Economic Globalization and the Future of Black America

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This article assesses the African American experience with economic globalization—the increasing tendency for goods and services consumed in the United States to be produced offshore in countries like Mexico, India, and China. It documents the racially disparate effects of the shift of blue-collar jobs offshore, which began in the 1960s and continues to the present, and estimates the size of the African American population that is at risk of future job loss due to the offshore movement of white-collar jobs—a post-1990 phenomenon. The article concludes with a set of strategies that African Americans must pursue to survive, thrive, and prosper in the years ahead in the highly unpredictable and turbulent global economy of the 21st century.

Keywords: economic globalization; offshore outsourcing; Black entrepreneurship

Economic globalization—the increasing tendency for goods and services consumed in the United States to be produced offshore in countries like Mexico, India, and China—seriously threatens the current and future employment prospects of the American worker (Engardio et al., 2003; Hira & Hira, 2005; Prestowitz, 2005). Research suggests that even the most highly educated American worker is vulnerable to the powerful forces of globalization (Buchholz, 2004; Friedman, 2005; Hira & Hira, 2005). The Economic Policy Institute reports, for example, that the percentage increase in long-term unemployment (i.e., 6 months or more) was greater among people with some college (259%) or a bachelor’s degree or higher (299%) than it was among people with a high school degree or less (156%) between 2000 and 2003 (Allegretto & Stettner, 2004).
In this article, we assess the African American experience with economic globalization. Specifically, we document the racially disparate effects of the shift of blue-collar jobs offshore and estimate the size of the African American population that is at risk of future job loss due to the offshore movement of white-collar jobs. We conclude by outlining strategies that African Americans must pursue to survive, thrive, and prosper in the years ahead in the knowledge-intensive and speed-driven economy of the 21st century.

Background and Context

American workers’ increasing employment vulnerability in the international marketplace is rooted in two waves of economic globalization. The first wave involved the offshore movement of blue-collar jobs, whereas the second wave involves the shift of white-collar jobs offshore (Ernsberger, 2005).

The first wave of globalization began in earnest in the early 1960s and continues to this day. Nationally, 5.3 million manufacturing jobs have been lost since 1979. Roughly half of this job loss occurred between July 2000 and July 2003 (Congressional Budget Office, 2004; Press Associates Union News Service, 2003).

The American public’s anxieties about the first wave of globalization are captured most vividly in the experience of one fictional but typical displaced blue-collar worker. We’ll call him Joe Smith.

Joe Smith started his day early, having set his alarm clock (MADE IN JAPAN) for 6 a.m. While his coffee pot (MADE IN CHINA) was perking, he shaved with his electric razor (MADE IN HONG KONG). He put on a dress shirt (MADE IN SRI LANKA), jeans (MADE IN SINGAPORE), and tennis shoes (MADE IN KOREA).

After cooking his breakfast in his new electric skillet (MADE IN INDIA), he sat down with his calculator (MADE IN MEXICO) to see how much he could spend today. After setting his watch (MADE IN TAIWAN) to the radio (MADE IN INDIA), he got in his car (MADE IN JAPAN) and continued to search for a good-paying American job.

At the end of yet another discouraging and fruitless day, Joe decided to relax for a while. He put on his sandals (MADE IN BRAZIL), poured himself a glass of wine (MADE IN FRANCE), and turned on his TV (MADE IN INDONESIA), and then wondered why he can’t find a good-paying job in . . . AMERICA.
Our mantra to displaced blue-collar workers has been to go back to school and re-tool for white-collar jobs in the information economy. But, ironically, U.S.-based corporations began moving white-collar jobs offshore in the early 1990s (Friedman, 2005; Hira & Hira, 2005). This shift began with low-level service work that U.S. workers were less enthusiastic about performing such as writing computer code, processing credit card charges, and working in customer service call centers (Amoribieta, Bhau, Kanakamedala, & Parkhe, 2001; Easton, 2003; Waldman, 2003). During the late 1990s, the trend accelerated as U.S. firms contracted with offshore vendors to address their Y2K programming needs (Amoribieta et al., 2001).

More recently, in an effort to cut costs during the latest recession, U.S. corporations have engaged offshore vendors in what is known as business process outsourcing, which involves a range of business functions, including supply-chain management, operations, sales, marketing, and customer care (Bhandari, 2001). In addition, some state governments have contracted with offshore vendors for various services, notably, call centers for food stamp programs (Mattera, Woolsey, Purinton, & Prinz, 2004).

Now, the trend toward offshore outsourcing is moving up the value chain within U.S. firms to higher order, knowledge intensive functions—what is known as knowledge process outsourcing (Bhandari, 2003). This development is most evident in the financial services industry. Deloitte Research notes that globally the financial services industry could lose $1.6 billion in 2004 to $3.89 billion in 2008 (Top Financial Institutions,” 2004).

No one knows for sure how many U.S.-based white-collar jobs are likely to move offshore. The U.S. Bureau of Labor Statistics is just now beginning to gather data systematically to monitor the trend (U.S. News Wire, 2004). However, a University of California, Berkeley study estimates that about 14 million U.S. jobs—roughly 11% of the U.S. employment base—are concentrated in occupations vulnerable to offshore outsourcing (Bardhan & Kroll, 2003).

Jim Brannon’s recent experience with his employer captures in laser-like fashion the reality of this second wave of globalization, especially as it has moved up the value chain in U.S. businesses. In contrast to the fictional blue-collar worker, Joe Smith, described earlier, Brannon is a real person who lives in Atlanta. He was an executive in a large information technology firm.
At the top of his white-collar game, Jim Brannon worried little about his job. He was six-figure successful, an educated man with a jet-setting software job. . . . The vagaries of free trade and globalization couldn’t touch him. He was, after all, a vaunted executive . . . in a world-spanning information technology [company]. It was the blue-collar Joe, Brannon believed, who’d wake up one morning and discover his factory job had gone to Mexico or China.

Brannon, though, experienced just such a morning in February 2002. A letter ordered him to clear out his desk by day’s end. Gone were the fancy office, expense account, feeling of invincibility, and once-solid belief in the righteousness of Corporate America.

Brannon, now 52, represents one of the hundreds of thousands of American white-collar workers whose jobs have disappeared in the past 3 years. While [his former employer’s] desire to cut costs was partly to blame for Brannon’s unemployment, he says a major culprit was offshore outsourcing (Chapman, 2003).

Most economists downplay the public’s growing concerns about off-shoring of white-collar jobs (Drezner, 2004; Mann, 2003). They contend that the United States will develop the next wave of innovations that will create even better and higher paying jobs than those lost to offshore outsourcing. Historically, the United States has demonstrated a high level of resilience in response to globalization and structural changes in the economy. But, several recent developments challenge our innovation capacity and thus our ability to create the next wave of good jobs in the years ahead (Engardio & Einhorn, 2005; Segal, 2004).

First, the global competitive landscape is changing. Consider the developing nations that are embracing capitalism and free trade—China, India, and the former Soviet Union, among others (Joseph, 2002; Koehler et al., 2004; Krishnan, 2004b, 2004c). Collectively, these nations have a population that is 10 times that of the United States. They produce annually far more well-trained college graduates than we do as a nation (Krishnan, 2004c). And their college graduates perform the same work as educated American workers for about a tenth of the cost (Beckman, 2003; Guerra, 2002). Moreover, these countries have invested in new technological infrastructure and created the business and regulatory environment necessary to compete with the United States (Gupta, 2003).

Second, immigrants to the United States have made up much of the talent pool that has driven innovation in our economy. Immigrants led many of the high-technology start-up companies that fueled the economic boom of the 1990s (Saxenian, 2000). And international students and children of immigrants are principally responsible for nearly all of the enrollment growth
in the physical sciences, math, and engineering programs—the training grounds and scientific incubators for new advances that lend themselves to commercialization—at both the undergraduate and graduate levels of U.S. higher education (Ante, 2004; Engardio & Roberts, 2004; Schemo, 2001; “Sources of Vitality,” 2001).

But security restrictions imposed after the 9/11 terrorist attacks constrain the flow of foreign talent into the United States and thereby threaten our ability to develop the next generation of innovators and innovations (Ante, 2004; Council on Competitiveness, 2004; Johnson, 2002; Johnson & Kasarda, 2003). Moreover, research indicates that some of the immigrants who were engaged in the development of innovations that drove the 1990s economic boom are now returning home and setting up businesses that will compete with U.S.-based firms in fields like biotechnology and nanotechnology (Florida, 2004; Goswami, 2004; Krishnan, 2004b; Nair, 2004).

Third, and perhaps most threatening, many U.S.-based firms are shifting a significant proportion of their research and development (R&D) activities offshore (Engardio & Einhorn, 2005). General Electric, one of America’s most revered firms, was one of the first companies to establish an offshore R&D facility in Bangalore, India, in 2000 (Rose, 2002). The John F. Welch Technology Centre hosts more than 1,600 scientists, engineers, and researchers—two thirds of whom have advanced degrees. Charged with developing “breakthrough technologies that translate into growth of GE businesses,” the center reportedly has “filed more than 150 patent disclosures for research and development activities” since 2000 (“GE Expands,” 2002).

Following GE’s lead, a wide array of U.S.-headquartered multinational firms have established R&D facilities offshore in India and other developing nations (Krishnan, 2004a). Much of the work in drug discovery (bioinformatics, proteomics, and genomics, more generally), for example, reportedly is shifting to Hyderabad, India, nicknamed Genome Valley (Iype, 2004).

Emblematic of the fact that the United States is losing its innovation capacity, 164 U.S. chemical plants, which included “the research labs that developed key ingredients for everything from hand soap to home insulation to [computer] hard drives,” have shut down since 2001, idling more than 120,000 workers (Arndt, 2005). Moreover, “of the 120 chemical plants being built around the world with price tags of $1 billion or more, just one—a 1,725-acre polyvinyl chloride plant in Plaquemine, La.—is in the U.S. . . . China, by comparison, has 50” (Arndt, 2005). Elaborating on this shift, Arndt (2005) notes that “bigger, faster-growing markets are overseas. New facilities in the developing world are often as sophisticated and productive as those in America, if not more so.”
Commenting on how the offshore movement of R&D activities threatens the nation’s innovation capacity, U.S. Senator Joe Lieberman stated in a recent report (Koehler et al., 2004),

The innovation infrastructure that served us well in the face of less formidable competition is no longer sufficient in the face of this new fierce global competition. Key components of our innovation infrastructure are deteriorating as federal funding for R&D, the number of science and technology graduates, and business investments in the U.S. continue to decline.

He went on to state that

our innovation capacity is further undermined by the massive budget deficits which threaten future investments in R&D and education, and increase our exposure to currency manipulation by foreign leaders. This subsequently leads to the loss of manufacturing and service jobs. Our competitiveness is further compromised by international trade agreements that are not adequately enforced when our trade partners fail to live up to their commitments.

What does this ominous trend portend for U.S. competitiveness in the global marketplace? Arndt (2005) asserts that “for the U.S., the likely results are less investment, fewer jobs, and fewer scientific discoveries.” Ernsberger (2005) characterizes the likely effects in the following way:

In the years ahead, sizable numbers of skilled, reasonably well-educated middle-income workers in service-sector jobs long considered safe from foreign trade—accounting, law, financial and risk management, health care and information technology, to name a few—could be facing layoffs or serious wage pressure as developing nations perform increasingly sophisticated offshore work. The shift portends a dramatic realignment of wealth over the next couple of generations—valued . . . at “hundreds of billions of dollars.”

A recent Organization for International Investment (OFII) survey of more than 100 top-level executives of major U.S. subsidiaries of foreign companies seem to support these bleak prognoses. According to the OFII, U.S. subsidiaries of foreign-owned companies “insource 5.4 million jobs supporting an annual payroll of $307 billion.” The OFII Insourcing Survey 2005 was designed to “gauge how the United States is perceived as a location for business investment vis-à-vis other nations” (OFII, 2005).

The survey results revealed that the United States is perceived as weak on four of the top investment location criteria: health care costs, labor costs,
Racially Disparate Effects of Economic Globalization

Economic globalization has touched all U.S. workers in one way or another (Buchholz, 2004; Friedman, 2005; Hira & Hira, 2005). But African American workers have been affected more adversely than White and Hispanic workers, especially by the shift of blue-collar or manufacturing jobs offshore (“Black Unemployment Rises Faster,” 2003; Johnson, Farrell, & Stoloff, 1998; Leonardar-Wright, 2003). As one commentator has noted (“Black Unemployment Rises Faster,” 2003),

In 2000, there were 2 million black Americans working in factory jobs, or 10.1 percent of the nation’s total of 20 million manufacturing workers. Blacks were represented in the overall work force in roughly the same proportion. Then came the recession that began in March 2001; since then, 300,000 factory jobs held by blacks, or 15 percent, have disappeared. White workers lost many factory jobs, too—1.7 million in all. But because they were much more numerous to begin with, proportionally the damage was less, just 10 percent.

Owing in part to this high concentration of Black workers in the manufacturing sector, the Black unemployment rate (10.8%) was double the national unemployment rate (5.4%), 6.2 percentage points higher than the White unemployment rate (4.6%), and 4.2% percentage points higher than the Hispanic rate (6.6%) in December 2004. Moreover, the unemployment rate rose faster for Blacks (3.2 percentage points) than it did for Whites (1.1 percentage points) and Hispanics (0.9 percentage point) between 2000 and 2004 (Bureau of Labor Statistics, 2005).

The blue-collar job exodus has hit Black men older than 20 years of age and Black youth between the ages of 16 and 19 especially hard. Between 2000 and 2004, the unemployment rate rose faster for Black men than for any other demographic subgroup. And in December 2004, the unemployment rate
for Black youth (30.8%) was double the rate for White youth (15.7%) (Bureau of Labor Statistics, 2005).

Because it is a fairly recent development, it remains unclear how African Americans have been affected by the movement of white-collar jobs offshore. To provide a perspective on the likely effects, we extracted data from the Census 2000 Public Use Microdata Samples on the absolute number and percentage of African Americans who were employed in white-collar occupations most at risk of going offshore. For comparison purposes, we also extracted data on the absolute number and percentage of all U.S. workers employed in the most vulnerable occupations.

In 2000, as Figure 1 shows, 11.3% (2.2 million) of all employed African Americans (19.1 million) were concentrated in occupations that are at risk of going offshore. Blacks were not as vulnerable as the U.S. workforce as a whole—13.2% of all U.S. jobs are at risk of moving offshore.1 But there were certain occupational niches in which Blacks were more vulnerable than all U.S. workers: human resource management, paralegals and assistants, and sales, marketing, and customer care (see Figure 1). It is interesting that these occupations represented the specific business functions that large and small firms alike were aggressively outsourcing to offshore vendors. Thus, African Americans were slightly more vulnerable to offshore outsource-related job loss than other demographic groups—at least at the beginning of this decade.

**Responding to External Threats**

How have African Americans responded in the past to powerful economic forces that have adversely affected the structure of opportunity for their community? History tells us that African Americans have responded by being far more entrepreneurial and pursuing self-employment as an avenue of upward mobility (Butler, 1991). Three examples from African American history are illustrative.

Pennsylvania was the first state in the nation to emancipate its slaves in 1780. Fifty-eight years later, a snapshot of African American entrepreneurialism was provided when “A Register of Trades of Colored People in the City of Philadelphia and Districts” was published in 1838. The register listed 656 persons who were engaged in 57 different occupations. Included in the directory were Black bakers, custom boot and shoemakers, bricklayers and plasterers, brush makers, cabinet makers, carpenters, caulkers and
chairbottomers, confectioners (including the man who invented ice cream), a dentist (who manufactured porcelain teeth), dressmakers and tailoresses, plumbers, and caterers (Minton, 1913).

In the mid-1800s, Philadelphia’s Black businesses served a primarily White clientele and some of the Black-owned business had White employees. Moreover, Blacks controlled some lines of business. For example, Blacks reportedly monopolized the catering and restaurant business, which “made [Philadelphia] famous as a city of good food” (Minton, 1913).

The 1920s were also a period of rapid Black business growth. It is interesting that growth during this period was a response to rising Black-White antagonisms spawned by the large-scale migration of Blacks from the rural South to the urban North, which culminated in 26 major race riots in U.S.
cities in 1919 (Bates, 1997). These critical developments “marked the beginning of the end for Black businesses that relied on affluent white clients.” White antipathy toward Blacks led to a growing sentiment in the African American community to “buy Black.”

Black-owned insurance companies and Black-owned newspapers were an outgrowth of this growing racial consciousness. Describing the African American business community in the 1920s, one study (Butler, 1991) noted,

Black progress was particularly apparent in life insurance: 32 firms employed 6,000 agents and controlled assets of over $18 million in 1928. . . . By 1930, an estimated 70,000 black-owned businesses were operating in the United States, a 700 percent increase over 1900. . . . The 1920s were the golden years for the urban black business community.2 (p. 35)

Nationally, many of the Black-owned firms established during the 1920s were financed by churches and fraternal organizations and patronized by members of these organizations. It is unfortunate that the Great Depression destroyed much of the ground gained during the 1920s (Bates, 1997).

The past 20 years—roughly 1980 to the present—represents a third period in African American history in which entrepreneurship and self-employment have been embraced as a strategy for upward mobility (Daniels, 2003). During this period, there has been a fundamental shift in both the characteristics of African American small business owners and the types of business ventures established (Bates, 1997).

Whereas the traditional Black business owner of the early to mid-20th century was uneducated, undercapitalized, and served primarily a Black clientele, the emergent class of Black entrepreneur/small business owner of the post-1980 period (a) is college educated, often MBA-trained; (b) provides one or more professional services; (c) has paid employees; and (d) caters to a nonminority or racially diverse clientele, including corporate and government clients. Research shows that these newly emerging firms have been among some of the fastest growing businesses in the nation (Bates, 1997; Daniels, 2003; Hopkins, 2005).

Minority set-aside or preferential procurement programs contributed to the rapid growth of these businesses (Boston, 1999). Emblematic of their importance, nearly 40% of the most rapidly growing Black-owned firms—the so-called “new gazelles”—indicated in a recent survey that minority set-aside programs had a “significant” effect on their growth and development (Boston Research Group, 2002).
Moving Forward

Given the racially disparate employment effects of the offshore movement of blue-collar jobs and the size of the African American population at risk of job loss due to the offshoring of white-collar services, African Americans cannot assume that good-paying jobs in the United States will be either readily accessible or secure forms of employment. Globalization’s pace is simply too fast and the international competition too intense for African Americans—even those graduating from the nation’s most prestigious colleges and universities—to rely on major corporations for economic survival.

To thrive and prosper in the future, African Americans must build on the entrepreneurial tradition that has served as the lynchpin of economic survival at various periods in history (Bates, 1997; Butler, 1991; Minton, 1913; Schramm, 2004). It is imperative that African American–owned businesses continue to thrive, prosper, and grow in the future because they are far more likely to employ African Americans than White-owned firms in the same business niches (Boston & Ross, 1997).

But African American–owned businesses will face two major hurdles or obstacles in the years ahead (The Boston Consulting Group, 2005). The first pertains to minority set-aside programs. Because of legal challenges, such programs are unlikely to be a viable option for African American business growth and development in the future (Boston, 1999). The second relates to the offshore movement of white-collar business processes and knowledge-intensive functions. Competition from offshore vendors, who are capable of providing high quality white-collar services at globally competitive prices, is a major threat to the survival and viability of African American–owned businesses operating in similar niches.3 African Americans must develop globally competitive strategies, including possibly forging strategic alliances with offshore vendors, to overcome these and other threats if they are to remain profitable in the foreseeable future.

In addition to ensuring the survival, growth, and expansion of existing African American–owned businesses, entrepreneurship “boot camps” and business plan competitions should be offered on a routine basis throughout the country to assist African Americans who have entrepreneurial aspirations to transform their creative ideas and innovations into competitive small businesses. The overarching goal is to move African American business ideas to market more quickly than can be achieved via traditional minority business assistance programs.
The boot camps should offer aspiring African American entrepreneurs intensive short courses in all of the core functional areas of business, as well as technical and legal assistance in such areas as securing a patent, trademarking, and technology commercialization. The business plan competitions should provide a national forum for aspiring African American entrepreneurs to receive critical feedback on their business ideas and to network with other entrepreneurs, angel investors, and venture capitalists. The National Black MBA Association, perhaps in collaboration with the nation’s top business schools, should champion these initiatives.

African Americans also must push for greater entrepreneurial content in both K-12 and higher education. Given that rapid and unpredictable change is likely to be the only constant in the future, African American (and other) youth will need to graduate from all levels of the U.S. education system with greater entrepreneurial acumen—a demonstrated willingness to take incalculable risks and the ability to be agile, flexible, tenacious, and decisive in responding to unanticipated challenges and opportunities.

By graduating African American youth with these essential skills, the U.S. education system will go a long way toward creating the next and succeeding generations of not only traditional entrepreneurs in business venturing but also social and civic entrepreneurs who are committed to using their entrepreneurial talents to make meaningful change in the nonprofit and government sectors (Bornstein, 2004).

Finally, the wealth that exists in the African American community (including the substantial resources of the faith community) must be leveraged to create new, and expand existing, minority-focused pools of angel and venture capital. Such pools of capital will be needed to jumpstart new African American–owned and –operated businesses and to grow or expand existing ones (Bradford & Bates, 2004).

Concluding Thoughts

After chronicling the “Early History of Negroes in Business in Philadelphia” in a March 1913 address before the American Historical Society, Dr. Henry Minton concluded his formal remarks by stating “that our salvation as a race depends more upon commercial success than upon any other one factor” (p. 20). Given the racially disparate effects of the powerful forces of economic globalization, we believe that Dr. Minton’s assessment of the African American condition in 1913 holds equal, if not greater, weight today.
Throughout history, successful African American entrepreneurs have demonstrated time and again the uncanny ability to turn adversity into opportunity in dealing with internal challenges as well as external threats. African Americans must respond to the current challenges of economic globalization in much the same way: by developing, nurturing, and most important, unleashing the full entrepreneurial potential that exists in the African American community. Responding in this way will pay great dividends in the years ahead. Foremost among the payoffs will be the assurance that future generations of African Americans are able to compete successfully for business and employment opportunities in the knowledge-based economy of the 21st century.

Notes

1. Our estimates of the at-risk population are larger than the Bardhan and Kroll (2003) estimates because we include selected occupations representing higher order, knowledge-intensive functions, which they did not consider as being vulnerable to offshore outsourcing.
2. The Hayti business district in Durham, North Carolina, was one of the best examples of this vibrancy. Durham’s Parrish Street, where North Carolina Mutual Life Insurance and several other Black-owned financial services firms were located, was popularly referred to as the “Black Wall Street” in the 1930s (Washington, 1981).
3. How vulnerable are Black-owned firms to this kind of competition? Our analysis of the 2005 BE 100 industrial and service firms suggests that 29 of them provide the type of white-collar services that are widely available from offshore vendors. What would be the direct effect if these Black-owned firms lost market share to offshore vendors? In 2005, the 29 firms that are vulnerable to competition from offshore vendors employed almost 16,000 workers and generated sales in excess of $4.3 billion.

References


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