

EIR Investigation

Could dope money be why Bush protects Deng?

by Joseph Brewda

Until recent weeks, insiders in Washington have claimed that President George Bush's strong suit was his supposed deep knowledge of China, while conservative gurus acclaimed his alleged commitment to crush narcotics trafficking. Deng Xiaoping's massacre of thousands of students over the last few weeks, and Bush's namby-pamby response, have not done much to enhance the President's reputation. That Bush's so-called "war on drugs" has been a pious fraud has long been apparent to expert observers. That there is connection between both these failures is usually overlooked.

The People's Republic of China is the world's largest opium producer, and the profits from the narcotics trade keep Wall Street banks afloat at a point when real production of physical goods is steadily collapsing. Under the pretext that relations with the Beijing regime must be maintained no matter what the nature of that regime, Bush's policy is to protect the continuing production and transport of Chinese opium—as long as the profits are laundered into the Western banking system.

This policy goes back to Henry Kissinger's so-called China card, when the U.S. government formed a strategic deal with the world's biggest dope producer. As *EIR* documented in its June 23 issue, Kissinger is currently a business associate with some of the biggest international banks dependent on these narcotics revenues.

The Big Lie

The coverup by which U.S. official agencies obscured Red China's dominant role in the narcotics business was

hardly less abrupt, although certainly less publicized, than the Deng regime's recent Big Lie in claiming that no massacre of students occurred in Beijing in early June.

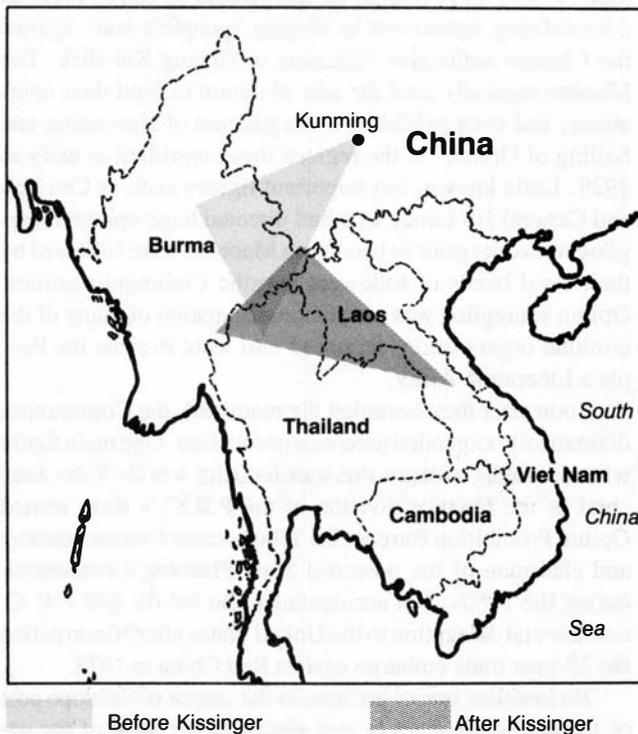
Until approximately 1970, relevant agencies of the U.S. government listed the People's Republic of China as producing some 65% of the world's opium. Today, these same agencies or their successors, the U.S. Drug Enforcement Administration, Central Intelligence Agency, the Federal Bureau of Investigation, the State Department, and the White House itself, claim that the P.R.C. produces no opium whatsoever, and ridicule the notion that China ever produced any narcotics as "nonsense." What happened?

By the time the Nixon administration took office in 1969, it had been demonstrated that the Chinese government was producing at least 2,000 metric tons of raw opium a year. This state enterprise, coordinated with the Ministries of Finance, Agriculture, and Forestry, the Department of Public Security, the People's Liberation Army, and the Bank of China, among other organizations, was given greater priority by the P.R.C. leadership than any other sector of the economy. After all, foreign exchange earnings from the drug's export, sold in some 37 varieties of opium and 26 varieties of heroin, were already several times greater than the rest of the P.R.C.'s exports combined.

While China's current annual opium production is not known precisely, several experts report that some 700,000 hectares on the mainland are now devoted to opium cultivation. Agronomist estimates of average yield per hectare, based on only minimal fertilizer use, indicate that the P.R.C. could

FIGURE 1

'Golden Triangle' before and after Kissinger



be producing on the order of 4,000-6,000 metric tons of opium annually. P.R.C. refinery capacity now stands at an estimated 8,000 tons. The current total annual proceeds for the world's narcotics trade is at least \$500 billion, all of which is "washed" through the world's major banks, as will be seen below. Something on the order of 30% of that \$500 billion is from the sale of opium and opium's most popular Western form, heroin—almost all of which is produced by the P.R.C.

On Feb. 12, 1988, Thai authorities seized 1.2 metric tons of heroin on one ship in Bangkok harbor—equal to the U.S. Drug Enforcement Administration's estimates of the region's heroin production for the entire year! From this fact alone, one can estimate that the region's heroin production must be vastly greater than officially reported by U.S. statistics.

Yet according to a U.S. State Department report issued in March 1989, a mere 2,400-3,300 metric tons of opium was grown worldwide in 1987. While censoring any reference to the P.R.C., the State Department is forced to state that well over 95% of the opium that it admits was produced, was produced on China's borders. According to the U.S. government virtually all the world's opium is grown either in the so-called "Golden Crescent" of Pakistan, Afghanistan, and Iran, or the so-called "Golden Triangle" of Burma, Thailand, and Laos.

Back during the 1960s, the Golden Triangle was defined

as including sections of Burma, Thailand, and Yunnan province in China, of which the Chinese territory comprised most of the area (see **Figure 1**). In 1970, the White House, under the influence of then National Security Adviser Henry Kissinger, redrew the map to exclude Chinese territory entirely. *The White House simultaneously banned all aerial narcotics reconnaissance of the region.*

In order not to appear absurd, U.S. agencies assert that the northern region of Burma, adjoining China, is where the majority of the world's opium is grown. These agencies fail to mention that that remote Burmese region, comprising the Shan and Kachin and related ethnic minorities' provinces, has been in continuous revolt since Burma became independent shortly after World War II. Rebel armies in this area traffic in opium to finance their operations. They are entirely equipped by the P.R.C., and often headquartered across the border in Yunnan. The Burmese Communist Party, an official agent of Beijing, and not the central Burmese government, controls most of the Burmese territory which the U.S. government now defines as part of the Golden Triangle.

Almost all of the opium which the U.S. government claims is grown in Burma, is grown in China, and simply passed through the "Golden Triangle" by these rebel armies. Similarly, many Asian experts say, most of the opium allegedly produced by Pakistan, Iran, and Afghanistan, is grown in China.

Where opium is really produced

Almost 1% of the Chinese mainland's arable land is devoted to opium cultivation, according to the writings of the Republic of China's Gen. Chu Sing-yu (ret.), Chang Tse-Min, and other experts in the field. Since it is hard to hide such a huge land area in its official statistics, some 733,000 hectares, the World Bank cynically labels these opium-growing regions "mixed crops" zones, in its maps of the region.

According to Chu, the P.R.C. has dedicated 235 counties to poppy cultivation, of which 11 are located in northeast China, 12 in north China, 47 in the northern region of Shanxi province, 10 in East China, 39 in Central China, 72 in Southwest China (of which 39 counties are in Yunnan alone), and 44 in Southeast China.

The cultivation of this opium is organized by the production groups of 332 "people's communes." Additionally, 97 other regions are designated as growing "plants for medicine," a euphemism for opium. Poppy cultivation is supervised by "Production Development Corps," and carried out by "state farms," "farms run by the military," "demonstration farms," "improvement farms," "agricultural experiment farms," "seed improvement and experiments stations" and "new cultivated areas," according to Chu. In many areas, the Department of Public Security, the P.R.C.'s secret police, directly oversees opium cultivation. The labor force from these plantations is drawn from "labor reform criminals," "young people expelled into the countryside," and "retired

public servants,” in addition to peasants, according to these same sources.

In previous years at least, one of the most important overseers of opium production has been the Tobacco Monopoly Bureau of the State Council. Prior to World War I, much of Chinese opium was produced under the direction of British tobacco interests, of which British American Tobacco was the most important. This is the apparent basis for the later role of the P.R.C. Tobacco Bureau in the trade. Interestingly, Bush's White House counsel, C. Boyden Gray, is the heir to the R.J. Reynolds tobacco fortune, which is based on that firm's partnership with British American Tobacco in that same period.

In addition to growing most of the world's opium, the Chinese government does much of the initial chemical processing of its raw opium, and, increasingly, refines that opium into heroin as well. According to some estimates, the P.R.C. had 98 opium-processing plants by 1979, producing some 77 categories of opium and heroin products. According to a report in the *Taiwan Daily* of June 3, 1984, the “Oriental Pharmaceutical Factory” in Yunnan province produces 12 metric tons of heroin annually.

The routes

China ships this opium and heroin through a variety of routes, according to General Chu (see **Figure 2**). A northeast route, with Shenyang as its concentration point, goes by land through Harbin to Moscow by way of the Siberian railroad, eventually reaching East Germany and Western Europe. Alternatively, trafficking proceeds from Darien by sea, reaching Japan and the Philippines. Another northern route starts from Tianjin, through Chefoo and Tsingtao, to Japan or North Korea, and from there all over the world. The eastern route, with Shanghai and Amoy as major concentration points, extends to northern Europe and the Middle East by sea. The South China opium-smuggling route begins in Canton. Narcotics are shipped through Hong Kong and Macao by sea, with destinations in north Asia, Europe and South America. Chu estimates that this latter route is now the most popular. All of these routes directly and indirectly reach the United States.

Other routes include the trails from Southwest China through Burma and the so-called Golden Triangle; and a northwest route, with Tibet and Sinkiang province as key concentration points, proceeding to western Asia.

P.R.C. profits from the opium trade are difficult to determine, given the huge mark-up of opium at its source, where growers may receive as little as \$70 per kilo, to its price it reaches in the form of heroin on the streets of New York. The degree which the P.R.C. maintains its own distribution networks in the West is unclear. But whatever its cut of this approximately \$200 billion annual trade, narcotics is the P.R.C.'s largest export by far. The P.R.C.'s total exports, outside of the dope trade, are a pathetic \$14 billion a year.

It didn't start yesterday

The history of the Chinese Communist Party is also a history of opium. As early as the 1920s, Communist leaders Mao Zedong and Chou En-lai had praised opium as a crucial demoralizing instrument in waging “people's war” against the Chinese nationalist followers of Chiang Kai-shek. The Maoists regularly used the sale of opium to fund their operations, and even published a “Regulation of Harvesting and Selling of Opium” in the regions they controlled as early as 1928. Little known, but important figures such as Chu Teh and General Ho Lung, who had directed huge opium-smuggling networks prior to becoming Maoists, were followed by their loyal bands of followers into the Communist armies. Opium smuggling was a common occupation of many of the criminal organizations recruited into what became the People's Liberation Army.

Soon after they occupied the mainland, the Communists dramatically expanded narcotics production. One main figure who reportedly oversaw this state industry was Bo Yibo, then chief of the Finance division of the P.R.C.'s slyly named Opium Prohibition Bureau. Bo Yibo became finance minister and chairman of the powerful State Planning Commission during the 1950s. Not accidentally, Bo led the first P.R.C. commercial delegation to the United States after Nixon ended the 23-year trade embargo against Red China in 1973.

Bo installed one of his sons as the mayor of the dope port of Dalian, while another was placed as the head of the so-called Beijing Travel Bureau. Bo remains close to Kissinger circles in the West, and a major figure behind the scenes in China today.

Another key figure in the P.R.C.'s postwar expansion of opium production has been Yao Yilin, a Bo crony who became commerce minister and is today vice premier and chairman of the State Planning Commission. Still another major overseer of Chinese narcotics production is Li Xiannian, who was named the “money god” for his “miraculous” payment of China's war debt. Li was finance minister from 1957 to 1975, and the President of China in the early 1980s. His reputed son-in-law, Shanghai party boss Jiang Zemin, was just installed as Communist Party General Secretary, replacing the disgraced Zhao Ziyang.

Who lost China

As was generally well known at the time, Mao would never have taken over the mainland without the covert support of Franklin Roosevelt, Winston Churchill, and Josef Stalin. All three powers wanted to keep China weak, and never allow it to develop along the economic and political lines specified by China's great leader Sun Yat-sen. Both the imperial bankers and the Communists also wanted to continue the dope trade, for reasons of both political policy, and profit.

One demonstration of this relationship is China's peculiar banking system.

FIGURE 2
Chinese opium exports



Back in 1949, the Communist forces of Mao Zedong nationalized the Shanghai-based Bank of China—for all of one year. The Bank of China, which was formed in 1912, had functioned as China's state bank under the Chinese republicans. Although a state bank, the Bank of China was 30% owned by private investors. By 1950, Mao agreed to return the 30% of the bank owned by private interests back to their original owners, if these investors could prove themselves hostile to the Nationalists. While it is unclear what private interests chose to remain as business partners with the Maoist regime in the this transformed bank, circumstantial evidence points to the very same foreign interests who had earlier patronized the Communists.

In any case, British finance never left the mainland despite claims to the contrary. Such major British financial institutions as Hongkong and Shanghai Banking Corporation and Standard Chartered, have remained in continuous operation on the mainland, even during the Korean War and Cultural Revolution. The curious Bank of China became the primary financial instrument of the P.R.C.'s growing narcotics empire. Bank of China overseas branches in the British Crown Colony of Hong Kong, and former crown colony of Singapore, as well as Bangkok, Thailand, have been crucial to the world's opium trade according to numerous sources.

During 1950, President Harry Truman invoked the Trading with the Enemy Act against the P.R.C., which forced that regime to find third-party intermediaries as a way of continuing its relationship with American banking interests. Correspondent banks for the Bank of China, by the time of the 1971 "China card," included the above mentioned Hong-

kong Shanghai Bank, Standard Chartered, as well as Crédit Suisse of Switzerland, Barclays and National Westminster of England, and the National Bank of Pakistan. Every one of these banks has been implicated, repeatedly, in narcotics money laundering.

In addition to the Bank of China, the P.R.C. has also allowed the continued operation of several private Chinese banks originally formed as far back as the turn of the century. These banks have maintained ties to some of the worst narcotics money-laundering banks in the West, including the Bank of Montreal, Manufacturers Hanover Trust, Chemical Bank, Banque Bruxelles Lambert, Chase Manhattan, and Wells Fargo, all of which have been repeatedly cited as offenders of currency transaction reporting requirements or otherwise shown to be tied to narcotics money laundering.

These same banks are among the most enthusiastic financial interests seeking to increase their operations on the mainland itself.

Not the least of the "narco-banks" tied to the P.R.C. banking system is the Hong Kong-based Bank of East Asia, which has maintained continuous operations in Shanghai since 1920. The bank's former chairman, Sir Y.K. Kan, is a partner of Kissinger Associates, and is the person who opened up Hong Kong and China for S.G. Warburg, the old British imperial banking house. The bank's recent establishment of an electronic money transfer system on the mainland, hooked up with such "offshore" banking centers as the Cayman Islands, ensures that Chinese dope money continues to flow into the Western financial institutions which control George Bush.