

# Innovation and Production Offshoring: An Implication on Welfare

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## Abstract

I theoretically analyze the effect of a strengthening IPR protection and an improvement of technology of innovation of offshoring on the rate of innovation offshoring, rate of imitation, rate of innovation, relative wages, real wages and domestic welfare. A North-South dynamic general equilibrium model of trade with endogenous imitation and innovation and production offshoring is constructed. To trade with lower Southern wages, the Northern firms confront the problem of information leakage to the Southern firms and monitoring costs if they do offshore innovation and production. The model predicts that a strengthening of IPR protection decreases the rate of innovation and the rate of imitation but increases the rate of innovation offshoring. Northern real wages also decrease with strengthening of IPR protection but Southern real wages increase. It may hurt the North but benefit the South. While, an improvement in technology of innovation offshoring increases the rate of innovation, the rate of imitation and the rate of innovation offshoring. Northern relative real wages decrease with such improvement but Southern real wages increase. It may benefit the North and the South.

*Keywords* : offshoring, innovation, information leakage ,productivity gap, welfare, trade policies  
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