

International Outsourcing versus Immigration of Low- and High-Skilled Labor

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概要

We build a two-country-two-sector trade model in which one monopolistic competitive sector employs both skilled and unskilled labor and one homogeneous good sector employs unskilled labor. Countries trade freely with each other and unskilled labor can be outsourced to another country. Under free trade, immigration of either unskilled or skilled labor does not change welfare levels as far as both countries produce the homogeneous good, that is, when the proportion of unskilled workers to skilled workers is sufficiently high in both countries. When wages are sufficiently different, outsourcing occurs and the immigration of skilled labor has a negative impact on welfare of unskilled workers, whereas the impact on skilled labor is ambiguous.