Gaming tourism trend in Macau

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Abstract

This paper examines the evolution of Macau's gaming sector from a tourism perspective. Through legalization of gaming, ease of accessibility to the destination, increasing income levels of demand countries, and Macau's ability to attract high rollers, the destination's gaming sector developed rapidly and is frequently referred to as the *Las Vegas of the East* or as *Las Vegas of Asia*. The sector has become an important economic pillar of the Macau's economy by becoming a main contributor to tax revenue and one of the top three employing sectors (Lo, 2009). Nevertheless, concerns of oversupply, host hostility to visitors, social impacts of gaming on locals, a labour shortage and competition from newly developing gaming destinations in the Asia Pacific region pose as challenges for Macau's gaming sector, and threatens its continual success as *Las Vegas of the East*.

Description of trend

Gaming tourism is a form of tourism whereby the predominant purpose of the trip is to engage in gambling related activities, such as playing slots at a casino or betting on horses at a race track. Increasingly, governments are relaxing gaming legislations to accommodate for changing perceptions, and are employing gaming tourism as a vehicle for economic development (Gross, 1998).

Two of the better known gaming destinations are Las Vegas and Macau. Combined, the two destinations hosted 63,973,496 visitors in 2011 and reported gaming revenue between $3 to $5 billion (USD) at each destination (Gaming Inspection and Coordination Bureau Macao SAR, n.d.; State of Nevada State Gaming Control Board, n.d). Although Las Vegas experienced a downward trend for gaming revenue since the 2007 and 2008 economic fallout, it is seeing a slow recovery in revenue as economic conditions improve. On the other hand, Macau was unscathed by the economy and exhibits a trend of continuous revenue and visitor growth in the near future (Gaming Inspection and Coordination Bureau Macao SAR. n.d.; Statistics and Census Service Macao SAR Government, n.d.). Overall, although susceptible to economic conditions, historical data indicates a long term trend of growth for gaming tourism oriented destinations, particularly Macau.

Historic perspective

Instances of gaming in Macau date back to the 1740s, when Macau was still under Portuguese control. Historically, gaming institutions were unregulated and illegal. Gaming was negatively associated with drunkenness, robbery, fighting and murder. The social discord caused by gaming brought about the need to regulate gaming establishments through a licensing system (Hsu, 2006).

Gaming in Macau was legalized in 1931, but it was not until 2001 that Macau's government allowed foreign investors to bid on gaming concessions. From the 1930's to 2002, the gaming sector operated in a monopoly market. The monopoly power changed hands three times within that time frame, with Sociedade de Turismo e Diversões de Macau (also known as STDM, and is the parent company of Sociedade de Jogos de Macau) being the last monopoly holder. This monopoly model was changed due to concerns with the amount of control STDM had over the government, STDM failing to improve their facilities, the prevalence of gaming related crime, and timing of Portuguese handover of Macau back to China (Hsu, 2006).

By 2002, three concessions, set to expire in 2020, were awarded to Sociedade de Jogos de Macau (SJM), Wynn Resorts and Galaxy Entertainment Group. When the concessions expire, the three companies may request to renew their concessions. The requests will be reviewed and subjected to approval by the Gaming Inspection and Coordination Bureau (McCartney, n.d.; University of Nevada Centre for Gaming Research, 2012). The original three concession holders have the ability to grant sub-concessions to other gaming companies. Using this method, the Venetian, Melco Crown Jogos and MGM Grand have obtained operating licenses in this lucrative market (Gaming Inspection and Coordination Bureau Macao SAR, n.d.). However, to prevent oversaturation of the gaming market, Macau's government froze the market in 2009 by not approving new concessions in the two following years (Godinho, 2010).

The initial concessions stimulated casino development in the area, bringing the total number of casinos in Macau to 34, ten of which were built in 2006 and 2011 (Gaming Inspection and Coordination Bureau Macao SAR, n.d.). SJM, a locally owned holding company, is the largest gaming organization in Macau. They own a total of 20 properties, two of which are casino resorts, 16 properties are purely casino operations and they also operate three slot machine lounges (SJM Holdings Limited, n.d.). The largest foreign owned casino operator is Galaxy Entertainment Group with six properties on the peninsula as of December 2011. They operate one casino resort, one hotel casino and manage four City Club casino operations (Galaxy Entertainment Group, n.d.).

Within the last ten years, visitors to Macau increased 143% from 11530841 arrivals in 2002 to 28002279 arrivals in 2011. Arrivals increased by 12% in 2011 alone (Statistics and Census Service Macao SAR Government, n.d.). The peninsula's geographical location is accessible to a billion people within a two hour flight, and three- fifths of the world's population is within a five hour flight (McCartney, n.d.). As a result of proximity, over 90% of arrivals are from interregional visitors within Asia, with China and Hong Kong being Macau's two largest markets. Factors contributing to this arrival pattern include the Individual Visiting Scheme (IVS) policy introduced in 2003, allowing Hong Kong and Chinese visitors to enter Macau as individuals not on a business or group tour (Chung & Tieben, 2009). Disposable income among a growing middle class is enabling more Chinese residents to travel as a result of having the financial means (Henderson, 2006). Lastly, Macau also draws many Chinese visitors because it is the only destination within China, a country with a deep rooted gambling tradition (Price, 1972), where casino style gaming is legal (Hsu, 2006).

In 2004, Macau instigated a new regulation legalizing credit gaming (Godinho, 2006). This enabled visitors to obtain a loan, sometimes from gaming promoters and junket operators, for gaming purposes. No longer are visitors required to bring all their gaming money in the form of cash to the destination. This regulation encourages high rollers to play more on their visits and prolong the duration of their stay.

Consumer Patterns and Behaviour

Examination of travel patterns between visitors to Macau and Las Vegas reveal there are significant differences between the two groups. These differences are shaping Macau as a different gaming destination from its international competitor.

Firstly, visitors to Macau spend less at the destination, due to shorter trips. 50% of visitors to Macau are excursionists motivated to travel to see novelty casinos and gamble (Wong & Rosenbaum, 2012). Food and beverage, shopping and entertainment form only a small percentage of casino revenues in Macau. Unlike the West, gaming contributes to 96% of casino revenue in Macau compared to Las Vegas' 42%. That said, only 61% of visitors to Macau engage in gaming activities, while 87% spent money on food and beverage, 83% shop, 45% spend on other forms of entertainment and 42% sightsee (Loi & Kim, 2010).

Secondly, the breakdown of gaming revenue is also very different. Asian players at Macau prefer table games over slot machines. Over 90% of gaming revenue is from VIP Bacarat tables, whereas in Las Vegas, the same percentage of gaming revenue is from slot machines (Gaming Inspection and Coordination Bureau Macao SAR, n.d.; State of Nevada State Gaming Control Board, n.d.).

This suggest visitors to Macau are high rollers, and as a result of proximity and ease of access, the destination is viewed as a single day entertainment destination, like a large multi-purpose mall, instead of a vacation destination where one will stay for multiple days.

Breadth of Impacts

To measure the sector's ongoing economic impact, gaming revenue is used to track performance. Throughout the most recent economic recession, gaming revenue at Macau continually increased. In 2009, the city experienced a 5.1% (1,180,434 visitors) decrease in arrivals; however, due to the destination's ability to attract high rollers, it did not negatively affect revenue growth (Gaming Inspection and Coordination Bureau Macao SAR, n.d,; Statistics and Census Service Macao SAR Government, n.d.). By the end of 2011, Macau earned a total of $269 058 million MOP (approximately $3.3 billion USD at an exchange rate of 1MOP = 0.1252 USD).

The burgeoning gaming sector also positively impacts the region by reducing the unemployment rate. In 2008, 35% of employment in Macau was directly or indirectly related to the gaming sector (Kong & Wan, 2011). From 1998, the unemployment rate steadily declined from approximately 6% to 2.6% as of December 2011 (Statistics and Census Service Macao SAR Government, n.d.). Even in 2007, the percentage of people employed in Macau's gaming sector increased approximately 3%, while other industries at the location experienced a drop in employment numbers (Lo, 2009).

One of the main sources of tax revenue for Macau is from taxation on gaming revenue. The taxation rate on gaming revenue has increased from 30% in the 90's to 35% of all gaming revenue today (Hsu, 2006). 1.6% of tax contributions goes toward the *Macau Foundation* whose objective is "to promote, develop and research on the culture, community and economy, education, science, academics and philanthropic activities, as well as activities that promote Macao", to maintain sustainability of the destination (Macao Foundation, n.d.). Additionally, 2.4% of tax revenue is allocated towards infrastructure, tourism and a social security fund for local residents (Hsu, 2006).

Notwithstanding positive economic impacts from gaming tourism activities, researchers are documenting a change in local residents' perception towards the sector (Vong 2009; Harill, Uysal, Cardon, Vong & Dioko 2010). Initial local perception to gaming tourism was positive in 2002 (Hsu, 2006). However, Hsu (2006) highlights, under Doxey`s Irridex model, local's perception towards tourism changes as negative impacts become more apparent than benefits of tourism. Within five years of casino deregulation, the predicted shift in perception is beginning to show. Residents of Macau are no longer content with benefits of tax revenue and employment opportunities from gaming operations. Negative economic, socio-cultural and environmental impacts have shifted local's perception to a more conservative view on the gaming sector.

The source of negative economic impacts from gaming tourism ironically stems from the sector's positive economic impacts. Inflation brought about by economic development is increasing prices of goods and services, in particular property prices. Tracking CPI for Macau, a 6.81% increase was recorded from 2010 to 2011 (Statistics and Census Service Macao SAR Government, n.d.). Furthermore, property prices doubled between 2002 to 2006 (Un, 2007; Kong & Wan, 2011). Although gross national income increased at a rate consistent with CPI (Statistics and Census Service Macao SAR Government, n.d.), residents report greater prevalence of income inequality (Rato & Davey, 2012). The inflation rate and improved quality of life in Macau crippled many of the economy's secondary industries such as manufacturing and textile production (Godinho, 2010). Increasingly, companies are moving these jobs to factories in mainland China where land and labour are cheaper by comparison. This has created structural unemployment and disparity whereby manufacturing workers are unable to transfer their skills into the gaming sector.

Asides from affecting the financial well-being of residents, local small businesses are also affected by the gaming sector. High property and raw material prices along with a shortage of human resources are identified as barriers to operation. Small sized tourism-related businesses, such as lodging and food and beverage operations are losing patrons to larger novelty tourism service providers (Kong & Wan, 2011).

With regards to tax revenue, it is important for Macau's government to determine what percentage of gaming revenue is foreign capital injection. Given Macau's history, gambling culture, and the ease of access to casinos for locals, it is not unlikely a significant proportion of gaming revenue comes from local residents themselves. In this situation, taxes from gaming revenue will have minimal impacts toward improving economic and social conditions for residents. Reason being, the scenario simply results in a redistribution of income among locals (Li, Gu & Siu, 2010).

As the economy recovers, the increase of visitors and continuing development of gaming operations will once again increase demand for human resources; a demand pattern Macau is unable to keep up with. Consequently, many casino operators are hiring employees from surrounding areas such as Hong Kong (Kong & Wan, 2011). This has led to documented concerns in regard to crowdedness of the city centre and stress on the local transport system and environment (Kong & Wan, 2011).

Social costs of gaming tourism include deteriorating environment of the destination. This appears in the form of crowdedness in the city and traffic congestion from the arrival of leisure travellers and transient employees. Moreover, although Macau's government has established policies to control the number of gaming related crimes, its prevalence is still a concern for residents. Personal and family problems resulting from the presence of casinos and gamblers, such as problem gambling, abuse and suicides is yet another social issue brought about by casinos, and is negatively affecting the perception residents have towards the sector. Overall, five years after opening up the casino market, local residents report feeling a decline in their quality of life because of the social, environmental and inflationary impacts of gaming tourism (Vong, 2009).

Future Evolution and Impacts

Looking into the future, Macau faces a few challenges for which it will have to adjust to in order to sustain their gaming sector. Firstly, there is a concern of an oversupply of casinos and gaming tables in Macau. From 2006 to 2011, there is an incremental 80% increase in gaming tables, 10%

of new tables were introduced in 2011. Slot machines have experienced an incremental increase of 125% within the same time period (Gaming Inspection and Coordination Bureau Macao SAR, n.d.). With gaming tourism gaining favour among various Asian governments, there will be stronger competition among these destinations for gaming visitors to fill seats at table games and slot machines (Gu, 2005).

Additionally, changes to the IVS policy in 2007 and 2008 now limits the number of trips mainland Chinese visitors are allowed to make to Macau. Potential visitors are no long awarded double entry permits, and they are only allowed to apply for a permit to the peninsula once every other month (Hsu, Gu and Harrah, 2010), further inhibiting arrival numbers into Macau.

Macau's international competitors include Australia, South Korea, Taiwan, Thailand and Singapore (Gu, 2005). Casinos at those destinations and Macau operate under variations of the Las Vegas model, (in terms of slot machine/ gaming table ratio and an operational focus on both gaming and various other forms of entertainment) due to Las Vegas gaming organizations expanding and exporting their business model into Asia. As a result, visitors can travel to competing destinations and receive a gaming experience very similar to that found in Macau. Moreover, as China's middle class grow and become wealthier, travellers of Macau's main market will change. These travellers will likely be travelling further and further away from home (Brons, Pels, Nijamp & Rietveld, 2002) and Macau may lose market share.

If development in Macau continues at its current rate, and Macau is unable to increase their market share of visitors in proportion to the number of new casinos, and gaming tables and slot machines built, it will jeopardize the gaming market they are so depend upon. Decline of the gaming sector will reduce tax revenue and place jobs at risk. Without tax revenue and rising unemployment, Macau will not have the financial resources to provide residents with the level of stability and quality of life they currently have.

Gu (2005), suggests Macau should focus on attracting high rollers versus mass tourism visitors to differentiate themselves from competitors. Their experience in operating VIP gaming rooms with high minimal bets put Macau at an advantage in attracting risk taking players. High rollers also contributes the most to gaming revenue, thus they can sustain gaming revenue for Macau when mass tourists choose to visit other destinations instead.

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