



A Report of Illegal Betting Growth During the COVID-19 Pandemic

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

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Introduction

This report assesses the global impact of the pandemic on illegal betting with a particular focus on Asia, including an assessment of the increase in illegal betting in Hong Kong, details of the involvement of Macau casino junkets in online illegal betting (as well as other gambling and financial crime), the illegal betting situation in Mainland China, the growing expansion of illegal betting operators across Asia (in particular in Myanmar), and how the global situation has changed as a result of the Covid-19 pandemic during 2020.

Methodology

The information in the report is from publicly-available material as well as from interviews with key individuals engaged in the betting business in Hong Kong, Macau, Asia, and globally. The report has been compiled by the Chairman of the Asian Racing Federation Council on Anti-Illegal Betting & Related Financial Crime (the ‘Council’) with input from The Hong Kong Jockey Club, and reviewed and approved by the members of the Council.

Executive Summary

The Covid-19 pandemic during 2020 has had a transformational impact on betting on horse racing and other sports in Hong Kong, Asia, and globally. A key part of this transformation is a huge growth in the scale and scope of illegal betting, largely via the Internet. Research has found that:

- During the pandemic, there has been a major increase in betting via online illegal betting websites, in Hong Kong, across Asia, and globally. Online illegal betting operators quickly ramped up their betting product offerings in alternative sports (e.g. e-sports, virtual sports), alternatives to major established leagues, and other sports not usually popular for betting.
- Illegal betting on horse racing and other sports in Hong Kong is estimated to have increased between 10% to 20% during the pandemic, based on multiple data points used to reach this estimate, equivalent to illegal betting profits of HKD 2 to 3 billion.
- The increased traffic to illegal betting exchange Citibet is estimated to have resulted in increased turnover in the range of 17% to 21% over this period for the illegal operator, equivalent to monthly turnover of around HKD 4 billion on Hong Kong racing [Note: Turnover, not profit].
- Macau casinos have suffered a huge loss in revenue because of Covid-19-related lockdowns and travel bans, and Macau casino junket operators have been compensating for this with greater efforts to diversify across Asia, with casino investments in other countries and further investments in online betting and gambling.
- As Macau casino junkets are dominated by triad groups, this diversification by junket operators will proliferate the spread of transnational organised crime if it is not stopped quickly by law enforcement agencies in target countries such as Australia, Japan, Korea, and the Philippines.
- The millions of new online betting customers in China during the pandemic will create a larger customer base for Asian illegal betting operators in the Philippines, Vietnam, and Cambodia, and the emerging illegal betting hub in Myanmar. This will boost illegal betting revenues and facilitate money laundering and other financial crime. A new “Golden Triangle” of illegal online gambling operators is being established in Myanmar, which threatens to provide a huge revenue stream for the organised crime groups involved.

Overview of illegal betting during the Covid-19 pandemic

During the pandemic there has been a major increase in betting on horse racing, e-sports, alternative leagues and sports, such as those listed below, via online illegal betting websites. The unavailability of retail cash betting in many jurisdictions pushed more people to use Internet betting, hastening an ongoing switch in customer preferences from physical to online betting platforms. More online betting operators have been taking bets on horse racing and alternative sports to substitute for the loss of traditional popular sports that were cancelled.

Illegal operators could adjust their betting product offering much faster than legal licensed operators, who are often restricted by condition of licence or other regulations as to what betting products they can offer. Hence the illegal online betting market was quicker to offer alternative sports and other gambling products such as:

- E-sports, virtual sports, live dealer baccarat (popular in Asia), and online casino games (blackjack, roulette, slot machines, etc.).
- Alternatives to major football leagues that had ceased playing because of the pandemic shutdown, such as minor leagues in Belarus, Nicaragua and Turkmenistan.
- Other sports not usually popular for betting, including badminton (from Ukraine), basketball (Tajikistan), ice hockey (Russia), table tennis (Armenia, Brazil, the Czech Republic, Russia, Ukraine), tennis (Belarus, Russia, USA), and darts broadcast from the homes of top players in the UK.

There is a major integrity risk to these sports and lower-level leagues in traditional sports with so much illegal betting liquidity injected in such a short time, because they have low-paid players and lack integrity controls to prevent match-fixing related to illegal betting.

Horse racing in some jurisdictions continued during the pandemic and even enjoyed an increase in betting, but racing integrity is more resilient due to the longer history of betting on the sport and the resultant integrity management systems.

Illegal betting on alternative sports is changing the entire sports betting market, with new disruptive alternatives to traditional sports betting channels now becoming well-established. For example, e-sports betting was already growing, but the pandemic accelerated that growth from illegal betting operators, because e-sports were not affected by the lockdowns which shut down much traditional sport. Before the pandemic it was predicted that the e-sports audience would grow around 12% in 2020 to reach around 495 million people, which is now likely to be far higher.¹

The total value of money being wagered on e-sports in 2020 has been estimated to be around USD 13 billion, which was an increase from around USD 9 billion wagered the year prior.² The pandemic has benefitted the e-sports betting market, attracting new viewers and gamblers. One Curaçao-licensed online betting operator stated that “Here at [operator name] we felt the effects of the ‘Great Lockdown’ immediately. In the first few weeks of the global quarantine, daily bet volumes rocketed by 20%, and have been maintaining a weekly growth rate of around 20% ever since. During the first few weeks of widespread self-isolation, traffic and new registrations increased, up by 30% and 50% respectively.” A US bookmaker said its e-sports events were attracting 20 times more customers than they did before March.¹

Many bettors who turned to e-sports during the pandemic will have returned to traditional sports after these resumed, but many operators offering e-sports betting are likely to have retained new customers. Customer behaviour during the pandemic is likely to have accelerated changes in online betting that were already taking place. Millennials are less interested in traditional sports but more interested in online gaming, notably through platforms such as Steam, which on one day in March 2020 set a new record with over 20 million people simultaneously gaming or chatting on the platform.³

E-sports and online gaming has a very large young fanbase that is being targeted by illegal online betting operators for betting. The illegal online betting market will benefit from these changes more than the legal market as legal licensed operators need more time to obtain approval in many jurisdictions to introduce betting on new sports.

Hong Kong illegal betting

Illegal betting market changes

During the Covid-19 pandemic there has been a major increase in betting on horse racing and other sports via online illegal betting websites from people in Hong Kong.

Analysis of betting data has shown that illegal betting on racing and other sports in Hong Kong is estimated to have increased between 10% to 20% during the pandemic so far. This equates to an increase of between HKD 2 to 3 billion in illegal betting profits from Hong Kong with illegal betting operators. This is on top of the previously estimated HKD 12.5 billion⁴ in profits made by illegal betting operators in Hong Kong annually.

This estimate is based on multiple data points. From February to June 2020, Internet traffic from Hong Kong IP addresses to the illegal betting exchange Citibet which takes bets on Hong Kong horse racing increased by 14.5%⁵ compared to the same period in 2019. From February to June 2020, Internet traffic from Hong Kong IP addresses to 615 illegal sports betting URLs increased 35% compared to the same period in 2019. In a survey of 3,000 Hong Kong citizens who bet regularly (from over 12,000 surveyed), 42% of those who bet with illegal operators said they bet more during the pandemic compared to only 24% of people who bet with legal operators. Of those who bet less with the legal betting operator, 99% said the reason was the suspension of legal betting.

The increased traffic to illegal betting exchange Citibet is estimated to have resulted in increased turnover on horse racing in the range of 17% to 21% over this period for the illegal operator, equivalent to monthly turnover of around HKD 4 billion on Hong Kong horse racing [Note: Turnover, not profit].

In comparison, Internet traffic to The Hong Kong Jockey Club football betting website was down 95% in April 2020 compared to April 2019, and legal football betting turnover went to zero in April because there were no football matches available for customers to bet on in the legal market. This situation occurred as The Hong Kong Jockey Club only offers a selection of major overseas leagues of proven high integrity, all of which shut down during the height of the pandemic.

Illegal betting growth would have been significantly larger were it not for the continued running of horse racing and related betting while most other global sport was shut down, giving customers in Hong Kong a legal outlet and familiar product of proven high integrity as an outlet for wagering demand.

There is also more product choice in the illegal market, such as basketball, on which 4% of bettors in Hong Kong bet in the past 12 months, and e-sports (3%), as well as in-play betting, the most popular sports betting product today. 86% of illegal football bettors bet regularly on in-play⁶ and the most popular offshore betting website in Hong Kong makes 79% of its profits from in-play betting which is largely on football, underlining its popularity in the illegal market. There are few in-play options in the legal market.

The provision of credit betting continued as the key driver of illegal betting. It encourages excessive gambling, ultimately leading to greater profits for the operators, and disproportionately fuels the onset of gambling disorder. It also acts as a precursor for other debt-related criminality.

Hong Kong and international data shows that in the absence of major sports, bettors turned to online casinos, e-sports and alternative sports, all of which are illegal in the Hong Kong market. Illegal betting operators provide a ‘one stop shop’ for customers who are able to bet on horse racing as well as most sports in the world at senior and junior level leagues. The illegal betting market operators hence have an immediate advantage in price and product that legal licensed betting operators may struggle to compete with.

The closure of The Hong Kong Jockey Club’s retail branches also has provided a major opportunity for illegal bookmakers to recruit customers in the low-level cash betting market. All 101 retail branches were completely closed for approximately half of 2020⁷ with a limited number open with restrictions to opening hours and services throughout the rest of the year to ensure customer safety. Legal cash betting in Hong Kong has thus declined by 84% year-on-year as almost all betting has been channelled to Internet and telephone betting.⁸ There is a great risk of loss of local customers to illegal bookmakers if cash betting is not resumed.

The positive outcome of the absence of legal cash betting is that more customers have switched to legal digital channels (Internet and mobile apps) and made greater use of the Faster Payment System (FPS) operated in conjunction with major banks in Hong Kong. FPS now accounts for one-third of all deposits of funds into customer accounts in Hong Kong, which illustrates the necessity for legal licensed operators to have flexibility to introduce new payment systems that keep pace with the pace of digitalisation in society.

Legal betting market changes

The legal betting market in Hong Kong was affected both positively and negatively by the pandemic, with the negative impact most strongly felt in the first half of 2020 because of the shutdown of major football leagues. During the period from 1 January to 31 December 2020, betting turnover on The Hong Kong Jockey Club changed as follows:⁹

- Mark 6 lottery: Minus 78%
- Football: Minus 3.2%
 - January to June 2020: minus 37% on corresponding period
 - July to December 2020: plus 31% on corresponding period
- Horse racing: Plus 1.7%

Mark 6 Lottery

Mark 6 lottery sales have been affected as the draw was suspended from February to September 2020, after which time sales were only through Internet and telephone channels because The Hong Kong Jockey Club's retail shops have been closed. Mark 6 lottery sales declined by 78% from January to December 2020 compared to the prior year.

Football Betting

Legal football betting turnover was down 100% in April 2020, down 49% in March 2020 and down 62% in May 2020 as compared to corresponding months during the previous year, because there was no or reduced product available. Demand was effectively shifted to the second half of 2020 when major leagues began to resume in June, but legal turnover was nevertheless down 3% for the calendar year compared to 2019 because of the mass disruption to major leagues.

In the second half of the year, football betting turnover increased by 31% on the corresponding period in 2019. This is partly because thousands of games were postponed to the second half of 2020. Thus, when major football competitions resumed in June/July 2020, some of the demand which had been met by the illegal market by alternate sports and lesser leagues during the shutdown returned to the reliable, legal operator, matched by the surge in supply because of rescheduled games.

The strong appetite for legal football betting, when the product became available again, is thus a positive sign as it shows that football bettors do prefer to bet with the legal market if possible. This is underlined by the fact that most (79%) illegal football bettors also bet in the legal market and may switch providers depending on product, price and promotions: the illegal market is highly competitive here as it has more products (leagues, bet types), better prices (odds) and offers promotions such as credit betting.¹⁰

The fact that racing continued also meant there was a legal wagering product for some football bettors to switch to during the shutdown. However, those football bettors not interested in racing may have been attracted to illegal markets offering products and leagues of lower integrity, and some of these bettors who turned to alternate options may be permanently lost to the illegal markets.

The shutdown of major football early in 2020 resulting in only lower-level leagues in less popular countries illustrates the necessity for the legal licensed betting operator to have an appropriate degree of flexibility to take bets on different leagues and sports to meet customer demand in the event of unforeseen circumstances. If a major football league is not available for betting then the legal operator should be able to accept bets on certain lower leagues of proven integrity (such as the Swedish league which continued during the pandemic) – without of course resorting to obscure leagues of low integrity as offered by illegal bookmakers.

Other reasons for the rise in legal football betting are:

- Some of the HKD 25 billion that is bet by Hong Kong people every year in Macau casinos has been funnelled to other gambling products, both responsible legal sports wagering and illegal markets alike, because of the shutdown of Macau (see next section);
- Legal sports wagering competes for the entertainment dollar with other products that have been shut down or restricted, such as travel, cinema, live concerts and other events, dining out and more.

Horse racing betting

Horse racing turnover increased slightly as races continued in Hong Kong without on-course attendance, and hence the racing betting product remained available to customers betting through Internet and telephone channels. In addition, the betting turnover from Commingling (i.e. bets from international partners) increased by around 15%. Without the betting revenue from Commingling, betting turnover on horse racing in Hong Kong would have declined during the pandemic in 2020.

This indicates that allowing flexibility to the betting operator to enter into collaborative business agreements with other legal licensed betting operators within an approved regulated framework was prescient and necessary. Without this flexibility for the licensed betting operator to collaborate with international partners through Commingling of bets on racing, the pandemic would have resulted in a significant decline in racing betting revenue.

Notably, in the first quarter of 2021, after the period covered by this report, legal horse racing turnover has increased by almost 12% compared to the equivalent period in 2020.¹¹ This illustrates (1) the success of the sport in maintaining the product despite the impact of the pandemic, thus providing racing fans with entertainment, and bettors with a legal, responsible wagering product of high integrity; (2) the success in migrating customers to digital platforms as compared to the equivalent period in 2020.

The 2021 recovery can also be attributed in part to the fact that in the first quarter of 2021, Hong Kong was under its strictest lockdown of the pandemic and stricter than the equivalent period in 2020: as highlighted above, wagering competes for the entertainment dollar, and most competitors in the entertainment industry were completely shut or heavily restricted in this period in 2021, compared to Q1 2020. It is thus crucial to recognise horse racing and associated legal wagering as competing in the entertainment industry, particularly in jurisdictions such as Hong Kong where racing is ingrained as part of the local culture.

Marketing and promotion of illegal betting during the pandemic

Because of the above demand, illegal betting operators have increased their promotion of illegal betting portals through social media platforms such as WhatsApp, Telegram and Facebook. These portals offer a vast range of betting products, such as obscure sports events, e-sports and virtual sports, synthetic lottery games, casino products, slots, and gambling video games.¹²

These advertisements are all similar in content. They encourage illegal betting by directly contrasting their product to the legal product, highlighting the fact that their illegal betting portals offer better odds and more markets and/or highlighting the availability of lottery and horse racing products. Many promote credit betting, and offer a wide range of betting products, instant account opening and fund transfers through the scanning of QR codes and new fintech such as Hong Kong's Faster Payment System (FPS).

Illegal betting portals offer a wide range of betting options on almost every sport that exists, especially in-play betting (betting on events in a match at the same time as the match takes place). For example, one sports betting software provider used by these illegal betting portals offers at least 29 different sports, more than 13,000 in-play football markets per month, and 15,000 more on other sports.¹³

During the pandemic, when most sports shut down, these operators immediately pivoted to obscure football matches and non-traditional markets. For example, with most major football shut down in Q2 2020 due to Covid-19, one platform still offered 140 football matches on a typical weekday afternoon: the only real matches were in the Turkmenistan youth championships and the Belarus reserve league, the rest (130+) were on virtual football. In-play betting was offered on at least 128 of these 140 matches.

One illegal betting syndicate reportedly hired a network of agents mostly comprised of unemployed people paid a few hundred to a few thousand HKD from low-income districts. They opened virtual bank accounts or digital wallets on third-party payment platforms such as Alipay and WeChat Pay then surrendered control of these to the syndicate.¹⁴ As this was taking place, illegal betting agents would be tasked to recruit bettors on online games, forums and social media platforms such as Telegram and WhatsApp.¹⁵

As illegal betting customers were recruited, they would be referred to sign up to the syndicate's illegal betting websites. QR codes would be sent to the customer to initiate fund transfers from customer's bank accounts to the accounts controlled by bookmakers via FPS / third-party payment platforms.¹⁶ Funds were transferred from the customer's bank account to bank accounts controlled by the illegal betting syndicate. The operator can then allocate a line of credit in the customer's betting wallet on the betting portal, so that no actual money exists on the betting portal.

Illegal betting agents in Hong Kong posed as school students to entice youths to social poker apps which were actually used for real-money gambling. One student who began gambling on such apps then was lured by agents to illegal sports betting such as basketball on credit and accumulated more than HKD 600,000 in debt.¹⁷

The growth of illegal betting in Hong Kong during the pandemic has been reflected in police enforcement action against illegal betting operators.

In May 2020, the Hong Kong police arrested 17 alleged members of a gambling syndicate which had laundered HKD 133 million (USD 17.2 million) in 14 months from local customers using an overseas gambling network that provided live video gambling for a variety of casino games and slot machines. It recruited agents and moved website servers around Europe and North America regularly to avoid detection. Before playing, gamblers were required to pay bookmakers for game points, which could later be converted back to cash. Attractive rewards for customer referrals were offered via social media.¹⁸

Caritas, a Hong Kong NGO which provides gambling counselling services, claimed that suspensions of The Hong Kong Jockey Club's betting branches, mahjong parlours and casinos in Macau had encouraged people to bet online with illegal alternatives, thus becoming more exposed to risks of problem gambling. In one case, a 20-year-old accumulated more than HKD 100,000 in debt from a mobile gaming app. Caritas said these gaming apps posed more risk of opening up pathways to problem gambling as they were easily accessible and had video game-style interfaces that made them appear harmless.¹⁹

In summary, betting data on illegal betting websites, traffic to illegal betting websites, and surveys of Hong Kong people who bet with illegal betting operators support the conclusion that there has been a major increase in betting on horse racing and alternative sports via online illegal betting websites in Hong Kong of between 10% to 20%. There is a danger that a great deal of this betting turnover with illegal operators may not return to the legal betting market – particularly because much of it is towards products unavailable in the legal market – unless the legal betting channels can effectively compete to recover this turnover.

Macau casino junkets and illegal betting

Gambling by Hong Kong citizens in Macau is not illegal in itself, but funds organised crime because of the dominance of “junket” operators within Macau’s gambling & gaming industry. Macau casino junket operators continue to have strong triad society links, many are involved in other criminality, and they are also a key facilitator of illegal betting settlement payments (i.e. winnings and losing bets) that are placed through illegal online betting websites.

Macau casinos and junket operators have been severely affected by the pandemic with a significant decrease in visitor numbers and revenue as the table below shows.

Metric	2019	2020	Change
Total gambling revenue (MOP, millions)	292,355	60,441	-79% ²⁰
Junket (VIP baccarat) revenue (MOP, millions)	135,228	26,280	-80% ²¹
Visitor numbers (thousands)	39,401	5,897	-85% ²²
Licensed junket operators (at year end)	95	85	-11% ²³

This has led to migration of many casino customers to online illegal betting.

Macau casino junkets have been compensating for this huge loss of revenue in their home territory by diversifying across Asia with casino investments in other countries as well as further investments in online betting and gambling. As Macau casino junkets continue to be dominated by triad groups, this will proliferate the spread of transnational organised crime if it is not stopped quickly by law enforcement agencies in target countries such as Australia, Japan, Korea, and the Philippines.

Due to the significant downturn in the number of visitors to Macau casinos during the pandemic, Hong Kong gambling money has been retained as people are not able to travel to Macau for offshore gambling, and Macau casino junket revenue was down 97% in 2020 up to October. However, Hong Kong customers of Macau casinos are looking for alternative gambling opportunities which have been provided by illegal online betting operators, which has expanded their market.

Macau casino junkets have been involved in illegal betting for many years, either by providing bet settlement for customers or by directly operating online betting websites. Intelligence from sources in Macau junkets corroborates this. In November 2020, junket sources commented that all the major junkets, without exception, had been operating online illegal betting platforms before the pandemic while the smaller junkets had been operating as ‘agents’ to the major junkets, feeding their customers into the major junkets’ online illegal betting platforms in return for commissions.²⁴

A major driver for the expansion of junket involvement in illegal online betting has been the necessity to continue to pay staff employed in the casino VIP rooms, as well as the backroom staff a partial salary, even though casino visitation was essentially zero. To do so, the major junket operators had to maintain a cash flow of between HKD 150 to 180 million per month to cover their labour costs on top of their other operational expenses, which also included rental for VIP rooms in casinos that they were obligated to continue to pay.²⁵

Macau casino junkets provide an ideal channel for money laundering, estimated in 2013 by the Macau University of Science and Technology to amount to at least HKD 1.57 trillion (USD 202 billion in 2013).²⁶ Macau junket involvement in money laundering is based on gambling debt not being legally enforceable in China, and hence strictly speaking all repayment of such debt is dealing in the proceeds of crime (money laundering).

Junket-related fund transfers also take place either disguised as bona fide Macau casino winnings or as unrelated payments between the client and junket debt collectors in Mainland China. In this regard, Macau junkets not only transfer casino gambling debts out of Mainland China but also facilitate other transfers of illicit funds as part of a money laundering service.

The authorities in the PRC have realised the extent of the problem, and since 2019 there has been a crackdown on underground bank fund transfers, cross-border illegal betting, as well as criticism of Macau junkets by authorities. This has resulted in a diversification of operations by multiple Macau junkets to other parts of Asia. Suncity has operations in the Philippines, Cambodia, Australia, Korea, Vietnam and Russia and is seeking to expand into Japan. As Macau junkets have expanded across Asia their ability to operate Informal Fund Transfer (IFT) systems have increased significantly, making the junkets pan-Asian illegal gambling and money laundering operators.

The expansion of Macau junkets across Asia has been widely reported. In December 2020, Macau police arrested four people for alleged involvement in running cross-border casinos in Southeast Asia and maintaining online gambling websites, believed to have generated profits of at least MOP 100 million (USD 12.5 million).²⁷ The suspects had put together an online betting syndicate based in Macau and Mainland China, and had attempted to cover its tracks by masquerading as several technology and advertising companies in Macau and Zhuhai. The police believe the group had assisted other criminal syndicates in Southeast Asian countries, such as Thailand and Cambodia, in setting up gambling websites. It alleges the group provided daily maintenance services for several illegal gambling websites, including those impersonating Macau gaming operators.²⁸

The raid on the illicit websites is the latest in a series of police efforts to crackdown on illegal gambling in Macau. As of November 2020, 125 websites linked to illicit gambling or fraud have been identified. However, the local police were able to act against only 97 websites as the rest were hosted overseas and beyond the reach of Macau authorities.²⁹

In November 2020, the Macau authorities reported that illegal gambling was the only gaming-related crime which registered an increase for the reported period.³⁰

The Macau junket operators are likely to be under greater pressure in 2021, including from efforts by the authorities to introduce the “digital yuan”, the People’s Bank of China backed cryptocurrency. This would result in the purchase of casino chips being traceable by the authorities and also remove the need for high-roller customers to convert yuan into Hong Kong dollars, which would effectively remove the role of the junkets as providers of credit. The PRC authorities would have far greater visibility of the cash flows from Mainland China into Macau, and have a resultant impact on money laundering through Macau casinos.³¹

Mainland China illegal betting

The China illegal betting market has also been altered by the pandemic and, as the customer base in China is so huge, this has implications for the long-term impact on global betting markets. It is believed that the online customer base for illegal betting in China has grown during the pandemic as more people have been forced to remain at home but still have Internet access. Events in China during 2020 have validated this assumption.

In 2020, China arrested more than 75,000 criminal suspects involved in cross border illegal gambling, of which 600 were taken from abroad by collaboration with authorities in the Philippines, Malaysia, Myanmar and Vietnam. Authorities state that in 2020, more than 3,500 cross-border gambling cases were solved, more than 2,260 online betting platforms and 1,160 betting promotion platforms were raided, and around 1,960 illegal payment platforms and underground banks were shut down.

In August, the PRC Ministry of Culture and Tourism declared it would create a “blacklist” of overseas gambling destinations that target mainland Chinese travellers and impose travel bans in response.³² The Supreme People’s Procuratorate, Supreme People’s Court and The Ministry of Public Security jointly-released a document on 16 October 2020 providing legal definitions and clarifications on the terms ‘illegally operating betting venues’, ‘accomplices in crime’ and ‘betting capital’. There has been no outbound tourism from China during the pandemic, hence the PRC announcement is believed to be in response to ongoing online gaming, video streaming and proxy betting and related capital outflows to countries such as the Philippines, Vietnam, Cambodia, Russia and Korea.

The millions of new online betting customers in China during the pandemic will create a larger new customer base for the established Asian illegal betting operators in the Philippines, Vietnam, and Cambodia, and in emerging Southeast Asian illegal betting hubs such as Myanmar. This will boost revenues for Asian illegal betting operators and entrench their position in the region as well as further capitalise them to expand globally.

It is estimated by the People’s Bank of China that as much as CNY 1 trillion in illicit proceeds flows out of China annually due to illegal betting. In order to combat such illicit outflows, in 2019 China launched a three-year campaign against online betting codenamed “Operation Chain Break”, 2020 statistics of which are noted above.

The authorities in China have conducted such anti-illegal betting crackdowns before 2019,^{33 34} but Operation Chain Break is both broader, targeting overseas entities and countries, and is a ‘whole-of-government’ approach involving the Central Propaganda Department, Central Cyberspace Office, Ministry of Foreign Affairs, Ministry of Security, Ministry of Finance, Ministry of Commerce, the People’s Bank of China (PBOC), National Migration Administration among others.³⁵ China has also been exerting its considerable geopolitical influence in the region on the issue.

Although such enforcement action in China is aimed at illegal betting and gambling, a key reason for the attention of multiple government agencies is the relationship of this activity to illegal fund transfers out of China. The PBOC has been involved in the crackdown on illegal gambling websites that are laundering money.

For instance, in October the central bank revealed that illegal gambling websites are set up to bypass the strict capital controls in place in China. The PBOC has been working with local authorities to track down the movement of funds into gambling platforms. One method being relied on is the use of Tether, a cryptocurrency tied to the value of the US dollar which has become increasingly popular in China due to its stability compared to other cryptocurrencies. The PBOC detailed a recent case in which its Huizhou City branch discovered a cross-border online gambling operation that relied on Tether for funds transfer. The local authorities arrested 77 suspects, shut down three gambling platforms, and recovered CNY 120 million (USD 17.9 million).³⁶

The huge extent of illegal online gambling was subject to comment by the PBOC in a commentary released in October 2020, which stated that their Guangzhou branch has taken extensive preventative action against cross-border gambling “funding chains” and assisted in a number of cross border gambling cases involving more than CNY 50 billion.³⁷

In another case cited by the PBOC, in April 2020 the Zhuhai Public Security Bureau of Guangdong Province discovered that an illegal online gambling business was operated by a technology company in Zhuhai under the guise of software development. The company in fact provided technical support for 45 overseas casinos and online gambling operators in Southeast Asia and other countries, collecting over CNY 45 million in maintenance fees.

Asia regional illegal betting

The pandemic has accelerated the development of Southeast Asia as the hub for illegal online betting across Asia and beyond. Illegal betting in South East Asia is often financed or directly run by transnational organised crime groups and partly associated casino junket operators. Since late 2019, a “New Golden Triangle” of illegal betting has become established in Myanmar as operations have moved first from the Philippines and then Cambodia.

The Philippines has been the primary hub for online betting operators in Asia since the mid-2000s, but this situation has changed during the pandemic as the authorities have tightened controls on licensing. In 2016 President Rodrigo Duterte gave the Philippine Amusement and Gaming Corporation (“PAGCOR”), a government-owned entity that serves as gaming regulator and is directly controlled by the Office of President,³⁸ monopoly power to issue online betting licences. This consolidated revenue-collecting under the central government as previously the industry consisted of a complex web of closely-interrelated corporate entities, operating in special economic zones. Many of the illegal betting operators have recently moved elsewhere in Asia, particularly Cambodia and now Myanmar.

Though the PAGCOR licence entails little to no oversight other than the ability to pay the requisite fee and commissions on wagers to PAGCOR, it lends “licensed” operators some credibility with illegal bettors across Asia, compared to the unlicensed operators. This has angered particularly China, the core target market,^{39 40} whose government has accused the Philippines of facilitating illegal betting on a vast scale as well as associated money-laundering, capital outflows, illegal emigration and exploitation of the tens of thousands of Chinese workers brought to Manila to service the sector.^{41 42 43 44}

The industry has been widely criticised by local politicians for a range of issues, from driving up rents and pricing locals out of the economy, to illegal immigration and visa violations, money laundering, tax violations, kidnapping, prostitution, bribery, espionage and other criminal activities.^{45 46 47 48}

The Philippines Anti-Money Laundering Council flagged risks associated with the sector in a study published in March 2020⁴⁹, which stated that more than a quarter of the approximately USD 1 billion in annual POGO-related transactions was linked to suspicious criminal activity.⁵⁰ The report also flagged other risks, such as a high number of unregulated or unsupervised service providers within the sector, low level of identification regarding ownership of the companies behind POGO operations⁵¹ and 73 gambling-related kidnapping cases in the past three years, of which all 80 victims involved were Chinese POGO workers.⁵²

Despite the negative impact of POGOs both in the Philippines and beyond, the industry has largely been able to ignore criticism because the country needs the revenue they generated: this amounted to some PHP 6.4 billion (USD 124 million) in taxes in 2019, even though the industry has been criticised for widespread tax avoidance.^{53 54}

However, increased political pressure from the PRC Government and the impact of the pandemic have in 2020 disrupted the Asian illegal betting landscape. In August 2019 PAGCOR had suspended the issuance of new licences under pressure from China.⁵⁵ China also made a high-profile example of Macau casino junket operator Suncity, singling it out in state media for facilitating illegal online betting from the Philippines and Cambodia.⁵⁶

In March 2020, PAGCOR suspended all gambling operations, including its land-based casinos, the 60 POGOs and over 30 support firms which provide call centres and IT support.⁵⁷ PAGCOR demanded full payment of all back taxes and other fees outstanding as a condition for POGOs to resume operating and also announced that tax would be increased to 5% of total bets.⁵⁸

The exit of many illegal online betting operators from the Philippines has led to further diversification across Asia. The first wave, following consolidation of the Philippines licensing operations, saw a massive boom in Cambodia from 2016 to late 2019, when Cambodia suddenly criminalised the sector in reaction to what the PRC Minister for Public Security called “the cross border online gambling problem” involving online and telephone betting in South East Asian countries by Mainland Chinese customers.⁵⁹ Although the sector is now illegal, it remains active in Cambodia, and has become even more affected by violent criminality.

As illegal online betting operators have faced regulatory and economic pressure from authorities in the Philippines and Cambodia, the most recent location to establish operations is Myanmar. An example is Yatai New City, funded by Hong Kong registered company ‘Yatai International Holdings Group’. The chairman of Yatai IHG is Mr. She Kailun, who is reported to be a fugitive in China wanted on illegal gambling related charges.⁶⁰

Yatai City, located in Karen state near the Myanmar border with Thailand, is promoted as an industrial and entertainment complex that will accommodate services including tourism, commerce, logistics, finance and technology development that is part of China’s wider Belt and Road Initiative. In reality, the complex is housing a number of online gambling facilities that are a hub for the illegal betting industry after operators were forced to move out from the Philippines and Cambodia.⁶¹

The Yatai City development is one of three major new developments in Karen state in Myanmar. The Huanya International City Project, located in Karen National Union (KNU) controlled territory in the city of Myawaddy, involves officials of the KNU partnering with Chinese investors from the Huanya Company. Construction of a large casino has started.⁶²

The Saixigang Industrial Zone Project is also designed to host Chinese businesses forced out of Cambodia. A key figure in this project is Mr. Wan Kuok Kui, a former leader of the Macau faction of the 14K triad society who was convicted of organised crime charges in 1999 and imprisoned until 2012.⁶³ Wan, who now heads the Dongmei Group Company, has entered into real estate development in Cambodia, launched a cryptocurrency, and is now the key investor in the Saixigang Zone.⁶⁴ In December 2020 the US Government announced that Wan was added to the “Specially Designated Nationals” list to be sanctioned by the Department of the Treasury.⁶⁵ The sanctioned entities include Dongmei Investment Group Co., Palau China Hung-Mun Cultural Association, and the World Hongmen Association, all linked to Wan. The sanctions were reportedly a result of his involvement in drug trafficking, illegal gambling, racketeering, human trafficking and other criminal activities.⁶⁶

There is clear evidence that Asian organised crime groups operating online illegal betting that have been forced out of the Philippines and Cambodia are now established in the Karen state in Myanmar. The Karen National Union (KNU) and its armed wing, the Karen National Liberation Army (KNLA) have been at war with the Myanmar government since 1949, with a cease fire agreed in 2015. In 2009, the Myanmar army announced a plan to incorporate ethnic armed organisations into a “border guard force,” which would be permitted to develop their own territory as proxies of the military. The result is partnerships between these Karen factions.

Myanmar has since been hit by political turbulence and the impact of this on such illegal-betting enterprises is as yet unclear. However, the development of Karen state in Myanmar as a major hub for illegal online betting and gambling is a great concern as this will provide huge funding for the transnational organised crime groups involved. There is a great risk that the lawless Karen state region could become a “New Golden Triangle”, controlled by the Karen National Union and financed by the transnational organised crime groups with billions of dollars from illegal online betting and gambling.

Conclusions

Illegal sports betting operations have expanded during the pandemic and will continue to be more competitive and grow after the pandemic recedes. Illegal operators have become full-service, multi-product global businesses such as Citibet based in Southeast Asia, which is taking bets on and broadcasting a wide range of races from across the world.

During the pandemic there is strong evidence that illegal betting from Hong Kong and the world has increased as illegal online betting operators have been able to continue offering many betting on alternative sports (especially e-sports), virtual sports, less popular leagues, and less popular sports.

Most troubling is the growth of a “New Golden Triangle” in Myanmar as illegal online betting operators establish hubs in Karen state. This “New Golden Triangle” of illegal betting can provide a safe haven for the organised crime groups that operate illegal online betting and gambling as well as a huge revenue stream for these criminals, although the impact of recent political developments in Myanmar on such operations remains to be seen.

The impact of the pandemic on illegal online betting will require an urgent assessment by government policy makers of the enforcement action required as well as the effectiveness of enforcement action and legal betting products to counter this problem. Urgent action is needed as the huge profits from illegal online betting are fuelling transnational organised crime, and driving other financial crime such as money laundering which is closely tied to illegal online betting. This will require a collaborative international approach involving government policy makers, law enforcement agencies, sports governing bodies, legal betting operators, and academic.

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

May 2021

Annex: The ARF Council on Anti-illegal Betting & Related Financial Crime

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-Illegal 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-Illegal 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	Racing Victoria
Tak Sung Hyun	Korean Racing Authority

Visit <http://www.asianracing.org/mediapublications> to download reports.

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