

G3-247 Report  
NORTH KOREA

The Emperor's  
new groove

The Emperor Resort & Casino in North Korea's remote Rason district has a carpark full of Yanbian license plates, indicating that increasing Chinese investment in the Special Economic Zone is reviving the fortunes of the hotel after a troubled past. Most signs indicate the trend is set to continue.



fic and transport office, made 27 trips to the casino that year and lost all the money. He was expelled from the Chinese Communist Party and went into hiding.

The casino's owner, Hong Kong tycoon Albert Yeung, has also had run-ins with the law himself and been the subject of insider trading investigations. In 1981 he served a six-month jail term for intimidating witnesses and was arrested again in 2003 following a corruption probe into Hong Kong's entertainment industry.

"The Chinese put pressure on North Korea to close down and for a long time it (the casino) wasn't running or rather, it relocated to another floor and was being operated in secret," said the longtime North Korean watcher who asked not to be named.

The casino reopened in 2007, but Chinese authorities warned that Chinese officials or party members should not be permitted to enter.

"You can only gamble at the Emperor if you have a letter of invitation from the casino or else you have to have your CV checked, to make sure you're not in government," said Amanda Carr, independent tour specialist at Koryo Tours.

North Koreans are not permitted to enter the casino. When the complex was first proposed, North Korea opposed the word "casino" in its name because it didn't want North Koreans to know what the word meant.

The gamblers are almost exclusively Chinese. It's much easier for foreigners to enter the special economic zones than other parts of North Korea and Chinese don't even need a visa; they can enter on a travel permit and Rason is only an hour's drive from the Chinese border.

The casino is open around the clock and busy at all hours. It has 52 gaming machines and 16 tables, including Blackjack and Roulette. The minimum bet on all games is US\$50, with a minimum buy-in of US\$500.

The basic room rate at the hotel is 780 RMB (US\$128), rising to 1,680 RMB (US\$276) for the top suite but most guests don't pay this and instead come in on gambling packages.

The hotel's other facilities include three restaurants, karaoke, saunas and a swimming pool. It has an enviable location beside the sea with a private beach overlooking Pipa Island, but no one comes for the beach. They come to gamble and the beach is desolate, the sand littered with broken bottles.

Rason is rapidly becoming a destination for increasingly affluent Chinese and Emperor Hotel & Casino is well positioned to make the most of this, being one of two casinos in North Korea. The other is in the basement of the Yanggakdo International Hotel in Pyongyang.

*The casino is open 24/7 and has 52 slot machines and 16 tables, including Blackjack and Roulette. The minimum bet on all games is US\$50, with a minimum buy-in of US\$500.*

about 22.5 percent to 237,400 last year from the year before, according to Chinese Ministry of Tourism figures.

However, relations with the Chinese have not always been smooth. The hotel was forced to close in 2004 after a senior Chinese official embezzled US\$425,000 of public money to fund his gambling sprees.

Cai Haowen, the former head of the Yanbian traf-

"There were gamblers with plastic shopping bags of 100 RMB (US\$16.4) notes going into the casino it was just crazy," said a longtime North Korea watcher who stayed at the hotel last month and asked not to be named.

The resort, owned by Hong Kong's Emperor Group, first opened its doors in 2000, some nine years after the insular Pyongyang regime designated the northeastern province of Rason a special economic zone.

However, for years Rason languished with geopolitical tensions, international sanctions, and domestic policies all serving to hobble North Korea's economy. Some 20 years later, the situation may be changing.

"I think Rason is making gradual progress. There have been some fairly sizable construction proj-

01 Movie actor and celebrity Jackie Chan is believed to be one of the major investors in Emperor Resort & Casino in North Korea, although he has never visited the location. The Emperor Group is owned by Albert Yeung who has had a business relationship with Mr. Chan for many years, having set-up several charitable foundations that bear their names. Mr. Chan is also a partner in the Emperor group casino in Macau.

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ects this year. If you compare it to the rest of North Korea, then you have to say that things are going pretty well," says Andray Abrahamian, Executive Director of the Choson Exchange.

The North Korean economy returned to growth in 2011, expanding by 0.8 percent, with that trend continuing last year with growth of 1.3 percent, according to July estimates from The Bank of Korea.

In Rason, legal changes made in 2010 served to detach the SEZ from the regional government and make it more autonomous. Further changes in 2012 helped harmonize Rason's economic laws with those of China.

Late last year a new 50km road linking Rajin with Hunchun in neighboring Jilin province opened, funded by the Chinese government. There are also

moves in place to bring power over from Jilin province to tackle the area's chronic power failures. When that comes off, even more and bigger Chinese businesses will want to invest, bringing more Chinese and more potential gamblers to Rason. Trade between China and Rason is currently estimated at about \$6 billion.

Rason also held its third International Trade Exhibition in August, attracting 120 entities and securing a pledge from FAW Group Corp, a Chinese state-owned automaker, to invest in a factory there, according to North Korea's Central News Agency.

Estimates put the number of visitors to North Korea at about 250,000 annually, with about 95 percent of those coming from China. Although the numbers are relatively small, growth has been robust, with a rise in Chinese visitor numbers of

G3-247 Report  
SOUTH KOREA

Capitalising on  
Gangnam style

South Korea's government, under President Park Geun-Hye, may be warming to the idea of integrated resorts in the country, despite reversing proposals put forward by the previous administration on foreigners' only casinos.



Planned moves to open up markets in neighbouring countries have generated a flurry of excitement and investment pledges, while capturing the attention of policymakers in S. Korea.

Japan's coalition government is considering a bill to allow casinos, which could lead to the creation of the world's secondbiggest gaming market, with some \$8 billion to \$10 billion in gross gaming revenue in the first year, according to Morgan Stanley estimates. Meanwhile, Hong Konglisted Galaxy Entertainment has said it would be prepared to invest as much as \$5 billion in Japan and Taiwan if legislation gets the green light.

The same operators expressing interest in Japan Sands, MGM, Wynn, Melco Crown have also made the pilgrimage to S. Korea and made it clear they would be prepared to invest billions of dollars if "open" gaming were expanded beyond Kangwon Land, the sole domestic casino in the country at the moment. That kind of potential investment has not escaped this administration's notice, but it acknowledges that the current regulatory framework does not support permitting local gaming to foreign investors, with discussions around casinos in the country traditionally having centered around the social costs.

However, the possible financial benefits are being welcomed by the Ministry of Strategy and Finance (MOSF), which had supported the introduction of a preapproval process implemented by former President Lee Myungbak. In September 2012, the former administration changed one of the Free Economic Zone ordinance regulations to allow foreign casino licenses after they had met investor requirements.

The Ministry of Culture, Sports and Tourism (MCST) expressed reservations about the effectiveness of an ordinance change, preferring the clarity of a law change, and this has become a concern of the current administration. This is also the reason behind MCST's present move to replace the preapproval system with a bidding process.

Perhaps unsurprisingly, proposals put forward by a consortium of Lippo Group and Caesars Entertainment (LOCZ), and another from Japan's Universal Entertainment were rejected, ostensibly due to a failure to provide adequate financing plans.

At an open interministry conference held in July this year and attended by key ministers, academ-

*The stakes are large and the construction of luxury integrated casino resorts is seen as key in attracting a share of the rapidly expanding Chinese market.*

ics, KPop celebrities and tourism experts, several policy recommendations were made, the most important of which was the possibility of introducing integrated resorts (IRs). Significantly, this was the first time that President Park had used the term IR, though she did not explicitly mention open casinos.

It was decided that if IRs of a significant size were to be introduced into the country, the current domestic gaming situation should be studied in depth, as well as the models of other jurisdictions such as Las Vegas, Singapore and Macau to determine the pros and cons, assess public sentiment and how they may be implemented in S. Korea. Findings from the benchmarking study, being carried out by MCST, are likely to be reported early next year.

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According to Steve Park\*, Managing Director of KORE Ltd. and Executive Director of Korea Integrated Resort Industry Development Forum, several legislators are interested in introducing a bill in favour of IRs, and initiating a debate to change existing laws to allow for foreign companies to own and operate integrated resorts in the country. There is a chance that a bill could be put forward early before the National Assembly in light of the recent developments in Japan to permit open casinos.

The stakes are large and the construction of luxury integrated casino resorts is seen as one key element in attracting a share of the rapidly expanding Chinese outbound travel market. South Korea had 3.43 million visitors from Mainland China in the first three quarters, up from 2.15 million in the same period last year and 1.67 million in 2011, according to figures from the China Outbound Tourism Research Institute.

In South Korea, operators are already positioning themselves. Paradise Co., the country's longest running and only major private casino operator, appears to have stolen a march on rivals with plans for a medium-sized \$1.7bn integrated casino resort with Japan's Sega Sammy in the port city of Incheon.

This is a major change when considering that Paradise stuck to its business model of an urban casino hotel for more than a decade, even with the introduction of Kangwon Land, the country's only domestic casino and three Seven Luck foreigners' only operations, run by the government corporation, Grand Korea Leisure.

As a company, Paradise has to protect its backyard, and prepare for the opening up of the mar-

ket, which is the underlying driver for the partnership with Sega Sammy. "This deal secures a prime location in Incheon for Paradise without having to apply for a new foreigners' only license as the company intends to move its existing Incheon casino license, while at the same time building up an image of a global operation," commented a tourism industry expert. "This way the company can be prepared with its own IR to compete with foreign operators when local gaming expands and, should the deregulation process be delayed, the company would still be a first mover in the market."

The commentator said that it's also a win, win for Sega Sammy, giving the Japanese gaming and pachinko company a chance to experience casino business on an in-depth scale and thereby gaining the legitimacy to compete for a license in Japan when the country opens up. However, the current venture is limited to South Korea and doesn't mean that Paradise would be the de facto partner for Sega Sammy at home. "This deal structure reflects Sega's perception that the Japanese authorities are unlikely to accept Paradise when there are more famous options (e.g. LVS, MGM), as well as its intention to partner with a major global operator."