appreciation of the RMB will not solve the problems of unemployment in the U.S. because the cost of labor in China is only 3% that of U.S. labor—they should give up textiles, shoemaking, and even agriculture, probably. They should concentrate on sectors like aerospace and then sell those things to us and we would spend billions on this. We could easily balance the trade."

In more realistic, and much more effective measures, China is expanding its investment abroad as rapidly as possible, as demonstrated by its recent agreements with Argentina and Brazil. This will help the real economies of China and its partners, and bring down the dangerous level of its foreign reserves.

Hot Money

Estimates of speculative funds getting into China—ranging from $25-100 billion and even $1 trillion—are being published every week. Despite its capital and currency controls, which saved China during the Asian crisis, some "hot" funds are getting in. The speculators' goal is to make a killing on an up-valuation of the RMB, with some making wild claims that a "floated" RMB would shoot up 40% against the dollar. Chinese interest rates are also higher than those in the U.S., but China does not have the derivatives, futures, or other such financial markets which brought the sharks into the so-called Asian "tiger" economies in the 1990s, and its capital controls would make fleeing the country difficult. But the hot money could do a lot of harm, including setting off inflation, and the authorities are taking action.

A spokesman for the Foreign Exchange Administration, in an interview published in the *People's Daily* Dec. 14, admitted: "We've discovered that there are some false reports of import and export prices," forgeries of payments for trade goods, and "abnormal phenomena" such as "excessive loans and the manipulation of the real estate market," all of which "have characteristics of speculative arbitrage." Foreign funds are also going into real estate in the east coast cities. The SAFE will now monitor capital flows more carefully and restrict foreign exchange administration, he told *People's Daily.* The SAFE also took the opportunity to refute the reports, circulated widely in Western media, that China had decreased its holdings of U.S. assets.

The question whether these dollar reserves do not pose more risks than benefits, has been a big issue in China since the crisis engendered by currency speculators hit Asia in the late 1990s. It has been debated at the highest levels, that China's real safeguards are its financial controls, not reserves. Currently, the Foreign Exchange Administration indicated that Beijing maintains the view that these reserves are useful to meet "unexpected events," and prevent "systemic financial risk." The systemic crisis is already here, in the ongoing crash of the dollar. What China and every other nation needs, is not more prevention, but creation of a new economic system, so that the world can rebuild from the ashes.

French Senate Study: For A 'Neo-Colbertist Europe'

A working group of the French Senate's Economic Affairs Commission has published a report, "For a Neo-Colbertist Europe," which calls for an immediate reversal of the recent moves toward further deregulation in France. The study's title refers to Jean-Baptiste Colbert, the Finance Minister for King Louis XIV, who is a symbol of the policy of state promotion of industry and infrastructure.

The study, put together by 15 conservative and socialist Senators, focusses on how outsourcing is affecting the industrial power of France and the European Union as whole. In industry, outsourcing to eastern Europe and Asia has been most widespread. But it is industry which has determined the economic power and wealth of France and Europe—from the times of the Industrial Revolution to the "30 glorious years" of the post-war reconstruction.

The Senate report pleads for rebuilding industrial power in European nations, stating that the state must use whatever means necessary to encourage industrial rebuilding. The report accurately locates the initial erosion of Europe's industrial base with the first oil shock of 1974. From then on, the industrial model gave way to a service economy. The industrial workforce in France went from 38% to no more than 18% of total employment in 2001, while the service sector expanded massively. Outsourcing contributed to this downward trend in industrial employment.

Even though in absolute terms, industrial outsourcing has not yet taken on massive dimensions in France, it might create dramatic problems of unemployment in particular regions. The Senators note that industrial outsourcing will tend to get worse, because, in addition to low labor costs, there is a well-qualified labor force in eastern Europe, and increasingly, in China and India.

How can France, and Europe, face up to this problem? The Senators' recommendation is: Stop the "financialization" of the economy which imposes the diktat of short-term profits on firms and undercuts the future of firms and society. The European Central Bank (ECB) needs a new policy orientation, demand the Senators. France is the best in high-technology infrastructure projects: nuclear power, water projects, high-speed railways, and machine building for whole industrial complexes. France must fully reorient in this direction, and invest massively in industry-relevant R&D.

The Senate report, however, does not pose the question directly of how to bury the "Maastricht" scheme of budget restrictions imposed by the European Union, and how to reorganize the present neo-liberal financial system.