How China's Crackdown on Illegal Betting Impacts Global Betting Markets

Asian Racing Federation Council on Anti-illegal Betting & Related Financial Crime

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Executive Summary
This report examines Mainland China’s crackdown on illegal betting from 2018 to mid-2021, its background, purpose and impact. It is based on official announcements and statistics, 315 Mainland Chinese media articles related to illegal betting, and English-language reports.

In 2018, China launched a crackdown on illegal betting, which intensified in 2020 and continues in 2021.1, 2 The focus of this crackdown is on cross-border illegal betting encompassing both illegal betting websites hosted offshore, and overseas land-based casinos.3 It incorporates illegal betting on racing and other sports as well as online casinos, illegal lotteries, and other forms of illegal betting. The crackdown was launched because cross-border illegal betting causes CNY 1 trillion (USD 145 billion) to flow out of China to offshore websites and casinos every year, threatening economic security and social stability.4, 5

In 2019, 25,000 people were arrested in China for illegal betting-related activity, a figure which increased to 110,000 people in 2020. Illegal betting raids were noted in every province across China, as well as transnationally, disrupting online betting hubs in the Philippines and Cambodia, and driving illegal betting activity further afield, as well as further underground.

Chinese authorities have also drawn up a blacklist of jurisdictions which facilitate illegal betting in China and attract Mainland Chinese citizens to bet overseas, and have revised the criminal code to better define illegal betting and strengthen punishments against it. The blacklist, new law, and the aforementioned primary focus on combatting illegal betting-related capital outflows from China have caused concern in the Macau junket industry. This is because the junket industry facilitates underground transnational banking for its clients and depends on attracting Mainland Chinese citizens to gamble offshore.6 The impact of the crackdown on Macau junket operators, and in turn on the online and offline betting markets they support, however, is as yet unclear.

In summary, China’s crackdown on illegal betting does not only affect China, but has multiple and wide-ranging impacts for legal and illegal betting operators across Asia and beyond.
Aims and objectives
The purpose of this report is to examine:

- the reason for China’s illegal betting crackdown;
- insights into the scale of illegal betting in China;
- impacts of the crackdown transnationally; and
- notable characteristics of illegal betting operations.

Methodology
Data was compiled from monitoring of China news articles related to illegal betting, and targeted web searches. Three hundred and fifteen Chinese news items related to illegal betting in Mainland China were recorded and examined over July 2019 to December 2020 with features such as location, illegal betting turnover, technology used, and arrests noted. These were supplemented by official government statements and statistics, and focused English-language web searches as available.
1) Reasons for China’s illegal betting crackdown

The key reason for China’s crackdown on illegal betting is fear over unregulated capital flight out of China, which is theorised to be harmful to the Chinese economy because it:

1) reduces China’s government revenues primarily through erosion of its tax base;
2) reduces domestic market liquidity, which can cause the value of assets (such as real estate) to decline, potentially resulting in social instability;
3) puts downward pressure on the yuan which, in turn, undermines Beijing’s ability to control yuan exchange rates; and
4) downward pressure on the yuan in turn incentivises domestic savers to move their currency into stronger foreign currencies, creating a vicious circle of a constantly devaluing yuan.

Illegal betting is not the only way unregulated capital moves out of China, but it may represent a fifth or more of total outflows. This is based on the People’s Bank of China’s 2019 estimate that illegal-betting related outflows are in the order of CNY 1 trillion (USD 154 billion). That would have represented 21% of China’s record capital outflows, of USD 725 billion in 2016.

To illustrate the impact of capital outflows, the above record outflows in 2016, and after the yuan was devalued, forced the People’s Bank of China to spend USD 1 trillion, or 25% of its foreign exchange reserves, to stabilise the yuan. Chinese regulators also imposed strict capital controls and foreign investment rules and within a year, such outflows had been reversed.

In 2019, with unregulated capital outflows rising again, Chinese authorities launched a three-year campaign against online betting codenamed “Operation Chain Break” as part of its efforts to combat such illicit transfers. As well as capital flight, other reasons for the crackdown on illegal betting include social harms such as issues related to gambling, fraud and the exploitation of illegal Chinese workers in offshore illegal betting hubs.

Operation Chain Break is broader in scope compared to previous anti-illegal betting campaigns, targeting overseas entities and countries, and involves various government stakeholders including the Propaganda Department, the Cyberspace Affairs Committee, the People’s Bank of China, the National Immigration Administration and the Ministries of Foreign Affairs, Security, Finance and Commerce, among others.

A series of concerted law enforcement and legislative efforts have targeted cross-border illegal betting (both online and land-based) in 2020. This includes a non-public government blacklist of destinations assessed to attract Chinese citizens to gamble overseas, an amendment to criminal laws on organising or soliciting Chinese citizens...
to gamble overseas and publicity campaigns including a dedicated website to report illegal online betting. These are discussed in more detail below.

2) Insights into the scale of illegal betting in China

Reports and statistics on the crackdown give insight into illegal betting as follows:

China’s illegal betting market is at least double its legal market

There is no public official estimate of illegal betting market size in China (i.e. how much is bet illegally by Chinese citizens in China), but it is assessed to be at least double the legal market (CNY 453 billion/ USD 70 billion) average annual turnover over 2017-2019\(^{25}\) based on the fact that CNY 1 trillion (USD 154 billion) in illegal betting turnover flows out of China annually,\(^{26}\) and that one alleged illegal online betting operation run by a Macau junket operator (see below) alone turned over CNY 1 trillion annually in 2019.\(^{27}\)

Illegal betting operations are large in scale

Media reports cannot be used to estimate market size nor replace official statistics, but can give an indication of turnover per reported operation in China. Of 158 reports which mentioned estimated turnover, the mean turnover per operation was CNY 2.3 billion (USD 350 million). Based on the 23 reports in which a timeframe of operations was also mentioned, mean annual turnover per operation was CNY 1.5 billion (USD 230 million).\(^{28}\)

Illegal betting takes place all over China

Action against illegal betting was noted in almost every province and major municipality in China. Guangdong was mentioned most often, in 10% of reports.\(^{30}\) Guangdong also reported the third-highest number of illegal betting-related arrests (1,034) in 2020 among 14 provinces for which official data was found, although a greater number of arrests does not necessarily mean a greater amount of illegal betting.\(^{32}\)

The crackdown intensified in 2020 and will continue in 2021

In 2020, law enforcement investigated more than 17,000 illegal betting cases and arrested more than 110,000 people.\(^{33}\) In 2019 the respective figures were 7,200 cases and 25,000 arrests.\(^{34}\) In 2020, more than 3,400 online gambling platforms and more than 2,800 illegal payment platforms and underground banks were shut down.\(^{35}\) In 2021, the crackdown will intensify, the Minister of Public Security ZHAO Kezhi stated in October 2020 and reiterated in April 2021.\(^{36}\)
3) The impact of the crackdown on wider illegal betting in Asia

China’s crackdown has impacted illegal betting across Asia as follows:

Transnational arrests

In October 2020, the Ministry of Public Security said it had worked with overseas police to arrest 590 Chinese gambling suspects abroad. In April 2021, the National Immigration Administration said it had invalidated 145 Chinese citizens’ passports for involvement in cross-border gambling.

Creation of international blacklist

In 2020, the government announced a blacklist of countries facilitating illegal betting, although the list is not public. The blacklist’s purpose is to restrict travel by Chinese citizens to these countries, but since travel has been restricted due to Covid-19, the blacklist’s impact on illegal betting is not yet clear.

It is not known if Macau junket operators, whose core business is enticing Chinese citizens to travel overseas to gamble, will be affected, or if the blacklist only applies to jurisdictions outside Greater China. A recent statement by the Ministry of Public Security referring to the Philippines, Cambodia, Vietnam and Myanmar as a “gambling belt” across Southeast Asia, actively recruiting illegal bettors in China and attracting Chinese citizens to work in illegal betting operations, indicates that these countries are likely to have been included on this blacklist.

Change to criminal code

In December 2020, China passed an amendment to the criminal code outlawing the organisation or solicitation of cross-border gambling (land-based and online) punishable by up to 10 years’ imprisonment. Analysts believe this covers Macau, Hong Kong and Taiwan but the law does not specifically state this. This revision came into effect in March 2021.

Disruption to Southeast Asian illegal betting hubs

China has used its geopolitical strength to influence gambling policy across Southeast Asia. In 2019, Cambodia criminalised online betting under pressure from Beijing after Sihanoukville became a hub for Chinese-run operations targeting Chinese citizens (although in 2021, these operations have begun to resume).

The Philippines also temporarily stopped issuing licences for so-called Philippine Offshore Gaming Operators (POGOS) which target Chinese bettors, and has faced pressure to do more to track down illegal Chinese POGO workers.
However, demand for unregulated online betting products is so great that exerting pressure on one jurisdiction merely pushes the supply of such services elsewhere. In 2021, the Isle of Man, which offers a licensing regime specifically designed for Asia-focused online betting\textsuperscript{52} saw licence applications increase by 30\% year-on-year, attributed to changes in the Philippines and Cambodia.\textsuperscript{53} Over 2020 and 2021, other cities and regions reportedly attracting Chinese-focused online betting operations include Malaysia’s Johor,\textsuperscript{54} Myanmar’s Yatai City\textsuperscript{55} and the United Arab Emirates’ Dubai.\textsuperscript{56 57}
4) Notable shared characteristics of illegal betting operations

Analysing illegal betting modes of operations publicised because of Operation Chain Break reinforces the existing understanding of how illegal bookmakers function online, with some of the main shared characteristics of these illegal betting operations including: 58

- illegal betting platforms spread across multiple websites and apps, relying on third-party software, and offering multiple betting products;
- pyramid-shaped organisational structures involving hundreds of employees across multiple provinces, and overseas (chiefly in Cambodia, Vietnam, Philippines);
- direct solicitation and grooming of customers through messaging apps; and
- the use of thousands of dummy bank cards, bank accounts, third-party payment accounts, and so-called fourth party payments (see below) and underground banks to obscure transactions and launder profits.

Fourth party payments and cryptocurrencies

A notable characteristic of illegal betting operations highlighted by Operation Chain Break are operators’ ever-evolving attempts to hide fund flows from authorities.59 60 Two key modalities are fourth-party payments and cryptocurrencies.

*Fourth-party payments*

So-called fourth-party payments (第四方支付) became widespread as illegal betting operators attempted to avoid attention from Operation Chain Break, since China’s ubiquitous third-party payment apps WeChat Pay and Alipay are believed to report gambling transactions.61

To avoid this, illegal betting operators install an intermediary (fourth party) between bookmaker, bettor and third-party payment app to obscure the reason for the transaction.62 63

A derivative of the practice, called points-running (跑分), is the recruitment of sometimes hundreds or thousands of individuals to act as individual ‘fourth parties’ to move funds between bettors and bookmakers via their personal WeChat / Alipay accounts in exchange for commission (points).64

The phenomenon of fourth-party payment became so widespread that it reached Western media in 2020 when the *Financial Times* reported how China’s largest e-commerce platform Pinduoduo was being exploited to launder as much as CNY 14 billion (USD 2 billion) in transactions to illegal betting sites via placement of fake orders with fake merchant accounts run by bookmakers. 65
**Cryptocurrencies**

Under Operation Chain Break, fourth-party payments have become better understood by authorities and have been widely reported on. In response, cryptocurrencies began to become more widespread in illegal betting in China in 2020, with the Ministry of Public Security highlighting in September 2020 that organised crime-backed illegal betting operations were using digital currencies to collect and transfer funds, and, as a result, creating significant challenges to Operation Chain Break-related law enforcement investigations.

In June 2021, authorities arrested more than 1,100 people suspected of cryptocurrency related money laundering, with China’s Payment & Clearing Association suggesting that the number of crimes involving the use of virtual currencies is on the rise, and specifically highlighting that they have become a popular means of payment in illegal betting.
5) Relevance of China’s crackdown on illegal betting

China’s crackdown on illegal betting is bigger, wider and more sustained than any before. It will continue at least throughout 2021 and will continue to have a wide-ranging impact on the illegal betting industry across Asia and beyond.

Understanding China’s crackdown on illegal betting is important because: 1) modes of operation in Chinese illegal betting are replicated in other jurisdictions; 2) disruption to Macau junket operators will affect illegal betting across Asia; and 3) China’s betting policies impact jurisdictions and operators transnationally.

Modes of China’s illegal betting operations replicated in other jurisdictions

Direct marketing of illegal betting through messaging apps has been noted elsewhere, as well as associated typologies such as fourth-party payments. For example, as third-party payment providers such as Alipay have become more widespread in Hong Kong, fourth-party payment typologies have also started to have been observed. In 2020, a Hong Kong illegal betting operation promoted through social media took more than HKD 500 million in bets, with many transfers via FPS / Alipay / WeChat Pay. In Japan, the promotion of illegal betting through social media has been reported by media, while similar adverts targeting customers in other Asian jurisdictions – such as Vietnam, Indonesia, Singapore and Malaysia – where online betting is illegal or heavily regulated have also been noted on e.g. Twitter / WhatsApp / Instagram / Facebook / WeChat.

Disruption to junket operators will affect Asian illegal betting

China’s crackdown coupled with the pandemic has affected the liquidity of junkets and their clients’ access to funds, because junket accounts and online betting platforms operated by junkets are used to move money and settle accounts. At the same time, China’s travel blacklist and new criminal code could greatly impact Macau junket operators, by criminalising their main revenue source: Mainland Chinese citizens.

For example, in 2019, Suncity, by far the largest junket operator in Macau, was singled out by state media for allegedly promoting illegal online betting and underground banking, and in 2020, it was subject to a run on its accounts in Macau as rumours about supposed investigations into it spread on social media.

In response, Suncity has, at least publicly, withdrawn from offshore licensed online illegal betting and said it will target gamblers from jurisdictions other than China to its casinos in Russia, Philippines and Vietnam.
China’s betting policies impact jurisdictions and betting operators transnationally

Combatting illegal betting is clearly extremely important to Beijing and because of China’s influence this has and will continue to have an impact on associated policy areas across Asia in the near- to medium-term, although to what extent is unknown. Betting operators in so-called “grey markets” should be aware that their operations targeting Mainland China customers now may be considered outright criminal rather than operating in a legal grey area, regardless of licensing status outside China.

In summary, China’s ongoing illegal betting crackdown will only intensify throughout the remainder of 2021 and 2022, and will impact illegal betting across Asia, and the full extent of the impacts are still to become clear.

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Asian Racing Federation Council on Anti-illegal Betting and Related Financial Crime
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The Asian Racing Federation is a regional federation comprising 29 racing authorities and racing-related organisations. Among its core objectives is the promotion of integrity in the sport of horse racing. The ARF Anti-Illlegal Betting Taskforce was established in 2017 and comprises members from horse racing, sports, academia, and international organisations.

In October 2020, the task force was renamed as the Council on Anti-Illlegal Betting & Related Financial Crime, whose purpose is to foster and enhance international cooperation among horse racing operators, regulators, intergovernmental organisations and government agencies in order to better combat the threat of illegal betting and other financial crimes to horse racing integrity and other sports.

The members of the council are as follows:

Martin Purbrick  (Chairman)
Douglas Robinson  (Deputy Chairman) The Hong Kong Jockey Club
James Porteous  (Research Head) The Hong Kong Jockey Club
Jack Anderson  University of Melbourne
Graham Ashton  Former Chief Commissioner, Victoria Police
Tom Chignell  The Hong Kong Jockey Club
Brant Dunshea  British Horseracing Authority
Sally Gainsbury  University of Sydney
Neil Grimstone  New Zealand Racing Integrity Unit
Claudio Marinelli  INTERPOL
James Ogilvy  Asian Racing Federation
Ronan O’Laoire  United Nations Office on Drugs and Crime
Catherine Ordway  University of Canberra
Tim Robinson  The Hong Kong Jockey Club
Tak Sung Hyun  Korean Racing Authority