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The Development of the Casino Industry in Chile

This article provides an account of the development of the casino industry in Chile. For most of the 1930s up to the 1980s the industry remained stagnant and restricted to a few locations. From 1990 the industry grew, but in particular after 2005 following a new law that permitted the creation of new casinos in all regions, with the main aim of promoting tourism. The new casinos had to operate as part of an "integral project," which included sizable investments in the tourism sector. This was a novel business development strategy. The new industry attracted old and new investors, including foreign operators, who often associated with Chilean business groups, providing the resources needed to finance these developments and enjoying healthy profits for most of the period.

Keywords: Casinos, Chile, gambling industry, *multilatinas*

In Chile, the casino industry has been more closely linked to the national tourism industry than in other countries since the promulgation of a new law in 2005, particularly when compared with well-known cases such as Macau and pre-Castro Cuba and in terms of the geographical diversification of the venues. Chilean casinos are part and parcel of an interlocked system, known as the "integral project": the development of casinos alongside hotels and related facilities geared toward the development of a high-value domestic market outside the capital.[1] There is a

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[1] There is a large historical literature on casinos, including Jonathan Cohen and David G. Schwartz, eds., *All In: The Spread of Gambling in Twentieth-Century United States* (New York, 2018); David G. Schwartz, *Roll the Bones: The History of Gambling* (New York, 2013); Denise Von Herrmann, ed., *Resorting to Casinos: The Mississippi Gambling Industry* (Jackson, MS, 2006); Chloe E. Taft, *From Steel to Slots: Casino Capitalism in the Postindustrial City* (Cambridge, MA, 2016); Roger Munting, *An Economic and Social History of Gambling in Britain and the USA* (Manchester, 1996); William N. Thompson, *Gambling in America: An Encyclopedia of History, Issues, and Society*, 2nd ed. (Santa Barbara, CA,

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clear strategy of linking gambling and tourism directed at domestic players with high disposable income and/or with access to consumer credit. In the presidential message delivered when presenting the new casino law, President Eduardo Frei made it clear that casinos on their own were not enough to promote local tourism; related facilities were also needed, since the provinces did not receive much investment.[2] Thus, the Chilean model has encouraged investments in hotel construction and other facilities in the casinos' locations, fostering a strong domestic tourist market. This is quite unusual for emerging economies. Chile has undertaken a novel business tourism development strategy, but the development of this industry has remained relatively unknown. In addition, most of the literature on Chile's tourism has concentrated on specialist international tourism, such as wine tourism and ecotourism, resulting in important gaps in the business history literature.

The aim of this article is to analyze the origin and development of the casino gambling industry in Chile, from the late 1920s to 2018, focusing on the evolution of its market structure, its main players, and the impact of the 2005 law, thus contributing to our knowledge of an interesting but underresearched industry: gaming in developing countries. Regarding the regulation of the sector, this long period can be subdivided into two clear periods: 1928 to 2005, when only seven municipal casinos were allowed and they were regulated by ad hoc municipal legislation provided by each council and had no link to the hotel industry; and 2005 to 2018, when another eighteen modern regional casinos, and their respective complementary touristic installations, operated in the country.

Despite its importance for the economy, and in spite of being a legal activity within Latin America, the commercial gambling sector's history and current market structure have long been shrouded in secrecy. Business history literature has been overwhelmingly dominated by evidence from the developed countries of western Europe, North America, and

2015); Thompson, "Cuba: Casinos Past, Casinos Future," *American Gaming Lawyer* 13, no. 1 (2017): 40–45; Edward Morse and Ernest Goss, *Governing Fortune: Casino Gambling in America* (New York, 2007); Susan Fisher, *Gambling and Problem Gambling among Casino Patrons* (Plymouth, UK, 1996); and Peter Moruzzi, *Havana before Castro: When Cuba Was a Tropical Playground* (New York, 2008). These works deal with the emergence and development of the casino industry in the United States, Britain, continental Europe, and Cuba, paying special attention to the economic, cultural, religious, and political conditions that have conditioned its development over the last two centuries. The variables analyzed include crime and other social problems, advertising, politics, religion, identity, ethnicity, regulation, taxation, employment, heritage, social attitudes, and industrial organization, usually cultivating a multidisciplinary approach. Some also offer comparative studies between countries such as Britain and the United States, or in-depth case studies, for prime locations such Atlantic City or Las Vegas.

[2] Chile, *History of the Law 19.995* (Santiago, Chile, 2005).

Japan.[3] There are fine histories of the sector for the United States and United Kingdom, for example, but almost nothing for other regions. Despite being both popular and profitable, the industry has attracted little academic attention from business historians.[4]

This historiographical neglect is unfortunate because gambling has been part of human experience since ancient times.[5] However, social attitudes to and legislation governing gambling have not always been particularly encouraging, which explains why it is still restricted in so many countries. Gambling has often been condemned or banned and gamblers persecuted. Before the 1960s, many casino investors were linked to money laundering and mafia activities.[6] Gambling has also been condemned on religious grounds or for being detrimental to national savings.[7]

Yet, "history shows us that what cannot be defeated is often assimilated."[8] Policymakers face difficult choices when dealing with gambling. Wherever it has been prohibited, gambling has flourished as a lucrative feature of the black economy.[9] Thus, most nation-states have chosen to allow it under regulation. Furthermore, the gambling industry is seen as a good source of public revenue and economic growth.[10] It could also be used as a tool to promote economic decentralization. Chilean members of Parliament were well aware of all these facts while discussing the country's new casino law; MPs from the regions were particularly keen to promote decentralization in a highly concentrated country.[11]

In terms of casinos, the most emblematic world centers are Las Vegas and Atlantic City in the United States, Monte Carlo in Monaco, Macau in China, and Sun City in South Africa.[12] Within Latin America, the first legal casinos opened during the first decades of the twentieth

[3] Gareth Austin, Carlos Dávila, and Geoffrey Jones, "The Alternative Business History: Business in Emerging Markets," *Business History Review* 91, no. 3 (2017): 537–69.

[4] Carolyn Downs, "Mecca and the Birth of Commercial Bingo, 1958–70," *Business History* 52, no. 7 (2010): 1086–106. This fits with John K. Walton's idea that business history does not engage much with popular culture. Walton, "New Directions in Business History," *Business History* 52, no. 7 (2010): 1–16.

[5] Morse and Goss, *Governing Fortune*, 2–12.

[6] Fisher, *Gambling*; William Evans and Julie Topoleski, "The Social and Economic Impact of Native American Casinos" (NBER Working Paper No. 9198, Sept. 2002).

[7] Eduardo Sáenz, *The Cuban Connection* (Chapel Hill, 2008); Cohen and Schwartz, *All In*, 3–5.

[8] Morse and Goss, *Governing Fortune*, 1–2.

[9] Downs, "Mecca."

[10] Morse and Goss, *Governing Fortune*, 2–12.

[11] Chile, *History of the Law*, 20–23.

[12] In 1931 Nevada legalized casino gambling, and New Jersey did so in 1976. Many other states followed, and in particular those with tribal casinos. Cohen and Schwartz, *All In*; Morse and Goss, *Governing Fortune*; Munting, *Economic and Social History*; Jorge Godinho, "Casino Gaming in Macau," *UNLV Gaming Law Journal* 5, no. 1 (2014): 1–26; Thompson, *Gambling in America*; Schwartz, *Roll the Bones*.

century, replicating the European model. Among the best-known cases were the National Casino of La Habana, Cuba (1919); the Copacabana Palace of Rio de Janeiro, Brazil (1923); the Casino Aguas Calientes of Tijuana, Mexico (1927); Casino Viña del Mar, Chile (1930); and Casino Mar del Plata, Argentina (1939).[13]

However, the period of industrialization led by the state, which started during the 1930s in Latin America, led to a new wave of public and governmental opposition to casinos. This was followed by the closure of casinos in some countries and a complete ban on gambling in others, including Mexico (1936), Ecuador (1938), Brazil (1947), and Cuba (following the 1959 revolution).[14] Other countries opted for less radical measures such as not giving new concessions. Such was the case of Chile and Argentina. In Chile three decades passed before the authorization to open a second casino, in Arica, and then only thanks to the passing of a law in 1958 to promote Arica's economic development. Finally, Uruguay opted to transfer the administration of its casinos to the state in 1950.[15] It was only during the 1990s, in the Latin American neoliberal era, that a renovated gambling industry emerged. Most of the new governments were seeking fresh foreign investment and wanted to promote tourism and to increase fiscal revenues.[16] The only drawback to this expansion was the banning of casinos in Venezuela and Ecuador.

Our main source of information was the untapped collection of the Archives of the Superintendence of Casinos of Chile (SCJ), to which we were kindly given access. This rich collection contains annual and statistical reports for 2007 through 2018; all folders of the bidding processes and adjudications of casinos' licenses (2005 to 2018); and press releases. It is a rich source of information both on how the groups bid and on how the SCJ rated the bids. Yet we are aware that it mainly provides the regulator's view. Thus, we also consulted parliamentary debates, local press, the annual reports of the main business groups, and their financial statements, which are stored in the Archive of the Financial Market Commission. We also analyzed all laws issued that pertained to the casino industry, available at the National Congress Library (BCN). Finally, we conducted valuable interviews with high-ranking officers of the SCJ and the CEOs of Enjoy and Sun Dreams, the main economic groups of the industry.

[13] Lawrence D. Taylor, "The Wild Frontier Moves South," *Journal of San Diego History* 48, no. 3 (2002): 204–29.

[14] Rose Nelson, "Cuba Will Have Casinos, Again," *Gaming Law Review and Economics* 14, no. 4 (2010): 229–30; Moruzzi, *Havana before Castro*, 30–35; Thompson, "Cuba"; Sáenz, *Cuban Connection*, 72–74.

[15] Thompson, *Gambling in America*; Ramon Romero, "La regulación del Juego," in *Régimen del juego en España*, ed. Alberto Palomar (Madrid, 2006), 131–68.

[16] Romero, "La regulación."

Origins of the Casino Industry in Chile

The first four casinos in Chile were municipal undertakings, often located in beach or lake resorts: Viña del Mar (1930), Arica (1960), Puerto Varas (1970), and Coquimbo (1976). These were prime tourist destinations, visited mainly by wealthy tourists. Rather than operating the casinos themselves, the councils delegated their administration to a private concessionaire. Of these pioneers, only Viña del Mar's casino managed to enjoy fruitful decades; all the others were affected by the turbulent 1960s, 1970s, and 1980s. The 1960s were characterized by social unrest and political turmoil, which led to the election of the first socialist president of the country in 1970. This was followed by the military coup of 1973 and two economic crises, in 1973 to 1976 and 1982 to 1984. Profits were significantly affected by these developments and by the curfew that existed from 1973 to 1980, and then was partially implemented between 1980 and 1987, which greatly affected nightlife. Only in 1985 did the country start to enjoy high and sustained economic growth, greatly increasing the per capita income, and a buoyant and expanding consumer credit market. Most people started to access consumer credit as never before, a development boosted by the proliferation of credit cards and the emergence of new lenders. So important has this development been that it has been labeled "one of the most wide-ranging recent transformations in this country."[17]

Within this booming period, in 1989, the military regimen decided to authorize another three casinos in Chile, this time in Iquique, Pucón, and Puerto Natales. These were also prime tourist attractions, each of whose mayors and local entrepreneurs pushed hard to get authorization to open a casino.[18] According to Francisco Vidal, former vice minister of regional development, from 1996 the government was under permanent pressure from many politicians to open new casinos. In the three long parliamentary discussions that led to the 2005 law, around thirty-five mayors of popular tourist destinations were invited to join the debates.

These three new municipal casinos, together with the four previous ones, enjoyed a golden age from the early 1990s, thanks to the significant increase in personal income, access to easy consumer credit, and macroeconomic stability. Increasing internal consumption, combined with political stability, also triggered an expansion of the national tourism

[17] José Ossandón, "Sowing Consumers in the Garden of Mass Retailing in Chile," *Consumption Markets & Culture*, 17, no. 5 (2014): 429–47. For example, of a population of 17 million, the number of credit cards owned increased from 1.7 million in 1993 to almost 24 million in 2007.

[18] Chile, *Law no. 18.936* (Santiago, 1990).

industry. It is known that the demand for leisure increases with rising income, impacting positively on commercial gambling.[19] Another major and driving change boosting the industry was the introduction of slot machines. Previously, Chilean casinos offered mainly card games, dice games, and roulette, but now individual games took center stage. So powerful was this change that from the end of the 1990s slot machines became the main source of income. According to a parliamentary report, in 1994 the gross income of the seven casinos was US$31 million, increasing to US$130 million in 2002. The report concluded that the casino industry was a very lucrative business.[20]

Unsurprisingly, the sector attracted foreign and national capital. The first foreign investor to enter was the Panamanian firm Latin Gaming, invited during the early 1990s by the Martínez group to introduce and manage slot machines in Viña del Mar.[21] But Latin Gaming was not content with just managing slot machines for other people. In 2000 the firm won the bid to manage gaming in Arica, boosting its presence in the Chilean market, while it also entered into early negotiations with the Valmar group to assess the possibility of bidding for a casino in the Bio-Bio region.[22] A few years later, in 2003, Citigroup Venture Capital from the United States took control of the concessionaire of Iquique.[23]

The most influential Chilean concessionaire was the Martínez group, a family business led by Antonio Martínez Ruiz.[24] In 1975 it won the concession for Casino Viña del Mar. Around two decades later, in 1994, it also managed to win the concessions for Pucón and Coquimbo.[25] Not content to stop there, in 2000 the Martínez group, associated in equal parts with the southern salmon barons Claudio and Humberto Fischer, won the concession for Puerto Varas Casino.[26] Thus, by 2000 the Martínez family controlled four of the seven casinos in Chile, through diverse societies and different partners under Enjoy SA.[27]

[19] Downs, "Mecca."

[20] Chile, *History of the Law*, 48.

[21] Superintendencia de Casinos de Juego (hereafter, SCJ), Informe de Precalificación de Latin Gaming Calama SA, 2000, Archivo Superintendencia de Casinos de Juego, SCJ, Santiago, Chile (hereafter, ASCJ).

[22] SCJ, *Contrato de Concesión Casino de Juegos de Arica*, 2000, ASCJ.

[23] Jaime Wilhelm (CEO of Sun Dream SA), interview by Ricardo Nazer, 2019.

[24] Family business groups, often founded by immigrants and frequently diversified across several economic activities, have characterized business structures in Chile and most other South American countries. Austin, Dávila, and Jones, "Alternative Business History"; Rory Miller, "The History of Business in Latin America," in *The Routledge Companion to Business History*, ed. John F. Wilson, Steven Toms, Abe de Jong, and Emily Buchnea (London, 2017), 187–201.

[25] SCJ, *Modificación de sociedad Guillermo Campos Fauze y Cía*., 1994, ASCJ.

[26] Paola Álvarez, *Casino Dreams Puerto Varas: 45 años* (Puerto Varas, Chile, 2015).

[27] Enjoy SA, *Annual Report* (Santiago, Chile, 2008).

As could have been anticipated, the handsome profits reported by these seven casinos, and the vast resources received by the local councils, led to pressure from many other councils wanting to enjoy the spoils. Mayors, MPs, and local entrepreneurs urged the government to grant new permits. In 1999, during the presidency of Eduardo Frei (1994 to 2000), a proposal for a new law was sent to Parliament.[28] President Frei recognized that the previous policies for the creation of casinos were a mess, lacking clear objectives and coherence. The project was approved six years later. This long delay is mainly explained by the different positions taken by the MPs, as well as the vagueness of the initial project.

For example, the original project did not mention either the location of the new intended casinos or their number. Many parliamentarians and mayors thought this was a critical issue, since many feared that Santiago, the capital of the country, could be inundated with casinos, to the detriment of the provinces. Many MPs argued that if the law allowed casinos in Santiago, those in the regions would be unviable. Furthermore, they stressed that it was unfair that gambling was legal in some locations but illegal in others (i.e., those without casinos), so that the larger the number of cities with casinos, the better. MP Pedro Alvarez, from Maule, went as far as to declare that this was the first time the Chilean Parliament would be discriminating against the mighty Santiago.[29] After all, President Frei's original idea was to promote tourism outside Santiago, since the regions lacked entertainment attractions, at least if compared with the capital.

A group of MPs from outside Santiago, backed by several influential mayors, created the so-called regional front: it included MPs from all political parties and all regions. Eventually they managed to exclude the capital as a potential location for a new casino, but it took six years of exhausting debates and tedious negotiations. Rosa González, MP for Arica, delivered a remarkable speech calling all MPs from outside Santiago to reject the capital as a casino location. Likewise, Carmen Frei, MP for Antofagasta, asked Santiago's MPs "to stop asking for more since they had it all; leave something to the regions!"[30] Equally important, they secured the authorization to create twenty-four new casinos in the provinces. Second, the "regional front" managed to ensure that all bingo rooms had to be located within the casinos. Third, this regional front requested that the concessionaries not only had to invest in the casino's facilities themselves but also must make further and substantial

[28] Chile, *History of the Law*, 75.
[29] Chile, 124.
[30] Chile, 191.

investments, such as a five- or four-star hotel, a conference center, and other facilities to promote local tourism. They were thinking about a larger investment project than the original proposal. This was yet another victory for the regional front. In many of the smaller locations the casino industry ranks among the primary employers.[31] Eventually, the government agreed to exclude Santiago, convinced that the capital did not need any further tourist attractions, further adding that given the high population density of the capital, a casino there would only exacerbate the negative social impact of gambling. Government officials also argued that this project would promote the much-needed decentralization of the country.[32]

Fourth, to regulate the sector, the Parliament requested the creation of a larger and more powerful institution than originally envisaged: the Superintendence of Casinos (Superintendencia de Casinos de Juego, or SCJ), which would suit the Chilean public administration model, particularly in terms of regulating private companies and avoiding money laundering. Furthermore, it released councils from their casino-supervising duties, allowing them to focus on local development. Up to that point no authority was regulating gambling in Chile; the already existing watchdogs (e.g., financial regulators) either had not been created or were unsuited to this peculiar sector, while local councils were only interested in the financial statements of the operators, not ensuring fairness in the game. Last but not least, mayors and parliamentarians of the councils that already had casinos managed to ensure that the transitory regulations of the new law for these casinos increased from five to ten years, another triumph of the regional front.

Law 19.995 was promulgated in January 2005. It set the general rules to authorize the opening, operation, and supervision of new casinos. A maximum of twenty-four casinos could be opened. Each region could have a maximum of three casinos (except for Arica, which had special treatment). This was a huge change for the industry: now there were casinos all over Chile, while before they had operated in only a handful of locations. Again, the total number of casinos to be opened was a matter of fierce discussion within Parliament; many (including the socialist senator Isabel Allende, daughter of Salvador Allende) wanted the market, not the state, to regulate the total number.[33] Socialist ideas had changed since 1973 in Chile. Members of Parliament also saw this as a means of avoiding corruption in the

[31] Manuel Rojas (general manager, Casino Sun Monticello), interview by Ricardo Nazer, November 2019.

[32] Chile, *History of the Law*, 132.

[33] Chile, 25.

granting of casino licenses. Eventually, though, MPs decided to fix a limit.

The 2005 law established a 20 percent tax on all gaming income of the casinos, to be distributed in equal parts between the local council and the regional government, although these funds had to be reinvested in local infrastructure. An additional tax was levied on those visitors entering the playing rooms, at around US$4 per person, to be paid to the nation's treasury. The firms applying for a concession would be subject to rigorous examination by the SCJ; it would investigate the shareholders and the origin of the capitals to be invested, with the aim of assessing their financial standing and to prevent money laundering.[34] Once the SJC was satisfied with the investors' credentials, the permit to operate a casino for fifteen years was granted to the bid's winners.

Perhaps most important of all, the law created the SCJ as an autonomous regulator. The SCJ reported to the president through the Ministry of Finance. Furthermore, it had an Executive Council, which was in charge of awarding, denying, renewing, and revoking the concessions to operate casinos in Chile, as well as the game licenses and annexed services. Paradoxically, though, the SJC was to operate in Santiago, despite there being no casinos there. This development was a consequence of Chile's public administration being highly concentrated in the capital, and despite opposition from the regional front.

The Opening of New Casinos, 2005–2012

In May 2005 the SCJ started to operate. Just two months later, it had received sixty-one applications for the eighteen permits available.[35] However, in a second stage, this was down to forty-eight applications, representing a total of US$1.339 million.[36] The regions most in demand were in the north of the country, where copper mining was booming, and in councils close to the capital city.

The first adjudication process was a success in as much as the SJC managed to award the eighteen available casino permits, attracting national and foreign capital of US$550 million (Figure 1 shows the locations). The nature of the decision-making process at the SCJ and the fairness of the selection of the winning projects were matters of serious

[34] Since the SCJ's employees had no previous experience in the industry, they were trained by US personnel of the GLI and hired the services of consultants. Interview with Cecilia Estatópulos (Inspection Unit, SCJ), interview by Ricardo Nazer, November 2019; interview with Isabel Troncoso (Process Unit, SCJ), interview by Ricardo Nazer, November 2019.

[35] SCJ, press release, 6 July 2005, ASCJ.

[36] SCJ, press releases, 7 May 2006 and 2 Apr. 2006, ASCJ.

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Figure 1. Chilean locations hosting casinos, 2018. (Source: Authors' own elaboration.)

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concern during the parliamentary discussions of the law, which MPs pushed hard to make as clear and transparent as possible.[37]

Some complaints came from those who had made unsuccessful bids. For example, the Spanish CIRSA and Canadian Thunderbird instituted legal proceedings, leading to an investigation commission in the congress, and the national comptroller also became involved. However, no wrongdoing was found by the judicial system, the comptroller, or the congress; all concluded that the SJC ran a fair process.[38] This was thanks to the SCJ's Executive Council, which was created following the recommendations of some senators to counterbalance the powers of the superintendent. The SCJ council was composed of the superintendent himself, the vice finance minister, the financial markets superintendent, the nation's tourism director, the vice minister of regional development, and two renowned economists appointed by the president of the republic. They all analyzed every bid and selected the winner according to clear criteria. It is difficult to believe there was corruption within this council. This was a great advance over the original project, in which it was all down to the discretion of the superintendent.

The high level of investment was due to the fact that the bidders needed to present an "integral project," consisting of the casino and complementary investments such as hotels, conference centers, bars, and restaurants. According to a report of the Parliament's Finance Commission, it was clear that the mayors succeeded in their idea of improving tourist facilities at the new casino locations.[39] A total of fourteen luxury hotels were included in the winning bids. So important were these complementary investments that they accounted for two-thirds of total investments.[40] The law allowed future changes to the projects, and many projects did change, after being approved by the SCJ, totaling new investments of nearly US$205 million.[41]

The most important of the new investors was the Canadian Clairvest Group Inc., which already had investments in twelve casinos in Canada. Although Clairvest did not bid directly in the initial process, it did make advances to Talcahuano's Marina del Sol project (of the Chilean Valmar group) and to the projects of Latin Gaming, which had bid for the casinos of Osorno and Calama.[42] These loans ensured the Canadian Group's participation in the casinos in Talcahuano, Osorno, and Calama. By the end

[37] Chile, *History of the Law*, 245.

[38] *El Mercurio*, 22 Jan. 2007; *Diario Estrategia*, 15 May 2007; *Diario Financiero*, 9 Aug. 2007.

[39] Chile, *History of the Law*.

[40] SCJ, press releases, 18 Jan. 2007 and 11 Aug. 2008, ASCJ.

[41] Troncoso interview.

[42] The Valmar group is linked to the Imschenetzky family (of Russian background), which started business in the real estate sector in the Concepcion area.

of 2007 this group had acquired 50 percent of the shares of Marina del Sol of Talcahuano, through the affiliated company Clairvest Chile Ltd. The following year, Clairvest acquired 65 percent of Latin Gaming Osorno. Finally, in 2010, Clairvest bought 50 percent of Latin Gaming Calama. Despite such a large participation in the three projects, Clairvest acted as investor only, leaving the administration to the partners.[43]

Another new foreign investor was Citigroup, one of the world's largest financial companies, which through its affiliated Chilean company invested in the casino in Iquique, after partnering with the group Fischer.[44] The Fischer brothers had previously made an attempt to merge with Enjoy in 2007, but the negotiations did not end in an agreement. Thus, the brothers decided to create Dreams SA, in 2008, to manage the casinos in Puerto Varas, Temuco, Valdivia, Coyhaique, and Punta Arenas.[45] The following year, they reached an agreement with Citigroup, which acquired 41 percent of Dreams SA.[46]

Another large foreign investor was SUN International Limited, the largest casino operator in South Africa. It was invited to invest in the Mostazal casino (Monticello) by the Austrian firm Novomatic AG, which owned and managed the place, together with the French firm IGGR of the Raineau family group. Novomatic, a world leader in the manufacturer and distribution of slot machines, offered SUN 40 percent of the shares in 2008, while IGGR retained 20 percent. The new investors duplicated the initial investment, making Monticello the largest casino in the country.[47]

To face this new competition, the previously dominant Enjoy group reached an agreement in 2010 with Salguero Hotels Chile to gain full control of the casino Rinconada, the other one located close to Santiago, acquiring 70 percent of the shares and making new investments to upgrade the place.[48] The aim was to fight more effectively for Santiago's tourists. Rinconada and Mostazal, connected to Santiago by modern highways, are both just thirty minutes from the city center.

In turn, Latin Gaming, making the most of the above mentioned agreement with Clairvest Group, acquired 100 percent of Casino de Juegos del Pacífico, owned by the Argentine group IVISA, and became concessionaire of the San Antonio casino, making further

[43] SCJ, press releases, 3 Dec. 2007, 15 Sep. 2008, and 8 Mar. 2010, ASCJ.

[44] The Fischer group is a family business led by the brothers Humberto and Claudio Fischer, from Coyhaique. There, they started a business with videogame playing venues, followed by investment in the salmon, cattle, real estate, and airline industries. Wilhelm interview.

[45] SCJ, press release, 13 Dec. 2007, ASCJ.

[46] SCJ, press release, 30 Dec. 2009, ASCJ.

[47] SCJ, press release, 4 June 2008, ASCJ.

[48] SCJ, press release, 23 Apr. 2010, ASCJ.

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investments in 2011.[49] The Spanish group Egasa bought from its partner Nervion the 49 percent of its participation in Gran Casino de Copiapó, thus fully controlling the casino.[50] Finally, Casinos Austria International Holding (GMBH) acquired from its Chilean partner José Manuel Urenda (Polaris group) its 49.9 percent shares in Casino Gran Los Ángeles.[51]

The only traumatic episode within this process was the decision made by Casino Austria, controller of Casino Gran Ovalle SA, to relinquish its concessionaire rights over that casino in 2012. The reason given was the negative impact of the 27 February 2010 earthquake on the building sector, as well as the losses suffered by the group's main company during 2010 and 2011 as a result of the world economic crisis, which led to a revision of their investment plans outside Austria.[52] In defense of Casinos Austria, the 2010 earthquake was one of the most damaging in world history. For several weeks all casinos stopped operations, and many had to make sizable investments to repair physical damage.[53] However, this company seems not to have calculated risk very well. There was a clear failure to foresee the impact of a serious earthquake, which are very common in Chile.

The Working of the New Casino Industry, 2007–2018

The first casino that opened under the new law was Casino Termas de Chillán in 2007. The next year, seven more followed suit: Antofagasta Enjoy, Antay Casino & Hotel Copiapó, Sun Monticello Mostazal, Casino Colchagua, Gran Casino Talca, Marina del Sol Talcahuano, and Casino Gran Los Ángeles. In 2009 another six joined the party: Casino de Juegos del Pacífico (San Antonio), Marina del Sol Calama, Dreams Temuco, Dreams Valdivia, Marina del Sol Osorno, and Dreams Punta Arenas. Finally, in 2012, Enjoy Chiloé and Dreams Coyhaique completed the list of seventeen new casinos. However, in 2013, Casino Termas de Chillán quit the market owing to poor returns. Yet, 2016 was a good year for the industry since the special region Arica added a new player (Casino Luckia Arica), while that of Ovalle returned, thus bringing the total to eighteen.[54]

[49] SCJ, press release, 17 Aug. 2011, ASCJ.

[50] SCJ, press release, 29 July 2009, ASCJ. Egasa owns casinos and/or slot machines in Spain, Croatia, Peru, Panama, and Colombia.

[51] Casinos Austria International Holding, owned by Casinos Austria, is a leading player in the global gaming industry. SCJ, press release, 28 Mar. 2008, ASCJ.

[52] SCJ, press release, 8 Mar. 2012, ASCJ.

[53] SCJ, *Report on the New Casinos Industry*, 2010, ASCJ.

[54] The SCJ issued a new bidding process, attracting the interest of three bidders. Eventually, Invergaming and Bold was awarded the concession for the casino and a four-star hotel.

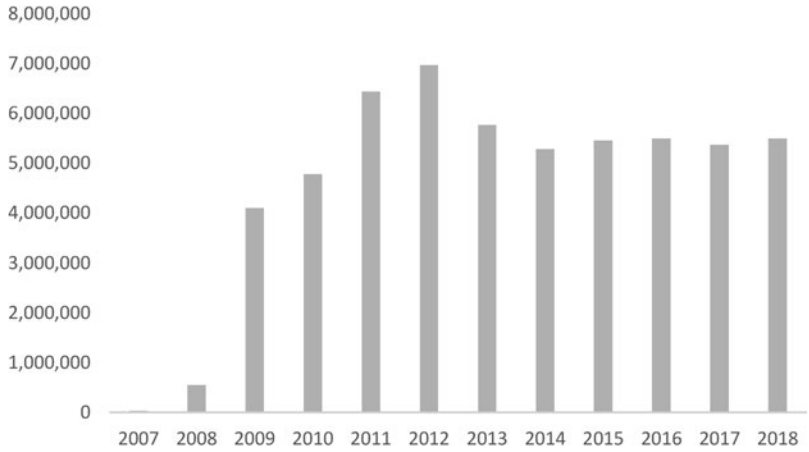

Figure 2. Number of visitors to Chile's new casinos, 2007–18. (Source: SCJ, *Boletín Estadístico Industria de Casinos* [Santiago, 2008–18].)

Figure 2 shows the number of visitors that these new casinos received every year.[55] These numbers are estimated from the entry tax. We can see a sharp increase from 2007 to 2012, when the new casinos registered 6.9 million visits and Chile's population was around 17 million. What happened thereafter? Why the sharp fall in 2013 followed by stagnation, despite the fact that per capita income did not decline? In 2013 a new tobacco law was promulgated, which banned smoking in roofed public places, greatly damaging the industry. Likewise, in 2012 the "zero tolerance" law against alcohol for drivers was introduced, which particularly impacted casinos that had to be reached via the highway, such as those in Monticello and Rinconada.[56] To diminish the impact caused by the tobacco law, casinos invested in unroofed terraces and other facilities where visitors were allowed to smoke.[57] They managed to reverse part of the fall in the number of visitors, but the high figures seen in 2011 and 2012 were never fully replicated.[58]

Beyond the number of visitors, according to the SCJ, the total money received by the casinos from bettors is a proxy of the total money that

SCJ, press release, 29 Aug. 2013, ASCJ; SCJ, *Report on the New Casinos Industry*, 2008–18, ASCJ.

[55] In 2016, 2017, and 2018, the visitors to these municipal casinos were 3.3 million, 3.0 million, and 2.7 million, respectively, taking the total of the industry above 8 million per year.

[56] For example, the largest casino in the country has 40 percent of its slot machines in terraces where smoking is allowed. SCJ, *Report on the New Casino Industry*, 2013, ASCJ.

[57] Rojas interview.

[58] On this issue in particular, see Dreams, *Annual Report* (Santiago, 2013).

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circulated within the casinos in a given year. We managed to get information on this variable only for 2018, when the SCJ estimated that Chilean casinos took in some US$1.853 million in bets.[59] Of this amount, slot machines accounted for around 94 percent.[60] Casinos calculate their gross incomes from games, as the value of bets minus the winnings paid to the players.[61]

The annual evolution of the new casinos' gross income from gambling was similar to the path followed by the series of the number of visitors, which is unsurprising. Gross income expanded from 2007 to 2012, when the peak of the series was reached, totaling US$650 million, fell sharply in 2013 because of the tobacco law, and started to recover from 2016. A difference, though, between the series of visitors and the series of gross income is that the latter recovered quicker thanks to an increase in the average income per visitor, which rose from US$55 in 2008 to US$95 in 2018.[62] This would suggest that most casino groups managed successfully to recover from changes in legislation on tobacco and the stricter enforcement of drinking-and-driving laws; they had fewer visitors but those visitors spent more money than ever before. The casinos' investments in unroofed facilities paid handsome dividends.

Casino concessionaries must pay a rent tax, which increased from 15 percent in 2002 to 27 percent in 2018; a value added tax (IVA) of 19 percent on gross income; a specific game tax of 20 percent on gross income; and the entry tax of the casinos.[63] The gaming taxes collected are distributed in equal parts between the local council and the regional government (GORE) in which they operate. In these twelve years, these taxes totaled US$801 million. This was a matter of impassioned discussion within Parliament since the original project gave more revenues to local councils, to the detriment of the GORE. But MPs wanted to ensure equal opportunities for most inhabitants of the region, rather than favoring those living in the casinos' councils. In turn, the entry tax, which has generated a total revenue of US$312 million, goes to the republic's general fund. The IVA, which had provided additional taxes totaling US$778 million, also goes directly to the nation's budget. If these three taxes are added together, between 2007 and 2018 the new casinos paid US$1.891 million in taxes, which accounted for 0.4 percent of the nation's tax revenues. Yet, for local councils this money provided up to

[59] SCJ, *Report on the New Casino Industry*, 2018, ASCJ.

[60] SCJ, *Boletín Estadístico Industria de Casinos* (Santiago, 2008–18).

[61] SCJ, *Report on the New Casino*, 2010.

[62] SCJ, *Boletín Estadístico*.

[63] One of the main duties of the SJC is to ensure that all visitors are registered. Estatópulos interview.

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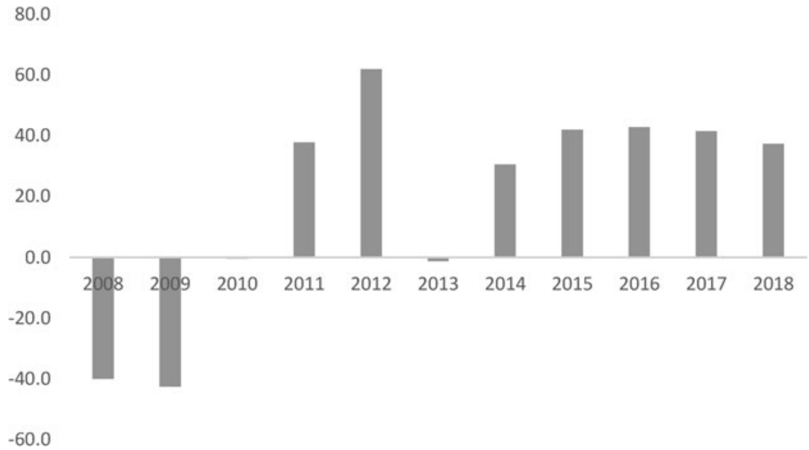

Figure 3. Profits/losses of the new casinos, 2008–18 (US$ millions in 2018). (Source: SCJ, *Boletín Estadístico Industria de Casinos* [Santiago, 2008–18].)

40 to 50 percent of their total incomes, much of which was spent in promoting tourism.

The economic performance of all new casinos combined is shown in Figure 3. As can be seen, 2008 and 2009 were harsh years for the industry. This was mainly due to the high operational costs related to the opening of new casinos, particularly in marketing and management, but was also because of the initial investments. Apart from construction, which was paid with long-term loans, the greatest expenses were the furniture and machines needed to operate the game rooms, which were usually funded by short-term or medium-term loans.[64] From 2011, though—except for 2013—the industry performed well.[65] From 2014 to 2018, the average annual profits were around US$40 million.[66] This took place despite the impact of the anti-tobacco and alcohol-related laws, thanks in part to increasing per capita expenditure by visitors, as well as because most initial investments had been amortized and many short-term loans had been repaid.

The economic performance of the industry has been affected, though, by the proliferation of illegal slot machines. A 2016 report by the Universidad Católica estimated that there were some 33,000 illegal slot machines in the country. Their operators have long argued that the results obtained by players depend on playing abilities rather than

[64] SCJ, *Report of the New Casino Industry*, 2011, ASCJ.
[65] Dreams, *Annual Report* (Santiago, 2013).
[66] SCJ, *Report of the new Casino Industry*, 2013–18, ASCJ.

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luck, and therefore the machines would not be illegal.[67] They formed an organization, called FIDEN, gathering over four hundred members, with a self-reported annual income of around US$660 million.[68] Despite FIDEN's arguments, the SCJ made it clear that the results of their slot machines were entirely down to luck. However, rather than closing the venues that host these machines, local councils have taken a soft approach, and most places continue to operate.[69] The lack of more robust demands by large casino groups for stronger government actions against illegal machines may be due to the fact that the casino industry realized that better-off customers go to the casino complexes, while poorer gamblers prefer the illegal booths, and thus the casinos suffered small losses. But it also shows some of the institutional weaknesses of the country.

Main Players in the Industry, 2007–2018

From 2012 we can analyze the performance of the entire national industry. That year, the gross income of the twenty-four casinos was US$946 million, with the share of those created under the 19.995 law standing at 73 percent. Ranked per groups of concessionaries, there was a high concentration within the industry. The top three groups accounted for 78 percent of all incomes. Six years later, in 2018, this level of concentration had only increased. Just two groups, Enjoy and Sun Dreams, accounted for 78.5 percent of all income. This can be explained by the merits of Enjoy and Dreams, their willingness to increase their market shares. We could not find any evidence of wrongdoing in their buying up competing enterprises or of lobbying to receive special treatment in the bidding process. Indeed, Enjoy lost more bids than it won; the group grew through buying concessions rather than through winning bids. This level of concentration was not new; by 2005 Enjoy had managed to concentrate some 90 percent of all revenues from the industry.

The main economic group within the "new" casino industry is Enjoy, which owned seven casinos. In 2010 Enjoy was forced to give up its participation in the Puerto Varas Casino to Dreams for US$31 million. That deal was settled after each group made a "closed envelope" offer to the other for its 50 percent share in the business, following disputes over management of the casino.[70] Of all the Enjoy casinos, Viña del Mar

[67] PUC, "Catastro máquinas de juego electrónicas" (Santiago, 2016).

[68] FIDEN, "Historia," accessed 16 July 2020, https://www.fiden.cl/historia. These figures need to be taken with caution since they are self-reported and have not been audited.

[69] SCJ, Memo 78, 2016; Memo 83, 2017, ASCJ.

[70] Enjoy, *Annual Report* (Santiago, 2010).

was the most important, generating about a third of all income.[71] By 2012, though, Enjoy's share of the industry's total revenues had dropped to 39 percent, and it had won only two of its five bids for the new casinos.

The second-largest operator is Dreams, property of the Fischer brothers in association with Citigroup as a minority partner. Dreams originally owned four casinos born of the 19.995 law (Temuco, Valdivia, Coyhaique, and Punta Arenas), adding Iquique in 2008 (formerly owned by its partner Citigroup) and the above mentioned Puerto Varas in 2010. In 2016 Dreams merged with Sun Latam (of SUN International, owners of the Monticello casino, the largest in the country), under the name Sun Dreams, with casinos not only in Chile but also in other Latin American quarters.[72]

The third-largest operator is Marina del Sol, which belongs to Valmar and Clairvest (50 percent each). Marina del Sol had successfully run Talcahuano's casino; in 2015 the group decided to expand. In order to do this, Marina del Sol bought from Latin Gaming its 50 percent shares of the casinos in Calama and Osorno, where Clairvest already owned 50 percent of the property, reaching the following agreement: Clairvest would own 75 percent but Valmar would manage the business, led by the president of the group, Nicolás Imschenetzky. Next, in 2016 Marina del Sol won the bid of the Chillán casino, which started operations in 2019.[73]

The fourth-largest group is the Panamanian Latin Gaming, which started operations with the municipal casino of Arica (2000), later adding the casinos in Calama and Osorno in association with Clairvest (2008); these were subsequently sold to Marina del Sol. With the capital thus obtained Latin Gaming acquired Casino de Juego de Pacífico of San Antonio from IVISA in 2011 and Casino Los Ángeles from Casinos Austria in 2013.[74] At the peak of its operations, it managed to control five casinos. However, Latin Gaming was not comfortable with the "integral" model and decided to quit the market. Its strength lay in the management of casinos only. In 2015, it sold its participation in Calama and Osorno to Marina del Sol. In 2016 it did not bid for the municipal casino of Arica, which it already managed, but since there were no bids, Latin Gaming continued with the concession after mutual agreement with the council. Yet, it sold its casinos in Los Ángeles and San Antonio to Enjoy in 2018, almost disappearing from the market.[75]

[71] SCJ, *Boletín Estadístico*.
[72] SCJ, *Boletín Estadístico*.
[73] SCJ, press release, 22 Aug. 2016, ASCJ.
[74] *Diario Financiero*, 1 Apr. 2013.
[75] SCJ, press release, 20 Feb. 2019, ASCJ.

The fifth-largest operator is the Spanish group Luckia Gaming, formerly known as Corporación Empresarial Egasa, owned by the Gonzáles Fuentes family, concessionaries of the Antay Casino & Hotel of Copiapó. The group changed the name to Luckia when it started international expansion beyond Spain, having operations also in Peru, Colombia, Portugal, Croatia, and Malta. In Chile, it added the Arica casino to the business in 2014, after starting operations in 2013.[76]

The high concentration of the casino industry is partly explained by the economies of scale that are clearly at work. There are important operational savings to be made by operating more than one casino, in centralizing and standardizing many processes. In a highly regulated market, with important entry barriers—which allowed a maximum of twenty-four casinos, with licenses renewed every fifteen years—the only secure way of expanding the business is by buying the permits of existing casinos or investing elsewhere. The international geographical diversification is also seen as desirable, since it diminishes many risks, including the nonrenewal or withdrawal of a permit, changes to casino legislation, changes in the economic conditions of a country/region, and natural disasters, among others.[77] Furthermore, the Chilean casino market has an additional peculiarity. After the promulgation of the 19.995 law, the model is widely known as the "integral project," since besides managing the casinos themselves, the concessionaries need also manage hotels, bars, restaurants, conference centers, and artistic centers in a diverse geographical area. Unlike other countries, where casinos are concentrated in one or two cities (e.g., Las Vegas), Chilean casino owners operate venues thousands of miles distant from each other. Thus, the two mightiest groups of the national industry have organized themselves as holdings companies. This development has exacerbated the level of concentration in the industry. Few investors in the industry are willing to operate under this restricted model, as the experience of Latin Gaming shows. To do so requires knowledge of many sectors/regions and would divert attention away from the main focus of their business: gambling. Furthermore, before the 2005 law the industry was already highly concentrated, so that the few players in the sector already had a useful specific knowledge of the market that was difficult for outsiders to match. The new market started from a high level of concentration: it was all about Enjoy.

Most industries in Chile are highly concentrated. It is a peculiarity of the economy, a tacit agreement among the main business groups. It is

[76] SCJ, press release, 24 Sep. 2014, ASCJ; SCJ, *Boletín Estadístico*.

[77] Enjoy, *Annual Reports* (Santiago, 2016–18); Dreams, *Annual Reports* (Santiago, 2016–18).

surprising that the 2005 law imposed no restrictions on the number of casinos a given group could own. No special permission was needed for mergers and acquisitions. The SCJ has never established limits on the level of concentration of the industry. In the parliamentary discussions before 2005, Senator Evelyn Matthei proposed to limit it to 30 to 40 percent of the total number of casinos, but her proposal was dismissed. The government argued that it would be unconstitutional, since casinos did not provide a public service, nor did they affect national security.

The international expansion of the two largest Chilean business groups into other Latin American countries is not unique to the casino industry, either. María Inés Barbero has already called attention to the emergence and proliferation of *multilatinas*: multinational companies from Latin America.[78] One of the most prominent aspects of the second global economy has been the emergence of multinational enterprises from emerging economies, and Chile is a pioneer in this respect. They have expanded mainly into neighboring countries. Enjoy and Dreams have followed a similar path. Both have invested abroad because their business at home was doing well, while at the same time continued internal growth was limited under a regulated entry market. By the time they had expanded abroad, the casino groups had already amortized most of their initial investments at home, so that they did not face financial problems. Furthermore, although it is true that the commodity price boom was over for most Latin American republics, the gambling industry continued growing, despite some economic stagnation, so that the expansion of Dreams and Enjoy is unsurprising. In an interview with a local newspaper, Javier Martínez, general manager and partner of Enjoy, declared that "the Chilean market reached a limit, [and] we need to look for alternatives abroad."[79] Enjoy´s expansion abroad was also facilitated by the incorporation of new partners, some borrowing at home, and the issue of shares after going public. Furthermore, Dreams was invited by Sun International to invest elsewhere, so it was even easier for the group.

The "integral project" concessionaries define their projects as those operating in two sectors, "gaming" and "non-gaming," the latter linked to the supply of hotels, spa, bars, restaurants, convention centers, and artistic centers. Regarding "non-gaming," Enjoy and Dreams focus on clients seeking leisure, comfort, and general entertainment. The corporate structure of the economic groups operating in the industry consists of

[78] María Inés Barbero, "The Chilean Multinationals: Contexts, Paths, Strategies," in *Capitalists, Business and State-Building in Chile*, ed. Manuel Llorca-Jaña, Rory Miller, and Diego Barría (London, 2019), 283–326.

[79] *La Tercera*, 1 July 2007.

a set of interconnected subsidiary companies. For example, the real estate companies own the properties and rent them to the companies of the same group that operate the casinos and/or hotels, which in turn contract third companies to manage the provision of food/drink services and the running of the convention centers.[80]

Although the "integral project" was imposed, the Chilean casino industry not only accepted the rules of the game but, in time, embraced the model enthusiastically.[81] The main players have voluntarily expanded the non-gaming part of the business, perceiving it as both an additional source of profits and a way of attracting clients to the casinos. Likewise, these companies have realized that many clients who frequent the hotels, bars, and restaurants annexed to the casinos do not visit the casinos but spend sizable amounts of money in the related businesses.[82]

Regarding the fortunes of Enjoy, it is worth mentioning that the "gaming" side of the business consisted of its casinos in Chile, to which the group added casinos in Argentina, Uruguay, and Colombia. Within gaming, slot machines were by far the most important source of income. Each of these casinos in Chile, Argentina, and Uruguay has related non-gaming facilities, but in Colombia the casino closed in 2018.[83]

To finance this expansion, the Martínez family decided to go public. The arrival of new investors meant the participation of the Martínez family within Enjoy declined gradually, although they retained the management of the companies. By 2018 the family controlled only 28.7 percent of Enjoy's shares, while Inversiones Entretenciones Consolidadas SpA, a company owned by one of the world leaders in investment funds, Advent International Corporation, controlled 34.4 percent. The rest of the investors controlled the remaining 36.9 percent.[84]

One successful business strategy adopted by the operators of the industry was the introduction of loyalty clubs, copying the idea from Las Vegas and South Africa. Recognizing that casino clients are diverse, the main groups of the industry introduced loyalty clubs as a way of segmenting the market. The Enjoy Club, for instance, classifies clients into several categories, each given access to different preferential benefits, including discounts, special tournaments, and draws.[85]

[80] Enjoy, *Annual Reports*; Dreams, *Annual Reports*.

[81] Rojas interview.

[82] Rojas interview; Wilhelm interview; Claudia Valladares (head of Communications and Institutional Affairs, Enjoy group), interview by Ricardo Nazer, November 2019.

[83] Enjoy, *Annual Reports*.

[84] Enjoy, *Annual Reports*.

[85] Enjoy, *Annual Reports*.

Through the affiliated company Enjoy Gestión, this group provides generous credits to members of the Enjoy Club, whose membership has been increasing at high rates, reaching the staggering figure of 1.75 million members by 2018.[86] Given the fact that those admitted need to be eighteen years old or over, and that according to the last census there were some 13.5 million adult people in Chile, this means that around 13 percent of the adult Chilean population belongs to Enjoy Club. The gaming side of the business provides 74 percent of all income.

The second-largest group is Dreams and Citigroup investment fund, which also embraced the "integral project." The Dreams group had four integral projects in Chile, as well as a solo casino in Iquique. It expanded into Peru, while also showing interest in Colombia. Market seeking was a driving force in Dreams's international expansion, given the limited size of the Chilean market. A key change for the group was its alliance with the South African Sun International Limited, which controlled Monticello and several casinos in Panama. Sun International was looking for a strategic partner to manage its operations in this region.[87] In 2016 Dreams and Sun reached an agreement to merge their businesses within Latin America, thus creating Sun Dreams. This alliance allowed them to duplicate their supply of "gaming" and "non-gaming," although the hotel side of the business was less attractive to them. During the expansion within Latin America, Sun Dreams has mainly invested in casinos, except for a hotel in Argentina.[88] This alliance fits with Barbero's idea that the competitiveness of the *multilatina*s has largely been due to their capacity to establish alliances with large international companies and their capacity to manage mergers and acquisitions successfully.[89]

Following a similar loyalty strategy to that of Enjoy, Dreams had 374,000 members in its club, while Sun (through Monticello) had another 610,000 members by 2015. From 2016 Sun Dreams started to unify both clubs.[90] The number of members has been increasing every year, to reach over 1.3 million in 2018, or around 10 percent of the adult Chilean population. Regarding the income of the group per broad category, the gaming side of the business is of paramount importance, accounting for nearly 83 percent of all income – a greater share than Enjoy has, in part because the international expansion of Dreams

[86] Legally, casino operators cannot offer direct loans to clients, yet they used related companies to offer soft credits. No interest is charged, but borrowers must provide signed checks as collateral for the loans, for thirty, sixty, or ninety days. Alberto Arellano, "La fórmula ludópata de Casinos Enjoy," Ciper, 13 Mar. 2019, https://ciperchile.cl/2019/03/13/la-formula-ludopata-de-casinos-enjoy-burla-la-ley-con-millonarios-prestamos-a-clientes-vip/.

[87] Wilhelm interview.

[88] Dreams, *Annual Reports*.

[89] Barbero, "Chilean Multinationals."

[90] Sun Dreams, *Annual Reports*.

has been in the gaming sector. The share of conference centers has grown recently as a result of the income generated by Gran Arena Monticello, a roofed theater that hosts concerts and other shows, with a capacity of four thousand people.[91]

The fact that the non-gaming side of the business does not provide a high proportion of the gross income of the two largest groups should not be taken as evidence that the "integrated" model is a failure. On the one hand, the non-gaming side, although smaller, is a profitable business by itself. On the other hand, the intention of the Chilean authorities was to promote third-party investment and domestic tourism in the centers where the casinos were established, a goal that has undoubtedly been achieved.

Conclusions

The opening and development of casinos in Chile is closely linked to the expansion of the tourism industry. In turn, the income generated by these casinos has contributed to the construction of new social and touristic infrastructure. In the first stage, from 1928 to 2005, only seven casinos operated in a handful of strategic touristic attractions. For most of the period from the 1930s to the 1980s, the number of clients and growth of the industry remained stagnant. Yet from 1990 the casino industry experienced an important expansion, which coincided with the most expansionary period in Chile's economic growth, characterized by dramatic gains in per capita GDP and the massive expansion of consumer credit. But there was also another fundamental transformation: the proliferation of slot machine games, which soon became the main source of income. This boom attracted the attention of many actors from a wide range of locations, who tried hard to get casino licenses for their regions.

Thus, a new change came after the promulgation of the 19.995 law, which completely transformed the industry. It was a direct result of a coordinated effort by mayors and MPs from the regions of Chile. In contrast to other countries, in Chile the government allowed the creation of twenty-four casinos all over the country, excluding the capital. Furthermore, these casinos had to operate as part of an "integral project," which included sizable additional investments in the tourism sector. The Chilean model encouraged investments in hotel construction, bars, conference centers, theaters, and other facilities. Thus, the Chilean casino industry is more closely linked to the national tourism industry than in most developing countries. Another salient characteristic of the new

[91] Sun Dreams, *Annual Reports*.

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Chilean casino industry is that it was conceived as a powerful decentralization tool, since all casino licenses were granted outside the capital city, and most taxes collected by the industry were given to local councils and regional governments to be reinvested within the regions.

Fifteen years after the promulgation of the 19.995 law, it seems that the decision to risk it all for an integral and regional project was a good one: the outcomes of the law, at least for the period covered by this article (up to 2018), are very positive. Tourism has expanded in the locations hosting the new casinos, which received new investments in infrastructure: fourteen new luxury hotels were built, many being the first five-star hotels in these localities.[92] The local population has also benefited by having their first large conference centers in which to host various activities that were previously unavailable. The contribution to national employment was estimated at about nine thousand direct jobs, plus indirect employment (seventeen thousand jobs). National artists have also benefited, since most casinos host their shows all through the year.[93]

This new casino industry also attracted new investors, including foreign investment funds and casino operators with vast experience in their home countries. These foreign investors associated with Chilean business groups, benefiting all parts of the business. Local investors provided a better knowledge of the market, while foreign investors introduced new technology and professionalization of the sector. These alliances also allowed the expansion of the industry to other Latin American outlets. Owing to several mergers and acquisitions, the industry is now highly concentrated, thus benefiting from economies of scale and diminishing risk through geographical diversification. The business knowledge, together with a restriction on the number of casinos allowed to operate, poses important barriers to new players. The fact that this industry is a small one, and politically controversial, has meant that the largest Chilean family groups have never bid for any casino concession, thus leaving smaller players in the market, among which Enjoy and Dreams have little competition.

Another important change to the industry, besides its technological modernization, was the introduction of new marketing strategies and a widening of its clients' economic background. The first municipal casinos were small, serving a reduced and selected number of clients, who received personalized attention. From the 1990s, though, and in particular after 2005, there was a massification of clients, which triggered the implementation of loyalty clubs by the business groups operating in the sector. The new marketing strategies aimed to segment the

[92] Wilhelm interview.
[93] Rojas interview.

market and to tailor benefits to specific groups, to make them feel valued.[94]

This new industry has also been forced to operate under strict regulations, as it is supervised by an efficient watchdog, the SCJ, which has improved the standards of the industry. Before the creation of the SCJ there was no national watchdog to supervise casino activities; instead, operations were regulated by specific laws issued for each establishment. Finally, the available financial information shows that the new "integral project" has attracted millions of visitors on an annual basis, who have contributed with their taxes to local, regional, and central government budgets. Overall, the 2005 decision to tie the casino industry to national tourism was effective and was enthusiastically embraced by the main casino operators.

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[94] Wilhelm interview.

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