

Amusement & Gaming Research

Amusement (Pachinko,Pachislot) 業界、Gaming (Casino) 業界、日本の統合型リゾート (Integrated Resort) 導入の動向をウォッチ

China's Possible Influence on IR Development

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In February of 2021, a member of Japan's House of Representatives voiced his concern regarding the country's future development of integrated resorts. He asked government officials if Japan risked being added to a blacklist of countries developed by the Peoples Republic of China (PRC), should Japan move forward with development of its three planned integrated casino resorts.

The question was prompted by an announcement in 2020 by the Chinese Ministry of Culture and Tourism that it had established a blacklist of overseas tourist destinations that targeted mainland Chinese customers for gambling purposes. Those countries could expect to see travel restrictions imposed on Chinese citizens seeking to travel at a time when all east Asian nations will be restarting their tourism economies.

This would not be the first time that the PRC used restrictions on tourism to other countries as a form of retribution. In 2016, South Korea deployed a US built missile defense system. In response, Beijing imposed travel restrictions, reducing Chinese tourism to Korea by 50%. This action had a particularly deleterious effect on Korea's sixteen foreigner-only casinos, which rely on Chinese customers for most of their business.

Why China Created the Blacklist

For nearly two decades, casinos in east Asian countries have catered to Chinese gamblers. They relied on Chinese junket promoters to recruit customers, arrange air transportation, and provide them with credit to gamble. These casinos enjoyed robust business and came to rely on high-worth Chinese gamblers. Casinos in Vietnam and South Korea became completely dependent on Chinese visitation since their governments prohibited local residents from gambling.

Australia was another country whose casinos had come to rely on Chinese gamblers. They too employed the services of junket promoters to deliver wealthy Chinese players to their casinos.

Other countries, notably the Philippines and Cambodia, began to offer various forms of online gambling, whereby Chinese citizens could log onto a website and place wagers on live table games. While first designed to serve high-worth gamblers who did not have the time to travel to a foreign casino destination, this form of gambling evolved, eventually targeting the general population. Beijing became increasingly concerned over the effects this kind of gambling was having on its citizens.

In 2019, the Chinese government asked political leaders in Cambodia and the Philippines to suspend online gambling. Cambodia agreed and online casino operations ceased on December 31, 2019. The Philippines refused to take such action. Online gambling had grown into a major industry, generating an estimated US\$8 billion in annual gaming revenue, and employed an estimated 200,000 people.

Although the Chinese government has yet to announce which countries will be on this blacklist, Vietnam, South Korea, the Philippines, and Australia are all likely candidates. Since Chinese tourism will play an important role in the recovery of international tourism, this blacklist could have a significant economic impact on those countries.

Why Japan will not make it onto the blacklist

Japan has no reason to fear that China will seek some form of retribution against a country that does not have a casino industry today nor will it have one for perhaps another eight years. Even when a casino industry does emerge in the form of three integrated resorts, it will not employ any of the business strategies that casinos on the blacklist have come to rely on.

First, Japan's IR law prohibits the use of junkets. Junkets have long played an important role in the Asian casino industry. Junket promoters identify high-worth Chinese gamblers, provide them with credit or the ability to move funds across international borders in order that they may gamble. They also arrange air transportation and accommodations. Junket promoters in turn receive commissions from the casinos, based on their customers' wagering activity. China also recently passed a law that will impose severe penalties on those people or firms that promote gambling in China.

The second reason is that Japan will prohibit any form of online gambling. Online gambling is a very big industry and it targets Chinese citizens. So that's another area of concern to the China's political leadership. The Chinese government asked leaders in the Philippines and Cambodia to stop targeting its citizens. Cambodia agreed and did not renew any of its casinos' online gambling licenses in 2019. The Philippines ignored China's request.

Japan's regulatory structure will closely follow what was implemented in Singapore. These regulations include strict anti-money laundering statutes, and also require that every foreign visitor to a casino present their passport. Singapore's gaming regulations also prevent the kinds of marketing tactics that casinos in other countries employ.

Perhaps most important, Japan's integrated resorts will rely on a diverse mix of customers, and will not be reliant on any one country's citizens for their success. Rather, they will serve a diversified mix of customers including local day-trip customers, overnight domestic guests, and international visitors from Korea, Taiwan, Eastern Russia and other Asian countries that prohibit their citizens from gambling.

There are many things that regulators, politicians, and concerned citizens should worry about as Japan moves through its selection process and development of its IR industry. Worrying about what China might do a decade from now should be the least of their worries.

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