

Fast Boat to China

*Corporate Flight
and the Consequences of Free Trade*

Lessons from Shanghai

ANDREW ROSS



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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.

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-

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

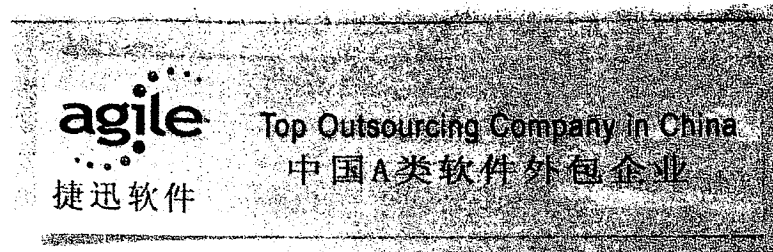
Going on this information alone, the reader could hardly be faulted for assuming that this slick promotional guide was a recent publication. Yet the date on the cover was 1946, and the “closed door” of foreign trade mentioned in the guide’s preface referred not to the communist state’s command plan, 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



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-

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 livelihoods, 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 *Where*

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

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

"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

\$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



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

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

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.

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.

The Shanghai Squeeze

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-