

Crowds at the Venetian Macao largely come from mainland China



酒店大堂
Hotel Main Lobby
→ 高爾球彩區
紅運號
→ 星光之橋 (往金沙城)
→ High Limits
Ruby Room
→ Bridge (to Sands Cotai Central)

The China SYNDROME

Why the PRC's impact on gaming throughout Asia is dependent upon many issues

By Steve Gallaway and Brendan Bussmann



The People's Republic of China (PRC) continues to emerge as an economic and political superpower in the world, and its actions have a direct influence on the gaming market in Asia. This goes well beyond the borders of Macao, SAR (Special Administrative Region) that nearly 20 years ago opened up for the first time to foreign casino operators beyond Stanley Ho's monopoly.

The reach of the PRC permeates both economically and politically into key emerging markets such as the Philippines, Cambodia, Vietnam, South Korea, and other markets throughout the Far East (including Northeast and Southeast Asia).

This reach continues to expand and impose a significant influence on a growing gaming industry throughout the region. To follow the spending habits of PRC gamblers, one must consider several factors. This includes the ability of Chinese players to travel far and wide, as well as the ability of these citizens to move money out of the country. However, it also includes the political reach that the PRC has in exerting its influence in other countries. Gaming dollars can also flow from the state through its "Belt and Road" initiative that provides a hook into the infrastructure of each of these countries, both to expand the industrial complex of China and to further influence their political landscape.

Understanding the Geopolitical Dynamics

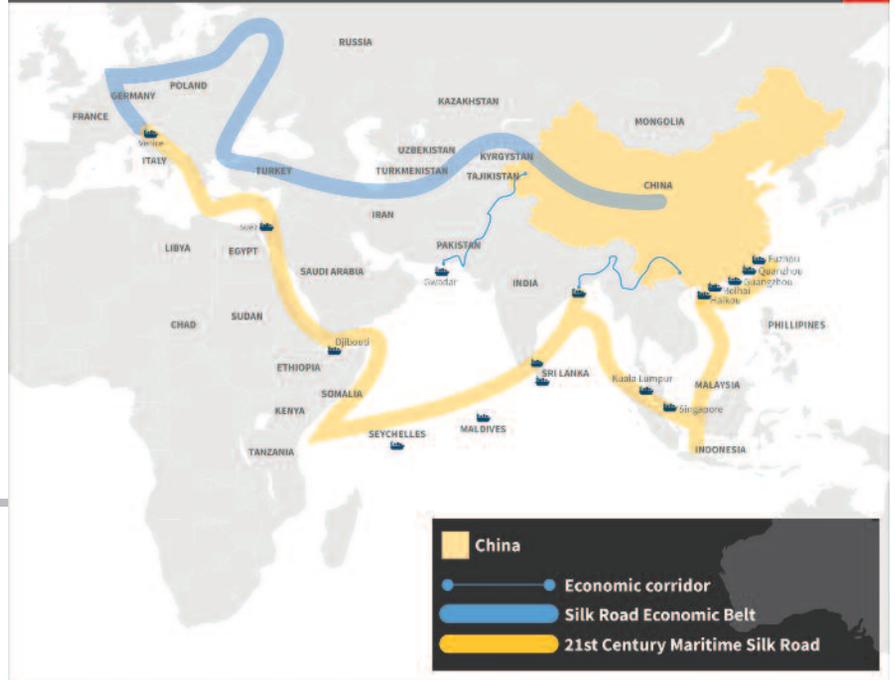
In order to examine the reach of the PRC on a country-by-country basis, it is important to first understand the geopolitical dynamics that are in play both inward and outward from the PRC. Most recently, this can be seen by the outbreak of the coronavirus from the Wuhan Province. The disease, which was first identified in December (if not before), started a massive spread right at the start of the Lunar New Year.

As of the writing of this article, the casinos in Macao have been shuttered for at least two weeks, and this could be extended as no one knows how long the quarantine will be in place. Flights in and out of China to all other parts of the world have been canceled, and travel in and out of the country has become extremely limited. Additionally, the shuttering of casinos proved to be only the beginning, with hotels and other non-gaming facilities now following suit. Despite these facilities being shut down, their operators are continuing to support their workers through the crisis.

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This also transfers into other regions of Asia and allows the mainland to control the ebb and flow of its citizens. While this could result from the current political situation of either the PRC itself or its neighbors, it could also stem from its concern over the effects that gaming may have on the social harmony within the Chinese culture.

One of the other forms that dictates the flow of gaming dollars is the PRC's Belt and Road Initiative (BRI). Introduced by President Xi Jinping in 2013, BRI was viewed as the New Silk Road to launch a series of infrastructure investments from East Asia to Europe in an effort to expand China's economic and political influence. It has now even reached into Africa as the reach of BRI continues to expand. Some believe that this is a way for China to exert its influence into other parts of the world through military and regional influence.

This also includes state-sponsored companies allowing further development for industrial production. In its support of a vast network of railways, bridges, energy pipelines, ports and telecommunications efforts, BRI has already re-

sulted in hundreds of billions of investment dollars into over 60 countries around the world that account for over two-thirds of the world's population.

This is important because there is usually an outflow of Chinese nationals that oversee these projects while also establishing industrial complexes in these countries. The result is a direct lead-in to the desire for individuals from the PRC to partake in gaming activities in these countries.

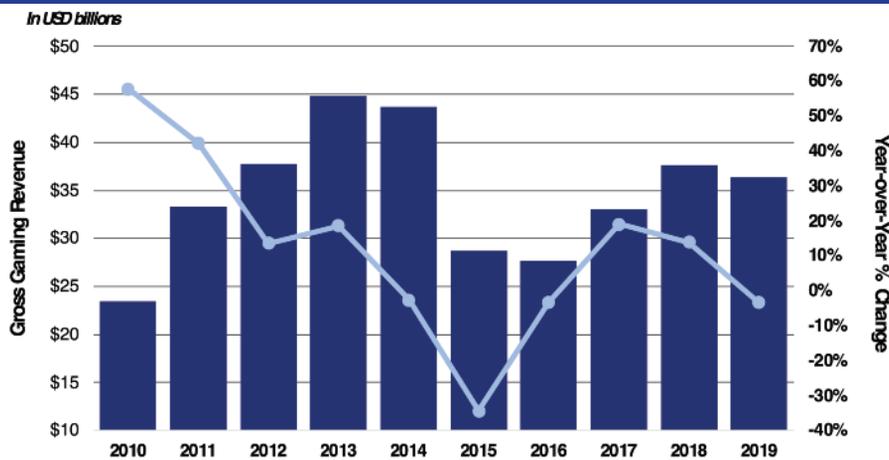
Macau as the Gateway

In a country that continues to promote "One Country, Two Systems," Macau serves as the initial gateway for gambling-related dollars from the PRC, as it is the only area in the country where casinos are allowed. As an SAR of China, Macau has been open outside of the original SJM monopoly for over 15 years, initially led by the opening of Sands Macau in 2004. While there has been a continued up-and-down revenue cycle over the last 10 years, Macau continues to be the



The opening of Sands Macau in 2004, the first casino not owned by Stanley Ho, began the massive visitation of Chinese citizens to the SAR

Macau Gross Revenue from Games of Fortune 10-Year Summary



Source: Macau Gaming Inspection and Coordination Bureau (DICJ)

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Macau’s revenue has been largely dominated by VIP play but is transitioning further to cater to more mass and premium mass play. The continued increase in visitation over the years has also been supported by continued infrastructure investments and connectivity within China through road and rail. Macau has continued to see its ups and downs over the course of the last 10 years, during which the gaming market has matured significantly. Many of the downturns have resulted from policy decisions from Beijing that threw the harmony of the Chinese culture out of balance, and they tried to correct it with the limitation on access to the SAR.

While events related to the coronavirus do not bode well for the short-term outlook of the market, it will likely rebound after the travel restrictions have been lifted. However, when adding on the impact of the slowing Chinese economy, along with the Hong Kong protests that have had a profound impact on the Hong Kong economy which serves as one of the gateways to Macau as the other SAR in the Pearl River Delta region, this combination has put one of the largest strains that the Macau market has seen in some time.

Manila’s Continued Growth

The Philippines has the benefit of having two tranches of revenue streams from the gamers of the PRC. The first comes through the traditional brick-and-mortar casinos, including the casinos owned by PAGCOR (Philippine Amusement and Gaming Corporation) and, more significantly, the larger integrated resorts as a part of Entertainment City.

This also is served by a large junket model that features many of the same dominant players in Macau, including Sun City. Gaming revenue from 2018 to 2019 increased by 11.6 percent year-over-year, reaching P75.8 billion (US\$1.5 billion), which was up from P67.85 billion (US\$1.35 billion). However, the revenue growth was largely led by a second tranche, online gaming and the continued growth of Philippine Offshore Gaming Operators (POGOs).



POGOs have been the largest source of growth for the Philippines both in terms of infrastructure and political dynamics. POGO offer online gaming focused on three main areas: online games led by live dealers online (LDO), sports betting, and horse/animal racing. The growth has been led largely by the play of Chinese gamblers, as well as some players from elsewhere in Asia.

However, these POGO have resulted in a large influx of Chinese nationals relocating to various parts of the Philippines, mostly in the Makati City area of Manila where most of these operators and their accredited service providers are located. PAGCOR acknowledges that over 130,000 foreign workers are employed by the industry, and it is understood that a majority of these individuals are Chinese nationals.

POGOs were one of the targets in the late summer of 2019 by President Xi. After discussion with Philippine President Rodrigo Duterte, the POGO expansion was halted but remained operational. The online operators con-

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NAGA's founder, Tan Sri Dr. Chen Lip Keong, has fostered a good relationship with Chinese officials guaranteeing steady visitation to his Cambodian casinos

tinue to face scrutiny from internal forces as well because of the influx of Chinese workers that have put influence on other sectors including the housing market, the commercial real estate market, immigration, and law enforcement issues ranging from human trafficking and prostitution to money laundering and other unscrupulous behavior.

With the current issues surrounding coronavirus, the Philippines has placed limits on entry from Chinese nationals into the country because of the potential spread of the virus in an unchecked environment. Some of the traffic has slowed anyway because of the other issues with immigration, which the government itself had already addressed to curb the influx.

One of the more interesting results of the quarantine may be the potential for growth in the online gaming market. While it is noted that POGOs have had little crossover in players from casino gaming and other segments, those gamers that cannot currently leave China even to go to Macau may look for other options to still game, with POGOs as a natural alternative.

The future of the Cambodia market will partially be determined by the fallout from the departure of online gaming from the market, which reportedly saw over 120,000 Chinese nationals depart the country, as well as the pending draft of the Gaming Law.

Cambodia's Crossroads

Cambodia is another market that has faced its challenges over the last year to its brick-and-mortar industry as well as its now-shuttered online gaming market. Cambodia was also the target of investment coming from BRI. In mid-2019, there was controversy surrounding a large port, with many arguing that it was going to be used by the Chinese military.

Furthermore, the Chinese invest in manufacturing, special economic zones, and the highway connecting Sihanoukville and Phnom Penh. Some believe that the Cambodian government blinked to Chinese pressure as it related to online gaming to keep the flow of investment in infrastructure and manufacturing into the country. Several casino projects have slowed or been brought completely to a halt following the announcement of the online gaming ban that came into effect at the end of 2019.

The Cambodia market has largely been dominated by NAGA Corp., which continues to see exponential growth in the market. NAGA has never been involved in the online gaming market and has focused heavily on the land-based business. The Chinese junkets continue to be a solid source of rev-

enue and continued growth. Tan Sri Dr. Chen Lip Keong, the founder and controlling shareholder of NAGA, has served as an astute leader who appreciates his relationship with the Chinese customer and does not want to throw off the balance that currently exists.

The future of the Cambodia market will partially be determined by the fallout from the departure of online gaming from the market, which reportedly saw over 120,000 Chinese nationals depart the country, as well as the pending draft of the Gaming Law. The new law is supposed to expand the oversight of the government over the gaming industry as well as raise taxes. NAGA Corp. will continue to be the dominant player in the market, but growth will likely return as other operators and junkets adjust to the new operating environment.



Revenues at the foreigners-only casinos in South Korea (Jeju Sun Casino on Jeju Island) fluctuate wildly because the PRC tightens and loosens travel to Korea

The Extending Reach of the PRC

Other markets in Asia have had significant influence from the PRC gamer, including Vietnam. Largely led by Chinese tourism, the market will continue to expand as long as the relationship with the mainland continues not to be disruptive. Laos, for example, will likely see some additional growth as investment continues to ramp up in manufacturing and infrastructure, which may lead to a flow of PRC gaming dollars to destinations within the country. South Korea is another great example of the ebb and flow of the political relationship with the Chinese, as the market has continued its ups and downs based off of its relationship with its neighbor.

The reach of the PRC goes well beyond its borders. The geopolitical forces play an interesting role in how gaming revenues and tourism are affected in this region. The views of Beijing have a reach that includes investment within the region that in turn brings gaming dollars and leads to future gaming growth.

It can be relatively easy to follow the investment patterns of BRI into the region to see where the gaming dollar leads outside of the PRC. However, one must also understand the geopolitical influence that may be tied to that investment, as it can make or break a region if it falls out of harmony with the Chinese. As can be seen from the quarantine to prevent coronavirus outbreak, the sheer size of the population is a major factor, and turning off the spigot of travel can have a profound impact on gaming throughout Asia.

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