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 production, 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

104 bank representative offices. Over these squats the HongShang.

The essence of the bank's drug-control is its intimate relationship to scores of expatriate Chinese banking families scattered throughout the Far East. The British and Dutch connection to these dates back to the first East India Company penetration of that region. The central banking role of the HongShang expresses an arrangement that grew out of a century of official opium trade, and continues through the present.

First, consider the financial and logistical requirements of the trade. Planning for the March opium harvest begins in September. The Bangkok or Hong Kong drug wholesaler must estimate the size of his market during the next summer, and, after market research is completed, inform his agents in the triborder area. (That market research must come from the United States and other retailers.) They, in turn, will communicate to the Yunnanese and other merchants who operate in the poppy-growing highlands to the north what the market will bear for the next harvest. The merchants then inform the Montagnard peasants what acreage they may plant.

At this point, the wholesaler must consider the following. First, the physical means of payment must be obtained, including American or Soviet armaments, gold in appropriate small-bar or jewelry form, or whatever, and this to the tune of $140 million worth. (Golden Triangle peasants can't use American dollars.) Thousands of mules and muleteers must be made ready for the treks into the highlands. Bribes must be paid, routes monitored, border conditions observed, smuggling routes secured, contacts opened in the West, and other loose ends secured. The required seed money is in the range of the wholesaler's $2,000 a pound price for refined heroin.

What portion of the investment is made through "internal resources" of the drug wholesalers, and what portion borrowed, is a matter of guesswork. It is known that a very large amount is borrowed seasonally to finance drug wholesaling, largely from expatriate Ch'ao Chou Chinese banking networks. Since the Ch'ao Chou category includes Thailand's most prestigious bankers, who are known to engage in financing drug traffic, very considerable financial resources are at the traffic's disposal. It is a matter of a 200 percent annual rate of interest — agree, and no questions asked.

Known "angels" of the narcotics trade include Chen Pi Chen, a.k.a. Chin Sophonponich, Chairman of the Board of the Bangkok Bank, with $5 billion in assets; and Udane Tejapuitul, former Chairman of the Board of the Bangkok Metropolitan Bank, with $2.4 billion in assets. Significantly, Sophonponich, which name itself is a Thai pseudonym, is a Ch'ao Chou Chinese expatriate.

Such scandalous relationships are not much surprise in the region. At the time of the 1973 Thai coup, the Premier's son and chief of the narcotics bureau, Narong Kittakachorn, was found to be a prominent investor in drug wholesaling.

The annual credit line that must be extended to drug wholesalers, assuming they finance half their operations through credit, probably comes to about $150 million. Through pure chance, that is the average annual growth of the Bangkok Bank's "Loans and Advances" during each of the last ten years. Of course, Chin Sophonponich competes with many of his Ch'ao Chou colleagues for this lucrative business.

Wherever the Ch'ao Chou expatriate banking community has surfaced in leading positions of influence, Peking, British, and opium trade connections are evident. In 1958, the Thai authorities issued a fraud warrant against Bangkok Bank's Sophonponich. He fled to Peking and remained there until 1965, after which he returned, a deal with the Thai military in hand. According to area sources, Sophonponich still maintains close contact with the Peking regime.

As one among several Bangkok financiers who finance the drug wholesalers in the volume of $100-200 million per year, Sophonponich's contacts include several names that have frequently appeared on the "Opium Watch List" of American law enforcement agencies: Ying Tsu Li, General Lo, and the brothers Hutien-Hsiang and Hutien-Fa, leading refiners of heroin in the triborder area.

In addition, area sources report that Sophonponich has direct links to the so-called Triads, the expatriate Chinese secret societies that do most of the legwork in the opium traffic.

Yet, Sophonponich is actually nothing more than a subcontractor from the Hong Kong and Shanghai Bank, as we now demonstrate.

Back to the HongShang

Bangkok Bank illustrates the way the chain of financing leads back to the HongShang. Its current asset volume is $5 billion, much larger than the savings capacity of the area could justify. Banking sources report that most of its credit-generating capacity comes from rediscounting of trade paper in the Singapore and Hong Kong financial markets, and mostly with the HongShang itself. Since the HongShang controls 50 percent of Hong Kong deposits and acts as the ultimate rediscount agency for the entire colony and much of the rest of South Asia, the dependency of the Bangkok Bank and other Thai banks on HongShang is virtually total. Most of the Bangkok Bank's lending volume is subcontracted business, controlled by the HongShang.

The British-Chinese expatriate link goes back as long as the British have been in the Far East. The British organized the systematic colonization of tens of thousands of Chinese expatriates throughout the area, and started them out in the lower levels of business otherwise conducted by the East India companies and their successors.

Secret societies and compradors

Even where the British displaced early overseas Chinese financial interests from positions they had enjoyed in the pre-colonial period, they left them in local control of such areas as the opium trade. As W.J. Cator notes in his book *The Economic Position of the Chinese in the Netherlands Indies* (pp. 97-98) and Purcell notes in *The Chinese in Malaya* (p. 189), Chinese monopolies of opium and alcohol local distribution continued in many Southeast Asian colonies into the first decades of the 20th century. Colonial powers divested expatriate Chinese merchants of control of many trading monopolies granted by the pre-colonial authorities, but left them in control of gambling and local drug and alcohol distribution because Chinese secret societies were uniquely equipped to handle them.

The secret societies, representing branches of societies operating in southern China, theoretically pursued the aim of their founding — the overthrow of the Manchu Ch'ing Dynasty in Peking. But as time wore on and the regime remained in power, the societies abroad became less interested in the politics of the homeland and more the instruments of overseas economic interests. Anthropologist William Skinner notes in his book, *Chinese Society in Thailand, An Analytical History* (p. 140), that the immigrant secret societies were usually headed by influential monopoly owners — opium traders, keepers of gambling and prostitution houses — who generally used the societies to further the interests of their monopolies.

In other economic sectors as well, it is common knowledge that overseas Chinese business interests were often employed as *compradors*, middlemen in the service of colonial banking and trading operations, indispensable due to their knowledge of the local market and their language abilities. The close economic relationships that certain segments of the Chinese business community enjoy with particularly British banking interests date from that experience.

At every point in the postwar political history of the region, the Chinese expatriate financiers have acted as consistent allies of the British and Dutch. According to standard estimates, Chinese expatriate financiers currently control 60 to 80 percent of the economies of Indonesia, Thailand and Malaysia.

What the size of the expatriate dependency on the Hong Kong financial market is can only be guessed. However, existing financial data show that the Hong Kong financial market is enormously oriented to foreign lending, in roughly the same proportion as the American banking system. One-third of all Hong Kong dollar denominated loans — excluding the so-called "Asiadollar market" — are to foreign borrowers. Foreign lending stood at HK$18.47 billion in March 1978, against $39 million in local loans. (There are about 4.6 Hong Kong dollars to one U.S. dollar.)

Since the borrowers' market for Hong Kong, rather than American, dollars is limited to the areas of the Far East still under British financial sway, the HK$18.47 billion figure of overseas loans reflects the immense financial dependency of Burma, Thailand, and Malaysia on Hong Kong. The business is largely conducted through Chinese expatriate family ties. Most of Hong Kong's 250 locally registered finance companies, in fact, are owned by Chinese expatriates.

The scale of expatriate Chinese operations, centered in Hong Kong and dependent on the Hong Kong and Shanghai Bank, is gigantic: the overseas Chinese community controls 42 percent of the foreign trade of the Southeast Asian countries, compared to 32 percent of Western business, 18 percent of non-Chinese local firms, and only 8 percent of state-controlled trading companies. As of the most recent figures available, Chinese expatriate investments in the area totaled only slightly less than combined American, Western European, and Japanese investments (although recent Japanese expansion in the area may have shifted the proportion somewhat).

Country	**Total Expatriate Chinese Investment** (in billions)
Indonesia	$1.20
Malaysia and Singapore	2.20
Philippines	1.00
Thailand*	0.30
Cambodia**	0.12
South Vietnam**	0.25
Total	$5.07

*Does not include investments of "assimilated" Ch'ao Chou bankers such as Udane Tejeiputul and Chin Sophonponich.
**Current status unknown.

The above figures give only a partial picture of overseas Chinese financier dominance of Southeast Asian economies, because the expatriate Chinese bourgeoisie is overwhelmingly *concentrated* in such strategic sectors as banking, insurance, shipping, warehousing, and other intermediary activities, rather than manufacturing or agriculture.

The activities of the corrupted section of the expatriate Chinese community in Southeast Asia have provoked a long series of clashes with national authorities — who have not generally been successful in limiting illegal traffic. The one exception is the British possession of Hong Kong, the center of illegal operations in the area, where the smugglers are members of Hong Kong's high society, e.g., Macao gambling overlord Stanley Ho, who made his career smuggling strategic materials from Hong Kong to China via Macao during the Korean War.