

## Chinese entrepreneurship and economic development

### Abstract

I argue in this paper that the economic miracle occurring in the People's Republic of China is the product of a dynamic blending of two patterns of Chinese entrepreneurship, the external and the mainland patterns.<sup>1</sup> Such a blending is facilitated by an affinity in cultural ethos in which four key values are particularly significant, namely familism, pragmatism, autonomy and personal trust. An emergent stratum of change agents which include strategists, snatchers, managers and innovators are converting these values into entrepreneurial acts.

### Introduction

Entrepreneurship thrives in 'external' China.<sup>2</sup>

<sup>1</sup> An earlier and longer version of this paper was presented at the Conference on 'The Development Prospects of East Asian Socialism: The 'Four Little Dragons' or Eastern Europe?' held at the Australian National University on 13–15 January 1993. The longer version is forthcoming in J. Unger and B. McCormick (eds.), *China's Prospects: Lessons From Eastern Europe and East Asia*, New York. I wish to thank Jonathan Unger, Barrett McCormick, David Goodman, Anita Chan, Gary Hamilton, Gary Gereffi, and Thomas W.P. Wong for their comments.

<sup>2</sup> The term 'external China' covers three groups of Chinese: the overseas Chinese; the 'compatriots' of Taiwan, Hong Kong and Macau; and the returned overseas Chinese and their dependents. See Wang, 1991.

In Hong Kong, Taiwan and other Overseas Chinese communities, family firms undertake economic innovations and compete fiercely with one another. Seeking profit and autonomy, risk-takers abound. Multitudes of small firms are created. These enterprises have an inherent centrifugal tendency towards segmentation and internal division. They seldom grow into large corporations. They form business networks and subcontracting systems so as to enhance flexibility and to coordinate production. Such networks flourish in spite of the state. Their collective strength is derived from private initiative, not from government patronage or planning. On the whole, they are strong in entrepreneurship but weak in management (Wong, 1988a; Redding, 1990).

Such a pattern of entrepreneurship was virtually non-existent in the People's Republic of China before 1979. Economic innovation during the Maoist era assumed a different form. It was the state that constituted the 'omnipotent entrepreneurial and risk-taking force in industrial development' (Richman, 1969: 333). The task of initiating new combinations and redressing disequilibrium in the economy was undertaken by various Party and government agencies. As a result, entrepreneurship was both restrictive and diffused. It was monopolized by the huge bureaucracy of the state. Yet individual cadres and managers within the state apparatus were not entrepreneurs themselves. They only occasionally carried out an innovative function as one of their many role requirements. The practice of central planning demanded control more than spontaneity. Fulfillment of state plans, rather than the pursuit of profit, was the primary objective of economic agents. Uniform and hierarchical organizational structures were instituted. The discretion of existing enterprises to create new production units was strictly limited. Such power was firmly held by various state ministries, fostering centripetal tendencies among enterprise groups (see Berliner, 1983: 197–198). Consequently, managerial hierarchies and gigantic organizations prevailed as against business networks and small firms.

Thus we can say that two basic styles of Chinese entrepreneurship have co-existed, one among the 'little dragons' and the other in Maoist China. I shall call the former the external pattern, and the latter the mainland pattern. These two patterns are proposed as ideal types in order to highlight the dominant features which will be further discussed in later sections. The empirical reality in each case is of course more varied. As conceptual tools, these two patterns can be summarized as in figure 1.

	<i>External Pattern</i>	<i>Mainland Pattern</i>
Operator	Family	State
Supplies	Abundant	Restricted
Motivation	Autonomy	Authority
Function	Specific	Diffused
Structure	Network	Hierarchy
Development	Centrifugal	Centripetal

Fig. 1. Two patterns of Chinese entrepreneurship.

However, economic reforms in the PRC have altered the situation drastically. The two patterns of entrepreneurship have rapidly intermingled. Small firms in Hong Kong take the lead in responding to the open door policy and extend their outward processing and subcontracting operations into southern China (Sit and Wong, 1989: 219-230). Their massive collective investments across the border have made Hong Kong the biggest outside investor in the PRC. From 1979 to 1990, Hong Kong investments in the mainland amounted to about US\$ 26.5 billion, constituting more than half of the total sum of foreign investments there (Sung, 1992). More recently, Taiwan firms have also started to invest heavily in the mainland and strengthened the spread of the external pattern in the PRC. A dynamic blending of the two patterns of entrepreneurship has thus occurred, resulting in a strong surge towards economic growth particularly in southern China. What are the major factors which have made this dynamic blending possible?

Primary among them, I shall argue, are the affinity in cultural ethos and the presence of a carrier stratum of change agents.

### Affinity in cultural ethos

I have argued elsewhere that the economic dynamism found in post-war Hong Kong is propelled by the cultural values of (i) pragmatism, (ii) familism, (iii) autonomy, and (iv) personal trust (Wong, 1986). These values are drawn from the traditional repertoire of popular Confucianism. In the process of being selected and adapted to a social context of precariousness and anxiety, they take on new meaning and become a transformative force in the economy.

In Maoist China, the imposition of radical Marxism forced a break with the Confucian past. During the reform era, we witness the recession of Maoist ideology and the revival of traditional values. That revival reestablishes the cultural linkages between the PRC and external China, leading to the resurgence in the mainland of the values of pragmatism, familism, autonomy, and personal trust.

### Pragmatism

The pragmatic outlook of the Chinese is linked to the nonexclusive nature of their religious faith. Chinese religion is characterized by the absence of a creation myth and the lack of an omnipotent god. Subscribing to an incorporative cosmology, the Chinese are hospitable to multiple deities and spirits (Hsu, 1953). In the case of Hong Kong, such an eclectic attitude has facilitated a flexible adoption of foreign ways, enabling Chinese industrialists there to become adept borrowers of technology from abroad and to practice an imitative form of entrepreneurship successfully (Wong, 1986: 309-310).

In the PRC, pragmatism also proves to be resilient. Although an exclusive form of ideological orthodoxy was upheld in the Maoist era, Deng Xiaoping kept pragmatism alive with his famous motto of 'no matter whether the cat is black or white, it is good as

long as it catches mice<sup>1</sup>. In the early 1980s, he gave it a new lease of life with the slogan of 'seek truth from facts'. The decline in orthodoxy is also reflected in the reemergence of folk religions and sects, particularly in the countryside (Munro, 1989).

In the economic sphere, pragmatism manifests itself in several behavioral tendencies. First, there is a keen sensitivity to market fluctuations and a readiness to take advantage of economic opportunities. Such a market mentality paved the way for the return to family farming and for rural industrialization to be readily embraced by the peasants, and for individually owned enterprises to mushroom in the urban areas.

Second, even during the Maoist era when the scope of enterprise autonomy was strictly limited, there was evidence of innovative activities undertaken by factory managers and workers. Yet typically, such innovation and experimentation involved 'product and process development and the introduction of technology' rather than managerial and organizational reforms (Richman, 1969: 338).

Third, pragmatism breeds an anti-hierarchical tendency. As Lucian Pye notes, the Chinese version of pragmatism 'leaves little room for emotional ties of loyalty. . . when circumstances change, so do sentiments and loyalties' (Pye, 1986: 215). Such an attitude is not conducive to the maintenance of stable patron-client relations and the growth of a strong sense of identification with organizations.

Fourth, when Chinese pragmatism was mixed with the voluntaristic strain in Maoism, it engendered an orientation towards impulsive risk-taking. The economic consequence was the frequent occurrence of wasteful and unproductive experimentation. During the reform era, such boldness in risk-taking has led to excessive competition. In many localities, large numbers of enterprises are created in a rush but the majority of them are not operating efficiently.

## *Familism*

Besides pragmatism, another Chinese value supportive of economic endeavor is familism. In Hong Kong and Taiwan, a dynamic ethos of 'entrepreneurial familism' exists (Wong, 1988b; Greenhalgh, 1984). This ethos involves the family as the basic unit of economic competition and provides its members with the impetus to innovate and take risks.

In the PRC, familism was weakened by a number of official policies. The Chinese Communist Party tried hard during the Maoist period to loosen the hold of the family on individuals by emphasizing loyalty to the state. With the introduction of socialism in the urban economy, the family was deprived of most of its productive and property-holding functions. For some time, these policies suppressed the entrepreneurial drive of urban families. A new pattern emerged in which family funds were predominantly managed by women. Men apparently had lost interest in administering the meager family budgets, and their skills in the handling of money probably declined (Whyte and Parish, 1984: 177). Families also became more retreatist and more concerned with self-preservation.

However, familism is far from being broken. The PRC government, during its radical phases such as the Great Leap Forward, did launch serious assaults on the family. But such radicalism was short-lived. On the whole, it took family considerations into account in the allocation of jobs, and it upheld the welfare duties of the family particularly in connection with care for the aged. Among urban dwellers, surveys have shown the persistence of norms of filial piety and economic reciprocity between parents and children (Chiao, 1991: 3-7, 69-79, 81-92). Family life remains instrumental and task-oriented in emphasis, with a strong sense of family corporate interest so when economic opportunities became available in the cities, it is not surprising that large numbers of individual entrepreneurs emerged with initial capital provided by family members and relatives (Tuan, Wong and Ye, 1986: 40).

## Autonomy

To become a boss [*dang laoban*] is a strong motivating force among private Chinese entrepreneurs. When presented with the hypothetical career options of becoming either an owner-manager of a small firm or a senior executive of a large corporation, textile industrialists in Hong Kong showed a clear preference for the former (Wong, 1988a: 97–101). In Taiwan, the desire for self-employment was found to be the major spur towards hard work which led to the mushrooming of small enterprises (Harrell, 1985; Stites, 1985).

In the PRC, the room for economic autonomy was greatly curtailed during the Maoist era. Cadrefication, the pursuit of authority within the omnipotent party-state, was the only channel for social advancement. However, with the onset of market reforms, and with the entrepreneurial path becoming viable and attractive, there are signs that the desire to be one's own boss burns in the hearts of at least some of the managers of state enterprises. The lure of entrepreneurial autonomy seems to have infected some senior party cadres as well. It has been reported that a round of regional reshuffles of party leaders in 1992 was delayed because of an unprecedented phenomenon – some of the candidates short-listed by the Party's Organization Department turned down the offers and preferred to go into business instead (*South China Morning Post*, November 28, 1992).

The growing attraction of the entrepreneurial path is undoubtedly affected by a changing reward structure and involves rational individual choices (Nee, 1991). But the desire for autonomy which has deep cultural roots is palpable. One of those roots is the philosophical assumption of the natural equality of individuals (Munro, 1969). This conception of man has sustained a peculiar system of social stratification in traditional China in which a strictly hierarchical structure coexisted with an ethos emphasizing mobility through individual effort. After 1949, the CCP sought to transform that system by constructing a caste-like system of

stratification (Watson, 1984). But the traditional conception of man is clearly reasserting itself in the reform era, as shown in popular receptiveness toward the notion of meritocracy and mobility irrespective of class background.

Another root of the desire for autonomy can be traced to the knight-errant tradition that forms one of the dual ethical codes found in Confucianism. It is the tradition of the 'small man' and the market place which extols the virtues of individual daring and reciprocity. It is counterpoised to the tradition of the gentleman and the court which stresses the quest for personal cultivation and moral order (Yang, 1969). It represents the subculture of nonconformity and innovative deviance which later flourished in external China. It is being rekindled in the Chinese mainland in the past decade through the spread of Hong Kong popular culture in the guise of knight-errant novels and martial arts films.

## Personal trust

Chinese economic dealings are conducted on the basis of personal trust or *xinyong* (Wong, 1991). For Chinese entrepreneurs in Hong Kong and Taiwan, relationships precede organization. They tend to nurture flexible, multifarious business ties rather than permanent, single-stranded relations. In making business deals, they prefer face to face contacts and verbal agreements instead of professional mediation and formal contracts. They build intricate webs of personalized business relations that are reinforced by voluntary associations and religious sanctions, rather than being dependent upon state protection.

Such a particularistic orientation was repellent to the Chinese communists who adopted draconian measures to eradicate it. During the Maoist era, they sought to institutionalize the universal ethic of comradeship so as to eliminate the traditional value of particularistic friendship (Vogel, 1965). Backed by the use of fear, the unintended social consequence of enforced comradeship

was widespread mistrust and moral disintegration. When ideological fervor receded with the introduction of economic reform, the emphasis on *guanxi* (personal connections) and particularism returned with a vengeance (Gold, 1985).

Why is there such an amazing resurgence in the economic use of personal ties in the PRC? The *danwei* (work-unit) system of social organization with its 'culture of organized dependency' and the weak market structure within a partially reformed economy must have contributed to it (Walder, 1986). But the major underlying reason, I think, is the cultural strength of the notion of *guanxi*. As Ambrose King indicates, *guanxi* is 'part of the 'stock knowledge' of Chinese adults in their management of everyday life. As a socio-cultural concept, it is 'deeply embedded in Confucian social theory and has its own logic in forming and in constituting the social structure of Chinese society' (King, 1991). Furthermore, particularistic ties have long been used by Chinese entrepreneurs to resist state intervention. Even in the heyday of Maoist fervor, the relational ethic was far from broken. It just went underground and constituted 'an oppositional force in the form of the gift economy' (Yang, 1988: 422). In the current ideologically relaxed environment, it rebounds into the open with renewed vigor.

### The carrier stratum

Who are the carriers of the entrepreneurial values of pragmatism, familism, autonomy and personal trust in the PRC? In this regard, a comparison with developments in Hungary may be instructive. In the case of Hungary, Ivan Szelenyi (1988) demonstrates that a process of interrupted embourgeoisement is at work. He observes that before the advent of socialism a class of peasant-burgers had been emerging who sought to create autonomy for themselves through family entrepreneurship. This evolutionary process was interrupted in 1948 by the triumph of Stalinism. The middle peasants with entrepreneurial potential then went into 'hiding

places' or 'parking orbits' to resist the dominant bureaucratic hierarchy and the pressure towards cadrefication. With the onset of economic reform, many of these peasants left their 'parking orbits' to become entrepreneurs.

The concepts of 'interrupted embourgeoisement' and 'parking orbits' are equally illuminating in the case of China. The Chinese economy in the late imperial period was already highly commercialized. The vigorous merchant class provided a fertile breeding ground for future entrepreneurs. During the Republican period, embourgeoisement proceeded rapidly (Bergere, 1989). When the Communists came to power after 1949, they actually only suppressed the private mercantile trend. Bureaucratic entrepreneurship was allowed to survive and grow in an altered form. Thus the historical process of embourgeoisement was fractured rather than totally interrupted.

As for 'parking orbits', it is worth noting that the private entrepreneurs in China did not have to go into hiding *en masse*. Some of them had an exit option not readily available to their Hungarian counterparts. Especially if they were Cantonese, they could escape to the capitalist haven of Hong Kong and push on toward embourgeoisement in an 'external orbit'. The largest outflow of Chinese refugees to Hong Kong occurred around 1949, including a surge of entrepreneurs from Shanghai, but the exodus has continued in sporadic waves since then. The initiation of economic reforms in 1978 triggered off another exodus of refugees from Guangdong (see Chan, Madsen and Unger, 1984: 266).

Because the process of embourgeoisement was fractured rather than interrupted, and 'external orbits' for potential entrepreneurs exist in addition to 'parking orbits', the economic reform in the PRC appears to have a stronger basis for success than those in Eastern Europe. There is a more vibrant and varied carrier stratum of economic change agents who can be classified in terms of the human capital they possess, such as business experience and skill, and mode of ownership. As shown in figure 2, we can group them into



four types – the strategists, the snatchers, the managers, and the innovators.

Human Capital	Mode of Ownership	
	State/Collective	Private
Low	Strategists	Snatchers
High	Managers	Innovators

Fig. 2. Four types of economic change agents.

Strategists

The first type consists mainly of the economic elite in rural communities. They are leaders in charge of collective enterprises. Working for group interest as well as private gain, they are often resilient and dedicated. They form one of the thriving groups of entrepreneurs under socialism.

Their strength is based on several factors. First of all, rural organizations in Guangdong and Fujian have a long history of striving for autonomy and competing for wealth and status on a collective basis. The two provinces had a high concentration of lineages functioning as corporate groups in the past. After 1949, these kin groups were officially suppressed and they lay dormant for several decades. But their membership remained largely intact because of the government prohibition against rural to urban migration. When economic reform is introduced, many of these kin groups are revived in support of industrial development.

The second factor is that the countryside of Guangdong and Fujian was home to the majority of the overseas Chinese who went abroad before the Second World War. These external connections became invaluable in the 1980s and enabled the rural communities to raise funds, secure industrial know-how, and gain access to foreign markets.

The third area of strength lies in the commercial heritage and regional pride which tend to foster solidarity and motivate the rural leaders to seek economic betterment. The inherited abilities in trade can be turned into useful industrial skills by developing

good market judgment and nurturing a sound business reputation. The last factor is the huge pool of rural residents in the villages, who provide an abundant and reliable supply of cheap labor. In times of industrial down-turns, these workers can return to work in the fields for survival.

Because of these favorable factors, rural collective enterprises have become an impressive entrepreneurial force and contributed to the dramatic transformation of the countryside in the coastal provinces. But at the same time, they are handicapped at least initially by their lack of direct business experience and manufacturing skills. They are also hindered by the regional imbalances and economic disparities which their economic activities have engendered. There is the potential threat of group-based hostilities flaring up against those collectives that are particularly well off and cohesive.

Snatchers

The snatchers consist mostly of the early cohorts of individual operators [*geti hu*] who seek profitable niches on their own. Some of the opportunistic investors from Hong Kong and Taiwan who search for quick profits in the mainland should also be included in this category. They are the direct products of an economic reform which reduces the scope of state planning and permits individual business activities to flourish (Kraus, 1991).

The indigenous snatchers display several distinctive features, the first of which is their concentration in trade and services. Only a small proportion of them are involved in industrial production.

The second feature is that quite a number of them originated as social misfits who did not have a foothold in work units [*danwei*] which provided secure employment. They have included youths drifting into the cities illegally, school graduates rejecting the jobs allocated to them by the state, discharged soldiers returning to civilian life, and the children of individuals with bad class labels or other kinds of political stigma.

Such social backgrounds generally result in weak technical training, which is their third feature. They tend to be individuals on the drift, anxiously searching for occupational openings that would provide them with some means of livelihood. They do not have high expectations, and they cannot prepare themselves well in advance for the opportunities that might come and go.

Their fourth feature is their vulnerability. Being socially rootless and isolated, they do not have much strength in bargaining with the more powerful groups in their community. They are thus over-burdened with various taxes, fees, and levies. Very often the only effective bargaining chip they have is their money, and it is no wonder that many among them resort to bribery in order to purchase protection.

A short-term mentality is their last characteristic. They are living for the moment, snatching whatever profits are available while the fickle opportunities last. They tend to indulge in conspicuous consumption as they know that their fortunes may be changed any time by forces beyond their control. They are not keen to accumulate capital and experience for long-term business development. They are transitory entrepreneurs.

### *Managers*

Since many Chinese state enterprises have been operating in the red in recent years, it is tempting to conclude that the managers in these enterprises are poor entrepreneurs. Quite a number of them probably are not prepared to take risks and venture out of the protected state industrial hierarchy. But at least some of them, as described above, are motivated by the entrepreneurial spirit of autonomy. Specially groomed by the state in the past, they are relatively well educated. Their long periods of employment in large-scale factories also make them technically strong.

But in order to overcome the inertia of the state industrial system, they have to devise ingenious ways to circumvent bureaucratic

red-tape and obstacles. In carrying out innovations, they often incur high political risks and might get themselves into serious trouble if and when the political climate changes. There is thus a tendency for them to press for institutional reforms so as to break out from the strait-jacket of the state industrial bureaucracy.

Can these managers convert themselves into successful entrepreneurs? Is it possible to transform the state enterprises to make them effective? It may be relevant here to bring in the Singapore experience, which constitutes a variation in the external pattern of Chinese entrepreneurship. Industrial development in Singapore has been propelled mainly by foreign multinational corporations and government-linked enterprises rather than by private family firms. The state enterprises in Singapore appear to be profitable and efficient (Pang, 1988; Lee and Low, 1990). This Singapore experience provides an encouraging example of successfully 'marketized' state firms which PRC leaders are reportedly keen to emulate (*South China Morning Post*, November 10, 1992).

### *Innovators*

The seasoned entrepreneurs from Hong Kong and Taiwan who invested in the PRC after 1978 form the prototype of the innovators. Many of them were originally emigrants from Guangdong and other parts of China. Coming from the same social and cultural stock, they retain close kinship or regional ties with their native communities. As entrepreneurs bred in external China, they possess a particular set of resources which makes them competitive in the partially reformed economy on the mainland.

Their first advantage is their commercial heritage. They tend to have a merchant family background, with significant numbers of their forebears working as overseas Chinese traders in different parts of the world (Sit and Wong, 1989: 89–96). Second, they are technically proficient, having been engaged as skilled workers or technicians in Hong Kong factories before they set up their own enter-

prises. Third, they are involved in an industrial subcontracting network in Hong Kong which is flexible and adaptable. When they relocated their production plants to southern China in the past decade, they were just extending a Hong Kong subcontracting network which was already in place and functioning well. Fourth, by tapping into that network, the problem of access to foreign markets was greatly reduced as the external marketing was handled by the large factories and the trading houses in Hong Kong. Lastly, with the existence of kinship and regional ties, the Hong Kong investors can readily participate in the local 'gift economy' and activate social connections for economic ends. Consequently, their business ventures tend to be more profitable and dynamic than other foreign enterprises in the PRC.

The Hong Kong and Taiwan entrepreneurs are the pioneering innovators in the mainland. But with the passage of time, they are being joined by the more enterprising and resilient members of the strategists, snatchers, and managers. Thus the four types of economic change agents are not static categories. They are dynamically linked to one another, with an evolutionary trend towards enhanced business experience and skills, and growing importance of the private mode of ownership.

## Conclusions

I hope to have shown that the economic miracle occurring in the PRC is the product of a dynamic blending of two patterns of Chinese entrepreneurship. It is not simply a matter of China going capitalist, or of one system of business operation replacing the other. My attention mainly has focussed on the spread of the external pattern into the mainland. But as I have hinted towards the end, the reverse impact of the mainland pattern on external China should not be neglected. We need to know more about the characteristics and performance of the government-linked enterprises in Singapore, state corporations in Taiwan, and PRC firms

in Hong Kong in order to have a full understanding of the nature and range of Chinese entrepreneurship.

In highlighting the significance of four key cultural values – familism, pragmatism, autonomy, and personal trust – I have argued for the positive role played by parts of Chinese tradition in facilitating economic development. But it should be borne in mind that it is a tradition which is being transformed and reinterpreted in new circumstances. Such an argument raises a paradox because entrepreneurship is by definition a type of new and creative behavior. Why is there a tendency for such innovative conduct to be grounded in traditional and conservative values? This calls for further study.

The cultural values are translated into entrepreneurial acts by a carrier stratum of change agents. But this is only part of the story. I have suggested elsewhere that it is a combination of personal trust and institutional trust that generates economic dynamism in Hong Kong (Wong, 1991). What are the prospects for institutional trust, that is, faith in institutions such as law and finance, to be established in the PRC? Is the communist mode of organization compatible with the generation of institutional trust? If not, what changes are needed to put together a new mode of social integration conducive to the production of that form of trust? To answer these questions, we need to examine what Niklas Luhmann calls the impersonal and generalized 'media of communication' (Luhmann, 1979: 50). In other words, issues of power, justice and truth in the PRC in relation to the rise and spread of entrepreneurship are on the agenda.

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