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Productivity Gains and Spillovers from Offshoring

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Abstract:

Offshoring is generally believed to be productivity-enhancing and this belief is underpinned by economic theory. This article contributes to the growing literature that tests empirically whether offshoring does indeed help to improve productivity. Estimating the impact of materials and business services offshoring on productivity growth with industry-level data for Belgium over the period 1995-2004, we examine this issue separately for manufacturing and market services. The results show that there is no productivity effect of materials offshoring, while business services offshoring leads to productivity gains in manufacturing. In addition, this is the first article to investigate the possibility of spillovers from offshoring. Productivity gains from offshoring in one industry may feed through to other industries that purchase its output for intermediate use if, due to offshoring, the user value exceeds the price of the output. There is only scarce evidence of positive spillovers from materials offshoring in manufacturing in the data, which suggests that most firms effectively manage to internalise all efficiency gains from offshoring.

Text: See [Discussion Paper No. 5768](#)



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