

useful for further laundering of dirty money. The remainder is reinvested in the United States in "legitimate" racing, gambling, hotels, restaurants, and other business appropriate for cash-laundering and further expansion of the domestic drug traffic.

As noted, Hong Kong and related Far East

operations are the chokepoint in the entire traffic, where dirty money is a way of life. We will focus on the Far East, the point of origin of world heroin traffic, and work backwards through the maze of Drugs, Inc. fronts and subsidiaries, to arrive at the British-controlled syndicates in the United States.

2. From opium to dirty money

The starting point for the drug cash flow is the cash size of the opium and heroin traffic in the Far East itself, before the drugs obtain the stupendous price markups available in Western markets. The price pyramid is known to be the following:

1. Raw opium, the gum of syrup extracted from opium poppies, is produced in the Golden Triangle, the conjunction of the southern border of the People's Republic of China (Yunnan province), and the northern borders of Thailand, Burma, and Laos. The mountainous terrain, largely above 4,000 feet in elevation, provides ideal growing conditions. Mountain peoples, rather than ethnic Chinese (including those in Yunnan province) grow the opium and collect the gum. The merchant purchasing the gum pays roughly \$100 a pound, at collection points such as Lashio or Misai in Burma.

2. By the time the merchant, typically a Yunnanese, has brought the gum by mule train to the triborder area, e.g., Tachilek or Chiengrai in Thailand, the price has doubled, to \$200 a pound. At this point the opium is either refined into heroin at refineries located in the triborder area itself, or earmarked for the large Far Eastern market for smoking opium and related derivatives.

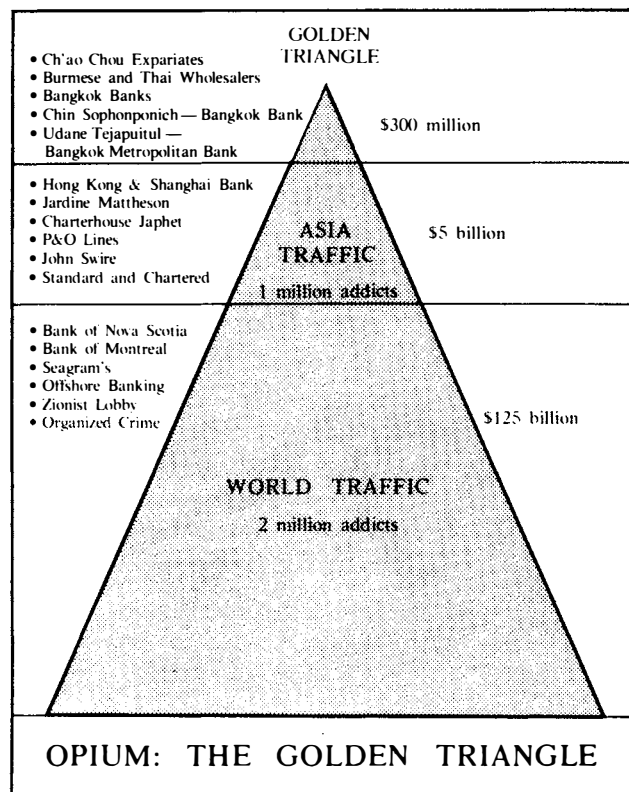
Existing data permit the estimate that a division of an average 700-ton crop into 300 tons for heroin refining and 400 tons for opium shipment for Far Eastern smoking purposes is usual.

The \$200 pound price at the triborder area is the price paid to the local agent by a wholesaler based either in Bangkok, Rangoon, or Hong Kong. Any distinction among these cities is meaningless. The business structure of the area is under the control of two principal groups that straddle the Far East. The first is the old British banks and trading companies, including the HongShang, Jardine Matheson, Charterhouse Japhet, Swire's, and the P&O Lines. The second, their satellites, is the overseas Chinese networks, under the joint control of London and Peking.

The *wholesale* value of the 700 tons of annual opium product in the Golden Triangle, prepaid in the triborder area, is roughly \$280 million. The \$280 million figure, compared with the Gross National Product of Thailand, is considerable; it is like \$35 billion in terms of the American GNP.

3. But this wholesale figure is only a small portion of the cash flow of the Far East drug traffic. The next wholesaler, the Bangkok merchant who buys from the first wholesaler, pays about \$1 billion for the equivalent of 700 tons of opium in the form of either raw opium or refined heroin. This is roughly four times what the opium was worth at the first wholesale round. The majority of production is retailed locally at large markups (although the markups are much smaller than in the case of heroin retailed in Western countries).

While no hard estimates are possible, the cash flow in the Far East related to this first phase of opium production alone could not be less than \$1 billion. That by itself is 15 percent of the estimated assets of foreign banks in Hong Kong, or 10 percent of estimated bank assets of foreign banks in Singapore, or precisely Thailand's 1977 balance of trade deficit! Measured against the size of economic activity in the region,



there is no possible way to chalk these numbers up in the "Errors and Omissions" column. The cash must go through nominally legitimate channels, in such volume that the nominally legitimate channels — like the HongShang — cannot possibly not be witting as to the origin.

Even these numbers do not sufficiently reflect the scale of the *cash flow* derived from crude opium sales alone. It must be added that most of this cash flow is seasonal; virtually all wholesaling must be completed during the two months following the March poppy harvest. Correspondingly, the visible flow of drug-related funds is several times as large during those two months.

4. Finally, the wholesale and local retail cash figures presented above exclude what is possibly the largest component of Far Eastern narcotics money: the reflow of funds back to the Far East from sales made in the West. The narcotics wholesaler in Bangkok or Rangoon or Hong Kong with direct contacts with growers and control of refineries has paid about \$2,000 a pound for the refined heroin. Between him and the streetcorner, the same pound of heroin will undergo three mark-ups of 1,000 percent. Its ultimate retail value (for pure heroin) will be close to \$5 million per kilogram, according to official DEA figures, or *\$2.27 million a pound*, with a total of \$25 billion for Western sales.

What portion of this markup, and in what quantity, accrues to the Far East wholesaler? There is no possible way to estimate this. According to the record of arrests for heroin smuggling, a substantial portion of such smuggling is conducted directly through expatriate Chinese channels, e.g., the Hong Kong-to-Vancouver route, and the notorious activities of Hong

Kong's Seaman's Union. However, it is this markup that pays the wholesaler's out-of-pocket costs, including the original purchase from the highlands merchant, the refining, the huge quantity (perhaps 300 tons annually) of acetic anhydride used in heroin refining, security, bribes, transportation, warehousing, and so forth.

If the annual profit of the Golden Triangle operators is in the range of \$5 billion — or a mere one-fifth of the annual retail sales of heroin in the West — then the total cash flow into the Far East related to drugs is not \$1 billion, as above, but \$6 billion. The actual reflow is probably several times that sum. Some of the \$5 billion reflow, itself a hypothetical and conservative figure, may be banked elsewhere than in the Far East. The comparisons to the size of the region's economic activity become all the more grotesque: Thailand's 1976 total exports were only \$2 billion.

Even the \$6 billion figure does not include the huge Far Eastern market for opium and heroin consumption. Added in, the retail volume brings the total close to \$10 billion — *twice* Hong Kong's money supply!

There is another way to arrive at the same \$10 billion figure: the *official* estimate for bribes paid annually to Hong Kong police is an astonishing *\$1 billion*, more than the annual police budget. From a hard business standpoint, that \$1 billion in payoffs is a major part of the *overhead* cost of both wholesale and retail drug operations in Hong Kong, the area's drug capital. Since the known profit margin in the drug trade is 500 to 1,000 percent, it is fair to state that the \$1 billion figure is no more than 10 percent of local drug revenues. If \$1 billion is 10 percent of the total, the total is \$10 billion.

3. How drug trade is financed: the HongShang

The chain of financial control of world opium traffic begins in Hong Kong, with billions of dollars in Hong Kong dollar loans to expatriate Chinese operators in the drug-growing regions. These expatriates include two of Bangkok's best known bankers, according to American law enforcement files. Hong Kong also provides essential logistical support including:

- (1) Smuggler-sized gold bars, obtainable through Hongkong and Shanghai Bank subsidiaries;
- (2) Diamonds, available through Hong Kong's Anglo-Israeli controlled diamond monopoly; and
- (3) Warehousing facilities, dominated by a subsidiary of the Hong Kong and Shanghai Bank.

Hong Kong and Shanghai Bank is the semi-official central bank for the Crown Colony, regulating general market conditions, holding excess deposits of the myriad smaller banks, providing rediscount facilities, and so forth. Clearly, the Hong Kong and Shanghai Bank is also the financial hydra unifying the pro-

duction, transportation, and distribution of Asia's opium.

Not only does it dominate financial activity in Hong Kong, with 50 percent of total banking business on the island, but "bank and government often work closely together," the *London Financial Times* comments. The Colonial government in Hong Kong makes virtually no statistics on banking activity available. Commenting on the \$8.3 billion figure for Group of Ten bank operations in Hong Kong, the *Financial Times* notes that, "The official figures are also just the tip of an almost certainly greater volume of business, which is conducted by international banks with finance company subsidiaries in Hong Kong, or organized from Hong Kong but routed through entirely offshore accounts in such places as Vila (New Hebrides)." To be precise, there are 213 deposit-taking finance companies in the Colony, as well as 34 local banks and