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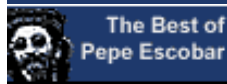
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## Southeast Asia

Nov 13, 2008

### Singapore, Sands stand by their bets

By Muhammad Cohen

HONG KONG - Singapore Prime Minister Lee Hsien Loong's 2005 decision to overturn the government's long-standing opposition to casinos and make the island a gambling mecca that might rival Macau looked a safe bet at the time. The global economy was thriving and gamblers in China and elsewhere in the region were awash in cash and willing to cross borders to gamble in ways they couldn't in their home states.

Three years on and Lee's gamble looks less secure. Las Vegas Sands (LVS), the government's partner in the downtown Marina Bay Sands project, is staving off talk of bankruptcy after seeing revenues dive and its share price plummet. Tourist arrivals to

Singapore are meanwhile sliding amid the global downturn and even Macau, the benchmark for gambling projects in Asia, is struggling to maintain momentum.

Prime Minister Lee raised the issue of "integrated resorts", in which entertainment would feature strongly alongside casino operations, soon after taking the helm in autumn 2004. He'd previously opposed casinos for the Lion City, as had his father,

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former prime minister turned Minister Mentor Lee Kuan Yew, but endorsed the concept to boost Singapore's share of tourism in Asia.

"We want Singapore to have the X-factor - that buzz that you get in London, Paris or New York," Lee told parliament as he introduced the integrated resort plan in April 2005. Previous proposals had focused on a single casino, but Lee called for two, one in Marina Bay and one on [Sentosa](#), a beach resort island.

Margaret Teo, the director of integrated resorts at the Singapore Tourism Board (STB), said the aim was to double Singapore's tourism arrivals from 2005 to 17 million visitors and triple tourism receipts to the equivalent of about US\$20 billion.

The proposals elicited unprecedented grassroots opposition, with thousands of citizens signing anti-gaming petitions, partly on concerns of hard-won family earnings being thrown away at the tables, and partly because Singaporeans largely believed in the government's prescription of getting ahead by honest work rather than by looking for shortcuts.

In response, the government slapped a S\$100 (US\$66.70) daily fee on Singaporeans who wanted to try their luck and founded a National Council on Problem Gambling. Underlining its goal of attracting tourists rather than merely gamblers, the government limited casino floor space to 15,000 square meters (161,000 square feet), or less than a third as big as the gaming floor of Venetian Macao, a huge Las Vegas Sands project then being built in Macau.

Many experts believed the government would want a piece of the betting action, and argued that the winning developers were sure to be partnered with Temasek, an investment arm of the Singapore government. Others argued that even without investing a dime, Singapore and Prime Minister Lee had already staked a huge bet by going ahead with the integrated resort concept in the first place. After all the bids were in, Singapore's government chose the two most attractive proposals, and neither had a Temasek-linked partner.

With the global economic crisis buffeting LVS and other casino operators around the globe, Singapore may now need to put more chips on the table.

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A factor in the government selection of LVS as Marina Bay's developer was billionaire LVS chairman Sheldon Adelson's success in repositioning Las Vegas as a convention destination. The American company promised to build for Singapore the world's most expensive casino resort, estimated then to cost US \$3.2 billion, and open it by the end of 2009. The Marina Bay Sands proposal features 120,000 square meters of convention space, 2,600 hotel rooms, a museum, shopping mall, two 4,000 seat theaters and an outdoor arena for up to 10,000 spectators.

LVS was on a roll in 2006. Its Sands Macao introduced Las Vegas casino style to Asia in 2004 and recouped its US\$265 million cost within a year of opening. LVS's US\$16 billion investment agenda for Asia included the US\$2.4 billion Venetian Macao, which opened in August 2007, as the centerpiece of an Asian version of the Las Vegas Strip in Cotai, a 3.8 kilometer patch of landfill connecting Macau's two outlying islands.

The unprecedented plan for 20,000 hotel rooms and five casinos targeted the seemingly insatiable demand for gaming and other entertainment from emerging affluent Asia, especially from mainland China on Macau's doorstep. "Up until July 2007, banks were falling over themselves to lend to LVS - and on the Macau story," said Robert Hecker, managing director of [hotel](#) and leisure consultant Horwath Asia Pacific.

Last week, LVS conceded its ambitious plans had caught up with it and that it was at risk of defaulting on portions of its US\$10.35 billion debt. First, the Las Vegas market took a hit as fuel prices surged and then suffered a follow-up blow from the overall US economic slump. Next up, the Macau casinos were squeezed by the global economic downturn, increased competition and a decision by the Chinese government to tighten restrictions on mainland visitors to the former Portuguese enclave.

On Monday, LVS reported a third-quarter loss of US\$32.2 million. That was an improvement on the US\$48.5 million loss reported a year earlier, but adjusted earnings for the period slumped to US \$8.1 million from US\$41.8 million 12 months earlier, even though the Venetian Macao, the world's largest casino, operated for the entire quarter compared with just one month in 2007. The company this year also had earnings from the adjacent Four Seasons Macao, which opened in August. The company's share price has tumbled to US\$7.50 from above US\$144 in October 2007.

### **Not for export**

"Macau is killing them," said Lipsher Accountancy principal Laurence Lipsher, based just across the border in China's Guangdong province. "They thought they could export Las Vegas. They can't - the shopping and restaurants are dying and the convention business that Adelson promised just has not happened."

LVS is responding by raising US\$2.14 billion in capital and suspending construction in Macau to conserve cash, wire agencies reported. Adelson, who controls nearly 70% of LVS with his wife, lent the company US\$475 million in September that he plans to convert to shares and is anteing up another US\$525 million in this funding round.

The company has also held discussions with Singapore government officials and Adelson emerged from talks last week with a promise that the Marina Bay Sands would be completed, though the government appears to have had to soften its previous line on gambling limits. LVS said it had won approval from the island's gaming watchdog to increase the number of gaming tables to 1,000 from 600.

STB's Margaret Teo welcomed Adelson's commitment, adding, "We remain in dialogue with Marina Bay Sands and will continue to work closely with them to facilitate the completion of the integrated resort project."

Whatever the merits of the initial decision to introduce the casino projects to Singapore, Premier Lee can claim some prescience as the city looks to how it can recover from the battering it is now taking from the global economic downturn. The economy fell into recession in the third quarter with a 6.3% contraction, according to preliminary government figures. Tourism numbers featured large in the downturn, with September tourism arrivals declining 4.1% from the previous year, even with the inaugural running of the Singapore Grand Prix.

"Singapore is a hub for the Asian financial industry, and all of the big financial companies are having problems," Andy Nazarechuk, dean of the UNLV Singapore campus, said. "That means fewer trips, reductions in staff, more caution in how they spend money. This is one of the reasons why Singapore, after a solid year, is softening now."

The decline in visitors reflects the challenging global economic

environment and deteriorating outlook for the tourism sector, which may continue into 2009, the STB said in a statement accompanying the latest statistics. The new casinos and related business could then prove key to pulling the city-state out of recession when they start to open doors to visitors next year.

"Casinos are certainly still a winning bet," Judy Siguaw, dean of the Cornell-Nanyang Institute of Hospitality Management in Singapore, says. "[However] casinos, as with all businesses, must be well thought out and appropriately planned for the market. Those that are will succeed. Over-development must be avoided."

Many experts also believe Singapore made the right choice with LVS for Marina Bay, despite the company's present problems. "The alternatives to LVS as a bidder were MGM and Harrah's Entertainment and both face the same financial issues as LVS," says gaming analyst Sean Monaghan, now director of business development at Gallant Venture.

UNLV's Nazarechuk agrees. "Singapore selected the correct operator for the Marina Bay Sands - the main focus of this mega resort is the MICE industry [meetings, incentives, conventions, exhibitions], a sector LVS knows well, and that is a great asset for the Singapore market. The casino will generate revenue, but the hotel and convention space will bring in more business for Singapore."

There is so far no indication that the government will help LVS financially as the company seeks to meet its claim that it will open Marina Bay Sands by the end of next year, despite widely reported construction delays. Even so, the government investment arm Temasek, which holds stakes in many of Singapore's largest companies, has recently invested in struggling Western banks.

LVS "don't really need that much money to avoid bankruptcy, only a half billion dollars or so", Devin Otto Kimble, managing director of restaurant and microbrewery group Menu, notes. "Temasek put 10 times that much into Merrill Lynch, and the Marina Bay Sands has much more important implications for the country and jobs here than the failure of an investment bank in New York."

Singapore has said it will not issue a gaming license until the property is completed. But analysts say it would not be surprising

if next December the Marina Bay Sands opens its casino plus a handful of hotel rooms and shops while construction continues on the rest of the integrated resort. Premier Lee has made his bet on the development's success, and his arguments for it strengthening the island's tourism business still appear to stand.

*A special correspondent for Macau Business magazine, **Muhammad Cohen** told America's story to the world as a US diplomat and is author of Hong Kong On Air ([www.hongkongonair.com](http://www.hongkongonair.com)), a novel set during the 1997 handover about television news, love, betrayal, high finance and cheap lingerie.*

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