China's economy on the brink

China's stock exchanges are going wild, while Deng begins "shock therapy" to shut down heavy industry.

The symbols of Deng Xiaoping's heralded economic "reform," the newly opened stock exchange operations in Shanghai and Shenzhen, are now exploding into chaos, with fantastic events that would pass as a script for a Hollywood farce if not for the fact that hundreds of millions of lives are at stake. The "booming South of China" has been the subject of special reports in the leading press throughout the world over the past weeks, praising the success of the Deng reforms. But the speculative binge that has accompanied the rapid development in the South is already faltering, while in the real world of the rest of the country, a social and economic explosion is rapidly approaching.

Since China opened the Shanghai stock exchange in 1990, the first since pre-revolution days, stock prices have increased fivefold, as speculation rapidly made a few men very rich. With shares earmarked for sale either to "Chinese only" or to "foreigners only," the speculation in both types reached fever pitch following Deng's call for more rapid "opening up" during his trip to the South in the spring. The floors of the exchange houses were scenes of frenzy that made Wall Street look tame by comparison. Organized syndicates hired gangs who controlled the positions in the lines, facilitating the control over selected issues by the syndicates. (One individual investor was killed on the trading floor for trying to break through the gangs to get to the counter.)

The authorities then lifted all restrictions on daily share price fluctuations, and the market rose by nearly 50% in a single week. Price/earning ratios skyrocketed. Beijing finally moved in to try to salvage the situation.

Syndicate trading was outlawed during the last week of May, which led to a free-fall collapse of the market. The traders, unable to get through the queues to sell their shares, panicked. On Monday, June 1, a special annex was opened where only selling was permitted, hoping to ease the panic. Shanghai's *Liberation Daily* reported on June 2 that the annex was stampeded, security police lost control of the crowd of more than 5,000 fighting to get to the counter, and it was closed after two hours. The Chinese press is carrying stories of individual investors who hanged themselves after losing a few thousand dollars.

Nevertheless, plans are proceeding to make more issues available on the two exchanges, and a futures market is now in the early stages. Also, Reuters reported on June 1 that the shares offered to foreigners (called B shares) are going to be under increasing pressure from foreign "China Funds." Already four such funds, worth $180 million, are in the market, and another five totaling $150-200 million are on the way.

Behind this lunacy is the fact that Beijing, with the International Monetary Fund and World Bank teams in on every step, is beginning to implement an economic death sentence on the state sector industries, which make up almost the entirety of the medium and heavy industry in the country. These industries are slated for either closure, or for transformation into joint stock companies, where their fate will be thrown to the wolves in Shanghai.

Deng visited Beijing's Capital Iron and Steel Corp. at the end of May. The trip was an opportunity for the state-controlled press to inform the workers that the bloodletting is beginning—and will continue. Said the *People's Daily:* "In the course of reform, the jobs of some will be changed and their incomes lowered temporarily. It is possible that some will be temporarily unemployed. . . . If you say that reform means breaking the workers' iron rice bowl, then in the future they will get a silver rice bowl, a golden rice bowl." Workers who have lived through decades of similar promises of a golden future under Maoism are not likely to be relieved.

The German daily *Handelsblatt* reported on May 18 that there was already unrest in some factories over the layoffs, pointing out that in China, losing a job also means losing one's apartment, as well as health care and other benefits. There is no "social safety net" to rely on.

The extent of the layoffs was confirmed by the official *China Daily* on May 10, which reported that industrial employment had *fallen* by 1.17 million in the first quarter alone. This figure *includes* those who are finding work in the foreign sweatshops in the "booming South." Employment in state- and collectively-owned industries dropped by 1.22 million (out of a work force of about 142 million), while foreign industries added only 61,000 workers.

This, of course, does not even take into consideration the 100-200 million unemployed peasants. This is the means by which the cost of labor is held to about $30 per month in the free trade zones. It is also the means by which a new holocaust is in the making.