

Offshoring and Productivity: A Micro-data Analysis

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Abstract

Offshoring has become increasingly important for businesses, especially manufacturing firms, to compete in increasingly competitive domestic and international markets. This paper empirically studies the association between offshoring, productivity and plant characteristics by focusing on the geographical dimension of plants' business activities. Using Statistics Canada's Survey of Innovation 2005, which linked to Annual Surveys of Manufacturers, it demonstrates that material offshoring was highly associated with firms' outward-oriented business activities including foreign operation, investing in foreign M&E, and exporting, after controlling for offshoring and operating locations advantages and industry-specific effects. For R&D offshoring, it is found that it was mainly associated with investment in foreign M&E. In addition, this paper shows that material offshoring is positively associated with productivity and that the association is significantly larger for material offshoring to non-U.S. countries than for material offshoring to the U.S. after controlling for the effects of being multinationals, the education level of workers, and plant size.