# CHINA'S FALLEN ENTREPRENEURS: THE PITFALLS IN THE BUSINESS ENVIRONMENT

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# Executive Summary

1. Since the mid-1990s, the Chinese media has featured a steady stream of stories of fallen entrepreneurs. These real-life stories describe the Chinese business environment well—with its characteristic set of pitfalls that have shaped the development of Chinese entrepreneurs and Chinese businesses.

2. A total of 3.69% of China's private entrepreneurs who made it to the Hurun Rich List—the Chinese equivalent of Forbes Rich List—between 1999 and 2009 had brushes with the law. The crime rate among entrepreneurs in the public sector is comparable.

3. Crimes involving SOE executives are mostly bribery and embezzlement while cases concerning private entrepreneurs tend to be financial, credit and other types of fraud. The sentencing for crimes is quite harsh by world standards.

4. The rapid rise of private entrepreneurs has produced a class of "*nouveau riche*" that cannot explain their sources of wealth. Consequently, they are stigmatized and often presumed guilty of illegal or immoral acquisition.

5. The primary causes for the downfall of entrepreneurs have changed over time, reflecting the evolving legal-political and social environment. But in general private entrepreneurs have not been able to rid themselves of the stigma of "original sin", which refers to the way entrepreneurs flouted convention and laws to make their "first pot of gold".

6. In the past, entrepreneurs tended to get into trouble because of the uncertain legal status of private businesses and ill-defined property rights. Today, continued difficulties in obtaining credit tend to foster a gambling instinct among private entrepreneurs and force them to take a creative approach to the law to ensure survival.

7. While the steady improvement in the legal infrastructure has eliminated many pitfalls in the business environment, the marriage between wealth and political power has become a hotbed for crimes among Chinese entrepreneurs and a main source of uncertainty in the business environment.

8. This is evidenced by the fact that decades of ever-intensifying anti-corruption campaigns waged by the government have only resulted in higher and higher level of officials being implicated and involving astronomical amount of money.

9. Rampant corruption and lopsided income distribution in turn create a hostile social environment for the rich. With the state is growing more powerful, especially with the rapid rise of monopolistic state-owned corporations, the Chinese business environment has deteriorated for both foreign capital and domestic private businesses.

10. Even those doing exceedingly well under the current system fear the repercussions from an increasingly hostile society and possible changes in the policy regime, as witnessed by the massive exodus of the super-rich in the past few years.