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## **Asia: Seven Steps to Success**

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Critical factors For Asian casino developments



Call it the Macau/Singapore effect.

The initial success of integrated casino resorts in Singapore, coupled with the unprecedented growth in gaming revenues in Macau, has attracted the interest of government policy-makers in countries throughout Asia. Several are now considering instituting new policies that will permit the expansion of casino gaming in their countries in the form of what is now being referred to as integrated casino resorts, and with it, both economic and tourism growth.

The success of Asian resorts has helped identify those factors that are critical to the success of any new gaming venue. Here are seven factors that are critical to creating a successful gaming policy that grows tourism, enhances tax revenues and acts as an engine for economic growth.

### **1. Pick a Convenient Location**

A location proximate to the target market is essential for success of any casino. In other words, casino venues must be convenient to get to. They must be relatively close to major population centers, transportation hubs and border crossings.

Macau's location at the tip of the Pearl River Valley has served it well. Macau is within a one-hour ferry ride from Hong Kong and Shenzhen and a two-hour bus ride from Guangzhou, a city of 19 million people. Likewise, Singapore's casinos are located in the heart of that city, convenient not only to the local population but to Malays living across the Johora Strait. In contrast, the only casino in South Korea where residents are allowed to gamble is located four hours by car from Seoul, forcing those customers to endure an unpleasant and at times dangerous commute for the privilege of gambling in a legal venue. While the casino is busy, its location will forever limit its ability to maximize its potential.

A government mandate that forces a casino to be developed in a remote location, whether it be to protect its citizenry from the temptation of gambling or to encourage economic development in a particularly depressed region, severely limits the gaming venue's ability to maximize its economic impact.

The reality is that all casino markets, be they Las Vegas, Atlantic City, Macau or Singapore, are first and foremost regional destinations, dependent on fairly frequent levels of visitation from markets that find those casinos convenient to get to. The further a casino venue is located from regional population centers, and the harder it is for gamers to get to that venue, the less chance that the casino venue will achieve its full economic potential.

## **2. Transportation Infrastructure**

Coupled with a location that is convenient to both residents and tourists is a sound, integrated transportation network. This has been demonstrated in successful jurisdictions throughout the world. Las Vegas succeeds in no small way because its airport is capable of delivering over 20 million visitors a year to the city while the regional highway network connects the city to the population centers of Southern California and Arizona.

Singapore's casinos have been able to grow tourism by double digits since its integrated casino resorts opened in large part because of a modern international airport located within a 20-minute drive from the city's center. In addition, the city's rail and bus system can quickly and efficiently transport visitors and residents to either casino property. Those mass transit systems continue to evolve, and by next year, a new MRT train station will open directly beneath the Marina Bay Sands project.

Macau has an equally efficient transportation infrastructure that also continues to evolve. High-speed ferries bring patrons to Macau from a number of regional population centers. Once they disembark, an efficient road and bridge network, coupled with casino-sponsored shuttle buses, quickly brings visitors to properties throughout the city.

In addition, Macau is moving forward with development of a light rail system that will connect the city's various border crossings with casinos in both central Macau and the Cotai Strip. Later this year, a new phase of a high-speed rail network will be completed, linking Beijing and Guangzhou to Zhuhai, the primary entry point into Macau. Finally, an ambitious highway, rail and bridge network will link Hong Kong to Macau. Visitation is expected to increase dramatically because of these enhancements to the transportation network.

Conversely, those gaming venues that are difficult to reach, whether by road, rail or air, can never attract a broad base of tourists that seek a variety of entertainment options, of which gaming is one component. While it is easy to hope that a new "integrated resort" will stimulate tourism and lead to the development of new transportation infrastructure, it is essential that the regional rail, air and road network be in place first so they can deliver tourists and residents quickly and efficiently. Capacity-constrained airports and inadequate modes of surface transportation will doom even the grandest of casino developments.

## **3. Convenient Border Crossing and Entry Visa Process**

Getting visitors to border entry points is only part of the solution; visitors need to be able to cross borders quickly and efficiently with minimal delay. The border crossing from Zhuhai to Central Macau is one of the busiest in the world, and is capable of processing tens of thousands of people a day.

Likewise, Singapore's entry points are models of efficiency and hospitality. People are able to move across the border to casino-resort venues with minimal delay. In contrast, one need only enter the United States through the International Arrivals Terminal at the Los Angeles International Airport, where visitors and citizens alike are treated with suspicion and malevolence, to appreciate how an efficiently and well-managed border crossing like Singapore or Macau can contribute to tourism growth and an overall sense of hospitality.

Working in concert with efficient border crossings are sane and reasonable policies regarding visas. Tourists who are eager to spend their money in casinos, hotels, restaurants and high-end shopping malls should not have to endure a time-consuming and expensive visa application process. It should not take a month for a visitor to get a visa, just so they can avail themselves of the amenities of a casino resort. Bilateral agreements between adjacent countries whereby tourists do not need a visa to visit a gaming-entertainment zone significantly enhance visitation. Singapore again stands as an excellent example.

#### **4. Reasonable Gaming Tax Rate**

Few people outside of the gaming industry have a true appreciation of gaming taxes. There is generally a mistaken belief that taxes are paid from net income. Rather, they are paid from top-line gaming revenue before operating expenses are deducted. Also, unlike taxes on cigarettes, liquor or gasoline, gaming taxes are paid by the operator—not the consumer.

Inordinately high tax rates limit a casino developer's ability to construct non-gaming amenities, which are dependent on casino profits to justify their capital expense. Casinos in the United States offer a number of examples. In the state of Nevada, where gaming taxes are 6.75 percent of gaming revenues, casino operators have been able to construct a wealth of non-gaming amenities such as hotels, restaurants, convention centers and shopping malls.

Reasonable gaming taxes helped transform Las Vegas from a small city in the desert into an international destination with over 150,000 hotel rooms, millions of square feet of meeting space and a resident population of 2 million. In the state of New York, where taxes at racetrack casinos exceed 60 percent of gaming revenues, no such non-gaming development has taken place. Those casinos are nothing more than warehouses with slot machines. With such a high tax rate, casino operators simply cannot risk the capital to invest in non-gaming amenities.

One racetrack casino in the state of Rhode Island, where the gaming tax hovers at 60 percent of revenue, risked a major capital investment in non-gaming amenities and was forced into bankruptcy. Rhode Island's state government, with its myopic focus on gaming taxes, continues to maintain this high tax rate and, with new competitors opening in adjacent states, will soon see its prized source of tax revenue wither away.

Gaming operators also need stable tax environments where the tax rate does not increase whenever government needs more money. Again, the United States offers an example. In the state of Illinois, legislators eager to reduce their budget deficit arbitrarily increased gaming taxes on its casinos. The state taxes gaming revenues on a graduated basis and increased the marginal tax rate on the highest bracket of gaming revenues from 50 percent to 75 percent.

The results were immediate and catastrophic. Marketing expenditures were reduced; capital investment ceased; gaming revenues declined and employees were laid off. Only after witnessing the total effects of their actions did Illinois legislators reverse their decision.

## 5. Sound Regulatory Environment

While it may seem counter-intuitive, gaming companies desire and often demand a sound, stable and effective regulatory authority. The reasons for this are simple. For a casino operator with multiple operations, an infraction of gaming regulations in one jurisdiction can impact the gaming license in another jurisdiction. Multi-national corporations will not enter markets where gaming regulations are loose or where there is a culture of complacency and cronyism. They will also not enter markets where government is both regulator and operator.

## 6. Establish Clear Economic Goals

What does government hope to achieve with casino-resort development? Is it primarily tax revenue, job creation, tourism, economic development or simply, all of the above? Before policy-makers issue requests for proposals that demand billions of dollars in minimum capital investment and millions of dollars in licensing application fees, they must first establish clear and realistic economic goals—the operative term being “realistic.”

To do this, they must first determine their market’s gaming revenue potential. Then they must determine the number of non-gaming amenities that the market can support, given its location, transportation infrastructure and proximity to regional population centers. Only then can it begin to define their overall economic goals.

## 7. Let Citizens Gamble

Gaming policy-makers often view casinos solely as tools for tourism growth, and limit or prohibit their citizens from enjoying gaming entertainment in a safe, comfortable and well-regulated environment. They seek to protect their citizens from the temptation of casino gambling.

The reality is that people throughout the world enjoy wagering, and they are going to do so, whether or not it is permitted by law. When a government prohibits its citizens from entering casinos, it forces its citizens to patronize unlicensed, unregulated and illegal gaming venues.

Furthermore, a public policy that bans citizens from visiting casinos that only serve foreign patrons forever limits the economic potential that those casinos can deliver, and unwittingly perpetuates illegal gaming activity.

Las Vegas grew into the entertainment destination it is today not by banning U.S. citizens or local residents from wagering, but by providing a safe, attractive and exciting venue for those citizens. Had public policy only allowed foreign visitors to wager, Las Vegas would have never grown beyond a small town in the middle of the Mojave Desert.

Singapore chose an alternative approach, limiting residents’ access to its casinos by charging a S\$100 entrance fee. While some may view the fee as nothing more than a 100 percent tax on the first \$100 of wagers that fails to discourage problem gamblers from visiting, no one can doubt the overall success of the Singapore model. Nevertheless, some gaming policy-makers believe they can replicate the Las Vegas and Singapore casino development model by prohibiting access to citizens. They are mistaken. In order to have a gaming venue that maximizes economic development, government must allow its citizens access to its casinos.

There are numerous examples of gaming developments in Asia that never reached their true potential because of a flawed, paternalistic policy, South Korea being the most notable example. While there are a number of foreign-only casinos in Seoul and Busan that attract a limited number of gamers from nearby countries, they are prohibited from allowing South Korean residents to enter. They provide a modest number of jobs, induced a relatively small amount of capital investment and enriched a few operators, but they failed at replicating the Singapore, Las Vegas and Macau models, primarily because they do not allow their citizens to gamble.

Rest assured, the citizens of Seoul and Busan are gambling today—just not at state-sanctioned venues.

Gaming entertainment development has the ability to create tens of thousands of jobs, generate substantial amounts of tax revenue, attract massive amounts of foreign investment and create tourist destinations where once there were none. Fortunately, for those gaming policy-makers who are now evaluating the feasibility of using gaming development as tools for economic development, there is a wealth of past successes and failures from which to learn, in Asia and elsewhere.

Singapore, Macau and Las Vegas stand out as exemplary examples of past successes. Other markets in both the United States and Asia serve as examples of those that failed to achieve their full economic impact. Policy-makers would be wise to learn from those successes and failures, and identify the critical factors that can lead to successful gaming development.

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