


Spring 2012

# The Legalization of Casino Gambling in Mainland China

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The Legalization of Casino Gambling in Mainland China

by

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A professional paper submitted in partial fulfillment  
of the requirements for the

Master of Science Hotel Administration  
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University of Nevada, Las Vegas  
May 2012  
Chair: Dr. Bo Bernhard

## **Part One**

### **Introduction**

The study of growth in the international casino gaming is currently fascinating. Local residents do not view casino operations negatively anymore. The great success of the regulation of the gaming industry and the resulting highly profitable returns in areas such as Las Vegas has encouraged jurisdictions to introduce gaming into their local economies. Various studies have been done to assess the potential reasons behind the introduction of the gaming industry into regions that have previously banned it; however, only a handful of research has been done regarding the potential gaming industry in mainland China. Given the huge success observed in Macau, the Special Administration Region (SAR) in China responsible for legalizing casino gambling half a century ago, big companies in the gaming industry already regard the mainland as a giant potential market. The Chinese government itself has also been considering the possibility of legalizing casino gaming in order to solve problems like illegal gambling, corruptions and to stimulate the economy. For this reasons, a thorough understanding of the reasons the Chinese government might consider legalizing casino gambling is necessary for the benefit of both industry professionals and decision makers.

### **Purpose**

The purpose of this paper is to study the likelihood that China will open legalized casino gaming in the near future.

### **Objective**

The paper aims to clarify conditions in mainland China by answering the following two questions:

1. What is the current gambling situation in China?

## 2. How does this status effect the legalization of the casino gaming industry?

By identifying the potential affects, a clear blueprint of the state of gambling today was drawn from the study. This study also suggests strategies for the benefit of casino operation executives for their future business plans supplemented to mainland China.

### **Justification**

The results of this paper could provide important information to casino companies looking to assess their viability in mainland China. It aims to offer a well-considered, general report to managers in the casino industry, in order to help them to better understand China's current gaming environment. Also it aims to suggest business strategies that would benefit the companies. In addition, since the casino gambling industry must always consider the potential reaction of the jurisdiction into which the wish to expand, efforts for professionals to understand the concerns of the Chinese government would achieve positive results.

### **Constraints**

This study was restricted by certain limitations that must be considered. First, due to the sophistication of initiating new policies within the casino gaming industry, some factors analyzed below were not completed. A general overview of gaming industry in Mainland China will be discussed in the later in the paper. Second, the lack of studies performed related to the legalization casino gaming in China made the outcome of this study more unreliable, because it was not built on a solid research foundation. Results might also have been influenced due to the difficulty of gathering valid sources from China. Lastly, due to the instability of domestic and international gaming environments, findings might not be precise.

## **Part Two**

### **Introduction**

According to ancient stories, gambling was taught by either a cunning god or hero, which for that reason that came to our lives (Schwartz, 2006). The origins of gambling are so unclear that even modern historians are not able to determine exactly when, where, and how it was born (Schwartz, 2006). Nevertheless, it is well noted that gambling activities have existed throughout entirety of human history. Especially in today's world, gaming has changed and expanded more so than in any other era before. In his book *Gambling and the Law*, Rose divided the history of gambling in United States into three waves:

The first wave of legal gambling started during the colonial period and did not die out until the decades immediately prior to the Civil War....The second wave of legal gambling started with the Civil War....Unfortunately...broke in scandal after scandal; the largest and most notorious being the Louisiana Lottery scandal of the 1890s....The third wave started in 1964 with the New Hampshire Sweepstakes....perhaps the fatal scandal will never come....Or perhaps we are simply still in a rising wave. (1986, pp 1-22)

Today the third wave is still continuing to rise and is expanding its influence over other nations. The success of casinos run in the United States, especially the prosperous Las Vegas and Atlantic City, has not only shed light on the gambling business for icons who have a desire to build more houses internationally (Bernhard, Futrell, & Harper, 2009), but has also allured increasing numbers of jurisdictions to open the gates for legalized casino gambling. The gaming industry has attracted heightened interest for its ability to stimulate speedy economy growth, and has generated interest among policy makers.

The development of the casino gambling industry during the past two decades spans the junction world widely between the time when gambling was banned to today, when it is embraced. At the same time, it shows the many varied approaches related to the structure and regulation of gaming industries on an international scope. From 1989 to 2000, the number of legalized casinos in United States increased from two to 38, and the number of countries choosing to regulate casinos rose from 77 to 109. The most widely accepted reason for this is due to the economic benefits of legalization, which is also the predominate motivation discussed by scholars. Current governments immediately began earning additional ‘painless taxes’ to ease limited budgets and reluctant seizures of tax levies. Of course, other improvements like increasing the employment rate among locals, enhancing tourism revenues, and boosting related businesses also explain the prevalence of accepting gaming into a local economy.

How have decision makers in China thought about this popular trend, and how would mainland China approach issuing licenses to gaming companies for casino operations? In order to answer those questions, a better understanding of China and its gambling environment is necessary. The first part of this literature review introduces the history of gambling in ancient China within numerous dynasties and eventually presents a more detailed discussion of the current context of gambling. The second part explores the only legalized gambling activity in China, the lottery industry. The procedures regulated to the lottery industry, the chaotic status of the lottery managing system, and the influence of the lottery in China will be discussed. The third part of the literature review will talk about the unique economic environment in China. Particularly, a detailed status report of the gambling economy in China will be reviewed in order to help understand the reality of China’s gaming market.

## **Gambling in China**

### **History of Gambling in Ancient China**

China has a long history of gambling. According to Schwartz, gambling in ancient China could date back as early as the Shang Dynasty, from about 1700 B.C. (2006). By studying the manuscripts of ancient Chinese historians, Desmond Lam found documentation of the earliest recorded game in China, which was played during as early as Xia Dynasty (Lam, 2009), dating back the time 2,000 years earlier than the record from Schwartz. According to one of the most famous document written by ancient Chinese historian, Sima Qian, liu bo or 'six sticks' was the most popular game in Xia. Liu bo became popular during Han Dynasty as wagering game, approximately 2,000 years ago (Lam, 2009). Gambling was so accepted that more games such as cock fighting, hound racing, yu pu, Xuan he pai, and Ma diao pai were progressively developed.

As there wagering games gained in popularity, rulers began regulate them. The Wei Kingdom was the first recorded jurisdiction that passed laws to ban gambling (Lam, 2009). Believing that the mania associated with gambling would have negative social effects, the governor in Wei imposed harsh punishments on gambling activities. Penalties for the royal class ranged from caning, to deprivation of royal titles. Generally, the prosperous of gambling in ancient China began from Han dynasty till the last emperor dynasty, the Qing Dynasty (1644A.D.-1911A.D.). Although numerous laws were enacted nationwide, few efforts were successful. During thousands years and various dynasty transformations, gambling maintained its vitality, even during era when it was most strictly forbidden. Gambling has nearly always been a part of the development of Chinese society from as early as its culture was recorded.

## **Current Gambling Situation in Mainland China**

Gambling has been forbidden since the establishment of the People's Republic of China in 1949. In 1987, mainland China, which is the greater part of China excluding Hong Kong, Macau, and Taiwan, issued its first lottery ticket, the lottery becoming the only sanctioned form of gambling in the region. Due to the confirmed anti-gambling attitude of the government, the lottery, named the welfare lottery, was initiated in order to gather finances for social welfare and public construction purposes (Zhang, 2002). The strength of the welfare lottery's benefit to society masked the wagering nature of the lottery and caused some people to stop considering the lottery as a form of gambling at all. In 1994, the sports lottery was officially issued to the public by the Chinese central government in order to gather financial support for the development of sports. Until recent years, the lottery was the only sanctioned form of gambling that existed in mainland China.

In reality, however, gambling activities not sanctioned by the government have always existed in China in various ways. The Chinese people love gambling. Traditionally, gambling is a social activity in China, especially during holidays. People enjoy gathering together with friends or family to play games such as mahjong or poker as a form of celebration. Wagering is involved in most games, though often the amount the wager is quite small. It is generally considered a relaxing activity for Chinese people. Although the government does not legalize gambling, such activities are common and are normally condoned.

Today, eager Chinese players can be seen all around the world, their behaviors in casinos quite distinct from that of western gamblers. According to Lam (2009), Chinese players have a tendency to try to control the outcome of the game, according to their card reading and betting behavior. Chinese players are also likely to enjoy the interactions of the game. They like to



share ideas and commons, and enjoy collaborating with others. Lam also observed that Chinese gamblers take high risks when playing games. Lam's observations help to explain why Chinese gamblers contribute so heavily casino revenues and why they are welcomed by casino properties around the world.

## **Lottery Industry in China**

### **Current Legalization of Lottery in China**

Gaming has been forbidden since the establishment of the People's Republic of China in 1949. The lottery did not exist in the People's Republic of China until 1987, when the State Council authorized the department of civil affairs to establish. The lottery, which was formally named the welfare lottery, was initiated in order to reduce the anti-gambling attitude from the public, and was selling in 50 different formats in approximately 85% of mainland China (Nationalizing the lottery, 2004). The welfare lottery in addition to the subsequent legalization of the sports lottery simulated the Chinese economy. This booming phenomenon boosted other industries for only a short period, however, and it did not last long due to the disarray of the lottery market. Problems such as assigned results of the prizes manually control the selling price, and cheated raffles were frequently found because of the disorder of the administration of the market. The reason for this order was very straightforward. No law had been written to regulate the lottery industry before it was issued, and the entire lottery market was run without the necessary guidance.

There were five stages of the lottery development in Mainland China from its inception (Zhang, 2002). The first stage was the experimental selling of the welfare lottery from 1987 to 1989. The reaction was not positive due to the public's unfamiliarity with this new product, and was met with a certain amount of opposition. The situation improved in the second stage from

1990 to 1992, which was considered the real beginning of lottery industry in mainland China. With the Asian Games held in Beijing in 1990, the government allowed a nonrecurring sports lottery to raise funds. The lottery revenue increased with its acceptance by the public. The industry turned into chaos, however, in the period of 1993 to 1994. More and more, regional governments started selling lottery tickets without approval by the Chinese central government, causing much abuse of the lottery system to gain profit. Guangzhou and Beijing even launched horse racing without notice. Entertainment establishments introduced gaming with the intention of becoming gambling centers. Moreover, many foreign investors got involved in the domestic lottery businesses; with one of the biggest successes was the heat selling behavior of ‘Mark Six’ lotto selling happened 1994. The rampant disorder discouraged the improvement of the lottery industry, finally ending with a series of rectifications in 1996. Although the majority of the above mentioned problems had been corrected, the status of the lottery industry remained unreliable. Since 1997, the government has put more effort into regulating the lottery industry to a further degree. Administrative departments were specifically assigned and certain regulations were announced to help the management maintain order. Despite these measures, the legal status of the lottery industry remained undefined by the government 2009.

The lottery in mainland China, unlike other countries that legalized the lottery industry, was permitted to operate long before any law was announced to regulate it. In 1991 and 1993, the State Council issued a notice to stating their intention of enforcing administration of the lottery industry. In the notice, the People’s Bank of China was the administration appointed to take charge of the lottery, which was authorized by the State Council. State Council was still, however, the only department assigned the authority to sell the lottery. The National People’s Congress, representing the highest legislature, announced the Law Against Unfair Competition,

designed to regulate the chaos of the lottery industry. In addition, the responsibility of the administration of the lottery was transferred from the People’s Bank of China to the Ministry of Finance in January 2000. The welfare lottery and sport lottery were the only two lotteries accepted in China after the lottery market was consolidated in May 1994 (Nationalizing the lottery, 2004).

Even though the lottery market entered into an era of rapid growth, a particular law was not passed to regulate it until the first national lottery law was implemented in July 2009 (Ministry of Civil Affairs of the People’s Republic of China, 2011a). To enforce the application of this new law, China published another ordinance in 2012, which explained the lottery law and included supplemental regulations (Ministry of Civil Affairs of the People’s Republic of China, 2012). Although several regulations were passed to better administrate the lottery industry, few efforts were contributed due to the lack of knowledge in this field in China. The establishment of the national lottery law indicated that China was beginning to consider the gambling industry a serious business, and would focus on strengthening it. The change was significantly

Table 1

Prediction of Lottery Revenue from Year 2012 to Year 2015

Year	Sales Revenue (Billion BMB)	Growth Rate (%)
2012	260	21
2013	310	19
2014	363	17
2015	431	19

Note: Adapted from “中国彩票产业运行动态与投资潜力分析报告:2010-2013年. [Report of Lottery Industry Managing and Investing, 2010-2013]. (2011).” *China Commodity Marketplace (CCM)*. Retrieved from <http://www.chinaccm.com/48/4808/480804/news/20110117/161110.asp>

meaningful to the lottery business and convinced that experts that the lottery would have a more promising future in China. As Table 1 illustrated, the revenue received from the lottery has continued increase and estimated that the circulation will rise to 431 billion RMB, which is the Chinese currency, in the year 2015 (“Report of lottery,” 2011).

### Influences upon Mainland China

The lottery industry in Mainland China experienced huge success in a short period of time. The revenue generated by selling lottery tickets increased from 17.4 million RMB in 1987 to tremendous figure of 1016.7 billion RMB in the year 2007 (Wang, 2008), as shown in Figure 1 below. The increasing trend is still occurring at a quick pace today. According to the official report from the government, the total revenue from lottery tickets broke out to 600 billion RMB (approximately \$100 billion) from 1987 to 2011, and had already benefited more than 200 million people with above 200 billion RMB in the past 24 years (Ministry of Civil Affairs of the People’s Republic of China, 2011b).

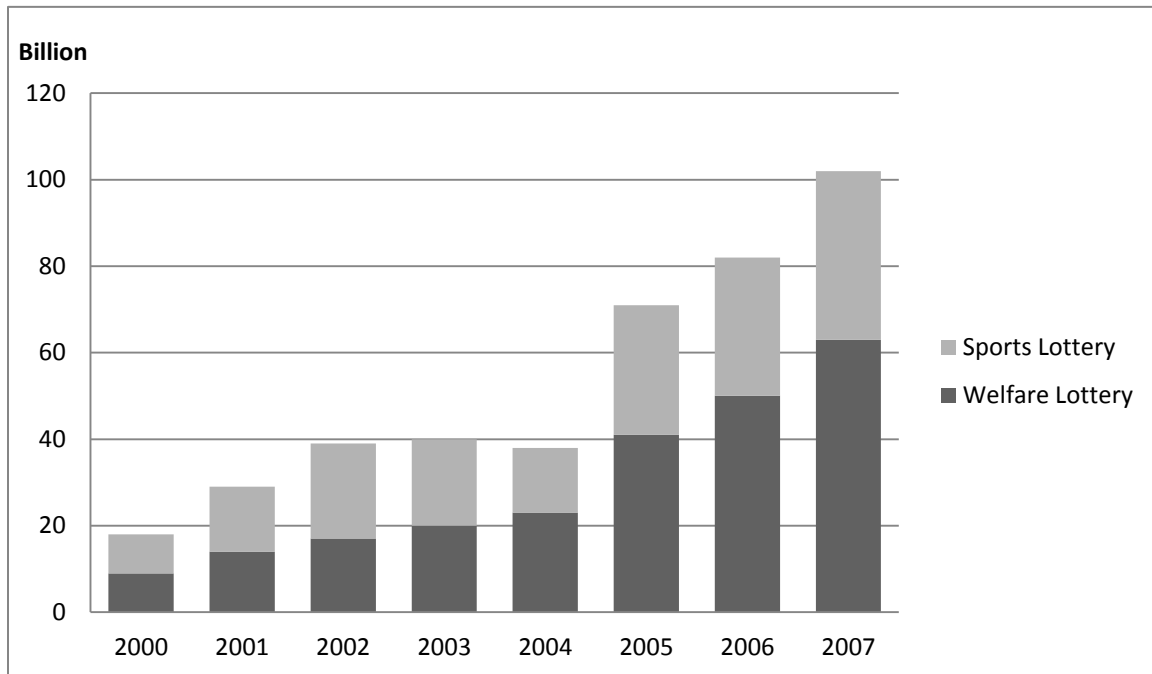


Figure 1. Lottery sale revenue for 2000-2007.

The lottery has thrived due to its attractiveness and the development of technology. Various methods of playing offer more entertainment to the public with a higher profit. In earlier periods in the lottery's history, people could purchase lottery tickets by only one method. This situation has since changed, and the old fashioned method of lottery ticket distribution was replaced in 1999 by the issuing of lottery tickets on line. Various lottery products were developed as a result of the new technology. Games such as "Two Color Ball", "3 D", and "Qi Cai Le" were wildly accepted when they were introduced. Similarly, the football lottery, basketball lottery, and other sport lottery games were very successful. In more recent years, Keno, VLTs and mobile betting have become popular (Wang, 2008).

However, the lottery did not always have a positive affect on China. It inevitably caused some citizens to worry. Social problems that resemble problems caused by other gambling activities did occur. Early in the lottery's history, the newspapers would regularly run stories about winnings being stolen or robbed. Because of the lack of protection from the government, the zeal about purchasing lottery being afraid to expose their identities was common to most of the Chinese. The huge profit also had seduced related employees to take risks by using their positions. In addition, those zealous of lottery purchasing, and the real legendary stories of people becoming millionaires happening nearby, led more and more citizens to bet on illegal lotteries or even to gamble in underground casinos for higher returns (Wang, 2008).

### **The Economic Situation in China**

The economic effects associated with casino gaming was the most essential consideration to almost all governments when making the decision to issue gaming licenses globally. Compared to other industries, the gambling industry is unique for its high return potential in combination with its accordingly high risks. Generally, the successful opening of casinos in a

new country indicates the ability of that country to control the potential hazards of the gambling industry. It is widely known that the more regulated the gaming industry is, the better the industry will function in the future. In order to achieve the perfect balance, governments will need to provide functional regulations and a feasible market environment for casinos.

### **Introduction of Chinese Economy**

China is a socialist country governed by the communist party since its establishment of the People's Republic of China in 1949. The development of the economy in the Maoist era (1949-1978) was minimal. In that period, China had very little contact with the rest of the world. The shock created by unstable political movements had damaged China's fragile economy, which was in danger of collapse. Compared with other communist economies in the world, China grew more slowly, below the level of below the world average (Maddison, 2006). A crucial change took place in 1978, when the Mao-era 'command economy' shifted into a less central-oriented and planned 'market economy' (Robins, 2010).

China showed strong economic development trend since its transition to the open market. This change led to remarkable successes in past decades. In 2010, China replaced Japan as the second-largest economy globally, falling just behind the United States (Central Intelligence Agency, 2012). By the year 2011, China reached a GDP of \$11.29 trillion, with a growth rate of 9.2%, making it third compared with other countries around the world. This number was not so encouraging when evaluated per capita, however. An average of \$8,400 income per person dropped China 118<sup>th</sup> globally, which was below the world average. What is more, the rapid economic growth left the government with numerous challenges. These challenges included finding a balance between the high rate of domestic savings and the low inland demand; addressing the decrease of unemployment ratio; decreasing corruption and illegal economic

activities; and providing environmental protection due to the fast economic transformation (Central Intelligence Agency, 2012). According to the official announcement of the 12<sup>th</sup> Five-Year Plan in March 2011, the government emphasized focus on the reform of the economy and the enhancement of homeland consumption in order to reduce reliability on exports.

### **Unique Economic Strategies in China**

The nature of the political system and the reformed economic policy in China produced one of the most bizarre economic systems in the world. The Chinese economy was mostly diagnosed as an economy in transition, much like many previous socialist countries (Robins, 2010). This formal categorization was widely accepted by the business world internationally; however, it did not describe the characteristics of the Chinese economy precisely. No clear guidance was available for any business to consider. Difficulties for business communities, especially foreign companies wishing to invest in China, were encountered due to the vaguely defined characteristics.

The shift in economic structure was a thoroughly development from the summit to the bottle in the country by the administration of the dictatorial, single party dominated power. As a result, even though it was highly developed, centralized patterns still existed in the new economic system. In other words, the government still had more power than the free market, which means that preference was shown to state-owned businesses. Scholars had concerns that this intervention would eventually clash with the freedom of economy (Robins, 2010). Generally, the transition to a capitalist market economy from the former central planned economy excluded snags like deregulated and privatized operations in the local economy, strict control of international businesses, and the founding of a legal system protecting property rights. Government still exercised power over the economy as it desired. Although the Chinese

government was attempting to convince the world to agree with China's status as a market economy, in reality China was a state-directed mixed economy. Having said that, it was better for outside investors to acknowledge the status of the Chinese economic system before establishing businesses in this unique market.

### **The Gambling Economic Effects**

The economic benefits are always the primary reason gaming is introduced into a particular economy. Generally, three major types of benefits gained from casino gambling are personal enjoyment, subordinated economy effects, and an additional income to the public sector (Eadington, 1999). Potential economic benefits are, typically, the main motivation for jurisdictions to allow casino gaming operations to enter their local regions. Historically, regions that legalized casino gaming were previously suffering economic problems. Richard explored this point further (2009). In his study, by using an event history analysis method to measure the factors that led to legalization in 13 countries, he found that the demand to stimulate economic development has a significant relationship with the legalization of gambling. The higher the unemployment rates in each country, which was used as the measurement of economic needs, the more likely the region was to permit casino gaming in a short period (Richard, 2009). Therefore, the function of casino gaming to encourage surrounding economic development would be more important to consider rather than what exactly it was (Eadington, 1999).

Casino markets cannot always be expected to be permanently profitable. Local strongly impacts whether a nation will be able to gain economic benefits. As already noted, casinos were introduced into regions for the purpose of stimulating the economics, hoping to simulate locations as profitable as Las Vegas or Atlantic City (Eadington, 1998). These destinations stimulated their economy by charming large numbers of visitors from other regions, thus creating



the associated economic gaining in vary ways from exporting gaming services to out-comers. This type of gaming business is called export-based, which is the most beneficial format for local jurisdictions. It requires sizeable numbers of tourists from nearby regions, where gambling is most likely forbidden. Realistically, such gaming export services are less likely to be successful than earlier eras because of the trend to legalize gambling globally.

On the other hand, even though the ideal level of success was not achieved by most jurisdictions, the rate of gambling legalization has not decreased. This is the result of the tension caused by the neighboring nations who introduced casino gaming. In an attempt to keep citizens from stimulating other economies, some jurisdictions that had not previously considered gambling legalization allowed casinos to be legally operated in order to keep the profits from this trend local. The escalating number of casinos operations in an increasing number of nations caused serious competition, causing economic benefits to individual jurisdictions to be diluted. The more jurisdictions to accept casino gambling, the more loss suffered by those countries that still prohibit gambling. In order to protect their own economies, jurisdictions might be persuaded to join the legal casino gaming business to fight for their own yields (Zhang & Zhou, 2006).

The current global gaming industry is thrilling to observe. It might be considered as the only industry that “has grown as rapidly or dynamically as the one that facilitates an ancient human impulse” in this era (Bernhard et al., 2009, pp 616). Scholars predicted that customers globally, almost USD \$244 billion would be spent in legalized gambling operations. With its specialty cooperation different from other traditional businesses, the gambling industry’s accelerated growth could not be accomplished without political support (Bernhard et al., 2009). More and more, politicians acknowledge that gambling is the easiest fund-raising mechanism.

The “voluntary tax” that governments are able to earn from the gambling business encourages government to support legal operations. Due to the fierce competition among jurisdictions to protect their own economies while siphoning profits from neighboring jurisdictions, the decision to permit legal casino gaming has become more crucial than ever before.

### **Conclusion**

Historically, gambling has always been a part of Chinese culture and daily life. Even though the new Chinese government classified gambling as evil and enforced strict laws to punish those who participated for any reason, it was embarrassing for mainland China that gambling was considered a normal and reputable business internationally. On the other hand, with the success of the lottery operating since 1987, and the great social benefits that resulted, the lottery industry was allowed to develop as like other industries. Additionally, because of the special selling regulated by the government only, the lottery never participated in the market, which inhibited typical industry growth. When the first national law of regulating the lottery industry was announced in 2009, a brighter future was predicted for this industry in mainland China.

The Chinese government could not ignore the opening of casinos in neighboring countries, nor the huge amounts of financial outflow that flooded those nearby countries that not only damaged the economy of China, but also led to issues such as corruption and problem gambling. In order to reduce or eliminate such negative influences, China was faced with a decision regarding whether or not to legalize casinos in order to protect its own profits. In addition, the special nature of China’s economy also limited the feasibility of legalizing casino gambling in a short period. As a unique industry that requires much regulation and cooperation, potential casino operations in mainland China seems perturbed at present.

## **Part Three**

### **Introduction**

Due to the reality of the gambling explosion worldwide, China was faced the decision of whether or not to legalize casino gambling in order to better protect itself from economic loss to neighboring countries where gambling is sanctioned. As discussed in the literature review, the development of the lottery industry in China was confronted with many challenges. Further positive contributions of the lottery industry could be expected if the obstacles were eliminated in the future. Mainland China has reached an impasse in regard to the debate over casino gambling. Huge risks must be taken in order to legalized gambling, however, if this does not occur, China will be ravaged economically by the Chinese people's support of government sanctioned gaming in other regions. Additionally, the special market characteristics of China indicate that stability of potential casino operations is uncertain.

In this section, detailed explanations of the Chinese lottery industry and the Chinese economy will be offered based on information from the literature review, with assumption of the possibility of legalized casino gambling in mainland China. The first part will talk about the bright future of the lottery if regulation and management were focused on benefiting China in different aspects. In the second part, the difficulty of legalizing casino gaming in China will be explained. Based on this information, proper conclusions and suggestions will be offered to consideration.

### **Results**

Gambling was treated as a social vice. Historically, gambling has been judged as morally dubious, like the industries of alcohol, tobacco, illicit drugs, and the commercial sex (Eadington, 1998). Therefore, varying regulations were put into place to restrict gambling, ranging from

complete prohibition to degrees of permission. The demand for gambling, however, did not disappear because of these limitations. Profits that excluded by the limitation could be captured via satisfying demanding the form of illegal gambling activities (Eadington, 1999). As a result, preventing or greatly restricting gambling would cause magnificent social payoff and problems from illegal operations (Reuter, 1983).

Based on what is known about the Chinese gambling industry, profit is likely to be obtained by developing the existing lottery industry. The great potential of revenue earnings, improvements in the regulation of the industry, and easier risk control are all factors contributing to the decision by policy makers to emphasize the development of the lottery.

### **The Prospective Improvements of the Lottery Industry**

Although many Chinese experts agree on the importance of legalizing casino gambling in mainland China to prevent serious problems such as illegal gambling and financial outflow, the current situation in China favors developing current industries rather than importing a new one, which requires a huge effort and many associated and unexpected risk. The lottery in China has great potential if managed well. The first law imposed directly on the lottery industry in 2009 was a significant motivator to the industry. This law indicated that the government was beginning to consider the lottery industry as a serious business and also indicated a willingness to dedicate more to operate it well. Efforts including changes in management structure, implementation of policies to protect prize winners, and more serious efforts to thwart illegal lottery activities will be brought to the table in the near future.

### **Huge Economic Impacts**

Deficiencies in management and operation of the lottery industry have discouraged its beneficial effects on the country, both economically and socially. In spite of such conditions,

however, the lottery in China has already showed its massive economic potential and giant buying power among Chinese citizens. From the information given in the review in part two, the growth of the lottery market would increase dramatically under a mature, developed administration. Further, the greater the amount that the lottery is able to gather from the domestic market, the better it is able to benefit the society. In addition to supporting welfare in China, the lottery is also a highly efficient method for the government to collect civilians' idle money, which is allocated to the development of the country (Xiong, 2003). Moreover, the methods of issuing lottery tickets enabled the stimulation of domestic demand and of local byproduct industries.

As one of the most important financial activities in China, the lottery gains more and more significance throughout the whole country. According to the Ministry of Finance of China, 50% of the revenue from the lottery was reallocated back to customers, 35% of which was used to fund welfare managed by the Ministry of Finance, 15% was used to cover the cost of administering the lottery, and 3% (which decreased to 2% later) went to the lottery center as profit (Wen, 2010). The welfare lottery fund had huge beneficial to the society in China. Until 2010, welfare lottery had already provided more than 300,000 jobs to relieve the tension of employment, and had also stimulated other industries such as papermaking, transporting, advertising, hospitality, and so on. Additionally, the fund was used for various social programs with the purpose of helping the elderly, disabled, orphaned, and needy. The fund has contributed to many public facilities to better serve people in need as well. As the profits from the lottery continue to grow, charity will be allocated more weight in the future.

## **Great Social Contribution**

In China, a significant function of the lottery is to contribute welfare programs. As the lottery develops, it will be able to benefit not only Chinese society, but also the economy, and the development of culture. Apart from just accumulating revenue to benefit society, the lottery is also able to stimulate the secondary economy, and contribute to, entertainment and advertising (Gong, 1998).

Dedication to welfare services in China caused the development of lottery industry to be necessary. Compare with other countries, the public services in China were poor. Sufficient money was needed to help improve services as public health insurance for citizens, and access to public service facilities like public libraries and museums. Moreover, the Chinese people have strong buying power in terms of lottery consumption. From the data in the literature review, China has a huge potential lottery market with unlimited capability. Various forms of playing also enabled citizens to use their spared savings diversely. The Chinese are known for their saving behavior. Such huge amounts money would be economically wasteful if contained in banks. By offering more lotteries marketed to the public, the lottery industry encouraged financial support of public benefits. Since the lottery is very accessible, the price varies from very low to relatively high, and with no specific knowledge required to play, the lottery has turned out to be a popular form of entertainment that can be enjoyed by almost everyone.

## **Facing Difficulties to Develop**

Jurisdictions that allow casino gambling to exist normally enforce relatively strict regulations to reduce the social hazards associated with casinos and gambling. It is more realistic to assume that the symbolic meaning of constraints is weighted more heavily than the reality of implementing these constraints, in order to mitigate negative social effects in new

jurisdictions (Eadington, 1999). The lottery has already been legalized in China for several decades, yet more limitations are needed to further enhance the potential of this industry. Regulation of the lottery is barely implemented currently, and numerous policies need to be imposed.

Although the lottery has been proven to strongly benefit society, the management of it in China is immature. Unlike in the United States, where the lottery is administrated by states, the welfare lottery is administrated by the Ministry of Civil Affairs of China, and the sport lottery is administrated by General Administration of Sport of China. These two departments are the only systems that have the authority to issue lottery tickets. This arrangement created noticeable disadvantages for the growing lottery industry and deterred real exposure to the market. The lack of specific a specific department to administrate the lottery industry causes dysfunction in sales and management. Further, the real functional benefit from lottery is reduced, and developing of the industry in the real market environment is limited.

### **The Dilemma of Legalizing Casino Gambling in China**

#### **The Prisoner's Dilemma**

As mentioned in the literature review, the casino economy has specific features that need to be addressed. Many regions and nations surrounding China offer government sanctioned gaming, such as Macau, Singapore, South Korea, Malaysia, and Vietnam. Because China still prohibits gaming, these regions target the Chinese market. In other words, by not competing with these regions by introducing casinos and gaming, China will keep losing valuable revenue to foreign nations. No wonder some experts suggested that China is trapped by a giant casino gambling chain formed by surrounding countries.

Scholars in China are having fierce debates over whether to legalize gaming in addition to the lottery. One of the most typical arguments is that China has already been trapped into the Prisoner's Dilemma by the competition. The prisoner's dilemma is a game theory that is commonly used in economic analysis. Based on the prisoner's dilemma theory, China has disadvantages no matter what decision it made. As Table 2 shows, four potential results were suggested by two jurisdictions (Wang, 2008):

Selection A: Both China and the other country legalized gambling

Selection B: China legalize gambling while the other country does not

Selection C: China does not legalize gambling while the other country does

Selection D: Both of them do not legalize gambling

Obviously, the best solution for China is Selection B; however, this is impossible since there are existing countries already that have legalized gaming. Therefore, the next most suitable choice would be Selection A, to get involved with by competing in the market.

Table 2

*China's Prisoner's Dilemma of Legalizing Gaming*

		Other Country	
		Legalize Gaming	Do Not Legalize Gaming
China	Legalize Gaming	-8, -8	-1, -10
	Do Not Legalize Gaming	-10, -1	-2,-2

The absence of legal gaming as entertainment has not stopped Chinese players from seeking it. On the contrary, it is common to see Chinese gamblers in casinos all around the world. Studies show approximately 600 billion RMB (US\$75 billion) is lost in bets overseas



each year. This number is equal to China's revenue from the tourism industry in 2004 ("China missing out," 2006).

The banning of gambling domestically has obviously not stopped Chinese people from seeking gambling excitement abroad. The huge numbers of Chinese people that gamble abroad are welcomed by foreign jurisdictions. As a matter of fact, a growing number of casinos target specifically Chinese customers. Aside from Macau, Vietnam, Laos, and Russia built casinos just a few miles away from China's border to conveniently invite Chinese customers to visit (Wang, 2008). China is trapped by the net of nearby nations that offer legalized gambling and that exploit China's ban on gambling by targeting Chinese guests (Wen, 2010). Since the well-developed lottery has had great positive affects on China, it would be impossible to exclude the gambling entirely from China ever again. The challenge to the Chinese government is not simply to decide whether to prohibit casino gambling or not, but to seek an appropriate solution to the problems raised by gambling. Legalizing casinos is one of the many possible considerations.

### **The Uncertainty of Economic Environment**

Due to the unique characteristics of the Chinese market, the operations of casino gaming need foreign investors involved. According to the literature, the government still has more power than the principle of the free market in China. If its financial interests are threatened, the government could interfere in the market to protect its own interests.

Legion examples of business activities intervened upon by the government have proved such a point (Robins, 2010). A well-documented example of this is the case of Carrefour, the second largest retail chain in the world. Carrefour was the number one foreign retailer and the second biggest retailer in China by 2000. With the relaxation of a regulation in 1995, Carrefour

started to expand its business by working directly with the local government to avoid the low efficiency of the central governmental approval process. But the positive developments did not last long. In 2001, with the realization that it was losing control over the growth of the foreign invested retail sector, the Chinese government targeted Carrefour to reclaim its power. Reported by Reuters, Carrefour was accused by the State Trade and Economic Commission (STEC) of neglecting to obtain permission from the central government to launch new stores. This initiated negotiations between the company and the government that lasted for half a year, when during this time expanding behavior was forbidden in Mainland China. As a result, a new announcement of ‘Circular on Punishment for Carrefour’s Deviant Behaviors in Conducting Merchandising Business in China’ was issued from STEC and Carrefour was required to reapply for the permission to operate its already opened stores (Robins, 2010).

Such instances were commonly seen in other industries as well. Considering the substantial economic revenue generated by the casino industry, it was very rational for investors to deliberate regarding their cooperation with China. Industry professionals ought to learn how to show enough respect to the central government, whether it be the central government, a provincial government, or a city government that they will need to cooperate with. A significant time investment might become necessary in the process of getting operation permission, yet it is always better to be thoroughly prepared before any casino is launched in order to bypass every future obstacle.

### **Conclusion**

Gambling has a long history with human beings. It is impossible to completely separate gaming activities from humans, and the Chinese are no exception. This tendency shows that casino gambling will be accepted by the Chinese government eventually, yet reality tells us that

China is not ready. According to this study, what might happen in the near future is that China will focus on developing the lottery industry. By doing so, this allows the country to encourage the domestic economy, the benefit to welfare and society, and reduce the finance outflow to a certain scale. By acknowledging the nature of the gambling industry worldwide, however, China must take part in this business in order to better deal with problems brought on by gambling and to compete more capably with surrounding nations.

As China becomes more mature at regulating the lottery industry, China will gain experience managing the gaming industry. When the environment is mature enough, the casino industry will be permitted in mainland China. Corresponding preparations in other areas are also required. These include not only regulations initiated to support the casino operations, but also, more importantly, education regarding gaming responsibility, services to casino customers, and mitigation of negative effects to society, which are vital in preparation of casino gaming. What is more significant, overall, is the government's ability to maintain a balance between the vices of the industry and the harmony of society.

This study makes valuable suggestions aimed at decision makers wanting to get involved in the casino business. For industry professionals who want an advantage when attempting to get into China's market, getting familiar with the unique mixed economy market is crucial. Numerous examples of foreign investments in China could be studied in order to avoid similar mistakes. A thorough understanding of the lottery industry is especially necessary. As the only legal gambling activity in mainland China, the lottery's development process and administration style will have a decisive impact on the future of the gambling industry. For example, the lottery in mainland China strongly advertises its contributions to public welfare, which has had dramatic success in China and has promoted a favorable image of the lottery among society. It is

obviously beneficial for professionals to consider a similar method to attract public support of casinos. Last but not least, in order to for an investor to become the pioneer of the casino industry in mainland China, he must keep a watchful eye on the country as it prepares to introduce the new market.

### **Limitations**

This study was based on a general understanding of the current gambling environment in mainland China and the economic influences of gambling in neighboring nations upon China, to conclude that China will not open casinos soon. Some of limitations of the study are too significant to ignore. First, due to limited access to related research studies, the quality of information was limited and decreases the quality of the results. Second, legalizing casino gambling is an extremely sophisticated process that consumes lots of time and energy. The scope of this study focused only on a relatively narrow angle, which means that the topic was not explored exhaustively. For this reason, further studies with different focuses are strongly suggested. Finally, China experiences dramatic changes all the time, it will not be too surprise to see casinos operated on its territory all of sudden.

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