

# Growth effects of international outsourcing in a two-country R&D-based growth model

## **Abstract**

I examine the effects of increased outsourcing of production in a North–South model where both countries invest in R&D activity. Using this framework, I show that increased international outsourcing from the North to the South (i) drives down the relative wage of the North, (ii) increases the innovation rate in the North, and (iii) drives down the innovation rate in the South. Moreover, I demonstrate the possibility that increased international outsourcing impedes economic growth in both the North and the South.