Perils of State Capitalism: Real Stories of China's Entrepreneurs

SUN DAWU

Asia's Path Forward Special Series
Introduction

People all over the world want to strike it rich, but in China your fortune could cost you your life. You may be China Central Television’s “Economic Man of the Year,” or you may be cozy with the upper echelons of the Communist Party, but within the ever-changing fog of the “law,” at any time you could be arrested or disappeared. The fortune you have today may be repossessed by the state tomorrow.

In China, there is an old and oft-repeated story of the "millet dream." A young scholar stays at an inn for the night. While the proprietor is steaming millet, the scholar drifts off and dreams that he is a wealthy man with a wife and children. But when he wakes up, the millet is not even ready.

The story is intended to impart the lesson that people ought not strive too much for earthly riches. Today, though, it could be the biography of the five entrepreneurs profiled here, each of whom built massive fortunes only to lose it all. Most were born in the 1950s, including Ren Zhiqiang, the real estate mogul son of powerful CCP officials; Sun Dawu, a farmer’s son who built his empire on pig farming; Gu Chujun, the “Economic Man of the Year” and air conditioning magnate who bought up distressed SOEs; and Xiao Jianhua, the financier who drew close to the CCP and hoped to become “China’s Warren Buffett.” The one woman in the group happens to also be the youngest: Wu Ying, a child of the 1980s and the “Ms. Millionaire of Zhejiang Province.”

Each found their own path to wealth, but all have been much-discussed figures in China, and around the world. Each once rode the top of a wave unleashed by economic policy (or tacit consent), and each was swallowed up by that same wave. Together, these five lives weave the history of China’s economy since 1949. They show just how dangerous a proposition it is to “get rich,” or to push social change through business, in a system without any checks and balances, a decent sense of the rule of law, policy consistency, or transparency.
Sun Dawu:
The “Trump of Baoding,”
Silenced by the State

On the eve of the US presidential election in November 2020, as the incumbent Donald Trump faced off with former Vice President Joe Biden, the entrepreneur known in China as the ‘Trump of Baoding’ was on his way to spend the next 18 years in prison. Given his age, this was essentially a life sentence.

There is some logic to the comparison between Sun and Trump. Just before the COVID-19 outbreak in Wuhan, an anonymous author wrote a vivid account of Sun’s modus operandi, in a travelogue posted on the social media site Douban:

As I exited the highway and entered the Xushui District of Baoding, Dawu’s name assaulted my eyes: There was the Dawu Chicken Farm, Dawu Spirits, the Dawu Poultry Institute, and Dawu Roast Chicken. Also: Dawu Live Pigs, Dawu Media, Dawu E-Commerce, Dawu Spring Water... Later on, we saw the Dawu Supermarket, Dawu Shopping Center, Dawu Hospital, Dawu Primary School, Dawu Theater, Dawu Community for Seniors, and on and on. And it all seemed so normal. No wonder they say that “New York has Donald Trump, Baoding has Sun Dawu.”

As we drove across the northern plains, skyscrapers rose up along the rural roads like Las Vegas towering over the Nevada desert.

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Another travelogue, this one a video, documents this same arrogance, though it unintentionally reveals a different side of Sun as well:

*We have arrived at the China Sun Clan Culture Garden (built by Dawu Group)... The walls are filled with famous Suns, so many that we can’t fit them all in the frame. Guess who is the very last Sun on the wall? Not Sun Dawu. It’s Sun Yat-sen. Welcome to the Baoding Sun Yat-sen Memorial Hall. It’s just as good as the ones in Nanjing and Taipei...*

At this point, the camera lands on a plaque that describes Sun Yat-sen’s plan for a constitutional system with five separate powers of government, combining the Western branches of executive, legislative, and judicial with the Chinese powers of examination (management of the civil service) and control (audits and inspection).

These two travelogues all but complete the picture of Sun Dawu as China’s representative of private enterprise: how he built his family fortune in the poultry industry, his multi-faceted management style, his company’s former place among the top 500 Chinese businesses, the hospital, and the primary school he built in his hometown. Most notable is his admiration for Sun Yat-sen, founder of the Republic of China, and for the earlier Sun’s theories of constitutional democracy and the five branches of government.

At the 2004 Summit on Chinese Corporate Security, Sun announced that his son could only take over the business if he was elected, in keeping with the corporation’s “separation of the three powers.”

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2 @Schlieffen, “Schlieffen Introduces You to the Trump of Baoding,” November 9, 2018, https://www.bilibili.com/video/BV1Cb411c7wP?from=search&seid=679647575354301174&spm_id_from=333.337.0.0, last accessed September 8, 2021

In interviews, Sun never fails to bring up his two dreams: for society to be happy and prosperous, and for the country to be a democratic republic.

Naturally, he found kindred spirits in Nobel Peace Prize winner Liu Xiaobo and prominent rights defense lawyer Xu Zhiyong. The latter defended him in 2003, when Sun went on trial for illegal public fundraising.

Why would the corporate executive of one of the country’s top 500 firms need to go outside the law to raise money? To unravel this paradox, we must go back to the origin story of Dawu Group.

According to his biography, *The Trials and Triumphs of Sun Dawu*, Sun was born in 1954 to an ordinary farming family in Xushui County, Hebei Province. Like other boys growing up in rural China in the 1970s, Sun joined the army at the age of 16 after graduating from junior high school, seeking economic security. He did his service in Linfen, Shanxi Province. When he retired in 1978, the military sent him back home to work for the Xushui Agricultural Bank. While at the bank, Sun saw the potential of the agriculture and livestock industry.

Riding the wave of Reform and Opening, the Chinese government issued its 1984 Notice on Rural Labor, which ended the era of the commune and allowed rural households to lease farmland that had previously been collectivized (the collective farm may be thought of as a small-scale, village-level state-owned enterprise).

Thanks to this land reform policy, in 1985 Sun and his wife joined four other households and took out a contract on 100 mu (17 acres) of uncultivated land. They formed the Dawu Agriculture and Animal Husbandry Group and began raising chickens and pigs and growing sunflowers and fruit trees. Years later, Sun

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would always tell interviewers that he built his fortune with “1,000 chickens and 50 pigs.”

The poultry farming business gradually expanded. In 1989, Sun resigned from the Agricultural Bank and fully devoted himself to the company. In 1995, Dawu Group became one of China’s top 500 private enterprises, and Sun was elected to represent Baoding at the National People’s Congress. By 2003, Dawu Agriculture and Animal Husbandry Group occupied 2000 mu (333 acres) of farmland, a twenty-fold increase from its original holding, with the capacity to hatch twenty million chickens annually. 60,000 tons of fodder were being produced every year under the aegis of the Dawu Group.

At this time, Sun started to weigh in on national policy – and the government and public listened. In March 2003, Sun spoke at Peking University and China Agricultural University in Beijing, where he called for a “provisional rural law” and criticized what he saw as the overregulation of permitting and management of farmland and agricultural processing plants. The former Agricultural Bank employee said that the government was “financially strangling” farmers: banks and credit cooperatives were either unwilling to lend to farmers, or else were demanding exorbitant kickbacks. Not even Dawu Group could loosen the government’s grip.

“China’s peasants need a third liberation,” Sun declared, beyond the first two (the founding of the PRC in 1949 and Reform and Opening in 1978). These restrictions—and his outspoken criticism of them—quickly earned Sun his first stint in prison.

Two months after Sun spoke in Beijing, he was arrested on charges of “illegal public fundraising.” According to state media reports, since 1993 Dawu Group had been

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“soliciting funds under false pretenses” within the company and from surrounding villages to the tune of over 100 million RMB (USD $828 million in 2003).

As far as Sun was concerned, this was the consequence of the “financial strangulation” he had been fighting against; the ‘illegal public fundraising’ of which he was accused was in fact a ‘grain bank’ system: a community financing model created by Dawu Group in the 1990s, as Sun explained in a 2013 interview with Hexun.com.8

In his autobiography, Sun recalls that there were no rural credit cooperatives or financial institutions available at the time. His company could not take out a loan from a bank, meaning that it could not obtain the capital it needed to get off the ground; meanwhile, there was a huge amount of agricultural product in the surrounding villages that had no buyers. Sun came up with a plan: he would reach an agreement with a farmer to ‘borrow’ this foodstuff, and in six months Dawu Group would pay back the market value of the product or its cash equivalent. The farmer could also choose to directly exchange their product for other materials.

If the farmer had no urgent need for the payout, they could also “deposit” the cash equivalent of their product in Dawu Group, where it would accrue interest at the same rate as the local credit cooperative. By the time Sun was arrested in 2003, Dawu Group had borrowed about 35 million RMB ($5.4 million USD) from over 3,000 ‘depositors.’ The judiciary argued that the “loans” Dawu Group had accumulated over the years constituted illegal public fundraising that had sown chaos in the national financial order.

Ultimately, the court sentenced Sun to three years in prison, commuted to a four-year suspended sentence. He was personally fined 100,000 RMB, and Dawu Group was fined 300,000 RMB.

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8 Original text has been deleted and archived [here](#), last accessed October 11, 2021.
Scholars, legal professionals, and entrepreneurs expressed their sympathy and support for Sun, among them Du Runsheng, the father of Chinese rural reform; the outspoken liberal economist Mao Yushi; and Lenovo founder Liu Chuanzhi. They argued that the laws and regulations on raising capital were unclear, and that private enterprise was being held to too strict a standard, forcing businesspeople to “bear the original sin.”9 Liu Xiaobo called the Chinese Communist Party’s case against Sun “rule by evil law,” of which liberal businessmen were the victims.10

Upon his release from prison, Sun began to practice “constitutional private enterprise” within Dawu Group, summed up as “private ownership, public governance, shared benefit”11 (siyou, gongzhi, gongxiang). The three powers of ownership, decision-making, and oversight were equal, and ultimate decision-making power was the result of several rounds of voting. While the Sun family owned the company and enjoyed much of the profits, family members could only rise to managerial positions through election, just like anyone else.

Sun thus infused his corporate governance with his political ideals. In his final statement on July 28, 2021, Sun told the court his company “had the trappings of a utopia,” but that “it is a compulsory, cafeteria-style utopia,” that he wanted something more nuanced: “I’m not looking to spread the wealth equally. I’m looking for a varied distribution of wealth, but one which reflects the contributions of its members. Dawu Group is a complete ecosystem.”

But the Chinese Communist Party has not given him much of a chance to find this more perfect utopia.

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10 Meng, “As China reins in private sector, another businessman gets 18 years.”

11 “Sun Dawu: Enterprises may wish to ‘separate powers.’”
On June 21, 2020, Dawu Group staff clashed with personnel from the State-Owned Enterprise Baoding Farm over “land recognition.” When another dispute arose on August 4, Baoding public security intervened, coming to physical blows with Dawu staff.

What sparked the conflict in the first place? We still do not have a definitive answer. However, according to a report by Sina Caijing, several years prior the nearby village of Langwuzhuang had given 740 mu (123 acres) of land to SOE Baoding. All along there were accusations that SOE Baoding was in fact occupying over 2000 mu (333 acres). Neither side had budged. Complex land rights disputes fomented the violent clashes between Dawu staff with SOE Baoding and public security. Three months later, around 1 a.m. on November 11, police forced their way into the homes of Sun Dawu and his wife, his two sons, his daughter-in-law, and upper management at the company, arresting 28 people in all.

According to an arrest notice circulating online, Sun Dawu was charged with eight criminal offenses: in addition to illegal public fundraising, the same charge as in 2003, Sun was also charged with picking quarrels and provoking troubles, illegal mining, assembling a mob to attack state agencies, illegal occupation and cultivation of farmland, coercive trading, sabotaging production and operations, and jeopardizing public affairs. On July 28, 2021, the court announced Sun’s sentence: 18 years in prison, and a fine of 3.1 million yuan (around $480,000 USD).

Just as Sun was being taken into custody, the world turned its eyes to the U.S. presidential election. Trump lost to Biden and went back to being an ordinary U.S. citizen and businessman. Meanwhile, the Trump of Baoding could do nothing but

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accept his sentence and watch wide-eyed as the state took over the company he had built from the ground up.

In his final court statement, Sun addressed the judge and the public. “I said that I built my business with passion and ideals. Common prosperity was the ideal.” In a country that has never truly supported private enterprise or respected the spirit of private contracts, Sun’s passion and hope for “common prosperity” is nothing but a dream.
