

TOC: Current and Expected Developments in China

Prof. T. Wing Lo

Professor of Criminology, City University of Hong Kong, China

Paper presented at the IPI Seminar

Transnational Organized Crime and the Palermo Convention: A Reality Check

Trygve Lie Center for Peace, Security & Development

International Peace Institute

777 UN Plaza

October 6, 2010

TOC: Current and Expected Developments in China

Prof. T. Wing Lo,

Professor of Criminology, City University of Hong Kong, China

Introduction

To begin this paper, I first present two main models of studying Chinese triad societies, ‘structure-control’ and ‘social network’ models. In both models, I emphasize that the triads will meticulously assess the risk, cost and benefit involved in committing crimes.

Structure-Control Model

The structure-control approach emphasizes that organized crime is facilitated by a cohesive triad structure and tight internal control. Triad subcultural values include loyalty to the gang, righteousness, secrecy, and sworn brotherhood. There are clear rules, rituals, oaths, codes of conduct and chains of command, as well as a central control over the behavior and activities of its members. Triad norms and control mechanisms direct members in what they should do and not do, thus fostering cohesiveness and unity within the triads. Such structural control facilitates the triads to effectively control territories to run illicit activities (Lo, 1984; Chin, 1990). Clashes and violence will occur when rival gangs cross the line and step into their territories. However, since the triads have to maintain a peaceful environment for money-making, non-sensible violence committed inside their territories is not encouraged because this would attract police attention.

Since the 1990s, triad societies have been undergoing a gradual process of disorganization. Incidents of internal conflict have increased. Gang cohesiveness and members’ loyalty and righteousness have begun to diminish. Procedures on promotion, recruitment and communication have not been followed closely and the headquarters did not have full control over sub-branches. It is now the individual gangsters not the organizations that run the illicit business. Members of different triad societies can team up to pursue their own goals, and permission from the organization is unnecessary (Chu 2000, 2005). However, although triad subcultural elements

and norms have been diluted today, some important structural-control underpinnings still exist, such as territory and Tai Lo-Lan Tsai (protector-follower) line relationship.

Social Network Model

Recent studies of triad societies found that the 'structure-control perspective' is not necessarily the pre-requisite to organized crime. The social network approach suggests that *guanxi*, defined in China as *the personal relationship and reciprocal obligation developed through a particular social network*, dominates contemporary Chinese organized crime. Williams and Godson (2002) argue that *guanxi* provides a basis for the global criminal activities committed by Chinese people. Chin (1999) and Zhang (2008) found that transnational human smuggling is dominated by individual criminals or freelance entrepreneurs who make use of their own familial and social networks to organize the smuggling. Xia (2008) also contended that the operations of contemporary Chinese criminal organizations are based more on networking than the traditional triad hierarchies and contractual relationships in illicit markets.

Benefit, Risk and Cost

Within both models, the decisions of the triads or criminals are made with the consideration of benefit, risk, and cost in planning transnational organized crime. Like businessmen's logic, they set objectives, choose targets, and find the right methods to achieve their aims. They understand the principle of minimizing the cost and risk, and maximizing the benefit. By instincts, every professional criminal knows the art of such calculation. If the ends do not justify the means, they will refrain from committing the crime. If they know the risk and cost of the crime is too high relative to the return, they will go for a more cost-effective alternative, or even consider a legitimate option if it will give them a generous financial return. These activities require the stamina of the criminals to execute, together with a good network and coordination among collaborators. There is almost a hidden code of zero tolerance of failure. Rationality of choice encompasses all facets of cost, risk, and benefit (Cornish and Clarke, 1986, 1987):

Benefits: Benefits in crime are not exclusively instrumental, but also include many other human needs, such as sexual release, excitement, stimulation, friendship and even respect. In triad-led transnational organized crime, the benefits are money-oriented.

Risks: This refers to the criminals' estimations of being detected, caught, sentenced, punished,

and the severity of punishment, as well as the priority of risks.

Costs: Necessary planning, time involved, transport and equipment needed, manpower, resources, and skills required are the costs for committing crimes.

Migrant Smuggling in China

The push and pull factors in migrant smuggling

There are two kinds of forces that influence migrant smuggling: push factors and pull factors. Push factors are the conditions that force Chinese people to resort to illegal trafficking in order to leave the country, such as impoverishment and unemployment. Pull factors are the conditions that render the final destination desirable to the illegal migrants, such as economic prosperity. In other words, the Chinese people's perception of the differences of well-being among the countries of the world is the major factor behind their decision to resort to illegal trafficking (Di Nicola, 2005). Tendency of migrant smuggling would change if the push and pull factors change. However, the triads are not able to manipulate these two economic factors, which are decided by the market. If there is very little demand in the local Chinese market, the involvement of triads in migrant smuggling would be minimal (structure-control model).

However, for individual would-be migrants who want to leave China for certain personal reasons, someone will provide the service. According to Zhang and Chin's (2003) structural deficiency perspective, transnational human trafficking is dominated by individual criminals or freelance entrepreneurs who make use of their own familial and social networks to commit crime (social network model). These criminals are individuals who team up to commit human trafficking because they share the same entrepreneurial drive to make quick money. Very often, they come from diverse social backgrounds and legitimate businesses, and are well connected with people in wider society. Since they are not part of the rigid triad structure nor bound by triad subcultural norms, they can join or quit the illicit activities quickly and freely to suit the ever-changing criminal world (Chin 1999; Zhang 2008; Zhang & Chin 2002, 2003). This means that when migrant smuggling is no longer a profitable business, they will make use of their entrepreneurial skills and flexibility to move to other profitable arenas, including licit ones.

Migrant smuggling: Past, present and future

In the past, the provision of illicit migration services for people from less developed regions to richer countries was a profitable business for Chinese organized syndicates because the demand was huge. Due to the impoverished conditions in China, hundreds of Chinese desired to leave their birthplaces in order to make a better living for themselves in wealthier countries. According to a Chinese news source, from 1978 to 1995, 80,000 to 100,000 Chinese attempted to smuggle out of China annually, with the success rate being 20% to 40%; their favorite destinations were North America, Western Europe, Australia, and Japan (Yahoo China News, February 5, 2005). The most popular route for migrant smuggling was via Eastern European countries because of rampant corruption and weak state in these previous communist regimes (Curtis et al., 2003). Many illegal migrants moved on to Western Europe and even the UK and the USA. Very often, ‘illegal Chinese immigrants that make it to the United States disappear into the Chinese communities after reaching their destinations. In New York, many get jobs in sweat shops or restaurants where they say they "live like pigs and eat like dogs." Some are forced into prostitution to pay off smugglers. A man who finds a factory job, paying \$1,800 a month figures he can pay back smugglers in three years’ (Keefe, 2009). Despite the exploitative working conditions in foreign countries, hundreds of Chinese still wanted to move overseas. Those who failed to make it to their overseas destinations often tried again. Some were even turned away three to four times before they finally succeeded (Keefe, 2009). The strong desire for the Chinese to flee their birth place stemmed from the poor economic condition.

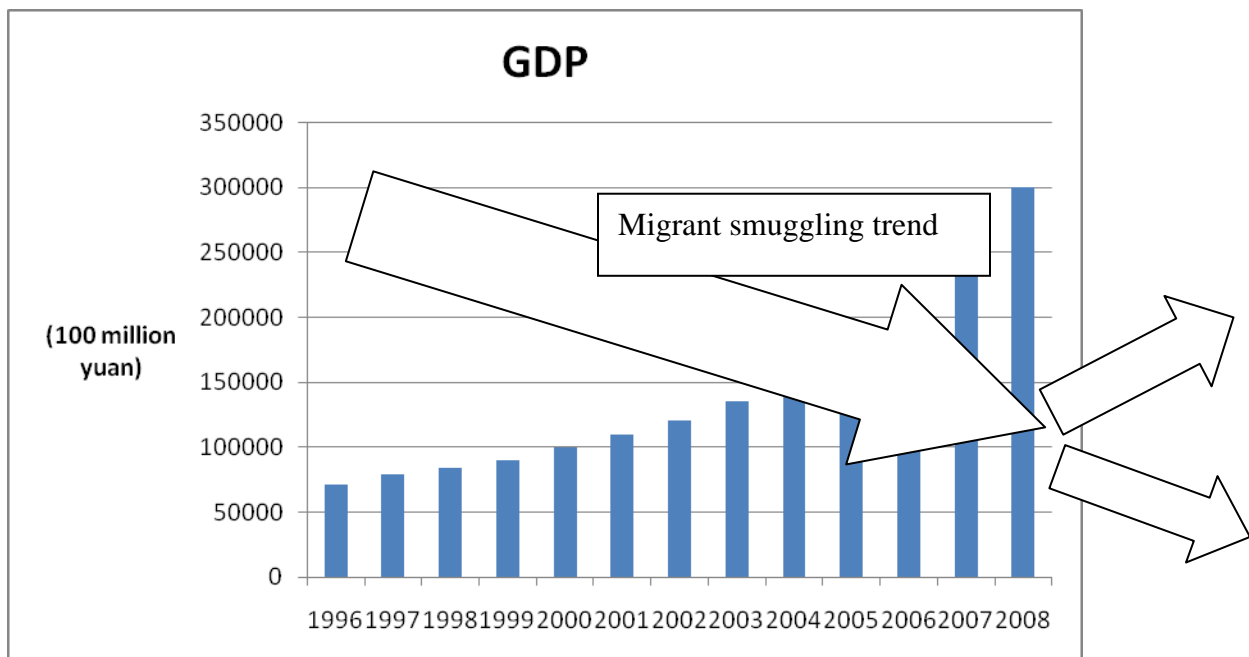
In recent years, it was reported that the demand for migrant smuggling has decreased in mainland China. A conference in Inner Mongolia (regarded by illegal migrants as the “golden route” for migrant smuggling) reported zero incidents of migrant smuggling in the first half of 2010. Another conference in Shandong also reported a steady decrease in migrant smuggling (Legal Daily, July 12 & 17, 2010).

In the future, the tendency of migrant smuggling will depend on the push and pull factors. The level of trafficking will continue to drop if the Chinese economy continues to grow. Since organized criminal syndicates will go where the benefits are high, and risks and costs are low, and since it is likely that China would be financially healthier than its western counterparts in the

next decade, it is predicted that massive organized migrant smuggling to western nations would be minimal.

Figure 1 shows that the level of migrant smuggling declines when the level of GDP in China increases. However, the future trend is uncertain, and the trend might increase or decrease. The trend will continue to decrease if China's economy continues its current growth while many overseas countries have been badly affected by the global economic crisis. Industries of all types and sizes are being impacted, and there is an undoubted risk that its negative reach will extend to an increase in financial stress and bankruptcy. On the other hand, because of the growing prosperity in China, there are now far more job opportunities for the would-be migrants, and more money-making opportunities, both legal and illegal, for the triads in mainland China.

Fig. 1 Trend of Migrant Smuggling



Source: International Monetary Fund, World Economic Outlook Database, April 2010

However, the opposite trend could occur if the Chinese economy goes downhill. Moreover, migrant smuggling might increase in the future if the Chinese currency appreciates, causing widespread unemployment. Chinese Premier, Wen Jiabao, expressed the concern that when China's currency, Yuan, is forced to appreciate drastically, say 20% to 40% as advocated by the

US politicians, it would cause widespread bankruptcies in China's export sector (Reuters, September 23, 2010). This would affect the employment of 0.15 billion village-workers who enter cities to find jobs, 24 million new laborers in cities, 6 to 7 million university graduates, and thousands of retired soldiers each year. The employment of millions of workers, many of them are migrants from rural parts of the country, would be dismissed summarily from their jobs. This would lead to social instability, unrest, and crime, and probably resume migrant smuggling to overseas nations (if their economy revives). Unusual events and pressures like these would create a market demand for migrant smuggling, thus encouraging the triads to resume the exploitation of impoverished and vulnerable individuals seeking a better life overseas.

Facilitative Economic Conditions in China

There are four main factors that hinder the growth of migrant smuggling and even other forms of transnational crime but facilitate the growth of localized crime in China. They are the fast growing economy, improved employment opportunities, the fluctuating stock market, and the rapidly rising property prices in China.

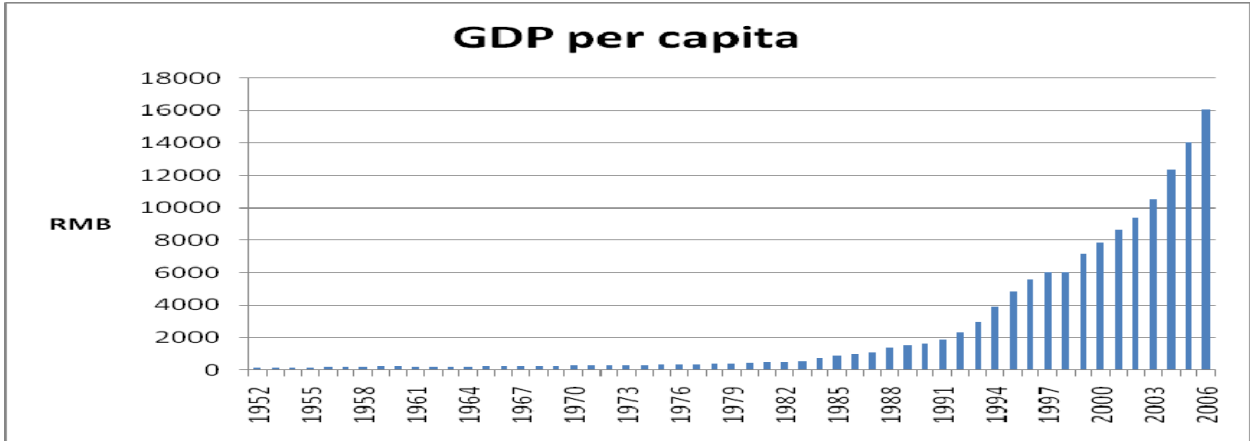
Fast growing economy

GDP in China has been steadily rising since 1996. It has quadrupled from around 70,000 million yuan in 1996 to around 300,000 million yuan in 2008 (see Figure 1). Among other things, China is the biggest consumer of energy products. According to the World Bank, China accounted for half of global growth in metals demand, and one-third global growth in oil demand in 2004, and became the No. 1 auto market in 2009. China contributed one-third of global economic growth in 2004 and achieved 14 percent of the world economy on purchasing power parity basis in 2005 (second to the United States). Foreign exchange reserves exceeded \$1,000 billion (exceeded Japan), and are growing at about \$200 billion a year.

The GDP per capita in China rose from 119 yuan in 1952 to 16,084 yuan in 2006. It skyrocketed in the recent decade, with the GDP per capita in 2006 doubling the rate 5 years ago (see Figure 2). Figure 3 shows a comparison of China with the USA and the UK, the two most popular destinations for illegal Chinese migrants. The USA is the world's largest economy, with a GDP

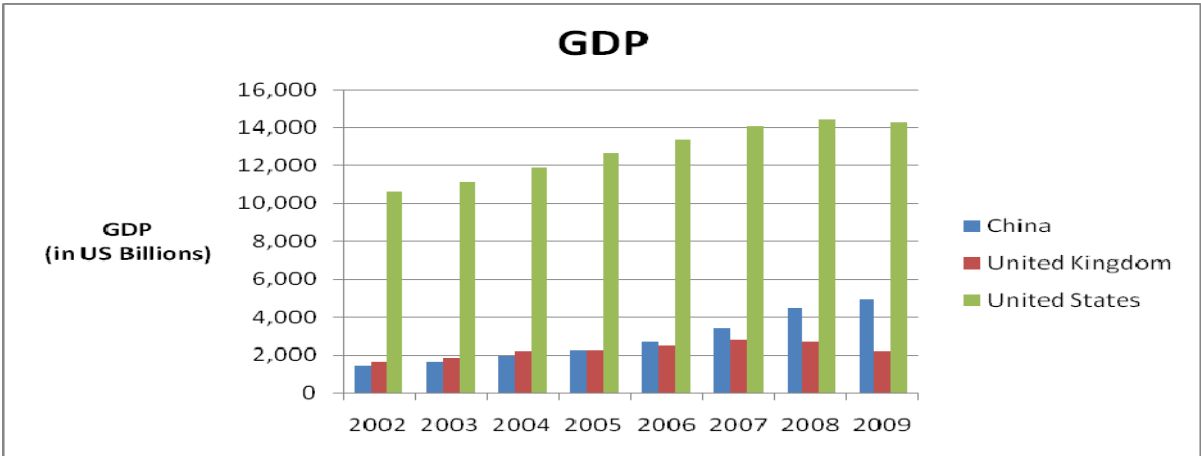
(in constant price) of around 14 trillion US dollars in 2009. A GDP of around 2 trillion US dollars was recorded in the UK in the same year. China is catching up as one of the world's largest economies by GDP, surpassing the British economy in 2005, with a recorded GDP of 5 trillion US dollars in 2009.

Figure 2



Source: Chinability

Figure 3

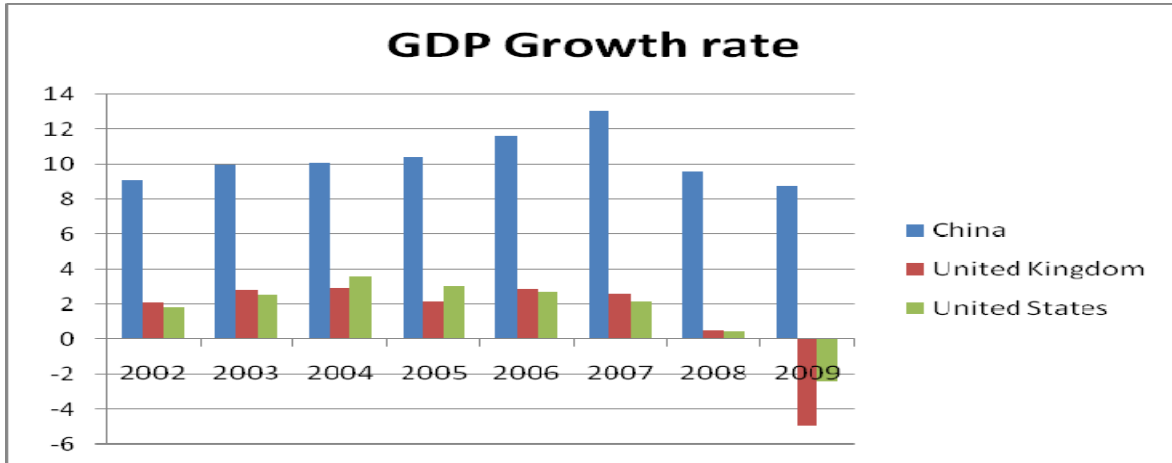


Source: International Monetary Fund, World Economic Outlook Database, April 2010

As seen in Figure 4, China experienced an average GDP growth rate of 10% over the past 8 years. The high growth rate stands in stark contrast to two other strong world economies. The UK experienced an average growth rate of 1.4% in the same period, and the USA experienced a rate of 1.7%. Even during the global financial crisis since 2007, China recorded growth rates of

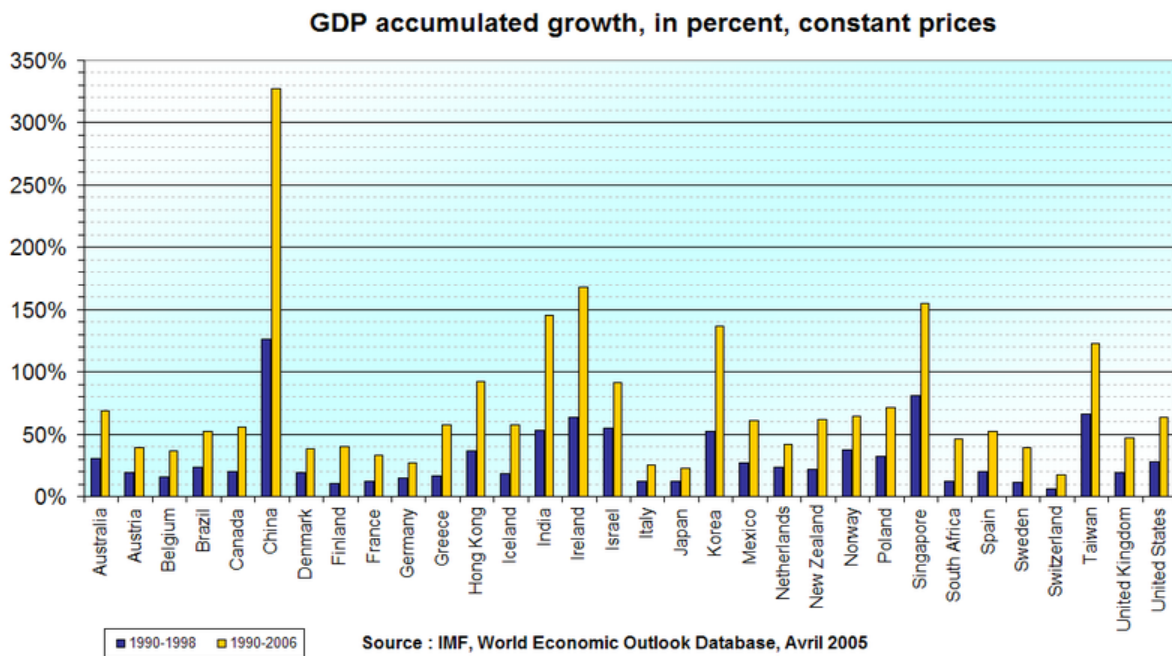
9.6% in 2008 and 8.7% in 2009. In the same period, the UK recorded growth rates of 0.5% in 2008 and -4.9% in 2009, and the United States recorded 0.4% and -2.4% respectively.

Figure 4



Source: International Monetary Fund, World Economic Outlook Database, April 2010

Figure 5



Source : IMF, World Economic Outlook Database, Avril 2005

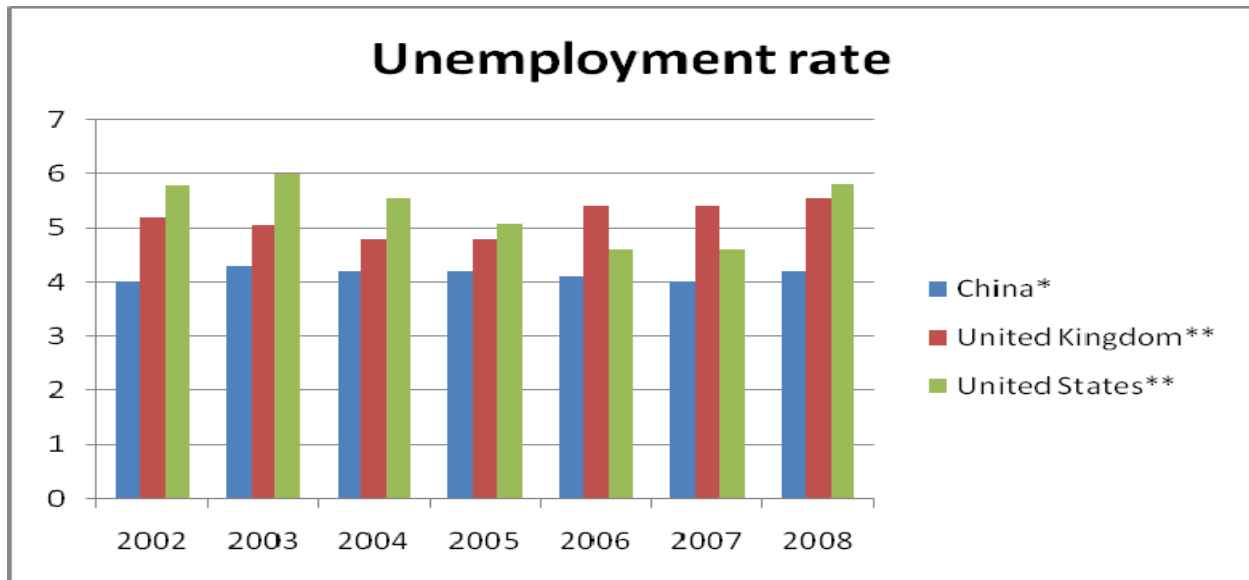
When compared with other nations around the world, China is the fastest-growing economy in the last decade, in terms of GDP accumulated growth (see Figure 5). The above data show that

China is catching up as one of the world's largest economies. As the triads will go where the money lies, they will be attracted to the flourishing economy of China.

Improved employment opportunities

As shown in Figure 6, the unemployment rate in China has been substantially below the rates in the USA and the UK since 2002. Even nowadays when there are high unemployment rates in the U.S. (9.6%, June 2010) and the UK (7.8%, August 2010), the unemployment rate in China has remained steadily at around 4%. The high unemployment rates in the western countries mean that even locals face difficulty in finding jobs. The opportunities for Chinese immigrants are therefore reduced.

Figure 6



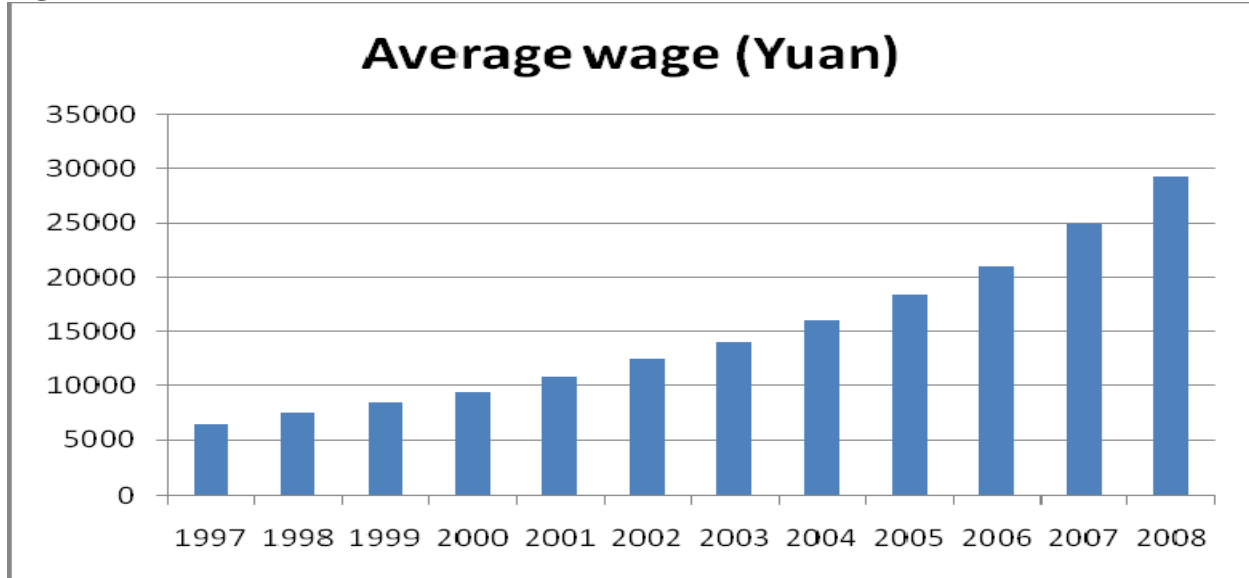
* Source: National Bureau of Statistics of China

** Source: International Monetary Fund, World Economic Outlook Database, April 2010

Moreover, the average wage in China has been increasing steadily since 1997. It has quadrupled from around 6,400 yuan in 1997 to nearly 30,000 yuan in 2008 (see Figure 7). This provides sufficient incentive for the Chinese people to find jobs in mainland China. Foreign invested factories in China (e.g. Foxconn) have provided very good working conditions for workers that are far better than those of Chinatowns overseas. More importantly, the workers can pay visits to

relatives in their home towns during long festive holidays, and need not pay the ‘snakeheads’ a huge sum of smuggling fee, amounted to US\$30,000 per head.

Figure 7



Source: National Bureau of Statistics of China

Table 1 Trading Summary for Stocks in China

	2002	2003	2004	2005	2006	2007	2008
Total market capitalization (100 million yuan)	38329	42458	37056	32430	89404	327141	121336
Total Turnover (100 million yuan)	27990	32115	42334	31665	90469	460556	167113
Difference	10339	10343	-5278	765	-1065	-133415	-45777

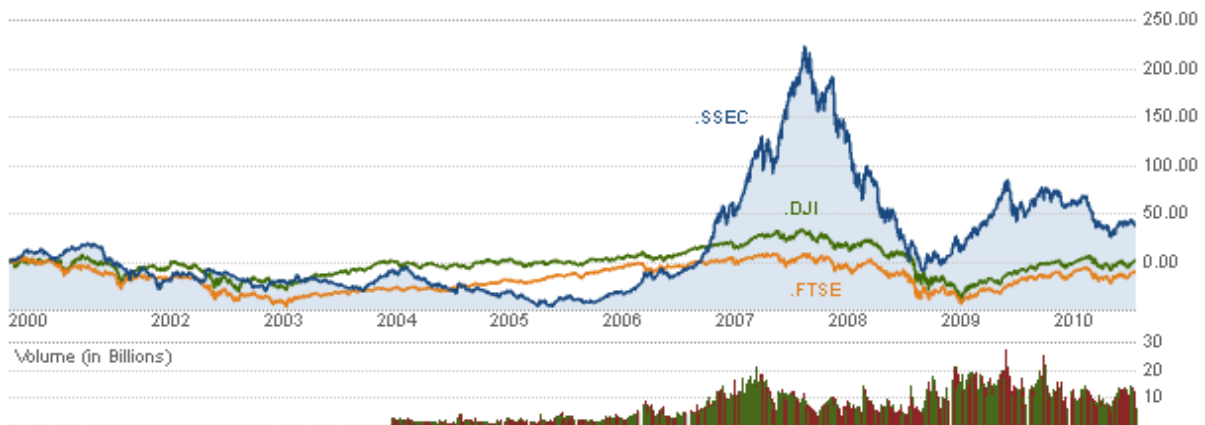
Source: National Bureau of Statistics of China

Fluctuating stock market

As aforesaid, the criminals operated under the social network model can join or quit the illicit activities quickly and freely to suit the ever-changing criminal and business world. They will look for opportunities for higher financial return, disregarding that the business is licit or illicit. One way to do this is in the stock market. Since 2002, both the total market capitalization and the total stock turnover in China have been steadily increasing. Interestingly, the total turnover has been increasing at a faster rate than the total market capitalization, and the gap between the two has been narrowing in recent years. In 2004, 2006, 2007 and 2008, the turnover had even

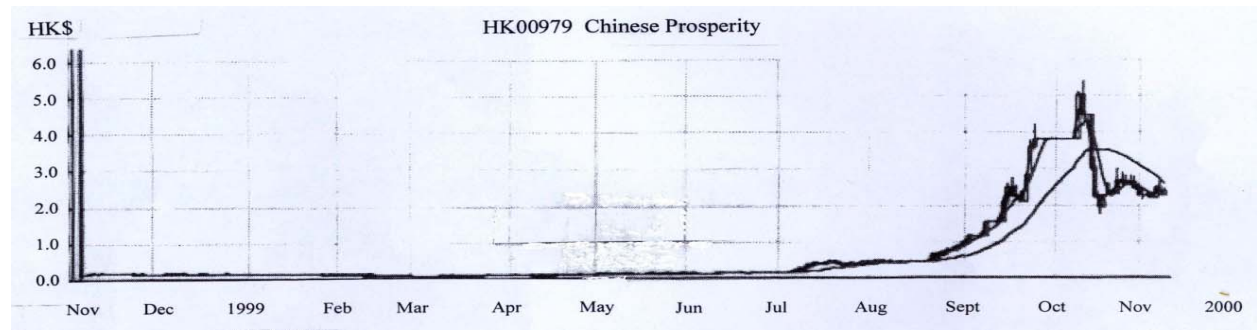
exceeded the market capitalization (see Table 1). This suggests that there has been heavy trading in the stock markets in recent years. In addition, the structural changes in the Chinese stock markets, such as a jump in listings and the allowance of short sales in 2010, have fostered stock trading and market fluctuation.

Figure 9 Market Fluctuation of the SSEC, DIJA and FTSE 100



Source: CNBC <http://data.cnbc.com/quotes/CN;SHI/tab/2>

Figure 10 Example of Market Manipulation and Insider Trading



Source: Lo (2010).

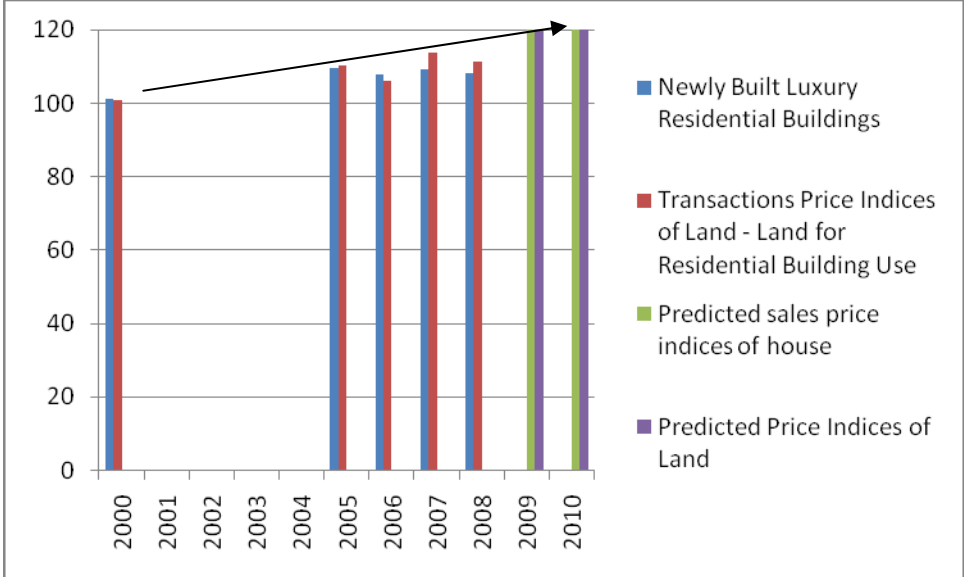
Moreover, as seen in Figure 9, the market fluctuation of the Shanghai Stock Market is much higher than its counterparts in the USA and the UK. As such, it entails abundant opportunities for the triads to speculate through market manipulation or insider trading. Because of the existence of *quanxi*, the triads are able to obtain privileged information and buy shares of specific stocks ahead of ordinary traders. Given the rampant corruption in China, government officials and managers of listed state enterprises might have a stake in the devious act because

many officials and managers treat state properties as their own assets for private gains (Bian, 2002). They would be happy to be involved in some kind of profit-making deals with criminal syndicates through providing privileged information for insider trading in return for attractive kickback. Lo (2010) reported in detail such a financial crime committed by Sun Yee On, a powerful Hong Kong-based triad society (see Figure 10) in collaboration with a Hong Kong listed company and a Chinese state enterprise.

Rapidly rising property prices

Another arena that the triads can make quick money is the property market. As shown in Figure 11, both the Newly Built Luxury Residential Buildings Index and the Transactions Price Index of Land for Residential Building Use rose since 2002. The former increased from 101.3 in 2000 to 108.2 in 2008, and the latter increased from 101 in 2000 to 111.3 in 2008. Although the data for the recent two years are not available yet through the National Bureau of Statistics in China, news stories in the recent two years showed that the housing prices continued to rise sharply. Luxury housing prices in Shanghai and Beijing now catch up that of Hong Kong.

Figure 11 Rise in Property Prices



Source: National Bureau of Statistics in China

The soar in residential property prices induced fears among the public that a property bubble was forming. To reduce the public's fear, the government announced tighter housing policies to deflate the bubble, such as tighter lending conditions. These measures led to a slowdown in the increase of house price in the first half of 2008. Combined with the global financial crisis, house prices continued to fall in the second half of 2008. In a quick recovery of the price falls in 2008, housing sales and property prices bounced back in the first half of 2009. House prices in 70 major cities rose by 3.2% in August 2009 from a year earlier, being the third month of house price increases, according to data from the National Bureau of Statistics of China. In November, real-estate prices in 70 major cities further rose 5.7 percent from a year earlier, compared with the rise of 3.9 percent in October. In 2010, despite attempts by the central government to cool the market, property prices in China continued its rise. The National Bureau of Statistics reported that even though the property price index in August fell slightly from July's 10.3% rise, it still registered a rise of 9.3% from a year earlier.

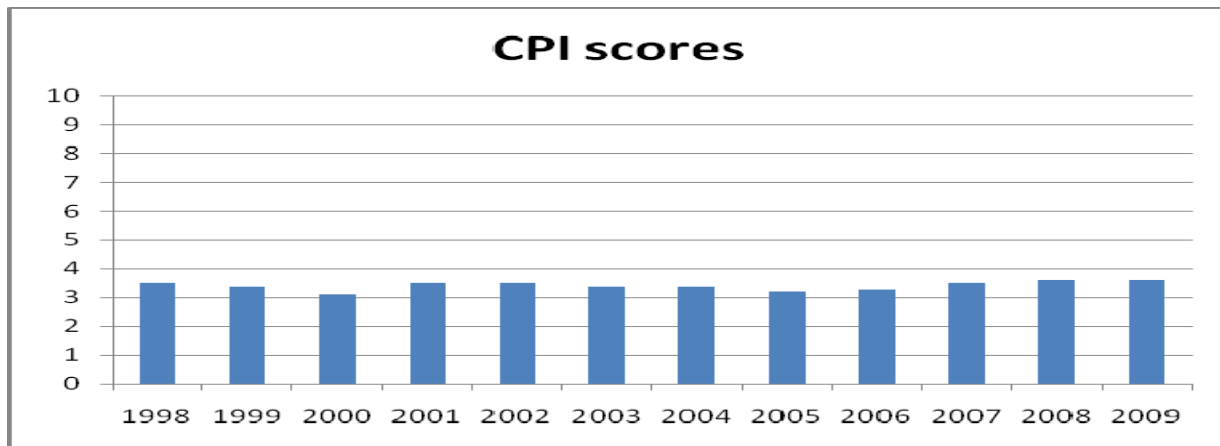
Residential property prices are rising because of limited supply or speculation. The Hong Kong experiences in the 1990s suggested that the triads were involved in the sale of property. Some joined hand with property developers by sending gangsters to queue up in the residential site (some as long as three days) before the sale so as to create a 'massive demand' or 'popularity' image of the property concerned. Some bought in selected apartments before the public sale through *quanxi* and then made a quick profit by reselling them when the property was put on sale in the market. Since the amount of money involved in property speculation is usually very large and both the risk and cost are low, the triads could make very attractive financial return.

In summer 2010, a Credit Suisse-sponsored study found that China's richest people may hold as much as 9.3 trillion yuan (US\$1.4 trillion) of hidden assets. Wang Xiaolu, an economist at the China Society of Economic Reform, said that "the grey income comes from sources including stock market manipulation, property deals, vast bonuses from state-owned firms with a monopoly on the market, and even large wedding and other gifts to powerful officials and their relatives" (Reuters, August 12, 2010).

Facilitative Political and Legal Environments

In addition to the booming economic environment, China's political and legal environments are also favorable to the triads because of the corruptibility of officials and law enforcement officers, a lack of the rule of law, and the existence of 'protective umbrella'.

Figure 12



Source: Transparency International

Corruptibility of officials and law enforcement officers

It is not surprising to know that corruption prevails in China. The Transparency International publishes an annual Corruption Perceptions Index (CPI) which ranks nations in terms of the degree to which corruption is perceived to exist among politicians and public officials. A higher score out of 10 indicates less perceived corruption. Over the past 12 years, China's score has remained below 4. In 2009, China was ranked 79th with a score of 3.6, suggesting that corruption has not been improved in the last decade. Once government officials and law enforcement officers are corruptible, the risk for being arrested and sentenced is low for the triads.

A lack of the rule of law

Many unique concepts, such as 'rule by the people', 'absence of the presumption of innocence', 'leniency for self-confession, severity for resistance' and 'toeing the Party line', prevail in the Chinese criminal justice system. The wide availability of external influence and pressure,

unpredictability of court decision, and the violation of human rights in law enforcement put China in a state characterized by rule by person or at most rule by law, rather than rule of law. A rule of law society does not allow individual or political goals to be placed higher than the law, thereby minimizing human elements, arbitrariness or manipulations during the law enforcement and criminal justice processes. All these advantages are not always available in China. Rule by law fosters selective targeting, patronage phenomenon, scapegoat phenomenon, political goal-driven intentions, and inconsistent law enforcement. A judicial system that toes the Communist Party line further offers unreasonable or disproportionate punishment and sanction in the fight against crime. Since there are weak effective external conditioning factors that can balance the power of the powerful, therefore the powerful are able to distort the legal process to preserve self interest. Against this background, the triads can make use of these loopholes to be benefited from their *quanxi* developed with the powerful.

Protective umbrella

Bribery and corruption is a major contributor to the growth and persistence of criminal activities in China. It was suggested that there is a 'protective umbrella' phenomenon in China (Zhang and Chin, 2008) where criminal syndicates connect with officials through the offer of a range of interests, such as luxurious gifts, overseas travels, payment of offspring's overseas tuition fees, clearing of gambling debt, sex service, and simply bribery, in exchange for protection in legal and illegal business activities. Because of the absence of the rule of law and the prevalence of *quanxi* and corruption, protective umbrella has developed rapidly alongside China's booming economy.

Traditional Triad Organized Crime: Prostitution, Gambling and Drugs

Early studies on triad societies found that traditional triad crimes, such as vice, gambling, and drug dealing, were facilitated by the triad hierarchical structure, control, and subculture (Booth 1990; O'Callaghan 1978). This phenomenon still continues today.

Prostitution

Triad-controlled prostitution occurs only in designated areas. One can easily find groups of mainland Chinese ladies standing in the street corners of Geyland in Singapore, Chinese-owned casinos in Macau, and Portland Street of Hong Kong. Russian prostitutes also operate in group and are regularly seen standing in the street corners of Macau casinos, even close to the policemen on patrol. They all enter the territory through the arrangement of the triads. Their solicitation of customers is confined only in the triad-controlled territory where there is a systematic maintenance of law and order by the triads themselves so as to avoid police intervention. As long as prostitution is confined within a certain area and running smoothly, and does not pose a risk to the society at large, it would be tolerated by the police, even in Singapore.

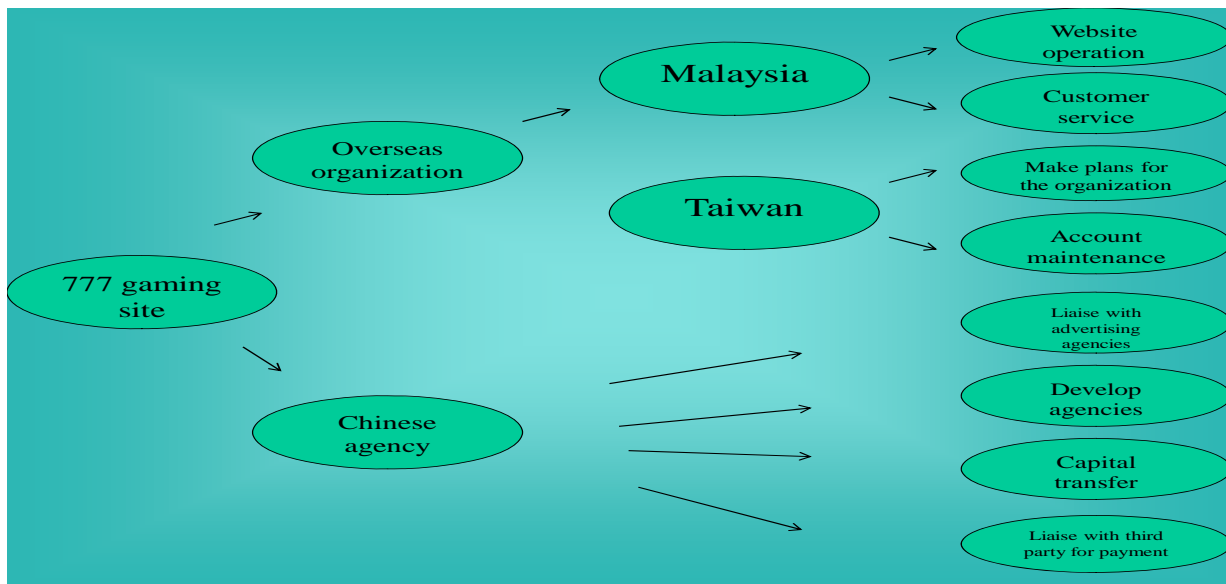
Although incidents of smuggling of women to Hong Kong, Korea, and Taiwan by boats were reported in the 2000s, it is now common that the triads organize the women to visit their destinations as tourists, not via smuggling, because Chinese nationals can now be granted tourist visa more easily than were in the past. If necessary, triad members visit China to connect with the local criminal groups for the selection of women. Upon arrival, the women work more than twelve hours a day in casino hotels or guest houses, first to recoup their travel expenses, food, and accommodation, and then to earn their 'wage'; of course the triads take a reasonably large share for the organization and protection within the territory. The women are highly disciplined in soliciting customers (or have been pre-disciplined by the local gangs before they left mainland China), knowing that they cannot leave the territory or cause any trouble. When their tourist visa expires, they return home even without a chance for sight-seeing. After they leave, another group of women arrives on tourist visa to take over their place. Because of the short-term stay and high turnover of prostitutes, both the cost and risk of running such an operations low.

Drug trafficking

The Golden Crescent overlaps Afghanistan, Iran and Pakistan, and is one of the principal areas of illicit opium production. In recent years, the Golden Crescent has become the major source of illicit drugs trafficked into the nearby Xinjiang province of China. However, heroin is now mainly for local consumption in Chinese cities and is seldom transited to other nations via Hong Kong as happened in the old days. Moreover, heroin is no longer a favorite drug after Hong Kong was 'conquered' by Ice, Ecstasy, and Ketamine respectively. Used as a general anaesthetic

in developing countries, Ketamine, nicknamed as K-tsai, is now very popular in Hong Kong and southern China due to its low price and accessibility to young people; its popularity is because 'K is cheaper than Coke'. It has been so popular that it has spread to most secondary schools in Hong Kong, and the government has to fight against it by launching a voluntary drug-test scheme in the schools. Since K-tsai is available in tablet form, amateurs, and usually young drug abusers, are used as couriers for trafficking. Some youth buy it in Shenzhen for self use and then take the rest back to Hong Kong for sale to their school mates. This has made detection very difficult.

Figure 13 The Structure of 777 Gaming Site



Cross-border soccer gambling

According to several news sources, 2010 has been an active year in illegal soccer gambling. In the first half of 2010, over 670 cases have been reported to the police in various parts of China; some of them had overseas connections. To name a few cases, the 777 Gaming Site exposed by the Police in Wei An Town, China had systematic organization, functional division of labor, and connections with syndicates in Malaysia and Taiwan (see Figure 13). During the World Cup in July 2010, a joint police operation between Hong Kong and Guangdong smashed a cross-border bookmaking syndicate, arresting 74 criminals in Hong Kong and 29 in southern China, seizing around 7 billion yuan (679.9 million pounds) of illegal bets (Reuters, July 9, 2010). The

International Criminal Police Organization (INTERPOL) disclosed that from June 11 to July 11, 2010, the police in China, Hong Kong, Macao, Malaysia, Singapore, and Thailand raided nearly 800 illegal gambling networks across Asia that had accepted an estimated US\$155 million in bets; more than 5,000 people were arrested and US\$10 million was seized (Volkov, 2010). A Hong Kong court trial in 2009 confirmed that a bookmaking syndicate from the mainland tried to manipulate soccer game results in Hong Kong by providing advantages to a soccer player who was proved guilty.

Counterfeit Products

It was reported that in 2008, 55% of counterfeit goods seized at the European Customs Union border were originated from China. The majority is believed to be clothing, accessories, and shoes. For example, about six million pairs of Chinese-made counterfeit shoes were seized (United Nations Office on Drugs and Crime, 2010). China is one of the largest producers of cigarettes in the world; it was reported that its counterfeit cigarettes have been constantly found in Europe and caused the European Union a loss of 10 billion Euros of taxation each year (BBC, September 1, 2010). Countries in the West are also concerned about the counterfeit (or substandard) medicine produced in China. Chinese authorities found that “some products have a counterfeit prevalence ranging between 50% and 85%....Also in 2001, it was reported that Chinese authorities closed 1,300 factories while investigating 480,000 cases of counterfeit drugs worth \$57 million” (Morris and Stevens, 2006, pp.80-1). It was reported that the Chinese authorities closed down 363 fake medicine production facilities in 2008 (United Nations Office on Drugs and Crime, 2010). The counterfeit producers of clothing, cigarettes, and medicine are actually running legitimate businesses. They use their ordinary channels of commerce to distribute the bogus products; goods with falsely declared contents are often shipped out through regular freight companies. Incentive for producing counterfeit goods is very high due to constant demand of cheaper products around the world, especially in South-east Asia, Eastern Europe, and Africa. The producers are specialists of their specific trades and due to such specialization the triads are unlikely to be involved in these kinds of commercial crime.

On the other hand, Hong Kong-based triad gangs are involved in the manufacturing of counterfeit credit cards. They recruit restaurant or entertainment workers who might be in debt to

them as skimmers. They provide them with a pocket-size skimming device to steal credit card data from their customers. The whole stealing process would complete within one minute. The workers then pass the data to the gangsters for repaying their debt. The gangsters pass the data to a card manufacturer to produce counterfeit cards. The cards are then passed to other gang members or sold to professional shoppers to shop luxurious goods overseas (Curtis et al., 2003). Banks now issue immediate warnings to customers if their credit cards are known to be used overseas and the amount is large, and such moves have restricted the widespread of this crime. In addition, China is used to be one of the largest exporters of counterfeit CDs and DVDs, but today many of these products are consumed within the Greater China region. Many of the pirated goods are now produced in South-east Asia.

Organized Crime in Hong Kong and Macau

In Hong Kong, there was some concern that the triads would expand their activities in the West after China resumed sovereignty of Hong Kong in 1997. Actually, due to the increase of legal and illegal business opportunities in mainland China, the expected mass triad exodus to the West did not occur. Rather, it is the mainlandization (i.e. mainland China) of triad activities that was of concern. Following the growing integration between Hong Kong and mainland China, the run-up to 1997 was characterized by the rise of cross-border crime. Attempting to capitalize in the booming China business market, the triads forged cooperative relationships with mainland criminal groups (Broadhurst and Lee, 2008). Gangsters from southern China were employed by Hong Kong triads to commit crimes across the border, ranging from contracted killings to armed robbery. Hong Kong triads also invested in the entertainment business in southern China and simultaneously collaborated with local gangs to run vice and illegal activities. Laidler, Hodson and Traver (2000) found that criminal gangs in both places cooperated closely in drug trafficking and transactions. Chu (2000, 2005) observed that triad societies have increasingly invested in legitimate businesses and teamed up with entrepreneurs to monopolize the newly-developed Chinese market.

Moreover, many influential Hong Kong triad leaders were absorbed by the Chinese government through its united front tactic (Lo, 2010) for three main reasons. First, it was not to disturb Hong

Kong's law and order so as to ensure social stability before and after the transfer of sovereignty. Second, the triads would not be further involved in pro-democratic activities in China, such as the Yellow Bird Action, where over 100 pro-democratic student leaders were smuggled out of China by triad members after the Tiananmen crackdown in 1989. Third, the existence of powerful triad friends in Hong Kong was obviously to China's advantage because it would bar the infiltration of Taiwanese gangs into Hong Kong to join forces with anti-Beijing liberals or to influence local elections as they did in Taiwan. Thus, rather than suppressing triad activities, the triad leaders were conferred a 'patriotic triad' label by Chinese leaders, facilitating them to establish *guanxi* with officials and state enterprises. It enabled triad leaders to gain access to business status and wealth, and helped them to locate licit and illicit business opportunities in the mainland (Lo, 2010).

In Macau, eye-catching violence occurred in the late 1990s, where triad gangs used killings, bomb attacks, arson, shootings, and even assassination of senior police officials to fight for territory and jockey for position before Portugal's handover of the colony to China in 1999. In recent years, the triads in Macau have been absorbed by the gaming industry; the income it generated has already exceeded that of Las Vegas. Through *guanxi*, the triads were subcontracted to run VIP rooms inside the casinos owned by local Chinese capital. Triad members serve as casino agents and recruit rich businessmen and government officials from Southeast Asia, Taiwan, and China to gamble in the VIP rooms with rebates. The triads provide one-stop service to their clients, such as transport, escort, accommodation, protection, sex service, and loan. Since VIP rooms generated about 70% of the total income of the casinos in Macau, the benefit is very high, and the risk and cost involved are very low.

Conclusions

Let me round up this paper by answering two important questions: First, why the triads involve in organized crime, and second, why transnational organized crime [if the money is in China]. The triads will assess the benefit, risk, and cost involved before undertaking any criminal activities, and the activities will flourish as long as the benefit outweigh cost and risk.

In the recent decade, the economic prosperity and increasing job opportunities in China has mitigated many of the push factors that drove people to flee in the past. The slowing down of the economy in the West has also rendered the living conditions in these countries less desirable than before. In view of the narrowing of the gap of well-being among countries in the world, the desire for migrating to the West is greatly reduced among ordinary Chinese. Thus, the recent decline in migrant smuggling is obvious, in view of the diminishing demand in the China market. In order to maximize profit, the triads have shifted their focus on mainland China where there is immense wealth because of rising economic growth and fluctuating stock market, as well as lowered risk because of corruptible officials, the absence of rule of law, and the existence of *guanxi* and protective umbrella.

On the other hand, the risk of migrant smuggling is very high. The Dover incident in 2000, where 58 illegal Chinese immigrants suffocated to death in the back of a truck trying to enter the UK, and the Golden Venture incident in 1993, where a freighter smuggling over 200 Chinese people went aground off in the New York coast in the USA after a mutiny by the smugglers, showed that uncontrolled events and risks do happen in the process of migrant smuggling. Furthermore, the high risk is further compounded by the international community's commitment to cracking down human trafficking. The United Nations Convention against Transnational Organized Crime in 2000 (Palermo Convention) represents a major step forward in the fight against transnational organized crime and signifies the recognition by Member States of the seriousness of the problems posed by it, and the need to foster and enhance close international cooperation in order to tackle the problem. In addition, considering that the geographical range for migrant smuggling is so large, and the tasks in tackling law enforcement of different jurisdictions and in handling recruitment, passage, documents, lodging, and workplace, are so complex, migrant smuggling entails very high cost.

It is my proposition that while migrant smuggling would be on decline, prostitution, gambling, and drug, the three-layer cake of traditional triad activities, will continue in the present and forthcoming future because of the following reasons. First, no matter whether it is drug, prostitution, or gambling, the triads provide some kinds of extraordinary services that are not provided by the authorities. Since there is a huge demand for the services in the overseas markets,

the triads run the crime operations as if they are running transnational corporations that resemble entrepreneurial businesses. They obtain huge and constant profits from this underground economy without much keen competition from ordinary commercial enterprises. In similar logic, counterfeit goods, though the majority do not involve the triads, will continue to be produced to meet the everlasting demand for cheaper goods in the overseas market.

Second, since some triad members had migrated overseas in fear of China's takeover of Hong Kong and Macau in 1990s, they become overseas collaborative partners for the triads; they also possess the necessary skills, experiences, subcultural values, and norms of triad societies. Therefore, criminal partners at the two ends of the international servicing channel are ready, cooperative, and perhaps trustful. The cost is thus low. Third, Williams (2006:1, as cited in Abadinsky, 2010) pointed out that "one of the most pernicious and demeaning aspects of trafficking in women and children is that it reduces people to the status of commodities." Commodities are easily dispensable. This applies to prostitution and drug trafficking too. The youth acting as drug couriers are dispensable commodities and the prostitutes travelling on tourist visa are dispensable too. The loss is minimal even though they are taken by the police. For prostitution, as long as the activities are under control and confined to a specific territory, the risk of police intervention is also minimal.

The above assessment of the current economic, political, and legal environment in China suggests that there is very little incentive for the triads in mainland China, Hong Kong, and Macau to be involved in migrant smuggling because the dragon with its golden eggs still lies in the East and because both the risk and cost of such trafficking of people across wide geographical range are very high. However, since the demand for prostitution, drug, gambling, and even counterfeit goods from overseas clients continue to be high, the benefit generated from such demand would provide sufficient incentives for the triads or other criminals to pursue on these criminal activities.

References

- Abadinsky, H. (2010). *Organized Crime* (9th edition). California: Wadsworth.
- BBC (September 1, 2010). Retrieved on October 12, 2010 from http://www.bbc.co.uk/zhongwen/trad/world/2010/09/100901_eu_china_fake.shtml
- Bian, Y.J. (2002). Chinese Social Stratification and Social Mobility, *Annual Review of Sociology*, 28: 91-116.
- Booth, M. (1990). *The Triads: The Chinese Criminal Fraternity*. London: Grafton Books.
- Broadhurst R., and Lee K.W. (2008). The Impact of Law Enforcement and Social Change on Triad Societies in Hong Kong, *International Journal of Criminal Intelligence*.
- Chin, K. (1990). *Chinese Subculture and Criminality: Non-traditional Crime Group in America*. Westport: Greenwood Press.
- Chin, K. (1999). *Smuggled Chinese: Clandestine Immigration to the United States*. Philadelphia, PA: Temple University Press.
- Chin, K. (2003). *Heijin: Organized Crime, Business, and Politics in Taiwan*. NY: M.E. Sharpe.
- Chu, Y.K. (2000). *The Triads as Business*. London: Routledge.
- Chu, Y.K. (2005). Hong Kong Triads After 1997, *Trends in Organized Crime*, 8/3: 5-12.
- Cornish, D. B. and Clarke, R.V. (Eds.). (1986). *The Reasoning Criminal: Rational Choice Perspectives on Offending*. NY: Springer-Verlag.
- Cornish, D.B. and Clarke, R.V. (1987). Understanding Crime Displacement: An Application of Rational Choice Theory. *Criminology*, 25: 933-47.
- Curtis, G.E., Elan, S.L., Hudson, R.A., and Kollars, N.A. (2003). *Transnational Activities of Chinese Crime Organizations*. Washington D.C.: Library of Congress – Federal Research Division.
- Di Nicola, A. (2005). Trafficking in Human Beings and Smuggling of Migrants. In P. Reichel (Eds). *Handbook of Transnational Crime & Justice* (pp.181-203). California: Sage.
- Keefe, P.R. (2009). *The Snakehead: The Epic Tale of the Chinatown Underworld and the American Dream*, cited from factsanddetails.com.
- Laidler, K.A.J., Hodson, D., and Traver, H. (2000). *The Hong Kong Drug Market: A Report for UNICRI*. The UNDCP Global Study in Illicit Drug Markets.
- Legal Daily (July 12 & 17, 2010). Extracted from October 12, 2010 from http://www.legaldaily.com.cn/police_and_frontier-defence/content/2010-07/12/content_2193643.htm?node=23301 ; http://www.legaldaily.com.cn/police_and_frontier-defence/content/2010-07/19/content_2201478.htm?node=23301
- Lo, T. W. (1984). *Gang Dynamics*. Caritas, Hong Kong.
- Lo, T.W. (2010). Beyond Social Capital: Triad Organized Crime in Hong Kong and China. *British Journal of Criminology*. doi:10.1093/bjc/azq022
- Morris J. and Stevens, P. (2006). Counterfeit Medicines in Less Developed Countries: Problems and Solutions. In P.J. Pitts (Ed.). *Coincidence or Crisis* (pp.79-92). London: Stockholm Network.
- O'Callaghan, S. (1978). *The Triads: The Illustrated Inside Story of the Chinese Mafia*. London: A Universal Book.
- United Nations Office on Drugs and Crime (2010). *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*. United Nations publication, Sales No. E.10.IV.6.

- Volkov, A. (October 4, 2010). INTERPOL Exposes Illegal Soccer Gambling Networks in Asia, *The Epoch Times*. Retrieved on October 5, 2010, from <http://www.theepochtimes.com/n2/content/view/39317/>
- Williams, P., and Godson, R. (2002). Anticipating Organized and Transnational Crime, *Crime, Law and Social Change*, 37: 311-55.
- Xia, M. (2008). Organizational Formations of Organized Crime in China: Perspectives from the State, Markets, and Networks, *Journal of Contemporary China*, 17: 1–23.
- Yahoo China News (February 5, 2005). Retrieved on October 12, 2010 from <http://news.cn.yahoo.com/050205/355/28qio.html>
- Zhang, S. (2008). *Chinese Human Smuggling Organizations: Families, Social Networks, and Cultural Imperatives*. Palo Alto, CA: Stanford University Press.
- Zhang, S., and Chin, K. (2002). Enter the Dragon: Inside Chinese Human Smuggling Organizations, *Criminology*, 40: 737–68.
- Zhang, S., and Chin, K. (2003). The Declining Significance of Triad Societies in Transnational Illegal Activities: A Structural Deficiency Perspective, *British Journal of Criminology*, 43: 469-88.
- Zhang S.X., and Chin K. (2008). Snakeheads, Mules, and Protective Umbrellas: A Review of Current Research on Chinese Organized Crime, *Crime, Law and Social Change*, 50: 177-95.