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Macau bets on a bridge

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The former Portuguese colony wants to break free of its dependency on gambling. It is hoping that some new – and expensive – infrastructure will help bring in the tourists.

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By **Simon Parry**



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China has a passion for big infrastructure projects – the Great Wall, the Three Gorges, the One Belt, One Road venture. And now the finishing touches are being put to one of the world’s longest sea crossings in the hope of giving Macau’s roller-coaster, gambling-dependent economy a bit more stability.

The Hong Kong-Zhuhai-Macau Bridge, due to open to traffic in 2018 and set to cost more than \$10 billion, is quite a feat of engineering: a total of 55 kilometres in length, it includes a single, 30-kilometre stretch of bridge and an undersea tunnel that dives under one of the region’s most congested sea cargo channels.



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The bridge is the centrepiece of a Beijing-directed project to create more economic opportunities in Guangdong, Hong Kong and the Macau bay area by connecting these three parts of the Pearl River Delta. It's a controversial infrastructure bet. Plenty of sceptics consider the bridge project a white elephant and waste of money, and question whether or not it will do anything at all to boost Macau's economy.

The former Portuguese colony is the only city in China – arguably the nation that loves gambling most – where casinos are legal. For decades, Macau's sole gaming licence was held by tycoon Stanley Ho, and the territory was regarded as a sleepy backwater, albeit with a darker side thanks to Al Capone-like tales of gangster feuds, grisly murders and prostitution.

Macau has to give a message and image of a territory that is linked with leisure but not linked with activities that are against the law

- Pedro Cardoso, Banco Nacional Ultramarino

When Macau opened up to more casino operators, welcoming such big international names as Wynn Resorts and Las Vegas Sands, its economy really took off. Gaming revenue at the industry's 2013 peak reached \$45.2 billion, seven times the size of Las Vegas.

But a crackdown on corruption by China's government dealt a severe blow to the special administrative region. Plenty of Chinese laundered their illegal gains on the roulette tables and slot machines of Macau's casinos, but the [anti-corruption drive](#) led to a slump in gaming revenues – from \$43.9 billion in 2014 to \$28.8 billion the following year – and a 20% contraction in Macau's economy in 2015.

Now, as the 30 square kilometre gaming resort on the southern tip of China emerges from its bruising two-year downturn, it's clear Macau needs to find new, more stable sources of income. It is pinning its hopes on conferences, tourism and the financial sector to widen its

appeal.

The aim is to make Macau a global tourism and leisure hub, as well as a platform for trade between [mainland China](#) and Portuguese-speaking countries, gently weaning the territory from its reliance on the gaming industry.

Macau is pursuing a policy of “moderate economic diversification,” according to Jackson Chang, president of the government-run Macau Trade and Investment Promotion Institute. It will focus on industries such as conventions and exhibitions, traditional Chinese medicine, culture and creative programmes, as well as certain financial services – areas where Macau already faces stiff competition from the likes of Hong Kong and Singapore.



Jackson Chang, president of the Macau Trade and Investment Promotion Institute

“The Mice [meetings, incentives, conferencing, exhibitions] industry has

been one of Macau's fastest-growing sectors," says Chang, though the official numbers are unimpressive for now. Macau hosted 1,276 MICE events in 2016, up just 1% from the previous year. The number of exhibitions fell in the same period, from 78 in 2015, to 55 last year.

Five-year plan

The new direction is set out in a five-year plan drawn up by the Macau government last year and consolidated by Beijing with the territory's late inclusion as a bit player in China's ambitious One Belt, One Road initiative.

A key objective is to broaden its visitor base. People from mainland China last year accounted for 20.4 million of Macau's 30.9 million visitors, while Hong Kong accounted for 6.4 million.

To attract more international tourists, Macau will need to promote its historic centre – a Unesco World Heritage site featuring evocative and well-preserved colonial-era churches, cobblestone squares and streets, as well as the iconic 17th century ruins of St Paul's.

"Macau still has big progress to make in terms of promoting its heritage and tourism offering, not only to mainland China and Asian countries but to other parts of the world," says Pedro Cardoso, chief executive of the Banco Nacional Ultramarino and chairman of the Macau European Chamber of Commerce.

A Portuguese national who moved to Macau six years ago, Cardoso adds: "With the right promotion, I think Macau can be seen by people as a place where the east meets the west."

Once the bridge is completed, Cardoso and other officials say it should cut the driving time from Hong Kong to Macau to 30 minutes, from about four and a half hours at present. Whether or not that will encourage more visitors to drive over is another matter, given the costs and border complications involved, sceptics add.

The gambling resort may also benefit from Guangdong Province's development of nearby Hengqin island, which was just a barren wasteland with a few scattered villages until a few years ago. The

construction on Hengqin of the Chimelong Ocean Kingdom – the region’s biggest theme park, which dwarfs both Ocean Park in Hong Kong and Hong Kong Disneyland, and has the world’s biggest aquarium – could broaden Macau’s appeal by offering family entertainment within a few minutes’ drive of the main casino strip.

Renminbi

In the financial sector, Macau has been appointed a renminbi clearing centre for Portuguese-speaking countries, and the headquarters of the China-Portuguese-speaking Countries Co-operation and Development Fund has been moved from Beijing to Macau.

“The city is now nurturing a financial industry with Macau characteristics, by developing financial leasing and asset management businesses,” says Chang. “Through the establishment of the renminbi clearing centre and further regional cooperation, other economic sectors in the city are expected to flourish.”

Macau, Chang insists, offers enormous business opportunities for both local and overseas investors: “Macau has a unique investment environment with numerous advantages, including a free port policy, separate customs territory, a simple and low taxation system, easy access to the mainland China market and close ties with Portuguese-speaking countries.”

Notably, Chang makes no mention of casinos or the gaming industry.

That reticence is understandable. Although the Macau rush has resumed, there are lingering concerns about the source of the money pouring across the border and new security measures have been introduced to counter money laundering and the risk of capital flight from China.

Mainland gamblers using China’s ubiquitous UnionPay cards must now submit to facial recognition and identity card checks at ATMs before they can withdraw cash in Macau. The move is intended to stop the practice of runners using multiple cards to withdraw cash from multiple machines.

The new identity checks follow unconfirmed reports in May that more than \$1.28 billion was being withdrawn each month from Macau's 1,300 ATMs, leaving banks struggling to keep them stocked with cash and triggering concerns about capital flight and money laundering.

Anselmo Teng, chairman of the board of directors of the Monetary Authority of Macau, says the authority has taken steps to combat money laundering "to pre-empt any serious threat to the stability of Macau's financial sector.

"The (authority) is strengthening the monitoring of ATM cash withdrawals by mainland bank cards through know-your-customer techniques to verify the cardholders' identities," he adds. "The holders of mainland bank cards will need to verify their identities through facial recognition software at the ATMs by presenting their identity cards and taking photos. After this process, the cardholders can go through the normal cash withdrawal process."



Pedro Cardoso, Banco Nacional Ultramarino

Cardoso welcomes the move: "This is part of a vital process of Macau improving its anti-money laundering compliance risk policies. Macau has to give a message and image of a territory that is linked with leisure but not linked with activities that are against the law. I see this as a very positive factor, even if in the short run it might dampen economic growth."

As well as shifting its focus gradually away from the roulette tables and towards the wider world, the monetary authority is seeking to broaden Macau's hefty investment portfolio.

"The (authority) believes further diversification among global asset classes would be beneficial to the overall risk and return trade-off for the portfolio," says Teng. "As part of its diversification plan, the Fiscal Reserve is looking for appropriate market opportunities to raise its asset allocation weighting to global equities."

Among its planned investments is a \$2.9 billion infrastructure project in neighbouring Guangdong province, which Teng says is under negotiation. “Alternative investment on a project basis could also be the future direction for the Fiscal Reserve to achieve a better overall risk and reward trade-off in the long term,” he says.

Macau’s five-year plan meanwhile lays the foundations for the establishment of a sovereign fund called the Macau SAR Investment and Development Fund. The fund, which will be in operation by 2019, will provide money for Macau’s economic diversification, development and stability, says Teng.

The IMF has strongly supported the idea of a sovereign wealth fund, saying in 2014 that Macau needed one to better manage its substantial fiscal reserves and buffer the territory against external shocks, as well as protecting Macau against a slowdown in gaming revenue. It cited the Korea Investment Fund and Temasek Holdings in Singapore as models.

Yet for all the talk of diversification, Macau’s goals are relatively modest. A five-year plan sets out a target of increasing non-gaming elements from the current level of 6.6% of all revenue to 9% by 2020.

It is a gentle nudge for casinos and resorts to diversify and include more entertainment and family-oriented attractions, which they have done: Lady Gaga and Katy Perry have both made appearances at Sands’ Venetian Macau in recent years.

Breaking a habit

It is hard, though, to break a habit. The casino industry has brought spectacular wealth to Macau, a colony for 450 years before it returned to Chinese rule in 1999. Its government holds fiscal reserves of \$58.9 billion – a higher level than Australia, South Africa and many European countries. Its per-capita GDP of \$69,000, meanwhile, is one of the highest in the world, placing it in a global elite with the likes of Qatar,

Luxembourg and Brunei.

After its gaming industry was opened up to foreign investors in 2001, Macau's economy expanded sharply, growing over 20% in some years as big-spenders rolled across the border to its ever-more lavish casinos.

The semi-autonomous enclave is home to the world's biggest casino, the Venetian Macau, owned by Sands, with gaming space the size of a football pitch, 800 tables and 3,400 slot machines, plus a full-scale indoor replica of a section of Venice's canals, complete with gondoliers.

When a new \$2.5 billion Sands' casino complex called the Parisian – Macau's 38th casino – opened last year with a copy of the Eiffel Tower outside, the only real surprise was that the model was only half the size of the original.

Today, Macau is back on a winning streak thanks to an apparent easing of president Xi Jinping's corruption crackdown and the opening of glitzy new casinos including the Parisian and the high-end Wynn Palace. After two years of declines, the monthly takings of Macau's 38 casinos have grown year-on-year every month since last August.

Credit rating agency Fitch has predicted 12% growth for the gaming sector in 2017, a performance that would see takings climb back above \$30 billion from \$27.9 billion in 2016.

The industry provides more than 80% of Macau's revenue. Even during the slump, gaming revenue last year accounted for \$10.5 billion of the total government revenue of \$12.7 billion.

Cardoso says while the Hong Kong-Zhuhai-Macau bridge would bring benefits, other lower-profile infrastructure projects are equally important for the territory's future, such as a light rail network and a new \$474 million eight-berth passenger ferry terminal on Macau's Taipa island – home to casinos including the Venetian, the Galaxy and City of Dreams.

“The Hong Kong-Zhuhai-Macau Bridge will be an important landmark and event, but Macau's progress has been made possible by smaller elements and in particular the development of infrastructure in the

shape of new hotels and the new state-of-the-art ferry terminal in Taipa,” he says. “The high-speed rail network (in China) has also been critical in supporting the development of Macau.”

'White elephant'

Hong Kong-based Asian infrastructure finance expert Andrew Kinloch of the Logie Group estimates that the bridge and link roads will cost Macau, Hong Kong and Zhuhai a total of more than \$25 billion to build, including debt.

“I think it’s a white elephant,” he says. “The economics, even taking into account the externalities that it generates, simply don’t stand up. It is costing a staggering amount of money. That could be justified if the benefits were equally enormous, but the benefits, it seems to me, are going to be quite marginal.”

One positive emerging trend in Macau’s mission to diversify is a surge in retail sales as mainland Chinese visitors spend in newly arrived high-street pharmacies and western brand-name stores, including Marks & Spencer and Lush.

“We are beginning to see mainlanders coming here to shop, and that is something I would never have forecast,” says Harald Bruning, director of the Macau Post Daily newspaper. “Last year, Macau’s retail sector had revenues of 55 billion patacas (\$6.8 billion) which is huge and nearly a quarter of the gaming revenue.”

But the greater vision of a diversified Macau economy presents challenges not least because of the territory’s limited workforce and long dependence on the casino industry.

“Everyone can get a job if they want one, even if you are a school dropout,” says Bruning. “You can work as a croupier in a casino and earn \$2,000 a month – and you don’t have to be an Einstein to shuffle cards.”

He sums up Macau’s dilemma rather neatly: “Beijing always says: ‘Diversify, diversify’, but the problem is motivation. Imagine you are a

farmer and you have a coop with fat hens laying golden eggs. Then someone tells you that you should not only have those hens laying golden eggs but rabbits as well. What does that farmer say? He will reply: 'Nice idea', and maybe buy 10 rabbits. But everyone knows it's the fat hens that we really need. Without those golden eggs, we would be lost."

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