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Viewpoint

## Explaining urban economic governance: The City of Macao

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### ABSTRACT

This paper traces the root causes of the Macao Special Administrative Region (SAR) government's inability to regulate the city's major economic issues. This regulatory deficiency can be partly attributed to the city's 500 years of Portuguese colonial rule, although some of the problems have been caused by the casino boom, which began with the liberalization of Macao's gaming industry, and the government's failure to cope with ensuing dramatic changes. From a historical and institutional perspective, the author illustrates and analyzes the dynamic relationship between economic regulation and urban politics on a rapidly growing urban island facing various governance challenges.

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### 1. Introduction

Macao has undergone an economic miracle due to its double digit GDP growth rate since its sovereignty was returned to China in 1999. The city's GDP per capita rose from US\$14,258 in 2002 to US\$89,333 in 2014, and the urban island has become one of the richest economies in the world (Macao Statistics and Census Services, 2002, 2014). The city's post-colonial economic boom is largely due to the liberalization of its gaming policies with respect to foreign investors in 2002 and to China's Free Individual Travel (FIT) policy that was initiated in 2003 (Sheng & Tsui, 2009b). While transforming Macao into a wealthy and modern metropolis, these stimulus-oriented policies also made its mono-economic structure and overreliance on casinos more pronounced (Tables 1, 2).

To reduce the mono-structure and resulting economic risks, the government of Macao has undertaken a series of measures to diversify the city's urban economy. As early as the founding of the SAR in 1999, policy makers designed subsidies and incentive schemes aimed at developing the city into a conference and entertainment tourism destination. Since the liberalization of gaming policies and especially following the global financial crisis, casino concessionaires have been urged and then formally required to invest in the city's non-gaming tourism infrastructure (Li, Gu, & Siu, 2010). In fact, gaming concessionaires have established a number of conference venues as well as quite a few family-friendly amusement facilities. However, all these efforts seem to have been ineffective, and Macao's overdependence has worsened, overshadowing all other parts of the economy. While the city's gaming revenue accounted for 20–25% of Macao's GDP during the 1990s, this share increased to 64%

by 2015. In fact, over 80% of Macao's public revenue came from its casinos (Macao Statistics and Census Services, 1999, 2015).

The liberalization of Macao's gaming industry and the resulting foreign investment may be considered a dialectical process that has had consequences for Macao's public administration. Casino liberalization and modernization not only changed Macao's economic landscape but also forced the SAR government to take on multiple roles to regulate the urban economy. While the gaming sector is by far the most important engine of growth, Macao's urban economy is also compromised by its over-reliance on this industry. Macao must address a number of challenges, particularly its overdependence on the junket system and high rollers, its overreliance on Chinese gamblers, its lack of a skilled labor force, and the ineffective government regulation of its economic activities. While the previous Portuguese government was reluctant to intervene in urban economic issues, the SAR government is required by both the host community and the Chinese central government to actively fulfill its responsibilities in fostering economic growth, diversifying the urban economy and improving the city's global competitiveness.

Two hypotheses are established in this research: 1) the regulatory capacity of Macao's government is inhibited by certain institutional flaws inherited from the former Portuguese Macao government, and 2) Macao's urban island culture causes the SAR government's inability to pursue the institutional reforms that would allow it to tackle the problems induced by the post-colonial casino boom. Two objectives are pursued: 1) the city's regulation of economic matters is analyzed from a historical and evolutionary perspective, and 2) the factors that have caused Macao's changing economic governance are analyzed using a holistic approach. In particular, formal and informal institutions that hinder the city's growth and harmony have been identified.

Though it is the world's largest casino city, Macao remains a remote urban island in global terms due to its tiny size, small population and

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**Table 1**

Number of casinos in Macao, 2004–2014.

Source: *Macao Statistics and Census Services (2004–2014)*.

Concessionaries	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SJM	13	15	17	18	19	20	20	20	20	20	20
Galaxy Casino	1	1	5	5	5	5	5	6	6	6	6
Venetian Macao	1	1	1	2	3	3	3	3	4	4	4
Wynn Resorts (Macao)			1	1	1	1	1	1	1	1	1
Melco PBL Gaming (Macao)				1	3	3	3	3	3	3	3
MGM				1	1	1	1	1	1	1	1
Total	15	17	24	28	31	33	33	34	35	35	35

strategic insignificance. However, this case study identifies various patterns of socioeconomic development that seem to be relevant to a number of urban islands and coastal cities around the world. The research findings related to the gaming sector may also inspire tourist cities that are pursuing casino legalization to promote economic growth by deepening their understanding of the economic, social and political externalities accompanying a casino boom. Urban decision-makers in Macao may hopefully draw some implications from this research to solve their social dilemma in the face of an economic miracle and develop effective policy tools and regulatory institutions to cope with the city's ongoing challenges. Hopefully, the research findings will inspire other similar cities to effectively reform their social-political structure to match the processes of modernization and globalization.

## 2. Colonial governance in economic affairs

### 2.1. Evolution of the urban economy prior to handover

Since its founding as a Portuguese colony in 1557, Macao's territory has been continuously expanded in a process of land reclamation from the sea. In the late 15th century, the urban island of Macao had a recorded area of only 2.78 km<sup>2</sup>. With the annexation of Taipa and Coloane Islands in the mid-19th century, the Portuguese enclave on Chinese territory increased to 10.28 km<sup>2</sup>. During that period, the city became an economic hub and power center for Westerners in Asia, and it had a recorded population of 40,000 people from all over the world (Liu, 2000). The Opium Wars, however, marked the rise of Hong Kong as the European center for Chinese trade, causing a full economic recession in neighboring Macao. To offset the decline in revenues in the face of Hong Kong's competition and dominance in Chinese commerce, the Portuguese authority in Macao legalized casino gambling in 1847, transforming the city into a center of all types of illegal businesses (Mann, 2014).

Aside from the gaming industry, certain traditional manufacturing industries, particularly fireworks and incense, flourished in the city

throughout the 19th century and the first half of the 20th century. In the 1950s, the textile industry rapidly expanded, driven by an influx of foreign investment that had been drawn to the city's low taxation policies. Modern light industries transformed the city into an export-oriented manufacturing hub, and urban infrastructure was improved in this process of industrialization and modernization. By the end of the 1970s, the textile and garment sectors accounted for 90% of the city's entire visible exports, and these sectors dominated Macao's manufacturing industry until the end of the 1980s (Edmonds, 1993).

Casinos, which had dominated Macao's urban economy since the mid-19th century, underwent a dramatic change in the early 1960s. Sociedade de Turismo e Diversões de Macao (STDM) won a monopoly over Macao's gaming industry in 1962 and modernized the city's traditional casinos, introducing a number of Western games, facilities and services. In particular, a branch of STDM, Shun Tak, introduced the region's first hydrofoil in 1964, allowing travel between Hong and Macao in under an hour. The region's modernized and well-connected sea transit system has been effective at fostering Macao's casino boom with tourist arrivals increasing quickly following these improvements (Barden & Runnacles, 2007).

The once flourishing manufacturing industry declined in the 1990s due to external factors. Macao's privileged quota of exports to Europe was largely reduced in the face of globalization. Concurrently, industrialists gradually moved their factories from the city to mainland China, where labor costs were much lower (Sheng & Tsui, 2009a). This deindustrialization process was accompanied by the rise of various gambling-related businesses. Hotels, restaurants, retail shops, and the financial and real estate services experienced a boom, and the service sector assumed an increasingly important role in the urban economy. Notably, the gaming sector is considered a part of "recreational, cultural, and other services," which is under the umbrella of "service industry" in Macao's national accounting and official statistical system. In fact, with two-thirds of Macao's GDP and 25% of its total employment in 2015, Macao's service industry is dominated by the gaming sector (Macao Statistics and Census Services, 2015).

**Table 2**

Major economic indicators of Macao: 2002–2014.

Source: *Macao Statistics and Census Services (2002–2014)*.

Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Nominal GDP (billion MOP <sup>a</sup> )	54.8	62.3	80.3	92.1	113.7	141.9	161.6	170.2	226.9	293.7	343.5	410.0	443.3
Real GDP growth rate (%)	8.9	12.6	26.9	8.5	14.5	14.5	3.4	1.7	27.5	21.3	9.2	10.7	-0.4
Per capita GDP (nominal value in MOP)	124,800	137,508	166,252	180,868	204,034	269,350	262,645	317,575	422,657	534,734	603,641	691,578	713,514
Unemployment rate (%)	6.3	6.0	4.8	4.1	3.8	3.1	3.0	3.5	2.8	2.6	2.0	1.8	1.7
Gaming revenue (million MOP)	23,496	30,311	43,510.9	47,133.7	57,521.3	83,847	109,826	120,383	189,588	269,058	305,235	361,866	352,714
Gaming tax as percentage of total government revenue	67.1	72.1	76.6	72.7	n.a.	59.4	69.4	65.4	77.7	81.0	78.2	76.4	87.6
Number of gaming tables	339	424	1,092	1,388	2,762	4,375	4,017	4,770	4,791	5,302	5,485	5,750	5,711
Number of slot machines	808	814	2,254	3,421	6,546	13,267	11,856	14,363	14,050	16,056	16,585	13,106	13,018
Number of casinos	11	11	15	17	24	28	31	33	33	34	35	35	35
Number of hotel rooms	8,954	9,185	9,168	10,832	12,978	16,148	17,533	19,259	20,091	22,356	26,069	27,764	27,904
Tourist arrivals ('000)	11,530.8	11,887.9	16,672.6	18,711.2	21,998.1	26,993.1	22,933.2	21,752.8	24,965.4	28,002.3	28,082.3	29,324.8	31,525.6

<sup>a</sup> 1 US\$ for approximately 8 MOP (pataca).

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