

## Raising the Stakes

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**From Macao to Mexico, casinos are springing up faster than chips fly on a Vegas poker table. Run by multinationals, spread by the Internet, and fueled by tourism, the global gambling phenomenon has taken off in some unexpected places. Can legalized betting save the developing world from its ills?**

On a weekday afternoon at the Sands, a gleaming casino on Macao's waterfront, long lines have formed at the blackjack tables. Bettors shove each other to find vacant seats; as soon as one man grabs a stool, he noisily plops down a pile of chips. The view from the second floor of the 200,000-square-foot gambling temple reveals similar overflow crowds in a long, wide room packed with tables for blackjack, craps, and Asian dice games. Once they finish gambling, visitors take in a Las Vegas-style show or visit a nearby mall, where they gaze at shops overflowing with Cartier watches and Louis Vuitton handbags. More shops will be opening soon, as Macao—and many other parts of the world—create tourism industries centered on legalized gambling.

Although Macao first legalized gambling back in the 19th century, until recently the former Portuguese colony's casinos remained small, seedy affairs—dimly lit rooms where lone men gambled away their hours. But over the past five years, Macao, now a special administrative region of China, has transformed itself into a gambling mecca. In 2004, the Sands, owned by Las Vegas tycoon Sheldon Adelson, became the first Western-operated casino to open there. Steve Wynn, developer of the Bellagio in Vegas, opened his \$1.2 billion Wynn Macau in September. Today, the enclave has 23 foreign- and domestic-owned casinos, with many more on the drawing board. Last year, Macao even outstripped Las Vegas with \$6.8 billion in casino revenues, compared to Sin City's \$6.5 billion. "It's a no-brainer," Adelson told reporters last September, explaining his plans to expand in Macao, which is nestled next to Hong Kong and is within five hours' reach of more than 2 billion potential tourists. "It's like bringing a blanket to someone on an ice floe, or bringing water to someone in the desert."

The proliferation of casinos is hardly unique to Macao. For decades, legal gambling was limited to a handful of locations around the world. But in the past 10 years, legalized gaming has exploded faster than ever. PricewaterhouseCoopers estimates that global gambling revenues now top \$80 billion and will rise to \$125 billion by 2010, an estimate that many analysts believe is conservative. By comparison, the global cruise industry brings in a mere \$17 billion per year.

A perfect storm of factors has caused legalized gambling to spread. Rising consumer spending in developing economies provides a new market for casinos, and the end of authoritarian rule in many nations has enabled the liberalization of social mores. The Internet also clearly fuels the boom, but even more important has been the growing competitiveness of the global tourism industry. In an era where vastly more destinations are opening their doors to travelers, and developing countries have created far more sophisticated strategies of attracting tourists, gambling has proven an indispensable tool of comparative advantage—a final element that can lure vacationers from afar.

Legal gambling today may be the world's most globalized industry. Bettors in Russia's 800 or so casinos, like the ones lining Nevsky Prospekt, St. Petersburg's main boulevard, crowd into smoky gaming rooms for a spin with Lady Luck. To the west, the European Casino Association proudly reports that there are now more than 1,000 casinos in Europe. Casinos are spreading across Africa as well, generating revenues of \$1.1 billion in 2004 in South Africa alone. The story is the same in Latin America. Today, Argentina has nearly 80 gambling facilities, and tiny Costa Rica, which has become a global hub for online gambling, now boasts more than 25 casinos. Smaller Caribbean nations such as Antigua, which reportedly hosts more than 100 online betting operations, have become so specialized that their economies significantly depend on gambling. The reason behind the recent Latin gambling surge is an increase in expendable consumer income. The International Monetary Fund estimates that gross domestic product growth in Latin America topped 4.7 percent last year, making 2004–06 the strongest three-year period of expansion in the region since the 1970s.

It's rapid economic growth that is making Asia the biggest gaming market of all. Already, countries from Australia to Burma to Vietnam have casinos. Even North Korea has a few. Famously prudish Singapore has launched plans to open two Vegas-style casino resorts. And the Indian state of Goa plans to permit five floating casinos off its coast, in addition to the one it already has. "Macao is just the beginning," says Sonny Lo, an expert on Macao's gambling industry at the University of Waterloo in Ontario. "Pretty soon almost every Asian country will have gambling."

As gambling globalizes, its modernization and consolidation can minimize old vices such as crime. But its legalization has deeper consequences that may not be obvious. It could undermine developing nations' fiscal and political stability by fostering massive consumer debt. It could also enable political or business leaders to capture massive profits and create a new, marginalized class of have-nots. If casino centers like Macao do not adapt, these new problems will make the old vices, such as mobsters and machine guns, seem like minor irritations.

If they do change, however, developing nations may find that the craps table can help them thrive in the global economy. Although the introduction of commercial casinos will not erase organized crime and money laundering, which still exist even in places like Las Vegas and Monte Carlo, it can help reduce their influence. Even better, legalized gambling can provide an efficient way for poor nations to enrich themselves without having to impose difficult, unpopular new taxes.

## **A FULL HOUSE**

Betting may not be the world's oldest occupation, but it's probably a close second. This ancient vice has undergone a remarkable transformation in the past 15 years, though, as several trends have created a hothouse for the legal gambling industry (although illegal gambling still commands a significant share of the market in large segments of the world). The growth of an urban middle class in Eastern Europe, Latin America, and especially Asia created larger populations with disposable incomes. Many of these developing nations have also experienced a change in their political environments. As their governments transition from authoritarian rule to democracy, the ensuing social liberalization fosters a greater embrace of individual freedom, particularly in countries where the state historically served as the arbiter of morality. This included accepting the idea that individuals should be allowed to engage in activities, such as betting, that could have negative social side effects. In Mexico, where a paternalistic, authoritarian government and the Catholic Church once dominated social mores, legislators have repeatedly introduced bills calling for the legalization of gambling nationwide. In South Africa, where the apartheid government instilled strict social codes along with racial legislation, many citizens now associate freedom with embracing formerly curtailed activities like gambling and stripping.

Starting in the early 1990s, the development of satellite television also sparked greater interest in gambling. As high-stakes poker developed into a spectator sport, coverage of the game spread over global satellite networks. And as international channels broadcast European soccer games around the world, they created a global audience for soccer betting.

Then there is the Internet. A perfect vehicle for the gambling industry, the Web matches instant access to credit with a diversity of games, plus a lack of regulation that allows virtually anyone to play. Online gambling essentially makes borders meaningless because players in the United States, for example, can access a game hosted in a place like Antigua, out of the reach of U.S. authorities. Online poker alone mushroomed from \$92 million in revenues in 2002 to a \$4 billion industry in 2006. The momentum shows no signs of cooling. The global online gambling market is expected to grow from \$15 billion today to \$24 billion in 2010.

Many countries also have realized they need new attractions to lure overseas visitors. Service industries such as gambling and tourism cannot be offshored and are therefore less price and wage sensitive. Tourism has become a main earner of hard currency in developing nations from Botswana to Thailand; it's now one of the world's biggest industries and largest employers, with annual global revenues of around \$500 billion. The World Tourism Organization projects that the number of international tourist arrivals will rise from 693 million in 2001 to 1.56 billion in 2020.

Take one example from 20 years ago. Many of the nations surrounding Botswana were mired in conflict or were international pariahs; the country had few competitors for its safari industry. Today, with nearly all of southern Africa at peace, and travel industries rebuilding and rebranding themselves in countries such as Namibia and Zambia, Botswana needs even more advantages. It has sought out casino resorts to attract visitors—gambling will drive tourism, and tourism will also create more pools of potential gamblers.

The situation in Asia and Eastern Europe, where developing nations are creating powerful tourism brands, is similar. In Singapore, the government has welcomed

luxury casino resorts in order to compete with tourist destinations such as Cambodia and China, which have more cultural heritage sites than the tiny island-state. Indeed, Singaporean Prime Minister Lee Hsien Loong has said that his country needs another “X-factor” to attract tourists, and he has strongly backed the introduction of casinos.

Adding casinos is not guaranteed to attract more tourists, and in countries with weak laws and histories of corruption, the revenues created by new casino resorts may not necessarily accrue to the state but instead be distributed among casino owners or captured by middlemen instead. However, even in developing nations, some revenues trickle down to the broader population, and governments have the power to tax casino operators. After all, large casino resorts have great sunk costs and cannot easily be picked up and moved, so governments have a degree of leverage over casino operators. In South Africa, for example, the government convinced Sun International, which operates casino resorts across southern Africa, to plow 1.5 percent of its profits into social welfare programs for South Africans.

South Africa is hardly unique in eliciting vital tax revenues from casinos. Not only does legalized gambling capture tax revenue that might otherwise go into illicit wagering, it can also make up for an inability to tax other types of income. In countries like Mexico or Russia, where tax evasion is high, gambling fees are easy to collect—one reason, perhaps, that Vladimir Putin has considered consolidating Russia’s casino industry into four regions on which it would presumably be easier to levy taxes. Indeed, gambling taxes can be captured at the casino even by fragile developing nations that cannot collect income taxes.

### **THE BAD, THE GOOD, AND THE UGLY**

Mong La, a city in northeastern Burma, sits in one of the poorest regions of one of the poorest nations in Asia: an unlikely place for a gambling hub. But in the late 1990s, that’s exactly what Mong La became. Allegedly fueled by investments from the United Wa State Army (UWSA), a narcotrafficking organization operating in Burma’s lawless northeast, Mong La’s businesspeople built gambling halls—complete with neon billboards and fake marble—in the frontier town. The tycoons brought in entertainment, too. Mong La built dance revues and staffed them with Thai transvestites, and for a few bucks, gamblers could shoot photos of themselves fondling the dancers.

By one estimate, at its peak, Mong La received as many as 350,000 Chinese tourists a year, but the town’s gambling industry was never truly regulated. After an evening of gambling, Chinese men would hit the Mong La karaoke halls, where they could hook up with prostitutes or toss back imported scotch. The Mong La gambling houses grossed as much as \$5 billion in total revenues between 1998 and 2004. “You could stand on the border and count hundreds of Chinese tourists crossing to Mong La,” says Songpol Kaoputumtip, a Thai journalist who covered the town. “Chinese tour bus after tour bus, backed up along the roads.”

Some of that money helped build Mong La’s infrastructure. But, lacking regulation, much of the profits were likely plowed back into corrupt activities. One cut undoubtedly went to the Burmese military junta, one of the world’s worst regimes. One cut likely went to the UWSA, potentially helping the group flood amphetamines and heroin into neighboring China, Laos, and Thailand. Worried about Mong La’s

proximity to China, Beijing eventually cracked down, restricting travel visas for its citizens to cross the border. By the spring of 2006, many Mong La casinos had closed their doors and boarded up their windows. Even most of the dancers returned home to Thailand.

Macao, too, once suffered from the ill effects of unregulated gambling. In the late 1990s, Macao witnessed a gang war led by mobsters boasting nicknames like "Broken Tooth," who exchanged gunfire over prostitution, money laundering, and other illegal enterprises. Macao's top gambling regulator was shot in the head, and a bomb targeted a police investigator. In a misguided attempt to soothe tourists' fear of being caught in the crossfire, Macao's security chief at the time assured visitors they were safe because Macao gangs used "professional killers who never miss their targets."

But then Macao expanded, enjoying the benefits of gambling legalization and regulation—the type of regulation that did not exist in Mong La. As Macao attracted foreign investment in its casino industry from multinationals accountable to their shareholders and Western securities agencies, the enclave had to crack down on gang violence and adopt tougher money laundering legislation. Murder rates have fallen and a more peaceful climate has created an opportunity for even greater tourism. "The whole image of Macao has changed. Tourists will come here, walk around now, see Macao's cultural heritage sites," says Gary Ngai, former vice president of the Cultural Institute of Macao.

Macao and Mong La demonstrate a critical consequence of the growth and globalization of legalized gambling. In a place like Mong La, unregulated, often illegal gambling can easily funnel money to criminal elements, such as drug traffickers or mafias. But the legalization and regulation of wagering in Macao forced casinos to reach international standards in order to attract investment and list on major stock exchanges. It also allowed the state to exert more control over the industry and crack down on money laundering. In Cambodia, similarly, the recent listing of casino operator NagaCorp on the Hong Kong stock exchange forced the company to institute tougher money laundering regulations. Meanwhile, Cambodian politicians say that the growth and regulation of Naga has made it harder for casino owners, some with alleged underworld connections, to exert direct influence over politics. "You had so many illegal casinos, and no one had any idea what was happening with the profits," says Son Chhay, a leading Cambodian opposition politician.

Even when nations legalize casino resorts, they do not become clean operations overnight. Corruption and illicit activity do not disappear, so governments must combine legalization with tougher enforcement of gambling-related crimes. Money laundering still flourishes at legal casinos, as they provide opportunities to exchange cash: The International Monetary Fund estimates that criminals launder as much as \$1.5 trillion each year, some of it undoubtedly in casinos. Even long-established casinos in developed nations like Monaco have had difficulty shedding mafia links, prostitution, and drug trafficking.

Still, it is a question of comparison. Compared to illegal gambling, it is easier to police mafia activity in legal gambling operations, particularly in casino resorts that have their own high-tech surveillance, financial controls, and private security firms. And online gambling, another growth industry, probably will not prove attractive to

money launderers. Internet sites can keep track of their customers' identities—unlike traditional casinos, where it's easier to change money anonymously.

In the long run, regulation and legalization could help prevent casinos opening in other lawless environments from empowering mafia tycoons and undermining the political system. The spread of legal gambling also can provide significant economic and social benefits, potentially reducing the pool of young people who might turn to crime. In Argentina, a country beset by fiscal crises, the gambling industry provides roughly 55,000 jobs, while Singapore projects that its casinos will create 35,000 jobs in a country of only 2.3 million workers.

## **BETTING THE BANK**

But the globalization of gambling creates other, less understood economic and political problems. The growth of legalized gambling, combined with the spread of credit cards into the developing world, could lead to massive consumer debt. In Asia, Eastern Europe, and Latin America, credit cards and consumer bank lenders have made aggressive inroads into societies that once operated on a cash-only basis. In Russia, lending to private consumers grew from \$1 billion in 2000 to \$15 billion four years later.

In societies with little history of credit and weak regulations, this has led to an explosion in personal bankruptcies. Casino gambling could exacerbate these personal bankruptcies, and in these countries—where banks have weaker loan portfolios and less capital—consumer debt could topple financial institutions. In South Korea, for example, after recovering from the financial crisis of the late 1990s, the country deregulated rules on issuing credit cards. Almost immediately, Koreans began overcharging. This consumer debt nearly brought down several financial firms, which had to be bailed out by their creditors, and helped shave Korea's national economic growth in half in 2003, the height of the bubble. Many Latin American nations have witnessed similar problems with consumer lending. In Venezuela, easier access to personal loans combined with new oil wealth caused consumer spending to nearly double between 2003 and 2005.

Worse, legalized gambling may not help developing economies rise up the value chain. Although casinos create jobs, they do not develop products or enhance skills, except for those of an elite group of managers. John Warren Kindt, a gambling economics expert at the University of Illinois, argues, "The Macao example is a classic example of gambling not creating any product... You can't gamble your way to prosperity." Most new casino jobs are positions for relatively low-skilled service workers. "[In] Macao's labor market, casino openings have created many job opportunities—too many too fast," says Cathy Hsu, editor of a book on Asia's casino industry. "Most of these employees will stay as dealers . . . with limited potential for promotion."

Workers who feel they do not benefit enough from legalized gambling, especially as they witness high rollers descending on their nation, can strike back at a government. For example, though gambling has provided nearly full employment in Macao, 5,000 residents marched there in May of last year, the biggest demonstration since it became part of China in 1999. The protestors charged the government and the private sector with collusion, complained about labor policies, and fought with police, injuring 27 people. They had reason to complain: Statistics show that wage

growth in Macao has not kept pace with rapid economic expansion. "The protests completely shocked the government," says Lo, the expert on Macao's gambling industry. "The workers' protests were attributable to the income gap between the rich and the poor."

The protestors also highlighted another danger of casino economics. "The government is getting richer and richer . . . but where is all the money?" one of the protestors asked. Like oil profits, casino revenues can easily be captured by the state, because legal gambling is generally run by a small number of large companies who pay their taxes directly to the government. As a result, in Macao, protestors accuse the state of becoming too cozy with large gambling businesses, conspiring with them to bring in imported labor.

Similarly, in other countries, legal gambling may reduce low-level money laundering while simultaneously providing cash to just a handful of leaders, creating higher-level financial problems. The University of Illinois's Kindt notes that Palestinian officials allowed a casino to be built in the town of Jericho in the 1990s. But the casino plowed money—possibly \$60 million—straight into Yasir Arafat's pockets. For years, Arafat refused to reveal these off-the-books funds, even as Jericho residents complained they saw little economic benefits from the casino's revenues. "You're infusing cash into Third World economies with no regulation," says Kindt. "It's a guarantee of disaster."

## **THE HOUSE ALWAYS WINS**

These problems are not irresolvable. Despite the potential negative side effects, legalized gambling can benefit developing nations' economies and social order. But this requires that governments take an active interest in the gambling industry, not merely assume the creation of casino resorts will deliver broad growth. In the most successful cases, countries legalize gambling but take just enough action to reduce the most harmful effects of betting on their citizens. That could include limiting the introduction of rapid-play machines—terminals played repeatedly and known as the "crack cocaine" of gambling. It could include creating high entrance fees to get into casinos, as Singapore plans to do, to ensure that the poorest citizens cannot gamble excessively. It could include legislating that a percentage of casino profits must be donated to programs to treat compulsive gamblers. It could include requiring that casino resorts designate a certain portion of their land to non-gambling venues, such as museums and theaters.

At the same time, nations successfully introducing legalized gambling can ensure that not only does it not harm average people but also benefits the state. Moving into higher-value jobs is important, but the most immediate threat to growth and political stability in developing nations is unemployment, to which casino jobs provide a ready fix. "It is not just about people manning casino tables," says Gillian Koh, senior research fellow at the Institute of Policy Studies in Singapore. She believes casinos create an economic multiplier: "They will run through a whole gamut of service-related jobs."

Developing nations with relatively strong governance and legitimate institutions, like Singapore, will adapt more easily. More lawless countries, like Cambodia, could take

decades. But even as they face the hard challenges of cleaning up gambling, they will be boosting tourism and adding tax revenues along the way.

South Africa proves perhaps the ideal example for other nations that are considering legalizing gambling. Unlike Vegas or Monaco, South Africa is a developing country, with all the high crime and corruption of one. But during the past decade, the country has tightened restrictions on money laundering and cracked down on organized crime. Moreover, since 1996, South Africa's casino industry has directly created at least 16,000 jobs from its casino industry, as well as at least 30,000 jobs in service industries related to casinos. And in a country with a strong labor movement, striking employees recently negotiated a substantial wage increase with a major casino operator. Also, South Africa has implemented some paternalistic measures: prompting casino operators to spend money on social welfare and creating a national board designed to monitor and stop compulsive gambling.

As Macao builds up, with cranes filling the skies and the sounds of jackhammers echoing around the clock, the island already resembles the Vegas of the 1970s, when that city, too, built an empire of gambling out of nothing. Back then, Vegas seemed like a sure bet—with almost no competition, it had a near monopoly on legal wagering in the United States. Today, Macao faces a much tougher, vastly more competitive market, and the tycoons building skeletons of lavish gambling temples on the tiny Chinese territory may be taking greater risks than their American counterparts did 30 years ago. But in a more globalized world where small economies have to develop their own niches, Macao may not have a surer bet to make.

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