An Invention of Entrepreneurs in Marketized China

Introduction

As a result of more than four decades of economic reform and ‘opening up’ China has experienced extensive and significant economic, social, political, and cultural change. Indeed, in many ways, China’s economy and society have undergone a historically unique transformation. In transiting from a centrally planned administrative system to a socialist market economy (Barbieri et al. 2010), China has evolved from one of the world’s poorest economies into a major economy with global influence (Berger et al. 2018: 344). An important development in this regard, with much social and political significance, is the advent of a section of the Chinese population possessing massive private wealth, some of it transferred from the public sector (Alvaredo et al. 2017). The privatization of economic activity since the 1980s and the growth of private economic entities signifies that market entrepreneurship has come to play an essential role in economic organization and growth (Bruun 1993; Huang 2008; Kraus 1991; Krug 2004; Nee and Opper 2012; Odgaard 1992; Tsai 2002, 2007; Wank 2001; Young 1995).

The private sector of China’s economy produces, on various estimates, between two-thirds and seven-tenths of national GDP (Gross Domestic Product) and employs approximately 90 per cent of the workforce (Lin 2017: 2). Private accumulation of unprecedented wealth due to rapid growth has yielded newly emerging economic and social forces, including the new rich. In the 1980s and 1990s, entrepreneurs were characterized as baofahu (get rich overnight); they typically had modest if not deprived social backgrounds, poor education, lacked cultural capital, were incapable of displaying pinwei (good personal tastes) or demonstrating sushi (personal quality). Melvin Kohn (2019), a leading American sociologist specializing in studies of social class and personality, shows that compared to their counterparts in Western countries
Chinese entrepreneurs at the time of his research had a significantly low-class status. Kohn et al. (2007, 2012) reports that Chinese entrepreneurs in the first decade of the present century lacked confidence, independence, and a sense of security, qualities characteristic of entrepreneurial classes in the West. Indeed, Kohn’s survey evidence shows that at this time Chinese entrepreneurs have a class-status below that of skilled workers in China.

While private business continues to be a means of livelihood available to socially marginalized and politically ‘dubious’ persons, the growth of China’s market economy and the burgeoning sophistication of its production and organization has increasingly meant that educated, sophisticated, and socially well-placed individuals are drawn to private business. Since the 2000s wealthy entrepreneurs are portrayed in the media, not only in TV shows and magazines, but also in advertisements and in popular culture, as trendsetters in consumption and fashion; they are seen as patrons of exclusive nightclubs, expensive restaurants, and high-end department stores (Osburg 2013). In addition, it is reported in news articles – and academic research – that entrepreneurs regularly engage in extravagant entertainment and leisure activities including frequent banqueting, extensive drinking, immoderate gambling, and receiving massages and footbaths. These and associated activities are directed to the cultivation of guanxi or social connections with officials and also fellow businessmen in order to cement business deals (Liu 2002; Osburg 2013; Uretsky 2016; Zhang 2001; Zheng 2006). A widely held assumption is that entrepreneurs amass their wealth through unsavoury practices and with little direct effort.

The images of entrepreneurs in popular accounts and the media did not exactly match the experiences of the entrepreneurs I encountered in the fieldwork I conducted between 2007 and 2009 in the cities of Changshu, Hefei, and Shenzhen. Popular imagery is typically based on notable cases and provides a mix of representations of exceptional occurrences, simplifications of complex circumstances, and distortions of particular realities. It tends to focus on some aspects of entrepreneurial activity and lifestyle, the sensational being the most notable, while ignoring the more mundane. Certainly, entrepreneur respondents in my fieldwork invariably looked glamorous on their company’s websites and at formal business events, but most of the time the majority dressed like ordinary people, in and outside the company. Mr Gao, a co-founder of a large company wore a ¥20.00 (US$3) T-shirt when I interviewed him. When I commented on his casual dress, he told me that he bought an additional six similar T-shirts so that he could dress comfortably every day of the week. Like many of my entrepreneur respondents, he often worked all seven days of the week. While the entrepreneurs I interviewed did engage in banqueting, drinking, and various entertainments in order to initiate and maintain guanxi networks, they tended to have simple meals at work, including meals from local fast-food restaurants.

One aspect of the popular image of business life in China, also reported in scholarly publications (Liu 2002; Osburg 2013; Zhang 2001; Zheng 2006),
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is the prevalence with which entrepreneurs entertain officials, business partners, and clients in drinking clubs and karaoke bars in which heavy alcohol consumption occurs and prostitutes are routinely engaged. This aspect of the business life-style, and especially concerns regarding ‘temptation’, were particularly prevalent among the families of businessmen (Qi 2021). A number of female respondents expressed to me their concern regarding this culture of pleasure which is common in the business community. One respondent, Mrs Ling, was particularly animated in relating the dangers to family life of business involvement.

Mrs Ling (aged 37, Bachelor’s Degree) and her husband Mr Lu (aged 38, Bachelor’s Degree) were ‘childhood sweethearts’ as they began dating when they were at high school. As a couple, they together established a successful electrical products business, but Mrs Ling ceased working in their family business when their two children reached school age in order to support their education. She later set up an m-business on her own behalf selling shoes, socks, bags, scarves, and so on. Their family business continued to do well and a branch was opened in another city, which led Mr Lu to be frequently away from home. One evening, when Mrs Ling called her husband, a woman answered his phone. He later explained that he was at a dinner party and the woman sitting next to him had drunkenly picked up his phone. Mrs Ling called again later that night but her husband’s phone seemed to be dead. The next morning Mr Lu returned home on an early high-speed train. Mrs Ling recollected:

Although he swore that he wasn’t in an affair with that woman, the dark cloud over us didn’t easily go away. I told him that going to these events not only caused harm to his health but also to our relationships and put our family at risk. The family we built together through nearly 20 years could be destroyed in a second. He realized that the only way to restore my trust in him and to return to our previous happy relations was to change his business practice. Since the incident he seldom accepts invitations to parties and business events in the evening.

Mrs Ling was very pleased that withdrawal from this aspect of business culture brought an immediate and lasting effect. She said that her husband now spent much more time with her and their two children.

Mrs Ling’s story points to certain complexities in the lives of entrepreneurs in China. People in business, like people in general, are typically married with children, with all the accompanying cares and responsibilities of spouses and parents. Business people, especially in China, are also required to work hard in establishing and then maintaining connections with officials and business partners in order to access opportunities and the means necessary to conduct business, provide employment, and make a living. While Mr Lu, as reported previously, was able to minimize participation in business-related entertaining, an important aspect of the facilitation of business in China today does involve banqueting, toasting with high-alcohol spirits, and participating in various...
entertainments some of which are decidedly nefarious, including providing the services of prostitutes to officials and clients. It will be revealed in the following chapters that these activities are time expensive, carry significant opportunity costs, and can have detrimental health and personal consequences. At the same time, they are difficult to avoid and require careful management by the participants.

The construction and maintenance of *guanxi* relationships are not the end of entrepreneurial activity but one of its means, and there is much more to business and the management of a business career, than the activities required to participate in *guanxi* networks. My fieldwork observations and the interviews I undertook with entrepreneurs revealed that people in business are without exception hard-working in building their businesses, very competent and often highly qualified, and sincere in their commitment not only to expanding their business but also to improve the material, social, and cultural circumstances of their families. At the same time, it is not unusual for entrepreneurs to work long hours, including on weekends, and to forego monetary rewards in order to devote resources to improving their business as well as the situation of those who work for them.

In what follows of this Introduction something of the historical, social, and cultural background of the contours, developments and unexpected aspects of business in China since the economic reforms will be outlined. Also, the empirical material that this book draws upon will be described, and an account of the research methods employed in the study reported in the book are additionally outlined and discussed. This Introduction will go on to provide a summary of the six chapters that follow, including a preliminary discussion of the issues treated throughout. By presenting select examples of fieldwork findings, presented in the context of a broader background indicated in official and related sources of data, as well as findings and theories presented in the published literature, this Introduction details the range of substantive issues that are the focus of the six chapters to follow.

**FROM TABOO TO ENVY, AND THE GROWTH OF ENTREPRENEURIAL ACTIVITY**

In the discussion earlier the term ‘entrepreneur’ had been used without comment. What is meant by the term has been the subject of a good deal of debate and interpretation (Bonnell and Gold 2001; Bowman 2007; Gartner 1989; Lambing and Keuhl 2007; Shane and Venkataraman 2000). Some accounts focus on the entrepreneur’s ‘role or actions’, while others emphasize their ‘personal characteristics’ (Bowman 2007: 386; see Thornton 1999). The economic roles of entrepreneurs are seen to be distinctive, which set them apart from other actors in different sectors of society (Kaish and Gilad 1991; Low and MacMillan 1988). Entrepreneurship is also characterized by some researchers in terms of particular psychological traits, thus pointing to propensities for
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risk taking, achievement orientation, and inclinations to seek control of circumstances and resources, as hallmarks of the entrepreneur (Begley and Boyd 1987; Knight 1985; McClelland 2010; McGarth et al. 1992; Stevenson and Gumpert 1985).

In a classic statement, the early twentieth century economist Joseph Schumpeter (2008: 84–87) saw the essence of entrepreneurship in innovation. Entrepreneurs, then, may be characterized in terms of the initiation of new activities resulting in a viable business start-up (Aldrich 1999: 77) or the discovery of opportunities through which new goods and services may be introduced into the economy (Legge and Hindle 1997; Shane 2003: 4). It is in this spirit that Kirzner (1985) regards entrepreneurship in terms of the capacity to utilize information for the discovery of new opportunities. It is along these lines that economic sociologists understand entrepreneurs, as actors who initiate and adopt practices in accommodating to the social and structural nature of markets.

The question of social structure is particularly important in sociological considerations of entrepreneurship. Ronald Burt (1992) has argued that the emergence of entrepreneurial opportunities in marketplaces are directly related to state-imposed structural constraints, which shape the extent to which managers can act to fashion, mould, and reshape the organizations they develop and inhabit (see also Dobbin and Sutton 1998; Fligstein 1999; Guthrie and Rhee 1999). Entrepreneurs are here understood as persons who initiate business activities, including recognizing if not encouraging economic opportunities, utilizing financial and material resources and inputs for economic innovation, recruiting personnel, and negotiating with suppliers, customers, and government agents (Jones and Sakong 1980: 180–181; Kilby 1971: 27–28). They do this in a context shaped by social and institutional structures, by navigating relations with the central state, local government, and market forces, and in doing so reshape not only the economic environment but also the social and institutional conditions in which they are embedded. This is a particularly useful perspective through which China’s entrepreneurs can be understood.

The place of China’s entrepreneurs in the country’s transitional economy and society from the 1980s is quite unlike the situation of capitalist entrepreneurs in Western societies (Lu and Fan 2020: 148; Pérez-Cerezo 2013). With the advent of the People’s Republic of China in 1949 the country’s private entrepreneurs have been officially regarded in quite different ways at different times, successively experiencing strict prohibition, tolerance, accommodation, and finally encouragement. During the collective era from the late 1950s to the 1970s, the socialist transformation of China required the Communist Party’s total dominance of economic activity so that private business was prohibited from 1956 (Davis 1990; Guixheux 2006; Kraus 1991; MacFarquhar and Fairbank 1987; Shue 1980; Solinger 1984). Restrictions against private ownership began to relax in 1978 when Deng Xiaoping launched the economic
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Market engagement by private households first occurred in rural areas during the last years of the 1970s, and although initially resisted by the authorities the success of family farms in raising output and productivity by defying collectivization soon led to official acceptance of what became known as the ‘household responsibility system’ and to the de-collectivization of China’s agriculture (Kelliher 1992; Lin 1988; Liu 1992; Puffer et al. 2010: 452; Watson 1988; Zhou 1996). The subsequent rise of market-oriented rural industry led to major transformations in rural areas (Huang 1990; Lin 1995; Nee and Matthews 1996; Parish 1994). The seismic shift in the nature of economic activity with the rise of market-oriented rural industrialization, which benefited rural communities, can be measured by the fact that these new developments were soon managed and encouraged by party cadres, whose own economic well-being and career prospects were tied to the success of the market and those private businesses operating through it (Byrd and Gelb 1990).

Return migrant entrepreneurs have played a significant role in the industrialization of rural China. Rachel Murphy (2000: 236) has shown that rather than ‘the apathy of national governments toward returnees, and the resistance and resentment of local authorities toward innovators, returnee entrepreneurship in China is sponsored by all levels of the state hierarchy’. Indeed, migrant entrepreneurs lobbied the local state to make changes creative of an environment conducive for business (Murphy 1999, 2000). At the same time, the local state’s support of return migrant entrepreneurship is ‘a response to upper-level directive’ as well as an opportunity for the generation of revenue that will ‘augment the power base of the local state and increase funds for local welfare expenditure’ (Murphy 2000: 246). Through such corporatization, return migrant entrepreneurs are able to generate not only economic capital but also symbolic capital, including face enhancement, through their own financial success and creation of employment for rural workers. Such win-win situations for both return migrant entrepreneurs and local government are emblematic of China’s successful marketisation.

In the cities, self-employment – and therefore small-scale and family business – was encouraged by reform leaders. The justification for this development was the fear of unemployment that arose as massive numbers of ‘sent down’ urban youth returned from the countryside where they had been consigned during the Mao era (Peng 2004: 1054). In 1980 the State Administration for Industry and Commerce formally legalized self-employment by creating a new category of business licensing: geti gongshang hu or simply geti hu, which means self-employment entities in industry and commerce, limiting the size of their workforce to no more than seven employees including one to two helpers and three to five apprentices (Lin 2017: 32). Constitutional amendments in 1982 stipulated that the rights of self-employed individuals should be protected, and
their economic activities were officially regarded as a supplementary segment of China’s socialist economy (Dong 1999: 416).

These developments soon took on a dynamism of their own. In 1988 China’s Constitution was again amended in order to raise the limit on the numbers of persons employed in self-employed entities. The 1988 amendments created a new category of *siying qiye* (private enterprise) in the licensing and registration of industrial and commercial organizations, with private enterprises now officially described as useful supplements to socialist public ownership (Lin 2017: 33). *Siying qiye* received official legal sanction, as Murphy (2000: 235), put it, and were allowed to legally hire more than eight employees. It can be seen that China’s transition to a market economy was built from the bottom up, but it was permitted to do so because there was also a component of top-down support and ‘guidance’.

New opportunities to sell goods not supplied by public sector production led to a surge in the emergent population of private entrepreneurs which exceeded the expectations of reformers (Gold 1991). The wave of expanding industrialization driven by grassroots private entrepreneurship was key to China’s economic growth up to the early 1990s. In 1992 Deng Xiaoping undertook a symbolic ‘southern tour’ to Guangdong Province, a stronghold of economic reform (Fewsmit 2008). Deng’s tour inspired a tidal wave of private entrepreneurial activities, including a large number of university intellectuals and employees in state organizations ‘jumping into the sea’ of market opportunities. Private enterprises formally shook off their ‘supplementary’ status in 1997 when the 15th Party Congress proclaimed non-public ownership as a key and integral component of China’s ‘socialist market economy’ (Peng 2004: 1055).

A further development which encouraged the growth of private business and the expansion of the market economy from the mid to late 1990s was the privatization of state-owned enterprises (Lu et al. 2021: 559). The state launched a privatization campaign in 1997 heralded as ‘zhuada fangxiao’ (holding on to the large and letting go of the small) in order to restructure and eventually privatize large numbers of small and medium-sized state-owned-enterprises (Lin 2017: 34). At the same time, many urban and rural collective enterprises were closed down or sold in order to be transformed into shareholding companies. Within six years, the dominance of state ownership was reduced to ‘a handful of strategically important sectors, such as banking, telecommunications, utilities, energy, air and rail transport, warehousing and storage, tobacco, and armaments’ (Lin 2017: 3).

On 1 July 2001 CCP General Secretary Jiang Zemin delivered a keynote speech at the ceremony celebrating the 80th anniversary of the founding of the CCP. Many party members were surprised by his announcement that the Communist Party would welcome, indeed encourage, the membership of private business people (Peng 2004: 1055). The positive contribution of entrepreneurs to the country’s development was not only publicly acknowledged by the Communist Party leadership, the Party’s bylaws were changed in 2002 to
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facilitate the membership of private entrepreneurs (Pomfret 2001). Not only were private entrepreneurs encouraged to join the Party, Party members were encouraged to go into business. Further assurance of political respectability was given to private owners in 2004 when the National People’s Congress adopted a constitutional amendment which emphatically stated for the first time in the history of the PRC that ‘citizens’ lawful property rights are inviolable’ (Lin 2017: 35). Institutional protection for private ownership was consolidated in 2007 with the enactment of the Real Right Law (Lin 2017: 38). The Communist Party’s business-friendly policies and its encouragement of an increasingly free-market economy has thus led to what many argue a new social class in the People’s Republic, a class of private business entrepreneurs.

Official recognition of the entrepreneur as a valuable member of Chinese society has shifted public perceptions of the entrepreneur from an entirely negative assessment to one that is increasingly positive (Puffer et al. 2010: 452). Since private capitalists are now acknowledged to be among the Party’s most important bases of support and source of revenue, China’s media has abandoned the overwhelmingly negative image of private business which characterized the Mao era and replaced it with more positive representation (Kong 2010: 92). Indeed, the media has played an important role in depicting entrepreneurs as ‘advanced productive forces’. One aspect of this trend is the promotion in popular television programs of traditional merchants. Such characterizations not only implicitly acknowledge that today’s private entrepreneurs represent the interests of ordinary people and the nation, they at the same time encourage the idea that traditional entrepreneurs may be models for present-day entrepreneurs to emulate, thus improving their 

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China’s transition from a state managed to a market economy has been gradual compared with the radical shifts experienced by former Soviet economies (Barkhatova et al. 2001). The failure of the ‘big bang’ approach in Eastern Europe suggests that the complexity of economic reform involving interrelated institutional changes requires incremental transition in order to achieve success (Murrell 1992a, 1992b). According to one commentator, instead of focusing on ‘the destruction of socialist institutions’, ‘China has concentrated on construction of market institutions, namely private enterprises, investment systems, stock and bond markets, workable price mechanisms, and most recently modern banks’ (Overholt 1994: 34; see Nee and Stark 1989). In China, the timing and sequence of reform measures were managed through the politics of a Communist elite in command (Shirk 1993) and major property forms, including land, remain in public ownership (Nee and Matthews 1996: 415). Gradualism in liberalizing the market and privatizing state assets have been instrumental in China’s successful transition to a market system (see Ang 2010).
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China’s transition to a market economy was achieved by a gradual and evolutionary process in which a new order emerged alongside an existing one, a strategy of ‘crossing the river by feeling the stones’ as Deng Xiaoping put it (Yang 1997). While China’s post-1978 economic environment was largely improved by market reforms, institutional uncertainty at the same time increased as a result of three major reform strategies (Bian and Zhang 2014: 432). The first strategy is captured by the term ‘reform without design’ through which market institution building lagged behind emerging market activities, leading to institutional non-transparency and institutional voids (Bian 2002; Lin 1989). The second strategy, gradual reform by trial and error, resulted in an open-ended evolutionary process of institutional change (Lin 1989, 1995) which permitted the coexistence for decades of incompatible state-redistributive and market institutions, permitting loopholes which encouraged official corruption and illicit business operations (Shirk 2007). The third strategy, in which regional governance rather than functional authority dominated, encouraged local governments to identify and advance their own interests, including corrupt associations between local authorities and business interests (Nee and Su 1996; Oi 1992; Qian and Xu 1993). While this local autonomy led to increased local revenue and institutional innovation as well as the local containment of failure (Qian and Xu 1993), the strategy gave rise to institutional ambiguity and implementation variation across localities (Naughton 2007).

The institutional uncertainties generated by the multifaced reform measures indicated previously are subject to regulative adjustments at the five-yearly Communist Party Congresses. These adjustments, however, are not always able to keep up with the rapid and ever-growing development of markets. Another means of oversight was put in place at the end of 2001 with China’s membership of the World Trade Organization (WTO), through which international standards would inform the structure and practice of market institutions. Nevertheless, the WTO’s reach and influence have been limited due to China’s large size and interregional variation. Whereas institutional uncertainty is expected to decrease for well-developed market activities in certain localities and for certain industries, institutional uncertainty persists or even increases in other localities and for other industries in which new developments are concentrated under mixed institutional arrangements (Bian and Zhang 2014: 432). A factor encouraging institutional ambiguity is that the policy enforcement of business and markets is achieved not through legal regulation but regulative documents and administrative orders (Zhao and Qi 2020) which are amenable to negotiation when locally implemented.

In Western societies, highly developed governance systems require markets to operate on the basis of legally enforceable written contracts which presuppose and require transparent and legally-binding property rights (Choi 1994). In China, on the other hand, private property rights do not operate on the same trajectory as in Western industrialized countries (Delios et al. 2006; Hamilton 2006). The Western concept of private property rights cannot be
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separated from that of a legal system with an independent judiciary and credible machinery to enforce its judgments. Since the concept of private property in transitional economies is fragile, and supporting formal institutions including an effective judicial system are underdeveloped if not lacking, an entrepreneur’s property may be at risk of confiscation or subject to other forms of compromise. Entrepreneurs may therefore create defence mechanisms to protect their property, including ‘concealing assets, creating dual accounting systems, listing stock on foreign exchanges, [or] partnering with foreigners to gain visibility’ (Puffer et al. 2010: 459).

The market economy of China has evolved from its socialist past and therefore cannot be understood apart from the historical legacies of the socialist period (Walder 1996). In an advanced capitalist society, political capital may become subordinate to economic capital, but in a socialist transitional economy such as China’s, politics continues to dominate many aspects of social life and has determinative effects on markets and market actors (Lu et al. 2021: 545). China’s embrace of the market economy since 1978 has been described as leading to a society with three layers of institutions: the state, the market, and guanxi networks (Boisot and Child 1996). Rather than a distinct institutional layer, though, guanxi networks are embedded in both the state and the market. It is important to note that in China the state and market, while notionally distinct, are not separate but interconnected. Chinese entrepreneurs, as market actors, are required to navigate their relations with both state authorities and guanxi partners.

In discussing private business in China it is impossible to avoid the notion of guanxi, which literally means relationship or connection and, in this context, indicates long-term and networked associations between persons who share not only common interests but affectively-based obligations to share favours and benefits, so that guanxi may be described as a particularistic instrumental relation (Barbalet 2021; Bian 2019; Qi 2013). Guanxi-facilitated business arrangements are not necessarily cost effective, but in many instances are practical and efficient, especially when legal frameworks remain weak or ambiguous (Keister 2001, 2002; Lin 2001a; Standifird and Marshall 2000). It was mentioned earlier that a local government may increase its revenue, and enrich local officials, by encouraging market development. This is achieved through guanxi between those officials and obliging private entrepreneurs. Indeed, in order to engage in business China’s entrepreneurs are dependent on the state for capital in the form of loans or joint venture, certain commodities including land, beneficial or enabling policies, and access to business opportunities. At the same time competitive advantage is with those entrepreneurs who have guanxi relations with officials (Osburg 2013: 9; Wank 1996; 2002).

Because a number of post-1990 entrepreneurs are former government officials (i.e., red capitalists) (Dickson 2003; Lu and Fan 2016), and the children of high-level Communist Party officials, known as taizidang (princelings), tend to hold well-paid private sector jobs (Lin 2011), and former state-owned