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# For a Top Chinese Banker, Profits Hinder Political Rise

By LINGLING WEI and BOB DAVIS

BEIJING—Jiang Jianqing built Industrial & Commercial Bank of China Ltd. into the most profitable state-owned bank in China.

It has more assets than any other bank in the world, employs the latest techniques to manage risk and was the first Chinese bank to win approval to buy a retail-banking network in the U.S.

Mr. Jiang's reward from China's leadership: The longtime ICBC chairman was the only one of his peers at the nation's top four banks to be passed over for promotion at a recent Communist Party Congress. That badly weakened his chances of running the central bank or holding another senior ministerial-level position in the coming reshuffle of the country's key economic posts.


Xinhua

ICBC is the most profitable state-owned bank in China, but Chairman Jiang Jianqing was passed over for promotion by the country's ruling party.

His problem, according to some bank and party officials, was putting commercial performance ahead of pleasing the Communist Party. ICBC lagged behind other state-owned banks in boosting lending to fight the global downturn in 2009, these officials say, because Mr. Jiang worried that hastily made loans would produce buckets of red ink.

"There's a view he should have done more in 2009," says one official at China's central bank, who says Mr. Jiang should have kept in mind what ICBC's largest shareholder, the Chinese government, wanted him to do.

In a statement to The Wall Street Journal, ICBC said the bank "disagrees with the opinion," declining to comment further. Mr. Jiang declined to be interviewed. The Communist Party's Organization Department, which controls personnel decisions within the party, also declined to comment.

Mr. Jiang's story illustrates how difficult it can be for heads of Chinese state-owned firms to balance the demands of commercial shareholders and those of the Communist Party. While fatter profits are the road to promotion at many Western companies, in China it is party officials who make personnel decisions about top corporate executives—and those party officials have political goals.

"The party personnel system isn't based on performance and competence," says Fred Hu, a former executive at Goldman Sachs Group Inc. who helped take ICBC public. "It's based on loyalty and connections."

When China's largely ceremonial legislature meets for its annual session in March, the nation's new leaders are expected to make decisions about top economic slots, including the head of the central bank and the ministries of commerce and finance.

Mr. Jiang once was viewed by party officials and international financial institutions as a leading contender for one of these plum positions because of his success at running ICBC. He is no longer in the running, according to a party official involved in personnel matters and several others involved in regulatory issues. To qualify for a ministerial post, they say, a candidate generally must be a member of the party's Central Committee, the 205-member body that approves key policies and appointments. Mr. Jiang wasn't elevated to that level; he remains an "alternate" member, a position he has held since 2002.

Mr. Jiang is known within the bank as a tough boss who sets demanding targets—and gets top performance. Several ICBC officials and other employees say his lack of political advancement has hurt morale at the bank, with some executives questioning his profit-centric strategy and others worried that his current political standing could limit their own chances of promotion.

Mr. Jiang has tried to allay concerns. After the Party Congress ended on Nov. 14, Mr. Jiang, who serves as ICBC's Communist Party secretary, called a meeting of several hundred bank employees at its Beijing headquarters. The purpose, according to several bank officials who attended, was to "study the spirit" of the congress—to figure out what lessons it held for them—a Communist Party ritual for state-owned firms.

Mr. Jiang, who is 60 years old, opened the meeting by addressing what ICBC employees considered topic No. 1: why he wasn't promoted to a more senior party role while his banking peers were. He told his colleagues that he wasn't passed over, and that his reappointment to a lower-ranking group of party officials was a compliment, according to three people who attended.

"He said that given his age, the leadership actually made an exception for him by keeping him" in his political post rather than making him retire, recalls one of the ICBC officials who attended. "He said it proves the leadership values him as a banking specialist. Then he asked us not to talk about this anymore and go back to work."

Mr. Jiang was 59 at the time of the November party congress. Shang Fulin, former head of Agricultural Bank of China Ltd., was appointed China's top banking regulator in 2011 at age 59 and is considered a top candidate for central bank governor. Lou Jiwei, head of China's sovereign-wealth fund, China Investment Corp., won a slot on the Central Committee in November when he was 61.

It isn't clear whether Mr. Jiang will stay at ICBC until his retirement or will be moved to a less prestigious post, such as running China's social-security fund, according to bank officials and the party official involved in personnel matters. Mr. Jiang has said publicly that he views himself as a banker.

China's top four banks—known as the Big Four—have long served as launching pads to senior government posts. Mr. Jiang's predecessor as ICBC president, Liu Tinghuan, became vice governor of the central bank, called the People's Bank of China. The current governor of the central bank, Zhou Xiaochuan, previously served as head of China Construction Bank Corp. Mr. Zhou has reached the retirement age of 65, and the leadership is debating when he should step down and who should take over.

One of Mr. Jiang's peers, Bank of China Ltd. Chairman Xiao Gang, has emerged as a strong contender to run the central bank or another financial regulator, according to the party official involved in personnel matters. Mr. Xiao was selected to the Central Committee in November. Bank of China was the least profitable of the Big Four banks in the first nine months of last year but was the most aggressive of the Big Four in ramping up lending in 2009 when the party requested that. "Xiao grabbed the opportunity," says the party official.

Bank of China officials declined to comment.

Top executives at large Chinese companies such as ICBC, which is publicly traded but 70% owned by the state, are chosen by Communist Party officials. The party shuffles most senior officials every few years into different government and business positions, which gives them a variety of experiences and a web of political connections.

Mr. Jiang is an anomaly in that he has spent nearly his entire career at ICBC.

He came of age during the zealotry of the Cultural Revolution. In 1970, at age 17, he was sent to the countryside to work as a farmer and later a coal miner. He returned to Shanghai nine years later. In 1986, he joined ICBC as a bank teller and worked his way to the top, taking over in 2000 when the bank was seen as a bloated bureaucracy weighed down by bad debts.

Mr. Jiang slashed the workforce by some 160,000, reduced its bad debts to below 5% of total assets and boosted profit. When the company went public in 2006, it was then the world's largest initial public offering.

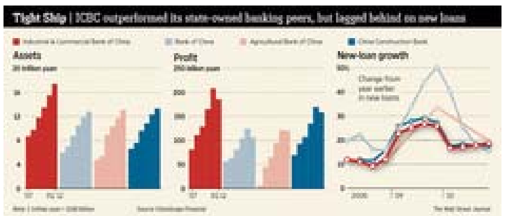
"He's a terrific banker," says former U.S. Treasury Secretary Hank Paulson, who headed Goldman Sachs when it helped take ICBC public. "As opposed to the heads of some state-owned enterprises, he's much more of a natural business leader than a political leader."

Even some of Mr. Jiang's colleagues at the bank say he neglected the political part of his job. When Mr. Jiang was overseeing mass layoffs, he could count on support from Huang Ju, a member of China's ruling Politburo Standing Committee and, from 2003 to 2007, vice premier in charge of finance and banking, according to several ICBC officials.

But after Mr. Huang died in 2007, Mr. Jiang didn't seek out another patron, these people say. He believed that "doing a good job" at the bank would be sufficient to propel his career, says one ICBC official. That meant Mr. Jiang didn't have someone to champion him within the party when decisions were being made about positions outside the bank, these officials say.

Commercially, the bank excelled. ICBC invested heavily in information technology to analyze credit risks and manage the bank's far-flung operations, which include about 17,000 domestic branches. The bank regularly was China's most profitable large bank. In 2012, it became the first Chinese bank to get Federal Reserve consent to buy a foreign bank's retail branches in the U.S.

Some Chinese politicians didn't want the bank to stray from home, especially after the U.S. housing bubble burst, according to the party official involved in personnel matters. "Some people in China think that we should remain in China and only develop domestic business," Mr. Jiang said in an interview with the Asian Banker in 2010. He said that would mean ICBC would lose customers and "gradually become a regional bank."




When the global economic crisis hit in 2008, foreign demand for Chinese goods plummeted. China's leaders sought to stimulate domestic demand. In November 2008, Premier Wen Jiabao publicly pressed the financial industry to "increase its support to China's economic growth."

Mr. Jiang worried that a surge in lending by ICBC would batter the bank's profits in the event of an economic slowdown, according to ICBC officials. In its 2009 annual report, ICBC said it "has especially taken strict control over loans approval when increasing the credit...and made [a] full check of new lending to make prompt corrections and eliminate potential risks."

From the fourth quarter of 2008 through the second quarter of 2010, ICBC increased lending more slowly, on a percentage basis, than its biggest competitors. In the average quarter during that period, new loans originated at ICBC were 20% higher than in the year-earlier period, compared with 33% higher at Bank of China and 24% at China Construction Bank, according to ChinaScope Financial, a data provider.

The other Big Four bank, Agricultural Bank of China, didn't fully disclose quarterly loan data during that period. In the one quarter for which it did, the fourth quarter of 2009, its new loans increased 33% over the prior year, compared with 50% at Bank of China, 27% at Construction Bank, and 25% at ICBC.

ICBC, which is much larger than the other three, originated 286.8 billion yuan ($45.5 billion) of new loans per quarter, on average, in 2009. That was less than Bank of China, which originated 401.9 billion yuan per quarter on average, but more than China Construction Bank, which averaged 252.3 billion yuan per quarter, according to ChinaScope.

Some analysts predict that many loans originated during that period are likely to go bad. A 2011 report by U.K. bank Standard Chartered PLC estimated that eight trillion to nine trillion yuan of local-government debt and railway lending, much of it incurred between 2008 and 2010, might eventually have to be written off. Chinese officials have said the bad-loan problem is "manageable."

By avoiding excessive loan growth during 2009, "ICBC might be able to incur lower credit losses than its peers in the next few years," says Standard & Poor's analyst Liao Qiang.

The commercial success didn't translate into plaudits from party leaders, according to the party official involved in personnel matters. "There are different views about Jiang's management style and strategy," he says. Some senior officials, he says, were "skeptical of Jiang's strategy of plowing profits made domestically into foreign markets."

Eswar Prasad, a former International Monetary Fund official responsible for China, says Mr. Jiang "created enemies," especially among provincial leaders who wanted ICBC loans to build housing, subways, airports and other infrastructure. "When the government asked for the banks to step up lending, Jiang was one of the most reluctant," says Mr. Prasad, now a China scholar at Cornell University.

In a March 2009 interview with business journal McKinsey Quarterly, Mr. Jiang said that "the government's recent decision to boost domestic demand offers a great opportunity for the banking industry. However, ICBC is a commercial bank and we have to view these opportunities from the business perspective." Chinese banks were "technically bankrupt" around 2000 because of bad debts, he said. "The high risk situation that China's banking institutions experienced before is the last thing we want to see this time."

During months of political wrangling before November's Party Congress, China's communist elite picked the ruling Politburo standing committee, including Communist Party chief Xi Jinping and No. 2 official Li Keqiang, who are expected to run China for the next 10 years as president and premier, respectively.

Mr. Jiang's political standing was evident in his recent selection as an alternate member of the central committee. Alternate members are listed publicly by the number of votes they receive. Out of the 171 alternates, Mr. Jiang was 31 spots from the bottom.

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