

Primorsky and the Cluster Effect: Examining Casino Clusters and the Potential Positive Impacts for Primorye Integrated Entertainment Zone

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Las Vegas, Macau, Entertainment City. These three destinations arguably represent the world's top casino clusters. While these destinations have varying degrees of dependency on gambling—with Las Vegas representing the most diversified—the presence of casinos has undoubtedly shaped all three into top tourist destinations. *GGRAsia* recently published [an interview with Konstantin Shestakov](#), director of the Department of Tourism of the Primorsky provincial government, which reiterated Russia's commitment to turn the Primorye Integrated Entertainment Zone (IEZ) into a regional tourism hub. As Shestakov noted in the interview, the presence of “several casino resorts is a ‘very important’ step to boost tourism numbers,” to Primorye.

Currently, the only casino within the Primorye IEZ—one of four special regional zones in Russia allowing gambling—is the Tigre de Cristal casino. The Innovation Group (TIG) notes that, thus far, the Global Gaming Revenue (GGR) results from Tigre de Cristal have been somewhat uninspiring. The property achieved total revenue of just US\$26.5 million (gaming plus non-gaming revenue) during the first half of 2018. However, there are purportedly three casino resorts being developed within the IEZ.

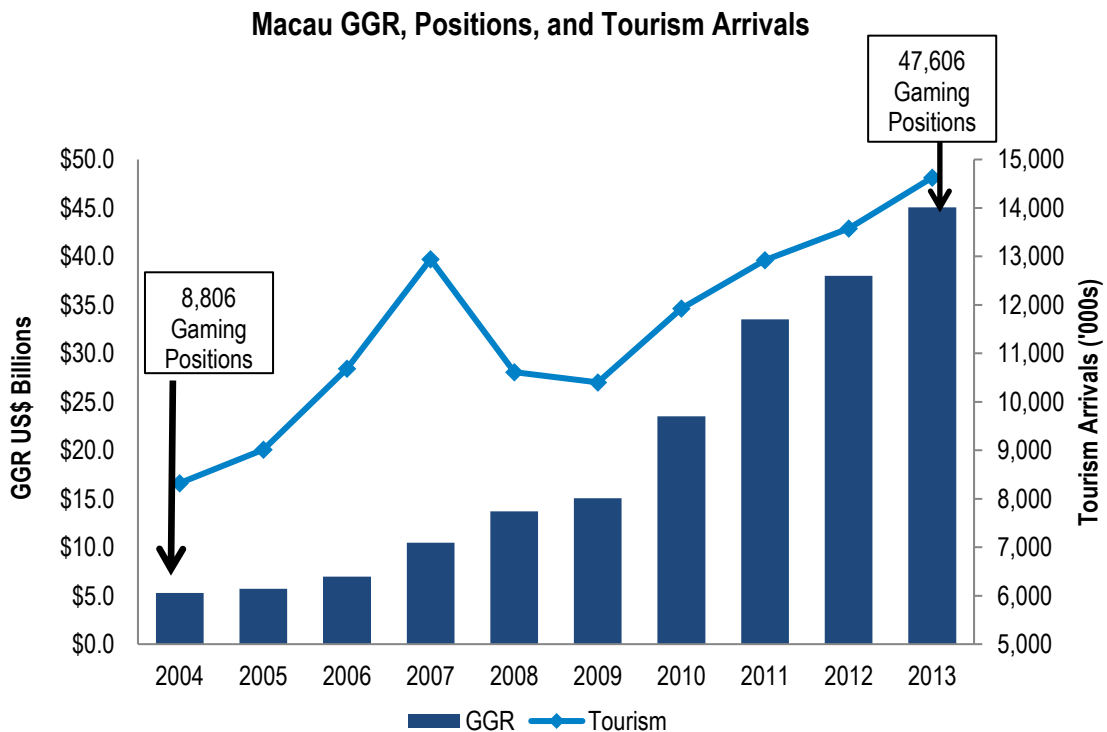
If all four casinos are developed to global IR standards within the Primorye IEZ, a true casino cluster effect could occur. TIG has examined the phenomenon of casinos clusters throughout the world. This article will draw on that knowledge to examine the impacts of the introduction of the two highest profile casino cluster markets within the Eastern Hemisphere—Macau and Entertainment City—as relevant case studies for the potential impacts that the Primorye casino cluster may create, albeit at a smaller scale.

Before diving into the cluster effect, it is important to note that clusters are not the only brick and mortar gaming strategy that can be implemented to boost tourism. Singapore achieved significant tourism increases with the introduction of two *visionary* properties—truly game changing integrated resorts—in the form of Marina Bay Sands and Resorts World Singapore. Similarly, it appears that the introduction of gaming in Japan will be in the form of singular visionary properties rather than casino clusters.

The “Cluster” Effect – Agglomeration

In most industries, demand is the driver of supply. In the case of destination tourism markets, however, the lack of critical mass can often hinder growth and limit demand. Given this critical mass concept, TIG has found that the addition of gaming supply in destination type markets results in a “cluster effect,” more formally known as agglomeration. As casino developments “cluster” in destination type markets, a corresponding increase in gaming and tourism demand occurs.

Macau represents one of the most successful examples of agglomeration in gaming. Supported by large capital investments, the emergence of the cluster effect helped drive strong gaming revenue and tourism growth within the market. Between 2004 and 2013, Macau achieved record gaming revenues and growth rates as the number of positions in the market steadily increased. The total positions count grew from 8,806 to 47,606, a 441% increase driven by property openings and expansions within the market. Major examples include the Venetian Macau (2007), MGM Grand Macau (2007), and City of Dreams (2009). Over this time period, Macau saw a total capital investment of more than \$23 billion dollars on major projects and experienced revenue growth of approximately 26.9% per year, with annual tourism figures increasing by more than 6 million arrivals.

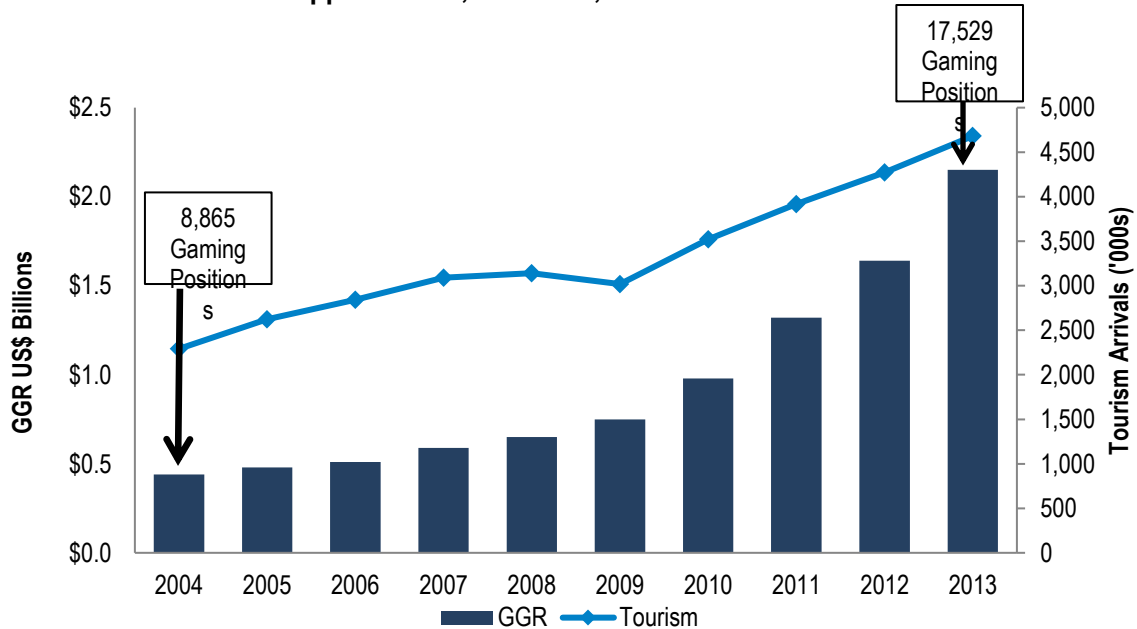


Source: The Innovation Group; The World Bank

Entertainment City in the Philippines gained cluster status with the introductions of Resorts World Manila and Solaire, which helped increase both gaming revenue and tourism considerably. The 2010 opening of Resorts World Manila, a high-end gaming facility supported by Genting Group’s expertise and relationships, helped attract new, international customers to the region. As a result, Filipino gaming revenue growth significantly outpaced position count growth that year. Between 2009 and 2010, gaming revenue increased 30% while total gaming positions increased by just 10%.

This trend is reflected in historical growths as well and continued with the introduction of Solaire in 2013. Since 2004, the total position count has grown by 7.1% per year, while revenue growth rates have surpassed 17.2% per year with tourism growth of roughly 8.3% annually.

Philippines GGR, Positions, and Tourism Arrivals



Source: The Innovation Group; PAGCOR, The World Bank

Primorye Considerations

While Macau and Entertainment City represent two generous casino cluster effect references for the Primorye IEZ, it is important to note that TIG is not suggesting that the same impacts will occur there, if any occur at all. One of the most important considerations to keep in mind when comparing the potential impacts of the prospective Primorye cluster is investment scale. The group of companies developing the Primorye IEZ has allegedly committed to invest an aggregate amount of US\$2.7 billion by 2025 while Macau saw a total capital investment of more than US\$23 billion on major projects during the construction and openings of Venetian Macau, MGM Grand Macau, and City of Dreams. Moreover, it remains to be seen whether or not the US\$2.7 billion total investment will actually occur in the Primorye IEZ. Similarly, the Primorksy region’s tourism base is still extremely small relative to Macau and the Philippines, which welcomed roughly 650,000 international visitors in 2017.

While many questions remain regarding the future of the Primorye IEZ, the most important one is this: Will Primorye become a true casino cluster? While casino clusters can lead to tourism growth, it remains to be seen whether a true casino cluster and its corresponding effect will occur in the Primorye IEZ.