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Government and Entrepreneurship: The Evolution of Entrepreneurship in China

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Tarun Khanna, Professor at Harvard Business School, argues that the old equation that government = inefficient does not hold unilaterally but depends on the context. To illustrate, Khanna describes the evolution of the Communist Party of China and its efforts to co-opt entrepreneurs so that now the government and entrepreneurship is very closely integrated. In contrast, Khanna suggests that in India entrepreneurs keep their distance from the government.



Transcript

The point I try to make in this book is that the equation of government is inefficient is inappropriate: it depends on the context. In this context (China) it is turning out now that membership in the Communist Party of China, the one country in the world that you can't imagine a less communist country in the sense of communism's original meaning, but the membership in the Communist Party of China has gone from roughly 10 million ten years ago to 80 million today. So 80 million members today, more than the population of most South American countries I think or equal to that. 80 million members of the Communist Party of China. Why is this? This will tell you a little bit about the challenge that China will face going forward. The bargain that the Communist Party of China struck post 1978 when it opened the country up, with the citizenry was you guys should shut up when we don't give you your personal rights. In return we will make sure your tummies are full but we will do it our way and we will deliver on that promise. And I think it is very reasonable that the population took up that promise and said, "This is perfect," because everybody's first concern is to make sure they can feed themselves and their families. When that promise was fulfilled, the next bargain that the Communist Party offered was we will give you clothes and a roof over your head but you need to shut up, don't protest. That bargain was met.

Then they promised we will give you TVs and cars, and bicycles and motorcycles and mopeds and clean roads and trees on the roads. And that promise has been met on the Eastern seaboard, not in the rest and that has curtailed dissent. Not completely. Today the number of protests in China, the official count of violent protests in China today is 85,000. The Chinese Ministry of State has some long complicated name, I can't remember it now. The Ministry of Internal State Security publishes on its website that there were 85,000 violent protests in the major cities in China. The actual number, I don't know, I bet is more like 500,000 or something like that. So they haven't been able to contain opposition to the idea that personal freedoms can be violated as much as they used too. But now the question becomes, as we go forward, what do we promise? What can we promise now? We've given them all the material goods that are possible. And here is the brilliance of the party.

What the party has said is, we can't promise you anything more but if you are really upset come become part of the party. Or if you are really successful come become part of the party, come inside the tent and so now you have private entrepreneurs who are the most coveted members of the Communist Party of China. And the idea is very much that once we co-opt you, then you don't protest because you are part of us. The question in my mind is what races ahead faster, the material and

psychological and social and normal impulses of most human beings to be free or the party's drive to get more and more people within its tent. That's the open question for whether China capsizes or doesn't capsize. But as an end result, it is people who are members of the party who are often behind the best enterprises. And the idea that the government is the entrepreneur in China. It is the only entrepreneur. You cannot be an entrepreneur of any consequence in China without being a member of the government of China. And the opposite is true in India.

India is just a noisier version of the United States, you stay as far away from the government as you can if you really want to be an entrepreneur.