

# Analysis of the Bottleneck Restricting Party Building of China's State-Owned Commercial Banks in the New Era

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## Abstract

Since the 18th CPC National Congress, socialism with Chinese characteristics has ushered in a new era, so has China's financial industry. As the reform of state-owned commercial banks deepens, party-building plays an increasingly vital role in the operation and development of banks. Meanwhile, party-building of state-owned commercial banks is also confronted with bottlenecks and challenges, including party-building fails to effectively guide the finance industry to serve the real economy, to be integrated into bank management in-depth, to completely prevent the financial system from corrupting, and to vigorously restrain excessive pay in the financial sector.

**Keywords:** new era, China, state-owned commercial banks, party building, bottleneck

## 1. Introduction

General Secretary Xi Jinping highlighted at the National Conference on Party Building in State-Owned Enterprises (hereinafter referred to as "SOEs") that in order to equip SOEs with "six forces", it is necessary to fortify the leadership of the Chinese Communist Party over SOEs and enhance the role of the party within SOEs (Xi Jinping, 2016). The instruction imposed new requirements on party-building of SOEs in the new era, and state-owned commercial banks are no exception. As an essential part of China's financial system, state-owned commercial banks perform valuable social functions such as facilitating the government's macro-controls and offering financial services. They are the basic foundations for ensuring China's economic and financial development and social stability. As the reform of state-owned commercial banks deepens in recent years, party-building plays an increasingly vital role in the operation and development of banks. As such, the extent to which party-building is effectively conducted will affect whether state-owned commercial banks can thoroughly study and implement the party's central principles and policies, which are decisive in underpinning banks' reform and development, as well as maintain their stability. From a realistic view, strengthening party building has significantly prompted the operation, governance and supervision of state-owned commercial banks and drive the mobilization of employees including party members. That aside, it is far from negligible that there are still problems that need to be resolved, including party-building fails to effectively guide the finance industry to serve the real economy, to be integrated into bank management in-depth, to completely prevent the financial system from corrupting, and to vigorously restrain excessive pay in the financial sector.

## 2. Point of View

### 2.1 Party Building Fails to Effectively Guide the Finance Industry to Serve the Real Economy

Since the 18th National Congress of the Communist Party of China, the Party Central Committee has put a high value on the status and role of finance in the overall national economy, manifested by that the CPC incorporated the finance sector as a critical component of the country's core competence and positioned the function of the financial system in leading economic and social development as basic. With economic expansion moderating to a "new normal" pace and financial development stepping into a new phase, General Secretary Xi Jinping objectively pointed out that finance should play its role in serving the real economy, catering to economic and social development while meeting the needs of the people (Xi Jinping, 2019). It can be inferred that strengthening finance's role of serving the real economy is not only the underlying tenet of developing state-owned financial enterprises but also a beacon indicating the right way for preventing the economic form from "being diverted out of the real economy" and optimizing industrial structures.

Generally speaking, the real economy mainly involved with the production, transformation, operation, and sales of material goods, which covers all aspects of the national economy and people's livelihood, including agriculture and forestry planting, machinery manufacturing, resource extraction, material excavation, textile processing, logistics and transportation. These fields supply basic living materials and provide basic consumption activities required by people living in the society as well as their basic needs—food, clothing, shelter and means of traveling. Compared with the virtual economy, the real economy is tangible and depends on the specific carrier form, like a touchable flesh of the society, and has laid the foundations for the physical production of the entire society in human economic activities and social interactions. On the one hand, the virtual economy emerged along with the real economy. On the other hand, the development of the real economy is inseparable from the solid financial support of capitals. All links, including raw material procurement, equipment purchasing, investment, production, logistics, warehousing, advertising and marketing, entail funding. Any cutoff of capitals, regardless of which link, may lead to the failure in allocating market resources, making the real economy in effect moribund and unsustainable. Furthermore, the real economy needs to rely on financial activities of the virtual economy to "make money from money", so as to output and transfer commodity value. In this sense, only by keeping the financial system awash with liquidity can the real economy obtain an outpouring of financial support from it. Nonetheless, the nature of money and capital in the financial system, that is, profit-seeking and expansion-oriented, often directs the virtual economy to hunt for the maximized profits (Chen Zhiwu, 2014). A lack of effective supervision and appropriate macro-control would leave the market to be randomly commended by the invisible hand, and thus financial activities are prone to derail from the normal operation track of serving the real economy, ending in misallocation and waste of social resources, and an out-of-order and shambolic market.

Socialism with Chinese characteristics has crossed the threshold into a new era. Under the strong leadership of the CPC Central Committee, China's finance industry has witnessed laudable achievement in transforming towards modernization and deepening reform across the board, as both the quality and efficiency of the state-owned commercial banks in serving the real economy have lifted and the overall financial data indicates good momentum. However, it's still a long way from attaining the medium- and long-term goals regarding the reform of state-owned financial enterprises. At the same time, the related structural contradictions remain pronounced. The basic financial logic that the virtual economy should be based on the real economy is inverted in day-to-day economic activities, with capital flows and investment circling within the virtual economy without returning to the real economy or refueling production. This capital operation that spins around in a closed circle only results in a zero-sum game. Also, there is an exacerbated trend in the imbalance among where the financial industry serves. State-owned commercial banks often focus on funding large-scale enterprises, while ignoring private and small and medium-sized enterprises who often find it hard to be financed or obtain loans, which is long considered a tough nut to crack. All of these are key parts stressed by the Party Central Committee to upgrade the quality and efficiency of the financial sector in serving the real economy, but judging from what has been achieved by party-building of state-owned commercial banks in recent years, party-building, which should function as a navigator, a guardian, and a supervisor, fails to play an effective role in guiding the financial sector to serve the real economy.

## *2.2 Party Building Fails to Be Integrated into the Operation and Management of State-Owned Commercial Banks*

Since the 18th National Congress of the Communist Party of China, as China's financial reform and opening-up proceed in an orderly manner, the operation and development of state-owned commercial banks have stepped into a new stage. In essence, the operation and management of banks target wealth information, on which it provides professional financial services such as processing, transformation, alteration, and value-adding. Different from material processing services (things-things) provided by physical enterprises, banking enterprises offer wealth information processing services (people-people). With the rapid development of information technology and the steadily increased diversification in people's financial needs, banks are unceasingly speeding up the innovation on the operation and management, including advancing intensive management, optimizing business processes, operating modes and service experience. In this way, the banking system becomes growingly regulated, standardized, intelligent and information-based, reflected in process reengineering in the foreground, unified operations in the center, and centralized supervision in the background. Although various banks differ in management concepts and styles in their business models, they basically operate around four major goals: creating profits for enterprises, providing professional services to customers, creating wealth for shareholders, and mitigating systematic financial risks. Regarding organizational structures, most of China's commercial banks adopt the Branch Banking System under which the banking operations are carried with the help of branch network and the branches are controlled, like departments, by the Head Office of the bank through their zonal or regional offices. The organizational structure of commercial banks is in some way analogous to that of the government. In other words, the operational structure of China's commercial banks to some extent resembles institutional arrangements of China's administrative system, with both market regulation and planning methods as its main features. Hence, the blooming of China's commercial banks is the result of the centralized system

and displayed significant advantages in scale operations. However, this structure is inclined to breed bureaucratization and concentrated administrative power, which may impede enterprises to elevate their professional capabilities and hinder the reform process of the financial market.

In *the Trial Regulation on The Work At Primary-Level Party Organizations Of State-Owned Enterprises (SOEs)*, it was pointed out that persistently integrating party building into production and operation is one of the basic principles that should be followed by party organizations work of SOEs (Central Committee of the Communist Party of China, 2020). Since the 18th National Congress of the Communist Party of China, the level of professionalization and internationalization of the operation and management of state-owned commercial banks has been continuously lifted, surpassing other industries in profit creation, brand reputation, market competitiveness, etc. However, party-building in state-owned commercial banks lags way behind the growth of their own business. As the enterprise nature of banks become increasingly dominant in the market economy system, the leadership and discourse power of the party as the main body has weakened and degraded. According to the decision-making and deployment of the Party Central Committee, SOEs should incorporate party building into the company's articles of association and norms, and party organizations should be given a clear legal status, reasonable functional roles, and specific responsibilities in the company's operation and management structure, but in reality, party organizations of state-owned commercial banks are often mere figureheads without the right to control the specific operations. On the one hand, party organizations lack physical guarantees such as inadequate material conditions, operating mechanisms, relevant personnel and support staff in the operation and management of enterprises. Moreover, the division of labor in financial enterprise organizations is based on specialization and highly professional. Being deeply integrated into the operation and management of banks require party organizations have core leadership both politically and professionally. This poses a double challenge for party-building and also determines whether party organizations can deeply engage in the modern governance and systematic operation of bank enterprises. On the other hand, according to the design and practice of China's modern enterprise system, party organizations should have crucial decision-making power and supervision power when making decisions on major issues in the board of directors and managers of state-owned commercial banks, but in fact, pre-procedures such as conducting investigations and proposing suggestions by party organizations have been transformed into a procedural formalism in the practice of banks and enterprises. Party organizations did neither act as a "gatekeeper" nor wield a substantial impact on banks. As party organizations and the main body of bank operation are connected in form but separated in fact, it can be seen that the issue has hindered the promotion of party-building to the reform of bank's management structure, and also became a knotty bottleneck in party-building of the state-owned commercial banks.

### *2.3 Party Building Failed to Completely Prevent the Financial System from Corrupting*

Since the 18th National Congress of the Communist Party of China, the Party Central Committee and the State Council have attached great importance to the anti-corruption issue in the financial industry, and have continuously strengthened the internal supervision of state-owned financial enterprises through political pressure. Premier Li Keqiang emphasized that it is necessary to resolutely investigate corruption cases in the financial sector and punish offenders without mercy in accordance with the law, as well as to coordinate endeavors to prevent risks and combat against corruption in the financial sector (Li Keqiang, 2017). Despite the ever-increasing efforts in party building in state-owned financial enterprises, violations of laws and regulations, corruption, and chaos in the financial market have not been eradicated. As such, the financial sector has become a key focus for the Party Central Committee to fight corruption and promote integrity. Preliminary statistics on the website of the Central Commission for Discipline Inspection show that since 2012, there have been at least 100 financial supervisors and personnel investigated for suspected violations of regulations and disciplines, including "tigers" (senior officials). For instance, for officials that were ousted in the financial sector in 2019, two of them were the cadres recorded on the Organization Department of the Central Committee of the CPC, and nearly 20 of them were first-class staff working in party and state organs, SOEs, and financial units.

First, party organizations in enterprises fail to completely protect classified information in the financial system from disclosing. Although party organizations of state-owned financial enterprises conscientiously implemented the strategic deployment of the Party Central Committee to maintain the state's financial security, took the initiative in disseminating political rules and principles, ensured political disciplines and supervised economic behaviors, the results of party building achieved were not satisfactory. For instance, some cadres of state-owned commercial banks hold important positions in both party organizations and enterprises, but what they did was all inside jobs, leaking secrets to external enemies, illegally colluding with foreign financial plutocrats, betraying state economic secrets or financial decisions to them, selling state assets cheaply, and jeopardizing national economic sovereignty; some executives of state-owned banks disregarded laws and party rules. Together with overseas financing and investment institutions, they shorted the Chinese financial market and illegally raked in exorbitant profits behind the scenes.

Second, party-building of enterprises fails to effectively prevent bank employees from laundering money. Although

when building party organizations of state-owned commercial banks, great importance is attached to the education and dissemination of the bottom-line thinking and ruled-by-law thinking advocated by the Party Central Committee, the constraints on first-tier financial market participants are still weak. Some bank practitioners, taking advantages of loopholes in the financial system, collude with private illegal banks and participate in unlawful money laundering activities brazenly. Some employees of overseas Chinese-funded banks even used their positions to facilitate international money laundering activities, which severely disrupted the stability of the financial system as well as the normal order of the economy and society.

Third, party-building of enterprises fails to effectively rectify financial irregularities. While party organizations of state-owned commercial banks continue to participate more closely in corporate governance and strive to urge financial enterprise entities to stick to the legal and compliance track, considering interests and relationships of state-owned commercial banks are intricately and the market competition is highly fierce, it happens from time to time that some state-owned commercial banks made a desperate attempt to violate the financial laws and regulations, such as illegal credit granting, charge improper handling fees, and forge fake documents.

Fourth, party-building of enterprises fails to effectively restrict financial executives from abusing their power for personal gain. Although party organizations of state-owned commercial banks constantly complete the system and mechanism and attempt to supervise power of leaders, cadres, and executives in an all-rounded way, they fail to create an environment that is free of financial corruption. Absolute power corrupts absolutely (Acton, 2011). The power of state-owned commercial bank leaders is so special that leaders can not only deploy market resources (such as privileges to approve loans and manipulation of credit lines) but also have direct access to currency, money and interest rates.

Most of the illegal profits generated by corruption, albeit with various forms, are closely linked to financial carriers and intermediaries. Therefore, to a certain extent, the financial sector is the place where collusion between power and money is most likely to occur. Once the power of executives of state-owned commercial banks is abused, financial corruption may take place in a caving-in manner. As every man invested with power is apt to abuse it (Montesquieu, 1993), it is crucial to building a barrier that could restrict power and resist corruption. Since the 18th National Congress of the Communist Party of China, the Party Central Committee has adhered to the policy of no restricted zones, full coverage and zero tolerance in its fight against corruption in the financial industry. It is found from the anti-corruption campaign that the corruption in the financial system presents some general characteristics, for example, the loss of principles of the party spirit at the ideological level, obstructing organizational censorship; and violation of the Eight-point Regulation of the Centre (Chinese: 中央八项规定) at the behavioral level and misuse of official funds. From this point, party organizations of state-owned commercial banks should work harder to improve the ideological and political education of the staff and workers in key positions and press ahead with supervision on their power and responsibility. How to break through the bottlenecks and barriers of weak background supervision in the financial industry and give full play to the "firewall" role of party organizations has become a thorny issue for party-building of state-owned commercial banks.

#### *2.4 Party-Building Fails to Vigorously Restrain Excessive Pay in the Financial Sector*

The gap between rich and poor has always been in the limelight of economic sociology and is also the main concern of the security system of social justice. Generally speaking, economies in different development stages would face different issues of the income distribution (Su Jingchun, 2019). Income distribution is closely bound up with the vital interests of people. Since the 18th National Congress of the Communist Party of China, the Party Central Committee has underscored the reform of the income distribution system, after which a series of important results have been achieved. However, we should also admit that in the socialist market economy, the vertical hierarchy of the industrial value chain and the horizontal difference in the industrial division of labor chain highlight the income gap and salary gulf between different market participants. To resolve this structural contradiction, it is necessary to straighten out the distribution relationship among the state, enterprises, and residents.

In recent years, the income and executive compensation of China's financial industry has far outstripped other industries, including energy, agriculture, infrastructure, and e-commerce industry. According to the Choice data release by *East Money*, in 2018, China's big four state-owned banks dominated the salary list of companies and corporates. Among them, Agricultural Bank of China ranked first, with total salaries reaching 123.809 billion yuan; and China Ping An Insurance ranked first among all insurance companies, amounting to 66.883 billion yuan; CITIC Securities topped the brokerage list with 10.651 billion yuan; there are 21 financial executives whose annual salary exceeds 5 million yuan. Chairmen, presidents, chief supervisors (often part-time leaders of party organizations) and other executives of state-owned commercial banks are often overpaid, and their remunerations are either unbalanced or determined by themselves, which has long been denounced by the public. To this end, the Party Central Committee issued a "salary cap order" on senior executives of SOEs, which to a certain extent, ameliorated the unreasonable distribution pattern.

Such being done, the value orientation that the financial industry equals a synonym for high wages has not been fundamentally changed. Enormous excellent professionals, instead of engaging in basic scientific research or taking positions in physical industries, flocked to financial services industry such as banking, insurance, and securities. At the same time, the popularity of financial majors as a premium choice for students' undergraduate and graduate education also crystallizes how the salary-oriented financial industry can affect people's realistic choices.

General Secretary Xi Jinping pointed out that an important feature of contemporary economic development is the significantly growing contribution of knowledge, technology, managerial expertise and other production factors in production, so our distribution pattern should echo with this changing trend (Xi Jinping, 2016). It's plain to see that the distribution policy-oriented to increase the value of knowledge is in line with China's current stage of economic and social development, but the siphoning effect of the salary structure of the financial industry has diluted the efficiency and fairness of the distribution policy to a certain extent. Many party organizations of state-owned commercial banks have various deficiencies and shortcomings in carrying out the indicative spirit and specific deployment of the Party Central Committee so that party-building's role as guidance on ideology and talents training is delayed. Studies have shown that the participation of party organizations in governance can help reduce the absolute compensation of executives, inhibit executives from overpaying, and narrow the salary gap between executives and low-level employees (Ma Lianfu, Wang Yuanfang, Shen Xiaoxiu, 2013). Nonetheless, from the overall effect, party-building fails in acting as a political leader or rendering ideology guidance. Hence, it did not effectively regulate income distribution order and executive compensation structure in the financial industry, nor did it comply with the Party Central Committee's policies. These are the conundrum and bottlenecks faced by party-building of state-owned commercial banks.

### 3. Conclusions

Since the 18th CPC National Congress, socialism with Chinese characteristics has ushered in a new era, so has China's financial industry. From a macro-environmental perspective, China will face major opportunities the "new normal" phase of the economy, a period in which much can be achieved. Among them, as the reform of SOEs deepens, the financial system will advance unceasingly, and markets will open wider to the outside world. Under the robust leadership of the Communist Party of China, China's state-owned commercial banks have gradually entered the fast lane, manifested by steadily promoted capital operations such as reform, mergers and acquisitions, and restructuring, as well as active participation in the competition of global financial markets. From a micro-environmental perspective, with the CPC's coordinated progress in the "five-sphere integrated plan" and balanced progress in the "four-pronged comprehensive strategy", the significance of state-owned commercial banks' party building in the new era has lodged itself in the mind of party members and staff. Party-building in the state-owned financial system will also herald a new round of opportunities for growth. Such being the case, in recent years, with the world economy in recession, the cloudy trend in development and the downward pressure on the domestic economy, the US Trump administration pursues unilateralism and initiated the Sino-US trade war, making the world economy even worse; as technology revolves and reforms, Internet finance has seen explosive growth and proceeded steadily, continuously taking up slices of the market share of traditional finance. Against the backdrop of economic globalization and the "Internet +", China's financial industry is also confronted with tremendous difficulties and will inevitably be impacted more or less. Giving the resistance met during the development and reform and the pressure in expanding business, party-building fails to effectively guide the finance industry to serve the real economy, to be integrated into bank management in-depth, to completely prevent the financial system from corrupting, and to vigorously restrain excessive pay in the financial sector. To a certain extent, such problems also throw up obstacles to the growth of the state-owned commercial banks which need to be solved urgently. Since the 18th National Congress of the Communist Party of China, how to seize opportunities and follow the trend has been a major and realistic issue for various participants in the Chinese Communist Party and China's financial industry. We should be profoundly aware of what is faced in the new environment for state-owned commercial banks to strengthen party building in the new era and the new normal phase of the economy, seize new opportunities to press ahead party building, and courageously respond to new challenges in party building. This is a paramount part of the CPC's own construction and also the ideological connotation of General Secretary Xi Jinping's important exposition on party-building in SOEs in the new era.

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