

# GamblingCompliance

## Asia Awakens: The Growth Of Casino Tourism

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GamblingCompliance Research Team

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## Executive Summary

Gambling Compliance Ltd has been engaged by the Australasian Casino Association to provide a report into the state of the casino industry in South East Asia as part of its submission to the Productivity Commission's inquiry into Australia's gambling industries.

The report examines the most significant developments in casino gaming in the Asia Pacific since 1999, outlines the state of the market in the region today, and highlights significant future developments which will shape the industry in the region in the years ahead.

The growth of the casino industry in South East Asia will provide substantial competition across the region for the international high value player.

### Main Points

The main points to emerge from this report are:

1. **Casino Development as a Tourism Agenda in Asia.** An important theme to emerge has been the integration of a casino development strategy into many Asian countries' tourism agendas. The integrated casino resort is "a very large entertainment development based around a casino..." the casino being a small component but acting as the primary economic engine "which drives returns and facilitates investment in other facilities and amenities".
2. **Significant Growth in Asian Casino Industry Since 1999.** The casino industry in Asia has grown significantly across the Asia Pacific region since 1999. The growth of the casino market in Asia over the past 10 years and its continued expansion will have an impact on established casino markets in the region, including Australia. Malaysia and Macau have led the way with the development of integrated casino resorts.
3. **Significant Growth in Asian Tourism since 1999.** These developments have come during a period when both Asian economies and the Asian tourism market have grown significantly since 1999, with further growth in both expected into the future. China especially is poised to grow as a source of outbound tourism over the coming years.
4. **Policy Shift in Singapore.** Having previously turned down proposals to open casinos on Sentosa Island in 1985 and 2002, the Singapore Government shifted its policy in 2005 citing a declining regional market share in tourism as the primary reason for the change. In an attempt to capture the increase in outbound tourism primarily from China and India, Singapore adopted the concept of the Integrated resort to reinvigorate the city state as a tourist destination.
5. **Government Supported Tourism Initiatives in Macau.** Tourism in Macau has been growing exponentially reaching 30m visitors by the end of 2008, and infrastructure projects such as the Hong Kong-Zhuhai-Macau Bridge and the Macau Light Transit System are proposed to further facilitate tourism in the province.
6. **More Competitive Casino Market in Asia.** This growth will lead to a more competitive market in South East Asia. Some of the major developments are as follows:

- a. Singapore will soon be unveiling two large integrated resorts on Marina Bay and Sentosa Island with a combined value of approximately US\$9bn.
  - b. Macau has a number of multibillion dollar developments on the Cotai strip scheduled to open in the coming years.
  - c. South Korea has a US\$3.6bn integrated resort being developed on Jeju island.
  - d. Philippines, has a US\$15.0bn integrated resort project being developed in Manila Ba.
  - e. Vietnam, has a number of integrated resort projects planned in Ho Tram, Danang and Phu Quoc. Each of these involve investment in excess of US\$4.5bn.
  - f. Cambodia has a number of multimillion dollar projects planned including a US\$2.0bn project on Koh Rong island and a US\$0.5bn integrated resort at Angkor Wat.
7. **Australian Casinos Compete in Asian Market.** As casino projects open in Asia over the medium to long term, the competitive regional environment in which Australian casinos operate in will become even more pronounced than today. The competition for international casino gaming tourists will increase. Jurisdictions such as Cambodia, Singapore, and the Philippines have and will fiercely compete for a slice of the international player / VIP market through attracting junket operators to their respective jurisdictions.

The non-VIP international tourist segment will also be affected as a result of the consequences of regional competition across Asia. Statistics show that Asian tourists spend the most and are the most likely to visit a casino during their stay. As more Asian countries introduce integrated casino resorts, attracting the same or a higher level of Asian visitors to Australian casinos and the tourism dollars spent in them, will likely become a more difficult task.

8. **Gambling Industry No Longer Recession Resistant.** The current global financial crisis has proved that the traditionally recession-resistant gambling industry is no longer immune. During the current financial crisis strategic planning and regulatory stability will help ensure the economic contribution of the Australian casino industry will be sustained and meet the challenges brought about by increased regional competition.

## Overview of Casino Competition in Asia

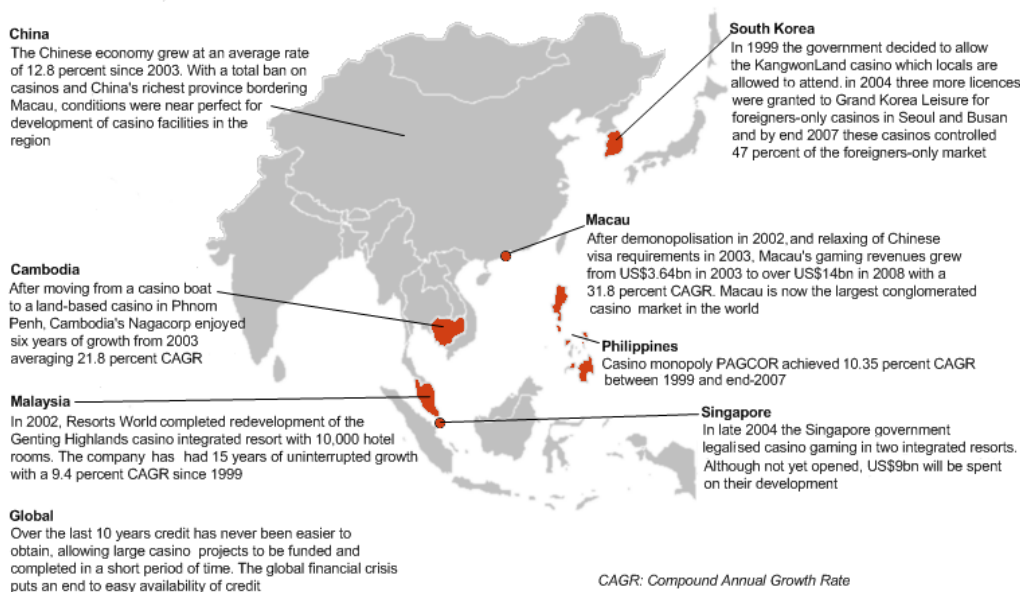
Prior to the turn of the 21<sup>st</sup> century, jurisdictions including Malaysia, South Korea, the Philippines and Macau offered casino gambling to foreigners. Macau has a gaming history dating back to the 19<sup>th</sup> century and was a monopoly-based jurisdiction with Stanley Ho's company Sociedade de Turismo e Diversões de Macau (STDM) holding the sole concession for casino gaming from 1962 through to 2002. The first casino opened in South Korea in 1967 and, after this, the market was dominated for many years by the Paradise Group. Malaysia, widely perceived to be the benchmark for the concept of the integrated resort in Asia, opened its Genting Highlands casino in 1971. The Philippines created a regulatory framework for casinos under President Marcos in 1976 despite having a grey casino market since the 1930s.

Around the time of the last Productivity Commission gaming industries report in 1999, Asia's largest casino market, Macau, experienced a decline in gaming revenues by 18 percent, finishing the year at US\$2bn. This was on the back of the Asian economic crisis and the uncertainty shrouding its return to China from Portuguese rule. The STDM monopoly licence was due to expire in 2001 and, except for South Korea, all countries in the region with casinos recorded a decline in tourism receipts. From a tourism perspective, Malaysia was the worst hit by the financial crisis, with a decline in tourism receipts of 40 percent in 1997.<sup>1</sup>

Whilst Asia was always earmarked as a potential area for casino growth, few could predict the rapidity of the growth that would be experienced over the next 10 years:

- Macau became the largest casino market in the world, growing from US\$2bn 1999 to US\$14bn by end-2008.
- The sole casino operator in Malaysia, Resorts World, grew revenues from A\$1bn to in excess of A\$2bn by 2007.<sup>2</sup>
- Philippines casino monopoly, Philippine Amusement and Gaming Corporation (PAGCOR) grew revenues from A\$400m to nearly \$A1bn by 2007.<sup>3</sup>
- South Korean casino revenues rose from US\$256m<sup>4</sup> in 1994 to US\$1.15bn by 2007.
- A floating casino on the banks of the Tonle Sap River in Phnom Penh became a land-based casino that generated in excess of \$US200m and has grown at a rate of 22 percent per year since 2003.

## Growth and Developments in Asia since 1999



### A New Age - Malaysia and Macau

Despite a casino gambling presence existing in Asia for many years, the new century saw a significant shift in approach. At the forefront of this shift were Malaysia and perhaps more importantly Macau.

In Malaysia, the concept of the 'integrated resort'<sup>5</sup> emerged in the early 1990s, when Resorts World, facing increasing opposition from an increasingly conservative Muslim population decided to diversify its resort beyond gaming activities, adding three new hotels, as well as theme parks and other amenities to Genting Highlands site. The intention was to open up the resort to the tourist and family entertainment market, a concept arguably developed by Jay Sarno in the 1960s in Las Vegas, with the themed family casino resorts of Caesars Palace, followed by Circus Circus<sup>6</sup>. This theme was continued early in the new century with Resorts World further developing the attractions at Genting Highlands resort. This strategy ensured Resorts World had 15 years of uninterrupted profits.

Up until 2002, Macau had a gaming monopoly headed by STDM. After 2002, a limited number of concessions and sub-concessions were granted to foreign casino giants such as Las Vegas Sands, Wynn and MGM. They saw the opportunity to access the largely untapped Chinese market, where casino gambling was and still is illegal. There was a period of rapid development in the following years thanks to readily available credit, a relaxation in the visa restrictions for Chinese tourists and a rise in disposable income in the neighbouring province of Guandong – China's richest province. The next seven years saw gaming revenues grow at a yearly average of 30 percent. Macau now has the highest revenues of any global conglomerated gaming market, including Las Vegas.

The emergence of a competitive gambling market and the sums which the concessionaires have been contractually obliged to invest has resulted in the emergence of a new wave of integrated resort construction in Macau. These integrated resorts have similarities with the resort pioneered by Genting in Malaysia, with meetings, incentives conventions and exhibitions (MICE) facilities, restaurants and entertainment venues, sitting alongside gambling facilities. However, the sheer size and number of these resorts have eclipsed those in most other parts of the world.

Las Vegas Sands became the first Western company to open a casino in Macau, back in 2004. The company recouped its US\$240m Sands Macau construction budget within a year of the opening.

Macau has experienced an unprecedented level of economic success since the end of its gambling monopoly. It has created an environment where casino-driven tourist investment projects attract industry leaders, while tourist, hotel guest numbers and revenues have grown with the opening of new integrated resorts. Macau's location, next to a rising and booming Chinese economy, credit availability and relaxed visitor requirements, have all played their part in creating this success.

This success has not gone unnoticed by its neighbours. Macau is the jurisdiction which most other Asian countries are seeking to emulate. The concept of casino-driven tourist investment projects are now on many countries' policy agendas

### Singapore

Asian governments were once vehemently anti-casino, but a shift in the regional consensus means Macau-style projects are now a key policy objective and tourism tool for most emerging Asian jurisdictions.

Perhaps the most notable jurisdiction that illustrates this shift is Singapore. Traditionally conservative, in April 2005 it made the decision to attempt to emulate the success of Macau, albeit through a more stringent regulatory structure. Casino gaming was illegal in Singapore at the time of the last Productivity Commission gambling industries report in 1999, with the government rejecting proposals to open a casino on Sentosa Island in 1985 and 2002.

However, in late-2004, the Singapore government changed its policy stance in a move inspired by the incredible growth of Macau, the continued success of Genting Highlands and the phenomenal rise of tourism in Asia. In a speech delivered on April 18, 2005, Prime Minister Lee Hsien noted the circumstances which led to Singapore introducing integrated resorts.<sup>7</sup>

*"We are losing ground in tourism. Tourism in Asia is growing phenomenally, especially the traffic from China and India. Singapore's tourist numbers are up too, but we see warning signs of problems ahead. We are losing our attractiveness as a tourist destination."*

Regarding integrated resorts, Singapore's prime minister observed that while the media focus was on "whether or not the government will approve casinos", this missed the point.

*"This has given the wrong impression that the IR [integrated resort] project is only about building casinos here. We think of a gaming room with slot machines and game tables, perhaps with a hotel and some basic facilities. We think of Macau as it used to be, with a sleazy reputation and triad gangs ruling the streets, or Las Vegas in the movies, with organised crime and money laundering. But that is not what we are looking for. IRs are quite different. In fact, they should be called leisure, entertainment and business zones."*

Whilst it was a desire to emulate the success of its Asian peers, Singapore looked outside of Asia for guidance on casino regulation. After extensive research into multi-casino jurisdictions such as Nevada and New Jersey and single casino jurisdictions such as New South Wales and Victoria, the Casino Control Act was passed, which will see two multi-billion-dollar integrated resorts providing casino gaming come into operation in 2010.

The desire to make the Singapore casinos objects of economic tourism is illustrated by the evaluation process for the concessions in which there were four main criteria in the cession-making process. The project's tourism appeal and economic contribution was the most heavily weighted factor, accounting for 40 per cent of the decision in granting concessions.

The first concession was granted to Las Vegas Sands for the Marina Bay site in May 2006. Projections at the time estimated that the resort would start operating by the first quarter of 2010 and would cost US\$5bn.

The design consists of three large shells containing conference halls and other business venues, three large hotel towers linked by a sweeping sky garden across their top floors, and a museum which juts out onto the bay. The Deputy Prime Minister Prof S Jayakumar said:

*“Sands submitted the best overall proposal that meets our economic tourism objective. In particular, the proposal will significantly strengthen Singapore’s position as a leading MICE destination and the proposal also possesses unique design elements that will provide a memorable image for Marina Bay.”<sup>8</sup>*

The second concession was granted to Malaysian consortium Genting International, which at the time held a 75 percent stake in the project, and Star Cruises, which owned the remaining stake. The 49-hectare integrated resort’s land cost S\$600m (A\$600m, and S\$1.6bn (A\$1.6bn) was spent on a Universal Studios theme park called Universal Studios Singapore. Overall cost projections are S\$6.6bn (A\$6.6bn) and the project is expected to complete in early 2010. When giving his reasons for granting the concession, the deputy prime minister said:

*“Genting International & Star Cruises submitted the most compelling proposal overall that best meets our economic and tourism objectives. In particular, the proposal reflects our vision for the Sentosa IR as a large-scale, family resort with its host of world-class family leisure attractions and other strong offerings. We believe that the attractions will position Sentosa as a premier island resort for families and draw significant numbers of both new and repeat visitors to Singapore.”*

It is estimated that each casino will have at least 2,000 slot machines and a set of technical standards and rules for licensing of machine testing facilities were recently published.

### Other countries

The Philippines is a little behind Singapore, but has its own plans. Bagong Nayong Pilipino Entertainment City is an ambitious US\$15bn integrated casino project, which is planned for Manila. Thus far, Malaysian giant Genting, through its subsidiary Star Cruises and Aruze Corp, have partnered with local entities to invest in the project which is due to complete within five years.

Jeju Free International City Development Centre is developing a US\$3.6bn project on Jeju Island, a semi-autonomous Korean holiday destination. This is being bankrolled by Malaysian sports toto giant, Berjaya Land. The island, which already has eight casinos, is a popular destination for Japanese, Chinese and Korean tourists and has no visa restrictions.

Vietnam, has also committed to a number of integrated resort projects. These include a US\$5bn project in Danang funded by Oaktree Capital, a US\$4.2bn venture on the Ho Tram strip between Asian Coast Development and MGM Grand; and a US\$4.5bn project on the island Phu Quoc.

The land-based NagaWorld casino in Phnom Penh and a number of casinos bordering Vietnam and Thailand have existed in Cambodia since 2003. But there are clear intentions to develop the industry further for junket operations and high-rolling VIPs. Recently, Intercity Group received an official investment certificate for a US\$470m project near the world-heritage-listed Angkor Wat site. The project will include three hotels and a water park, alongside a 1,000-slot machine casino. It is expected to be officially unveiled at a ceremony attended by Cambodia’s Prime Minister Hun Sen in Siem Reap in March 2009.



## Expansion Post-Macau

With the new century seeing a high level of regional casino development, it is widely expected that more jurisdictions will consider resort-style casino development for the first time to drive tourism revenues.

Perhaps the most significant of these jurisdictions is Taiwan, which recently passed a draft amendment on January 12, 2009 legalising gambling on the country's outlying islands, provided that a local referendum approves the development. AMZ Holdings has a large parcel of land on Penghu Island where a referendum is set to take place in April or May 2009. AMZ is currently in discussions with a number of large international gaming companies seeking partnerships to develop the project.

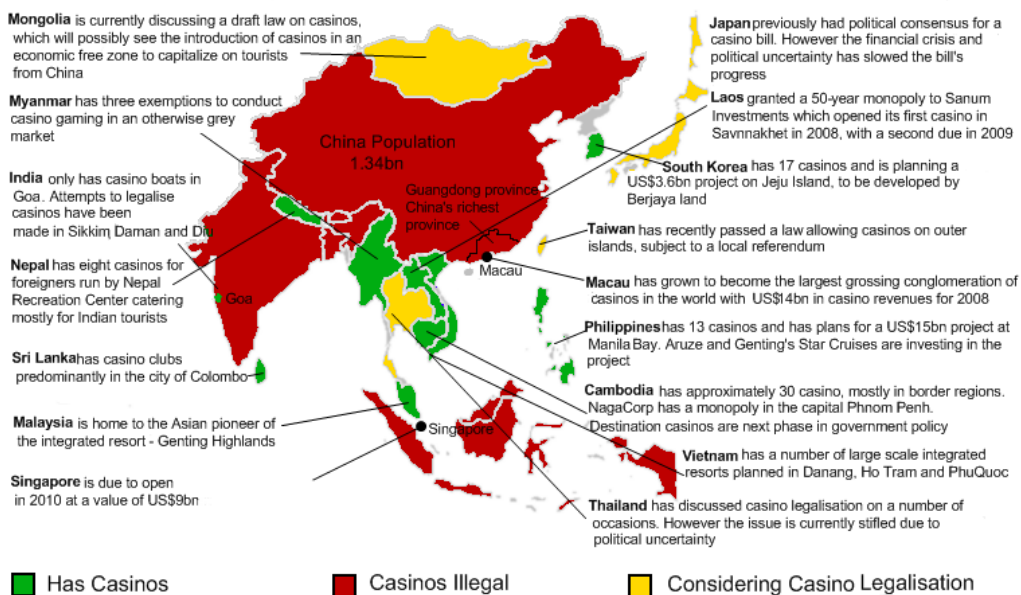
In Thailand, the former Prime Minister Samak Sundarvej reportedly said he planned to build five casinos, which would be open to both foreign tourists and Thai nationals. He said casinos would be located in the tourist hubs of Phuket, Pattaya, Khon Kaen, Hat Yai and Chiang Mai. Political uncertainty has slowed this push for liberalisation. However the issue may soon re-emerge on the political agenda, leading some observers to suggest it is only a matter of time before casino gaming is initiated.

Despite a history of political volatility, until recently there was consensus between the majority parties for the development of casinos in Japan. However, political uncertainty and the global financial crisis have stifled this consensus. Despite the hurdles, sources close to the government suggest one casino in each of the 10 regions is a possibility.<sup>9</sup>

Even the Muslim nation of Indonesia has entertained the idea of the Malaysian group, Landmark developing casinos on Bintan Island for foreign tourists. However, as yet, the development has not gained approval from the Indonesian parliament.

The diagram below shows the recent developments and future prospects of casino gaming in Asia, a market that is expected to grow to in excess of US\$34.4bn by 2012.<sup>10</sup> Importantly, it shows the increase in tourism-based casino projects and integrated resorts following the lead of Macau and Malaysia.

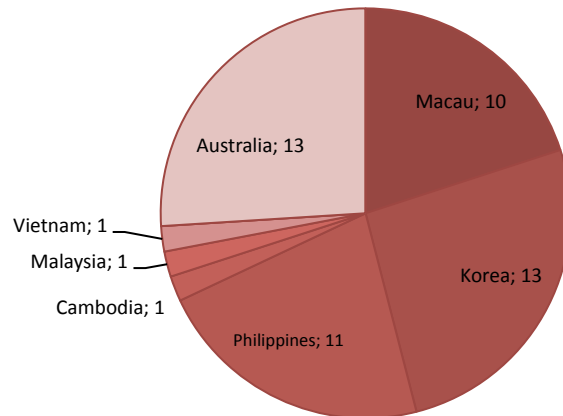
## Asian Casino Gaming Landscape in 2009



### Impact On the Australian Casino industry

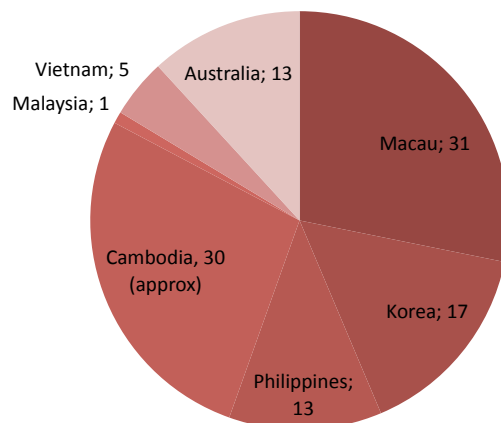
The growth of the casino market in Asia over the past 10 years and its continued expansion will have an impact on established casino markets in the region, including Australia. What was once a region having only a few casino gambling jurisdictions is transforming. As the two charts below illustrate, the number of casinos in the Asian countries covered in this report have more than doubled since the last Productivity Commission gambling industries report.

#### Casino Numbers 1999



Total casinos in these jurisdictions: 50

#### Casino Numbers 2009



Total casinos in these jurisdictions: 110 (approx)

Source: *GamblingCompliance*

The outcome of the casino expansion outlined in this overview will be increased competition. As more jurisdictions introduce policies aimed at creating casino destination resorts to attract international tourists, there will be an increase in competition for these international tourists to visit integrated casino resorts in the countries of the region. There will also be an increase in competition to attract internationally sourced / VIP players to come to the region's casinos.

The competitive impact on Australia's casino industry posed by casino expansion in Asia is borne out in the two charts above. Australian casinos have a shrinking share of casino numbers.

Although the charts do not relate to market share in the region, the charts are useful in illustrating both the increase in casino gambling opportunities across Asia since 1999 and the increased competitive environment Australian casinos are now operating in.

Furthermore, as casino projects open in Asia over the medium to long term, introducing even more casino gambling opportunities in the Asian region, the competitive regional environment in which Australian casinos operate in will become even more pronounced than today.

The international sourced player / VIP player segment of Australia's casino industry is the most significant segment affected by increased competition as casino liberalisation and expansion take ground across Asia. International players are quite small in terms of numbers and as more casino gambling opportunities emerge the competition amongst casinos to source them will likely increase. Jurisdictions such as Cambodia, Singapore, and the Philippines have and will fiercely compete for a slice of the international player / VIP market through attracting junket operators to their respective jurisdictions.

The non-VIP international tourist segment of Australian casinos will also be affected as a result of the consequences of regional competition across Asia. According to a 2008 report by the Australasian Gaming Council<sup>11</sup>:

- Asian countries hold the top nine places in terms of average expenditure on gambling per trip to Australia by a particular nationality;
- Asian countries hold the top six places in terms of international tourists by nationality who visited casinos during their trip to Australia.

As more Asian countries introduce integrated casino resorts, attracting the same or a higher level of Asian visitors to Australian casinos and the tourism dollars spent in them, will likely become a more difficult task. For example, a tourist from Singapore on holiday in Australia may forgo a visit to an Australian casino once the multi-billion dollar integrated resorts open in Singapore, on account of their being new found casino gambling opportunities back home in Singapore, with state-of-the-art services and facilities.

There is also an emerging extra-regional competition for potential *patrons* from the Asian region, which will provide increased competition for Australia's casino industry. This emerging competition is illustrated by Nevada, which has entered into agreements with a number of China's provinces, to enable Nevada to positively position itself in the Chinese outbound tourism market. Moreover, in December 2007, the US Commerce Department signed a memorandum of understanding with the Chinese government that, among other things, allows the promotion in *China* of travel to the United States. Promoting specific US cities where gambling is legal (Las Vegas, Atlantic City) is allowed under this agreement<sup>12</sup>.

The current global financial crisis has proved that the traditionally recession-resistant gambling industry is no longer immune. During the current financial crisis, strategic knowledge, planning and regulatory stability will help ensure the economic contribution of the Australian casino industry will be sustained and meet the challenges brought about by increased regional competition.

*This report is an overview of a more extensive report prepared for the Australasian Casino Association.*

<sup>1</sup> SK Kang and C Hsu, *Asia Pacific Rim Casino Industry Outlook in the 21<sup>st</sup> Century*, (July 2000)

<sup>2</sup> Hwang DBS Vickers Research, 3 September 2008, (Accessed February 14, 2009) <<https://invest.hdbs.com.my/Archive-Research/2008/200809%20SEP/20080903%20Research.pdf>>

<sup>3</sup> PAGCOR website (Accessed February 12, 2009) <<http://www.PAGCOR.ph/index.php>>

<sup>4</sup> SK Kang and C Hsu, *Asia Pacific Rim Casino Industry Outlook in the 21<sup>st</sup> Century*, (July 2000)

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<sup>5</sup> A MacDonald and B Eadington, 'The Case for Integrated Resorts', *Inside Asia Gaming*, November 12, 2008. "An Integrated Resort is really a euphemism for a very large scale entertainment development based around a casino. The casino component, while physically small, must still act as the primary economic engine which drives overall returns and facilitates investment in other facilities and amenities. Thus the casino element must be of such magnitude and importance that it can generate over half of the development's annual cash flow."

<sup>6</sup> A MacDonald and B Eadington, 'The Case for Integrated Resorts', *Inside Asia Gaming*, November 12, 2008.

<sup>7</sup> L Hsien, 'Statement By The Prime Minister Lee Hsien Loong On Integrated Resort' (April 18, 2005), [www.app.mti.gov.sg](http://www.app.mti.gov.sg), (Accessed February 12, 2009)

<<http://app.mti.gov.sg/data/pages/606/doc/Ministerial%20Statement%20-%20PM%2018apr05.pdf>>

<sup>8</sup> Singapore Tourism Board, 'Government Awards Integrated Resort at Marina Bay Project to Las Vegas Sands Corporation' (May 26, 2006), <http://www.stb.gov.sg>, (Accessed February 18, 2009)

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<sup>9</sup> T Mihara, 'Contemplated Casino Structure in Japan: Key Legal Structures & Issues' (2007)

<sup>10</sup> Price Waterhouse Coopers, 'Global Entertainment and Media Outlook: 2008-2012' (2008) page 626

<sup>11</sup> Australasian Gaming Council, 'Fact Sheet: Tourism' (November 2008), [www.austgamingcouncil.org.au](http://www.austgamingcouncil.org.au), (Accessed March 10, 2009) <[www.austgamingcouncil.org.au/images/pdf/Fact\\_Sheets/agc\\_fs15tourism.pdf](http://www.austgamingcouncil.org.au/images/pdf/Fact_Sheets/agc_fs15tourism.pdf)>

<sup>12</sup> GamblingCompliance, 'China – A Regulatory Overview' (February 5, 2009), [www.gamblingcompliance.com](http://www.gamblingcompliance.com), (Accessed March 10, 2009) <<http://www.gamblingcompliance.com/regprofiles/219>>