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Focus on Asia: The Problem With POGOs

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The worldwide closure of casinos in the first half of 2020 has sparked renewed interest in online gambling. European countries have long offered a variety of online gaming products, primarily computer-generated forms of table games and slot machines. A different type of online wagering, called E-Casinos, has emerged in several Asian jurisdictions. This form of gaming combines traditional table games dealt by dealers in real-time, and streamed across the internet to players around the globe. The Philippines has emerged as the world leader in this form of gaming entertainment.

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It is estimated that Philippine Offshore Gaming Operations (POGOs), comprised of 60 licensed operators, generated approximately \$6 billion in gaming revenue in 2018 and contributed \$145 million in gaming taxes, licensing and regulatory fees. Gaming revenue from POGOs was estimated to have grown to approximately \$8 billion in 2019 and was anticipated to continue on a growth trajectory until Covid-19 forced the temporary closure of these enterprises.

In addition to gaming tax revenue, POGOs have had a profound impact on other aspects of the Philippine economy. POGOs and their supporting firms lease voluminous amounts of office space and occupy 10.8 million square feet of office space in greater Manila alone. Over 100,000 Chinese nationals, recruited to work in the POGO industry have raised the demand for residential

housing, driving up rents and occupancy. Both commercial and residential landlords have greatly benefited from this increased demand.

Since POGOs target and serve gamers residing outside of the Philippines, and Filipinos, no matter where they reside, are forbidden to wager on these online platforms, these gaming operations appear to have little negative impact on Philippine society. As one gaming industry executive once said, “what’s not to like about POGOs?”

While POGOs have generated prodigious amounts of tax revenue, grew local employment, and stimulated other economic benefits, there are some problems with POGOs that are rarely discussed amidst enthusiasts of the industry. This article examines the problem with POGOs.

The History of POGOs

POGOs were established in November of 2016 when President Duterte signed Executive Order No. 13, removing two regional authorities from regulating offshore gaming licenses and handed regulatory oversight to the Philippine Amusement and Gaming Corporation (PAGCOR). E-Casinos had in fact been in existence in the Philippines since 2005, having first been developed in the Cagayan Economic Zone and Freeport. Under the auspices of the Cagayan Economic Zone Authority, the E-Casino industry grew to include over 50 operators and had evolved into a multi-billion dollar industry. Bringing this industry under the auspices of PAGCOR gave the industry a heightened sense of legitimacy. It also challenged PAGCOR to develop methodologies to oversee and regulate what was to them a new form of casino gaming.

Why Have 130,000 Customer Service Agents?

Prior to the Covid-19 induced lockdown in March of 2020, POGOs and their various affiliate service providers required an army of workers to staff and maintain operations. Amongst them were approximately 130,000 Chinese nationals, recruited from the People’s Republic of China to work in the Philippines for Customer Relations Service Providers. According to PAGCOR, their role is to offer customer service to players and cater to their various needs through direct interaction by means of remote communications devices. These agents are tasked with helping new customers set up accounts, address disputes and maintain an open dialogue with players.

130,000 may seem like a lot of people, considering that the vast majority of Asian adults already know how to set up purchasing accounts on their mobile devices. The question that one must ask is, what do 60 online casinos need with 130,000 Chinese nationals when even the largest of world’s integrated casino resorts each employ around 300 people devoted to player services, and all of the integrated casino resorts in Macau employ fewer than 110,000 people, including all the dealers, supervisors, restaurant staff, hotel staff, maintenance, and support staff?

Recent articles published in the Los Angeles Times, CNN and Rappler, the Philippine-based news organization, suggest that these service providers serve a different role: to troll social gaming websites, identify potential customers, and induce those players to sign up for real-money wagering. Then, those agents establish an ongoing dialogue with those players, inducing them to continue wagering through an endless stream of promotional offers. These kinds of

marketing tactics, developed over the past fifteen years and also adopted by social gaming websites, have proven particularly worrisome to the central government of the Peoples Republic of China. It also smacks against any responsible gaming initiatives promoted by PAGCOR.

Gambling Is Illegal In China

According to PAGCOR regulations, online gaming operators can only stream into countries that permit it and are forbidden to stream into any country in which gambling is illegal. PAGCOR has long taken a stance that it does not truly know where POGO customers reside and is dependent on third-party auditors to monitor where wagers are made.

Gambling is against the law in the PRC and the only place where it is permitted is in Macau, a Special Administrative Region of the PRC. In fact, the PRC strictly prohibits the delivery of casino marketing messages anywhere in China, and gambling debts are unenforceable. A casino in another jurisdiction such as Singapore risks onerous penalties from its regulators if it violates the laws of another country. Nevertheless, the lion's share of POGO gaming revenue is generated from players residing in the PRC. PAGCOR maintains a certain degree of plausible deniability since it relies on outside auditors to monitor where wagers are placed. Nevertheless, Philippine authorities must acknowledge that the 130,000 Chinese nationals employed by POGOs and their affiliate service providers are there to service gamblers who ostensibly reside in the PRC.

The PRC has grown increasingly concerned over its citizens' participation in various forms of online gambling. In 2019, it asked leaders of both the Kingdom of Cambodia and the Philippines to cease online gambling operations that target Chinese citizens. In response to that request, and in respect to its alliance with China, Cambodia announced that it would no longer license online gaming operations once those licenses expired on December 31, 2019. The Philippine government took no action and maintained its right and those of its licensees to stream online gaming into other countries.

POGOs Can Leave At Any Moment

Upon announcing in August of 2019 that online gaming operations would cease at the end of the year, the Kingdom of Cambodia witnessed a mass exodus of thousands of Chinese nationals that were employed by dozens of casino operators. Faced with a cessation of business, Cambodian online casino operators packed up their office equipment, computer servers and telecommunications hardware, and moved to other jurisdictions. In the wake of their departure, residential, hotel, and commercial real estate occupancy rates plummeted. Followed shortly after by the global pandemic, these markets have yet to recover.

As the pandemic-induced lockdown in Manila comes to an end, POGOs are resuming operations. Along with it came a call from Philippine politicians to increase gaming and other taxes levied against POGO operators. In response, some POGO operations have closed and plan to move elsewhere. Further calls to tax POGO may lead to other operators shifting their

operations to countries with more favorable tax environments. A large exodus could negatively impact commercial real estate, residential real estate, and employment of Filipino workers.

To its credit, PAGCOR was handed the unenviable task of building regulatory oversight of a massive online gaming industry with little time and limited resources. To that end, it has done an admirable job. Nonetheless, it must reconcile the fact that POGOs, when they stream gaming into other countries, often violate the laws of other nations. They must also recognize that the marketing practices employed by Service Providers do not adhere to the principles of responsible gaming. Also, should they press these issues with POGO operators, those operators may just pack up and leave. That could be a problem.