The Interactive Effect of Immigration and Offshoring on U.S. Wages
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Abstract
We jointly analyze the effects of low-skilled immigration and offshoring on wages of American workers of different skill levels and task specializations. We show that offshoring affects native wage response to immigration and explain the likely economic mechanism responsible. Focusing on Commuting Zone outcomes and analyzing a period of high immigration and offshoring exposure growth, between 1990 and 2000, we find that greater levels of offshoring exposure increase wage elasticity of competing natives in response to low-skilled immigration. In effect, this means that the estimated negative wage effect of immigration becomes more negative with more offshoring. We present a theoretical model to demonstrate how this interactive effect of immigration and offshoring can come about. Specifically, we show that offshoring increases native wage elasticity in response to immigration if it increases immigrant wage share (which we show to be the case empirically); this happens if a relatively larger share of native jobs than immigrant jobs is offshored, causing natives to shift to performing tasks in which they have lower comparative advantage and immigrants to concentrate in tasks for which they have greater comparative advantage.