



# KINGDOM IN CRISIS

*What is next for casinos in Cambodia?*

By Andrew Klebanow

**L**ess than one year ago, the Cambodian gaming industry was brimming with optimism—56 new gaming licenses had been issued from 2017 to 2019. By September 2019, the country had 133 casinos in operation.

Sihanoukville, home of many of those casinos, was experiencing an unprecedented construction boom. NagaCorp's integrated resort complex continued to post dramatic growth in revenues after the opening of Naga 2, and the company had begun planning for Naga 3, a new \$4 billion integrated resort.

The border casinos in Bavet and Poipet were undertaking expansion programs. Most importantly, the Ministry of Finance was nearing completion of the draft Law on the Management of Integrated Resorts and Commercial Gaming (LMIRCG).

Six months later, that optimism has been replaced by a sense of gloom. The COVID-19 virus has had a deleterious effect on gaming markets throughout Asia, and every casino in Cambodia has been impacted. The LMIRCG has yet to be codified into law, and a once-booming online gaming industry ceased to operate on December 31, when those licenses expired.

How quickly can the industry rebound, and what will it look like in 2021 and beyond, as the threat of the virus subsides? These are critical questions as the industry faces an uncertain future.

*How quickly can the industry rebound, and what will it look like in 2021 and beyond, as the threat of the virus subsides? These are critical questions as the industry faces an uncertain future.*

## The LMIRCG

The Law on the Management of Integrated Resorts and Commercial Gaming has long been a work in progress. It's considered crucial if the Cambodian casino industry is to emerge as a well-regulated industry that adheres to international standards and attracts the interest of international operators. Until now, the burden of adhering to internationally recognized regulatory standards has fallen on individual operators.

Publicly traded gaming companies such as NagaCorp and Donaco International built their own regulatory structures that adhere to those of other highly regulated jurisdictions. In fact, NagaCorp is considered a model of sound self-regulation. Notwithstanding, the intent of the LMIRCG is to bring gaming regulation to a higher standard for all casino operators, develop stricter licensing procedures, establish a fair and reasonable tax rate, and limit where casinos can operate.



Once a sleepy beach community, Sihanoukville now is home to hundreds of factories and a large shipping industry. But the loss of online gaming has chased thousands of Chinese back to their home country.



Publicly traded NagaCorp holds a monopoly on gaming in Phnom Penh and has developed two NagaWorld properties (Naga 2 at left), with plans for a third

***At the request of the Chinese government, Cambodia agreed to stop issuing new online gaming licenses and let existing licenses expire without renewal. That decision had an immediate and deleterious effect on the gaming industry.***

As of September 2019, the LMIRCG stood at 12 chapters and 97 articles. The Commercial Gaming Committee of Cambodia (CGCC) would be established as the new regulatory authority. The LMIRCG would establish zones where casinos could and could not be located, defined as Prohibited zones, Promoted zones, and Permitted zones. Casinos would be prohibited from being built in Siem Reap or near cultural and world heritage sites. Promoted zones are those regions where the government would like to see the development of a healthy, tourism-driven gaming industry.

Most notable is the region in and around Sihanoukville. Established markets, such as the border markets of Poipet and Bavet, would become Permitted zones. They would have to go through more frequent licensing reviews than those in Promoted zones.

The LMIRCG would also establish reasonable tax rates predicated on a percent of gaming revenue, with a different rate for gaming revenues generated from junkets and mass-market gaming. While rates have not been publicly disclosed, it's generally believed that there would be a blended rate in the mid-single-digit range.

This would give Cambodia a distinct advantage over other jurisdictions that have far higher tax rates. The law must now be approved by the Council of Ministers, the National Assembly, and the Senate. It remains to be seen when the new law will take effect, but indications are that it will pass sometime in 2020.

## Online Gambling Ends

On August 18, 2019, the Cambodian government announced that it would not renew any online gaming licenses when they expired on December 31. Prior to that date, casinos were permitted to offer online gaming broadcast from live table games in their casinos. Table game pits in casinos that were outfitted with cameras and special software had become ubiquitous in Sihanoukville, as well as in many border casinos. Gamers residing in other countries could log onto a casino's online platform, select a table with a live dealer, and place wagers on their digital devices, while viewing a live game in real time. The dealer would initiate a game with the outcome displayed on each bettor's device.

This form of wagering had been growing in popularity, particularly in the People's Republic of China, and had become a concern to the Chinese government, since gambling is illegal in China. China has emerged as an important trading partner with Cambodia, and has been investing in the country's infrastructure through its Belt and Road Initiative. At the request of the Chinese government, Cambodia agreed to stop issuing new online gaming licenses and let existing licenses expire without renewal. That decision

had an immediate and deleterious effect on the gaming industry.

Online gaming had grown into a major industry, employing tens of thousands of people. Many of these employees were Chinese nationals who served as customer service agents, provided IT support, and performed other functions. Their presence in various gaming jurisdictions fueled demand for housing and office space, as well as basic support services such as restaurants and other commercial activity. This, in turn, stimulated hotel, residential and commercial development.

When online gaming ceased, a mass exodus of people occurred, leaving in its wake a weakened economy that was about to lose its tourism base to the COVID-19 virus. No other market was as severely impacted as Sihanoukville.

## Sihanoukville

Sihanoukville sits on the Gulf of Thailand. It has long served as a tourist destination, and appealed to Westerners and budget travelers seeking a southeast Asian resort experience.

Recently, those Westerners began to be replaced by Chinese tourists, who found the city's casinos and beaches particularly appealing, and who were willing to spend more money for those experiences.

Sihanoukville's economy benefits from a number of drivers, the most important of which is the Sihanoukville Autonomous Port. As the kingdom's only deep-water seaport, it's a major transit point for goods produced in Cambodia. The port, in turn, has stimulated development of the Sihanoukville Special Economic Zone (SSEZ). Located 12 kilometers from the port and 212 kilometers from Phnom Penh, the SSEZ is a



Sihanoukville should rebound from the prohibition of online gaming with an expanded airport and a highway linking the town with Phnom Penh

center of manufacturing, and an important part of the Belt and Road Initiative. It currently contains approximately 90 factories and is master-planned to have up to 300.

The port and the SSEZ have generated a significant amount of business travel from China. This, in turn, has stimulated growth in the residential real estate sector, as well as fueling demand for additional lodging.

Another economic driver is the construction of a new four-lane highway from Phnom Penh. Once completed in 2021, the road will significantly reduce travel time, increase commercial traffic and give residents and expatriates living in Phnom Penh an opportunity to enjoy a weekend beach experience.

One final economic initiative is the recent expansion of the Sihanoukville International Airport. This expansion opened up a number of new markets, including Kuala Lumpur, Bangkok and multiple cities in China. This stimulated growth in the hotel sector, including a number of four- and five-star resorts. The largest, the Golden Sun Sky Resort, will feature over 2,000 lodging keys and a massive casino.

As recently as 2015, Sihanoukville had approximately nine casino properties, a few midscale hotels and dozens of smaller value-lodging experiences. In response to the aforementioned economic drivers, the city's hotel and condominium sector underwent significant expansion.

By 2018, the city's skyline was filled with more than a dozen high-rise hotel, condominium and office projects. This new construction, funded in large part by Chinese enterprises, brought in thousands of Chinese construction workers. Then came the explosive growth in the online gaming sector.

Online gaming rapidly grew into an industry that required thousands of



**Another economic driver is the construction of a new four-lane highway from Phnom Penh. Once completed in 2021, the road will significantly reduce travel time, increase commercial traffic and give residents and expatriates living in Phnom Penh an opportunity to enjoy a weekend beach experience.**

employees, and many of those employees came from China. Demand for lodging increased dramatically. Hotels designed to serve tourists became housing for Chinese employees. The city's road, sewer and water infrastructure struggled to keep up with the increase in construction traffic, as well as the dramatic increase in population. Sihanoukville became an example of a market where commercial growth exceeded a city's ability to regulate that growth. Then came the decision in August 2019 to end online gaming. It was a seminal event.

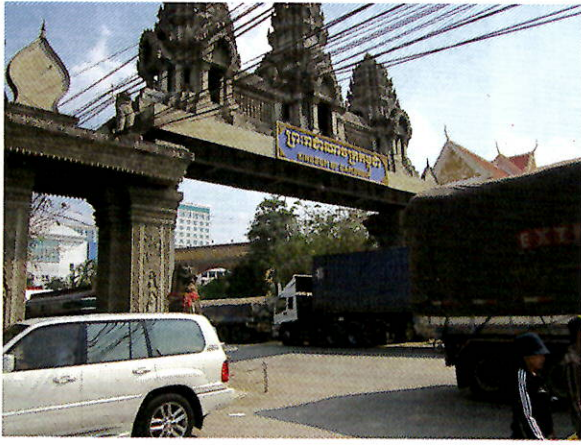
Once it became clear that the central government would not renew online gaming licenses, Chinese nationals began to return home. Construction workers left as projects were suspended. Customer service agents and IT support personnel soon followed.

Hotels, which recently served as dormitories for these workers, saw occupancy rates plummet. Restaurants, shops and other enterprises also felt the sting of this exodus. By February 2020, 30 casinos had closed, traffic jams had disappeared and many construction projects were halted.

It remains to be seen how long it will take for Sihanoukville's tourism economy to recover. Online gaming skewed traditional supply/demand models for lodging, dining and residential development. Once the threat of the virus subsides, it's expected that tourists will return, and, coupled with increased business activity, the city's lodging sector will recover.

## Poipet

Poipet is a casino district located on the border of Thailand, and is an approximate three-hour drive from Bangkok. The city saw a modest increase in the number of casinos, growing from 12 in 2017 to 17 in 2019. Poipet's casinos benefit from a liberal immigration policy that allows Thai nationals to enter the kingdom without having to first pass through Cambodia immigration. It also allows them to return to Thailand by just presenting their identification cards. Poipet is also easily accessible from Siem Reap by car or bus. Tourists



Poipet is along the border with neighboring Thailand, and hosts 17 casinos, including the luxurious Holiday Palace



visiting that city's world heritage sites can easily include a day-trip gaming excursion as part of their vacation experiences.

The city's casinos have long served as a convenience-based gaming destination for residents of Bangkok. While a number of properties feature lodging, most do not offer the quality lodging experiences found in Macau or at NagaWorld. Only Donaco International's Star Vegas provides what can be considered a premium gaming and lodging experience. Nonetheless, other operators continue to improve their gaming, dining and lodging offerings.

Several of Poipet's casinos have also witnessed a diminution of gaming revenue and an exodus of Chinese employees, as some were involved in online gaming activities. Compounding the problem was a slowdown in cross-border traffic due to fears of the COVID-19 virus.

## Bavet

Bavet sits on the border of Vietnam, and is about a two-hour drive from Ho Chi Minh City. It serves as a convenience-based gaming destination for Vietnamese nationals. The supply of casinos in Bavet has remained fairly stable, growing from 12 in 2017 to 13 in 2019. Its border crossing is less convenient, as it closes at night. This has prompted several casino operators to expand their lodging offerings.

As in other markets, several of Bavet's casinos offered online gaming, and as such, felt the loss as those operations ceased in December.

# Epic Edge™

## THE NEWEST AND MOST ADVANCED CASINO PRINTER

The new Epic Edge™ ticket printer is packed with technology to simplify your operations and improve slot floor performance, all while retaining key design features from the ever-reliable Epic 950®.

# TRANSACT®

[www.transact-tech.com](http://www.transact-tech.com)



300 DPI for razor-sharp barcodes and optimized acceptance rates

Firmware uploading solution more convenient and speedier than ever



Located in Phnom Penh, NagaWorld evolved from a casino barge on the Tonle Sap River into a multi-property integrated casino resort complex



## NagaWorld

No evaluation of the Cambodian casino industry is complete without an examination of NagaWorld. Located in Phnom Penh, NagaWorld evolved from a casino barge on the Tonle Sap River into a multi-property integrated casino resort complex.

In November 2017, the company opened Naga 2, essentially doubling the number of lodging keys from 797 to 1,658 rooms and suites. Gaming capacity also doubled to 600 table games and 4,000 electronic gaming devices. In addition, Naga 2 added a 2,000-seat theater and brought restaurant capacity

to 20 outlets.

Naga 2 demonstrated that if an operator provides a truly outstanding lodging, dining and gaming experience, the market will respond positively. In 2018, the first year of the expansion, the two properties, collectively referred to as NagaWorld, increased gaming revenue by 55 percent to \$1.5 billion from the prior year. In 2019, gaming revenue increased by an additional 20 percent to \$1.7 billion. NagaWorld is one of a few Cambodian casino operations that chose not to develop an online gaming platform, and was thus unaffected by the termination

# WE ARE ALL REBELS FOREVER



Every graduate of UNLV is now a Rebels Forever member. The UNLV Alumni Association is happy to welcome each graduate into this new designation as alumni, without membership dues.

**No matter where you are in the world, you are a Rebel!**

Your alumni association is committed to supporting all alumni, and to fostering a vibrant, lasting relationship between you and UNLV for life.

For more information, please call 702-895-2384



of those activities.

Buoyed by the success of Naga 2 and the continued increase in visitation from key feeder markets, the parent company announced earlier in 2019 that it was embarking on the development of Naga 3. The \$4 billion project will be comprised of three towers—one with 75 stories and two with 61 stories—as well as multiple hotel brands, additional gaming, conference and meeting space, and dining and family entertainment attractions.

**The \$4 billion project will be comprised of three towers—one with 75 stories and two with 61 stories—as well as multiple hotel brands, additional gaming, conference and meeting space, and dining and family entertainment attractions.**

## What's Next

It's been an interesting year for casino operators in the Kingdom of Cambodia. The termination of online gaming caused disruptions to business operations in multiple markets. The boomtown that was Sihanoukville illustrates the importance of master planning, regulation and measured growth.

Long-term, Sihanoukville without online gaming remains a good story. It offers an attractive seaside resort and a good regional airport. The fundamental economic drivers remain in place. The current slowdown is allowing the central government an opportunity to improve infrastructure, expand the city's road network and develop regulations to manage future growth.

The border casinos, though stung by the loss of online gaming and a decline in visitation, will recover. If they continue to improve their product offerings, they should enjoy steady growth.

NagaWorld continues to be the star performer in the kingdom. NagaCorp has long taken a measured approach to growth; its leaders understand what customers want, and continue to provide the products and services that people desire.

With the eventual passage of the LMIRCG, it's expected that public companies will join NagaCorp and Donaco International and invest in the kingdom's casino operations. With regulation comes stability, and stable growth is what Cambodia's casino industry needs.

*Andrew Klebanow is a principal at Klebanow Consulting. He has worked in the casino industry since 1977, and as a gaming consultant since 2000. He can be reached at [andrew@klebanowconsulting.com](mailto:andrew@klebanowconsulting.com).*

# You Can Bet On Us®

## Fox Rothschild's Gaming Law Group

Ranked among the best in the world by Chambers Global, the Gaming Law Practice at Fox is one of the nation's largest and most respected. Our attorneys have the experience and knowledge to help you come out ahead.



**Fox Rothschild** LLP  
ATTORNEYS AT LAW

950 attorneys nationwide

**Nicholas Casiello Jr., Chair**

[ncasiello@foxrothschild.com](mailto:ncasiello@foxrothschild.com) | 609.572.2234

Visit us on the web  
[foxrothschild.com/gaming](http://foxrothschild.com/gaming)

