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

Gu Chujun

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 proprieter 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.
Gu Chujun: AC Magnate Flouted His "cyclical theory," Until the Cycle Took Him Down

For former air conditioning magnate Gu Chujun, “Gu’s theory of cyclicality” is one of the best ideas he ever had. But if he could have looked ahead to 2021, he may have been shocked to learn that another kind of ‘cyclical theory’ would apply to his life. In the era of retreat of the state and advance of the private sector, he would climb to the pinnacle of his industry, but as China circled back to “retreat of the private sector and advance of the state,” Gu would wind up in prison.

In 1993, China launched a program to reform the property rights of state-owned enterprises, allowing them to operate on private capital through reorganization, alliance, or merger. Once this policy direction had been confirmed, local governments throughout China began competing among each other to sell off their SOEs.

With this policy in place, Gu Chujun acquired numerous SOEs, amassing them into one enormous commercial holding group. China Central Television even named him Economic Man of the Year in 2003 for his “major contribution to reforming SOEs.”

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But the good times did not last long. The very next year, an article was published accusing Gu of “gobbling up” RMB 13.6 billion worth of SOEs for the bargain price of RMB 900 million, bleeding out state assets. The piece, authored by Chinese University of Hong Kong professor Larry Hsien Ping Lang, caught fire in China. Gu fired back, claiming that “SOEs have only gained value in my hands.” "Lang vs. Gu" is considered a landmark in the debate over privatization versus nationalization of China’s economy.

Before Larry Lang put him in his crosshairs, Gu Chujun enjoyed practically unbridled success in the marketplace. Yazhou Zhoukan reports that Gu was born in 1959 in Jiangsu Province. He grew up during the Cultural Revolution, and like his peers was a “sent-down youth.” When university entrance examinations were reinstated in 1977, Gu was accepted at the Jiangsu University of Technology, where he studied power engineering. He earned a reputation for his arrogance -- many of his former classmates recall that he aspired to “win a Nobel Prize.”

After graduation, he was admitted to the thermophysical engineering graduate program at Tianjin University. He published a paper in 1986 titled “A New Way to Study Thermodynamic Cycles,” introducing “Gu’s theory of cyclicity,” claiming to have discovered a completely new way to create an energy-efficient thermodynamic cycle. His paper was picked up by the press and lauded by the public, but the academic world had its fair share of doubters. Even his advisor stated publicly that Gu’s theory of cyclicity was nothing but a hoax.


4  Mini-file on Gu Chujun, Yazhou Zhoukan, August 15, 2005, https://www.yzzk.com/article/details/%E5%9B%8B%E9%A1%8C%E5%A0%81%E9%81%93%E2%95%84%E5%9B%8B%E9%A1%8C%E9%98%8B%E9%A1%8C/%E5%8F%6AA%94%6A%88, last accessed September 8, 2021.

Gu left his university position in 1988 to start his own business in Beijing, the Huazhao Energy Engineering Co., and to announce his invention of "Greencool refrigerant," launching his career in the air-conditioning industry. In the 1990s his air conditioners failed to meet national standards on multiple occasions, but that did nothing to stop him from expanding overseas: He opened up shop in the UK, Canada, and the US.

In December 1995, Gu brought USD $50 million back to China and founded Greencool Refrigerants China Co. Ltd. in Tianjin. In 1998, Gu opened Greencool Environmental Engineering companies in Beijing, Shenzhen, and the provinces of Hainan and Hubei; in 2000, he merged these companies to form Greencool Science and Technology Holdings Co. Ltd., registered in the Cayman Islands. When Greencool Holdings was listed on the Hong Kong Stock Exchange’s Growth Enterprise Market (HK GEM) in July 2000, the company raised USD 70 million.

In 2001, Gu set off down the path of "acquiring" SOEs in the southern city of Shunde in Guangdong Province. This would grab Beijing’s attention -- and would prove to be the prelude to his 20 years in prison.

On October 31 of that year, Greencool Shunde put up RMB 348 million to purchase 26.43% equity in Kelon Electronics. Formerly, Kelon’s biggest shareholder had been Guangdong Kelon (Rongsheng) Group Co. Ltd., an SOE under the jurisdiction of the Ronggui township government in Shunde. Now Gu Chujun was its largest shareholder and its chairman of the board, thus turning Kelon over to private capital.

The story replayed itself over and over in the three years that followed, entrancing its nationwide audience. In 2002, Gu used Kelon to buy Jiangxi Qiluowa, Jilin Ji’nuoer, Shanghai Shanglin Electric, and Shanghai Ariston, and he built Kelon industrial parks all over the country. In 2003, Shunde Greencool acquired 20.03% equity in Anhui Meiling Electric, becoming its largest shareholder, as well as several Chinese and foreign car companies. Gradually, Kelon acquired
refrigerator, air-conditioning, and refrigerant companies, bringing every link along the manufacturing chain into its embrace, even reaching across the way to get car manufacturing.

In a 2004 interview with Yazhou Zhoukan, Gu himself said it felt like he was playing a “game of life and death”: “If I look back now I’ll break into a sweat. It’s so risky.” He had no idea that many years in prison awaited him, or that the game he was playing went far beyond the price war on household appliances: “If it was two years earlier, if AC was this cheap in 2002, I would never have gotten my investment back. It’s just like being on the verge of death, and not knowing if anyone can save you.”

Gu could not have predicted that the real “game of life or death” was happening outside the supply and demand of the regulated market — and that it was far deadlier than he could imagine.

2004 was also the year that Larry Lang, then a lecturer in finance at the Chinese University of Hong Kong, would publish “Greencool: Feasting at the Banquet of Privatization.” Lang was no ordinary scholar: he was one of China’s leading contemporary commentators, with an outsized media presence, earning him a place in the pantheon of “China’s Four Gods of Business.”

Lang’s piece sparked debate among the public and in the government over whether Gu had in fact “hollowed out state capital.” “Gu was sailing on the wave of ‘privatization’ when he restructured Kelon,” wrote Lang. “Suddenly, Kelon’s own mysterious capital was at the brink, bringing together the capital held by ‘new private enterprise’ and the question of property rights in China’s long-suffering household appliance industry… Gu paved his road to riches in large part by seizing the opportunity offered by the ‘retreat of the state and advance of the private sector.’”

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7 Larry Hsien Ping Lang, “Greencool: feasting at the banquet of privatization.”
In fact, a government report from the previous year held the answers to Lang’s challenges. The October 2003 report, produced by a team of dozens of experts from various divisions of the State Council, including the Development Research Center, the State-owned Assets Supervision and Administration Commission, and the Development and Reform Commission, confirmed that “of the enterprises [Gu] purchased in consolidating the refrigeration industry, not one lacked the qualities of an SOE; not one did not face a significant crisis of management; and of those companies which came under the aegis [of Greencool Holdings], not one was not utterly transformed. [Instead] they rapidly returned to fast-paced growth, creating a win-win situation for employees, the government, and shareholders.”

None of this kept the battle of Lang vs. Gu from erupting in 2004. Gu argued his own case, telling Yazhou Zhoukan, “Yes, I have bought a lot of SOEs, but they were all distressed. Some had even stopped production or gone bankrupt,” and adding, “If a company hasn’t reached the point of no return, it would be hard to sell it off. If a Chinese state-owned enterprise is doing well, if it has relatively bright prospects, I think that kind of business would be tough to sell.” None of this changed his destiny -- in a treacherous, mercurial system unmoored to the spirit of rule of law, everything slipped from Gu’s hands.

In 2005, the China Securities Regulatory Commission opened an investigation into Kelon and submitted a Letter of Transfer to the Public Security Bureau for the Case of Gu Chujun, Chairman of Guangdong Kelon Electric LLC, indicting Gu on eight felony charges. That July, Gu was criminally detained, and his case was criminally filed; on August 13, the government became the acting manager of Kelon.

A number of sources report that Gu wrote a letter of complaint to the government from prison a year later, in July 2006. Gu claimed that he had only

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8 Ji Shuoming, “Exclusive interview: Gu Chujun, chair of Guangdong Kelon Electric LLC, shares his secret for turning a company around.”

9 Ji Shuoming, “Exclusive interview: Gu Chujun, chair of Guangdong Kelon Electric LLC, shares his secret for turning a company around.”
ended up behind bars because of high-level officials who had taken bribes and had wanted to "buy Kelon equity with malicious intent," including Liu Xingqiang, head of the Guangdong Securities Regulatory Bureau, and Fan Fuchun, vice chair of the China Securities Regulatory Commission. Nonetheless, on January 2008 Gu was sentenced to ten years; he was released early in 2012.10

Gu’s first act outside of prison was to hold a press conference, during which he maintained his innocence. He submitted an appeal to the court, requesting a retrial. In another twist, the court did indeed hold a retrial, making one change after another to the original ruling. On April 10, 2019, China’s official wire service, Xinhua News Agency, published “Our Review of Gu Chujun’s Retrial in Four Points”: "There is insufficient evidence or factual clarity to uphold the court’s original finding that Kelon Electric falsified its financial reports such that it caused serious harm to shareholders and other individuals with an interest in the company. Gu Chujun and others should not be held criminally responsible.” However, the original judgment on Gu’s diversion of funds was upheld.11

The author of the official report glowed, “From Zhang Wenzhong to Gu Chujun, a slew of high-level property rights cases have been retried, vividly illustrating the practice in recent years of perfecting the system of protecting property rights and of protecting those rights according to the law.” The reporter also interviewed Chen Weidong, professor of law at Renmin University, who said that the latest decision "fixed the mistakes [of the original trial] in part and in full," thus "manifesting the spirit of the rule of law by seeking truth from facts."


But in this ten-year process of “fixing mistakes,” one entrepreneur has lost control over the majority of his business operations. When Gu went to prison, Greencool Group disintegrated. Regardless of whether he misappropriated funds, the punishment and expropriation he was subjected to were far, far more than his due.