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Navigating Security Risks: Chinese Private Entrepreneurs' Security Concerns and Coping Strategies

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Abstract

Since the launch of the policy of reform and opening up, the number of Chinese private enterprises has surged, and their social status has also continuously improved. This essay provides a perspective based on an investigation on private entrepreneurs in five cities in Zhejiang Province and Shanghai. Results show that, although private entrepreneurs achieved higher social status, most of them express deep concern for their security. Four main factors account for private entrepreneurs' lack of security: difficulty in obtaining equal protection of private property; the risk of criminal charges that threaten personal safety; the growing culture of hatred against rich people; and doubts over changes on the state political ideology, the latter causing the most anxiety among entrepreneurs. This essay proves that, although the state regulates some private entrepreneurs in stages due to social justice pressures and to the need to ensure a stable governance, no overall ideology transformation may overturn the economic policies in the private sector.

Introduction

The initial research idea of this paper came from a research study conducted by the authors who was commissioned by the officials of Zhejiang Province to investigate the opinions of private entrepreneurs in Zhejiang Province about the business environment. When communicating with the entrepreneurs, we clearly felt their concerns, a sense of insecurity about their future, which caught our attention. As China's economy has rapidly grown over the past few decades, private entrepreneurship has become an increasingly important engine for economic development. Why do they still have a sense of insecurity? Where does their insecurity come from? What are the deeper reasons? How do they respond to this insecurity? What is the Chinese government's attitude toward the insecurity of private entrepreneurs? And, in the long run, is this insecurity only an unnecessary fear, or will it become widespread?

According to statistics, the private sector contributes more than 50% of tax revenue, 60% of GDP, 70% of technological innovation, 80% of urban labor employment, and 90% of new jobs and enterprises.¹ Chinese private enterprises also have an important impact on the world economy, according to statistics, from January to August 2022, Chinese private enterprises accounted for 50.1% of China's total imports and exports, reaching 13.68 trillion yuan, up 14.9% year-on-year.

²Given the importance of private entrepreneurship in China's economic development, it is essential to understand Chinese private entrepreneurs' security concerns that affect the well-being and safety of entrepreneurs and their families but also threaten the survival and growth of private businesses.

At the same time, a number of private companies in China, including companies based in Hong Kong, Macau, and Taiwan, have set up "Party branches", and "Party building specialists" have become a hot position in many companies. A growing number of initiatives by the Chinese government seem to indicate that the separation of government and enterprises no longer seems to be the dominant value in Chinese business management. China's ruling party is increasingly emphasizing "party leadership", not only in SOEs, but also at all levels and in all industries.

With Alibaba's CEO Jack Ma and Jingdong's CEO Liu Qiangdong retiring behind the scenes, and Pinduoduo's CEO Huang Zheng resigning as Chairman, the personal and property security of private entrepreneurs entered once again the public discussion. Exploring the root causes of the lack of security of private enterprises is important to predict the future development trend of China.

The remainder of this paper is structured as follows: in the second part, we conduct a literature review on the literature related to the security of private entrepreneurs, especially on China's economic ownership structure; in the third part, the research design is proposed to adopt a mixed research approach, with the sources being primary data obtained from research and official documents released in China; in the fourth part, we explore the main factors affecting the security of private entrepreneurs; in the fifth section examines the main strategies of Chinese private entrepreneurs to cope with insecurity; in the sixth section, we use textual analysis to systematically analyze the attitudes toward capitalists in CCP's official documents from 1921 to 2020 in order to explore the trends in government's attitudes toward capitalists and respond to the root problems of private entrepreneurs' insecurity; the last section contains conclusions and policy implications.

Literature Review

The security concerns of Chinese private entrepreneurs have garnered increasing attention from scholars, policymakers, and business practitioners as private enterprises play an increasingly important role in China's economic development. Policy support for private enterprises has evolved over time, reflecting the changing priorities of the Chinese government. In the early stages of market reform, the government focused on promoting small-scale, labor-intensive industries, leading to the establishment of Township and Village Enterprises (TVEs) (Weitzman & Xu, 1994)³. TVEs, while not entirely private, served as a stepping stone for the development of the private sector by fostering entrepreneurship and demonstrating the potential benefits of market-oriented production (Oi, 1999)⁴. As the private sector matured and demonstrated its capacity for innovation and efficiency, the government began to implement policies aimed at fostering its growth. These policies included tax incentives, access to credit, and support for research and development (Li & Zhou, 2005)⁵. For instance, the government enacted the "Thirty-Six Articles" in 1988 to protect the rights of private enterprises and encourage their development. Additionally, in 2004, the Chinese constitution was amended to recognize and protect

private property rights, signaling a further shift in the government's attitude toward private enterprises (Peerenboom, 2008)⁶. The government's increasing recognition of the importance of the private sector has resulted in numerous policies aimed at fostering its growth and innovation (Li & Zhou, 2005)⁷. These policies have contributed to the rapid expansion of the private sector, which has become a major driver of China's economic growth and job creation (Dollar & Wei, 2007)⁸.

However, there is widespread controversy, both internationally and domestically about whether the Chinese government's attitude toward private enterprises has changed in recent years. The early years of China's market-oriented reforms did bring lucrative profits and upward class mobility for entrepreneurs who were the underdogs under the old system (Nee, 1989)⁹. However, it is heatedly debated whether China's market economy can be transformed into a comprehensive free market; moreover, the role played by the government is highly controversial, because of the motivation and consequences of the use by government officials of administrative means to control economic operation (Bian and Logan, 1996)¹⁰. While the reform entering the difficult stage, private enterprises continue to face an uneven playing field when competing with SOEs in the strategic areas, particularly in terms of access to resources, financing, and policy support (Bai, Lu & Tao, 2006; Tsai, 2005)¹¹. The phenomenon of "state advances, private sector retreats" (Guojin Mintui) exemplifies the challenges faced by private enterprises in China (Huang, 2010)¹². The literature on state capitalism in China highlights various challenges, including economic inefficiency, lack of innovation, and environmental degradation (Wu, 2014; Zhang et al., 2017)¹³. These challenges have limited the potential of private enterprises and have led to calls for further policy reforms and a more level playing field between the state and private sectors (Brandt & Rawski, 2008)¹⁴. SOEs are often closely linked to the CCP, which can provide them with greater influence over policy-making and protection against market fluctuations (Pearson, 2015)¹⁵. These studies all agree that the persistence of SOEs and the preferential treatment they receive from the government has considerable implications for the security of private entrepreneurs in China.

Another significant factor that has threatened the private entrepreneurs is the security of private property rights in China. The security of private property is crucial for encouraging investment, innovation, and growth in the private sector (De Soto, 2000)¹⁶. However, the protection of private property rights in China has been historically weak, with the state maintaining a high degree of control over land, resources, and enterprises. In response to the growing importance of the private sector, the Chinese government has taken steps to strengthen property rights protection. Notably, in 2004, the Chinese constitution was amended to recognize and protect private property rights (Peerenboom, 2008)¹⁷. Additionally, various laws and regulations have been enacted to clarify property rights and provide legal recourse for disputes involving private entrepreneurs (Deng, 2010)¹⁸. Despite these reforms, scholars argue that property rights protection in China remains uneven and subject to political influence (Clarke, Murrell & Whiting, 2008)¹⁹. The insecurity of private entrepreneurs is rooted in doubts about whether their private property rights can be effectively guaranteed. This insecurity is exacerbated by the memory of the historical deprivation of capitalists' private property rights and the constant changing policies of the ruling party.

Moreover, the research examines the political participation and influence of private entrepreneurs in China. As the private sector has grown, private entrepreneurs have sought to secure their interests by engaging with the political system. This includes joining the CCP and participating in political advisory bodies, such as the Chinese People's Political Consultative Conference (CPPCC) (Dickson, 2003)²⁰. Scholars debate the extent to which political participation has enhanced the

security of private entrepreneurs in China. Some argue that political participation allows private entrepreneurs to exert influence on policy-making and secure favorable policies for their businesses (Tsai, 2005)²¹. Others contend that the CCP primarily co-opts private entrepreneurs to maintain control over the private sector and mitigate potential challenges to its authority (Dickson, 2003)²².

The previous studies on the security of private entrepreneurs in China also highlight the role of corruption and informal networks. Given the weak protection of property rights and the close relationship between the state and the economy, private entrepreneurs often rely on informal networks and personal connections (*guanxi*) to secure their interests (Nee & Oppen, 2012)²³. These informal networks can provide private entrepreneurs with access to resources, credit, and protection from arbitrary government actions (Xin & Pearce, 1996)²⁴. However, they can also expose private entrepreneurs to corruption and rent-seeking behavior by government officials, undermining the overall efficiency and competitiveness of the private sector (Wedeman, 2002)²⁵.

Overall, these early studies reveal that the dominance of SOEs in China's ownership structure, the protection of property rights, political participation, corruption and informal networks all have important implications for the security of private entrepreneurs in China. Concerns that the environment is becoming harder for private companies to survive than it was before the 18th Party Congress still dominate. The existing literature has not delved more deeply into the question of whether China will return to its past ideological attitude against capitalists in Maoist era. This paper chose private entrepreneurs as the research object, from the perspective of their "sense of security", which reflects the trend of China's market economy from a micro point of view. Based on an empirical study of private entrepreneurs and an in-depth analysis of Communist Party-related policy texts, this paper will reflect entrepreneurs' feedback on the political climate, and attempt to resolve doubts about the Communist Party's changing attitudes towards capitalists.

Research Design

The research method of this paper is a textual analysis. The specific research ideas are to explore the sources of private entrepreneurs' insecurity and their coping strategies through the analysis of 35 private entrepreneurs' interview data; we also explore the course of policy by reviewing the CCP's documents (1921-2020) in response to its policies on the private economy, examining the question of whether private entrepreneurs have anything to worry about.

Data Resource: The data used in this paper come from a special study conducted from September to October 2016 in six cities of Zhejiang Province, namely Hangzhou, Jinhua, Wenzhou, Shaoxing, Ningbo, and Shanghai (for Zhejiang businessmen). Zhejiang is a large province of non-public economy; by the end of 2014, there were 1.123 million private enterprises and 2.869 million individual industrial and commercial households in the province. Currently, the proportion of private enterprises to the total number of enterprises in the province is about 90%, and the proportion of non-public economy added value to the province's GDP, tax contribution rate, export contribution rate, and employment contribution rate are 70%, 60%, 80%, and 90%, respectively. A total of 35 private entrepreneurs were interviewed in this study; 200 questionnaires were distributed for the entrepreneurial group, and 179 valid questionnaires were collected, providing a

large amount of first-hand information.

Table 3-1.

City	Interview Method	Number of interviews	Interview word count	Identity of participants
Hangzhou	Individual & Group Interview	5	44874	Chairman and Chief Executive Officer
Jinhua	Individual & Group Interview	6	20820	Chairman and Chief Executive Officer
Wenzhou	Individual & Group Interview	8	29597	Chairman and Chief Executive Officer
Shaoxing	Group Interview	6	25365	Chairman and Chief Executive Officer
Ningbo	Group Interview	4	24672	Chairman and Chief Executive Officer
Shanghai	Individual & Group Interview	6	38299	Chief and Vice President, Department Manager

Documentaional Text Source: In addition to the abovementioned empirical-based examination, all the important documents on the CCP's attitude toward capital since its founding in 1921 were collected, including the party program, important resolutions, conference reports, and important speeches and instructions from CCP leaders, for a total of 237 articles. A textual analysis was then performed to explore the changes in the CCP's attitude toward capital.

By analyzing entrepreneurial interview and questionnaire data, the aim of this study was to explore whether private entrepreneurs in China currently suffer from a lack of security. What are the key factors that affect entrepreneurs' sense of security? What are the coping strategies that private entrepreneurs tend to adopt in the case of a lack of security? Through the analysis of key documents and action texts of the CCP and the Chinese government, this article included the current response strategies of the CCP to the problem of private entrepreneurs' sense of security and explored the change trends of the CCP's attitude toward private enterprises, and the logic behind them.

Why so Fearful: Security Concerns of Private Entrepreneurs

Security is one of the basic needs of human beings. Maslow's hierarchy of needs theory considers safety needs as second only to physiological needs²³. In the process of interviewing 35 private entrepreneurs in Zhejiang, they always involuntarily revealed their worries about their own safety. In the group interview, once one entrepreneur raised this issue, other entrepreneurs always echoed it, clearly showing a group anxiety that was significantly different from the general population. The sense of security is a premonition of possible dangers or risks to the body or mind, as well as the individual's sense of power/inability in dealing with a situation, mainly expressed as a sense of certainty and controllability. The collective anxiety of Chinese private entrepreneurs underlies the lack of a sense of certainty and control. After summarizing the interview texts, this article found that the main factors affecting private entrepreneurs' sense of security

come from four areas: private property, personal freedom, traditional culture, and ideology. This led us to the formulation of the following four propositions.

Hypothesis 1: Private entrepreneurs' sense of insecurity is due to fears of losing their own assets

China's private entrepreneurs are wealthy elites, and wealth is a sign of their social status; what they are most proud of is their private property. Article 12 of the Constitution of China states that "Socialist public property is sacrosanct." It is also emphasized that "the state protects socialist public property. Any organizations or individuals are prohibited from appropriating or destroying state or collective property by any means." Article 13 also states that "The lawful private property of citizens shall be inviolable. The State protects the private property rights of citizens and the right of inheritance in accordance with the provisions of the law." However, here the tone of the wording is weaker than for public property, and the term "sacrosanct" is not used. This shows that in China, the status of private property is lower than that of public property. This, coupled with the fact that collective ownership was practiced for long time after the founding of the People's Republic of China and the private economy was suppressed, makes private entrepreneurs today fear losing their property. This fear is universal, and different batches of interviews often talk about this issue.

One entrepreneur argued that the private property of private entrepreneurs is not equally protected, making it impossible for them to engage in production without fear:

"It must be clear, what are we doing with the money we earn, are we all eating, drinking, playing, whoring and gambling? No, we are developing production, then where is the credit for our work? This we have to determine, since we are contributing to society, then our property should be protected like public property, we can rest in peace, otherwise, we will go slower, you do not protect me, how can I go, am I not equivalent to a trip in vain?"²⁴.

Another entrepreneur felt that the risk of deprivation of property at any time in a private enterprise made him insecure:

"We, the bosses, are deprived of our property rights, our business rights, and our property rights at any time"²⁵.

Another entrepreneur stated that private enterprises now essentially bear unlimited liability, and once the business is poorly run, often even their own family property will be expropriated. This is because China's bankruptcy law is not sound. When enterprises decide to go bankrupt, the local government will oppose to that for reasons of social stability. Therefore, in case of high losses, in order to keep operation ongoing, even the personal properties of entrepreneurs are mortgaged²⁶.

Since ancient times, China has never established a sacred status of inviolability of private property, and the deprivation of the rich has even received a certain moral advantage and "legitimacy" by the government. Although today the legality of private property has been repeatedly emphasized, the historical memory of the positioning and treatment of private entrepreneurs still lingers; in reality, these are worried by examples of treatment of private entrepreneurs, such as that

administered to Bo Xilai. This entails an evident observation: private entrepreneurs fear losing their property, which creates a sense of insecurity.

Hypothesis 2: Private entrepreneurs' sense of insecurity is due to fears of losing their personal freedom

In addition to the fear of property security, private entrepreneurs are generally worried about personal safety, as it is easy to break the law in the existing business environment. There are several reasons for this.

The first is the problem of “original sin”. Thirty years after the reform and opening up and China's transition from a planned economic system to the market economic system, a number of laws, systems, and rules have not yet been updated to face contemporary challenges. When Chinese private entrepreneurs started, the first bucket of money was often not necessarily legal in terms of the laws of the time. For example, even though the development of China's private courier companies has long exceeded the scale of the state-owned China Post, historically their scope has never complied with China's Postal Law; for this reason, these companies are known as “black couriers”.

The second is the problem of tax law violations. Due to China's heavy macro tax burden, if small and medium-sized enterprises (SMEs) have to follow strictly the requirements of taxation, they would earn almost no money. Yao Yang, a famous Chinese economist, also proved this point in his research, saying: “I have done some calculations, if every enterprise pays taxes according to the rules, the vast majority of SMEs will die, they cannot survive, and everyone knows that SMEs must evade taxes”²⁷. This problem was also highlighted by our research. In fact, a private entrepreneur said in an interview:

“I can boldly say that any enterprise, including listed companies, if the State Taxation Bureau wants to investigate you, every enterprise, including the entrepreneurs here, will have problems and all will go to jail”²⁸.

Due to the unpredictability of tax problems, private entrepreneurs are worried that once their companies are pursued, they may be held accountable as legal representatives and are, therefore, particularly worried.

The third is the problem of political-business relationship. In the past, China's political and business relations were very dysfunctional, and enterprises and officials were often entangled with each other's interests, which often led to trouble. After the 18th NCCCP, the Chinese Communist Party has stepped up its efforts to fight corruption. Accordingly, several corrupt officials have already fallen from power, and many private entrepreneurs are worried that they will be implicated. According to our survey, at the question of “Wang Shi, a famous entrepreneur, said Vanke ‘never pays bribes’; how possible do you think this is?”, 23% of the private entrepreneurs interviewed answered that it was “impossible”, 44% thought it was “purely a case, not universal”, while 18% thought it was “completely possible”. Therefore, with the increase of anti-corruption efforts and the increase in the number of fallen officials, entrepreneurs who have irregular dealings with them are bound to be worried as well.

It is for these reasons that several Chinese private entrepreneurs have been sentenced to prison. There are even a number of well-known entrepreneurs who have been imprisoned for unjust cases, and disputes over the application of the

law (see Table 1-1). Some of these cases have been vindicated in the recent past, but the psychological damage and mental loss caused by imprisonment are difficult to make up in the short term, and this also paints a psychological shadow on other private entrepreneurs.

Hypothesis 3: Private entrepreneurs' sense of insecurity is due to the perceived impact of a culture of hatred against rich people

Numerous countries around the world have a tradition of discrimination against businessmen, and even Plato and Aristotle despised them. Accordingly, China, as a heavily agrarian country, is particularly prejudiced against businessmen. In addition to the direct risks associated with property and personal safety, entrepreneurs suffer from the risk of discrimination under a culture of hatred against rich people. In fact, the Chinese have a deep-seated contempt for businessmen. It is a common prejudice that "businessmen value profit over parting" and "the rich are not benevolent"; moreover, slogans such as "fight the landlords and share the land", "all capitalists are evil", and "capitalism means exploitation", developed in thousands of years of light business culture and decades of propaganda, have been internalized into the bottom of everyone's heart. As a result, entrepreneurs are still not truly respected. Even Jack Ma did not hide the fact that he once despised businessmen. It is today's entrepreneurs themselves who still have an inadvertent inferiority complex, and often prefer to place their children in civil service, teaching, and other professions. People's hatred against the rich has several specific manifestations, such as forced donations in case of disasters such as earthquakes, floods, and even on occasion of the "Tianjin explosion". In fact, if they decide not to donate or to donate a low amount, netizens will call them names on social media, engage in personal attacks, or threaten not to buy the company's products. In addition, the normal business withdrawal of some companies is considered "unpatriotic", and extreme statements such as "Li Ka-shing ran away" and "Cao Dewang ran away" are often made. For example, in response to an article circulating on the Internet entitled "Don't let Li Ka-shing run away", Li Ka-shing said: "This report distorted the truth and its tone is chilling", but also added that he "has confidence in the Central Government's unwavering commitment to continue reform and opening up and optimize the business environment", and does "not believe in the revival of Cultural Revolution-style thinking; the words and actions of individual people do not represent the direction of the country"²⁹.

Some entrepreneurs interviewed affirmed that, although the government respects private entrepreneurs in terms of policy, this heavily contrasts with the real public opinion environment. One entrepreneur said:

"The social environment in China now is that we, as private entrepreneurs, have more status, but in fact, it does not match our inner feeling. We feel that we are doing something good and contributing to the society. But in the eyes of others, you are still making money from them and exploiting them, there is such a feeling. There is still a little bit of this feeling of hatred for the rich"³⁰.

In synthesis, in such an environment, some entrepreneurs worry about being hated, which creates in them a certain sense of insecurity.

Hypothesis 4: Private entrepreneurs' sense of insecurity is due to their worry about the recurrence of ideology

China, as a socialist country that emphasizes public ownership, has a natural rejection of private enterprises, as private ownership, at the social ideological level. Accordingly, the process of establishment of the legal status of private enterprises has not been smooth.

Historically, after the reform and opening up, the Chinese Communist Party had five debates about the legitimacy of private enterprises³¹.

The first debate took place at the beginning of the reform and opening-up period, when some argued that the employment relationship in the private economy would lead to exploitation. The second occurred in the 1990s, revolving around the issue of structural changes in ownership, as the share of private enterprises in the national economy rose. Some people raised the question of whether China should follow the path of capitalism or socialism, worrying that a change in ownership structure would shake the foundations of the socialist economy. The third debate took place after entering the 21st century, when the issue of "the state advances and the private sector retreats" became the focus of a new round of discussion. Some people worried that with the expansion of SOEs, the survival of private enterprises would be more difficult. The fourth debate started in the first decade of the 21st century and has continued to the present. This debate focused on the "original sin" of private enterprises, whereby during the transition from a planned economy to a market economy, some laws and regulations did not adjust in a timely manner, resulting into the pursue of several private enterprises suspected of illegal business behavior. The fifth debate started on the eve of the 40th anniversary of the reform and opening up; it is related to the political status of private enterprises, and focused on the issue of whether the private economy has completed its historical mission and, thus, should "leave the field".

Private entrepreneurs are considerably concerned about the changing ideological climate, because this is a fundamental issue that affects their fate. Several private entrepreneurs are worried about the repetition of state policies, and one entrepreneur said:

*"How to define the role and status of the non-public economy is a very big problem. Only when the government sets a clear positioning of the private sector can we make investment in the private economy. Otherwise, our entrepreneurs are so scared that our money will be taken away or we will be losing our property in face of constantly changing law and policy"*³².

In synthesis, in recent years, the state's increasing attention to SOEs, the feeling of being unequal in the market, and media debates about the status of private enterprises have made private entrepreneurs feel insecure.

Strategies for Entrepreneurs to Deal with Risk

In order to investigate the sources of the lack of security among private entrepreneurs, this article developed a model (Figure 1) to describe the motivations of entrepreneurs' insecurity and the strategies they adopt. The lack of security is not a psychological problem, as generally perceived, but a subconscious fear due to the expectation of insufficient security in the political environment, and therefore it should be understood in the political context. The article classified the risks faced by entrepreneurs into four categories: Property, Personal Safety, Culture, and Ideology. These risks are considered as the direct cause of entrepreneurs' lack of security.

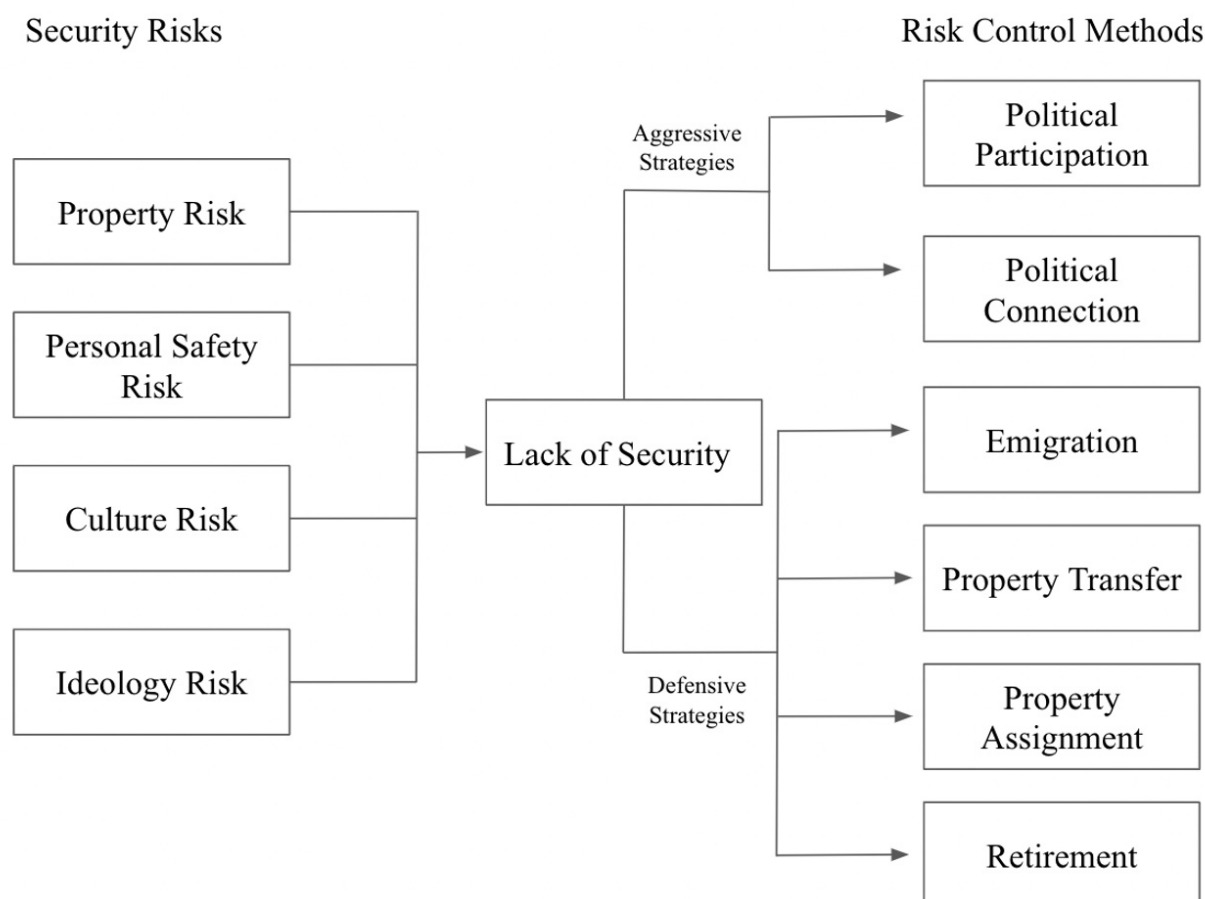


Figure 1. Strategies for Private Entrepreneurs to Cope with Risks.

Progressive Strategies

Political Participation

The reason why China has been able to achieve a high economic development despite an imperfect legal protection of investors, lays in the existence in the country of alternative mechanisms for investor protection. One of these is political identity, which also facilitates firms' access to resources or business development. Using Chinese enterprise survey data, Li Hongbin et al. examined the determinants of political participation among private entrepreneurs in China³³; they found that the more imperfectly developed the market system, the more likely private entrepreneurs will take political patronage

and participate in politics. Thus, political participation is also seen as a proactive response taken by private entrepreneurs in transition countries with imperfect markets and institutions, in order to avoid potential property and personal risks. One private entrepreneur explained in an interview why private entrepreneurs are keen to run for deputy to the National People's Congress (NPC) or for members of the CPPCC:

"We, private entrepreneurs, need to express our opinions through a political channel to make our voice heard and defend our property right. Why? Only through such an attempt can we have a political status to preserve our property. If we don't have status, we will not feel safe to exercise our economic rights"³⁴.

In 1950, Rong Yiren, the first Chinese tycoon to appear in the 1999 Hurun hundred rich list, attended the second session of the CPPCC for the first time as a special guest, becoming the first private entrepreneur to obtain national political status. In 1993, Liu Yonghao, Zhang Hongwei, and other 21 private entrepreneurs were elected as members of the CPPCC National Committee, representing a landmark event for the participation of Chinese private entrepreneurs in politics. In 2003, Xu Guanju, Chairman of the Zhejiang Transfar Group, and Yin Mingshan, Chairman of the Chongqing Lifan Group, were elected as Vice Chairman of the Zhejiang Provincial Committee of the CPPCC and Vice Chairman of the Chongqing Municipal Committee of the CPPCC, respectively. Among the members of the 13th National Committee of the CPPCC, 79 private entrepreneurs were deputies to the National People's Congress and 74 became members of the CPPCC. Ma Huateng, Lei Jun, Ding Lei, Zhou Hongyi, and other top private entrepreneurs in the Internet industry have participated in the NPC and CPPCC. Political patronage has gradually become an important expression of the political affiliation of Chinese private enterprises.

Political Connection

Due to ownership discrimination and barriers to entry in several industries in China, the obtainment of administrative licenses from the government is a prerequisite for private enterprises to enter relevant industries, a process that will be facilitated by the political resources available to private firms. Then, once entering these industries, firms will face more regulations from the government; in such a high-regulation environment, firms are increasingly dependent on the government for their legitimacy and for the important resources needed for their growth.

In China, the connection between government and business has become increasingly tight. Companies desiring to do business must go through the processes set by government departments; therefore, good relations with, and favors to, leaders are essential for entrepreneurs, and often require huge investments in human and material resources to be maintained. According to a reporter's survey of the Chinese Communist Party organ "People's Daily", SMEs generally acknowledged that, after the implementation of "the eight-point regulation" whereby government officials visiting enterprises are required not to eat, not to receive gifts, and even not to drink water, such practices have basically disappeared. However, the phenomenon by which enterprises buy officials or pay "protection money" has not been eliminated, such that the annual non-business expenses, that is, those for the maintenance of political and business relations, often account for 1.2%-1.5% of total sales revenue. In fact, a small business may spend millions of dollars a

year to “maintain relations”³⁵. Entrepreneurs and officials not only help enterprises to have a good relationship with the government, but at the same time, entrepreneurs can also rely on their personal relationship with officials to “speak up and speak out” for policy adjustments related to their industry and enterprises and obtain more policy preferences for their enterprises.

Although the incentive for government officials to obtain benefits from enterprises has been suppressed as the Communist Party’s anti-corruption efforts have intensified, this does not mean that the connection between the government and private enterprises will weaken, because the government needs to consider local economic development and officials’ performance, while enterprises also need a better environment for development.

Defensive Strategies

Emigration

According to the 2011 China Private Wealth Report released by China Merchants Bank in April 2011, the number of people with investable assets of RMB 10 million or more (hereinafter referred to as “HNWIs”) in China reached 500,000 in 2010, holding a total of RMB 15 trillion in investable assets. At the same time, nearly 60% of the HNWIs surveyed said that they had completed their investment migration or were considering it. Among business owners with personal assets of more than RMB 100 million, 27% of them have already emigrated and 47% are considering emigration³⁶. In the 2019 Global Wealth Migration Report released by AfrAsia Bank (AfDB) and New World Wealth, it was noted that the total assets owned by the world’s wealthy reached US\$ 204 trillion in 2018, with 108,000 wealth HNWIs with more than US\$ 1 million emigrated overseas, and 13.9% of them coming from mainland China³⁷.

A private entrepreneur said quite frankly in an interview with us that:

“..... but why would I emigrate? It’s not that I don’t love this country, in fact I love this country very much. But the unpredictability of the national policy, the extreme contempt of others, I cannot easily earn some money without worrying about my property safety. Then I will walk on with two legs, one on the outside and one on the inside, and then I will stay here if the situation is good, and I will run away if it is bad”³⁸.

Property Transfer

In addition to the increasingly hot wave of migration, asset transfers are also a conservative strategy commonly chosen by private entrepreneurs to isolate their personal wealth from the risks of their business operations. From November 20 to December 31, 2018, that is, in just over a month’s time, Wu Yajun, chairman of the Longfor Group, Xu Shihui, chairman of Dali Food, and Tang Jianfang, the beneficial owner of Zhou Hei Ya, transferred more than US\$ 17 billion, equal approximately to RMB 114.8 billion. In 2018, 15 mainland China entrepreneurs, whose companies are listed in Hong Kong, set up offshore trusts, transferring a total of US\$ 28.5 billion in assets abroad. Among China’s mainland tycoons, Jack Ma of Alibaba, Huang Zheng of Jindo, Lei Jun of Xiaomi, Zhang Yong and Shu Ping of Seabed, and Liu Qiangdong

of Jingdong have set up offshore family trusts overseas, with assets worth US\$ 500 billion³⁹. The research findings also suggest that this phenomenon is more common among private entrepreneurs, an entrepreneur said:

“Entrepreneurs need to have property security, personal safety and protection. Just now, they (other entrepreneurs) also mentioned that if they have more property, entrepreneurs will transfer their property abroad, which means that, facing this insecurity, entrepreneurs will invest their money in some foreign places”⁴⁰.

Property Assignment

While a large number of entrepreneurs have transferred their assets abroad, on the other hand, several entrepreneurs have also transferred their assets, or undergone a change of control, inside the country. On November 15, 2019, Jiangxi Shunfeng, Shanghai Shunneng, and Shijiazhuang Yakai (i.e., the sellers), wholly-owned subsidiaries of Shunfeng Clean Energy, entered into agreements with CNNC East Energy Company Limited (i.e., the buyer) to sell the energy technology company Hami Hengxin for a value of approximately RMB 641 million⁴¹. In fact, in addition to Shunfeng Clean Energy, other private companies such as GCL New Energy, Panda Green Energy, Beicom Group, and Akcome Technology have sold their power plants assets and company equity, with a size of more than 3.7 GW, for a transaction amount of more than RMB 11.5 billion, with state-owned central enterprises as holding a large proportion of the purchase⁴². According to statistics from the mainland financial data platform Choice, as of December 9, 2019, the number of listed companies that have completed a change of control has exceeded 188. Among them, 41 listed companies have changed their actual controllers, from individuals to the SASAC of the State Council of China or local government SASAC, accounting for more than 23% of the total⁴³. As such, selling assets and equity has become the best way for private companies to relieve capital pressure and market operation burden.

Retirement

In recent years, a large number of first-generation private entrepreneurs have retired. In 2010, Wang Shi, chairman of Vanke Group with hundreds of millions of assets, retired sharply and stepped down as Chairman. In February 2019, Wang Wei, founder of Shunfeng, stepped down as Executive Director of Shunfeng Express, followed by Jack Ma, who in September 2019 resigned as Chairman of the Board of Directors of Alibaba, and Liu Chuanzhi, the founder of Lenovo, who announced his retirement as Chairman of Lenovo Holdings and officially retired in December 2019. Similarly, in April 2020, Liu Qiangdong stepped down as the legal representative of Beijing Jingdong Trading Co., the main company of the Jingdong group; while in March 2021, Huang Zheng resigned from his position as Chairman of Pinduoduo, and declared he would pursue his lifelong personal interests and dedicate himself to food science and life sciences. In parallel, another group of entrepreneurs retired behind the scenes, and left their industries in the hands of their children and professional managers. This is the case of Zhang Near East, Chairman of the Suning Yunshang Group, who handed over his business to his son Zhang Kang Yang, and He Xiangjian, founder of the Midea Group, who handed over the scepter of Midea to Fang Hongbo, a professional manager. On the one hand, well-known private entrepreneurs voluntarily chose to retire to cope with the current economic situation; on the other hand, some of them were forced to step down. Feng Lun, founder

of the real estate developer Vantone Group, revealed that his retirement was forced, and his monthly pension was only RMB 8,000⁴⁴. Ma's "handover" comes at a difficult time for China's private enterprises. Duncan Clark, author of "Alibaba: Jack Ma's Business Empire", told the New York Times that "whether he likes it or not, he is a symbol of how healthy and how high China's private economy can go. Whether he is happy about it or not, his retirement will be interpreted as discontent or concern"⁴⁵.

Unnecessary Fear: The Course of CCP's Policy on the Private Economy

On the whole, both domestic and foreign entrepreneurial groups, experts, and scholars have cast doubts about the future of the CCP's attitude toward the private economy and private entrepreneurs, most of which are based on phenomenal observations and emotional judgments and without rigorous logical reasoning. The present study is based on the two dimensions of history and reality, and evaluated the policy direction of the Chinese Communist Party through the methods of textual analysis and interest relationship analysis.

CCP's Positive Attitude toward Private Capital

In order to systematically analyze the policy direction of the CCP's treatment of capital and capitalists (i.e., private entrepreneurs), the major policy documents and important speeches of major leaders were collected in the past 100 years since the founding of the CCP, and extracted relevant texts (see Annex 1). Then, a total of 15 teachers and graduate students in administration was assigned to read these texts independently, and to rate them according to different levels of scores (i.e., -5, -4, -3, -2, -1, 0, 1, 2, 3, 4, 5). Afterwards, the scores were counted for each policy text separately, and took the average value for each text. In this way, the analysis was focused on observing and evaluating the policy tendency of the CCP in treating capital and capitalists (i.e., private entrepreneurs) over the past 100 years, as shown in Figure 2.

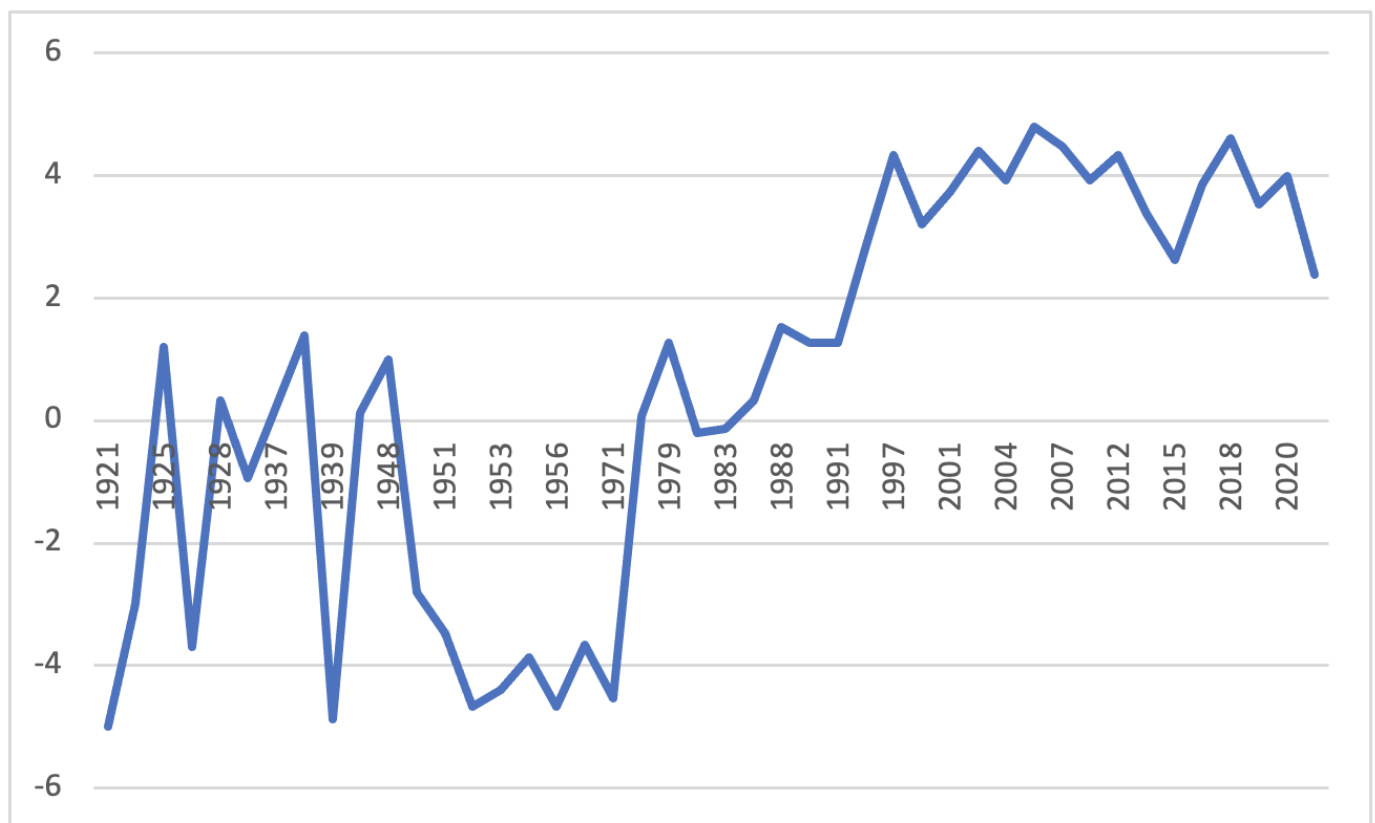


Figure 2. Change in the CCP's Attitude Toward Capitalists during 100 Years (1921-2021), based on Policy Text Analysis.

From Figure 2, it can be seen that the attitude of the Chinese Communist Party towards capital from 1921 to 2021 can be divided into three periods: a first period (1921-1953), characterized by the lack of a stable attitude; a second period (1954-1977), in which China's goal was to eliminate capital, transform capitalists, and build a completely planned economy in which private property rights had no place at all; and a third period (1978-2021), in which, with the comeback of Deng Xiaoping and the start of China's reform and opening-up process, the attitude toward capital in general became increasingly positive.

Since the reform and opening up, the Chinese government's attitude toward private enterprises has been generally supportive, and the general approach was to encourage the role of marketization in the existing economic system, with constitutional amendments introduced to give recognition to the legitimacy of private enterprises. In order to solve the sense of insecurity of private enterprises in their development, the government issued a series of documents to correct historical mistakes and strengthen the protection of property rights.

In the third period, it can be seen from Figure 2 that after 2012, the curve changes sharply with an evident downward trend especially after 2018, although the average score value is still above 2.0. In synthesis, the overall evaluation of the score is positive.

Discussion and Conclusion

From the analysis presented in this paper it can be seen that, after a long period of exploration and practice since its establishment 100 years ago, the CCP has gradually formed a more stable philosophy and policy towards private capital. The CCP's reliance on the characteristics and ideological pursuits of the worker-peasant class dictates that it cannot fully embrace capitalists, especially in the context of a gradually widening gap between the rich and the poor, and that, in order to maintain social stability, it is bound to moderate the impulse of capital expansion. At the same time, the irreplaceable role of private capital in China's economic prosperity, especially in maintaining the country's economic resilience, promoting China's scientific and technological innovation and business innovation, and contributing to job placement, makes it impossible for China to return to a fully public economy, and the anxiety that China will return to full public ownership is completely unwarranted. Specifically, a discussion is currently ongoing around the following points related to the future of the CCP and of the private economy.

The Irreplaceable Importance of Private Enterprises

Objectively speaking, China's economy is becoming increasingly important in the world, and the contribution of China's private economy to this process is tremendous. Under such circumstances, any attempt to reverse the situation and abandon the socialist market economy is bound to entail huge economic and political risks, a responsibility that no leader of the Chinese Communist Party can afford. Chinese private enterprises have been developing and growing in the decades of reform waves, and have played a pillar and backbone role in the Internet, new energy, and other emerging industries. Moreover, the founders of private companies have been appearing in front of the public with an increasingly positive image. This is the case, for example, of Ren Zhengfei, Lei Jun, Wang Chuanfu, Zhang Yiming, and other business leaders representing China, which are appearing in media reports with an increasingly positive image. In parallel, with the global expansion of Chinese brands, Chinese private entrepreneurs are gradually becoming the banner of China to the world⁵⁰. In the current context of increasingly fierce international competitive pressure on China's economy, the number of employed people in China's private enterprises not only has not decreased, but on the contrary, it has increased year after year, contributing in an outstanding way to social stability, and indicating that the important position of private enterprises is irreplaceable and will continue to grow.

Continuing Doubts from Private Enterprises

Although the CCP will not fundamentally change its policy towards the private economy, this does not mean that it is not wary of the development of the private economy. This is because not only does the Marxist party ideologically believe that capital has an "original sin", but in practice, the Communist Party also notes that if capital is not restrained, it will bring serious social and political problems⁵¹. For example, Alibaba, which once sought to break the monopoly of state-owned banks, has become more extreme in its monopolistic behavior once it grew up. As another example, in recent years, Chinese Internet platforms have used their monopoly position to compete with people for profits, directly impacting the vegetable selling business of small stalls and vendors, to which public opinion reacted with uproar. The most crucial element is that some private entrepreneurs take advantage of their position to organize alliances of interest, participate in the media, and expand their social influence⁵², which inevitably encourages social discontent and raises the alarm of the

CCP. The Communist Party is very worried about entrepreneurs using the power of capital to corrupt and collude with some officials, and then manipulate the government and influence policies. Some cases that happened in China's reality, and the fact that capital influences politics in some Western countries, have sounded the alarm for the CCP's rule. Under such circumstances, the Communist Party will certainly not allow private entrepreneurs to get involved in politics, and thus will punish the transgressions of capital from time to time⁵³.

The Widening Gap between the Rich and the Poor

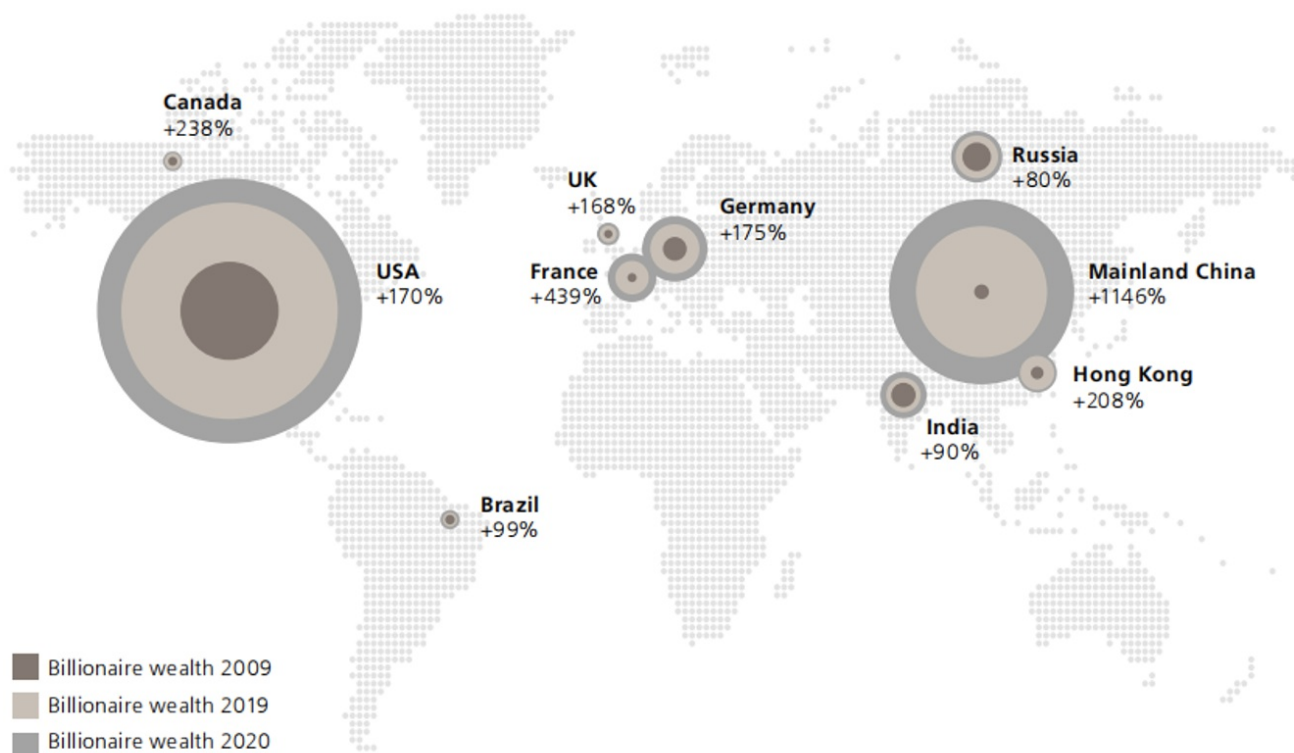


Figure 3. Growth of the Top Ten Markets according to Billionaire Wealth 2009-2020. Data Source: UBS and PWC: Billionaires Report 2020.

In his book "Our Kids", Robert Pateran notes that the widening gap between rich and poor in the United States has led to educational inequality, which in turn has led to class entrenchment and a crisis of the American Dream. Although this phenomenon is not as serious in China, this trend is also occurring. Absolute poverty has been eradicated in China; however, there are still 600 million people with an average monthly income of less than \$ 1,000. With an increasing number of Chinese entering the world's rich list, young people who have no hope of changing the status quo can only choose to "lay down" ()⁵⁴. If this situation is allowed to develop, it will certainly affect the stability of the country, and the Chinese government will not accept that the rich monopolize the opportunity to make money. Therefore, the Chinese central government proposed to prevent the disorderly expansion of capital and has since investigated the monopolistic practices of Alibaba and Meituan. At the same time, China has also regulated off-campus training institutions, such as New Oriental. The aim of this move was to reduce the burden of education, and to prevent the massive entry of private

enterprises into the education sector from affecting social equity, which led to a plunge in the stocks of related companies listed in the United States. In August 2021, the 10th meeting of China's Central Finance and Economics Commission proposed to put the gradual achievement of common prosperity for all people in a more important position. It is inaccurate that some people interpret common prosperity as "robbing the rich to help the poor". The conference also emphasized that "wealth is not the wealth of the few, nor is it uniform egalitarianism", and that "property rights and intellectual property rights must be protected, and legal wealth must be protected". The Communist Party of China will only regulate high incomes in a reasonable manner according to the law, which may scare the illegally rich, but protect the legally rich, who will have no need to worry. This paper believes that this approach of the Chinese Communist Party is appropriate, because it is more beneficial to social justice. On the contrary, the lack of effective restraint of the private sector in a few developed countries may lead to deep-seated problems.

Footnotes

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