

THE DECLINE OF MACAO'S CASINO ECONOMY AND THE CHALLENGES AHEAD

By Sonny Lo

With the onset of the global financial tsunami in late 2008, Macao's casino capitalism has been forced into retrenchment. Foreign investors in its casino industry have scaled down their projects and reduced both salaries and benefits for their employees. The Las Vegas Sands in late 2008 halted construction of hotels and shopping centers on the reclaimed land known as the Cotai Strip. Many thousands of Chinese mainland and Hong Kong construction workers lost their jobs. The Macao government had to draft a contingency plan for repatriating mainland workers who might otherwise have overstayed their visas. Other casino capitalists reduced the work hours and pay of employees, leading to complaints from casino employees unions that had seldom asserted themselves in past years.

The two-day visit of Vice President Xi Jinping of the People's Republic of China in January 2009 marked the central government's concern about this over-reliance on casinos. Xi did not utter a word about the casino business during his visit but instead emphasized the need for Macao to diversify its economy, notably through Beijing's decision to release five square kilometers of Hengqin Island—a region lying just off Macao's Coloane Island—for future joint development by the cities of Zhuhai and Macao. His visit was precipitated by a PRC State Council blueprint that calls for closer cooperation and coordination among Hong Kong, Macao and Guangdong on all fronts during the next decade, including science, technology, logistics, trade, monetary development, infrastructure projects, transport, the auto industry, education, environmental protection and tourism. Clearly, Beijing wants to promote a more economically diversified Macao as casino capitalism turns down.

Beijing's Motives

There is much speculation in Macao about Beijing's new policy direction and its intentions. Rumors claimed that the central government was unhappy with the fact that so many mainland cadres gambled there heavily and openly to the detriment of the images and coffers of some local

governments. While this argument has credibility, it ignores the fact that the central government already has sent anti-corruption agents to look into the gambling behavior of corrupt cadres. Nor did this unwanted gambling require the central government to urge a broad economic diversification in Macao as the solution.

A more convincing argument involves Beijing's apparent concern about the international economy's impact on the gambling enclave. Sensing that the new Obama administration would follow a more protectionist trade policy than did the Bush administration, and witnessing the continuous flow of mainland gamblers' money into the pockets of foreign casino investors, especially those from the United States, Beijing began to have second thoughts on the desirability of its rather *laissez faire* policy toward Macao's casinos. In 2002, Beijing was eager to liberalize the industry, not only to curb the influence of the prior local gambling monopoly, but also to modernize its management and inject foreign capital into the sector. But the global financial crisis, which originated from American mismanagement of the banking and housing sectors, prompted Beijing to reassess Macao's casino strategy. From 2003 to 2008, the negative impact of its rapid development became obvious, including the problems of addictive gambling, young people choosing casino jobs rather than pursuing technical and advanced studies, mainland cadres gambling shamelessly, plus continuous complaints from local workers and others with low incomes about a growing gap between the rich and the poor.

These problems precipitated the Beijing reassessment of Macao's blind pursuit of casino-driven capitalism. Hence, in April 2008, Beijing reined in the local government by announcing that new land projects could not be used for casino construction. This came as Macao's local casino capitalists were competing fiercely against their foreign counterparts, both seeking to develop new casinos rapidly while ignoring the possibility that bad economic times might lie just ahead. With the benefit of hindsight, Beijing's communists were much more cautious than were local and foreign capitalists.

Above all, since Xi Jinping replaced Zeng Qinghong as head of a central-level coordinating committee on Hong Kong and Macao in late 2007, it is worth noting that Xi's attitude about casino development has been more cautious and incremental than his predecessor. The coordinating committee was established shortly after the protest by half a million people in Hong

Kong on July 1, 2003 over perceived dangers to civil rights. But when the Hong Kong circumstances grew more stable with Donald Tsang as Chief Executive, and as Macao's casino development revealed various socio-economic problems, Xi as the new head of the coordinating committee naturally adopted a more cautious approach when assessing Macao's development strategy.

The central government also may have been unhappy about an unnecessary rivalry among Hong Kong, Macao, Shenzhen and Zhuhai, especially during early discussions about technical details and financing of the proposed Guangdong-Zhuhai-Macao bridge. Eventually, the central government had to intervene and decide the share each of the three cities would pay. The State Council blueprint advocating better coordination and cooperation among Macao, Hong Kong, and the Pearl River Delta (PRD) more accurately reflects the thinking and logic of Beijing than of some leaders in the southern Chinese cities. Beijing seeks a more harmonious collaboration in the delta region in hopes that it will develop quietly as a thriving area that could make reunification more appealing to Taiwan in the coming years.

It may well be that prior to 2047 (when Hong Kong's special status under Chinese law expires), a merger of Hong Kong, Macao and the PRD will become such a realistic possibility that Taiwan could be integrated into the mainland Chinese territory in its own special manner. Beijing might then float the idea of a Greater Guangdong-Taiwan region, or a Guangdong-Hong Kong-Macao-Taiwan special zone, as one way of fulfilling what it sees as its historical mission of reunification. If Taiwan is the real target of this Beijing economic and political blueprint, then urging Macao to diversify its economy away from casino capitalism is a logical move. If Taiwan's outlying islands, such as Penghu, build casinos in the coming years, then mainland gamblers' money would be directed to Taiwan. Hence an early warning to Macao about an over-dependence on casinos was necessary. As far as Beijing's united front work is concerned, Taiwan is definitely more important than Macao.

Macao's New Challenges

If the return of Macao and Hong Kong already serve as China's first step toward reunification with Taiwan, as the late Deng Xiaoping anticipated, these two special administrative regions then must plan ahead so that their unique character is not diluted by speedy integration with the mainland. In

particular, Macao's challenges are tremendous: it has to compete with Zhuhai and Hong Kong while maintaining its special qualities as a region with a World Heritage Site designation and a place where casino capitalism can be combined with industrial diversity. So far, think tanks in Macao have responded to the State Council's blueprint slowly, while the Hong Kong government more innovatively already has begun exploring areas of cooperation with Guangdong province, especially in the monetary field where the freer exchange of *renminbi* among Hong Kong and mainland banks already has become a step toward greater integration.

Hengqin Island offers Macao a golden opportunity for territorial expansion and economic diversification. The idea of building a holiday resort on the island is one feasible option. Alternatively, the new area could be used in a multi-faceted manner, including for construction of an underwater museum, an automobile production center for mainland companies, a special fishing area for tourists, a new center for drivers who wish to travel in South China by car, a special oyster dining district providing a market for the island's oyster farmers and upgrading its infrastructure and hotel facilities. Such ideas will have to be critically assessed, while customs, immigration and police officials in Macao and Zhuhai would have to study the cross-boundary security implications. The police forces in both places, for example, would have to guard against cross-border crime, such as human smuggling, drug trafficking and other illicit activities.

Prompted by the current financial crisis, the Macao government already has strengthened its social security net by providing more housing subsidies to the poor and needy, by distributing "candies" to all members of the society and by offering better loans to small and medium enterprises hurt by the global downturn. At the same time, it is committed to continuing various infrastructure projects to prevent employment from rising sharply. The administration has clearly attempted to win the hearts and minds of the public through these measures.

However, as Macao will select a new Chief Executive in 2009, it is quite unlikely that the new leader will have the charisma and efficient leadership style of the current officeholder, Edmund Ho. Potential candidates such as Public Prosecutor General Ho Chio Meng, businessman Ho Iat Seng, Secretary for Economy and Finance Francis Tam Pak-yuen, and Secretary for Social and Cultural Affairs Fernando Chiu Sai-on do not offer similar

skills, and it's likely that Edmund Ho will remain a shadow leader whose advice is sought by his successor.

The new Chief Executive and his Executive Council will play a critical role in shaping Macao's development strategy of promoting more economic diversity while retaining the traditional strong emphasis on casinos. Edmund Ho's strategy was to utilize the anti-corruption agency and the Audit Commission as tools for checking the actions of his own administration. This strategy worked reasonably well but loopholes do exist. For example, a corruption scandal involving former Secretary for Land and Transport Ao Man Long was a severe blow to both Ho's image and his policies. Although the anti-corruption body has tried its best to investigate Ao's accomplices (he was convicted in a trial), hidden opposition to anti-corruption work persists. Unless the new Chief Executive is truly keen to overcome these obstacles by sacrificing various *guanxi* (personal relations) networks involving powerful members of society, fighting corruption in Macao will remain a gigantic and difficult task.

Despite the structural and cultural constraints on good governance in Macao, Edmund Ho likely will leave office as a Chief Executive who was serious about creating an efficient and relatively clean administration by using the internal checks and balances he had available. His policy of opening the casino sector, internationalizing its management and stimulating Macao's economic growth will be remembered as defining contributions. Nevertheless, the dangers of an overgrown casino sector and the scandal of the Ao Man Long case appear to blemish his record. The casino economy's downturn since late 2008 has caused the Chinese central government to urge his administration to focus more on economic diversification—a legacy that will be inherited by Edmund Ho's successor.

Implications for Hong Kong

Macao's retrenchment in casino capitalism has important implications for Hong Kong. First and foremost, central government ideology does not favor Macao's overreliance in gambling, implying that Hong Kong's profitable horseracing will definitely retain its secondary role in development strategy. In the past, some Hong Kong elites mentioned the idea of developing casinos in Hong Kong—a concept that was rejected and surely would be vetoed by Beijing, which is keen to see more collaboration between Hong Kong and Macao. Horseracing is developing slowly on the mainland and

casinos have been banned by the Chinese Communist Party under its policy of promoting “socialism with Chinese characteristics.” Hong Kong must reposition itself by finding its own niche in the forthcoming Guangdong-Hong Kong-Macau region by diversifying its economy rather than relying on any single industry. The implication is that, to cooperate and yet compete with its neighbors, Hong Kong cannot rely simply on being a financial center as its sole development strategy.

Second, the zigzag path of Macao’s casino capitalism means that local and foreign casino investors cannot and should not capture the post-colonial governing apparatus. Both Beijing and the Edmund Ho leadership have been keen to maintain a certain degree of autonomy vis-à-vis both foreign (American and Australian) and local casino capitalists. Similarly, in the Hong Kong case where business leaders are much stronger, especially in the real estate and land development sectors, Hong Kong must learn from Macao and formulate land and housing policies relatively free from the influence of the powerful local tycoons. The Macao case is illuminating: from 2003 to 2007 the rapid casino development created an illusion that foreign and local casino capitalists were all-powerful and could easily harvest the fruits of economic success. But retrenchment in the industry in 2008 and 2009 proved that they were not as politically influential as conventional wisdom might have assumed. Beijing and Edmund Ho did not want to have Macao’s development strategy controlled by these investors, and the decline of Macao’s casino industry reflects to some extent the strategic preferences of Beijing. Accordingly, the Hong Kong government must learn a lesson from this Macao experience in casino development.

Conclusion

The rise of the casino economy and its subsequent decline have created tremendous challenges for Macao. Responding to the negative aspects, its government has adopted an interventionist policy to address such problems as a widening gap between rich and poor, the lack of jobs for unskilled workers and the stress of a rising inflation rate on low-income families. Although the Macao government has made strenuous efforts to tackle the ills of casino capitalism, retrenchment in the casino sector has exacerbated the problems of governance. Fortunately, the central government is backing the Macao administration by various means, such as controlling the flow of mainland gamblers, granting land from Zhuhai for Macao’s expansion of industrial space, and encouraging Macao to diversify its economy. While

Taiwan is certainly the next and most important politico-economic target of Beijing, Macao will remain a test case for the smooth operation of the “one country, two systems.” Hence, even if Edmund Ho’s successor encounters a socio-economic crisis, the central government will surely intervene positively to protect Macao’s interests. From this perspective, Macao’s casino capitalism is destined to be closely monitored, protected, regulated, and adjusted by Beijing. And the Macau development model has implications for the Hong Kong government, which also needs to diversify its economy and maintain its independence from powerful local business leaders.

*Sonny Lo is an Associate Professor in Political Science at the University of Waterloo, Ontario, Canada. His new book is *The Politics of Cross-Border Crime in Greater China: Case Studies of Mainland China, Hong Kong and Macao* (M. E. Sharpe, January 2009).*