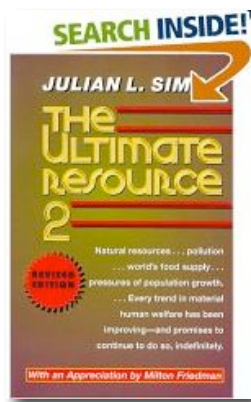


Instant Cities and the Rise of China

Send Us the Girl Who Can Get Things Done

Gregory F. Rehmke

Is China still a good place to invest? Sure. Maybe the best place in the history of the world. People, noted economist Julian Simon, are *The Ultimate Resource*, and China has the most with still a low capital-to-people ratio. Simon emphasized that it has always been human work and ingenuity that transforms rocks to resources and sand to silicon. *Capital* is what economists call the tools and equipment that multiplies production, allowing a few dozen people in a factory today to produce what took thousands a century ago. Labor-intensive factories move to China, where labor costs are low. Capital-intensive factories develop in the U.S. and Western Europe where skills and security are high.



American and European individuals and firms invest billions to fund labor-intensive factories in China, while

Chinese individuals and firms invest billions in capital-intensive firms and service industry firms in the U.S. and Europe. After nearly three decades of strong economic growth and high savings rates, tens of millions of Chinese now have their own capital to invest.

The complicated part is finding the right Chinese enterprise to water with outside 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 recent *National Geographic* article: [“China's instant cities.”](http://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 still-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 are 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 the building quote “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.”

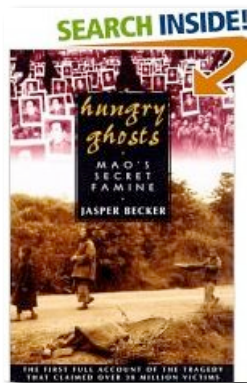
The Lishui Development Zone emerged from 5.6 square miles of “rugged farmland” after leveling “108 hills and mountains.” Launched in 2002, 30,000 migrant workers were hard at work in 200 factories by 2006. The Lishui Yashun Underdress Fittings Industry Co., Ltd. was just one. The firm quickly hired the 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.’”

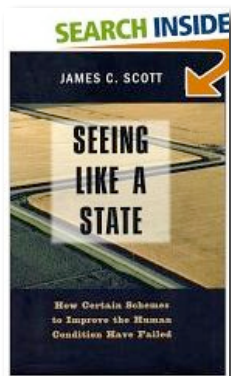
Later Hessler learned *the girl who could get things done* had used her 17-year-old older sister's ID card, and was herself just 15. She was hard-working, competent, dreamed of running a shoe factory, and of building a nice home in her grandparent's village. “When I asked about the grandparents,” Hessler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

Various books and movies can give us some sense of what her grandparents' lives were probably like. For all the hardship of poverty in China today, it pales against 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, foundries, and manufacturing. 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.



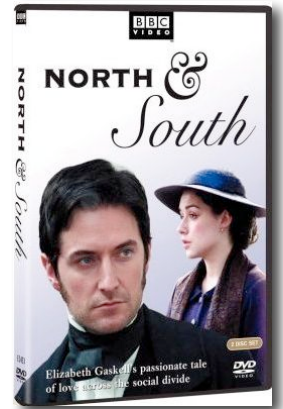
The scope of China's collectivization failure, as well as the failure of Soviet collectivization of agriculture was unfortunately unknown to the Tanzanian government when it pushed a Mao-inspired “Villagization” scheme in Tanzania. James Scott's 1998 book, *Seeing Like a State*, recounts the 1973-76 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.



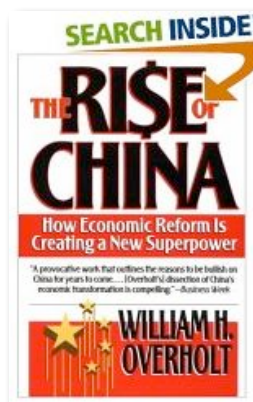
Government development plans during colonial times in African were failures, as well foreign-aid funded development projects in other Sub-Saharan countries. Both in China and African, governments has proven themselves to be poor managers of top-down economic development schemes. The way state planners see the economy from

the top looking down is very different than the perspective of everyday people looking up and around. Central planners like the information needed to execute plans, they just don't know and can't know what the best opportunities are for economic development.

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 1800s and in the U.S. in the early 1900s. (For a detailed look at industrialization in the English economy I recommend Elizabeth Gaskell's great novel *North and South*, as well as the recent BBC dramatization.) 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 in China.



The Rise of China, William Overholt's excellent 1994 book, 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, but I just checked the internet and the book 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 possession only enough clothing for one member.”

This level of poverty is so incomprehensible, that I apparently kept lowering the numbers with each retelling of the story.

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 everyday 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 to arrest of “Gang of Four in 1976).

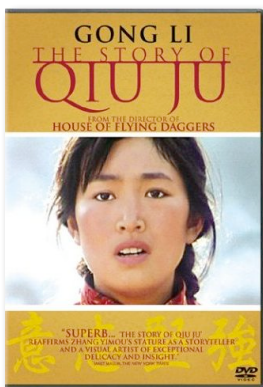
Capitalism and international trade are transforming China, even through layers of corruption. In the early years after the first economics reforms, tens of thousands of overseas Chinese returned to their villages to make small, then gradually larger investments (40 million Chinese now live outside China). “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 15 years ago and 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 China was transformed from food importer to food exporter. Small farmers still had to provide fixed amounts to their village government, but now they 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. They are growing and selling peppers in area markets, so now have money to buy small items and live



better lives. Qiu Ju, the 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 seem unimaginable before market-reforms that opened the door for economic growth in China.

After land reform and rural economic growth, the Chinese government, under Deng Xiaoping, allowed small and decentralized investments in early free-enterprise zones in the south and along the coast. From there, knowledge, capital, and economic opportunity is spreading among impoverished hard-working Chinese, where economic freedom is like kerosene poured on a fire (with property rights 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 have lacked the economic freedom 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 a communist dictatorship.

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 with their own business.

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

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