

shouldered by the "southern wind" (the Hong Kong dollars), part of the country flies away.

So it is an irritating story to Zhu Rongji that the small Guangdong city of Nanhai could use its municipally owned assembly lines to earn Hong Kong dollars and to build a \$491 million office tower in the British colony. The city then borrows against it for real estate projects back home. Beijing couldn't even get a whiff of the cash.

The Hong Kong dollar (money free from Beijing's control) not only contributes to the economic chaos in Guangdong province, but it also fuels the splitting apart of China, which is the last thing Beijing hard-liners want to see. So far, there have been nine rounds of fruitless talks between Beijing and London over a political reform in the colony proposed by Gov. Chris Patten. From the lessons China learned in the Opium Wars and the Sino-India war caused by the British government, and for the sake of Taiwan's return, it appears that at least a few Politburo members in Beijing have decided against the proposal from London, which would turn Hong Kong into a giant enterprise in which Britain acts like a CEO, leaving Beijing only the ownership as chairman of the board.

Bank of China may bankrupt China

But all the fights with the British government over controlling Hong Kong mean nothing if the Bank of China gives up its stance on controlling Hong Kong dollars, allowing part of China to become U.S.-Hong Kong dollarized. In this sense, the Bank of China will bankrupt China. And this is the destiny which some of Zhu's foreign advisers are leading him to.

Zhu is reportedly orchestrating four groups of economists and other experts in Baidaihe in northern China to draft the final plans to reform banking, financial revenue, investment, and state assets management systems. Plans are to be approved in the Third Plenary Session of the 14th Communist Party Central Committee, scheduled in mid-December in Beijing. If passed, the plans are to be fully implemented nationwide in 1994, as the final stage of the fight to implement the reforms, as proposed by Chen Yun, among others, to safeguard the system of a planned economy.

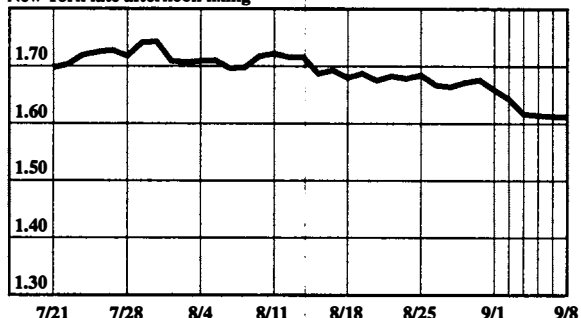
If Beijing is not highly alert to the U.S.-Hong Kong dollarization while reforming the banking system, which is necessary to control localism and prevent the investment craze in real estate and other speculative activities, then not only will China fail due to the lack of commitment to develop its physical economy, but it will sink with the western monetary system that is doomed to collapse, even before any real development begins.

The situation could best be described by a Chinese proverb: "The mantis stalks the cicada, unaware of the oriole behind." That danger is precisely the U.S.-Hong Kong dollarization, wherein hide the immoral sharks such as George Soros, who recently made \$1 billion in one week of speculation against the European Exchange Rate Mechanism.

Currency Rates

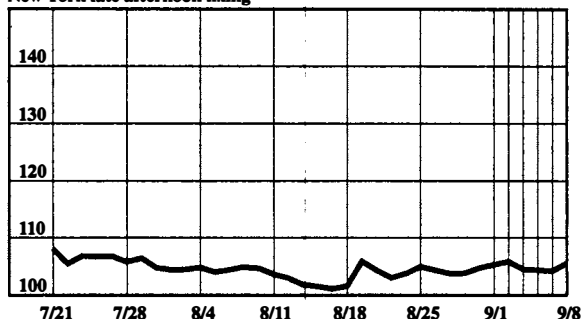
The dollar in deutschemarks

New York late afternoon fixing



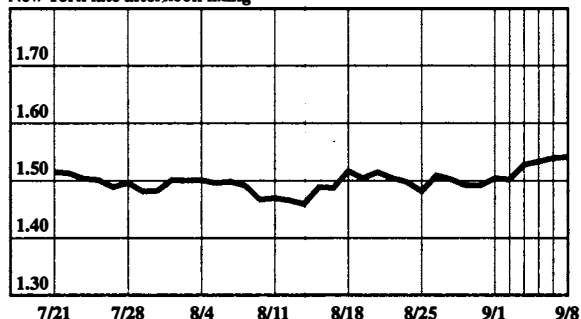
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

