



Vol. 5, Iss. 12  
December, 01 2006

## COVER STORY

Asian Excitement  
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It has been well-documented that the rapidly growing Macau gaming market had revenues approaching that of the Las Vegas Strip in 2005, and should surpass the Strip's total from 2006 onward. In 2008, or possibly as late as 2009, it is expected that Macau will be generating \$10 billion in gaming revenues annually, and will offer at least a dozen mega-resorts of scale comparable to that which one may find on the Las Vegas Strip (and in some cases their replicas).

While this is an exciting market, new opportunities are limited. However, as Macau's Governor/Chief Executive Edmund Ho recently announced, there will be no additional gaming concessions released in the foreseeable future, and announced additions to supply will far outpace the additions to demand.

The concession-winners in Macau may have hit grand slams, but perhaps there are still opportunities in Asia to hit some tape-measure home runs—an “Atlantic City of Asia.”

Gaming revenues in Atlantic City are poised to top \$5 billion in 2006, which will mark the first year that the market exceeds that milestone. At present there are no markets in Asia or the Pacific Rim that approach that total, and even Singapore, once developed, will likely attain at best only half that. The Singapore market potential is limited by the restriction to two resorts, limits on gaming floor size, and entry fees for local gamer entry, though the market should still be lucrative for Las Vegas Sands and the group fortunate to win the second license later this year. With two facilities and approximately \$2 billion in revenue potential, Singapore could potentially be the “Connecticut of Asia.”

The South Korean gaming market has similar limitations, with a significantly smaller tourism base and an even more restrictive environment with respect to local resident gaming participation. While the government has permitted several new urban casinos to open in 2006, it is likely that total casino revenues in the country will remain in the \$1 billion-to-\$2 billion range annually.



This reflects just the commercial gaming industry, and does not include the video slot machine industry, which has rapidly exploded since its introduction in 2002, or the underground casino industry,

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which is understood to be as prolific as in any Asian city. As there is no opportunity for transition from ambient or illegal venues into viable commercial gaming venues, the South Korean market should not experience sustained long-term growth.

The odds are greater for some other country to emerge as a regional giant. Countries such as Japan and Thailand have the possibility of becoming significant gaming markets, assuming enabling legislation includes reasonable tax rates, Nevada/New Jersey-approvable regulations, and a plan for broad-scale development.

## Japan

The possibility of enabling casino legislation in Japan appears as likely as ever, and the mix of wealth, population density and an established gambling culture suggests that Japan could be a strong candidate for Asia's next big gaming market.

Japan has a population of just over 125 million, making it the 10th most populous nation in the world. The greater Tokyo area is considered the largest contiguous urban area in the world, with 26.5 million residents, or over 20 percent of the nation's population. In contrast, Mexico City is the second largest, at 18 million residents.

From an economic perspective, Japan has the highest per-capita income in Asia and contributes 60 percent of the aggregate Asian GNP, although Tokyo has one of the highest costs of living of any city in the world, just below Moscow and Seoul.



From a tourist perspective, visitation to Japan increased from 4.8 million in 2004 to 6.7 million in 2005, of which Korea and Taiwan together account for approximately half of the visitors. Business travel now accounts for less than one-quarter of all visitor travel to Japan, such that discretionary time for gaming may be high for the majority of visitors.

As noted from the table on page 25, tourism from China is rapidly increasing as a result of more lenient visa restrictions. The major downside to the potential for gaming in Japan, if any, is the fact that very few people in the world outside of Japan speak Japanese, and most Japanese residents do not speak other languages beyond regional dialects.



Could Japan become the Atlantic City of Asia? Casino legalization appears highly probable by 2010, and likely sooner. The low degree of perceived political corruption should permit major international gaming companies to bid for the development rights to large-scale casino resorts, and with an adult population of approximately 90 million, the gaming revenue potential from the domestic market alone could potentially dwarf Macau's, even with modest participation rates, assuming no barriers to entry by local residents.

Residents already spend approximately \$40 billion on pachinko, so there exists a clear cultural acceptance of gaming, though traditional casino game familiarity will need to be developed.

The main limitation to attaining this potential stems from the possibility that initially only one or two casinos might be permitted per major metropolitan area, in order to gauge the social impacts. However, there could be significant latent demand. Japan could therefore become one of the top international gaming markets in the world from a nationwide gaming revenue standpoint, but given the likely focus on urban developments, there would be no good U.S. parallel from an individual market standpoint.

## Thailand

While the political upheaval in Thailand recently has cast a cloud of uncertainty on the country's position on gaming, there is still a lot of potential here. Residents of Thailand are the main source of patronage for casinos in neighboring Cambodia. Revenues for these casinos are not publicly reported, though it is understood that they fall within a broad range of approximately \$300 million to \$900 million annually, depending on how much effort the Thai government expends trying to curtail the cross-border traffic.

As with many other Southeast Asian countries, there is a strong gambling culture, but also a strong religion and social-based opposition to legalizing casino gaming within Thailand's borders.

As with Japan, there have been discussions for several years regarding the potential for casino resort development in Thailand, most likely in the seaside resort town of Pattaya, located 150 kilometers from Bangkok. Pattaya would be far more proximate to Bangkok than the Cambodian border. Pattaya attracted 5.3 million visitors in 2005, of which 3.5 million were foreigners.



Additionally or alternatively, Phuket and other seaside towns in southern Thailand on the Andaman Sea were heavily impacted by the tsunami in December 2004, and it appeared afterwards to be an optimal opportunity to generate substantial investment in that area. That window of opportunity may have closed slightly; however, these areas remain popular tourist destinations for visitors from around the globe, and the government cannot ignore the potential economic impact.

Thailand has a population of approximately 65 million, but the income per capita is less than \$3,000 per year. Nevertheless, the combination of a large, proximate population base with a large, international tourism base could result in one of Asia's largest gaming markets.

It is too premature to determine whether the new Thai government will establish enabling legislation that would permit a competitive atmosphere in Pattaya and one that would be attractive to international operators from a regulatory or tax rate standpoint. At this point, Thailand's gaming future could become the parallel to Atlantic City... or Salt Lake City.

These countries are not alone in their potential to be characterized as major international gaming markets. Efforts are under way in the Philippines to develop large-scale casino entertainment complexes in Manila and on nearby Clark Air Base. Taiwan, Mongolia and Vietnam also could find large-scale casino resorts developed by the end of the decade. As a result, it is likely that there will also be the next Tunica, Chicagoland, or Reno of Asia by the end of the decade.

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