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REGARDING CORPORATE GLOBALIZATION STRATEGIES
CHINA AND THE FUTURE OF GLOBALIZATION
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Corporations are the principle drivers of globalization. In rapidly internationalizing their operations, corporations are fundamentally altering their structure and strategies and posing critical challenges to public authorities at all levels whose responsibility it remains to govern an increasingly global economy. Among these challenges, perhaps the most serious is posed by the integration of China, India and Eastern Europe into the global economy.

As a matter of public policy, we delegate to companies the responsibility to create the many goods and services our society needs. Companies are organized and operate to make a profit. Aligning the legitimate private interest of companies to earn a profit with the public purpose of companies to create the wealth our society needs does not happen naturally. It requires effective law and regulation and competitive markets for products, capital and labor. When companies are properly regulated and effectively governed, the private interests of companies are consistent with their public purpose. However, when regulation is lacking or inappropriate, or when corporate governance is weak or conflicted, a wedge is driven between the private interests of business and the needs of society. The purpose of public policy is to provide the law and regulation, and assure the strong governance, necessary for business to fulfill its public mission.

Only government can assure the rule of law, the protection of property and the enforceability of contract that is fundamental for the conduct of responsible business. Only government can provide the regulations necessary to protect investors, consumers, labor and the environment and assure that the creative energies of business leaders are focused only on those ways of making a profit consistent with the creation of wealth. Corporations must be free to organize their organizational function and form their own business and competitive strategies, but only government can assure the internal governance mechanisms of companies are effective and free from conflicts of interest. Only government can provide the public goods so essential for individual companies to succeed. Finding the right balance between the responsibilities of government and those of business is essential if the needs of our society are to be met, but they are also exceedingly complex, particularly in a rapidly changing global environment.

Our country has developed, through its unique institutions and sometimes under very difficult circumstances, the most powerful economy the world has ever known and, in doing so, has provided the American people with the possibility of enjoying one of the world's highest standards of living. Today, we have an economic potential that even our grandparents could not have imagined. At the same time, it is important to recognize that our unprecedented income and wealth is more unequally distributed among the population than any other developed country in the world. Income, and especially wealth, are distributed more unequally today than at any time in our history since the 1920's.

Globalization provides new opportunities to not only enhance American economic strength and security, but also to extend the many benefits of our prosperity to the billions of people mired in poverty and desperation in the developing world. However, unless properly managed, globalization also threatens to weaken our national economy, aggravate our already unacceptable social and economic inequality and undermine American living standards. The question is not, as is commonly posed, "Is globalization good or bad." The question is what policies we need to assure, in radically altered and rapidly changing circumstances, the proper alignment between the private interest of corporations and the public purpose they must continue to serve. To answer that question, we must better understand globalization and its effects on the structure and strategies of companies.

In some ways there is nothing new about globalization. As is often noted, there have been many other periods of history, which witnessed accelerated movements of goods, capital and people across national boundaries and in which national economies thereby became more integrated. The levels of investment, trade and immigration between the U.S. and the rest of the world were all higher relative to national income in the early 20th century than they are in the early 21st century. What distinguishes this period of globalization from others, however, is the internationalization of production. Today, improving information and communications technologies make it possible for firms to source their markets from anywhere in the world. Multinational companies, establishing worldwide production networks are the drivers of the current phase of globalization, not the information, communications and organizational technologies they employ. Both the structures and the strategies of corporations are undergoing fundamental changes as they establish complex global sourcing strategies. The magnitude and direction of international trade, investment and even immigration are increasingly determined by changing structures and strategies of multinational corporations.

Globalization, as the internationalization of production, forces a disjunction between the economic spaces in which individual corporations operate and the territorial and political space in which public authorities is still confined. Laws and regulations effective and appropriate in a relatively closed economy are weakened or even rendered perverse, as the operations of the corporations they regulate are increasingly international. The balance of power between governments and companies is shifting dramatically because companies with international production capabilities can shift their operations in search of more accommodating public authorities. And, because countries, particularly developing and transition countries, rely on the capital, technology and organizational knowledge which multinational companies can bring for their development, the governments of those countries are tempted to shape their laws and regulations to attract foreign investment. The result is international regulatory arbitrage in which multinational companies shop for the most convenient venue in which to organize their production.

Modern, public traded, multidivisional companies have been operating internationally for decades, of course, but it was only over the past twenty years or so that multinational companies began to seriously organize their production processes internationally into globally integrated sourcing strategies and begin turning their attention to the developing and transitional economies.

One of the most fundamental and challenges to maintaining the appropriate balance between government and increasingly multinational corporations is the fact that, with the entrance of China, India and the countries of the former Soviet bloc into the global economy, the global labor force will effectively double in size in a very short period of time. Not only will the effective global labor force double, but also the estimated 1.5 billion new workers from China, India and the former Soviet bloc will be working at wages and under standards and conditions that are far below those of workers in the more developed world.

Whatever one thinks about the law of comparative advantage, the law of one price is real, and it can be brutal. Millions of jobs that would exist, or be created, in the developed world, will now be created in the international operations of multinational corporations or their business partners in the developing and transition economies. Just as serious, the exit threat which multinational companies hold will shift the balance of power dramatically away from workers in the developed world. Workers desperate for employment in slack labor markets in the global North will attempt, as they are now doing, to bid down the wages and benefits they demand, offer to work longer hours and endure harsher conditions in the effort to remain competitive with the new workers in developing and transition countries.

American workers are among the most productive workers in the world, but their advantage due to higher productivity is swamped by the wage differentials with workers in the developing and transition countries. And even the productivity advantage of American workers is disappearing, as companies are able to find amply supplies of highly educated and skill workers abroad. Combined with the most advanced technology and organization, these workers are approaching, or even exceeding, U.S. productivity levels.

The shift in bargaining power from employees to their employers is already well underway in the U.S. and is driving our country's growing economic and social inequality. From 1949-73, real wages rose steadily along with productivity. This was the period in which the American middle class was built. Throughout this period income inequality and poverty were reduced. Since 1973, however, productivity has continued to advanced – and recently even accelerate – but real wages have been stagnant.

The result is the current unacceptable level of inequality. The Congressional Budget Office estimates that from 1979-2001 the incomes of America's richest one percent of families increase by 139 percent to more than $700,000, while the incomes of the middle 20 percent rose only 17 percent to less than $44,000. In the current recovery from the 2001 recession, productivity has surged but an overwhelming proportion of increased income has gone to profits, not wages.

Since employment peaked in manufacturing in the U.S. in 1998, the American economy has lost 3.3 million manufacturing jobs. Studies conducted by the Federal Reserve Bank in New York have estimated that 89 percent of the jobs lost in the last recession, many of them manufacturing jobs, were lost for structural reasons, meaning that they will not come back as the economy recovers.

The off shoring of jobs in the service sector is more recent, but it promises to escalate rapidly. In manufacturing, at the end of the day, companies must move a box, a thing, from wherever it is produced to the customer however developed is the information and transportation technologies involved. In information services, however, communication is transportation. Any activity that can be digitalized can be done anywhere in the world in today's integrated world. Estimates vary, but we must believe that there are millions of American jobs that once seemed secure that could easily move to the developing world. It is not too much of an exaggeration to imagine that more and more of what we consume will be manufactured in China and serviced from India.

Already, as a nation, Americans are borrowing more than two billion dollars a day to pay for the things that we consume that we do not produce. As a result, our external account is currently running a deficit of nearly six percent of GDP and growing. These deficits, which have transformed the U.S. from one of the world's largest creditor nation's into the world's largest debtors, represent one of the most serious imbalances in the global economy. As I am sure you are aware, increasing amounts of these debts are held in central banks, especially in Japan and increasingly China. As you also know, there is much speculation, in the U.S. and abroad, about how much longer these banks can continue to buy this debt and what will happen if they decide to diversify their holdings.

Just as serious are the implications for the U.S. economy. If we cannot indefinitely rely on loans from the rest of the world to support our nation's consumption, one of two things must happen: either we find some way to produce more, or we will be forced one, way or another, to consume less. Consuming less is not, or should not be, an option. We still have too much unmet needs for too many of our citizens and the security of our country rests on the strength of our economy. Producing more of what we consume will be difficult, however. Currently we are not investing enough of the money we borrow abroad in the national economy, we are consuming it.

The current recovery is still quite weak by the standards of other recoveries since World War II, but at least the economy is growing, unlike the economies of Europe and Japan. However, it is consumer spending that is powering U.S. economic growth, supported more by rising housing prices than by rising incomes. Profits have surged in the recovery, but business spending has lagged and most of the business spending is to upgrade information services, not to build new productive capacity, at least not in the U.S. Meanwhile, in the absence of the investment, both public and private, we need to build a more competitive national economy, we are losing our capacity to produce. It is surely true that we do not presently have the capacity to increase exports enough to come close to closing the deficit in our external accounts.

There was a time in the late 1980's when competitiveness was a national concern, prompted then by the increasing loss of market share to foreign producers in a wide range of industries, especially from companies in Japan. Many studies were conducted, commissions formed and even institutions created to help the nation regain its competitive strength. The debate abated with the surge of growth in the 1990s and was eclipsed by visions of a "new economy." With the bursting of the Internet bubble in 2000 and the recession and weak recovery that have followed it may again be possible to focus on our nation's competitive challenges.

Much, however, has changed from that earlier competitive challenge. Most important, companies, at least those that have survived, have met their competitive challenge. The national economy has not met its competitiveness challenge. The boundaries of companies has been redrawn as companies strategically identified their core competence, the capabilities they feel are fundamental to their competitive success, and outsource other activities to their business partners. To lower their costs, particularly their labor costs but also their taxes and regulatory burden, they contract with business partners overseas, particularly in the developing countries. In doing so, they have created an enormous market for manufacturing and service contractors from both the developed and developing countries which capture increasing economies of scope and scale by consolidating their own capabilities in providing these manufacturing and service functions. In a sense, the companies have solved their competitive advantage, or made enormous progress from the 1980s, but have left the U.S. economy behind.

Although chartered in the U.S., these multinational corporations increasingly view themselves as "global companies," scouring the world in search of the most advanced technologies, the best trained managers and engineers, the least expensive capital, the most hospitable tax and regulatory environment and the cheapest workers. This may work well, at least in the short term, for the companies, its shareholders and especially their CEOs and senior managers, but it does nothing for the competitive strength or prosperity of the country. Worse still, U.S. companies and their trade associations lobby American politicians to assist them in their competitive strategies by reducing their taxes, relaxing our environmental standards and negotiating international trade and investment agreements all aimed at assisting the companies' competitive position. The result is less revenue for the U.S. government to educate and train the American workforce and provides the infrastructure and support for companies committed to building their future in the U.S.

The contemporary phase of the globalization of American business began with individual pioneers – Nike, Motorola, GE come immediately to mind – who sought to enhance their competitiveness by combining the most advanced technologies and organizational initiatives, with the virtually endless supply of low wage workers in the developing and transition economies. As more and more companies followed, outsourcing and off shoring fundamentally altered product market competition. The mere opportunity to raise profit margins by off shoring increasingly became a competitive necessity if profit margins were to be protected in a widening range of industries. The insistent demands of capital markets for the highest short-term returns are also reinforcing the pressures from product markets for firms to outsource operations.

Indeed, today, outsourcing and off shoring production has become a management fad supported by an army of management consultants arguing to management that off shore outsourcing is essential to maintain competitiveness and providing their services to help their clients chart the unfamiliar waters.

As a result, the product market pressure on millions domestic American companies determined to operate in the U.S. has become intense. Profit margins are squeezed and in many industries, companies operating in the U.S. are under tremendous pressure and too many are being forced to choose between off shoring themselves, or going out of business altogether.

While our government should be taking steps to assure that companies operating internationally do not escape their responsibilities to their employees, taxpayers and the American public, it should also be helping make it easier to build world-class companies operating in the U.S. Unfortunately, the current administration's policy for dealing with the challenge to our national competitiveness is to negotiate as many free trade agreements as possible, cut taxes, particularly for our wealthiest citizens and hope for the best. Instead we need a national industrial strategy focused on assuring that companies operating internationally do not escape their responsibilities to the American people and undermine the companies that are struggling to build successful companies operating in the United States.

China represents a particularly serious challenge for the competitiveness of the American economy. China's entry into the global economy represents an additional 760 million workers at an average wage of 10 percent or less of U.S. wages, or 52 percent of the new additions to the global labor force. What really distinguishes China, however, are the unique labor market institutions of that country. Unlike workers in India or Eastern Europe, each unique in their own way, the workers in China are systematically denied their fundamental human rights – the right of freedom of opinion and speech, the right of mobility within the country, freedom of association, but especially the freedom to form unions and bargain collectively.

The Chinese government -- the Peoples Republic of China, ironically – boasts the largest labor movement in the world, an estimated 134 million workers. Unlike workers in India and Eastern Europe, and the rest of the world, however, Chinese workers are not allowed to form unions independent of the All China Federation of Trade Unions (ACFTU) and the Chinese government and the Chinese Communist Party control the ACFTU. The

ACFTU is an organ of the Chinese government and party, not a federation of autonomous worker organizations.

Moreover, unlike any other labor movement in the world, no action can be taken by any firm level labor organization without the approval of the local labor organization, which cannot be approved without the approval of the regional organization, and so on up to the chain of command to the national ACFTU which is accountable to the Chinese Communist Part and the Chinese government. It is one of the ironies of modern history that the Peoples Republic of China operates one of the most repressive labor regimes in history. Unions in Russia and Eastern Europe have been transformed into autonomous workers organizations as a part of their transition from authoritarian domination. India has maintained, throughout its modern history, a tradition of free and independent unions. But today, the Chinese government stands alone in operating the most oppressive labor regime in the world.

Moreover, the systematic oppression of China's workers is a key component of that government's competitive strategy. The authoritarian Chinese government has obviously decided that in order to maintain power in a post-Communist world, they must build a strong economy and provide jobs for the China's enormous population. Though China's national savings rate is quite high, particularly in relation to that of the U.S., they rapidly liberalizing their economy in order to attract private foreign investment and the organizational and technological sophistication only available from companies in the more developed world. The resulting products are not for domestic consumption, but are targeted on the vast markets of the developed world, and particular those in the U.S.

There is a growing symbiosis between the Chinese government's development strategy and the changing structures and strategies of U.S. companies. One might be tempted to say that it is almost something of a joint partnership. China offers virtually endless supply of extremely inexpensive labor, in exchange for the most advanced technology and organization and access to a vast market for Chinese product.

To this point, the Chinese government's strategy has been wildly successful. China recently past the U.S. as a recipient of private foreign investment, the rate of investment overall is over 50 percent of GDP and a double-digit rate of growth of production and exports. Finally, by investing their trade surplus with the U.S. in dollar denominated assets, instead of allowing their currency to appreciate against the dollar, China has built their dollar reserves to a level second only to Japan.

Whether this strategy is sustainable in China, and for the world, is a very complex question the answers to which do not have the time here or the expertise to answer. What is easier to see, is that this strategy is unsustainable for the U.S. Some U.S. companies may be becoming more competitive, at least in the short term, but U.S. national competitiveness is seriously undermined by the Chinese government's development strategy. Further the social and economic inequality fostered in the U.S. by China's development strategy, will surely provoke increasing reaction against China and against globalization as a whole.

I do not have the time here to explore the national strategy, which the U.S. government might pursue to restore American industrial competitiveness. Nor do I have the time to pursue the complementary set of policies that need to be implemented at the global level to assure that the developing and transition economies can grow and be integrated into the global level without undermining the economic strength and the relatively high social and economic standards still found in the more developed world. But, because this is the U.S.-China Commission, I wanted to briefly sketch a particular policy to address the problem of the systematic oppression of hundreds of millions of Chinese workers: international workers rights as a component of international trade and investment agreements.

While the trade and investment agreements negotiated to date have provided elaborate, if somewhat less than effective, protection for intellectual property, they are uniformly, and by design, silent on human and worker rights. This is a crucial weakness in these agreements that make it possible for the Chinese government to become a party to these agreements and that way gain access to global markets, while continuing to oppress their workers.

Human and workers rights – freedom of opinion and expression, freedom of association and the right to organize autonomous unions – are at least as important as intellectual property rights, and no more difficult to protect. The protection of human and worker rights is not intended, and would not have the result, of excluding Chinese goods from global markets. The protection of human and worker rights is intended rather to take oppression out of international competition, just as protection of intellectual property in these agreements is intended to take piracy out of competition.

By enforcing worker rights to be recognized in China, and allowing autonomous worker organizations to be formed, Chinese workers would have the protection, which the Chinese government denies. By forming their own unions and bargaining with their employers, Chinese workers could share in the benefits of Chinese development and help build a domestic Chinese market for Chinese products as well as the products of China's trading partners, including companies in the U.S. Just as important, Chinese unions would help build more democratic institutions in China as they have in so many other developing countries and allow China to develop its civil and political life as it develops its economy and integrates with the more developed countries in the global economy.

Enforceable human and worker rights would also remove the asymmetry in international trade and investment agreements between the protection of intellectual property and human rights. It would also help repair the currently perverse incentives such agreements provide companies in deciding between high- and low-road competitive strategies and whether to off shore their activities or produce in the American economy.

In conclusion, one thing is clear: the interaction between the Chinese government's development strategy and the changing business strategies of American business is providing a powerful force which is weakening the American economy and contributing to our country's already unacceptable levels of social and economic inequality. Individual companies may be succeeding in this relationship along with their shareholders and senior executives, but the American economy and our country's workers and communities as well as many of America's domestic companies are being left behind. It is the responsibility of government, a responsibility only government can bear, to create the laws and regulations necessary to respond to the many challenges of rapidly changing global economy and help restore the strength of the American economy as well as its fairness.