

'92

Chinese Entrepreneurs

Ideals and Entrepreneurship

CHEN HAI

Under the Auspices of the Yabuli China Entrepreneurs Forum

Translated by Shao Yanan



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Central Compilation & Translation Press





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PREFACE FOR ENGLISH VERSION

This year is the 40th year of China's reform and opening up.

China's reform started in the late 1970s from the countryside beginning with "contracting production to households." The innovation of farmers and local cadres — "family-based contracted responsibility system" — really opened the gate of China's agricultural reform. In 1980, "family-based contracted responsibility system" was finally limited liberalized after it was put in practice secretly in some provinces of the country. It did not become a national policy until 1982. The central government has also adopted the reform measures of "decentralization and concession of benefits," so as to realize economic decentralization and give more autonomy and enthusiasm to local governments, enterprises in cities and production teams in rural areas.

When the poor peasants quietly started the "family-based contracted responsibility" behind the government, when the peasants turned to non-agricultural production for higher income, when the unemployed residents in the city had to seek work by themselves for their livelihood, and when nearly 10,000 people in Guangdong had to sneak into Hong Kong to improve their lives, the reform had swept across the country silently. Peasants set up "family-based contracted responsibility" in their own villages, and they set up township enterprises. Their performance surpassed that of state-owned enterprises. The increase of individual households and entrepreneurs brought more vitality to the city than the reform of state-owned enterprises. "Market," experiencing thousands of turns, after more than 30 years, finally returned to this ancient land.

As the "king of economic growth," it can be said that the growth story of private entrepreneurs is an important clue in the great drama of China's

economic reform.

After the public-private partnership in the 1950s, entrepreneurs disappeared from the social arena as a whole, which was the main problem for China to restart the reform. This is why the reform is arduous and lasting. Now we can clearly identify two ways for Chinese entrepreneurs to “return”: one is that rural industrialization which produced peasant entrepreneurs, the other is that urban economic marketization which made officials become managers and entrepreneurs.

The entrepreneurs are not trained, but are created through market competition. The soil which can create entrepreneur is to loosen the market, and to solve the problem of property rights. If the former is the basic path for entrepreneurs to grow, the latter is the key to the emergence of entrepreneurs.

This book tells the stories about the growth of the second generation of entrepreneurs in China. They have some special experiences. They are the outstanding representatives created by configuring the “entrepreneurship” from the government-system to the market.

In addition, this book (English edition) was translated from the Chinese edition published by China CITIC Press in 2012. Because of the time constraints, all the data in this book are based on 2012 and have not been updated. Thank you for your understanding.

Chen Hai
Dec. 8, 2018

FOREWORD

Deng Xiaoping gave talks in southern areas of China on reform and opening up in 1992. This event was widely believed to have changed the course of history in China today. Reforms to make China a market economy would have been delayed for years were it not for his southern visit. Fortunately, these talks helped China formally start working toward a market economy. Over the past two decades, China has created an economic miracle, raising the standard of living to an unprecedented level of stability and prosperity.

This section of history has caused a stir in my heart. I learned about his talks in late January 1992. The gist of the talks made its way in some way to the meetings of Chinese top economists on January 27 and 30, 1992. We were unspeakably excited as if the spring was approaching for reform. The Chinese New Year fell on February 4, 1992. A couple of days before, I had been invited on the phone by the Communist Party of China (CPC) committees of Guangdong Province and the city of Shenzhen to make academic speeches in Guizhou, Zhuhai, and Shenzhen. I accepted the invitation readily. I left Beijing for Guangdong on February 8. I first traveled to Zhuhai before moving on Guangzhou and then Shenzhen. In the short span of 12 days, I delivered four speeches, one in Zhuhai, two in Guangzhou for the CPC committees of Guangdong and Guangzhou respectively, and one in Shenzhen. In addition, I also attended two meetings mainly of entrepreneurs in Foshan and Zhongshan. At these meetings I focused on how to promote economic reforms, work toward a market economy, and introduce the shareholding system in state-owned, collectively owned, and private enterprises.

There were not enough space available for the participants at the

meetings, so more chairs were found for them. The participants included not only officials and entrepreneurs but also a number of young university undergraduates and postgraduates and newly employed young intellectuals. Back then people enjoyed passing their questions in a note to the speaker at meetings. I had notes asking what the future would be like for private businesses. This made me realize that reforms were on the move and people had already been motivated for private businesses.

Facts have shown that entrepreneurs are indispensable in creating social wealth and raising living standards. In 1992, encouraged by Deng Xiaoping's talks and economic reforms, a large number of government employees or intellectuals from government offices, research institutes, and tertiary institutions went into business, thus creating a commercial wave. This served as the main driver for rapid economic growth in China in the 1990s.

The '92 Entrepreneurs referred to in this book were those who came to the fore following Deng Xiaoping's southern visit in that year. Back then most of them were still young. Later on, they became pioneers in China's market economy or leaders in industries. These include, as they appear in this book, Chen Dongsheng, Tian Yuan, Mao Zhenhua, Guo Fansheng, Feng Lun, and Huang Nubo. They created a new chapter in the modern corporate system and economic development in China.

I have stated on several occasions that these entrepreneurs are different from those who came to the fore in the late 1970s and in the 1980s. The latter are mostly not from the government. They are courageous and work hard, but their level of education is generally low and they lack professional training. The '92 Entrepreneurs, however, enjoy professional knowledge and a broad vision, and more importantly, they are not only interested in personal success but also in national rejuvenation. They are global, ready to make China a top economy in the world. In addition, they are not from the non-government sector; they grew in the government system, and later worked outside it.

The '92 Entrepreneurs are an important group for reforms in China. As I said above, they grew in the government system, and later worked outside it. They are well-versed both in how the economy operates within the

government system and in how hard it is to do business outside that system. They are good at learning from foreign successes and apply them in the blank of China's market to become pioneers or leaders in industries. All this can be accomplished during the transition from the old to a new system and in the grey zone of market operation. Therefore, they can offer more suggestions on top-level designing. I am convinced that many of these suggestions are constructive.

In short, the life experience, business stories and ideas will be enlightening for those who have an interest in China's economic reform and the growth of its enterprises. This is what this book is published for.

Li Yining

2012

THE HISTORICAL IMPORTANCE OF THE '92 ENTREPRENEURS

Scholar officials go into business

China Guardian Auctions Co., Ltd. formally commenced business on May 18, 1993. However, it didn't have any profit in the year up to March 27, 1994. Chen Dongsheng, founder of Guardian Auction, felt mounting pressure. "Everyone says that when you feel stressed, you will have cold sweating. I don't agree. Back then I had 'cold sweating in my heart,' suffered chest pain and felt suffocated. My family and my workers all had a hard time. Later on, some of my workers told me that they didn't dare to smile outright till they saw me smiling and that they didn't dare to look up if I kept a straight face. I didn't know what to do, so I just blamed the failures on my workers. I was just like the sly and greedy landlord Zhou, shouting at them at work with a whip in my hand."

In 1988, in his early 30s, Chen Dongsheng was a deputy editor-in-chief of *The Management World*, a journal affiliated with the State Council Development Research Center. He designed and organized the election of China's top 500 companies. This was the first big thing he had ever made in his life and which changed the rest of his life. He realized that of the Fortune Global 500, more than 140 were American, and more than 110 were Japanese, and Germany, Britain and France came in as third through fifth place. That shows that a country's number of top-500 companies is in proportion to its overall strength. This discovery alerted him to create his benchmarking corporation in a new industry. However, before this, he was merely interested in politics. He made

a gesture of snubbing a cigarette, meaning how he grudgingly abandoned his political ambitions in favor of business.

Chen Dongsheng had unforgettable pressure in his first year of business. “I felt like a farmer who did the farming without knowing whether Heavens would have mercy so that he would have bumper harvests,” he said, “so I often stressed that the one who made your first sale possible was not an ordinary client, but your savior.”

The same is true with Taikang Life Insurance Company Limited, which didn't begin to make a profit until seven years in existence. In his Taikang office, Chen Dongsheng keeps the *Ode to the Yellow River*, an oil painting created by Chen Yifei in recognition of the hardships Chen Dongsheng has had in his business career. This is a painting of his true character. Chen Dongsheng says he has always had that character. When he started his business as an economist, he calculated that the cost of his going into business was the possibility of becoming a government minister. To offset the cost, he wanted to create a world top-500 company. Over the past 20 years of business, Chen Dongsheng has bettered his understanding of himself. “The true Chen Dongsheng,” he says, “craves for revolutionary heroism, revolutionary romanticism and revolutionary realism as well.”

Following his visit to the Chicago Board of Trade in 1991, Tian Yuan, the future “father of futures in China,” asked Minister of Materials and Equipment Liu Suinian if he could work at a company of the ministry. The minister thought highly of Tian and immediately realized what he wanted to do, saying to him, “Your new post is director general of the Department of International Economic Cooperation and you are to do opening up work.” “I can't take it,” replied Tian. The minister flared up, “That's an order issued by the ministry's Party leadership before you returned from your US visit.”

Tian Yuan had to take up the post, but the 39-year-old new director general had no interest in it. During his six months of visit to the United States, he had an office on the 38th floor of the Chicago Board of Trade Building. He is China's first doctor of futures and was probably the Chinese who knew more about Western futures market than any of his fellow countrymen. In

fact, when he visited the New York Futures Exchange in 1986 as chief of the Pricing Section of the State Council Development Research Center, he grew crazy about establishing a futures market in China and pondered what role he could have in it.

In 1992, the Ministry of Materials and Equipment established many new companies, creating a wave of government officials going into business. Tian Yuan told Minister Liu Suinian again, “China needs a national futures company.” The minister turned him down once again, saying, “The ministry has established too many companies to have the money for one more.” Tian Yuan replied, “I can manage without government investment. As long as the ministry gives me the go-ahead about a futures company, I will be responsible for the capital.” Tian knew that the Chinese government had already issued a document allowing the establishment of joint stock companies, so he successfully got the minister around. Liu Suinian admired this young man and let the ministry give him 2 million yuan. This was the least money the ministry had ever invested in a company. At the same time, Tian Yuan asked 13 shareholders for more than 20 million yuan, including China Agricultural Development Trust Investment Corporation, Bank of China Group Investment Limited, China Foodstuff Trade Co., Ltd. and a private company. On December 28, 1992, China International Futures Co., Ltd. held its inaugural meeting at the Great Hall of the People in Beijing. This was China’s first joint stock futures company registered with China’s State Administration for Industry and Commerce, ushering in the industry of futures in the country.

Having worked at the Policy Research Department of the CPC Committee of Hubei Province for three years, Mao Zhenhua was promoted by two levels from an ordinary employee first to a second officer and then to a first officer. He was only 24 when he was promoted to the deputy section chief level in 1988.

Hainan was made a province in 1988. As a member of the China Committee for Establishing the Hainan Special Economic Zone, Mao Zhenhua was sent to Hainan to take a direct part in the establishment of the Hainan Provincial Government Research Center. He was put in charge of the center’s

Economic Section. He penned every word of the first report on the work of the Hainan Provincial Government. Soon afterward, he was transferred to a job at the State Council Policy Research Center at the Zhongnanhai Compound in Beijing. In 1992, Mao Zhenhua, who was well-versed in the macroeconomic situation, realized that “the opportunity has come up.”

“Back then I had a simple hope to become a boss. In the huge system of public servants, I was merely a petty official in my organization and didn’t have much say. I wanted a stage of my own on which I had the final say. If I had been made a Party chief even in a county in Tibet, I wouldn’t have gone into business.”

Mao Zhenhua decided that he should establish a Moody’s in China. As a matter of fact, he only saw Moody’s on TV which left him with the impression that the company was authoritative and honored. According to the TV report, “Moody’s raised the bond issuance rating of the Chinese government.” Mao Zhenhua believed that he would succeed in going about selling his ideas and dream as a young man. In the short span of four months, he completed a feasibility report, raised money and went through the registration formalities. His blueprint was to create China’s Moody’s and Standard & Poor’s.

Mao Zhenhua didn’t go into business in the true sense of the term. He was actually on loan to his new company. Even today, he hasn’t given up his status as a public servant and gone through the formalities of leaving his job as such. He is on loan to his company. He didn’t jump into the sea of business with his two feet; on the contrary, one of his feet was in business while the other was merely raised.

Feng Lun also left his government position in 1991 on a Hainan bound train in the south. He could not return to the China Institute for Reform and Development he had helped establish two years earlier and for which he was the executive vice director. So all of a sudden, he became jobless. Thanks to the recommendation of a Beijing friend, Feng Lun joined Mou Qizhong’s Nande Group, doing odd jobs just to make ends meet. He and his family lived at an apartment his Xi’an Northwest University classmate Zhang Weiying had in the Beijing Youth Apartments. Zhang Weiying also left his government

position to join Oxford University.

The way Feng Lun started his business could be the most grassroots among the '92 Entrepreneurs. He and his partners went about to raise money and managed to borrow a little more than 30,000 yuan. Most of the money was spent on registration and other formalities needed to establish the company. They had only several hundred yuan left when they obtained the business license. The company had more than 10 million yuan as registered capital, so it was a typical paper company. On September 13, 1991, a company with the strange name "Hainan Agricultural High-Tech Investment and Development Corporation" was founded.

"In reality, China's private businesses and firms outside the government system managed to survive and develop on their own. They were all independent of each other and owed each other nothing. No matter who you were, there would be no time for tears in Hainan." Starting from a scratch, Feng Lun and the Vantone Group managed to grow stronger following about ten years of accumulation of the vision and approach for survival at the community level in China. This was a prelude to barbaric growth.

In 1990, Yu Minhong resigned from Peking University to become a teacher at a private school and later establish New Oriental.

In 1992, Guo Fansheng could not but go into business and established Huicong.

In 1992, Wu Kegang, former Executive Mayor of Shekou District, Shenzhen, could not but go into business and founded Hong Kong Tongheng.

In 1992, Zhu Xinli, a promising candidate for the election of a deputy county head, created Huiyuan.

In 1992, Hu Baosen left his section chief level government position in a foreign trade company to establish Henan Jianye.

In 1992, Miao Hongbing quitted his job at the General Office of the Ministry of Petroleum to found Bailing.

In 1995, Huang Nubo resigned as Vice Secretary General of the China Association of Mayors and established Zhongkun.

In 1996, the 43-year-old Wang Zimu gave up his post as a deputy director general of the Department of General Affairs of the State Economic and Trade Commission and established Huatai.

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The year 1992 was the first year of modern Chinese enterprises

These were what happened to the characters of this book in or around 1992. I wrote this not to tell hard yet tender business stories as an encouragement. They originally lived with a broad government system either as officials, researchers of government think tanks, or university teachers. All of them, without exception, sought to move up the ladder in the hierarchy. Some of them even held official positions at the department chief level when they were about 40. They were highly knowledgeable, loved the country and its people, and were new scholar officials. As older scholar officials, they observed the spirit of regulating the family, maintaining the state rightly and making all peaceful. This is their most typical historical character. However, in or around 1992, they chose to leave or could not but leave the government system.

This action is often narrowly understood to be starting businesses; it is the exactly same part of many business stories. This book expands this understanding. Scholar officials going into business is the author's brief description of this action of starting businesses. His idea is not to look into how these future business leaders expanded their business territory or how the frustrated lost their business territory. Rather, he means to expound on what China can learn from large numbers of scholar officials going into business, an unprecedented event in Chinese history, and how important that event was for the past more than 30 years of reform and opening up. This is where the significance of the book lies.

This book looks into how unique and complicated the phenomenon of scholar officials going into business was. The rise of groups of entrepreneurs