

# Macau gambling industry: current challenges and opportunities next decade

Macau  
gambling  
industry

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## Abstract

**Purpose** – The viewpoints from industry briefly review the success in last decade, analyze what challenges and difficulties came across currently and forecast opportunities/development in next decade of Macau gambling industry. The paper aims to discuss these issues.

**Design/methodology/approach** – Practitioners from banking and gambling industries offered their cutting-edged analysis and viewpoints with scholars' observation.

**Findings** – Macroeconomic and political factors in China are the principal direct cause of Macau's gambling revenue decline in 2014, implicating the vulnerability and unsustainability associated with the VIP business model of gambling industry. Although Macau continues to face challenges since late 2014, the prospect of Macau gambling industry is still optimistic in the long term, as there are emerging positive catalysts which will boost demand. From casino operators' perspective, they should continue to try to increase revenue from mass market and non-gambling business by relocating the resource and adding more non-gambling amenities.

**Originality/value** – This paper provides a fresh perspective, and a new line of thinking with regard to how gambling industry in Macau will develop in next decade since 2015. It therefore potentially directs a new path of research in the area.

**Keywords** Diversification, Global business, Macro marketing, Gambling industry, Macau, VIP market

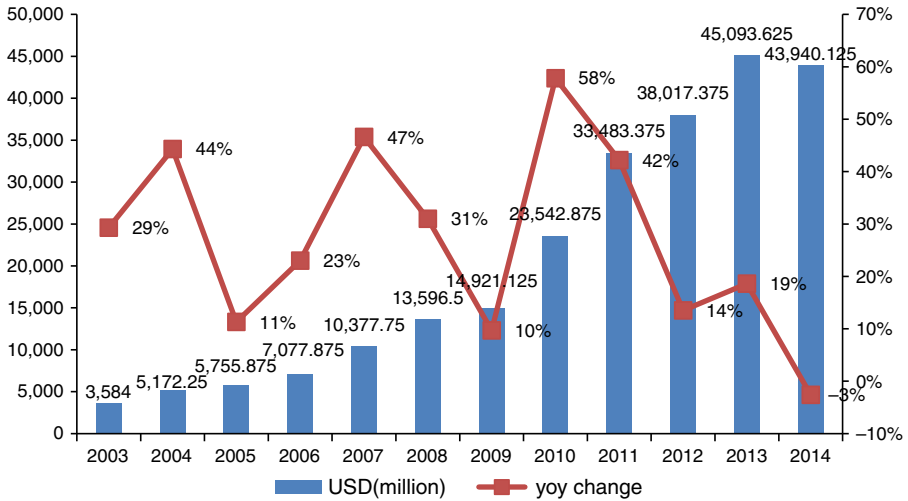
**Paper type** Viewpoint

## 1. World's fast growing gambling capital

Macau has developed rapidly over the past decade, primarily due to the liberalization of casino gambling since 2002 (Wong, 2011), and it is the only jurisdiction in China that allows casino gambling (Liu *et al.*, 2014a). Since this liberalization of the gambling industry in Macau, some international players were introduced to the industry. In addition, individual visit scheme which allowed citizens from selected Chinese cities to obtain permits to visit Macau without the need to join a tour was opened in 2003. The Macau gaming industry experienced a robust period of growth. Data compiled by Macau's Statistics and Census Service show, Macau gross gaming revenue (GGR) reached a historical high-US\$ 45 billion in 2013, seven times that of Las Vegas Strip. In 2014, it generated US\$ 43.94 billion in gambling revenue or about a 12-fold increase

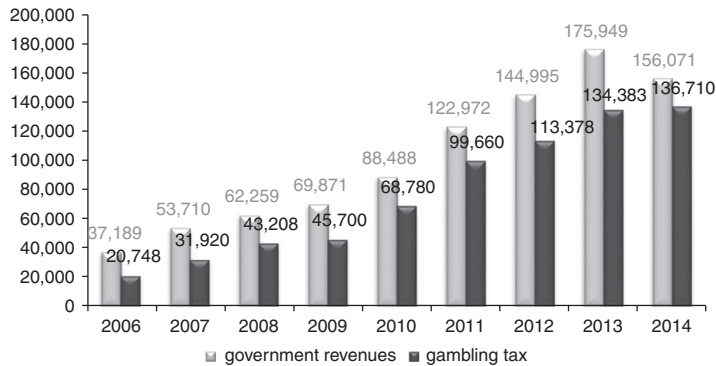


since 2003 (Gaming Inspection and Coordination Bureau Macau SAR, 2015, see Figure 1). The compound annual growth rate of gambling industry in Macau in mentioned period (2003-2014) reaches 18 percent even experienced global financial tsunami in 2008 and European debt crisis in 2012. The share of gambling revenue in GDP increased from 41.73 percent in 2002 to a historical peak 91.6 percent in 2010, and then slightly dropped to 87.52 percent in 2014. The gambling tax generates and accounts for a huge proportion of government revenue in Macau (see Figure 2). In 2014, 83.5 percent of government revenues came from gaming tax according to data compiled by Statistics and Census Service. Currently, there are 35 casinos in Macau – with six major casinos – including the six major casinos: SJM, Galaxy Entertainment Group, Sands China, Melco Crown Entertainment, MGM China and Wynn Macau, (generally called “The Big Sixes”) (Liu *et al.*, 2014b). At the end of 2014, SJM was the leader on Macau’s gaming market which held 24.1 percent market share.



**Figure 1.**  
Gross gambling revenue in Macau (2003-2014) (million USD)

Source: Gaming Inspection and Coordination Bureau Macau SAR (2015)



**Figure 2.**  
Macau Government revenue and tax revenue from gaming sector (million MOP)

Galaxy Entertainment Group ranks the second with 21.6 percent market share. Sands China Ltd. took the third spot with 19.4 percent market share (previously it held second place with 22.1 percent). The fourth place was taken by Melco Crown Entertainment with 14.6 percent. MGM China was listed fifth and the sixth spot was taken by Wynn Macau with 10.1 percent (Wells Fargo Securities, 2015).

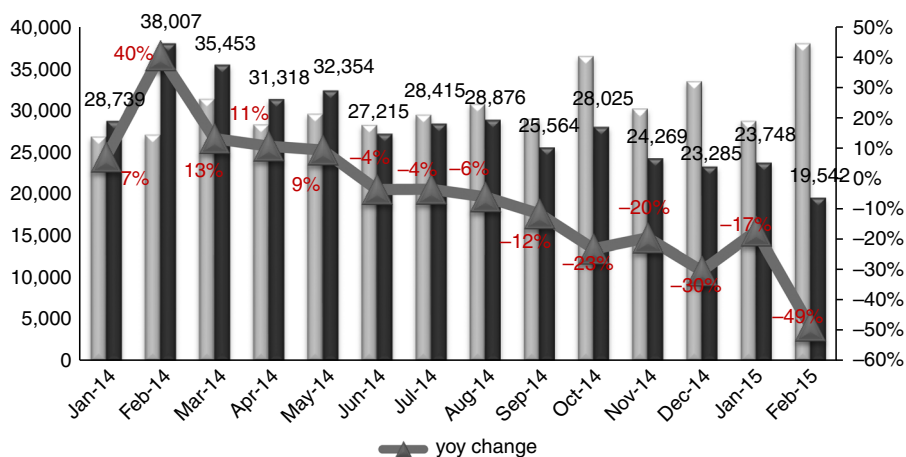
## 2. The first drawback ever in late 2014

The fast growth seems unstoppable until May 2014. Then, the monthly gaming revenue year-over-year started to drop from June 2014, and continued to decline for ten consecutive months (till present, March 2015, year-over-year). The GGR in 2014 is about US\$ 43.94 billion, slightly down 2.6 percent year-over-year. According to latest released statistics from Gaming Inspection and Coordination Bureau (DICJ), the GGR at Macau's casino suffered a 48.6 percent decline in February and a 39.4 percent decline in March 2015 year-over-year – also the worst back-to-back bimonthly decline on record.

The market continues to deteriorate as premium mass affected by some unfavorable factors. Macroeconomic and political factors in China are the principal direct causes, including the anti-corruption action in China, the shortening of visa period, prohibiting middle/high-leveled public servants to visit Macau, anti-laundry, strict monitor in UnionPay, etc. The impact from some other tightened regulations, such as smoking ban, removing of UnionPay devices in casinos, is relatively small (Figure 3).

### 2.1 Anti-corruption action in China

The anti-corruption campaign in China was launched in late 2012 – targeting officials from ruling party, government, military and state-owned company in China who are suspected of corruption. From that on, hundreds of officials in Mainland China have been investigated and prosecuted. It discourages conspicuous consumption and prohibits middle- and high-leveled public servants to visit Macau, which causes a certain part of high rollers and premium mass players, to refrain from visiting Macau. Meanwhile, junket industry also becomes cautious about lending money under this



**Figure 3.**  
Monthly gambling  
revenue in 2013 and  
2014 (million MOP)

Source: Gaming Inspection and Coordination Bureau Macau SAR (2015)

tension. The above phenomena lead to the continuing decrease in VIP gaming revenue. At the same time, the non-gaming revenue of some casino operators, such as Wynn Macau, also declined due to the decreasing conspicuous consumption.

### *2.2 Tighter transit visa policy*

Starting from July 2014, transit visa term was shortened from 14 days to five days. This policy do not have significant impact on visitors because most of visitors using transit visas are not for gambling, except some VIP gaming promoters and high rollers. Even the VIP gaming promoters and high rollers, they usually stay in Macau less than five days. In this sense, the number of visitors to Macau has continued to grow since that. From December 1, 2014, increased scrutiny on transit visa is implemented, which makes it difficult to use this transit visa scheme without actually traveling to a third country. This policy have negative influence on VIP market which already weak since mid-2014 because most of junket operators, VIP gaming promoters and high rollers are from Mainland China (many of VIPs usually use transit visa scheme to visit Macau without actually traveling to a third country).

### *2.3 Remove UnionPay devices in casinos and anti-laundering*

The mobile swipe card devices, a system registered in Mainland China, were brought into Macau casinos for cash transfers. The leaks of application of the card devices also unveil: evasion of foreign transaction fees and circumventing the Mainland's cross-border currency control on daily limit of UnionPay card cross-border consumption, both led to capital flight and make the China Central Government's supervision more difficult. In May 2014, China UnionPay, the largest electronic transaction system operator in China[1], took action to "combat overseas money laundering, capital flight and other illegal bank card use," and focussed on illegal transactions using mobile UnionPay cards posters/devices in casinos (Sevastopulo, 2014). Furthermore, Macau Government removed UnionPay devices in casinos accordingly. Pawnshops around casinos have been banned from applying for new UnionPay swipe terminals since July 2014. This action primarily has influence on premium business, because only premium mass players need to source cash by such transactions.

### *2.4 Smoking ban on mass gambling floor*

Macau Government initiated a "50% smoking ban" two years ago, which requires that 50 percent of Macau's casino floor should be designated non-smoking areas. However, smoking in VIP rooms is still allowed, and the casinos can install isolated smoking rooms. Therefore, this policy only has a little negative influence on gambling revenue. Although no one claimed that smoking ban was largely responsible for the declining revenue of casinos, some casino operators are afraid that smoking ban is the last straw to break camel's back, especially at the moment of downturn in general economic conditions. The process of smoking ban is full of controversies, but Macau's casino operators will accept this result. After all, Macau is the only legal casino market in China and other Asian gaming jurisdictions are not easily reachable.

## **3. Future challenges**

Besides the macroeconomic environment and political factors in Mainland China, there are other critical reasons behind this shrinkage starting from the second-half of 2014. The reasons are associated with VIP-oriented business model. In the long run, there

could be also some challenges that needed to be overcome, including the offshore online gambling sites, regional competitions, human resource shortage and increased labor cost.

### *3.1 Inherent vulnerability of the casino-junket model in Macau*

Different from the business model in Las Vegas or Singapore, Macau's gambling industry has heavily relied on VIP business, which is controlled by junkets and dependent on VIP gambling promoters, rather than casinos operators. Over the past decade, VIP market possesses a proportion of around 70 percent of Macau's annual gambling revenue, the leading session without doubt. However, behind the rapid growth, there are some problems derived from junket VIP gambling operation. Different from Las Vegas and Singapore, casinos in Macau rely on middlemen to extend credit to high rollers and recover debts. The number of middleman in gambling industry in Macau is larger than the figure officially released by Macau Government. Moreover, most of the middlemen are non-Macau residents, taking around 80 percent of the total number. These non-resident VIP gambling promoters are connected with more VIP players, especially the high-end players from Mainland China. Those promoters have unique method to bring them to tables, including offering not only free transportation, accommodation and entertainment, but also un-regulated credit for gambling during their stay. However, the credit risk assessments to high rollers are insufficient, over-borrowing phenomenon is common – mostly are associated with loan sharks. The situation increases the operating risks of the junkets or VIP gambling promoters. Credit collection is a thorny issue, majority of the debt to be repaid by gamblers are based overseas, especially Mainland China. But nowadays China shows a slowdown in economic growth. The regulations in real estate industry and excess production capacity industry have weakened the Mainland businessmen's ability to repay the debts, thus it may produce a large number of bad debts and break the capital chain (Loi and Cheong, 2015).

In addition, the VIP junket runaway incident happened in April 2014 triggered tightening of credit extension. A junket operator absconded with about US\$ 1.2 billion. Part of junket money is sourced from private investors or private loans except the principal invested by junkets themselves; hence the junket runaway incident triggered investor redemption or cause investors to withdraw their money, which would further tighten junket capital liquidity. Nowadays, There are some junkets are looking to downsize VIP rooms where they are receiving less favorable commission rates due to the decrease demand and liquidity problem. While most of the junkets have tightened credit to their clients, dragging down rolling chip volume and VIP GGR numbers is expected.

### *3.2 Internal competition between casino operators may drag down margins*

VIP system and mass market system are not only operated differently, but also driven by different social and economic forces fundamentally. High rollers are introduced to casinos via junket agents or gambling promoters. With the purpose of earning a higher commission, these agent groups are more likely to introduce their customers to more high-risk games, where they could gain the most abundant availability of credit. As the competition in VIP junket segments become more and more intense, the commission rates offered to Macau junkets by all the casinos have been increasing. That would drag down the profit margins of casino operators. The profit of six concession holders

was influenced in the competition. Increased competition among Macau's casinos should lead to contractual terms more favorable for at least some (licensable) VIP promoters, as well as to the evolution of other arrangement to cater to premium players in Macau. Profit margins enjoyed by casinos from traditional VIP room operations will be pushed downward. Furthermore, to the extent that VIP promoters operate in highly competitive environments (with ease of entry and exit), a higher proportion of their revenues will be absorbed by costs related to attracting and sustaining VIP customers, including rebates on losses or handle to customers as a form of price cutting.

### *3.3 Offshore online gambling*

Nowadays, some gambling companies have registered in other countries where gambling is illegal. They are operating offshore virtual casinos, and advertising the offshore online gaming system in Macau. Gamblers no longer need to actually visit a casino but can play online gambling through the network. To some players, participating offshore online gambling is more convenient than visiting casinos in Macau, especially when the tighter transit visa policy was implemented. Therefore, more and more online gaming systems took and will take away a part of gamblers and gaming revenue from Macau.

### *3.4 Increasing regional competitions*

Casinos and integrated gambling resorts are becoming increasingly popular in Asia, giving rise to more opportunities for industry participants and increasing regional competition. With new casinos opening in the rest countries of Asia, visitors/players have more choices. Actually, besides Macau, there are six other Asian countries had legalized gambling business. Macau junkets are able to bring some VIP businesses to other countries – especially to the Philippines and Malaysia – during the sensitive period. Nowadays, South Korea, the Philippines and Malaysia have already taken part of market share. Singapore has two casino operators and became the second largest gambling market in Asia with total GGR around US\$ 6.07 billion in 2013 (Rachel and Anshuman, 2014); South Korea has 17 casinos in operation with total GGR around US\$ 2.7 billion in 2013. In addition, in the long run, there are some potential legal gambling jurisdictions, such as Japan, Taiwan and Thailand. Japan is likely the biggest threat, as its pachinko market has already reached about US\$ 25 billion; Taiwan could be a potential competitor to Macau because Taiwan owns its geographic proximity and economic reputation, which help to attract Chinese gamblers.

### *3.5 Human resource shortage and increasing labor cost*

Human resource shortage is one of the biggest challenges that all industries, including casinos, face especially after the new Cotai properties of six casino operators are launched. It is expected that all new projects that are under construction will be completed by late 2017. It reported that Wynn Palace require around 10,000 workers, MGM Cotai, SJM Cotai, Melco's Studio City and Galaxy Macau Phase 2 require around 8,000 workers, respectively. Parisian Macau of Sands China even requires around 20,000 workers in two years. As the local labor force has not grown these years, a serious question comes out: is there enough labor force for the new casino-resorts' operation and the additional tables in new properties? It is known that the unemployment rate in Macau has been consistently lower than 2 percent in the past few

years, which is quite low, so human resource shortage will be a very critical issue to both government and casino operators.

The human resource shortage problem also led to increasing staff cost for all casino operators. Starting from the mid-2014, the frontline workers in many casinos asked for better compensation and welfare – even a series of protests were carried out during these years. In order to retain employees and attract more new employees, all casinos averagely have raised base salaries by 5-10 percent and increased extra bonus by one to two months in recent two years. Therefore, the overall staff cost will increase for casino operators.

### *3.6 Full smoking ban will be implemented*

In January 2015, it is reported that the Macau Government planned to “submit a bill to the legislative council proposing a full smoking ban in casinos, including the possible removal of the airport-style smoking rooms currently allowed on mass floors” probably in late 2015. It is expected that complete smoking ban could be extended to VIP rooms soon. If the full smoking ban is fully implemented, the high rollers’ willingness to visit casinos in Macau will be negatively affected, so is gambling revenue.

## **4. Opportunities in next decade**

### *4.1 Focus on mass market*

When the VIP market is shrinking due to many unfavorable factors, casino operators focus far more on mass market, which will lead to increased internal competition for market share between casino operators. Recently, Macau’s mass market witnessed an increase in the growth rate in customers. The growth is mainly due to the rise of the Chinese middle-class population. While the VIP segment in Macau has been volatile, more profitable mass market continued growing. Casino operators are planning focus more on growing Chinese middle class, international visitors, family visitors and even backpackers. That will be the key for success in 2015 and afterwards.

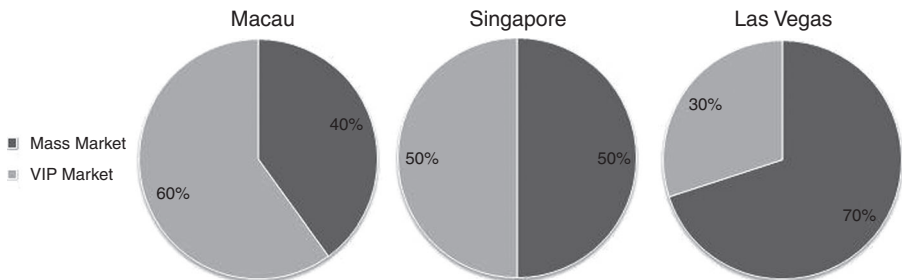
From the gambling industry as a whole, VIP gambling revenues are accounted for more than 70 percent of gross gambling revenue before 2012. The situation reflects how Macau casinos heavily relied on VIP players for the past decade. VIP contribution fell from 74 percent in third-quarter 2011 to 61 percent in fourth-quarter 2014. The figure shows that the gambling revenue structure has gradually become rational. In the end of 2014, mass market (including premium mass market) already takes about 40 percent of total gambling revenue in Macau, while the percentage is about 70 percent in Las Vegas and 50 percent in Singapore. The change should lead to a more sustainable business model as: first, VIP business is more controlled by junkets than casino operators themselves; second, VIP business has much lower profit margin than mass market/slot because of the return commission to junkets is very high; third, VIP market is more sensitive to Chinese economic conditions (including credit conditions, interest rates, commercial and residential real estate markets, and even stock market) than the mass market is; and fourth, VIP gambling system also cause some problems affecting the long-term social and economic sustainable development. The adjustment of gambling revenue structure can not only reduce the dependence on VIP gambling and improve the ability of policy and market risk resistance, but also reduce junket commission costs to improve profit margins, thus providing more abundant funds for the new projects (Figure 4).

4.2 *New projects with non-gaming amenities*

New properties/projects in Cotai will be positive catalysts for Macau’s next boom. Six major casino operators are extensively building new casinos and mega resorts – all projects are expected to complete by late 2017 in Cotai strip in Macau. Most of the new projects have some non-gaming amenities. For example, Melco’s Studio City will cooperate with Warner Brothers and DC Entertainment Company on this new project, introducing the batman stories of virtual reality games, home entertainment center and magic show hosted by magic masters and so on. It will introduce the highest Ferris wheel in Asia called Golden Eye, which exactly aims at the mass market (Melco Crown Entertainment, 2015). Wynn Palace will be a floral-themed casino which presents visitors with an elegant floral world, and will be fronted by a massive lake with a light-and-fire show (Farah, 2013). The Parisian Macau will be a Paris-themed integrated resort, and will feature more than 490,000 sq. ft. of retail space, diverse food and beverage offerings, new meeting and convention facilities and a 50 percent scale replica of the Eiffel Tower (Las Vegas Sands, 2014). SJM’s first casino-resort will include a hotel bearing the trademark “Palazzo Versace” with a total of approximately 2,000 rooms and facilities for shopping, dining and entertainment. Galaxy will further cooperate with two luxury hotels, the Ritz-Carlton Macau and JW Marriott Macau to target high-end customers. More brand shops, banquet space, diverse food and beverage offerings will be introduced. Table I shows the related information of new projects under construction. Most of the new properties will feature large non-gaming amenities and providing more non-gaming offerings, in order to satisfy diversified customer needs. According to the data of Statistics and Census Service Macau SAR, the number of visitors to Macau in 2014 has set a new high of 31.5 million while the overall economic potentiality and purchasing power of visitors remain strong. Currently, non-gaming revenue accounts for a small part of the overall revenue of six major casino operators, but there is still plenty of room for growth, as visitors to Macau is continually increasing. In the long term, non-gaming amenities will gradually increase its contribution to Macau casino operators’ revenue.

4.3 *Gambling industry – led industrial diversification*

The Chinese Central Government supports Macau to appropriately diversify its economy structure by developing its tourism and leisure industry. Macau has been committed to develop to a center for leisure, business and entertainment and create the trading platform of China and Portuguese nations. Over the past decade, gambling industry in Macau has a tremendous impact on local economy and related industries like hotel, transportation, restaurants, event venues and so on – promoting diversified development of Macau’ economy to some extent. Besides, Macau’s financial industry,



**Figure 4.**  
Current approximate  
distribution of  
gambling revenue  
sources



Casino operator (stock symbol, HK)	Name of project	Estimated completion time	Estimated cost	Gambling facilities and hotel rooms offered	Non-gaming amenities
Galaxy Entertainment (00027, HK)	Galaxy Macau Phase 2	Mid-2015	US\$ 2.5 billion	500 tables 1,000 slots 1,350 rooms	Two new luxurious hotels, many brand shops, diverse food and beverage offerings. Phase 2 significantly increased more meeting, event and banquet space than Phase 1
Macau Legend (01680, HK)	Legend Palace Hotel	Mid-2015	US\$ 3 billion	117 tables	More luxury hotel rooms and suites
Melco Crown (06883, HK)	Melco's Studio City	Q4-2015	US\$ 3.2 billion	500 tables 1,000 slots 1,600 rooms	Batman stories of virtual reality game in Gotham city, family entertainment center, magic show, ferry wheel
Sands China (01928, HK)	Parisian Macau	Early-2016	US\$ 2.7 billion	450 tables 2,500 slots 3,000+rooms	Paris-themed integrated resort, diverse food and beverage offerings, luxury hotel rooms and suites, new meeting and convention facilities, an "Eiffel Tower"
Louis XIII (00577, HK)	Louis XIII	Early-2016	US\$ 1.0 billion	66 tables 230+rooms	Ultra-luxurious hotels, introducing Michelin three- star Parisian restaurant
Macau Legend (01680, HK)	Legendale Hotel	Mid-2016	US\$ 2.7 billion	117 tables	More luxury hotel rooms and suites
MGM China (02282, HK)	MGM Cotai	Q3-2016	US\$ 2.9 billion	500 tables 2,500 slots 1,600 rooms	85 percent of the floor area will be used for non-gaming elements, including luxurious hotels, brand shops, diverse food and beverage offerings, and a theater
Melco Crown (06883, HK)	City of Dreams Phase 3	Q1-2017	US\$ 1 billion	700+rooms	
Wynn Macau (01128, HK)	Wynn Palace	Q2-2017	US\$ 4.0 billion	552 tables 1,000 TBD 1,700 rooms	Floral-themed mega resort. Integrate flowers, water, natural light, and a massive lake with laser, music and light show
SJM (00880, HK)	SJM Cotai	Late-2017	US\$ 3.8 billion	700 tables 1,000 slots 2,000 rooms	five star hotel
Galaxy Entertainment (00027, HK)	Galaxy Macau Phase 3-4	2017-2018	US\$ 7 billion	1,000 tables 3,000 slots 5,500 rooms	Multi-purpose arena with over 10,000 seats. A convention center. More luxury hotel rooms and suites

**Table I.**  
Ongoing casino  
expansion projects  
in Macau

MICE industry (meetings, incentives, conferencing, and exhibitions) and cultural creative industry are also developing quickly. Therefore, in the future, Macau will become more attractive to tourists and investors all over the world.

#### *4.4 Professional management and HRM optimization*

Casinos spend more resources to keep valued human resources. For example, Sands China has increased base salary by 5 percent and offered extra one month salary (as bonus) two times in 2014. In addition, the working environment was improved, such as implementing the full smoking ban policy in its casino; some employee benefits were also improved. Some casinos have created a reasonable career path to retain employees and attract more talents. Meanwhile, pushed by the tight labor market in Macau, casinos have held several recruitment fairs in Mainland China, Manila and Vietnam, to recruit non-gaming staff for their up-coming projects. It is believed that there will be new rules in Macau to attract more and more talents and valued labors from all over the world to support further development.

#### *4.5 Responsible gambling: an ethical and sustainable way to follow*

Macau's efforts to promote responsible gambling include public awareness to different communities and free treatment services to residents if they are diagnosed as pathological gamblers. For example, Macau Government introduced a law to ban minors under the age of 18 years from entering a casino and to ban casino employees from entering their employers' casinos outside work time. Macau Government also has taken measurement to control the number of new casinos, gambling tables and slots. Most of casino operators have taken some actions to help address problem gambling prevention and treatment. A resilience center was set up in 2005 to treat, prevent and research problem gambling. Voluntary self-exclusion service was also conducted for years. In addition, the casino operators provide information about problem gambling prevention and treatment to public.

#### *4.6 Infrastructure development conducive to long-term development*

On the one hand, more infrastructures in neighboring areas will boost market demand in the near future. Some key infrastructure projects in the region have been improving Macau's connectivity to other regions in Mainland China, so there will be more visitors come to Macau. For example, the high-speed rails connecting with the cities in neighboring Guangdong province and inland provinces have established. The Hong Kong-Zhu Hai-Macau Bridge (under construction) consists of a series of bridges and tunnels, the bridge will connect these three major cities on Pearl-River-Delta in China. Eventually, the high-speed rail network and the bridge will be connected/integrated. These new infrastructures will accelerate internal connections within Pearl-River-Delta area. On the other hand, Macau's light rail system, new hotels, integrated resorts and public facilities are also under construction. When they are all established, the hospitality capacity will be enhanced significantly.

#### *4.7 Port infrastructure construction and 24-hour border crossing will bring more visitors*

The Macau authority announced extension of the border gate opening hours for two hours on the Gongbei border and a 24-hour border crossing on Hengqin Border starting from December 18, 2014 (*Macau Daily*, 2014). By implementing the policy, more visitors

will be attracted with higher willingness to prolong their stays in Macau. The policy is probably an accelerator to Macau's tourism industry, and may have a positive impact on gaming industry.

#### *4.8 Regional cooperation facilitates tourism resources integration*

World class non-gaming development in Hengqin Island will help enhance the attractiveness of Macau and the Pearl-River-Delta. Hengqin Island is a reform zone of Guangdong Province, targeting cooperation with Zhuhai, Macau and Hong Kong. It has an area of 106 sq km, 3.5 times as large as Macau, and has very strong ties with Macau geographically and in economic connections. Hengqin has set several preferential policies on its own development and the corporation with Macau (O'Neill, 2014). It is development focus on tourism and leisure, logistics and commercial trade, science, education, R&D, cultural creation, high-tech, medicine and healthcare and financial services. A park called Chime long International Ocean Resort already started operation in early 2014. The non-gaming elements in Hengqin Island and Macau tourism industry will help to attract more diversified tourists.

#### *4.9 Lowering commercial banks' reserve requirements will boost demand*

The Central Bank of China announced to reduce the commercial banks' reserve requirements to encourage economic growth, as China's economy shows a sign of slowing down. Lowering reserve requirements signals it has entered a monetary easing cycle, which may be a positive catalyst for the china's economy, thus bodes well for Macau VIP gambling recovery.

## **5. Conclusion**

### *5.1 Macau's next step*

The performance of gambling revenue has been hurt in part during the ongoing "adjustment period" with regulatory and policy influences. In short term, the mass market and non-gaming revenue cannot make up for the decline in VIP gambling, and the investment in non-gaming amenities cannot be profitable for the casino operators instantly. What's more, Macau Government's gambling review may trigger more regulation; therefore, the temporary pain of Macau gambling industry may linger a while. Despite the slump, new opportunities are arising from long-term perspective – including the new projects in Cotai strip with more non-gaming amenities and infrastructure improvements. Each casino operator has a new resort and/or major addition under construction. In general, the prospect of Macau gambling industry is still optimistic in the long term, as there are emerging positive catalysts which will boost demand. In the aspect of casino operators, they should continue to try to increase mass market revenue and non-gaming revenue by reallocating the resource and adding more non-gaming amenities. The opening of Galaxy Macau's Phase 2 and Melco Crown's Studio City by late 2015 may be a turning point. Both new projects may provide some must-see attractions, unique experiences and world class service – they may help Macau to implement the diversification and extend the market far beyond Mainland China. Though the miraculous era of Macau casino industry is gone, observers still believe that Macau is a highly attractive tourist destination in the next decade and beyond.

The governmental policy definitely can influence and lead the industry to a new direction. Macau Government's role is critical. For example, Singapore's Government adopted stringent restrictions on junket promoters and created serious responsible

gambling program to protect Singapore's vulnerable citizens. One good example is the gambling tax. If Singapore does not want its citizens to gamble, the best alternative is to attract foreign high rollers. The tax structure, with a 15 percent levy on mass market and 5 percent on VIP, can encourage VIP play. But Singapore set strict rules for junkets and their employees to qualify for licensing. Now, only three junkets have been licensed, two are from Malaysian and one is from local – all for Genting Singapore's Resorts World Sentosa. As to Marina Bay Sands, it has to run business without any junket promoter. In Jeju Island, South Korea, junket operators have to set up tangible shop to offer gambling chips on loan, which can help players sidestep China's limits on taking currency out of the country. Well-designed rules can help the industry develop sustainably, so responsible gambling is an ethical and sustainable way for Macau to follow. Given that Macau is the only place in China where gambling is legal, Macau's is still the industry leader in the world even facing more and more challenges from neighboring countries.

### *5.2 Implications to international marketers*

For the international and domestic casino operators who have interest in Macau, they have two ways to enter Macau's gambling market, one is to apply license at 2020; another is to cooperate with one of six license holders. The first one is uncertain because no one knows whether Macau Government will release any new license or not. The latter one may be less attractive and profitable but can be implemented. For any international gaming company who has intention to enter Macau's market, it has to learn how to deal with these changes. If the casino operator has the political sense and good relationship with government, the uncertainty and loss from the change of policy can be reduced to a large extent.

Entering new markets is also a possible alternative. Some of Macau's Asian rivals have benefited from Mainland China's anti-corruption campaign. In other words, there are many opportunities in other emerging market. Take Singapore as instance. When Singapore allowed opening casino in 2005, no one could forecast that Singapore would overtake Las Vegas as the world's second largest gambling center. Besides, Japan may create next casino industry boom in Asia. Japan Government plans to move forward. Base on estimation, Japan may generate US\$ 40 billion in annual gambling revenues. It is noteworthy that around 9.6 percent of males and 1.6 percent of females in Japan were found to be gambling addicts in a 2010 survey of over 4,000 respondents. The proportions are much higher than 1.4 percent in the USA and 1 percent in UK. Unlike Singapore, the Philippines and Vietnam, Japan could be a very big domestic gambling market without Chinese gamblers. Thus, it would make sense for international casino operators to invest in Japan subject to casino legalization.

Building international alliance is a trend. City of Dreams Manila is Melco Crown Entertainment's first resort opened outside Macau with international partnership. Melco Crown Entertainment is seeking for new market and growth opportunity; the Philippine market is also counting on Melco Crown's mature connection and system to bring in Chinese high rollers. Moreover, Vietnam is going to declare that its citizens are allowed to play in selected casinos on an experimental basis. China's crackdown on corruption is keeping wealthy Chinese gamblers away from Macau's casinos. One of Macau's top casino-junket operators, Suncity, will team up with Chow Tai Fook, a leading Hong Kong jewelry brand, to develop a US\$ 4 billion casino resort in Vietnam. Actually, Suncity already developed its base in the Philippines and hired hundreds of local staff in Manila.

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**Note**

1. China UnionPay is the third largest card payment system in the world after Visa and Master Card. By the end of 2014, the company has 30 million merchants worldwide and 1.8 million ATM machines. There are 13 million overseas merchants and 1.2 million ATM machines which accept UnionPay cards. There are 90 million UnionPay card holders in China, and totally about 500 million UnionPay cards issued.

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