

Korea seen as biggest loser from China's zero-Covid Policy, Macau wins

By Andrew Klebanow – February 28, 2022



Public policy makers and health officials in countries across East Asia are cautiously optimistic that their tourism economies will begin to recover in 2022. Casino operators in particular are hoping for a resumption of international travel, especially those that are located in jurisdictions that prohibit or severely restrict their local populations from gambling.

The world does have reason to be optimistic despite the recent surge in Covid-19 infections caused by the Omicron variant. In many countries, vaccination rates have risen above 80 percent, treatments continue to improve, and the attitudes of health officials have changed, now becoming more acceptant of the fact that the virus's spread has transitioned from a pandemic period to an endemic stage. As international borders re-open, tourism will return and with it, a resumption of casino gambling from residents of nearby nations.

Looming large as an obstacle to a recovery of regional international tourism is the Peoples Republic of China (PRC) and its Zero Covid policy. Recently witnessed on the world stage during the Winter Olympics in Beijing, the PRC along with Macau, have designed and implemented a health safety system that closely monitors its citizens' movements and possible interactions with people who may have been infected.

At the smallest indication of an outbreak, authorities implement quarantine procedures to limit the spread of the virus. The PRC and Macau have both been successful at reducing transmission of the virus. Neither is expected to alter that policy until the virus is eradicated.

China's Zero Covid policy will continue to impact casinos throughout East Asia even after borders re-open. Faced with a mandatory quarantine period of 14 to 28 days upon return from a foreign country, residents of the PRC and Macau are not expected to be part of the mix of international travelers for the foreseeable future. The question becomes, which gaming jurisdictions can survive and prosper without the return of Chinese gamblers? A country by country examination reveals that there will be winners, survivors and losers among the region's casino jurisdictions.

Cambodia

Prior to the pandemic, Cambodia's tourism industry enjoyed robust growth from visitors from the PRC; however, some jurisdictions within the kingdom were less reliant on Chinese visitation than others. The gaming district in Poipet on the border with Thailand was dependent on visitors from Bangkok for nearly all of its gaming revenue. Similarly, the casinos in Bavet primarily served gamblers from Vietnam, particularly those residing in Ho Chi Minh City. Neither jurisdiction will be affected by the loss of Chinese tourists. While vaccine mandates and proof of a negative test result may slow the cross-border process, both markets are expected to recover once borders fully re-open.

NagaWorld in Phnom Penh had previously enjoyed the benefits from growth in tourist visitation from the PRC. Nevertheless, the property has managed to post strong results during the past year, and has demonstrated that its local database of expatriates residing in the city could sustain them. Moving forward, a shift in their international marketing strategy that focuses on Thailand and Malaysia can replace any business lost from the PRC. With the opening of Naga2 and a full renovation of the lodging product at Naga1, the company now has the tools to attract higher-worth gamers residing in Bangkok and Kuala Lumpur.



The one Cambodian market that is clearly vulnerable to China's Zero Covid policy is Sihanoukville. Prior to the pandemic, this coastal community was a veritable boomtown, with condominiums and hotels rising along the city's beaches. Built to serve Chinese visitors and second home owners, the hotel, casino and second-home markets will struggle to regain the

momentum they once enjoyed, and they will be hard pressed to replace that loss in tourism demand. While the completion of a new four-road expressway to Phnom Penh will open up the city to weekend vacationers, the majority of those visitors will be Cambodian residents and as such, prohibited from gambling in the city's casinos.

Korea

The gaming jurisdiction in Asia that is expected to suffer most from the loss of Chinese tourism is South Korea and its seventeen foreigner-only casinos. The casinos in Jeju, Busan, Incheon and Seoul were all heavily reliant on Chinese gamblers as residents were and continue to be prohibited from gambling in those properties. Today, only three of the eight casinos in Jeju remain open, and the only business they have comes from the city's expatriate population.

The central government's obstinance in loosening regulations to allow even occasional visitation from residents spells a continued dark period for those casinos. There will come a point where the absence of any meaningful gaming revenue will take its toll as fixed expenses fully deplete cash reserves. No business can survive indefinitely without customers, and Korea's policy of prohibiting its residents from gambling in all but one casino in the country could spell the demise of several properties.

Vietnam

Vietnam offers a mix of border casinos that target Chinese gamblers along the country's northern border, along with destination resorts along the coast. The country also implemented a pilot program that allows residents to gamble, albeit in fairly remote resort destinations.

The Grand Ho Tram Resort on the central coast, two hours from Ho Chi Min City, had managed to successfully reposition itself from a casino-centric property to an integrated family resort, even prior to the pandemic. With the recent opening of a new hotel tower squarely targeting families, Ho Tram is expected to see improved results with the resumption of international travel.



The two casino-resorts in and around Danang face a less optimistic outlook. The Crown International Casino Resort had long been reliant on Chinese junket play for the lion's share of its gaming business. With the PRC's focus on reducing junket activity coupled with its Zero Covid policy, it is hard to see how that operation replaces its core Chinese customers.

Likewise, the recently completed Hoiana integrated casino resort, whose one-third partner is Suncity Group, will no doubt struggle to replace both Chinese vacationers and gamers, as the property was developed with those market segments in mind. A change in marketing strategy

that focuses on Koreans, particularly those with a proclivity to golf and gamble, could replace a portion of its business, but the loss of Chinese customers will no doubt hurt.

Philippines

The casinos in the Philippines, primarily the properties that comprise Entertainment City, have long served premium players from the PRC. Junket promoters, particularly Suncity, were responsible for delivering this valuable gaming segment to those properties. While Chinese junket customers made a sizable contribution to gaming revenue, those casinos were not wholly dependent on that market.

As with other jurisdictions, a shift in marketing strategy that focuses on other countries can replace business lost from the PRC. More importantly, the casinos in Entertainment City have evolved into gaming and entertainment destinations that primarily serve the local population. They are not as reliant as they once were on Chinese players.

Macau

No other casino market stands to benefit more from the PRC's Zero Covid policy than Macau. With the policy firmly in place for the foreseeable future, the only jurisdiction where a Chinese citizen will be able to gamble without onerous quarantine restrictions upon their return will be Macau. Macau is, after all, within the PRC's Zero Covid bubble, and its tracking app is integrated with the one developed in the PRC.

A visitor from the PRC can use their mobile device to confirm vaccination status as they cross the border, and as a tracking tool when they enter any of the city's casinos. In fact, Macau's casinos stand to be the true beneficiaries of the Zero Covid policy. Until the pandemic abates, Macau will have the PRC's entire market of gamblers to themselves, without any annoying foreign competitors to contend with. That is not a bad outlook.



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