

Offshoring and Wage Inequality: Theory and Evidence from Japan

Hiroyuki Nishiyama¹, Mina Nakano², Mizuki Tsuboi³, Manabu Furuta⁴

Abstract

Does offshoring widen or narrow wage inequality? To answer this question, we develop a tractable North-South model that features firm heterogeneity, foreign outsourcing, and vertical specialization. In a baseline model with exogenous firm's outsourcing decisions, we show that an increase in outsourcing raises skilled wages, lowers unskilled wages, widens wage inequality, and improves welfare. In an extended model with endogenous firm's outsourcing decisions, however, an increase in outsourcing raises or lowers skilled and unskilled wages, widens or narrows wage inequality, and improves or deteriorates welfare. The impact of outsourcing appears to depend critically on the initial level of outsourcing.

Keywords: Firm Heterogeneity; Foreign Outsourcing; Vertical Specialization; Wage Inequality

JEL Classification: F66, J31, L23

¹ School of Economics and Management, University of Hyogo, 8-2-1, Nishi-Ku, Kobe, 651-2197, Japan. E-mail: nisiyama@em.u-hyogo.ac.jp

² Graduate School of Social Science, University of Hyogo, 8-2-1, Nishi-Ku, Kobe, 651-2197, Japan. E-mail: bk24y003@guh.u-hyogo.ac.jp

³ Faculty of Economics and Business, Wako University, 5-1-1, Kanai-Ga-Oka, Machida, 195-8585, Japan. E-mail: m.tsuboi@wako.ac.jp

⁴ Faculty of Economics, Aichi Gakuin University, 3-1-1, Meijo, Kita-ku, Nagoya, 462-8739, Japan. E-mail: furuta@dpc.agu.ac.jp