Resort Casino Development and its Linkage to National and International Tourism: A Slovenian Perspective

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Abstract

The paper examines the relationship between casino industry and tourism by focusing on the case study of proposed integrated resort-style casino in EU member state Slovenia. It examines conditions that are necessary for casinos to become real tourist attractions instead of just attracting local residents and day-trip visitors from across the border. The paper uses the economic impact analyses approach (based on input-output methodology) to estimate a potential economic impact of the proposed resort-casino on the Slovenian tourism sector and economy in general. It also offers several suggestions on how to maximize the tourism development benefits of the resort-style casino. In this respect the article serves as a case study for other localities considering deregulation and expansion of their gambling services. It discusses the role of casino gambling in tourism development from the European perspective and highlights many pitfalls that might render net total benefits smaller than expected. Finally, the article also provides an empirical overview of the gambling sector in Slovenia.

1 Introduction

Casino gambling has traditionally represented a “pariah industry”, stigmatized in most of the societies. Despite such status, the past decades have witnessed a vast and rapid expansion of the casino industry throughout the world. This expansion was fuelled by the liberalization of public values concerning gambling, changes in modes of public governance and the potential of the industry to serve as a tool of economic development. The expansion was also propelled by the emergence of large Western gambling corporations (based mostly in U.S. state of Nevada), seeking to expand into new markets and localities (Eadington, 1999; Sallaz, 2006).

Countries, provinces or municipalities are increasingly liberalizing their legislation and adopting various forms of gambling in hope of reaping economic and developmental benefits that are usually associated with gambling operations. In addition, many tourist destinations are introducing casinos and casino-style gambling in order to boost their attractiveness to tourists.

The business models in the casino industry are evolving toward the concept of large, integrated resort-casinos, providing entertainment, sporting, spa, conference and hotel facilities, as well as numerous food, beverage and shopping outlets. In such resorts, the non-gaming part of the business may represent up to 50% or more of the total revenues. These kinds of resorts also hold the greatest potential for the development and growth of the general tourism industry (one that is not purely focused on gambling). Traditional gambling centers, such as Las Vegas or Sun City (South Africa) serve as role models of such development. The resort-casino concept is being implemented in many other gambling or would-be gambling destinations such as other parts of U.S, Canada, Australia, New Zealand, South Africa, Macau and Singapore.

In contrast, Europe is lagging behind. It represents the second largest gaming market in the world that generates approximately 35% of the global gaming revenues (GBGC, 2006). However, the casino industry is exempt from the EU harmonization principle, which means that each state can regulate it as it deems appropriate. As a result, the industry is characterized by a vestige of prohibitions, constraints and conditions that make it small, fragmented and unattractive from the perspective of tourism (Swiss Institute for Comparative Law, 2006). Casino operations are usually focused primarily on the local market. Border casinos, exploiting the differences in regulatory regimes between neighboring states are also quite common. However, casinos are usually not considered important tourist attractions.

Recently several initiatives for building a first ever large resort-casino have been proposed in U.K., Spain, Slovenia and Hungary. With the exception of the U.K's so-called "super-casinos," which would primarily serve the local population, in all other states the resort-casinos would focus on foreign tourists and would thus represent a significant boost to national tourism industry. In this article, we are focusing on Slovenia, one of the youngest and smallest EU member states, with population of 2 million. In 2005 the Slovenian government began negotiations with one of the world's most prominent gambling companies - Harrah's Entertainment - regarding the possible development of a resort-casino in the Goriska region of Slovenia. The country already has a well developed casino industry, catering primarily to visitors from neighboring states. Nevertheless, a proposed resort-casino would represent a significant increase in quality and quantity of gambling and tourism-related supply. Consequently it could have large stimulating effects on tourism and regional development. Such a resort would be one of the largest in Europe, and the largest associated with a casino. Together with casinos that are already operating in the region, it would make Slovenia the largest gambling destination in Europe.

Eadington (2001) notes that the success of localities in using casinos as a tourism development strategy has been mixed. The casino industry may be the catalyst of the economic and tourist development, but may also produce substantial social and economic costs. The actual net impacts of casino developments and their contributions to tourism objectives depend on a variety of circumstances, such as type of casino, location, regulatory environment, existence of prior gaming establishments, market structure and competitive dynamics in the industry. This paper analyzes the potential impact of the proposed resort-casino on the Slovenian tourism sector and economy in general. It also offers several suggestions on how to maximize the tourism development benefits of the resort-style casino. In this respect it serves as a case study for other localities considering deregulation and expansion of their gambling services. It discusses the role of casino gambling in tourism development from the European perspective and highlights many pitfalls that might render net total benefits smaller than expected. Finally, it provides an empirical overview of the gambling industry in Slovenia, thus adding new insights to the literature on gambling, dominated by North American and Australian contexts.

The remainder of the paper is organized as follows. In the next section we briefly examine theoretical discussions and empirical evidence on the linkages between casinos and tourism.

In the third section we present an overview of the gaming sector in Slovenia. In the fourth section we analyze the contribution of gambling sector to Slovenian tourism sector. In the fifth section we perform the *economic impact (input-output) analysis* of the proposed resort-casino. In the sixth section we discuss some strategic considerations and implications of our findings. We also recommend several strategies for maximizing tourism benefits of the proposed resort-casino. Finally, in the last section we discuss some limitations of the article.

2 Linkages between casinos and tourism

Gambling can take many forms, such as lotteries, wagering, casinos, stand-alone gambling machines or remote (Internet) gambling,. However, only casino gaming holds significant potential for tourism development. All other forms either predominantly cater to the local market or exist as “virtual” operations (e.g. Internet gambling), with no significant positive impacts on tourism (Eadington, 2001).

Casino-style gambling has long been recognized as a potential tool for regional development. Its attractiveness stems from the fact that the supply of legal gambling is usually either nonexistent or considerably constrained in most of the jurisdictions across the world[1]. On the other hand, gambling fulfills one of the basic human needs, creating a latent demand for this activity. As a consequence, consumers are prepared to travel large distances from localities where gambling is constrained or not permitted at all, to localities where it is permitted. This means that casino gambling has a strong potential to attract out-of-region visitors.

When discussing gambling as tourism attraction it is necessary to clarify few concepts. A tourist may be defined as any person traveling to a place other than that of his/her usual environment for less that 12 months and whose main purpose of trip is other than the exercise of an activity remunerated from within the place visited (OECD, 2001). In relation to gambling we can distinguish two segments of tourists. First segment are *gambling tourists.* Their primary purpose of visit is to gamble, although they might spend some time between the two gambling sessions on other activities, such as leisure or sightseeing. Second segment are *general tourists*. Their primary purpose of visit is something other than gambling (e.g. sightseeing, leisure, business), although they might occasionally gamble.

[1] The reasons for this are usually moral, where gambling is viewed as vice or as an unproductive activity. Gambling is also constrained because of its potential negative impacts on the traditional values of the society and because of its “addictive” nature,.

Gambling tourists (as well as general tourists) may be further divided into two categories: *day-trip tourists*, who visit a place for less than one night, and *"regular" tourists*, who stay one or more nights in the place visited (OECD, 2001). Day-trip tourists, although technically counted as "tourists", are usually less desirable and less beneficial to local economy than "regular" tourists. Their whole visit is usually focused on the gambling opportunities. They spend little additional money in the local economy (compared to the "regular" tourists) and also to a greater degree contribute to negative effects associated with mass tourism, such as traffic jams, pollution, noise, drain on public infrastructure, increase in crime, etc. Day-trip tourists are common at "border casinos."

Casinos can have *two major roles in the context of tourism*. They can serve as the *main tourist attraction* on the destination. In such case they mostly attract *gambling tourists (*day-trip and regular). Once at the destination, tourists can be induced to visit other attractions or to enjoy other cultural, entertainment or recreational offerings of the place. The types of destinations where casinos represent the main tourist attractions are usually border destinations and remote, rural communities. Examples of such casinos are Canadian border casinos, U.S. riverboats, Macao, and Australia's rural resort-casinos. The predominant type of gambling tourists at such destinations is day-trip tourists.

Casinos can also *serve as the additional (secondary) tourist attraction*. In such case they increase the attractiveness of an already established tourist destination, and attract new segments of visitors that would otherwise not consider visiting the destination (gambling tourists). In such places casinos are visited both by general tourists, for whom they represent just another leisure activity, and gambling tourists, who are focused mostly on gambling but who may appreciate the well-developed tourism infrastructure of the place. By adding casinos to its existing attractions, a tourist destination might strengthen its competitive standing. It might also increase the average length of stay of tourists and entice them for repeat visits (Koh, 2004). Examples of such destinations are Singapore (which has authorized casinos) and Israel (which has so far not.). Las Vegas is an interesting case of a destination where casinos have historically been the main attraction, but where in the last decade the increasing proportion of tourists are general (non-gambling) tourists more keen on sightseeing than on actual gambling.

The issue of gambling as a tourist activity is contingent on the sources of demand for gambling and on the supply of casino facilities (Israeli, Mehrez, 200). In other words, the actual impact that a casino might have on the local tourism economy is determined by the type and quality of its offering and by the type of visitors it attracts. In order for significant economic stimulation to occur, a large proportion of customers must come from outside the region where the casinos are located. The interaction between the type of casino, type of tourists and economic impacts is presented in Table 1.

Table 1: Factors that influence the degree of developmental impact of casinos on a tourist destination

Level	**1**	**2**	**3**	**4**
Relative importance of casino in relation to other tourist attractions on the destination	Casino is the main attraction	Casino is the main attraction	Casino is the main attraction	Casino is the additional (secondary) attraction
Category of visitors	Gambling	Gambling	Mostly gambling	General and gambling
Predominant type of visitors	Local visitors	Out of state day-trip visitors	Out of state tourists that spend at least one night at the destination	Out of state tourists that spend at least one night at the destination
Possible types of venue	Stand alone casino, urban casino	Stand alone casino, resort-casino, border casino	Integrated resort-casino	Stand alone casino, integrated resort-casino
Degree of tourism and developmental impact on the destination	No impact	Moderate impact	Significant impact	Moderate impact

Table 1 presents four typical cases of casino and tourism interaction. In the first case, the casinos are geared primarily towards local visitors. They are usually stand-alone casinos, located in the urban destination or in a rural destination within easy reach of a large metropolitan area. In this case casino gambling serves primarily a redistribution function in the local economy, although it does increase the consumer benefits for local casino visitors. No significant economic benefits emerge (beyond consumer choice benefits), while all the social costs are borne by the local community[2].

In the second case, casinos serve primarily out of state, day-trip gambling visitors. The types of casinos may range from a stand-alone casino with little additional amenities to a fully integrated resort-casino. Since most visitors come from out-of-state but they are spending their money inside the state, the impact of this type of casino gambling on the local economy

[2] The only exception is when locally oriented casino prevents locals from spending their money for gambling outside the region, i.e. when it prevents "leakage".

is positive and significant. The negative social impacts, such as problem gambling, are "exported" out of state, as visitors return to their home after the gambling session. The larger the extent of nongambling facilities, the larger are the number of overnight tourists and the greater are the economic impacts of such casino.

In the third case, overnight tourists predominate. This is usually only possible in large integrated resort-casino(s). The visitors are mostly gambling tourists, but some of the guests are also non-gamblers, such as non-gambling spouses of gamblers, conference guests, and guests predominantly seeking leisure and entertainment. These tourists spend several days at the destination and frequently venture outside the resort-casino complex. Hence, they contribute most to the local economy through their expenditure for other local goods and services. This type of casino-visitor combination offers the largest economic benefits for the local economy. Again, most negative social effects, such as problem gambling, are "exported" out of the economy.

Finally, in the fourth case, the casino serves as an addition to established tourist attractions of the destination. It attracts both general tourists, who want to occasionally "try their luck," and gambling tourists. The type of the casino may, but need not be, a resort-casino. If the tourist infrastructure in the vicinity is well developed, it can also be a stand-alone casino, offering only gambling related services. This kind of arrangement can have significant positive economic benefits. However, some specific substitution effects might occur. Casino might bring about a redistribution of tourist spending, in a way that casino just diverts tourist expenditures from other attractions instead of increasing total tourist expenditure. These effects reduce the total economic impact on a local economy.

Once of the more interesting tourism-related gambling phenomena is the emergence and spread of "border casinos". Felsenstein and Freeman (2001) note that the existence of the border often creates non-competitive conditions that favor one side over the other. The combination of *state regulation* and a *large captive market* on one side of the border are enough to create economic opportunity for economic agents operating in the less regulated environment on the other side.

> "For the local community, a border casino represents the ultimate in export-based activity; appropriating local taxes from casino operators and the direct, indirect and induced impacts of casino based expenditures that remain locally. For national government, the border casino means the import of tax income and the re-export of negative externalities, such as gambling addiction, bankruptcy and reduced labor

productivity, that accompany the gamblers as they return to their homes on the other side of the border" (Felsenstein, Freeman, 2001).

However, a location at the border is fraught with risk. It is a rather precarious situation as almost overnight the fortunes of tourism locations can change and with them the economic futures of those communities that benefited from this situation. Tourist locations grounded in export-based economic activities serving external demand in a regulated or monopolistic environment can turn into local service-based activities in a ruthlessly competitive market, if the conditions on the other side of the border change (Felsenstein, Freeman, 2001).

The recent experience from Northern America shows, that that this kind of imbalance, where one state is reaping all the benefits while the other is bearing all the costs, cannot last long. Several U.S. states have promptly liberalized their regulation in response to the emergence of casinos on the other side of their borders. Similar things happened on the border between Canada and the U.S. Some of the biggest casinos in Canada, such as Windsor or Niagara Falls, were located adjacent or close to major population centers in the United States. Not surprisingly, the City of Detroit – across from Windsor – legalized three casinos through a statewide referendum in 1996 (Eadington, 1999).

No matter how promising the casinos might seem for increasing the tourism prospects of the destinations, in most jurisdictions across the world, foreigners account for minority of casino revenues. In general, with the notable exceptions of the few historical casino centers, such as Las Vegas, Sun City or Monte Carlo, *casinos worldwide have not been able to capture significant share of tourism benefits.* They mostly cater to the "local" population of day-trip visitors, although some of those visitors may cross the border and be technically called "tourists" (Eadington, 2001).

Finally, gambling can be seen as a tourist attraction only as long as it is undersupplied or seriously constrained in most localities across the world. However, if gambling continues expanding as it did in the last two decades, increasing numbers of jurisdictions will permit casino gambling. Consequently, the ability of typical casino gambling to attract tourists will likely decline. "Casinos become tourism generators primarily because of prohibitions of gambling in places where people live. As those prohibitions disappear, then much of tourism-based gambling will diminish as well" (Eadington, 2001). The only long term strategy for casino gambling is to become an integral part of the wider range of complementary entertainment offerings. This is a formula that has been well developed by Las Vegas, but not in many other localities (Eadington, 2001).

3 Overview of the gaming sector in Slovenia

Casino-style gambling has long tradition in Slovenia. The first casino opened in 1964 and was soon followed by others. These casinos were situated in tourist resort areas and were oriented exclusively towards wealthy foreign visitors. Local residents were not allowed into casinos. In 1984, a new company named Hit entered the market with American-style casino services. Using the strategy of positioning its casinos near the borders and targeting foreign visitors, it soon became a dominant player in the market, holding a 75% market share in 2001. In the early 2000s private entrepreneurs were allowed to open smaller versions of casinos, called gambling parlors or gambling saloons. They aggressively targeted both local and foreign visitors and have quickly captured a significant share of the market.

Slovenian gambling industry is one of the fastest growing industries in the country. It grossed €489 million in 2006, up from €264 million in 2001 (Zagorsek, Jaklic & Zoric, 2007). Casino style gambling generated €349 or 72%, while lotteries and wagering contributed the remainder. Per capita gambling income equaled €244 in 2006. It is highest among the EU members, with the exception of Malta (Swiss Institute for Comparative Law, 2006). This is due to a high proportion of foreign visitors, mostly from the neighboring Italy and Austria. They generated 71% of all casino visits and 80% of gross gaming revenues (GGR) in 2006. The number of slot machines in casinos increased from 3,022 in 2001 to 6,694 in 2006, while the number of playing tables remained constant at 259. The number of casino visitors rose from 2.54 million in 2001 to 4.34 million in 2006 (Office for Gaming Supervision, 2007).

Slovenian legislation *distinguishes between two types of casinos*: *regular casino* and *gambling parlor*. Regular casinos offer table games and electronic games (slot machines). In 2006 there were 12 regular casinos, operated by six state-owned casino companies. Most of them are standard, stand-alone casinos, with little non-gambling offering. However, the three largest casinos also provide additional entertainment, hotel, wellness, and conference facilities. In this respect they can be viewed as scaled down versions of integrated resort-casinos. Together they hold 52% of the casino gambling market share. Regular casinos generated 90% of their revenues from foreign visitors in 2006 (Zagorsek, Jaklic & Zoric, 2007).

Gambling parlors are similar to regular casinos, except that they are not allowed to offer table games and are limited to a maximum of 200 slot machines. They usually provide few non-gambling amenities. In 2006 there were 33 gambling parlors in operation. Most of them are operated by private entrepreneurs, although some of them are also run by state-owned casino companies. Some of the gambling parlors are located near major cities in the country and cater to the local market. Others are situated near the border and cater mostly to foreign visitors. In 2006, gambling parlors generated 59% of their revenues from foreign visitors. Although seriously constrained in size and the quality of their offering, several gambling parlors realize larger revenues than most of the regular casinos. The market share of gambling parlors has increased from 8% in 2001 to 31% in 2006.

Gambling parlors are taxed with flat 38% "gambling privilege" tax on their gross gaming revenues (GGR.) The tax regime for regular casinos is somewhat different. They pay 23% of their GGR for table games. For slot machines the GGR are taxed with steep progressive rates that range between 23% and 38%. In practice, smaller regular casinos are taxed at 23% to 25% effective tax rate, while larger casinos are taxed at 30% to 34% of the GGR. The tax revenues are divided between government, local communities and organizations for financing "good causes." Government gets the largest share, while "good causes" organizations get only a few percent of the total tax revenues (Jaklic, Zagorsek, Pahor, Knezevic Cvelbar, 2006).

Slovenian casinos (both regular casinos and gambling parlors) may be divided into two major categories: 1) *export oriented* and 2) *domestically oriented*.

Most of **the export oriented casinos** are located in proximity of the border with Italy. According to Eadington's classification of casino types (2001), they may be considered "rural casinos within reach of population centers", although several of them are actually located in the city centers[3]. Their business model is based on extracting "*location rents*" that stem from different regulatory regimes between two countries. Although Italians are known for their love of gambling, casino-style gambling is severely restricted in Italy. There are only four permitted casinos operating in the country. This means that there exists large unfulfilled demand, which can be served from out-of-country operators. In this respect, Slovenian export oriented casinos are similar to Canadian border casinos (e.g. Windsor), although usually operating on a smaller scale. Their visitors are mostly day-trip foreign "tourists" that are

[3] Because of the differences in scale, a modestly large city in Slovenia might have the same population as "rural" community in the U.S. or Canada. For example, the community of Windsor (where Windsor casino is located) had around 210.000 residents in 2001. The City of Nova Gorica, home of the two largest casinos in Slovenia, had a population of only 36,000 in 2006. All of the Goriska region had approximately 120,000 inhabitants.

usually attracted to them not because of the inherent quality or attractiveness of the casino offerings, but because of the lack of opportunities to gamble in their own country.

The Canadian experience serves as a remainder of the futility of a business model that is based mostly on exploiting “location rents” and “arbitrage” between two different regulatory regimes. The opening of border casinos in Canada triggered a response from the other side of the border, where the U.S. border states of Michigan and New York either legalized their own casinos or permitted tribal casinos (at least partly) in order to prevent the “outflow” of gambling money.[4] Although things move much more slowly in Europe, it is arguably only a matter of time when changing public sentiment and competitive pressures will bring about deregulation of gambling in Italy. Opening of a large and publicly prominent border casino that predominantly targets cross-border visitors may actually trigger and speed up this process.

In the event of cross-border deregulation and increased cross-border competition, the “location rent” business model becomes unviable. The only alternative would be to provide more attractive and better service, such as is offered in the integrated resort-type casinos. Therefore, only the largest and the best casinos that offer integrated gambling and entertainment experiences would survive. All other providers would either go out of business of shrink to the level of small and unattractive gambling dens. In this respect, the only viable long term strategy for existing “export-oriented” casino operators would be to use current *location rents* and *first mover advantage* in order to build reputation, world class tourist facilities, and offer superior service, that would attract foreign visitors in spite of the increased competition from domestic or internet providers.

Domestic gambling in Slovenia was not encouraged prior to 2000, and most of the early casinos focused on foreign visitors. However, in the past five years several **domestically oriented casinos** (mostly gambling parlors) emerged that focused primarily on local residents. They are usually located near major Slovenian cities. Approximately 80% of their visitors live within 50 km radius (Zagoršek et al, 2007). By increasing the availability of gambling options and by using aggressive marketing tactics, they have managed to stimulate domestic demand and increase their market share from 4% in 2001 to 13% in 2006. Consequently, domestic per capita spending on casino-style gambling has increased from €35 in 2001 to €70 in 2006.

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[4] Casino Windsor began operations in 2003, and Michigan voters authorized casinos in Detroit in 2006. Casinos on the Ontario, Canada side of Niagara Falls began operations in 2006, and tribal casinos began operating on the American side of the border by 2002.

Overall, Slovenian residents spent €104 per capita on various forms of gambling in 2006 and are predicted to spend €123 in 2007. In 2004 domestic spending on gambling equaled 0.62% of GDP and was above the EU average of 0.50% of GDP. The per capita spending in 2007 is predicted to increase to 0.79% of GDP. This is comparable or even higher to U.S spending (0.65%), but below Canada (1.11%), New Zealand (1.45%) or Australia (1.93) in 2003 (Eadington, 2007).

4 The contribution of gambling sector to tourism in Slovenia

According to the Tourism satellite account methodology (OECD, 2001), the tourism sector in Slovenia directly accounted for 4.94% of GDP (Zagorsek, Jaklic, Bregar, Hribernik & Raskovic, 2007). Foreign tourists accounted for 56% of the expenditures, while domestic tourists accounted for the rest. Gambling expenditures of foreign tourists equaled €196 million. They represented 19% of total foreign tourist expenditures (including goods and gasoline) and 30% of their tourism service purchases (tourism characteristic products). Gambling was the single most important expenditure category of foreign tourists after accommodation.

In addition to gambling expenditures, gambling visitors also buy other goods and services. The estimates of those additional non-gambling expenditures range from €13 to €30 per visit (Jaklic, Zagorsek, Pahor, Knezevic, 2006; Sirse, Vidjen, Kalin, Luin, 2006). If we multiply the conservative estimate by the number of foreign visitors we get additional €29 million, or 12% of total foreign tourist expenditure.

Casino style gambling industry generates the highest value added as a percentage of total output compared to all other domestic industries. It reaches as high as 75% of total output. The casino style industry is also high in productivity, measured as the value added per employee, where it lags only behind the pharmaceutical industry. The Type II value added multiplier for the gambling industry equals 1.43. If the potential government investments from the taxes generated by the industry are taken into account, the multiplier increases to 2.05 (Sirse et al, 2006).

Judging from the above stated figures, g*ambling seems to be one of the largest contributors to tourism receipts in Slovenia*. However, the type of tourism that gambling currently stimulates is not optimal. In a fashion typical for "border casinos," 92% of foreign tourists are day-trip visitors. According to the data on the place of residence of visitors, which is collected by mandate at the registration in casino, two-thirds of foreign visitors reside within 110 km distance from the casino. Only 14% of visitors live more than 200km away from the casinos (Zagoršek et al, 2007).

The *major challenge* for the casino industry in Slovenia is in *increasing the tourism component* of their offering and attracting larger share of “overnight” tourists from the wider geographic territory. Presently there is *no incentive for the gaming companies and entrepreneurs to do so.* First, most of the gambling parlors are constrained in their growth by law. Hence they focus mostly on increasing the efficiency of their lucrative gambling operations and not on expanding the quality and level of non-gambling services or investing in tourism infrastructure. Consequently, such places are of little interest to all but the purely gambling focused visitors. Even if there were no regulatory constraints on the size of gambling parlors, it is questionable to what extent they would invest in the low margin / high cost tourism services compared to the high margin / low cost gambling business.

Second, all of the gaming companies that operate regular casinos are state-owned and unionized. They are exposed to various political and stakeholder pressures. They are also cautious in expanding their facilities. Faced with increasing competition from aggressive, flexible and low-cost gambling parlors, some of them have run into financial difficulties, while others are struggling to survive and adjust to the new competitive realities. The only exception is the largest and most progressive of the state gambling companies, Hit d.d, which also owns three of the country’s largest casinos and which is permanently upgrading its concept of the resort-casino style combination of gambling and entertainment.

Third, even in the case of companies who want to move towards an integrated resort-casino concept, the high level of gambling privilege tax in Slovenia, together with the non-deductible value added tax on investment, discourage gambling companies from investing in tourist infrastructure. As Eadington and Christiansen (2003) show, there is an inverse relationship between the rates of gambling privilege tax and the capital investment that gambling can support. Development of tourism infrastructure in a high gambling privilege tax rate environment is possible only when there are monopoly conditions (highly constrained supply of gambling services). These are not present in the case of Slovenian gambling industry.

5 The impact of large resort casino on Slovenian economy and society

5.1 Overview of the project

In light of the challenges presented above, the state company *Hit* initiated the negotiations with one of the largest U.S. gaming corporations *Harrah's Entertainment* on the prospect of jointly building a modern integrated resort-casino. The resort would be situated at the border location adjacent to Italy in the proximity to the city of Nova Gorica. This city is currently Slovenia's main gambling destination, with two of the largest casinos and five large gambling parlors already operating in it.

According to announced proposals, the investment would cost up to €850 million and would include a hotel with 1,500 to 2,000 rooms, a casino with about 3,000 slot machines and 120 tables, entertainment hall, restaurants, conference center, spa and other necessary facilities. If implemented, this would be the largest green-field foreign direct investment in Slovenia to date. It would also be a single largest tourist hotel/resort in Slovenia, increasing the total number of available hotel rooms in the country by 11% to 14%[5]. The resort is projected to operate at full capacity in its fifth year of operation ("normal year"). In that year it would generate around €562 million in total sales. Approximately 75% of total revenue would come from gambling operations, with the remainder coming from non-gambling services. It is projected that the resort will be visited by 4.4 million guests per year, witch is on average slightly more than 12,000 guests per day. At full operations, the resort would employ around 3,250 employees.

In comparison, total gaming capacity of the Nova Gorica region in the beginning of 2007 amounted to 2,268 slot machines and 105 gaming tables. The total number of visits to casinos and gambling parlors of Nova Gorica was 1.6 million. Combined number of all foreign gambling visits in Slovenia was 3.1 million in 2006. The proposed resort-casino would thus significantly increase the gambling capacity (by more than 30%). It would also increase the number of employees in the gambling sector by 150%. This is due to the fact that the operations of integrated tourist and gambling resort are more labor intense than operations of a stand-alone casino. The increase in the number of visits is more difficult to calculate due to

[5] In year 2006 there were 13,807 hotel rooms available to tourists in Slovenia (SORS, 2007).

substitution effects. Nevertheless, it seems that that visitor and revenue projections are quite optimistic, given the current state of the gambling market in Slovenia.

The major obstacle for realization of such project is the current high level of gambling privilege tax rate. Such a resort-casino with significant capital investment becomes financially viable only at much lower tax rates. Therefore, soon after the initiation of negotiations, the Slovenian government took the lead role in negotiations with the foreign partner. The negotiations are still in progress, with public opinion divided between supporters and critics of the project.

5.2 Methodology of economic impact assessment

The overall impact of the proposed resort-casino on the Slovenian national economy is much larger than direct impact described above, due to multiplier effects. The casino would realize most of its revenues from outside the country (i.e. from foreign tourists). However, most of the inputs (e.g. labor, goods, business services) would be purchased from within the country. Within the national economy, the purchases of goods, services, and payments to the labor force have "ripple effects." For businesses, these ripple effects begin when they procure inputs to produce the products or services they sell to casino. "Second-round" and "third-round" effects take place as other industries are drawn into the production process indirectly to produce output ultimately delivered to the casino. Similarly, labor force earnings are spent on consumption of goods and services, such as food, housing, cars, clothing, etc. These expenditures have "ripple" effects of their own. In the case of tourism industries, additional effects (called induced effects) are generated by tourists spending their money for other goods and services in the economy (e.g. sightseeing, transportation, food, etc.) (Stynes, 1997).

In each "round" of spending, a portion of total spending stays in the country and portion leaks out of the country (due to imports). Thus, in each successive round of spending, *leakages* reduce the subsequent impacts, until they become negligible. The smaller and more open the country the larger the leakages out of it. Additional sources of leakage are taxes and other reimbursements to primary sources of inputs. Companies and industries have varying impacts on regional or national economies. The magnitude of these impacts is a function of their connectivity to these economies. Businesses with a higher proportion of labor inputs, higher wages and higher propensity for in-region purchases of goods and services will have the largest impact. The tourism industry is an example of such businesses.

Indirect effects may be estimated with input-output models. These models describe where national industries sell their products and where they purchase the inputs needed to make these products. The structural relationships contained in these models are used to estimate the indirect and induced impacts associated with the industrial production. The models are divided into “sectors”, which have distinctive patterns of inputs, or purchases of goods and/or services. These distinctive purchasing patterns lead to varying multipliers. The widespread application of regional input-output models to impact analysis stems from their ability to pinpoint these differing levels and patterns of impact by industry (Miller and Blair, 1985, BEA, 1997).

At the macro level, the estimation of the economic impact centers on the following (Koh, 2004):

1. Contribution to GDP through infrastructure development, and expenditures made on goods and services provided by casinos;
2. Job creation and multiplier effects through the contribution to GDP generated by the expenditures of wages and salaries by casino employees;
3. Linkage effects through the impact on the tourism industry generated by the expenditures of casino visitors on other goods and services in national economy;
4. Reducing the leakage of gaming revenue spent by local residents in overseas casinos (sometimes called “import substitution”);
5. The impacts of spending by governments with tax revenues derived from the casino industry.

The size of the secondary (indirect and induced) effects in a given region is usually expressed with multipliers, which are generally calculated as a ratio of the total change in economic activity relative to the direct change. Multipliers may be expressed as ratios of sales, income or employment, or as ratios of total income or employment changes relative to direct sales. Multipliers express the degree of interdependency between sectors in an economy and therefore vary considerably across regions and sectors (Hewings, 1985).

5.3 Total impact

For the purpose of this study, we have developed an input-output model of Slovenia, based on the 2001 symmetrical input-output table for domestic production (SORS, 2005). In estimating the total impact, we have followed the *bill-of-goods approach*, which is accepted as one of the more accurate and unbiased approaches to economic impact analysis (BEA, 1997). This means that we have estimated the patterns of expenditures for the proposed new resort based on the expenditure structure of the two largest existing casinos in Slovenia, the expenditure structure of resort-casinos in other countries, expert judgments, and the specifics of the proposed Slovenian legislation. We have then classified these estimates according to the NACE rev.1.1 classification and used them as inputs into our model.

When examining economic impact of a proposed resort-casino it is important to distinguish between two phases: 1) *construction phase* and 2) *operations phase* (BEA, 1997). The construction phase includes all domestic spending of investors during the investment (building) phase. The major beneficiary in this phase is primarily the construction industry. Specialized equipment manufacturers (e.g. slot machines) are usually located abroad, so this spending does not have much national impact.

The economic impacts of the construction phase are limited in their duration. In the case of the proposed resort-casino, the construction phase would consist of two distinct parts. The first part would last two years and would lead to resort-casino opening. The second part would start after the casino opening and would involve upgrades and expansions of hotel facilities. Construction effects would therefore last four years. They are presented in Table 2 on an annualized basis.

Economic impacts stemming from the operations phase occur as long as the resort-casino is operating. In Table 2 they are estimated for the fifth year of operations, when the resort is predicted to achieve full capacity.

Total direct impact of the resort-casino is smaller than the projected total sales (which would equal €562 million). However, in economic-impact analysis o*nly the sales generated outside the country (exports) are counted*, since only these contribute to the increase in national economic activity. Sales to domestic visitors are basically a form of redistribution in the terminology of economic impact analysis, although they might also have some benefits from an economic perspective. It is projected that foreign visitors will represent 99% of all visitors. Hence, the total direct impact represents 99% of total sales. Similar approach is taken in respect to employment. Only those workers that will actually reside in the country are taken into account. It is expected that approximately 10% of the workers will reside on the other side of the border. Hence they are not counted in economic impact calculations.

Table 2: Direct and indirect impacts of proposed resort-casino in construction and operations phases (per year)

Type of effect	**Construction phase***			**Operations phase** (5th year)		
	Direct	Indirect	Total	Direct	Indirect	Total
Output	€118.4	€144.5	€262.8	€550.9	€307.2	€858.2
Value added	€35.2	€76.6	€111.8	€445.2	€169.7	€614.9
Employment	1,760	2,481	4,241	2,896	6,048	8,944
Net household income	€13.1	€18.6	€31.8	€56.5	€43.4	€100.0
Gambling privilege tax**				€68.7	-	€68.7
Other taxes and contributions	€33.9	€19.0	€53.0	€75.2	€62.4	€137.6

*** Construction phase consists of two separate phases, each lasting two years. Operations phase is estimated for the first "normal" year of operations, when the resort-casino is projected to operate at full capacity.**

**** Gambling privilege tax was calculated assuming the 18% total effective tax rate.**

The total direct impact of the proposed resort-casino in its "normal" year of operation equals €551 million. If indirect effects stemming from the casino's purchases from local suppliers, its employee's expenditures in the local economy, and visitor expenditure for other tourism related goods and services are taken into account, the total impact of the proposed resort-casino rises to €858 million. This would represent *1.4% of the total output of all Slovenian companies* in the year 2006.

In a normal year of operations, resort-casino would generate €615 million of value added, which breaks down into €445 million in direct and €170 in indirect effects. This would equal *2.4% of total value added* generated in the Slovenian economy in the year 2006. It would also represent 2.1% of Slovenian GDP in 2006[6].

The resort would also create almost 9.000 new jobs – 2,900 in the resort-casino itself, and 6,000 through indirect effects on the domestic economy. This would represent *7.5% of total*

[6] Value added yields a more rational and understandable basis for assessing economic impact. It avoids double counting by disregarding transactions (output) that do not represent sales for final consumption but rather input in the production process of other industries.

employment in Slovenia in 2006. The employment in the casino itself (both residents and non-residents) would represent slightly more than 2.7% of total employment in the country.

Finally, the casino resort would *generate €206 million in taxes*. The exact effective gambling tax rate that the resort-casino would have pay is still a matter of negotiations and legislation. For theour calculations, we have assumed an 18% tax rate, in which case the resort-casino would pay €69 million of gambling privilege tax. In addition, the company and its employees would pay additional €75 million in other state and local taxes and contributions, such as income tax, and health and social security contributions.

The final-demand *output multiplier for resort-casino equals 1.53*. It shows the total change in output of the economy due to a unit change in final demand for the resort-casino's services. In other words, if the resort-casino's revenue increased by €1,000, this would result in €1,530 increase in the total output of the economy. This includes the initial €1,000 change in resort-casino's output and €530 change in the output of all other sectors resulting from the increased demand for their products (indirect effects).

The final-demand value added multiplier equals 1.09. This means that for every unit change in the resort-casino's revenues total value added in the Slovenian economy changes by 1.09 units. In other words, if the resort-casino's output increased by €1,000, the total value added generated in the economy would increase by €1,090.

The final-demand employment multiplier equals 0.16. Unlike other final demand multipliers, it indicates the change in the total employment (measured in the number of full-time job equivalents) in the region resulting from a €1,000,000 increase in revenues of resort casino. Therefore, a €1,000,000 increase in resort-casino's output would on average increase the total employment in the economy by 16 full-time jobs.

To conclude, all the indicators point out that the proposed resort casino, if operating according to the financial projections, would have a huge impact on Slovenian economy. If it were operating in the year 2005, it would be ranked among the ten largest corporations in Slovenia. Assuming that no significant substitution occurs, the resort casino could expand the size of tourism sector (domestic and foreign) in Slovenia by 15%[7].

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[7] The comparison was made for the year 2014. The estimate of the total tourism sector in Slovenia in 2006 (Zagorsek et al, 2007) was extrapolated to 2014 assuming average nominal 5% growth of the sector. This was compared to the projected total sales of €562 million in the fifth year of operations. If

5.4 Substitution effects

The effects estimated in the previous section would only materialize if the new resort-casino would attract totally new customers. However, it is likely that it will attract a significant portion of the existing gambling visitors, which would otherwise play in the other establishments. A *substitution effect* arises when new supply does not attract new demand, but only causes redistribution of the existing demand. In the most extreme case (e.g. opening of a shopping mall near an existing shopping mall), the positive economic impacts of a new establishment are neutralized by the negative economic impacts on the existing establishment and the net economic impact amounts to zero.

The proposed resort-casino would be situated in the area that already has a well-established gambling industry. Because of its novelty, size, attractiveness and advanced marketing strategies, such as Customer Relationship Marketing, it will certainly draw a large amount of visitors from the existing casinos. The substitution effects will be most heavily felt by the two existing large casinos in the region, operated by the company Hit[8]. The extent of substitution that will occur depends on two factors.

The first factor is *differences in tax regimes between existing casinos and new resort-casino*. If the new resort-casino is taxed at a favorable gambling tax rate, while the existing casinos are taxed at the current higher tax rate, they will not be able to compete on an equal footing with the new entrant. If, on the other hand, existing casinos would be taxed with somewhat lower tax rate (but still higher than the new entrant), this would enable them to better prepare for the entry of new competition by investing into non-gambling facilities and improving the attractiveness of their service package. Of course, that would make "life" difficult for the new entrant and make it harder for the new entrant to achieve revenue targets from financial projections.

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the numbers were directly compared for year 2006, resort-casino would represent 22% of the total tourism sector in Slovenia.

[8] As we have already mentioned, Hit is also expected to be a joint venture partner in the new resort with approximately half or slightly more than half of equity stake. This creates a peculiar situation, where a company, that will be hurt the most by the entry of new resort-casino would also be one of its largest shareholders.

The second factor is the *business strategy of the new resort-casino*. As we have already mentioned, from the perspective of the new resort, the soundest strategy would be to focus on the local day-trip market (across the border), that is currently being served by other casinos, and then to broaden and deepen it. This strategy would hurt Hit the most.[9] Its realization is dependent on the degree of actual control that Hit could exercise over the resort-casino's operations. If it had that control, Hit could prevent excessive cannibalization of its existing business. It could also focus the efforts of all casinos in the region on expanding the demand ("growing the market") by promoting the entire destination to new, fly-in tourists. However, this could have negative effects on the profitability of the new resort. It is highly unlikely that the established foreign partner would agree to such type of a joint-venture where it would not have control over key strategic and operational decisions.

Considering all these factors, we estimate that the degree of cannibalization of the existing facilities will be high, probably in the range of 40% to 60%. This would seriously weaken Hit, but would not necessary lead to its demise, if it would execute the right strategy in preparing and responding to the new entrant. Consequently, net economic impact of the proposed resort-casino would be lower. Table 3 presents the calculations of total net impact of the resort-casino for different degrees of substitution. Degree of substitution refers to the percentage reduction in the projected future revenues of the two largest casinos in the region, operated by Hit.

Table 3: Total net impact of proposed resort-casino in different scenarios of substitution

Degree of substitution*	**0%**	**20%**	**40%**	**60%**
Output	€858.2	€794.3	€730.4	€666.6
Value added	€614.9	€569.0	€523.1	€477.2
Employment	8,944	8,308	7,672	7,036
Net household income	€100.0	€92.6	€85.2	€77.8
Gambling privilege tax**	€68.7	€56.0	€43.3	€30.7
Other taxes and contributions	€137.6	€127.5	€117.3	€107.2

*** Degree of substitution refers to the percentage reduction in revenues of two largest casinos in the regions, operated by the Hit. ** Gambling privilege tax was calculated assuming the 18% total effective tax rate.**

[9] This has to be corrected for the fact that, as a more-than-50% owner of the resort-casino, Hit would be realizing a majority of the after-tax profits of the resort-casino.

From the Table 2 it is obvious, that even at high degrees of cannibalization of the existing casinos, the net economic benefits remain large. For example, at the 60% substitution level, net additional output that is generated in the economy equals to €667 million (instead of €858 million with no substitution), while value added falls from €615 million (with no substitution) to €477 million. The reason for large net economic benefits is mostly in *the sheer size of the investment*. We will discuss this issue in the next section.

Other substitution effects will also emerge. Gambling parlors in the Nova Gorica region will be strongly affected. In addition, all other export-oriented casinos in neighboring regions will suffer a probable decrease in demand, as many visitors would be attracted to the new resort-casino. There might also be negative substitution effects on the entertainment and restaurant sectors the area of Nova Gorica. All these effects are relatively minor compared to substitution effects on the two largest casinos, and do not significantly change the calculations of net economic benefits. At most, the estimates could be reduced by 5% to 8%. However, even relatively minor decreases in revenues might be enough to lead some of the struggling state casino companies into bankruptcy.

6 Strategic considerations and implications for regulation

More than in any other industry, the dynamics of the gambling industry are influenced by the decisions of the government and other regulators. In this section we discuss some of the strategic considerations and implications of proposed resort-casino project, from the perspective of the regulators.

6.1 The resort-casino is focusing on day-trip visitors

As we have mentioned above, the optimal business strategy for the new resort-casino would be to focus on the existing market and existing day-trip visitors and then to slowly deepen and expand the market. Because of the large scale of fixed costs, the closer to full capacity it operates, the more profitable it will be. In addition, if a regressive model of taxation is negotiated with the Slovenian government, this will provide an incentive for the resort-casino to increase its revenues as fast as possible, since higher levels of revenue would be taxed at lower tax rates. Established gambling players that already visit casinos in the region are hence the easiest and the most profitable kind of customer for the new resort. Attracting tourists from far-away places is more difficult, costly and risky. The resort would attract those kinds of tourists only once all other options with the local market have been exhausted, or in order to fulfill it hotel capacity (local day-trip visitors usually do not stay in the hotel.) That said, the resort would want to best utilize its hotel and other non-gaming assets by attracting overnight visitors, who would also spend more in other non-gaming areas of the resort.

In its fifth year of operations the resort-casino is projected to realize 4.4 million visits. On average this would equal 12,000 visitors per day. If we assume hotel capacity of 2,000 rooms, 100% occupancy and average of 1.5 guests per room, this means that only around 3,000 guests would actually spend the night on the resort-casino premises.[10] This also puts a limit on a total number of fly-in tourists from more distant places that can visit the resort-casino. On the other hand, 75% of total visitors or 3,3 million are planned to be day-trip visitors (and to a very small extent tourists staying in other hotels in the region).

With the exception of Las Vegas and few other gambling destinations, experience of most other resort-casinos in countries such as Canada, Australia, New Zealand or South Korea points out that they have failed to attract significant number of new tourists from distant places. Instead, they have all focused on the local markets (be it in their home country or across the border) (Koh, 2004). It seems that same can be said for the proposed resort-casino.

6.2 Optimistic revenue projections?

The new resort-casino would enter into an already developed gambling market. The foreign day-trip tourist market has been growing steadily for the last five years. Although it will continue to grow, it is unlikely that this growth will be dramatically high, unless the business models of the existing casinos were to change significantly. A new resort-casino represents such a change—an evolution—of the casino business model. Nevertheless, it is uncertain to what extent it will be able to expand the market. For example, an average of 4,300 guests per day visited the casinos in Nova Gorica in 2006. The planned number of visitors per day for the new resort is 12,000. Even if the resort-casino managed to book all of its available rooms to fly-in tourists (or drive-in tourists from distant places), that would still mean that around 9,000 visitors would have to come from region, either as locals or as day-trip visitors. Even if

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[10] Based on the experience of other jurisdictions, it is likely such a resort casino would stimulate demand and investment in other tourist accommodation units in the region. This would expand the region's capacity for overnight visitors.

the resort-casino took over all of the existing day-trip visitors (100% substitution) this would still represent over 100% increase in the number of day-trip visits to the region[11].

In its fifth (normal) year, the resort-casino is estimated to earn €382 million in gross gambling revenues alone. That would represent 109% of the combined gross gaming revenues of the entire gambling sector in Slovenia in 2006. Even in its first year of operation the projected revenues would equal to €182 million, which represents 52% of the total gambling market and 65% of the export-oriented market in 2006. This suggests that the revenue projections are quite optimistic. The economic impact estimated in this article can only materialize if the revenue projections are met. If the resort-casino did not achieve the forecasted revenues, the net economic impact would be disproportionately lower.

6.3 Gambling taxation should promote tourism and development

The State has the right to claim the largest share of the economic rents that are results of the constrained supply of gambling. However, it also has the obligation to assure the optimal level of taxation, not only from a fiscal perspective, but from a developmental perspective as well. Although gambling privilege tax rates in Slovenia are not as high as in other EU countries, they are considerably higher than in jurisdictions with a developed tourism casino industry, such as Nevada. This level of taxation makes it difficult for casino operators to justify significant capital investment at levels that have become common for the modern resort casinos elsewhere in the world (Swiss Institute for Comparative Law, 2006).

Gambling taxation in Slovenia should be developmentally oriented. That means that types of casinos that generate the most positive externalities in terms of tourism and regional development, (such as integrated resort-casinos) should be taxed at relatively low tax rates. The types of casinos that do not generate any significant positive externalities (and may even generate significant negative externalities in terms of problem gambling), such as locally oriented urban gambling parlors, should be taxed with a higher tax rate. Gambling in Slovenia should primarily serve as a tourist attraction and catalyst of tourism development. Therefore,

[11] The average spending per visitor is projected at the lower end of the possible spending range. Revenue forecasts could be met with a smaller number of projected visits and larger average spend per visit. We estimate that the projected average spend could be increased by 30% and the projected number of visitors decreased by 30%. Nevertheless, this does not change the nature of the argument presented above.

we suggest that the *gambling tax rate be inversely related to the proportion the tourism revenues generated by particular type of casino*. Several criteria can be used to this end:

1) Gross gaming revenues. This assumes that significant gross gaming revenues (GGR) can only be created by attracting visitors from more distant places. These will come only if the casino offers significant levels of non-gaming amenities. Since the marginal costs of attracting new visitors are increasing, this business model is possible only at a low “flat” tax rate or at a regressive tax rate (where marginal tax rate is decreasing as the level of revenue increases). This is the model that is currently being considered by the negotiating parties for the resort-casino in Nova Gorica. The potential pitfall of this model is that the casino operator might focus most of its marketing efforts into taking over the “established” guests from existing casinos in order to quickly boost revenues and thus receive lower tax rate.

2) Number of hotel rooms. Number of hotel rooms in the resort-casino has a considerable effect on the economics of the investment. The larger the number of rooms, the larger are the investment, the operating fixed costs and the risks for the investors. The casino operator, in order to ensure profitability, has to seek hotel guests who are prepared to stay in the rooms (and pay for them). These are usually fly-in guests or guests coming form more distant places.[12] The requirement for casino operators to build large number of hotel rooms in addition to casino may be viewed as the example of “taxes in kind” (Eadington, Christiansen, 2003). These are requirements to build additional tourist infrastructure outside the normal requirements associated with a project the size of the casino under consideration or other demands that could not be normally justified by the investment criteria utilized by the company involved. A greater number of rooms guarantees higher numbers of overnight tourists. It also means larger number of employees and thus larger economic benefits to the region and nation.

3) Ratio between the number of hotel guests and number of visits in the casino. This is derivative of the number of rooms criterion. The higher the ratio of hotel guests (that are actually spending a night in a resort-casino), the higher the proportion of tourist component, and thus lower the gambling tax rate needed.

4) The proportion of the visitors residing more than 200 kilometers from the casino. Since all guests have to register to enter Slovenian casinos, the casino operators have a very

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[12] It is also possible that a resort casino could attract a higher proportion of high income visitors who live within relatively close distance from the resort casino, but who are not presently attracted to the existing casinos because of an absence of non-gaming amenities.

good picture about the geographical distribution of their guests. Most of the day-trip visitors come from within a 200 kilometer radius. Therefore, in order to stimulate the casino to attract more distant visitors who would also spend a night at the hotel, the tax rate might be inversely related to the proportion of far-away visitors in the casino.

5) Ratio between foreign and domestic visitors. The higher the ratio, the lower the tax.

6) Ratio between gambling and non gambling revenues of the casino. The higher the proportion of non-gambling revenues, compared to the gambling revenues, lower the tax rate. An ideal ratio would be 50:50.

No matter which criterion is chosen, all can be easily integrated into existing gambling taxation models by introducing a “tourism tax break.” For example, for each 100 additionally built rooms of a certain category, the casino operator could get a permanent tax break in the form of, say, a 0.5 percentage point reduction of the gambling tax rate.

In terms of taxation of the proposed resort-casino, the most realistic option seems to be a combination of regressive taxation, combined with the requirement for large initial investment into the number of hotel rooms (e.g. 2,000 to 2,500), even if this means that the negotiated effective tax rate has to be reduced an additional percentage point or two. Finally, if the resort casino fails to fulfill its promises (with respect to capital outlays or number of hotel rooms), it should receive no preferential tax treatment, compared to its main competitors. This could be achieved with the appropriate use of regressive taxation.

6.4 Questionable merits of partnership in the joint venture

Under the present arrangements, Hit should have a majority (51%) equity stake in the joint venture resort-casino and would thus *de iure* have the lead role in the company. However, it is likely that the foreign partner will *de facto* have all the strategic and managing power in new venture. This is natural, since the foreign partner will provide the brand name and proprietary technology, which is the source of its competitive advantage. It is logical that the foreign partner would rather forego on the deal than leave all the managing power in the hands of the local partner. Moreover, possible scandals or frauds connected with the new resort would affect the global reputation of the foreign partner’s brand name and might even have dire consequences for its home operations (e.g. possible revocation of their gaming licenses). Therefore, it could be expected that the local partner would not play a significant role in the strategy or day-to-day operations of the resort-casino. These arrangements primarily serve to placate public opinion, lessen political opposition, and thus increase political chances for success of the project.

Under present arrangements, Hit is torn between two extremes. On the one hand it is major shareholder in the new venture, and should thus promote it. On the other hand, the new venture is also the largest competitor to its existing operations (where Hit is 100% owner), so the company should fight against it. This leads to the *role confusion* for Hit's managers and employees alike. It is also making it difficult for Hit to produce a coherent and focused strategy. By preparing for the arrival of competition, it is implicitly hurting itself in the role of resort-casino owner (albeit without managing power). Even if Hit had managing power in the new venture, it would either hurt new venture by restraining it from competing on the local market or hurt its existing business. Moreover, the large equity stake that Hit needs to invest into the new venture would represent considerable financial burden and would restrain Hit's capabilities to continue with the expansion abroad or to strengthen its "home base" in Nova Gorica. In addition, from a macroeconomic point of view, this also means that the total amount of foreign direct investment that Slovenia would be receiving would be slightly less than half of the total value of investment, and not the whole investment.

Under present arrangements, there are no significant benefits for Hit participating in the joint venture. The extent of knowledge transfer from the resort-casino to Hit is questionable. It is much more likely that the knowledge about local conditions and specifics of the neighboring markets will flow in other direction – from Hit to the new venture. The new venture would represent considerable competition in the labor market as well. It will probably be able to assure the knowledge it is lacking by attracting the best line and management employees from Hit.

However, arguments presented above do not mean that the new venture is pointless or even harmful to the region or nation. Substantial clustering effects exist in the gambling industry (Rephann et al, Zagorsek et al, 2007). This means that larger number of competitors in one destination increases the appeal and attractiveness of the destination, making all competitors better off (e.g. Las Vegas). In the long term this would also prove to be "insurance" against the destructive effects of possible liberalization on the other side of the border.

Under present arrangements, Hit could suffer from financial exhaustion and strategic confusion. From the perspective of regional and national development it would be best if two strong, independent competitors existed in the destination of Nova Gorca. Hit should thus have no stake or only a minority stake in the new resort-casino. This would leave the company with enough resources to thoroughly prepare for the arrival of the competition. Foreign partner (Harrah's or some other established company selected at the multinational tender) should become majority owner of the resort-casino. It would operate under strict regulations developed by the Slovenian government. In this respect the alignment between national interests and the operations of the resort-casino would be achieved. Government and local communities would still be the largest beneficiaries of the resort-casino's operations in forms of taxes and employee compensation. The profits that could leave the country would represent a small share of the total economic benefits that would stay in the country.

Having two strong competitors fighting for their share of the market would be in the long term best interest of the region and nation (Porter, 1998). Chances of a foreign competitor totally destroying domestic competition are small. The casino resort would have strong marketing advantages over the existing casinos. However, Hit has first mover advantage as well as intimate knowledge of the local market. Given that it prepares itself adequately for the foreign competition by upgrading and expanding its facilities, it could achieve around 40% of the (vastly increased) market share. The presence of competition would drive the slack out and increase the efficiency of operations on all levels. Finally, this would also present a good opportunity for employees in the casino business. They will be able to choose between two employers. Increased demand for the expert cadre will likely drive their salaries up – and with that also increase the economic impact on the national economy.

However, competition should be on equal footing – both competitors should share similar tax burdens or be taxed in accordance to their level of tourism component. That does not mean that Hit should be subject to same tax rate as the resort-casino, but it means that Hit should not have such a high tax burden as it is having today.

The problem with this scenario is that, although it would be without a doubt the best scenario from an economic and regional development point of view, it might be very difficult to implement from a political point of view. It would take determined government with clear objectives (for example, such as in Singapore) to negotiate the deal and persuade the public and political opposition about the merits of such scenario.

6.5 Retaliation from the other side of the border

The casino industry in Slovenia, both export-oriented and domestically-oriented, has exhibited 75% inflation-adjusted growth in the last five years. As new gambling parlors are entering the industry, this trend is likely to continue for at lest several years. Most of this growth was generated by increasing the number of small gambling parlors. In the future we may expect a significant increase in the incidence and prevalence of problem gambling and social costs associated with the expansion of gambling parlors (Zagorsek et al, 2007).

However, the general public has hardy noticed this trend. Because the growth was created by entry and expansion of many small units, the effects of this expansion remained under the "public interest threshold." Things have dramatically changed with the announcement of the potential resort-casino investment. Although from the social costs perspective, resort-casinos represents the least harmful form of gambling with the largest positive externalities, the sheer size of investment has made the proposed resort-casino the target of heated public debate. In a manner similar to how Non-Government Organizations (NGOs) target prominent multinational companies in order to promote their cause, the proposed resort-casino has become a vehicle for a much broader discussion on the merits of gambling in Slovenia.

When built, the resort-casino would likely draw the same kind of attention from the other side of the border. The Italian public and politicians have largely been unaware of the rapid expansion of the gambling in Slovenia in the past years, although this expansion has brought them increased social costs and no discernible economic benefits. However, the large resort-casino would probably trigger considerable discussion and might even provoke a political action in the neighboring country. In a same manner as U.S. states have liberalized their legislation in order to defend themselves from negative effects of cross-border competition, the Italian government might liberalize its own legislation. That could have considerable negative effects on the Slovenian gambling industry[13].

[13] Italy has already proven that it will not stand still in case of excessive cross border competition. In the beginning of the 2000s, the gasoline prices in Slovenia were considerably lower than in Italy. Significant number of residents in border regions thus bought gasoline on the Slovenian side of the border, creating considerable profits for the Slovenian oil companies but also losses for the Italian oil companies. Upon pressures for the Italian oil lobby, government introduced a voucher system for the residents in border regions, which allowed them to buy gasoline at home at prices comparable to those across the border. This effectively stopped cross border demand for gasoline.

6.6 Long term survival of the industry

The Slovenian gambling industry has grown at a rate far exceeding the overall Slovenian tourism industry in the past decade. Gambling represents one of the largest categories of foreign tourist spending in the country. However, success of gambling at border locations is assured only as long as regulated conditions continue to operate over the border. Once these regulations are eased, the monopoly situation turns to a highly competitive one (Felsenstein, Freeman, 2001). Therefore, the challenge for the Slovenian casino industry is to decrease its dependence on cross-border day-trip visitors and broaden its appeal to other segments of the market. This means increasing the share of non-gambling business and moving toward integrated resort-casino style of service. Ideally, Slovenian gambling corporations should derive 40% of their revenues from non-gambling services. This would put them on par with the best world players in the business and ensure the term survival and development of the industry.

The proposed resort-casino is a move in the right direction. Although there are many uncertainties and potential drawbacks associated with the implementation of such venture in practice, its net economic impacts are by-and-large positive. However, the government can influence the size of these impacts by focusing on the right priorities during negotiations. This would include requesting the largest possible initial investment into tourist infrastructure (e.g. at least 2,500 rooms), even at the expense of the few percentage points lower effective gambling tax rate. This would also include allowing the foreign partner to have prevailing ownership and managerial control of the venture while at the same time enabling the domestic partner to adequately prepare for the coming competition, by releasing it from the obligation to invest considerable resources into the new resort and by reducing its tax burden to a level that would enable it to invest into upgrading its tourist infrastructure.

7 Conclusion

The purpose of this article was to examine the relationship between the casino industry and tourism. We first examined conditions that are necessary for casinos to become real tourist attractions instead of just attracting visitors from the pool of local residents. Then we focused on the case study of proposed resort-casino development in the EU member state Slovenia. The case study illustrates the methods and techniques that may be used to evaluate the economic impacts of such a venture on regional or national economy and also shows how different strategic actions by key actors might affect these impacts. Although the Slovenian context is quite specific, the findings of the study are applicable to a wider range of contexts and jurisdictions, as they provide considerable insights on the dynamics and strategies involved in establishing a resort-casino venture in new localities. The article also provides a wealth of data on the gambling industry in Slovenia, thus providing some insights into the specifics of gambling sectors in the EU region, whose fragmented and complex gambling industries are least explored and documented in the scientific literature.

Despite these contributions, the article has several limitations. It has focused mostly on economic benefits associated with tourism development. It did not account for social costs, such as problematic gambling. However, in the case of export-oriented casino industry, the majority of social costs are exported abroad, while most of the economic benefits remain at home. We also did not cover the environmental and social costs connected with the mass tourism, such as heavy vehicle traffic, pollution, and strains on natural resources.

Additional issues that are important, but difficult to account for, are changes in moral sentiment and values of the society. The introduction of a large resort-casino might affect and change attitudes of society towards gambling, leisure, and life in general. Whether this is a good or bad thing is a matter of opinion, and not scientific enquiry.

Finally, there might also be potential costs associated with the “negative” image of the country as “gambling destination.” That might have some negative impact on the other types of tourism (e.g. focused on nature, sports and recreation, or sightseeing). On the other hand, it can also have positive effects on other tourism sectors by exposing the tourists to all the beauties and tourist opportunities of a country, they would otherwise not consider visiting.

One might compare a casino industry to a fire. When supervised and used properly, fire brings enormous benefits to the humankind. When unsupervised and let loose, it wreaks havoc. However, the solution is not in forbidding all fire – the solution is in using it wisely.

The same can be said for the gambling industry. The challenge for key decision makers in every gambling locality is in finding the right approaches that would maximize consumer welfare and the broader economic benefits that the industry can create, while at the same time minimizing potential negative impacts associated with it.

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