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Wen Calls China Banks Too Powerful

By **DAVID BARBOZA**

SHANGHAI — Prime Minister Wen Jiabao of China said on Tuesday that the nation's biggest state-run banks have too much power and ought to be broken up because they earn far too much money.

The remarks, delivered during a national radio address while the prime minister was traveling in southern China, were unusually bold and appeared to be a direct challenge to others in the nation's Communist Party leadership to speed up reforms of the nation's financial system.

According to China National Radio, Mr. Wen said: "Frankly, our banks make profits far too easily. Why? Because a small number of major banks occupy a monopoly position, meaning one can only go to them for loans and capital."

"That's why right now, as we're dealing with the issue of getting private capital into the finance sector, essentially, that means we have to break up their monopoly," he added.

Mr. Wen, who is expected to step down later this year as part of a once-in-a-decade leadership change, has been striking an increasingly vocal tone in recent months about political and economic reform and suggesting that vested interests in the Communist Party leadership were stubbornly protecting their hold on power and derailing his reform efforts.

Whether Mr. Wen has the political influence to force changes in the banking system is unclear. While he oversees the nation's economic policy, many analysts say the Communist Party's consensus method of ruling limits his ability to push through his own policies.

That is perhaps why Mr. Wen has begun to signal his frustration with the party about some major areas of politics and economics.

Eswar S. Prasad, a former International Monetary Fund official who teaches at Cornell University, said Tuesday that Mr. Wen's remarks "reflect a growing consensus among reform-minded officials that breaking up the large banks may be an essential step to reduce their

political influence and pave the way for broad, much-needed reforms to the financial system.”

The state’s control over the economy has been a chief point of contention among policy makers, with some pressing for greater state control and others favoring more aid to private companies.

There may also be more to the prime minister’s remarks. They come at a time when there is fierce jockeying for power in the leadership and an internal debate over how to deal with Bo Xilai, a Politburo member who was dismissed recently from his job as party secretary in the city of Chongqing.

Analysts think various power bases in the Communist Party are now battling it out to see who will gain a majority of nine seats on the all-powerful Politburo Standing Committee later this year.

Because he is nearing retirement, Mr. Wen may be trying to make a final reform push in his last months in office, analysts say, but also moving to challenge his opponents on important issues.

He has also been a vocal critic of property developers in recent years and helped push through policies aimed at taming property prices out of fears that a housing bubble was developing and that average people were finding it too expensive to buy a home.

Challenging the big state-run banks will not be easy, though. China’s big four state-run banks dominate the economy, holding most of the nation’s financial assets. And they have been racking up huge profits in recent years, largely because of a lack of competition and strict government controls over lending and borrowing rates.

The banks have made some of that money, analysts say, at the expense of households, which receive little interest on their savings but pay high borrowing rates.

Private entrepreneurs have also complained about the financial system, saying big state-owned banks discriminate against them in lending and favor state companies, forcing many private companies to pay higher rates in the black market.

A series of scandals in coastal areas, involving underground banking and entrepreneurs racking up huge debt, has highlighted the need for reform. Many households, seeing they earn little interest from state banks, have invested in property and lent money to private individuals hoping to reap outside returns.

Beijing announced last week that it would set up a pilot project in the city of Wenzhou, in coastal Zhejiang Province, to allow residents to more easily invest overseas and introduce private lending units, including village banks.

But banking is hardly the only industry with a state oligopoly. There are also big state-owned oil and telecom companies, each of which earns huge profits and which have recently faced protests from the public over consumer prices.