

The effects of international manufacturing outsourcing on the transfer of knowledge and technology and in the host country

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#### Abstract

The purpose of this paper is to provide the first empirical study on the effects of outsourcing in the manufacturing sector on the economy of the host country. Due to the lack of data on outsourcing, this study uses proxy measures based on existing theoretical literature, and utilizes various static and dynamic econometric models to estimate the nature and magnitude of the impact of outsourcing in 176 countries in the period 2000–2013. The effects on productivity and the accumulation of knowledge and technology reflected in the efficient use of energy, the value added of the labor of employees in manufacturing and of the manufacturing sector as a whole in the economy are analyzed in detail. The effects of outsourcing are also consistently compared and contrasted with those of FDI, which is a more intensively empirically studied wealth creation practice, and which, according to the general consensus, has a large and positive impacts on development. Crucially, the study compares these effects in three major outsourcing destination regions: developing Asia, Eastern Europe and Latin America and attempts to provide plausible explanations for the presence of some diverging trends in these regions, in particular the skill intensity of the types of manufacturing outsourced to these regions. Although the findings are highly consistent with the general expectations that outsourcing has positive impacts on the recipient economy, some factors like the economies of scale and the concentration of labor and skills can affect to the extent of that impact. Consistent with expectations, outsourcing has largest effects in Asia, followed closely by Eastern Europe, whereas impact in Latin America are relatively small. Based on the findings, potential policy and further research paths are suggested with regards to maximizing the outsourcing absorptive capacity of recipient economies.

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