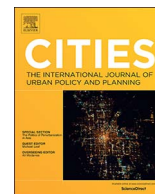




Contents lists available at ScienceDirect

Cities

journal homepage: www.elsevier.com/locate/cities

Economic growth and development in Macau (1999–2016): The role of the booming gaming industry

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ARTICLE INFO

Keywords:

Macau
Casino gaming
Booming sector
Economic development

ABSTRACT

In 2018, Macau will celebrate the 20th anniversary of its return to China. The past few years have witnessed brilliant economic achievements as well as a structural shift toward a gaming-industry dominated economy. Following so many years of rapid growth, it is essential to take stock of both the benefits and costs of gaming industry development. Accordingly, this paper analyzes the evolution of Macau's gaming industry between 1999 and 2016, and evaluates the industry's effects on local economic growth and urban development. As the paper shows, Macau has exhibited many of the symptoms typically associated with booming sectors in small economies, and has witnessed the similar effects widely experienced by western casino cities. However, Macau is also faced with some unique challenges, regarding its geographic location, size constraints, and political factors. These findings illustrate the difficulties that have accompanied Macau's economic achievements, but also call attention to opportunities in the next phase of Macau's development.

1. Introduction

In 2018, Macau will celebrate the 20th anniversary of its return to China. The years since Macau's handover to Chinese authorities on December 20, 1999 have witnessed remarkable economic achievements. Despite periods of instability in the international economy, including fallout from the Asian Financial Crisis and the U.S. Subprime Mortgage Crisis, Macau maintained a rapid pace of growth and managed to build upon its strengths. Between 1999 and 2016, Macau's Gross Domestic Product (GDP) soared from MOP¹ 51,872 million (USD 6458 million) to MOP 362,265 million (USD 45,103 million), reflecting an annualized growth rate of 12%. In 2016, Macau's GDP per capita reached MOP 560,913 (USD 70,160), among the highest in the world. In addition to the fast pace of economic growth, Macau is also successful in terms of a high employment rate, decent levels of social welfare, and a high life expectancy.

The past several years have also witnessed a shift in Macau's economic structure toward a gaming industry-dominated economy. In 1999, Macau's four pillar sectors were manufacturing, construction and real estate, financial services, and gaming. In 2013, however, the gaming industry peaked at over 60% of GDP. Although Macau's gaming industry entered a period of decline thereafter, its share of GDP was still as high as 47% in 2016. That same year, Macau's gross gaming revenue

was roughly seven times as high as that of Las Vegas. At present, Macau not only holds a legal monopoly on China's casino gaming, but also maintains global preeminence as the world's largest gaming center.

However, Macau's stunning successes have not been without downsides. As the gaming industry boomed, other industrial sectors saw rapid contractions. Macau's lack of a broad-based economic structure has raised worries about the sustainability of its growth and the sustainability of its economy.

There has also been growing public concern about the social and environmental consequences of Macau's gaming industry boom. The industry attracts more and more visitors each year, posing challenges for Macau's limited tourist carrying capacity. Approximately 31 million tourists – nearly 48 times the population of local residents – visited Macau in 2016. Given Macau's very limited land area of 30.3 km², such large tourist numbers place a heavy strain on environmental resources and affect the wellbeing of locals.

Moreover, as Macau has tried to meet the growing manpower need of the gaming industry, it has imported labors on an ever-larger scale. There is concern that such labor inflows will threaten employment opportunities and depress earnings for local laborers. Other challenges associated with the gaming boom include worsening trade deficits, real estate bubbles, small business failures, widening social gaps, dilution of cultural authenticity, and problems of gambling addiction. In view of

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¹ Macanese pataca, the currency of Macau.

<https://doi.org/10.1016/j.cities.2018.01.003>

Received 22 August 2017; Received in revised form 29 November 2017; Accepted 6 January 2018

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these issues, it is essential to take stock of both the gains and losses that have accompanied the gaming industry's boom. Only by acknowledging and addressing the problems Macau faces as well as the progress it has made, can the long-term sustainability of its development be achieved.

Scholars in the field of economics, politics, geography, tourism, and urban planning have studied Macau from different perspectives, variously describing its urban profile (Hobson, 1995; Simpson, 2008; Tang & Sheng, 2009; Yeung, Lee, & Kee, 2008), examining its tourism drivers (Huang, Tsaur, & Yang, 2012; Wong & Rosenbaum, 2012), discussing its tourism growth and local welfare gains (Sheng, Li, & Wang, 2017; Sheng & Tsui, 2009), analyzing the effects of foreign investments (Sheng, 2011), examining cultural and spatial aspects of casino cities (Balsas, 2013; Hannigan, 2007; Loi & Kim, 2010; Luke, 2010), and analyzing financial features of the gaming industry (Gu & Gao, 2012; Gu & Tam, 2011). However, there is a lack of academic publications that thoroughly examine Macau's gaming industry boom and the subsequent impacts on economic growth and overall development. This paper addresses this gap.

This paper assesses the consequences of Macau's specialization in the gaming industry between 1999 and 2016. In particular, it seeks to answer the following questions: How is the gaming industry planned, developed, and managed during this period? What are the roles of internal and external institutional factors in shaping Macau's gaming industry? What is the relationship between the gaming industry's boom and Macau's economic development and urban transformation? Could effects of Macau's gaming industry boom be well explained by existing theories established in western countries? Answers to these questions will provide a new perspective in understanding Macau's impressive economic achievements over the past few years.

The remainder of the paper is organized as follows. Section 2 reviews existing literature on both effects of booming sectors in small economies and effects of casino gaming industry, as well as provides a short description of Macau's institutional contexts. Section 3 examines the explosive development of Macau's gaming industry between 1999 and 2016. Section 4 discusses how the gaming industry boom has affected the economic performance and socio-spatial development of Macau. The final section offers conclusions and discussions.

2. Theoretical background

2.1. Booming sectors in small economies

To understand the likely effects of booming gaming industry in Macau, it might be helpful to first look at the small economy with one of its sectors experiencing rapid growth. The small economy is defined as a price taker in the international markets, and is usually featured by the smallness of population, land area, and GDP (Croes, 2006). Faced with inherent limitations in terms of market size, labor, resources and capital, small economies have difficulties achieving sufficient economies of scale in many basic economic activities. As a result, they typically end up specializing in certain sectors, which offers a way to overcome size constraints.

Corden and Neary (1982) develop an influential model to explain the profound effects of booming sectors in small economies. The model was first used to describe the adverse impacts of natural gas extraction in the 1960s on the economy of the Netherlands. According to the model, an economy can be divided into three parts: booming sectors, lagging sectors, and non-tradeable sectors (Corden, 1984; Corden & Neary, 1982). Corden & Neary highlight two distinct mechanisms through which growth in booming sectors can erode the competitiveness of lagging sectors. The first is a resource movement effect, whereby economic factors are reallocated from lagging sectors to booming sectors. The second is a spending effect, whereby demand growth raises the price of non-tradeable goods and leads to appreciation of the real exchange rate. As a consequence, a boom in a tradeable sector usually squeezes profitability in other tradeable sectors (typically

manufacturing sectors), thus making the rest of the economy less competitive and more difficult to sustain.

Although the model was first established to examine effects of natural resource booms, it has been recently applied to many small economies characterized by booming service sectors, such as tourism. It is usually concluded that heavy dependency on tourism might bring about similar economic consequences. For example, Capo, Font, and Nadal (2007) shows that flourishing tourism has made island economies extremely vulnerable to external disturbances, and brings with them low levels of education, innovation and technological progress. Chao, Hazari, Laffargue, Sgro, and Yu (2006) argue that by raising the price of non-tradeable goods, a tourism boom lowers the capital accumulation in other traded sectors, and the subsequent de-industrialization might cause resident welfare loss in the long-run. Nowak and Sahli (2007) highlight that tourism booms could sometimes cause net welfare losses, in particular urban employment and labor migration.

However, few studies have applied the model to casino gaming industry, whose growth is more dependent on policies. Originated in Las Vegas in around 1931, casino gaming is now among the most fast-growing industry world-wide, and has become an important pillar for many small economies. For those small economies, what are the roles of casino gaming in economic development? Will this kind of boom bring about similar effects? These questions remain largely unknown.

2.2. Effects of casino gaming industry

Distinguished by high profits and economies of scale, casino gaming has gained growing popularity all over the world, especially in resource-poor regions, in economically struggling regions, or in small economies. It is evidenced to generate wide economic benefits to local economies. Based on data from 68 U.S. counties, Rephann, Dalton, Stair, and Isserman (1997) measure the regional economic impacts of casinos. They conclude that casino development has positive effects on economic growth, overall employment, per-capita income, and poverty alleviation. Furthermore, service sectors such as retail trade, finance, insurance, real estate and construction are benefit from the casino growth. Based on investigations in North America, Eadington (1999) finds that the booming industry has generated a series of positive effects, including rapid economic growth, increasing investment and employment, and enhancement of government revenues. However, when examining effects of casino gaming on state economic growth within the U.S. contexts, Walker and Jackson (2007) find that real casino revenues and real per capita income are not significantly related, indicating that the industry has initial positive growth effects but the effects die out over time.

In addition, studies examining how casino gaming affects local labor market indicate that casinos generally provide positive effects. For example, based on the U.S. county-level data, Cotti (2008) concludes that the opening of casinos leads to an increase in employment, especially in the entertainment sector, but has little measurable effect on average earnings. Based on data drawn from Canada, Humphreys and Marchand (2013) find that despite its positive effects on employment and earnings in the gaming industry, the opening of new casinos can have indirect spillover effects on closely related industries of hospitality and entertainment.

Despite its economic influences, the wider social and spatial effects of casino gaming on host communities have been paid more attention recently. Chang, Lai, and Wang (2010) highlight the social disorder costs of casino gaming, including compulsive gambling, productivity losses and other social pathologies embodied in local communities. Hannigan (2007) notices that by combining other forms of consumption, casinos have turned the host city into urban resorts. However, risks are that visitors' arrival will displace local residents, squeeze out neighborhood businesses, and steamroll indigenous culture and heritage. Simpson (2016) argues that the built environment of casino cities is primarily constructed by non-local concerns to attract non-local

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