



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on Macau and Hong Kong

Opening Statement of Chairman William A. Reinsch June 27, 2013 Washington, DC

Good morning and thank you for coming. Today's hearing on Macau and Hong Kong is the last hearing of the 2013 Annual Report cycle. Our next event will be a July 11 roundtable discussion on Cybersecurity policy. Our roundtable events, in which we invite experts to talk in a more informal discussion about a specific topic, are also open to the public.

Today's hearing will examine the two special administrative regions of China: Macau and Hong Kong. The former Portuguese colony and former British colony reverted to Chinese rule in the late 1990s, but under the agreement to grant China sovereignty over the two, they are supposed to enjoy certain freedoms denied to other parts of the People's Republic for 50 years. My co-chair in this hearing, Commissioner Dennis Shea, will talk about Hong Kong and its guarantees of democracy, freedom of speech and the press, and other rights. I will outline the Commission's interest in Macau.

Macau is a small island city whose most well-known characteristic is its network of legalized gambling casinos. It is the only place in the People's Republic where gambling is legal, other than in state lotteries. Macau derives considerable benefits from gambling, in terms of employment and tax revenues. The \$38 billion in casino revenue in Macau last year was six times that of Las Vegas.

But with this bonanza of riches has come problems, some of which affect the United States. As we will hear, Macau has a lax regulatory system for its casinos which has allowed traditional Chinese organized crime figures to operate in Macau.

Of even more concern for the United States is the use of Macau's casinos for money laundering. China has strict capital controls that restrict the convertibility of Chinese currency, limit its citizens' ability to take it out of the country, and limit its use in international investment. The structure of the casino system in Macau effectively allows people to use the casinos to circumvent these capital controls. Corrupt Chinese officials move embezzled funds across the border, drug smugglers and human traffickers move large sums of cash about, and lawbreakers seek to escape prosecution or the tax authorities by laundering money through gambling. In addition, Macau banks have been implicated in a variety of financial crimes. For example, the Macau-based Banco Delta Asia was once the transit point for counterfeit currency from North Korea.

American authorities at the state and federal level want to make sure that the three U.S.-based casino companies licensed to operate affiliate casinos in Macau do not get drawn into activities that would be considered illegal or improper in the United States. We will hear from several experts and regulators at both federal and state government levels about the challenge of regulating casinos that operate on two continents. I would also note that a representative of the casino companies was invited to appear today, but we received no response.

The fact that the PRC does not permit the legal collection of gambling debts appears to be the most significant factor in creating a unique chain of circumstances in which casinos effectively sublease a substantial portion of their gaming operations to VIP rooms, many of which we will hear today are controlled by Chinese organized crime groups. We hope today to gain a better understanding of how the money laundering chain works, the role of Chinese criminal groups in it, the implications for the gambling industry in the United States, and the potential national security threats this poses for the United States.

Let me now turn to my colleague Vice Chairman Dennis Shea for his opening comments.

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