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Abstract

This paper investigates the ramifications of international outsourcing for an outsourcing country. It shows that for a small country which is a price taker in the world market, outsourcing occurring in any traded-good sector is welfare-enhancing. For a large country with monopsony power in the world market, outsourcing occurring in the exportable (importable) sector entails pro-trade (anti-trade) effect and deteriorates (improves) the terms of trade weakening (strengthening) the welfare effect – however, outsourcing cannot be immiserizing in any case. These findings are considered vis-à-vis China's outsourcing with its major trading partners including US, EU, Japan, South Korea, Australia, and Hong Kong.

Key words: Outsourcing, Labor-Augmenting Effect, Import Demand, Terms of Trade,
Non-immiserization

JEL Classification: F11, F13, F22

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