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TRIAD ORGANIZED CRIME IN MACAU CASINOS: EXTRA-LEGAL GOVERNANCE AND ENTREPRENEURSHIP

T. Wing Lo* and Sharon Ingrid Kwok

The Chinese criminal underworld is evolving along two paths: structural and territorial-based triads and criminal groups formed by entrepreneurs. The present study used triad involvement in casino VIP rooms to examine how these two paths cross after China resumed sovereignty of Macau in 1999. It was found that although the current operations of the junket business is determined by the external business environment in mainland China, triads continue to treat the VIP rooms as economic territories. New forms of betting and crime have emerged to meet the needs of high-end gamblers, thus resulting in the formation of a triad-enterprise hybrid that comprises territoriality and reputation of violence commonly found in extra-legal governance and the dynamic entrepreneurship of small firms.

Keywords: triad society, organized crime, gaming industries, extra-legal governance, enterprise, Macau

Introduction

Organized crime has been classified into three domains: hierarchical, patron-client and enterprise models (Albanese 1994). The hierarchical model specifies internal roles, values, identities, formal and informal socialization and organizational goals of criminal organizations (Cressey 1969). The patron-client model regards organized crime as 'a system of loosely structured patron-client relationships in which the roles, expectations and benefits of participants are based upon agreement or obligation and whose size and function is basically determined by the activity in which it is involved' (Albini 1971: 285). Some scholars perceive of organized crime as an enterprise (Smith 1980) that employs rational cost–benefit analysis to minimize costs and maximize gains in operating illegal business, based on the principle of supply and demand of illegal markets (Reuter 1983; Spapens 2010).

Gambetta (1993) and Varese (2010) contended that mafia-like criminal organizations have monopolistic tendency in territorial control, specialize in protection, and assume extra-legal governance. They utilize strategic violence to govern their market transactions, together with entrenched community networks, to provide extra-legal protection in a specific territory, usually the territory of origin, where they tolerate no competition (Varese 2011). The range of protection services includes the enforcement of cartel agreements (Gambetta and Reuter 1995), and 'protection against extortion, protection against theft and police harassment, protection of property rights, protection in relation to credit obtained informally and the retrieval of loans, protection of thieves, and the settlement of a variety of disputes' (Varese 2010: 17).

*T. Wing Lo, Department of Applied Social Sciences, City University of Hong Kong, 81 Tat Chee Avenue, Yau Yat Chuen, Hong Kong; sstwl@cityu.edu.hk; Sharon Ingrid Kwok, Department of Applied Social Sciences, City University of Hong Kong, 81 Tat Chee Avenue, Yau Yat Chuen, Hong Kong.

The above discussion refers to two aspects of organized crime, i.e. how criminal groups organize internally and what criminal groups do. Finckenauer (2005) attempted to distinguish organized crime committed by individuals and criminal networks depending on the nature of situation and the availability of crime partners (crime that is organized) from crime committed by criminal organizations. The key differences between a 'criminal organization' and 'crime that is organized' relate to the durability and the use of authority of reputation, so that the structure and reputation of criminal organizations can be sustained over time and across different types of crime. Finckenauer (2005) further suggested that based on their group characteristics, triad societies and Cosa Nostra are categorized as fully fledged organized criminal groups. Similarly, Hagan (2006:134) defined "Organized Crime" as 'criminal organizations' or 'Organized Crime Groups' and 'organized crime' as 'activities, crimes that often require a degree of organization on the part of those committing them'.

Literature suggests that Chinese triad societies are described as both 'Organized Crime' and 'organized crime'. From the hierarchical perspective, triad societies are generally viewed as highly structured Chinese criminal organizations, with strong traditional brotherhood values (Morgan 1960; Chin 1990). Lo (2012) found that triads used a *Dai Lo-Lan Tsai* (protector-protégé) relationship, as well as a spider's web structure to absorb members into triad societies, and then tie them in with group norms and various adhering control mechanisms. Williams and Godson (2002) placed triads in a cultural perspective because of the traditional triad brotherhoods, rituals, oaths, secrecy, and loyalty. They contended that although triads are undergoing a process of disintegration, reciprocal obligations among triad members still exist, which provides a basis for transnationalization of Chinese organized crime. Triad members have to follow sub-cultural norms and mandatory rules so that their behaviour and actions are all strictly controlled. They are abided by their own rigid criminal code of conduct and chain of commands, leading to group cohesion within their societies (Lo and Kwok 2014). Designated triad territories play a significant role in organized crime, since the monopolization of economic sectors is carried out in their territories to avoid clashes between rival gangs. Crimes that triad members typically commit are extortion, blackmail, price fixing, and financial crime (Lo 2010).

Some literature suggested that triads are neither centrally organized nor highly disorganized, and that their members are self-interest driven, rather than collectivist driven. McKenna (1996) contended that the central control of triad activities is weak because the majority of their organized crime is committed by its factions or branches, which are commanded by area bosses, rather than the central headquarters. This was echoed by Chu (2000), who stated that rather than a single hierarchical entity, a triad society is similar to a cartel, consisting of numerous autonomous criminal groups that share similar organizational structures and rituals. This cartel structure is similar to what Gambetta (1993) found for Sicily, Varese (2001) for Russia, and Hill (2003) for Japan. Chu (2000) also found that area bosses at district levels control these small hierarchical pyramids that connect with each other because they have the same triad affiliation. They provide protection to entertainment venues, such as brothels, karaoke bars and nightclubs in the territories they control (Chu 2000). Although triads have headquarters, their leaders are usually symbolic figures who possess insufficient power to control the criminal activities of the entire organization (Chu 2000). Owing to this decentralized feature, triad involvement in organized crime is developed through such individual triad networks.

Xia (2008) posited that organized crime in mainland China relied more on social networks in illicit markets than on a hierarchical structure, and that the illicit business structure is horizontal rather than vertical, being more resilient and adaptive to the external environment of transnational organized crime. Zhang and Chin (2003) proposed a 'structural deficiency perspective', arguing that the hierarchical structure of triads is incompatible with, and hinders their involvement in transnational human smuggling. They found that perpetrators are individuals with diverse backgrounds, not necessarily triad members, who share a common goal of money making, and who collaborate through *ad hoc*, flexible and horizontal social networks in response to their dynamic operational environments. These entrepreneurs have sophisticated divisions of labour but limited hierarchical organizational structures. Thus, the smuggling is enacted through an entrepreneurial model, not an extra-legal governance model that only works effectively in a defined territory.

To recap, some of the above theories address the structure of criminal organizations (Cressey 1969; Albini 1971; Albanese 1994; Chu 2000; Zhang and Chin 2003; Xia 2008), whereas others describe the kinds of organized crime they commit. For the latter, Smith (1980) suggested that the mafias produce goods and services, such as gambling, prostitution and drugs, whereas Gambetta (1993) and Varese (2001) contended that the mafias mainly organize production by providing protection and governance. Against this backdrop, the Chinese criminal underworld is evolving along two paths: structural and territorial-based triads and criminal groups formed by entrepreneurs. The first comprises locally based triads with hierarchical structures, shared sub-cultures and specific territories. The second are entrepreneurs tied by personal, social, familial and ancestral networks. How these two paths cross in a systematic manner is the research question of the present study. Using Macau casinos as a sample of the study, we aim to examine how triads work through their territorial boundaries to provide extra-legal governance and promote entrepreneurship.

Triads and Organized Crime in Macau

In Macau, before 2000, the ownership of all forms of gambling rights and casinos was monopolized by the Sociedade de Turismo e Diversoes de Macau (STDM). To eliminate triad scalpers who controlled the sale of ferry tickets to Macau, STDM allowed them to sell 'dead chips' or 'clay chips' (i.e. non-negotiable chips that cannot be redeemed for cash and are normally used in loans to customers) to customers for a commission of 0.7 per cent (Wang and Zabielskis 2010). That is, a dead-chip dealer, or *damazai* in Casino slang, used 9,930 dollars to buy dead chips with a face value of 10,000 dollars. Then the *damazai* made friends with customers inside casinos in return for their buying of dead chips from him, instead of buying regular chips at a casino cage. Since the face value of both dead and regular chips is the same, it makes no difference to customers, but customers must be paid in regular chips whenever they win. After repeated rounds of playing, customers must have won some regular chips and lost some dead chips. When they want to bet with the regular chips they won, the *damazai* would stop them with his 'friendship' and offer to exchange the regular chips with dead chips. This is how a *damazai* made money by 'chip-rolling' (Leong 2002; Wang and Eadington 2008; Wang and Zabielskis 2010).

This practice was later expanded when the *damazai* found such business potentially lucrative. They began to make friends with potential customers in other cities such as Hong Kong and offered them free transportation and lodging to encourage them to visit Macau. In the 1980s, STDM decided to regulate the expanding market by retaining dead-chip rolling only in VIP rooms. This system has worked smoothly until to date. Under this system, the rooms are contracted out to VIP-room contractors with minimum dead-chip sales as rental. Contractors have the flexibility to sub-contract the rooms to other contractors without notifying the casinos provided that the conditions are met (Leong 2002; Wang and Zabielskis 2010). Contractors recruit *damazai* as dead-chip dealers to solicit gamblers. A *damazai* operates on a self-employed basis and earns money through commission (now increased to 1.2 per cent) and chip-rolling. VIP-room customers must be financed by a *damazai* who does 'not generally handle or transact any cash in a VIP room. Their play is financed through dead chip loans' (Wang and Zabielskis 2010: 122).

It was found that although triad membership was not a prerequisite for being VIP-room contractors or *damazai*, many of them were actually triad members. Apart from chip-rolling, they also engaged in loan sharking, prostitution and drug offences (Leong 2002; Lo 2005). In the 1990s, this business was effectively run and self-regulated by triads. They decided on the cartel agreements of the business and related service operations, and determined and enforced sanctions for non-compliance of shared norms (Leong 2002). Under such self-regulation, a symbiotic relationship was maintained among all parties that produced a stable business environment for two decades.

Since the benefits were very high, consequential triad conflicts occurred. About two years before Portugal's handover of the colony to China in 1999, triad warfare broke out and was widely reported in international media. A notorious 14K triad leader, Broken Tooth, was named by the media as the Triad King of Macau (Newsweek Magazine 1999, 24 October). He used overt violence to fight for territories against his rival, the Shui Fong triad. Broken Tooth continued to maintain his high visibility by funding a movie that was actually his biography. After being denied permission by the government to film on the Macau-Taipa Bridge, his gang closed traffic on two sides of the bridge for a two-hour filming, causing serious traffic congestion (The Standard 2012, 28 September).

The '14K–Shui Fong' conflict resulted in a series of killings, bomb attacks, manslaughter, arson and shootings. It was alleged that many local law enforcement officers sided with the two triads and those who did not were threatened or injured. When triad warfare became a serious threat to the social order of Macau, the government brought in judges and law enforcement officers from Portugal, hoping to control the violence, but to no avail. Eventually, after his failed attempt to assassinate a senior Portuguese police official, Broken Tooth was arrested, put to trial and imprisoned for 15 years in 1999 (Lo 2005).

During this period of time, casino triads operated within a strict hierarchical structure with autocratic leadership and chains of protector-protégé military-like commands (Cressey 1969). The VIP-room business was owned by triad bosses, such as Broken Tooth, based on high public visibility and physical violence to deter enemies. The identity of triad members was formalized through affiliation with a specific triad group, either 14K or Shui Fong triad in this conflict. Collaboration between different triads was restricted. The core nature of the triads was the exclusivity and monopoly to acquire the right of control in economic territories, that is, the VIP rooms, so that they could acquire maximum benefits through regulating both licit (gaming) and illicit (loan-sharking) businesses (Schelling 1967). The use of violence had acted as a method of dominion in achieving monopoly and acquiring the right to control the VIP-room business or in seeking to monopolize the supply of protection (Gambetta 1993; Varese 2010) of the gaming industry. The triads produced not only illicit services but also the production of violent threats to conquer territories and exercise extra-legal governance.

In the 1990s, the use of violence was an important triad asset in Macau not only for fencing off potential rivalries and monopolizing the market but also for demonstrating their reliability and credibility as protectors (Gambetta 1993). Confrontation occurred when triads attempted to take over or fight for a disputed territory. The outbreak of a triad war reflected the inability of the centralized superordinate body, including the government, casino or triad cartel, to balance different triad interests. The conflict eventually shut down the entire operational system, leading to the revamping of the gaming industry after China's takeover. The gradual retreat of the Portuguese colonial government in the 1990s resulted in weak governance and rampant police corruption, providing the soil for triads' extra-legal governance characterized by monopolization and extensive use of violence (Varese 2010) during Macau's transition from a colony to a special administrative region of China, where the absence of a credible government undermined people's trust and failed to safeguard their life and settle business disputes (Gambetta 1993). Consequently, triads became the sole illegal suppliers of both governance and protection.

Since China resumed sovereignty of Macau in 1999, the gaming industry has been revamped and a Las Vegas casino management style was introduced. Owing to the opening of more and larger casinos in Macau, there were plenty of opportunities for the business to develop. The gaming revenue in 2011 was about five times greater than that of Las Vegas (Master 2012) and the VIP rooms had generated about 67–73 per cent of the gross revenue derived from games of fortune between 2007 and 2012 (Gaming Inspection and Coordination Bureau, Macao 2013). Despite the change of casino management style, triad involvement in VIP rooms has not faded away. Instead of soliciting customers inside casinos, *damazai* became junkets (i.e. VIP-customer representatives) and outreached to mainland China to make friends with high-end gamblers (Wang and Eadington 2008). The present study aims to investigate the operations of triad organized crime in Macau after 1999. It also assesses the theoretical impact of such operations. Of theoretical relevance to the assessment are the concepts of extra-legal governance (Gambetta 1993; Varese 2001; 2010), the enterprise or entrepreneurship model (Smith 1980), and the structural perspective (Chu 2000; Lo 2012). In particular, we aim to examine how the extra-legal governance and the enterprise models co-exist to explain triad organized crime in Macau casinos.

Methods

The study was conducted over the course of 30 months between 2012 and 2015, upon approval from the university's institutional review board. Fieldwork consisted of in-depth interviews and personal observation. Through purposive sampling, interviews were conducted with 17 triad members, VIP-room contractors, police officers, Chinese officials in charge of Macau affairs and related personnel (see Table 1). Informed consent was

Table 1 *Background of respondents (N = 17)*

ID codes	Date of interview	Respondents
V1	27 October 2012	Former VIP-room contractor—triad society undisclosed
V2	3, 7 November 2012	VIP-room contractor—senior member of Wo Shing Wo triad
V3	4 March 2015	VIP-room contractor—senior member of 14K triad
WSW1	14 January 2015	Senior member of Wo Shing Wo triad
WSW2	28 February 2015	Senior Member of Wo Shing Wo triad
K1	20 January 2014	Senior officer of 14K triad
K2	23 April 2015	Officer of 14K triad
K3	30 August 2013	Member of 14K triad
SYO1	31 July 2015	Senior member of Sun Yee On triad
SF1	8 November 2013	Member of Shui Fong triad
CE1	29 May 2014	Former casino employee
PG1	16 May 2014	Professional gambler
CO1	11 February 2015	Chinese official
CO2	11 February 2015	Chinese official
CO3	17 December 2015	Chinese official
PO1	14 April 2015	Senior police officer
PO2	21 April 2015	Senior police officer

obtained from the respondents without any financial rewards. Aged 25–65 years, these respondents were very familiar with the gaming industry in Macau. They included ten triad figures associated with 14K, Wo Shing Wo, Sun Yee On and Shui Fong triad societies, three of them were VIP-room contractors. The interviews were conducted by the two researchers in Hong Kong, Macau or Shenzhen. Each interview lasted from 90 minutes to two hours. Semi-structured interview guidelines were used. Examples were 'What is the traditional and current role of triad societies in Macau casinos?' 'What types of business activities have been carried out?' 'Any changes in recent years and why?' 'What are the challenges to triads nowadays, and why?' 'What is your opinion on the news reports on money laundering, fraud and cheating in casinos?'

The interviews were not recorded but field notes were jotted down. This assures that no respondents can be identified. After each interview, the two researchers verified the interview content and the respondents' responses to cross-check their consistency before transcription. Qualitative data were transcribed into Chinese by the second author, and the transcription was counter-validated by the first author. Both authors coded the transcripts separately and categorized statements into specific major and minor themes (see Table 2). Themes were read and confirmed independently by both authors, so as to enhance their inter-rater reliability. The Cohen's *kappa* was 0.90, suggesting almost perfect agreement between the two authors. Only themes relating to casinos were used in the present paper. Selected verbatim were translated from Chinese into English. Occasional grammatical corrections were conducted without sacrificing content. In addition, the second author has a triad friend who operates a VIP room. She made two separate visits to the VIP room to familiarize herself with the environment in situ. She collected anecdotal evidence based on the personal observation. The observed data provides supplementary information to the interview data.

Results

Data in this study presented four major themes that taken together, empirically illustrate the co-existence of extra-legal governance model and enterprise model in triad

Table 2 *Summary of themes and sub-themes identified in the study*

Themes	Sub-theme 1	Sub-theme 2
1.Continued triad domination	VIP rooms as triad economic territories	Reputation, power and non-violence
2. A bank-like business enterprise	Recruit both investors and whales	Semi-regulated by laws and trade organization
		Fraud
3. Organized white-collar crime	Casino scam	Under-the-table betting and inter-triad collaboration
	Money laundering	
4. Gambling credit and debt collection	Riding the dragon	Outsourcing debt collection to mainland syndicates

operations in the gaming industry of Macau in the last decade (see Table 2). The four themes and their sub-themes, with empirical data, are described below.

Continued triad domination in Macau's gaming industry

Running VIP rooms in casinos is a legitimate business in Macau, and contractors are not all triad members, but may be businessmen with triad connections. The main criteria for selecting triads to run the VIP rooms are related to the amount of capital and relationships with casinos and stakeholders (Leong 2002; Wang and Eadington 2008). Even though triad membership is not necessarily a prerequisite to entering the business, the respondents admitted that triad *Dor* (reputation) and power is a crucial factor in winning the trust of casino management. A respondent said, 'I spent the whole of last week in Macau in helping triad brothers to settle inter-junket disputes. Whenever they have trouble, they will call me because I have many *Lan Tsai* (protégés)' (WSW2). This is echoed by another respondent: 'I would not taint my *Dor*. I spent so many years to build up my *Dor*, and I do not want to lose face in the triad world. I will defend my *Dor*' (K1). Other interviewees also disclosed that triad *Dor*, manpower and financial capital were the most crucial factors in running VIP rooms.

We were given the chance to run a VIP room because my brother-in-law had a *Dor* in the triad underworld. Casino management was very selective in choosing the right people to operate the VIP rooms. The opportunity was not given to everybody, but to those who were reliable and had authority and power inside the criminal world. The VIP room was our company's territory and no one would dare to make trouble but if it did happen, the two parties would undergo a 'truce talk'. Minor conflicts often occurred, e.g., fighting for whales. Anyway, it is all about power. Power means having sufficient manpower and money, and being fierce and aggressive. All of these factors must go hand in hand. If you lack one of them, you really do not have this kind of power. (V1)

VIP rooms are part of the casino. All money transactions are legal. All activities in the VIP rooms are legitimate. Not all VIP-room contractors are triad members; there are also ordinary businessmen, but they must connect with triads. The majority of them are triads or businessmen with triad background, otherwise they might have problems in keeping everything under control during daily operations. The casino management would select the most powerful triads, based on a couple of factors including money, triad *Dor*, and ability to mobilize manpower. (K3)

In the daily operations of the VIP rooms, the presence of triads promotes business and maintains order in casinos. However, there is a clear distinction between triad society business and individual triad business:

> You have to distinguish between business run by triad societies and business run by individual triad members. For the VIP rooms, the majority are individual triad business, not society business. But loan sharking in casinos, such as Riding the Dragon (see below), is usually a society business because such business needs the name and manpower of the triad society to enforce rules, threaten debtors and protect its members against rivals during territorial conflict. (SYO1)

The second author visited a VIP room twice with her friend, who is a VIP-room contractor (V2) and a senior triad member of the Wo Shing Wo triad, living in Hong Kong. During those visits, he rode first class ferry to Macau with a couple of body guards, that is his triad followers or *Lai Tsai*. Upon arrival, a seven-seater van waiting outside the ferry terminal picked them up and went directly to his VIP room. He went there to conduct a necessary routine check of the VIP-room business. Seeing him once placing (and losing) a bet of HK$0.6 million (approximately 77,000 US dollars), the second author asked whether he was upset due to the loss. He replied he felt nothing. When the author left the VIP room to do shopping, he sent two of his followers along to protect her. The author observed and was later confirmed by him that after leaving the VIP room, he would not hang around in the casinos or the neighbourhood, but went straight to the same restaurant every time, and dined inside a VIP room with a group of people, who looked like senior triad members and/or business partners. They tried to keep their activity away from the eyesight of ordinary customers sitting outside the room. A respondent explained this situation:

> A contractor normally stays inside his own territory (i.e., a casino or restaurant VIP room) and avoids contact with non-relevant parties. He would avoid hanging around in public places of casinos. This is necessary because if he meets triad brothers who request him to lend money for gambling, normally he has to resign to maintain face and brotherhood. But lots of money could be involved because there are so many triad members in Macau and most of them are gamblers. In fact, we, as VIP-room operators, also want privacy and prefer to stay inside a protective environment. (V1)

Nowadays, triads are still very apparent in the gaming industry, albeit they have modified their modus operandi to suit the mainland Chinese market. For instance, they avoid gang fighting. To achieve the goal of money-making, they do not wish to scare off customers. In line with the Chinese virtue of social harmony, both casino management and triads prefer to maintain a peaceful entertaining environment in Macau:

> The large casinos have more than one triad to operate because of the vast number of VIP rooms. In order to prevent disputes and conflict, the casino management would divide the VIP rooms among different triads. Triads can only operate within the rooms assigned and are obligated to respect the arrangement. They do not want to make trouble and violence is costly because they need to pay followers for fighting and for legal expenses if they get into trouble. The management will also judge whether the triads involved can maintain order in the casino, and to ensure that no one will cause trouble for the casino. The casino will never choose triads with a troublesome track record. (K3)
>
> Triad figures who invest in VIP rooms will not easily fight for territories as they would have in the old days because whether their business can be sustained, is determined by the influx of mainland

Chinese gamblers. Thus the relationship between junkets and customers is extremely important. If the customers lose money, we hope they lose it in a comfortable way. (CE1)

To maintain a peaceful business environment, the junkets do not often use violence to fight for territories and collect debts, mainly because their triad backgrounds provide a reputation for violence (Gambetta 1993) that reduces the actual use of violence in extra-legal governance under an entrepreneurial environment.

A bank-like business enterprise

In the past, the dead-chip dealers were named as *damazai* but now as 'junkets' (VIP-room representatives) to reflect the wider scope of their duties. To date, the operational mode is different from the previous triad violence and extortion. VIP rooms are now operated in an entrepreneurial mode under extra-legal governance.

A junket must be service-oriented and provide a one-stop service—hotels, transport, loans, and sex services. Gambling usually involves alcohol and women. In some cases, the customer comes with his wife or girlfriend. The junket needs to serve them too, like accompanying them to buy luxurious goods, dining, etc. (V1)

The function of a junket is similar to that of the dead chip dealer, but enlarged. While there are junkets whose duty is to recruit gamblers, some junkets actually go out to find potential investors. They use various methods to attract capital. Contractors will employ managers to run VIP rooms. The managers will raise funds via the junkets. Once the VIP rooms have sufficient capital for growth, they are developed into a formal business enterprise. (CE1)

To expand business, some triads and businessmen form their own junket companies to run the VIP rooms. Similar to a bank, the company solicits deposits from investors who receive fixed monthly dividends. Then, the company gives credit to gamblers. With sufficient financial capital, the junket company serves as a bookmaker or banker to take bets from the whales (see Figure 1). Because of the attractive profit, some junket companies performed the acquisition of small listed companies in the Hong Kong Stock Exchange so as to raise revenue for their operations (Gough 2011). The Neptune Group (Code 0070), one of the top three junket companies, is one such example.

In the past, most VIP customers were Hongkongers. With the opening up of mainland China, mainlanders have become the foremost source of customers, in terms of numbers of people and amounts of bets. A VIP customer must spend a minimum of HK$500,000 (US$62,500) per trip in the VIP room (Wang and Zabielskis 2010). The gaming business cannot be sustained if no mainlanders come to gamble in Macau and some of them later become junkets too:

Once, a mainlander brought in one million dollars' worth of $1,000 notes. Two of us spent two hours counting it. Another time a customer came and brought ten million dollars. As the amount was so large, we had to count it in the accounting room but the gambler had already lost all his money before we had finished counting. Then we had to assess whether it was worthwhile to give him instant credit …. There are mainland gamblers who have lost a lot in the past and now work as junkets themselves. Through their connections, they invite mainland gamblers to come to Macau. That is why triads have spokespersons in mainland China nowadays. They have their own channels and power in different cities in the mainland. (V1)

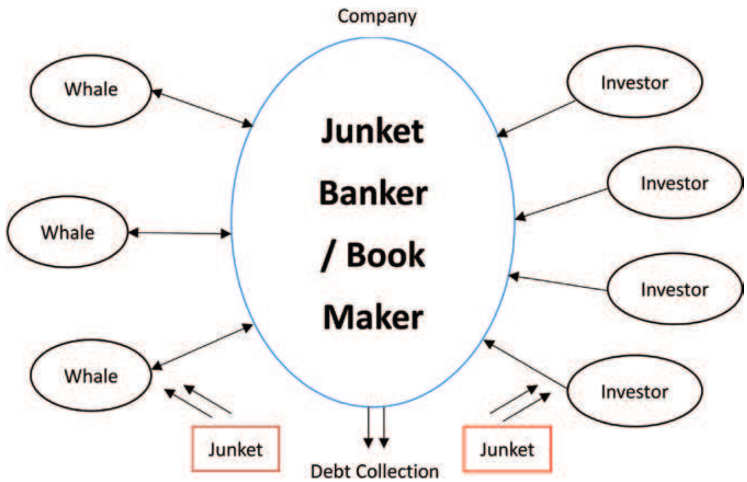

FIG. 1 Operational schematic of a Macau gambling junket company.

Personal networks and social capital are essential elements in soliciting customers. Indeed, the VIP-room contractors, managers and junkets must possess different capabilities and resources. In addition to power and financial ability, they need extensive customer networks and sound business strategies. Moreover, different cities have their own networks because of issues of ethnicity and dialect. A triad background is not a prerequisite to enter the industry nowadays:

To date, to be a junket, we have not been concerned about his triad background. Once he has customers, we welcome him to be our junket. It does not matter if he is a mainland Chinese or a triad member. What we care about is business. (WSW1)

Nowadays it is said that people in the northern part of China are very rich. Do the junkets have that line of network? If they do not, are there any strategies in place to penetrate into that line, so as to explore the potential for new customers to the VIP rooms? Different VIP rooms have customers who come from different provinces and cities in mainland China. If a junket speaks the same dialect as the gamblers, they can easily become his customers because they come from the same province and hence, may share the same kind of perceptions and sentiments. Other junkets may want to recruit these types of customers, but they cannot. (CE1)

The VIP-room operation is more civilized than in the past, as it has turned into an enterprise. It is unnecessary that they be managed by triad identities. In the old days, when people talked about casinos, there would typically be significant links to triad issues, but now it is all about 'business'. The old and new practices have merged and become a hybrid of extra-legal governance and entrepreneurship. Attracting capital and establishing a network of mainland customers are the triads' work priorities. A respondent concluded the changes by comparing the old and new modes of VIP-room operation:

The past casinos targeted Hongkongers, many of them were working-class people: what triads did was to build up a fierce and scary image so that debtors were afraid of them; hence, they gained power and respect. To date, Macau has portrayed an image of entertainment resorts for mainland Chinese. The VIP-room operation is very different from the old days. Although many triad members work as junkets, triad membership is not a pre-requisite for the job. Rather we want individuals with rich resources and extensive social capital. There are requirements in terms of both dress code (well groomed) and tone of communications (a courteous manner). It is absolutely unacceptable to engage in assaults or fights. Rather, it is a must to have outstanding public relation skills. Junkets must be diplomatic and able to communicate politely with people from all walks of life. Nowadays, it is not easy to operate a VIP room as it needs soft skills. It is not simply about fighting. We need to find gamblers from mainland China. We need to give them credit. At the same time, we worry that we cannot collect the debt. (V1)

The new enterprise model is not without its problems. As the triads have used mainland Chinese people to be junkets or middlemen to solicit investors from different parts of the country, the triads seem to have gradually lost control over them, resulting in cases of fraud. For instance, it was reported that Huang Shan, a representative of the Kimren Group [a junket company], absconded with HK$10 billion (US$1.3 billion) in April 2014 (O'Keeffe 2014). Respondents described the financial risks of running VIP-room business:

Many fraud cases have occurred nowadays. The case of Huang Shan is the tip of the iceberg. Some junkets claimed they represented a junket company to accept investors' funds by offering them a higher than standard interest rate, and then absconded with the money. (PO2)

The problem with the current model is that the whales have a gambling cycle, normally two years. After two years, their financial resources would drain up and the junkets would lose the resourceful customers. Unless the junkets can locate new customers and bring in new resources, the company would be financially insecure. (PO1)

To regulate the activities of junkets, a junket organization called 'Associação de Mediadores de Jogos e Entretenimento de Macau' was formed for self-regulation purposes. A law, *Administrative Regulation 6/2002*, was passed in 2002 (C. Wang 2014) to screen out gangsters, and to licence junket persons and junket companies. However, it was contended that some 'unlicensable' junkets have still remained in the trade (Wang and Zabielskis 2010). This view is echoed by our respondents. A respondent disclosed, 'there are basically two forms of licenced junkets—company and individual, but many individual triad members who work in the industry are not licenced'. (CE1) Another respondent said, 'Broken Tooth's blood brother operates a VIP room, so Broken Tooth works there after discharge from prison, but he has lost his power'. (CO1)

In some cases, triads are behind the scene. According to a 'murder-for-hire' court case, the aforementioned Neptune Group's hidden owner was Cheung Chi-tai (nicknamed 'Tsang Pau'), a former Cho Kun (Chairman) of the Wo Hop To triad. He set up an offshore company, Jumbo Boom Holdings, which held 8% shareholding interests in Neptune and owned a Macau junket company, Hou Wan, which ran 20 VIP tables in the Chengdu Hall of the Sands Casino (Isaacs 2010). The multiple tiers of shell companies and corporate entities were used to conceal the triad leader's ownership and personal interests in junket operations.

Organized white-collar crime

Scams and money laundering

Organized white-collar crimes, such as casino scams and money laundering, were identified in our data and literature (Pontell *et al.* 2014; Huang 2015). In the above 'murder-for-hire' court case, Cheung Chi-tat was accused of ordering the murder of a dealer at the Sands who was allegedly helping someone to *cheat* millions of dollars from his VIP room (Isaacs 2010). As disclosed by many in the sample, cheating is not uncommon in VIP rooms:

Grifters are there in Macau as recently reported in newspapers, but they operate in small casinos only. They seldom operate in large Vegas kind of casinos. (V3)

The VIP-room contractor sublet the room to a casino scam syndicate, who are triads connected with the contractor. The syndicate operated in a small group, with individual actors pretending not to know each other. When the junket brought a customer, the syndicate's target, to the VIP room, the actors started playing the game and sweetened the dupe. They let him win a bit first to reduce his defence, and then con him. Each actor was paid HK$20,000 per show by the syndicate afterwards. (PO1)

Apart from scams, money laundering is another crime found in VIP rooms mainly because of the rampant corruption in China. According to the same 'murder-for-hire' court case, Cheung's wife was held on money laundering charges in Hong Kong, and about HK$0.2 billion of her asset was frozen by court orders. The charge was said to be linked to an investigation of junket operators' dealings that laundered corrupt money for 20 Chinese government officials (Isaacs 2010). Respondents offered their perspectives on such money laundering issues:

There was less money laundering in the 1990s when customers were mainly Hongkongers. To date, the majority of them are mainland Chinese and a lot of corrupt money is involved. They need a mechanism, such as VIP rooms, to clean the dirty money. (V3)

Money laundering has always occurred in VIP rooms. Normally the launderers will prefer commission-free baccarat to roulette, blackjack or the Chinese big-small game, because they may have a chance to lose all the money if they choose to bet on black or red in roulette or big and small in the Chinese big-small game. But in commission-free baccarat, the risk is minimized. The syndicate operates in a small group. The first team places one million dollars on the banker bet and the second team places another million on the player bet in the same game. If the player wins, the second team will win one million and the first team lose one million. Overall, it is a draw to the syndicate but the money is now clean. (PO2)

The above data are in line with previous research (Isaacs 2010; Pontell *et al.* 2014) that money laundering has been connected with the activities inside casinos. Although triads were not found to be directly involved in the commission of the crime, money laundering was highly organized and took place in the triad-controlled VIP rooms.

Under-the-table betting

The Chinese government under the leadership of Xi Jinping has recently stepped up its anti-corruption measures. The Chinese leaders were aware of the constant outflow of state capital and decided to tighten monetary control and restrict overseas travel of government officials and citizens (Macau Monetary Affairs Bureau 2014; Hong Kong Lawyer 2015). This policy was confirmed by two Chinese officials interviewed:

The Beijing government has stepped up monetary control by linking all bank accounts in Macau with the public security system in China. Officials' visits to Macau are scrutinized. The number of visits in a year and the number of days of stay in Macau are reduced and limited. (CO2)

Our overseas official visits are limited to twice a year. The maximum stay is 5 days if we visit one country, and 8 days for two countries. (CO3)

Because of the travel restrictions, Chinese whales cannot travel to Macau freely and new forms of betting emerge. Video live betting has been developed for Macau's baccarat games, targeting people who cannot conduct day trips to Macau. Web-cameras are used to produce videos of what is happening on the casino table. Moreover, a new form of betting for the whales, 'under-the-table betting', has emerged:

> While the gamblers are outside of Macau, they can still gamble as if they were inside a casino. They have two options. They are given a log-in ID and can then gamble at home or, if they prefer, at an underground casino in their home town, so as to gain an authentic experience. (PG1)
>
> There is 'under-the-table betting'. Basically, there are two layers of gambling: the top layer is for those gambling on the table, while the bottom layer is for those gambling under the table. The under-the-table bet is much higher. This means when a customer is betting HK$100,000 on the casino table, the under-the-table bet could be one million, or even more. The on-the-table bet is visible; people can see the amount of transaction. The under-the-table bet is different; the bet is not visible to others and is only a deal between the bookmaker and the 'hidden' gamblers. (CE1)

Since the intricacies involved in the under-the-table bet is tremendous, sometimes the VIP-room contractor is not financially powerful enough to take the bet, and temporary alliance with other VIP-room contractors, triads and businessmen has become commonplace. To date, what the triads' concern is not solely on territoriality but also on financial capital:

> A group of bookmakers/dealers who are willing to take the bet from the 'whales' is needed. The bookmaker may not come from the same VIP room, depending on the contractors' financial abilities. If they are powerful enough, they can take the under-the-table bet but, if they are not, they can find other triads and investors to provide the capital, or simply let other contractors take the bet. In the past, it was unusual for different triads to work together. Now what they need is social capital, economic capital and collaboration. (CE1)

This illegal form of gambling was developed for various personal, social and financial reasons. The travel restrictions set by China has created a market for under-the-table betting. Anyhow, this operational mode is an attempt to adapt to the gambling trend and satisfy the needs of some high-end gamblers, as well as VIP-room contractors:

> Some whales do not want their identities and money to be exposed. They do not want others to know they are gambling. They gamble remotely via telephones, and so it is not necessary for money to be passed on the gambling table. Moreover, the betting odds are better, there is no commission required from dealers as in on-the-table betting and the whales can collect the whole sum of money if they win. (CE1)
>
> One of the reasons for the emergence of the under-the-table bet is to evade the 40% government tax imposed on casino income. It is illegal but no one yet tries to regulate it. (PO1)

Thus, the under-the-table bet is another form of entrepreneurial invention that suits the changing mainland market and the needs of the Chinese VIP customers, especially when the Chinese government stepped up its anti-corruption measures and restricted overseas travels of government officials (Hong Kong Lawyer 2015).

Gambling credit and debt collection

The backbone of the VIP-room dead-chip system is gambling credit. The relationship between VIP-room contractors and casinos is mutually dependent. The contractors' role is to give dead-chip credits to gamblers to keep them gambling. The longer the gamblers stay on the table, the more money the casino could earn. Thus, having triad involvement in the gaming industry is beneficial to all parties:

> The triads are now entrepreneurs who have lots of capital but rely on the junkets to give out dead-chip credit. When customers get more money, they will stay longer in the VIP rooms and the triads and the casinos will make more money in return. (K3)

In the past, since the majority of gamblers were Hongkongers, very often gambling credits involved loan-sharking and debt collection involved extortion by Hong Kong triads. A triad debt collector described this practice as 'riding the dragon' in triad slang:

> If the debtor was a Hong Kong citizen, the Macau triad concerned would sell the debtor to us (a Hong Kong triad) for 10% more of the debt. For instance, we would buy a debt of HK$200K for a sum of $220K. The Macau triads kept the debtor's identity card and telephone, asked him to sign a debt note, and accompanied him to Hong Kong. Upon arrival at the Hong Kong terminal, the debtor was passed to us as a hostage. This is known as 'riding the dragon'. The debtor was forced to repay 100% more (i.e., $400K) or at least 70–80% more than the original debt. He was immediately taken to a private financial company (normally with triad connections) to seek a loan of $200K to repay the debt and was then kept hostage until his family paid the rest (another $200K) under threat of violence. When we eventually received the $400K, $220K would be given to the Macau triad and $70K to *Ah Kung* (triad headquarters). The dragon-rider would earn 10% of the money left (i.e. $11K) for the job, and the rest was kept by my *Dai Lo* (triad protector) as profit. (SF1)

The above loan-sharking activity is illegal in Macau and Hong Kong. Nowadays, the source of customers has changed from Hongkongers to mainland Chinese. The system of credit is welcomed by Chinese customers since the Chinese government maintains monetary control to restrict cash outflow. Junkets have used interest-free dead-chip loans to encourage customers to visit Macau, but they are not loan sharks. As a respondent said, 'we have to cultivate good relationships with customers. Actually gamblers are not selective and rational; as long as we give them credit before their heat cools off, they will visit Macau' (V1).

Under this credit system, when the VIP customers lose money, they are indebted to the contractors or junkets, but not to the casino. In Chinese culture, the potential loss of face is a strong social sanction that guarantees repayment of debt when the VIP customers return home. If the debt is not paid, the junket would threaten to disclose their gambling and non-payment to significant others that may damage their reputation (Wang and Zabielskis 2010). One respondent echoed this: 'These Chinese are people with high status. They do not want to lose face in front of other people. They care about face more than money. They can earn the money back easily but not face' (K2).

In the past, gambling credit in VIP rooms was not subject to any legal control. In 2004, a new law of credit in casino gaming and betting was passed to recognize such loans as 'collectable through legal action' (Wang and Zabielskis 2010: 128). However, the risk of debt collection is still high because gambling debts are not legally accepted by the Chinese government (O'Keeffe 2014). Junkets risk police arrest and thus, they use other alternatives for debt collection in mainland cities:

> Once, a junket collected debt from an official in the mainland but was arrested by the public security, because the official misappropriated public funds to gamble. Failing to collect debt plus being arrested makes the task very risky; it cannot be handled by ordinary people. (V1)

> There are so many cities in mainland China. The triads are not strong enough to collect the debt in the mainland. Mostly, the junket will find out where the debtors come from, and then locate the 'powerful' people in that city and outsource debt-collection to them. The debt collected will be split between the two parties. The triads would not care about the means the powerful people used in collecting the debt. Their main concern is to get the money back. (CE1)

Unlike US Nevada casinos that require paper documents to record loans, the VIP-room credit system is based on 'trust though informal, unwritten agreements that ensure confidentiality, as seen in the issuance of paperless loans' (Wang and Zabielskis 2010: 137). The confidential under-the-table betting and dead-chip loans cater for the customers' specific needs when the Chinese government bans gambling, and controls cash outflow and movement of officials. Debt collection is initially based on *guanxi* and trust but when these are broken, local gangsters will be brought in. Working closely with these gangsters, Macau triads have organized expeditions in the mainland to collect debts (Varese 2011: 167–8). Thus, the enterprise model co-exists with the extra-legal governance model.

Discussion and Conclusions

Over the last decade Macau's gaming industry has been influenced by increasing government interference, such as the importation of Las Vegas casino operators, including Sheldon Adelson and Steve Wynn, to dilute triad domination, the introduction of a Western gaming and entertainment management style, the enactment of laws that regulate the industry and licence the junkets, and the formation of a self-regulated junket organization. Unlike the retreat of the Portuguese colonial government, the political and economic transition of Macau is directed by Beijing, itself a powerful state. The presence of a credible state, efficient government and effective law enforcement system undermines the triad monopoly over the gaming industry. State-supported regulatory apparatuses are now functional to provide sufficient guidance in response to market demand.

Despite such regulatory measures, the VIP-room operations are still dominated by triads to date, but they have readjusted their traditional intrusive role and re-invented harmonious business strategies to suit the market reality. Triad figures have developed *Dor* (reputation) in the underworld to secure trust from casinos to set up their junket companies. Gambetta (2009) contended that the reputation of criminal organizations is a valuable asset to businesses, similar to legitimate businesses, as it helps to differentiate between the quality of different products and services, and is used as a guide for the buyers of such products and services. Casino management values the importance of the VIP-room contractors' triad *Dor* because the nature of business requires stability that is reinforced by force and power. Simultaneously, the reputation of non-violence, or peacekeeping without resorting to irrational violence, is the key to the door of VIP rooms. Intolerance of undisciplined violence is a characteristic in criminal sub-culture (Cloward and Ohlin 1960). Such a reputation of non-violence is important for establishing trust between buyers (casinos) and sellers (triads) of services for VIP-room management. Obviously, the extra-legal governance provided by triads continues to exist in casinos.

On the other hand, the capital for running a VIP room is so huge that most triads cannot afford to operate it on their own. There is ample opportunity for inter-triad collaboration, not conflict. Thus, their power is not necessarily dependent on the position they held in the hierarchical structure and their reputation of violence, but on the social capital they possess. They require a large number of customers, so local intimidation no longer works as a model for territorial control. Instead, junket involvement is used to bring in investors and whales to make money, which has become the primary goal of business enterprises. The previous military-like hierarchical model has been changed into a harmony-oriented entrepreneurial model.

The modern triad-junket business is perceived as a bank-like enterprise that uses rational cost–benefit analysis for profit maximization (Reuter 1983). Rapid economic growth in China has induced triads to move away from the rigid territorial base in Macau to develop flexible, social and entrepreneurial networks with mainland officials, junkets, whales, investors and criminals. Williams (2001) argued that criminal organizations are forced to expand their market under globalization and establish branches in new territories for sourcing new labour, raw materials and illicit business opportunities. Similarly, triads are required to increase market share, expand their operations into new markets and build new territories through collaboration with mainland officials and syndicates. They could enjoy economies of scale, reduce the number of competitors and achieve monopoly in order to increase market share and competitiveness (Williams 2001). Outsourcing debt collection to mainland criminals (Varese 2011) helps to reduce risk and minimize unpredictability through co-opting the suppliers to ensure a reliable supply of the resources for debt collection. This is a business relationship, developed on *guanxi* basis (P. Wang 2014), for mutual interest exchange.

Triad societies, like many other illegal enterprises, tend to be local in scope with limited capability for expansion and mobility (Zhang and Chin 2003). Thus, they have limited vertical hierarchy and weaker control over mainland junkets that operate through personal networks. Triad-junket companies are structured as a continuous system of patron–client relationships among those participating in it. Mainland Chinese junkets serve as power brokers between different social networks of investors, whales and triads. They turn social capital into patron (junket) and client (gamblers and investors) relationships. The interrelations and power distribution between patron and client can be changed. It may be that today somebody is a whale and tomorrow becomes a sub-junket. There is no restriction or limit on the number of clients in the network. Anybody with the necessary resources and social connections is free to join the network at any time, and the business relationship is a utilitarian, social exchange relationship that can be temporary and one-off, not continuous (Albini 1971; Zhang and Chin 2003). These entrepreneurs are motivated to engage in the junket business for financial benefit.

To conclude, although the current structural and operational arrangement of the junket business is determined by the external business environment and opportunities provided in mainland China, triads continue to treat the VIP rooms as their economic territories and provide extra-legal governance. They monopolize the VIP rooms, treat them as their territories and ensure that rivals would not steal their whales. They punish cheats and frauds that occur in their territories, where occasional use of violence is seen. They act as paragons, pariahs and pirates (Smith 1980). 'Paragons' refer to the legitimate gaming business provided to whales inside the private room. 'Pariahs', such as the under-the-table betting, cater the illicit gambling needs of whales who cannot risk their activities to be exposed. 'Pirates' are absolutely illegal activities, such as money laundering and casino scam. This triad governance-enterprise model comprises the territoriality nature of criminal organizations and the dynamic entrepreneurship of small firms. The two paradigms emerge into one in response to the changing market and customer needs. The strength of the triad-enterprise is power but the weakness is dependency (Smith 1980). Although the triads have inherited the structure and power to exercise extra-legal governance (Gambetta 1993; Varese 2010), their structural deficiency (Zhang and Chin 2003) has limited their expansion to and influences in the huge mainland Chinese market, thus having to depend on the social capital of junkets or middlemen.

The present study used two different paradigm paths (Smith 1980; Gambetta 1993; Varese 2010; 2011) to investigate triad operations in Macau casinos. We believe the extra-legal governance model and the enterprise perspective can be integrated to obtain a more complete picture of triad organized crime. A major limitation of the study is that the changing economic opportunity structure and the shift of triad operations are quite place and time specific. It does not confirm a change of the market structures pertaining to other illegal or grey activities where the triads dominate. In view of the recent anti-corruption campaign launched by the Chinese leader, Xi Jinping, Macau's casino income has slowed down, which may reshape the triad operations in the gaming industry. Future research should pay attention to investigate whether the political shifts and the changes in gambling modes and casino activities reflect the wider structural change across the board, or just within one slice of triad organized crime, because the junket companies are the main drivers of economic profits for the triads in response to the open-door policy of China.

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