

# Offshoring, Intersectoral Reallocation, and Wages

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## Abstract

This paper investigates the effect of offshoring on wages for low-skilled and high-skilled workers in both the offshore and onshore countries, focusing on its impact on the intersectoral reallocation of high-skilled workers. By endogenizing workers' decision on working in either one of the sectors, offshoring changes the resources devoted to the R&D sector and thus affects the technology level, which in turn has influence on wages. We show that the impact of offshoring may be reversed when intersectoral reallocation is considered, if the elasticity of substitution between the two types of workers is large.

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