Offshoring, Outsourcing & the 'Global Labour Arbitrage'

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by John Smith

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Introduction

'Global Labour Arbitrage': *dramatic international divergence of wages provides capitalists in imperialist nations with two ways to boost profits: by moving production processes to where labour is cheaper (whether to a subsidiary or an independent supplier), or by forming a pool of super-exploitable migrant labour at home.*

Recent Marxist literature on 'new imperialism' and value theory has given scant attention to this phenomenon, so we must turn instead to mainstream economists and value-chain analysts for an initial source of facts and insights. 'Global Labour Arbitrage', a term popularised by Stephen Roach, senior economist at Morgan Stanley, attempts to capture this driving force behind the offshoring/outsourcing phenomenon, so I've borrowed it and put it to use to open up an investigation aimed at helping fill what seems to me to be a serious gap in Marxist theory.

This paper investigates economic aspects of the 'global labour arbitrage': its role in supporting continued profitability and capital accumulation in the imperialist nations, its complex effects on workers' consumption levels in those nations, and the accumulating contradictions of export-oriented industrialisation for southern nations. The subject is steeped in politics, but this dimension is not explored here. Before we submerge ourselves in the world of values and prices, it is well to be mindful of the exceptional importance of its two principal channels—migration and outsourcing—to global politics, to the contemporary political struggles between nations and classes. Their presence can be felt in many places and contexts: migration and outsourcing are pivotal themes in the demagogy of ultra-nationalist and fascist movements in many European nations; both are hot-button issues in US politics; both were present in the national debate in South Africa sparked by attacks on migrant worker camps; and the expandsion of US and European capitalists' 'access' to cheap Latin American or central European labour gave impetus to the formation of NAFTA and the expansion of the European Union.

The paper is presented in three parts. ***1. The globalisation of production processes*** explains why *this* is the defining transformative feature of neo-liberal globalisation, and it investigates one particular commodity whose production is being globalised: *labour power*. ***2. What is 'global labour arbitrage'?*** argues that the fundamental driver and shaper of the globalisation of production processes is the substitution of higher-paid labour for low-paid labour. ***3. Offshoring vs. outsourcing***

introduces these two different forms of TNC-supplier relationship, looks at what differentiates them and what unites them and why arm's-length outsourcing is increasingly favoured over traditional in-house FDI; and considers some important technical and methodological problems concerning how standard trade and GDP data are compiled and interpreted. Parts one and two have been condensed from larger studies; part three is work in progress, fragments towards a larger study. A brief conclusion suggests some connections between the argument developed here and the themes of Naples conference.

I welcome any suggestions, comments or criticisms.

John Smith, PhD candidate, University of Sheffield (john.smith@sheffield.ac.uk)

Note on terminology.

I try to use the same terms as those employed by the source of the material being considered, and put them in quotation marks, for example 'developed' and 'developing'. Elsewhere I use my own words. My preference is for 'North' and 'South', shorthand terms that emphasise the territoriality of the contemporary global divide and its strong continuity with the past; far richer and far more concrete are 'imperialist' and 'exploited'—as this paper argues, in the era of neoliberal globalisation, economic exploitation of the global south by capitalists in the 'advanced nations' has become central to the latter's fortunes.

1.The globalisation of production processes

Despite the accelerated growth in foreign trade and the even more spectacular efflorescence of capital markets, neo-liberal globalisation's newest and most transformational feature is not to be found in the market-place but in *"the hidden abode of production"*.[1] Here we find what is new about 'new imperialism': *the globalisation of production processes*.

In 19th-century capitalism, the various stages in the processing of raw materials into final goods typically took place within a single factory. The 20th century saw the growth of more complex production networks within national and regional borders, and, especially since World War II, a big trend towards intra-national outsourcing of many so-called service tasks. For most of these two centuries international trade consisted of raw materials and final goods. Neoliberal globalisation has transformed this picture. William Milberg, who brings many illuminating insights to this study, noted in an ILO paper,

> *"because of the globalization of production, industrialization today is different from the final goods, export-led process of just 20 years ago".*[2]

The big difference, in Milberg's view *'the defining manifestation of globalized production'*, no less, is *"the rise in intermediate goods in overall international trade, whether it is done within firms as a result of foreign direct investment or through arm's length subcontracting."*[3]

International trade in intermediate inputs is unambiguous, *prima facie* evidence of the proliferation of globalised production processes, but no less significant is the explosive growth in the South's exports of final goods, especially articles of mass consumption.[4] Concerning the scale of the phenomenon, Milberg reports that:

> *"there is now massive evidence that global production sharing is being undertaken in a wide variety of sectors, including textiles and apparel, consumer electronics, transportation and machinery, light consumer goods industries such as toys and even services as diverse as sales and finance."*[5]

Among the many investigations which confirm this verdict, one of the most notable was conducted by Kate Bronfenbrenner in two papers with Stephanie Luce and with James Burke. By meticulously

1 Reference to Marx's characterisation of the free trade pundits of his day in Capital (1867 p279-80).

2 Milberg, 2004, p38

3 Milberg, 2004, p9

4 Since service tasks can also be 'intermediate goods', Milberg's definition is broad enough to encompass service outsourcing.

5 Milberg, 2004, p13

recording and corroborating all reports of production outsourcing in local media and *"a variety of data sources and on-line databases",* they show that only a small part of production and services outsourcing appears in official data published by the Bureau of Labour Services (BLS). Bronfenbrenner and Luce estimate that each year from 1992 to 2001 between 70,000 and 100,000 production jobs shifted from the US to Mexico and China, the first and second-most important destinations for US outsourcers, and that this has accelerated since the beginning of the new millennium: *"the total number of jobs leaving the US for countries in Asia and Latin America increased from 204,000 in 2001 to as much as 406,000 in 2004."* [6] Earlier, Bronfenbrenner and Burke noted that *"the US companies that are shutting down and moving to China and other countries tend to be large, profitable, well established companies, primarily subsidiaries of publicly-held, US-based multinationals".*[7] They summarised the overall picture like this,

> *"the outsourcing of production, both near shore and off shore, from the US and around the globe, crosses nearly every major industrial sector, from communications and IT, to high-end manufacturing of industrial machinery and electronics components, to low wage manufacturing in food processing and textiles."* [8]

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The transformation of global labour

The globalisation of production processes has transformed the global working class, *i.e.* all who support themselves and their families by selling their labour power. Gary Gereffi vividly describes the transformed panorama like this:

> *"A striking feature of contemporary globalisation is that a very large and growing proportion of the workforce in many global value chains is now located in developing economies. In a phrase, the centre of gravity of much of the world's industrial production has shifted from the North to the South of the global economy."* [9]

The world's 'economically active population' (EAP), grew from 1.9 billion in 1980 to 3.1 billion in 2006, a 63% increase.[10] A*lmost all of this numerical growth has occurred in the 'emerging nations'*, now home to 80% of the world's EAP. Since 'emerging nations' typically have a higher export/GDP ratio than do rich countries, their fraction of the 'export-weighted global labour force' is even higher.

6 Bronfenbrenner et al, 2004 p56 They claim that *"[o]ur research is the only empirical work that allows scholars and policymakers the information needed to understand these global trends."* Bronfenbrenner et al, 2004 p81

7 Bronfenbrenner et al. 2002 pii

8 Bronfenbrenner & Luce, 2004 p80.

9 Gereffi. 2005, p5

10 EAP data from Laborsta.

Between 1980 and 2005 the proportion of wage and salaried workers in total EAP in 'developed nations' steadily rose, from 83% to 88% (in 2005, around 500 million people), indicating an ever-deeper proletarianisation in these countries. A much lower portion of the southern nations' EAP is in paid employment, this has hovered around 60% during the past quarter-century,[11] and now numbers some 1.6 billion people; the other 40% comprising small farmers and workers in the infinitely various 'informal economy', many waiting for a job and a wage in the formal sector or ready to migrate in search of one. Formally excluded from the employed proletariat, they increasingly function as its reserve army.

One resultant of these changes is the enormously-enhanced presence of southern industrial workers in the global workforce. 78% of the world's industrial workers now live in 'emerging nations', up from 34% in 1950 and 53% in 1980. The proletarians of the global South have not only become more numerous, they have become very much more integrated into the global economy, and this greatly magnifies the impact of their numerical growth. Meanwhile, the total number of industrial workers in the United States has just about held steady over the past two decades and has declined as a proportion of the expanding workforce. In all other imperialist nations the industrial workforce has declined absolutely as well as relatively.

China's astonishing rise as a major manufacturing exporter is renowned, but manufactured exports provided 50 percent or more of export growth between 1990 and 2004 for another 40 'emerging nations with a combined population twice that of China's. Bangladesh, which has the highest proportion of manufactures in total exports of any country on earth, also holds another record—the lowest wages among major southern exporting nations, although the competition is intense. It is true that export-oriented industrialisation is highly concentrated in a few nations, China "the export platform of choice" and a handful of others, but whether they are successful or not, export-oriented industrialisation is the only game in town for poor countries who aren't blessed—or cursed—with natural resources.

In a 2004 report entitled *"Trading Away Our Rights – Women Working in Global Supply Chains"*, Oxfam researchers give us a glimpse of the multitudes of workers in southern fields and factories, the majority young and female, producing cut flowers, computers, car components and most of our clothes:

[11] Laborsta provides data for 111 emerging nations, but this does not include China—which is just as well, since China is not just a large 'emerging nation' is just as well since China is not merely a large 'emerging nation', it is a country in transition from socialism to capitalism (a process that is far from complete).

"Today, supermarkets and clothing stores source the products that they sell from farms and factories worldwide. At the end of their supply chains, the majority of workers—picking or packing fruit, sewing garments, cutting flowers—are women…. Commonly hired on short-term contracts—or with no contract at all—women are working at high speed for low wages in unhealthy conditions. They are forced to put in long hours to earn enough to get by. Most have no sick leave or maternity leave, few are enrolled in health or unemployment schemes, and fewer still have savings for the future."[12]

Many of these workers are employed by tens of thousands of southern-owned factories in low-wage nations supplying northern industries with cheap inputs and retail giants like Tesco and Wal-Mart with cheap consumer goods. As Gereffi remarked,

"more than 80% of the 6000 factories in Wal Mart's worldwide network of suppliers are in China. In 2003, Wal-Mart spent $15 billion on Chinese-made products; this total accounted for nearly one eighth of all Chinese exports to the United States… A typical export factory in southern China pays a salary of $40 per month, which is 40% less than the local minimum wage. Workers put in 18-hour days with poor workplace conditions, minimal training, and continual pressure is to boost output. [13]

Independent southern suppliers *"have no rents to share with employees, and can survive only if wages are kept at a minimum. The increased use of sweatshop labour today, which has come with the rise in arm's-length outsourcing, can be seen as tied to global production sharing."*[14]

Such arm's-length 'outsourcing' relationships don't count as FDI and are completely absent from FDI statistics.

Services outsourcing

One reason for the peculiar dynamism of the globalisation of production processes is that technological and other changes increasingly propitiate the outsourcing of *individual segments and links* of production processes, as they also do to a myriad of 'service' tasks. Richard Baldwin, in *'Globalisation: the great unbundling(s)'* argues this has created 'a new paradigm'; *"international competition"*, he states, *"which used to be primarily between firms and sectors in different nations, now occurs between individual workers performing similar tasks in different nations"*.[15] This blurs still further the

[12] Oxfam, 2004, p4. Oxfam conclude, *"Instead of supporting long-term development, trade is reinforcing insecurity and vulnerability for millions of women workers."*

[13] Gereffi, 2005 p19

[14] Milberg, 2004b p10

[15] Baldwin, 2006 p5

boundaries between 'industry' and 'services', leading Baldwin to argue that the old conception of trade in goods and services should be replaced with *'task trading'.*

For several decades, outsourcing was associated with labour-intensive manufacturing processes, and has been massive, despite the significant obstacles presented by the costs and delays of transportation over long distances. The irruption of this into 'services', in particular to any service which can be delivered instantaneously and with zero transportation costs to a computer screen, has only become a practical possibility since the late 1990s and is still in its early stages. Outsourcing combined with brutal speed-ups of production lines in US industries has made the term "jobless recovery"—where jobs shed during downturns do not reappear during the upturns—familiar to millions of industrial workers. New-found possibilities for outsourcing service tasks implies it will become increasingly familiar to wide swathes of 'service' workers—except that, as depression conditions take hold, upturns will be short-lived pauses on a downward spiral.

According to Richard Freeman *"if the work is digital — which covers perhaps 10% of employment in the United States [around 14 million workers-JS] — it can and eventually will be off-shored to low-wage highly educated workers in developing countries."*[16] Such predictions by Freeman and other leading US economists have been widely reported in the US news media, another being "Offshoring: The Next Industrial Revolution?" by Alan Blinder's in *Foreign Affairs: "we have so far barely seen the tip of the offshoring iceberg, the eventual dimensions of which may be staggering."* [17] He concluded, under the sub-heading '*This time it's personal*',

> *"as the domain of tradable services expands, many service workers will also have to accept the new, and not very pleasant, reality that they too must compete with workers in other countries..... Many people blithely assume that the critical labor-market distinction is, and will remain, between highly educated (or highly skilled) people and less-educated (or less-skilled) people... The critical divide in the future may instead be between those types of work that are easily deliverable through a wire... and those that are not."* [18]

16 Freeman, 2005. These projections are a subject of intense debate. See Bronfenbrenner and Luce (2004) for a survey of attempts to estimate the number of jobs in the USA that are susceptible to outsourcing over the coming decade.

17 Blinder, 2006, p114

18 Blinder, 2006, pp117-8.

Labour and globalisation

Focusing on the globalisation of production processes gives centre stage to living labour, the one ingredient that all production processes have in common. Two facts about labour and globalisation are singled out here for special attention:

— while all other global capital and commodity markets are becoming more integrated, the global labour market is increasingly and enormously distorted by restrictions on the free movement of labour across borders,

— labour power is also a commodity and its production is also being globalised, as more and more of the consumption goods which sustain the working class in imperialist nations are produced by workers in the global south.

Between them, these two outstanding features of actually-existing globalisation—increasing interdependence/competition between workers at a global level and the increasing role of cheap imports in the sustenance of northern workers—increasingly define relations between capital and labour in both the North and South. They are critical to understanding the new lease of life that neoliberal globalisation gave to a post-war boom that had run out of steam by the mid-1970s, of the character of the crisis which now finally marks its end, of the contradictory dynamics of politics and class struggle in the imperialist nations and the exploited nations, and of the prospects for a rekindling of proletarian internationalism.

The pre-existing segmentation of the labour market by skill and sector is, at a global level, accompanied by an extremely deep territorial segmentation, and the deepest cleavage of all runs along the great North-South divide.[19] Labour is the great and glaring exception to global economic integration. Factories freely cross the border between the US and Mexico and pass with ease through the walls of Fortress Europe, as do the commodities produced in them and the capitalists who own them, but the human beings who work in them have no right of passage. What we've got is not globalisation but a travesty of globalisation—a world without borders to everything and everyone, except for working people.

One consequence of immense significance was spelled out by Harvard economist Dani Rodrik:

[19] Denied by many earthlings, the continued North-South divide is clearly visible from outer space—at night Europe, North America and Japan emit more light than the whole of the rest of the planet. See http://www.atimes.com/atimes/images/earth_night.jpg

"Removal of restrictions in markets for goods and financial assets has narrowed the scope of price differentials in these markets…. Meanwhile, there has been virtually no liberalization of markets for cross-border labor services. Consequently, wages of similarly qualified individuals in the advanced and low-income countries can differ by a factor of 10 or more. …" [20]

Stephen Roach made the same point: *"wage rates in China and India range from 10% to 25% of those for comparable-quality workers in the US and the rest of the developed world,"* [21] 'Similarly qualified' and 'comparable productivity' implies that a southern worker's 'marginal product' systematically and massively diverges from her/his wages, contradicting one of the central precepts of the ruling economic doctrine, that the equilibrium wage is equal to the workers' marginal product (if it was less, so the reasoning goes, the capitalist would hire more workers, bidding of wages until parity is achieved) and by extension, that international wage differentials result from and reflect differences in the productivity of labour.[22].

There is much here that needs investigating, but even an exhaustive analysis would only yield a one-sided concept. It only speaks of the global labour market, where labour power is bought and sold. It says nothing at all about the production and reproduction of labour power itself and the impact of globalisation on this. Living labour is also a commodity—indeed, the commodification of labour power is the very essence of capitalism—*and its production is also being globalised*. Specifically, more and more of the manufactured consumer goods which reproduce labour power are produced by super-exploited workers in the semicolonial nations.

Hence the dual effects of the globalisation of production processes on workers in imperialist nations. As cheap industrial raw materials or semi-processed manufactures, offshored/outsourced production enables capitalists in the imperialist nations to lower production costs and boost profits by replacing higher-paid domestic labour with low-wage southern labour. As clothing, food and other mass consumption goods, it permits consumption levels to rise faster than wages—or to fall slower. The IMF's *World Economic Outlook 2007* (WEO 2007) attempted to weigh this effect, concluding that *"although the labor share [of GDP] went down, globalization of labor as manifested in cheaper imports in advanced economies has increased the "size of the pie" to be shared among all citizens, resulting in a net gain in*

20 Rodrik 2002 p18-21

21 Roach, 2003, pp5-6

22 Along these lines, Baldwin argues (but provides no evidence) that *"in manufacturing… the North-South wage gaps have already been brought more or less into line with the North-South productivity gaps."* Baldwin, 2006 p37

total workers' compensation in real terms."[23] This confirmed Unctad's earlier verdict that *"Industrial countries… [have] gained from… cheaper manufactured imports… greatly help[ing] to maintain income levels and reduce inflation,"* [24] or as Princeton economists Gene Grossman and Esteban Rossi-Hansberg put it, *"Increased offshoring has been a countervailing force that has supported American wages."*[25]

WEO *2007* estimates that between 1980 and 2003, real, terms-of-trade adjusted wages of unskilled workers (defined as those with less than university-level education) in the US increased by 14%,[26] and that around half of this improvement resulted from falling prices of imported consumer goods. It comments,

> *"although the labor share [of GDP] went down, globalization of labor as manifested in cheaper imports in advanced economies has increased the "size of the pie" to be shared among all citizens, resulting in a net gain in total workers' compensation in real terms."*[27]

However, the IMF is likely to have significantly underestimated the positive impact of cheap imports on real labour compensation in the "advanced economies". Its calculations, based on the consumption basket of the mythical 'average citizen', don't take account of the fact that cheap imports from low-wage economies form a much larger proportion of workers' consumption goods than they do of the middle and upper classes; and that the latter's luxury goods are more likely to have been produced by more expensive labour in firms which have yet to outsource their production processes, though it is happening there as well.

For nearly every year since it began in 1976, Forbes.com's 'Cost of Living Extremely Well Index', which tracks the prices of 42 luxury items, including 'high-end spa services', Harvard University tuition fees and helicopters, has reported that those 'living extremely well' experience a significantly higher rate of inflation than the rest of the population.[28] A much more detailed picture of the differential inflation rates experienced by rich and poor in the United States has recently been provided by University of Chicago professors Christian Broda and John Romalis,[29] who performed the heroic task of establishing a 'concordance' between two giant databases, one tracking the

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23 IMF 2007a, p179.

24 Unctad Trade & Investment report 1999 - Overview pII

25 Grossman & Rossi-Hansberg , 2006 p28

26 To make this calculation, the IMF deflated nominal wages by the rate of inflation as reported by the official Consumer Price Index (CPI). Some of the reasons to doubt the accuracy and integrity of CPI data are discussed later in the appendix.

27 IMF 2007a, p179.

28 See http://www.forbes.com/2001/12/10/1203clewi.html

29 *"Inequality and Prices: Does China Benefit the Poor in America?"* by NBER economists Christian Broda and John Romalis.

quantities and price movements of hundreds of thousands of different goods consumed by 55,000 US households, the other covering imports of 16,800 different product categories.

Focusing on non-durable goods, i.e. food, clothing and other so-called 'consumables', they found that, over the eleven years from 1994 to 2005, prices of the non-durable goods purchased by the richest decile of households rose at a significantly faster rate than those purchased by the poorest decile; and the reason for this is the *"fall in the price of goods that are heavily consumed by the poor"* resulting from *"the expansion of trade with low wage countries"*. This effect is amplified because the richest households spend significantly more of their income on services and less on non-durable goods than working-class households, and *"service inflation… has been substantially larger than inflation in non-durable goods."*[30] This effect is large enough, the authors claim, to offset almost half of the widely-reported increase in income inequality in the United States over this period.

Broda and Romalis argue,

> *"while the expansion of trade with low wage countries triggers a fall in relative wages for the unskilled in the US, it also leads to a fall in the price of goods that are heavily consumed by the poor. We show that this beneficial price effect can potentially more than offset the standard negative relative wage effect."*[31]

They calculate that four-fifths of the total inflation-lowering effect of cheap imports is accounted for by cheap Chinese imports,[32] these having risen during the decade from 6% to 17% of all US imports,[33] and that *"the rise of Chinese trade… alone can offset around a third of the rise in official inequality we have seen over this period"*. They spelt out three factors that have come together to create this effect:

> *"1) The rise in Chinese exports have been heavily concentrated in low quality products; 2) Lower income households [in the US] consume a higher share of non-durable goods and in particular of low-quality products; 3) In the modules where the share of Chinese exports to the US have increased the most, US prices have fallen the most."*

Hence the provocative title of their article in the Financial Times: *'China and Wal-Mart: the champions of equality'*.

30 Broda & Romalis, 2008, p24. Two reasons why this is so: 1) 'services' tend to be labour-intensive and less susceptible to technology-driven productivity gains than manufacturing processes; 2) unlike manufactured goods, many services must be produced where and/or when they are consumed (e.g. hairdressing, transportation) and cannot readily be outsourced to low-wage nations.

31 Broda & Romalis, 2008, p3

32 Broda & Romalis, 2008, p48, Appendix Table 4ª.

33 Broda & Romalis, 2008, p25

The authors propose a further revision large enough to offset the remainder of the reported increase in income inequality in the US. They note that the number of different types of non-durable goods consumed by poor households has significantly increased over this period, while no change was observed for rich households. They argue that this *'increased access to new goods'* has a substantial *'welfare-enhancing'* effect that is not captured in the consumer price index. Whatever one thinks of this so-called 'new goods distortion' and of their attempts to quantify it, they do bring attention to an important qualitative aspect of the effect of offshoring and outsourcing on workers' consumption patterns: not only does the wage purchase a higher quantity of use-values, it has also allowed expansion into entirely new (for the working class) forms of consumption activity. Studies such as this have not been conducted for other imperialist countries, but there's no reason to doubt that outsourcing's 'welfare-enhancing effect' pertains there as well.

Broda and Romalis draw highly contentious conclusions which will be seized upon by advocates for the rich to oppose populist calls for income redistribution in the USA. In an appendix, I give three reasons why their central thesis, that the US is no more unequal today than it was 10 years ago, should be rejected.

2. What is 'Global labour arbitrage'?

By 'liberating' hundreds of millions of workers and farmers from their ties to the land or their jobs in protected national industries, neoliberal globalisation has stimulated the expansion in southern nations of a vast pool of super-exploitable labour. Increasingly Draconian restrictions on the free movement of this labour, in particular from the global South into the imperialist nations, have interacted with a hugely increased supply of labour to produce a dramatic widening of international wage differentials between 'industrialised' and 'developing' nations, vastly exceeding the price differences in all other global markets except narcotics.

The steep wage gradient between northern and southern economies provides northern capitalists with two different ways increase profits through expanded exploitation of low-wage labour: by outsourcing production processes to low-wage countries, or by importing low-wage migrant workers and super-exploiting them at home. WEO 2007 makes this connection quite precisely: *"The global pool of labor can be accessed by advanced economies through imports and immigration,"* significantly observing that *"Trade is the more important and faster-expanding channel, in large part because immigration remains very restricted in many countries"* [34]

The outcome of this, according to NBER scholar John Whalley, is that,

> *"we are at an early stage of a historic transformation in which large portions of global manufacturing and service activity progressively relocate to low-wage economies to arbitrage wage differences supported by OECD immigration restrictions"*[35]

The phenomenon described here in the IMF's measured and diffuse terms as 'advanced economies accessing the global labour pool' is what Stephen Roach, senior economist at Morgan Stanley and other labour and trade economists have dubbed 'global labour arbitrage' (sometimes 'global wage arbitrage'). Roach offers a much sharper definition*:*

> *"in an era of excess supply, companies lack pricing leverage as never before. As such, businesses must be unrelenting in their search for new efficiencies… offshore outsourcing that extracts product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies."* [36]

34 IMF 2007, p180

35 John Whalley, 2006 pp25-6.

36 Roach, 2003, pp5-6

Roach argues that *"A unique and powerful confluence of three mega-trends is driving the global arbitrage."*

> *"The first is the maturation of offshore outsourcing platforms. China exemplifies the critical mass in new outsourcing platforms for manufacturing.... but China is not alone... E-based connectivity is the second new mega-trend behind the global labor arbitrage.... the new imperatives of cost control is the third factor in this equation... Not surprisingly, the primary focus of such efforts is labor, representing the bulk of production costs in the world..."* [37]

Legions of scholars have made a similar characterisation of the main drivers of globalisation, what's unusual here is the emphasis on the *"extraction of product"* from southern labour by TNCs headquartered in the imperialist countries, and its plain speaking (though Roach avoids a still more concrete term—*exploitation*); much more typical is to treat labour as just one factor of production among others, and make glancing, desultory references to wage differentials as a possible motive for outsourcing decisions.[38]

Examining Stephen Roach's three 'megatrends' more closely, we find that the first two ("the maturation of offshore outsourcing platforms" and "E-based connectivity") merely provide the necessary conditions for the third. In other words one 'megatrend' *motivates*, the others *facilitate*. IT technology, low transport costs, infrastructure, proximity to growing markets, 'governance'—all these influence the offshoring and outsourcing decisions of northern capitalists.[39] But their overriding motive, the elemental driving force behind this process of globalisation of individual production processes and entire branches of production, *is the pursuit of higher profits through the substitution of higher-paid labour for low-paid labour*, *i.e.* 'global labour arbitrage'. This is *the* megatrend driving the globalisation of the social relations of production and intensifying competition between wage earners across the North-South divide, it is *this* which provides the spring, the motive force powering and shaping the entire dynamic process.

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37 Roach, 2003, pp5-6

38 For two examples of this, see *"The Globally Integrated Enterprise"* by IBM CEO Samuel J. Palmisano (2006), and Michael E. Porter's *"The Competitive Advantage of Nations"* (1998). There has been little advance—and many have retreated—from these perceptive observations made by Jeffrey Henderson nearly 20 years ago:

"To stave-off cut-throat competition and generate new accumulation possibilities, core capital... has increasingly turned to [the] 'global option'. The emergence of the global option, however, would have been inconceivable without the development of information technologies... enabl[ing] particular labour processes, or sometimes entire production facilities, to be dispersed across the globe, while allowing managerial control... to remain centralised in the 'world cities' of the core societies." (Jeffrey Henderson, 1989 p3).

39 Anwar Shaikh helped answer many reservations readers may have about this:

"cheap labor is not the only source of attraction for foreign investment. Other things being equal, cheap raw materials, a good climate, and a good location... are also important... But these factors are specific to certain branches only; cheap wage-labor, on the other hand, is a general social characteristic of underdeveloped capitalist countries, one whose implications extend to all areas of production, even those yet to be created" Anwar Shaikh, 1980 p228

'Global labour arbitrage' is crucial to understanding the longevity of what George Soros calls the "60-year superboom" in the US, EU and Japan, and to what will happen in the period of crisis and asset-destruction that now succeeds it. It holds the answer to whether export-oriented industrialisation in low-wage nations leads towards convergence with the select club of 'advanced' nations, whose membership has not changed for more than a century, or to renewed subordination to them.

Global labour arbitrage should be seen in the context of the two other principal forms of N-S linkages. Foreign direct investment is often categorised into three different types depending on the motive of the direct investor, and arm's length relationships can be similarly classified. These are 'resource-seeking' FDI, where the location of investments is determined by geology and the presence of low-wage labour is a bonus; 'market-seeking' FDI, producing not for export but for the local market, and 'efficiency-seeking' FDI—nothing else than one of the forms of global labour arbitrage (the other being arm's-length outsourcing), since the 'efficiencies' sought by the TNCs are, first and foremost, *lower labour costs.*

Capitalist firms have always sought to reduce the cost of labour by moving production to where labour is cheaper, a well-known example being the accelerated post-WW2 movement of US industrial production away from northern cities and union payscales into southern and western "right to work" states. In the era of 'neo-liberal globalisation', with IT technology and low-cost transportation the great enablers, its path opened up by the reorientation of most southern economies towards 'export-oriented industrialisation', and driven by relentless price competition and cost-cutting in the imperialist economies, wage arbitrage has gone global. 'Global labour arbitrage' is now the *prime organising principle powering and shaping the globalisation of production processes.* As Whalley has argued:

> *"Were the world economy a single integrated economy in which factors, including labour, could flow without restraints across national borders international factor price differentials (and especially wage rate differentials) would greatly narrow and trade in goods fall significantly."*[40]

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'Arbitrage', most often used to describe a particular type of behaviour in global finance, is the opposite of 'speculation'. Speculators bet on the future movement of prices, while 'arbitrageurs'

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[40] John Whalley, 2006 pp25-6. Arghiri Emmanuel, in his much-debated book *'Unequal Exchange, a study in the imperialism of trade'*, made a similar point, noting that *"an international division of labour conditioned by [disparity in wages] is "suboptimal " insofar as there is no necessary correspondence between the natural and objective advantages of each country and a location of branches of production that is determined by differences in wages."* Emmanue,1969 p164

make their money by detecting existing price discrepancies, which in financial markets tend to be minute and momentary, and buy where cheap and sell where dear. Speculators take risks while arbitrageurs seek to eliminate risk. Risk, for the arbitrageur, lies in the possibility that the price of an asset will change between buying it and selling it. When both trades can be transacted simultaneously, as in many global financial markets, the result is a pure, risk-free, arbitrage profit.[41]

Arbitrageurs communicate price information in imperfect markets, causing price differences to narrow (in contrast, speculators typically amplify price swings)—unless some artificial factor (in our case, international restrictions on the free movement of labour) intervenes to prevent price differences from being arbitraged away, in which case arbitrage becomes an opportunity for open-ended profiteering.

In general, the bigger the imperfections, the bigger the price differences and the bigger the potential profits—*and there's no market more imperfect than the global labour market*.

The term 'global labour arbitrage' suffers from several defects. It is a euphemism: 'global' really means 'North-South', and 'labour arbitrage' is code for the substitution of higher-paid labour by lower-paid labour. It could be misleading: arbitrage usually describes activities that take place entirely in financial markets far removed from production processes. Finally, it is jargon, which often acts as a code, giving access to those with the key while mystifying the phenomenon to everyone else.

However, there are three specific reasons why, despite these defects, this term can serve as a useful way of introducing this driver of the globalisation of production processes and an aide to identifying its essential features—and why it is much more useful than any of the core concepts so far developed by value chain analysts, by proponents of global production networks, or by neo-Marxist theorists of 'new imperialism' and 'transnational capitalism'.

First, 'global labour arbitrage' foregrounds the labour-capital relation and spotlights the enormous international differences in the price of labour, and furthermore it conceptually links the two ways in which higher-wage labour can be substituted for low-wage labour, namely offshoring/outsourcing (the relocation of production processes to low-wage economies); and labour migration (the relocation of the producers from low-wage economies).

Second, it focuses attention on the 'imperfections' in the global labour market represented by repression of the free movement of labour, militarised borders being the centrepiece of a vast

[41] For a useful discussion of the difference between arbitrage and speculation in modern financial theory, see *'Between arbitrage and speculation: an economy of belief and doubt'*, by Hirokazu Miyazaki, 2007.

superstructure of discrimination and dehumanisation that signify the future promised by neoliberal globalisation is not convergence with the 'West' but towards a form of global apartheid. The national bourgeoisies of the oppressed nations, emancipated by the struggles of their peoples, now enthusiastically exercise their right to reside and shop in London, Paris and New York and store their wealth in hard currencies; the workers and farmers of the South, corralled in slums and shanty towns, still await their liberation.[42]

Third, 'arbitrage'—buying cheap and selling dear, as merchant capitalists have done for ages—is a way of capturing a bigger share of total value without making any addition to it. When some artificial factor (in this case, international restrictions on the free movement of labour) intervenes to prevent price differences from being arbitraged away, arbitrage becomes a source of vast profits.

What is special about this form of arbitrage is that it takes place entirely within the orbit of the capital-labour relation. 'Global labour arbitrage', or the globalisation of capitalist production processes driven by the super-exploitation of low-wage southern labour by northern TNCs, is capitalist imperialism *par excellence*. Here, capitalism has evolved new ways of extracting surplus value from workers in the global South which are entirely internal to the labour-capital relation, which, except for the militarised borders that are impermeable to labour but admit everything else, are effected not by force of arms but by market forces—what Ellen Wood calls the 'globalisation of capitalist imperatives'[43]—and which have fully sublated (in other words, incorporated all that is useful, deleted all that is inimical) the pre-capitalist forms inherited by capitalism as it entered its imperialist stage a long century ago.

As Wood recognises, the exercise of military power by states continues to play a central and very active role in constituting the imperialist world order, policing it and violently removing obstacles in its way, whether they be forests and forest dwellers, rebellious social movements or radical governments. But the most important, most direct, most constant and most pernicious exercise of state power in the global political economy is the suppression of the international mobility of labour. Jack Barnes, a leading US communist, explains the motives guiding state policy in the imperialist countries:

42 ... and are increasingly inclined to wait no longer—ALBA, the Bolívarian Alternative for the Americas, bringing together Cuba, Venezuela, Bolivia and Ecuador in conscious rejection of neoliberal globalisation, is the highest expression of this.

43 Wood, 2003

"Far from aiming to stem the inflow of labour… the rulers intend for their repressive measures to heighten insecurity and fear among immigrants, hoping to maintain them as a super exploitable labour pool and discouraging involvement in unionisation efforts and other social struggles and political fights."[44]

This is so, except the rulers do aim to 'stem', as in restrict, the inflow. Indeed, they seek to control over the supply of cheap labour, including the power to reverse the flow. But, as millions chanted in US cities in 2006, *"Aquí estamos y no nos vamos"* (We're here and we're not leaving).[45]

[44] Barnes, 2001, p87.

[45] See footnote on p**Error! Bookmark not defined.**

3. Offshoring vs. outsourcing

North-South trade and the globalisation of production processes

In a 2007 paper, Milberg argued that *"most attempts to measure the magnitude of the phenomenon of vertical disintegration have captured only parts of the process. Some analysts focus on intra-firm imports [i.e. between a TNC parent company and its subsidiary] and others on the import of intermediate goods whether these are intra-firm or arm's-length."* Searching for a concept and a set of data broad enough to capture the totality of this phenomenon, Milberg notes the profound changes in the composition of trade flows between imperialist countries and the global South that have been wrought by the globalisation of production processes and makes a startling proposal:

> *"Many of the imports within U.S.-led global value chains are fully finished goods with labels of U.S. corporations attached. Many "manufacturing" firms now do no manufacturing at all, providing only brand design, marketing and supply chain and financial management services. Thus a better measure of offshore outsourcing may simply be imports from low-wage countries…"* [46]

In other words, since EU and Japanese-led global value chains behave similarly, S-N merchandise trade *as a whole* can be considered a composite of, and therefore an indicator of, multitudinous outsourcing and offshoring relationships.

This has far-reaching implications. It means that N-S trade has not only grown greatly during the globalisation era, it has become something different. Trade between imperialist economies and the global South has been transformed by the globalisation of production processes. It has been transformed by a qualitative change in the relations of production—not away from capitalism, of course, but towards a new era of north-south exploitation, this time on a fully capitalist basis, on the basis of a global relation between imperialist TNCs and southern proletarians.

It is significant that Milberg specifies *imports* from low-wage economies. The global South is much more important to imperialist economies as a source of imports than it is as a destination for exports. 'Developing countries' provided 57% of the USA's total imports in 2006, compared with 48% of its export market, while the corresponding figures for the EU were 30% and 25%.[47] China largely

[46] Milberg, 2007 p9

[47] Source: Unctad, *'Network of exports by region and commodity group - historical series'* and IFS DOTS (Direction of Trade Statistics). (http://stats.unctad.org/Handbook.) The Unctad database only continues to 2002; DOTS provides data up to the present, but only for aggregate trade and does not separate trade in manufactured goods from services, raw materials etc.

accounts for the US trade deficit with the 'developing countries'—in 2006 it provided 16% of total US imports and a market for 5% of its exports.

Over a third of the manufactured products consumed in the United States are imported, more than double the level of 1980. In 2002, 44% of these imports came from 'developing nations', up from 30% in 1990 and 21% in 1980. 53% of the increased flow of manufactured imports between 1990 and 2002 came from low-wage nations, half of it from China.

These figures are all the more impressive when we consider that the goods being exported by the global South in ever greater volume are suffering declining terms of trade and declining returns for the producers.

Milberg notes that *"This measure [S-N trade] leaves out offshoring activity among industrialized countries, but nonetheless overcomes the problem of looking only at intermediates or only at intra-firm trade."* But offshoring activity among industrialised countries is not primarily driven by the quest for lower production wages; it is 'market-seeking', or part of a process of concentration among northern TNCs that is proceeding in parallel to the dispersion of production processes in the global South. The exclusion of N-N trade from the picture is therefore not a drawback, it only enhances the utility of N-S merchandise trade as an indicator of the globalisation of production processes.

Data on trade between 'advanced' and 'developing' countries is plentiful, but interpreting it is very far from straightforward. Trade data are very closely related to GDP—every single foreign trade transaction is counted in the both sets of data: in trade data as *gross* imports and exports, and in GDP data as the *net* value-added of all firms active in that national economy, obtained by subtracting the cost of each firm's inputs—including imported inputs—from the prices received for their outputs. In the case of imported final goods, the difference between the import cost and its final sale price in the High Street represents 'value added' by UK wholesale and retail companies and appears in the GDP of the UK. Thus £15 or more of the cost of a £20 shirt labelled 'made in China', and it was made in China, appears as an addition to the GDP of the consuming country.

So, while very closely related, GDP and trade data are different in kind; GDP summing net values, trade summing gross values. Trade data reports *gross* values that take no account of the fact that some of the values being exported have not been added in domestic production processes; *e.g.* imported components assembled domestically and then re-exported. Unctad warns that *"much of the increase in*

South-South trade in manufactures, as shown in trade statistics, is due to double-counting."[48] This distortion is particularly severe in relation to the exports of low-wage countries, since the 'value-added' by the country to imported inputs is often only a small fraction of the price of the finished export commodity, and it is this price, not the net value-added, which appears in the trade data.[49]

Exemplifying this, China's export processing regime allows imports to enter duty-free if they are destined for processing and re-export. This export-processing trade accounts for more than half of China's exports, and most of it is conducted by US, European and Asian TNCs. In an important study, Van Assche and Hong found that, in 2005, processed imports constituted 90% of the value of China's high-tech exports, compared to 50% in the medium-high-tech category and 30% in the low-tech category; in other words, the greater the sophistication of the goods being exported, the smaller is the fraction of their export value that is actually added in China. Van Assche and Hong attempt to compensate for this distortion, reporting China's 'adjusted' share of world trade to be 4.9%, not the 7.7% reported in standard data.[50]

The MVA conundrum

WEO 2007 attempts to capture the dynamic effects of globalisation by using export data to compute the *'export-weighted global workforce'* (EWGLF), applying the simple assumption that if *X*% of a nation's production is internationally traded, then *X*% of its workers participate in global trade. Since exports, for most nations, are growing faster than GDP, the IMF's 'effective global workforce' is growing much faster than the world's total economically-active population—indeed, the IMF calculates that the 'export-weighted global workforce' *quadrupled* in size between 1980 and 2003. However, the distortions inherent in trade data call into question the validity of their construct. To calculate the "export weighted global labour force" it would seem more logical and consistent to weigh the size of each contingent of the global labour pool not by their nations' gross exports but by

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48 Unctad 2005 p136

49 Making the two sets of data commensurate would require gross exports to be converted into net exports, by subtracting the value of imported inputs from export prices. However, data on the final destination and use of imports is not collected by official agencies and private firms typically regard the source of their inputs to be 'commercially sensitive information'.

50 As Grossman and Rossi-Hansberg point out,

"The measurement of trade as gross values of imports and exports was perhaps appropriate at a time when trade flows comprised mostly finished goods. But such measures are inadequate to the task of measuring the extent of a country's international integration in a world with global supply chains and internationally dispersed production processes." Grossman & Rossi-Hansberg (2006) p6-7

that portion of it that was added domestically—in other words, in the case of manufactured exports, by manufacturing value-added (MVA).[51]

Domestic MVA is often only a small fraction of the value of southern exports and has been growing much more slowly than employment, trade or just about any other measure of globalisation. Had WEO 2007 used this approach to estimate the size of the 'export-weighted global labour force', it would have had to explain not its vigorous growth but why it has been so lacklustre.

The World Bank's World Development Indicators provide data on MVA growth (for 1990 and 2002) and on growth in export of manufactures (for 1990 and 2004) for 55 'low and middle income' nations and 16 'high-income' nations.[52] The 55 low-wage nations increased the value of their manufactured exports by 328.9% between 1990 to 2004, while their combined MVA grew by 46.3% .[53] By comparison, 16 'high-income' nations increased their exports of manufactures by 127.4%, and their combined MVA grew by just 14.2%, and by just 1% if the United States is omitted. In other words, the USA's 40.6% growth in MVA accounted for nearly all of the MVA growth of 'high-income' nations, boosting the USA's share of all 71 nations' MVA from 29% to 34%. During this period, the Germany's total MVA *declined* by 10%, while Japan's grew by a paltry 0.2%. MVA in the UK grew by 6.6% over these 15 years.

The biggest feature in this complex picture is that in 2002 the 16 'high-income' nations accounted for 83% of the total MVA produced by all 71 nations, barely changed from 86% in 1990, yet manufacturing is of declining importance of to the imperialist economies and increasing importance to the global South. This is reflected in the diametrically different pattern in the evolution of MVA vis-à-vis manufacturing export displayed by these two groups of nations. In 1990, the MVA of the 55 'low and middle income' nations was 1.8 times as large as the value of its exports of manufactures; by 2002 this had sharply fallen, to 0.6. Mexico offers the most extreme example—its manufactured exports increased nearly ten-fold between 1990 and 1998, but total value-added in its manufacturing sector increased by barely 50%, while its share of world MVA actually fell.

51 Robert Feenstra commented, in an influential 1998 paper: *"the modest share of trade in total national income hides the fact that merchandise trade as a share of merchandise value-added is quite high for the United States and the OECD, and has been growing dramatically. In fact, if one focuses on merchandise trade relative to value-added, the world is much more integrated today than at any time during the past century."* Feenstra. 1998. p31

52 'High-income' nations: Australia, Austria, Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Switzerland, United Kingdom, United States.

'Low and middle income' nations: Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Central African Republic, Chile, Colombia, Costa Rica, Croatia, Ecuador, Egypt, Arab Rep., El Salvador, Ghana, Guatemala, Honduras, Hong Kong, Hungary, India, Indonesia, Jamaica, Jordan, Kenya, S Korea, Madagascar, Malawi, Malaysia, Mauritius, Mexico, Morocco, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Saudi Arabia, Senegal, Slovenia, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Venezuela, Yemen, Zimbabwe.

53 The WDI doesn't provide a value for Chinese MVA in 2002. Including China, total trade of 'low and middle income' nations increased by 434.3%. In 2001, these 55 nations produced 61.2% of the combined GDP of all 156 'low and middle income' nations listed in the WDI tables; 79.4% including China.

'High-income' nations present a mirror image: their ratio of MVA to manufactured exports doubled, from par in 1990 to 2.0 in 2002. Unctad commented, *"in relative terms, industrial countries appear to be trading less but earning more in manufacturing activity,"* [54] reporting that "*While the ratios of manufactured value added and exports to GDP remained broadly unchanged in the industrialized countries, in the developing countries the ratios of manufactured exports to GDP rose steeply, but there was no significant upward trend in the ratio of manufacturing value added to GDP"* [55] leading them to this damning conclusion:

> *"of the economies examined here, none of those which pursued rapid liberalization of trade and investment over the past two decades achieved a significant increase in its share in world manufacturing income, although some of them experienced a rapid growth in manufacturing exports"*[56]

Overshadowing everything is the relative decline of manufacturing as a contributor to the GDP of the imperialist nations and to global GDP. In imperialist nations this is cushioned by the concomitant stellar rise in the contribution made by finance and other non-production activities to profits and GDP, sometimes termed 'financialisation'. For 'newly industrialising' nations, however, the relative decline of manufacturing means *their* relative decline, that they have joined in a 'race to the bottom'. These two processes are deeply connected. As Milberg suggests in a recent paper, the growing 'financialisation' of the imperialist economies is the flipside of the *"rapid expansion of manufacturing productive capacity in low-wage countries,"* since this gives rise to *"capital flows from the low-wage to the industrialized countries… supporting asset values in the industrialized countries and especially the U.S."* [57]

Outsourcing outpacing offshoring

In *'The Rise of Offshoring: It's Not Wine for Cloth Anymore',* Princeton economists Gene Grossman & Esteban Rossi-Hansberg conclude that,

> *"it does not matter much whether the firm opens a subsidiary in a foreign country and employs workers there to undertake certain tasks within its corporate boundaries, or whether it contracts with a foreign purveyor*

[54] Unctad TDR 2002 p80
[55] Unctad TDR 2002 p77
[56] Unctad TDR 2002 p80
[57] Milberg, 2007 p3

under an outsourcing arrangement.... in either case the effects on production, wages and prices [in the US] will be roughly the same." [58]

The Princeton Professors neglect to mention the effect of offshoring and outsourcing on *profits and share prices!* And although their main point is sound, that northern firms reap great benefits from both in-house and arm's-length arrangements, it *does* matter whether the firm opens a subsidiary or outsources to a 'foreign purveyor': transnational corporations *increasingly favour* outsourcing relationships over in-house offshoring. Milberg recognises this trend:

> *"despite the stunning increase in the transnational activity of large firms... such firms find it increasingly desirable to outsource internationally in an arm's length rather than non-arm's length (intra-firm) relation... increasingly, efficiency-seeking foreign direct investment is being substituted with arm's length subcontracting."* [59]

Gereffi concurs:

> *"While companies regularly decide whether they wish to produce goods and services "in-house" or buy them from outside members, the tendency in recent years has shifted in the direction of "buy." "* [60]

How can we be sure that outsourcing relations are increasingly favoured and increasingly preponderant, despite evidence of the increasing magnitude of N-S FDI and its increasing weight in the totality of the TNCs' direct investments? Milberg finds clinching evidence in the fact that intra-firm trade is only grown in line with world trade while intermediate inputs are a growing fraction of it:

> *"the share of trade that is intra-firm has been relatively constant for the past 25 years... With outsourcing increasing and intra-firm trade constant, the rise in the share of trade in intermediates must be the result of arm's-length transactions, that is international subcontracting outside the confines of the transnational corporation."* [61]

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58 Grossman et al, 2006, p13. *"The effects on production, wages and prices"*, according to the authors, is that US production will become more concentrated in capital-intensive activities; the wages of workers engaged in labour-intensive tasks will come under pressure while skilled workers' wages will rise; and the prices in the US of offshored or outsourced goods will fall relative to those produced domestically.

59 Milberg, 2004, p15. Unctad WIR 2004 p8: "The role of FDI and TNC activity in the global economy continues to grow, as reflected in the sales, assets, value-added (gross product), employment and exports foreign affiliates."

60 Gereffi, 2005, p4

61 Milberg, 2004b p7. *"US intra-firm trade as a share of total US exports and imports for the period 1977 to 1998 has been remarkably flat. A similar pattern is found in the intra-firm trade from Japan and Sweden, the only two other countries for whom reliable intra-firm trade data exist."* op cit, p7

Once again, China is the exemplar. Grossman and Rossi-Hansberg report that intra-firm trade (that is, trade between US corporations and their subsidiaries) is a growing proportion of US imports from China, rising from 11% in 1992 to 26% in 2005.[62] But does this mean that that FDI is gaining ground vis-à-vis outsourcing? Total US imports from China during this period increased by 950%;[63] annual intra-firm trade leapt by $60 billion to $63bn and annual trade between the US and independent suppliers increased by $158bn to $180bn. Thus intra-firm trade has increased its share—scarcely surprising, since in 1992 the doors were only beginning to open for direct US investments in China—but despite this, arm's-length outsourcing has greatly increased its absolute lead over FDI.

The mysteries of outsourcing

The only possible explanation for this trend is that TNCs find outsourcing more profitable than keeping production in-house; or as Milberg puts it, *"The growing tendency towards externalization implies that the return on external outsourcing—implied by the cost reduction it brings to the buyer firm—must exceed that on internal vertical operations".*[64] This leads him to formulate an initial concept of this phenomenon: *"these cost savings constitute rents accruing abroad in the same sense that internal profit generation does for a multinational enterprise."*

The foreign direct investments of northern transnationals generate gigantic S-N flows of repatriated profits. In complete contrast to this, between southern firms and northern outsourcers there is neither sign nor shadow of any S-N profit flow or transfer—and yet transnational corporations increasingly find these arrangements to be more profitable. [65] So, does the fact that flow of profits has vanished mean that this flow has ceased to exist? If not, what exactly happens to the profit-flows which are visible in the case of an in-house relationship but which completely disappear when this is replaced by an outsourcing relationship?

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[62] Grossman & Rossi-Hansberg, 2006, pp8-9.

[63] Foreign trade statistics from http://www.census.gov/foreign-trade/balance/c5700.html#2005

[64] Milberg, 2004a, p34

[65] Furthermore, the various subterfuges indulged in by transnational corporations to conceal part of this flow from tax authorities (transfer pricing, under-invoicing etc,) are not available in arms-length relationships. These are large benefits to forego: "…*Over the past four decades or so, a structure has been perfected that facilitates illegal cross-border financial transactions… Many multinational companies and international banks regularly use this structure, which functions by ignoring or skirting customs, tax, financial and money laundering laws. The result is nothing less than the legitimisation of illegality… By our estimate, it moves some $500bn a year illegally out of developing and transitional economies into western coffers."* - Baker & Nordin, 2005.]

The ruling orthodoxy presumes market prices to be an ideal measure of the underlying values being exchanged, precluding the possibility of hidden flows or transfers of values between capitals during the process of production and prior to their condensation as prices. An important clue that all is not as it seems is the transition that takes place as a visible S-N flow of repatriated profits between TNC subsidiary and TNC HQ becomes completely invisible when converted into an arm's length relationship—but nevertheless reappears in the value-added of the parent company. This is suggestive of the physical phenomenon known as *sublimation*—when a visible solid turns into an invisible vapour and rematerialises as a visible solid elsewhere. The flow of profits continues, but in a different form, invisible to the naked eye—that is, there's no sign of it in standard data on global capital and commodity flows… yet the whole world knows that it is happening.

Renaming 'profit' as 'rent', as do Milberg, Kaplinsky, Gereffi and others studying this phenomenon does not clarify this question. Milberg's notion of 'rents accruing abroad' implies that the flow continues; simply calling it 'rent' says nothing about a really interesting implication of this. These 'rents accruing abroad' appear in the GDP of the *importing* nation—even though they were 'accrued abroad'. The £20 shirt that says 'made in China', was made there all other southern nations: its cotton cultivated, woven, dyed, cut, stitched, labelled and packaged there, yet £15 or more will appear in the GDP of the consuming nation.

This can only mean that GDP, which claims to be a measure of the wealth *produced in* a nation, is in reality a measure of the wealth *captured by* a nation.

Thus, raw GDP and trade data is replete with distortions resulting from what might be called the ventriloquist effect, in which the value produced in production processes in the global South reappears as profits and 'shareholder value' in the imperialist north, a relation hinted at by Milberg:

> *"the enormous expansion of global value chains has… coincided with a decline in manufacturing in most countries, and thus has permitted companies to return a greater share of net revenues to shareholders rather than reinvesting these revenues in new productive capacity…."*[66]

The implication of the argument being developed here is that the prices of commodities imported by imperialist nations from low-wage nations systematically and massively diverge from the values created in their production and that this massively warps measures of wealth production and exchange in GDP and trade data.

[66] Milberg, 2004b p3

To the positivist metaphysicians of the neoclassical mainstream, if it's not visible, if it is unquantifiable, it doesn't exist. Since values can only appear as prices, values *are* prices. Through their theoretical lens there is no such thing as value which is separate from or prior to price, all talk about flows or transfers of values between capitals during the process of production and before values created in them condense as prices is nonsense. Just as it is false to presume that the invisibility of profit flows from S-N the case of arms length outsourcing means there is no flow, so we should not presume that the visible flow of profits from FDI is in a true measure of the total mass of value being produced by southern wage labour and appropriated by northern capitalists. Just as prices are fleeting tent-shadows cast by values created in production processes, so too both repatriated profits and sublimated rents give us only a glimpse of the underlying flows of value and surplus-value from southern living labour to northern capitalists.

Milberg's discovery of outsourcing's growing preponderance leads him to some important questions:

> *"Why should arm's-length outsourcing be of increasing importance in a world where transnational corporations play such a large role?... Why should cost reductions be increasingly prevalent externally rather than within firms?"*[67]

For William Milberg, the answer lies in *"the asymmetry of lead and supplier market structures"*—oligopolistic firms headquartered in the 'advanced nations' at one pole (which might be called the North pole) and intense competition between southern suppliers at the other—have *"created the conditions for greater returns from externalization than internalization.'*[68]

Gereffi calls *"the fundamental asymmetry in the organisation of the global economy between more and less developed nations. To a great extent, the concentrated higher-value-added portion of the value chain is located in developed countries, while the lower-value-added portion of the value chain is in developing economies."* [69] Our discussion of 'global labour arbitrage' allows us to pose this differently: *why should arm's-length outsourcing be a more efficient way of exploiting low-wage labour than an in-house relationship?* Part of the answer is that TNC subsidiaries pay higher wages than local firms, as Martin Wolf argues, *"transnational companies pay more—and treat their work is better—than local companies do"*.[70] So, the simple answer to this conundrum is that TNCs increasingly prefer to 'externalise' their operations because

67 Milberg, 2004b p7-8

68 Milberg, 2004a, p34

69 Gereffi, 2005, p46-7

70 Wolf, 2005, p235. Speaking of the higher wages paid in Indonesia by TNC subsidiaries than by local companies, Wolf reports that "*detailed econometric evaluation... allow[ing] for the educational levels of employees, plant size, location, and capital- and energy-intensity... [reveals that] the premium is 12% for 'blue-collar' workers and about 22% for the 'white-collar' workers.*" op cit, p236.

'market forces', in the form of intense competition between outsourced producers, *is a more effective way of driving down wages and conditions and intensifying labour* than doing so in-house through appointed managers. And 'arm's-length' also means 'hands clean'.

Conclusion

This paper has attempted to explain why the globalisation of production processes is the most transformational and essential feature of globalisation and the role of 'global labour arbitrage' in driving this process; and it has begun the task of analysing its two forms: offshoring and outsourcing. Many questions have been begged and shortcuts taken, many conclusions tentative or otherwise, have been drawn and recorded on the way. Instead of recapitulating, I conclude with some brief reflections on how the above paper relates to the 'themes of the Naples conference', in particular to 'Labour and the Reproduction of Class in Contemporary Capitalism' and 'Reformism and the Politics of the Left in the Age of Neo-Liberalism'.

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From the perspective of Marxist political economy, 'global labour arbitrage' corresponds to an increase in absolute surplus value, *i.e.* to driving down the value of labour power by cutting wages. This may be achieved directly, by replacing higher-wage labour with low-wage labour; or indirectly, through increased downward pressure on general wages. By contrast, capitalists increase relative surplus value by replacing labour with machinery. Increasing relative surplus value is generally held by Marxists to be the pre-eminent driver of advanced capitalism. The massive recourse to outsourcing and the long-run decline in the portion of profits being reinvested in new production suggests that this orthodox view has become dangerously one-sided. This paper suggests an alternative view: that the rate of profit and 'shareholder value' in the imperialist countries is sustained by three distinct processes: increasing relative surplus value through the application of new technology; increasing absolute surplus value in the form of 'global labour arbitrage' (including the downward pressure exerted by it on the value of labour power of workers in the imperialist countries); the third is important but is secondary to the processes being investigated here: the private capitalist appropriation of social wealth, what some call 'accumulation by dispossession' and others the 'privatisation of the commons'. Of these three, 'global labour arbitrage' stands out as really new and specific to neoliberal globalisation.

Neoliberal globalisation has finessed the old argument by orthodox Marxist critics of dependency theory,[71] that international differences in workers' living standards don't signify international differences in rates of exploitation but instead reflect the higher productivity of labour in industries producing articles of mass consumption. These are the very industries whose production is most

[71] Charles Bettleheim, Robert Brenner, Ernest Mandel and John Weeks were amongst those who advanced this argument.

likely to be offshored/outsourced to low-wage countries. For Marxist theory to move on—or rather, for it to catch up—it must begin by recognising that international wage differentials reflect both differences in productivity *and* differences in the rate of exploitation, and take it from there.

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Outsourcing and offshoring in order to replace higher-wage labour by low-wage labour produces *"capital flows from the low-wage to the industrialized countries… supporting asset values in the industrialized countries and especially the U.S."*[72]. This should be called by its real name: imperialism. Imperialism on an entirely capitalist basis, in an advanced stage of development, in which capitalism and its law of value has fully sublated the old colonial division of the world, discarding all that is inimical to it, preserving and making its own all that is conducive to maintaining the economic and political supremacy of what Lenin called "a handful of oppressor nations" over the rest of humanity.

The globalisation of production processes and the global labour arbitrage that drives it have greatly accelerated the historic coming-to-be of the global working class, whose interests lie in the abolition of the racist hierarchy of national divisions and the achievement of an authentic globalisation, of a world without borders. Capitalism, far from being synonymous with globalisation, is the biggest obstacle in its way. One reason why capitalism can only produce a mutant form of globalisation is that its hegemony over subaltern classes depends upon fanning national hatreds and reinforcing national divisions. The more that capitalism, by its own movement, globalises production processes and with them the social relations of production, and the more that it places workers on one side of the globe in competition with workers on the other, the more bourgeois politicians strive to unleash what Rosa Luxemburg called a "war of national hatreds".

The loss of economic 'agency' by working people and their trade unions, and the decline in labour's share of GDP, characteristic features of 'globalisation', are ascribed by many to the increased mobility of capital vis-à-vis the relative immobility of labour, as if this shift in wealth and power was a natural and inevitable, as if history could have taken no other course. In the spontaneous economic struggle between labour and capital it is undoubtedly true that neoliberal globalisation has strengthened the hand of capital in many ways. But far from weakening labour, globalisation has greatly increased the social weight and potential economic and political power of the working class. The working class within the imperialist countries is now vastly more multinational, and more

[72] Milberg, 2007 p3

female, than it was at the end of WWII; the size and social weight of the working class in the semicolonial nations has grown tremendously. The principal obstacles in the way of labour asserting itself as an international class and acting to protect humanity and nature from the ravages of capitalism are political not economic. May Day reminds us that more than 100 years ago, before telephones, computers and aeroplanes, working people coordinated an international campaign for a 40-hour week. As its revival in US cities in 2006 attests,[73] labour can only rise again as an international class, defending the interests of all.

Workers in both North and South can either submit to 'capitalist market imperatives' and join the global race to the bottom, or they will come to see that their survival, and with it the survival of human civilisation and of nature, requires that cooperation and solidarity among producers replace competition and private wealth accumulation. Rosa Luxemburg's words "socialism or barbarism" once again defines the challenge confronting humanity; her prescription, socialist revolution, once again defines the task before us.

♦ ♦ ♦

[73] The adoption of HR 4437 by the US House of Representatives in December 2005, making it a felony to be an undocumented immigrant, sparked a tidal wave of national protest. On March 25, police estimated 500,000 people marched in Los Angeles (organisers claimed more than a million), many carrying signs saying *"we're workers, not criminals"*; two weeks later 500,000 marched in Dallas and up to 2 million in over a hundred other cities. The movement culminated on May 1st 2006, with another million-strong march in Los Angeles—and 400,000 in Chicago, where 120 years previously a nationwide strike wave for an eight-hour working day had begun. The US socialist newsweekly *The Militant* editorialised,

"The ports of Long Beach and Los Angeles—the largest U.S. seaport complex—went quiet. Packinghouses throughout the Midwest were shut down. Vegetables and fruits were left unpicked in California's fields. Construction sites in South Florida were paralyzed.... Thus May Day, a working-class tradition celebrated across the globe, is being reborn in the United States…. Today, for the first time in nearly seven decades, International Workers Day became a mass celebration by working people in the citadel of capitalism. In Chicago, the major unions backed the march and rally. It is testimony to how the entire U.S. labor movement has been strengthened by foreign-born workers who bring their experiences and traditions of struggle."

The editors also explained why for nearly 70 years the tradition has been lost:

"May Day rallies drew tens of thousands in New York and other U.S. cities right up to the eve of World War II. During the war, however, the Stalinist and Social Democratic misleaders of the labor movement turned May Day actions into patriotic, pro-imperialist affairs and then canceled them in the name of wartime "national unity" with the American bosses. That class collaboration killed May Day in the United States." (The Militant, 2006).

Notes on Broda and Romalis

There are three reasons why Broda and Romalis claim to have debunked the widespread view that the USA has become more unequal since 1994 should be rejected, all relevant to this paper's thesis:

1, Broda and Romalis' exclusive focus on non-durable goods excludes at least two major types of services that are highly relevant to measures of consumption inequality: the *purchasing of direct labour services* (nannies, chauffeurs, cooks, cleaners, gardeners etc); and *tourism*, which is the same thing but away from home. Both are concentrated amongst higher income groups and have enormously expanded over recent decades, and are disproportionately provided by low-wage and migrant labour.

2, higher than average inflation in the prices of luxury goods in part reflects the fact that the investible wealth of US capitalists and of the income streams they generate has grown by leaps and bounds in the period since 1994. With their financial assets experiencing bubble growth, the wealthiest US households have felt no need to save any of their increased income, instead indulging themselves on a consumption binge of biblical proportions, pushing up the prices of luxury goods in the process. While the richest decile was busy accumulating assets, US workers were accumulating debts, and a significant part of the expanded consumption of poor quality goods imported from low-wage nations investigated by Broda and Romalis has been financed by credit card debt, hire purchase, remortgaging etc. So much for the claim that US society is no less unequal today than it was in 1994.

3, Broda and Romalis estimate the difference between the official Consumer Price Index (CPI) and the actual rate of inflation experienced by rich and poor households. They do not question the integrity of important changes to CPI methodology, most of them initiated during the Clinton Presidency, each one reducing the official rate of inflation, used as a benchmark upon which increases to social security and wages in both public and private sectors are calculated, explaining why the CPI is even more subject to tampering and manipulation than data on unemployment.

Consumers, especially low-income families, tend to substitute lower-priced, lower quality goods for goods experiencing higher-than-average inflation. Richard Rubin, Clinton's Treasury Secretary, and Alan Greenspan, chair of the Federal Reserve argued that the traditional, simple measure of inflation doesn't take account of these changes in the basket of goods used to calculate the CPI. Starting in the mid-1990s, the Bureau of Labour Statistics moved towards 'geometric weighting' of the items in the CPI basket, meaning that goods falling in price automatically receive a higher weight than those rising in price and has since moved towards a 'variable basket' that supposedly replicates the substitution of products that is actually taking place. The result: when the rising price of beef causes people to buy hamburger meat instead, the increase in the price of beef is excluded from the CPI index.

An even more innovative and contentious 'adjustment' to CPI data, again initiated during the Clinton administration, was to apply the 'science' of hedonics ('the study of pleasure') to inflation accounting. The increased speed of a computer or the extra gadgets bundled with a motor vehicle supposedly enhance the consumer's pleasure; 'hedonics' attempts to quantify such improvements and deflate their prices accordingly. So, if your new car costs 20% more than the old one, the greater pleasure of being able to open its doors while walking towards it is used to deflate the actual price, thereby lowering the official measure of price inflation. The US government has made 'hedonic adjustments' to the consumer price index since 1995, applying the method to many types of durable goods, and to one important category of non-durable goods: clothing.

As with the 'adjustment' to take account of product substitution, these 'hedonic adjustments' also significantly affect official measurements of gross domestic product. Each statistical device that lowers the CPI at the same time magnifies the growth in GDP, since the CPI is used to strip inflation out of the total prices of all goods and services and allow two periods to be compared.

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