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Focus on Asia: Will Korea's foreigner-only casino industry survive the pandemic?

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Over the past twelve months, the pandemic has impacted gaming jurisdictions across the globe in varying and often dramatic degrees. Collectively, the casinos in the United States have enjoyed near record revenues. Those properties in the Philippines, while negatively impacted by the loss of international visitation and periodic limits on capacity, also managed to survive reasonably well, owing in large part to its government's policy of allowing Filipino residents to enter and gamble in their country's casinos. Likewise, Singapore's two integrated casino resorts were able to weather the continued loss of international visitors, and are expected to fully recover with the re-start of tourism from other east Asian countries.

Even Macau, whose Zero Covid policy had completely curtailed the arrival of international visitors and severely restricted the flow of patrons from mainland China, managed to survive, and will soon see the full resumption of visitors from Guangdong province and other regions that have successfully brought Covid transmission rates down. For these nations, there is a certain degree of optimism that, moving forward, gaming revenues will return to pre-pandemic levels.

One nation whose casino industry has struggled mightily since the start of the pandemic is the Republic of Korea (ROK). The ROK's casino industry was severely impacted from the loss of international visitors, particularly those from the People's Republic of China (PRC).

Of the country's 18 casinos, only one allows Korean residents to gamble. The others are designated as foreigner-only, and were forced to either close, or stay open by relying on a small but loyal expatriate population. Their fortunes are not expected to change until visitation from the PRC resumes, and that is not anticipated anytime soon.



Understanding casinos in Korea

To understand the importance of international visitation (particularly from the PRC) on Korea's casino industry, it is important to first understand the kinds of gaming available and the jurisdictions where they are located. Of the country's 18 casinos, only one permits Korean residents to gamble. Kangwon Land Casino is a casino resort located at the foot of High1 Ski and Golf Resort in Jeongseongun, approximately three hours by car from Seoul. It is the largest casino in the country and accounts for over half of the country's annual gambling revenue.

Kangwon Land Casino managed to weather the pandemic rather well, albeit with a significant drop in visitation and gaming revenue. Even though in 2021 gaming revenue fell by 47.7% from 2019, it enjoyed a 74.7% increase from 2020. Leadership also took advantage in the slowdown in business to initiate an expansion plan at a cost of KRW 28.4 billion (US\$23.7 million), which will focus on increasing the casino's table game capacity.

The country's remaining casinos can be found primarily in four distinct cities: Seoul, Incheon, Busan, and Jeju. With eight casino properties, Jeju offers the largest concentration of gaming in the country. Jeju is an island off the southern tip of the Korean peninsula. It offers a milder climate than the mainland, an attractive seaside setting, and has evolved into an international tourism destination. As a self-governing province, Jeju also has a certain degree of autonomy. Unlike the rest of the ROK, Jeju permits visa-free travel for visitors from the PRC. Prior to the pandemic, Jeju welcomed over 15 million visitors annually and approximately 80 percent of them were from the PRC.

Not surprisingly, Jeju's tourism economy was devastated by the pandemic. The island's airport was closed to international travel in February of 2020 and that has yet to resume. Only three of the island's eight casinos remain open: Jeju Dream Tower Casino, Paradise Jeju Casino, and Landing Casino Jeju.

The capital city of Seoul and nearby Incheon collectively have the second highest concentration of foreigner-only casinos: the Paradise Casino and Seven Luck Casino in Seoul, and Paradise City in Incheon. These properties managed to continue to operate due to the sizeable expatriate population residing in this dense, urban region.

Incheon will also be home to two integrated casino resorts including Project Inspire, developed by Mohegan Gaming and Entertainment, and the Midan City Resort Complex. Project Inspire's construction is well underway, and upon completion will have over 1,300 high-end lodging keys, over 20,000 sqm of retail, a 15,000-seat arena, a massive amusement park, and a 20,000 sqm casino. Project Inspire will also have its own private air terminal, allowing it to better serve international VIPs.

The Midan City Resort Complex is a more modest-sized development, and is expected to include 751 lodging keys, MICE space, and a theater. Development of that integrated resort was slowed after Caesars Entertainment announced that it sold its ownership interest in the project in 2021.

Busan is Korea's second largest city with a population of 3.4 million. Its port is the largest in Korea and sixth busiest in the world. As such, it had a sizable expatriate population industry that helped support the city's two casinos: Paradise Casino Busan and Seven Luck Casino Busan Lotte.

China's Zero Covid Policy

Looming large as an obstacle to a recovery of Korea's foreigner-only casino industry is China's Zero Covid policy. One of the features of that policy is a lengthy quarantine period in government-designated hotels or other facilities that can last from 21 to 28 days. Any resident of the PRC, Macau SAR and Hong Kong SAR returning from a foreign destination is obligated to adhere to strict quarantine mandates.

Hong Kong's recent omicron outbreak, reportedly traced to flight attendants that violated their quarantine restrictions, only strengthened the PRC's commitment to this policy. Anyone returning to the PRC, Macau and Hong Kong will find themselves in quarantine under strict supervision. As such, any resumption of outbound tourism from China to other destinations in Asia will not occur for the foreseeable future. Any country that had relied on Chinese tourism in the past will need to find other markets to serve. This leaves Korea's casino industry in a very difficult position.

Recently, two initiatives to help the casinos in Jeju were proposed. One was to allow Koreans from the mainland to visit casinos in Jeju on a very limited basis. Koreans not residing in Jeju could visit a casino up to 12 times a year, and no more than once a month, and would have been required to show airline tickets and other documentation prior to gaining entry to a Jeju casino. That proposal was summarily rejected amidst opposition from Gangwon Province, home of Kangwon Land Casino.

Another proposal currently under review is the possible introduction of proxy gambling. Proxy gambling, in its simplest form, allows a gambler residing in another country to send a proxy to a casino, who in turn places wagers on behalf of the gambler. The host casino in turn provides

audio-visual equipment that allows the gambler to observe in real time via a mobile device or computer a table game and communicate betting instructions to his/her proxy. Proxy gambling is prohibited in Macau, although it is still available in other east Asian jurisdictions. Regardless, it is not expected to have a material impact on Korea's foreigner-only casino industry should it be implemented.

Given that Chinese tourism is not expected to resume for the foreseeable future, it is difficult to see how Korea's foreigner-only casino industry, particularly those in Jeju, can survive. No business can remain closed indefinitely. At some point, Korea's public policy makers will face a reckoning: alter their gambling policy or allow an industry to fold.

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