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Offshoring with Endogenous NGO Activism*

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Abstract

The process of globalization is characterized by an impressive growth of global value chains, as well as the proliferation of non-governmental organizations (NGOs) interacting with multinational firms. This paper presents a model of offshoring and NGO-firm interactions in which offshoring to a low-regulation country allows a monopolist to implement a “dirty” technology undesired by consumers. Consumers can reduce the incentive for dirty production by financing an NGO monitoring the firm. NGO emergence and offshoring can arise as joint and interacting outcomes. For a range of trade costs, NGO emergence allows firms to capture gains from globalization, which would otherwise be unattainable. Somewhat paradoxically, NGO emergence can be at the expense of consumers possibly leading to welfare losses through offshoring.

JEL: *F23, F61, L31*

Keywords: *NGOs, Offshoring, Credence goods, Globalization*

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