Online Gambling. PC: Dan McClanahan.

Between Economic and Social Exclusions

Chinese Online Gambling Capital in the Philippines

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Under Rodrigo Duterte's administration, Chinese capital has increasingly flowed into the Philippines. Much of this new investment has been in online gambling firms—a peculiar type of capital that is not involved in the Belt and Road Initiative (BRI) and is even criminalised by the Chinese state. Drawing from field research in Metro Manila, this essay interrogates the anti-Chinese sentiments among Filipinos that have been stoked by online gambling firms. In examining the broader social reverberations of Chinese capital on Philippine society, it argues that Chinese online gambling capital generates specific forms of economic and social exclusions.

Since the early 2000s, Philippine elites have limited Chinese capital in major economic sectors, such as infrastructure, construction, and many others. During Benigno Aquino III's term (2010–16), no major investment from Chinese state-owned enterprises (SOE) or development aid agencies came in because of the conflicts in the South China Sea. In stark contrast to his predecessor, upon his accession to the presidency in 2016, Rodrigo Duterte signed a Memorandum of Understanding (MoU) with the Chinese government worth 24 billion USD, comprising 15 billion USD in foreign direct investment (FDI) and 9 billion USD in aid. Although these streams of FDI and aid have barely materialised since then, in the past few years Chinese capital has nonetheless increased in the Philippines, a growth that is largely related to the online gambling industry. Online gambling not only has indirectly benefitted from the Belt and Road Initiative (BRI) through the inflow of Chinese tourists, which has become a pathway for illegal workers, but has also led to an overall increase in the number of Chinese investors supplying the mushrooming online gambling sector.

Chinese online gambling firms have been controversial, purchasing office space across Metro Manila, importing hundreds of thousands of workers, and increasing subcontracting arrangements with Chinese-invested firms in other sectors. Anti-Chinese sentiments among Filipinos have increased, generating tensions between Metro Manilans and the Chinese migrant community. There have been calls for banning, relocating, and expropriating online gambling firms. These anti-Chinese feelings are unusual because Chinese online gambling firms constitute a peculiar type of capital that is not involved in the BRI and is even criminalised by the Chinese state. Yet, Filipinos have felt wronged by the online gambling investments. Analysing the workings of this type of capital resonates with Ching Kwan Lee's arguments in *The Specter of Global China* (2017), where she discusses Chinese state capital's distinctiveness from private global capital. Building on Lee's work, I look at one crucial question: what are the reverberations of Chinese capital in the host society? By examining the consequences of the expansion of Chinese online gambling firms in urban areas in the Philippines, especially in Metro Manila, I hope to identify the sources of Filipino animosity against the influx of Chinese online gambling outfits.

In her book, Lee draws on the theoretical frameworks of Karl Polanyi and Max Weber to explain the embedded and contested dimensions of China's state investment, racial relations between Chinese and Zambians, and the global situatedness of China-in-Africa. Following these theoretical traditions, I argue that Chinese online gambling capital generates specific forms of economic and social exclusions, and illustrates the broader social reverberations above and beyond the capital investments. Polanyi (1944, 37) proposes that commodification disembeds the 'fictitious commodities' of land, labour, and money from the host state's social relations, leading to social dislocation or the 'eventual annihilation of society'.

Though commodification has been a historical process, Chinese online gambling firms have further disembedded fictitious commodities. In 2016, online gambling firms started buying entire condominium buildings or floors in Metro Manila, outbidding the so-called call centres, which provide back-office services to major Western multinational companies, and Filipino buyers. Hundreds of thousands of illegal and semi-legal Chinese speakers migrated to work in newly established online gambling firms (Bureau of Immigration 2019). The sheer magnitude of these changes contributed to the increase of real estate prices and quite possibly other basic goods (Bloomberg 2018). As business process outsourcing (BPO) is priced out, fewer long-term jobs are created for Filipinos. Coupled with the lack of infrastructure development and stagnation of real wage growth, this situation has had a major impact on the livelihoods of many Filipinos.

To understand how actors react to such a process, I use Weber's concept of social closure to illustrate the ways in which individuals draw group boundaries around commonly identifiable traits. In the eyes of some Chinese firms and workers, Filipinos are predatory, targeting them for bribes. For many Filipinos, the racialised imaginary of a 'Chinese invasion' colours their view of how Chinese firms and workers reshape the labour market and the commercial sectors. This essay briefly discusses how the Chinese and Filipinos construct or racialise one another through online gambling firms, their affiliates, and the auxiliary consumption industries that follow.

Market and Social Exclusions

Polanyi theorises that the market society emerged through what he calls a ‘double movement’. The first movement occurs when states attempt to disembed markets from societies through the process of commodification, which he defines as the freedom to produce goods for the purpose of sale without political or social barriers (Polanyi 1944, 37 and 187). In order to actualise a market society, states need to commodify land, labour, and money, or what he calls ‘fictitious commodities’ (Polanyi 1944, 137). However, because land, labour, and money are always embedded in social relations, a fully self-regulating market is impossible (Polanyi 1944, 172). As such, disembedding fictitious commodities from one set of social relations generates social dislocations.

To prevent society’s eventual annihilation, Polanyi argues that a second movement emerges to reembed the market in social relations (Polanyi 1944, 137). Social dislocations caused by commodification lead to different counter movements in the three fictitious commodities, specifically: workers in labour (Polanyi 1944; 105); the landlords and peasantry in land (Polanyi 1944, 94); and the business class in money (Polanyi 1944, 113). He suggests that in the end these groups will eventually transcend their narrow goals, protecting society as a whole, and reembedding the fictitious commodities back into society (Polanyi 1944, 139 and 151).

While Polanyi elaborates on commodification, the non-economic dimensions of the process are better explained by Max Weber. Weber uses the concept of social closure to explain capital’s social impact. According to him, social closure is the process of drawing subjective boundaries and forming particular identities with the aim of monopolising economic and social opportunities. He first defines open and closed relationships. A relationship is open if ‘the system of order does not deny participation to anyone who wishes to join and is actually in a position to do so’, while it is closed if according to the ‘subjective meaning and binding rules, participation of certain persons is excluded, limited, or subjected to conditions’ (Weber 1978a, 343).

Because social closure acts to curb competition, Weber argues that there is often ‘one group of competitors [that] takes some externally identifiable characteristic of another group of (actual or potential) competitors—race, language, religion, local or social origins, descent, residence, etc.—as a pretext for attempting their exclusion’ (Weber 1978a, 342). He also adds that it ‘does not matter which characteristic is chosen in the individual case: whatever suggests itself most easily is seized upon’ (Weber 1978a, 342). As Weber puts it, ‘the purpose is always the closure of social and economic opportunities to outsiders’. These resources are not open to outsiders, and if they acquire the opportunities normally conferred upon insiders, then the ‘old monopolistic association is doomed’ (Weber 1978a, 343).

The Rise of Online Gambling Capital in the Philippines

President Rodrigo Duterte gave up claims on the South China Sea in exchange for better relations with China and increased access to its capital (Camba 2017). Online gambling constitutes a major aspect of Chinese capital expansion in the Philippines. After taking office in June 2016, Duterte instituted the ‘Philippine Offshore Gambling Operations’ (POGO) scheme, a new regulation that enables online gambling firms to set up shop in major cities, such as Makati, Pasay, and Paranaque (IBON 2020). Before the POGO scheme, online gambling firms could only open in the areas managed by the investment promotion agencies, which were often located in export processing zones or special economic zones (SEZ) away from the cities. Although there is no direct link between giving up the South China Sea and the influx of online gambling capital—some firms already existed during the previous Aquino III administration, which resisted China's maritime claims, and the Chinese state actively discourages host countries from accepting online gambling—a Chinese official pointed out to me in an interview in 2018 that the Philippines' decision to forgo claims on the South China Sea has limited China's ability to pressure the Philippines into banning online gambling. Additionally, the improved relations between the two countries generated larger Chinese tourist and foreign direct investment inflows, which allowed online gambling firms to expand their labour supply and contract other non-gambling Chinese firms for their services (Camba and Magat 2020, 12). Today, Duterte continues to protect online gambling firms as current and former Chinese nationals pour billions into the industry. The online gambling industry is an ideal case to examine Chinese capital in the Philippines because the sector's massive profit margins, new technologies, and dozens of legal jurisdictions demonstrate how differences in geography, sector, commodity, network, and timing all play a role in shaping the dynamics of capital.

The Philippine Amusement Gambling Corporation (PAGCOR), a government company tasked with regulating gambling in the country, has recorded 60 online gambling firms operating within the POGO investment scheme (PAGCOR 2019). Most of the investors came from offshore financial centres such as the British Virgin Islands, Cayman Islands, and the Isle of Man. However, drawing from a dataset that I created on the basis of information from the Security Exchange Commission (SEC) that houses the records of millions of firms, in August 2020 I could find at least 69 online gambling firms outside the POGO scheme (Camba 2020, 987). Of the 60 firms in the POGO list, only 16 appeared in my dataset. This shows that, although the SEC should have records for all the firms setting up operations in the Philippines, companies can deliberately fudge their information. Alongside the expansion of online gambling, the number of newly registered firms with Chinese investors continues to increase across multiple industries in the domestic consumption sector (Camba and Magat 2020).

Defined as gambling that occurs through computer-mediated communication and new electronic media, online gambling was first offered by Antigua and Barbados–domiciled firms in 1994 (Banks 2017, 225–37). While online gambling started as an 'add-on' to clients within onsite casinos, the sector rapidly took advantage of the transformation of Internet, programming, and currency transfer technologies. Customers today can choose to play in an online casino, engage in sports betting, and shop across hundreds of games in a relatively anonymous manner. The existence of the sector is made possible by millions of workers, thousands of servers, and hundreds of buildings linked across continents, countries, and cities. Thanks to advances in the relevant technologies, studies estimate that online gambling firms only need 5 percent of the capital outlay of onsite casinos in order to achieve the same level of profits (Banks 2016, 44).

In the early 2000s, Chinese nationals started investing in and creating their own firms, capitalising on the access to Chinese labour and networks across the Global South. According to investors I interviewed, today East and Southeast Asian markets comprise 20 percent of the worldwide online gambling market, and Chinese investors—including both current and former Chinese nationals—and their partners in Taiwan and Hong Kong control 15 percent of the global market. My interviews also indicate that online gambling generally—Chinese or otherwise—has been a major conduit of money laundering, allowing Internet-based operators to illicitly transfer money.

Disembedding Labour, Land, and Money

As mentioned above, gambling in the Philippines is partly regulated by the state. Oligarchs and domestic conglomerates work with foreign investors to operate more than 50 onsite casinos—25 of which are in Metro Manila. During the mid-to-late 2000s, online gambling did not constitute a major portion of the global gambling sector because of limited technology (Rivas 2019b). In the Philippines, SEZs housed a fair number of Chinese online gambling firms. Before Duterte opened the country to foreign investment in the sector, the operation of online gambling outside the SEZs was monopolised by PhilWeb—a firm owned by one of former president Aquino III's oligarch supporters (Camba 2019). PhilWeb focussed on online gaming programmes for Filipinos, banning non-Filipinos from playing and limiting access for those outside the Philippines. The Filipino online gambling industry did not require a Mandarin-speaking labour force since its operations were limited to the domestic market. When Duterte liberalised online gambling in October 2016, PhilWeb lost the monopoly and the PAGCOR ultimately inherited the power to oversee the sector (Rivas 2019a). Subsequently, Chinese online gambling firms that catered to a Mandarin-speaking audience started entering the country in droves, requiring Mandarin speakers for their operations.

Access to workers was difficult because of regulations. While there are legal procedures to acquire work permits, these are too slow and difficult to get. As a result, members of the Philippine bureaucracy began issuing work permits illicitly in order to profit on the side—a fact that some of them were ready to admit to me in interviews. Some in the Philippine Immigration apparatus even sold work permits and/or passwords in bulk to the online firms. A 'safe entry' that allowed workers to get into the country without getting recorded or scanned was also available for sale (Peralta 2019). More extreme examples include the smuggling of workers to the SEZs, which are operated by local politicians, as one local mayor told me in an interview in April 2019. This kind of disembedding of labour control from the Philippine central government to the informal networks of the Philippine bureaucracy allowed a significant influx of Mandarin-speaking workers into Metro Manila.

This influx of firms and workers also created massive demand for real estate. Some online gambling firms purchase buildings, but most firms typically buy half a dozen floors for their operations and to house workers. The need for space led to a massive increase in demand, causing property market values to skyrocket in major Philippine cities (Bloomberg 2018). Several CEOs of construction companies whom I interviewed in February 2019 told me that before Duterte opened online gambling further, real estate companies and property developers predicted that the bubble in the Philippine property market was about to burst. In 2015, commercial real-estate debt ballooned, call centre demand slowed, and real estate purchases from overseas Filipino workers dropped. However, thanks to a massive influx of online gambling firms, fears of a bubble have since dissipated. Online gambling firms began to acquire entire buildings and floors in the outlying districts of Metro Manila, such as Novaliches, Pasay, and Paranaque.

As a planning manager in one of the Philippines' largest real estate companies told me, instead of building condominium units for call centres or housing, major real estate companies have started to tailor more offices for online gambling firms. At the same time, online gambling firms have also started purchasing unused buildings to provide accommodation to most of their labourers. However, specialised staff, management, and those workers who cannot get accommodation still need to find housing in the city and compete with Filipino demand.

As the online gambling sector exerts pressure on the supply of office space in the city, the price of real estate continues to increase, and has eventually become too expensive for most Filipinos. Since 2015, real estate prices have shot up by 172 percent (Venzon 2020). According to my interviews with local property developers, the select Filipino middle class who used to be able to purchase housing in prime areas have started to look elsewhere, resorting instead to the 'township' properties in nearby provinces, such as Cavite, Tarlac, and Laguna. Golden Bria Company, one of the biggest real estate firms specialising in townships properties, has seen its stock prices spike from 2017, largely because of the influx of Filipino buyers.

Online gambling firms are able to outbid call centres. Since starting in late 2016, online gambling firms have acquired one million square metres of office space in Metro Manila. Across the country, they own an additional 700,000 square metres (Valdez 2020). According to a real estate broker I interviewed in February 2019: 'The Chinese would buy six to seven floors at a time, while call centres would get one or two at most … The locals would just buy a unit or two and the latter usually have problems with payments.' Real estate companies would rather sell to Chinese firms because they buy units in bulk. Furthermore, online gambling firms have been buying up the units that were previously owned by Filipino residents, offering to purchase the mortgages and deeds from people who are struggling to repay their bank loans. However, there have also been reports that Filipinos end up moving elsewhere when the neighbouring units are used as offices or 'barracks' for Chinese workers.

Chinese nationals have become the biggest international buyers of real estate, accounting for large proportions of the international sales of leading firms—e.g. 34 percent of Ayala Land, 10 percent of SM Prime Holders, 60 percent of DMWAI, and 50 percent of DMCI in 2017 (Bloomberg 2018). In 2018, Ayala Land and SM Prime Holders sold 90 and 50 percent of their units to Chinese nationals or firms respectively (Venzon 2020). The number of new BPOs and the sector's contribution to job creation have started to decrease because these multinational companies are getting outbid by online gambling firms (Venzon & Turton 2019). Significantly, while BPOs took 65 percent of the office space in Manila in 2016, the following year the share had shrunk to 39 percent. According to my interviewees in the call centre sector, this has resulted in a thousand fewer projected jobs for Filipinos in the BPO industry.

Finally, the disembedding of money occurs through the special provision that the Philippine government gives to online gambling firms under the POGO scheme. The Bureau of Internal Revenue, the Philippine agency in charge of taxation, does not interface directly with the online gambling firms (Ibarra 2018). Under the current system, online gambling firms pay PAGCOR an application fee of 50,000 USD for e-casinos and 40,000 USD for betting licences. Following receipt of the approval, the firms pay a franchise fee ranging from 200,000 USD for e-casinos to 150,000 USD for betting (Venzon 2016). After granting approval, PAGCOR continues to earn from these firms through a monthly levy of 5 percent of the firms' total profits, which makes PAGCOR the most profitable state enterprise in the Philippines. However, this system lacks transparency, making it impossible to know *how* much firms have earned and whether or not they are paying the correct amount of taxes. As it stands, online gambling firms only need to report their earnings to PAGCOR by submitting a minimum number of documents before paying the yearly levies (Ibarra 2018).

The Philippine government has decided to tax the service providers of the online gambling firms, but not the firms who have set up shop in the Philippines themselves. These moves have led to a crackdown on service providers that have not paid income taxes (Venzon 2020). Nevertheless, there is confusion with regard to this policy, as many service providers feel that the Duterte administration has reneged on its initial agreement. Furthermore, in many ways there is little distinction between the two since both the actual firms and their service providers carry out a lot of the necessary functions of the operation. Although service providers usually have minority shareholders in the form of Filipino, Chinese, and Hong Kong nationals, the actual technology used by the service providers is owned by the firms.

Social Exclusion

Capital infusion redraws group boundaries and access to resources through a process of social exclusion. First, restaurants and stores that cater to online gambling firms continue to expand across the city. These establishments often pop up in units in the condominium buildings or floors that online gambling firms bought, or they replace existing establishments that were bought out. As these establishments do not offer English or Filipino translation, they exclude non-Mandarin speakers by default (Malasig 2019). Besides being used by online gambling firms, these businesses cater to the newly emerging cohort of Mandarin-speaking workers. When online gambling firms open, other auxiliary services targeting the workers, ranging from restaurants and canteens to grocery shops or hair salons, follow suit (Camba 2020, 987). What is crucial is that, while previous establishments exclude by social class, or the inability to hold sufficient economic power to partake in the service, de facto Chinese-only establishments exclude via language, skin colour, or looks.

Second, since online gambling firms constitute the largest investment in the Philippines since 2016, a process of boundary formation has occurred, creating a divide between the Chinese and their partners, and everyone else. The online gambling sector needs suppliers, services, and partners. Interviews with several Chinese managers in online gambling firms that I conducted in 2019 suggest that they use their Chinese networks in the Philippines to link up with other Chinese investors in construction, retail, or retrofitting services. They prefer to work with Chinese firms because they know what to expect, but choosing which firms to partner with is more related to who their networks refer them to and expediency. In the past few months, the media narrative on online gambling, which paints the Chinese as villains, has made these firms more wary. If the product or service requires a Filipino partner, the managers stated that they would rather work with Filipino Chinese, Filipinos with some degree of Chinese ancestry (the so-called 'Chinese mestizo'), or firms owned by Filipino partners of other Chinese companies. The Filipino business community in various forums has stated that online gambling firms have begun to reshape the business environment in Metro Manila, resulting in the Filipino and non-Chinese foreign firms feeling slighted.

Third, since the surge of Chinese migrant workers in 2017, social closure inside and outside the online gambling firms has started to emerge. According to my observations and interviews with people in these firms, Filipino staff members are often relegated to the role of security guards, cooks, or building administrators. Some people are also hired to liaise with the local government and resolve matters with the police. Filipino women find employment hosting gambling tables. While Mandarin-speaking workers are paid more, they are also more vulnerable to exploitation. Inside the firm, Filipino security staff I have interviewed indicated that they are used to discipline or keep the Chinese workers in line. The firm separates Filipino and Chinese employees into different functions, a divide and conquer strategy to keep workers in line. Additionally, according to some Chinese employees I spoke to in February 2019, online gambling firms threaten their Chinese migrant workers with deportation to ensure compliance.

Outside the firm, Mandarin-speaking workers who are not provided accommodation need to rent in clusters across Metro Manila, either sharing one unit or renting units on a single

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floor. Filipinos make sense of the clustering through the lens of a 'Chinese invasion' and Duterte kowtowing to Xi Jinping (see Malasig 2019). From local barangays to condominium units, the Chinese workers have encountered resistance or dismay from Filipinos. Targeted by government officials during their entry and shunned by local people, some Chinese workers have expressed suspicion of Filipinos. For Filipinos, Chinese workers have changed the city, populating condominiums, regularly breaking rules, and overcrowding Metro Manila's malls. Makeshift online gambling satellite offices have proliferated across the lucrative residential areas, drawing the anger of Metro Manila's elites. Mall of Asia, one of the largest malls, in Asia located in Metro Manila, has regularly become a place where online gambling workers hang out on Sundays, causing widespread racialised complaints about Chinese workers' lack of civility: spitting on the ground, cutting in lines, and talking loudly.

Finally, online gambling has partially contributed to a surge in kidnappings inside and outside the firms. As PSA Philippines Consultancy (2019) notes, no Westerners were kidnapped in 2018, which was corroborated by interviews with officials at the American and Australian embassies; most Westerners in the Philippines are elderly people relying on limited pensions provided by their governments, but the Japanese, Korean, and Chinese nationals are often investors or wealthy tourists. Online gambling firms have become investors in new onsite gambling locales, resulting in new gambling facilities such as Okada Manila, City of Dreams, NayonLanding, and Solaire North. These sites have started to draw in East Asian gamblers, including Chinese nationals, Hong Kongers, or Taiwanese who have been targeted for kidnapping and other forms of extortion. Furthermore, there have been cases of Chinese nationals held by onsite gambling firms for incurring high levels of debt. Some cases have been reported to be violent, but most have been involuntary detention. Outside the firm, targeted kidnapping has already increased. For the kidnappers, who are often former or current Philippine police moonlighting on the side, 'Chinese-speakers' are easy targets for 'making a quick buck' because their government will not intervene anyway. These syndicates target frequent visitors to the casinos, relying on their perception of Chinese looks or language to choose their targets.

Online Gambling Capital's Broader Reverberations

This essay interrogated the anti-Chinese sentiments among Filipinos that have been stoked by online gambling firms—a peculiar type of capital outside the purview of the Chinese state. Using Polanyi and Weber, I illustrated how online gambling firms generated specific forms of economic and social exclusions. For what concerns economic exclusion, online gambling firms were marketising land, labour, and money. The disembedding of these three 'fictitious commodities' allowed online gambling firms to expand in the Philippines. At the same time, this disembedding fuelled anti-Chinese sentiments by the Filipinos due to rising real estate prices, the surge of Chinese migrant workers in a context of high unemployment, and the limited government taxation of the firms. Social exclusion occurred through social closure within and outside the firm, specifically the process of choosing business partners among online gambling firms and the selective commercial targeting of the migrant Chinese networks by non-gambling Chinese firms. Combined, all these processes have had broader social and economic impacts on Philippine society.

While Lee's study of Chinese state capital opened new ways to look at the varieties of Chinese capital, her analysis was limited to the 'hidden abodes of production'. However, capital inflows do not just stay contained in one sector or geographical area—rather, they have broader reverberations across the whole of the host society. This essay presented a preliminary framework that can be employed to attend to some of the ramifications of Chinese capital, deepening Lee's approach to studying Global China by examining how Chinese capital inflows intersect with commodity-specific features, history, geography, ownership interests, timing, mode of investment, and sectoral variation. ■

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