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THINKING GLOBAL
 By FREDERICK KEMPE


Fevered Pitch: Soccer Can Move Markets, Start Wars, Make Peace

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Here's the best reason to keep tabs on this month's quadrennial World Cup tournament, this time held in Germany: Soccer is the only world sport that has the proven power to bring peace, start wars, shift national moods and move markets.

If you don't buy that, go back to 1914, when the British and Germans during a World War I Christmas truce held a "Fritz-Tommy" match across the trenches (Germany won the game, if not the war, 3-2). Rioting during an El Salvador-Honduras game in 1969 led to their 100-hour "Soccer War" two weeks later, with 2,000 casualties.



**Mahmoud
Ahmadinejad**

This year, Ivory Coast's qualification brought together factions, helping end three years of civil war. Yet Islamic militiamen who control Somalia's capital last weekend enforced an Islamic ban on World Cup watching by cutting electricity to makeshift cinemas and firing guns to break up crowds.

For market watchers, a new academic study shows that World Cup elimination matches on average cost the losing country's stock market nearly half a percentage point the following day. Who wins and loses, say the authors, "can drive share prices in short-term ways that can only be explained by national mood shifts and not economic fundamentals."

In an age of globalization, the World Cup magnifies soccer's unique power, relayed simultaneously everywhere from the big screens of English pubs to the much smaller ones of cellphones in Ghana. The 2002 World Cup final between Brazil and Germany in Japan was seen by more than a billion people. (By comparison, the final game of last year's "World Series" of baseball in the U.S. had 40 million viewers.)

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What strikes you as the most important potential political or economic outcome of this year's World Cup? Who will win and with what attendant benefits to that nation?



So while most will cheer their favorite sides, don't overlook the political and economic ante.

The national leader with most at stake is Chancellor Angela Merkel of Germany, where soccer has been history's marker. Germany's first World Cup victory in

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Write to Frederick Kempe at Thinkingglobal@wsj.com¹ with your thoughts.

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Switzerland in 1954 crowned the beaten country's re-emergence. Its victory at home in 1974 over the Netherlands demonstrated Germany's rising self-confidence. Its championship in Italy in 1990 against Argentina heralded reunification euphoria.

Ms. Merkel's allies and aides are hoping a good German showing as World Cup host -- controlling the violence and racism that have plagued soccer over the past decade -- will assist her country's exit from more than a decade of economic doldrums. They hope the games help Ms.

Merkel consolidate her popularity and convert that into health and labor overhauls -- and European leadership.

Only one problem: Despite its opening-game victory against Costa Rica, the German team has been as flat ahead of the tournament as the country's growth figures. So Ms. Merkel may have to depend more on the rub-off effect of hosting than on winning -- unless the German team proves it has been as underestimated as Ms. Merkel herself.

Second on the World Cup political watch list should be Iranian President Mahmoud Ahmadinejad, whose team is in its third World Cup ever. The focus has been on Germany's efforts (successful thus far) to dissuade Mr. Ahmadinejad from attending, given the outrage his hate speech toward Israel and the Holocaust has generated.



Angela Merkel

Yet more is at stake for the Iranian leader than a game ticket. Iran's soccer riots of October 2001, following its 3-1 defeat by Bahrain in a World Cup qualifying match, represent the largest mass disturbance in the country since 1979. Security forces put down thousands of young people, seeing political danger in their protests. A day later, Iranian leaders apparently had a change of heart and delivered a massive cake to a Tehran square after Iran kept its World Cup hopes alive with a 3-0 victory over the United Arab Emirates.

Mr. Ahmadinejad, knowing the political importance of soccer, has spent time with the team at training camp. Most important -- and contrary to religious leaders' wishes -- he lifted a ban on women's attendance at soccer games in Iran to tap patriotism as the World Cup approached.

Those more interested in the tourney's market impact can read a paper by Alex Edmans of the Massachusetts Institute of Technology, Diego Garcia of Dartmouth College and Oyvind Norli of the Norwegian School of Management. They find World Cup losses deliver a statistically significant market decline the next day, with greater impact on small stocks. Winning provides little benefit, as national supporters apparently price in their team's victory. ([Read paper](#).³)

An example of this came in the 2002 World Cup quarterfinal, when 86% of British fans polled mistakenly thought England would beat Brazil -- ranked as the world's best team -- while the most generous bookmakers saw only a 42% chance of English victory.

So here's the World Cup investment strategy: Choose a game where the likely loser of a big game is a country of great soccer patriotism and broad share ownership and, say the authors, "short

futures on both countries' indices" to get maximum return from the asymmetry that losers get hit harder than winners benefit.

It may offer the surest road to victory.

• *What strikes you as the most important potential political or economic outcome of this year's World Cup? Who will win and with what attendant benefits to that nation?*

Write to Frederick Kempe at Thinkingglobal@wsj.com⁵ with your thoughts. Also sign up to receive his [AsiaLinks/EuroLinks Daily Alert](#)⁶.

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Readers flooded the ThinkingGlobal mailbox with comments on [last week's column](#)⁷, the Demographic Time Bomb Ticks On. The mail included a number of intriguing answers from knowledgeable readers the question we posed: What do you think will be the most important global demographic change in the next fifty years.

Thomas E. Burke, Longwood, Fla., writes: Your article focused on but one aspect of the demographic challenges awaiting us. The rapid rate of urbanization is another.

In the late 1970s, about 1.5 billion people lived in cities. Today, about three billion do. At the end of the second millennium, for the first time, a majority of the world's population lived in cities. Another twenty years from now, more than five billion of the world's eight billion people likely will be city dwellers. This poses formidable challenges in health care and the environment, in both the developed and developing world.

In Caracas, more than half the total housing stock is squatter housing. In Bangkok, the regional economy is 2.1 percent smaller than it otherwise would be because of time lost in traffic jams. The mega-cities of the future pose huge problems for waste management, water use and climate change. In 1950, there were only two mega-cities of eight million or more, London and New York. By 2015, there will be 33, 27 in the developing world.

This will place incredible demands upon already overtaxed infrastructures; the demands for water, food, and sanitation will grow dramatically; and, the mega-cities will be epicenters of unrest.

* * *

Frank Grossman, of Toronto, writes: Regarding the most important global demographic change to come in the next fifty years, I think that there will be a significant increase in death rates due to infectious diseases. Nations without effective health care delivery systems -- because of their relative poverty or inefficient allocation of scarce resources -- and pandemic readiness programmes will be disproportionately impacted. And for nations without sufficient access to potable water, and waste disposal systems, the outlook will be that much worse. Global warming will also have a detrimental impact on temperate nations to the extent that the hard winters that previously held certain viruses in check (e.g. malaria, West Nile virus) will no longer exist as a natural safeguard.

Robert Engelman of Washington D.C. writes: If Nicholas Eberstadt is telling you that more than