China: Economy 'extraordinarily precarious'

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The collapse of the Hong Kong-based investment bank, Peregrine Investment Holdings, has underscored the shaky state of the financial system, both in Hong Kong and China as a whole. Peregrine, one of the largest investment houses in Asia, specialized in dealing in so-called "red chips"--shares from mainland China traded in Hong Kong.

The trigger for the Peregrine bankruptcy was the failure of an Indonesian taxi company, Steady Safe, which had connections to Suharto's daughter Siti Hardijanti Rukmana. Peregrine had $260 million—one-third of its capital--tied up in Steady Safe and another $400 million in other Indonesian debt securities.

The Peregrine collapse caused Hong Kong's Hang Seng index to plunge 8.7 percent and sent shock waves through stock markets around the world. Hong Kong property shares were the hardest hit--residential real estate prices in the former British colony have fallen 20 percent since last October.

In the aftermath of the Peregrine bankruptcy, Chinese central bank governor Dai Xianglong denied reports that the level of bad debts held by China's state banking system was between 25 and 40 percent of its total loans. He admitted, however, that the figure was a massive 20 percent, of which between 5 and 6 percent was considered nonrecoverable.

China plans to write off 180 billion yuan in bad debts over the next three years. Its growth rate slowed in 1997 to its lowest in seven years. International speculator George Soros has described the Chinese and Hong Kong economies as "extraordinarily precarious."

Plans of the Beijing bureaucracy to shut down or sell off unprofitable state-owned enterprises will send the level of unemployment in China soaring. Estimates put the number of so-called surplus workers in state-owned industry at 30 million, and surplus rural labor at a staggering 150 million.