

Skilled Immigration and Offshore Outsourcing

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Economies, relatively abundant in their skilled (highly educated) workforce, continue to be drawn into what seems to have emerged as a trans-national competition for attracting skilled workers. At the same time, skilled workers tend to agglomerate to these skill-abundant economies where they are highly rewarded relative to the country from which they emigrate. As such, it is not at all surprising that the number of foreign born skilled workers residing in the OECD countries has risen by a whopping 70% within the past decade. We develop a competitive model of offshore outsourcing where two countries, otherwise identical, differ in their skill distribution. We assume that the country with a relatively diverse work force has a relatively high reward for any given skill as well as a relatively high skill-premium (i.e. the wedge between the wages of the skilled and unskilled workers). We first show that, absent the possibility of offshore outsourcing, skilled immigration will lower the skill-premium in the country with a relatively diverse work force. We then demonstrate that outsourcing of super-modular (complementary) tasks to the country with a relatively homogeneous population provides the means for restoring the skill-premium of workers, in the country with a relatively diverse work force, engaged in tasks that are sub-modular (i.e. where superior performance of one task mitigates the need for superior performance in the others). Our conclusions fit well with the U.S. experience and have the implication that the skilled-unskilled wage gap can be reduced by a policy specifically targeted toward discouraging offshore outsourcing of tasks that are super-modular.

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