

## ORGANIZED CRIME AND ILLEGAL GAMBLING

### *How Do Illegal Gambling Enterprises Respond to the Challenges Posed by Their Illegality in China?*

*Since China initiated its economic reforms in 1978, illegal gambling has become the primary source of revenue for organized crime groups. However, there remains a startling paucity of literature on the subject. This paper provides a first scholarly account in English of Chinese illegal gambling organizations and examines how three major types of enterprising entities (local gambling dens, trans-regional gambling rings and online gambling networks) mitigate external uncertainties. . Using Chinese- and English-language sources, it explores how the gambling organizations develop strategies to achieve optimal efficiency in the face of substantial challenges, including finance, marketing, debt collection and police suppression.*

Keywords: organized crime, gambling, personal networks, police corruption, China

#### ***Introduction***

Even if gambling and organized crime are considered by criminologists as being twin ventures, the following questions remain unanswered or only partially answered: how do these two phenomena link and how do illegal gambling organizations operate in an environment characterized by extreme uncertainty and high risk? Although little empirical evidence is available, the existing literature seeks to provide a framework for understanding this complex social problem. Based on a thorough review of the literature, Spapens (2008) suggests three possible ways in which organized criminals are involved in the gambling business: the illegal supply of gambling services, the penetration of the legal betting and gaming sector (e.g. the Italian-American mafia in Las Vegas), and the improper use of legal forms of gambling (e.g. fixing matches and money laundering). Gambling can not only provide good opportunities for loan sharking, illegal drug distribution, money laundering and prostitution, but also offer working capital to invest in legitimate businesses, strengthening organized criminals' entire illicit operations (Ferentzy and Turner, 2009; Smith *et al.*, 2003). In addition, the corruption of police officers and other government officials is a by-product of organized criminals' infiltration of the gambling business (Liddick, 1999; Steffensmeier and Ulmer, 2006). The involvement of crime groups in illegal gambling is therefore a serious challenge.

This paper examines an under-studied but potentially very important area: the involvement of organized crime groups in illegal gambling in the People's Republic of China. Illegal gambling emerged as a major source of revenue for organized crime groups in China after 1978, when the 'open door' policy and economic reform made profit and economic development a national movement (*quanming jingshang*) (Liu, 2008). The economic reform facilitated the heavy involvement of organized crime in illegal gambling in a variety of ways. Firstly, with regards to the demand for

gambling-related services, China's economic reform has created the overwhelming desire to 'get rich quick' among the Chinese. Gambling is another arena for this consumption. Secondly, economic reforms introduced a new ethos of entrepreneurship. Deng Xiaoping's saying, 'Be the cat white or be the cat black, it is the clever cat that will catch the mouse', is indicative of the desired new mentality, emphasising success and exploitation of opportunities by any means necessary. The increasing political emphasis on market forces has promoted a blurring of the legal and illegal sectors, particularly those sectors involving practices that are historically and socially embedded in Chinese society, such as gambling.

Social gambling is very popular in Chinese communities around the globe (Loo et al., 2008). But throughout Chinese history, gambling has been under strict legislative control (Cheng, 2011; Tse *et al.*, 2010). In mainland China, *all* forms of gambling were outlawed from the establishment of new China in 1949 until 1987, when the first welfare lottery was initiated. The lottery industry (including China Welfare Lottery and China Sport Lottery) has witnessed huge success in a relatively short time (Liu, 2012). The Ministry of Finance discloses that China's regulated lottery sales reached 309 billion RMB (AUS\$ 58 billion) in 2013, up 18.3 percent year on year (Xinhua, 2014a). The same period witnessed a significant development of the illegal gambling market. Xinhua News Agency reveals that the revenue from illegal gambling markets is estimated to be ten times higher than China's two officially sanctioned lotteries (Xiang, 2009; Xinhua, 2009a).

Article 303 of China's Criminal Law states: *'Whoever, for the purpose of profit, assembles a crowd to engage in gambling, establishes a place for gambling or makes gambling his profession shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance, and concurrently be sentenced to a fine'*. A Judicial Interpretation<sup>1</sup> issued by the Supreme People's Court and the Supreme People's Procuratorate in 2005 suggests that 'the purpose of reaping profits' is the key feature in determining whether an activity is subject to criminal law. That is to say, private bets between individuals (e.g. mah-jong and card games) are legal, while any game organized by an unlicensed and profit-oriented third party is illegal. The interpretation also emphasizes that whoever sets up online gambling websites or acts as an online gambling agency will be regarded as 'opening gambling houses' and will be punished according to the Article 303 of the Criminal Law.

The prohibition of most forms of gambling in mainland China results in rapid expansion of the illegal gambling market. It has been widely acknowledged that the legal prohibition of the production, distribution and financing of certain goods and services will create a breeding ground for the emergence of organized crime (Skaperdas, 2001). If a certain kind of service, such as gambling, is criminalized, private parties cannot enforce contracts through the normal channels. This creates a

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<sup>1</sup> The full title of it is 'The Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Certain Issues Related to the Specific Application of Law in Handling Criminal Cases Involving Gambling (2005)'.

power vacuum that can then be filled by quasi-governmental organizations, such as ‘mafias’ (Gambetta, 1993; Varese, 2001). As American Prohibition demonstrates, when the demand for an illegal product is huge, such demand is bound to be filled at high prices. As a result, the provision of unlawful commodities or services is an attractive business for organized crime groups (Varese, 2010; Wang, 2011).

Although there is no existing literature focusing explicitly on organized crime and gambling in mainland China, some general accounts of Chinese organized crime that touch on gambling are present (see also next section). The study conducted by Curtis et al. (2002) investigates the major areas of international activity of Chinese crime groups during 2000 – 2003, and suggests that gambling is one of major types of crime of these groups. It also discovers that, for transnational Chinese organized crime groups, gambling activities are closely linked with prostitution and human trafficking businesses. Chin and Godson (2006) offer an in-depth analysis of 14 influential criminal gangs that were dismantled between 1998 and 2003, seven of which were involved in the gambling business and their operations were predominantly local. In his widely-cited book *Mafias on the Move*, Varese (2011) explores the role of Hong Kong triads in China’s booming illegal markets and concludes that the newly-arrived triad societies do not enjoy comparative advantages over locally-based criminal groups. Based on a comprehensive analysis of open sources, Varese offers a valuable table summarizing the information on 74 ‘organizations with an underworld nature’ (i.e. influential, well-financed and well-organized criminal syndicates) which were destroyed by both central and local governments from 1992 to 2009. His analysis reveals that approximately 35 percent of criminal groups regard gambling as one of their main sources of revenue.

The current paper emphasizes the effects of *guanxi*—the Chinese version of personal connects, networks and social capital—on the management of the gambling business. Different languages use variant words to refer to the term ‘personal connections’, for example, ‘*guanxi*’ in China, ‘*blat*’ in Russia and ‘*wasta*’ in many Arab countries. The level of significance of personal connections is largely dependent on whether the country has a strong institutional environment. When the state has efficient formal institutional support, private enterprises have fewer tendencies to rely on personal connections for protection (Xin and Pearce, 1996). When the non-market mechanism is prominent (e.g. the state controls all economic resources and the formal legal system lacks transparency), the influence of personal connections on the social, economic and legal systems is expected to be huge. In a country such as China where the legal system is weak and the working of the government is opaque, personal connections (*guanxi*) have become extremely important in various aspects of Chinese business and personal life, including illegal activities (Broadhurst, 2012; Wang, 2014). *Guanxi*, therefore, becomes a fundamental element that eventually determines the process and outcomes of people’s behavior. As this paper will argue, *guanxi* is frequently used by illegal gambling entrepreneurs to identify potential partners, access customers and recover gambling debts.

The involvement of organized crime in the gambling business is a significant theme in Chinese crime and criminal justice research, but there is no existing English-language publication focusing on this. The aim of this paper is to contribute to the study of organized crime and gambling in the People's Republic of China. Specifically, we aim to examine how illegal gambling enterprises develop strategies (i.e. *guanxi* and violence) to cope with the challenges associated with doing business in illegal markets, including finance, marketing, debt collection and external uncertainties.

### ***Theories and Observations***

The existing literature pays very limited attention to the involvement of criminal groups in illegal gambling, but the exploration of this under-studied area has the capacity to provide theoretical insights for criminologists. Making a clear estimation of the size of illegal markets is difficult, because unlawful entrepreneurs do not publish revenue and profit figures (Beckert and Wehinger, 2013), but existing sources (e.g. news reports, journal articles and books) enable researchers to identify some of the major challenges illegal enterprises have to confront and the strategies these enterprising entities tend to adopt.

### **Challenges caused by illegality**

Entrepreneurs who conduct business in an illegal market have to cope with various economic and legal realities. Most troubles associated with doing business in illegal markets are caused by their illegality (Bevan *et al.*, 1989). 'Illegality' refers to 'any conducts for which societal sanctions are imposed prohibit[ing] that conduct for the protection of the community' (Rogers and Shuman, 2000: 79). Illegality not only prevents legitimate businesspeople from producing or supplying specific goods or services, but also 'deprives actors of the legal protection of property rights provided by the state for legal market transactions and limits their access to business strategies and organizational forms' (Beckert and Wehinger, 2013).

An important consequence of illegality is that it stops illegal enterprises securing external financing (Varese, 2010). Access to external finance is extremely important for any entrepreneur, but it is obviously not always practical for illegal entrepreneurs to seek financial investment from the legal realm (Portes and Haller, 2005). It is not rational for legal businesspeople to invest in illegal businesses due to the many drawbacks associated with such markets including the risk of legal punishment, the possibility of violence and the threat of fraud. Another direct consequence of illegality is the lack of legally enforceable contracts and access to the court system. As Smith (1975) argues, illegal enterprises operate at the far end of the 'spectrum of legitimacy', depriving them of the legal protection offered by state-sponsored institutions. Illegal entrepreneurs have to seek alternatives, such as violence and social networks, in order to enforce loan repayment and settle disputes (Gambetta, 1993; Wang, 2014). As a result, finance and dispute settlement are major challenges these underground enterprises must face alone.

When a market is prohibited by law, illegal entrepreneurs must take the risk of detection into account when doing business (Bevan *et al.*, 1989). Illegal enterprises tend to reduce the amount of information available to the public because risk is attached to the dissemination of information. This discourages illegal enterprises from marketing their products and services (Beckert and Wehinger 2013; Campana and Varese, 2013; Paoli, 2002). Moreover, effective police intervention not only increases the risk of illegal business owners being arrested, but also makes it harder for customers to access illegal goods and services. Police intervention (e.g. seizing assets and arresting illegal operators) therefore poses the most significant threat to any individuals and entrepreneurs in the illegal market; as a result, illegal enterprises are relatively small and short-lived (Liddick, 1999; Reuter, 1983; Trevaskes, 2010).

### **Social networks and violence: strategies applied by illegal enterprises**

Since conditions for illegal enterprises are extremely hostile, the main question is: how do illegal enterprises manage their businesses and cope with uncertainties in their operating environment? Illegal enterprises must develop strategies to survive and achieve profits in an environment characterized by the lack of legal protection for market participants, the threat of legal punishment of market actors and the absence of financial investment from the legal market. The review of existing literature is a useful strategy for authors to generate hypotheses about the ways in which illegal enterprises, especially Chinese enterprising entities, manage their illicit businesses.

A review research on Chinese *guanxi* and social networking in the past twenty years, conducted by Chen *et al.* (2013: 186), suggests that Chinese firms usually employ *guanxi* strategy—building and using personal connections—to ‘create and maintain competitive advantage and achieve superior performance’. Given that China’s legal framework is inadequate, its legal protection insufficient and its socialist market imperfect, *guanxi* practices have emerged as a valuable resource, an efficient mechanism widely used in Chinese business dealings (Xin and Pearce, 1996). *Guanxi* ties and *guanxi* practices increase information-sharing between business partners (Yang and Wang, 2011), facilitate collaboration between firms (Chen *et al.*, 2010), benefit firms by allowing them to establish their distribution channels (Gu *et al.*, 2008), improve firms’ ability to identify business partners (Wong and Leung, 2001), enhance firms’ ability to solve disputes (Jiang and Jin, 2008), reduce perceived relational risk (Liu *et al.*, 2008), and contribute to businesspeople establishing mutually-beneficial networks with government officials (Peng and Luo, 2000; Wank 1996).

On the other hand, some studies have examined the harmful consequences to the community of *guanxi* practices, among them the intertwinement of *guanxi* and corruption (Luo 2008). It is inaccurate to equate *guanxi* with corruption and cronyism (Khatri *et al.*, 2006). The *guanxi* network provides an efficient operating mechanism facilitating corruption by controlling exchange risk and reducing moral costs (Li, 2011; Wang, 2013b). Similarly, Zhan (2012: 100) suggests that the *guanxi* network ‘helps break down these practical and psychological hurdles and facilitates corruption,

especially transactional corruption through particularistic relationships within relatively exclusive networks'. Given that illegal entrepreneurs are deprived of legal protection and state enforcement, guanxi practices offer an important and effective mechanism to tackle these challenges associated with doing business in illicit markets. This line of thinking gives rise to Observation One:

*The guanxi network or guanxi strategy offers an efficient mechanism for illegal enterprises to secure financing, market their products or services, solve disputes, and obtain police protection.*

Violence has been widely accepted by law practitioners, media, and mainstream criminologists as a defining feature of organized crime (Geis, 1966). Criminal organizations employ organized violence to maintain internal security, limit market entry, settle conflicts, and ward off competitors (Abadinsky, 2010; Decker, 1996). As Andreas and Wallman (2009: 226) argue, the lack of enforceable contracts and external credit markets encourage actors in illegal markets to employ with informal social control—violence—to 'prosecute their grievances, punish those they regard as impediments to their livelihood, and deter those who might otherwise interfere'. Illegality, however, 'does not necessarily breed violence' (Snyder and Duran-Martinez, 2009: 253). This is because the use of violence to acquire market power is expensive, risky and brings unwanted attention from the police. Criminal groups which adopt the extensive use of violence will have a short operating life (Reuter, 1985). Violence, therefore, is not a cost-effective strategy for illegal enterprises. On the other hand, guanxi ties, as Hypothesis One suggests, offer a safe mechanism for illegal enterprises to attract investments from other entrepreneurs, set up distribution channels and enable them to reduce external uncertainties through the establishment of mutually-beneficial relationships with police officers. In this case, violence might be a last resort as guanxi ties offer a safe and efficient operating mechanism for illegal enterprises. This gives rise to Observation Two:

*The employment of guanxi strategies can greatly reduce the use of violence by illegal enterprises.*

In the following,, the authors use the evidence from the Chongqing crime crackdown and the recent nationwide crackdown on corruption and organized crime in China's soccer industry to explore how three major types of gambling organizations—local gambling dens, trans-regional gambling rings and online gambling networks—manage a variety of risks in an uncertain environment.

### ***Methods and Data***

Doing fieldwork in China presents many formidable difficulties including government restrictions, cultural barriers and financial costs (Liu, 2008; Xu *et al.*, 2013). Moreover, China is a big country with a complex administrative structure. These difficulties require researchers to consider how to choose research sites from 34 provinces, autonomous regions, municipalities and special economic zones (Shen *et*

*al.*, 2010). Since there is very little empirical research and official data on illegal gambling, the choice of research sites largely depends on the possibility of accessing data.

The authors selected Chongqing—a major city in Southwest China—and Qingdao—a port city in eastern Shandong Province—as primary sites for data collection. The choice of Chongqing is because a large number of criminal groups, including many illegal gambling enterprises, were dismantled by a crime crackdown organized by the Chongqing government from June 2009 to November 2011 (see Broadhurst, 2013; Broadhurst et al., 2012; Wang, 2013a). The Chongqing crime crackdown is one of the most influential and widely-publicized ‘anti-mafia campaigns’ of the century. In comparison with other anti-mafia campaigns organized by both central and local governments, the Chongqing crime crackdown aims not only at eradicating locally-based criminal organizations but also at crusading against influential businesses and senior government officials who enabled these syndicates to flourish (Broadhurst, 2013; Broadhurst and Wang, 2014). From June 2009 to March 2010, the Chongqing government destroyed 298 criminal groups including 14 ‘organizations with an underworld nature’ and arrested over 20 senior police officers for their supply of extra-legal protection to locally-based criminal groups (Xinhua, 2010).

The review of organized crime cases revealed by the Chongqing crime crackdown suggests: (1) gambling is a major business for most criminal groups in mainland China (see also Wang, 2013b); (2) illegal gambling businesses can be divided into three major categories, i.e. local/traditional gambling dens, trans-regional gambling rings (e.g. mainland groups operating in Macau) and online gambling networks (especially match fixing). However, the Chongqing crime crackdown does not disclose the details about how the third category of illegal gambling business (match fixing) works. This encourages the authors to choose alternative cases. The nationwide crackdown on corruption and organized crime in Chinese soccer, which began in March 2009, offers details about how illegal entrepreneurs manipulate a game through violence and corruption. Du Yunqi, a billionaire based in the city of Qingdao, was one of the most famous gang bosses who were arrested during this nationwide crackdown for his involvement in match-fixing (Qing, 2010).

The information supporting the study of the three types of illegal enterprises is drawn from open sources rather than fieldwork data because we found it extremely difficult to gain access to interviewees, police archives and court files.<sup>2</sup> The Chinese

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<sup>2</sup> In December 2011, the first author was funded by the Great Britain-China Educational Trust to conduct fieldwork research into organized crime and corruption in Chongqing, and illegal gambling and its ‘protective umbrellas’ (corrupt officials) formed a major part of that empirical work. During the fieldwork, the author found that it was impossible for researchers from international institutions to gain access to interviewees because in-depth interviews about organized crime and police corruption—a highly sensitive topic—would bring significant risks to both participants and investigators. The author managed to obtain access to a few law professors and journalists in Chongqing through *guanxi* practice

government as well as the mass media have disclosed valuable information about Chongqing's illegal gambling industry which spanned to other regions and localities. In order to find information about illegal gambling cases across China, the authors conducted an online search using –among other - keywords like ‘gambling’ (*dubo*), ‘online gambling’ (*wangluo dubo*), ‘rolling dead chips’ (*xima*) and ‘match fixing’ (*duqiu*). Special attention was paid to the information disclosed by the Xinhua News Agency—the state press agency of China—and newspapers managed by the ‘*zhengfa xitong*’ (the central political and legal affairs system) including the Legal Daily (*Fazhi Ribao*), China Police Daily (*Renmin Gongan Bao*), and Procuratorial Daily (*Jiancha Ribao*). Aside from a general literature and internet search, other significant sources for this study were data from ‘Zhi Net’<sup>3</sup> (China Knowledge Resource Integrated Database) and the Beida Fabao Cases Database<sup>4</sup>. On the one hand, journal papers and news reports offered by ‘Zhi Net’ were carefully selected based on relevance, citation frequency or journal impact. On the other, gambling cases provided by the Beida Fabao Cases Database were carefully integrated and analyzed.

The fact that the first author of this article is of Chinese origin and can read Chinese provided us with the opportunity to use sources that are not easily accessible to westerners. On the other hand, the sources we have used refer to only those cases which the authorities came across. There is a possibility, therefore, that the official and media accounts are biased towards the least successful gambling schemes, and may also be presenting the issues relating to the actors of the gambling business in a sensational and morally charged manner. Although China is hardly an exception to the sensational manner in which crime is treated in official and media accounts, Zhong (2009: 109) has already argued that official, media and even academic accounts in China “are replete with language of strong moral flavor, in line with the strongly moralistic quality of the whole society”. We note here that, similar to Shen *et al.* (2010) we have not adopted our sources’ representations of the entities involved in the business; we only use the purely ‘technical’ information to make inferences. Despite the limitations of these data however, we think they are worthy of examination.

### ***Local Gambling Dens: how underground casinos survive in mainland China***

The involvement of local crime groups in illegal gambling is not uncommon in mainland China, but the research in this area lacks supporting data. This part focuses on a very specific case, the Xie Caiping case, which was disclosed during the Chongqing crime crackdown in 2009. Xie Caiping, the ‘godmother’ of the Chongqing underworld, was one of the most influential gang bosses arrested in this crackdown.

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(the use of personal connections), but the information they offered had already been disclosed by the mass media.

<sup>3</sup> ‘Zhi Net’ is the most comprehensive database of academic sources in China. It covers journal papers, news reports, doctoral theses, masters’ dissertations, and conference papers.

<sup>4</sup> The Beida Fabao Cases Database was created by the Legal Information Centre of Peking University in 1985. It is now the most comprehensive case database in China, providing law researchers with the background, facts, parties, reasoning and law application, and the court decision of classic cases.

In 2009, Xie was sentenced to 18 years for leading a criminal syndicate, running gambling dens and bribing government officials (Xinhua, 2009b). The documentation from the crime crackdown provided valuable materials for researchers to examine how gang bosses ran gambling houses for years by keeping local police officers and government officials on their payroll.

The Xie Caiping case attracted attention for two reasons: first, Xie was one of very few female gang bosses to be tried in Chongqing's crime crackdown; second, Xie is the sister-in-law of Wen Qiang who for many years served as the city's deputy police chief. The Xinhua News Agency described the Xie gang as a 'shareholding company' (Xinhua, 2009c). It was a hierarchical, centrally-organized criminal conspiracy with a complex division of labor that included a 'board of directors', a separate system for moneylending, and clearly-articulated rules. Xie's gambling business was jointly funded by seven other businesses, with Xie as executive director. Under Xie's leadership, 15 key gang members—mostly unemployed people and ex-prisoners—carried out routine tasks.

### *Finance and marketing*

Xie Caiping and her business partners were addicted gamblers who built friendships and mutual trust through gambling together. In order to make money, Xie and her friends decided to invest in gambling businesses (Xinhua, 2009b). The creation of a 'board of directors' offered the gang an advantage in terms of finance and marketing. Xie's ability to manage over 20 gambling dens, including one located in the most prosperous district of Chongqing, was partly due to financial investment made by these directors. Moreover, this investment enabled Xie to pay high salaries: senior gang members received 1000 RMB (AUS\$ 187) per day and lower-ranking members were paid 300 RMB (AUS\$ 56) per day (Chen, 2010).<sup>5</sup> This produced the high group loyalty demanded by gang leaders.

Guanxi ties or personal connections are essential for doing business in China. It plays a crucial role in business transactions and businesspeople with wide guanxi networks enjoy a competitive advantage (Fock and Woo, 1998; Wilson and Brennan, 2010). Guanxi plays an even more vital role in illegal markets. Selling illegal services, unlike legal market transactions, cannot be publicly advertised. A guanxi network functions as a transmitter of information providing a safe channel for identifying customers (also see Zhan, 2012). For Xie's criminal syndicate, marketing largely depended on shareholders' guanxi networks. Gamblers who were not members of these guanxi networks were not allowed to access gambling dens (Xinhua, 2009c). This use of private guanxi networks not only brought in plenty of customers but also made illegal transactions less risky. In an effective marketing strategy, illegal drugs (e.g. ecstasy) were offered within Xie's gambling houses (*Ibid*).

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<sup>5</sup> In 2008, the average salary for a full-time public official in Chongqing was less than 100 RMB (approximately AUS\$ 18.7) per day.

### *Police intervention and debt collection*

Xie Caiping established her reputation through close connections with local police officers. As Antonopoulos (2013) argues, a corrupt *guanxi* network between organized crime and police can be created through bribery (e.g. money, sex and expensive gifts) or through interpersonal links. Xie's gang was the only criminal organization creating links with Wen Qiang—former Chongqing deputy police chief—through kinship ties (Wang, 2013b). Under Wen's protection, Xie's illicit businesses were safeguarded and extremely profitable. In order to share profit, Zhou Xiaoya, Wen's wife, also invested money in Xie's gambling businesses (Li, 2009). This strengthened the protective relationship between Wen and Xie.

Benefiting from Wen's influence, Xie created corrupt networks with police officers at various levels. Peng Changjian, the city's deputy police chief and Wen's right-hand man, required middle- and low-ranking police officers not to interrupt Xie's gambling businesses (Li, 2009). The protection of senior police officers such as Wen and Peng was not sufficient, however, as low-ranking officers would not sell genuine protection if they were denied a share of the proceeds. In order to run her illicit businesses in an environment characterized by intense and irregular police crackdowns, Xie set up a mutually-beneficial network with two local police officers (Guo Sheng and Gan Yong) by paying a protection fee—60,000 RMB (AUS\$ 11,230) per month (Xinhua, 2009c). After obtaining Xie's bribe, the two police officers shared this illicit benefit with ten more colleagues who then agreed to turn a blind eye on Xie's activities (Tian and Zheng, 2009). The development of this political-criminal network helped Xie avoid police raids, as she was informed in advance. This enabled her to establish a gambling house in a hotel opposite the city's high court and next to city's prosecutor's office (Branigan, 2010).

The corrupt *guanxi* network between Xie and police officers sometimes had to cope with challenges brought by outsiders. In November 2005, Xie was arrested by a police raid along with 103 gamblers and gangsters. The raid occurred because the Yuzhong district police chief refused to cooperate with his boss, Wen Qiang. Wen then threatened to punish that police chief by using his *guanxi* power in both the upperworld and the underworld. Although there is no evidence to show what form that punishment might have taken, Wen did use his *guanxi* connections to reduce Xie's prison sentence to a mere five months (Yi, 2010). And in August 2008, an undercover policeman who investigated Xie's criminal activities was beaten and dumped in the countryside by Xie's followers (Li, 2009).

Xie organized two groups of gangsters to cope with various disputes. The first group of gangsters formed an 'in-house security office' (*neibao*) dealing with disputes within gambling dens; the second group of gangsters constituted the 'external relations office' (*waiwei*) building links with government officials and coping with disputes with other gangs (Xinhua, 2009c). Debt collection had always been the major concern for Xie's gang. Trust and reputation in *guanxi* networks normally provided

sufficient motivation to urge debtors to fulfil their obligations (Wang, 2014). Xie also adopted another strategy—the use of or threatened use of violence or other criminal activity—to enforce loan repayment if guanxi practice did not work. For example, in July 2008, a retired government official was beaten and imprisoned for 16 hours by Xie until he paid the loan back (Li, 2009).

To sum up, the Xie Caiping case shows that guanxi ties are widely used by local gambling dens to secure funds, attract gamblers, and obtain protection from junior and senior police officers. Xie's family ties to the former police chief, Wen Qiang, enabled Xie to safely manage the risks posed by law enforcement agencies. Moreover, despite Xie adopting illegal means—threats and violence—during the debt collection process, guanxi practice was her preferred route to recover gambling debts.

### ***Trans-regional gambling rings: how mainland Chinese gangs exploit Macau's casinos***

Macau, Asia's gambling capital, is the only Chinese territory where casinos are permitted. In 2013, gambling in Macau generated revenues of \$45 billion (AUS\$ 51.6 billion)—seven times the amount generated by Las Vegas—and over two-thirds of that came from VIP rooms controlled by junket operators (Kaiman, 2014; Stassen, 2013). A junket operator refers to a company or an individual working closely with Macau casinos to buy chips at discount rates and then sell them to gamblers as well as settle any consequent debts (Leong, 2002; Wang and Eadington, 2008). Macau has become the destination of choice for gamblers from the mainland as gambling has been outlawed in mainland China. According to statistics released by the Chinese Academy of Social Sciences, in the first half of 2013, 63% of all visitors to Macau came from mainland China (Tang, 2014a).

Visitors from mainland China are not allowed to take more than 20,000 RMB (AUS\$ 3,740) at a time and \$50,000 (AUS\$ 57,425) in total out of the country per year, a restriction that includes Macau (Xinhua, 2004). In order to circumvent this restriction, high-rolling gamblers get credit from junket operators to gamble in Macau and then repay the credit to sub-agencies belonging to the junket operators on the mainland on their return. In this case, the ability of junket operators to earn commission will largely depend on whether gambling debts can be recovered.

Gambling debts, however, are not legally collectable in China. As Tang (2014b: 17) observes, 'the enforcement in mainland China of gambling debts incurred in Macau raises specific difficulties' because the Chinese government views foreign gambling contracts as violating the public policy of 'the prohibition of gambling' and thus the people's courts refuse to enforce any foreign gambling debts. The problem of cross-border enforcement encourages mainland residents to 'gamble in Macau for profits' and 'avoid debts if they lose' (Tang, 2014b: 17). As a response, junket operators tend to work closely with triad societies or mainland Chinese gangs to chase customers and collect debts (WikiLeaks, 2009).

### *Triads and Macau casinos*

The Macau SAR (Special Administrative Region) Government promulgated the Junket Operator Regulation in March 2002, but this Regulation is far from effective to drive organized crime out of Macau's gambling industry. As Siu (2007: 53) explains, 'there is neither specific criterion for background check, nor clear indication about how disclosed information would be applied to evaluate whether an applicant meets the qualifications to be a casino junket operator'. The incompleteness of the Junket Operator Regulation and the need for debt collection provide an impetus for organized crime. Four major criminal syndicates in Macau are involved in the 'bate-ficha' business (the rolling or exchanging of chips): the 14K triad, the Shui Fong (also known as Water Room Gang), Wo Shing Wo and Big Circle Boys (see Leong, 2004). All these criminal syndicates choose either to set up sub-agencies in mainland China or to team up with mainland Chinese gangs in order to chase mainland gamblers who fail to make good their losses in Macau (Varese, 2011).

For example, the Big Circle Boys had set up an 'action team' consisting mainly of mainland Chinese from south China's Guangdong province to collect gambling debts. In 1999, their debt collection activities in Shanghai led to an incident serious enough to attract police attention. Four gang members were arrested while another 12 narrowly escaped. In 2001, the team leader was sentenced to death by a local court and three other key members received prison sentences (Chen and Pan, 2001).

Since the mid-2000s, a number of American-run/operated casinos arrived in Macau. Most observers believed that the arrival of new franchisees-outside competitors would prevent the encroachment of organized crime because these newly-arrived casinos run their VIP-play business in strict adherence to laws in Macau and the United States (Siu and He, 2014). However, the junket industry, as Osnos (2012) argues, fails to cut its links with triads. This is because American casino operators have to work in close cooperation with the most profitable junkets that are able to deliver wealthy clients to Macau's gambling halls and collect debts in China (Siu and He, 2014).

A murder-for-hire case<sup>6</sup> in 2009 sheds light on the links between Cheung Chi-tai, a leader of the Hong Kong-based triad Wo Hop To, and the 'Sands Macau', Asia's first Western-style casino. Documents show that Cheung acted as a 'guarantor/the person in charge' of one of the VIP rooms at the Sands Macau (Isaacs, 2010). Meanwhile, Cheung was a major investor of the Neptune Group, one of Macau's biggest junket operators (Oster and Lee, 2014). Cheung was responsible for bringing in high-rolling gamblers from mainland China, offering them large lines of credit and collecting consequent debts. Cheung's ties with the 'Sands Macau' destroyed the company's reputation and the lack of a routine background check is identified by a former Sands executive as a significant contributing factor for the involvement of triad members in Macau's gambling business (Osnos, 2012).

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<sup>6</sup> For the details of this case, see Osnos (2012).

### *Mainland Chinese gangs and Macau's junket business*

In order to bring in a large number of high-spending gamblers from the mainland, Macau casinos have to adopt informal ways of marketing because gambling advertisement in mainland China is illegal. The lack of legal marketing channels on the mainland leads to the emergence of a large number of mainland junket operators who rely on their social networks to target gamblers—corrupt officials, managers of state-run enterprises and private entrepreneurs—for Macau casinos. The Chinese government fails to curtail gambling in Macau by mainland officials because ‘money never needs to physically cross the border’ and corrupt officials can use mobile phones to instruct emissaries to place their bets (Pontell *et al.*, 2014: 7).

Legal businesses in mainland China would not invest in a casino in Macau because of the inability to legally collect debts, but gang bosses and illegal entrepreneurs are more than willing to finance casinos. A trans-regional gambling ring destroyed by the Chongqing crime crackdown provided valuable resources to help understand how these mainland junket operators worked. Billionaire Chen Mingliang, head of the gambling ring, confessed the details about how he ran his business.

In order to understand how a transnational gambling ring works, it is necessary to know that a VIP-room contractual system is organized around four actors: the casino, VIP promoters, junket operators and VIP players. The casino first contracts out a gambling room to an operator (i.e. VIP room promoter) who then subcontracts with plenty of account owners (i.e. junket operators) who act as marketing agents recruiting VIP players for VIP promoters or casinos (Pontell *et al.*, 2014; Wang and Eadington, 2008). Junket operators normally employ a number of representatives (reps) to conduct casino marketing arrangements, and ‘junket operators tend to trust reps who are related by blood or ethnic ties, as their information is likely to be complete and it incurs no additional efforts to monitor their behaviour’ (Siu Lam, 2013: 330). Since mainland China became Macau’s major gambling market, VIP promoters who lack social connections with corrupt officials and wealthy businesses in mainland China have to rely on the *guanxi* networks of mainland junket operators and reps.

Opening an account with a gambling room is a necessary step to be a junket operator, and it requires a large amount of capital. In 2006, Chen Mingliang and other illegal entrepreneurs within Chen’s *guanxi* networks transferred 12 million RMB (AUS\$ 2.3 million) through underground banks and opened an account with a gambling room. Chen and his partners targeted two Chinese cities—Chongqing and Chengdu—to search for wealthy people who were inclined to become VIP customers (Yang, 2009). Information collected through personal networks enabled Chen to screen and recruit the most qualified gamblers who had ability to pay gambling debts. After potential customers were identified, the next step was utilizing already-developed networks to establish a friendly relationship with them (Lo, 2009). It was easy for Chen and his business partners to lure people from their *guanxi* networks to gamble in Macau.

Moreover, high rollers from the mainland, especially government officials and managers of state-owned enterprises, tend to buy services from junket operators in order to cover their illegitimate income and gains (Chen, 2011; Zeng and Forrest, 2009).

When customers agreed to gamble in a VIP room, Chen and his gangsters in Macau offered them privileged services including arranging visas, accommodation and transportation, providing credit and access to VIP gaming rooms in Macau (Yin, 2010). But after the easy part—placing bets—comes the hard part: paying debts. It has been widely acknowledged that criminal groups or debt collection gangs usually adopt violent means of debt collection including torture (e.g. false imprisonment, battery and assault) or serious crime (e.g. murder) (Wang, 2009). Extra-legal means of debt collection, however, are not applicable for VIP gamblers who are influential businessmen or powerful officials in mainland China and who are able to pay their debts (Wang and Eadington, 2008).

In Chen's gambling businesses, for example, all his customers were rich entrepreneurs and senior officials. Most gambling debts were collected through *guanxi* practice rather than through threats and violence. Chen was able to efficiently monitor debtors' behavior as he knew their families in Chongqing and Chengdu. In most circumstances, Chen depended on *guanxi* middlemen. Wealthy businesspeople and corrupt officials cared deeply about reputation and *mianzi* ('face' or dignity) in their *guanxi* networks, thus the debt collection system would work without threats and violence (Wang, 2014). Violence can only provoke negative effects due to a combination of reasons: first, violence not only draws unwanted attention from the police, but also destroys a junket operator's reputation in *guanxi* networks as high rollers normally choose VIP services by assessing a junket operator's honesty and quality of his/her services. Second, insufficient information gathering usually leads to the failure to collect gambling debts, which compels a junket operator to invest more time and effort in strengthening and extending his/her *guanxi* networks in order to get more reliable information from *guanxi* members (Zhan and Liang, 2013).

With the help of Ma Dang, the group's financial officer and public relations director, Chen managed to establish mutually-beneficial networks with two police chiefs—Wen Qiang and Peng Changjian—and senior police officer Luo Li (Wang, 2013b). Chen's gang offered free sex services, money and expensive gifts to these corrupt police officers; in return, the officers provided illegal protection to Chen's illicit businesses including prostitution, drug trafficking and dispute resolution (*Ibid*). However, there is a lack of evidence to prove whether Chen's trans-regional gambling ring needed protection from police officers. Obtaining extra-legal protection from police officers may be not necessary for mainland junket operators to carry out their businesses as Macau casinos normally do not take a close look at junket operators' backgrounds and gambling debts are collected mainly based on trust and reputation.

To sum up, the increasing significance of mainland junket operators in Macau's VIP rooms is due to their ability to employ their *guanxi* ties to coordinate a series of illegal activities across the China-Macau border, including the recruitment of wealthy patrons and the collection of gambling debts. Furthermore, the Chen Mingliang case suggests that *guanxi* practices are sufficient to encourage debtors to fulfil their responsibilities and violence is not a necessary strategy for trans-regional gambling businesses.

### ***Online Gambling Networks: how illegal entrepreneurs fix football matches***

In recent years, China has witnessed surprisingly high growth in the online gambling industry. In April 2014, police in Shanghai smashed what was reportedly one of the country's biggest online gambling rings that handled bets worth more than HK\$140billion (AUS\$ 20.6 billion) (Xinhua, 2014b). Since the spread of sports betting via the internet, match fixing has become the biggest threat to the integrity of sport (Spapens, 2014). Low salaries for players and unchecked local government officials have led to endemic match fixing and corruption in Chinese football (Kaiman, 2013). In 2009, China initiated its nationwide crackdown on gambling, match fixing and bribery. This crackdown resulted in the punishment of 12 football clubs and 58 current and former football officials, players and referees for match fixing, gambling and bribe-taking, including the highest-ranking soccer officials, Xie Yalong and Nan Yong, and former head of the Chinese Football Association's referees committee, Li Dongsheng (Xinhua, 2013).

### ***Corrupt guanxi networks inside Chinese football***

China's nationwide crackdown on match-fixing and gambling in the professional soccer leagues revealed that bribing the people in power—football officials—is the most efficient strategy to fix a match in China, because the corrupt network is hierarchically organized. Those *guanxi* networks that are centered around senior government officials have well-organized approaches to the relocation of corrupt benefits (Wang *et al.*, 2014). Soccer officials 'instruct the match referee to achieve a certain outcome', and sometimes they do this to 'ensure that one team should win so as to avoid relegation to a lower league' (Ren, 2013: 416). Referees feel obliged to offer favors to these officials. For example, in order to win the 2003 domestic league, the Shanghai Shenhua Football Club (F.C.) invited Guo Feng, an influential football manager, as an intermediary to ask a favor from Zhang Jianqiang, who was then a senior official of the China Football Association and who had a good relationship with Lu Jun, China's 'Golden Whistle'. The promise of favor and Zhang's status in the *guanxi* network persuaded this 'golden whistle' to be biased towards Shenhua F.C. in a crucial match. With the help of Zhang and Lu, Shanghai Shenhua F.C. won the 2003 league. In return, Zhang and Lu received commissions worth 700,000 RMB (AUS\$ 130,000) (Xinhua, 2011).

The court judgment shows that Xie Yalong and Nan Yong, two former directors of the Football Administrative Center (FAC), were frequently invited by football clubs

to manipulate match outcomes as they possessed unchecked powers (Ren, 2013).<sup>7</sup> The main strategy adopted by Xie and Nan was appointing ‘proper’ referees who fixed matches in order to favor the corrupting teams. News articles reveal that corrupt soccer officials only accepted favors from bribers who had close *guanxi* with them because refusing to accept their favors would cause both embarrassment and loss of *mianzi* (‘face’) (Chang, 2011). After obtaining favors, senior government officials have to faithfully follow social norms (e.g. the principle of reciprocity and the essence of face) and offer favors and return gifts to *guanxi* members by distorting formal rules. As Xie Yalong says, soccer officials have to cultivate and maintain *guanxi* in the football circle and *guanxi* ‘gifts’ can hardly be refused (*Ibid*).

In the Chinese context, individuals have to give face to other people and show respect for a person’s social status and reputation in society (Wang *et al.*, 2005). In this case, referees usually follow senior football officials’ instructions, as ‘giving face’ or demonstrating respect for the senior officials’ status will help the referees cultivate and expand their *guanxi* networks. ‘Not giving face to another’, as Thomas and Liao (2010: 686) argues, ‘is extremely rude in China and hurting another people’s face would seriously damage the relationship between the two people involved’. To be specific, refusing to offer the favor will result in mutual loss: on the one hand, senior officials will lose their *mianzi* and prestige; on the other hand, referees who refuse will be viewed as untrustworthy in football circles. In this sense, subordinates always give superiors ‘face’. For example, under instructions from Li Dongsheng, then head of the Chinese Football Association’s referees committee, Huang Junjie, a well-known Chinese referee, favored Qingdao Zhongneng F.C. in a match against Guangzhou Pharmaceutical F.C. in 2009. Huang did not receive any payment for this match-fixing; he did it because he could not refuse to ‘give face’ to his superior (Bjnews, 2012).

#### *Match fixing and organized crime*

This crackdown also reveals a close link between match fixing and organized crime. The global possibilities offered by the internet and sophisticated financial arrangements provide perfect opportunities for criminal groups to take advantage of sports betting to earn illicit profit (Hill, 2010). The cases of match fixing and gambling revealed by China’s relatively recent crackdown suggest that owning football clubs has become an effective strategy for gang bosses or illegal entrepreneurs to fix matches. Qingdao Hailifeng F.C., a second division team owned by Du Yunqi, was disqualified for scoring ‘own goals’ in order to win a bet (The Economist, 2011). The details revealed by police authorities enable researchers to discover how an illicit entrepreneur—Du Yunqi—not only determined the outcome of the football match but also made money on online bets such as how many goals would be scored and at what point during the match.

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<sup>7</sup> *State v Xie Yalong*, Intermediate People’s Court of Dandong (2012); *State v Nan Yong*, Intermediate People’s Court of Tielong (2012).

Du Yunqi was a billionaire gang boss in Qingdao, a port city in eastern Shandong Province in China. He was firstly involved in the demolition and relocation business—where he used violence and threats to force locals to move—and became a successful estate developer by securing funds through his close *guanxi* networks with banks (Qing, 2010). The net profits from the demolition and relocation business enabled Du Yunqi to expand his sphere of influence to football games. When he moved to the football business, Du Yunqi established an efficient corrupt network consisting of players, ex-players, referees, team managers, club executives and physiotherapists. Du Yunqi used two major approaches in match manipulation. The first, an indirect approach, involved the use of intermediaries/middlemen to access the players or club managers to be bribed. The second, a direct approach, included threats, the use of violence or bribes in exchange for poor performance in a match (Li *et al.*, 2010a). As a club owner, Du Yunqi possessed competitive advantage in fixing matches as he could order his players to lose without paying extra money, and frequently used threats and violence to punish players who refused to cooperate. For example, Zhang Yifei, a player in Du Yunqi's football club, was injured by gangsters assigned by his boss. Zhang's Achilles tendons were completely severed because he refused to do what his boss ordered (He, 2010).

In most circumstances, intermediaries—usually his players or persons who were well-known in sports circles—were employed by Du Yunqi to approach players or officials of other clubs who could affect the outcome of a match (Li *et al.*, 2010b). Qualified intermediaries were the persons who possessed an extensive *guanxi* web in sport circles (Hill, 2009). Intermediaries were frequently employed to ensure access and guarantee the transaction between buyer and seller (Hill, 2009). Du Bin, the captain of Qingdao Hailifeng football club, was assigned by his boss—Du Yunqi—to act as a middleman. In November 2008, the Qingdao Hailifeng club made use of Du Bin's personal connections to bribe players in the Wuxi Zhongbang F.C. in order to win a crucial match between them. Moreover, Du Yunqi made use of his or intermediaries' networks to sell off the games in order to maximize his profit. The routine of Qingdao Hailifeng F.C. was to perform well in the first half of the season and lose games in the second half. In 2007, Du Yunqi took 500,000 RMB (AUS\$ 93,000) from the Chengdu Xiefeilian team boss to lose a match against them. This deal was reached through the close connection developed by Liu Hongwei—a key player in Du Yunqi's club—with You Kewei, senior manager of the Chendu club (Xinhua, 2009d).

Du Yunqi not only manipulated the outcome of games, but also earned large amounts of money by betting on these results on international gambling sites. The known cases of match fixing and illegal gambling in mainland China represent only the tip of the iceberg as corrupt transactions through personal networks are not obvious to the casual observer. More information is required in order to have a thorough understanding of how online gambling syndicates deal with challenges including finance, marketing and debt collection.

To sum up, China's crackdown on match-fixing and corruption testifies to the importance of guanxi practice in fixing football matches. Illegal entrepreneurs or football club owners fix matches by employing their guanxi networks. Guanxi members (e.g. soccer officials, referees, and players) feel obliged to manipulate matches in order to meet the demands of guanxi networks. It is undeniable that violence and threats are used by illegal entrepreneurs (e.g. Du Yunqi) to punish players who refused to cooperate, but guanxi strategies, in most circumstances, function as a major tool for them to fix matches and earn illegal profits through online betting.

### ***Conclusion***

This paper is an exploratory study of organized crime and illegal gambling in China. It examines how three major types of gambling schemes—local gambling dens, trans-regional gambling rings and online gambling networks—develop unique strategies to achieve optimal efficiency in the face of substantial challenges, including finance, marketing, debt collection and police suppression. The analysis of illegal gambling schemes suggests that guanxi—a Chinese version of personal connections—is the key resource for running illegal gambling businesses in China.

For entrepreneurs in the illegal gambling business, the guanxi network is both a receiver and a transmitter of information. The illegality of most forms of gambling in mainland China prevents criminal enterprises from securing external financing and the dissemination of information to the public. The guanxi network, however, helps identify potential business partners. Through guanxi networks, partners involved in illegal businesses know each other, and the trust and reputation embedded in the shared network encourage them to form a long-term cooperative business relationship. Moreover, the guanxi network offers easy access to markets and customers. The network provides a safe and secret marketing channel for illegal goods and services as information is efficiently transmitted among guanxi members. This not only reduces transaction costs but also lowers the risk of disclosure of information to law enforcement agencies. If potential customers are outside the network, illegal entrepreneurs tend to establish guanxi connections with them. Building a guanxi network involves finding a common basis (e.g. shared birthplace or school) and identifying intermediaries who have a close relationship with the potential customer (Wang, 2014; see Ma Fang, 2012).

The guanxi network provides an avenue for actors in the criminal underworld to settle disputes. In mainland China, entrepreneurs involved in illegal gambling businesses have to face the problem of unenforceable debts. These illegal entrepreneurs would employ intermediaries to collect such debts. Qualified intermediaries are normally skilled debt collectors, who rely on mutual respect and trust to encourage debtors to fulfil their obligations. The guanxi network serves as a form of insurance, ensuring the reliability and credibility of customers and creating a sense of obligation and indebtedness. Failure to meet the obligation is closely associated with losing dignity and prestige in the guanxi network. Violence is resorted to only when guanxi practice

does not work. This is because aggressive and violent behavior attracts police attention, which brings significant risks for illegal enterprises (see Pearson & Hobbs, 2001).

Guanxi also offers a means for illegal entrepreneurs to obtain police protection. The lack of transparency in China's political and legal systems creates favorable conditions for illegal entrepreneurs to employ guanxi networks to obtain protection from corrupt police officers. Local gambling den owners have to create corrupt guanxi networks with police officers for survival. This is because local gambling houses are always major targets during anti-crime campaigns organized by both central and local governments. Illegal entrepreneurs initiate guanxi with police officers through identifying guanxi bases (e.g. kinship ties and common social identities) or finding common third parties (e.g. intermediaries). The entrepreneurs then use bribes such as money, expensive gifts and free sex to develop strong guanxi networks with corrupt police officers. After close guanxi networks have been established, bribe takers feel a sense of moral obligation to reciprocate. In other words, corrupt police officers have to follow the rule of reciprocity and offer benefits to these criminal entrepreneurs including protection against police intervention and protection of illegal businesses (Zhan, 2012).

The study of illegal gambling syndicates suggests that a personal network (guanxi) rather than violence has always been the key to doing illicit business in mainland China. The guanxi network provides these enterprising entities with an effective mechanism to cope with troubles caused by illegality. It enables illegal entrepreneurs to find reliable business partners, target potential gambling customers, discover illegal business activities and settle various types of disputes. Whether personal networks exert significant influence on illegal gambling businesses outside China is a question that requires further research, but the importance of personal networks within China and Macau is beyond doubt.

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