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Myanmar's Casino Cities: The Role of China and Transnational Criminal Networks

By Jason Tower and Priscilla Clapp



Chit Thu, commander of the Karen State Border Guard Force, has been a key figure in developing the Yatai New City Project. (Photo by Nyein Su Wai Kyaw Soe)

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Summary

- Complex transnational networks of Chinese investors, forced out of Cambodia for illegal gambling activity, are relocating to Karen State to build three megacities as a hub for casinos. They use partnerships with local armed groups, operating under the authority of the national army, to gain access to land, offering in return a share of the profits.
- The Myanmar government has yet to license casinos, meaning this sector remains illegal. Investors have ignored government approval processes, however, and moved rapidly during the COVID-19 pandemic to build facilities to house illegal gambling.
- To circumvent Chinese laws against gambling, ethnic Chinese with citizenship in other countries spearhead these projects. Of concern to Beijing, they have co-opted Chinese government institutions and agencies to present their activities as central to China's Belt and Road Initiative.
- These megacities flagrantly undermine Myanmar's efforts to advance reforms serving the national interest, and Naypyitaw is responding with establishment of a commission to investigate them.
- This kind of investment threatens to reverse recent gains made by decades of US assistance supporting democratic reform in Myanmar, and merits strong American support for efforts to control it.



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Making Peace Possible

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**ECONOMICS &
ENVIRONMENT**

ABOUT THE REPORT

This report examines the construction of unregulated, gambling-based cities in Myanmar by ethnic Chinese investors in partnership with local armed groups. It traces the transnational networks supporting this illicit activity, and raises serious questions regarding the role of the Chinese government in the projects. Based on online materials in Chinese, media reports, interviews, and public records, the report explores how the intrusion of organized crime could fuel further conflict in the country.

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The views expressed in this report are those of the authors alone. They do not necessarily reflect the views of the United States Institute of Peace. An online edition of this and related reports can be found on our website (www.usip.org), together with additional information on the subject.

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Construction of the Yatai New City continued throughout 2019 in the village of Shwe Kokko, in southeast Myanmar along the border with Thailand. (Photo by Nyein Su Wai Kyaw Soe)

Introduction

China's investment in Myanmar follows two interrelated tracks. On the official side, the two governments established the China-Myanmar Economic Corridor (CMEC) in 2018, a flagship of China's Belt and Road Initiative (BRI). The CMEC has identified a series of projects that could tie Myanmar's economy more tightly to that of China, providing China with a strategic foothold on the Indian Ocean. These official projects will become formal government-to-government agreements after they successfully undergo Myanmar's required review process to assure their alignment with the Myanmar Sustainable Development Plan.¹

Outside the CMEC, however, is a web of investments made by a variety of Chinese enterprises. The activity has been underway for decades but picked up pace recently with the development of the BRI and CMEC. Ominously, this trend has been marked lately by the arrival on Myanmar's Thai border in Karen State of complex networks of shady Chinese investors, led by Chinese who have obtained citizenship in other Southeast Asian countries. They claim to be engaged in Myanmar as part of the BRI. In fact, they are relocating from Cambodia and elsewhere in Southeast Asia after a law enforcement crackdown on their businesses, which centered largely on illegal gambling and drew overseas Chinese, Chinese citizens, and criminal gangs. One such Chinese investor is a former triad leader associated with transnational criminal networks who was sentenced to thirteen years in prison for money laundering, criminal association, and attempted murder in Macau. His triad is believed to be responsible for a series of

To the extent that foreign investors in Myanmar choose to partner with armed organizations, they may be significantly contributing to the expansion of a dual economic system—one part governed by civilian laws and regulations, and a second controlled by corrupt, militarized entities mostly under the autocratic authority of the military.

murders across Macau in the late 1990s and the attempted murder of the city's police chief. He and his cohorts have a history of money laundering, narcotics trafficking, racketeering, and arms smuggling, and are currently also involved in cryptocurrency schemes, which the investor told the media will be used for his casinos.²

These investors have ambitious designs for Karen State. Their websites advertise plans to build three freestanding megacities with high-end housing estates for hundreds of thousands of (presumably Chinese) inhabitants, casinos, industrial zones, and an international airport, all supported by

financial systems based on cryptocurrencies. Acres of housing estates have already been built and marketed, and some of the casinos are operating with thousands of Chinese employees in residence.

To gain access to land and local resources, the investors have partnered with Karen armed groups exercising powers won from the national army when they agreed to become Border Guard Forces directly under the army's control or when they signed the Nationwide Ceasefire Agreement. The relationship offers an ideal space to conduct illicit activities, including in the more than \$25 billion-a-year online gaming industry, which Chinese law enforcement has cracked down on intensely in recent years. It enables ventures to advance largely outside the rules and policy structures that Myanmar developed for managing foreign investments and connectivity projects. At the same time, the investors—seeking status and the appearance of legitimacy for activities barred by Myanmar or Chinese law (or both)—aim to create the perception that their endeavors are associated with official CMEC and BRI plans.

Investors with criminal backgrounds have managed to lure Chinese state-owned enterprises into involvement with their projects, while freely associating themselves with the Chinese Embassy, Chinese government investment policies, institutions, planning bodies, and quasi-government organizations.³ This fosters the impression that Beijing considers the Karen projects legitimate under the BRI framework and that their cities and industrial zones enjoy Chinese government support. Back in China, the association with mainland Chinese entities creates layers of protection from law enforcement. While enforcement agencies increasingly police the behavior of Chinese nationals overseas, they apparently are easily fooled by attempts to legitimize a project violating Chinese laws or are wary of intervening when influential political and business leaders might be involved. The promoters of these projects undoubtedly will continue to present themselves this way so long as Beijing fails to make clear that they are not connected with any official Chinese investment policy.

To the extent that foreign investors in Myanmar choose to partner with armed organizations, they may be significantly contributing to the expansion of a dual economic system—one part governed by civilian laws and regulations, and a second controlled by corrupt, militarized entities mostly under the autocratic authority of the military. The second, of course, descends from decades of military rule, but is now becoming institutionalized in the ethnic minority areas. Unscrupulous Chinese investors seem attracted to the prospect of reaping profits from these regions without regard for the impact on the environment or the local population and its way

of life. For their part, the armed organizations make their lands available in return for a share of profits that will, in turn, strengthen their authority over what they consider their territory.

This study will detail the rise of the Karen State megacities and the Chinese who have invested in them; their provenance in Cambodia, the Philippines, and Malaysia; their relationship to local armed groups and the Myanmar military (known as the Tatmadaw); and the question of Beijing's relationship to the investments. It will explore the implications of these investments vis-à-vis Myanmar's national interests, sovereignty, and the country's search for peace and sustainable development; the risk that China's BRI will become increasingly embroiled in Myanmar's internal conflicts; and the consequences for the United States, which has a vested interest in supporting peace, democracy, and good governance in Myanmar.

Chinese Spinach Cities

The three megacities under development in Karen State are backed by complex Chinese business networks with ties to triads, convicted criminals, and involvement in illegal gambling operations in Cambodia. They are referred to as “spinach” cities by Chinese involved in promoting illegal online gambling because the word spinach in Chinese (*bocai*, 菠菜) is a homophone for gambling (*bocai*, 博彩).⁴ Advertisements for employment or investment opportunities in these cities can be found on the Chinese website bcquan.com, or “spinach circle,” used by illegal Chinese gamers to share information on this vast illicit industry.⁵

The target market for these business networks is almost entirely in mainland China, where operating or promoting online gambling is illegal and subject to a continuing law enforcement campaign.⁶ To insulate themselves from Chinese laws, citizens of the People's Republic of China (PRC) involved in these activities have obtained a second nationality or have partnered with citizens of Macau, Hong Kong, Taiwan, or ethnic Chinese of other countries. Indeed, materials reviewed for this study show that ethnic Chinese with citizenship in countries across the region are involved in the development, operations, and promotion of all three projects. At the same time, to the extent that the companies need some legal entity in Myanmar to take formal ownership of the projects, the business networks established parent companies in Hong Kong, Thailand, or Cambodia. Rather than interpreting this as the absence of direct involvement of PRC companies and individuals in their activities, it should be seen instead as a deliberate strategy to avoid and confuse Chinese law enforcement. Indeed, there is direct involvement of numerous PRC entities in these projects, as will be discussed below.⁷

The cities and other gambling projects are growing rapidly, to date encompassing up to 157 square kilometers (60 square miles) in the Thai-Myanmar border region adjacent to Mae Sot. They have been characterized by rampant land grabbing; a large influx of unregistered Chinese residents from Cambodia fleeing law enforcement; the establishment of known money laundering institutions such as gambling facilities and blockchain and other cryptocurrency vehicles; and partnership with local nonstate armed organizations that operate under the umbrella of the Tatmadaw.

Civilian residents of Karen State are reacting with alarm to this overnight invasion, fearing that it will overwhelm the state's civilian institutions, embed criminal activity in its economy, and disenfranchise the native Karen population.⁸ Located in areas affected by armed conflict for

FIGURE 1. KAREN STATE CHINESE SPINACH CITIES AND THEIR INTERNATIONAL BUSINESS LINKAGES



the past seventy years, the projects have the potential to exacerbate ongoing conflicts and foil efforts to achieve a peaceful, rules-based order in Karen State. The developments illustrate how armed actors, both state and nonstate, profit from—and then finance—prolonged armed conflict, providing a concrete example of why peace here has been so difficult to achieve.

Before examining the Karen State projects in greater detail, it is necessary to look at policy developments over the past decade elsewhere in Southeast Asia to see what drew these investors to Myanmar.

We begin in Sihanoukville, Cambodia. Before 2017, Sihanoukville was a popular tourist destination for Western visitors to Cambodia. It was known for its quiet beaches and inexpensive cafes, but also demonstrated signs of vulnerability to criminal interests given the presence of Russian fugitives and several small casinos.⁹ While Cambodia has permitted the legal operation of these casinos since the mid-1990s, it was only in 2017 when Chinese real estate developers descended upon Sihanoukville to construct a precursor of the spinach cities. With their arrival, Sihanoukville's real estate sector took off. According to one report, construction began in Sihanoukville in 2018 on more than twenty large-scale buildings, nearly all of them backed by Chinese investors.¹⁰ By late 2018, the Chinese population in Sihanoukville had grown exponentially, reaching roughly 30 percent of its residents, according to the governor.¹¹

What brought so many Chinese to Sihanoukville, and why did the trend suddenly accelerate in late 2017? The answers lie in the Philippines in 2016, when Chinese and Filipino law enforcement began shutting down a series of illegal online casinos across the country and arresting thousands of the Chinese nationals involved in them.¹² The crackdown led the Chinese operators in early 2017 to flee en masse to Sihanoukville, where gambling was much more lightly regulated. According to *World Gaming Information*, a Chinese language information clearinghouse for online gaming, between 2010 and 2019 overseas Chinese operating in the industry ping-ponged between the Philippines and Cambodia as they experienced intermittent periods of more or less relaxed casino regulation.¹³ From late 2017 until the middle of 2019, Cambodia essentially did nothing to regulate gambling in Sihanoukville and even licensed it, while China constantly pressured the Philippines to crack down on the business.

Industry insiders say that many casinos host both in-person and online gambling, with the latter being the primary source of revenue. While both are labor intensive, online operations require hundreds, sometimes thousands of workers to operate call centers to track down players. These workers are necessarily Chinese, as their client base is back in China. An online casino may employ anywhere from one hundred to four hundred dealers, security staff, technicians, and information technology support staff.

The Chinese gambling romance with Sihanoukville faded in 2019 after a series of violent crimes were committed by Chinese gangs arriving in the beachside town to provide security to the casinos and enforce payment from indebted players. Some players carried gambling debts from casinos themselves while others owed Chinese junket operators—middlemen who recruit players from China—generally paying for their trips and loaning them US dollars for gambling. In May 2019, a disturbing video of a Chinese gang leader, flanked by shirtless and tattooed thugs, drew attention in both China and Cambodia, as he warned other groups to keep away and declared that his gang alone would “decide if Sihanoukville is stable.”¹⁴

Given the depth of the Chinese penetration, the involvement of Chinese gangs, and the difficulty communicating with members of the Chinese community in Sihanoukville, the Cambodian police . . . had little choice but to rely on Chinese law enforcement to help restore order.

On August 18, 2019, Cambodian Prime Minister Hun Sen issued a directive banning online gambling, noting that “some foreign criminals have taken refuge in the form of this gambling to cheat and extort money from victims, domestic and abroad, which affect the security, public order and social order.”¹⁵ Hun Sen was concerned in particular by the growing number of Chinese operating fraudulent online casinos, which featured rigged games to defraud customers, or what are sometimes called “pig slaughter-

houses” in Chinese—fake casinos that entice customers to make large deposits into a gaming account and then shut down entirely, stealing the funds.¹⁶

Given the depth of the Chinese penetration, the involvement of Chinese gangs, and the difficulty communicating with members of the Chinese community in Sihanoukville, the Cambodian police found the task of implementing Hun Sen’s order nearly impossible. In the end, they had little choice but to rely on Chinese law enforcement to help restore order.

In late 2018, almost a year before Hun Sen’s order, Cambodia and China reached a formal agreement to establish a law enforcement partnership. The two countries opened a joint operations center in Phnom Penh in late September 2019, with ninety Chinese police deployed to Cambodia to assist in its implementation. Sihanoukville became the test case for the joint enforcement program, and the day after its inauguration Chinese police arrested 116 Chinese criminals, who were immediately flown back to China for prosecution.¹⁷ In October, the center set up a hotline, staffed continuously, and implored the Chinese community to provide information about anyone operating online gambling or other illegal activities in Sihanoukville. The request for tips sparked further pandemonium in Sihanoukville’s Chinese community, causing many of those still involved in the industry to make a rapid exit. By one account, over ten thousand Chinese fled Sihanoukville following issuance of Hun Sen’s ban.¹⁸

THE YATAI NEW CITY PROJECT

The Cambodian crackdown disrupted the Chinese online gaming industry but hardly dealt it a death blow; the operators simply had to find a new home.

The Hong Kong-registered, Thailand-headquartered Yatai International Holdings Group (Yatai IHG) was well placed in 2019 to take full advantage of the situation, having gained control of some 120 square kilometers of land on the Thai-Burma border in collaboration with the Karen Border Guard Force (BGF), which operates under the Tatmadaw. Called the Yatai New City Project, the development got underway in 2017 with a Myanmar Investment Commission permit for a housing estate on 25.5 acres of land and an investment of \$18 million. The timing was no coincidence: In 2017, the Myanmar Parliament had begun to revise the 1986 gambling law prohibiting casinos. By late 2018, it seemed apparent that Myanmar would introduce a legal framework for gambling—a point that the Yatai IHG emphasized in its promotional materials.¹⁹

According to records of the Myanmar Directorate of Investment and Company Administration, Yatai IHG’s local subsidiary, the Myanmar Yatai International Holding Group, was registered originally to a Cambodian national named Tang Kriang Kai, who is also listed on the Myanmar

Investment Commission certificate as the investor.²⁰ Cambodian citizenship records indicate that Tang obtained Cambodian citizenship in January 2017, changing his name from She Zhijiang to Tang Kriang Kai (although neither of those names match the names he uses in public—She Lunkai, Tang Lunkai, and Dylan She).²¹

The reason for She Zhijiang’s secrecy is likely related to the illicit nature of his previous business operations. According to an ethnic Chinese Cambodian interviewed for this study, She Zhijiang began developing his business in Cambodia in 2015, initially in what is known as third-party pay—fronting funds for bets made in Cambodian casinos for Chinese who would otherwise have difficulty bringing money into the country. She Zhijiang also has a stake in a notorious coastal development project in Koh Kong, where several hundred acres of Cambodian beachfront property have been grabbed from local communities without adequate compensation.²² Before Karen State, She Zhijiang reportedly spent over a decade in the Philippines and Cambodia “developing video games” and acquiring ownership of one of the largest spa and entertainment centers in Manila.²³ She Zhijiang also established a blockchain research association in the Philippines, used to host events across the region.

Yatai IHG’s own presentation of its activities in Karen State is astonishing, particularly in light of the fact that the Myanmar Investment Commission has only given approval for a 66-acre housing estate. In public promotional materials, Yatai IHG claims to be developing a \$15 billion China-Thailand-Myanmar Special Economic Zone on 120 square kilometers of land in Myawaddy, Karen State, with industrial, tourism, entertainment, and ecological zones, as well as a high-tech zone specializing in blockchain research.²⁴ Yatai IHG signed a partnership agreement with BCB Blockchain in Singapore to launch a blockchain-powered payment application called Fincy, which, according to posts and photos viewed on WeChat, is already being used to facilitate payments at entertainment venues operating in Yatai New City.²⁵ Behind this concept is the notion that Yatai will emerge as a “Smart City,” with an economy based on cryptocurrency.

The history of the project dates back to She Zhijiang’s mid-2017 visit to Karen State, when he was brought to see land in the town of Shwe Kokko and to meet the commander of the Karen State Border Guard Force, Chit Thu. Sources said that She Zhijiang secured the investment on the spot by making a down payment of \$300,000 cash to the BGF leader. On September 16, 2017, She Zhijiang and Chit Thu signed an agreement in Yangon to develop the “Myanmar Yatai Shwe Kokko Special Economic Zone.”

A list of companies operating within the Yatai New City Project is available online. Nearly a dozen feature names such as “entertainment,” “golden technology,” or “entertainment technology.” Several of the enterprises on the list match the names of companies operating casinos in Cambodia.²⁶ One, the Tianxia Group, completed construction of a “technology park” in Shwe Kokko in 120 days during mid-2019, just as rumors emerged that Cambodia planned to crack down on online gambling operations.²⁷ Beyond doubt, however, the operation of casinos, which Myanmar’s Ministry of Hotels and Tourism has yet to license in Karen State, is at the core of the project’s business model.²⁸ The company’s public presentation boasts that casinos will generate more than 60 percent of the project’s revenue in its first three years.²⁹

In a recent press interview, Chit Thu admitted that construction of Yatai City had not received the required central government approval and that an army battalion had moved into the area



Construction workers work on a Chinese-financed casino, condominium, and hotel development on the seafont in Sihanoukville, Cambodia in February 2018. (Photo by Adam Dean/New York Times)

to keep the project from moving forward.³⁰ The online gambling, the Border Guards Force head said, has been shut down, along with the new casinos, while the army looks into the situation. Nevertheless, online recruitment of Chinese-speaking staff into Shwe Kokko has continued following Chit Thu's comments to the press. For example, the Shwe Kokko Blue Star Technology Company and the Baiwei Technology Companies both post daily ads seeking Chinese speakers for Shwe Kokko at a starting wage of \$800 to \$1,000 a month plus a "performance bonus."³¹ Moreover, in April 2020, Yatai IHG posted pictures of groundbreaking on a new area of the project, reportedly occupying in excess of 1 square kilometer.³²

While the company formally involved in the project is registered in Hong Kong, it also has ties to a company registered in Beijing. The Yatai Smart Development (Beijing) Technology Trading Company was registered in October 2019 with RMB 50 million in capital (\$6.9 million) to two Chinese nationals, Ma Dongli and Li Feng.³³ The Beijing-based company maintains several social media accounts promoting the Yatai City project, and Ma is featured prominently in the Yatai Company's promotional materials as the executive director of the Myanmar Yatai IHG. The function of this business entity seems to be facilitating linkages between mainland investors and the Shwe Kokko project.

SAIXIGANG, OR “SURPASS SIHANOUKVILLE”

On March 15, 2020, a group of investors gathered in Kuala Lumpur, Malaysia, for the official launch of Myawaddy’s newest spinach city: the 20-square-kilometer Saixigang Industrial Zone, led by Wan Kuok-koi, a convicted gangster nicknamed “Broken Tooth” and now the chairman of the project’s key proponent company, Dongmei Group. To develop the zone, Dongmei formed a partnership with Malay nationals Dato Sri Liong Kee Huat Dimp, Dato Sri Yong Mun Tong, and Datuk Abdul Shakor bin Abu Bakar. The events of the evening included a presentation of the new city’s project plan and a contract signing between Dongmei and a number of investors in the Saixigang project.³⁴

Less than a month earlier, on February 24, Wan Kuok-koi had led a delegation of investors to Myawaddy to ink a deal for the zone, an occasion witnessed by several dozen representatives of the Democratic Karen Buddhist Army’s Border Guard Force—the same militia group involved in Shwe Kokko. In his speech at the signing event, Wan noted that Dongmei had decided to invest in the project because Myawaddy “is one of the Myanmar government’s most important Special Economic Zones . . . and the second largest border crossing in Myanmar.” According to Wan, Dongmei’s plans include “an industry incubator, a Chinatown-themed commercial street, a leisure/entertainment zone, a resort and hotel zone, a market for auction of precious stones, a large amusement park, an international logistics hub, and a new science city.” He declared that Saixigang would become the “Shenzhen of Southeast Asia.”³⁵

Pledging total investment of some \$18 billion, Dongmei promises that “Myawaddy will surpass Cambodia’s Sihanoukville in only three years.” Deals signed by Dongmei at the event in Kuala Lumpur included the following:

- An agreement with Sihanoukville Pearl City Group to develop 13.3 hectares of land, including a commercial building and a living complex, to be largely completed before June 2020 at an investment of \$35 million. Owned by Chen Jiale, who collaborated with Wan around the launch of his cryptocurrency in 2018, the Pearl City Group developed a major real estate project in Sihanoukville and operates a casino.³⁶
- An agreement with Wang Qingjun, CEO of Beijing Kejian Lianjian Engineering Group Ltd. (and allegedly the representative officer of China Rail Bureau No. 21’s International Myanmar Myawaddy Project) to invest \$47.3 million in the construction of 160,000 square meters of hotels, dormitories, and entertainment facilities, to be completed by June 2020.³⁷
- An agreement with the owner of the Malaysia Club De-Royale, Dato Tee Hon Voon, for investment of \$8.5 million to develop a nightclub on 3.3 hectares of land, to be completed by October 2020.
- An agreement with Xu Chaogang, chairman of the Cambodia Central Investment Group, for an investment of \$7.1 million to develop 20,000 square meters of residential buildings on 3.3 hectares of land.³⁸

With the zone now under construction, the company has launched a series of online videos and ads soliciting property sales to attract investment. Videos obtained by the authors show construction continuing through mid-April 2020, while online materials indicate that ten thousand workers will locate in the zone by September.³⁹

Wan, Dongmei's chairman, is reputed to have been among the most violent of China's modern triad leaders as head of the 14K triad until his arrest and conviction in Macau in 1999. Founded in the 1940s as an anti-communist group, the 14K gradually grew into one of the largest triads in the world with a current portfolio of drug trafficking, illegal gambling, kidnapping, racketeering, and a range of other criminal activities.⁴⁰ Under Wan's leadership, the 14K had a violent turf battle with competing gangs in the late 1990s that in 1997 alone left fourteen people dead. Wan was arrested in 1998 and convicted on a series of charges including organizing "a plot to import a vast arsenal of weaponry, such as anti-aircraft missiles, hand grenades and automatic weapons from Cambodia."⁴¹

Upon his release from prison in 2012, Wan returned to Macau, where he once again took up the casino business.⁴² Since 2014, he has launched numerous business initiatives, including one for cryptocurrency, which reportedly earned him some \$750 million in five minutes at a 2018 launch event in Cambodia.⁴³ Wan has offered assurances that his involvement in triads has ended. Instead he has turned to building an international, member-based association, referred to as the World Hongmen History and Culture Association, headquartered in Cambodia, where Wan has been developing multiple real estate projects, including a Chinatown, with his private security company.⁴⁴ Hongmen (or Hung Mun in Cantonese) is a reference to a secret fraternal society established in the mid-1600s and engaged in a rebellion against China's historical Qing dynasty. The term later became synonymous with "triad" in Hong Kong and Macau. According to its public profile, the association is a patriotic organization supportive of the BRI and the return of Taiwan to mainland control.⁴⁵

The Dongmei Company itself appears to have incorporated as a business in Hong Kong on March 3, 2020, but is operating out of Kuala Lumpur.⁴⁶ Wan promotes the project through the official public WeChat of the Hongmen Association, as well as in partnership with a Guangdong-based representative of the Huaguan Holding Company.⁴⁷

HUANYA INTERNATIONAL NEW CITY PROJECT

The third of Karen State's new spinach cities is also located in Myawaddy, and initially seemed to involve the representation of a different armed group, the Karen National Union (KNU), a key signatory to Myanmar's Nationwide Ceasefire Agreement. In February 2020, Roger Khin, the head of defense for the KNU, joined a signing ceremony for the project, sitting directly under a banner reading "KNU—Huanya Cooperative Signature and Foundation Stone Laying Ceremony."⁴⁸ Its Chinese investors include the Huanya International Holdings Group and the Association of Business Federations of Sihanoukville. The latter group was established in late 2019 by two Sihanoukville-based businessmen, Chen An and Zhang Zhiyong, who have been involved in the launch of numerous cryptocurrencies, as well as real estate projects housing casinos in Sihanoukville. The Association of Business Federations has already introduced one casino project into this Karen State enterprise, with construction beginning in February 2020.⁴⁹ A Huanya IHG press release identifies a Yu Jianjun, reputedly ethnic Chinese-Thai, as its owner, but Thai business records do not indicate a company of this name, nor do they identify Yu.⁵⁰ A later press release in early March reported that the company had plans to invest 10 billion Thai baht (\$312 million) in the initial phase of construction.⁵¹ The same post shows the locations of several other casinos in "military zones" in the surrounding areas.

All of the projects are creating major governance and legal challenges for both Myanmar and China. Unregulated gambling operations . . . are already active or planned within the zones.

Meanwhile, with respect to KNU involvement, senior representatives of the KNU told the authors that Roger “only observed the signing ceremony,” at the urging of Mote Thon, leader of BGF Battalion No. 1022. Mote Thon worked with the Chinese companies to acquire land for the initial phase of the project, but saw that many households in the area supported the KNU and would be unlikely to sell their land without some sort of reassurance from KNU leadership.

From March 13 to May 22, 2020, no news could be found online or on social media regarding the project, raising some questions as to whether the investment would materialize. Then, on May 22, a WeChat public account, belonging to the Cambodia Creative Alliance, began posting advertisements to attract investors into the zone, with pictures of progress made toward developing the basic infrastructure.⁵² Photos indicate development of new piers on either side of the Moei River border between Thailand and Myanmar, the construction of a road, and several new buildings that will make up a technology park. According to one post, the coronavirus pandemic, which delayed or derailed construction projects elsewhere, “only functioned to demonstrate the power of the Huanya IHG.” The post went on to note that the zone will occupy 4,349 acres, with planned investment of \$2.77 billion.

Just days after this post went live, the Karen State government issued a cease and desist order demanding that construction on the project, including the casino, be halted due to a failure to obtain government approval. Days later, the KNU Executive Committee met to discuss concerns about the project’s name implicating their organization. While the authors’ understanding is that the committee has concerns about possible reputational impacts on the KNU, at the time of writing it had yet to take any public steps to formally disavow involvement in illegal gambling operations. Meanwhile, the Chinese investors remain active online through their posts and advertisements.

Implications of the Karen Spinach Cities

All three of these spinach city projects share several things in common. First, none has proper approvals from the Myanmar Investment Commission or the National Economic Coordination Commission, nor have they been reviewed by the Union Parliament. Projects of this size and scale require environmental and social impact assessments. But this has not happened with any of the Karen ventures.

Second, all of the projects are creating major governance and legal challenges for both Myanmar and China. Unregulated gambling operations—including online gambling as well as traditional casinos—are already active or planned within the zones without government regulation.⁵³ Furthermore, the involvement of international criminal organizations is bound to draw ill-gotten wealth to launder through business operations and crypto-banking, inevitably eroding Myanmar’s already weak banking system and nipping in the bud the government’s efforts to access international financial markets.

Third, each of the projects benefits only Chinese investors and the military actors involved in them. The construction of extensive middle- to high-end housing estates, designed to attract Chinese investors, promises to draw a large volume of Chinese into the country and to further destabilize the border areas, delaying peace far into the future, expanding the country's unregulated armed economy, and ultimately forfeiting Myanmar's ability to secure its national sovereignty. Indeed, in the case of Shwe Kokko, She Zhijiang has already publicly asserted that Yatai City is *his* city, and that Yatai IHG has the *right* to provide governance and service functions to its residents.⁵⁴

Fourth, following failed attempts to build gambling cities in the Philippines and Cambodia, these businesses are now adopting more sophisticated strategies to cover their tracks legally: obtaining citizenship in other countries and partnering with ethnic Chinese nationals living elsewhere to reduce risks under Chinese laws, and at the same time associating their endeavors with China's BRI as a cover for illegal activities to curry political favor in China, and to create the perception in host countries that they represent official interests. All of them have pledged allegiance to President Xi Jinping's vision for the "China Dream," for the BRI, and have asserted that their activities contribute to these goals. This raises an important question: Given how public these companies are with their activities and associations, is it possible that the PRC government is not aware of these disturbing trends?

What is Beijing's Involvement in the Projects?

According to article 303 of the Criminal Law of the People's Republic of China, operation of any form of gambling business is illegal. Despite strict criminal penalties, however, both Chinese and international sources estimate the size of China's illegal gaming market at \$25 billion a year or more. That undoubtedly explains the proliferation of investments in gambling facilities outside of China in places with limited law enforcement capacity, like Karen State.⁵⁵

Nonetheless, all three projects have spent heavily to portray themselves as part of China's BRI by collaborating with Chinese governmental and quasi-governmental agencies or by granting sizable contracts to Chinese state-owned enterprises. Given the bold public claims of the promoters and the fact that so many official Chinese stakeholders are involved in these businesses, local groups, including influential ethnic armed organizations, believe the Chinese government could be backing the initiatives. The steps taken by Chinese law enforcement in Cambodia do suggest that China has an interest in cracking down on the illegal activities of its nationals overseas, including in the illicit gambling industry. Yet it is curious, at best, that Beijing remains silent about the involvement of fairly high profile, official or semi-official Chinese actors in Karen's spinach cities and how their presence tends to legitimize projects that clearly are not part of the BRI.

Here are three examples of the form this involvement takes.



Construction on the Deyue Juxin building in Shwe Kokko was completed in 2019. The facility now serves as a hotel, restaurant, and entertainment center. (Photo by Nyein Su Wai Kyaw Soe)

YATAI NEW CITY AND THE CHINA CENTER FOR INTERNATIONAL ECONOMIC EXCHANGES

The China Center for International Economic Exchanges (CCIEE) is an official government think tank under the administration of the Chinese government's premier planning body, the powerful National Development and Reform Commission. Significantly, the CCIEE is represented on the Working Committee of the China-Myanmar Economic Corridor and advises Beijing officials on the plans for CMEC. The center features prominently as a "strategic partner" in promotional materials put out by the Yatai New City Project. Media reports and photographs show representatives of the CCIEE visiting Shwe Kokko in 2018. In July 2019, the president of Yatai IHG led a delegation to Beijing to sign a strategic partnership agreement with the CCIEE. Yatai's promotional videos feature this signing ceremony, yet fail to mention that the agreement was signed not directly with CCIEE but with its for-profit affiliate, Guojing Consulting Ltd.⁵⁶ It is likely that Guojing Consulting signed the agreement because it enabled Guojing to draw considerable revenue from its dealings with Yatai while also distancing it slightly from the CCIEE.

A closer look at Guojing, though, shows that it is deeply embedded within both the Chinese government and the Communist Party. The general manager of Guojing, Han Yihu, holds a parallel

For the Saixigang project, the representative of one state-owned enterprise . . . has apparently signed an agreement with Dongmei Company. . . . In other words, a state-owned enterprise has agreed to back a convicted criminal known to be connected with Chinese organized crime.

position as representative of the Party Affairs Committee of the CCIEE. Han was quoted in the Chinese media as saying, “Our Center has long paid close attention to the construction of the Myanmar Yatai International New Smart City Project, and has actively provided strategic guidance in support of the Yatai New City’s rapid development.”⁵⁷ Although representatives of the CCIEE have said the consulting company “does not represent the think tank,” Chinese public records show that Guojing is wholly owned by the CCIEE, represented by Zhang Xiaoqiang, who is the former deputy director of the National Development and Reform Commission (NDRC), and former Director of the International Cooperation Department of the NDRC.⁵⁸ This means that former senior government officials in significant positions within one of China’s most important think tanks, which happens to hold a seat on the CMEC working committee, are knowledgeable of the Shwe Kokko Project and have publicly acknowledged involvement in the design and strategic planning of the initiative.

INVOLVEMENT OF CHINESE STATE-OWNED ENTERPRISES

Multiple Chinese state-owned enterprises are involved in two of the spinach city projects. They include China Railway 20th Bureau Group (CR20), which signed a strategic agreement with the Yatai New City at an April 2019 ceremony in Shanxi Province.⁵⁹ CR20 is fully state-owned, with nearly twenty thousand employees, and has been involved in over six hundred major rail, light rail, and road construction projects since its establishment in 1948. MCC International Incorporation—a state-owned enterprise that specializes in the construction of overseas infrastructure projects—has received major construction contracts from the Yatai New City. According to an MCC press release, it received a contract to build over 70,000 square meters of hotels, as well as other basic infrastructure in Shwe Kokko.⁶⁰

Meanwhile, for the Saixigang project, the representative of one state-owned enterprise, China Railway 21st Bureau Group, has apparently signed an agreement with Dongmei Company to invest RMB 333 million (\$46 million) in the zone. In other words, a state-owned enterprise has agreed to back a convicted criminal known to be connected with Chinese organized crime.⁶¹

SUPPORT FROM QUASI-GOVERNMENTAL ASSOCIATIONS

Starting from the planning phase of the Shwe Kokko project, the China Federation of Overseas Entrepreneurs (CFOE) has played a role in the development, suggesting that the company is strongly supported by an important agency closely aligned with Chinese Communist Party interests. The CFOE was established under the All-China Federation of Returned Overseas Chinese (AFROC), a vehicle for the Communist Party of China and Chinese government to stay in touch with overseas Chinese. The AFROC is, in turn, a unit of the United Front Department of the Party, which seeks support for the Communist Party’s policies from overseas Chinese throughout the world.

The Federation of Overseas Entrepreneurs is led by Xu Rongmao, a naturalized Australian citizen, who is one of the wealthiest individuals in the world and the owner of the Shimao Property Company. In 2017, the group held its 14th Annual Global Overseas Chinese Entrepreneurs Forum

in Yangon, incorporating a signing ceremony for the Shwe Kokko Yatai project into the agenda.⁶² Xu hosted the ceremony, and later told Xinhua News Agency that the “Shwe Kokko project is a model for deep economic and cultural cooperation between Myanmar and China.” The same article went on to explain that the project is “along the Belt and Road Initiative” and that investment there would be protected by the Foreign Investment Law of Myanmar. She Zhijiang was also named deputy chairperson of the CFOE on the same occasion.⁶³

While there is no evidence that Xu has played a direct role in later phases of the development, three members of Yatai IHG’s board were made deputy chairs of the CFOE in 2018, giving the Yatai IHG direct influence over a quasi-governmental agency.⁶⁴ The federation has continued to promote the Yatai project on its public WeChat account, posting a series of news stories about the Yatai company’s charity works, and more recently its support to the Karen State Government in response to the coronavirus pandemic.

The CFOE isn’t the only quasi-governmental agency that has supported Yatai IHG’s initiatives. The press agency of the Chinese People’s Consultative Conference (CPPCC News) is a news media outlet directly under the CPPCC, a political advisory body made up of the Communist Party’s affiliate political parties, or so-called democratic parties. Sometimes thought of as a lower house of the Chinese legislative body, the CPPCC is seen by many experts as a rubber stamp that gins up support to the policies and programs of the Communist Party. The conference includes significant representation of Chinese companies, retired officials, and influential individuals seeking to build and maintain close relations with the country’s political leaders. Throughout 2019, CPPCC News aired a series of televised interviews with Yatai IHG’s management, promoting its projects as part of the Belt and Road Initiative.⁶⁵ This included an invitational visit by the Yatai IHG management team to the CPPCC News studio to record several exclusive reports on the company’s dealings in Karen State while also boasting about its patriotism and commitment to the Chinese government’s policies.

Yatai IHG’s access to the mouthpiece of the CPPCC seems to have been facilitated by one of its managing directors, Zhong Baojia, a Hainan-based businessman involved in property deals across China. In 1990, Zhong secured a position that he still holds on the Hainan Provincial People’s Consultative Conference.⁶⁶ He has deep ties with the Hainan provincial government, making significant cash donations directly to the Communist Party’s United Front Department, and one of his companies helps the province build schools and public works.⁶⁷ Whether Zhong owns a stake in the Yatai New City Project is unclear, but he does hold a position in the Yatai IHG’s Beijing-based affiliate company.

IMPLICATIONS OF THE INVOLVEMENT OF OFFICIAL CHINESE ACTORS

It is quite likely that people connected to think tanks, government associations, and state-owned enterprises derive significant benefits—whether individually or institutionally—from involvement in these projects. Perhaps they failed to exercise due diligence, or simply wanted to look the other way, pocket quick benefits, and move on. Clearly, the spinach city operators wish to leverage these stakeholders to provide official cover for their operations. It may also be the case that Chinese public and private enterprises are so closely intertwined that Chinese entrepreneurs can easily play a double game, even in deals with self-proclaimed overseas Chinese.

In any case, Chinese law enforcement should pay closer attention to these associations and recognize that powerful Chinese individuals and government agencies have assisted the development of these questionable projects, creating an aura of criminality around the BRI. China should also clarify with Myanmar that these projects are not associated with the Belt and Road Initiative and have not been officially sanctioned by Beijing—if that is indeed the case.

The Hongmen Association

Patriotism as a Cover for Criminality?

Wan Kuok-kui's Cambodia-based Hongmen Association has been at the center of his business activities since his release from prison in 2012. The association claims to be part of a historical movement dating back to the mid-1600s to preserve the “essence” of Han Chinese culture and to contribute to the “great rejuvenation” of the Chinese nation and the “China Dream.” The association has stated that it will promote the peaceful unification of China while working on “organizing Chinese from around the globe to build the Belt and Road and develop numerous special economic zones.” Together with its Dongmei Group and the Zhuhai-based Tianyu Trading Company, it advertises three core lines of business: the Saixigang project, a security company to protect China's Belt and Road assets, and a line of Hongmen-branded products. In mid-June

2020, at a ritzy ceremony in Macau, the Hongmen launched a line of marijuana-infused alcoholic beverages branded with symbols from Chinese triad groups of the past and present.

The association posts articles daily that criticize Hong Kong separatists, American “interference” in China's politics, and Taiwan's president. It also promotes the values of *jianghu*, the ancient Chinese brotherhood that has become synonymous with gang associations in contemporary China. The remainder of the site's content features promotional ads for its three business lines, including the Saixigang project. Hongmen's juxtaposition of patriotism with ancient traditions of rebellion and the underworld draws interest from two key demographics: one, the potential investors and clients for future casinos; the other, contemporary Chinese officialdom.

Tolerance of such an organization operating within China raises questions about the ethics of Chinese Communist Party organizations such as the United Front, which are responsible for ideological work with overseas Chinese and fostering networks with overseas Chinese associations. While research indicates that the United Front has become more active in promoting global ideological influence vis-à-vis “anti-China” narratives, it seems to be much less concerned with the economic activities of its targets globally. This may help explain why organizations directly affiliated with the United Front may adopt strategies of extreme patriotism to cover up business activities that would be unacceptable in China itself.

The Role of the Tatmadaw

Chinese investors, both state-owned and private, have been active in Myanmar for decades, particularly in the unregulated border trade that moves natural resources and agricultural products across the Myanmar border into Yunnan Province. On the Myanmar side, armed actors have been centrally involved in this activity with China, as have military crony businesses. Consequently, Chinese entities commonly partner with them to gain access to resources in areas ruled by the armed groups. During the decades of military regime, before the elections of 2010, Myanmar's economy was controlled by the armed forces, so doing business with military entities was inevitable. Unlike most Western investors, Chinese businesses had no problem with this.

When the military decided to introduce a free market and allow political parties to share power through an elected parliament, a dual economy increasingly took shape with the growth of a robust private sector. During the Thein Sein administration from 2011 to 2016, major economic reforms were introduced to encourage foreign investment. The reforms intensified during the current National League for Democracy (NLD) government, fostering impressive growth and foreign direct investment, and effectively shrinking military control over the commanding heights of the economy. Nonetheless, the country retains its dual economy: one increasingly governed by purposeful economic planning under civilian governance and another that plays by corrupt, autocratic military rules with disregard for government regulation.

With the advent of the Chinese BRI and the NLD government's agreement to the China-Myanmar Economic Corridor—and amid growing Chinese pressure—the prospect of a major Chinese contribution to infrastructure development in Myanmar rapidly became a reality. Simultaneously, the NLD government, determined to ensure the progress of its economic reforms and level the playing field for other foreign investment, developed the Myanmar Sustainable Development Plan/Project Bank policy (and the institutions that support it) to require that all major foreign investments be transparent and governed by the best international practices. It is unsurprising that Chinese investors chafe at being held to these standards; it slows projects they have an interest in completing as soon as possible. Recent appeals from China's top leadership to move ahead with the CMEC more quickly demonstrates this point.

At the same time, Chinese and other foreign investors who partner with armed groups to avoid government regulation are, in effect, expanding the side of Myanmar's economy controlled by the armed forces. This disenfranchises the local civilian population, particularly in the ethnic minority areas on the country's periphery, subjecting them to land seizures, diminished economic opportunity, environmental damage, autocratic control by the armed forces, and fading prospects for democratic development under a federal system. The Chinese-inspired spinach cities in Karen State are a prime example. They are partnering with armed groups under the umbrella of the Tatmadaw for major projects based on the proceeds from gambling, projects that provide little economic or social benefit to the local population and are inconsistent with the country's national interests as laid out in the Myanmar Sustainable Development Plan.

The Tatmadaw itself is clearly determined to capture as much Chinese investment as possible, using ethnic minority armed groups under its control or influence to preserve its domination



Burmese soldiers stand guard during joint-force exercises in February 2018. Developers of Myanmar's spinach cities have partnered with armed groups under the umbrella of the Tatmadaw. (Photo by Lynn Bo Bo/AP)

of minority areas and share the profits from exploiting their abundant resources. The pattern of investment by the Chinese entrepreneurs appearing in Karen State provides unmistakable evidence of this trend.

As reports about the spinach cities began surfacing in the local press, the Tatmadaw reportedly moved into these areas to halt casino operations and further construction. However, there is evidence that construction persists at least on the Yatai New City and Saixigang projects, with both companies continuing to advertise on mainland websites, WeChat, and Facebook. So, it remains to be seen whether the Tatmadaw will eventually move decisively to excise criminal elements and activities from the Chinese megacities rising in Karen State. The answer to this question will visibly test the military's intentions with regard to an issue critical to the country's future: Will the generals respect and expand the rule of law?

Those with access to Tatmadaw leadership must drive home the message that participation in and tolerance of economic investment by foreign criminal elements will lead to the further enrichment of nonstate armed actors in Karen State and beyond, further destabilize the country, delay peace far into the future, create a separate illegal armed economy, and ultimately risk Myanmar's ability to secure its national sovereignty. Indeed, if the Tatmadaw continues with its

ambitions to expand control over an alternative economic system that pays no heed to national interest and the welfare of the country's diverse population, the ultimate cost will be continued weakening of national sovereignty before the Chinese economic juggernaut.

Meanwhile, the civilian government must strenuously resist pressure from both formal and informal investors who either ignore the approval process entirely or demand rapid project clearance, seeking short-term profits that in the long run will cost the country dearly. In particular, the government would do well to unambiguously ban the gaming industry, recognizing that initial flirtations with the gambling law have helped draw criminals to Myanmar. A national commission recently established by Naypyitaw to investigate the legality of the megacities in Karen State is a positive step.

Conclusion

There are a number of larger political issues at play here. For one, the fact that Chinese projects could elude earlier challenge or regulation and advance this far in Karen State underscores that the 2008 constitution is inadequate to safeguard the national interest and, ultimately, the nation's sovereignty. The constitution itself deliberately created a parallel military political and economic space that can be easily bought by outside interests when those interests are not readily subject to national law.

For another, Myanmar's law enforcement institutions, namely the police controlled by the Tatmadaw, set a dangerous precedent when they allow the Border Guard Force and other Tatmadaw-affiliated armed groups to operate under separate laws and regulations. The armed groups involved in these projects clearly consider themselves above the laws governing everyone else, simply by virtue of the agreements they have reached with the Tatmadaw through their status as armed organizations. By the same token, with the possible exception of the KNU, they also seem to believe that they are allowed to engage in economic and other activity that would be considered illegal for civilians. If this is tolerated in Karen State (and elsewhere for that matter), it will immediately be assumed by all armed actors that they have a privileged economic status. Should such a pattern emerge, it could permanently infect Myanmar's entire economy with armed criminality. In the long run, it is especially dangerous for the Tatmadaw, because it promises to vastly enrich the nonstate armed groups, creating a permanent challenge to national authority, and forfeiting all hope of a peace agreement that also serves the interests of the civilian population.

With regard to China, the Karen projects provide a stark illustration of how criminal actors, including complex networks of PRC citizens and ethnic Chinese with citizenship in other countries, have used the Belt and Road Initiative to advance illicit and even dangerous activities in close collusion with Chinese officials and influential quasi-governmental agencies. Continued failure to take action against these endeavors raise serious questions about the real interests and incentives of the BRI. At a minimum, they will tarnish any efforts to construct a "clean BRI"—an initiative introduced by Beijing in 2019 to address international concerns around transparency and governance around BRI investments.

The challenges stemming from the Karen projects are by no means limited to Myanmar. In addition to the questions they raise about the credibility of China's Belt and Road Initiative, they also affect the United States. For decades—particularly the past 30 years—the United States has centered its interests in Myanmar on promoting sustainable democratic development and guaranteeing equitable rights for all its people. In recent years, the United States has also invested heavily in Myanmar's efforts to bring an end to conflict and consolidate a stable peace. It has made an equal priority of fostering sustainable economic development, with transparency, equal access for all citizens, and fundamental reform of economic infrastructure, including banking—a sector that can be easily corrupted by money laundering. The kind of investors (and investments) now at work in Karen State flies in the face of these US objectives, and risks reversing any gains made by US investment in Myanmar's political and economic reform. Without clear support from the US and its allies to help Myanmar thwart this form of Chinese investment—or similar investment by any foreign source—the country's government is unlikely to be able to fight it alone.

Notes

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57. Overseas Chinese News, "Overseas Chinese Builds Model Belt and Road Project in Myanmar with its Smart City Project," July 20, 2019, <https://m.chinanews.com/wap/detail/zw/kong/2019/07-20/8901417.shtml>.
58. For an overview of the Guojing Company, see its Baidu Baike page at <https://baike.baidu.com/item/国经咨询股份有限公司>. A brief Chinese-language biography of Zhang is here: <https://baike.baidu.com/item/张晓强/3755828>.
59. Photographs of Deng Yong, the party secretary of the China Railroad 20th Bureau Group (CR20), at an online video signing ceremony with She Zhijiang can be found in an Yatai IHG press release from April 19, 2019 ("Asia Pacific International Holdings Group and China

Railway 20th Bureau Group Signed A Strategic Cooperation Agreement,” <https://ytkg88.com/亚太国际控股集团与中铁二十局集团签署战略合作/>). While it is unclear whether CR20 has begun construction, the company has been featured in promotional materials for Yatai New City as a strategic partner. For example, see SXBC, “Chairman of the Board of the Yatai IHG She Lunkai Visits China Railway 20th Bureau Group,” May 18, 2019, https://v.youku.com/v_show/id_XNDE4NTk3NDAwMA==.html.

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61. See Dongmei Group, “Dongmei Successfully Holds Launch Ceremony for Saixigang Industrial Park Project” [in Chinese], press release, March 23, 2020, <https://mp.weixin.qq.com/s/4xJ1mq49l-2WK3N-yy1GuA>.
62. Zhuang Beining and Lu Shuqun, “Myanmar Introduces the Yatai Shwe Kokko Special Economic Zone Investment Project” [in Chinese], Xinhua, September 17, 2017, http://m.xinhuanet.com/2017-09/17/c_1121677670.htm.
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