

# Dope, Inc. — it's the biggest

## How the 'HongShang' and other British banks run

*Although most politicians have been slow to realize it, a wave of outrage against illegal narcotics is sweeping the country. The outrage is growing as evidence rolls out that, far from being a dirty little back-street operation, drug dealing is the biggest business in the world.*

*It doesn't make it any less dirty, but the industry is by no means little: Drugs, Inc. is financed by some of the biggest and most prestigious banks in the world. Like any other industry, it needs overdrafts, seasonal credit lines, local rediscounting agencies. Like any other industry, it must produce evidence of good receivables, marketable inventory, reliable supply and distribution networks.*

*But more than that, the well-connected banks behind this operation are the same agencies that run most international "dirty money" speculation with their ill-gotten gain. If you think drugs is a hot issue*

*now, wait for the banking story to start making its appearance.*

*The Executive Intelligence Review has obtained the material here from a wide-ranging and comprehensive report now being prepared for mass circulation by the U.S. Labor Party. The evidence included in the report is also being presented by the party to Federal Reserve hearings on the Hong Kong and Shanghai Banking Corp.'s proposed takeover of the Marine Midland. As can be seen from the extracts here, the HongShang oversees the portfolio, ably assisted by the labyrinthine networks of overseas Chinese bourgeois who owe their economic status to almost a century and a half of British banking dominance in the Far East.*

*The highlights of the document we print here will be the breaking story in a few months in your daily newspaper.*

## 1. Drugs and banking: the world picture

Assembled as one picture, the hard evidence available from Drug Enforcement Administration and other law-enforcement bodies leaves only one possible conclusion: the drug "industry" is run as a single integrated world operation, from the opium poppy to the nickel bag of heroin sold on an inner-city streetcorner. Not only is illegal drug traffic under the control of a single world network, but opiates traffic in particular is without doubt the best controlled production and distribution system of any commodity in international trade, illegal or legal. De Beers' Central Selling Organization's 85 percent control of world diamond wholesaling — an example not irrelevant to the drug trade — pales by comparison to the orderly marketing arrangements for heroin demonstrated by the hardest figures available.

Investigators are daunted by the fact that the solution to the problem is so damned obvious. Imagine Edgar Allan Poe's fictional purloined letter, photographically enlarged to 8 by 20 feet, and used as

wallpaper; then, imagine the French police attempting to find it with magnifying glasses.

When we speak of the drug-related illegal economy — for drugs are the pivot on which most other illegal activity turns—we are talking of a \$200 billion per year business, *the biggest business in the world*. That is net, not gross, annual sales of drugs, plus related illicit payments.

How can such activity avoid sticking out wildly, especially in areas of concentration such as the Far East? The British monarchy organized most of the Far East to conform to the drug traffic! How can \$200 billion in illegal payments get through the international banking system past the eyes of law enforcement authorities? The answer is: the Anglo-Dutch monarchies' "offshore" banking system. This and related precious metals and gems trade were designed around illegal money in the first place!

Mere consideration of the obvious — or what will quickly become obvious when the evidence of the

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# business of all

## *the drug trade*

public record is assembled below — gives the financial specialist the equivalent of an inner-ear disorder. The financial world, remember, is one in which the stock market will do flips over a measly few hundred million dollars' difference in the weekly reported figures for the American money supply. Although most of the necessary evidence has long been available, both investigators and the public prefer to see world drug traffic and related illegal activity as a montage of movie villains: Far Eastern warlords, free-lance smugglers, jowly gangsters, and corrupt politicians. Such individuals figure into the world drug traffic, but as the arms and legs of a top-down operation, under the immediate control of the British and allied monarchies.

The most striking single fact for this conclusion is that the price series for heroin at retail level in major American cities shows virtually total uniformity. Law enforcement records show that, within the acceptable range of 3 to 6 percent purity at the street level, the price of heroin has been constant between widely disparate distribution points during the past ten years. Arrests of local distribution chains, internecine warfare among drug traffickers, interdiction of smuggling routes, the virtual elimination of the Turkish opium supply after 1972, the scouring of Asian and European transit points, and local changes in political and growing conditions in the Golden Triangle growing area, all have failed to have any effect on the single, world heroin price! The few exceptions prove the rule, and consist mainly of sharp temporary drops in some local retail prices, attributed to occasional free-lance supply through returning Vietnam War veterans and the like.

### Where does it go?

Closely related to the striking uniformity of inner-city heroin prices at retail level in the United States is the gigantic discrepancy between known levels of opium production for illegal purposes and consumption by the world's addict population. Fairly reliable statistical data are available for both. Within great

margins of fluctuation depending on weather, enforcement, and other conditions, available supply exceeds demand by roughly a factor of ten.

Approximately 700 tons annually are produced and transported out of the world's largest opium-growing area, the Golden Triangle. Seven hundred tons of raw opium, in the form of balls of opium gum, are the equivalent of about 70 tons of refined heroin, although in practice less than half of this amount is actually refined into heroin; the remainder is sold in the form of either opium or morphine base, largely for smoking purposes, and largely to an addict population in the Orient itself. However, by all estimates of the American addict population, approximately three tons per year of refined heroin are more than sufficient to meet annual consumption "requirements." About that much again is required to maintain all other heroin addicts in the OECD area.

DEA and other official sources affirm the cited production figures through direct monitoring of opium shipments and other sophisticated intelligence methods. Consumption and sales are obviously limited by the possible size and financial resources of the addict population in the advanced sector. To use a rough example: if the full 30,000 kilograms of annual Golden Triangle heroin production obtained the full street price for heroin, the total retail value would be about \$150 billion. But most estimates of annual illegal purchases of retail heroin are under \$15 billion. In short, most of it is never sold, because production capacity is enormous relative to the market's absorption capacity.

What happens to the rest of the heroin? Only a small portion of the total comes into the hands of law enforcement agencies, whose capture of a few pounds of heroin is a matter for celebration. We still must account for tens of tons. The law enforcement records indicate that the drug is warehoused in huge stockpiles against contingencies and to prevent oversupply on the market. For example, during the height of the crackdown on Southeast Asia heroin traffic in 1972 (immediately after U.S. troops withdrew), a single refinery captured by Thai police had on hand a stockpile of 3,000 kilograms, roughly

one-tenth of Southeast Asian production. At the time, 21 refineries were known to be operational in the area.

The law enforcement record shows that Drugs, Inc. does its best to avoid such mishaps through careful research — on the streets of American cities — which is transmitted back to the poppy fields. Montagnard tribesmen in the Burmese or Yunnan Province hills do not plant what they feel like, but what they are told to plant. This facet of the cycle production is well known to law enforcement investigators. If for some reason the market research is off, chaos will ensue, as it did in 1972, when the Golden Triangle yielded a bumper harvest, after wholesalers told poppy-growing peasants to increase their acreage by 50 to 100 percent. The wholesalers counted on the continuing exponential expansion of heroin consumption among American soldiers in Vietnam. Nixon pulled the rug out from under them by pulling the troops out, leaving the world heroin market in an unprecedented state of oversupply.

Reckless price cutting and competition for sales outlets in this case might have provoked serious consequences for Drugs, Inc., were it not for "government regulatory intervention." The Thai government stepped in and sold 22 tons of opium to the United States. The opium was burned in a public ceremony attended by giggling Thai officials, restoring "equilibrium" to the market. (In any case, the Thais were only repeating the action of the Imperial Chinese in 1839, who purchased and burned more than 1,000 tons of opium, to the great relief of oversupplied British traders, who sent special fleets to India to bring additional opium back to get the Imperial Government's attractive price.)

Once world illegal opiates traffic comes under scrutiny as an integrated, centralized "monopoly," the discrepancy between the huge oversupply and relatively restricted demand presents no further difficulties. We are looking at an "industry" based on the same principles as the world diamond cartel controlled by De Beers, or the so-called club among leading pharmaceutical manufacturers. Diamond production capacity is so large relative to the absorption capacity of the world market that De Beers's Central Selling Organization, which runs 85 percent of world diamond wholesale trade, limits availability in order to obtain essentially the price it wants. Pharmaceuticals are, ironically, an even better example. Since the knowledge to manufacture most of the commonly used prescription drugs is widespread among the pharmaceutical companies, and since the costs of production are insignificant compared to the retail prices of most drugs, elaborate legal arrangements are necessary to prevent a price collapse. Notoriously, the profits of the pharmaceutical industry owe not to chemists but to patent lawyers.

Heroin trade is the ideal commodity cartel; its price is more reliably controlled than that of crude oil, and

its world volume of sales, at roughly \$25 billion for heroin alone and considerably more for smoking-opium and other derivatives, is substantially higher than that of most of the commodities UNCTAD is presently considering for cartelization. A couple of comparisons are in order. At the present world gold price of \$225 per troy ounce, annual world gold mining production (outside the Soviet Union) yields less than \$7 billion. During 1977, after an unprecedented price run-up, world output of diamonds yielded less than \$5 billion.

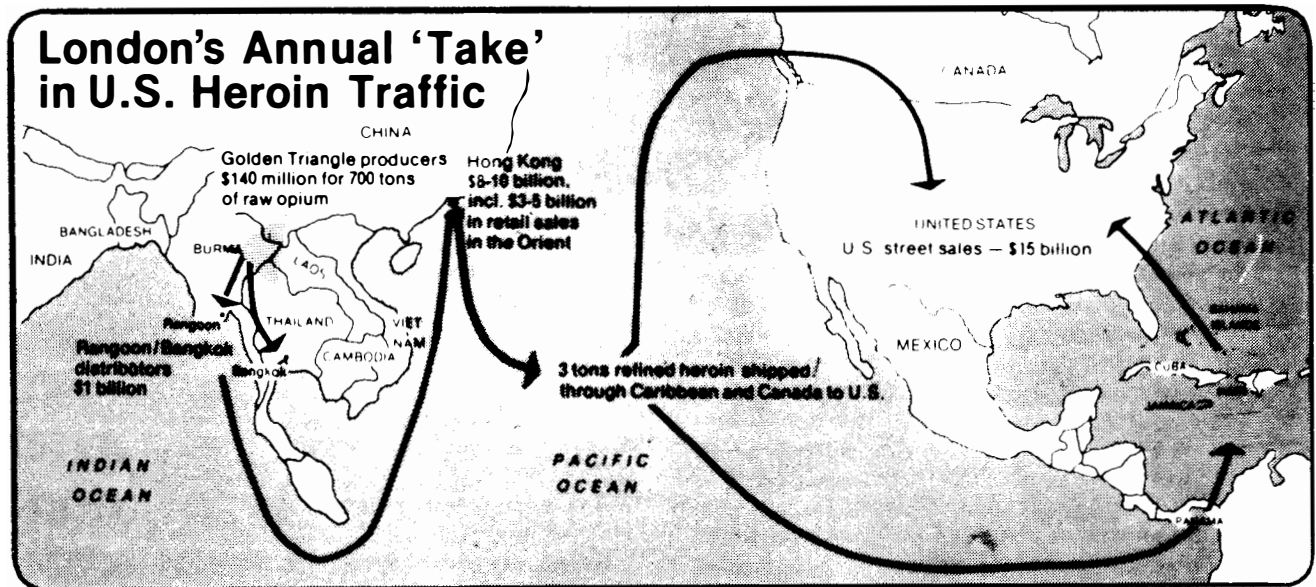
Allowing for the relative ease with which a large dollar value of heroin may be transported — the drug is worth at street level 366 times its weight in gold — the worth of the drug trade is nonetheless boggling. It is even more boggling when the retail value in the United States and other OECD countries of nonopiate illegal drugs comes into the picture. For example, the Colombia marijuana crop officially estimated for this year alone carries a retail value of \$40 billion. Since marijuana smoking is so widespread in the OECD countries, there probably exists a much larger market in dollar terms than the relatively restricted market among heroin addicts.

Beyond such examples, no accurate data exist. The best that can be stated is that total world cash flow of illegal drug traffic certainly exceeds \$100 billion, and almost certainly does not exceed \$200 billion.

The \$100 to \$200 billion figure includes heroin, opium, morphine, marijuana, cocaine, so-called hallucinogens, and abuse of otherwise-legal prescription drugs. It does not include proceeds of other drug-related illegal activities, including gambling, theft, prostitution, smuggling, arms traffic, and so forth. It is almost meaningless to assign a total figure to the size of the world's illegal economy. It can only be stated confidently that the illegal economy, whose cornerstone is illegal drug traffic, exceeds the gross national product of most of the OECD countries! That is an extremely conservative projection of the limited hard data available.

To put the matter another way: including all international traffic in controlled substances, including drugs, and also including means of barter for drugs, including gold, diamonds, armaments, and so forth, the \$200 billion international narcotics trade is bigger than the world oil trade. "DOPEC" is bigger than OPEC. World trade volume is a mere trillion dollars.

The question that jumped out of the data earlier was, "How can the heroin price, subject to the vagaries of so many illegal transactions, remain so stable?" The only possible answer that conforms to available hard data is that the traffic is under the control of a cartel run top-down in the precise manner of existing legal models. The question that emerges now is, "How is it possible that \$200 billion and up in dirty money, criss-crossing international borders, can remain outside the control of the law?" Again, only



one possible answer can be admitted: *a huge chunk of international banking and related financial operations have been created solely to manage dirty money. More than that, this chunk of international banking enjoys the sovereign protection of more than a few governments.*

These conclusions are obvious. If the entire resources of the largest private bank in the world, roughly \$70 billion, had no other use but the financing of illegal world drug traffic and related illegal activity, those resources would be insufficient. If the members of the New York Clearinghouse, the richest group of commercial banks in the world, applied their entire \$150 billion lending volume to the illegal economy, the volume might just be sufficient.

In the following sections of this report, the Anglo-Dutch banking operations that control illegal drug and related trade are documented in detail. Below, we will demonstrate through several chains of evidence that this is *the only possible banking network* that could handle the requisite volume of illegal traffic. The Anglo-Dutch oligarchy's banking operations have the following qualifications:

1. They have run the drug trade for a century and a half.
2. They dominate those banking centers closed off to law enforcement agencies.
3. Almost all such "offshore," unregulated banking centers are under the direct political control of the British and Dutch monarchies and their allies.
4. They dominate all banking at the heart of the narcotics traffic: the Hong Kong and Shanghai Bank, created in 1862 to finance the drug trade, is exemplary.
5. They control world trade in gold and diamonds, a

necessary aspect of "hard-commodity" exchange for drugs.

6. They subsume — as documented below — the full array of connections to organized crime, the pro-drug legislative lobby, and all other required elements of distribution, protection, and legal support.

## Offshore banking

Financial specialists, who have lived too long with the smell of the West Indies backwaters to mind it any longer, will choke on the above assertion. The general reader, by contrast, only needs to know a few facts in order to realize that something is wrong. All the offshore international banking operations — including the clean side of it — are such a speculative whirlpool that virtually the entire deposit base changes hands every week. Hundreds of billions of dollars, including at least a hundred billion in the offshore centers and further hundreds of billions elsewhere, circle the world through teletyped bank transfers.

No banking reserves are kept on any of this, as insurance against sudden withdrawals; in the United States, by contrast, commercial banks must hold 15 percent of their checking-account balances and 4 percent of their savings balances on reserve. The "offshore" banks just assume that if they are short of cash, they can borrow what they need on the enormous "interbank" market. This mind-boggling financial procedure involves banks lending funds to each other in order to obtain fractional advantages in interest rates. Perhaps 40 percent of the total market in interbank money. Deposit maturities are so short, and money transfers are so rapid, that \$50 billion changes

hands every business day through the New York banks' clearinghouse system alone.

The "offshore" banking markets are precisely what the name implies: either Britain's old island colonies refurbished for international banking, or inland feudal relics like Andorra and Liechtenstein. Federal bank regulators will only stare at their shoes when asked what goes on in these places.

American banks do a land-office business in the offshore centers, precisely because no reserves are needed, and every dollar of deposits can be lent out for interest. Currently American banks have over \$35 billion in loans booked through Caribbean offshore islands, more than through their offices in London. Even clean banking operations have moved offshore because present federal banking regulations virtually force them to. The big movement offshore began under the Kennedy Administration, when Anglophile Treasury officials C. Douglas Dillon and Robert V. Roosa railroaded legislation through Congress taxing loans made to foreigners by American banks. The tax did not apply to loans made offshore, so that is where the bankers went. By the time the Dillon-Roosa legislation was lifted in 1974, the banks were "hooked" through the difference in reserve requirements. In a recent interview in *Euro-money* magazine, Citibank's Chairman Walter Wriston denounced the Dillon-Roosa taxes as "a pure gift to London."

According to the estimates of the Bank for International Settlements, the total assets of the so-called Group of Ten nations' offshore banking centers, the unregulated islands and enclaves where "bank inspector" is a dirty word, amount to \$94.454 billion, as of February 1977. The figures break down as follows:

	(in millions)
Andorra.....	\$ 3
Liechtenstein .....	466
Monaco .....	48
Vatican .....	105
Bahamas .....	35,700
Barbados .....	70
Bermuda.....	900
Caymans.....	12,200
Netherlands Antilles .....	1,600
Panama .....	7,200
Trinidad and Tobago .....	154
Kuwait, Qatar, UAE.....	3,300
Bahrein, Iran, Iraq, Libya, Oman .....	9,300
New Hebrides .....	139
Singapore.....	10,000
Hong Kong .....	8,300
Lebanon .....	392
Liberia.....	4,577
Total.....	\$94,454

The above figures do not show the actual size of the

offshore banking centers, because they include only the assets of branches of banks domiciled in the largest ten industrial countries. They do not include such entities as the three large banks in Thailand's capital, Bangkok, which figure prominently in financing Golden Triangle opium production. Nor do they include thousands of smaller, "offshore" finance companies based only in the offshore centers themselves. Expatriate Chinese banks in the Far East, who have long been known to be a key point of contact with illegal drugs and other contraband traffic in the Far East, also do not show up on these tables; in fact, there is no available data on such institutions at all. Furthermore, the above table does include a great deal of legitimate banking business which American and other industrial-country banks bring to the "offshore" market for tax and other reasons. However, the round figure of \$100 billion is a useful starting point.

Another set of figures, provided in the Bank of England's quarterly report, although it contains the same unwanted additions and deletions, is relevant: it shows the large volume of interchange between London, which in major respects functions as the world's biggest "offshore" center, with the previously-mentioned outposts for illegal money. Unfortunately, the available figures mix in both British banks' dealings and those of American and other banks which have offices in London. The table is provided for purposes of perspective.

#### Deposits In or Loans From Britain By Overseas Banks (in millions)

	Deposits	Loans
Bahamas .....	\$3,000	\$6,200
Bermuda.....	262	17
Caymans.....	1,380	1,408
Hong Kong .....	1,333	1,910
Lebanon .....	867	16
Liberia.....	---	1
Netherlands Territories .....	151	83
New Hebrides.....	13	7
Panama .....	118	583
Singapore.....	833	3,173
Barbados .....	---	---
Trinidad and Tobago .....	179	23
Total	\$8,134	\$13,399

More important than these numbers — which give a meager underestimate of the volume of business in the offshore centers and mix in the legitimate business of American and other institutions — is the political control of the unregulated banking centers. With a very few exceptions, offshore banking as a whole is under the thumb of the Anglo-Dutch oligarchy.

The British preeminence makes the world picture of offshore banking and dirty money more

comprehensible. If the world offshore banking sector appears to run as a single operation under British monarchy control, that is because the same group of people who run it also run the opium traffic, whose proceeds this banking sector was created to handle. One index of British muscle is the following breakdown of the offshore banking centers, comparing the number of banks in each center directly attached to the Royal Institute of International Affairs's governing bodies with the number of other banks in each center:

Offshore Center	RIIA-Linked Banks	Others
Bahamas	23	21
Bermuda	5	0
Antigua	5	0
Barbados	6	3
Cayman Islands	22	12
Trinidad and Tobago	6	3
Netherlands Antilles	10	5
Panama*	9	20
Singapore**	14	20

\*The only one of the above *not* under British government control.

\*\*Does not count overseas Chinese banks and other expatriates.

(Source: Polk's Banking Directory)

London and Switzerland are not normally considered offshore banking centers, although in practice both centers function that way. Although Switzerland has signed a treaty with the United States permitting law enforcement officers to investigate and seize funds relating to illegal narcotics traffic (resulting in one recent \$250 million seizure), Swiss banks are still notorious depots for dirty money. However, the Swiss side of the operation, typified by Lombard Odier and Edmond de Rothschild's Bank Privée in Geneva, and the Zionist-controlled Baseler Handelsbank, are more specialized. Their most important activity is conduiting funds for international terrorism. Most recently, European authorities traced the funding of the Aldo Moro assassination through Swiss channels back to Israel.

London is the largest center for Eurodollar banking under the encouragement of the Bank of England, which permits the foreign branches of U.S. and other banks to hold external accounts in London without reserve requirements, and with minimal inspection. At last count, international banks had \$90 billion in assets in London. The Bank of England can do as much or as little as it wants in the way of regulation, under British law. Only occasionally does the Bank of England's iron gauntlet show through the velvet glove.

For self-evident reasons, even the best-protected institutions of the British oligarchy prefer to launder their dirty money through Caribbean, Hong Kong, and similar branch operations, rather than in London itself.

## Offshore Centers and Their Political Control

**Bahamas.** British possession. Virtually no regulation of banks that do not do local business; limited regulation of nonresident banks.

**Cayman Islands.** British possession; virtually no regulation.

**Bermuda.** British possession; virtually no regulation.

**Hong Kong.** British Crown Colony. Regulation of markets by the Hong Kong and Shanghai Bank; no inspection of transactions.

**Guernsey.** Channel Island, possession of British Crown, not British government; no regulation.

**Jersey.** Channel Island, possession of British Crown, not British government; no regulation.

**Lebanon.** Now virtually defunct.

**Netherlands Antilles.** Dutch monarchy possession; virtually no regulation.

**New Hebrides.** Newly independent former British colony; no regulation.

**Bahrein.** Persian Gulf island open to offshore banking recently; regulated loosely by Commission under Bank of England advice.

**Panama.** Independent; virtually no regulation.

**Singapore.** Former British colony; virtually no regulation.

**Barbados.** Former British possession; virtually no regulation.

**Trinidad and Tobago.** Former British possession; virtually no regulation.

**Liechtenstein.** Independent principality; Grand Duke is a Black Guelph related to British and Dutch royal families. 25,000 population; 26,000 companies.

**Monaco.** Independent; Prince is Black Guelph related to British and Dutch royal families.

Because the British suppliers of narcotics have iron-clad control over offshore bank operations, American organized-crime marketers of those narcotics have had a field day in the Cayman Islands and the Bahamas. American drug enforcement authorities know that most of the dirty money arising from the U.S. drug trade and related illegal activities ends up in the Bahamas. There has been, unfortunately, little public heat against the British officials who control the operations. This level of control reaches the flagrant. For example, the chief of all banking regulation and licensing in the Cayman Islands, a close third behind Hong Kong and Macao in the big league of dirty money, is one Mr. Benbow, a retired official of Britain's National Westminster Bank, which shares two directors, J.A.F. Binny and R.J. Dent, with the Hong Kong and Shanghai Bank. Benbow got his present job at the recommendation of the British-influenced International Monetary Fund, according to a source at the IMF's Exchange and Stabilization division. Direct British "hands-on" management of the Caribbean offshore operation dates back to the 1930s, when E.D. Sassoon, Ltd. of Hong Kong — which made its fortune from the opium trade over the preceding century — picked up, moved, and became E.D. Sassoon, Ltd. of the Bahamas.

Virtually the only one of the offshore centers not under *official* British control is Panama; not coincidentally, Panama is the only offshore center where American banks strongly outnumber British banks. That is not to say that Panama is clean; on the contrary, most of the funds derived from the Colombian trade in marijuana and cocaine are laundered through Panama, through the three large Colombian banks resident there. However, American banks have a measure of maneuvering room that they do not have in the Cayman Islands or the Bahamas, under the snooping eyes of the British authorities.

West German banking sources believe that the British banks behind Drugs, Inc. want to move in on Panama and close the gap. The West German sources identify a special feature of the drug-ridden Hong Kong and Shanghai Bank's proposed takeover of a controlling share in New York's \$20 billion Marine Midland Bank: Marine Midland is the transactions agent for the central bank of Panama. All of the national accounts clear through Marine Midland. Should the Hong Kong and Shanghai succeed in acquiring the American bank, it would exercise a decisive margin of control over the Panama offshore market, and bring British control over the offshore centers full circle.

Not coincidentally, a former board member of Marine Midland Bank, Coudert Brothers lawyer Sol Linowitz, negotiated the Carter Administration's recent treaty concerning the Panama Canal.

The following report will concentrate on the Far East offshore banking connection to the drug traffic as a model for the world operation, and follow the trail

back to the controlling centers in London. British control over the world dirty money operation is no secret, and the British-Canadian-Caribbean connection to organized crime in the United States is so thoroughly documented that no doubt need remain. However, it is the Far East that acts as a chokepoint for dirty money, in such volume that it dwarfs legitimate economic activity in the region, and in the British Crown Colony of Hong Kong in particular. Moreover, London has seduced and jostled American banking operations into the Caribbean to such an extent that there is a vast amount of legitimate money mixed in with the proceeds of the drug traffic. However, Hong Kong was set up by the British, literally from bare rock, as a center for the drug trade, and remains to this day purely British, and purely a center for the drug trade. In the Far Eastern example, we can "prove" that Britain (and its Peking allies) run every phase of international drug traffic.

Otherwise, the Drug Enforcement Agency and other law enforcement organizations know how the cycle of dirty money in the United States works. The \$50 billion retail proceeds of the total drug traffic in the United States is partly recycled into the drug operation in the United States itself, with large "offtake" by each level of the crime machine. The net profits, in cash, are laundered through hotels, restaurants, gambling casinos, and sports events — the "corporate profile" of the Max Jacobs family and other footsoldiers of the British drug machine. After the cash is laundered through these nominally legitimate channels, it is transferred to offshore banking operations or their equivalent. Then, according to Drug Enforcement Agency officials, the funds take several quick trips around the world over the telex machines of offshore banks, passing through at least a half dozen, and usually more, different bank accounts and corporate fronts, from the Caymans to Liechtenstein, from Liechtenstein to the Bahamas, from the Bahamas to a "nonresident corporation" in Canada, from Canada to Panama, and so forth. At various points in the process, the funds will purchase diamonds, gold, paintings, or similar portable valuables. At a further point, the valuables will be translated back into cash, eliminating even the trace of a bank transfer. For this reason, the use of undercover agents, in place even at fairly high levels in known branches of narcotics trafficking, has a poor record of detecting either the source or ultimate destination of narcotics-related funds.

Once laundered, the proceeds of the drug traffic and related illegal activities divide into three channels. First, between 10 and 20 percent of the total is recycled back to the opium wholesalers in the Far East and the marijuana wholesalers in the Caribbean and Latin America, constituting the net profits of the wholesale drug trade. A second part is invested in expansion of offshore operations, particularly gambling casinos, resorts, and other profitable operations that are also

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,

