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The flight of jobs

THE NEW WORLD ECONOMY CHANGES SONOMA COUNTY

THE ISSUE

More than 2,000 jobs are disappearing from Sonoma County, sent to faraway factories by companies searching for cheaper labor and access to new markets.

The loss has rippled through the economy, hitting with a billion-dollar impact and revealing the vulnerability of livelihoods once thought secure in America.

The four-part series beginning today culminates eight months of reporting and photography that started as Agilent Technologies was announcing the shutdown of its Rohnert Park plant.

It follows the jobs to corporate offices, factory floors and the homes of workers in India, Ireland, Malaysia and Mexico.

The path of global job competition leading from Sonoma County to other countries is portrayed in a special section each day:

Penang, Malaysia, where low-wage workers are doing manufacturing once done by 700 Agilent employees in Rohnert Park.

Sarawak, Malaysia, where the lives of workers only a generation removed from jungle villages are being transformed by manufacturing that has left a Santa Rosa industrial park.

Tijuana, Mexico, and Galway, Ireland, where Medtronic Inc. is moving hundreds of complex assembly jobs from its Sonoma County facilities.

Bangalore, India, where engineers charting a new future are connected to a Web design company in Petaluma.

INSIDE TODAY



SPECIAL SECTION

The reality of a global economy hits home as Agilent moves hundreds of North Coast technology jobs to Malaysia.



JOHN BURGESS / The Press Democrat



CHRISTOPHER CHUNG / The Press Democrat

ABOVE: Women wait for their ride home in front of the Agilent Technologies factory in Penang, Malaysia, where Agilent is one of the largest companies and has 5,000 employees.

LEFT: Agilent's Rohnert Park facility, which opened in 1984, will close in 2005. The company is moving all operations to Penang and to its Fountaingrove campus in Santa Rosa.

By JEREMY HAY

THE PRESS DEMOCRAT

They are modern ruins: Four enormous high-tech factory buildings at the rural edge of Rohnert Park, where for 20 years thousands of Sonoma County workers built cutting-edge technology for Hewlett-Packard and then Agilent Technologies.

The vast production halls are nearly empty. The jobs are gone — not to return.

Hundreds who worked there were among the more than 2,000 people losing their jobs as major local employers, such as Agilent and Medtronic Inc., turn abroad in search of cheaper labor and new foreign markets.

What stood for two decades as a monument to promise and progress in Sonoma County is now a relic of the sudden power of the global economic revolution that has swept across America.

"My last day was a Thursday, and on Monday someone in Malaysia was doing my job," said Rita Alonso, 44, of Santa Rosa. She lost her \$40,000-a-year job last year as a buyer for an Agilent production line when the company moved that work overseas.

It went to a complex of whitewashed buildings with 5,000 workers in Penang, Malaysia, where women paid \$3,000 a year feed the global cell-phone market working 12-hour manufacturing shifts. Bending over microscopes to assemble testing instruments, they are among the workers replacing 700 Sonoma County employees whose work Agilent moved to Malaysia.

Agilent is far from alone. America's corporations have been sending as many as 150,000 jobs a year to their operations in foreign countries in a strategy called offshoring, and that new global reality has hit hard in Sonoma County.

In four swift years, the core of the county's high-tech manufacturing has been transplanted abroad, a loss that rippled into other industries and produced thousands of other layoffs.

The flight of jobs to foreign workers — an old and weary story in other parts of America from the Midwest's automotive cities, to the South's furniture regions, to New England's mill towns — has challenged high-tech communities from Sonoma County to Silicon Valley and has forced its way into the political discourse of the presidential campaign.

"If we don't become competitive, then our foreign competitors will eat our lunch," said Herb Dwight, former chief executive of Optical Coating Laboratories Inc. and now chairman of the non-profit Community Foundation of Sonoma County.

After Agilent announced in February that it was closing its Rohnert Park plant, the dimensions of the new economic order emerged from the emptiness. This time, Agilent wasn't going to restore the jobs when times got better.

TURN TO **FLIGHT**, BACK PAGE

global shift

OFFSHORING JOBS AND THE NORTH COAST

FLIGHT: Many see economic power shifting away from U.S.

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This time, Wine Country was no more immune than a shuttered steel town.

A cheap and abundant foreign work force had altered life in ways that could not be reversed. Jobs were disappearing not only to Penang, but to a city in the jungles of Borneo, the maquiladora zones of Mexico, the biotech parks of Ireland and the chaotic streets of India.

The disruptions could produce \$1 billion in annual losses to the county's economy, according to a study done for The Press Democrat by the Regional Center for Economic Analysis at Sonoma State University.

And almost 3,000 Sonoma County workers — the most per capita of any California county — have become eligible for federal job training and unemployment benefits for those who lost production-related jobs to foreign competition.

The job loss overlaps a recession that slammed the economies of California and the nation and set the county's dynamic telecom industry reeling. Sonoma County has lost 20 percent of its manufacturing jobs, second only to Silicon Valley in the Bay Area. About a quarter of Sonoma County's loss resulted from offshoring.

The blow was cushioned — and disguised — by the county's real estate boom, accumulated wealth from the dot-com era, company severances for lost jobs and employment strength in such areas as health care.

Still, for those trying to keep manufacturing lines running in the face of foreign competition, the offshoring of jobs has left deep uncertainty.

"It's destroying this county," said Anthony Mattos, whose Petaluma metal engineering shop, Eagle Manufacturing and Engineering, went under with 50 employees in 2002, outdone by competitors making the same products far more cheaply in China.

"What do you do?" asked Mattos, 49, now a sales manager for an East Bay metal company.

Worldwide competition

The fortunes of people here are linked to those of strangers across the world in ways hard to imagine a decade ago. From engineers with advanced degrees to assembly-line workers, all face a permanently altered economic terrain.

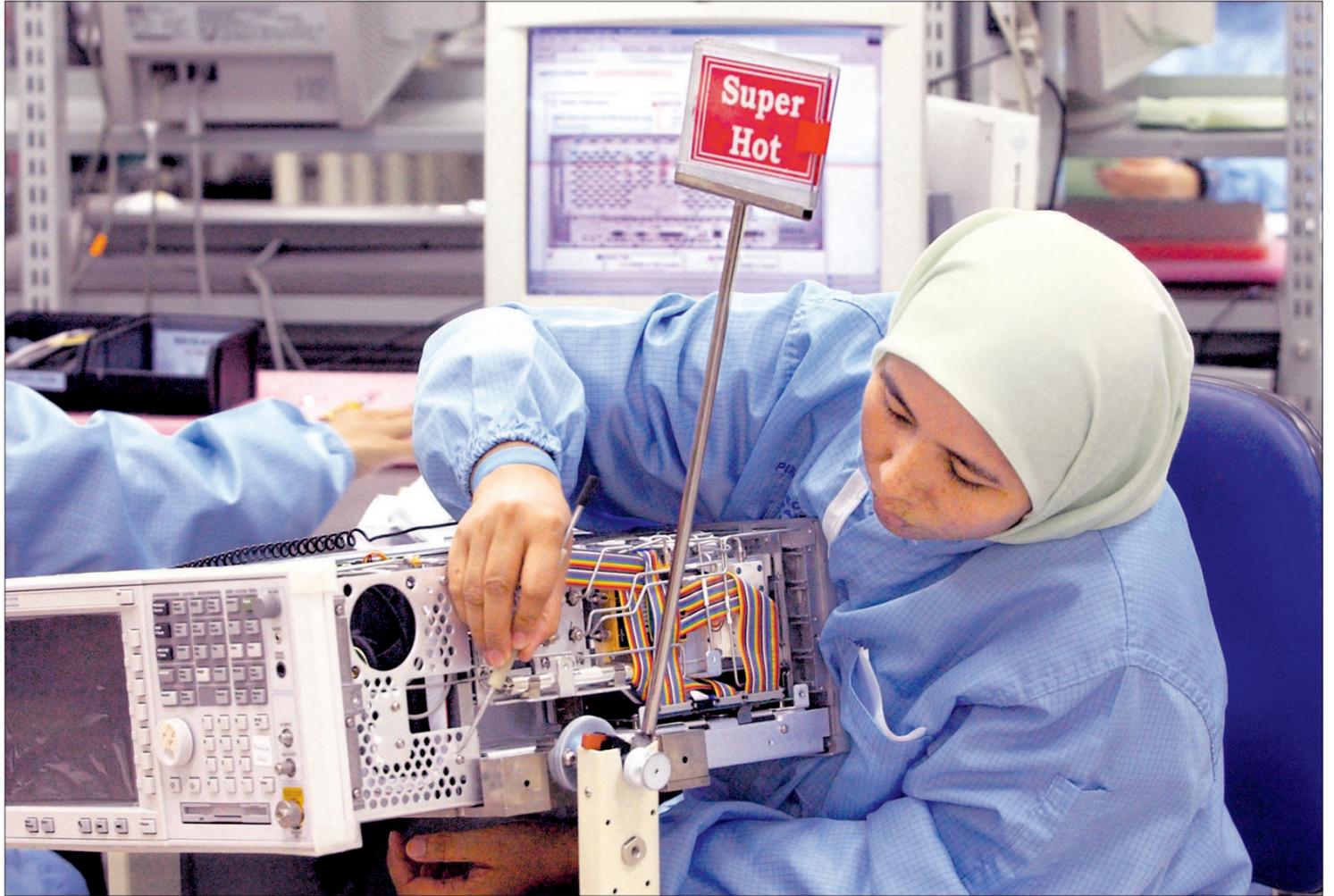
"Now their competition is with the workers of other nations," said Carlos Benito, an SSU international economics professor who also consults for the World Bank.

The changes are driven by advances in communications technologies — of the sort that in the 1990s spurred the rise of Sonoma County's Telecom Valley — and by political and economic changes in such countries as China, India and Malaysia.

They point to what many believe is an evolving sea change in the global balance of economic strength and influence.

"Thinking that this culture and this country is going to continue to be in the dominant position in the world, I can tell you is going to be wrong," said Duane Hartley, who rose from the Hewlett-Packard plant floor to become the company's top Sonoma County executive before leaving in 1999 to start consulting for companies around Asia.

"The power is shifting now," Hartley said.



JOHN BURGESS / The Press Democrat

MOVING OFFSHORE: An Agilent worker in the company's Penang, Malaysia, factory tests a signal analyzer once designed and built in Sonoma County. Agilent has offshored 80 percent of the production of the analyzer to Penang. Twenty percent of the component's production remains in Sonoma County.

About 8,600 miles away in Bangalore, India, where a young, well-educated work force is posing sophisticated, far cheaper competition to U.S. workers, software executive Anand Sudarshan put it just as plainly.

"Let's be very candid about it," he said. "Whether it's India or Malaysia, to a very large extent we are copying the American way."

As more of the world's developing countries continue their turn toward more competitive economies, many jobs once considered safe are threatened.

Making the change

The first waves of the global shift meant losing low-skilled manufacturing jobs to factories in such places as Malaysia and Mexico.

Now, work requiring education and advanced skills is being sent to countries such as Ireland and India with growing university systems and the telecommunication networks that allow them to do the computer-driven work long rooted in the American work force.

"It's information managers, it's bank tellers, it's white-collar workers, it's middle-level managers, it's almost anything you can think of that involves a computer," said Jacqueline Jones, a labor historian at Brandeis University in Waltham, Mass.

And companies that traditionally have relied on those workers are for the first time considering foreign alternatives.

"Conceptually, it doesn't make any difference whether it's being done in Bangalore or Rohnert Park, what you're asking is whether you have the people there and how well they can do the job," said Steven Fleming, president of National Bank of the Redwoods. The bank last month announced it is being acquired by Westamerica Bank.

But the transfer isn't always easy and the inexperience and limited training that come with low wages can also translate into low productivity and low quality.

Agilent says it has improved its

manufacturing in Penang to match Sonoma County, making up for earlier inefficiencies that required more employees in Malaysia to do equivalent work.

A Petaluma Web design company learned that the first software designers it hired in India had technical skills below U.S. standards.

The issue is so important to Medtronic that its Tijuana plant manager has prepared a PowerPoint presentation to show customers worldwide that the medical devices it assembles are as good as the ones made in Santa Rosa.

Impact at home

At the same time, the global economy is challenging Sonoma County businesses, giant and tiny, to seek new footholds to survive — and offering them new opportunities to grow.

"There are some economic benefits in the long run for Sonoma County from the outsourcing trend," said Sung W. Sohn, chief economist for Wells Fargo & Co. "By outsourcing some jobs, Sonoma manufacturers are improving their profitability and the productivity of the workers that remain employed. This helps ensure their survival in this competitive global marketplace."

Already thousands of Sonoma County workers have felt the sting of that competition, and the need to create new careers.

"I never looked at what I was spending for my bread, I just bought it. Now I feel like I'm living on a shoestring. It's just devastating," said Lynne Talafili, a Sonoma County native who joined Hewlett-Packard in 1977 as a cafeteria worker.

The 48-year-old Santa Rosa resident is studying hospitality, tourism and real estate at Empire College, scrambling to find a career she can live on. Her job as an Agilent product planner went to Malaysia in 2002.

The speed at which the changes are developing is forcing business, education and government leaders to grapple anew with how best to

prepare current and future generations for an increasingly competitive world.

"The natural advantages of Sonoma County are not enough to guarantee success in the new era of world competition," Agilent vice president Mark Pierpoint said in a presentation to the Santa Rosa Chamber of Commerce in August.

As local leaders wrestle with what the region's economy will look like in the long term, and what that might mean for North Coast residents and workers, the presidential election has heightened the debate over whether the changing global marketplace will ultimately benefit or harm America's economic future.

To many economists, the dislocation brought by moving jobs overseas is the short-term price for long-term prosperity. They argue that goods become cheaper and companies improve profits, clearing the way for expansion, higher wages, increased exports and more jobs.

Some economic thinkers have been outspoken in disputing that traditional view, arguing that the losses could outweigh the gains.

Nobel Prize-winning economist Paul Samuelson, in an academic journal article this month, argues that trade may not always work to the advantage of the American economy, that low-wage nations like India and China could drive down earnings of American workers, and that "mainstream defenses of globalization were much too simple."

Political positions

Those divergent views mark the political fault line between President Bush and Democrat John Kerry.

Both candidates have strong free trade records, including support for the North American Free Trade Agreement and normalizing trade relations with China. But, Bush has remained largely silent on policy changes that could affect offshoring jobs, while Kerry has been outspoken in saying U.S. corporations should pay taxes on earnings of

their foreign subsidiaries.

Earlier this year, Kerry denounced executives who have moved U.S. jobs offshore as "Benedict Arnold CEOs." He has pledged to eliminate a tax break that lets U.S. corporations defer paying taxes on foreign profits as long as they keep the money overseas.

Bush has preferred to speak about his tax cuts, saying they will be a catalyst for economic growth in the United States. His Council of Economic Advisers, however, has embraced the view that the nation will benefit from the global movement of jobs.

Whoever wins the White House in November, the debate will doubtless continue long after as the global economy, with all its hardships, rewards and challenges, continues to reveal itself.

"It's going to shake things to their foundations as lots of people who haven't been subject to international competition become aware that they are," said UC Berkeley economist Brad DeLong, who worked on economic policy in President Bill Clinton's administration.

In that white-hot competitive arena, business leaders say they will make the changes they must, or they likely will not survive.

"The worst thing we could do for the community is to go out of business. The worst thing we could do for our employees is to go out of business," said Agilent vice president Pat Byrne, who oversees 2,300 employees in Sonoma County and about 1,300 in Malaysia.

He pointed out that after three years of corporate losses, which included layoffs and sending work to Malaysia, the company is once again making money as it reaches into markets worldwide with equipment that tests half of the world's cell phones.

"The path to global success is to have a local presence in every major economy," he said. "If you only see it from the point of view of what's happened locally, you don't have that perspective."

"Thinking that this culture and this country is going to continue to be in the dominant position in the world, I can tell you is going to be wrong. The power is shifting now."

DUANE HARTLEY, former Sonoma County HP executive