

Fast Boat to China

Introduction

China's nonstop growth is now on everyone's lips, and the loose talk, once again, is about a threat from the East. For political hawks, the menace is a military one. For the environmentally minded, it is the high toll on global energy supplies and other natural resources. For national policymakers, the specter comes in the form of lopsided trade balances between China and more developed countries, or of the Chinese takeover of their national assets. And for those who work in industry and services vulnerable to offshoring, it is the loss of their livelihoods that has raised the alarm. Scaremongers have been exploiting Yellow Perilesque fears for well over a century, and the recent uptick proves that reserves of anti-Chinese sentiment are far from exhausted. Though they are often alarmist, the widespread concerns about China's economic development are not groundless. Prices on the retail shelves and at the gas pump, job security in the workplace, mortgage interest rates, and the career prospects of our children are only some of the things that are directly affected by the pell-mell transformation of China's economy and society.

But if this breakneck growth is a threat, it is not because Beijing harbors sinister ambitions for its industrial expansion. The real problem, as this book argues, is that China is playing host to the largest, and most corrosive, environment for offshore labor in the global free-trade economy. For more than a decade it served as a fast-track incubator for

foreign investment in the low-wage export sector, cocooned from accountability to any principle not devoted to raw profit. In the last few years, as I describe in detail in these pages, investors have moved further up the value chain, in hopes of reaping the same offshore harvest from technology-driven manufacturing and white-collar services. Increasingly, these investors are global corporations, outsourcing skilled jobs and high-tech capital from developed countries with much firmer labor and environmental standards. Because of the temporary scarcity of skilled Chinese workers, companies are finding these new high-value sectors difficult to staff. Corporate managers cannot hold on to experienced engineers, project managers, and professional talent, and so wage inflation and job-hopping are endemic. But, while conditions are undeniably better than in the low-wage sweatshops of the export factories, the industrial relations are not appreciably different. Both skilled and unskilled workplaces share a climate rife with distrust and disloyalty on the part of employers and employees alike, chronic labor turnover and flightiness, extreme wage pressure from the threat to move to cheaper locations, and the shredding of economic and social security in the communities where investors have set up shop.

Free-trade zones in other developing countries have hosted much the same kind of cynical, runaway culture. So why is the China case so alarming? The answer lies not just in the jumbo scale of operations, but also in its all-encompassing spread. China is leapfrogging so fast up the technology curve it is attracting the highest-level investments—in product design and innovation, for example—from industry leaders. In the most telling development, the number of foreign-invested research and development (R&D) centers jumped from 200 to 600 in a space of only two years, from 2002 to 2004, when firms in a broad spectrum of industries followed the initiative of global first movers like GE, Microsoft, Honeywell, IBM, Ericsson, Bayer, and GM.¹

No industrializing country has ever been able to compete for the top-end slots at the same time as it absorbs jobs lower down the production chain. Policymakers in advanced nations worry about the flight of jobs and capital at the higher end, but the problem is much greater than this. To command this spread—from the lowest assembly

platform work to the upper reaches of industry and services—is to be in a position to set the global norm for employee standards as no country has before. Given the chronic disregard for job security and workplace rights in China's foreign-invested private sector, such a norm is a clear threat to the stability of livelihoods everywhere.

Again, let us acknowledge that this is not a threat hatched in Beijing. If China did not provide the most currently profitable mix of authoritarian governance, cheap, abundant labor, and investor-friendly policies, it would be sought out elsewhere. Though such conditions would not exist without government cooperation, the primary beneficiaries are global corporations. They stand to profit most from the normalization of an environment where jobs and capital can be transferred at a moment's notice and with complete impunity. If corporations cannot be held to consistent standards and responsibilities—and the working reality of offshore free trade does not demand any of these—then ordinary people in every corner of the globe will be at a loss to salvage any control over their futures and that of their communities.

We are only just beginning to understand how much our lives are touched by the rise of the Chinese and Indian economies. This sense of a mutually entwined destiny can rightfully be attributed to the impact of economic globalization as it has proceeded under the banner of free trade. But are we fully aware of who benefits and who loses? Should we assess neoliberal trade policy on its proven record—often catastrophic—in countries around the world, or wait to judge it in the long term, as its boosters insist? Many armchair critics have had their say on these questions. Research on the ground is less easy to come by, however, and least of all in China, the largest of the world's national economies to be jump-started by foreign investment and trade liberalization.

This book offers such research. It is based on field interviews with skilled Chinese employees and their managers in foreign-invested operations in Shanghai and the Yangtze Delta—the nation's fastest-growing regional economy—as well as in other parts of the mainland and Taiwan. The corporations that own the facilities I visited are the ones responsible for outsourcing jobs and skills from their home countries.

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Their local employees, as I discovered, fear the fate doled out to their counterparts in East Asia, the European Union, and the United States, and most of them expect that their own time will come, when investors move on in search of a cheaper and more vulnerable workforce. They have no reason to trust their current employers, and few means to negotiate other than to emulate the footloose ways of the foreign bosses.

In factories and offices across the region, I found skilled employees with a savvy analysis of how the global production chain operates. They knew their place within it, though they were not always aware of how employers played them off against their counterparts in other regions. In any case, since they lacked effective channels of communication, never mind solidarity, with peers in those other locations, they were helpless to do much about it. These workplaces were still a novelty in China's private sector, and so it was tragic to come across the same intensity of work pressure and anxiety in Shanghai as in Taipei, Singapore, London, São Paulo, and San José. Everyone, everywhere, is working longer and harder.

The conclusions I reached in my inquiry differ from those of Thomas Friedman, probably the best-known journalist advocate of unfettered free trade. His recent book, *The World Is Flat*, also analyzes the contribution of offshore outsourcing to the economic rise of China and India, where he pays some visits. For Friedman, the deregulated conduct of global corporations is justified, and there is no alternative to the world of cutthroat competition between their workers in emerging economies and those in developed countries. As he puts it to his daughters: "My message to them is very simple: Girls, when I was growing up my parents used to say to me, 'Tom, finish your dinner. People in China and India are starving.' I say to my girls, 'Girls, finish your homework. People in China and India are starving for your jobs.'"² Friedman wants us to dwell on the contrast between his and his parents' comments. But what's more striking is how little has changed. In both cases, it's all about how affluent folks in the global North have to monopolize resources—food or knowledge—lest those less fortunate in the global South make off with them.

Friedman's flat world is governed by cutthroat competition. If work-

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ers in the developing countries win, then his daughters and their peers lose. The only option is to adapt to free trade rules that have been written explicitly to exploit distrust between people on different sides of the globe. The rules are seen as unalterable, and everyone is potentially expendable. Yet the price of accepting this thinly veiled social Darwinism is far too high. Job pressure offshore, as the Chinese testimony in this book shows, is no less severe than the anxiety experienced by those onshore. Almost everyone loses in the long run. We must not forget that there are global alternatives to the game of free trade. They come in the form of fair trade, sustainable development, and internationally recognized labor rights. But, so far, the Chinese workforce—barred by their government and employers from free association, independent organizing, and access to the global justice movement—have not been allowed to embrace them. If these alternatives are to succeed, then trust, cooperation, and solidarity will have to replace zero-sum competition as the guiding spirit of our engagement with China.

Open Doors

U.S.-China trade relations are a key part of the story told in this book. To give the reader some historical perspective on the topic, let me recount the contents of a volume—*A Guide to Nearly 400 Companies Interested in Developing Trade Between China and the U.S.A.*—that I came across while browsing through the private library of one of Shanghai's most prominent American residents. The firms featured in its pages ranged from renowned national corporations to obscure small-town enterprises, and there were more than sixty industries represented in its listings of almost 2,000 products and services. The goals of the publisher, the China-America Council of Commerce and Industry, were described as the removal of trade barriers, the encouragement of private enterprise, and "the transfer of American industrial techniques to China." American companies, the directory announced, were lining up to help reopen the door to U.S.-China trade, but they would not be coming at any price. Indeed, the council was calling for the following conditions in return for U.S. trade: nondiscriminatory tariffs and trade agreements; "adequate" commercial legislation along with

trademark, copyright, and patent protection; “equitable and reasonable” taxation; the creation of “commercial arbitration machinery”; and the “development of China’s exports as a basis for expanding her imports.”³

Going on this information alone, the reader could hardly be faulted for assuming that this slick promotional guide was a recent publication. Yet the date on the cover was 1946, and the “closed door” of foreign trade mentioned in the guide’s preface referred not to the communist state’s command plan, but to a Japanese occupation that had endured for eight years. The Glemby Company of New York (“the largest importer of human hair and human hairnets”) was one of the many listed firms to present itself dramatically as a steadfast Friend of China. Its supersized ad lamented that “China’s ruthless enemy had halted her progress and her industries,” and went on to promise that “we are returning to rebuild anew with a genuine hope that our growth will aid in the development of a Greater China.” As an importer, Glemby was a distinct minority in these pages. The vast majority of firms were pitching their U.S.-manufactured products to the China market or angling for contracts for the reconstruction of China’s cities and industrial plants. As it happened, the opportunity to bid on the contracts lasted only a few years. For foreign corporations, the open door would swing shut for the next thirty years with the onset of the Korean War.

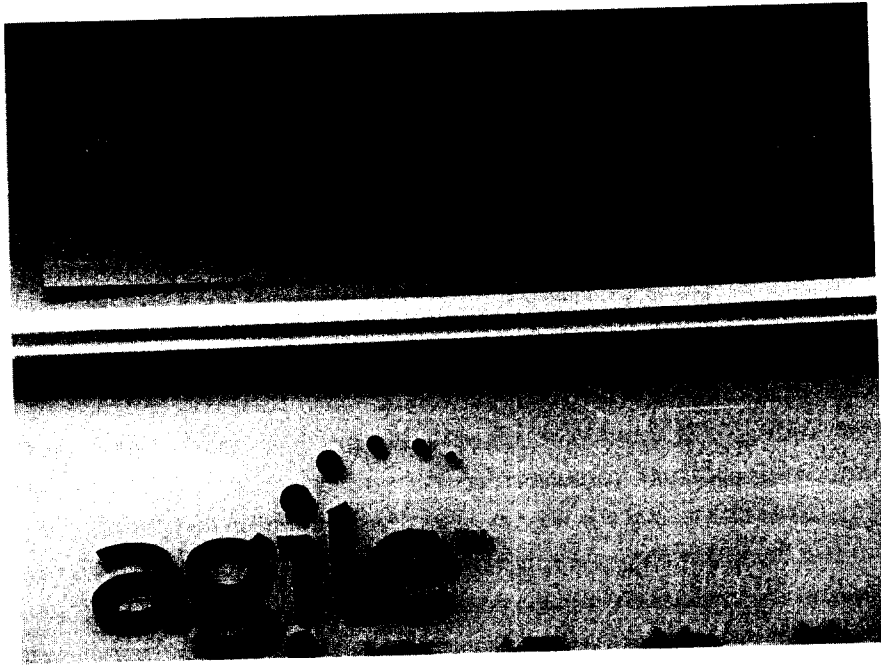
The roll call of the 400 companies in the guide is a sober reminder of the sheer regional diversity of U.S. manufacturing as it existed at the dawn of the golden age of the American corporation. Sixty years later, many of the names are history. Today, Glemby hairnets are collector items in vintage flea markets. As a result of controversial free-trade policies, a goodly number of the better-known firms have shifted offshore and are exporting profitably to the United States from their affiliate factories in China. Many of the American towns and cities where they once provided stable, long-term employment are in pretty bad shape. So are their ex-employees, especially if the loss of a decently paid manufacturing job has resulted in a sizable wage reduction in some new service-sector job, as is the most common experience.⁴ With the exception of a few fat years in the late 1990s, the real wage of the average American worker has been declining steadily since its postwar peak in 1973, around

about the time that offshoring began. Among the other losers are the smaller domestic manufacturers who cannot afford to move offshore, and who are increasingly asked to match the “China price” of imports. In many cases the China price is below the cost of their materials.

In 1946, China’s exports to the United States were limited to the commodities listed in the guide: spices, teas, bamboo, rattan, porcelain, silk, mohair, porcelain, and tung oil. Today there are very few goods of any kind that are not produced in China, and in the coming years, everything else will be. By contrast, aside from aerospace products, medical equipment, and plant machinery used to build factories, the leading U.S. exports to China are items like fertilizers, oil seeds, wood pulp, cotton, fats, waxes, grains, and raw animal hides. The two nations are well on their way to neatly swapping their trading profiles, and U.S. multinational firms are in no small measure responsible for this reversal. Indeed, the most relevant places to find their names listed today are in the ever-swelling directories of the American chambers of commerce of Shanghai, Beijing, or Guangzhou. Each fresh entry is a record of a new operation, facility, or office that has been transferred from a higher-cost country. The newer names reflect the march up the value chain that has characterized the most recent rounds of offshore investment in China; increasingly they represent the sectors of precision and high-tech manufacturing, biomedicine, information technology (IT), telecommunications, and financial and professional services.

Skilled employees everywhere have reason to be wary of this rapid advance into the high-value sectors. There are fewer and fewer kinds of jobs, in principle, that cannot be sent out on the fast boat to China. Job loss is not the only source of worry. The size and speed of China’s buildup requires an imported supply of raw materials that is taking an unsustainable toll on the world’s natural resources. Commodity and energy prices all skyrocketed in 2004, as China’s growth sucked in more than 8 percent of the world’s petroleum, 10 percent of its electricity, 19 percent of its aluminum, 20 percent of its copper, 31 percent of its coal, and 33 percent of its steel.⁵ In China itself, almost every city suffers from rapidly deteriorating air quality, as well as chronic water and energy shortages. No less sustainable is the fragile dependence of the United States’ own massively indebted economy on Beijing’s hefty

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An American IT company promotes its offshore services

annual purchase of dollar assets (\$200 billion worth in 2004, and an estimated \$300 billion in 2005) in the form of holdings like U.S. Treasury bonds.⁶ In one of the most precarious trading arrangements in modern times, the world's "consumers of last resort" are relying on low-interest loans made available by Beijing's foreign-exchange earnings to go on buying goods exported from China. Not even the most ardent pro-free-trade economists believe this coincidence of interests (it is not a result of common interest) is a durable formula for stabilizing the global economy. Meanwhile, China's near monopolization of foreign investment flow has had a fundamentally depressing impact on the prospects of every other developing country.

Concerns like these have been relayed into acres of newsprint about the steepening curve of Chinese ascendancy, habitually depicted as a "threat." Some of this coverage fuels the same kind of virulent reactions that greeted the rise of Japan as an industrial superpower a quarter of a century earlier. Recent Chinese efforts to take over American compa-

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nies have amplified the anxiety: Lenovo bought out IBM's PC division, Haier made a bid for Maytag, and, most sensitive of all, CNOOC tried to buy the Unocal oil corporation. Unlike Japan in the 1980s, China today is portrayed as a strategic rival by American hardliners, and so public fear about a new Asian Leviathan can all too easily be manipulated by those looking for a whipping boy. As a result, relations between Washington and Beijing are periodically fraught, and are tempered only by the growing commercial and financial interdependence of the two countries. But there is one other important difference between the resurgence of these two Asian nations. While Japan's rise was primarily home-grown, the hand of foreign corporate investors in China's recent growth is all too visible, and has provoked quite a sharp response in their countries of origin.

The Price of Nationalism

Consider the case of Lou Dobbs, CNN's top business analyst, who made a highly popular decision, in early 2003, to turn his nightly TV show entirely over to jaundiced reports about U.S. corporate outsourcing. For this "lifelong Republican," who had been staunchly loyal to the cause of free enterprise, the spectacle of unpatriotic American firms rushing to transfer jobs overseas prompted his conversion into a zealous critic of corporate greed. It also earned him the hostility of powerful sectors of the organized business community. Dobbs's CNN web page began to keep track of the 1,000 American companies that were "either sending American jobs overseas, or choosing to employ cheap overseas labor, instead of American workers." (No government agency had recorded or collected any such information.) *Exporting America*, the book that complemented this web hall of shame, was even more caustic. Blatantly nationalistic, it deplored the loss of the country's knowledge base, its technology, and its middle-class livelihood, and indicted "U.S. trade policies that haven't worked for three decades" and darkly warned against the "tight embrace" between "government and big business."⁷

Keeping company with Dobbs's 2004 election-year book was *Wh*

the Right Went Wrong, Pat Buchanan's most recent broadside at the "economic treason" of free-trade policymakers.⁸ The most well-known right-wing convert to the cause of bashing global corporations, Buchanan's pitch for America First also included a helping of the anti-immigrant, anti-foreign sentiment that has often accompanied expressions of economic nationalism in U.S. history.⁹ That record of chauvinism (and China-bashing has been its most persistent, and loathsome, form) is not, however, the sole preserve of conservative Christian fundamentalists like Buchanan. American labor unions, for example, have not been averse to exploiting anti-foreign sentiment in the effort to protect their members' jobs. China-bashing still has its uses within the AFL-CIO, just as it does for factions of the Democrat and Republican establishment. The result is unfortunate. What should be a clear-eyed focus on corporate responsibility for the grievous impact of capital flight and job transfers all too often gives way to a blame game in which scapegoating the Chinese serves some convenient political agenda or else assuages a generalized sense of personal hurt.

In a globally integrating economy, where barely anything is 100 percent nationally produced, and where hypermobility across borders has become a reality of economic life, there is little to be gained from any kind of crusade that promotes Us versus Them. Those guaranteed to lose the most are workers, whether unskilled or highly trained, who pit themselves against their overseas counterparts. For this is exactly the profit-happy game—economists call it "global labor arbitrage"—that multinational corporations have been playing for some decades now.

Despite growing public recognition of how domestic livelihoods have been damaged by free-trade fundamentalism, there is little awareness about the very similar challenges faced by overseas employees who are the presumed recipients of offshore job transfers. Lack of information makes it easier to blame the faceless foreigner who "took" the job, and that person, increasingly, is a stereotypical Chinese. The lives and attitudes of the Chinese employees in question are either taken for granted or entrusted to the least tolerant sector of the public imagination. While Americans have been fixated, for example, on domestic job loss, most are unaware that China has lost many more millions of jobs

in the last decade, whether from the closure, restructuring, or sale of state-owned enterprises (with a further one-third of all state employees expected to be laid off in the next few years) or, more recently, from the pressure of World Trade Organization (WTO) requirements on farmers.¹⁰ In fact, Chinese job loss is just as much the result of corporate globalization and neoliberal privatization as is U.S. job loss. In addition, the creation of a vast, floating pool of unemployed—as many as 150 million, mostly farmers—poses the same kind of threat to Chinese trying to hold on to their jobs as the threat of corporate offshoring does to U.S. employees. Because their prospects are now umbilically linked, the bread and butter of Americans is affected not just by workers' opportunities in China's well-developed coastal cities, but also by the job hunger of underemployed peasants in inland and western provinces, already earmarked as the next frontier for buccaneering foreign corporations.

One of the motives for writing this book was to put a human face on the job traffic that is usually summed up in U.S.-China trade statistics or in the latest employment figures. Little is known about the aspirations, fears, and beliefs of employees in China's transitional economy, not even those working for foreign firms who are the focus of this book. In the profiles drawn from my interviews with the latter, readers will encounter some emergent types—the "great Chinese engineer," the patriotic techie, the *xiaojie* (or "white-collar miss"), the self-directed professional, and the gray-collar worker, all of them working under expatriate managers from Taiwan, Singapore, India, Malaysia, Japan, the United States, and the European Union. As my research revealed, these mainland employees are all too often stereotyped by foreign managers who arrive with expectations of a compliant workforce and a fast profit. Consequently, managers tend to attribute most workplace conflict to cultural differences. In their mind, the Chinese have not yet become "modern individuals," and are still locked into a collective mind-set shaped by centuries of authoritarian discipline. In other words, their potential to become ideal corporate material is handicapped by local cultural traits.

There surely are such differences, yet I found that the conflict often

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has more to do with the unpredictability of a new industrial environment where the rules of work are not yet fixed in place. What managers expect and what employees are willing to give is by no means a settled matter. Nor is the outcome a matter of purely local concern, relevant only to those with an interest in the regional labor market. China's key position in the global economy means that everyone has a stake in the result of this informal bargaining.

To gather evidence, I spent the best part of a year interviewing inside foreign-invested enterprises in Shanghai and the Yangtze Delta. Most were located in the industrial corridor that runs from Shanghai's shiny new urban center of Pudong on the east coast to the ancient upriver cities of Suzhou and Wuxi.¹¹ For technology-driven firms, where I did most of my interviewing, the supply chain in this corridor is almost complete. The Lower Yangtze is rapidly replacing the Pearl River Delta as the country's primary economic engine, and the lion's share of its foreign direct investment is flowing into the production of higher-value goods than are being made in the predominantly labor-intensive factories of the south. Indeed, the Yangtze Delta economy is increasingly the high-tech core of China's claim to be "the world's factory." Shanghai's own booming service sector is spearheading China's less plausible aspiration to challenge India in also becoming the "world's office." Because all of this growth is based on comparative advantage in Asia as a whole, researching the book also took me to Taiwan, the west of China, and India to see how companies played workers off against each other in regions with a lesser cost differential than with the United States.

Work and commerce in East Asia increasingly bears the footprint of corporate free trade, and it is especially visible in a resurgent city like Shanghai, which is being groomed to be the next financial capital of the Asia-Pacific region. In Shanghai, I sought contacts within the American business community that is a primary outpost for the free-trade traffic. Formal interviews and many hours of social chitchat with officers and members of the American Chamber of Commerce helped me document the psychology of the city's corporate expatriates during a turbulent period when outsourcing CEOs were being branded as

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"Benedict Arnolds" by presidential contender John Kerry. Through my access to the Chamber of Commerce, I was able to track how this far-flung colony played a strategic role in influencing Washington's policy on the all-important China trade.

Running Out of Workers?

Shanghai's foreign investors are itching to transfer high-end manufacturing operations—such as product engineering, design, and R&D—into the Yangtze River Delta as fast as they can. The chief barrier to accomplishing these transfers is not the widely acknowledged concern about theft of intellectual property. The real obstacle, as I found out, has more to do with the difficulty of finding an adequate labor supply at the right price. From the moment I began to mingle with Shanghai's foreign businesspeople, I heard managers' complaints about the high cost of local wages and the scarcity or disloyalty of qualified employees. This flew in the face of the given wisdom that investors were flocking to China for its cheap, abundant labor supply. It seemed as if almost every scare-mongering newspaper story about outsourcing mentioned the 400,000 engineering graduates being turned out of China's universities annually. How could honest Americans compete, the stories implied, with this colossal industrial army of skilled workers? The answer, it appeared, was by no means straightforward.

Some of the reasons for the skilled-labor scarcity were technical, and could be applied to any local labor market governed by supply and demand. Others had to do with "Chinese characteristics": the declining birthrate in a one-child culture, for example, or the deviation from corporate norms produced by local customs, or the unfettered self-interest bred by novel exposure to economic pressure and opportunity alike. But increasingly the stories I was hearing about the dearth of employee loyalty suggested that something else was involved. Economic globalization, it appeared, was beginning to yield some unforeseen kinds of behavior on the part of workers.

Since it is now the world's largest recipient of foreign investment (having overtaken the United States in 2003, and netted more than

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\$60 billion in 2004), China is often seen as a primary beneficiary of corporate-led globalization. Yet the flightiness of multinational capital is no longer a secret, not even to the ordinary Chinese who watch the multimillion-dollar investments pour into their cities by the month. They have formed their own expectations from watching how corporations come and go in other countries. Many of the employees I interviewed saw little reason for loyalty toward managers who they believed were unlikely to be their bosses for very long. Soaring turnover in the private sector—I found rates of up to 40 percent in some high-skill precincts—is perhaps the most obvious indication of this attitude. In their ceaseless pursuit of the cheapest and most dispensable employees, multinational firms have made it clear they will not honor any kind of job security. Hooked on the habit of job-hopping, it looks as if workers in China's transitional economy might be returning the disrespect. In stark contrast to their weak ties to employers, loyalty to China itself, and the grander goal of growing the nation out of its technological dependence on foreign expertise, is a much more common cause of the allegiance of the skilled workers who appear in these pages.

At the low end of the labor market, among migrant workers who travel great distances from their inland homes to work on the coast, workplace bonds are especially thin. All over the developing world, low-wage export zones have seen high turnover rates, but in China any significant shifts in employment patterns are greatly magnified by the sheer scale of its workforce, and are more visible as a result. In 2004, after the annual week-long Spring Festival holiday, more than 2 million migrants (10 percent of Guangdong province's workforce) failed to return to the Pearl River Delta's export-processing factories in South China. Turnover is always up at this time of the year, but these numbers were unprecedented. Given their net impact, this was one of the most massive unorganized withdrawals of labor in recent times. It was quite different in character from the waves of workers' protests that had risen "like a violent wind" (in the description of the Ministry of Public Security) since mass layoffs in the state sector began in 1997.¹²

Domestic commentators rushed to explain the no-show, pointing to deep discontent with decade-long stagnant wage levels, the rising

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Some of China's 150 million migrant workers, outside the Suzhou railway station

cost of living on the coast, the absence of legal protection, and substandard workplace conditions that are notoriously hazardous to workers' health.¹³ Some cadres took the occasion to praise the government's recently implemented tax relief for farmers, which had made the prospect of scratching out a living on the land preferable to staffing the sweatshops of Guangdong and Fujian.¹⁴ The Ministry of Labor and Social Security interpreted the outcome as a collective act of resistance to the illegal factory conditions, and publicly called on South China's employers to heed the nation's labor laws. The region's export contractors, most of whom competed on razor-thin margins, were forced to recruit on the basis of the pathetic slogan "paying wages on time."¹⁵ This was a response to China's biggest labor problem: the back wages owed to migrant workers.¹⁶ Emboldened by seeing employers at a disadvantage, workers continued to walk out and wildcat strikes spread, and the aggrieved flocked to legal aid centers that were increasingly handling labor disputes as part of the country's rocky transition to a rule of law.¹⁷ Despite government efforts to alleviate the shortage, and

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increases in the minimum wage of up to 30 percent, the shortfall in 2005 was similar if not worse, with many workers heading east toward the better conditions in Shanghai and its satellite cities.¹⁸ As South China's multitude of small firms went into crisis mode, the international business press raised the alarm. *BusinessWeek* dutifully asked, "Is China Running Out of Workers?"¹⁹

How could this be in a country with such a bottomless supply of workers, and with so many unemployed and "floating" in search of work? While some demographers cite the declining birthrate as a possible explanation,²⁰ the most immediate reason is that foreign investors in the labor-intensive export sector only want to hire teenage girls (*dagongmei*), the cheapest, most pliable, and most expendable members of the workforce. So, too, in higher-skilled jobs, only those who are freshly graduated or who have some experience with international business and work practices need apply. The millions of workers who are skilled but who have worked for a state-owned enterprise are considered damaged goods, incapable of being retrained for the more punishing discipline of a capitalist work ethic. The labor shortage, then, is shaped by managerial requirements that are set by bias, and tailored to the maximum exploitation of the young and vulnerable. But even within the bounds of the labor pool considered acceptable, even among the ranks of workers who meet these selective standards, corporate managers are confronted with employee unreliability rather than the "flexibility" they would have preferred to see.

Readers of this book may find evidence, though not conclusive proof, that the easy international mobility enjoyed by capital-owners may be creating a workforce in its own mirror image: employees who simply will not commit. They are the flip side of the expendable workers whose jobs can be transferred or outsourced overnight, and they are nothing if not creatures of globalization. Indeed, the college-educated employees who feature in these pages have a carefully calculated sense of where their skills fit in the global industrial chain, relative to the high-wage West and to their counterparts in East Asian locations. As a result, they know exactly what they are worth to their employers of the moment. Many of them also know they are in the right place at the right time. Knowledge of this sort provides some leverage. In some

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cases—engineers with a few years of experience, for example—the result is an upward wage spiral that is plaguing their employers.

On the other side, local and central government cadres are pulling every power lever they have to ease the bottleneck and provide foreign investors with what they want: an abundance of skilled labor at a discount price. This is the latest in a long list of favors that officials in developing countries have had to offer as part of what is misnamed "free trade." Investors have come to expect a never-ending welcome parade of tax holidays and exemptions, acres of virtually free land, state-of-the-art infrastructure and telecommunications, discounts on utilities and other operating costs, and soft guarantees that labor laws and environmental regulations will never be seriously implemented. To stem corporate flight to China, officials in onshore locations have been forced to offer similar giveaways, further depleting the tax base of cities and counties in many countries in the OECD (Organization for Economic Co-operation and Development). Until recently, favors like these have pandered to companies looking to manufacture on the cheap. Now the model is being upgraded to suit the needs of those investing higher up the value chain.

If a surplus pool of talent materializes, and the current wage inflation is brought under control, then the way will be clear for corporations to transfer more and more high-skill operations and ever greater quantities of high-value investment capital into China. The much-lamented U.S. job loss and capital flight of the last few years may well be seen as a trickle in comparison with the mass migration to come. "There's nothing anyone or anything can do to stop it," the regional director of a U.S. multinational firm assured me, casually citing a Shanghai joke he had heard recently: "Pretty soon, lawyers will be the only people left with jobs in America." Given the rate at which the work of paralegals and junior associates is being sent offshore, even this may turn out to be a generous estimate.

Knowledge Transfer

Apart from reinforcing a sense of resignation about the outsourcing juggernaut, comments like the one above contribute to a climate of

fear that can be debilitating for those worried about holding on to their jobs. Critics of outsourcing who believe they are delivering a wake-up call often generate the kind of panic that impels employees to accept pay cuts and other concessions just to keep their jobs above the red line. Time after time I listened to employees relate how the managers used this threat, even in mainland China, to extract longer hours or surplus enthusiasm on the job. This was especially evident in workplaces where employees had to compare their prospects with those of their counterparts in India, Taiwan, Singapore, Korea, or Malaysia, and vice versa.

The story laid out in this book is not intended to be alarmist, but it does encourage informed action. Corporate boosters of free trade have lavishly promoted the claim that the overall benefits of outsourcing far outweigh the costs. Without doubt there are short-term winners in this game, but there is absolutely no empirical basis to the free-trader belief that the communities losing the jobs and investment will see benefits in the long term. Moreover, it is not in the actual tally of jobs or dollars lost, but rather in downward wage pressure, and the establishment of a permanent climate of job insecurity, that we are likely to see the most sustained impact of offshore flight. Outsourcing is not a temporary economic trend. It is fast becoming a way of life, regarded more and more as a social as well as an economic norm, and inevitably it is altering our perception of what a job entails. In a postindustrial society, where uncertainty and risk have increasingly become burdens for individuals—rather than for employers or the state—to shoulder, work is less and less standardized, and a job no longer defines what a person is.²¹ As the pace of outsourcing hastens on these changes, the definition of a job is mutating into something closer to its etymological origin—a discrete “lump” or “piece” of work that exists only for the duration of its fulfillment.

Free-trade ideologues have also insisted that advanced economies like the United States will automatically generate new higher-value jobs to replace those sent overseas. Yet all the past evidence suggests that in the sheer majority of cases, the outcome will be jobs of lesser quality, with lower pay and fewer benefits. In addition, East Asian

economies are now all in the same game, hotly pursuing the skilled work that American, European, and Japanese employees have traditionally been assured is their birthright.²²

The row over outsourcing is really only the most recent expression of popular revulsion at the faithless record of corporate conduct. Thirty years of capital flight have left communities battered and broken all around the world. Faced with the reality of runaway corporations, every town, city, and nation surely has a right to do whatever it takes to retain jobs and protect livelihoods, and elected officials have an obligation to respond. Piecemeal legislation of this sort has cropped up all over the United States, and popular opposition to free-trade policies played a prominent role in the 2005 national referendums in France and the Netherlands that rejected an EU constitution aimed at further liberalization of labor and capital markets.

But national legislation aimed at containing the damage has its limits. A new kind of social contract is needed if corporations are going to be made accountable to anyone other than their largest stockholder. While it should be locally binding, any such contract has to be international in scope. It will take its cue from the human rights and environmental standards that are habitually left out of free-trade agreements, whether brokered bilaterally or through the WTO. The push to recognize these standards has come from trade unions, non-governmental organizations (NGOs), and myriad activist groups that belong to the alternative globalization movement.²³ But the will to see them realized can only come from a deeper fraternity of workers and employees sharing knowledge, tactics, and goals across national borders. This will only happen if they are able to communicate with the same ease, trust, and conviction that their employers do.

It is not the intent of this book to offer practical prescriptions for establishing the global standards and the fraternity mentioned above. But my profile of the job traffic to China underscores the urgent need for such measures. One of my primary aims, for example, is to describe what lies behind “knowledge transfer,” the corporate euphemism for white-collar outsourcing. Moving business assets from one place to another is no longer a matter of transplanting factories or offices.

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Increasingly it means extracting thinking skills and processes from the heads of decently paid employees and moving these faculties to a human resource (to use another corporate euphemism) in a much cheaper part of the world. This is a more complex and fraught logistic than shipping out plant machinery on the next boat. It is also a much more insidious process, especially for employees who are expected to collude in the effort to upload the contents of their brain by actively training their likely replacements.

It is the chilling task of science fiction to imagine what kinds of future technologies will be developed to make this extraction all the more efficient. And yet the basic steps are already considered routine in most multinational companies, and the race is on to develop templates for the more advanced operations. Nor is knowledge transfer a recent innovation. The deprofessionalization that knowledge workers are currently experiencing is really only an update of the de-skilling undergone by the craft artisans of the nineteenth century, when industrialists used new factory technologies and other administrative measures to undermine artisans' control over their own work rhythms and schedules. Knowledge of their trade had to be extracted from them, too.

Today the human and economic scope of knowledge transfer encompasses a vast geographical playing field. Yet its outcome is not cast in stone. The long record of flawed Western forecasts about the destiny of China, in particular, should give us pause before predicting the upshot of its rulers' indulgence of market capitalism. History has not rewarded that species of confidence.²⁴ Since its liberation from foreign occupation in 1949, Beijing's path toward modernization has been resolutely unique, and the latest phase of the reform period is no exception. But if the prediction business is as dodgy as ever, the old spectator sport of China-watching has changed significantly. Westerners can no longer be passive beholders, transfixed by the latest epic unfolding in that far, ancient land. These days, our lives—and the ideas and things in them—are too connected to China for us to sit back and watch.

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Corporations have been moving jobs and capital out of countries like the United States since the late 1960s. But in the public mind it is only recently that China has become the most likely destination. Almost overnight, it seems, the given wisdom is that if China's breakneck growth continues, its inexhaustible labor pool, its burgeoning high-tech skills, and its investment opportunities could effortlessly absorb the livelihoods of workers and professionals in every corner of the world. Worries are also mounting about how the world's resources are being drained to service this growth, but they do not yet compare to the widespread anxiety about the flight of industry and capital: in Mexico, whose NAFTA-based manufacturing sector has been hemorrhaging jobs to Asia; in Japan, Taiwan, and Korea, where leading technology industries have come to depend on manufacturing on the mainland; in the United States and Western Europe, where offshore job transfer is sprinting up the value chain into the realm of professional services; in the offshore sites of Eastern Europe and North Africa that are increasingly less profitable than Asian locations; and even in countries like Cambodia, Thailand, Vietnam, Burma, and India, whose low labor costs are now undercut by the comparative advantages of producing in the heartlands of the jumbo China market.

Workers everywhere tend to perceive the mercurial growth of China's economy as a threat. Most owners of mobile capital, by con-

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trast, see only an investors' bonanza. This discrepancy is not surprising, but it is rare to come across a stark divide on such a scale and with so many far-flung consequences. One of the general aims of this book is to explain how these contrasting perceptions came about, whether they are justified, and what conditions are likely to change them. Is China's growth a timely outcome that will help to stabilize the world economy, or is it a textbook illustration of the lopsided benefits conferred by corporate globalization? How do offshore employees—among the presumed beneficiaries—fit into this equation, and how can their onshore counterparts—among the presumed losers—join with them to help remedy any imbalance? In the plunder-happy world of free trade, what are the responsibilities of governments, either in the West or in key cities like Beijing and Shanghai, to try to equalize the distribution of gains and offset the environmental damage?

My inquiry into these questions took me to the factories and offices of Shanghai's booming metropolis, neighboring cities in the Yangtze River Delta and other parts of China, and, ultimately, to Taiwan and India, but it begins here with a brief historical account of how the commercial traffic between the United States and China evolved.

How Outsourcing Became a Way of Life

Before the early 1990s, the bulk of job and capital flight to China was obscured by the maze of contracting chains that snaked all over East Asia. When export-processing zones were first established in the 1980s in South China, most of the suppliers to U.S. and European manufacturers and retailers were Taiwan-, Macao-, or Hong Kong-owned factories (registered in the Cayman or Virgin Islands) that operated with a low profile and with equally low operating capital. In most cases the only contact with the onshore firm was through a Hong Kong agent, and the identity of the parent manufacturer was generally not disclosed. Indeed, the system was designed to be nontransparent, making it difficult to trace the connections between the head and the tail of the chain. Because the U.S. apparel industry was the first to see the offshoring of labor-intensive operations, garment unions had the longest

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record of tracking the flight to Asia, dating back to the 1960s.¹ Labor advocates in the industry also had the longest experience of protesting substandard conditions in the factories—first in Japan, and then in Hong Kong and Taiwan—that supplied the apparel majors. Consequently, the concept of the Asian sweatshop producing for Western consumers was established early in the public imagination. The reality took on a more ominous profile when low-end assembly operations swept onto mainland China itself, all but concealing the factories and shops from international scrutiny.

The initial surge of job traffic to the export zones slowed after the 1989 crackdown in Tiananmen Square. International sanctions took their toll on most trade relations with China. Bill Clinton subsequently campaigned on a promise to take a firm stand against the “butchers of Beijing,” and initially he tied the approval of China's Most Favored Nation (MFN) trading status to the improvement of Beijing's human rights record. But his fighting words soon dissolved in the face of pressure from the powerful U.S.-China trade lobby. His first administration approved Beijing's MFN status in 1994 over and above a barrage of complaints about appeasement.

Offshoring corporations developed a tight understanding with the governing class that each would press for the global liberalization of trade and investment. This entente among financial and political elites was part of the Washington Consensus, and its advocates promoted the doctrine that free-trade policies would bring wealth to all participants. Benefits flowed to those who profited from trade deregulation and privatization, but the more numerous “losers of globalization” were hard-pressed to see the silver lining. Rising inequality appeared in every poor country that lifted trade and investment barriers. Domestic protests surfaced wherever corporate-led free trade left its uneven footprint. Toward the end of the 1990s, a far-flung protest network—the global justice movement—was advocating a bottom-up vision of globalization, geared to human needs and sustainable development, rather than to short-term corporate profits.² With its scant domestic freedoms, and limited international exchange (though not for business-people), China emerged as the weakest link in the network, and the

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uary 2005), generated a wealth of testimony from politicians, economists, manufacturers, employees, and trade unionists about the debilitating impact on U.S. industries and communities of job and capital flight to China. The industrial sectors under investigation ranged from textiles, apparel, and furniture in South Carolina; to steel, auto, and machine tools in Ohio; high-tech in California; and aerospace and software in Washington. At each hearing the commission's findings were sharply critical of how policies that were introduced to promote free trade were, in practice, actively encouraging and, in some instances (involving the Export-Import Bank), funding the transfer overseas of manufacturing, services, and R&D. According to one commissioner, "We appear to be mortgaging a broad array of assets, pieces of our country's economic future, in a historic stampede for short-term gains in corporate profitability and consumer pricing."⁸

In the years following the onset of the recession, estimates of domestic job loss came thick and fast from many other quarters. By the end of 2003, the number most commonly cited was 3 million jobs lost since 2000, though all such estimates had to be balanced against how many jobs the economy would have been expected to create in a normal recovery. According to one such report, over the course of the actual recovery from the recession (from November 2001 to November 2003), 1.3 million jobs in manufacturing alone were lost, along with 272,000 jobs in information services and 93,000 jobs in professional/technical services. These were all in sectors that paid above-average wages. Job gains in this period were predominantly in lower-wage sectors.⁹ By 2004, only 65.9 percent of employable adults—a sixteen-year low—had jobs or were looking for work. Though the bulk of the losses were in manufacturing, and were assumed to have migrated mostly to China, as many as 30 percent were estimated to be in white-collar, IT-enabled services, flowing abroad primarily to India. If those displaced found full-time employment, by far the majority were earning less than at their previous positions. On the whole, these earnings losses had been increasing since the mid-1990s.¹⁰ Department of Labor figures that analyzed the job downturn showed a sustained impact on older, more experienced workers, a result that was consistent with patterns of outsourcing.¹¹

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Much of the headline-grabbing data about job loss, and projections of future flight, came from private consultancies like Forrester Research, the Gartner Group, TPI (Technology Partners International), the Boston Consulting Group, and the McKinsey Global Institute. Their research analysts played both sides of the issue. They advised their client firms to move offshore whatever assets they could, as soon as they could, while also issuing publicity-conscious reports that were guaranteed to scare the living daylights out of Americans who still had jobs in vulnerable sectors. The mainstream press followed the same schizophrenic path. Alarmist human-interest stories about jobs lost alternated with reassurances, often directly from the mouths of business economists, about the beneficial impact of outsourcing "in the long run."¹²

The analysts' most alarming reports offered estimates of unprecedented losses in white-collar services and skilled IT jobs. A much-cited Forrester Research report in November 2002 projected that by 2015 the United States would lose about 3.3 million such jobs. In July 2003, the Gartner Group estimated that by the end of 2004, one in ten technology jobs at American IT companies and one in twenty at non-IT companies would have moved offshore. In addition, only 40 percent of those who had lost jobs were likely to be retrained and redeployed by the firms surveyed.¹³ Some estimates were even higher. Researchers at the Fisher Center for Real Estate and Urban Economics predicted that as many as 14 million white-collar service employees, or 11 percent of the nation's total jobs, were vulnerable to offshoring.¹⁴

Even after the U.S. economy began to add jobs in the winter of 2003–4, the estimates continued to rise. The market-research firm TPI reported that the second quarter of 2004 saw a 35 percent increase in the value of IT outsourcing contracts over the previous year, indicating that companies were increasingly committed to moving their entire IT operations out of house.¹⁵ In March 2004, McKinsey reported that multinationals had moved \$35 billion of investment offshore in 2002 alone, and forecast that the rate of offshoring would grow between 30 percent and 40 percent annually at least through 2008.¹⁶ Outsourcing was no longer an option in services: it was considered a requirement of business-process jobs in call centers, loan processing, and back-office

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accounting; it was becoming an imperative in a whole range of engineering sectors and services like financial analysis; and it was marching steadily into the legal and medical professions. In July 2004, Boston Consulting Group adopted a more apocalyptic tone in warning firms that they faced extinction if they did not move offshore: “Companies that wait will be caught in a vicious cycle of uncompetitive costs, lost business, underutilized capacity, and the irreversible destruction of value.”¹⁷

Most bluntly, the Boston Group’s report undercut the free traders’ argument that the export of low-end and middle-level jobs would free up corporations to create more high-value domestic jobs in areas like research and development. Surveying the companies that had already established large R&D operations in low-cost countries (LCCs), its authors reported that “one of the most intriguing advantages we have come across is faster (and lower cost) R&D. Because companies established in LCCs have eliminated a lot of automation and tooling requirements, they can be more responsive to R&D requests.” The report concluded that firms could increase the amount of research they did by three to five times for the same budget they would devote onshore. A study from the University of California’s Stimson Center reported that more than 200 foreign corporations—with names like GE, GM, Alcatel, Microsoft, IBM, Bayer, Ericsson, and DuPont—had already established R&D centers in China by 2002.¹⁸ Over the next two years alone, that number would triple to 600. Every month a new R&D unit, with several hundred employees, opened in one of Shanghai’s high-tech industrial parks. Firms could now operate on their own in China, free of the requirement to partner with local Chinese companies in joint ventures, and so security, in regard to intellectual property, was much tighter. The low cost and high quality of local engineers, combined with proximity to their expanding production centers, made it irresistible for companies of all sizes to move some of their most advanced operations offshore.

It was the same story in Silicon Valley, though with an extra twist in the tail. For the last three decades, the U.S. economy had relied on this region’s high-tech industrial complex to seed innovative job creation.

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Indeed, Silicon Valley hosted 13 percent of the new American jobs created between 1996 and 2000 alone. When the business of funding new technology start-ups resumed operations in 2003, it turned out that venture capitalists were primarily interested in backing “micro-multinationals,” or companies that included offshoring in their business models. James Breyer, president of Accel, a leading venture capital firm, advised that, very soon, all Accel start-ups should have half of their workers based overseas. “If a company is not actively investing in China or India,” he declared, “they need to provide a very compelling case to board members as to why they are not.”¹⁹

The Balance Sheet

In the course of the last decade, “outsourcing” has become adopted in public currency as the default term, for better or worse, to refer to overseas job flight. Technically speaking, there are many varieties of outsourcing: offshore outsourcing, business process outsourcing, multi-sourcing, co-sourcing. In general, the term refers to the procurement of services or products from an outside supplier or manufacturer as a way of cutting costs and shedding benefit burdens. In principle, outsourcing is different, though not entirely distinct, from the practice of offshoring—when the company in question opens a plant overseas under its own name. Increasingly, however, public usage of the term “outsourcing” has been extended to all offshore transfers, and in this book I acknowledge the overlap, if not the exact equivalence, between the two terms.

However slippery this usage, it is simply the latest substitute for the original, more colorful name given to firms shifting jobs elsewhere to avoid regulation. In the 1950s, such companies were called “runaway shops,” and they crossed state borders to escape labor and workplace sanitation laws, or to weaken the rights of their workers to tenure. The original runaways in the New York garment industry fled to New Jersey, while the New England textile mill owners moved to the Southern states after the Second World War to evade unionization. In fact, there is a direct line of descent from the so-called sweating system of the

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nineteenth-century garment industry to the outsourcing of today's global corporations. The garment's practice of "putting out" ready-cut garments to be made up in journeymen's small shops or in workers' homes was the prototype for the wave of corporate subcontracting in the 1970s, which preceded offshore outsourcing as a strategy for offloading higher wages and benefits that had been hard won by decades of union organization.

Not much has changed, except for the scale and geographic scope of the operation. Migrating jobs offshore or to an outside contractor both creates and takes advantage of a transient work environment that feeds off workers' insecurity and immobility. While the jobs lost are frequently unionized, the new jobs created are almost always non-union, and therefore come at the expense of workers' rights. Indeed, employers often cite excessive union power as the reason for ordering the transfers, and so the threat of job and capital flight is used more generally to intimidate employees, in both onshore and offshore countries, who want to form unions. Well-placed officials in the less developed country may benefit in the short run from access to foreign exchange, not to mention kickbacks, but generally the recipient nation has no control over the vested capital or repatriated profits, and it has to negotiate hard, and often unethically, to ensure any benefits from technology transfer. So, too, the generous tax benefits customarily offered to foreign investors further deplete national revenues, and hasten the erosion of the public sector's capacity to provide a range of public goods, benefits, and secure employment. Workers' wages are by far the largest portion of the financial benefit to the host country.

As for the onshore country, it has to bear most of the costs of the corporate decision to outsource. Loss of jobs is a drain on the local tax base, and it raises the cost of unemployment benefits and government retraining programs. In addition, the social costs of job displacement are incalculable. If the transfer shuts down an operation that is central to a local economy, then the entire community can be decimated, along with trust in the shared bonds that ensure fairness in any society. The sense of betrayal is profound, whether the blame is directed at corporations (as is usually the case with blue-collar layoffs), at oneself (as is

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traditionally favored by white-collar employees), or at politicians in the thrall of free-trade ideologies. Jobs in industries threatened by cheaper imports, and manufacturing jobs in particular, have generally provided higher wages and benefits than jobs in export industries or in services. The majority of displaced workers experience a long-term decline in wages, security, and benefits, especially if the outsourcing is with a low-cost nation. Moreover, when outsourcing transfers move into the high-end range, some economists have argued that unless the onshore country competes vigorously, its entire economy will be hurt.²⁰ Finally, outsourcing undermines the sense of national sovereignty. Pride at the achievements of national industry, and confidence in its future, dissolve along with the capacity of the nation's managers to bring about an equitable adjustment of the economy.

By contrast, employers who ship out the jobs bear none of the cost of their decisions, and enjoy only the benefits. Among the latter are huge payroll savings, elimination of unions, and sharp reductions in social security, Medicare, and pension costs; looser environmental and workplace regulations; a raft of tax rewards, including immunity to taxation on foreign profits; higher corporate profits and stock prices and the boosting of bonuses and returns for executives and investors. Access to new international markets on generally favorable terms inevitably erodes the sense of a firm's accountability to its society of origin. In the long run, however, the most valuable benefit to investors lies in the perpetuation of a climate of job insecurity in a global business environment where bigger gains can always be had by moving elsewhere. The threat to do so guarantees employee docility in the short term as long as the company lingers, and in the longer term if and when the move materializes.

This, at any rate, is an abstract way of assessing the balance sheet. Among the populace at large, there is a more powerful, emotional understanding of the impact of outsourcing. A typical poll (taken in May 2004 by the Employment Law Alliance) found that nearly 60 percent of U.S. survey participants believed that companies outsourcing work that could be done by Americans ought to be penalized by the U.S. government.²¹ Contrary to Wall Street's undisguised enthusiasm

for outsourcing, almost 66 percent of investors, according to an April 2004 Gallup poll, believed that it was “bad for the economy,” and about a quarter expressed a sharp concern that they or someone in their households might lose their livelihood from offshoring.²² Strong public sentiment like this fueled a political firestorm over the practice among lawmakers, opinion makers, lobbyists, and advocacy groups.

For those who felt their jobs were threatened, it wasn't just the statistics or warnings about job loss that generated concern. The underhanded manner in which company executives carried out the transfers provoked widespread disgust. Euphemisms were easy to spot. Eliminated jobs were most routinely described as “knowledge transfer,” and there was a long list of related terms for which managers were officially advised to use neutral-sounding substitutes. Companies tried to disguise the transfers wherever they could, and rigid gag orders were imposed on employees who might be tempted to leak outsourcing plans to the press.

Because of IBM's status as a national industrial champion, leaks of its proposals to move several thousand high-level jobs overseas received particularly generous media attention. In July 2003, the *New York Times* outed the firm's secret plans to speed up its outsourcing of engineering and other white-collar positions.²³ For its story, the *Times* drew on a tape recording of an internal IBM meeting leaked by a nauseated employee to the Washington Alliance of Technology Workers (affiliated with the Communication Workers of America). Executives present at the event—a summit meeting for HR managers around the globe—warned that the job loss might create a “dignity issue” for displaced employees, and “that union organizing will become more aggressive over the coming months.”²⁴

The most highly publicized leak involved another set of internal IBM documents, obtained by the *Wall Street Journal* in January 2004, which detailed offshoring plans involving thousands more jobs, and actual projections of cost savings (\$168 million annually). The memo included estimates from IBM's Shanghai office on the relative costs of labor and benefits for U.S. and Chinese programmers, project managers, and senior analysts (though the estimated 1:4 cost ratio was

much lower than any wage structure I encountered in Shanghai). The memo included the draft of a “suggested script” for managers to use in breaking the news to employees affected. Terms like “resource action”—IBM language for layoffs—were to be avoided, as were “on-shore” and “off-shore.” Empathetic talk was encouraged: “This action is a statement about the rate and pace of change in this demanding industry. It is in no way a comment on the excellent work you have done over the years.”²⁵

In some cases, leaks of impending plans prompted repressive action from company lawyers. In November 2003, the owner of American Champions, an anti-outsourcing website (www.american-champions.org), was ordered to remove a company document outlining plans for the overseas transfer of 70 percent of AT&T wireless jobs from Washington State. “It is disgusting to me that there is so little regard for those who have worked hard to make this company a success,” declared one AT&T employee affected by the plan. “Some people are just livid. You come to work one day and you see people standing over your desk, discussing how to do your job. We spent many years of our lives learning how to do this, to become competent. We took pride in our jobs, stayed late without pay many times to make sure things worked. Now [the company] is saying to us, in effect, ‘We don't really care.’”²⁶ In a practice that became quite common in many firms, employees whom AT&T slated to lay off were forced to assist directly in the knowledge transfer by training their overseas replacements or else lose their severance packages, and face possible legal action. The firm's managers had described this process, disingenuously, as a “pilot project,” in which employees were invited to participate. “It kind of feels like you are talking to your hangman,” reported one of the unlucky participants.²⁷ Stories like this became the stuff of workplace lore, and even prompted some politicians to try to outlaw the practice as inhumane.

All the New Economy talk in the 1990s about change and risk-averse behavior had not prepared its high-tech acolytes for the prospect of seeing careers migrate so rapidly. Moreover, the advanced technology that had played a starring role in the boom turned out to be the

means by which their jobs could now be sent overseas with the flick of a router switch. Accustomed to enjoying humane workplaces with oodles of respect for their service on the job, they were shocked to be treated the same way as the blue-collar workers whose rust belt world of shuttered factories and welfare checks they had long regarded as the province of another species. Nor, like the manufacturing workers, did they have unions that could fight management for cutting and running. Instead, they did what techies do—they created websites to protest the wave of IT outsourcing. The list of sites, like the aforementioned American Champions, soared to well over a hundred (including the Rescue American Jobs Foundation, the Coalition for National Sovereignty and Economic Patriotism, the Information Technology Professionals Association of America, and the Organization for the Rights of American Workers), each publicizing an arsenal of resources for the aggrieved to adopt legal measures to save their jobs. Because of their professional status, mainstream journalists could more easily identify with their cause than with assembly-line workers, and so the movement and its protests got especially good press.

By 2003, the unemployment rate for computer scientists stood at 5.2 percent, and for electrical engineers at 6.2 percent. These were levels unthinkable during the previous two decades, when such professions were lionized as the leading edge of American job creation.²⁸ In the first quarter of 2004, the Bureau of Labor Statistics showed a 9.5 percent unemployment rate among computer programmers. Demand for skilled technology employees had fallen off precipitously, and the labor market slump was affecting some of the most highly valued occupations and industries in the American economy. Between 2001 and 2004, software-producing industries lost an even larger percentage of jobs (16 percent) than manufacturing (15 percent).²⁹

In the face of such statistics, the most popular myth propagated at the height of the New Economy of the 1990s rapidly collapsed. Low-value manufacturing, it had been claimed, would keep on flowing to developing countries, but the high-value jobs, especially those in technology industries, would stay. Sustained growth in the service sectors would continue to offer opportunities for laid-off blue-collar workers

who were willing to retrain away from the old “buggy whip” industries. By the beginning of the 2004 election year, it was no longer possible to push this line of argument among manufacturing workers. Nor could the same logic of moving up be applied to those laid off in high-tech or in producer services. To put it simply, there were fewer and fewer places at the higher end of the value chain—in finance, industrial R&D, high-tech, or professional services—where employees could move up in expectation of a stable career. Moreover, many of those high-value jobs were the same ones that every other technology-saturated country, especially those in East Asia, were hotly pursuing. By the time this fledgling international labor market fully matures, middle-class American parents might be hoping their children will grow up to be plumbers—precisely the kind of job that cannot be sent overseas.

While some business sectors were hard hit by the recession, the generous savings and handsome profits reaped from outsourcing more than compensated. Between 1990 and 2003, overall corporate profits rose 128 percent, CEO pay rose 313 percent, while average worker pay rose by only 49 percent.³⁰ In the three years following the recession's end, corporate profits showed the fastest growth rate since World War II, increasing at an annual rate of 14.5 percent after inflation.³¹ By contrast, labor compensation recorded its lowest share of national growth for any recovery in the postwar period. As for the CEOs, who were rewarded for creating “shareholder value” by ordering the layoffs and transfers, they finally broke the barrier of the 300-to-1 ratio between their average pay and that of the average worker in 2003.³² Average CEO compensation at the fifty firms outsourcing the most service jobs increased by 46 percent in 2003, compared with a 9 percent average increase for all CEOs.³³

But it wasn't just in paychecks that domestic workers got the short end of the stick. Productivity rose by over 4 percent annually from 2002 through 2004, prompting business commentators to suggest that U.S. workers (who already worked much longer and harder than in any other developed nation) could easily absorb the extra burden of jobs tasks inherited from their laid-off brethren.

Decades of public relations pounding from corporate America ha

sought public acceptance for the claim that companies had no choice but to ditch even their most valued and loyal employees if a cheaper and more competitive alternative became available. Growing capacity to pit workers against each other on a global scale fueled the “race to the bottom” (or “global labor arbitrage” as Stephen Roach, Morgan Stanley’s senior economist, euphemistically termed it) that saw employers scouring the underdeveloped world for the lowest wage floor and best investment concessions. The same kind of PR was applied to the notion that employees had to fight to save their jobs from being “taken” by their counterparts in another region of the world. It was no wonder that some displaced workers found it easier to blame the faceless foreigner for taking their jobs than to hold companies accountable for paying Third World wages and asking First World prices.

Two City Views

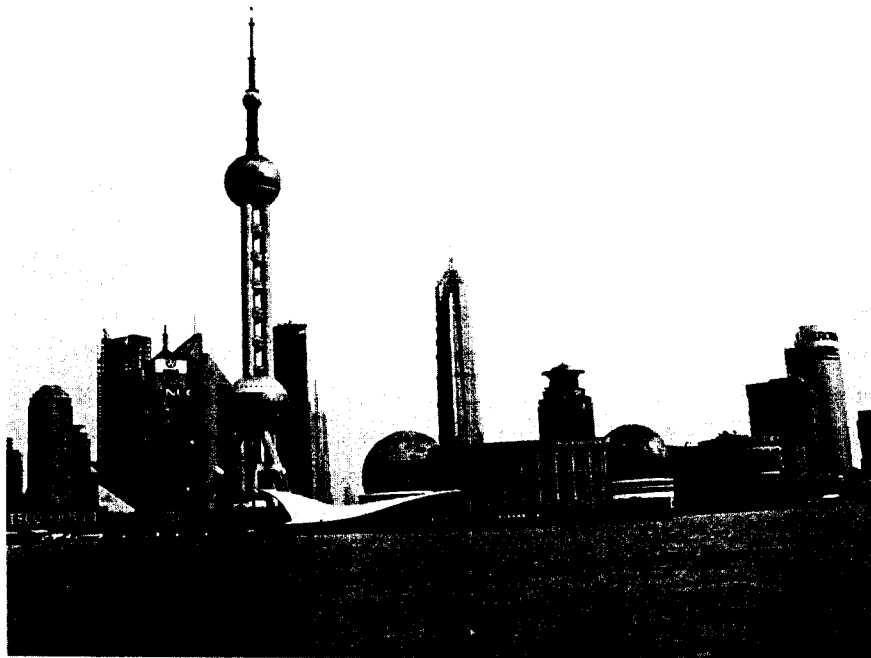
If this was the climate at home, what was the mood offshore? How did the debate about outsourcing play overseas, among the corporate managers and executives whom John Kerry famously labeled as “Benedict Arnolds”? What did Chinese employees, who supposedly benefited from the transfers, have to say about their own prospects of job security? Shanghai was arguably the best place to find answers to these questions. It was the latest Asian boomtown to rebuild its fortunes on the strength of a massive influx of foreign investment, and it had lately attained a pivotal role in the global economy. To fully understand that role, we need to profile some of its history, as well as its quicksilver growth since the early 1990s.

First-time visitors to Shanghai can hardly avoid heading directly to the famous riverfront of the Bund. The Anglo-Indian name (for “embankment”) recalls the port’s contribution to the opium trade, and the neoclassical pomp of its buildings carries echoes of the foreign trading houses and banks that once controlled the economy, along with the social and cultural life, of colonial Shanghai. Needless to say, the symbolism of the 1.5-kilometer quay is highly contested. The Chinese street

name Zhongshan Yilu (or Sun Yat-sen Road, Section One), honors the man whose own Western-inspired nationalism set in motion a long revolution that eventually drove the foreigners out of their most cherished Asian foothold after 1949. When the city was finally liberated, the Bund’s grandest edifice, built for the Hong Kong and Shanghai Bank, which had been the most powerful financial institution in East Asia, was promptly converted into the city’s Communist Party headquarters.

Fifty years later, one of the favorite sports of China-watchers was to record which foreign interests had been allowed back to lease space on the Bund. AIG, Citibank, and ABN AMRO were the first, followed by KFC, and then, in a shower of gloating publicity, the opening of Armani, Cartier, Gucci, Dior, Louis Vuitton, and Ermenegildo Zegna stores in 2004 sealed the Bund’s reinvention as a trendy retail zone. But most bittersweet of all was the anticipated return of Jardine Matheson, the original monopolist of the hated opium trade, to take over management of that Jazz Era palace, the Peace Hotel. In a remarkable display of corporate deadpan, the local retail agent who brokered the deal commented to the Shanghai press: “As the Bund used to house Jardine’s local office, the area has special meaning for the group.”³⁴

Since the late 1990s, the Bund has offered a different kind of window onto the reforms that have driven China’s rapid makeover. The view across the Huangpu River now takes in the prospect of the new city of Pudong, boasting a zany collection of some of the tallest, boldest, and dottiest buildings in the world. Jumbo glass globes vie with lurid pink baubles in a skyline that generates wonder, mirth, and dread in equal measure. First envisaged by Sun Yat-sen himself in 1911 as the “Great Port of Pudong,” but only approved for development by Beijing in 1990, the creation, as if overnight, of the Pudong cityscape is a national showcase for the belief that literally anything is possible in China’s economy. This is exactly the kind of go-go verve that intoxicates the multinational firms that have set up shop in Pudong’s financial district of Lujiazui. The same spirit is supposed to preside over its 220-square-mile sprawl—from the gaudy Oriental Pearl Tower and International Convention Center by the Huangpu’s eastern bank to the gleaming new microchip factories on the broad acres of Zhangjiang



The skyline of the new city of Pudong, a view from the Bund

Hi-Tech Park, and even farther out, to the sci-fi Pudong International Airport by the East China Sea.

Pudong New Area, as it was officially termed, was granted more privileges by Beijing than any of China's export-oriented Special Economic Zones had previously enjoyed. The rapid development of its free-trade zones, top-end apartment complexes, golf courses, luxury malls and hotels, and stock exchange was aimed at restoring Shanghai's prewar status as the premier trading and finance center of the Asia-Pacific region. It was also planned as the ultimate global capitalist city, and in return for this hospitality, it was expected that foreign money would foot many of the bills. Japanese investors, in particular, were tapped to bankroll the corporate towers. Overseas Chinese, who had already led the way in funding South China's original export-processing zones, and whose blood ties to the motherland helped to sustain their position in the top ranks of foreign investors, were called upon again to develop much of the remaining real estate.³⁵ The For-

tune 500 and their employees were expected to fill the downtown offices, technology parks, and upscale housing. Yet, in spite of the monumental scale of foreign direct investment (FDI), some commentators continued to see only the heavy hand of the state. After his visit, Milton Friedman, the high priest of privatization, dismissed the whole undertaking as "a statist monument for a dead pharaoh on the level of the pyramids."³⁶ The pharaoh in question was Deng Xiaoping, who had approved the project as a wide-open door to foreign trade.

Initial overbuilding of grade-A office space and luxury apartments produced the low occupancy rates that gave this new urban landscape a vacant, almost funereal air, but this is not what Friedman had in mind. However jaundiced (he was an inveterate anticommunist), his throw-away comment still spoke to the frank disarray of opinions held by economists about China's unique path of reform. What, after all, was the exact nature of the relationship between the state and the burgeoning private economy?³⁷ Was the ardent wooing of FDI just a means for China to subsidize its failing state sector, or did the recently revived health of many state-owned enterprises prove that gradual reforms and continued public ownership were a transitional bridge to a new kind of economy?³⁸

Beijing had successfully evaded the disastrous shock therapy imposed upon the Warsaw Bloc economies by neoliberal institutions like the International Monetary Fund (IMF) and the World Bank.³⁹ China's slower, more evolutionary path to the market, directed by authoritarian rule at the center, appeared to have more in common with the "developmental states" of the East Asian tigers: Taiwan, South Korea, Singapore, and Hong Kong. Yet there were significant differences. Even at the dawn of the reform era in 1978, the daily sense of ownership and control in China was already quite decentralized. The vast campaigns of rural industrialization in the 1960s and 1970s, combined with the general undermining of Communist Party authority during the Cultural Revolution, had left local officials in townships and provincial cities with a considerable degree of practical power in their hands. They tried out new policies before any clear signals were received from Beijing. Indeed, some analysts argue that China's market

