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

WU YING

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.
Wu Ying: Zhejiang’s "Ms. Millionaire" Gets Life without Parole

"Wu Ying would not be on trial in a planned economy, nor in a perfect market economy. Her case is the product of the reforms we are moving through right now, and we must take pains to resolve her case amid these reforms."

Thus spoke Huang Ming, China’s leading solar energy entrepreneur and a representative in the National People’s Congress (NPC), at the “Two Sessions” of the Congress and the People’s Political Consultative Conference (CPPCC) in March 2012. He was referring to a woman the whole country was watching. Wu Ying had been charged with “illegal fundraising” and sentenced to death. Huang Ming was recommending that the Supreme People’s Court reconsider its ruling — in other words, that it spare Wu’s life.¹

Wu Ying founded Bense Group, an umbrella company involved in liquor sales, retail, cosmetics, footbaths, and real estate, among other operations. According to Hurun Report, in 2006 Wu was worth RMB 3.8 billion ($630 million USD), making her the sixth richest person, and the richest woman, in China.

Huang Ming was not the only one pleading for mercy on Wu Ying’s behalf.²,³ Li Lixin, vice chair of the Ningbo Trade Association in Wu’s home province of Zhejiang,

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³ For example, the Bank of China may reject private investors outright (the “iron door”), push them out (the “swinging door”), or erect undisclosed barriers (the “glass door”).
along with the entire membership of the CPPCC, also made a recommendation to
the government. Li wrote, “In recent years, private investment has not been given
equal access to the market or services. Instead, private investors face ‘iron doors,’
‘swinging doors,’ and ‘glass doors.’”

At the Two Sessions — in theory, the most important political meeting on behalf
of the Chinese people — Li and many others called on the government to ease
restrictions on private investment and to legalize private lending, all because of Wu
Ying. Who was this person whose case could decide the fate of market reforms?

Wu Ying was born in Dongyang, Zhejiang Province in 1981. In a way, her family
put her on her entrepreneurial path: Her paternal aunt opened the first beauty
parlor in Dongyang, and at the age of 14, Wu Ying began to learn cosmetology
from her. A year later, Wu ran off to Cixi, a county-level city in Ningbo Prefecture,
and started a beauty parlor as a joint venture with her friends.

According to the Chinese outlet *Time Weekly*, it was in this year, at the age of 15,
that Wu met a number of her future business partners in Ningbo, including Yu
Yasu, one of her “creditors.”

The teenage entrepreneur had thought about going back to school, but the
world to which her aunt had introduced her won out over studies. In 2000,
Wu got engaged to Zhou Hongbo, a man from her home village, and with the
capital he put up opened her own beauty salon. In the following years, the salon
flourished, and Wu Ying became acquainted with more than a few local female
civil servants.

It was at this time that she started her “fundraising” campaign, going first to the
friends she had gone into business with when she was 15. According to a court
investigation, Wu raised over RMB 14 million (about $2.3 million USD) from

4 “Full transcript of Wu Ying trial: crime and punishment for Ms. Millionaire,” *Time Weekly*, [http://www.time-
weekly.com/wap-article/6462](http://www.time-weekly.com/wap-article/6462), last accessed September 8, 2021.
them with a high-interest scheme in which every RMB 10,000 (about $1,666 USD) accrued 35, 40, or 50 yuan per day, or pay a dividend of 30%/60%/80% every quarter.

Wu registered the Bense Group in April 2006, and on October 10 of that year officially launched the Bense Holding Group with RMB 100 million ($16.6 million USD) of registered capital. Residents of Dongyang still remember the early days of Bense, when the company offered a “free car wash” service in exchange for displaying the Bense logo on one’s license plate. Bense also offered free laundering for 100 items of clothing per day, limited to two items per person. Bense Group also opened a series of chain liquor stores. On the real estate front, the company poured money into “main street” shops.

As reported in Time Weekly, Bense Group claimed in October 2006 that its investments in fixed assets exceeded RMB 350 million ($58.3 million USD), all of which the company had “in-hand.” Never once had Bense taken out a bank loan. In an interview, Wu said that the money was all from “futures, real estate speculation, and beauty.” She was clearly trying to avoid having the government investigate her business for “illegal fundraising.”

At the same time, Wu was borrowing more and more, and the relationships among her “creditors” grew increasingly complex: for instance, there was Yang Jun from neighboring Yiwu, the “small commodities capital of the world,” and Lin Weiping, an official in the local culture bureau.

Court records show that Wu’s creditors were willing to lend to her because she “offered high interest rates” and “always paid on time.” On one occasion, she borrowed RMB 33 million ($5.5 million USD), then paid back the principal and RMB 14 million ($2.3 million USD) in dividends, right on schedule. Wu told the

\footnotesize{5 Time Weekly, 2021.\footnotesize{6 Time Weekly, 2021.}}
court in 2008 that she offered an annualized return of at least 50%, and at times was able to offer as much as 100%. Wu claimed that these high rates of return all came from the business, but the records she submitted to the court reveal a Ponzi scheme.

By 2006, Bense Group’s chain of capital had started showing signs of stress. Wu admitted to the court that in later years she turned to riskier financial levers to keep cash pumping through the company, offering “100% returns in three months.” That is an annualized return of 400% before calculating compound interest.

Wu’s scheme highlights a long-standing problem in China’s economy: After Reform and Opening, private entrepreneurs had no way to take out bank loans, forcing them underground to raise money to start, expand, and turn over businesses.

A rough estimate of the data Huang Ming shared with the NPC when he pled Wu Ying’s case shows that one to two trillion yuan ($166 billion to $333 billion USD) in private liquidity was in circulation in her native Zhejiang. A provincial survey of 2835 private enterprises indicated that 9% of businesses “frequently took out informal, high-interest loans,” while another 47% did so “occasionally.” The survey also showed that 15% of businesses had been denied a bank loan or offered a smaller loan than they had applied for.

These dire circumstances had given rise to underground investment such as in Wu Ying’s case. But borrowing outside of the banking system came with enormous risk: Without an adequate legal safety net, assets worth even billions of yuan could vanish without a trace.

Wu Ying’s story is a case-in-point. Her business model was inherently illegal because it lacked institutional support. Once she made it onto Hurun’s rich list in 2006, her glowing reputation made her into a target. No one can say for sure

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7 “Full transcript of Wu Ying trial: crime and punishment for Ms. Millionaire.”

8 “Huang Ming on Wu Ying: punishment does not match crime.”
why the spotlight fell on her, but her father insists that it is because she angered too many officials.  

From December 21 to 28, 2006, Wu was held hostage by the Yangs, a family from Yiwu and one of her creditors. According to Wu’s testimony, this was an all-out kidnapping: The Yangs took her out of town, strip-searched her, molested her, threatened to kill her, and forced her to sign a blank document. Then they robbed her blind: of her cash, her jewelry, her car, her real estate, and her files.

Wu reported the incident to the police, but they failed to file a report. Two days later, Bense received an envelope containing two bullets.

The Dongyang police detained Wu on February 7, 2007, on charges of “illegally raising funds from the public.” She was in Beijing at the time, raising capital. Bense was shut down ten days later. Several of the suspects in her kidnapping were detained and were formally put under arrest on the same day the police caught Wu.

In October 2008, following a litany of legal proceedings, Wu’s charge was changed from “illegal public fundraising” to “raising money under false pretenses.” The former carries a sentence of up to ten years in prison; the latter is punishable by death. The news nearly crushed her family. On March 21 of the same year, Du Yimin, another female entrepreneur with the same knack for private fundraising as Wu, was given the death penalty for the very same crime.

At one point, Wu confessed to numerous “crimes” and to bribing officials, in the hopes of getting a more lenient sentence. Rumor has it that in response a group of Dongyang officials jointly signed a letter to the court asking that Wu be put to death.

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In December 2009, the Jinhua City Intermediate Court convicted Wu of raising money under false pretenses and sentenced her to death. Wu appealed; the Zhejiang High Court upheld the sentence in January 2012. Most shocking of all was that throughout all of this, not one of her creditors came forward to accuse her of victimization: all they said was that Wu had paid them back on time, and handsomely. The public came to believe that the officials who allegedly wrote to the court were the only people who wanted her dead.

Outraged by her case, the public rallied on behalf of Wu. In addition to the recommendations of representatives at the Two Sessions, the respected lawyer Zhang Sizhi wrote an open letter to the Supreme People’s Court: “In light of the complex reality of the financial market,” he wrote, “the solution lies in opening the market and creating a free and rational financial system. We cannot rely on capital punishment to maintain financial monopoly.”

This outpouring of support for Wu Ying across all walks of life finally prevailed over the courts. On March 14, 2012, Premier Wen Jiabao responded to a question from the press about Wu Ying, saying he had thought deeply about the public’s support for her, and that he wanted the relevant work units to “make sure to seek truth from facts in deciding her case.” Wen also declared that going forward, he would “let private capital into the financial sector, encourage its development, and strengthen oversight.”

On April 20, 2012, the Supreme Court ruled against the death penalty for Wu Ying, remanding her case back to the Zhejiang Supreme People’s Court. The court first revised its ruling to a “suspended death sentence,” then on July 11, 2014, reduced her sentence to life imprisonment.


On March 23, 2018, court reduced her sentence yet again to 25 years in prison. Now 40 years old, Wu has spent 14 years in prison because the state banking system offered no legitimate way for her to take out a loan, pushing her to raise capital among her friends — and to bribe officials so that they would look the other way.

Wu has missed out on the rise of the internet. Small-business owners can now take out a micro-loan online through Alibaba, obviating the need to borrow from friends at high interest. But the words of Alibaba founder Jack Ma, who complained in 2019 that "China’s supervisory bodies have killed innovation in finance," came back to haunt him in 2021, when Xi Jinping called off the Alibaba IPO, and Ma was found to be in violation of the Anti-Monopoly Law and fined 18.2 billion yuan ($3.03 billion USD).

If Wu does get out of prison, what kind of China will she face? Will she be able to get microcredit on her phone and relaunch her career in the beauty industry? Or will the China she returns to be like the one she left — one in which the masses have no right to even approach the banks? If you give up your dream of starting your own business, you may add a few years to your life. If you are "unlucky" enough to have Wu Ying’s business acumen, will that be enough to build a lending platform for the people? It could cost you your life.