

# CASINO CAPITALISM IN MACAO: IMPLICATIONS FOR REGIONALISM IN HONG KONG AND THE PEARL RIVER DELTA

By Sonny Lo

The opening of the grandiose Venetian Macao in August, 2007 marked a peak in the growth of casinos in the Macao Special Administrative Region (MSAR), where the number of gambling centers has increased from 11 in 2002 to 26 in 2007 (see Table 1). This booming growth of casino capitalism has significant political and economic implications not only for Macao itself but also for neighboring cities such as Hong Kong, Zhuhai and Shenzhen. The most important is an increasing and wasteful sense of competition among the three cities.

**Table 1: Casinos in Macao, 2002-2007**

Concessionaries	2002	2003	2004	2005	2006	2007
S.J.M.	11	11	13	15	17	18
Galaxy Casino			1	1	5	5
Venetian Macao			1	1	1	1
Wynn Resorts (Macao)					1	1
Melco PBL Gaming (Macao)						1
Total	11	11	15	17	24	26

Source: Data from the Gaming Inspection and Coordination Bureau, <http://www.dicj.gov.mo>, accessed date: August 3, 2007.

## The Politics of Regionalism

Politically, Macao's casino capitalism indicates that the Edmund Ho administration relies on the policies of liberalization and internationalization to modernize the management of gambling. Deteriorating law and order during the final years of Portuguese rule was partly due to the uncontrolled contracting-out of VIP gambling rooms in some casinos to local and Hong Kong triads, and partly due to the relatively weak departing Portuguese administration. However, thanks to cooperative efforts of both the Chinese central government and Portuguese administrators, the transfer of administrative power to Beijing on December 20, 1999 proceeded smoothly, peacefully and successfully. Triads surrendered their weapons on Macao streets days prior to the handover, signaling the success of the two governments' efforts to crack down on criminal elements and imprison the boss of a Macao triad known as 14K. Since then, the Beijing government has supported the Ho administration as it liberalizes and internationalizes the casino industry by welcoming new investors from Hong Kong, the United States and Australia. Politically, the Macao government has projected a strong and effective image in handling supervision and operation of the casino franchises.

Macao is the only place in China with both *de facto* and *de jure* toleration of casinos. In the PRC, underground casinos have proliferated and the police do crack down regularly. But Beijing has never allowed their legitimate existence on the mainland because the security implications would be enormous. In Hong Kong, shortly after the Asian financial crisis, some political and ruling elites toyed with the idea of opening casinos there as one way of speeding up an economic rebound; Beijing rejected the idea, perhaps to avoid an unwanted rivalry with Macao. Those who favored the idea of opening casinos in Hong Kong did not improve their public images because they clearly ignored some psychological and social impact that casinos have on Macao. Viewing Macao's casino boom with jealousy, the nearby mainland city of Zhuhai also has toyed with the idea of attracting foreign and American investment to make it a tourist, convention and exhibition hub. But it is highly doubtful whether the central government would fully endorse a plan on to put a copy of Macao's casino industry on Zhuhai's Hengqin Island. Instead, building a new family and tourist resort alongside the Venetian Resort in Macao probably would be more acceptable. Still, if Beijing supports Zhuhai's development plans, a duplication of tourist and conventions hubs would result, but perhaps not with a beneficial economic impact on Zhuhai itself. Most tourists stay in Macao only one day and they might make only brief visits to Zhuhai at best.

Zhuhai's undeclared rivalry with Macao can be traced back to the early 1990s' construction of the Macao airport, when Zhuhai reportedly delayed the transport of needed sand and complained about the airport's environmental impact. As part of the Pearl River Delta region, Zhuhai also has been trying to demonstrate that it can outperform the Shenzhen Special Economic Zone. When Shenzhen tried to tap into the proposed Hong Kong-Macao-Zhuhai bridge by having a branch directed to Shenzhen city, the proposal was rejected—perhaps in part because Beijing wanted to avoid excessive rivalry among the delta's leading centers. From an objective perspective, Macao's changing casino policies are aimed at modernizing casino management and maintaining law and order. They are not intended as competition with others, even though its neighboring cities—Hong Kong, Shenzhen and Zhuhai—have been reacting in an aggressive manner. Fortunately, the central government understands the need to promote regional cooperation and coordination among these four urban centers.

Even so, the recent cooperation agreement between the Hong Kong and Zhuhai airports shows more signs of rivalry than of coordination. Hong Kong aims to maintain its competitive edge by investing in Zhuhai's airport management, where previous performance was so lackluster that a strategic marriage of convenience with Hong Kong is now improving its airport cargo and passenger capacity. Some commentators in Macao criticized their own airport authority for failing to grasp a golden opportunity for its own cooperation with Zhuhai. Yet they ignored the fact that Zhuhai saw Hong Kong as a far more rewarding partner. Complicating the regional aspects of airport management is the rejuvenation of Baiyun airport in Guangzhou, which actually poses a more severe economic threat to both Hong Kong and Zhuhai than the area's airport authorities have admitted. In response to questions about airport regionalism, Macao maintains its usual low-key attitude, emphasizing that its airport is mainly aiming at serving the city's own

needs—not as a competitor against others—because more visitors see Macao as their final destination.

“One Country, Two Systems” under the Macao-Zhuhai Industrial Zone versus “One Country, One System” under the Hong Kong-Shenzhen Merger Proposal

Due to Macao’s impressive casino successes, and because Hong Kong feels a need to maintain its competitive edge in the Pearl River Delta, the Bauhinia Foundation (a think tank close to the Hong Kong government) proposed closer cooperation with Shenzhen. The proposal clearly had the endorsement of both cities’ governments, and they used it to solicit responses from various sectors, including Macao. But Macao citizens, including from both think tanks and the ruling elites, appear uninterested. For one thing, the government adheres to a policy of not intervening in the affairs of its neighbors. For another, Macao elites do not regard the Hong Kong-Shenzhen merger proposal as a menace to their casino enclave. Finally, Macao has its own cooperative arrangements with Zhuhai, namely the Macao-Zhuhai Industrial Processing Zone, which calls for each side to manage a portion of their developmental region. The Bauhinia Foundation’s suggestions include, among other things: (1) that the Heitao industrial zone be developed by both Hong Kong and Shenzhen; and (2) Shenzhen middle-class residents be allowed into Hong Kong as both consumers and as investors in the local property market. While the Heitao proposal seems feasible, similar to that for the Macao-Zhuhai Industrial Processing Zone, the idea of allowing more Shenzhen residents to visit Hong Kong has security implications that were overlooked by the Bauhinia researchers.

The PRC policy, since late 2003, of allowing more mainlanders to visit both Hong Kong and Zhuhai represents a relaxation of human flows across their borders. Nevertheless, criminal activities by a minority of cross-border travelers have been reported frequently in both cities. Perhaps due to a sense of political correctness and self-censorship, the Hong Kong and Macao press have seldom commented on the negative impact of this traffic on local crime. Yet some law-enforcement officers privately admit that the crime problem is serious, particularly regarding trans-border prostitution that necessitates greater police efforts to close vice establishments. Joint anti-crime campaigns have been frequently launched to arrest illegal workers, mainland prostitutes and other cross-border criminal offenders in Hong Kong, Macao and Guangdong. The Bauhinia Foundation’s cooperation proposal ignored these security implications for both Hong Kong and the mainland. It is natural that many Hong Kong elites have changed from their sense of dependence on British colonizers to relying on the new Beijing leadership, but the concept of depending on Shenzhen’s “big spenders” rests on questionable assumptions. It assumes that Shenzhen residents will not stay in Hong Kong illegally. It assumes that no mainland criminals will obtain Shenzhen’s residency permits through bribery and corruption. It assumes that no corrupt mainland officials will use Shenzhen resident permits as a means of escaping to the outside world via a porous Hong Kong.

It is also possible that some mainland criminals would use Shenzhen resident permits as a means of smuggling themselves out of both Hong Kong and mainland China.

Finally, it assumes that mainlanders would not engage in money laundering through the Hong Kong property and investment markets. All these security implications have been so neglected that there is a danger of changing the “one country, two systems” of Hong Kong into “one country, one system.” Interestingly, it was reported that some Beijing officials view the Hong Kong-Shenzhen merger proposal cautiously—perhaps because they understand the security implications better than do the Hong Kong-Shenzhen elites imbued with regionalist expansionism. Beijing appears to be more sensitive to the idea of Greater Hong Kong and Greater Shenzhen than the officials of the two places.

Macao’s casino capitalism and the attempt to diversify the economy through the Macao-Zhuhai Industrial Processing Zone are far more limited in scope than the Hong Kong-Shenzhen cooperative proposal. Some Hong Kong leaders, including academics, suggest that Hong Kong should consider expanding its boundary to include parts of Shenzhen because new co-inspection checkpoints in the Western Corridor provide a model for a possible merger. This proposal is bold but, if adopted, Hong Kong would be attempting a politically risky annexation. Would Hong Kong’s quite different style of pluralistic politics, rule of law and social freedom then sweep across the whole of Shenzhen? Were Shenzhen officials sensitive enough to these risks when they warmly embraced the idea of a closer merger? Were they artificially separating politics from economics, as did the merger’s advocates in Hong Kong’s? Were they turning a blind eye to the likelihood that more mainlanders might remain in Hong Kong as illegal immigrants, especially if the Chinese economy fluctuates, thus creating a sizable underground population? Shenzhen’s regional image has already been blemished by crime, mainly due to its large migrant population and a relatively small police force. Any merger ideally should require Shenzhen to significantly improve its law and order situation. But this was not a precondition in the Bauhinia proposal, perhaps because its premise is politically incorrect and because of a hidden agenda—that of accelerating a Hong Kong-Shenzhen merger even before 2047, when the current policy of “one country, two systems” is due to expire in undetermined ways.

The danger of the Hong Kong-Shenzhen merger proposal is not really about identity, as some pro-Beijing elites claim. Such “patriotic” spokesmen assert that those who oppose closer ties between the two cities have problems identifying themselves with the PRC. This is a distorted argument. For China, the central problem is the danger of making its political and economic systems resemble those of Hong Kong. Although the PRC promotes free market economics, it does not want Hong Kong’s more open political practices seeping across the border. As former PRC President Jiang Zemin warned, “the river water shall not interfere with the well water, and vice versa.”

### The Perils of Macao’s Dependence on Casino Capitalism

Macao’s dependence on casino capitalism, however, does have economic risks. It will be more vulnerable to regional, national and global economic oscillations. That China’s rapid economic growth is unlikely to be linear forever appears to be ignored by many people in both Macao and Hong Kong, currently more preoccupied with a prosperous economy and a booming stock market respectively. Hong Kong is opening its

stock exchange to mainlanders, and this dependent mentality parallels Macao's over-reliance on casinos. In the event of a regional economic downturn, Macao's economy would plunge drastically and the casino tycoons, both local and foreign, would have to devise emergency solutions for addressing demands of employees and the city's needy. Otherwise, another police-citizen confrontation similar to that of May 1, 2007 could reoccur. In both Macao and Hong Kong, excessive economic optimism is sowing the seeds of drastic but unpredictable social and political turbulence in the long run. The ability to cope with any crisis by both Macao's leaders and its security forces need to be enhanced if casino capitalism is to survive abrupt and unexpected shocks.

Macao's casino king Stanley Ho has already delegated his casinos' management to trusted relatives and subordinates, while American casino tycoons Sheldon Adelson and Steve Wynn are strengthening their bases in Macao. However, one uncertainty involves the days after these charismatic and impressive casino magnates are gone from the scene. If their successors cannot manage their operations as smoothly and productively, changes of leadership might bring about short-term uncertainties. Fortunately, a stable industry should be able to survive in the post-Edmund Ho and post-Stanley Ho era.

Some conservative and pro-Beijing critics of Macao's casino industry argue that the Americans may use them as a tool for interfering in local politics, or use agents for lobbying the Macao government formally or informally. But it would be entirely natural for any casino operator, local or foreign, to lobby the Macao government on various issues of concern; it's no accident that some local operators already have been elected to the legislature. As long as such lobbying is legitimate and does not entail nepotism, favoritism and corruption, casino politics can be normal. After all, Macao has sound rule of law where the courts, the Commission Against Corruption and the Audit Commissioner provide healthy checks and balances on public maladministration and corrupt practices, including in the casino sector.

Indeed, the image of the rule of law and clean government in Macao was undermined to some extent by the Ao Man Long scandal in December 2006. Ao, the former Secretary for Transport and Public Works, was removed from his post by Edmund Ho and Beijing for suspected involvement in receiving bribes and laundering dirty money in overseas accounts. The case aroused the anger of many ordinary citizens, especially unemployed workers who eventually confronted with the police on May 1, 2007. Critics of Macao's casino capitalism have charged that cronyism and patron-clientelism have not only penetrated deeply into the polity and society, but also brought about extensive if hidden corruption. According to the 2006 Transparency International report on global corruption, Macao was ranked impressively 26<sup>th</sup>, the fourth least-corrupt Asian economy following Japan (17<sup>th</sup>), Hong Kong (15<sup>th</sup>) and Singapore (5<sup>th</sup>). It must be noted that the work of the Macao Commission Against Corruption is locally, regionally and globally respectable. Nevertheless, its sincere attempts at combating corruption appear to encounter hidden resistance from some who have vested interests, especially from people who are used to the practice of buying *guanxi* (personal connections) and a few politicians who were elected through extensive monetary incentives and fringe benefits

awarded to voters. Macao's patron-client networks have been so strong and deep-rooted traditionally that perhaps it is inevitable that anti-corruption work faces constraints and opposition.

The Venetian Resort has already injected a bit of economic diversification by establishing spacious convention and exhibition centers. Some Hong Kong businessmen see this as competition and suggest that the Wanchai Convention and Exhibition Center should also be expanded. Again, this proposal indicates they believe that Hong Kong always should outdo its neighbors. Arguably, this attitude is outdated and should be abandoned. In an era of globalization, cities should seek cooperation with their neighbors, appreciate each others' strength and downplay costly rivalries. The Hong Kong-Zhuhai airport collaboration and Hong Kong-Shenzhen partnership proposal appear to be cooperative moves, but they more fundamentally represent a competitive urge to create a Greater Hong Kong, to outclass the neighbors and to maintain Hong Kong's dominance in the Pearl River Delta. On one level these moves are understandable, but ideally Hong Kong leaders could understand better the feelings of their neighbors whenever they advance grandiose plans, such as creating a mega-city by merging with Shenzhen. Otherwise, Hong Kong's regional and expansive projects may not be received positively by either the neighbors or Beijing. If Macao can develop its own specialty as a casino city supplemented by its special historical heritage and convention/exhibition centers, Hong Kong, Zhuhai and Shenzhen do not need to compete with it directly. Instead, Hong Kong's strength is in its financial and monetary centers, as well as retailing, and these should be strengthened rather than seeking new ways to increase direct competition with Macao.

### Conclusion

Macao's successful casino capitalism has made its neighbors jealous. With the understanding and support of Beijing, its casino industry continues to be liberalized, internationalized and modernized. Macao's modest ambitions have not been fully appreciated by Hong Kong, Zhuhai and Shenzhen, and a resulting parochialism arguably is hurting the cooperative and developmental potential of the Pearl River Delta. If the desire to create a Greater Hong Kong is slightly recast and carefully controlled, the delta's development surely would prove a winner for all parties. Arguably, the Hong Kong policy-makers should learn from Macao's more limited and humble approach. The Macao-Zhuhai industrial processing zone is an appropriate step toward cooperation that should protect the concept of "one country, two systems," while the Hong Kong-Shenzhen merger proposal runs the risk of transforming the late Deng Xiaoping's model into one that could pose unexpected political and security risks between now and 2047.



Sonny Lo is an Associate Professor of Political Science at the University of Waterloo, Canada who formerly taught at the Chinese University of Hong Kong. His forthcoming three books in 2008 will be *Political Change in Macao*, *The Politics of Cross-Border Crime in Greater China*, and *The Dynamics of Beijing-Hong Kong Relations: A Model for Taiwan?*.

