Threatening to Offshore in a Search Model of the Labor Market
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Main features in model setting

- a two-country labor search model
- a multinational firm engages in production sharing by hiring both domestic and foreign labor to produce a final good
- the sequential job search which allows the ability of the multinational to shift production overseas to enter into its outside option in domestic wage negotiations

Main Findings

- In the short run, when firm entry and the capital stock are both impeded from fully adjusting to an increase in globalization, the threat has sizable effects: ceterus paribus, domestic wages are lower by as much as 7.7 percent.
- In the long run, when entry and the capital stock are free to adjust over the long run, the threat effect is muted considerably.
- These results highlight the importance of taking into account transition dynamics when evaluating the effects of changes in trade policy.

Comments

- The main results provide good theoretical interpretation for the linkage between MNEs's offshore activities and downward pressure on labor costs at home:
  - Hatzichronoglou (2006) and McCarthy (2002) show evidences that FDI outflows increase home countries' job loss
  - Empirical studies have found that MNEs in U.S. and U.K. tend to have higher employment elasticity and are more likely than domestic firms to respond to shocks (Slaughter, 2001; Fabbri, Haskel, and Slaughter, 2003; Bernard and Jensen, 2002; Gorg and Strobl, 2003).
  - Geishecker (2008) finds that MNEs markedly increase the probability of job turnovers in Germany manufacturing sectors.
  - Munch (2010) finds that MNEs increase the job change hazard rate for all education groups in Danish manufacturing sectors.

Comments (Cont'd)

- Yet there is a number of papers have underlined the importance of FDI activities on employment, no consensus has yet emerged in this regard (Baldwin, 1995):
  - Many argue that FDI by Multinational Enterprises (MNEs) may help reduce unemployment rate in the home countries (Egger and Kreickemeier, 2008; Mitra and Ranjan, 2010; Castellani, Mariotti and Piscitello, 2008; Mankiw and Swagel, 2006)

Comments (Cont'd)

- Scheve and Slaughter (2004) present new empirical evidence, based on the analysis of panel data from Great Britain collected from 1991 to 1999, that FDI activity in the industries in which individuals work is positively correlated with individual perceptions of economic insecurity. They argue that FDI by MNEs increases firms' elasticity of demand for labor. More-elastic labor demands, in turn, raise the volatility of wages and employment, all of which tends to make workers feel less secure.

Suggestions

- Can this model be extended in a way that it is able to generate results that the relation of wage and offshoring activity at home may depend on the type of offshoring (horizontal vs. vertical)?
- Can this model assess the welfare implication (i.e. loss to labor vs. gains to MNEs) of offshoring to home country? And what's the policy implication to home country?

The End

THANK YOU ALL