

## Determinants of International Outsourcing Intensity for Manufacturing Industry: Evidence from a Panel Data Analysis

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### Abstract

During the last decades, the improvements in technology allow firms to fragment their production process across countries to reduce their production costs and also gain some competitive advantage in international markets. Therefore, in today's world, production of a final good fragmented across different parts and each parts of the production process can be outsourced by firms to plants that located in different countries. Outsourced parts imported by home country firms to produce final goods. Thus, international outsourcing has gained importance as a source of a new form of trade in this process, and has received considerable attention both in respect of economic research and political discussion. Theoretical and empirical contributions has highlighted the importance of declining trade barriers, decreasing costs for service links, differences in labor costs among countries, and exchange rates as main determinants of international outsourcing.

The aim of this study is to analyze the main determinants of international outsourcing for the manufacturing industry of 31 countries during the period 1995-2010. Results obtained from a panel data analysis has revealed that international outsourcing mainly explained by the trade costs and exchange rate variables. Accordingly, both decrease in trade costs and appreciation in national currencies have positive effect on the international outsourcing.

**Keywords:** International Outsourcing, International Trade, Panel Data

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