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

XIAO JIANHUA

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.
Xiao Jianhua: 
In China, No Tomorrow for Financial Games

Deep in the night of January 27, 2017, China’s most powerful financier was kidnapped from the Four Seasons Hotel in Hong Kong by plainclothes public security officers, whisking him back to the mainland. Xiao Jianhua, the owner of Tomorrow Holding, was worth RMB 40 billion. The empire he built over thirty years, and his dream of becoming “China’s Warren Buffett,” vanished that night in Central.¹

Central is the core district of Hong Kong, the beating heart of this financial island, pumping money into China and the world. Xiao was one of many tycoons living at the Four Seasons in Central. Their political relationships back in China were complicated, and their business dealings walked the line of legality. They were hiding in Hong Kong, behind the screen of ‘one country, two systems.’ But, crucially, they all held out hope that they would ‘go back north’ someday.

The Hong Kong media gave the Four Seasons housing these ‘distinguished guests’ the nickname Mong Bak Lau, or ‘Look-North Mansions.’ Two months after Xiao Jianhua’s detention, the Hong Kong Economic Journal Monthly published a list of three characteristics shared by the residents of Mong Bak Lau: they had a Hong Kong ID or foreign passport; they each had come to Hong Kong to wait

out some ‘trouble’ they were having back home; and they each believed their ‘trouble’ could get better, and were not ready to give up on the mainland.2

“It’s the ‘Look’ in ‘Look-North Mansions’ that is key,” the Economic Journal explained.3

Xiao Jianhua comes from Feicheng City, Shandong Province. Different sources give his birth year as either 1967 or 1971; the exact year cannot be verified. Even so, reliable sources state that he matriculated into the law program at Peking University (Beijing Daxue, or Beida for short) in 1986, where he became chair of the student union and vice chair of the All-China Students’ Federation; and that after graduating in 1990, he took a position with the Beida Communist Party Committee Student Work Department. If Xiao was in fact born in 1971, that would make him a 15-year-old prodigy in academics and student leadership.4

Intelligence is one part of Xiao’s image he loves to talk about. In a rare interview in 2013, he told the 21st Century Business Herald that “Tomorrow Group is still basically a Beida and Tsinghua company, it still relies on intellect and IQ.” He went on to say that he had built his fortune on computers, starting as an agent for HP and IBM machines.5

But there is another version of Xiao’s rise to riches: As chair of the student union, he stood with the government during the democracy movement in 1989 --

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2 “Three things every tycoon in Mong Bak Lau has in common,” Hong Kong Economic Journal Monthly, March 10, 2017, https://monthly.hkei.com/monthly/article/id/1510321/%E3%80%8C%E6%9C%9B%E5%8C%97%E6%A8%93%E3%80%8D%E5%AF%8C%E8%B1%AA%E4%B8%89%E5%A4%A7%E5%85%B1%E9%80%9A%E9%BB%95, last accessed September 10, 2021.

3 “Three things every tycoon in Mong Bak Lau has in common.”


5 Original URL no longer valid. https://www.easyatm.com.tw/wiki/%E8%82%96%E5%BB%BA%E8%8F%AF%5B%E8%90%9C%E6%98%9E%E5%A4%A9%E7%B3%BB%E2%80%9D%E6%8E%8C%E9%96%80%E4%BA%BA%5D, last accessed September 9, 2021.
meaning that he supported the crackdown on his fellow students who were out in the streets protesting -- which earned him the university job after graduation, then paved the way for him to found Beijing Beida Tomorrow Resources Technology in 1993, with 20% of initial shares owned by Beida’s own Peking University Resource Group.

The New York Times drew the connection from Tiananmen Square to Xiao’s rise in a 2014 article. Xiao denied the connection.  

Regardless of the true nature of his involvement in Tiananmen Square, Xiao moved on to mergers and acquisitions, building his financial empire. He launched a string of new companies, then bought stock in other companies and gained control. At the same time, he created high-tech concept stocks, sending the stock prices of designated companies soaring. He would start joint ventures with publicly listed companies, then move those companies’ assets to one of the businesses he controlled. He took advantage of every opportunity to increase share capital, winning big in the 2000s as SOEs transferred equity and securities companies went bankrupt.

In that same 2013 interview, Xiao said his dream was to be just like Warren Buffett. He wanted to “create some investment firms” from the listed companies he owned. “I hope that I can use these companies’ high-quality assets to gradually raise their stock prices. I want to set a virtuous cycle in motion.” But he knew this would not be easy to achieve in China. He complained to the reporter about the restrictions on public companies and the reams of red tape he had to wade through. “By the time we get approved, the stock price has often already dropped.” 

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6 “Three things every tycoon in Mong Bak Lau has in common.”

7 Original URL no longer valid. https://www.easyatm.com.tw/wiki/%E8%92%96%E5%BB%88%E8%AF%95%E2%80%9C%E6%8E%8C%E9%96%80%E4%BA%BA%E5%AD%A9%E7%B3%B8%E2%80%9D%E6%8E%8C%E9%96%80%E4%BA%BA%5D, last accessed September 9, 2021.
Xiao made his signature move in 2007, when he orchestrated Pacific Securities’ listing on the Shanghai Stock Exchange, outmaneuvering the burdensome regulatory regime.

In general, Chinese companies have only two options to go public: initial public offering (IPO) and reverse takeover (also known as a reverse IPO). Chinese law stipulates that a company must have “positive net profits above RMB 30 million in the last 3 fiscal years” in order to IPO. But when Pacific Securities listed in 2007, the company had only been profitable in 2006. In no way did it meet the requirements to IPO, and it seemed to have no prospects on the market.

Yet Xiao worked his magic. First, he boosted Pacific Securities’ capital via four other companies, while simultaneously share swapping with the near-bankrupt Yunda Technology, then listing Yunda’s ‘shell.’ The swap turned 28,975 Yunda shareholders into Pacific Securities shareholders.

On the day of the IPO, the symbol for Yunda, the shell company, disappeared from the Shanghai Stock Exchange, and Pacific Securities listed with a completely new symbol. It was the first time a company had gone public in China without prior approval. Some believe that Xiao pulled it off with the help of his ally Wang Yi, then vice chair of the China Securities Regulatory Commission: specifically, that Wang Yi provided crucial documentation at the tail end of the listing approval process. Later, Wang was removed from office and subjected to legal investigation.

It is common knowledge that Xiao left China and took up residence in “Mong Bak Lau” after Wang Yi was prosecuted. Yet Xiao denied this to the Business Herald, claiming that he “was not familiar with Wang Yi.” Treading lightly around the issue of the Pacific Securities listing, he told the newspaper, “I don’t really know the particulars of the Pacific Securities IPO, only that we owned the shell, and that there were people working with us.”

8 “Three things every tycoon in Mong Bak Lau has in common.”
Notwithstanding his explanation, by the 2010s plenty of people in China believed that Xiao’s wealth came from shell companies and political connections, and that Xiao was a master of crony capitalism.

What drew the world’s attention at this time was Xiao’s ties to “princelings,” the sons and daughters of high-level CCP officials. Long before Xi Jinping came to power, it was widely known that Xiao laundered money for Zeng Wei, the son of former vice president Zeng Qinghong. And Zeng Qinghong is regarded as a member of the ‘red faction,’ as is former president Jiang Zemin. The son-in-law of former Politburo Standing Committee member Jia Qinglin is also one of Xiao’s ‘clients.’

Xi Jinping’s family has also partnered with Xiao Jianhua. According to a New York Times investigation, Xi’s older sister and her husband were close with Xiao up until 2013. They owned Qinchuan Dadi Investment Company, which sold its 50% stake in another company to one of Xiao’s joint ventures, to the tune of RMB 15 million.9

Once Xi became president, he began asking his relatives to sell their assets, worth hundreds of millions of US dollars. Xi’s ‘anti-corruption’ campaign closed in on his political enemies, catching up with Xiao Jianhua that final night at Mong Bak Lau. Xiao is still in custody, and there have been no public judicial proceedings.

On January 31, Tomorrow Holdings released a statement on it WeChat public account, attributed to Xiao, which said “I am undergoing medical treatment abroad; I believe the Chinese government is civilized and abides by the rule of law; I have not been abducted back to China; I have never done anything to harm the national interest or the image of the government, nor have I ever supported any opposition forces or organizations; I am a Canadian citizen and a permanent

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resident of Hong Kong, and I am under the protection of the Canadian consul and Hong Kong law. I hold a diplomatic passport and enjoy the right to diplomatic protection." The webpage was quickly erased, and WeChat account soon vanished, too.\textsuperscript{10}

On May 24, 2019, two years after Xiao’s detention, the government took over Baoshang Bank from Tomorrow Holdings, effectively nationalizing it.\textsuperscript{11}

In its takeover notice, the government stated that financial institutions relevant to Baoshang had "triggered the conditions for takeover." Tomorrow Holdings responded with its own fiercely worded statement. "Over the past few years, supervisory authorities have dispatched "investigation units" to every one of our businesses for "close-up monitoring." They stripped our companies of managerial rights long ago." Tomorrow also indicated that there had been "power-for-money transactions" as part of these measures [against the group], and that it would excise its right to report the names of those involved to the authorities.\textsuperscript{12}

On the eve of the CCP’s summer retreat to Beidaihe, rumors circulated that these measures involved a high-level power struggle and money changing hands. Tomorrow Group’s statement only confirmed this suspicion. But no one knows for sure what really happened.

Many suspect that Xiao’s abduction was linked to Pacific Securities -- there were plenty of officials and ‘princelings’ among the shareholders who were part of the original share swap -- and that by detaining Xiao, the Chinese government hopes


\textsuperscript{11} See footnote 1.

to get its hands on that list of shareholders. But China’s opaque, closed judicial system offers no definitive answers.\(^\text{13}\)

All we can confirm is that, regardless of whether Xiao Jianhua was a prodigy who broke through the system or a ‘finance monster’ involved in illegal trading, his chances of becoming China’s Warren Buffett are zero.

\(^{13}\) “Xiao Jianhua goes missing: suspected of illegal listings with Pacific Securities; high-riding tycoon dies by suicide,” HK01, February 2, 2017, https://www.hk01.com/%E4%B8%AD%E5%9C%8B/69194/%E4%82%96%E5%B8%BA%E8%8F%AF%E5%A4%B1%E8%B9%A4-%E5%82%B3%E6%86%99%E5%A4%AA%E5%B9%B3%E6%B4%8B%E8%AD%99%E5%88%B8%E9%9D%9E%E6%83%95%E4%B8%BA%E5%88%92%E6%A1%88-%E6%98%BE%E8%87%B4%E9%A6%AC%E9%87%90%E6%9C%AC%E5%8C%8C%E5%95%86%E8%87%AA%E6%AE%BA, last accessed September 9, 2021.