

Abstract

Outsourcing is the current trend between Taiwan and Mainland China in recent decade. Inclusive of importing intermediate inputs, setting up multinational firms, purchasing final goods produced abroad, outsourcing brings two topics worthy to discuss. My thesis is structured into two independent projects: one is to discuss the effects of outsourcing on unemployment and changes in relative wages, and the other focuses on the issue of whether outsourcing leads to Taiwan deindustrialization.

The main findings in the first project are consistent with the major conclusions suggested by several studies (Feenstra and Hanson, 1995; Wood,1995) that: declining share of manufacturing employment in total employment, increasing share of skilled workers' in total manufacturing employment and in total wage bill, while the converse in unskilled workers. Therefore, we have no reasons to limit the unprofitable and traditional industries to move out. What we should do is to develop and expand the higher-skilled sector and to encourage high-technology industries to upgrade the production with the most comparative advantage. Different industrial policies applicable to different features of each industry are necessary. To announce a rough and uniform policy will probably do more harms than goods.

What unearthed from the second project is that concerns of economic periphery voiced by Pan-KMT and Pan-DPP alliances did not tell the full story. Krugman and Venables(1995) can be applied to show that economic periphery is just one of the points in the process of a dynamic development with reducing transportation cost. Besides, transportation cost is not the only contributor to “core and periphery” pattern. Share of intermediate input and elasticity of substitution for manufactured goods are also playing important roles. Therefore, different industries should be applicable for different policy arrangement.

Key Words: outsourcing, Cross-Strait trades, wage inequality, core and periphery pattern.