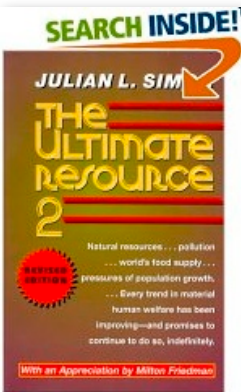




INSTANT CITIES AND THE RISE OF CHINA SEND US THE GIRL WHO CAN GET THINGS DONE

GREGORY F. REHMKE

The global downturn in late 2008 hit developing countries, including China. Over the past two decades textile and manufacturing firms in China expanded with stunning speed to become major suppliers of clothing and manufactured goods to the world. The vast expanse of new enterprises created jobs for hundreds of millions of previously impoverished farmers. Jobs are low-paid to start with, but teach manufacturing skills and wages rise steadily as worker productivity increases. Workers with new skills move quickly to work with more sophisticated machinery making higher-value goods for higher wages. The sudden fall in demand from the sputtering U.S. economy hit thousands of Chinese firms that were living on the edge, and threw millions out of work. Demand is recovering since 2008, as are Chinese firms.



Still, the people of China, like India, can look forward to a more prosperous future. These growing economies are among the best places

in the world to invest capital. Why invest where so many hundreds of millions of people are desperately poor? Because people, argued economist Julian Simon, are *The Ultimate Resource*. People are the driving force of world economies. People with access to tools, and the freedom and knowledge to use them, are the most productive force on the planet. It takes years of training to become a capable engineer, but the once machinery and software systems are designed, they can be deployed across the world and manned by ex-farmers whose on-the-job training gradually raises productivity, profits, and wages.



Trade and transportation networks advance decade by decade across continents and oceans. Mankind now conducts commerce through a richly diverse system of highways, railroads, ports, shipping lanes, airfreight, all guided by electronic highways offering nearly free voice and data communication. Julian Simon noted that human ingenuity creates resources, transforming rocks to resources and sand to silicon. *Capital*

is what economists call the tools and equipment that multiply production, allowing a few dozen people in a factory today to produce what took thousands a century ago. Capital in the form of machinery allows farmers in America's Midwest to harvest as much as a thousand farmers in India or China. And as modern farm machinery is deployed across India and China, millions are released for higher-value (and higher-paid) occupations. Labor-intensive factories move to China, where labor costs are low. Capital-intensive factories expand in the U.S. and Western Europe where labor costs and skills are higher.



American and European individuals, families, and firms invest billions to fund labor-intensive factories in China, while private and government investments from China flow to capital-intensive firms in the U.S. and Europe. After nearly three decades of strong economic growth and high savings rates, hundreds of millions of Chinese have their own capital to invest in China and around the world.

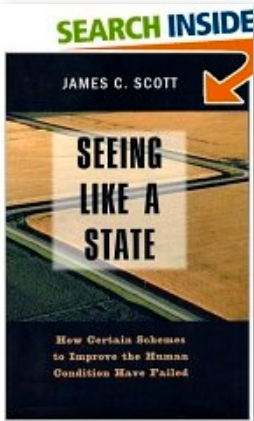
The complicated part for investors is finding the right Chinese enterprises to water with capital. If I could, I would invest in a single person: "the girl who can get things done." A glimpse of her life shines out from a fascinating *National Geographic* article: "[China's instant cities.](#)" (www7.nationalgeographic.com/ngm/0706/feature4/)

With *NG's* usual great pictures, the story gives us a landscape and lifescape as if from another planet, a bewildering eyewitness account of China's booming economy rippling out to once rural villages. Imagine a country where local government taxing authority is tightly restricted, and the main revenue source is selling land for development projects. People in government, like people everywhere, respond to incentives. Across hundreds (or thousands?) of Chinese cities and villages, bureaucrat developers have been leveling land as fast as they can summon dynamite and bulldozers.



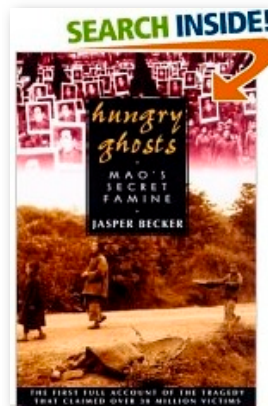
Petter Hessler's *National Geographic* story focuses on one factory's instant

birth in the Lishui Development Zone, in the southwest of China's Zhejiang Province. This 21,500 square-foot bra-ring factory is designed on a scrap of paper in a little over an hour.



The contractor, scrap of paper in hand, is asked at 3:48 pm if he can have a quote for constructing the entire building "this afternoon." Three months later the factory is complete and the main bra ring machinery tested. It doesn't work, but disassembly, tinkering, and reassembly gets things going. Next, handwritten signs advertising for workers are posted: "1. Ages 18-35, middle-school education, 2. Good health, good quality, 3. Attentive to hygiene, willing to eat bitterness and work hard."

The Lishui Development Zone emerged from 5.6 square miles of "rugged farmland" after leveling "108 hills and mountains." Launched in 2002, 30,000 migrant workers were hard at work in 200 factories by 2006. The Lishui Yashun Underdress Fittings Industry Co., Ltd. was just one. The firm quickly hired the 19 workers needed for operations and then took names for replacement workers. The next girl in line however insisted she be hired as well. She argued energetically and creatively with the factory boss's father, who was in charge of hiring. The employee list was then lengthened to 21 (since 20 was deemed an unlucky number), but she was warned "if the boss says 21 is too many, then it'll have to be 19." Hearing this, employee number 20 returned to the desk and, reports Hessler, "Five minutes later, her name was squarely in the middle of the sheet. When she finally left, the man shook his head admiringly and said 'That girl knows how to get things done.'"



Later Hessler learned *the girl who could get things done* had used her 17-year-old older sister's ID card, and was herself just 15. She was hard-working, competent, dreamed of running a shoe factory, and of building a nice home in her grandparent's village. "When I asked about the grandparents," Hessler writes, "the girl's eyes filled with tears, and then I didn't ask about that anymore."

Various books and movies can give us a better idea of what her grandparents' lives were probably like. For all the hardship of poverty in China today, it pales by comparison to the deeper poverty and famine experienced by recent generations.

Hungry Ghosts: Mao's Secret Famine, is filled with first-hand accounts of what happened in villages across China after farms were collectivized and various government industrialization schemes launched. In China, as in Africa and Latin America, enthusiastic government planners taxed

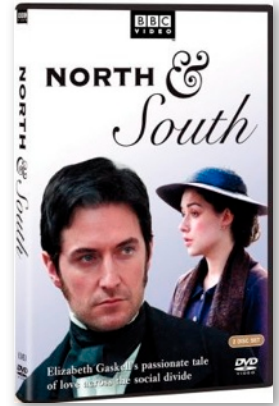
and confiscated agricultural goods to fund factories and manufacturing projects. Peasants everywhere were impoverished by these projects, which failed dramatically. The Chinese people, as the poorest, suffered the most. From 1958-62 whole villages even regions starved. At least 30 million people starved to death.

The scope of China's collectivization failure, as well as the failure of Soviet collectivization of agriculture was unfortunately unknown to the Tanzanian government when it pushed a Mao-inspired "Villagization" scheme in Tanzania. James Scott's 1998 book, *Seeing Like a State*, recounts the 1973-76 Ujamaa program that tried to modernize by resettled Tanzanians in model socialist villages. The program was at first voluntary, but the government gradually turned to coercion to force people to follow their development plans.

Government development plans during colonial times in Africa were failures, as were top-down Colonial and post-Colonial development projects in other countries. In China, India, Latin America, and Africa, government planner have been poor managers of economic development schemes. The hazy vision state planners have of the economy from the top looking down is distorted in key ways compared to first-hand perspectives of everyday people. Central planners lack the information needed to execute plans, they don't have and can't gather local knowledge and insight needed to know the best opportunities for successful enterprises.

Today's Chinese factory sweatshops are no one's idea of ideal. As the traditional pathway from poverty, they are as awful by today's standards as sweatshops were in England in the mid 1800s and in the U.S. in the early 1900s. (For an engaging look at industrialization in the English economy I recommend Elizabeth Gaskell's novel *North and South*, as well as the excellent BBC miniseries.) Those upset with poverty, inequality, and injustice in China today I don't think appreciate the truly stunning disasters this young woman's parents and grandparents probably lived through.

The Rise of China, William Overholt's 1994 book, though dated now, gives us a glimpse of pre-sweatshop China. I have long quoted Overholt's book from memory in various talks to students, telling of "the over 50,000 Chinese that lived in caves," and the "one-pants families" in villages so poor only one family member could go out at a time. This level of poverty seems impossible, so I recently checked the Internet and my copy of *Rise of China* to confirm. Turns out I



misremembered the numbers. An online source mentions 800,000 living in caves, and in *The Rise of China*, on p. 26, Overholt writes, “Even today [about 1992] about 40 million people live in caves in China's northeast, and the people in 520 of China's 1,903 counties have annual incomes below \$35 per person. Such desperate circumstances gave rise to the phenomenon of the one-pants family in many areas of rural China. The one-pants family, so widespread in China it was studied by Chinese sociologists--but never for publication in the west--is a family possessing only enough clothing for one member.”

This level of poverty is so incomprehensible, that I apparently kept lowering the numbers to a more plausible level with each retelling of the story. (Xi Jinping, China's likely next President, knows this first-hand: “At 15, Xi Jinping was sent off to the countryside, assigned to a rural commune in Shaanxi province where people lived in caves and did hard manual labor, in his case, farming wheat.” <http://articles.latimes.com/2010/oct/19/world/la-fg-china-xi-20101019>)

So yes, there is poverty and inequality in China today, but compared to what? Life before the reforms of the last few decades was unimaginably worse. *The Blue Kite* is one of a number of movies that give outsiders a glimpse of the turmoil Chinese people lived through during the Great Leap Forward (1958-60) and famine (1959-61), and then the Cultural Revolution (1966 to 1969, or, some argue, until the arrest of “Gang of Four” in 1976).

Capitalism and international trade are transforming China, even through layers of corruption. In the early years after the first economics reforms, tens of thousands of overseas Chinese returned to their villages to make small, then gradually larger, investments (40 million Chinese live outside China). “The first dozen years of foreign investment,” notes William Overholt, “attracted \$20 billion in foreign investment, including 30,000 individual ventures...” but “In 1992 alone, the government approved an additional 47,000 investment projects.” Well, 1992 was almost twenty years ago and for years now millions of wealthy and middle-income Chinese are investing their own savings in new enterprises.

International corporations poured money in through Beijing, but the real revolution was first at the village level as farmland privatized by 99-year leases awakened the entrepreneurial spirit in hundreds of millions of farmers. In one year after the reforms, China was transformed from food importer to food exporter. Small farmers still had to provide fixed amounts to their village government, but could keep, consume or sell surplus production. This created incentives to innovate, and to begin raising additional vegetables and other crops in demand. All across rural China through the following years, small roadside stands and village markets expanded.

In the fascinating 1993 movie, *The Story of Qiu Ju*, you can see the

growing prosperity of a farming family. Rural families are growing and selling peppers in area markets, so now have money to buy small items and live better lives. Qiu Ju, a farmer's wife, is determined to find justice in the new Chinese legal system for her husband who was struck and injured by a local government official. This story line would be unlikely before market-reforms that opened the door for economic growth in China.

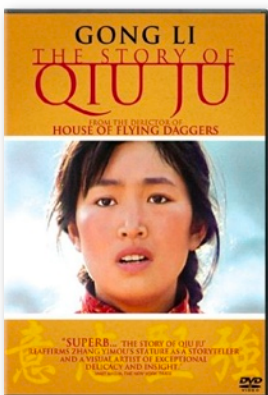
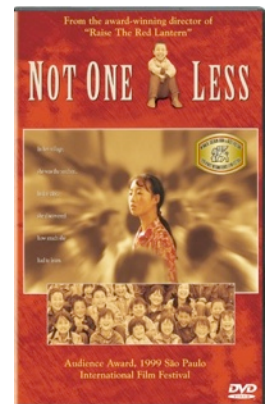
After land reform and rural economic growth, the Chinese government, under Deng Xiao Ping, allowed small and decentralized investments in early free-enterprise zones in the south and along the coast. From there, knowledge, capital, and economic opportunity spread among impoverished hard-working Chinese, where even limited economic opportunity has been like kerosene poured on a fire (with property rights and contracts as the oxygen).

So somewhere in China is “the girl who knows how to get things done.” She is working long hours, pushing her productivity higher, and probably bargaining hard to capture a high percentage of the wealth she is creating. And if she can't win higher wages she will walk to the next factory and insist on being hired there.

Many seem to think wages are low in China because so many tens of millions are looking for work, or because corporations “exploit” workers. Wages are low in China because Chinese people long lacked opportunities to develop the manufacturing and service skills that brought prosperity to Chinese everywhere outside China. Now a billion plus people inside China are working long hours to make up for decades lived under communism.

Wages are being driven up by productivity gains and competition for skilled workers between tens of thousands of factories. Workers-who-can-get-things-done are both working and watching. They can share insights to raise productivity and wages, or they can jump ship and with savings or borrowed capital put their ideas into action by starting their own business.

Whether mixed-up incentives will lead local Chinese governments to develop too many debt-funded industrial zones or housing developments is hard to tell. How many Instant Cities are enough? That depends I think on how many in China are willing “to eat bitterness and work hard” to put poverty behind them.



Gregory Rehmke (grehmke@gmail.com)
www.EconomicThinking.org

P.S. *Not One Less*: An insightful look at rural poverty in China, and the attraction of opportunities in cities.