indeed, brought in a considerable sum of revenues for the host committee. The price of TV right shown in table 2-1 keeps rising and becomes the main resource of Olympic revenues. Prices of TV rights of Los Angeles 1984 Olympic Games sharply increased to 286 million US dollars and were almost ten times as many as that of Moscow 1980 Olympic Games.

Table 2-1: Prices of TV Rights

Unit: million US dollars

Year	Host city	Prices of TV rights
1976	Montreal	23
1980	Moscow	37
1984	Los Angeles	286
1988	Seoul	327
1992	Barcelona	471
1996	Atlanta	560
2000	Sydney	1,318
2004	Athens	1,373

Source: Shih and Chen (2005).

What is more, the limited and qualified sponsors will be the business with huge finances. The total amount of revenues in Los Angeles 1984 Olympic Games from sponsors was as many as 123 million US dollars. Besides, sales of tickets were one of the resources of revenues. The higher level the competition was, the more people would like to spend. The amount of revenues from tickets in Los Angeles 1984 Olympic Games was 140 million US dollars. Table 2-2 reveals the amount of revenues from sponsors and tickets of previous Olympic Games. Amount of revenues from sponsors kept increasing and was as many as 550 million US dollars in Sydney 2000 Olympic Game. Besides, amount of revenues from tickets in Atlanta 1996 Olympic Game brought in as many as 422 million US dollars.

Table 2-2: Revenues from Sponsors and Tickets

Unit: million US dollars

Items	Los Angeles 1984	Seoul 1988	Barcelona 1992	Atlanta 1996	Sydney 2000
Amount of revenues from sponsors	123	493	505	540	550
Amount of revenues from tickets	140	40	82	422	356

Source: Chin and Chen (2005).

The successful marketing strategies and a large amount of profits strengthened the interests of the rest countries in the world to hold the Olympic Games. By learning such a marketing concept, the later host cities earned more and more revenues. As a result, holding the Olympic Games becomes the strategy of raising governmental earnings and stimulating economic growth.

2.2 Applying for Beijing 2008 Olympic Games

It goes without saying that holding the Olympic Games is the first priority for most of countries. Chu (2001) pointed out the four benefits of holding the Olympic Games. To begin with, it could raise national consciousness up, because holding the Olympic Games could reveal the power of a nation. In the past, most of the Olympic Games were held in western countries due to their sufficient infrastructural bases. Therefore, succeeding in applying for the Olympic Games meant the victory of politics and diplomacy of a nation. In order to hold a successful Olympic Games, it couldn't be denied that honor of the public would be stimulated, so that they could build, at their best, the best Olympic construction.

Secondly, rapid economic development would be motivated by holding the Olympic Games. Thirdly, holding the Olympic Games would gain a well reputation and raise international renown up. The well national reputation of celebrated cities, such as Paris, London, Berlin, Los Angeles and Moscow, could be attributed to their success in holding the Olympic Games. Fourthly, exercising spirit of the public could be strengthened by holding the Olympic Games. With such an excellent opportunity, strengthening national consciousness, bringing a huge amount of revenues and conveying the national brand would be accomplished at once. As a result, it was needless to say that China would be

eager to apply for holding the Olympic Games, in order to raise its international reputation and stimulate economic growth.

Furthermore, Kung (2002) said that Shao-Tsu Wu, the head of State General Administration of Sport, claimed some points as the followings. First, the population of China was the most in the world. Secondly, the host countries should be alternated between developed and developing countries. Thirdly, China was the origin of the Orient culture. It helped the communication between human culture and world peace by combining Western with Oriental culture. Finally, it was China's turn due to the last failure by two votes.

Liang (1994) thought that Olympic Games had been held for fourteen times since the Second World War, but just two of them were held in developing countries. Respectively, one was for Mexico City in 1968, while the other was for Seoul in 1988. China's holding the Olympic Games would symbolize a significant meaning for all the developing countries. With development of the world history, as far as China's situation was concerned, it was nothing but apply for holding the Olympic Games.

It is convinced that China's athletic achievement is renowned. The process of applying for Beijing 2008 Olympic Games, however, was filled with obstacles and difficulty. China started the first competition of holding the Olympic Games in 1993. Nevertheless, Austria, the major match of all the candidates, beat China by two votes. The key factor of failing to apply for the Olympic Games was attributed to China's disregard of human right.

To its regret, China was not qualified for holding 2004 Olympic Games owing to the Olympic constitutions.¹ It was eight years later that Beijing city attempted to apply for 2008 Olympic Games once more. The candidates were Beijing, Paris, Toronto, Istanbul and Osaka. Chu (2001) said that the specialties stated to IOC were as the followings: remarkable achievement in sport, marvelous economic performance, historical and splendid Chinese culture, convenient transportation with outstanding facilities, stable political state with steady society, sufficient experience in holding athletic events and great support from the public and central government. In spite of those specialties, IOC considered that China still had some problems to solve such as technological skills, environmental protection, and so on.

Kung (2002) signified that Beijing Olympic Committee (BOC) presented three

¹ Australia, the host country of 2000 Olympic Games, was assorted in the same area as China by IOC. According to the constitution, the following one of holding the Olympic Game was obligated to be held in different area.

themes, which were Green Olympics, Humanistic Olympics and High-tech Olympics, to gain the support from IOC. First of all, Green Olympics was the plan which Beijing city determined to invest 12.2 billion dollars for environmental protection by 2007. They were devoted to building parks, reducing pollution, planting trees and developing alternative energy. The plan was regarded as the most magnificent environmental wealth in Beijing city. Secondly, Humanistic Olympics was a worldwide promotion about Beijing's colorful traditional culture. It would help for making a well international reputation. Thirdly, High-tech Olympics aimed not only to introduce information technology, business and electronic engineering into building Olympic facilities, but also to modernize Beijing city by combining traditional art with newly technology.

With this sufficient preparation and excellent situation, Beijing city beat the other candidates and succeeded in obtaining the right of holding 2008 Olympic Games. Table 2-3 is the scoring analysis for the candidates and table 2-4 shows their strengths and weakness in applying for 2008 Olympic Games. It was the greatest opportunity for China to motivate its economic growth, as well as a milestone of heading for an advanced country.

Table 2-3: Scoring Analysis for the Candidates

Items	Beijing	Toronto	Paris	Istanbul	Osaka
Sorts of sport	28	28	28	28	28
Numbers of gymnasium	37	35	31	31	41
Available gymnasiums	41%	74%	65%	35%	56%
Available budgets	85%	90%	79%	34%	76%
(Public/Official)	/15%	/10%	/21%	/66%	/24%
Public support	95%	71%	79%	88%	52%
Planning	A	A	B	B	A
Available stadiums	B	A	A	B	B
Public support	A	B	A	A	C
Social stability	A	A	B	C	A
Transportation	B	A	B	B	B
Economic performance	C	A	B	C	B
Environmental protection	C	B	B	B	B
Reception	B	B	A	B	B
High-tech development	B	A	B	B	A

Source: Kung (2002).

Table 2-4: Strengths and Weaknesses of the Candidates

Candidates	Strengths	Weaknesses
Beijing	<ol style="list-style-type: none">1. Sufficient supports from the public2. Excellent athletic performance3. The most population in the world4. Inexperience in holding the Olympic Games	<ol style="list-style-type: none">1. Controversy in environmental protection and human rights2. Lack for visiting of International Olympic Committee
Toronto	<ol style="list-style-type: none">1. Democratic and multiple society2. Centralized gymnasiums	
Paris	<ol style="list-style-type: none">1. Historical city2. Talented civilian3. Convenient transportation4. Sufficient sports facilities and gymnasiums	<ol style="list-style-type: none">1. Constrained by the Olympic substitutions
Istanbul	<ol style="list-style-type: none">1. Located on the key position2. Issue laws to protect the applying for the Olympic Games3. Sufficient experience in applying for the Olympic Games	<ol style="list-style-type: none">1. Racial problem2. Inexperience in holding big games
Osaka	<ol style="list-style-type: none">1. Emphasizing on environmental protection2. Developing artificial island for the Olympic Games3. Modernized city	<ol style="list-style-type: none">1. Insufficient supports from the public2. Poor transportation3. Bad government deficits

Source: Kung (2002).

2.3 Definition and Specifics of Olympic Economy

Generally speaking, Olympic Economy has a significant influence on the economy of host cities. In addition to a considerable sum of direct revenues such as sales of TV rights, tickets, business sponsors, and so on, it will, mostly, boost economic performance by a large increasing amount of consumption, private and government investment, and employment as well. Economic effects of holding the Olympic Games can be conducted through two channels: inter-industry and inter-area.²The former means the development

² See “Beijing’s Post Olympic Economy,” <http://big5.bjoe.gov.cn/hayjj/>.

of relative industries attributed to the Olympic Games; while the latter stands for the process from the host city to the rest of others in a country.

As far as the definition of Olympic Economy is concerned, scholars have a variety of opinions toward this issue. Tao (2003) explained the meaning of Olympic Economy was the direct and indirect revenues due to holding the Olympic Games. Yang (2005) signified that Olympic Economy was a Focused Economy, which promptly pushed the economy of host countries and cities by putting economic resources together, a Brand Economy, which built a renowned industrial and business brand attributed to excellent management, and an Opportunity Economy, which accelerated lasting economic and social development by making most use of Olympic business.

In addition, Kuo (2006) stated that Olympic Economy directly or indirectly led to a series of economic performances for the host cities or countries. It stood for industrial economies and revenues motivated by holding the Olympic Games. Not only did Olympic Economy last for 7 to 10 years, but also occurred in an extensive area. To sum up, all the economic and social activities directly or indirectly relative to the Olympic Games were considered as Olympic Economy.

Olympic Economy can break into five specifics: Phase, Non-balance, Rule, Openness and Blending.³ First, it is apparent that Olympic Economy is characterized as phases or cycles. The duration, especially, lasts for 10 to 12 years from succeeding in applying for holding the Olympic Games to lasting economic performance. It includes three phases, which causes dissimilar influences on economic development. Pre-Games, 7-year preparation, is defined as the phase of boost the investments for Olympic facilities and constructions. Games-Year, the year of holding the Olympic Games, is considered as the phase of pushing a variety of consumptions. Post-Games, a period after holding the Olympic Games, is the phase of promoting reputation of the host country and evolving the development of its economy. The details will be followed in the next section.

Secondly, economic growth of the host cities can be motivated by holding the Olympic Games. It is obvious that not all industries will benefit from the Olympic Games. Generally speaking, the influenced industries are as followings: green-food manufacturing, construction, communication, sporting, tourism, real property and culture. Thirdly, IOC issues a set of commercializing rules to take control of the host cities. Although it brought the host cities a splendid amount of benefits, it strictly controlled their marketing behaviors to ensure its Olympic patent instead.

³ See "Beijing's Post Olympic Economy," <http://big5.bjoe.gov.cn/hayjj/>.

Fourthly, the Olympic Games offer an excellent opportunity of developing and amplifying international communication, as well as the cooperation for a variety of businesses and organizations all over the world. Finally, the host countries are dedicated into representing their cultural characters and national consciousness to the Olympic Games. Therefore, it is no doubt that the Olympic Games can symbolize the blending of the world culture.

In addition, Xu (2006) signified that the most essential specific of Olympic Economy was its scarcity. It meant that the resources such as human resource, land, merchandise, technology and labor force were comparatively inefficient due to human's desire. It was fairly certain that scarcity existed in the society all the time, so that, inevitably, human couldn't live without facing this perpetual problem.

The scarcity of the Olympic Games could be observed by the followings: First, the Olympic Games were held once every four years, so that the demand and supply of holding the Olympic Games couldn't meet each other. Under this circumstance, the Olympic Games became a scare resource. Secondly, all the businesses and firms were dedicated to making the best use of the commercialization, in view of extensive influence of the Olympic Games. As a result, the merchandises such as souvenirs, towels and stamps, tickets, flags, advertising slogans and Olympic flame became scare. Thirdly, the athletes of the Olympic Games were scarcity as well. It should be concluded, from what has been said above, that the scarcity of the Olympic Games led to its spectacular values on economy.

2.4 Three Phases of Economic Effects

As mentioned above, the influence of holding the Olympic Games on economy can be discussed through three phases: Pre-Games (2003-2007), Games-Year (2008) and Post-Games (2009-2010).⁴

To begin with, in Pre-Games, holding the Olympic Games essentially influences China's economy through the investment. The investment includes direct and indirect investment. Direct investment means the investment for directly constructing gymnasiums and other related facilities such as athlete's villages, journalist's villages and communicational facilities. On the other hand, indirect investment is needed for more than just holding the Olympic Games. In other word, indirect investment is not intended

⁴ See "Beijing's Post Olympic Economy," <http://big5.bjoe.gov.cn/hayjj/>.

to spend for the Olympic Games. They are, instead, the requirements for succeeding in holding the Olympic Games. Transportation improvement, pollution controlling and environmental protection, for examples, are the components of indirect investment. Not only will the investment stimulate developments of construction, communication, environmental protection, scientific research and synthetic technology service in Beijing city, but also be conducted to the relative industries and the rest areas in China.

Next, China's economy in the holding year will be motivated by external demands. External demands imply the consumption and tourism attributed to the tourist from all over the world. The consumption will be focused on transportation, postal service, physical service, service industry, catering service, mass communication, and so on. Generally speaking, investment is considered as the supply for these external demands.

Finally, the follow-up impacts after the Olympic Games will not only raise reputation of the host city and country, but also boost basic constructions and economic development. It keeps motivate economic development of the host city and country. Impacts of Olympic Economy are a bit varied in different areas. Beijing city will receive direct and tremendous influences due to its being the host city. On the contrary, the rest areas in China will be indirectly stimulated by enormous market demands.

2.5 Direct Revenue and Indirect Revenue

Tao (2003) mentioned that revenues brought by Olympic Economy can be divided into direct revenue and indirect revenue. Direct revenue included the sales of TV rights, patents of Olympic merchandises, tickets, business sponsors, souvenirs, and so on. The major beneficiaries from direct revenue are IOC and Olympic Committee of the host country. As shown in table 2-4, sales of TV rights, in most of the cases, possesses the largest percentage of total revenues; while business sponsor is the second one. The amounts of direct revenues and expenditure constantly increased in previous Olympic Games. It is worthy of note that amounts of direct revenues, expenditure and profits in Sydney 2000 Olympic Games were all the most.

On the contrary, indirect revenue is the impact on industrial and economy caused by holding the Olympic Games. They can be observed by the indicators such as investment, consumption, employment, industrial structure, and so on. The major involved industries are transportation, communication, construction, tourism, catering service, physical service, energy supply and advertisement service. As shown in table 2-5, the amount of indirect revenues is far more than the amount of direct revenues. The amount of direct

revenues was most in Seoul 1988 Olympic Games, while the amount of indirect revenues was the most in Barcelona 1992 Olympic Games. Each of them was 470 and 26,000 million US dollars respectively.

Table 2-5: Resources of Direct Revenues from the Olympic Games

Unit: million US dollars

	Los Angeles	Seoul	Barcelona	Atlanta	Sydney
Items	1984	1988	1992	1996	2000
Amount of direct revenues	746	1,324	1,699	1,705	2,605
- Prices of TV rights	286	327	471	560	1,318
- Tickets	140	40	82	422	356
- Business sponsors	123	493	505	540	550
- Others	197	464	641	183	381
Amount of expenditure	531	827	1,696	1,705	1,740
Profits	215	497	3	0	865

Source: Shih and Chen (2005).

Table 2-6: Amount of Direct and Indirect Revenues from the Olympic Games

Unit: million US dollars

	Los Angeles	Seoul	Barcelona	Atlanta	Sydney
Items	1984	1988	1992	1996	2000
Direct revenues	227	470	40	10	450
Indirect revenues	7,000	9,700	26,000	5,100	16,500
Revenues	7,227	10,170	26,040	5,110	16,950

Source: Shih and Chen (2005).

2.6 Summary

As the analysis from the above, the economic values of the Olympic Games will be realized. Direct revenues bring the alluring amount of money, which helps to increase the fiscal income for government, host cities, Olympic Committee of the host city, IOC and sponsors. Indirect revenues motivate the growth of economic performance and stimulate the development of industries. The effects of indirect revenues are much more significant than that of direct one. And the effects will have three-phase influence. In Pre-Games, the

key factor of influencing economic performance depends on the amount of direct and indirect investment. In Games-Year, the economy will be motivated by external demands such as consumption and tourism. In Post-Games, the follow-up impacts will not only raise reputation of the host city and country, but also boost basic constructions and economic development.

The great deal amount of profits indeed motivates all the countries to pursue the opportunity of holding the Olympic Games. Not only can it increase the fiscal incomes for the governments and Olympic committees of the host countries, but also raise their national reputation. However, it is undoubted that stimulating the follow-up social and economic development is far more important than earning the profits. Therefore, the economic impact on Olympic host countries will be discussed in the following chapter.