MACAO'S GAMBLING INDUSTRY
AT A CROSSROADS

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EAI Background Brief No. 457

Date of Publication: 5 June 2009

Executive Summary

1. Macao's economic prosperity in the past decade largely depended on its soaring gambling industry. Besides Macao's liberalized industrial policy on gambling business, mainland China's high-speed growth and policy support were crucial factors for Macao's economic growth.

2. In 2006, Macao became the largest casino city in the world with US$7.2 billon gross gaming revenue. The figure increased to a historical record high of US$13.7 billion in 2008.

3. The introduction of international competitors not only contributes to the prosperity of Macao's gaming industry, but also brings remarkable spill-over effect on the local tourism industry.

4. At present, Macao has six gambling enterprises: *Galaxy Casino* (*银河娱乐*), *S.J.M.* (*澳门博彩股份有限公司*), *Melco Crown* (*皇冠*), *MGM Grand Paradise* (*美高梅金殿*), *Venetian Macau* (*威尼斯人*), and *Wynn Resorts* (*永利*). American capital has been injected into the latter three enterprises.

5. As at March 2009, there were 31 casinos operated by the six operators in Macao. The previous monopolist, S.J.M., today still owns the largest number of casinos (19), but its market share shrank to 26% in 2008 from 100% in 2002 due to fierce competition from American competitors who now account for half of the gambling market in Macao.

6. Macao's gambling industry has seen glaring downturn trend in the global financial crisis. The number of visitors saw a drastic reduction of 4 million from 2007 to 2008. The number of gaming tables and slot machines in casinos is also in obvious decline. Due to the financial difficulty, casino operators in Macao have to suspend their development plans and cut operational costs through staff reduction and other measures.

7. Singapore's and Taiwan's casino projects may weaken Macao's competitiveness in the gambling industry, as the two casino destinations have the advantages and potential to attract casino investment and Chinese gamblers.

8. The sustainable development of Macao's gambling industry is also facing challenges from Mainland China's policy restrictions. Fearful that an over-expansion of the gambling business would hurt Macao's social and economic stability, the Chinese government has tightened its previous supportive policies to cool down Macao's gambling industry.

9. The Chinese government seems persistent in reducing the gambling industry's dominance in Macao's economy and public finance. It has also made great efforts at diversifying Macao's economy such as implementing the *Zhuhai-Macao Cross-border Industrial Zone* (珠澳跨境工业区) inaugurated in 2006 and initiating the *Hong Kong-Zhuhai-Macao Bridge* project (港珠澳大桥工程) and joint development of *Hengqin* island with Zhuhai (珠澳联合开发横琴岛).

10. Macao's gambling industry largely depends on Chinese VIP gamblers who are often victims of problem gambling; now, more Macao residents are becoming problem gamblers as well. The local communities, legislators and scholars have thus called for a new business model of responsible gambling that emphasizes "policies and practices designed to prevent and reduce potential harms associated with gambling".

11. Compared to the wagering tax rates of Singapore (15%), South Korea (30%), and other Asian casino destinations, Macao's tax rate for gambling industry is quite high (around 40%). This high tax rate not only reduces Macao's competitiveness, but also constitutes an obstacle for implementing the responsible gambling model as the operational costs of the casinos are already high.

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The Rise of the "Casino Economy"

1.1 The past decade was the golden age of Macao's economic growth, and the gambling industry was the largest contributor. To a great extent, the boom of gambling business benefited much from Macao's liberalized industrial policy. In 2002, Macao Special Administrative Region (SAR) government decided to open its gambling market to international competition; prior to that, Macao's gambling industry was monopolized by Stanley Ho (何鴻燊) for four decades.

1.2 By and large, this policy has been successful: just four years thereafter, in 2006, with US$7.2 billion gross gaming revenue, Macao replaced Las Vegas as the largest casino city in the world.[1] Indeed, the gross revenue of the gambling market has increased dramatically since the liberalization of the gambling industry in 2002. (Table 1)

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[1] http://news.xinhuanet.com/tai_gang_ao/2007-04/05/content_5938120.htm

TABLE 1 GROSS REVENUE FROM DIFFERENT GAMING ACTIVITIES 2003-2009

MOP Million*

Items	2003	2004	2005	2006	2007	2008	2009 1st Qtr.
Games of Fortune	28,672	41,378	46,047	56,623	83,022	108,772	26,019
Greyhound Racing	74	84	67	67	98	186	45
Horse Racing	1,004	1,566	636	437	403	501	90
Chinese Lottery	3	5	7	7	6	6	2
Instant Lottery	0.07	0.03	0.03	0.03	0.02	0.003	0
Sports Lottery - Football	510	442	333	327	273	304	72
Sports Lottery - Basketball	52	36	44	60	44	57	25
Total	30,315	43,511	47,134	57,521	83,847	109,826	26,252

* 1 US$ = 8 MOP
Source: Macao SAR Gaming Inspection and Coordination Bureau, http://www.dicj.gov.mo

1.3 The introduction of international competitors has not only improved the service quality of the local gaming industry, but also exerted positive influence over Macao's tourism industry. The number of visitors jumped sharply to 27 million in 2007 from 11.5 million in 2002. Although Macao saw a slight fall in visitors' average length of stay from 1.3 nights in 2000 to 1.1 nights in 2007, the visitors' total non-gambling spending showed an upward trend. (Table 2)

TABLE 2 GAMING INDUSTRY'S SPILL-OVER EFFECT ON MACAO'S TOURISM

	Number of visitors	Average length of stay in Macao (days)	Per-capita spending, MOP (excluding gambling)	Number of overnight guests in hotels	Hostel occupancy rate (%)
2000	9,162,212	1.3	1,367	2,689,843	57.6
2001	10,278,973	1.3	1,389	2,766,853	60.7
2002	11,530,841	1.2	1,454	3,154,801	67.1
2003	11,887,876	1.2	1,518	3,043,505	64.3
2004	16,672,556	1.1	1,633	3,956,154	75.6
2005	16,979,124	1.1	1,523	4,121,088	70.9
2006	21,998,100	1.1	1,610	4,680,854	72.2
2007	27,003,370	1.1	1,637	5,739,734	77.2
2008	22,907,724	1.1	1,729	6,537,661	74.5

Source: The Statistics and Census Service of Macao

1.4 As a showcase of "One Country, Two System" for Taiwan, Macao's economic development has also gained strong support from the Chinese government since its return to China in 1999. In 2003, China and Macao finalized the *Agreement on Macao/Mainland Closer Economic Partnership Arrangement* (CEPA, 《内地与澳门关于建立更紧密经贸关系的安排》).[2] According to this agreement, Chinese government provides Macao with a package of preferential treatments in trade, finance, tariff, investment and tourism.

1.5 Macao has benefited greatly from these preferential treatments as a result of China's high-speed economic growth. More and more Chinese flock to Macao for gambling and tours, the two pillars of Macao's economy. Mainland China has become Macao's No.1 inbound tourist source since 2003, followed by Hong Kong and Taiwan (Figure 2). Table 3 shows that visitors from mainland China have the strongest purchasing capacity among Macao's visitors.

TABLE 3 PER-CAPITA NON-GAMBLING SPENDING OF VISITORS BY PLACE OF RESIDENCE

MOP

	2005	**2006**	**2007**	**2008**
Mainland China	3,078	3,215	3,080	3,571
Southeast Asia	1,458	1,418	1,452	1,864
Taiwan	1,336	1,494	1,447	1,361
Americas	1,317	1,318	1,304	1,075
Oceania	1,042	1,172	1,267	1,093
Hong Kong	898	955	1,085	1,109
Japan	952	871	995	967
Europe	824	894	905	1,008

Source: The Statistics and Census Service of Macao

[2] Please refer to http://www.china.com.cn/chinese/zhuanti/hkmainland/426259.htm for the full-text. Besides this agreement, Chinese government and Macau SAR have signed another five supplementary agreements after 2003: http://tga.mofcom.gov.cn/subject/cepanew/index.shtml.

1.6 As at March 2009, Macao had 31 casinos owned by six operators:[3] *Galaxy Casino* (*银河娱乐*), *S.J.M.* (*澳门博彩股份有限公司*), *Melco Crown* (*皇冠*), *MGM Grand Paradise* (*美高梅金殿*), *Venetian Macau* (*威尼斯人*), and *Wynn Resorts* (*永利*). (Table 4 and Appendix 1.1 and 1.2) *Galaxy Casino* is controlled by Lui Che-Woo's family (*吕志和家族*). Stanley Ho owns *S.J.M.*, and is affiliated with another two casino companies: (1) Stanley Ho' son, Lawrence Ho (*何猷龙*), joined hands with Australian *Publishing & Broadcasting Limited* to form *Melco Crown*; (2) Stanley Ho's daughter, Pansy Ho (*何超琼*), worked in partnership with *MGM Mirage Inc* (a Las Vegas-based casino giant) to establish *MGM Grand Paradise*. [4]

TABLE 4 NUMBER OF CASINOS IN MACAU: 2003-2009

Concessionaires	2003	2004	2005	2006	2007	2008	2009 1st Qtr.
S.J.M.	11	13	15	17	18	19	19
Galaxy Casino, S.A.	-	1	1	5	5	5	5
Venetian Macau, S.A.	-	1	1	1	2	3	3
Wynn Resorts (Macau) S.A.	-	-	-	1	1	1	1
Melco Crown Gaming (Macau) Ltd. **	-	-	-	-	1	2	2
MGM Grand Paradise, S.A.	-	-	-	-	1	1	1
Total	11	15	17	24	28	31	31

** Formerly known as "Melco PBL Gaming (Macau) Ltd.". The new name was effective as of June 2008.
Source: Macao SAR Gaming Inspection and Coordination Bureau, http://www.dicj.gov.mo

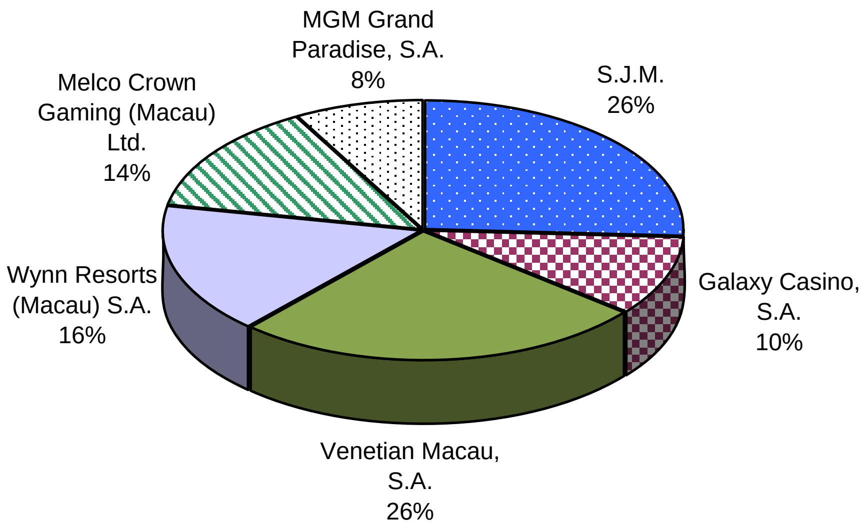
1.7 As the Macao government's initial goal was to turn Macao into a Las Vegas style gambling destination, American capital was introduced. Besides *MGM Grand Paradise*, which has American investment, *Venetian Macau* and *Wynn Resorts* are solely founded by Las Vegas-based casino operators (*Las Vegas Sands* and *Wynn Group*). The previous monopolist, S.J.M., today still owns the largest number of casinos (Table 4), but its market share shrank to 26% in

[3] In 2006, Macao government announced that it would not issue new gambling concessionary besides the six existing operators.

[4] In May of 2009, New Jersey Cason Control Commission deemed that Pansy Ho was "an unsuitable partner" (implicitly saying that Pansy Ho was involved in money laundering and other illegal affairs), and suggested that MGM Mirage disassociated itself from Pansy Ho.

2008 from 100% in 2002 due to fierce competition from American operators, who now account for half of the market through modernized operations and management. (Figure 1)

FIGURE 1 GAMBLING MARKET SHARE IN MACAU, 2008



Source: calculations from six casino companies' financial reports in 2008

1.8 As a response to the challenge from American competitors, *Melco Crown* just opened a new casino resort on June 1, the US$2.4 billion *City of Dreams* (新濠天地). This resort, sitting on the *Cotai Strip* [5] (Appendix 1.2) directly opposite the *Venetian*, features a 420,000-sq ft complex with 516 gambling tables and a 175,000-sq ft shopping mall.

The Impact of the Global Financial Crisis

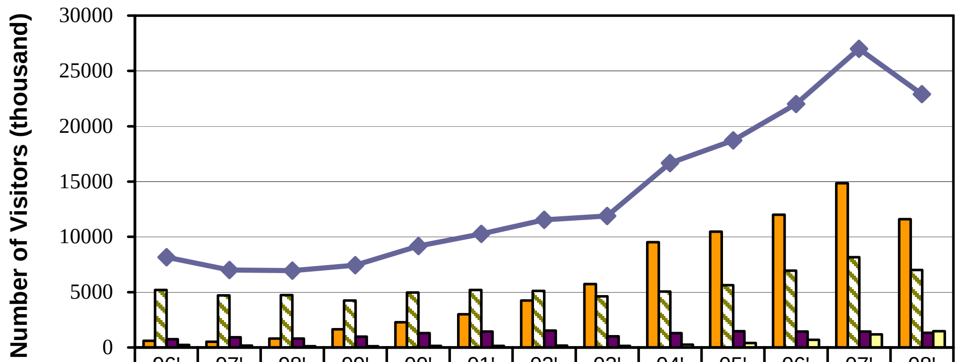
2.1 Table 1 reveals that Macao's gross gambling revenue for the year 2008 increased 31% to MOP$110 billion (around US$13.7 billion), compared to MOP$84 billion (around US$10.6 billion) in 2007. However, Macao's

[5] The proposed Cotai strip on the Taipa Island was motivated by Macao's government, with the intention to transform Macao into a multipurpose resort (hotels, conventions, retails shops, golf, etc.). However, the Cotai Strip plan has not been successful up to now, and more than 75% of Macao's gaming revenue still comes from downtown casinos (i.e. Macau Island).

gambling industry still witnesses glaring downturn trends in the global financial crisis.

2.2 Firstly, the number of visitors sharply declined from 27 million in 2007 to 23 million in 2008, the first in visitor reduction since the liberalization of the gambling industry in 2002. (Figure 2) This downward slide in tourist arrivals is likely to continue in 2009 in view of the financial crisis and H1N1 flu (swine flu). As Macao's gambling business is heavily dependent on China, any hiccup in China's economy is likely to have a direct adverse impact on Macao's economy.

FIGURE 2 VISITOR ARRIVALS BY PLACE OF RESIDENCE, 1996-2008



	96'	97'	98'	99'	00'	01'	02'	03'	04'	05'	06'	07'	08'
Mainland China	604	530	817	1645	2275	3006	4240	5742	9530	10463	11986	14866	11595
Hong Kong	5206	4703	4722	4230	4955	5196	5101	4623	5051	5615	6941	8174	7009
Taiwan, China	759	909	817	985	1311	1452	1533	1023	1287	1483	1438	1444	1315
Southeast Asia	234	176	109	116	142	150	170	147	261	396	693	1179	1470
Total	8151	7000	6949	7444	9162	10279	11531	11888	16673	18711	21998	26993	22908

Source: The Statistics and Census Service of Macao

2.3 Secondly, with dwindling tourist arrivals, casinos have to reduce the number of gaming tables and slot machines to cut operation costs. Compared to the peaks in 2007, gaming tables and slot machines in Macao's casinos were reduced by 377 and 1296 respectively in the first quarter of 2009. (Table 5)

TABLE 5 NUMBER OF GAMING TABLES AND SLOT MACHINES, 2003-2009

Items	2003*	2004*	2005*	2006*	2007*	2008*	2009 1st Qtr.
Gaming Tables	424	1,092	1,388	2,762	4,375	4,017	3,998
Slot Machines	814	2,254	3,421	6,546	13,267	11,856	11,971

Source: Macao SAR Gaming Inspection and Coordination Bureau, http://www.dicj.gov.mo
* Year-end figures

2.4 Thirdly, the global financial crisis has hard hit Las Vegas casino operators and seriously affecting their investments in Macao. From the peaks in 2007, Wynn Group's market value shrank by 62% and MGM Mirage Inc's stock price reduced by 83% at the end of 2008. The market value of Las Vegas Sands even shrank to 6%. Sands is reportedly on the verge of bankruptcy and has to stop its ongoing construction projects in Macao and lay off 11, 000 employees.[6] To improve liquidity, Sands even tried to sell some of its non-gambling assets in Macao.

2.5 The market value of local casino operators, such as Hong Kong listed S.J.M., Galaxy Casino, and Melco Crown, has been reduced by over 50%. They also have to suspend development plans and cut costs. No new casinos were opened in the first quarter of 2009 (Table 4).

2.6 In the financial crisis, countries/regions are actively looking for new economic growth points, and the gambling industry is regarded as an option for some Asian economies. Singapore already legalized gambling business in 2005. Its casino resort project by Sands is going ahead even in the financial crisis, leading to the suspension of Sands' development plan in Macao. Singapore has the potential of attracting Chinese gamblers who used to patronize Macao's casinos.

6 http://news.xinhuanet.com/gangao/2008-11/24/content_10403112.htm

2.7 Taiwan is another important region which may constitute a real threat to Macao's gambling industry in the near future. The proposal had gone through a long-term debate before being passed in Taiwan's Parliament in January 2009 in the wake of the financial crisis. This legalizes gambling on Taiwan's offshore islands of Kinmen (金门), Matsu (马祖) and Penghu (澎湖). [7]

2.8 Given improving China-Taiwan relations, Taiwan is poised to have easier access to mainland visitors. In addition, Taiwan is in an excellent geographic location to compete with Macao for Hong Kong and mainland Chinese gamblers and tourists. This will considerably weaken (Figure 2) Macao's competitiveness in the gambling industry in future.

More Challenges to Sustainable Development

3.1 Apart from the financial crisis, Macao's gambling industry is facing other challenges to its sustainable development. One of the biggest challenges arises from policy restrictions from Mainland China. The soaring gambling industry dominates Macao's economy and public finance, taking away large portions of financial resources and human capital, and thus restraining other industries' development in Macao (Table 6).

TABLE 6 GOVERNMENT REVENUE AND WORKFORCE IN GAMING INDUSTRY

MOP Million

Year	Government Revenue	Revenue from gaming industry	Gaming revenue/ government revenue	Gaming industry staff/working population
2002	10,206	7,765	76.0%	----
2003	13,260	10,579	79.7%	----
2004	18,159	15,236	83.9%	9.7%
2005	20,438	17,318	84.7%	13.0%
2006	25,135	20,600	78.7%	16.1%
2007	40,694	30,948	75.5%	19.5%
2008	51,076	41,986	82.2%	23.7%

Source: Macao SAR Statistics Monthly & Yearbook, 2002-2008

[7] According to Prof. Liu Daiyang (刘代洋), one of the major consultants for Taiwan's gambling industry development, Penghu probably will be the first place to run gambling business in Taiwan in two or three years.

3.2 The Chinese government is afraid that an over-expansion of the gambling industry would adversely affect Macao's economic and social stability in the long run. Many mainland Chinese businessmen and government officials are often found to be involved in money laundering, problem gambling, corruption, and other scandals in Macao's casinos. To cool down the gambling economy, China has tightened relevant financial regulations and introduced the Individual Visit Scheme (自由行政策)[8], greatly reducing mainland Chinese visitorship and gambling activities in Macao.

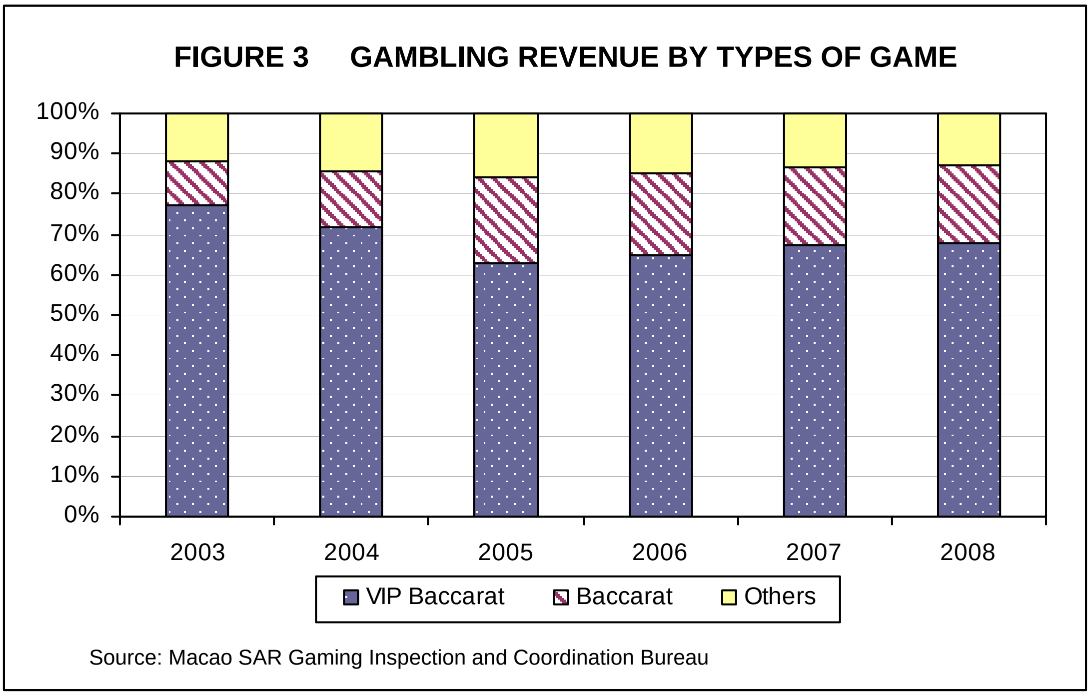
3.3 The Chinese government seems bent on tempering Macao's gambling industry. The Chief Executive of Macao has been asked to tighten regulations on the gambling industry and improve Macao's economic structure. China has also made great efforts in helping Macao diversify its economy. Besides the *Zhuhai-Macao Cross-border Industrial Zone* (珠澳跨境工业区) inaugurated in 2006, China is also working with Macao on two other proposed projects, namely, the *Hong Kong-Zhuhai-Macao Bridge* project (港珠澳大桥工程) and joint development of *Hengqin* island with Zhuhai (珠澳联合开发横琴岛). The former will stimulate Macao's logistics and trade industry, while the latter will give Macao more land resources to develop a diversified economy. (Appendix 2)

3.4 Macao's gambling industry has also been criticized for its over-dependence on Chinese VIP gamblers who are often victims of problem gambling. Baccarats, which constitute over 80% of gambling revenue, are said to be the source of problem gambling (Figure 3) "characterized by many difficulties in

[8] For example, in the past, Chinese visitors with Hong Kong SAR entry permit could enter Macao as well, but this policy has been invalidated since 1 September 2008; Guangdong provincial government also significantly reduced travel visas to Macao in 2008. This control on travel visa to Macao is recently applied to other Chinese provinces and regions, making the "golden weekend" in Macao a thing of the past.

自由行政策 (Individual Visit Scheme) refers to the policy that allows mainland tourists in eligible cities to visit Macao on an individual basis instead of in tour groups; however individuals still need to apply for visa for entry into Macao under this policy. This policy has taken effect since 2003.

limiting money and/or time spent on gambling which leads to adverse consequences for the gambler, others, or for the community".[9]



3.5 According to a survey in 2003, about 2% of Macao's residents were problem gamblers. People who are male and have "monthly income lower than MOP8,000, and a casino gambler" have the maximal tendency of becoming gambling addicts.[10] Another recent survey shows that there was an alarming high rate (around 60%) of gambling among youths (13-29 age group) in Macao, who were mostly school drop-outs or youngsters who did not have jobs; 6.1% of them were probably problem gamblers at the time of interview.[11]

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9 Gambling Research Australia (2005) Problem Gambling and Harm: Towards a National Definition. www.gamblingresearch.org.au/CA256902000FE154/Lookup/TenderBriefs/$file/PartB%20ID%20PG%20at%20Venue.pdf

10 冯家超、伍美宝，《澳门居民参与博彩活动调查报告》，澳门大学博彩研究所，2003 年 10 月。

11 冯家超、伍美宝、高志成，《澳门青年参与博彩活动调查 2004 报告》，澳门大学博彩研究所，2005 年 4 月。

3.6 Casino operators in Macao are now under tremendous pressure to change their ways of running their gambling business. Local communities, legislators, and scholars are calling for *responsible gambling* that emphasizes "policies and practices designed to prevent and reduce potential harms associated with gambling".[12] Gambling enterprises are required to invest a large amount of money to protect consumers, promote community/consumer awareness and education, and provide efficacious treatments for problem gambling; they will have to look for alternative markets and revenues for the sake of sustainable development.

3.7 Implementing a responsible gambling model may not come easy as a result of the already high operational cost. Compared to the wagering tax rates in Singapore (15%), South Korea (30%), and other Asian casino destinations, Macao's tax rate for the gambling industry is quite high (around 40%); this has hurt Macao's competitiveness in attracting casino investments and gamblers. Although casino operators have been asking for some tax concessions in the financial crisis, the Macao SAR government stands firm by its wagering tax rate.

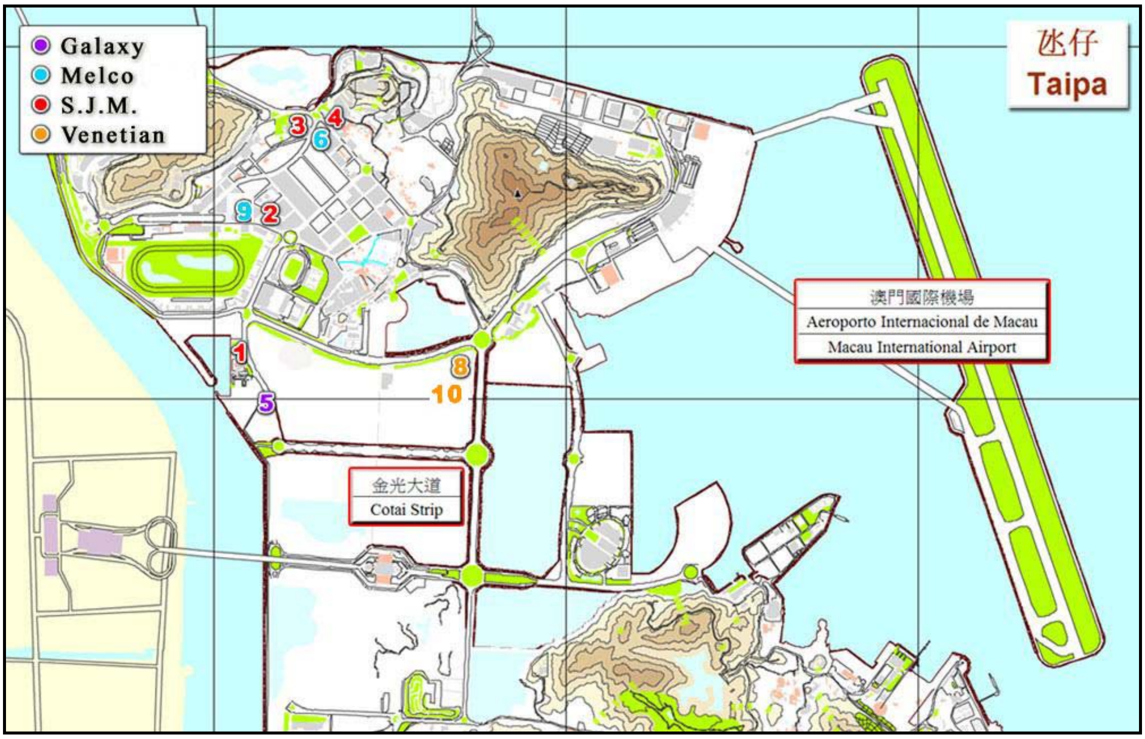
[12] Blaszczynski, Alex, Robert Ladouceur and Howard J. Shaffer. 2004. "A Science-Based Framework for Responsible Gambling: The Reno Model." *Journal of Gambling Studies*, 20(3): 308.

APPENDIX 1.1 LOCATION OF MACAO CASINOS (MACAU ISLAND)

Notes:

1. Lisboa (葡京娱乐场); 2. Kam Pek Casino (金碧娱乐场); 3. Casino Fortuna (财神娱乐场); 4. Diamond Casino (钻石娱乐场); 5. The Legend Club (励骏会娱乐场); 6. Kingsway Casino (金域娱乐场); 7. Waldo Casino (华都娱乐场); 8. Golden Dragon Casino (金龙娱乐场); 9. Casa Real Casino (皇家金堡娱乐场); 10. Jai Alai Casino (回力娱乐场); 11. Macau Palace (皇宫娱乐场); 12. Sands Casino (金沙娱乐场); 13. Oriental Casino (东方娱乐场); 14. Casino Emperor Palace (英皇宫殿娱乐场); 15. Casino Rio (利澳娱乐场); 16. Galaxy StarWorld (星际娱乐场); 17. Wynn Macau Casino (永利娱乐场); 18. MGM Grand Macau Casino (美高梅金殿超濠); 19. Casino de Presidente (总统娱乐场); 20. Babylon Casino (巴比伦娱乐场); 21. Grand Lisboa (新葡京娱乐场); 22. Ponte 16 (十六浦娱乐场).

APPENDIX 1.2 LOCATION OF MACAO CASINOS (TAIPA AND ROAD CENTRAL)



Notes:

1. Casino Marina Infante (游艇会娱乐场); 2. Grandview Casino (君怡娱乐场, 旧称赛马会娱乐场); 3. Casino Taipa (海岛娱乐场); 4. Greek Mythology (希腊神话娱乐场, 旧称新世纪娱乐场); 5. Grand Waldo Casino (金都娱乐场); 6. Crown Macau (皇冠娱乐场); 8. Venetian Casino (威尼斯人渡假村); 9. Hotel Taipa Square Casino (骏景酒店娱乐场); 10. Four Seasons Hotel Plaza (四季酒店百利沙娱乐场).

APPENDIX 2 *HONG KONG-ZHUHAI-MACAO BRIDGE* PROJECT, *HENGQIN* ISLAND, AND *ZHUHAI-MACAO CROSS-BORDER INDUSTRIAL ZONE*

Notes:

1. The double line at the top of this map indicates the location of *Hong Kong-Zhuhai-Macao Bridge* project.

2. Hengqin island is left of Macao's Taipa and Coloane islands'. Hengqin is the largest island among the 146 islands of Zhuhai city. Its size is roughly three times that of Macau.

3. Zhuhai-Macao Cross-border Industrial Zone lies in the northwest of Macao island with an area of 0.4 square kilometres.

4. The map is sourced from the following website: www.skyscrapercity.com