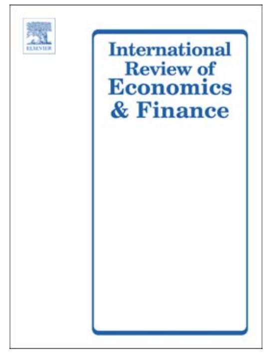

Accepted Manuscript

International Outsourcing, Terms of Trade and Non-immiserization

Jai-Young Choi

PII: S1059-0560(16)00027-7
DOI: doi: 10.1016/j.iref.2016.02.011
Reference: REVECO 1220

To appear in: *International Review of Economics and Finance*

International Outsourcing, Terms of Trade and Non-immiserization

Jai-Young Choi[a]

[a] Corresponding Author

Professor of Economics, Department of Economics and Finance, College of Business, P.O. Box 10045, Lamar University, Beaumont, Texas 77710, USA,

Tel (US): 409-880-8062; Fax (US) 409-880-1752; Email: Choijy@lamar.edu

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

Acknowledgements:

The author is indebted to insightful comments of Professor Eden S. H. Yu and two anonymous referees of this journal. This paper was presented at the Conference on 'Economic Linkages through International Trade, Investment, Migration and Tourism' on May 30-31, 2015, Hong Kong. The conference, organized by Chu Hai College of Higher Education, is supported by the IIDS Grant (Project No: UGC/IIDS13/B01/14) from the Hong Kong Research Grant Council. Author's gratitude is also extended to the generous research support by Martye and Bart Simmons Endowed Faculty Scholar Fund at the College of Business of Lamar University, Beaumont, Texas.