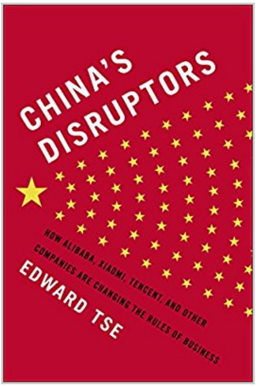

China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies are Changing the Rules of Business

By Edward Tse

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In September 2014, Chinese e-commerce giant Alibaba raised $25 billion in the world's biggest-ever initial public offering. Since then, millions of investors and managers worldwide have pondered a fundamental question: What's *really* going on with the new wave of China's disruptors?

Alibaba wasn't an outlier—it's one of a rising tide of thriving Chinese companies, mostly but not exclusively in the technology sector. Overnight, its founder, Jack Ma, appeared on the same magazine covers as American entrepreneurial icons like Mark Zuckerberg. Ma was quickly followed by the founders of other previously little-known companies, such as Baidu, Tencent, and Xiaomi.

Over the past two decades, an unprecedented burst of entrepreneurialism has transformed China's economy from a closed, impoverished, state-run system into a major power in global business. As products in China become more and more sophisticated, and as its companies embrace domestically developed technology, we will increasingly see Chinese goods setting global standards. Meanwhile, companies in the rest of the world wonder how they can access the fast-rising incomes of China's 1.3 billion consumers.

Now Edward Tse, a leading global strategy consultant, reveals how China got to this point, and what the country's rise means for the United States and the rest of the world. Tse has spent more than twenty years working with senior Chinese executives, learning firsthand how China's most powerful companies operate. He's an expert on how private firms are thriving in what is still, officially, a communist country. His book draws on exclusive interviews and case studies to explore questions such as

*What drives China's entrepreneurs? Personal fame and fortune—or a quest for national pride and communal achievement?

*How do these companies grow so quickly? In 2005, Lenovo sold just one category of products (personal computers) in one market, China. Today, not only is it the world's largest PC seller; it is also the world's third-largest smartphone seller.

*How does Chinese culture shape the strategies and tactics of these business leaders? Can outsiders copy what the Chinese are doing?

*Can capitalists really thrive within a communist system? How does Tencent's Pony Ma serve as a member of China's parliament while running a company that dominates online games and messaging?

*What impact will China have on the rest of the world as its private companies enter new markets, acquire foreign businesses, and threaten established firms in countless industries?

As Tse concludes: "I believe that as a consequence of the opening driven by China's entrepreneurs, the push to invest in science, research, and development, and the new freedoms that people are enjoying across the country, China has embarked on a renaissance that could rival its greatest era in history—the Tang dynasty. These entrepreneurs are the front line in China's intense hunger for success. They will have an even more remarkable impact on the global economy in the future, through the rest of this decade and beyond."

From the Hardcover edition.

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Editorial Review

Review

“This is the book for every person who is wondering how China’s explosive growth in business is going to impact the rest of the world.”
—**ZHANG RUIMIN**, chairman of the board of directors and CEO, Haier Group

“A detailed and fascinating study of the changing landscape in China and the entrepreneurs who are driving that change forward. This is a book that will only become increasingly important in the years to come.”
—**CHEN DONGSHENG**, chairman and CEO, Taikang Life Insurance Co. Ltd., and president, China Entrepreneurs Forum

“Because of Edward Tse’s unique access to the people who shape China’s economy, this book provides unparalleled insight into the life stories of China’s business leaders.”
—**MICHAEL DIEKMANN**, chairman of the board of management, Allianz SE

“*China’s Disruptors* is a must-read for understanding the next phase of China’s economic development. It provides deep insight for all those who do business in China today or who want to participate in this dynamic economy.”
—**SANDRA E. PETERSON**, group worldwide chairman, Johnson & Johnson

“No one can explain what is happening in China better than Edward Tse. The rapidly changing China is at yet another important crossroad and you will appreciate his guidance.”
—**SAM SU**, vice chairman of the board and chairman and CEO of China Division of YUM! Brands, Inc.

“For those who think Silicon Valley is the epicenter of technology, Edward Tse will convince you otherwise. *China’s Disruptors* is an insightful and thought-provoking look at the ‘other’ game changers. It’s a great read for anyone with a passion for innovation and a relentless drive to win.”
—**DINESH PALIWAL**, chairman, president, and CEO, HARMAN International

“The book is a useful corrective for those who regard China as a calcified state-driven economy and underestimate the changes taking place.”
—*FINANCIAL TIMES*

About the Author
EDWARD TSE is the founder and CEO of Gao Feng Advisory Company, a global strategy consulting firm with roots in China. As well as helping hundreds of companies—both inside and outside China—develop and apply their strategies, he has also worked with the World Bank, the Asian Development Bank, and the Chinese government on issues related to China’s economic reform policies. The author of *The China Strategy*, he has contributed essays and articles to *Harvard Business Review*, *strategy + business*, *South China Morning Post*, and *China Daily*. He lives in Hong Kong and Shanghai.

AUTHOR'S NOTE

Over the last two and a bit decades, based in Shanghai, Beijing, and Hong Kong, and working in many other cities across China, I have had the perfect seat to watch the extraordinary transformation of the world's most populous country from economic also-ran to global superpower.

Except, of course, countries don't transform themselves—transformations are wrought by people.

This book is about the people who are largely responsible for that transformation. Not the political leaders, who, important as they were in creating the conditions for business to take off, are not directly responsible for economic growth. Nor China's state-owned enterprises, which—contrary to widespread popular belief—have seen their importance in the Chinese economy decline sharply. But, of course, its entrepreneurs—those people who actually set up businesses and grew them by delivering the goods and services that people were prepared to pay for, and in the process creating the jobs that would allow people to buy those goods and services.

Throughout this book, I refer to the individuals who run those businesses and the companies they have established as being part of China's private sector. But a brief note of clarification is necessary to explain exactly who I'm talking about, as figuring out how much of China's economy is in private hands—or even what a private business is in China—is far from straightforward. Officially, private businesses have only existed in China since 1988, when the government passed legislation allowing them to exist. That legislation defined a private company as a for-profit organization owned by one or more individuals and employing more than eight people. It is a definition that excludes all those businesses owned and run by individuals that have eight or fewer employees. These are sometimes referred to as individually owned businesses and sometimes as sole proprietorships, and China has tens of millions of them. Also excluded from this definition are the many other Chinese firms that are in effect private. The most numerous of these are "red hat" businesses—companies whose underlying ownership lies with individuals, but which for one reason or another (usually to maintain a relationship with local officials) have registered themselves as collective or state-owned businesses. These companies usually pay a "fee," typically a few percent of revenue, in return for protection from official harassment. A variation on the red hat business is the "rented collective"—a collective business that is rented from its original owners, who more often than not are the local government.

A couple of examples show how confused company ownership can be. One of China's most entrepreneurial companies of the last 30 years is white goods maker Haier. Technically, Haier is classified as a collective business under the city of Qingdao, which in theory means that it is owned by its employees and answerable to the Qingdao government. Occasionally, especially in its earlier days, officials would lean on the company to do their bidding; on one occasion Haier took over a money-losing pharmaceutical company in order to keep it running and preserve jobs. While the government may ultimately retain the final say—in the early 2000s, for example, it ruled out the possibility of large collective and state-owned companies being bought out by their managers—Haier's success has left it effectively an independent entity. Over the last 30 years, there can be no doubt that the biggest force determining its destiny has been Zhang Ruimin, its chief executive and board chairman. Ever since he was installed as Haier's head in 1984, it has been his vision and will power that has driven the company forward, not that of its ostensible owners, reflecting just how much, in China, especially in business, power and authority continues to be acquired and held through informal networks rather than legal structures.

Huawei, the Shenzhen-based telecom equipment maker, is another company with somewhat confusing ownership. Company spokespeople repeatedly describe their firm as being an employee-owned private business. As with Haier, however, that description makes little sense: for its entire existence, the company has, for all intents and purposes, been answerable to its founder, Ren Zhengfei, despite his officially holding just 1.4 percent of the company's shares.

Complicating matters further, some entrepreneur-run companies are private but not Chinese-owned. Alibaba, for example, has been majority-owned by foreign companies for many years, thanks to Softbank's 34 percent stake in the company, Yahoo's 22 percent stake (which as of February 2015 was about to be spun off into an independent company), and smaller stakes held by other foreign entities. Moreover, what these businesses own is not a Chinese company itself but stakes in a Cayman Islands company that collects royalties and fees from Alibaba's China-based operations via a string of subsidiaries and "variable-interest entities"—legal structures that in theory offer foreign companies contractual control over Chinese businesses without actually owning them, and so allow them to get around Chinese laws and regulations that bar non-Chinese companies from holding stakes in Internet and other media-related businesses. All of China's other leading Internet companies use similar vehicles. It's a complicated setup, and clearly one with risks: if the government were to change the rules, then such businesses could find themselves operating illegally.

This ambiguity about corporate governance structures, combined with questions concerning the quality of Chinese economic data, make it hard to estimate the size of China's private sector with precision. What we can be sure of, however, is that privately run businesses account for by far the biggest share of the Chinese economy—probably around three-quarters of GDP, and possibly more than 80 percent if we include the country's 100 million or so farming households, each of which is in effect a small business, and its foreign-invested businesses, almost all of which are owned by private companies.

For this book, it's not important whether a business falls into one ownership category or another, but what it is doing and how it is doing it—how businesses such as Huawei, Alibaba, Haier, and Tencent are rewriting the rules in China, changing the country in the process, and creating a market that will, over time, have an enormous impact in the rest of the world.

Quibbling over whether such companies are private or not misses the far more important point—that these are hugely entrepreneurial businesses, run in risk-taking manner, embracing innovation and change, and that running them is a group of extraordinary individuals.

In this book I want to show who these people are, what motivates them, and how they think and act. China's political leaders may have created the conditions under which they operate. But they are the people whose decisions are carrying the country forward. They are creating businesses not just to make money but, as I explore in detail in Chapter 1, as an expression of a far broader and greater mission that includes reestablishing China as one of the world's leading sources of new ideas, technologies, and ways of doing things. Moreover, I believe that these figures have the potential to help not just China but also the world tackle some of the most troubling issues of the 21st century, among them global energy, food security, and climate change.

Things move fast in China. Almost every day brings new developments that could be featured in this book, be they a multibillion-dollar acquisition, a sudden loss in market share, or a new set of government regulations. At the time of this writing, for example, Xiaomi, one of the stars of this book, was having to simultaneously cope with finding itself China's biggest smartphone seller, an attempt by Sweden's Ericsson to halt its sales in India on legal grounds, and government efforts to rein in the power of the United States's Qualcomm, a leading supplier of the technologies used in the components in Xiaomi's handsets. From such a position it could plausibly soar further, taking its China strengths to international markets, or find itself pinned back, losing ground as quickly as it has gained it.

Which trajectory it will follow I have no idea. But what I am confident about is that even if Xiaomi were to crash, another Chinese entrepreneurial company—either one of its existing competitors, such as Lenovo, Huawei, Coolpad, ZTE, Oppo, or a new company that no one has yet heard of—would quickly replace it. In short, I am confident that even if we were to witness the most unlikely reversal in fortune for any of the companies discussed in this book, my fundamental message would remain unchanged: China's future, economically, socially, and—eventually—politically, rests in the hands of its entrepreneurs.

A note on style: throughout this book, I write the names of these people in the standard Chinese way, with the family name first, followed by the person's given name. Yu Gang, for example, is Mr. Yu. If the person has adopted an English name, as with Alibaba's Jack Ma (known as Ma Yun in Chinese) or Tencent's Pony Ma (Ma Huateng), I use standard English usage.

Regardless of whether they have adopted an English name, I am certain of one thing: many more of these figures will over the next few years follow in the footsteps of Jack Ma and Alibaba to become familiar names to Western audiences—because of their astute entrepreneurial skills, and because of the products and services they will bring out of China to the rest of the world.

Visit (http://bit.ly/1e5ZGLl) for a larger version of this map.

INTRODUCTION

ENTERPRISES OF OUR TIME

Zhang Ruimin is a household name in China. Thirty years ago, officials sent him to run a failing maker of poor-quality refrigerators in the coastal city of Qingdao. Today, that company—which he still heads—is better known as Haier, the world's biggest seller of washing machines, air conditioners, and other major appliances. The company's revenues—$29.5 billion—and profits—$1.8 billion—easily exceed those of its two largest global rivals, America's Whirlpool and Europe's Electrolux.

Zhang's achievement in taking an ailing collectively owned factory and building it into a world-beating firm is one of the stunning business success stories of China's reform era. Zhang was born in early 1949, just months before the founding of the People's Republic of China, to parents who worked in a garment factory in north China's Shandong Province. After the disastrous Great Leap Forward economic campaign of 1958 to 1961 and the subsequent famine of the early 1960s, Mao Zedong sought to reclaim his power and prestige by instigating the Cultural Revolution, a nationwide political campaign aimed at purging the Communist Party of his rivals and reestablishing the revolutionary spirit that had brought him to power. Across China, countless young people joined this political movement, launching a long period of chaos and upheaval that left a deep scar on the country.

After the initial fervor of the Cultural Revolution died down, Zhang took his first job, in a construction-materials factory. Through the 1970s and early 1980s, he rose through the ranks to become to a member of the factory's management committee. Along the way, he established a reputation as an autodidact who, despite having ended his formal education at the age of 17, read every business and management book he could lay his hands on. In 1984, Zhang experienced the most pivotal moment of opportunity in his career, though it probably didn't look like one at the time. He was dispatched to run the Qingdao Refrigerator Factory, the fourth director to walk through its doors within the space of a year. When he arrived, he found he was to lead an insolvent, debt-laden plant. "The workshop didn't even have any windows then," he later recalled. “The winter was very cold and the workers had no coal to keep themselves warm, so they removed the window frames and burned them as fuel.”

The one thing in the factory’s favor was that people wanted what it made. Its refrigerators may have been poorly designed and frequently defective, but China’s shortage of consumer goods was so acute that the few people who could afford home appliances would take anything they could get their hands on, regardless of their shortcomings. Of course, this didn’t mean customers were happy if their new refrigerators didn’t work properly. But for many companies, such matters were of secondary importance. With demand rising fast, especially in the countryside where farmers were taking advantage of reforms that allowed them to sell surplus produce at whatever price they could find, manufacturers of home appliances and other household goods rushed to add capacity, certain they could sell everything they produced.

Zhang, however, was convinced that such circumstances would not continue for long, and that inevitably, as supply rose to meet demand, consumers would become more picky. For a business to thrive in the longer term, he believed, it would need a reputation for reliability and quality.

The following year, in an act that is now legendary in Chinese business history, Zhang addressed this issue head-on. In one of the company’s warehouses, he lined up 76 refrigerators that had come off its production line with one problem or another. He asked his staff what they thought they should do with these faulty refrigerators. Sell them at a discount, suggested one person. Offer them to employees, said another. No, said Zhang, we shouldn’t be making such refrigerators in the first place. Taking up a sledgehammer—now carefully preserved in a Beijing museum—he destroyed the first of those 76 refrigerators, then forced his staff to follow suit with the other 75.

His statement could not have been more emphatic. From that point on, the Qingdao Refrigerator Factory (shortly afterward renamed Haier) set about establishing a reputation for quality. Zhang instituted rigorous production standards at his factories. To gain access to better technology, he set up a joint venture with Liebherr, a German maker of high-end refrigeration equipment. Inspired by his reading of Japanese management books, he focused on instilling discipline into his workforce. Work processes were improved, and every employee’s performance was evaluated on a daily basis. At a time when most companies in China were more interested in simply selling whatever came off their production lines, Haier’s focus on establishing itself as the country’s first major appliance brand by producing quality products soon started producing results.

In the late 1980s, confident that he could instill similar standards at other factories, Zhang launched Haier on a second stage of development: to acquire the scale that could make it a major player across China. The company expanded its product range to include water heaters, air conditioners, washing machines, and other home appliances. Despite annual profits of less than $10 million, it listed its refrigerator arm on the Shanghai Stock Exchange, raising $400 million. Zhang used this money to build new factories in Qingdao and acquire what he called “stunned fish”—appliance companies that had added capacity to meet China’s rising demand but failed to invest in quality control and then found themselves stranded when faced with competition like Haier. In short order, Haier bought eighteen such companies, reviving them by introducing its own quality control measures and adding new products.

Zhang’s next move, in the late 1990s, was to take Haier global. As China prepared to enter the World Trade Organization, and more multinationals moved production units to the country, Zhang went the other way, first building factories across Southeast Asia, then investing $40 million to build a refrigerator factory in South Carolina before moving on to open plants in Iran, Italy, Ukraine, Tunisia, Pakistan, Bangladesh, and Nigeria.

Haier added further categories of goods to its portfolio, including televisions, computers, tablets, and mobile phones. The company began to acquire a reputation for innovation, especially for products that met specific local needs: refrigerators with extra-tough cabling that could resist gnawing by rats, and freezers that could stay cool even when their electricity supply was cut off for 100 hours.

Through the 2000s, powered by particularly strong growth in China as the country's urban middle class became homeowners, and by a growing presence in international markets in all parts of the world, Haier overtook its global rivals to become the world's top home-appliance brand by volume in 2009. Assisted by some major international acquisitions, including Sanyo Electric's home appliances arm in 2012 and New Zealand's Fisher & Paykal in 2013, Haier has held on to that position ever since. As of 2014, Haier was the world's fastest-growing company in its sector. In the world of Chinese entrepreneurship, however, no position can be taken for granted. "Who you are or how much you have contributed to the company is not the most important thing," says Zhang. "In this new era . . . there are no successful enterprises—only enterprises of our time."

Since he turned 66 at the start of 2015, it would be understandable if Zhang, having achieved so many milestones already as an entrepreneur, planned to retire. But he has no such intention. Instead, he has now put Haier on course for yet another transformation—one aimed at keeping it relevant to the needs of an economy being turned on its head by the Internet, especially the mobile Internet. "This is a time when everything is changing so fast," he says. "The key factor of traditional sales was location. If you had stores in good locations in a city, that gave you the biggest advantage. During the PC Internet era, the key factor was traffic—whoever had the greatest traffic was the winner. And now in the mobile Internet era, the key factor is time. So my stores are changing from seeking good locations to pursuing the time of customers."

Zhang is one of many entrepreneurs emerging from China who are redefining the nature of business—not just in China, but everywhere in the world. And his relentless urge to keep his company relevant is a quality shared by this entire new wave of Chinese entrepreneurs. This is not a wave driven by the government; it is, if anything, one of the undercurrents of Chinese activity that the government can't quite control—and is not sure how much it wants to control. Haier is among the first Chinese businesses to compete on a world scale, but there are many more to come. The new millionaires and billionaires emerging from China are determined to ride that wave of growth and see how they can shape it to serve their own ends. Indeed, it is the ambitions of China's entrepreneurs to build world-beating companies—private ones—that will be the principal force driving their country's economy to prosper.

A NEW SOURCE OF DISRUPTION

Since the early 1990s, China has consistently been the world's fastest-growing economy. It has opened its economy and its population to the outside world with a speed and success that is unprecedented not just for China but for any country.

In the process, China has also acquired a large number of critics, especially in the United States. These include politicians, among them members of the Obama administration and other key figures in both the Republican and Democratic parties; leading economists such as Nobel prize winner Paul Krugman and Peter Navarro of the University of California, Irvine; and analysts such as Gordon Chang, author of the 2001 book *The Coming Collapse of China.* These critics argue that China's economic success is due, in good part, to unfair practices by the Chinese government: its mercantilist trade regime, its currency manipulation that keeps the value of the yuan artificially low, its high-pressure efforts to open external markets to its businesses, its subsidies for manufacturers, and its widespread pirating of foreign goods and technology. The main beneficiaries of these policies, they say, have been Chinese export manufacturers—those who produce inexpensive smartphones, computers, toys, clothes, and other consumer goods, sucking in jobs from the rest of the world and dumping their products into Europe and America to drive competitors out of business.

Another factor frequently cited by overseas critics is the prevalence and influence of state-owned enterprises in China. The country's biggest companies—its banks and insurers, oil and energy companies, telecom operators and airlines, leading steel, auto, and construction firms—are all government-owned or government-controlled. The Chinese members of the Fortune Global 500, which ranks the world's top companies by revenue, would seem to confirm this view. In mid 2014, some 92 companies on the list were Chinese, but just 10 of these were privately owned enterprises. Using money from China's $4 trillion of foreign exchange reserves, many of these businesses have been investing heavily overseas—been "buying the world," as various book titles and headlines have suggested. Since the early 2000s, Chinese state-owned firms, backed by state-owned banks, have been striking multibillion-dollar deals in Africa, South America, and other regions, gaining access to energy supplies, raw materials, and even land for farming. Wherever these companies have gone, Chinese construction firms, also state-owned, have accompanied them, building ports, roads, and other infrastructure both to make sure that goods can be shipped back to China and to support the development of their host nations.

But this view of the Chinese economy as a mercantile juggernaut, driven by a single-minded government, does not tell the most dramatic part of the Chinese story, the part with the greatest potential impact on the rest of the world. That is the emergence of a new group of entrepreneurial business leaders, all from the private sector, most of them operating with little direct government influence or support, and all of them transforming their industries. These entrepreneurial disruptors are among the most successful and powerful individuals in China today. Many are billionaires, and some are multibillionaires. They are the reason that (as of August 2014) China hosts the world's second-largest concentration of billionaires after the United States—152 out of the total 1,645, according to *Forbes* magazine.

Haier's Zhang Ruimin is just one of these powerful, creative, and influential entrepreneurs who has changed the face of Chinese business. We will meet many others in this book, among them:

Jack Ma, whose online empire, the Alibaba Group, towers over China's e-commerce and electronic payments market. Its $25 billion initial public offering in 2014 was the world's largest to date

Pony Ma, whose Shenzhen-based company, Tencent, dominates online games and messaging in China, and is becoming a major rival to Alibaba in e-commerce

Robin Li, the founder of China's leading search engine and social network company, Baidu, which provides more than 60 percent of Chinese search engine activity (Baidu's influence, along with that of Alibaba and Tencent, is such that many commentators refer to this trio of China's three most prominent Internet companies as the BATs)

Ren Zhengfei, the founder of Huawei, China's largest privately owned exporter and the world's leading manufacturer of mobile and fixed-line telecom-network equipment

Yang Yuanqing, who, as chief executive of Lenovo, has built the company into the world's number-one seller of personal computers and a top five seller of smartphones

Lei Jun, a serial entrepreneur whose latest business, Xiaomi, has turned China's smartphone market on its head and become a global rival to Samsung. He uses innovative crowdsourcing techniques to determine the direction of development of his products and sell them with almost no outlay for marketing

Yu Gang, a former Dell executive whose Yihaodian online supermarket, with annual revenues that have risen to nearly $2 billion in just five years, is transforming how urban Chinese buy their daily necessities

Li Shufu, the founder of Geely Auto, China's most successful privately owned carmaker, and one of the most prominent global automakers, thanks to his takeover of Volvo in 2011

Xu Lianjie, a former farmer who has fended off competition from Procter & Gamble, Kimberly-Clark and other Western consumer-goods firms to build Hengan International, China's leading maker of tissues, diapers, and sanitary napkins

Diane Wang, who, after working for Microsoft and Cisco, served as CEO of Joyo.com, an online bookstore launched by Xiaomi's Lei Jun, and then—when that business was sold to Amazon—launched her own global business-to-business Web site, DHgate.com

Chen Haibin, the owner of a chain of medical laboratories pioneering private company involvement in improving standards and choice in China's largely publicly run health-care system

Wang Jingbo, who, since founding Noah Wealth Management in 2005, has signed up more than 50,000 of China's richest people to establish the country's leading private wealth management company

Zhang Yue, a maverick from central China's Hunan Province who, having created a globally successful coolant-free air-conditioning business, now wants to build environmentally sustainable cities using prefabricated modules; to demonstrate the viability of his products and ideas, he is currently seeking permission to erect the world's highest building in Changsha, Hunan's capital

Not all Chinese entrepreneurs are successful, of course. Like most owners, they have had to take risks with their businesses and their livelihoods. Some failed; many of those started new businesses, learning from their past mistakes. A few fell into legal problems, not because of political rivalries (as you might expect in a country like Russia), but because of their own missteps.

A decade ago, for example, among the most talked-about private Chinese companies was D'Long. A conglomerate based in China's far west Xinjiang region, its annual turnover rose to $4 billion drawn from interests ranging from farming and food to machinery and cement making. Its founder, Tan Wanxin, was for a while the richest person in China before he was sent to jail for manipulating share prices. More recently, in 2010, Huang Guangyu, the founder of Gome Electrical Appliances, one of China's leading electronics retailers who also was China's richest person for a while, was sentenced to 14 years in prison for insider trading and bribery. While D'Long vanished into obscurity following Tan's imprisonment, Gome, despite ups and downs, has maintained its position as one of China's leading retailers in the five years since Huang's jailing.

Most of China's entrepreneurs have fared better than these exceptions. Even if they endured early failures, they have shown phenomenal drive and ability in negotiating the extraordinary changes China and its economy have undergone. The rise of these disruptive entrepreneurs is all the more noteworthy because, at the time of Mao Zedong's death in 1976, China had no private businesses. All of the country's industry and agriculture was publicly owned, run either by the central government, by local governments, or through collectives. Today, thanks to the economic reforms of the last 35 years, the private sector accounts for at least three-quarters of China's economic output.

The Chinese government, despite having long since abandoned central planning, continues to regard itself as playing a key role in managing the overall direction of the Chinese economy. China remains home to approximately 2.3 million state-owned companies. That number, however, is dwarfed by its other businesses. As early as 2004, China had about 3.3 million privately held companies—many owned by investors with shares traded on public exchanges—and 24 million proprietorships—individually or family-run operations. By 2013, the country had nearly 12 million private companies and more than 42 million proprietorships (see

Figure 1). Moreover, the government is firmly committed to increasing these totals. In the first seven months of 2014, thanks to regulatory reforms abolishing registered capital requirements, 1.5 million new private companies were set up—double the number during the same period the year before.

The number of state-owned companies, meanwhile, has fallen by almost half since 2004. And though these companies are far more productive than they were a decade ago, their increase in output is a fraction of that of the private sector. In 2000, total revenues earned by state-owned and non-state-owned industrial companies were roughly the same, at about 4 trillion yuan each. By 2013, while total revenues at state-owned companies had risen just over sixfold, those in the non-state sector had risen more than 18 times (see Figure 2). Profits jumped even more over the same period, up nearly seven times for state-owned companies, but up nearly 23-fold for non-state ones.

The Chinese entrepreneurs have thrived, in part, because they created companies able to change as China changed. Many of them first set up businesses when the economy was still dominated by the state, which set most prices and appointed most company leaders. They survived the Asian financial crisis of the late 1990s. They fought off competition from the flood of foreign companies that arrived after China entered the World Trade Organization in the 2000s. And they rode out the worldwide downturn that followed the global financial crisis during the late 2000s and early 2010s. Throughout all of this, China's entrepreneurs created an economy largely outside the direct control of the government. They are answerable primarily to the customers who consume the products and services their companies offer. As with their counterparts around the world, they are typically energetic, imaginative, and often idiosyncratic. They are extraordinary individuals in their own right, especially when you consider that they have created successful businesses with little official backing within a traditionally risk-averse culture that reveres authority and conformity.

These entrepreneurs come in all forms imaginable. They are old and young; some with no formal education beyond high school, others with doctorates; some from China's richest and largest cities, others from remote country towns. Most, of course, run small companies, but others lead industry giants that employ tens of thousands of people. Some are highly influential, with access to the highest ranks of government. Others suffer from sustained official prejudice that favors state-owned firms, a factor that can make matters of everyday business, such as securing a bank loan, a nightmare.

Many of today's most successful Chinese entrepreneurs, most of them now in their 40s, 50s, and 60s, had no experience in business when they started their companies. They had to learn things as they went along through a continual process of trial and error. They were "crossing the river by feeling the stones," as Deng Xiaoping, China's paramount leader from 1978 to 1998, characterized his approach to economic reform.

Among those who started businesses in the period from the 1980s through the early 2000s, not one could have foreseen the China of 2014. Yet these are the people who have played the single biggest role in creating the wealth that exists in China today. Nicholas Lardy, a senior fellow at Washington, D.C.–based Peterson Institute for International Economics and one of the world's leading academic experts on the Chinese economy, estimates that privately controlled companies now account for two-thirds of all urban employment—meaning that almost all of the growth in urban employment since 1978 can be attributed to the private sector.

Chinese entrepreneurs are sometimes compared to the Russian oligarchs of the early 2000s. But the oligarchs built their fortunes by taking advantage of the privatization of industry that followed the collapse of the Soviet Union, often using their connections and positions to amass huge holdings in resource companies. The Chinese entrepreneurs we're looking at in this book, in contrast, have almost all developed their businesses from the ground up, in many instances starting from an apartment or a market stall, or raising a few thousand dollars from friends and relatives. They built their companies by meeting the needs of their customers, often in businesses that no one else saw as feasible.

These business leaders know that they are riding and contributing to a historic wave of economic activity. As creators of the fastest-growing enterprises in the fastest-growing economy in the world, they recognize that they have immense potential influence. Running companies that have grown even faster than the Chinese economy, they are establishing the rules that all companies in China will have to follow. Despite having had almost no formal business training, they are moving rapidly to compete with the same companies from whom they were drawing inspiration just a few years ago, both in China and internationally. In the process, they will rewrite the rules of global management.

SCALE, CHANGE, AND COMPLEXITY

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