

# International outsourcing, economic growth and welfare in a North-South R&D-based growth model

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## Abstract

I formulate a simple North-South R&D-based growth model where final goods firms in the North endogenously determine the range of international outsourcing of intermediate goods to the South. I show that a fall in the trade cost of intermediate goods in the North: (i) reduces the relative wage of the North to the South ; (ii) increases the outsourced variety of intermediate goods in the North; and (iii) stimulates economic growth in all countries. Furthermore, conducting welfare analysis, I also show that a fall in the trade cost of intermediate goods in the North improves welfare in the South more than in the North.

JEL classification: F13, F43, O31

Keywords: International outsourcing; North-South; R&D-based growth model; Welfare analysis

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