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# Economic development

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# **Economic Development**

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## **Economic Development**

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**Skopje, June, 2019**

***Zoran Janevski, PhD***  
***Editor-in-chief***

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**Original scientific paper**

**CVETANKA RISTOVA\***

## **HOUSE ALWAYS WINS: ECONOMIC GROWTH AND DEVELOPMENT OF MACAU'S HOTEL CASINO INDUSTRY**

### **Abstract:**

The No.1 casino rule is that the house always wins. At the end of the day, the house always wins because hotel casinos are businesses. They have to turn a profit to stay alive. Macau has done well for itself in recent years, and now its' the world's gambling capital, which continues to see consistent growth in its hotel casino industry. According to data from the International Monetary Fund (IMF) Macau, a city with an area of only 30 square km and a population of 650,000 in 2018 had a gross domestic product (GDP) per capital of US \$ 122,500 which made Macau the second - richest city in the world.

**Keywords: casino, development, economy, hotel, Macau**  
**JEL Classification: O10, O40, Z32**

### **Introduction**

Macau, a former Portuguese colony situates at Southern China, at the edge of Pearl Delta River, is the only place in China that allows gaming. Macau is one of the world largest casino destinations and has been a gambling metropolis for over 150 years. The Macau hotel casino industry evolved from a single monopoly in the past to multiple local and foreign franchises in the present and its' economic prosperity had been dramatic thanks to the astonishing expansion of the gaming and hospitality sector. Macau has been the pioneer of the gaming industry in regard to Asian casinos, but American as, well, where the period from 1999 to 2015 is marked by the opening-up

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of Macau's gaming market, the following-up explosive gaming growth, and the first period of decline in decades. The papers focus is on evaluating the industry's effects on economic growth and development in the hotel casino industry.

## **1. WHEN DID IT ALL BEGAN? HISTORIC PERSPECTIVE**

China's answers to America's Las Vegas is Macau. But gambling is not new in Macau. It has been a regulated economic activity since the mid-nineteenth century, even as Chinese territory under Portuguese administration when officially in the 1850s the first legal licensing system were incorporated. Though, these licenses were not controlled in the right ways which lead to corruption and other illegal activities in the city.

As a way of trying to take control of this problem from 1930 onwards the government gave the rights in a form of gambling licences such as monopoly contracts over clusters of games, which have passed through the hands of three different groups until the sector was recently open to foreign competition. Hou Heng Company, headed by Fok Chi Ting, was the first to win the monopoly licence for the operation of all forms of approved casino games in 1930. Later the gaming monopoly given to the Tai Xing Company in 1934. Only Chinese games were played at that time. The most popular game played was believed to be Fantan and Pai Kao. This monopoly was intact until 1961, when on January 1st 1962 the former government granted Sociedade de Turismo e Diversoes de Macau (STDM), now SJM Holdings, owned by Mr. Stanley Ho a monopoly to operate all gambling<sup>2</sup>. SJM Holdings introduced western-style gambling, including casinos, greyhound racing, horse racing, and sports betting into Macau.

Macau returned to the People's Republic of China in 1999 as a special administrative region, which means it has different laws to the mainland. Here gambling is legal, and at the beginning of the millennium, Macau's new government began in 1999 to plan and promote the city as an "Asian Las Vegas". Macau had released its monopoly system on the operation of the gaming industry and started to gear towards a wholesome development in this field. SJM monopoly after forty years has ended.

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<sup>1</sup> Hobson, P.: Macau: gambling on its future? *Tourism Management*, (16/3), 1995, 237-246

<sup>2</sup> Persson, A.: Sustainable development in a rapid developing Casino destination: The Case of Macau. *Baltic Business School at the University of Kalmar, Sweden*, 2008, pp. 8



Mr. Stanley Ho exclusive deal expired in 2001 and by 2002 Macau has opened its gaming sector to foreign investment. But, harking back to a law that was drafted and approved under the former Portuguese administration in 1986 (Law10/86/M), the liberalization act defined that concessions to the commercial exploitation of gambling should be limited to three holders. Macau gave three gaming rights out of a pool of 21 applicants, to Sociedade de Jogos de Macau (SJM Holdings), owned by Mr. Stanley Ho, Wynn Resorts headed by Steve Wynn and Galaxy Entertainment Group from Hong Kong. By 2002, three concessions, set to expire in 2020 may request to renew their concessions. The requests will be reviewed and subjected to approval by the Gaming Inspection and Coordination Bureau<sup>3</sup>. The original three concession holders were also given the rights to grant three other licences, termed ‘sub-concessions’ to other gaming companies that were not originally envisioned by the liberalization act. Through this, Sheldon Adelson’s Las Vegas Sands (USA) opened an investment named Sands Macau opened in May, 2004 in Macau that was highly profitable and declared a successful return on its initial investment in the first 10 months<sup>4</sup>. Afterwards, MGM Grand Paradise and the Australian group Melco Crown (former Melco PBL) have also obtained operating licenses in this lucrative market from SJM Holdings and Wynn Resorts. Macau’s economy boomed because of the liberalization of the gaming licence in 2002.

Macau began to rival Las Vegas and become the worlds’ largest gambling centre in terms of global gambling capital and earnings in 2006 as its gaming revenue was about four times then Las Vegas’s. Macau became the highest grossing hotel casino industry in the world. Macau’s gross gaming revenue (GGR) for 2006 was US \$ 7.2 billion at 22 casinos opposite to Las Vegas’s gross gaming revenue (GGR) for 2006 that was US \$ 6.6 billion at 40-odd casinos<sup>5</sup>. The initial idea to imitate the Vegas Strip—only bigger, had worked.

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<sup>3</sup> McCartney, G. J.: Casinos as a tourism redevelopment strategy – the case of Macao, *Journal of Macau Gaming Research Association* (2), 2012, 40–54

<sup>4</sup> Hartje, J.: What happens in Vegas now happens in Macau! *Stocks on Wall Street*, 2010, Available at: <http://stocksonwallstreet.net/featured/what-happens-in-vegas-now-happens-in-macau-3.php>, (11.02.2019)

<sup>5</sup> Watts, J.: Macau beats Vegas at its own game. *The Guardian*, 2007, Available at: <https://www.theguardian.com/world/2007/jul/20/china.gambling>, (11.02.2019)

Table 1. Number of casinos in Macau in 2013-2018

Concessionaires	2013	2014	2015	2016	2017	2018			
						1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
SJM Holdings *	20	20	20	20	22	22	22	22	22
Galaxy Casino.	6	6	6	6	6	6	6	6	6
Venetian Macau	4	4	4	5	5	5	5	5	5
Wynn Resorts	1	1	1	2	2	2	2	2	2
Melco	3	3	4	4	4	4	4	4	4
MGM Grand Paradise	1	1	1	1	1	2	2	2	2
TOTAL	35	35	36	38	40	41	41	41	41

\* Including 2 casinos in suspension

Source: Macau Gaming Inspection and Coordination Bureau, *Quarterly Gaming Statistics 2019*

Fast-forwarding to 2019, Macau’s 2018 size of the market is: 41 casinos in Macau, with 24 casinos located on the Macau Peninsula and 17 casinos on Taipa Island or the Cotai Strip. SJM Holdings has 20 casinos; the Galaxy Entertainment Group has 6 casinos; Venetian Macau (Las Vegas Sands) has 5 casinos; Melco (formerly known as Melco Crown) has 4 casinos; Wynn Resorts has two, and MGM Resorts has 1 casino.

## 2. ECONOMIC GROWTH AND DEVELOPMENT IN MACAU

In 2018, Macau celebrated the 20th anniversary of its return to China as a special administrative region. Macau, in the last few years have witnessed brilliant economic achievements as well as a structural shift toward a hotel casino industry that dominated the economy. Following so many years of rapid growth, it is essential to take stock of both the benefits and costs of hotel casino industry development. Accordingly, this paper analyzes the evolution of Macau’s hotel casino industry between 1999 and 2018, and evaluates the industry’s effects on economic growth and development.

## 2.1 End of the monopoly system and gaming market expanding due to liberalization (1999 – 2007)

Following Macau's handover to the People's Republic of China in 1999 as a special administrative region named the Macau Special Administrative Region (SAR), the government made plans to promote the hotel casino industry more aggressively by opening the sector to foreign investments. And with the liberalization, as of 2002, the three gaming licenses had developed into six companies: SJM (Stanley Ho), Galaxy Entertainment, Wynn Resorts, MGM Grand Paradise, Las Vegas Sands and Melco PBL.

**Table 2. Direct investment flows by industry in Macau (MOP million)**

Industries	2001	2002	2003	2004	2005	2006	2007
Non-financial sector*	676						
Financial sector*	434						
Industrial production	73	151	159	65	99	194	-9
Construction	-8	45	12	23	360	750	2,587
Wholesale and retail	40	324	455	508	680	796	3,332
Hotels and restaurants	70	102	-65	127	1,128	170	-1,036
Transport, storage and communications	-79	517	305	425	193	586	695
Cultural, recreational, gambling* and other s.	580	~	~	~	127	112	84
Gaming		1,477	1,617	2,228	6,029	9,315	10,029
Banks and Securities	427	366	703	429	1,099	1,621	2,569
Insurance	-38	51	122	84	246	345	268

\* Available data only for 2001

\* Available data only for 2001

\* In 2001 part of Cultural, recreational, gambling and other services, from 2002 data is separated

Source: Census and Statistics Department, the Macau SAR, Direct Investment Statistic

Macau's Census and Statistics Department does not offer data statistics previous than 2001, so the direct investments due to the liberalization, as of 2002, will be analyzed from 2001 to 2007 in Table 1. During this period, foreign investments in gaming-related infrastructure and promotion activities were encouraged by the Macau's SAR government. In 2001, gambling was part of the Cultural, recreational, gambling and other services, where together all of them recorded 580 million MOP. As of 2002, Macau's gaming market expanded rapidly following the infusion of foreign capital and seasoned casino operators and in 2007 it reached 10,029 million MOP. In 2002, direct investment flows were 1,477 MOP and in 2003 registered a growth of 8,65% to

1,617 MOP. In following years, Macau’s direct investment flows has enjoyed strong growth of 27,4 for 2004, 63% for 2005, 35,2% for 2006 and 7,11% for 2007. Undoubtedly, in this given period the all-time direct investment flows were higher in 2005. The direct investment flows grew at an average annual rate of about 85,2% between 2002 and 2007 resulting the opening of new hotel casino resorts in Macau.

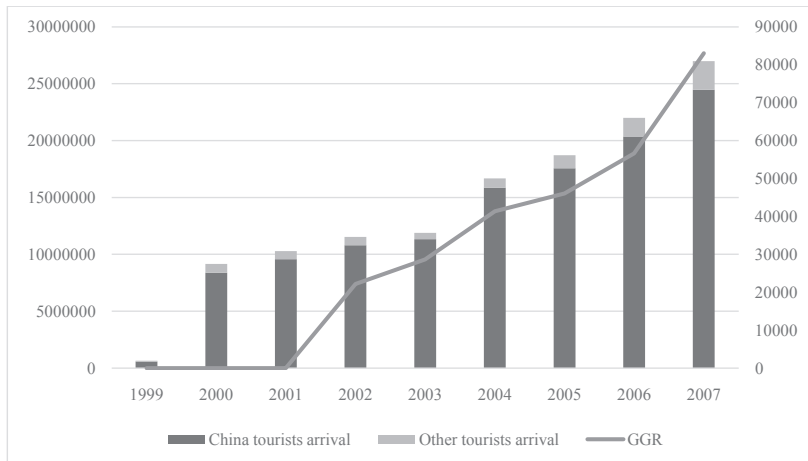
**Table 3. Hotel Casino Revenues in Macau (MOP million)**

Year	Casinos	Gaming Tables	Slot Machines	Total Revenues
2002	11	339	808	22,180
2003	11	424	814	28,672
2004	15	1,092	2,254	41,378
2005	17	1,388	3,421	46,047
2006	24	2,762	6,546	56,623
2007	28	4,375	13,267	83,022

Source: *Macau Gaming Inspection and Coordination Bureau, Quarterly Gaming Statistics 2002 - 2007*

Data statistics respectfully as given by the Macau Gaming Inspection and Coordination Bureau, as of the starting of liberalization of 2002. Prior to 2002, no data is available. Table 3 shows us Macau’s gross gaming revenue (GGR) only from Games of Fortune. The gross gaming revenue grew at an average annual rate of about 73,2% between 2002 and 2007.

**Graph 1. Macau’s tourists’ arrival, annual rate of GGR**



Source: *Macau Gaming Inspection and Coordination Bureau, Quarterly Gaming Statistics 2002 - 2007*

Source: *Census and Statistics Department, the Macau SAR, Tourist arrival 1999 - 2007*

In Graph 1, the tourists' arrival in 1999 soared from 637,098 million tourists' in total to 26.992,995 in 2007, accounting for 97,3%. Chinese tourists' (Mainland China, Hong Kong and Taiwan) are among the tourists' who most frequently visit Macau. The tourists' arrival in 2002 when Macau's gross gaming revenue (GGR) started being dated, the tourist's arrival in total were 11.530,841 to 26.992,995 in 2007, accounting for 57,2%. And during the same period of time, Macau's gross gaming revenue (GGR) had tripled. In 2002, the GGR soared 22,180 million MOP to 83,022 million MOP in 2007, accounting for 73,2%. In Graph 1, Macau's hotel casinos generated only a fraction of the revenue of their counterparts in Las Vegas. However, the data shows us that Macau caught up quickly and eventually outstripped Las Vegas. By 2007, Macau had already become the world's highest grossing hotel casino city.

## **2.2 Becoming the world's gambling capital (2008 – 2013)**

In late 2007, the world was covered with a thick layer of economic uncertainty due to the financial crisis of epic proportions. From all of the places across the United States, Las Vegas was among those to suffer the most severe downturn. Some 7,300 miles westwards, a city in Southeast China quietly turned into the world's biggest destination for casino gambling. Still due to the Global Financial Crisis, that hit the economy hard all over the world, on April 22, 2008, Ho Hau-wah, then Chief Executive of the Macau SAR government, placed a range of restrictions on gaming industry development and put a halt to new casino concessions in the foreseeable future. The Macau government did not approve any land for the building of new casinos (an exception was made for existing hotel casino projects)<sup>6</sup>. Macau's gaming growth began to taper off in June 2008 and since then, the overall economy has inevitably been adversely affected<sup>7</sup>.

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<sup>6</sup> Sheng, C and Gu, C.: Economic growth and development in Macau (1999–2016): The role of the booming gaming industry, *Cities* (75), 2018, 72-80

<sup>7</sup> Yang, Z and Kwan, F.: Macao's Gaming-led Prosperity and Prospects for Economic Diversification, *China: An International Journal* (7/2), 2009, 288-319

**Table 4. Direct investment flows by industry in Macau (MOP million)**

Industries	2008	2009	2010	2011	2012	2013
Industrial production	122	-221	209	-85	-47	254
Construction	642	837	1,301	228	112	812
Wholesale and retail	407	1,637	3,056	3,773	4,500	1,340
Hotels and restaurants	-82	138	212	393	483	341
Transport, storage and communications	4	847	142	300	1	102
Cultural, recreational and other services	28	-158	7	4,247	2,580	949
Gaming	13,640	2,567	15,613	-4,647	20,679	27,809
Banks and Securities	5,473	944	1,536	1,870	3,948	3,461
Insurance	545	212	581	-261	403	992

*Source: Census and Statistics Department, the Macau SAR, Direct Investment Statistic*

From 2008 to 2013, as shown in Table 4, direct investments in the hotel casino industry in Macau were trying to keep gaming growth under control, but its' obvious that Macau was impacted too by the Global Financial Crisis, and slowdown in the direct investments was registered. As of 2008, Macau's direct investment flows generated 13,640 million MOP or 26,4% annual growth from 2007. In 2009, Macau's recorded the first decline in direct investment flows for 81,1%. In the following years, Macau growth of direct investment flows was variable, showing a slowdown, but in 2013 the direct investments recorded 25,6% flows from 2012, with the all-time recording 27,809 million MOP.

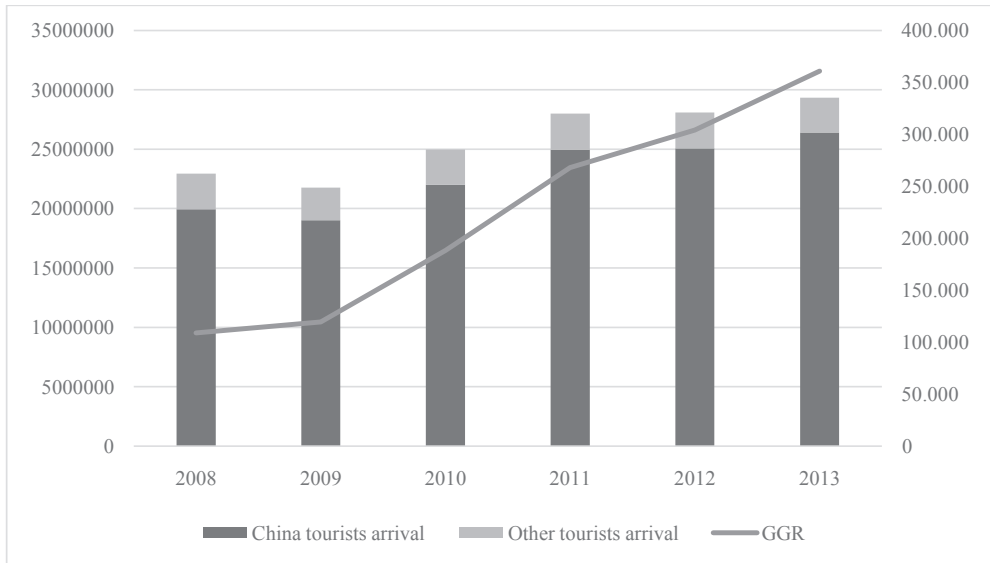
**Table 5. Hotel Casino Revenues in Macau (MOP million)**

Year	Casinos	Gaming Tables	Slot Machines	Total Revenues
2008	31	4,017	11,856	108,772
2009	33	4,770	14,363	119,369
2010	33	4,791	14,450	188,343
2011	34	5,302	16,056	267,867
2012	35	5,485	16,585	304,139
2013	35	5,750	13,106	360,749

*Source: Macau Gaming Inspection and Coordination Bureau, Quarterly Gaming Statistics 2008 – 2013*

Table 5 shows us Macau’s gross gaming revenue (GGR) only from Games of Fortune. The gross gaming revenue grew at an average annual rate of about 69,8% between 2008 and 2013. The period is less for 3,4% than the given period between 2002 to 2007.

**Graph 2. Macau’s tourists’ arrival, annual rate of GGR**



*Source: Macau Gaming Inspection and Coordination Bureau, Quarterly Gaming Statistics 2008 - 2013*

*Source: Census and Statistics Department, the Macau SAR, Tourist arrival 2008 - 2013*

In Graph 2, the tourists’ arrival in 2008 soared from 22.993,185 million tourists’ in total to 29.324,822 in 2013, accounting for 21,5%. Chinese tourists’ (Mainland China, Hong Kong and Taiwan) were again among the tourists’ who most frequently visit Macau. For 2008, the tourists’ arrival in total accounted for 17,7% and the GGR accounted for 23,6% from 2007. In 2008, the GGR soared 108,772 million MOP to 360,749 million MOP in 2013, accounting for 69,8%. Macau reached an all-time gross gaming revenue (GGR) high in 2013, when its hotel casinos generated 360,749 million MOP. At that time, the city’s hotel casino industry was six times larger than that of Las Vegas.

### **2.3 A period of decline and rise again (2014 – 2018)**

While 2013 was Macau’s best year, and the period between 2008 to 2013 considered to be the boom for gaming growth, Macau has long been criticized for allegedly building a gambling industry on vice, organized crime ties and corruption. Macau was repeatedly warned against making itself too dependent on VIP customers from Mainland China, because that policy could destroy or at least weaken its whole economy. Chinese President Xi Jinping declared war on corruption when he assumed office in 2013 and made that war a cornerstone of his reign. President Xi showed that he intended to keep his promise to bulldoze corruption and as a result, the city’s hotel casino revenue dropped.

**Table 6. Direct investment flows by industry in Macau (MOP million)**

Industries	2014	2015	2016	2017
Industrial production	27	306	454	225
Construction	737	2,394	2,582	1,130
Wholesale and retail	3,577	3,893	1,511	- 768
Hotels and restaurants	348	-763	- 815	- 373
Transport, storage and communications	147	811	354	33
Cultural, recreational and other services*	3,665			
Other services		- 194	-1,392	447
Gaming	12,435	-6,023	2,818	-3,052
Banks and Securities	4,933	7,795	4,914	4,018
Insurance	445	877	3,586	1,353

*\*As of 2015, Cultural, recreational and other services as registered only as other services*

*Source: Census and Statistics Department, the Macau SAR, Direct Investment Statistic*

Macau’s Census and Statistics Department does not offer data statistics for 2018, so the direct investments will be analyzed until 2017. In 2014, Macau’s direct investments recorded high slowdown until 2017. The highest direct investments in this given period are in 2014 with 12,435 million MOP and the lowest direct investments are in 2015 with -6,023 million MOP. 2017 finished with -3,052 million MOP drop.



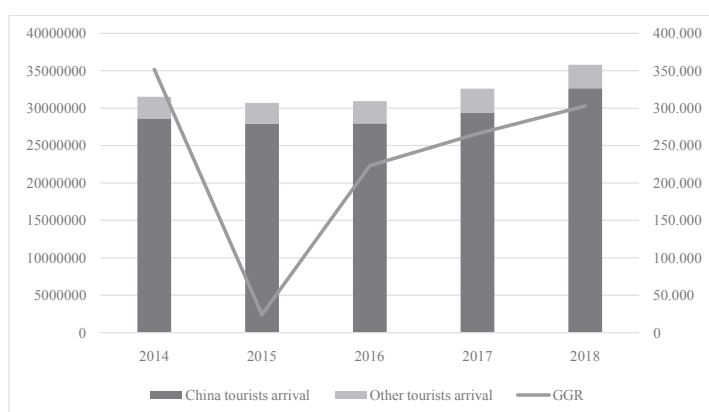
**Table 7. Hotel Casino Revenues in Macau (MOP million)**

Year	Casinos	Gaming Tables	Slot Machines	Total Revenues
2014	35	5,711	13,018	351,521
2015	35	5,957	14,578	23,840
2016	38	6,287	13,826	223,210
2017	40	6,419	15,622	265,743
2018	41	6,588	16,058	302,846

Source: Macau Gaming Inspection and Coordination Bureau, *Quarterly Gaming Statistics 2014 – 2018*

The rapid growth of hotel casino industry was suspended in 2014, when Macau’s gross gaming revenue (GGR) experienced its first-ever decline since the liberalization of casino concessions, falling 93,2% from the year before. Macau saw a more dramatic drop in gaming revenue (GGR) from 2014 to 2018 by -16% drop as shown in Table 7. This decline was largely due to a sharp fall in revenues from VIP Baccarat, which has long been the most important source of revenue for Macau’s casinos<sup>8</sup>, mainly because the wealthy high rollers from Mainland China lessened their spending on gambling activities and disappeared from Macau.

**Graph 3. Macau’s tourists’ arrival, annual rate of GGR**



Source: Macau Gaming Inspection and Coordination Bureau, *Quarterly Gaming Statistics 2014 - 2018*

Source: Census and Statistics Department, the Macau SAR, *Tourist arrival 2014 - 2018*

<sup>8</sup> Sheng, C and Gu, C.: Economic growth and development in Macau (1999–2016): The role of the booming gaming industry, *Cities* (75), 2018, 72-80

In Graph 3, the tourists' arrival in 2014 soared from 31.525,632 million tourists' in total to 35.803,663 in 2018, accounting for 11,9%. For 2014, the tourists' arrival in total accounted for 6,9% and the GGR accounted for -2,6% drop from 2013. For 2015, the tourists' arrival in total accounted for -2,6% drop, which is 9,5% less than 2014, and the GGR accounted for -93,2% drop. This is due to Macau's resolution to avert their attention from the withdrawing VIP customers to recreational casino players and to non-gambling customers. For 2016, the tourists' arrival in total accounted for 0,7%, which is 6,2% less than 2014, and the GGR accounted for 89,3%. Macau's hotel casinos were quick to respond to the changing environment properly, changing focus to non-gambling entertainment and to mass-market casino players. Macau reported robust results in the gross gaming revenue (GGR) as of 2016. For 2017, the tourists' arrival in total accounted for 5%, which is 1,9% less than 2014, and the GGR accounted for 16%. For 2018, the tourists' arrival in total accounted for 8,9% and the GGR accounted for 12,2%.

For 2019 and beyond, analysts discuss that Macau will see a considerable increase in gross gaming revenue (GGR). According to a recent note by Morgan Stanley, revenue in Macau could reach 347,334 million MOP in 2019<sup>9</sup>. In other words, Macau has the chance to nearly reach its 2013 peak in the next few years.

## **Conclusion**

Macau's period after the reunification with mainland China in 1999 and onward to 2018 is highly illustrative, marked by the opening-up of its gaming market and starting the booming hotel casino industry, with a subsequent phase of explosive gaming-driven growth to the first-ever revenue decline and restoring back from the slowdown to forecasting of estimation of achieving the all-time high gross gaming growth in the near future.

The hotel casino industry has brought great development in Macau. The most important contributions of the industry are in increasing government tax revenue, more employment opportunities for residents and a higher income. But the development of the hotel casino industry failed to bring along the development of other industries and to help diversify the Macau's economy.

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<sup>9</sup> Beckett, S.: Las Vegas Casino Operators to Benefit from Continued Macau Growth, Analysts Opine, 2018, Available at: <https://www.casino.org/news/las-vegas-casino-operators-to-benefit-from-macau>, (11.02.2019)

Data statistics show us that Macau has to rely more on the hotel casino industry for its GDP and government tax revenue. However, Macau's hotel casino industry is about to face one crucial unprecedented disruption. Even though, the benefits of Macau's hotel casino industry are significant, there are risks since the concessions of the six current Macau operators expire in 2020, with a possibility to be extended for a maximum of up to five years from their original expiry dates. But Macau's gaming law states once a gaming concession contract expires, any new concession would have to be granted via a public tender. In the view of the wider market, analysts discuss that the effect of a decision on licence renewal next year may be disruptive for the prices of Macau gaming stocks while others think that licence renewal will have a disruptive impact, and the impact is likely to be controllable and still see upside potential for Macau gaming stocks in 2020-22 from current levels even if the most disruptive scenario occurs.

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