

## Impacts of Institutions and Institutional Changes on Development of Casino Tourism in Macao: A Review and Outlook

Ricardo Chi Sen SIU

**Abstract:** The factors that drive and limit the development of casino tourism in Macao from 2000 to 2024 are examined in this article with reference to an analytical framework and arguments on institutions and institutional changes in institutional economics. Specifically, the impacts from the tug of war between the efficiency-enhancing attempts of the Macao Special Administrative Region (Macao SAR) government and integrated resort operators, and the ceremonially warranted behavior of existing beneficial groups on the business routines and path of the development of the industry before 2020 are explicated. In addition, self-undermining instead of self-enforcing forces generated from the practices of the unique third-party-operated VIP room business model throughout the expansion process of casino tourism in Macao are analyzed. It is recognized that despite the enviable growth in monetary return, various adverse and crowding out effects were also generated from the expansion of casino tourism to the economy and society. To ensure the sustained growth and development of this industry, radical actions taken by the Macao SAR government in 2021/2022 and onwards clearly reinstitute the organization and business routines in the market, hence enhancing the instrumental efficiency of the industry. While these latest changes have unarguably launched a new era for the development of casino tourism in Macao, it is argued that effective and proactive roles taken by the government to enforce the new rules are indeed necessary to ultimately ensure progressive changes for this industry.

**Keywords:** casino tourism, Macao, ceremonial values, institutional changes, instrumental values, instrumental efficiency

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# 制度與制度變遷對澳門博彩旅遊業發展的影響： 回顧與展望

蕭志成

**[摘要]** 本文參考制度經濟學中對研究制度和制度變遷所採用的分析框架和論點，探討 2000—2024 年間推動和局限澳門博彩旅遊業發展的因素。具體而言，本文闡釋了 2020 年以前澳門特區政府和綜合渡假村營運商為提高產業效率所作出的努力與當時利益群體由傳統儀式上所認同的商業行為之間的博弈對產業經營常規和發展路徑產生的影響。此外，也分析了由獨特的第三方經營之貴賓廳商業模式在澳門博彩旅遊業擴張過程中所產生的自我削弱而非自我強化的力量。此使人認識到，儘管博彩旅遊業的擴張從金錢上帶來了令人羨慕的增長，但其擴張也為經濟和社會帶來了各種不利影響和排擠效應。為了確保產業的可持續增長和發展，澳門特區政府於 2021、2022 年及其後採取了根本性的舉措，明確地重塑產業的組織和經營常規，從而提高產業的工具效率。雖然這些新的改變無疑為澳門博彩旅遊業的發展開啟了一個嶄新的時代，但是特區政府採取的有效和積極主動的措施來執行新的法規對確保這個產業得以最終達到有進步的發展是確實有必要的。

**[關鍵詞]** 博彩旅遊業 澳門 儀式價值 制度變遷 工具價值 工具效率

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## Introduction

In institutional economics, the impact of institutions and institutional changes rather than simply the market forces offer a comprehensive and practical basis to examine and understand the path of development of an economy and its industries. This argument is especially relevant to better understand the development and changes in the organization of socially controversial industries like casino tourism. Actually, the observed behavior of market participants and performance of firms in casino tourism reflect the consequences of their interactions with a set of formal and informal institutional factors in society. To a large extent, the modern development of casino tourism in Macao provides interesting and real-life evidence that supports these arguments. In turn, when scrutinizing the evidence through the perspective of institutional economics, some essential cause-and-effect relations associated with the changing phenomena during the progression of casino tourism in Macao can be explicated objectively. These provide valuable insights for decision-makers, including the government and industry practitioners to design effective policies and implement the necessary adjustments/revisions to ensure the sustained growth and development of this important industry in Macao.

The notions of institutions and institutional changes are highlighted in the first section in light of the above considerations. With reference to the key literature in institutional economics, a paradigm is constructed to describe the forces that interact with the development of an industry and related business routines of firms in a society. Based on the rationale as specified in the paradigm, the footprint and major changes in the path of development of casino tourism in Macao from 2000 to 2024 are explicated in the second section by referring to the particular contextual settings in Macao and an institutional change during this period of time. In Section 3, the counterforces generated at the same time from the rapid but controversial expansion and business routines of casino gaming in the 2000s and 2010s to its sustained growth and impacts on the development of the industry and the Macao economy are examined. In Section 4, the motivation and need for institutional changes to enhance efficiency that would ensure the sustained growth and development of this industry, and the impacts from the radical actions taken by the Macao Special Administration Region (Macao SAR) government between 2020 and 2022 to revise the gaming laws and regulations are analyzed. Finally, it is concluded that while a new era for the development of casino tourism in Macao has begun through a radical revision of the formal rules, the ceremonial values associated with the traditional ways of doing business may still require time to change. In practice, whether a progressive institutional change can really be attained from the latest revisions of the formal rules greatly depends on their enforcement (i.e., the cause) and their actual impacts (i.e., the effects) on the changes in the traditional ways of doing business by the market partici-

pants in this industry. For this, practical policy suggestions are provided for further exploration.

## Role of Institutions and Institutional Changes in Industrial Development

Broadly speaking, institutions can be conceptualized as various sets “of socially prescribed patterns of correlated behavior”.<sup>①</sup> From a practical stand point,<sup>②</sup> the prescribed patterns of correlated behavior are nurtured and driven by informal constraints (i.e., culture and social norms) and formal rules (i.e., laws and regulations) and their enforcement characteristics as explicated by Douglass C. North.<sup>③</sup> These arguments actually provide the essential grounds to show the organization of an industry and business routines of firms and their interactions with consumers in the markets in a given period of time. In a dynamic environment, existing institutions will change when new knowledge and standards (i.e., “instrumental values” as Bush<sup>④</sup> argues) are introduced by any social entity to improve the efficiency of existing ways of doing business or address the insufficiencies and resolve the problems in society that are dominated by social behaviors to adhere to long-established beliefs and traditions (i.e., “ceremonial values” in society).<sup>⑤</sup> Thus, while the instrumental values pursued by individuals generate the forces for change, ceremonially warranted behavior held by other social members are the counterforces. In principle, if instrumental efficiency in a society is enhanced through changes in the existing institutions, a progressive institutional change will result. Thereby, institutional changes will unarguably alter the path of development of an industry. Taking into consideration the differences in the attributes between culture and laws in the real world, influences from their respective changes and their interplays on the development of an industry are largely determined by the specific contextual settings in a society.

To explicate how institutions and institutional changes interact with the development of casino tourism in Macao, a general paradigm is formulated at the outset which is shown in Figure 1. In this paradigm, the three double headed arrows (↔,  $a_1$ ,  $a_2$  and  $a_3$ ) shown at the bottom of Figure 1 represent the interplays between the specific culture, social norms, political and legal system in a society. An arrow (→) denotes the force exerted from an institutional factor (e.g.,  $b_1$  represents culture,  $b_2$  social norms,  $b_3$  political system and  $c$  the attributes of the market forces) to the evolution of a socially prescribed behavior for the development and business routines of the industries. On the other hand, an

<sup>①</sup> Bush, Paul Dale. “The Theory of Institutional Change”, *Journal of Economic Issues*, vol. 21, no. 3, 1987, p. 1076.

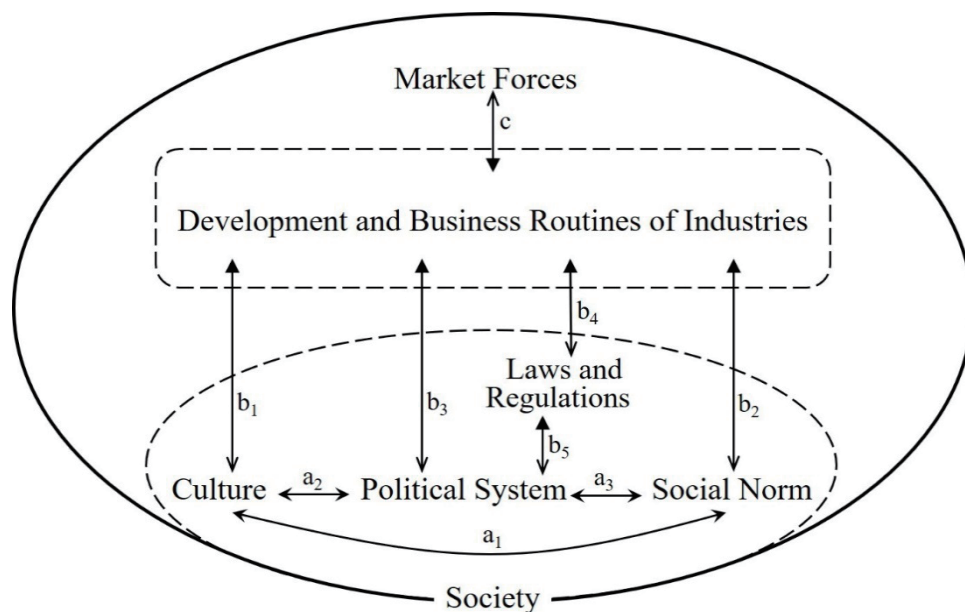
<sup>②</sup> In this article, I adopt the concept of “practice” (and “practical”) from Dolfma (2023, 1355) who cites from Rawls that it is “any form of activity specified by a system of rules [(set of) institutions] which defines offices, roles, moves, penalties, defenses, and so on, and which gives activity its structure”. see Rawls, John. “Two Concepts of Rules.” *The Philosophical Review*, vol. 67, no. 2, 1955, p. 3.

<sup>③</sup> North, Douglass C. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990, pp. 36-60.

<sup>④</sup> Bush, Paul Dale. “The Theory of Institutional Change.” *Journal of Economic Issues*, vol. 21, no. 3, 1987, p. 1080.

<sup>⑤</sup> Bush, Paul Dale. “The Theory of Institutional Change.” *Journal of Economic Issues*, vol. 21, no. 3, 1987, pp. 1079-1080.

open arrow ( $\rightarrow$ ) that points in the reverse direction of an arrow represents the feedback effect generated from the process of industrial development to a corresponding factor/force which leads to its change in the succeeding stage. For example, the open arrow through  $b_1$  shows the feedback effect from industrial development which may change the existing culture in certain areas like social/moral standards in a society towards or against the practices of a business routine. In a dynamic environment, interplays between the various institutional factors and industries will also generate ongoing changes in the demand and supply behaviors of the market participants (i.e., represented by the open arrow through  $c$ ).



**Figure 1** General institutional paradigm for industrial development

Source: This paradigm is constructed based on previous analyses of the author on the development of casino tourism in Macao. See Siu, Ricardo C. S. “A New Epoch in the Macau Economy and Its Gaming Industry.” *Journal of Macau Studies*, no. 26, 2005, pp. 54-61; Siu, Ricardo C. S. “Evolution of Macao’s Casino Industry from Monopoly to Oligopoly: Social and Economic Reconsideration.” *Journal of Economic Issues*, vol. 40, no. 4, 2006, pp. 967-990; Siu, Ricardo C. S. “Formal Rules, Informal Constraints, and Industrial Evolution - The Case of the Junket Operator Regulation and the Transition of Macao’s Casino Business.” *UNLV Gaming Research and Review Journal*, vol. 11, no. 2, 2007, pp. 49-62; Siu, Ricardo C. S. “Back to the Future: Constructing Macao As a World-Class Casino Tourism Destination Under New Gaming Laws.” *Gaming Law Review: Economics, Regulation, Compliance, and Policy*, vol. 21, no. 7, 2023, pp. 326-342; Eandington, William R., and Ricardo C. S. Siu. “Between Law and Custom - Examining the Interaction between Legislative Change and the Evolution of Macao’s Casino Industry.” *International Gambling Studies*, vol. 7, no. 1, 2007, pp. 1-28.

Other than informal constraints, the path of development of any industry is largely guided/influenced by formal rules (i.e., laws and regulations through the route of arrow b<sub>4</sub> shown in the paradigm), while the contents and enforcement characteristics of the formal rules which frame the business routines of firms are determined by the political/legal system through the force exerted from arrow b<sub>5</sub> in a society. In turn, the practices of business firms (especially large corporations) will also generate feedback effects which lead to changes to the formal rules as a result of changes in political inclinations/interests (i.e., see open arrows on b<sub>4</sub> and b<sub>5</sub>). Nevertheless, “while formal rules can be changed overnight by the polity, informal constraints change very slowly”.<sup>①</sup> In other words, the real impacts and time needed for changes to formal rules as a measure to introduce new instrumental values on existing ways of doing business of firms are generally determined by the tug-of-war between the enforcement characteristics of the legal system and societal traditions (i.e., ceremonial values). To a large extent, the aforementioned arguments shown in Figure 1 provide a realistic foundation to show the roles of institutions and institutional changes in the evolution and development of casino tourism in Macao, especially from 2000 to 2024 and evaluate its future road map and prospects. Indeed, the findings from this study serve as valuable reference points to decision makers to formulate realistic measures and assume an effective role to ensure the sustained growth of this industry and its ongoing contributions to Macao.

## Specific Contextual Settings and Development of Casino Tourism in Macao

As a pecuniary industry albeit a socially controversial one, the path of the development of casino tourism in Macao has been largely influenced by its particular social, cultural, political and economic settings. As for the landmark development of the industry in 2002, it was indeed initiated by a change in a formal rule. Following the establishment of the Macao SAR of China under a “One Country, Two Systems” policy (which is actually an institutional change to Macao as a whole at the outset) in December 1999, the Macao SAR government started to explore possible improvements in the structure of this “dragon head” (describes an entity with a leading position) industry of Macao in 2000. Thus, the government made an important decision (i.e., instrumental change) by revising its gaming law in 2001<sup>②</sup> to replace the over six-decade-long monopoly structure with an oligopolistic structure based on three 20-year gaming concessions (i.e., licenses) that were approved in 2002.<sup>③</sup> In other words, the change in the political system of Macao and hence the orientation of the government

<sup>①</sup> North, Douglass C. “The Contribution of the New Institutional Economics to an Understanding of the Transition Problem.” *Wider Perspectives on Global Development*, edited by A. B. Atkinson, Palgrave Macmillan, 2005, pp. 1-15.

<sup>②</sup> Lei n.º 16/2001 (Law No. 16/2001), which was amended and replaced by Lei n.º 7/2022 (Law No. 7/2022) in 2022.

<sup>③</sup> Siu, Ricardo C. S. “Evolution of Macao’s Casino Industry from Monopoly to Oligopoly: Social and Economic Reconsideration.” *Journal of Economic Issues*, vol. 40, no. 4, 2006, pp. 967-990.

in modifying a formal rule shows the forces exerted from the arrows of  $b_4$  and  $b_5$  as depicted in Figure 1 which turned a new page in the development of this industry.

To implement the change, a license was granted to a wholly-owned subsidiary of a former gaming monopoly and another two were approved to firms with a globally recognized reputation and experience in the development of casino tourism (mainly from Las Vegas). Unarguably, this decision created new dynamics in the industry through the potential contributions of the new players, while stability during the redevelopment of the industry could be ensured by reserving a license for the wholly-owned subsidiary of the incumbent. The Macao SAR government then exercised its authority bestowed by an executive-led political system to approve the requests from the three new gaming license holders that one shareholder from each party could develop their business individually under a “sub-concession” context in December 2002, April 2005, and September 2006 respectively.<sup>①</sup> This change largely illustrates a specific case of influence from the interplays between the government and casino operators through  $b_3$  in Figure 1 in the course of the development of the industry. Despite the controversy of this administrative decision, this “3+3” change did not simply double the number of casino tourism operators in Macao, but indeed allowed Macao to reap the rewards from an immense amount of capital investment through the six operators hereafter in non-gaming facilities and attractions, which has framed Macao as an attractive casino tourism destination globally.

Nevertheless, while the industry structure at the macro level was modified through the foregoing changes in the formal rules, and administrative decisions, the business organization and routines of casino gaming at the micro level hardly changed in the following one or two years. This is because the industry practices are largely framed by the unique culture and social norms of Macao (i.e., the forces exerted from the ceremonial values held by the existing market participants through arrows  $b_1$  and  $b_2$  in Figure 1). In the case of Macao, this mainly refers to the long-existing and socially recognized business routines under a third-party-operated VIP gambling room model<sup>②</sup> (hereinafter “VIP rooms”) which involved a large number of interdependent gaming agents who had been operating their business in a grey (or even lawless) area in the 1980s and 1990s.<sup>③</sup> From this, various social problems like crime and

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<sup>①</sup> More details of these changes can be found on the official website of the Gaming Inspection and Coordination Bureau (n.d.) under the section “Gaming Liberalization after the Handover” on the page of “Macao Gaming History”; Business Intelligence. “A Complicated Process.” *Macau Business*, 25 Apr. 2012, <https://www.macaubusiness.com/a-complicated-process-2/>. Accessed 16 June. 2012.

<sup>②</sup> Simply speaking, this is a revenue sharing business model. Under this model, some of the major gaming agents enter an agreement (a kind of informal contract) with a gaming license holder to operate their own casino gaming business in certain specified gambling rooms within the properties of the license holder (these groups of gaming agents were also the gambling room contractors/operators). Then, through a wide network that comprised a large number of other gaming agents in various hierarchies to bring in players to spend in these VIP rooms, the gaming revenue received would be shared among the various parties according to pre-determined informal contracts which were not legally covered nor recognized. Leong, Angela V. M. “The ‘Bate-Ficha’ Business and Triads in Macau Casinos.” *Queensland University of Technology Law and Justice Journal*, vol. 2, no. 1, 2002, pp. 83-97.

<sup>③</sup> Leong, Angela V. M. “The ‘Bate-Ficha’ Business and Triads in Macau Casinos.” *Queensland University of Technology Law and Justice Journal*, vol. 2, no. 1, 2002, pp. 83-97.



questionable business activities long-associated with the practices of the VIP rooms and gaming agents in the 1990s emerged, which were a major consideration of the Macao SAR government in eliminating the monopoly structure of the industry when the government took office at the end of 1999.

Nevertheless, it has been observed that the contents and enforcement of laws and regulations under the legal and regulatory system in Macao are insufficient. Thus, the development of casino tourism in Macao is largely done in an environment that wavers between the law and historical customs.<sup>①</sup> In other words, culture and social norms (i.e.,  $b_1$  and  $b_2$  in Figure 1) are the dominant forces over political interests and formal rules (i.e.,  $b_3$  and  $b_4$ ) in influencing the path of development and business organization and performance of casino tourism in Macao. Over time, these forces also evolved in congruence with changes in the formal rules to preserve their dominance and changed the business routine of the firms (i.e., impacts from the dynamic context through the interplays as shown by  $a_1$ ,  $a_2$  and  $a_3$  in Figure 1 on the changing forces as represented by the various arrows). Actually, the development of casino tourism in Macao underwent five major phases<sup>②</sup> in the 2000s and 2010s; see changing role and practices of the VIP rooms and their interactions with the formal rules, as recapped in Table 1. Macao has embarked on a new path of development since 2023.

Phase		Key Feature
(1)	2000-2009	Tug of war between new and traditional ways of doing business
(2)	2010-2013	Lucrative yet controversial expansion
(3)	2014-2016	Change in policy and in-depth adjustment
(4)	2017-2019	Adjustment of business routine to compromise with new requirements
(5)	2020-2022	Unexpected/unprecedented shock and radical reinstitutionalization
(6)	2023-present	Initiation of a new path of development

Table 1 Major phases in the development of casino tourism in Macao from 2000 to 2024

Phase (1) can be categorized as a tug-of-war between the new (instrumental) and traditional (ceremonial) ways of doing business. Following the approval of the new casino tourism operators from

<sup>①</sup>Eandington, William R., and Ricardo C.S. Siu. "Between Law and Custom - Examining the Interaction Between Legislative Change and the Evolution of Macao's Casino Industry." *International Gambling Studies*, vol. 7, no. 1, 2007, pp. 1-28; Newsdesk. "Visible Gaps in Macau Gaming Regulation: Academic." *GGRAsia (Macao)*, 9 July 2014. <https://www.ggrasia.com/visible-gaps-in-macau-gaming-regulation-academic/>. Accessed 18 Oct 2014, Godinho, Jorge. "Casino Gaming in Macau: Evolution, Regulation and Challenges." *UNLV Gaming Law Journal*, vol. 5, no. 1, 2014, pp. 1-26.

<sup>②</sup>The range of years in this table is for approximate reference of various major phases which are not necessarily fixed to any exact days from January 1 to December 31, or any exact years. Also, in the development process, one phase can overlap with its preceding and succeeding phases.



Las Vegas to launch their business in Macao, the Macao SAR government also promulgated new laws and regulations<sup>①</sup> in its attempts to better regulate and supervise the business activities of the gaming agents of the VIP rooms. Accordingly, it was observed that the proportion of the mass gaming market (i.e., gaming businesses operated by the casino licence holders rather than relying on the third-party-operated VIP rooms) in the gross gaming revenue (GGR) of the industry increased while that of the traditional VIP room segment declined from a record high of over 77% of the market in 2003 to around 63% in 2005 (measured by the contribution of “VIP baccarat”<sup>②</sup> to the industry GGR as depicted in Figure 2) after the opening of the first Vegas-style casino in 2004. Nevertheless, in view of the considerable and increasing monetary benefits associated with the expansion of the industry, the gaming agents were clearly incentivized to invest in the VIP rooms by speculating on and determining the likelihood that the new laws and regulations would actually be enforced by the government.

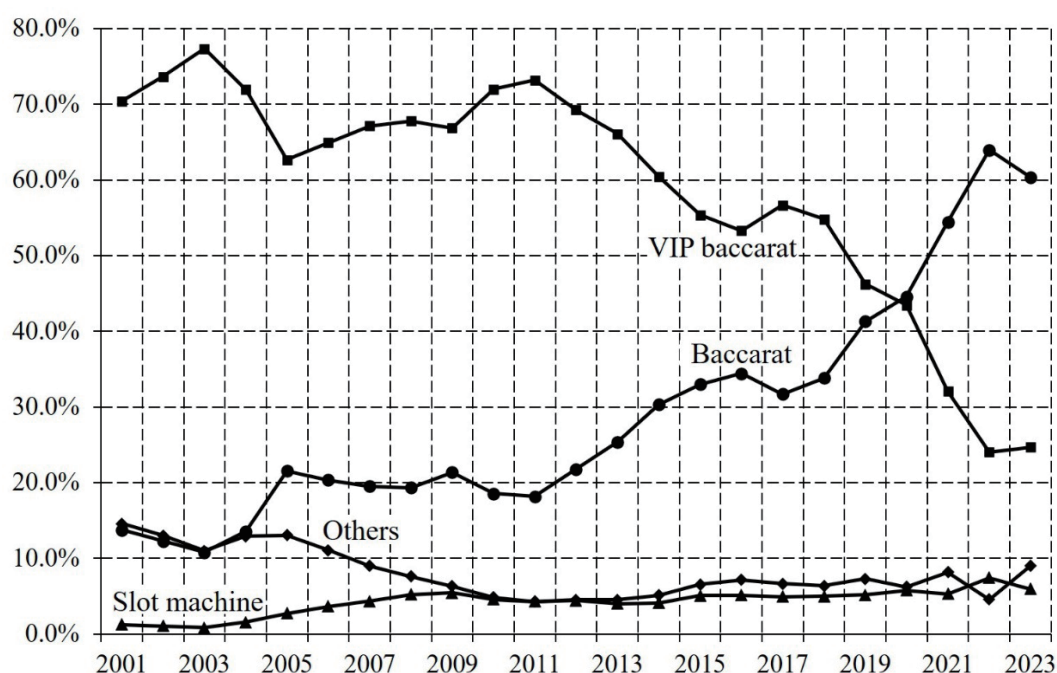


Figure 2 Contribution of various gaming business segments to gross gaming revenue (2001-2023)

Source: Gaming Inspection and Coordination Bureau, Macao SAR. *Information: Gaming Statistics, 2001-2023*, <https://www.dicj.gov.mo/web/en/information/index.html>. Accessed 18 May 2024.

<sup>①</sup> These mainly included the promulgation of the first regulation in Macao to supervise the gaming agent business (i.e., Regulamento Administrativo n.º 6/2002 (Administrative Regulation No. 6/2002) which was replaced by a new law in 2022) and the first law for guiding the casino credit business (i.e., Lei n.º 5/2004 (Law No. 5/2004) which was revised in 2024).

<sup>②</sup> Among the GGR statistics of Macao, the breakdown of “VIP baccarat” refers to the GGR derived from the operations of the VIP gaming rooms. Other categories like “baccarat” and “slot machines” refer to the mass market operations.

As shown in Figure 2, the share of VIP baccarat in the GGR rose again between 2006 and 2009 while the mass market exhibits the reverse trend. Parallel to the introduction of the new business model by the new operators to cultivate the mass gaming market, the long-existing VIP rooms and related gaming agents also adjusted their business practices to cope with a new environment and sought to find opportunities to regain their businesses in different ways like different forms of joint venture.<sup>①</sup> Other than the traditional VIP rooms, a major evolution of the third-party-operated gaming business segment in this phase was derived from the expansion of the so-called “satellite casinos”. Unlike the VIP rooms which were set up and operated by individual third parties within the properties of the gaming license holders, “satellite casinos” were separate small-/medium-scale casino hotels with their own non-gaming facilities and operated by third parties outside the property of the gaming license holders. In practice, gaming businesses carried out in these “satellite casinos” were regarded as part of the business of the gaming license holders. From 2003 to 2009, it was estimated that the number of “satellite casinos” doubled from around 10 to 20. Besides, the practices of these “satellite casinos” also included their respective VIP rooms and mass gaming venues. Indeed, the dualistic features exhibited in this phase following the change in the formal rules did convey a realistic signal to the market participants that parallel the interest of the government in developing Macao as a world-renowned casino tourism destination, drawbacks in the regulatory system especially its insufficient enforcement, offered various opportunities for the transformation of the traditional and controversial ways of doing business and even their further expansion.

### **Rapid Expansion and a Self-undermining Process**

While Phase (1) represents a transition period following an instrumental change in the formal rules in which the new and existing market participants were in the process of establishing and reestablishing their business organizations and routines, their efforts did improve the efficiency of the market with lucrative returns. As depicted in Figure 3, the GGR more than doubled from 2005 to 2009. With increasing business turnovers and positive market expectations, the opening of new and comprehensive mega casino resorts (i.e., integrated resorts (IRs)) during this phase not only significantly increased the non-gaming hospitality capacity and tourism attractions of the industry, but also assigned new trademarks and high-quality facilities to the gaming agents to promote their VIP room business to tourists, especially those from mainland China. Despite the conspicuous growth in this phase, however, the business scale of the gaming agents was still restrained owing to their concerns about the possible

<sup>①</sup> Newsdesk. “Revenue Sharing Revealed.” *Inside Asian Gaming*, 25 Mar 2007, <https://www.asgam.com/index.php/2007/03/25/revenue-sharing-revealed/>. Accessed 12 May 2007.

changes in the enforcement of the new laws and regulations by the Macao government and policies of the Chinese government, such as the visa requirement for the mainland Chinese to visit Macao.

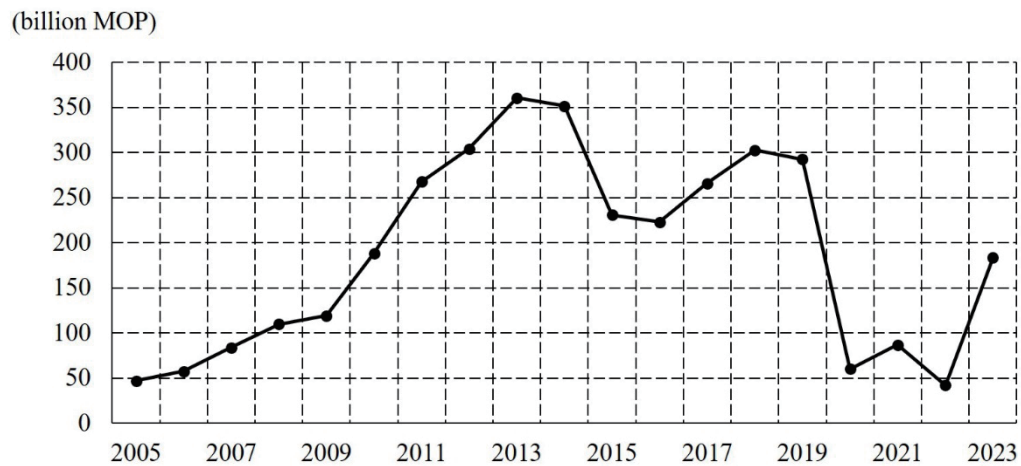


Figure 3 Change in gross gaming revenue of industry (2005-2023)

Source: Gaming Inspection and Coordination Bureau, Macao SAR. *Information: Gaming Statistics, 2005-2023*, <https://www.dicj.gov.mo/web/en/information/index.html>. Accessed 18 May 2024. (USD1  $\approx$  MOP8)

Parallel to the entrepreneurial and opportunistic efforts made by both the casino licensed and VIP room operators (and their associated gaming agents) to increase business turnover, an unexpected and controversial opportunity emerged in 2008 and 2009, coincidentally, which accelerated the growth of casino tourism in Macao from 2010 to 2013 (i.e., Phase (2) as stated in Table 1). As depicted in Figure 3, the annual GGR of Macao surged rapidly in 2010 and peaked in 2013 (the GGR of Macao in 2013 was 7.8 times that of the Las Vegas Strip, or 4.3 times that of the state of Nevada as a whole). With increasing GGR and hence financial power, a huge amount of capital investment was made by the IR operators continuously in this period of time which unarguably contributed to the rapid expansion of various world-class non-gaming hospitality and entertainment facilities for the development of Macao as an attractive casino tourism destination.

Actually, this expansion came as a surprise to the industry. The expansion originated from the outbreak of the global financial crisis in mid-2007 and the reaction of the Chinese government to introduce expansionary fiscal and monetary policies in 2008 and 2009 to minimize the possible shocks to its economy. To a large extent, the insufficient enforcement of formal rules is a commonly observed fact in mainland China and its Macao SAR during that period of time. Thus, when the Chinese government implemented those policies by injecting money into the markets, insufficient supervision of the flows of funds actually provided an opportunity for individuals to expand questionable/illegal business ac-

tivities to reap the monetary benefits/profits. At the same time, the observed inflow of gaming and luxurious tourism expenditure from mainland China to Macao significantly increased from 2010 to 2013. Besides, it was also suspected that the expanding casino gaming activities in Macao were associated with the capital flight from mainland China to the outside world.<sup>①</sup>

In Phase (2), another key feature observed is that in 2012, the increment of the mass gaming market rose faster while the absolute business turnover from VIP rooms continued to rise. Thus, the reported GGR from VIP baccarat as a percentage of the industry GGR fell and mass market baccarat rose (as depicted in Figure 2). In fact, this change reflected the attempts of the casino operators to diversify their business to the mass market instead of continuously focusing on the VIP rooms (which also represented their willingness to meet the expectation of the government to diversify the composition of this industry). To this, the development of the premium mass instead of the general mass market<sup>②</sup> was emphasized to ensure business turnovers. In this process, it was observed that the business routine of the VIP room operators and their associated gaming agents also evolved after expanding their efforts and networks to approach high-end patrons and introduce them to the premium mass market<sup>③</sup> to share the gaming revenue directly or indirectly through certain forms of predetermined commissions from the casino operators.

However, an undeniable fact observed/identified was that to increase the absolute scale of the business turnovers in the VIP rooms and the “VIP” (high-end) players in the premium mass market segments over time, “Very Inappropriate Practices” of business activities were involved and escalated. Indeed, capital flight from mainland China through the casinos in Macao and their VIP rooms, and social and political problems caused by the gambling activities of the mainland Chinese had caught the attention of the central government in China. Accordingly, the expansion of these “VIP” activities accumulated counter forces by themselves (through the open arrows  $b_3$ ,  $b_4$  and  $b_5$  shown in Figure 1) which set the stage for the government to intervene directly. The changes might be all about timing and

<sup>①</sup> The Economist. “A Window on China.” *The Economist*, 10 Dec 2011, pp. 61-62; United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs. “Money Laundering and Financial Crimes.” *2016 International Narcotics Control Strategy Report*, vol. 2, 2016, <http://www.state.gov/documents/organization/253983.pdf>. Accessed 28 Apr 2016.

<sup>②</sup> In principle, the mass gaming market comprises different business segments which are differentiated by the required minimum bet per hand, hence the variety and quality of service received by the players are different. For example, while the minimum bet of a baccarat table located in the low-end mass gaming floor can be MOP200 (USD25), a premium market table is MOP2,000 (USD250) or higher.; Fong, Kenneth, and Daisy Lu. “Macau Gaming - 2013 Outlook: Structural Growth Should Drive Multiple Expansion; Re-rating may Come in February.” *J. P. Morgan*, 18 Jan 2013, <https://markets.jpmorgan.com/research/EmailPubServlet?action=open&hashCode=lohderln&doc=GPS-1029435-0>. Accessed 2 Feb. 2013; Tang, Karen. “Focus on Premium Mass - Top Picks Galaxy & MPEL.” *Deutsche Bank Market Research*, 17 Sep 2012, <http://view.microbell.com/upfile/201209/2012918143620459.pdf>. Accessed 6 Oct 2012.

<sup>③</sup> Williams, Martin John. “Premium Mass Becoming the New VIP In Macau.” *Gambling Compliance*, 14 Dec 2012, <https://www.igamix.com/wp-content/uploads/2019/06/Premium-Mass-becoming-the-new-VIP-in-Macau-1.pdf>. Accessed 8 June 2024.

the likelihood of the government to remove these activities. When the market participants were celebrating the fact that the GGR had new record highs continuously between 2010 and 2013, a change in the leadership of the Chinese government in 2013 actually generated a critical change in the political orientation which reduced tolerance of corruption and the extravagant spending behavior of the community at the nationwide level. As a SAR of China in which the growth of its casino tourism had increasingly relied on inappropriate business activities related to mainland China, the necessary changes in casino tourism in Macao became inevitable which indeed exemplifies the general argument of “path dependence” in institutional change.<sup>①</sup> Consequently, casino tourism in Macao entered a period of extensive adjustment (i.e., Phase (3) as stated in Table 1) from 2014 to 2016.

Following the introduction of the anti-corruption and anti-extravagant policies by the Chinese government in 2013 to re-instill the integrity of government officials and business firms<sup>②</sup>, hence ensuring real progress of its society and economy, decisive actions were taken to check the capital flight from mainland China (particularly through Macao and Hong Kong), casino gaming in Macao slumped (see Figure 3). For example, on top of tightening the visa policy for the mainland Chinese to visit Macao and strengthening the supervision of fund flowing outside the mainland, arrests of gaming agents who were organizing and encouraging the mainland Chinese to spend on casino tourism trips to Macao largely depressed the “VIP” activities. Therefore, the reported GGR declined by 49.5%<sup>③</sup> from the first quarter of 2014 to the second quarter of 2016. In this period, the VIP rooms were undoubtedly hard-hit which plunged by 59.1% while the mass market fell by 32.6%. Meanwhile, turnovers of the high-end non-gaming tourism business segments in the IRs also notably fell.<sup>④</sup> On the other hand, it is worthwhile to highlight that the fall in the mass market was largely due to the adjustment in the premium mass market segment while the general mass market was not affected or even exhibited growth (which can be traced in Figure 2). In this phase, although monetary returns reported by the industry fell significantly, removal of the controversial (or even illegal) business activities actually reinstated a more sustainable foundation for the development of Macao as a world-class casino tourism destination.

Under the premise of the “One Country, Two Systems” policy and considering the importance of casino tourism in the Macao economy, the Chinese government clearly continued to support the

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<sup>①</sup> North, Douglass C. “The Contribution of the New Institutional Economics to an Understanding of the Transition Problem.” *Wider Perspectives on Global Development*, edited by A. B. Atkinson, Palgrave Macmillan, 2005, pp. 1-15.

<sup>②</sup> Munro, Susan. “China.” *The Anti-Bribery and Anti-Corruption Review*. 4<sup>th</sup> ed., edited by Mark F Mendelsohn, Law Business Research Ltd., 2015, pp. 28-40; Yan, Sophia. “China’s Anti-corruption Drive Eats into Growth.” CNN Business, 30 Jan 2014, <https://money.cnn.com/2014/01/28/news/economy/china-anti-corruption/>. Accessed 15 Feb 2014.

<sup>③</sup> Calculated with data derived from the official website of the Gaming Inspection and Coordination Bureau, Macao SAR.

<sup>④</sup> Inside Retail Asia. “Macao retail sales slump.” *Inside Retail*, 27 May 2015, <https://insideretail.asia/2015/05/27/macau-retail-sales-slump/>. Accessed 21 June 2015; Inside Retail Asia. “Macao luxury slump projected.” *Inside Retail*, 15 July 2015, <https://insideretail.asia/2015/07/15/macau-luxury-slump-projected/>. Accessed 5 Aug 2015.

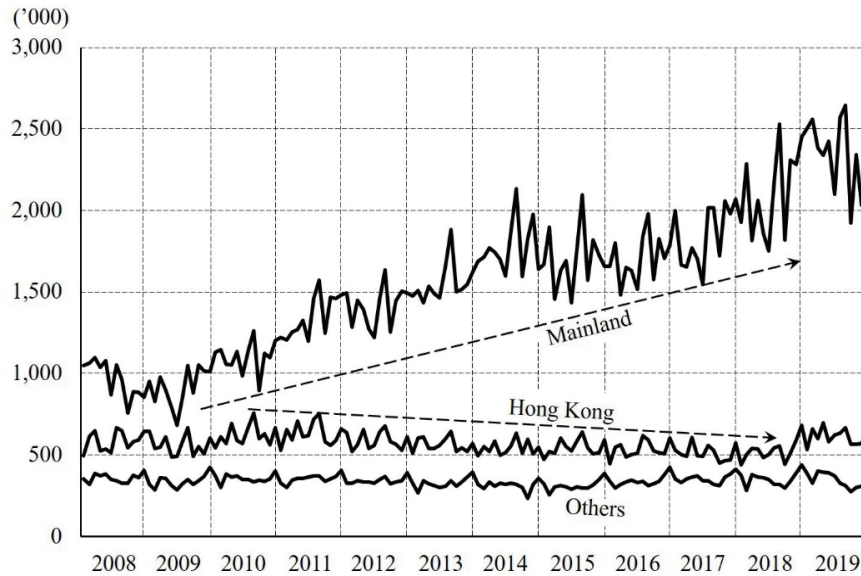
development of Macao, both socially and economically. Thus, in view of the trend that the market discipline improved, related restrictive policies were relaxed in mid-2016 and the industry also entered a recovery period (i.e., Phase (4) as stated in Table 1). Entering into this phase of development, clear signals were conveyed by both the Chinese and Macao SAR governments to the market participants that the long-existing and questionable VIP room business model and its variants would not be tolerated. Thereby, although evidence (see Figure 3) shows that attempts were made by the VIP room operators in 2017 to bounce back, the contribution of “VIP baccarat” to the GGR of the industry for the first time fell below 50% in 2019 also with a decrease in the absolute scale. This change actually reflected the efforts made by the industry practitioners to adjust their business organization and routine to compromise and comply with the increasingly more requirements for clarity and enforcement of related laws and regulations by the government.

Other than the need to improve the business routine associated with the VIP rooms and the questionable/somewhat illicit gaming agent business activities, the industry mainly focused on finding ways to encourage mainland Chinese visitors to spend on luxury items in the 2010s which also required scrutiny to ensure the balanced and sustained growth of the various business segments in the industry. Specifically, parallel to the rapid growth of visitor arrivals from mainland China in the 2010s, the source of visitor arrivals to Macao indeed became more monotonous. For example, as shown in Figure 4, the absolute number of visitor arrivals from Hong Kong was greatly reduced from 2011 to 2017/2018,<sup>①</sup> and fell from close to 7.6 million in 2011 to around 6.2 million in 2017 (which represents a compound annual growth rate of negative 7.5%). To a large extent, subsequent to the expansion of the VIP room and premium mass gaming segment, the costs associated with entertainment and tourism, like the minimum bet per hand in casinos and non-gaming services like hotel room rates, dining costs, etc. rose significantly in Macao. Thus, the propensity of many Hong Kong residents to visit Macao was clearly reduced. In other words, the inclination of the industry to focus on reaping profit from high-end mainland Chinese visitors indeed “crowded out” tourists from other places and hence increased the business risk if policies in mainland China changed (which actually did occur).

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<sup>①</sup> Before 2003, Hong Kong was the largest source of visitor arrivals to Macao. Thanks to the supportive policies like the individual visit scheme introduced by the Chinese government to facilitate tourism in Hong Kong and Macao in 2003, mainland China became the largest source of visitors to Macao. Nevertheless, owing to the expansion in facilities and attractions of the casino tourism industry, the absolute number of annual visitor arrivals from Hong Kong continued to increase between 2003 and 2011.





**Figure 4** Monthly visitor arrivals to Macao (2008-2019)

Source: Statistics and Census Service, Macao SAR. *Visitor Arrivals, 2008-2019*, <https://www.dsec.gov.mo/en-US/Statistic?id=402>. Accessed 24 June 2024.

## Radical Change in Formal Rules and Prospects

When the market participants were revamping their business routines in Phase (4) between 2017 and 2019, the Macao SAR government also started to review its gaming law in 2019 owing to the expiration of the existing gaming licenses in mid-2022. However, the outbreak of the unprecedented COVID-19 virus at the end of 2019 led to a three-year-long meltdown of the industry from 2000 to 2022 (i.e., Phase (5) as shown in Table 1 and the impacts on the performance of the industry is depicted in Figure 3). During this period of time, highly consistent and cooperative measures were taken by the Macao SAR government to minimize the potential adverse impacts of the pandemic on society<sup>①</sup> even while anti-pandemic policies like travel restrictions were strictly imposed by the Chinese government. Thence, there were basically no inbound tourists to Macao. Despite the negative impacts, the determination of the Chinese government to rectify the corruptive and illicit activities (including gambling and related activities) of the increasing number of the Chinese officials and the general public in the 2010s indeed persisted. Thus, it was observed that more comprehensive efforts had to be carried out by the Macao SAR government to amend the contents of its gaming laws and regulations which had been in practice for two decades since the beginning of the 2000s. In fact, a large part of these laws and regula-

<sup>①</sup> Siu, Ricardo C. S. "Policy Pragmatism Key to Macau's COVID-19 Success." *East Asia Forum*, 30 Sep 2020, <https://eastasiaforum.org/2020/09/30/policy-pragmatism-key-to-macaus-covid-19-success/>. Accessed 6 Oct 2020.



tions had been found to lag behind the progress of the industry and were hardly enforced effectively.

On the other hand, when the Macao SAR government was amending its gaming laws, the Chinese government also completed the revision of Article 303 of its Criminal Law which was promulgated in March 2021. Under this revision, anyone who coordinated mainland Chinese residents in their participation of gambling activities outside mainland China (i.e., including Macao) would be subjected to criminal charges and imprisoned.<sup>①</sup> Accordingly, the Macao SAR government had to be more cautious under the new clauses of Article 303 at the country level and spent a longer time as expected for its own amendment. Radical changes were made ultimately in the new gaming laws and related regulations in 2022 which were implemented in 2023.<sup>②</sup> To these changes, the most critical legal issues that were historical remnants and inhibited the real advancement of casino tourism in Macao were basically resolved. Besides, while new guidelines were introduced to remedy the controversial aspects of the business organization and routines in the industry, the new laws and regulations were also found to be enforced more often.<sup>③</sup>

First, through a public consultation process in the second half of 2021, the Macao SAR government obtained consensus from Macao residents to formally approve a maximum of six casino gaming licenses through an open re-tendering arrangement instead of retaining the “3+3” mode for the industry. As a result, each of the six incumbent operators submitted their tenders respectively and successfully obtained their new ten-year gaming licenses from 2023 to 2032. On top of this change, the most critical amendments made in the gaming law for the new licenses were actually presented in three highly interrelated layers. They are:

- i) Termination of third-party-operated VIP rooms;
- ii) Resolving the legal status and business organization of the “satellite casinos” by providing a three-year period starting from January 1, 2023 for them to either phase out or transform to a kind of

<sup>①</sup> Moura, Nelson. “Gaming operators, junkets, and private citizens should carefully study new mainland penal code amendments - Report.” *Macau News Agency*, 30 Nov 2021, <https://www.macaubusiness.com/gaming-operators-junkets-and-private-citizens-should-carefully-study-new-mainland-penal-code-amendments-report/>. Accessed 14 Dec 2021.

<sup>②</sup> These mainly include Lei n.º 7/2022 (Law No. 7/2022) “Regime jurídico da exploração de jogos de fortuna ou azar em casino (Legal regime for the operation of games of fortune or gambling in casino)” which replaced the preceding version of the gaming law promulgated in 2001. In addition, a new law, Lei n.º 16/2022 (Law No. 16/2022) “Regime da actividade de exploração de jogos de fortuna ou azar em casino (Legal regime for the operation of games of fortune or gambling in casino)” was promulgated which does not simply replace the first regulation issued in 2002 to supervise the gaming agent business (i.e., Regulamento Administrativo n.º 6/2002 (Administrative Regulation No. 6/2002)), but specify the relationships and rights and responsibilities between the major business parties involving the casino gaming business; and providing a regulatory framework at the operational level with more details. In practice, Lei n.º 16/2022 (Law No. 16/2022) is not only more enforceable than Regulamento Administrativo n.º 6/2002 (Administrative Regulation No. 6/2002), but complements and strengthens the enforceability of Lei n.º 7/2022 (Law No. 7/2022). Siu, Ricardo C. S. “Back to the Future: Constructing Macao As a World-Class Casino Tourism Destination Under New Gaming Laws.” *Gaming Law Review: Economics, Regulation, Compliance, and Policy*, vol. 21, no. 7, 2023, pp. 326-342.

<sup>③</sup> Siu, Ricardo C. S. “Back to the Future: Constructing Macao As a World-Class Casino Tourism Destination Under New Gaming Laws.” *Gaming Law Review: Economics, Regulation, Compliance, and Policy*, vol. 21, no. 7, 2023, pp. 326-342.

“management firm” of a casino license holder; and

iii) Retaining but enhancing supervision of the gaming agents and their business services provided to the casino license firms.

As the third-party-operated VIP rooms were formally eliminated, the associated controversial and illegal business activities used to be carried out by a large number of gaming agents in the grey area of the legal system will unarguably be contained. Thus, integrity of the industry and sustainability of its growth and development will likely be assured in the long run although the reported GGR of the industry will be negatively affected right away. Even so, the observed impact from the removal of the VIP rooms on the business performance of the industry is lessened by the three-year-long meltdown of the industry during the pandemic period. In addition, fully supported by the Chinese government, radical amendment of the formal rules by the Macao SAR government to reinstitute (reform and improve) the organization and business routines of the industry, hence the “prescribed behavior” of the market participants would unquestionably initiate a new path for its development (i.e., Phase (6) as shown in Table 1).

In the new era starting from 2023, development of the mass market directly by the casino gaming licensed operators has been expanding while gaming agents are only allowed to continuously provide recognized services to facilitate the business turnovers in the industry. As depicted in Figure 2, the contribution of VIP baccarat in the GGR in 2023 (i.e., the first year that the market recovered from the pandemic and the new gaming laws were implemented) was less than 25% as compared to over 50% to 60% before 2019. To the recovery of the mass market in 2023, although the contribution of “baccarat” to the GGR fell slightly, business turnovers derived from “others” rose (see Figure 2) which implies that the composition of the mass market as a whole was diversifying in terms of the variety of the games that the patrons spent their money on. Likewise, recovery in the mass market contributed to slightly over 75% of the rebound in the GGR from 2022 to 2023 and the VIP rooms only less than 25%. To emphasize the development of the mass market, it is observed that the casino-licensed operators (who are also the IR operators) are restructuring the non-gaming hospitality and entertainment facilities in their IRs simultaneously to attract the mass-market patrons.

The radical changes in the formal rules and government efforts to strengthen their enforcement at the outset, the traditional culture of the firms and the local community in Macao were also influenced and first showed changes in 2023 and 2024. In particular, on top of diversifying the compositions of the gaming and non-gaming facilities within the IRs, the casino operators also showed their willingness and responsibility under the new gaming licenses to contribute and collaborate with local firms for the re-development of tourism sports in Macao. To a large extent, a number of the local tour-

ism sports have rich historical and cultural resources that are unique to Macao. Over a long period of time, however, the lack of capital investment and innovative and strategic plans to increase the attractiveness of these resources and generate business value from them have led to a monotonic structure of tourism in Macao which was dominated by casino gaming or focused on the newly constructed IRs. Using the business capacity of the IR operators, realization of the development of Macao as a casino tourism destination with unique tourism resources is also ensured by the changing role of the Macao SAR government from its traditional hands-off approach in economic affairs to positive interventions (plans) for the progressive changes in the industry. In practice, these changes are not only embodied in the enforcement of new laws, but positive incentives like tax benefits for the IR operators to diversify the source of their patrons, and direct actions taken by the Macao SAR government to promote the tourism attractions of Macao in the world markets through the support of the Chinese government. For example, a series of positive “road-show” promotion programs were organized by the Macao Government Tourism Office (MGTO) and shown in Hong Kong, various cities in mainland China, and Asian and European countries in 2023 and 2024.<sup>①</sup>

In light of the aforementioned evidence and facts, it is reasonable to conclude that through the new path of development initiated by the change in formal rules in 2023 and the efforts of the Macao SAR government and the IR operators, a clear and more promising trend has unfolded for Macao to become a truly and competitive global casino tourism destination. This will unarguably contribute as an indispensable element of its development as a “world-class tourism and leisure center”. Nevertheless, note that the particular contextual settings of Macao mean that the government has to continue efforts to enforce the new formal rules effectively and reinstitute the traditional ways of business carried out by the market participants. In principle, these efforts will ensure that the downsides associated with the rapid expansion of the industry in the 2010s will not re-emerge, hence increasing the likelihood for the sustainable growth and development of this industry and its real contributions to the Macao economy in the long run.

## Conclusion and Remarks

In this article, the interactions of various forces as specified in the institutional paradigm in Figure 1 which alter and influence the path of development of casino tourism in Macao from 2000

<sup>①</sup> Macao Government Tourism Office. “Expand Southeast Asia Market: Experience Macao Roadshow Enjoys Popularity in Bangkok.” 17 June 2024, <https://www.dst.gov.mo/en/about-us/press-release/630f405c138f44afa67341c5bf43fff9.html#:~:text=Roadshow%20attracts%20190%2C000%20spectators%20in%20Bangkok&text=Incorporating%20the%20meaning%20of%20%E2%80%9CMa,Macao%20in%20their%20own%20language>. Accessed 22 June 2024; The Macao News. “Five Macao Tourism Roadshows Have Been Scheduled Across the Next Three Months.” *The Macao News*, 5 Apr 2024, <https://macaonews.org/news/business/mgto-roadshows-macau-macao/>. Accessed 2 June 2024.

to 2024 are explicated. It is clear that as a pecuniary industry albeit a socially controversial one, the business organization and performance of casino tourism in Macao are not simply reflected by the preference of the market participants (or exchanges between suppliers and consumers in the market), but their interplays with a set of informal constraints and formal rules that are specific to the contextual settings and their changes in Macao society over time. As revealed by the empirical evidence, the milestone development of casino tourism in Macao in 2002 was realized from a change in the formal rules (i.e., introduction of new instrumental values) at the outset. Under an executive-led political system, changes in the government orientation and decision-making immediately changed the overall structure and direction for the development of the industry. Nevertheless, the actual path of development and change in the ways of doing business carried out by the market participants thereafter went through a long process and their changes were indeed encapsulated by various existing social and cultural forces (i.e., persistence of the ceremonial values) in society.

As noted, changes in the business organization and routines in the progress of casino tourism in Macao and hence the performance of this industry in the 2000s and 2010s reflect the interplays between the market participants with the informal constraints framed by the unique culture and social norms specific to Macao society and its particular connection with mainland China. In the process, owing to the insufficiency and enforcement of formal rules, practices of casino tourism are obviously dominated and driven by some of the power groups (mainly the VIP room operators and the associated gaming agents) who have established their own traditions and ways of doing business successfully to reap the considerable monetary benefits made available in the grey area of the regulatory system. By directly and indirectly sharing the monetary benefits between various groups in society over time (e.g., gaming taxes received by the government and job opportunities and social welfare given to the local community, etc.), the practices of the VIP rooms and the related gaming-agent business activities have hence evolved as somewhat socially accepted (or at least not against) and informally prescribed behaviors, despite their controversy at so many levels.

Yet, it is evident that the accumulated downsides from the opportunistic transformation and expansion of the VIP room business model (including the practices of the “satellite casinos” and the gaming agents) to reap the monetary benefits should hardly be tolerated continuously from a political standpoint when society advances. In fact, a slew of negative feedback from the business practices associated with the VIP rooms have led to critical counter forces in the political system to strengthen the contents of the formal rules and their enforcement characteristics in the second half of the 2010s. Consequently, another new era for the development of casino tourism in Macao has unfolded in 2023. Despite the introduced positive changes, it is still necessary to emphasize that due to the particular social

attributes of Macao and its connection with mainland China, the considerable monetary rewards associated with the practices of this industry would always incentivize individuals to seek different (irregular or even illegal) means of reaping the potential benefits. Thus, to ensure that the changes being formally launched in 2023 would not be affected by any variants of the traditional opportunistic and irregular activities undertaken by the gaming agents, law enforcement authorities like the Gaming Inspection and Coordination Bureau and the police force of the Macao SAR government need to take a proactive role. From this, other than routine supervision, efforts to identify any signs of the re-occurrence of irregular/illegal activities have to be done to avoid their resurgence in different forms.

In a nutshell, it is obvious that the business organization and industrial performance of casino tourism in Macao have gone through dramatic changes in the quarter of a century following the establishment of the Macao SAR at the end of 1999. In this process, the monetary return did enhance the financial power of the IR operators to invest into the development of the large-capacity and world-class non-gaming facilities for the industry while a large portion of the considerable business turnover was derived through the unique VIP room business model and the controversial business activities pursued by the gaming agents. Nevertheless, owing to the self-undermining nature from the practices of the third-party-operated VIP room business model, the decision of the Macao SAR government to terminate this business segment through a formal change in the rules in 2022 unarguably launched a process that enhanced the instrumental efficiency of the industry for its long-term success. Nevertheless, to ensure that a progressive long-term vision from the change initiated in 2023 (i.e., to realize a progressive institutional change), continuous efforts made by the sixth Macao SAR government starting at the end of 2024 are definitely necessary to continue to drive the initial changes. Specifically, on top of improving the business integrity and real efficiency of casino gaming, strengthening the interplays between casino gaming and the non-gaming tourism sectors for the sake of constructing Macao as a truly competitive and sustainable casino tourism destination require the continuous efforts of the Macao SAR government to reframe (re-institute) the informal constraints for the practices of the industry through effective enforcement of the formal rules.

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