

China growth story hit by corruption

By David Barboza

Shanghai: China has been shaken by a series of large-scale bank robberies in recent years, but they are not the Bonnie-and-Clyde type. These are inside jobs: top executives, branch managers, loan officers and thousands of everyday employees have been running off with billions in customers' money.

Consider what has happened in just the first two months of 2005. First, a branch manager at the Bank of China disappeared with more than \$100 million in cash. A few weeks later, dozens of employees of another commercial bank were arrested for conspiring to steal nearly \$1 billion. And then mid-level officials of the China Construction Bank fled with about \$8 million.

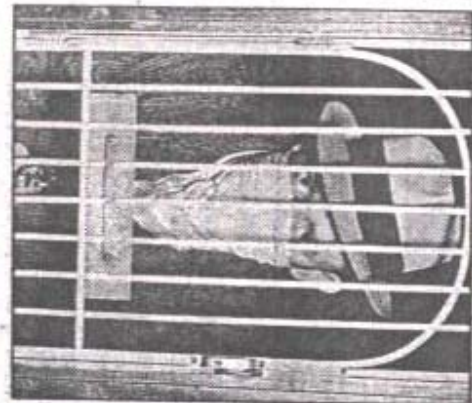
There is no word yet whether any of the money has been recovered. But the chain of events underlines angrily byproduct of China's aggressive embrace of a freewheeling, get-rich-quick form of capitalism: a long-running wave of corporate and government corruption scandals.

The financial scandal watch gained new prominence last week with news reports that Zhang Enzhao, the head

of the China Construction Bank, resigned after a lawsuit accused him of having accepted a \$1 million bribe from an American company, Allied Information Services.

The scandals are by no means limited to banks. Since the early 1990s, China's modern robber barons have focused on all manner of state-run companies. Brokerage houses, government-controlled investment management firms and dozens of state-owned companies have been looted of billions, according to government investigators. The official media are filled with accounts of executives and public employees accused of embezzling money and sometimes gambling away those funds at border casinos.

With China awash in speculative money intended to fuel its economic boom, many corporate executives have turned greedy, and even low-level employees are engaging in self-dealing transactions and learning how to



Billions of dollars have been looted by employees who want to get rich quickly

funnel millions of dollars into offshore accounts. "Corruption is pervasive in China," said Larry Lang, a professor of finance at the Chinese University of Hong Kong. "A lot of state-owned companies have been simply stripped clean."

Few experts say that the scandals will slow China's roaring economic growth anytime soon. But economists and government officials worry that the glaring examples of fraud, bribery and embezzlement could badly hinder the development of the nation's banking and financial systems, which desperately need to be modernised for China to become a full-fledged economic superpower.

In the last four years, at least 25 government officials have been sentenced to death for accepting bribes and kickbacks.

Hundreds more are serving lengthy prison terms. But every month, the number of fraud cases seems to mushroom. Two weeks ago, the gov-

ernment announced that 68,000 people had been punished for misappropriating money or making unauthorised loans at just two of the big four state-owned banks. In 2003 alone, officials said that the equivalent of nearly \$8 billion was pilfered from state-owned enterprises.

In many ways, the corruption scandals offer a telling glimpse into the darker side of China's remarkable ascent. Though the economy is soaring, incomes are rising (per-capita income grew to \$1,100 in 2003, the last year figures are available) and foreign investment continues to flood into the coastal provinces, China's finances are in a mess. The benchmark Shanghai stock index is down about 40% over the last four years. Nearly half of the nation's 130 brokerage houses are insolvent. And the biggest banks are weighed down by enormous debts.

"The financing system that supports China's economic growth is very fragile," said Sun Lijian, a professor at Fudan University in Shanghai. "People are often impressed by the look of cities like Beijing and Shanghai, or with the GDP growth every year. But without a strong financing system, China's economic growth is unhealthy." NYT News Service