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The Rong Family: A Chinese Business History

When Rong Yiren, China's vice-president from 1993 to 1998, died on October 26, 2005 at the age of 89, many foreign newspapers published obituaries describing him as China's first "Communist tycoon."¹ Apart from his high political if mostly representative office, he was even more famous for founding CITIC (China International Trust and Investment Corporation) in the 1980s, which allowed him and his family to amass a fortune. However, his obvious good connections with the political elite of China should not disguise the fact that Rong Yiren had experienced hard times during the Cultural Revolution (1966–76) when he was persecuted as the son of one of China's most distinguished capitalist families. The Rongs had been the most successful entrepreneurs in China's modern cotton industry, and Rong Zongjing, uncle of Rong Yiren and family head, had been known as "Cotton King" in Shanghai and beyond.

The story of the Rong family illustrates perfectly the strengths and weaknesses of a Chinese family business dealing with political crises and economic challenges of prewar China while displaying great tenacity, courage, and considerable financial success. The family business even managed to survive the Japanese occupation and the civil war, but after the founding of the People's Republic of China in 1949, the Rong family dispersed into many parts of the world, and the business operations in China were nationalized. The rise of Rong Yiren in the 1980s brought this family back into the spotlight, with business success, family influence, and political connections continuing into the twenty-first century. After surviving major upheavals, the Rong family was not only resurfacing within China, but also through those family members overseas who were returning to China and their family roots as investors. In many ways the Chinese family business was coming back, and despite its private nature, it was emerging as an important part of the business environment in socialist China.

Family Business in China

Family businesses had, of course, a long tradition in China and were the backbone of Chinese economic life during imperial times long before the founding of the modern republic in 1911. Among particularly prominent and successful family businesses in the eighteenth and nineteenth centuries were the merchants of the Anhui and Shanxi provinces who dominated the traditional banking business; the Hong merchants trading as middlemen with Westerners in Guangzhou (Canton); and the licensed salt merchants producing and distributing salt for the government's monopoly. Although these merchant firms were organized as family businesses in a pre-industrial environment under the heavy-handed and unavoidable patronage of the Chinese government, many of them grew into commercial operations of impressive size and achieved spectacular profits. For example, the

¹ *The Times*, November 1, 2005, obituary for Rong Yiren.

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legendary wealth of the Yangzhou salt merchants allowed them to build luxurious family residences and gardens and become patrons of scholarship and the arts. Not surprisingly, the wealth of merchant families also made them easy “targets of sometimes crushing official exactions and bureaucratic peculation.”²

Many family businesses were engaged in interregional trade all over the Chinese empire. In order to facilitate business and look after the social needs of merchants doing business far away from home, they relied not only on their extended family network, but also on networks centered around common regional origins. Merchants hailing from the same province networked through native-place organizations called *huiguan*. In the absence of Chambers of Commerce before 1904, these associations also represented merchants’ business interests vis-à-vis the government in major Chinese commercial cities as well as in important business locations overseas.³

The increasing presence of Westerners doing business in China in the second half of the nineteenth century led to the emergence of a new type of merchant entrepreneur, the so-called *comprador*. In bustling treaty ports such as Shanghai or Guangzhou, these compradors first acted as middlemen for foreign firms, then became business managers for these firms under contract and eventually established their own private businesses trading with and investing in foreign commercial firms. Many of these compradors used their experience with Western business practices, from management to accounting, when starting their own private commercial or financial companies.⁴

In the tradition of orthodox Confucian ethics, people engaged in business and commerce traditionally occupied the lowest rank in China’s social system. The elite consisted of members of the imperial bureaucracy who had received rigorous academic training and passed the civil service exams to qualify for office; these were the so-called “scholar-officials.”⁵ However, in reality the social status of merchants was often mitigated by the fact that officials and the imperial court relied on the substantial financial resources of merchant entrepreneurs and family businesses to finance government and personal expenses. By the late nineteenth century, social and economic hierarchies in Chinese society were in transition. Merchants and private entrepreneurs were given new roles in the attempt to modernize the country, and eventually they became civic leaders and vital supporters of China’s political transformation into a republic. Especially in commercial hubs like Shanghai, the new merchant-entrepreneur class began to replace the old social elite. However, entrepreneurs like the Rong brothers who were running large family businesses gained not only social status through their economic success, but were also increasingly co-opted by the government and various political interest groups.

The Rong Family Business: Family Networks and Native Place

Rong Zongjing moved from his family home in Wuxi to Shanghai in 1884 when he was just 14 years old. At the time, Shanghai was the commercial and financial center of China and was also about to develop into the country’s foremost industrial center. Industrialization in China began slowly after

² Lloyd E. Eastman, *Family, Fields, and Ancestors: Constancy and Change in China’s Social and Economic History, 1550–1949* (Oxford University Press, 1988), pp. 132–33, quote on p. 133.

³ For an overview, see Wellington K. K. Chan, “Government, Merchants and Industry to 1911,” in John K. Fairbank and Kwang-ching Liu (eds.), *The Cambridge History of China*, Vol. 11, part 2, pp. 416–62.

⁴ *Ibid.*, p. 419. See also Yen-P’ing Hao, *The Comprador in Nineteenth-Century China: Bridge between East and West* (Cambridge, MA: Harvard University Press, 1970).

⁵ For a concise discussion see Lloyd E. Eastman, *Family, Fields, and Ancestors: Constancy and Change in China’s Social and Economic History, 1550–1949* (Oxford University Press, 1988), pp. 192–97.

1895 and private manufacturing businesses were concentrated mainly in the light industry sector, such as textile production. Rong Zongjing founded the first of the cotton mills, named Shenxin, in Shanghai in 1915 (see **Exhibit 1**). By 1932 the Shenxin mills had a workforce of 31,717 workers, the highest number in any industrial firm in China at the time.⁶ The team of brothers, the charismatic Rong Zongjing and the more subdued Rong Desheng, became the most successful entrepreneurs in the history of Republican China.

Local ties and regional focus played an important role in the Rong family business. Although most of the Shenxin cotton mills were located in Shanghai, the Rong family business had always been and continues to be identified with the family's native place in Wuxi, a prosperous town northwest of Shanghai in Jiangsu province (see **Exhibit 2**), conveniently located along the Grand Canal. In the nineteenth and early twentieth centuries, Wuxi was the center of China's silk production in the lower Yangzi delta, one of the most prosperous and densely populated regions of the country with excellent linkages to the river and canal system.⁷ The Rong family managed a silk-cocoon trading company and had been established for generations in the merchant community. Family, local community and the networks they both provided were crucial concepts that shaped and sustained the Rong business empire. In using these types of networks, the Rongs were not exceptional; early twentieth-century China saw a number of prominent entrepreneurs impacting and shaping local communities and economies through their industrialization and welfare projects.⁸ However, the Rong family, in particular Rong Zongjing (see **Exhibit 3**), was especially successful in creating, maintaining, and exploiting various forms of networks for his business interests over decades.

Family members and associates from Wuxi were drawn into the business by acting as investors or managers of the cotton mills in Shanghai or providing important connections with the government. Although doing business in any context required the use of networks, it was particularly important in the case of China where the legal environment and capital markets were still poorly developed in the early twentieth century. As the promising first-born son of the family, Rong Zongjing was sent by his family to first take on an apprenticeship in Shanghai to expose him to the practices and operations of traditional banking institutions. He served for three years as apprentice at the Yu Yuan Bank and for another four years at the Sen Tai Rong Bank, where he learned the financial and commercial practices of traditional Chinese banking institutions.⁹ This professional training enabled Rong Zongjing to start a traditional financial institution, the Guangsheng Bank, as his first business enterprise, together with his brother, Rong Desheng, and his father in 1896.

Long before Rong Zongjing started the first Shenxin mill in Shanghai, his family had demanded that he should raise capital there and remit it for investment in the Wuxi family enterprise. From the family's perspective, this made perfect sense. Rong Zongjing was able to gain professional experience in Shanghai and at the same time explore the financial options for the family business operations in their native place.¹⁰ When his father died in 1896, however, Rong Zongjing did not return to Wuxi to manage the family firm, although his position as eldest son would have normally required him to do

⁶ For a fascinating account of Rong Zongjing and the Shenxin mills, see chapter 6 in Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937* (Berkeley: University of California Press, 2000); reference p. 117.

⁷ On the history of Wuxi's silk industry, see Lynda S. Bell, *One Industry, Two Chinas: Silk Filatures and Peasant-Family Production in Wuxi Country, 1865–1937* (Stanford: Stanford University Press, 1999).

⁸ Elisabeth Köll, *From Cotton Mill to Business Empire: The Emergence of Regional Enterprises in Modern China* (Cambridge, MA: Harvard East Asia Center, 2003), pp. 286–87.

⁹ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937*, p. 119.

¹⁰ *Ibid.*, p. 118.

so. Instead, he continued to work in Shanghai where he raised additional funds through his bank and sent his younger brother Rong Desheng back to Wuxi to manage a branch there. (In order to strengthen the connections between Wuxi's silk industry and his bank, Rong Zongjing even betrothed his daughter to the son of Xue Nanming, Wuxi's most prominent silk manufacturer at the time.¹¹) In 1905 Rong Ruixing, a member of the extended family and comprador for Jardine, Matheson, and Company in Shanghai, arranged for Rong Zongjing and his brother to join the prominent Yudaxiang commercial house of Shanghai, which also served as a transfer agent to send capital from Shanghai to Wuxi. Thus, by 1909, Rong Zongjing considered the Guangsheng bank business an unnecessary burden and closed it.¹²

The remittance of capital raised in Shanghai to Wuxi enabled Rong Zongjing to build a number of enterprises owned and managed by the Rong family in their hometown. By 1915 the Rong family business included the silk cocoon trading company started by his father, two flour mills, and a cotton mill in Wuxi. This success also encouraged other family businesses in the city to become entrepreneurs in the flour, textile, and silk industries, such that Wuxi was often referred to as "Little Shanghai."¹³ However, Rong Zongjing had bigger plans for his family business.

Family Inc.

As chairman of the board of the Zhenxin cotton mill in Wuxi, Rong Zongjing proposed business expansion outside the area by opening four new cotton mills in Shanghai, Ningbo, and Zhengzhou; but he was fiercely opposed by members of his family and Wuxi business partners. In particular, Rong Ruixing saw these investments as risky and preferred to rely on short-term profits from the Wuxi factories. Not only did Zhenxin's board boycott Rong Zongjing's plans, it also demoted his brother Rong Desheng to assistant manager as punishment.¹⁴

As a result of this dispute, Rong Zongjing and his brother decided to disengage themselves personally and financially from hometown associates like Rong Ruixing and started the Shenxin mills in Shanghai in 1915. For the first mill, Rong Zongjing and Rong Desheng put in 159,000 yuan of the initial capital of 300,000 yuan, with the intention of preventing other shareholders from obtaining a majority of Shenxin shares and thus controlling the enterprise.¹⁵ The company was legally registered as an unlimited liability company. Rong Zongjing established a corporate hierarchy for Shenxin that allowed him, as head, to wield managerial control over the enterprise. This, of course, resulted in conflicts and arguments with members of both the family and hometown networks.¹⁶

Because the brothers turned their back on hometown associates, they lost their former main investors, so to build additional mills in Shanghai they had to raise capital from outside sources. For the first time, Rong Zongjing borrowed money from foreign, Japanese-owned banks and put up all properties of the Shenxin mill and the two Fuxin flour mills (where he held the majority of shares) as collateral. Fortunately, these developments came about in 1917 and 1918 at a time of rapid industrial

¹¹ Ibid., p. 119.

¹² Ibid., p. 120.

¹³ Ibid., p. 121.

¹⁴ Ibid., p. 121.

¹⁵ Xu Weiyong and Huang Hanmin, *Rong jia qiye fazhanshi* ("A History of the Rong Family's Enterprises"), (Beijing: Renmin chubanshe, 1985), p. 33. Historical exchange rate in 1922: US\$1=1.8 yuan.

¹⁶ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937*, p. 117.

growth in China. WWI had forced many foreign producers to abandon the China market, and the demand for goods such as textiles, matches, and flour, etc., created a boom in these domestic industries.¹⁷ The first Shenxin cotton mills became a big business success.

Benefiting from business expansion at the right time, Shenxin's capital increased from 300,000 yuan in 1915 to 16 million yuan in 1922, without the Rong brothers sharing control over the business with other shareholders. They owned 53% of the capital base in 1915 and expanded their majority share to 63.3% in 1922. In order to be able to exert complete control over the company stock, the Rong brothers "stipulated in Shenxin's by-laws that any of its shareholders wishing to sell stock to investors outside the company could do so only with the unanimous consent of all shareholders."¹⁸ The brothers continued to hold the majority of Shenxin stock until Rong Zongjing's death in 1938. After a second mill was added in 1919, Shenxin achieved spectacular profits during the cotton textile boom between 1919 and 1920. The success made Rong Zongjing move the headquarters for the family business to Shanghai in 1921.¹⁹ With the help of a newly established general corporation that functioned as a holding company, Rong Zongjing was now able to manage the family's growing business empire, including those companies in which he did not own a majority of the shares.

The Shenxin mills continued as a private company until 1956 when the enterprise was nationalized by the government of the PRC (People's Republic of China). Until then the structure of a family business had suited the Rong brothers in terms of their strategic plans for capital accumulation and business expansion. Only in 1945, near the end of WWII and the Japanese occupation, did the Rong family decide to register the family business as a limited-liability company according to the company laws of the Republic of China. This step was initiated less out of a desire to reorganize the war-damaged enterprise structurally than to protect various parts of the business from being confiscated as enemy property.²⁰ Soon, however, disagreement with shareholders about profit distribution and future business expansion led the family to deregister the company to curb outsider interference.²¹ This was not an uncommon attitude among family businesses in China. For the purpose of maintaining family control, Chinese family firms avoided registration, even if they had grown into substantial operations. For example, Yan Yutang, the founder of the Dalong Machine Works in Shanghai, one of the biggest machine-producing companies in Republican China, never considered company registration because of the disadvantages to family control and interests.²²

Managing Labor and Politics

Throughout the 1920s, Rong Zongjing worked hard to expand the business, which he now controlled from Shanghai headquarters in an office building on Jiangxi Road, near the Bund. As a hands-on manager, "he required all of his factory managers to telephone him for instructions during

¹⁷ See Thomas Rawski, *Economic Growth in Prewar China* (Berkeley: University of California Press, 1989), pp. 69–119.

¹⁸ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937*, p. 122.

¹⁹ *Ibid.*, p. 124.

²⁰ Parks M. Coble, *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937–1945* (Berkeley: University of California Press, 2003), p. 136.

²¹ Xu Weiyong and Huang Hanmin, *Rong jia qiye fazhanshi* ("A History of the Rong Family's Enterprises"), (Beijing: Renmin chubanshe, 1985), pp. 32–33, 125.

²² David Faure, "The Control of Equity in Chinese Firms within the Modern Sector from the Late Qing to the Early Republic," pp. 60–79, in Rajeswary A. Brown (ed.), *Chinese Business Enterprise in Asia* (London and New York: Routledge, 1995), pp. 75–77.

noontime every working day.”²³ He expanded the business through additional bank loans from foreign banks and through the transfer of funds from the Maoxin and Fuxin flour mills. Thus six additional cotton mills were built, four of them in Shanghai, one in Wuxi, and one in Hankou, bringing the total number to eight Shenxin mills. Operating from Shanghai, a transportation hub, Rong Zongjing focused particularly on improving distribution networks, and pursued a strategy of deep market penetration in China’s hinterland by setting up a system of branch distributors. To create a competitive advantage for his company, Rong Zongjing negotiated special shipping rates with the China Merchants Steamship Navigation Company, which no other customer of the shipping company had ever enjoyed. He also used the telephone successfully as a new business technology to purchase raw cotton at better prices, which gave him more precise and timely information about local cotton growers and their harvests.²⁴

Although Rong Zongjing had obtained full authority over the family business, he still kept the ties to the family members and the Wuxi associates alive by employing them as managers in Shenxin’s administration or as supervisors on the shop floor. For example, in 1928, 117 members of the Rong family were employed in Shenxin, occupying about 12% of all the mills’ management positions.²⁵ As a strategy, the Rong lineage relied especially on bringing its sons-in-law into the fold, who either held high managerial positions in the various Rong companies or other prestigious outside businesses vital to the Rong family’s interests. In this respect, the marriage between Rong Desheng’s daughter and the son of Song Hanzhang, a high official at the Shanghai branch of the Bank of China, was one the most useful marriage alliances outside of the Wuxi network.²⁶

In order to increase the talent pool for managing the expanding business and to deal with the complex technological challenges in the fast-developing textile industry, the Rong brothers also sent their sons to study abroad. After Rong Yiren, Rong Desheng’s son, had obtained a bachelor’s degree from the Lowell Textile Institute in Massachusetts, other sons and sons-in-law were sent to this and other educational institutions abroad. Apart from concentrated family involvement at the management level, the Shenxin mills also employed a majority of people from Wuxi in general staff positions. To prepare these supervisors and employees for their move to Shanghai, they were given a primary education in schools sponsored by the Rong family and were introduced to vocational training in company-owned institutes. These acts of paternalistic social responsibility had some practical implications for the factory management in Shanghai, a center of labor unrest during the Republican period. The high number of staff members hired from Wuxi (65% in 1928) and the housing of workers in company accommodations under Rong Zongjing’s paternalistic management were part of the reason for a remarkable absence of strikes in the Shenxin mills throughout the late 1920s and early 1930s.²⁷ However, unlike labor unrest, political intervention from the Nationalist government became increasingly unavoidable for the Rongs and was more difficult to deal with.

After Chiang Kai-shek had established the Nationalist government in the new capital of Nanjing in May 1927, he ordered the arrest of Rong Zongjing. Chiang Kai-shek’s reason for this extraordinary step was his desire to squeeze funds out of prominent bankers and businessmen to support his own political agenda. Shanghai capitalists from all sectors of the city’s economy were forced to purchase

²³ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937*, p. 124.

²⁴ *Ibid.*, p. 126.

²⁵ *Ibid.*, p. 129.

²⁶ *Ibid.*, p. 129.

²⁷ *Ibid.*, pp. 128–30.

bonds issued by the Nationalist government.²⁸ At the time, Rong Zongjing was head of the Association of Chinese Cotton Mill Owners, which had been ordered to pay 0.5 million yuan, but Rong refused to advance the full amount. Although the association came up with the money just before the scheduled arrest, Chiang Kai-shek then justified the warrant with trumped-up political charges. The situation became so precarious that Rong Zongjing had to resort to help from a Wuxi associate, Wu Zhihui, who held a high position in the Nationalist party. His lobbying efforts were successful but came with the price of having to buy a large number of government bonds.²⁹

Throughout the 1930s, Rong Zongjing kept a high public profile through his many official positions in which he represented the government. For example, in 1928 he was appointed as adviser to the Ministry of Industry and Commerce, and in 1933 he became a member of the National Economic Council. Whereas in public Rong Zongjing seemed to support the anti-Japanese economic policies of T. V. Soong, then China's finance minister, in private he "used his personal contacts with Soong to promote policies favorable specifically or even exclusively to Shenxin."³⁰ In the most famous incident that displayed Rong Zongjing's ambiguous behavior, he bungled a cotton loan that T. V. Soong had negotiated with the United States and led to Soong's resignation in 1933. The greatest challenge, however, came the following year when prominent officials in the government-controlled Bank of China forced Rong Zongjing to resign as Shenxin's manager because the business had spiraled into a financial crisis due to huge overdue loans without any signs of improved cost accounting and managerial practices. Again, Rong Zongjing mobilized his Wuxi native-place network to lobby Chiang Kai-shek and the government on his behalf. Although it was much more complicated for Wu Zhihui to convince the government of his associate's innocence this time, he finally succeeded in getting Rong Zongjing reinstalled as general manager of the Shenxin mills with a 4 million yuan loan from the Bank of China and the Shanghai Commercial and Savings Bank.³¹ Even in times of threat from the highest political levels, Rong Zongjing was able to mobilize his network to bail him out and guarantee the return of his authority over the Rong family business.

War and Revolution

In August 1937 the Japanese began to invade China, which had severe consequences for the country's political and economic autonomy and stability. The Japanese established a harsh occupation regime in the conquered territory and tried to exploit Chinese resources through brutal force or by offering economic incentives for political collaboration. Some Chinese entrepreneurs tried to avoid a Japanese takeover of their companies by registering them under Western ownership. Some tried to move their businesses into the International Settlement in Shanghai, which remained outside Japan's political control until the United States entered WWII after the Pearl Harbor attack in December 1941. Other entrepreneurs tried to move their companies inland to the unoccupied areas of central and western China to so-called "Free China," and shipped whole factories along the Yangzi River into the interior.³² However, all these methods of minimizing or avoiding the impact of the Japanese occupation on business were relatively short-lived and of limited success. Like all other

²⁸ Parks Coble, *The Shanghai Capitalists and the Nationalist Government, 1927–1937* (Cambridge, MA: Harvard East Asian Center, 1986), pp. 34–35.

²⁹ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937*, pp. 138–39.

³⁰ *Ibid.*, p. 140.

³¹ *Ibid.*, p. 144.

³² See Parks Coble, *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937–1945* (Berkeley: University of California Press, 2003).

Chinese entrepreneurs at the time, the Rong family had to approach this extraordinary crisis with great care and creativity.

The Rong family business managed to weather the Japanese occupation but experienced substantial changes in management. The Japanese invasion began close to the Shanghai area where most of the Shenxin mills were located. By the end of 1937, the Rong family had already lost control over five of them, with two of the mills completely destroyed in bombing raids; the others were expropriated by the Japanese authorities. Although Rong Zongjing considered briefly applying for financial compensation from the Japanese authorities in exchange for supporting their cause, he soon realized that “although remaining aloof from the Japanese had its difficulties, collaboration was risky.”³³ Exposed to threats by the Nationalist government, which labeled him a collaborator, Rong Zongjing left Shanghai in January 1938 for Hong Kong, where he died a few months later.

This triggered new leadership in the family firm. First, Rong Desheng, Rong Zongjing’s younger brother, stepped in as senior leader, and consciously avoided any collaboration with the Japanese and their puppet organizations in Shanghai. In the beginning, the family kept control over the two Shenxin mills located in the International Settlement. As additional protection, the Rongs used foreign registration and on paper declared the mills American and British operations. Apart from physical war damage and its impact on the company’s overall profitability, organizational issues became an increasing challenge. Rong Zongjing had been the real authority in Shenxin. Rong Desheng, however, was no match in terms of personal charisma or managerial talent. Although Rong Zongjing’s son, Rong Hongyuan, took over as general manager of the business, he was unable to control his brothers and cousins. A bitter and prolonged succession dispute ensued between him and Rong Er’en, Rong Desheng’s son, and the two main family branches in general. The business survived, but at the end of the war in 1945 it was divided into sections, with specific family members becoming responsible for each individual mill of Shenxin.³⁴ The days of the centralized Rong family business empire were finally over.

After the Japanese surrender and the end of WWII in China, the old fights and arguments between the Nationalists under Generalissimo Chiang Kai-shek, and the Communists, under the leadership of Mao Zedong, resurfaced and eventually led to a full-blown civil war. Both parties fought to resume authority over the Chinese state, economy, and society with tremendous losses on both sides. The Nationalists, however, were discredited by a politically divided and increasingly corrupt government, which was not able to manage crucial problems such as wartime inflation. The Communists, on the other side, presented themselves as true liberators of the people and impressed the population initially through their troops’ and leadership’s discipline and patriotic dedication. The Communists began to move their troops toward the south, and in 1948 took control of Shanghai, still the economic center of China at the time. When the civil war ended with the Communist victory and the founding of the People’s Republic of China in 1949, the biggest challenges to the continuity of the Rong business and family were yet to come.

Survival and Revival

The Communist advance forced every Chinese entrepreneur to make life-changing decisions: to stay and try to run the business under a socialist government or to leave the country, with or without the business assets. Some capitalists chose to follow the Nationalist government to Taiwan in 1949;

³³ Ibid., pp. 115–117, quote on p. 117.

³⁴ Ibid., pp. 131–36.

others moved to Hong Kong, then under British authority, or emigrated to new destinations in Southeast Asia, Australia, and the U.S. As for the Rong family, it “split into many directions This strategy divided the family but also gave it opportunities to survive in different environments.”³⁵ Rong Zongjing’s sons Rong Hongyuan and Rong Hongqing and his son-in-law left Shanghai for Hong Kong, the latter two becoming major textile industrialists in the crown colony. Rong Hongyuan eventually moved to Brazil where he became an entrepreneur in the flour milling industry. Rong Er’en settled down in the U.S., while other sons, sons-in-law, and cousins chose Thailand, Australia, and Taiwan as homes for their new business ventures.³⁶

Among Rong Desheng’s seven sons, only the fourth son, Rong Yiren, stayed behind in China. In addition to his training at the Lowell Textile Institute, he had been groomed for the succession by receiving an elite Western education at St. John’s University in Shanghai.³⁷ This university, originally an Anglican foundation, was one of the leading universities in the country and counted among its graduates members of China’s political and economic elite including T. V. Soong, the Minister of Finance and brother-in-law of Sun Yat-sen, and Wellington Koo, the famous diplomat. After graduating in history, Rong Yiren joined the family business during war and occupation.

The new Communist government did not immediately expropriate the country’s “national capitalists” but slowly led their businesses into nationalization, which was completed nationwide by 1956. In order to secure the cooperation of prominent entrepreneurs (at least on the surface), the government often offered them supervisory positions in the expropriation process of their own companies and other political offices. Thus, Rong Yiren had to direct the nationalization of his own enterprise. After 1956 his career switched from businessman to politician, but he did not join the CCP (Chinese Communist Party). In 1957 he became the vice-mayor of Shanghai and in 1959 was promoted to vice-minister for the textile industry. He was also elected to the National People’s Congress.

Having lost the family business in China, Rong Yiren and the remaining family members were to some extent compensated for the loss by the privileges reserved for government members, even if Rong Yiren’s political position was not elevated enough to wield real political power. However, the onset of the Cultural Revolution in 1966 brought a new political crisis to China and to the Rong family in particular. As sons and daughters of China’s premier industrialist family, the Rongs were labeled members of the bourgeois and exploitative capitalist class, as well as counter-revolutionaries and enemies of the Chinese state and the CCP. Like thousands of other descendants of former capitalist entrepreneurs, the Rong family suffered under the terror and humiliation of the Red Guards, the self-appointed revolutionary auxiliaries dedicated to Mao Zedong. They invaded the Rong family home in Shanghai and ransacked it. Rong Yiren’s son, Rong Zhijian, was sent to Sichuan province to do manual labor at a hydroelectric project for re-education.³⁸

Mao’s death in 1976 officially ended the Cultural Revolution, and the leadership of reformer Deng Xiaoping brought a slow and careful opening of the country toward the West. Deng Xiaoping became the “second liberator” of China, who recognized the importance of bringing China back into the international economy and giving private economic initiative a greater role in the Chinese market. As a result, experts with professional knowledge in business, finance, and technology—those under

³⁵ Parks Coble, *Chinese Capitalists in Japan’s New Order: The Occupied Lower Yangzi, 1937–1945*, p. 137.

³⁶ *Ibid.*, pp. 137–39.

³⁷ *The Guardian*, November 18, 2005, obituary for Rong Yiren.

³⁸ *The Times*, November 1, 2005, obituary for Rong Yiren.

severe attack during the Cultural Revolution—were in high demand. In this context, Rong Yiren was brought back into government.

Under Deng Xiaoping's directive "to be boldly creative," Rong Yiren founded the China International and Trust Corporation (CITIC) in 1979.³⁹ Set up as a state-owned investment company, its mission was to "attract and utilize foreign capital, introduce . . . advanced technologies, and adopt . . . advanced and scientific international practice in operation and management."⁴⁰ To the outside world, the CITIC office tower, Beijing's first skyscraper on Chang'an Avenue close to Tiananmen Square and the Imperial Palace, became the shining symbol of this modernization effort. Reflecting China's overall economic development, CITIC grew at a quick pace in the wake of the economic reforms started in the early 1990s, which emphasized free market forces, private entrepreneurship, and China's integration into the global economy. Under Rong Yiren's leadership, CITIC became a huge business success. CITIC was China's largest transnational conglomerate, with 44 subsidiaries and a business portfolio ranging from financial industries and industrial investment to service industries. By the end of 2006, CITIC's total assets were valued at 929.2 billion yuan.⁴¹

Deng Xiaoping rehabilitated Rong Yiren and his family politically while making use of his business expertise and personal connections for the benefit of economic modernization and national development. At the same time, Rong Yiren's position in CITIC provided him and his family members with extremely good government connections. This circumstance was highlighted by the fact that Rong Yiren's son, Rong Zhijian, was allowed to move to Hong Kong in 1978. With the help of Rong family connections, he first organized a joint venture with IBM in 1982 before becoming chairman of CITIC's arm in Hong Kong, CITIC Pacific Ltd.⁴² Better known by his English name Larry Yung, Rong Yiren's son became a prominent and financially extremely successful figure in Hong Kong's business world, with an estimated fortune of about US\$1 billion.⁴³ He owned Birch Grove, the former home of English Prime Minister Harold Macmillan in East Sussex. While one might assume that Larry Yung had been able to financially benefit from his father's political connections as well as overseas family connections, Rong Yiren also gained personal wealth from CITIC despite its organization as a state-controlled enterprise. In 2000, *Forbes* listed Rong Yiren as the richest businessman in China, with a fortune of about US\$1.9 billion in CITIC shares.⁴⁴ Continuing his entrepreneurial activities under a still-socialist regime, Rong Yiren had truly reached the status of a "Red Capitalist." To reward him as a public symbol of continuing economic reform, the government appointed him state vice-president in 1993 (China's highest-ranking official without party membership), which was his last official and mainly ceremonial post until his retirement in 1998. After his death, the official obituary of the Xinhua News Agency characterized Rong Yiren as a "leading representative of modern Chinese national industrialists, an outstanding national leader, a great patriot and a communist champion."⁴⁵

³⁹ *The New York Times*, October 28, 2005, obituary for Rong Yiren.

⁴⁰ See CITIC's website, http://www.citic.com/wps/portal/!ut/p/_s.7_0_A/7_0_7U, as accessed in November 2007.

⁴¹ *Ibid.*

⁴² Parks Coble, *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937–1945*, p. 138.

⁴³ *Taipei Times*, October, 28, 2005, "'Red Capitalist' Rong Yiren dies."

⁴⁴ *Ibid.*

⁴⁵ See http://www.wsws.org/articles/2005/nov2005/chin-n29_prn.shtml.

Why Family Business Still Matters

The history of the Rong family and its business tells us a lot about the nexus between politics and business in contemporary China, which continues to be an important ingredient of business success for domestic and foreign enterprises alike. However, as the Rong family story also shows, this connection predated the 1949 period when entrepreneurs had to cooperate with various political authorities and regulations, often under very hostile conditions. The Rong family business represented the model of a family firm that used managerial hierarchies together with family and local networks to build and run a successful business and survive the war. Under Communism, former capitalists who decided to stay in China lost their business capital in exchange for at least some, albeit short-lived, political prestige. Although many families with a capitalist past, like the Rongs, suffered during the Cultural Revolution, the economic reforms and the mantra of state capitalism eventually revived their political clout, which indirectly and directly benefited entrepreneurial activities within their families. Several of Rong Desheng's grandsons overseas had become prominent entrepreneurs and in the wake of the economic reforms were investing in China; Rong Zhiqin from the Brazil branch even moved his family back to Hong Kong to be closer to his new China business ventures and "the Rong revival."⁴⁶

There was yet another side to the Rong story, which explained the development and success of overseas Chinese family firms in the context of diaspora communities around the world: While family businesses inside China collapsed due to political regime change, migration became a strategy of business and family survival. The success of many famous Chinese entrepreneurs and their businesses in Taiwan, Hong Kong, and throughout Southeast Asia directly went back to the 1949 decision process. As members of family businesses left China, they displayed remarkable talent in adapting to host economies and prospering as immigrants in a new environment. The migration of Chinese entrepreneurs and their rebuilding of family businesses in Southeast Asia shaped the economies of Thailand, Malaysia, Singapore, and other countries at a higher level than indigenous entrepreneurship.⁴⁷ Not by any specific cultural advantage or characteristic, but by using the links of relationship and trust created among the overseas Chinese diaspora, Chinese businessmen had been able to mobilize and protect capital and to establish themselves as entrepreneurs.⁴⁸ At the same time, overseas Chinese family businesses displayed familiar weaknesses from the past such as lack of separation of ownership and control. As businesses changed structurally in response to the demands of a constantly changing business environment, "family firms [became] family controlled corporations."⁴⁹ Even in the early twenty-first century, almost all large conglomerates in Southeast Asia continued to be controlled by family firms and showed little separation between ownership and management.⁵⁰ Chinese family businesses were still going strong overseas, and many of them were making their way back into a China under socialist capitalism.

⁴⁶ Parks Coble, *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937–1945*, p. 139.

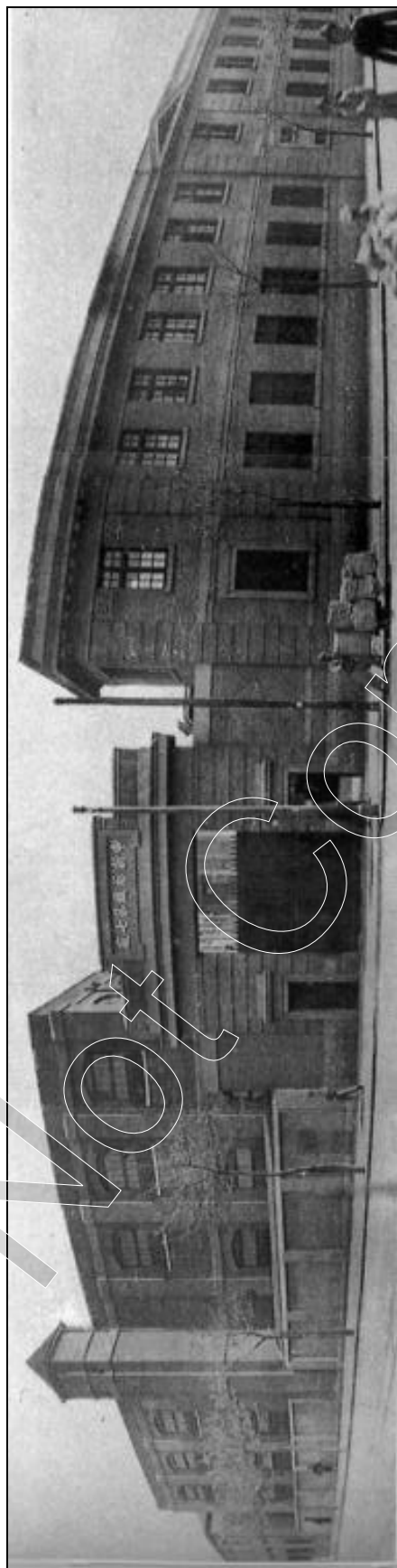
⁴⁷ Ruth McVey, "The Materialization of the Southeast Asian Entrepreneur," pp. 7–34, in Ruth McVey (ed.), *Southeast Asian Capitalists* (Ithaca, NY: Cornell Studies on South East Asia, 1992); and Rajeswary A. Brown, *Chinese Big Business and the Wealth of Asian Nations* (Houndsmill/Basingstoke and New York: Palgrave, 2000).

⁴⁸ Ruth McVey, "The Materialization of the Southeast Asian Entrepreneur," p. 20.

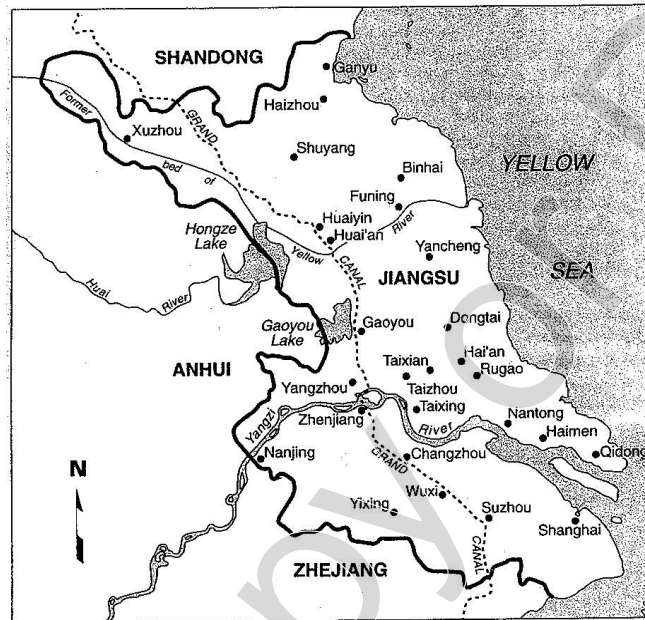
⁴⁹ *Ibid.*, p. 20.

⁵⁰ Jamie Mackie, "Changing Patterns of Chinese Big Business in Southeast Asia," pp. 161–90, in Ruth McVey (ed.), *Southeast Asian Capitalists* (Ithaca, NY: Cornell Studies on South East Asia, 1992), p. 183; and Rajeswary A. Brown, *Chinese Big Business and the Wealth of Asian Nations*.

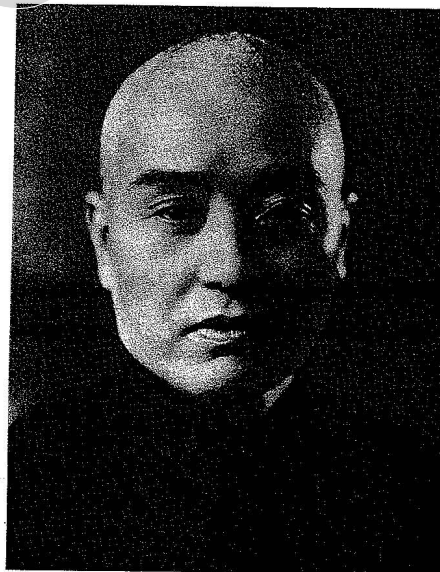
Exhibit 1 Shenxin No. 7 Mill in Shanghai, Republican Period



Source: <http://virtualshanghai.ishlyon.cnrs.fr/GetFile.php?Table=Image&ID=Image.ID.1425.No.0&Op=O>.

Exhibit 2 Map of Jiangsu Province, 1935

Source: Thomas G. Rawski and Lillian Li (eds.), *Chinese History in Economic Perspective* (Berkeley: University of California Press, 1992), p. 273.

Exhibit 3 Rong Zongjing, 1873–1938

Source: George Ferguson Mitchell Nellist, *Men of Shanghai and North China: A Standard Biographical Reference Work*, 1st Edition (Shanghai), 1933; 2nd Edition, 1935.