



The ultimate concession

The future shape of the Macau gaming market

Discussions about the future of Macau have been put on ice due to the intervention of the Covid-19 pandemic, but they have also crystallised around the argument for change. The impact of the coronavirus has put into stark relief Macau's reliance on a single economic resource and the fragility of its infrastructure as a result. Decisions regarding the licences for each of the Integrated Resort concessionaires remain indistinct, when this year we were promised concrete directions as to the course Macau will take over the next decade.



Seeking clarity, G3 commissioned a series of exclusive interviews with key stakeholders, analysts and academics regarding the shape of the market to come. To achieve this, we explore the journey Macau has taken from Portuguese enclave to Chinese gaming superpower, and ask if this has been through luck, happenstance or political puppetry?

Headlining our coverage and breaking a year-long press sabbatical to speak to G3, Melco Chief Executive Officer, Lawrence Ho, delves into the evolution of Melco's projects in Macau. An avid supporter of competition and diversification, he recounts the Macau story and how Melco has navigated a changing regulatory environment as they continue to plan for the future, catering for a premium mass customer, whilst the future for foreign operators in Macau is uncertain.

In March, Las Vegas Sands announced their plans to sell two of their Las Vegas Strip properties. The news has left many guessing

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what this sudden inflow of capital will mean for LVS's future investments. The \$6.25bn raised opens options for domestic spending, but many argue there will be further funding directed towards Asia with obvious implications for the future proofing of their position in Macau in light of their recent US\$2bn spend on upgrading the Sands Cotai Central into the Londoner Macao. The licenCe holders are in a state of flux, all eager to appease Macau's Chief Executive ahead of the looming 2022 concession renewal. Expert analysts Ben Lee, Rui Pinto Proença and Andrew Klebanow offer their perspectives on Macau's fluctuating relationship with its gaming industry and give their opinion on what the future may hold for the famous concessionaires.

Speaking earlier this year at an event held by the France Macau Chamber of Commerce, Priscilla Roberts, historian and Associate Professor at the City University of Macau, reiterated pre-existing fears of increasing Chinese influence on foreign operations amidst fears of equity being sold to

Chinese firms. Despite the election of President Biden and the calming of geopolitical tensions, she maintains that the US operators exist vulnerably in Macau. Whilst Sands have dismissed these concerns, such claims may not be so overstated.

From a perspective of geography, Macau is wholly unique. The region is the most densely populated in the world, even the term region sounds generous given its population of over 600,000 fits into a space smaller than LAX; a tourism hotspot that has been accustomed to receiving over 30 million visitors a year in pre-pandemic times. Owing to its explosive gaming boom in the 2000s, Macau was listed as the second wealthiest area in the world in 2017 according to the IMF.

Money gambled in Macau underpins approximately 80 per cent of government spending and the Special Administrative Region owes its fortunes to the gaming industry which

surpassed Las Vegas' gaming revenues in 2006, ultimately peaking in 2013 at \$45 billion in GGR – globally overshadowing any other territory.

Before the global pandemic, gaming revenues remained high by international standards but the levels witnessed in 2013 are yet to return. The GGR peak resembles somewhat of a watershed moment for the industry, as the years to come have been characterised by an era of anti-corruption and increased regulation that have stymied Macau's potential.

Anti-money laundering measures are considered central to the long-term sustainability of Macau as a gambling destination. AML measures as well as intensified restrictions and controls when partnered with an escalating emphasis on diversification away from gaming, suggests the potential for a new future, less dependent on VIP takings with more weight on entertainment, retail and MICE. To truly understand the nature and the intentions behind these changes an appreciation



of governance and the geopolitical complexities of post-colonial Macau is required.

The constitutional principle of "one country, two systems", makes Macau a Special Administrative Region of the People's Republic of China and in 1999, the former colony of Portugal was handed over to the PRC and during the years following colonial rule the small peninsula in the Chinese Pearl River Delta witnessed an incredible economic transformation.

Gaming in Macau has long been an important economic driver, especially when placed in historical context with neighbouring Hong Kong outcompeting the peninsula thanks to its deeper trading ports. In the 1960s, casino tycoon Stanley Ho obtained the licence for the gaming monopoly replacing the incumbent, promising prosperity for Macau via tourism and gaming. Though it was not until the Handover that the newly appointed Chief Executive of Macau, Edmund Ho, decided to liberalise Macau's gaming industry allowing foreign

Conflicting corporate cultures resulted in the split between Galaxy and Sands, a precedent which exposed the legal sub-concessionaire loophole that enabled Wynn and SJM to sell their halves of their concessions to a Melco Crown joint venture and MGM respectively – further entrenching the role of foreign operators in Macau.

operators for the first time the opportunity to establish themselves in Macau.

Positioned favourably given that gaming was and still is outlawed in mainland China, the decision to open up the industry meant that SJM, Wynn Resorts (the sole US operator) and a joint venture between Galaxy Entertainment Group and Las Vegas Sands lit the touchpaper on Macau's dramatic transfiguration into the world-leading gaming hub that it is widely known as today.

Conflicting corporate cultures resulted in the split between Galaxy and Sands, a precedent which exposed the legal sub-concessionaire loophole that enabled Wynn and SJM to sell their halves of their concessions to a Melco Crown joint venture and MGM respectively – further entrenching the role of foreign operators in Macau. The peninsula began to metamorphose and to make more space for the burgeoning industry Cotai soon opened, built on land reclaimed from the delta. However, this unchecked growth was soon to come to an end.



In 2012 President Xi Jinping announced an anti-corruption campaign, the effects of which were soon felt by Macau's VIP and junket markets with increased scrutiny on players sequentially hampering VIP turnover. Previously, China has utilised corruption crackdowns as guises to achieve other political goals, so it is perhaps unsurprising that further swathes of regulation were introduced at this time, extending as far as cash withdrawal and visa issuance that serve to plug the major currency leakage that Macau had become for the Mainland. Alongside the newly imposed regulatory environment in Macau, the rhetoric of diversification, exemplified by the Macau Tourism Industry Development Master Plan published in 2017, clearly stresses a movement from gaming to non-gaming activities. Not only does governance have a clear intention with respect to diversification, but it has the tools to deliver these desired changes, heightening the intensely anticipated concession renewals.

The rhetoric of diversification, exemplified by the Macau Tourism Industry Development Master Plan published in 2017, clearly stresses a movement from gaming to non-gaming activities. Not only does governance have a clear intention with respect to diversification, but it has the tools to deliver these desired changes, heightening the intensely anticipated concession renewals.



William Cammegh
Newcastle University

Having written extensively on the development of gaming in Macau in collaboration with G3 in 2018, the opportunity to speak to key stakeholders about the future of the concessionary licences, the Macau Tourism Development Master Plan and the arrangements China has for the enclave has been a lengthy but thoroughly rewarding experience. I'd like to thank Lawrence Ho, Pricilla Roberts, Rui Pinto Proenca, Andrew Klebanow and Ben Lee for their insights into the ever fluid market situation in Macau and the prospective future direction of the gaming industry.



Macau 2.0

The operator perspective – Melco Resorts & Entertainment

G3 discusses the past, present and future of Macau with Lawrence Ho, the Chairman and Chief Executive Officer of Melco Resorts & Entertainment, a developer, owner, and operator of integrated resort facilities in Asia and Europe.

The company currently operates Altira Macau, Taipa, Macau and City of Dreams, in Cotai, Macau. Its business also includes the Mocha Clubs in Macau and majority ownership and operation of Studio City in Cotai, Macau. In the Philippines, a Philippine subsidiary operates and manages City of Dreams Manila, while in Europe, the company is currently developing City of Dreams Mediterranean in the Republic of Cyprus.

To understand the governance of Macau's gaming industry, could you give your view of its history to present day?

Lawrence Ho: Macau, before its handover back to China in 1999, was a Portuguese colony for over 100 years. During this time, Portugal allowed Macau to operate a gaming monopoly. Macau, as a city and as an economy, is tiny. Even now with the expansion of land supply through reclamation, it is only 30km.sq in radius. To put that into perspective, Disney World in Orlando is actually three times bigger.

Before the introduction of its gaming concession, Macau was a quiet sleepy fisherman village, but having the ability to offer casino gambling started a brand-new industry for Macau – tourism and entertainment. And as technology improved in terms of transportation, Hong Kong became the dominant market for Macau back in the 70s, 80s and 90s. Of course, when China started reforming its economy, the subsequent handover meant that China is by far Macau's biggest market to the present day.

In regards the liberalisation of the Macau market, was this a deliberate push to accelerate the growth of the industry?

Lawrence Ho: Absolutely. My father won the right to operate Macau's gaming monopoly in 1961, beating the incumbent to uphold the monopoly until 2002. Following the handover back to China in 1999, the new Chief Executive of Macau, effectively the new governor, Edmund Ho, rightly decided that in order to take Macau to the next stage, gaming needed to be the driver. He considered that my father and his company, Sociedade de Jogos de Macau (SJM), had successfully operated the monopoly for 40 years, but that there needed to be competition. I believe the reference point was the Las Vegas market in terms of free market competition and the decision was taken to open a tender for three concessionaires, which eventually became six.

Close to 20 companies from around the world tendered their bids, with the competition ultimately selecting three companies, one was my father's company SJM, Wynn Resorts from Las Vegas was the second, and the third was a joint venture between a local company that didn't have any casino gaming experience, called Galaxy, which partnered with Las Vegas Sands (LVS).

Subsequent to attaining the licences at the end of 2002, Galaxy and LVS concluded that they couldn't work together.

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The cultures of both companies clashed; the values both held were too different and so the Macau government used a legal loophole to split their licence in half. Following the split, SJM and Wynn, the remaining concessionaires, went to the government arguing that they should also be allowed to split their licences.

The outcome was that both SJM and Wynn were allowed to



A man in a dark pinstriped suit, white shirt, and dark tie is speaking at a podium. He is wearing glasses and has his hands raised in a gesturing motion. The podium is dark with gold lettering. In the background, a large, shiny Oscar statue is visible against a dark background.

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G3 MARKET INSIGHT

MACAU

create sub-concessions, though to be clear, sub-concessions are exactly the same as real concessions, there's no operational difference. SJM sold its half to MGM and Wynn sold its sub-concession to a joint venture between Melco and Crown Resorts. James Packer and I bought the Wynn license for US\$900m.

I'd say that I'm one of the biggest supporters for the opening up of the Macau market because again, without competition there wouldn't be any motivation to continue to invest in Macau. Since the liberalisation of the market, around US\$40bn of hard capital has been injected into the market in terms of all the new Integrated Resorts. It's thanks to the handover that the dingy old Chinatown-esque casinos have been replaced. What we've built between us at Melco, LVS, MGM and Wynn are some of the most expensive and impressive Integrated Resorts anywhere in the world with the best five-star hotels, the most Michelin starred restaurants, etc. All of this began with Edmund Ho's vision to transform Macau.

The funding to building Melco's resorts was raised directly from the public markets. When I was taking part in roadshows to raise capital in London and the US back in 2004, I remember people asking, 'so what's Macau?' I said, 'well if you look at the map, the little dot next to Hong Kong, that's Macau.' It seems odd to consider that today when everybody knows about Macau. Macau has gone from a market pre-liberalisation of around US\$2bn a year to its peak in 2013 of US\$45bn. In total, around 80 per cent of Macau's government spending each year comes directly from casino gaming tax. I think it's fair to say, therefore, that Edmund Ho's vision has been transformational.

In your opinion, have the regulatory changes imposed from 2013 onwards increased the rate of diversification in the Macau market?

Lawrence Ho: I think regulation is definitely the biggest factor, not just in the sense of the Macau regulatory environment, but more so in China. Given that 90 per cent of our revenue comes from China, the country's tightening of regulations in terms of capital outflow has certainly changed the market. I'd say that Macau has done an outstanding job. The casino industry is second only to banking as the most regulated industry in the world and Macau takes this regulation very seriously.

Since 2013, there's been a significant shift in the dynamics of the market. For the first 10 years or so of the development post-liberalisation, the market was driven by the VIP sector. At one point, the VIP market represented over 75 per cent of the entire market, with 25 per cent mass and slots. Today, in 2021, it's almost totally flipped, so 60 per cent of the market is mass and 40 per cent is VIP. I believe this has been a healthy development over the years in terms of the market being less reliant on VIP and, by association, less reliant on junkets. Macau has mirrored the growing middle-class in China and Asia, which are the fastest growing economies in the world.

As regards the premium mass customer and the growing middle class in China – how would you describe the evolution of your projects in Macau?

Lawrence Ho: At the time that Melco Resorts opened our first



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hotel casino, Altira, in 2007, we were already building City of Dreams, our flagship premium high-end integrated resort in Cotai. Back in 2006, when we concluded our IPO on the NASDAQ, at the time the biggest Asian IPO in history, I was telling people then that the future of Macau was focused on mass – and that's why we continue to invest in this segment. Altira is very much a VIP-centric property, but we had already been planning for City of Dreams to focus squarely on mass. And so back then, and I must admit timing is everything, my prediction was probably eight years too early as regards the evolution of Macau into a mass market destination. We certainly left money on the table because we focused on mass so early, but having said that, I think it's panned out exactly as we predicted and that's why, with City of Dreams and Studio City, which is a mid-mass market focused property, we planned and built for the future.

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How have you accommodated the expectations of a changing and evolving customer across your destinations in Macau?

Lawrence Ho: I think our various properties are positioned differently. Yes, it's an ultra-competitive market, but at the same time, all the concessionaires experience overlap. So, for instance, City of Dreams is very competitive with Wynn in terms of the top tier of the premium mass market. Whereas Studio City competes more with LVS and some of their properties in terms of the mid-mass market. So you have different concessionaires focusing on different things.

G3 MARKET INSIGHT

MACAU

"No other country in the last 40 years has taken more people out of poverty than China. On that metric alone, Macau has been a massive success and when you look at where the city was and the way people were making a living back then versus now, it's been very, very successful."

Do you see the market shifting more towards a broader entertainment offering or will Macau's economy remain heavily dependent on gaming?

Lawrence Ho: I guess what Melco has always done very well is focus on entertainment. I've been saying for many years that casino gaming, whether it's baccarat or blackjack, is a homogeneous product. You go to every single casino and it's the same thing, each casino offers the same product, so what we're really trying to do is attract customers with non-gaming elements, and for Melco that's always been entertainment.

At Melco, we want to make sure that we offer the most four or five-star hotels, the best restaurants, but in addition to that, we have the best entertainment too. So whether it's the House of Dancing Water show that we spent US\$300m creating or the attractions at Studio City, in which we have a Ferris wheel in the middle of the building, or Asia's largest VR park, a Batman 4D simulator ride in conjunction with Warner Bros. – in addition to concerts and sporting events.

So, while non-gaming barely contributes to the bottom line, it's the essential ingredient that differentiates us from our competitors. And from a competitive point of view, I'm really happy that the market has matured, because now we compete on product and segment, rather than on price. And that's important because it means that margins aren't being driven down as we've witnessed in places such as Atlantic City, where price wars effectively bankrupted half the operators in that city.

How important is the publication of the Macau Tourism Industry Development Master Plan? And what does it mean for Melco and for Macau as a whole moving forward?

Lawrence Ho: Well, to be honest, it's long overdue because for a very, very, very long time resorts have been built, but the infrastructure has been lacking. The resorts have been waiting for the infrastructure to catch up and so it's good to see that there is a 10-20 year master plan that informs us as to where the market is heading.

At Melco, we see our role in the community as more than just a casino or integrated resort operator. We want our plans to mirror those of the city, because Macau's success means success for us as well. So, it's great to see something like the Macau Tourism Industry Development Master Plan, as we've waiting for a very long time for this kind of initiative. I could talk endlessly about all the infrastructure projects that were delayed for years and years, but thankfully it's finally happening.

How do you see the new bridge from Hong Kong affecting Macau? And will this help the drive for more diverse products that you're so clearly striving for?

Lawrence Ho: Absolutely, the Hong Kong Zhuhai Macau Bridge, which links up the entire greater bay area, is a game-changer for Macau. Part of the reason why MICE hasn't taken off in Macau is due to convenience. The reason why exhibition-goers prefer Las Vegas is because people can fly there direct. They can attend a MICE event, stay the four days from Monday to Thursday, and be



home for the weekend. But for Macau, people think, wait – I have to fly into Hong Kong, which is a different city, a different jurisdiction and then take a ferry over to Macau? It just isn't convenient. No one wants that journey. However, now that the Hong Kong Zhuhai Macau Bridge has been built, from Hong Kong airport to Macau is only a 45 minutes' drive.

And so yes, I absolutely think it's a major game-changer going forward.

Given the fact that gambling isn't legal in China, do you think Macau is seen as a success or a necessary evil?



Lawrence Ho: Well, I would say it's been a tremendous success. I think if you look at how successful the city is by GDP, it is a very easy measurement, but if you also look at per capita GDP, the livelihoods of the residents and citizens of Macau has totally been transformed. It is a transformation that has happened right across China.

No other country in the last 40 years has taken more people out of poverty than China. On that metric alone, Macau has been a massive success and when you look at where the city was and the way people were making a living back then versus now, it's been very, very successful.

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Macau

Change ahead

What's next for Macau? Will the status quo be maintained? Will existing concessionaires retain their licences? Can we expect new market entrants? Will China take over complete control? G3 asks the analysts for their views.



Did the ending of the state-granted monopoly, held by Stanley Ho, and the commencement of the bidding process for the concessions and subsequent sub-concessions, mark a significant departure from traditional casino market norms?

Rui Pinto Proença: A major difference between the system in Macau and other international licensing systems is that by law, and this has been like this for a very long time, casino gaming and other forms of gambling are an economic activity that is reserved, and can only be pursued, by the State itself. This is where concession derives its name. A private operator is able to offer gambling in Macau because the State government concedes that right. Such a system ensures that the role of the government is both absolute and essential.

Secondly, in both controlling the method by which concessions are awarded and the means by which the market operates, the obligations under which private operators function are derived not only from the laws and regulations of Macau, but also from the concessionary contracts agreed with the government. This contract between the operator and the government regulates the right to pursue this economic activity. The concessionary contracts are essentially a coupling of state and private enterprise. The state's role in determining that gambling should continue, shifting from a monopoly to a system essentially driven by six operators, has unquestionably shaped the subsequent economic growth of Macau.

Ben Lee: When Hong Kong and Macau became self-autonomous regions following their respective handovers, Hong Kong adopted the role of international financial centre, whereas Macau was to become a centre for hospitality and tourism. Had Hong Kong the ability to open up casinos, not only would it have leapt at the chance, but the industry would also have been much more efficiently managed too. However, they were restricted to the Hong Kong Jockey Club and a handful of lotteries, while Macau was handed the prize of casino liberalisation.

Was a more liberalised market with relatively light regulation a deliberate move to accelerate the growth of the industry and to achieve economic development?

Rui Pinto Proença: Absolutely, and I think you have to place this decision in a historical context. As the transition from Portuguese to local government control under Chinese sovereignty took place, an exodus of locals to Portugal saw Macau enter a period of economic recession. And there was no clear path as to how to improve the economic circumstances. Most of the industries that had previously flourished, such as the garment industry, had already moved or were in the process of moving across the border into China, incentivised by reduced labour costs.

I think it was essential, therefore, to put in place a driver for economic growth, one guaranteed to generate sufficient tax revenue and greatly increase employment. And importantly, gambling was an established industry in Macau. Furthermore, it was the only place in China where casino gambling was legal and regulated. The intention was to attract not only foreign



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Rui Pinto Proença

investment by means of capital investment, but also experience and brands to take the gaming industry to the next level. However, I don't believe anyone foresaw the extent to which this would eventuate.

So the authorities had created a roadmap?

Ben Lee: The Macau government had identified a wish list, with at least one, if not two, US-based operators that they believed could help propel the industry to a much higher level. The incumbent, having operated a monopoly for many years, had no interest in growing the industry at that time, content as they were with the size of the pie they'd been sliced. Authorities on both sides of the border had a hand in making sure the proposition attracted enthusiastic entrepreneurs who they believed would grow the industry.

Do you believe the authorities during that initial period could have foreseen the future levels of growth?

Ben Lee: No absolutely not. The growth we saw peak in 2013 at US\$45bn was totally unprecedented and, I believe, unanticipated. Since then, we've seen various initiatives, announcements and edicts from the northern side of the border, all designed to temper the gaming industry in Macau.

Andrew Klebanow: I don't think anyone in the Macau government envisioned how massive the industry would become or the phenomenal impact that concept had on Macau's fortunes. Macau has subsequently become the largest gaming jurisdiction in the world within a couple of years. The opening of Sands Macau was a pivotal event. The fact that the project paid for itself in six months drew the attention of the entire industry. They recognised that there was something special here.

The growth of Macau snowballed. Wynn opened and then Star World, Grand Lisboa and developments on Cotai island swiftly followed one another. And then, just as Cotai opened up with phenomenal growth, a global recession hit.

How did the recession impact on Macau? Was it relatively immune?

Andrew Klebanow: The recession in 2009/2010 brought the industry to a standstill. Galaxy World in 2010 was a half-built structure with nothing moving or getting built. Across the street, Sands Cotai Central, the three hotel towers didn't have a single construction worker scrambling over them. The financial crisis severely impacted gaming operators, but what was crucial was that it was short-lived and by 2012, Macau was back in business. Projects were completed, Galaxy World opened, Sands Cotai Central's is completed and construction moved forward on Paris, Studio City, and the Encore project on the peninsula was completed by 2013/2014. All of these properties are up and running and making a lot of money.

So that was an important period around 2010.

According to the Gaming Inspection Coordination Bureau, Macau's revenue peak was in 2013. Up until this point, despite the fact that local governance may not have foreseen such growth, how embedded in the industry were the foreign operators?

Rui Pinto Proença: From the perspective of Macau and its economy, these are extremely important players; we're talking about the six biggest employers bar the government. In addition to employing a substantial number of people directly, they also employ an even larger number indirectly through service providers; they are an integral part of life in Macau. These companies generate almost 80 per cent of the enclave's tax revenues. So, I don't think they could be more embedded in Macau's economy or society.

In terms of the individual operators, SJM is a local business. They don't operate anywhere else. Galaxy is in the same position, albeit with a few minority shareholdings in overseas markets. Melco is another home-grown operator, but it's expanding beyond the borders of Macau. Finally, you have American capital for which Macau represents a substantial part of each operator's worldwide revenue. Taking all of this into

account, I don't think any operator would voluntarily leave Macau. Not only would it be an unwise decision from a business standpoint, I don't think their shareholders would be too pleased either.

How has the PRC sought to temper the growth of gaming in Macau?

Andrew Klebanow: Cotai opened with the capacity to accommodate 600 tables, but the government allowed only 225 new tables to the market, forcing operators to steal tables from their peninsula properties and relocate them to Cotai. The Sands Macau circa 2004 was floor after floor packed with hundreds of table games. However, visit today and the top two floors are barren, filled with concessions for jewellery and watch stores, because they had to relocate tables to their more profitable Cotai location. So, I'd say that the Macau government has unquestionably sought to temper the phenomenal growth of gaming.

What sort of intentionality is behind that, is it to stop currency leakage? Is it to boost diversification or a bit of both?

Andrew Klebanow: I think diversification. Macau's dependency on gaming revenue is a concern for the PRC. Control lies in the hands of the state and the operators, but you always have the PRC in the background.

I believe that Macau, unfettered by regulation and activities from the PRC could have been a US\$50bn gaming market by 2024 and could have eventually soared to \$100bn. It could again, but by capping the number of new table games, imposing currency controls and pursuing anti-corruption campaigns, the government is very effectively tempering growth.

Post 2013's peak, an anti-corruption campaign headed initially by Xi Jinping was followed by increased regulation of the industry in Macau. Did this moment represent a new era for the gaming industry in Macau?

Ben Lee: Yes, and it's not just the casino operators. The most recent incoming administration, headed by Ho Iat Seng, our new Chief Executive, represents a huge departure from previous norms. Macau's first two executives, Edmund Ho and Fernando Chui, were both deeply connected with the old money network in Macau. The current Chief Executive has very little connection with the ruling class. This also includes the various departmental secretaries, which are all politically aligned with China, as opposed to local interests. So yes, there is a deliberate effort to 'decouple' the gaming industry from national interests.

Rui Pinto Proença: Watching the events unfold at the time, I think it was clear that we were experiencing a significant slowdown, not just because of the broader corruption campaign, but also due to the fact that there were elements within Macau that were incompatible with the long-term goals of the campaign. I believe there was also a heightened perception of corruption that didn't actually exist.

I would describe this period as a cooldown and correction of certain segments of the industry that were not contributing to a healthy industry.



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"Macau is a world gaming hub, the only problem is that this is not a positive. It's actually a huge negative. China recently announced a blacklist on foreign gaming jurisdictions and most analysts are of the view that Macau is not considered as part of the mainland."

Ben Lee

However, with the benefit of hindsight and perspective, I would not call this period a decoupling. I think this period, in the broader context, is one that is leading Macau instead towards diversification.

I think the period from 2013 onwards was clearly a moment where the industry needed to be cleaned up, as opposed to the start of a process to end the industry. Macau rid itself of certain behaviours and certain aspects of the business that were not healthy or sustainable. More stringent money laundering legislation and enforcement, including the barring of politically exposed individuals visiting Macau to gamble with dubiously obtained funds, these are behaviours that you don't want in the industry wherever they occur in the world. So I think it was a positive move and I think we're now into the second stage of that process.

Andrew Klebanow: Both the PRC and local government in Macau have had a profound effect on the gaming sector. An example of which and a seminal event in the story of Macau took place in June 2014, when President Xi implemented his anti-corruption campaign. This had a chilling effect on gaming revenue in Macau, impacting upon a run rate of about \$47bn in gaming revenue, of which VIP was well in excess of 60 per cent. The crackdown was severe, ripping the wheels off the wagon.

Not only did the crackdown affect public officials, who realised that they shouldn't be spending so much time in casinos, it also affected what we call 'conspicuous consumption.' Anyone with wealth living in the PRC who came to Macau on a regular basis to gamble and shop also recognised that this was not a good idea. Combined, this realisation caused VIP revenue to collapse. During this period, Macau's VIP traffic dried up; it has recovered, but there were some tectonic shifts post-2014. Junket operators saw their share of the market decline, which at one point contributed 72 per cent of the revenue in Macau, falling to 56 per cent in the last few years, and in 2019 it was at 45.6 per cent.

Were there any instruments used for the purpose of anti-corruption that were specifically targeted at Macau's gaming industry, or do you believe that this was just an extension of the broader Xi Jinping campaign?

Andrew Klebanow: I think it's more the latter. Did the DICJ (The Gaming Inspection and Coordination Bureau) tighten up the movement of money across the border? Yes. Old techniques, such as using Union pay to send money to Macau, is watched more vigilantly by the DICJ, but this is definitely driven by the PRC. It wasn't so much the huge outflows of money going to Macau, but concern that it was flowing elsewhere. You can see a comparable example in the way in which the PRC has focused its gaze upon online gambling in the region and how it has used its influence to seek to exert control.

The Philippines is currently a major online gambling hub. Estimates place gaming revenues wagered online somewhere north of US\$8bn, perhaps as high as \$20bn per year. And it's leaking like a sieve out from the PRC into the coffers of gaming operators in the Philippines. So concerned is the PRC at this situation that the Prime Minister of Cambodia was kindly asked to close down his online gaming industry, and, obligingly, he did so on December 31, 2019. Online gambling in Cambodia came to an abrupt end, shuttering a \$4bn per year gaming sector in the country.

Speaking of bans, China maintains a ban on gambling activities, while Macau has become one of the world's leading gaming hubs. Do you think China views Macau as a success or an aberration?

Rui Pinto Proença: I think that's a question the current Chinese decision-makers also pose themselves.

The majority of Western jurisdictions and definitely the majority of Western thinking follows that while gaming is considered a vice with the potential to cause social harm, it is better to control gaming as opposed to leaving it unregulated and illegal. Legislation, regulation and taxation is a practical approach to the reality that if you prohibit gambling, you will never suppress it completely and never be able to control it the same way as when you legalise it.

Ben Lee: Macau is a world gaming hub, the only problem is that this is not a positive. It's actually a huge negative. China recently announced a blacklist on foreign gaming jurisdictions and





most analysts are of the view that Macau is not considered as part of the mainland.

So Macau is viewed as an aberration, rather than a success?

Ben Lee: From the recent spate of announcements and edicts, one could probably draw that conclusion.

In view of this, do you believe the liberalisation of Macau was part of a scheme to evolve the gaming industry into a broader tourism sector?

Andrew Klebanow: I think that's exactly what the plan was; the Macanese government recognised that in abandoning the monopoly, the market could attract investment capital. I have a hard time believing anyone with the exception of Sheldon Adelson and Steve Wynn could have envisioned how big Macau was to become.

I think that they saw this peninsula, across the harbour from 10 million people in Hong Kong and Guangdong province with 90 million people, and thought that if we build 'something attractive,' they will come.

Certainly, if you look at Macau before 2002, there wasn't a whole lot of 'attractive.' The genius of the plan was to attract outside investment and bring visionaries to Macau to build integrated casino resorts. They just did the math. What we've always known about casinos is that proximity and ease of access are the primary drivers of revenue. The closer you place your casino to a population centre, the more successful you will be.

In the initial years, as Cotai was in development, it was all about increasing supply because demand was almost limitless. However, as a strategy for diversification, there are lots of problems with this model, and so the Macau Government started limiting growth by restricting the volume of table games. Which is why, to this day, if you walk the beautiful expansive casino floor at Wynn Cotai, it still seems a little light on tables.

With major developments such as the construction of the Hong Kong – Zhuhai – Macau Bridge and the recently published Macau Tourism Industry Development Plan or Master Plan, how do you envisage the future of Macau and its gaming industry?

Rui Pinto Proença: I think there is definitely a push, which was very apparent in the policy changes announced by the Macau government this year, for diversification into financial services. This region continues to explore and attempt to understand what role it can play in the financial services sector in the near future. However, it remains unclear, when you consider the powerhouses of Hong Kong and Shenzhen on our doorstep, what exactly is Macau's niche in this fiercely competitive sector?

I think the plan is still being thought through and from planning to execution, we're still at the early stages of this process. However, even if such a scheme were successful, I think any plan to replace the gaming industry as the key economic driver in Macau would be extremely difficult to achieve. Financial services can



Andrew Klebanow,
Principal, Klebanow Consulting

Andrew Klebanow is the Principal of Klebanow Consulting. He brings nearly 40 years experience in the casino industry with the past 12 years spent as a gaming consultant. He has completed assignments in jurisdictions throughout North America as well as in 15 countries. Over the course of his career he has visited nearly 1,000 casino properties. Andrew has authored over 120 articles for trade publications; contributed academic papers and is a periodic lecturer at Cornell University's School of Hotel Administration and has taught classes at the University of Nevada Reno's School of Continuing Education.

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"If you compare with Las Vegas, at one time 80 per cent of property revenues came from the casino, now it's well below 50 per cent and more like 35 per cent. Vegas is dependent on hotel rooms getting a great average daily rate, on filling the conventions and meeting spaces; and upon nightclubs and restaurants. Vegas has truly diversified its product. Gaming revenues continue to grow, but non-gaming outpaces the gaming segment. I think both the Macau government and the PRC would like to see similar trends in Macau."

Andrew Klebanow

complement the gaming industry and even diminish its economic importance, but I think the strategy of diversifying the industry would be more advantageous and achievable than seeking to replace or end this business in Macau.

Ben Lee: The bridge isn't a Macau-centric project. It wasn't designed to facilitate more tourism and to attract the premium mass

market. The bridge was constructed primarily to bring Zhuhai closer to Hong Kong, just as Shenzhen enjoyed the boost from Hong Kong. It was designed to enable transportation and logistics from Zhuhai to the ports of Hong Kong.

Andrew Klebanow: I believe casino gaming will always be a primary source of tax revenue for the government in Macau. If you compare with Las Vegas, at one time 80 per cent of property revenues came from the casino, now it's well below 50 per cent and more like 35 per cent. Vegas is dependent on hotel rooms getting a great average daily rate, on filling the conventions and meeting spaces; and upon nightclubs and restaurants. Vegas has truly diversified its product. Gaming revenues continue to grow, but non-gaming outpaces the gaming segment. I think both the Macau government and the PRC would like to see similar trends in Macau.

Encouraging this type of diversification is part of the process to control the market; limits on the number of table games, stipulations on the volume of currency crossing the border into Macau, and a crackdown on the role of junket promoters conduct their business in China. These are significant steps.

Both the PRC and the Macau government are encouraging operators to continue to diversify and create additional, more exciting entertainment experiences that are non-gaming. Consider the fact that the renovation of the Sands Cotai Central to create the Londoner Casino is a US\$2bn investment. That's a lot of money for what essentially isn't a new property, it's renovation that isn't adding to the gaming offer.

In relation to the tourism development plan, do you think China has a firm strategy to reduce Macau's dependency on gaming revenues?

Ben Lee: We have been listening to this rhetoric over the past 10 years and we have seen very little concrete results. I think the issue is that the rhetoric runs counter to Macau's ability to diversify our economy, an actuality that is not seen in the lower rungs of Macau. There's lots of talk about encouraging SMEs in Macau, but in fact the SMEs are dying because labour is being sucked up by the gaming industry. To this day, very few people want to work in non-gaming environments compared to the casinos, where the pay and the benefits are much higher.

In the short term, due to the contraction caused by Covid, the gaming industry has scaled back on recruitment. People are seeking work with other companies, but when things improve, they will be back to the casinos in a heartbeat. So, the gaming industry has literally sucked the lifeblood out of other areas of the economy.

If Macau really wants to diversify its economy, it needs to allow the invitation of skills and talent from outside the gaming sector. Unfortunately, there is no political will to accomplish this, and we haven't seen change in the last decade. In fact, the situation is about to get even worse. Working visas or blue cards for foreign workers have already been withdrawn, which means the situation is going to get even more complicated in the future. How do you diversify an economy when there's no talent to do so?

In that vein, do you think it's useful for China to maintain Macau as an enclave where gambling is legal and the issues surrounding gaming can be externally managed?

Rui Pinto Proença: In regards the extent of the role Macau plays, the enclave is defined by both its physical borders and Chinese currency controls, which create robust barriers to entry. I think without these barriers Macau would enjoy even higher revenues. However, I believe the measures Chinese authorities have imposed restrict the growth of gambling to promote policy decisions that would diversify the economy away from gaming. The problem is that in reality, this is simply not possible.

Do you believe a deep, successful diversification is possible in Macau?

Rui Pinto Proença: I think to expect industries outside of gaming to match tax revenues generated by today's casino operators would be extremely difficult in the foreseeable future. I wouldn't say it's impossible, because China has disproved things that were considered impossible many times over. However, I think what's more feasible is a diversification model that would work with the existing gaming industry. This type of diversification has been government policy in Macau for some time, as the government seeks to reposition gaming as an entertainment focused business, a component of the tourism industry, rather than for its own sake.

What changes are coming for the concessionaires and foreign operators?

Ben Lee: That's the billion-dollar question. Nobody knows, we're all hearing the same narrative. As aforementioned, we also haven't seen any positive approaches to stabilise and help in the diversification of Macau's economy. One significant boost to Macau would be the introduction of the digital Renminbi.

Essentially, our default casino currency and the default major currency in Macau is not the MoP, it's the Hong Kong dollar. Cars, real estate, casinos - these three major activities are all conducted in Hong Kong dollars.

When the Chinese visit Macau they convert Renminbi into Hong Kong dollars, but they face all sorts of restrictions, capital control, currency control caps and so forth. However, if China were to introduce digital Renminbi in Macau, which has already been trialed in five cities in China, it could replace the Hong Kong dollar as the default currency in Macau.

Such a change would then help the new-found narrative of becoming an international clearing centre for Chinese Yuan. This makes a lot of sense, as the casino industry is by far and large the single biggest potential contributor to an international clearing platform. Such a system would remove the controls and constraints on mainland Chinese citizens gaming in Macau, because China wouldn't have any problem with mainland Chinese visitors coming to Macau, because China could keep track and control all digital money transfers across the border.

Andrew Klebanow: I believe the retender process centres around a single question: what

are you going to do for us? What are you going to build that will further the goal of diversification, and how much money are you willing to invest into properties to further diversify them? What I'm sure about is that there will be phenomenal commitments to non-gaming components.

Rui Pinto Proença: It's clear now that the junket system is an undesirable hangover from Macau's past and that moving forward means the acceleration of the mass market. I think the challenge is, can the enclave capture a different type of mass, the so-called premium mass? A mass market willing to spend more money in non-gaming segments, restaurants, entertainment and hospitality. I think this is the next stage in development of the gaming industry in Macau - and it's a positive step.

Perhaps we won't see the crazy numbers we've seen in the past, but it will be more sustainable. To achieve this, Macau needs to answer one big question - how do we keep visitors here for more of the time? The current average stay is very low, around 1.2 days, which means that the allocated time for people to spend their money in non-gaming segments is very low. But it's a cycle we need to break, because if you don't have a sufficient entertainment offer, if you don't deliver sufficient quality, then it's hard to attract those kinds of people.

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And finally, one of the changes that I think needs to happen, is the digital transformation of an entrenched analogue industry.

The sector is still catering to a clientele that enjoys the environment of a crowded baccarat table. However, this holds little appeal to a young, affluent more travelled Chinese consumer. And I think the digital transformation of the industry is overdue. Some of the operators are more advanced than others, and I think the ones that grasp this concept, will take the lead.

Is first mover advantage significant?

Rui Pinto Proença: Yes, definitely - that goes for everything. From cashless to different types of games and different ways of playing those game. The new consumer doesn't necessarily want to be sitting at the table next to a lot of people. If they want to take their game via an iPad to their room, they should be enabled to do that. Obviously, these changes require regulatory approval, but I think we're at a very interesting intersection where technology will benefit not only the gaming business, but will also benefit the regulator.

Regulators need to move past the point of distrust and suspicion of technology and embrace it because it brings benefits to all parties. So, I think we're in that intersection where it's possible for technology to be adopted and to benefit both the business and public policy. We just need to move forward with it.

Would a development like the digital Renminbi alter the rhetoric of diversification if they're less worried about currency leakage?

Ben Lee: Yes, it would. It would help diversification, but I believe that diversification is the old narrative. The new narrative right now is for Macau to become an international Renminbi clearing centre. We've seen a slew of small banks setting up in Macau, so conceivably what would happen is that the Hong Kong dollar is replaced by Renminbi and China relaxes control on the transfer of digital Renminbi from the mainland. It's a better system because at present, the operator generates revenue in Hong Kong dollars and pays out to their players in Hong Kong dollars, which is freely tradable and means that players and the casinos can repatriate this money oversea.

If gaming in Macau is conducted in digital Renminbi, this huge capital outflow from the Chinese economy is no longer an issue because, firstly, China can track every single Renminbi

that crosses the border and, secondly, the casinos will be generating their revenue and profit in Renminbi. So in order to repatriate their profit, they would have to seek central government approval to convert Renminbi into a foreign currency. Capital controls would, therefore, devolve from having to monitor these millions of smaller transactions to simply monitoring the big players, i.e. the casinos.

So hypothetically, if this leakage is plugged via the adoption of digital Renminbi, would local governance be incentivised to 'open the taps' as it were?

Ben Lee: Yes. Right now, mainland Chinese coming to Macau face constraints upon the amount of money they can withdraw, since this is subject to central government approval. Each time they hit the ATM, it's a 3,000 Hong Kong dollar per day limit, while there's also a limit on the amount of money they can bring across the border, which is why a lot of the current outflow is through underground channels.

If players are instead permitted to withdraw Renminbi in Macau, without limits, then we





would truly have a mass market in Macau. At the moment, we don't have a true mass market because every one of our visitors and gamblers is an international traveller subject to outbound and inbound visas, which in turn are subject to currency controls. If Macau becomes a single currency jurisdiction with China, we'd no longer have the capital constraints China imposes on Macau, due the casinos trying to repatriate profits overseas, that's why a single currency would make it easier for China to control the leakage.

Wilfred Wong, President and Executive Director of Sands China, recently said whilst awaiting government direction that he does not see a future in which Chinese companies operate within the gaming industry – thoughts reinforced by Chairman and CEO Rob Goldstein. However, Priscilla Roberts, Associate Professor at the City University of Macau, believes: "it's very possible that American casinos will no longer be as welcome in Macau and there may be some pressure for the casinos to be more China operated." Where do you stand on this subject?

Rui Pinto Proença: Well, there's a line of thought that says American operators will ultimately

"If Beijing decides that it's politically convenient to check the Americans, it will be done. Without blinking an eye. And there's clear precedence. When Macau's public bus network held an open tender, a French consortium won a major part of the tender. However, what followed is that the French consortium was not paid by the Macau government, they declared bankruptcy hoping to force the local authorities to the table and the Macau Government immediately announced that they would take over the running of the buses."

Ben Lee

become the victims of the geopolitical tensions that exist between China and the US, reinforced during the era of the Trump administration, but which has long been part of the narrative in this part of the world.

First of all, I think the geopolitical context is both complex and ever changing. That said, it's definitely a risk and something that the operators need to bear in mind and consider in their approach to the concession retendering. I also think it's important to understand the declaration that there will be no Chinese capital in the gaming sector and where it comes from, as there are a lot of difficulties associated with that assumption. If you asked me, will the companies investing in gaming be state-owned enterprises? I find that unlikely.

Do you believe that the upcoming licence renewal process will be used as a stick to impose greater control?

Ben Lee: Yes. The problem with the first concession is that there was no 'stick' in terms of what the concessionaires had to accomplish. It was basically open ended and allowed operators to play 'bait and switch.' Each promised the moon and the stars and delivered, well, significantly less. Now, with the new

concession, I would expect that the promises by the new proposers will be highly detailed and specific this time around, and there will be penalties involved should the promises not be met.

Andrew Klebanow: I believe the licensee renewal process will demand that each concessionaire commits to massive amounts of investment in non-gaming components. Each 10-year concession will come with a stipulation that the concessionaire must, for example, commit \$10bn in non-gaming facilities.

Every concessionaire will step up to the plate. The casino prize is huge, but there's also money to be made in retail, commerce, amusement and theme parks.

I think, with the changing political scene in the United States; the recent election; the passing of a Sheldon Adelson; the resignation of Steve Wynn, has seen the removal of the major political lightning rods. The next phase will see President Biden increase efforts to move towards normalised relations with the PRC and away from the sabre rattling. I think the PRC and Macau government are, therefore, more amenable to working with the existing

concessionaires. I don't think they'll chase them out as I don't think denying a renewal to any of the US based operators is in Macau's best interests.

What do you think those licence stipulations might be?

Ben Lee: It's likely we'll see increases in the ratio of entertainment, MICE and retail within the gaming concession, despite the fact that Macau already offers too much retail; MICE has never realised its potential and entertainment has died on its feet. I'd also expect the government to compile a list of non-gaming amenities and request concession proposers to submit their plans before selecting the best proposals.

Contemplating the nuclear licensing option, could the state nationalise the industry in Macau and make gambling a state-run business?

Rui Pinto Proença: I would say that's entirely unforeseeable. However, the gaming concession in Macau has always been in the hands of a private operator – it has never been government operated. The company running the business during the monopoly, STD, the predecessor of SJM, was fully private. So, I don't think you can

find a parallel with that possibility. I also think that such an assumption wrongly evaluates the situation.

Looking at the industry going forward, the integration and increased focus upon tourism and the entertainment industry is the ultimate goal for Macau. This leaves open the door for Chinese investment in what are desirable businesses and infrastructure in Macau.

No matter how much the enclave seeks to attract international visitors, the fact is that the majority of visitors to Macau hail from China, and to that extent I think some of these companies would benefit from having Chinese partners, people that know the market and what Chinese customers want. There would be many benefits from this type of cooperation.

One example of this is when you arrive at a casino in Macau. If you wish to play on the casino floor you must withdraw cash, and to do this you must visit a counter and purchase your chips with cash. When you've finished playing, you redeem your chips back into cash. Cash is the currency of choice in Macau, but in China, if you try to pay with cash anywhere – you're a caveman. People don't use cash in China anymore. It's absolutely a cashless society, and so there is a mismatch between how the Macau gaming sector is operating and the reality of Chinese consumer spending habits. I think that mismatch could be addressed by the involvement of Chinese companies from different sectors; technology, retail, fintech, in the Macau market.

I think that there's definitely space for cooperation with Chinese businesses, but that does not necessarily mean an exit of US market capital. However, I do think it would be beneficial from a business standpoint at the point at which the spheres of gaming, tourism, hospitality and entertainment meet.

Ben Lee: Each operator has sought to ingratiate themselves into the economy with varying levels of success. The issue for foreign operators is one of cultural norms and differences, which contrasts with their fellow competitors, particularly the local and the Hong Kong operators who are more or less considered locals. We're talking about cultural norms, corporate cultures practices, HR, legal, basically a conflict driven approach versus a compromise/harmony-oriented attitude adopted by the locals. We see major differences arise between the US-based operators and the local operators. Some have attempted more successfully to adopt local practices, but each have acquitted themselves with differing levels of success in their ability to do so.

Having said all that, when push comes to shove, if Beijing decides that it's politically convenient to check the Americans, it will be done. Without blinking an eye. And there's clear precedence. When Macau's public bus network held, for the first time, an open tender to take over the existing duopoly, a French consortium won a major part of the tender. However, what followed is that the French consortium was not paid by the Macau government, they declared bankruptcy hoping to force the local authorities to the table and the Macau Government immediately announced that they would take

over the running of the buses. Everyone returned to work the very next day, and the government continued running the buses for a couple of months until they arranged for the other companies to take over.

Do you think the fears of foreign equity being sold to mainland China are greatly overstated?

Ben Lee: No. The fears are not overstated, the fears are real, the risks are real. The original concession was issued on the basis of one third of its constituents would have US interests. One out of three – the one being Wynn. However, the three became six and the American's share grew to 50 per cent control of the industry.

Beijing is not happy with this situation. And don't forget that the new concession tendering is not a retender, it is not a reissuing, nor is it a renewal, it is a brand-new RFC. Anybody can submit a proposal. This is the first opportunity for China to rebalance the industry. So there are risks.

The way for China to rebalance the concessions is to either reject one of one or two of the three foreign controlled entities, or one or two of the



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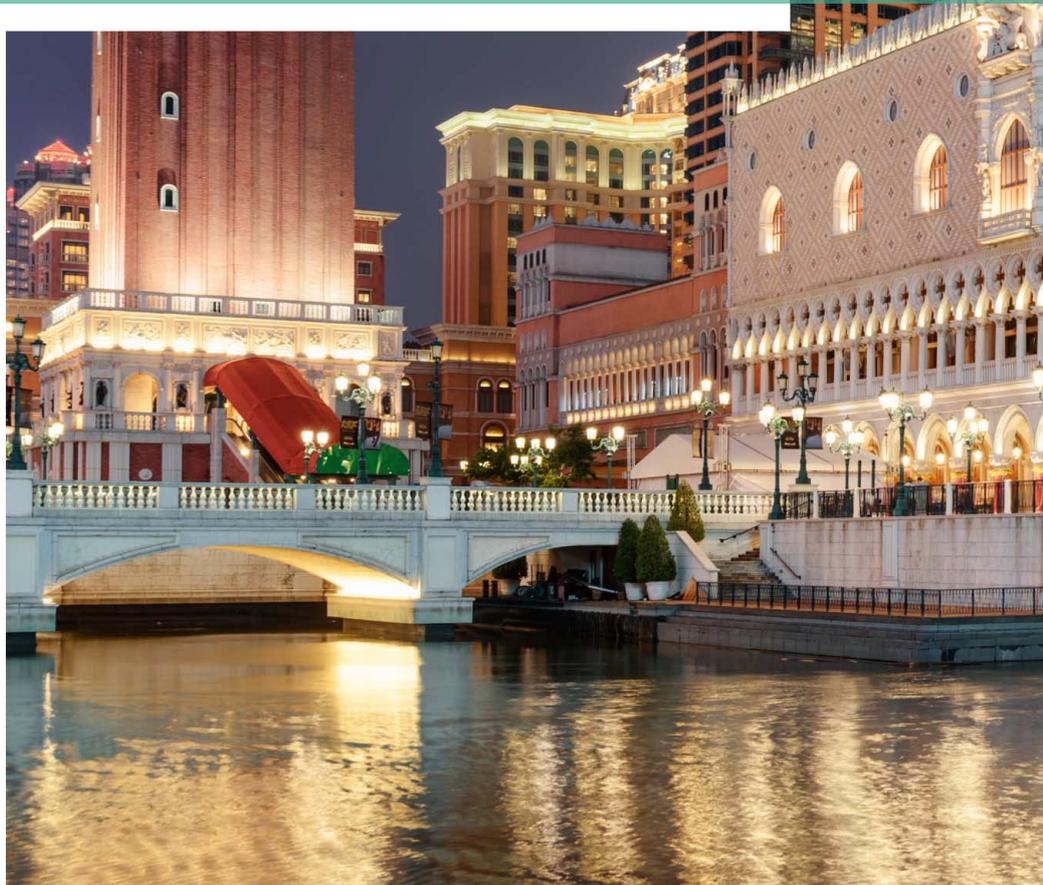
Andrew Klebanow

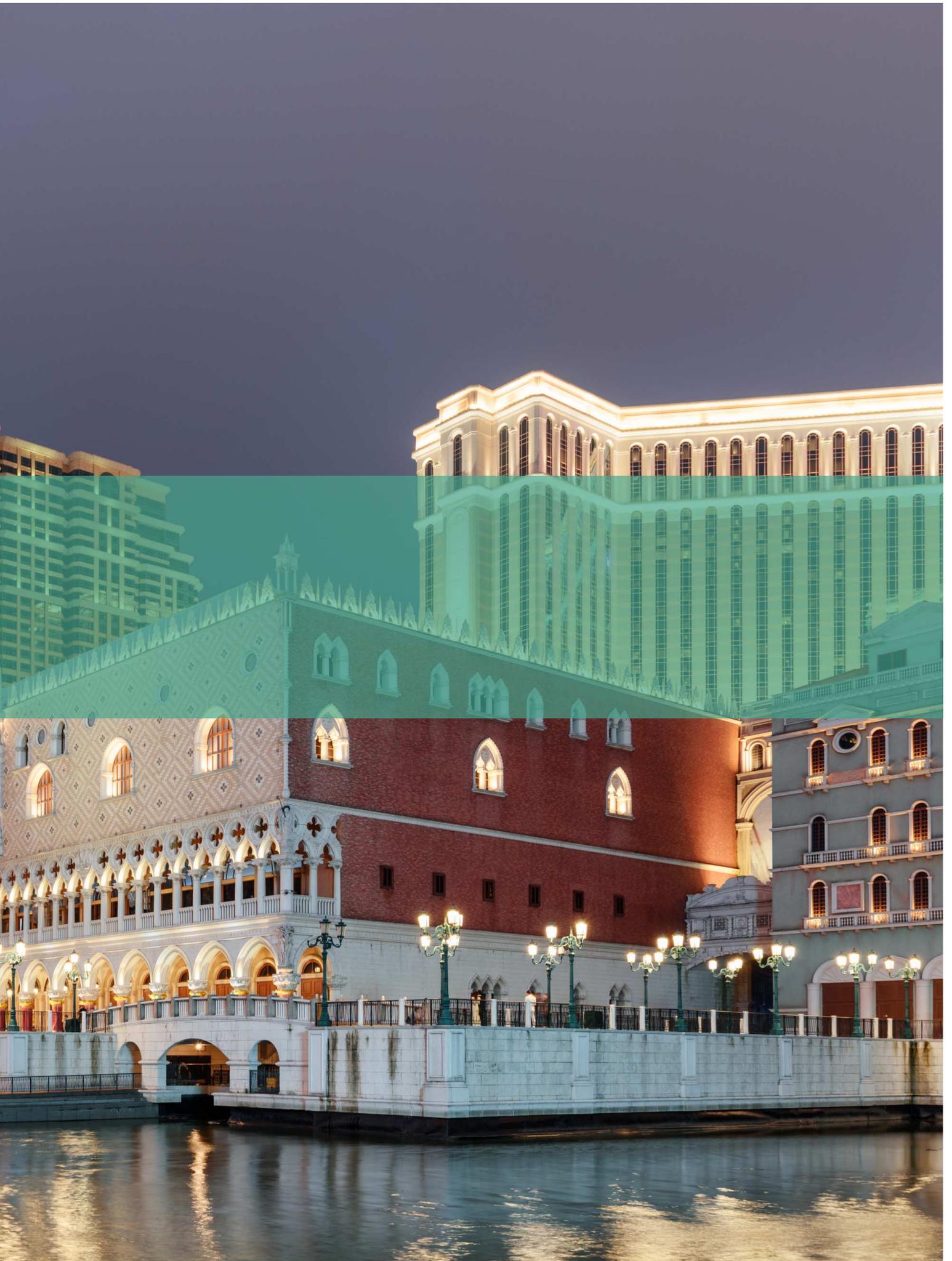
foreign country entities, or contrive a dilution of their equity to a point where it is acceptable or they are seen as locally vested business. Such a decision is clearly on the table.

Andrew Klebanow: The fears exist, but it's the pandemic that has really thrown a wrench in the Macau business model. Both the Macau government and the operators want to see business recover as quickly as possible. In order to achieve those goals, operators need junket operators to deliver high rollers to Macau. They need to reach out to Sun City, to the David group, Tak Chun, etc. Traditionally, junket operators have been very good at delivering the players operators need. However, there's a problem...

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The outlier...

Speaking at an event held by the French Chamber of Commerce in Macau at the end of January, Priscilla Roberts, Associate Professor at City University of Macau, said: "I think it's quite possible that American casinos will no longer be as welcome in Macau. There may be some pressure for the casinos to be more China operated, which may be an opening for localisation, so to speak."

G3 spoke directly to Ms. Roberts about her statement, the interest it has stirred and her opinion as to the future of the concessionaire licences in Macau and the relationship between China and the US.

Did you know, when making your comments, that you'd draw international attention?

Priscilla Roberts: I don't think what I said is really that controversial. The talk I gave to the French Chamber mostly concerned whether the Biden administration's China policy would be materially different from that of the Trump administration. I more or less said that China was between a rock and a hard place. While Trump didn't greatly care for Chinese expansion in the South China Sea, or what China is doing in Hong Kong, Xinjiang or Taiwan, the fact that he had a large number of China hawks in his administration meant that in the past year policy swung in a strongly anti-China direction.

I believe that with Biden we'll get the same policies, but more politely implemented. And also, probably more effectively and competently implemented with allies, since with Trump there was the sheer unpredictability of the man, whereas with Biden you know, from one day to another, what's going to happen. Biden's administration is likely to be better organised and more competent, but it will still share the same fundamentally unfavourable view of China.

Do you think China's relationship with foreign-owned operators in Macau is likely to change as a result of this heightened tension?

Priscilla Roberts: Well, the casino licences are up for renegotiation or retender in the next one to two years and that's certainly been very much on everybody's mind. I know that back in the late 90s to early 2000s, Macau made a big effort to court Wynn and Las Vegas Sands casinos to diversify away from the Stanley Ho interests. The Portuguese lawyer who went to open negotiations with Steve Wynn was initially thrown out of office when he explained who he was and what he represented. Steve Wynn called them "gangsters" and didn't want to continue the discussion. Obviously, they managed to get over that problem and Steve Wynn certainly invested in Macau in a big way.

My own feeling is that at present, if China is looking for a token sanction against the United States, the casinos in Macau are low hanging fruit. However, the impact won't be the same under Biden as under Trump. Both Steve Wynn and the recently deceased Sheldon Adelson



Priscilla Roberts,
Associate Professor, City University of Macau

Priscilla Roberts teaches in the Faculty of Business of City University of Macau and is codirector of that university's Asia-Pacific Business Research Centre. Among her recent publications are the edited volume, *Hong Kong in the Cold War* (Hong Kong: Hong Kong University Press, 2016); (with co-editor Odd Arne Westad) *China, Hong Kong, and the Long 1970s* (Palgrave Macmillan, July 2017); and *The Cold War: Interpreting Conflict Through Primary Documents*, 2 vols. (ABC-CLIO, 2018).

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"If China is looking for a token sanction against the United States, the casinos in Macau are low hanging fruit. However, the impact won't be the same under Biden as under Trump. Both Steve Wynn and the recently deceased Sheldon Adelson, were both very, very big supporters of Trump and the Republicans. Those self-same interests are not close to the hearts of the new democrat administration."

Priscilla Roberts

were both very, very big supporters of Trump and the Republicans. Those self-same interests are not close to the hearts of the new democrat administration.

I know that there's a lot of manoeuvring currently taking place concerning the concessionary licences in Macau. However, I don't know the ins and outs of that at all. I do know, however, as one of the architects involved with the casinos told me, these operations made back their initial investment within six months. After that it's all jam. So I'd say they've done pretty well from Macau already.

Do you think the US-owned casinos in Macau are running on borrowed time?

Priscilla Roberts: I think this is not something that's going to inflict a huge amount of pain, but at the same time, it would be a symbolic gesture. That's just my own cynical feeling about it. It may be that, ultimately, the US-owned casinos



pay off the right people. It depends upon the political will and allegiances of the parties involved. Miriam Adelson remains a strongly pro-Trump supporter, almost as much as her late husband. Steve Wynn's circumstances have changed as he was forced out after the MeToo scandal revealed he'd been harassing women working in his casinos for many years.

I found it amusing when I heard how the Wynn Board expressed reservations as to whether he had the very high character needed to operate a squeaky-clean casino in Macau.

Why did China seek to liberalise gambling in Macau in the first place?

Priscilla Roberts: In the 1990s, China wished to decrease the influence of Stanley Ho in Macau, as the PRC was worried he wasn't 100 per cent pro-China. Crucially, this stems from a public statement Mr. Ho made in June of 1989, recommending the continuation of the



Portuguese-style lease, but this time transferred to the United Nations for the next 100 years. He proposed that the UN could establish an Asian headquarters in Macau, which would become a major financial centre in the region. He also added that he'd be willing to invest a great deal of his own money into making such a scheme a reality.

Suffice to say, that project didn't go anywhere, so Mr. Ho changed tack. He invested heavily in the airport, mended his fences with Beijing and presented them with various art works and backed various good causes in China. However, I think there remained discomfort with the degree to which Macau's economy was dominated by Stanley Ho. The second reason is that, frankly, inviting western casinos to Macau upgraded the level of operations, as they were pretty seedy and rundown.

Is Macau's focus shifting away from a casino-reliant model to a tourism model?

Priscilla Roberts: Well, when I first came to Macau, about four years ago, I went to various seminars and lectures at which the strategy of diversification was laid out. I mentioned this to another academic, who'd been here for 20 years, and she laughed and said: "oh, yes they've been saying that for two decades." The strategy of diversification is nothing new. For the last decade they have been trying to make the casinos more family-friendly, somewhere where you can come and spend several days with your family. The plan is to defocus from gambling and encourage instead shopping, tourism and dining experiences that include a flutter in the casinos. However, it is still the really big whales that drive Macau.

What's your view upon the future development of Macau and its continued integration with China?

Priscilla Roberts: Macau's becoming increasingly integrated with the special

development zone, Hengquin island, which is an incubator for start-ups and entrepreneurial activities. In fact, the University of Macau moved to a new campus on Hengquin island about five years ago, and there's been a lot of talk about Macau becoming a financial hub. I've had executives from the Bank of China explaining that they'd not seek to mirror Hong Kong or New York, but perhaps it could be something like Monaco, or the Seychelles?

The other area where Macau is actively reaching out is in education; a lot of our students come from the mainland and now we recruit a great deal in China and I'm in charge of a special elite programme in the business studies department. I'd say between 90 and 95 per cent of the students are from the mainland. Macau is very small and very crowded, so a lot of people live over the border in Zhuhai and commute into Macau. A great many of our students at the university also live over the border, because it's cheaper just to cross every day.