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# CLAREMONT

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*A Journal of Political Thought and Statesmanship*

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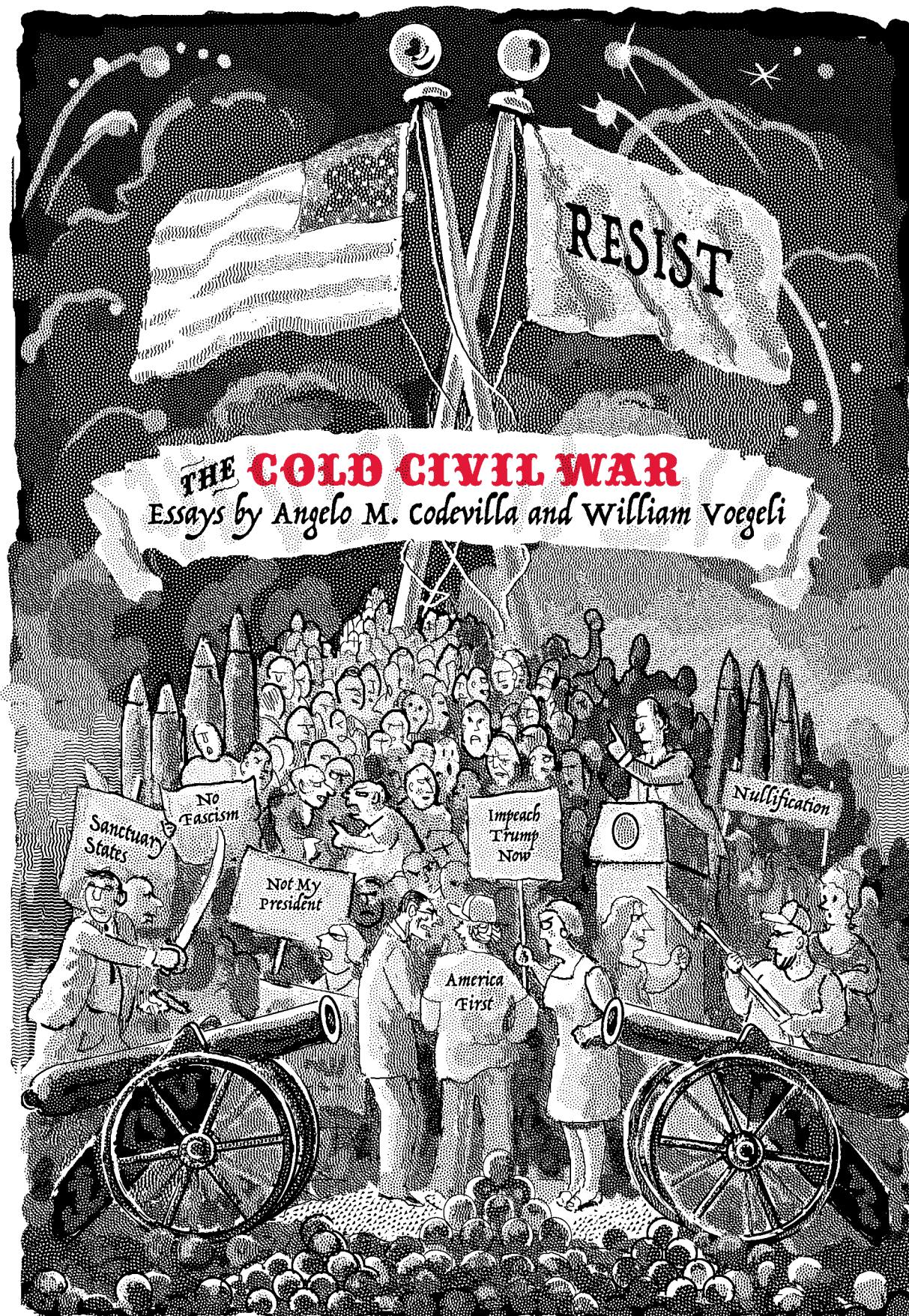
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Book Review by Christopher Caldwell

## SENDING JOBS OVERSEAS

*The Great Convergence: Information Technology and the New Globalization*, by Richard Baldwin.  
Belknap Press, 344 pages, \$29.95



GLOBALIZATION USED TO BE CALLED A "miracle." It resembled one. It showered certain people with blessings they had not expected, in ways that could not be explained by logic. How could Nike be the world's most successful shoemaker when it owned scarcely any shoe factories? Globalization's cheerleaders, from Columbia University economist Jagdish Bhagwati to New York Times columnist Thomas Friedman, made arguments from classical economics: by buying manufactured products from people overseas who made them cheaper than we did, the United States could get rich concentrating on product design, marketing, and other lucrative services. That turned out to be a mostly inaccurate description of how globalism would work in the developed world, as mainstream politicians everywhere are now discovering.

Certain skeptics, including polymath author Edward Luttwak and Harvard economist Dani Rodrik, put forward a better account. In his 1998 book *Turbo-Capitalism*, Luttwak gave what is still the most succinct and accurate reading of the new system's eco-

nomic consequences. "It enriches industrializing poor countries, impoverishes the semi-affluent majority in rich countries, and greatly adds to the incomes of the top 1 percent on both sides who are managing the arbitrage." Left unexplained was what had happened to make trade suddenly produce consequences so widely divergent from those it had produced for centuries.

**I**N THE GREAT CONVERGENCE, RICHARD Baldwin, an economist at the Graduate Institute in Geneva, gives us an idea why, over the past generation, globalization's benefits have been so hard to explain and its damage so hard to diagnose. It is a great book: elegant, subtle, simple enough for a child to understand, and free of any political or polemical agenda. Baldwin's argument is that information and communications technology has changed trade in its very essence. We have had "globalization," in the sense of far-flung trade, for centuries now. The United States has been putting all its diplomatic and military muscle behind it since Congress passed the Reciprocal Trade Agreements Act

of 1934. But around 1990, the cost of sharing information at a distance fell dramatically. Workers on complex projects no longer had to cluster in the same factory, mill town, or even country. Other factors entered in. Tariiffs fell. The rise of "Global English" as a common language of business reduced the cost of moving information (albeit at an exorbitant cost in culture). "Containerization" (the use of standard-sized shipping containers across road, rail, and sea transport) made packing and shipping predictable and helped break the world's powerful longshoremen's unions. Active "pro-business" political reforms did the rest.

But computers were the key. Once a complex manufacturing process could be supervised from afar, it could be broken up into the simplest constituent tasks, and those could be done almost anywhere. Why not do them in those economies that paid workers a pittance? Far-flung "global value chains" replaced assembly lines. Corporations came to do some of the work of governments, because in the free-trade climate imposed by the U.S., they could play governments off against one



another. Globalization is not about nations anymore. It is not about products. And the most recent elections showed that it has not been about people for a long time. No, it is about tasks.

**T**HIS MEANS A WINDFALL FOR WHAT used to be called the Third World. More than 600 million people have been pulled out of dire poverty. Full-scale industrialization, which had proved impossible for all but a handful of places in East Asia, is a hurdle that countries no longer need to jump. They can get richer by building *parts* of things. We should bear in mind, though, that even this project is beyond most countries. To join a “global value chain” a country must not be too far from one of the world economy’s “headquarter economies”: the United States, Europe, or Japan. The most shocking statistic in Baldwin’s book is that almost all of the manufacturing uptake and poverty reduction has gone on in just six countries emerging from either Communism or post-revolutionary authoritarianism: China, Korea, India, Poland, Indonesia, and Thailand. The manufacturing revolution of the past generation has largely passed South America and sub-Saharan Africa by. Of the countries geographically able to join the value-chain revolution, the ones that succeeded have agreed to low tariffs, introduction of Western-style peripheral services (express delivery, broadband, etc.), and a business-friendly legal regime, including submission to the Investor-State Dispute Settlement, which permits corporations to seek arbitration before multi-national bodies. (The prospect that the United States would wind up answerable to these bodies was the strongest argument against the Obama Administration’s Trans-Pacific Partnership [TPP], which the Trump Administration has now scuttled.)

How do Western countries benefit from this trade system? It is not clear that they do. When you measure world GDP and manufacturing income, the share of the G-7 industrialized countries peaked at around 70% in 1990 and has since fallen to well under 50%. China’s share of world manufacturing has gone from under 2% in 1985 to around 20% now. This growth has in turn sparked a boom among commodity-producing countries, such as Nigeria, Russia, and Venezuela.

We keep being told that the West’s tumbling share of production shouldn’t matter. The world economy is growing. We’ve got about the same absolute amount of wealth as before, even if the world is catching up and even overtaking us. Baldwin lays out the classic explanation (it is called the “smile curve,”

named for its shape) of why we shouldn’t panic. The competition that globalization has created for manufacturing has driven the value-added in manufacturing down close to what we would think of as zilch. The lucrative work is in the design and the P.R.—the brainy, high-paying stuff that we still get to do.

**B**UT ONLY A TINY FRACTION OF PEOPLE in any society is equipped to do lucrative brainwork. In all Western societies, the new formula for prosperity is inconsistent with the old formula for democracy. And there is a less obvious but more serious problem: the most lucrative parts of the “smile curve” might also be the most volatile, the least robust. Consider the way Tommy Hilfiger uses the Hong Kong-based “supply-chain manager” Li & Fung to make its clothes. In Baldwin’s description it is hard to say in what way Tommy Hilfiger can really be described as a clothier or haberdasher at all:

The final product, say, a \$150 pair of Tommy Hilfiger khakis, is a thorough mix of the sources of competitive advantage. It includes the market and retail knowledge of the U.S. retailer; the logistics, quality control, and supply management knowledge of the Hong Kong intermediate; and the manufacturing capacities of, say, a Malaysian factory.

The U.S. contribution, however well compensated, seems like the most *inessential* part of this setup. The global economy is a fair-weather economy. If there is a slight rise in tariffs, a subtle judicial reinterpretation of regulation, a tiny change of attitude—in short, if there is any exercise of what we think of as normal democracy anywhere along the supply chain—the model that links companies like Hilfiger and Li & Fung to producers will fall apart. Should that happen, which is more likely? That Asian manufacturing powerhouses will learn to market their own products, or that Western P.R. spivs and window-treatment consultants and professional espresso-tasters will learn to rebuild an industrial base from scratch?

Because, after all, there are many equally good ways to design clothes, decorate office spaces, or structure corporate hierarchies. Other countries’ elites are willing to pay for the *American* way of doing those things because it shows them to be tied to wealth, power, and chic. A lot of what Americans think of as valuable service-sector know-how is actually mere prestige.

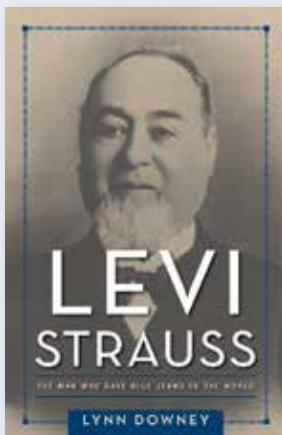
Western countries got pulled into this system because economists and policymakers accepted certain platitudes about trade that were growing less true over time. One of these platitudes is that all nations gain from trade. Baldwin singles out Harvard professor and former George W. Bush Administration economic adviser Gregory Mankiw, who urged passage of the Obama Administration mega-trade deals TPP and Transatlantic Trade and Investment Partnership (TTIP) on the grounds that America should “work in those industries in which we have an advantage compared with other nations, and we should import from abroad those goods that can be produced more cheaply there.”

**T**HAT WAS A SOLID ARGUMENT 200 years ago, when the British economist David Ricardo developed modern doctrines of trade. In practical terms, it is not always solid today. What has changed is the new mobility of knowledge. (Baldwin more often uses the word “ideas.”) “[T]he amount of information transmitted by telecommunications during the whole of 1986,” he notes, “could be transmitted in just two-thousandths of a second in 1996.” Such transformations are fascinating but not unprecedented. Between 1830 and 1850, trains went from non-existent to linking much of Europe and the United States. Between 1945 and 1960, commercial television went from non-existent to omnipresent.

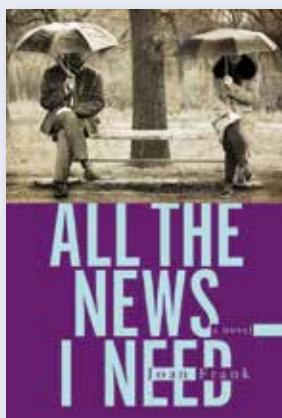
But knowledge is a special commodity. It can be reused. Several people can use it at the same time. It causes people to cluster in groups, and tends to grow where those groups have already clustered. In discussing these matters Baldwin draws on the work of his MIT mentor Paul Krugman, who won his Nobel Prize for work done in this area before he gave up economics for journalism. Knowledge is why, in the old days, we had factories. A foreman responsible for the team of men who spend the day screwing part A onto part B depends on reliable knowledge that parts A and B are ready. That knowledge is more easily obtained when the whole process is taking place on the same shop floor.

Knowledge also causes us to cluster in cities. When an engineering company must be hired to develop a new machine to screw A onto B, the process of exchanging blueprints and making adjustments and running tests works best if the engineering company is just across town. Useful expertise grows around such relationships, and this expertise spills over into the society at large. Other businesses come to the area. And that, most importantly, drives up wages. High tech companies

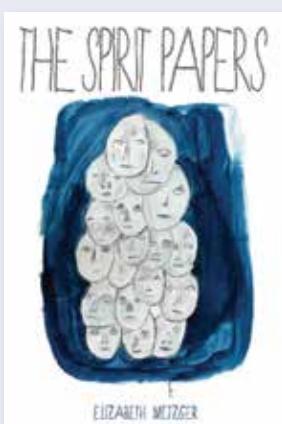
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used to have to pay them. Baldwin hammers this point home with a metaphor he returns to again and again: labor and knowledge had no choice but to work on the same team.

The computer changed that. Baldwin, with a gift for anecdote, asks us to think about arthroscopic surgery. When surgeries involved opening the patient up like a lobster or a peapod, the doctor had to be in physical contact with a patient. New arthroscopic processes require the surgeon to guide cutting and cauterizing tools by computer. That computer did not have to be in the same room. And if it did not, why did it have to be in the same country? In 2001, a doctor in New York performed surgery on a patient in Strasbourg. In a similar way, the foreman on the American factory floor could now coordinate production processes in Mexico. Each step of the production process could now be isolated, and then offshored. This process, Baldwin writes, "broke up Team America by eroding American labor's quasi-monopoly on using American firms' know-how."

**T**HAT WAS A WINDFALL FOR THE corporation—even more of a windfall than it looked. With offshoring, there is, as Baldwin puts it, "a much weaker wage-industry link." Since tasks get offshored one by one, rival manufacturers, capable of coordinating similar operations, do not arise locally to bid up wages. But this does not erode altogether the logic that causes industrial agglomeration. Once underway, offshoring tends to produce more offshoring. The most efficient configuration is still to reassemble the entire operation elsewhere. And since wages do not immediately rise, the process can continue until the industrial base of the mother country is cleaned out.

To explain why the idea that all nations win from trade isn't true any longer, Baldwin returns to his teamwork metaphor. In the old Ricardian world that most policymakers still inhabit, the international economy could be thought of as a professional sports league. Trading goods and services resembled trading players from one team to another. Neither team would carry out the deal unless it believed it to be in its own interests. Nowadays, trade is more like an arrangement by which the manager of the better team is allowed to coach the lousier one in his spare time. "If the firms from a nation, say Austria, transfer technology abroad in a way that increases the international competition facing Austrian exports," Baldwin writes, "then the Austrians working in Austria may well lose." The stakes of protecting the West's intellectual property are high. It is the only

purely economic advantage the West has left. China's recent industrialization (the politics of which Baldwin does not go into) is thus a very special case—because its 1.3 billion customers have given it the leverage other countries don't have to demand technology transfers.

**I**N THE OLD DAYS, THE WESTERN WORK-force's wages were relatively secure, Baldwin explains, because competition in the market for goods was "the only way international competition could get into an economy." Foreign auto-workers could not threaten American auto-workers' wages until factories in lower-wage countries learned to pump out American-quality cars. Until recently, that had happened only in Japan and Korea, and American policymakers back in the 1970s and '80s found it unsettling enough. Malaysia has tried to follow the Japanese and Korean model and develop a new car (the Proton) from scratch. Baldwin believes that a more effective strategy is the one followed in Thailand, which is content to serve as the factory hub in Japan's automotive value chain, and Vietnam, which does low-level assembly of wire harnesses for Honda. This does not mean Vietnam has industrialized, but nations like it no longer have to. "The developing nation," Baldwin writes, "can exploit its specific edge in mufflers."

This particular way of describing the problem risks misleading. There is no such thing as a nation of geniuses lying low in the jungles of Southeast Asia, nurturing its "specific edge in mufflers" and dreaming of the day when it might strut its muffler-making stuff on the world stage. No. Muffler-making (or what have you) is a role conferred on some poor country by a first-world corporation with one goal and one goal only.

That goal is to flee high Western wages. Almost all "global value chains" were set up to acquire the same good—a waiver from accumulated obligations to Western workers. In the work of Thomas Friedman and other boosters you find value chains described as kaleidoscopic, complex, operating in a dozen different countries. Those are rare. There is less to "global value chains" than meets the eye. Most of them, Baldwin shows, are actually regional value chains. As noted, they exist on the periphery of the United States, Europe, or Japan. In this, offshoring resembles the elaborate international transactions that Florentine bankers under the Medicis engaged in for the sole purpose of avoiding church strictures on moneylending. Their purpose is not to seek value in the earth's far corners but to get across the border to where the customs,



expectations, and regulations that arose in the industrial age regarding compensation of the workforce don't apply.

PEOPLE'S ATTITUDES TOWARDS GLOBALIZATION depend largely on their attitudes towards those customs, expectations, and regulations. One way of describing outsourcing is as a verdict on the pay structure that had arisen in the West by the 1970s: on trade unions, prevailing-wage laws, defined-benefit pension plans, long vacations, and, more generally, the power workers had accumulated against their bosses. Although these were in most people's minds excellent things—the highest achievements of American and European business, in fact—there was a growing sense by the 1980s that the economy, alas, could not carry them.

But the economic calamity that has struck entire regions of the United States in the years since has led dissenters to revisit certain bedrock questions assumed solved 30 years ago. Do businessmen have an obligation to ensure that their neighbors get first crack at the job opportunities their enterprises generate? Should businessmen deny such obligations, are lawmakers justified in imposing them? High and relatively egalitarian compensation served a number of social purposes. Society owed a debt to modest workers who steadied the constitutional compact in peace and shed blood for it in war. The "family wage" that many corporations paid reflected that debt. It also partially compensated the at-home work of wives and mothers that made it possible to reproduce the society. Corporate executives giddily discovered, once they got to Mexico or Southeast Asia, that they no longer had to think about such things. They were now dealing with a workforce to whom they didn't owe jack.

Viewed this way, the "prosperity" of globalization is just a transfer. It rests on a broken implicit contract. Globalization seems to have delivered up to private parties hard-won competitive advantages that were really the common property of American society. Some are quantifiable things like taxpayer-funded research and development, of the sort that the Carrier air conditioner company benefited

from before it announced it was moving jobs from Indianapolis to Mexico. Others are advantages that can be grasped only conceptually, like economies of scale. The process of Western Bloc globalization that began in the 1990s differs in degree but not in kind from the contemporaneous Eastern Bloc looting of state assets. Globalization comes to seem a con game.

**I**N THE UNITED STATES AND THE UNITED Kingdom this more cynical view has in recent months prevailed over the rosy official account that had been elaborated over decades. In 1993, during the first month of his presidency, Bill Clinton outlined some of the promise of a world in which "the average 18-year-old today will change jobs seven times in a lifetime." How could anyone ever have believed in, tolerated, or even wished for such a thing? A person cannot productively invest the resources of his only life if he's going to be told every five years that everything he once thought solid has melted into air. Far from being a promise, this much-touted side of globalization would be worth a great deal of hardship to avoid.

The more so since globalization undermines democracy, in the ways we have noted. Global value chains are extraordinarily delicate. They are vulnerable to shocks. Terrorists have discovered this. In order to work, free-trade systems must be frictionless and immune to interruption, forever. This means a program of intellectual property protection, zero tariffs, and cross-border traffic in everything, including migrants. This can be assured only in a system that is veto-proof and non-consultative—in short, undemocratic. That is why it is those who have benefited most from globalization who have been leading the counterattack against the democracy movements arising all over the West.

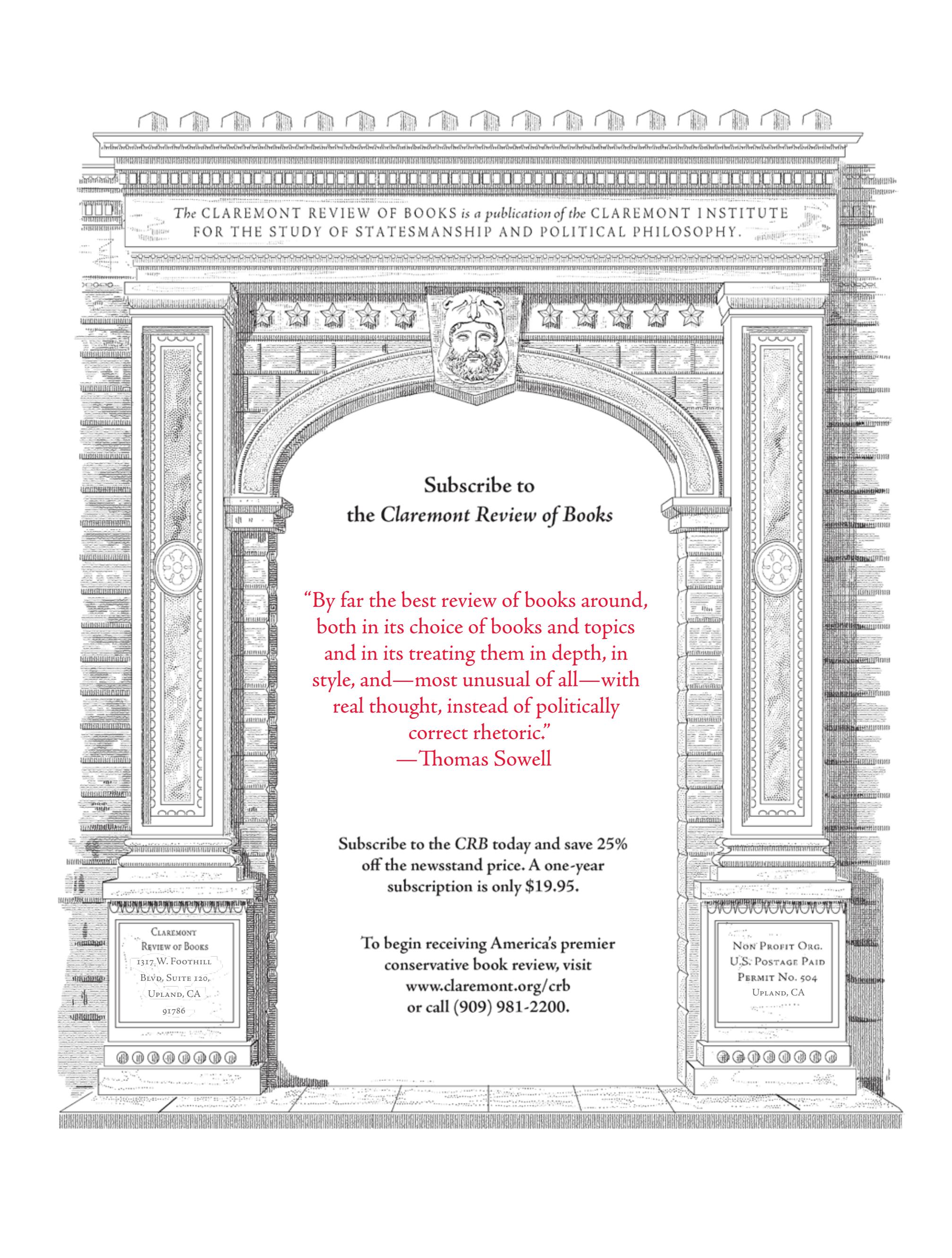
Sheltered from democracy, the economy of the free trade system becomes more and more a private space. Baldwin cites, mostly in a positive light, the case of Dyson, the English engineering company, which, after a bout of offshoring, promised to create thousands of jobs in Britain. "We hope to create the space for them here in Malmesbury," a

spokesman said, "but with a shortfall of 61,000 engineers every year in the U.K., finding them is difficult." If the English people were better, they could have had those jobs, but they have proved unworthy—they have failed the global supply chain. Any sense that the economy should serve the citizenry and not vice-versa tends to get lost.

**G**LOBAL SUPPLY CHAINS ARE BIG, closed systems. "The manufacturing revolution," Baldwin writes, "only happened in developing nations that high-tech firms decided to invite into their production networks." International corporations are constantly threatening and laying down the law to backward societies. The United States has frequently succumbed to the temptation to marshal corporate power to wreck, through boycotts and blockades, the economies of countries with which it has even minor disagreements. One of the alarming innovations of the Obama years was the way the president's aides enlisted corporations of various kinds—from Wal-Mart to the NCAA—to discipline recalcitrant American states in the same way. Indiana was going to have gay marriage and North Carolina was going to let conflicted males use ladies' restrooms, or the administration would rally corporate friends to destroy their economies.

It is hard to say whether we were right to go down this road. Prosperous people tend to think their material advantages are innate, but of course they never are. They rest on history and hard work. What is interesting is that the engineers of globalization have come to see themselves as champions of civil rights for all mankind, job creators, heroes willing to force the West to stop hogging an artificial and contingent advantage. In the West itself, citizens more and more see the same globalizers as a bunch of unscrupulous actors who have broken promises and seized a good deal of hard-won public property. The situation does not promise a resolution that will satisfy all concerned.

Christopher Caldwell, a senior editor at the Weekly Standard, is at work on a book about the rise and fall of the post-1960s political order.



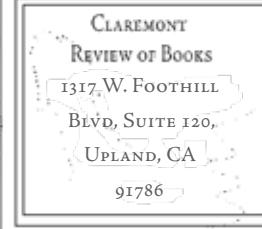
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