Who Wins and Who Loses as Jobs Move Overseas?

By ERIKA KINETZ

The outsourcing of jobs to China and India is not new, but lately it has earned a chilling new adjective: pro- fessional. Advances in communications technology have enabled white-collar jobs to be shipped from the United States and Europe as never before, and the outcry from workers who once considered themselves invulnerable is creating a potent political force.

After falling by 2.8 million jobs since early 2001, employment has risen by 240,000 jobs since August. That gain, less than expected, has not reversed whether the nation is suffering cyclical losses or permanent job destruction.

Last month, The International Herald Tribune convened a roundtable at the Algonquin Hotel in Manhattan to discuss how job migration is changing the landscape.

The participants were Josh Rivins, an economist with the Economic Policy Institute, a nonprofit research group in Washington that receives a third of its financing from labor unions; Diana Farrell, the director of the McKinsey Global Institute, which is McKinsey & Company's internal economics research group; Edmund Harriss, the portfolio manager of the Guinness Atkinson China and Hong Kong fund and the Guinness Atkinson Asia Focus fund; and Eric Johnson, director of Tuck's Glassmeyer/McNamara Center for Digital Strategies at the Tuck School of Business, Dartmouth College.

about. This is a profoundly different relationship between hiring and the business cycle. And I think these jobs are, by far, lost forever.

Who wins in offshoring and who loses?

MR. FARRELL. There is an assumption by protectionists that these jobs are going somewhere else, and all this money has been pocketed by C.E.O.'s who take it home. A little more sophisticated version is: It's being pocketed by companies in the form of profit. One step further and you say these profits are either going to go as returns to the inventors to those companies, or they're going to go into new investment by those companies. Those savings enable me, if I'm an investor, to consume more and therefore contribute to job recreation, and if I am a company, to re-invent and create jobs. That's important because I agree that we are migrating jobs away, some of which will never return, nor should they.

Mr. Rivera. Within nations, trade tends to redistribute a lot of income. The gains get pretty concentrated in the pockets of capital owners. The people who lose out are the blue-collar workers. Now you've got this class of white-collar workers who are much more insecure about their job prospects, their income, the market bargaining power is being undermined. It's not that we need walls all around the economy, but it does mean we need to get really serious about making sure all these gains are distributed.

Mr. Harris. Look at what's gone on in China over the last 18 years. There are 10 million people in those eastern coastal provinces who have seen an extraordinary pickup in their standard of living. And yet you're seeing an economy that is just about to take wing because you now have consumers who were never able to participate in the economy before. Now it is people in the developed world who are being left behind. That is very difficult to resolve.

Mr. Rivera. The best research on this is hoping to people displaced from manufacturing is that they eventually find a new job, but they take an average wage cut of 13 to 14 percent and another 900 million in the rural area. The average wage of a Chinese worker is still 2.5 to 3 percent of the counterpart in the developed world. Those are disparities that will be around for a long time.

Mr. Johnson. It's all about innovation and productivity. As long as we maintain those two engines, we'll continue to have a very high standard of living. Out in the Bay Area, there are plenty of folks who would love to create a little bit of protectionism around their I.T. jobs, but we are far better off letting a lot of those jobs go. Low-skill jobs like coding are moving offshore and what's left in those places are more advanced project management jobs.

Mr. Farrell. We will require different services, medical devices, all kinds of things to support an aging population. Fifteen years ago, you would not have had to be millionnaire many of the jobs that exist today.

Mr. Harris. There is not much new radical innovation in Asia of the kind we're looking at to create jobs in the U.S. Apart from a very few exceptions, what Asia does well is to take the latest innovations and production techniques, invest in the most recent equipment and then bring in their powerful advantages in low-cost labor, and start to produce. For the most part, the benefits to Asia are just going to come with more people coming off the poverty line and into the economy.

Mr. Rivera. What happens when China comes to an end of its poverty cycle?

Mr. Roach. China for all practical purposes has an infinite supply of labor. 400 million in its urban population and another 900 million in the rural area. The average wage of a Chinese worker is still 2.5 to 3 percent of the counterpart in the developed world. Those are disparities that will be around for a long time.

Mr. Johnson. Can China keep labor costs at low and still grow a critical mass of domestic consumers?

Mr. Farrell. You are still talking about a pretty significant critical mass of people who are now entering consumption level incomes. $7,000 to $10,000 C.D.P. per capita. Car sales in China are growing at 30 to 30 percent per annum. Grains. Televisions, refrigerators, mobile handsets all have this kind of J-curve. You only need 10 percent of the population to have a critical mass of income.

Mr. Rivera. Globalization is good at increasing the productive capacity of the world, but to make sure there are enough jobs for everybody, you need demand to keep pace with that increase in supply. That's where globalization presents a real challenge. Government's big role in the future are to make sure global demand matches supply, and to provide social insurance schemes to make sure the living standards of the workers being left behind aren't sacrificed on the altar of global progress.

Mr. Roach. In the future there are two roads. One is to look backward and hang on to what we think we've been entitled to. The other is to recognize what has made America. Our virtues lie in a flexible and open, technology friendly, risk-taking, entrepreneurial, market drives system. This is exactly the same type of challenge farmers went through in the late 1800's, sweatshop workers went through the early 1900's, and manufacturing workers in the first half of the 90's. We've got to focus on setting up in new sectors that push us into new sources of job creation rather than becoming the lessee. There are Republicans and Democrats alike who are involved in this protectionist backlash. They're very vocal right now, and they need to be challenged.