

## China Report by Michael Billington

### Stock scam sets off riot in Shenzhen

*As riots and panic sweep the Chinese stock exchanges, Anglo-American profiteers are pouring billions into speculation.*

Tens of thousands of Chinese during the first week in August rampaged through the city of Shenzhen, the free trade center across from Hong Kong which is the model for Deng Xiaoping's transformation of southern China into a series of 19th century-style foreign centers for speculation, drugs, and cheap coolie labor. The rioters overturned and burned police cars, smashed windows and street lamps, and built barricades against riot police, who used tear gas and shot into the air to subdue the mob.

This was not a new Democracy Movement protest, but an outburst of rage by workers and peasants who had flooded into the city to buy lottery tickets, which might win them the right to buy stock on the stock exchange!

About 1 million people tried to get hold of forms to enter the lottery for new issues of "A" shares, which are reserved for Chinese citizens only. The 5 million forms quickly ran out or disappeared, and those who were left out began the rampage, holding signs that accused the police and the officials of corruption by diverting the forms to friends and relatives.

Only one of ten of the forms would eventually allow the holder to purchase new stock issues next month. However, the government was only able to end the chaos by issuing 5 million more lottery tickets—which will obviously lower the odds by one-half.

The Chinese State Council held an emergency meeting in Beijing, and the Shenzhen exchange was closed for the day on Aug. 10. Although the exchanges reopened the following day, riot police forced those waiting in line

to squat, and bludgeoned people who didn't follow orders. By the time it ended at 5:00 a.m. on Aug. 12, the streets of Shenzhen were reported to look like a war zone.

As usual, Beijing accused a "few troublemakers" of causing the riots.

In fact, organized gangs, run by the "comprador" businessmen, control the exchanges. Soon after the markets opened this spring, two men were killed on the floor of the exchange for attempting to bypass the gangs' control over the queues.

Despite the fact that the riots were not politically motivated, the butchers of Beijing are responding with great concern. The charges of corruption are widely recognized as valid, and the bursting of the speculative bubble would expose the fraud of Deng's "opening up" to the Anglo-Americans, just as Deng hopes to solidify his policy at the crucial 14th Party Congress coming up this autumn.

The lottery tickets themselves cost 100 yuan, or \$18.70. This is more than half of the average monthly salary in China. These tickets, however, were being sold immediately on the black market for nearly \$100. The get-rich-quick fever generated by the speculative bubble in the tiny new stock market explains some of the hysteria; but there is another story behind the wires.

Although the Chinese have divided all new stock issues into "A" shares, for Chinese only, and "B" shares for foreigners only, both are in fact being speculated up into the stratosphere by the Anglo-Americans. The "A" shares are bought by

Chinese friends and relatives of Hong Kong (and Taiwan) investors, using the foreign money. That money in turn comes not only from the British base in Hong Kong, but directly from England and the United States.

London's Crédit Lyonnais told *EIR* that since they started a "China Fund" in March, at least ten other such Funds have poured well over \$1 billion into the speculation in the Shenzhen and Shanghai bourses. Some goes directly into the market, while some goes through Hong Kong companies investing in the mainland (i.e., into the "A" shares).

When asked what the dividends on the funds were, the Crédit Lyonnais representative laughed. "Dividend? There's no dividend. The average rates on these stocks are about 1%, when they pay anything. This is purely for capital gains." He added: "There's no protection for the investor, no legal structure, no laws. It's certainly a bubble, and it may be a short-term disaster, but we're telling people that even though the price/earning ratios look horrendous, that the market should continue rising."

Chinese officials admitted that there is no way to ascertain where a purchaser got the money used to purchase stock or the stock lottery tickets. While much of it comes from foreign investors, working through local middlemen controlled by the gangs, a major portion also comes from the massively expanding drug traffic in China's special zones, as an easy way to launder the profits.

At least some of the money, however, comes from peasants and workers. Several people who lined up in Shenzhen had pockets full of chits, signed by all the people in their village, who each put in a few pennies, possibly their entire savings, in hopes that they may win their way out of the desperate poverty of rural China.