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Tao of Downfall:

The Failures of High-Profile Entrepreneurs in the Chinese Economic Reform

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Man of noble character is keen on wealth and takes no money but in a moral way.

- Confucius (551-479 BCE)

Abstract: Through historical reviews and case studies, this research seeks to understand why some initially successful entrepreneurs failed in the economic boom of past decades. Among various factors contributed to their downfalls are a unique political and business environment, fragile financial systems, traditional cultural influences and personal characteristics. Notwithstanding that these factors should be further tested through empirical studies, those high-profile entrepreneurs are oblivious but essential actors in the grand theater of China's economic transformation, and their failures have contributed to the swift development of the Chinese entrepreneurship over the last thirty years.

Keywords: Chinese entrepreneurs; entrepreneurship; economic reform; corruption; business environment; cultural influence; personal characteristics.

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1 Introduction

In any competitive business environment, both success and failure are expected. Of all new businesses launched, a great majority will fail sooner or later, as entrepreneurs will need not only luck and timing but also vision and perseverance to succeed. So failure is not something to be shamed, but a great motivation factor for some new innovations and future undertakings.

China's economic transformation over the last thirty years is filled with stories of success and failures. Just as an old Chinese adage on human endeavors summarized - while winners were hailed as king, losers generally ended up as criminals - many of the failed entrepreneurs discussed in this paper have been allegedly involved in economic crimes of some sort. Whether publicly acknowledged or not, capitalist crimes have been growing as fast as the country's economy. According to a survey by the Political & Economic Risk Consultancy, China is considered to be among the three most corrupt countries in Asia (*Economist*, 1995). Despite the continuing efforts by the Chinese Communist Party (CCP) to crack down, corruption in China has grown both in frequency and scope. Corrupt acts that qualify as crimes include embezzlement, bribery, misappropriation, illegal earnings and illegal profiteering, but not squandering, privilege seeking, violation of accounting rules, and moral decadence (Shieh, 2005). In order to have a better defined scope, however, this study will not cover the high-rank officials involved in bribery and corruption scandals, such as Chen Liangyu of Shanghai, Liu Zihua of Beijing and Wang Xuebing of Bank of China, although their cases are closely related to the Chinese economic reform of the last thirty years.

This is China's Gilded Age, a period of growing wealth and industrialization, and a time of great ups and downs. Distinctive of capitalism in its early, exuberant stage of development, as noted by Mihm (2007), this period is one in which technology has improved dramatically, and markets have burst their older boundaries. Yet the country is still relying on outdated regulations to control its booming commerce. Consequently when the lines between legitimate and fraudulent means of making money become blurring, laws will be broken and the downfall of many entrepreneurs will be inevitable, and more will follow their paths, until China's regulatory institutions catch up with its economic ambitions.

Since there are so many failed entrepreneurs, this study will try to focus on private or collective businesses, and those cases that have profound impacts on Chinese economic development. Comparing with the state-owned companies, the private sector in China is extremely dynamic, growing at around 20 percent a year, more than twice as fast as the economy as a whole. It has grown to contribute about two-thirds of China's gross domestic product and fixed capital investment, 70 to 80 percent of tax revenue for local government, and is responsible for most of the country's job creation by employing more than 75 percent of people in urban areas (James, 2005). Therefore focusing on private entrepreneurs will likely present a more accurate and realistic picture of the Chinese economic reform.

Listed below are ten cases of high-profile failures of Chinese entrepreneurs. They ranged from elementary school dropout to post graduates of China's elite colleges, from village leader and street vendor to PLA officer and inventor. They were not only dreamers and reformers, but also *guanxi* builders, risk takers and gamblers. All in all,

they are important actors on the grand stage of China's dramatic economic transformation over the past three decades, and through their ultimate downfall the glories and misfortunes of Chinese economic reform have been vividly documented.

2 Ten Cases of High-profile Failures of Chinese Entrepreneurs

According to *Forbes* in 2001, Gu Chujun (1959-), a prominent Chinese entrepreneur, was China's 20th richest person with 236 million dollars of wealth. Born in Yangzhou, Jiangsu Province, Gu received his college education from Tianjin University. After he patented the chlorofluorocarbon-free refrigerant technology in 1990, Gu formed the Greencool Technologies, which served as the base for his corporate expansion ambition. His crown jewel was Guangdong Kelon Electrical Holdings, then one of the largest refrigerator companies in China. However in 2005, Gu was accused of overstating revenue, falsifying registered capital and embezzling company money. Gu denied the accusations, claiming that his alleged crimes were "common practices" in an "unfriendly environment" where authorities only supported state-owned enterprises and foreign investment.

Huang Guangyu (Wong Kwong Yu 1969-), known as "the Price Butcher" and one of the country's most dynamic young entrepreneurs, is a classic rags-to-riches story. Huang is in many ways the physical embodiment of China's economic miracle of the last three decades. As a high school dropout he moved to Beijing at age 16 with his brother and began selling radios and gadgets from a small shop. With \$500 and a vision that an increasing level of income would go along with an increasing demand for household appliance, they eventually formed the nation's largest electronics retailing chain Gome,

or Best Buy of China. As of June 2008, the company had 12% share of China's electrical retail market, with 828 stores in 198 Chinese cities, selling everything from Dell computers to Apple I-pods. *Hurun Report* in 2008 listed Huang as the richest person in China, worth about \$6.3 billion. In November 2008, Huang was detained by police for alleged security fraud on the Shanghai Stock Exchange.

A self-made businessman and China's "most wanted" fugitive, Lai Changxing (1958-) was the head of Yuanhua Group based in Xiamen, a coast city located in Fujian Province. In the late 1990s Lai was indicted in the largest smuggling and corruption case in the history of the People's Republic of China. Begun trading imported goods in the 1980s, Lai later built a smuggling monopoly in Xiamen. In a four-year period from 1996 to 1999, Lai's company smuggled in an estimated 53 billion yuan (US\$6.38 billion) worth of goods, resulting in the loss of an estimated 30 billion yuan (US\$3.6 billion) in taxes, which amounted to about a half of national revenues from tariffs in 1998. When the dust finally settled, more than 600 people were involved in the smuggling operation, of which more than half were put on trial by 2001. While Lai fled to Canada upon tipped by corrupt officials, Yuanhua case have led to death sentences to 18 people, seven of them have been executed; and at least 12 individuals are currently serving life sentences.

Mou Qizhong (1941-), one of China's richest entrepreneurs in the 1990s, is the former president of Nande Economic Group based in Tianjin. Once hailed as China's reform hero, Mou started out with only 500 yuan, but like an alchemist he transmitted that into millions. His magic was to profit from an economy that in those days had huge demand but little cash. Mou was known for swapping 500 railway cars full of surplus Chinese goods for four Soviet-built aircrafts, which netted him tens of millions of dollars

in 1992. A man of ambition and imagination, Mou was full of dreams. He intended to purchase a Russian aircraft carrier for the Chinese navy, and considered to blow an opening through the Himalayas so that moist air from the Indian Ocean could be diverted to the dry regions of northern China. He also wanted to become China's king of privatization, setting up overseas holding companies to acquire state-owned assets, taking advantage of tax concessions to foreigners (*Economist*, 2000). However in a few short years, because of those multiple undertakings, his company accumulated major debts and was unable to resume normal operations. In 1999 Mou was charged with defrauding banks of \$75 million by using fraudulent letters of credit and sentenced to 18 years behind bars.

Once known as the "king of Chinese capital", Tang Wanxin (1964-) was the president of D'Long Strategic Investments. Founded in 1986, D'Long Group first branched out into entertainment, computers, tourism and agricultures. In the early 1990s Tang jumped into China's burgeoning stock market and quickly made tens of millions. Only a decade later D'Long grew to become the controlling partner of 200 firms worth billions of yuan listed on the Shanghai and Shenzhen Stock Exchanges. Tang had aggressively sought to acquire companies both in China and abroad, leveraging his buyouts with borrowed money that carried annual interest rates as high as 20 percent. Although initially impressive, D'Long became an unsustainable stock market bubble. In 2004 when the central government ordered tightening of lending to stave off a looming bad loan crisis in China's banking system, the value of D'Long collapsed, resulted in the loss of billions of yuan and an eight-year prison sentence for Tang.

Yang Bin (1963-) was once listed by *Forbes* as the second richest man in China, with an estimated \$900 million in assets in 2001. Born in Nanjing, Yang was orphaned at age five, but later attended the Chinese Naval Academy and served as a PLA officer. With a scholarship he went to study in the Netherlands, where he made a fortune with a Dutch company. Upon returning he launched horticulture and real estate business in northeast China. His Euro-Asia Group was one of the first private Chinese enterprises to list shares on the Hong Kong Stock Exchange. During his brief business career Yang had developed a reputation for his keen ability to generate large investment capitals from various international banks. However his fortunes shifted after a corruption scandal in Shenyang toppled the mayor, who had supported him. Under pressure, Yang traveled to Pyongyang, donated millions of dollars and developed ties to North Korean leaders. Yet just days after being appointed by North Korean leader Kim Jon II to be the head of a new special economic zone near the border with China, Yang was arrested in China for economic crimes and tax evasions. He was sentenced to 18 years for bribery, forgery, contract fraud and illegal use of agricultural land.

Yang Rong (1956-) has contributed both fame and infamy to the Chinese economic reform. From a humble background he achieved a milestone by leading a Chinese company to the first global stock listing. His reputation and ability for wheeling and dealing brought him both fortune and risks during his entrepreneurial career. Using his connections at the highest levels of the central bank, he made the Brilliance China Automotive to become the first Chinese company listed on the New York Stock Exchange in 1992, and by 2001 he was ranked number three of the richest Chinese by *Forbes*, with an estimated net worth of \$840 million. However the fame also brought him

unwanted attention to the supposedly state-owned company, and the provincial officials were further irritated when he incorporated his holding company in Bermuda and attempted to relocate its operations out of Shenyang. As the government began to investigate the potentially illegal financial dealings he was alleged to have conducted with Brilliance stock, Yang left China and sought refuge in the United States, where he claimed he was wrongly prosecuted.

Famous peasant boss of Daqiu Village, Yu Zuomin (1930-1999) was one of the pioneering entrepreneurs in the rural economic reform. Realized from early on that agriculture could not serve as the source of wealth, he began to build factories in the late 1970s, one of first villages to do so in China. Within a year, his small steel mill earned more money than the village profits combined over the past three decades. Thus more factories were established, and Yu incorporated them into a village holding company in which he served as the president of the new rural conglomerate. By 1992, Daqiu was noted as the richest village in China, and its steel output constituted three percent of the national production. However, Yu's arrogance grew along with wealth and fame, as his behaviors became increasingly dictatorial with little tolerance of different opinions or criticisms. In 1993 Yu was arrested and found guilty of harboring criminals, obstructing justice, bribery, unlawful detention and unlawful control of people. After being sentenced to twenty years in prison, he died of heart attack while on parole a few years later.

A pharmacist and former PLA officer, Zhao Xinxian (1941-) was the chairman of Sanjiu Enterprise Group, a large state-owned enterprise based in Guangdong. After receiving his degree in pharmacology, Zhao went to work for a military hospital in Guangzhou. In 1985 he founded the Nanfang Pharmaceutical with several colleagues,

and two years later began to produce a traditional medicine for treating gastric disorders. It became an instant hit and the firm quickly grew to be the best-known and most profitable pharmaceutical company in Chinese medicine. Encouraged by the initial success, Zhao undertook a massive expansion drive in the mid-1990s, diversifying into eight lines of business including pharmaceutical, agricultural products, tourism and real estate development. During its peak the group controlled over 100 companies with combined assets of nearly 20 billion yuan. However due to unsustainable expansion strategies, the group collapsed a few years later and Zhao was arrested for alleged economic crimes.

Former head of Nongkai Development, Zhou Zhengyi (Chau Ching-ngai 1961-) was the self-proclaimed richest man in Shanghai. Although he did not complete high school, Zhou had a very quick mind and was a risk-taker. At age 17 he went to work by cooking dumplings at a small restaurant and later sold clothes at a street stall. Taking advantage of China's shift to a market economy, he began trading in goods between provinces, and later playing stock market by buying shares issued to employees of state firms at low prices before they listed, allowing him to reap huge gains. By capitalizing on numerous ventures, he became a major investor of stock markets in both Hong Kong and Shanghai. Considered an eccentric, Zhou symbolized the term *Baofahu* -“explosively rich”, which refers to China's unique breed of nouveau riche: uneducated but enormously wealthy and not afraid to flaunt it. In 2003 Zhou was accused of illegally purchasing bank loans and state land; and shortly after serving his three-year sentence, Zhou was again accused of forgery of business documents that resulted in an illegal gain of millions of

dollars. He was convicted of embezzlement, bribery and forgery in 2007, this time with a 16-year jail term.

It should be noted that not all failed Chinese entrepreneurs are involved with economic crimes. Some of the misfortunes are more associated with the underdeveloped systems instead of individual reasons, such as the cases with Li Jingwei of Jianlibao Group and Pan Ning of Kelon Holdings. The underlying truth is that there is always a human face behind every successful or devastating story of the Chinese economic reform, such as Shi Yuzhu of Giant Group who experienced both triumph and collapse and then came back reinventing himself, or Sun Hongbin who fell first at Lenovo and tried and crashed again with his real estate firm Sunco. There are just too many tales to tell all here. In any event, in order to have a more comprehensive understanding of Chinese entrepreneurial development, the following sections of this study will attempt to address various factors that might contribute to those high-profile failures mentioned above.

3 Unique Political and Business Environment

Most people agree that over the past thirty years China has been experiencing one of the most turbulent transformation periods in its long economic history. Under the so-called socialist market economy, the country has had a unique business environment with Chinese characteristics. After changing gear from planned to market economy, while the rules and regulations being gradually established and continually improved, they generally lag behind the reality of the business practices. Enterprises and entrepreneurs have been facing enormous challenges both in and outside business environment. On many occasions they have to go through gray areas, and break some legal boundaries in

order to move forward. Notable among all risks faced by Chinese entrepreneurs are swift changes of political policies, because of their substantial impacts on business operations. As numerous examples illustrated, a simple miscalculation could spell doom for their businesses that entrepreneurs have built up over years. When confronting with government authorities, private entrepreneurs generally lose, as with Li Jingwei of Jianlibao Group and Pan Ning of Kelon Holdings in their respective struggles over company ownership reforms.

Unlike in the more developed Western economies, in the transition period of China, the government still controls many scarce resources, such as access to capital, the authority to examine and approve projects, government purchasing, the authority to examine and to approve firm's listing in the stock market, the authority to use the land, etc. Private entrepreneurs must gain the government's support in order to get those resources. According to Tian (2007), there are around 2000 authorities to examine and approve economic activities just at the central government level. As noted by Dalglish (1993), China has a history of allowing officials to profit from their positions of authority; the mandarins of the dynasties expected to be paid for services rendered. More recently during the chaos of the Cultural Revolution when there were chronic shortages of many goods, the Chinese became accustomed to using the so-called "back door" to get things done. Clearly an inefficient bureaucracy is one of the key factors that support of corruption, which was one of the main objections voiced by the student protests in Tiananmen Square in 1989. It is precisely the difficulty of getting bank loans that fosters a gambling instinct and creative approach to the law among ambitious Chinese entrepreneurs.

As Savadove pointed out (2007), the rise of the street-smart entrepreneurs like Lai Changxing and Zhou Zhengyi in many ways embodies the growth of private companies in China and illustrates how political connections can bring success in the country's freewheeling business environment. Politics, as well as crime, are the real story behind virtually every high-profile case. Business people for their part, pay bribes to buy political protection for misdeeds, such as tax evasion or misappropriation of public assets. Bribes secure lucrative land deals, government contracts, and rights to buy state enterprises at cut-rate prices. For businessmen, an official on the take is what Chinese call "a mountain to lean against." The overlap between business and party in an authoritarian system makes a "red-collar crime" (Lague and Lawrence, 2002). Among all the high-profile entrepreneurs mentioned above, Yang Bin's case stands out. Allegedly Yang was close to Vice Premier Li Lanqing, as well as to Liaoning Governor Bo Xilai, one of the stars of the so-called Fifth Generation of Chinese leaders. This would certainly explain his initial phenomenal success. However Yang made one fatal mistake when he failed to keep the Chinese government properly informed about his proposed plan of a special economic zone with North Korea. Yang was seen as a victim of the complex relationship between China and North Korea, of his own political naivety, and of a management style that ran his company as family business.

Within the enterprises discussed above, the issue of corporate structure and governance may be one important factor that contributed to their eventual downfall. As in Chinese society, patriarchy prevails in business world, especially in private enterprises. For example, Yu Zuomin ran his Daqiu conglomerate like a feudal dictatorship, and Yuanhua's board consisted of mainly Lai's close family members, including his wife,

three brothers and brother-in-law, with Lai served as chairman. The Tendency toward having a “weak board and strong chairman” is common in China, and boards tend to be tight-knit groups built on business or personal networks (*PR Newswire*, 2007).

Independent directors are mostly brought in to fulfill legal requirements and are limited to advisory roles. Personal networks and connections are largely what bind those boards together. Although this is very much in line with the Chinese cultural tradition of *guanxi*, it also opens the door for cozy relationships that can breed corporate corruption. As noted by Sun and Zhang (2006), so far the corporate governance restructuring of China’s publicly listed companies has been opaque with one-sided outcomes in favor of managers and local officials. To be a full-fledged member and effectively compete in the global business environment, this will be one of the major challenges for Chinese entrepreneurs, companies and regulators in the near future. Looking forward, China will have to improve its legal and social systems in order to reduce further turmoil and avoid any fatal collapse of its remarkable economic transformation.

4 Fragile Financial System

Closely associated with the nation’s political environment, the financing system that supports China’s economic growth is very fragile. The country may have one of the fastest-growing economies in the world, but the financial infrastructures that support new businesses are rudimentary at best. Since bank loans go overwhelmingly to state-owned firms, private enterprises are at a particular disadvantage when it comes to financing growth. They are also in weak position when competing with large international firms in terms of finance and taxation. As one expert summarized, if the private sector is China’s

brightest hope, the financial system is its weakest link (James, 2005). In recent years David Barboza of *New York Times* has written several reports on business scandals and corruptions in China. According to Barboza (2005), when the country awash in speculative money intended to fuel its economic boom, many executives have turned greedy, and even low-level employees are engaging in self-dealing transactions by funneling millions of dollars into offshore accounts. Weak regulations and oversights, deep-seated government corruptions and poor risk-management practices are to blame for allowing fraud artists and looters to run off long before investigators discover that anything is missing.

This view is generally shared by other observers. As Lague and Lawrence (2002) pointed out, China's economic boom created almost ideal conditions for an explosion of financial crime, where loosely controlled privatizations, poorly regulated equity markets, burgeoning foreign trade and huge flows of investment nourish rampant graft. In the absence of independent courts, effective investigating authorities and a free media, it is much easier to escape detection and punishment inside or outside the government and the ruling party. Looking at the high-profile cases mentioned above, financial fraud and embezzlement seem to be the main reasons for the downfall of the majority of those entrepreneurs ranged from Tang Wanxin, Gu Chujun, Mou Qizhong to Yang Rong, Zhou Zhengyi and Huang Guangyu. Although China only has a brief history in stock market development, the recent rise of security fraud has been particularly alarming.

Without any surprise, China's large state-owned banks have been plagued by scandals over recent years. Consequently, thousands of people had been punished for misappropriating money or making unauthorized loans, and billions of dollars of bad

debts had to be erased from book by the government using its huge foreign currency reserves. Although so far the corruption cases have yet to slow down China's impressive economic growth, the country's banking and financial systems have to be modernized for China to be a truly economic superpower in the twenty-first century.

5 Personal Characteristics

Over the course of Chinese business reform, more than 10 million enterprises have been established; most of them are privately run. While a great majority of those enterprises were developed legally, some became wealthy by taking advantage of corrupt officials' greed, while others got rich by grasping market opportunities. Luck often goes with capability, as noted by Wang (2003), only those who are capable of grasping those opportunities can assert they are lucky. While reviewing individual backgrounds of failed entrepreneurs listed above, certain personal characteristics are observed. Many of them had very humble beginnings, born in countryside and grown in dire poverty, which likely motivated them to seek change in their fates and move ahead at all cost. Whilst some graduated from elite universities in China, others did not even complete primary school. Regardless their different educations, they all seemed to be strong-minded and hard working individuals, who were street smart and willing to gamble and take risks, and have demonstrated high levels of social intelligence with people around them.

However on many occasions it is this personal greed and gambling mentality that led to their initial success and eventual downfall. As with Tang Wanxin, Sun Hongbin and Zhao Xinxian, whose inflated egos prevented them to have a clear vision of the risks and benefits associated with their aggressive business expansion strategies. A strong

determination is certainly a virtue in a competitive business environment. Nevertheless when a person cannot listen to different opinions or tolerate others' criticisms, it becomes pure madness. As the stories of Mou Qizhong, Yang Bin and Yu Zuomin confirmed, they gambled and lost dreadfully, along with their multi-million dollar businesses as sacrifices.

Perhaps the case of Lai Changxing is the best example to illustrate the impact of personal characteristics on business operations. Born in 1958 into a peasant family of eight in a village near the port city of Quanzhou, Lai was flamboyant and elusive, known for his generosity and thoughtfulness. With a magic charisma, he was respectful and gregarious. Lai was especially adept at identifying people's weaknesses, whether they are money, art or women, and exploiting them in a way that established a personal connection. He was a natural at setting up businesses, at engaging people, drawing them to his cause, charming and bribing them. Despite being an elementary school dropout, Lai enjoyed a growing reputation and status as a successful businessman and community leader. He was well known for his many charitable activities in the late 1990s. He was an honorary citizen of Xiamen, a member of the Fujian Political Consultative Committee, and received an award as a 'Famous National Private Entrepreneur' from the National Industrial and Commercial Association for his flood relief efforts. The fact that he could manage to achieve all those while still maintaining a near monopoly of smuggling operation in Xiamen demonstrated his high social intelligence and criminal mastermind.

6 Influences of Chinese Culture

Beneath the role of personal characteristics lies a cultural tradition of thousands of years, which has a much deep impact on how Chinese entrepreneurs behave and function in the business world. Despite its speed and volume of growth, the Chinese economy, and behind it the Chinese culture, is still a fairly new player on the global stage, therefore its significance may not be so obvious to some outside observers. In review of the legacy of Chinese culture on its entrepreneurial development, it is clear that the concept of *guanxi* (关系) has a very profound influence on the establishment of personal relationships and business transactions. *Guanxi* has played a vital role in the evolution of Chinese society. The cultural emphasis on personal relationships means that Chinese business connections and deals are built on *guanxi* ties. Strongly influenced by Confucian teachings, Chinese view other individuals in terms of particularistic relationships. *Guanxi* is “an informal, unofficial relationship utilized to get things done, from simple tasks to major life choices” (Ruan, 1993). Simply put, *guanxi* is an interpersonal network that Chinese use as a crucial social resource to pursue their personal interests (Brown, 2002). *Guanxi* is not just something mechanical, or simply a Western version of networking. It is about “affectual relations” among people. *Guanxi* is an emotional bond, and requires cultivation over time (Gold, 2001). In business world, *guanxi* practice has evolved into a powerful and flexible tool that allows people to create trustworthy, expansive business networks in the absence of adequate legal guarantees – a type of capitalism without contracts (Hsu, 2005). However *guanxi* is also a double-edged sword. As the social relationship being developed without any boundaries, it may eventually jeopardize businesses and doom entrepreneurs. As the cases with Yang Bin and Lai Changxing clearly illustrated, when the bottom line

was crossed and serious crime committed, even the so-called “mountain to lean on” would not be able to protect them.

In Chinese traditional ethics, according to Lu (1997), the relationship between *Yi* (义) and *Li* (利) has been a very old and recurrent topic. *Li* means benefits and *Yi* refers to the principle of norms of obtaining and distributing benefits or profits. *Yi* as the core notion in Chinese traditional ethics has an indissoluble bond to *Li*. The connection between them is expressed by the deep-rooted Confucian view: “A person of noble character can understand *Yi*, but a low person only knows *Li*” (Lu, 1997). An individual who puts *Li* ahead of *Yi* (见利忘义) is not a true gentleman. As early as twenty-five hundred years ago Confucius had stated his personal belief that there was a *Tao* or right way of seeking wealth. According to him: man of noble character is keen on wealth and takes no money but in a moral way (君子爱财, 取之有道). However throughout the brief history of Chinese economic reform, there are numerous cases of personal greed and total disregard of moral principles, as a number of entrepreneurs have demonstrated their lack of basic respect to the notion of fair play and ethical bottom line. Focusing on a single goal of relentless pursuit of personal wealth, to them there is no right or wrong in business competition, only continual growth and eventual success. Although some of the entrepreneurs were well educated, their ego, greed and gambling instinct made them ignore the basic rules of business operation, thus leading their businesses on a dangerous path of self-destruction.

Facing with mounting pressures from public to address the increasingly serious issue, China’s ruling Communist Party has launched frequent crackdowns on government corruption and business fraud during the past thirty years, hence resulting the exposure of

numerous scandals involved with high-rank officials and the downfall of well-known entrepreneurs. While some have argued (Shieh, 2005) that without addressing the root causes of problem Chinese government's approach was only a short-term solution, the simple truth is that over a history of thousands of years, China's legal culture has thrived on the principle of "killing the chicken to scare the monkeys." For many, the high-profile businessmen like Zhou Zhengyi, Yang Bin and Yu Zuomin were conveniently those conspicuous "chickens" during each show time.

7 Burden of "Original Sins"

At the onset of the economic reform, many of the first entrepreneurs in the early 1980s had low social status because they lived on the margins of society. They were often ex-convicts who had no official connections and could not get respectable jobs in state-owned enterprise (Garnaut, 2008). After Deng Xiaoping made his audacious call for people to get rich ahead of others, common views toward wealth and business began to change. Entrepreneurs were hailed as reform heroes, who were brave enough to abandon the old system and chart their own destinies, and would lead the society out of poverty.

However when the country is increasingly commercialized and income gaps drastically widened, people begin to question the legitimacy of large amounts of wealth cumulated by few individuals over such a short period of time. The public generally believes that many of those private fortunes built through a process of primitive capital accumulation during the 1980s and 1990s were based largely on illegal means. "Original sin" refers to the way entrepreneurs fluted convention and laws to make the first "pot of gold" to fund their start-ups (Cai, 2007). As noted before, the misconduct could range

from smuggling, bribery, speculation, theft to tax evasion, loan fraud, organized crime and subjecting workers to badly paid jobs in “sweat shops”. Reviewing the brief history of the Chinese economic reform, one can observe at least three rounds of new wealth generation or private redistribution where the “original sins” are committed. According to Zang Xiaowei (2008), the first real wave of the well-connected new breed arrived with the government’s dual-track pricing system in the mid-1980s. Referred as official racketeering - the unscrupulous combination of speculation and political power - managers of state-owned enterprises pocketed government subsidies and sold surplus production on the private market at inflated prices. From the late 1980s, private real estate became the next and much greater source of wealth, as developers only had two main requirements: land and bank loans, both of which were allocated by officials. In Shanghai, well connected “princelings” control nine of the top ten real-estate development companies and 13 of the 15 largest building companies (Garnaut, 2008). A third source of private wealth was management buy-outs of state-owned companies in the late 1990s. Managers bought the companies at discount prices, fired excess workers and quickly made huge profits. Two glitzy examples were Gu Chujun’s acquisition of Guangdong Kelon Electrical Holdings in 2001-02 and Yang Rong’s play with the Brilliance China Auto.

Today wealthy Chinese are reviled as much as they are envied. Many Chinese see wealth as simply the newest manifestation of political power: a currency that is bought, stolen or inherited through *guanxi* connections with the government elite (Garnaut, 2008). As the widening income gap has sparked increased resentment toward rich people in China, even the government’s official English paper *China Daily* (2007) has publicly

acknowledged that it has been an open secret that many of today's successful entrepreneurs accumulated their wealth by smuggling, evading taxes, polluting the environment and bribing officials to land lucrative business deals. The issue of "original sins" has been hotly debated by not only ordinary citizens but also among Chinese economists. A number of them consider given that many entrepreneurs built their wealth initially through illegal means, their honesty and credibility would always be in question; while others believe that society should not place the full blame on those millionaires. Since China's current regulations have problems of their own, tightening supervision and changing regulations are the only solutions (Zou, 2003). If some "sins" were committed, they probably would be more appropriately categorized as misdeed of the era or a broken system instead of fault of certain individuals.

Notwithstanding the debate on the burden of "original sins", the fact of the matter is that successful entrepreneurs often come under much closer public and government scrutiny after they reach the pinnacle of wealth. This may be an important contributing factor in explaining the eventual downfall of those well-known entrepreneurs mentioned above. Some of the billionaires and millionaires got into trouble because of problems in capital flow caused by unlimited financial expansion and abuse. They bribed bank officials and conducted financial fraud when they could not get loans through normal procedures. While the government and the public usually pay scant attention to the tricks of small enterprises, but as those enterprises develop, more and more people will examine and scrutinize their operations, and any major mistake would be caught. In an efficient economy, an enterprise can never be successfully developed through crooked means over an extended period of time (Zou, 2003). Therefore under the increasingly developed

market-oriented economy, it is not only possible and but necessary to run an enterprise through normal and standardized ways; and it is the moral responsibility for today's entrepreneurs to operate their businesses in a socially accepted manner. The upcoming challenge for China is to ensure that various measures are taken to rectify market order and strengthen laws and regulations so that a sound and efficient market economy can be established in the near future.

8 Conclusion

This is China's Gilded Age, a period of rising wealth and industrialization, and a time of great ups and downs. As Brown (2002) rightly pointed out, China is an extremely complex society due to its deep cultural heritage and its rapid transformation from an agrarian, plan-based economy to what the political leadership has called a "socialist market economy with Chinese characteristics." Along the turbulent course of economic reform since 1978, some brave entrepreneurs seized the opportunities and succeeded, while many others tried and failed miserably. Regardless their amazing triumphs or heartbreaking failures, their stories already touched the lives of hundreds of millions, and they have inadvertently contributed to the swift development of Chinese entrepreneurship during the last three decades.

Many factors could contribute to the downfall of Chinese entrepreneurs. During the chaotic process of economic transformation, entrepreneurs have to face various challenges both in and outside business environment. Notable among all risks are the abrupt changes of political policies, owing to their significant impacts on business operations. In the area of financing, private entrepreneurs are at particular disadvantage.

As *Economist* (2003) pointed out, it is precisely the difficulty of getting bank loans and listings that fosters a creative approach to the law among ambitious Chinese entrepreneurs. In terms of corporate structure and governance, patriarchy still prevailed in business world especially in private enterprises, which may be another important factor that contributed to their ultimate demise. With a history of thousands of years, the behaviors of entrepreneurs have been deeply influenced by the Chinese cultural tradition. In addition, under the burden of “original sins” and with a changing attitude toward private wealth, Chinese entrepreneurs have been facing mounting scrutiny from public and government. Entrepreneurs themselves will certainly have to bear some personal responsibilities. The strong individual determination, sheer greed and gambling mentality that contributed to the initial success could also lead to their eventual downfall. Due to all those compelling reasons, their corporate failures seem to be inevitable. If were not them, somebody else would very likely play exactly same or very similar roles. In a nutshell, those high-profile entrepreneurs like Huang, Lai and Yang are oblivious but essential actors on the grand stage of China’s economic transformation of last thirty years.

From a historical standpoint, it is necessary to reflect China’s entrepreneurial growth on the global economic perspective. Over recent years it seems that public media have been filled with all kinds of negative news about Chinese business operations from loan fraud, bribery, speculation, theft, tax evasion, smuggling to sweat shops and sacrificing safety in pursuit of profit. However, according to Mihm (2007), to see China today is to glimpse, in a distant mirror, the 19th-century American economy in all its corner-cutting, fraudulent glory. In many ways China is a younger version of the United States or early industrial Britain; and its fast and loose brand of commerce is not an

expression of national character, but a phase in the country's development. As Mihm suitably labeled, China's "adolescent capitalism" is just like a typical teenager, bursting with energy, exuberant, dynamic while reckless, irresponsible, and dangerous. Only with this understanding, the rest of world can then begin to effectively work with China on the best ways to deal with its growing pains.

Out of the chaos and failures, a new Chinese entrepreneurship is currently being developed. Among the lessons learned from those high-profile downfalls, aspiring Chinese entrepreneurs should always remember there is a *Tao* or right approach to seek personal wealth. As Confucius noted over twenty-five hundred years ago, man of noble character is keen on wealth and takes no money but in a moral way. To succeed in the twenty-first century, entrepreneurs will have to work hard to gain the trust of both Chinese and international communities; and on a broad scope, China in the coming years will have to improve its legal, financial and social systems to establish the institutions that will both support business development and clearly define corporate and personal ethics.

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