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OUTSOURCING TO CHINA: A CURSE  
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***INTERNATIONAL TRADE AND  
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## ABSTRACT

### Import competition from and outsourcing to China: a curse or blessing for firms?\*

We use Belgian manufacturing firm-level data over the period 1996-2007 to analyze the impact of imports from different origins on firm growth, exit, and skill upgrading. For this purpose we use both industry-level and firm-level imports by country of origin and distinguish between firm-level outsourcing of final versus intermediate goods. Results indicate that China is different from both other low-wage and OECD countries. Industry-level import competition and firm-level outsourcing to China reduce firm employment growth and induce skill upgrading. In contrast, industry-level imports have no effect on Belgian firm survival, while firm-level outsourcing of finished goods to China even increased firm's probability of survival. In terms of skill upgrading, the effect of Chinese imports is large. Import competition from China accounts for 42% (20%) of the within firm increase in the share of skilled workers (non-production workers) in Belgian manufacturing over the period of our analysis, but these effects, as well as the employment reducing effect, remain mainly in low-tech industries. Firm-level outsourcing to China further accounts for a small but significant increase in the share of non-production workers. This change in employment structure is in line with predictions of recent model of trade-induced technological change and offshoring.

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# 1 Introduction

For many developed countries the past decades has been characterized by large and rising imports from China, a loss in manufacturing employment, firm exit and offshoring of especially low skilled jobs to low wage countries. This has triggered a substantial amount of research both from trade economists and labor economists in search of a causal relationship between the imports from low wage countries and labor market outcomes in (especially) developed countries. The purpose of this paper is to contribute to this literature by using firm-level panel data for Belgium that are highly disaggregate and which includes information on firm-level imports by source country. The use of this data offers several distinct innovations compared to the previous literature. First, by using firm-level data we can control for firm heterogeneity and analyze within industry re-allocation effects which was not possible in studies using industry-level data. Second, by having access to imports at the firm-level, we can usefully distinguish between an industry-wide import competition effect and a firm-specific effect for those firms importing goods directly from low wage countries (outsourcing). Third, it allows us to distinguish two different types of firm-level outsourcing: outsourcing of intermediate and finished goods.

Our empirical strategy in part follows Bernard, Jensen and Schott (2006) – henceforth BJS (2006) – and Biscourp and Kramarz (2007). BJS (2006) study the effects of industry-level import competition from low wage countries on US manufacturing firms’ employment growth and survival. We perform a similar analysis while introducing *within* firm skill upgrading as a new margin of adjustment to foreign competition and focusing on China. Our results confirm the (modest) negative impact of low-wage countries’ import competition on firms’ employment growth and survival while further qualifying China as special with respect to number of dimensions. Above all, our findings indicate that import competition from China, but not from other low-wage countries, is responsible for a large fraction of the observed skill upgrading in Belgian manufacturing. Indeed, Rodrik (2006) and Schott (2008) already pointed out that Chinese exports have different characteristics with respect to other low-wage countries, i.e., they are more sophisticated and show more overlap with products of OECD countries.

Concerning our analysis of firm-level outsourcing, previous industry level studies<sup>1</sup> did not allow researchers to: (i) control for firm heterogeneity; (ii) distinguish within firm adjustment from between firm adjustment; (iii) take into account the different effect of international sourcing depending on the final vs intermediate nature of the imported goods. One notable exception is Biscourp and Kramarz (2007). Similar to them we use firm-level imports and distinguish between outsourcing of intermediate goods and of final goods by countries of origin. Different to their study, we address the endogeneity problem inherent in the use of firm-level imports by adopting an IV strategy and exploiting product-country level tariffs and trade weighted exchange rates.

While we look at several firm performance measures in this paper, the skill upgrading measures are arguably the focus of our interest. Since the late 1980s, there has been a rising concern about low-skilled workers in developed countries. Both job opportunities and wages for low-skilled workers are decreasing relative to high-skilled workers. Several explanations have been put forward including trade-induced technological change (Bloom et al. 2008) as well as more recent theories on the offshoring of tasks (Grossman and Rossi-Hansberg, 2008). While labor economists have provided a sizable amount of firm-level evidence relating technological change and within firm skill upgrading,<sup>2</sup> firm-level trade studies focusing on trade channels have only started to surface.<sup>3</sup> The rapid growth of a country like China provides a nice opportunity to study its role in these events. In this paper we set out to test for a causal relationship between imports and the skill structure of Belgian firms. Our data allows us to single out the differential impact of import competition and outsourcing as well as to measure workers' skill by their education level, which enables us to go beyond the crude distinction between production and nonproduction workers used in the literature (Feenstra and Hanson, 1996; Machin and Van Reenen, 1998).

Our main findings show that China is different from other low-wage countries but also

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<sup>1</sup>Feenstra and Hanson (1999) for the US, Hijzen et al. (2005) for the UK, Falk and Koebel (2002) for Germany, etc.

<sup>2</sup>See, for example, Levy and Murnane (1996), Doms, Dunne and Troske (1997), and Bresnahan, Brynjolfsson, and Hitt (2002).

<sup>3</sup>There exist some firm-level studies relating skill upgrading within multi-national firms, such as Head and Ries (2002) for Japanese multinationals, Hansson (2005) for Swedish multinationals, and Castellani et al. (2008) for Italian multinationals. However, such contributions focus on a special group of firms (multinationals) only and it is thus questionable how to extend results to a larger spectrum of firms. Our paper also relates to some firm-level analysis about developing countries and trade, such as Bustos (2005) for Argentina and Verhoogen (2008) for Mexico.

different from OECD countries and its separate inclusion in the analysis brings out new results. Both industry-level import competition and firm-level outsourcing of finished goods from China reduce firm employment growth and induce skill upgrading. In contrast, industry-level imports have no effect on Belgian firm survival, while firm-level outsourcing of finished goods to China even increased firm's probability of survival. The effect of Chinese imports is large in terms of skill upgrading. Import competition from China accounts for 42% (20%) of the within firm increase in the share of skilled workers (non-production workers) in Belgian manufacturing over the period of our analysis, but these effects, as well as the employment growth effect, remain mainly in low-tech industries. Firm-level outsourcing to China of both finished and intermediate goods further accounts for a small but significant increase in the share of non-production workers. These changes in employment structure are in line with predictions of offshoring models and Schott's (2008) 'moving up the quality ladder' story while complementing the findings about import competition from China and technological upgrade by Bloom et al. (2008).

The remainder of this paper is organized as follows. In Section 2, we we briefly review the theoretical literature relating trade and skill upgrading. Section 3 describes the data and the instrumental variables. Section 4 contains summary statistics and takes a first look at the evidence. In Section 5 we present the econometric model and discuss estimations results. Section 6 is a concluding one.

## **2 Theoretical background on skill upgrading**

The strongest result arising from our study is the positive effect of import competition from and outsourcing to China on skill-upgrading in Belgian manufacturing. In this Section we briefly review the theoretical literature relating trade to the demand of workers with different skill levels.

So far, the favorite explanation for the increase in relative demand of skilled workers in developed countries is the 'skill-biased technological change' (SBTC). The main reasons that led economists to favor SBTC over trade-related alternative stories are as follows. First, skill upgrading was found to occur mainly within industries rather than between industries, which

contrasts the prediction of the standard Heckscher-Ohlin (HO) theory (Berman, Bound and Griliches, 1994). Second, skill upgrading not only occurred in developed countries but also in developing countries, which also goes against HO. Third, product-price studies revealed that the prices of labor intensive goods did not decrease significantly relative to skill intensive goods in developed countries. This violates the prediction of the Stolper-Samuelson theorem (Lawrence and Slaughter, 1993, Leamer, 1996, and Baldwin and Cain, 2000). Finally, factor content calculations revealed that trade with developing countries was not important enough to have a major impact on employment structure in developed countries (see, e.g., Krugman, 1995).

However, some recent developments in both trade theory and applied trade analyses have challenged this view. First, some scholars have stressed the complementarity between trade and technology. Trade liberalization may alter the returns of different alternative technologies and induce skill-biased technological change and skill upgrading (Wood, 1998, Acemoglu, 2003, Ekholm and Midelfart, 2005, Bloom et al., 2008 ). This view makes the trade-based explanation consistent with the technology-based one. Additionally, trade economists have recently extended the traditional HO model and shifted the focus away from trade in goods to trade in tasks and offshoring (Feenstra and Hanson, 1996, Feenstra and Hanson, 2001, Grossman and Rossi-Hansberg, 2008). This shift in focus makes trade-induced *within* industry skill upgrading possible. Trade in tasks can explain why both developed and developing countries can experience skill upgrading after trade liberalization. By offshoring its most labor intensive tasks, skill intensity in developed countries rises while the newly offshored tasks going to developing countries tend to be more skill intensive than those already performed there.

In short, there are reasons to believe that trade is an important mechanisms affecting employment structure changes in the developed countries. While most of the above mentioned debate has an industry-level focus, in this paper we go one step further by looking at *within firm* employment outcomes and in particular skill upgrading. Within firm skill upgrading naturally follows from the above mentioned within industry mechanisms as long as one considers homogeneous firms. However, as emphasized by BJS (2006), if firms are heterogeneous in dimensions that affect their likelihood to grow, survive, and update their production pro-



cess then a substantial part of skill upgrading within an industry may occur *across firms*. Throughout our analysis, we will pay attention to this complementary reallocation mechanisms.

We see at least three mechanisms through which trade may induce *within firm* skill upgrading. First, trade may induce within firm technology upgrading which, to the extent the later is a skill-biased, will increase firm's relative employment of skilled workers (Bloom et al. 2008). Second, multi-product firms may specialize in more skill intensive products when facing competition from low-wage imports, which will also induce within firm skill upgrading (Bernard et al, 2010). Finally, firms have the option to outsource the labor intensive stages of the production process to low-wage countries so increasing their demand for skilled workers (Grossman and Rossi-Hansberg, 2008).

### 3 Data

In this Section we provide details about the data and the methodology used in order to construct our measures of import competition and outsourcing, firm-level outcomes and control variables, as well as instruments.

#### 3.1 Measuring import competition: industry-level import and production data

Industry-level imports data comes from the ComExt Intra- and Extra-European Trade Data, which is an harmonized and comparable statistical database for EU countries merchandize trade. The database is compiled by Eurostat using statistics from the member states. We extract data on both Belgian and EU15 manufacturing imports by country of origin and by 4-digit NACE rev.1.1 industry for the period 1995-2007. Then we categorize countries into four groups: OECD countries, China, other low-wage countries (BJS), and the rest of the world. The definition for low-wage country is from Table 1 in BJS (2006), where they consider countries with less than 5 percent of U.S. per capita GDP in 1992 as low-wage countries. According to such definition, major labor-abundant countries like China, India and Vietnam are all classified as low-wage. Unlike BJS (2006), we distinguish China from BJS

countries.

We use the variable import share<sup>4</sup> to measure the degree of import competition faced by Belgian firms from the different country groups at the four digit NACE code industry level. Our working hypothesis is, as in BJS (2006), that firms within an industry experience a similar competitive pressure on their final products which can be proxied by the importance of imports of the same products from other countries. We construct two distinct import share measures for Belgium and the EU15. We use the Belgian import share in our baseline estimations and report results based on the EU15 import share in the Appendix.<sup>5</sup>  $IMPSHARE_{jt}^c$  denotes the import share of country group  $c$  of the goods produced by industry  $j$  in year  $t$  and is defined as:

$$IMPSHARE_{jt}^c = \frac{IM_{jt}^c}{IM_{jt} + PR_{jt}}$$

where  $IM_{jt}^c$  and  $IM_{jt}$  represent (respectively) the value of imports from country group  $c$  and all countries.  $PR_{jt}$  is Belgian domestic production of industry  $j$  in year  $t$  and comes from the Prodcom dataset also provided by Eurostat.

### 3.2 Measuring outsourcing: firm-level import data

Belgian imports data by year, firm, product (CN8 nomenclature), and country are provided by the National Bank of Belgium (NBB) and cover the period 1995-2007. Micro trade data are collected by the NBB on a monthly basis from Intrastat (intra-EU trade) and Extrastat (extra-EU trade) declarations that cover the universe of trade transactions.<sup>6</sup> The reliability of the trade declaration data builds upon the mandatory VAT returns that firms are obliged

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<sup>4</sup>We use import share, rather than import penetration as defined in BJS (2006), because of some peculiar feature of Belgium. Belgium is a super-trader and, in a few 4 digit industries, exports are larger than the sum of import and production causing import penetration to be negative. This is another reason why we report results based on EU15 imports as a robustness check.

<sup>5</sup>The reasons we use EU15 import share for robustness are as follows. First, some imports of other EU15 countries from China may be re-exported to Belgium. Second, Belgian firms export a lot to EU market. Imports from China by other EU countries may thus reduce their imports from Belgium so affecting Belgian firms.

<sup>6</sup>For intra-EU trade, the threshold above which a legal obligation to declare exports arises is (from 1st January 2006 onwards) 1 million euros. The threshold has changed over time going from 104,105 euros for the period 1993-1997, to 250,000 euros for the period 1998-2005. Firms trading less than 1 million euros represent less than 1% of aggregated exports. Moreover, firms often do provide information about their trade even when they are below the threshold. Extra-EU trade is virtually exhaustive with the legal requirement for declaration being a value of 1,000 euros or more or a weight of 1,000 kg or more.

to file either monthly or quarterly depending the volume of sales and purchase of goods. Sales and purchases involving a non-resident must be separately indicated in VAT returns due to the different treatment of these operation with respect to the VAT tax. This information is then used by the NBB to identify firms involved in trade activities which are then required to file, whenever relevant, the Intrastat and/or Extrastat declaration. Balance sheet and trade data were merged using the VAT number which uniquely identifies firms in Belgium. The trade data is extremely rich and comparable in quality to the widely known French Customs data used by Eaton *et al.* (2004) among others. Information about the nature of the transaction is also available and, for the purpose of our analysis, we concentrate on transactions involving transfer of ownership so leaving aside trade related to (i) work done; and (ii) return and replacement of goods.

As above argued, outsourcing cannot be properly analyzed at the industry level using input-output tables. We thus follow Biscourp and Kramarz (2007) and use firm-level imports. In order to capture the different facets of outsourcing we first divide a firm’s imports into two categories: imports of finished goods and imports of intermediate goods. Finished goods are defined as CN8 products that correspond to the same 3-digit NACE code of the main activity of the firm.<sup>7</sup> Other imports are defined as imports of intermediate goods. The purpose of this distinction is to broadly account for the different nature of imports of goods that are ‘ready to sell’ versus imports of goods that will be further processed within the firm. Our measure of outsourcing of finished goods is:

$$OUTFIN_{it}^c = \frac{IMF_{it}^c}{T_{it}}$$

where  $IMF_{it}^c$  corresponds to firm  $i$  imports of finished goods from country group  $c$  in year  $t$  and  $T_{it}$  is firm turnover in year  $t$ . Outsourcing of intermediate goods by firm  $i$  at time  $t$  from country group  $c$  ( $OUTINT_{it}^c$ ) is defined as:

$$OUTINT_{it}^c = \frac{IMI_{it}^c}{T_{it}}$$

where  $IMI_{it}^c$  corresponds to firm  $i$  imports of intermediate goods from country group  $c$  in

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<sup>7</sup>A detailed correspondence table between CN8 and NACE 3-digit codes across time have been provided by the NBB.

year  $t$ . As for country groups, we build on the same partition used for industry-level imports shares  $IMP SHARE_{jt}^c$ , i.e. OECD countries, China, other low-wage countries (BJS), and the rest of the world.

### 3.3 Firm-level outcomes and controls: balance sheet data

Firm-level balance sheet data over the period 1996-2007 comes from the Business Registry covering the population of Belgian firms required to file their (unconsolidated) accounts to the NBB. The data combine annual accounts figures with data from the Crossroads Bank on firms' main sector, activity and legal status. Overall, most firms that are registered in Belgium (i.e., that exist as a separate legal entity) and have limited liability are required to file annual accounts.<sup>8</sup> Specifically, all limited-liability firms that are incorporated in Belgium have to report unconsolidated accounts involving balance sheet items and income statements. Belgian firms that are in addition part of a group also have to submit consolidated accounts where they report the joint group's activities in a consolidated way. However, Belgian affiliates of a foreign group which do not exist as a separate legal entity in Belgium are not required to report unconsolidated accounts (they are required to file a consolidated account, but these data do not allow us to obtain firm-level characteristics for the Belgian affiliate). There are two types of annual accounts: full and abbreviated. Firms have to file a full annual account when they exceed at least two of the following three cutoffs: (i) employ at least 50 employees; (ii) have an annual turnover of more than 7.3 million euros; and (iii) report total assets of more than 3.65 million euros.

For this study, we selected those companies with their main activity in the manufacturing sector (NACE 2-digits codes 15 to 37) that filed a full-format or abbreviated balance sheet between 1996 and 2007. This provides us with about 15,000 firms per year for which all the relevant information is available. The data coverage, compared with other European firm-level data, is particularly good. For example, despite France has almost 6 times more manufacturing employment than Belgium, the well-known French EAE (Enquête Annuelle

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<sup>8</sup>Exceptions include: sole traders; small companies whose members have unlimited liability; general partnerships; ordinary limited partnerships; cooperative limited liability companies; large companies whose members have unlimited liability, if none of the members is a legal entity; public utilities; agricultural partnerships; hospitals, unless they have taken the form of a trading company with limited liability; health insurance funds; professional associations; schools and higher education institutions.

Entreprise) manufacturing firms database contains data on about ‘only’ 25,000 firms.

Using the information from the balance sheet data, we construct a battery of firms’ covariates and retrieve the main NACE 5-digit activity code of each firm.  $NP/E_{it}$  is the share of non-production workers of firm  $i$  at time  $t$ , which is defined as the ratio of non-manual workers  $NP$  (including managers) to total employment  $E$ ,<sup>9</sup> and is a proxy for the skill intensity of the workforce. The log of tangible assets per worker –  $\log(K/E)_{it}$  – is instead used as a measure of capital intensity while log value added per worker –  $\log(VA/E)_{it}$  – and log total employment –  $\log(E)_{it}$  – are used as measures for labor productivity and firm size, respectively. As standard in the empirical Industrial Organization literature we also consider the log of firm age plus one –  $\log(Age)_{it}$ . Finally, we use intangible assets per worker –  $\log(Intang.K/E)_{it}$  – to control for technology-related expenditure within the firm.<sup>10</sup>

As for dependant variables, we consider a number of measures of firm performances/employment structure. To limit endogeneity problems, we follow Bernard and Jensen (2004) and use firm covariates at time  $t$  and dependent variables at time  $t + 1$ . The first dependent variables is firm growth ( $\Delta E_{it+1}$ ), which is defined as the log difference between a firm total employment in year  $t + 1$  and  $t$ . The second one is firm exit ( $Death_{it+1}$ ), which is defined as disappearing from the balance sheet dataset for at least two consecutive years starting from  $t + 1$ . We then further consider two measures of the skill level of a firm workforce. The first one is the previously mentioned share of non-production workers that we take at time  $t+1$  ( $NP/E_{it+1}$ ). The second one is a measure of the educational level of the workforce. While most related empirical papers use the share of non-production workers to measure skill, we are able to go further thanks to a unique feature of the data. We are indeed able to track, for firms with full-format balance sheets only (essentially large firms), the educational level of workers that enter and exit a firm in each year. At the cost of decreasing sample size, we are thus able to construct a proxy for the share of skilled workers based on education.<sup>11</sup> In particular our measure  $S_{it+1}$  is based on the following time decomposition:

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<sup>9</sup>We use full time equivalent as a measure for employment.

<sup>10</sup>Intangible assets include patents, licences, and R&D capitalized costs as well as goodwill.

<sup>11</sup>In what follows, we consider a worker as being skilled upon having more than secondary school education (ISCED levels 5 or 6).

$$S_{it+1} = \frac{skill_{it+1}}{E_{it+1}} = \frac{skill_{i0}}{E_{it+1}} + \frac{skill\_net\_flow_i^{0:t+1}}{E_{it+1}} \quad (1)$$

where  $skill_{it+1}$  is the number of skilled workers in firm  $i$  at time  $t + 1$ , and  $skill\_net\_flow_i^{0:t+1}$  is the net inflow (i.e., gross inflow minus gross outflow) of skilled workers between year 0 and year  $t + 1$  for firm  $i$ . The only term on the righthand side of equation (1) which is unobservable in our data is  $skill_{i0}$ , i.e. the initial number of skilled workers in firm  $i$ . We use the oldest available information (year 1996) about non-production workers and re-scale it to match aggregate figures on the stock of skilled workers in manufacturing<sup>12</sup> as a proxy for  $skill_{i0}$ . We acknowledge that such measure is prone to measurement error and so results concerning  $S_{it+1}$  should be taken with caution even in IV estimations.

### 3.4 Instrumental variables

The key variables in our analysis are  $IMPSHARE_{jt}^c$ ,  $OUTFIN_{it}^c$ , and  $OUTINT_{it}^c$ . In order to solve the potential endogeneity problems arising with these variables we use exchange rates and ad valorem tariffs data to construct instrumental variables for both industry-level (import share) and firm-level (outsourcing of finished and intermediate goods) imports. From the perspective of a Belgian firm,  $IMPSHARE_{jt}^c$  can be reasonably considered as given in her optimization process. However, while simultaneity is likely not to be an issue, omitted variables is. Import shares and their evolution over time might indeed be correlated with unobserved factors that cause the analyzed outcome like, for example, technological progress. On the other hand, for  $OUTFIN_{it}^c$  and  $OUTINT_{it}^c$  simultaneity is possibly the main source of endogeneity because the choice of a firm to outsource is likely to both affect and being affected by other firm decisions. The main insight of our IV strategy is to exploit the exogenous variation of trade-weighted exchange rates and tariffs as predictors for changes in  $IMPSHARE_{jt}^c$ ,  $OUTFIN_{it}^c$ , and  $OUTINT_{it}^c$ .

Exchange rates data comes from the IFS database compiled by the IMF. Ad valorem tariff data comes from the online customs tariff database, also called the TARIC, provided by European Commission. Such dataset integrates all tariff-like restrictions applying to goods that enter the EU market by country of origin and CN8 code for several years. The fact that

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<sup>12</sup>Aggregate figures on the stock of skilled workers by industry come from the Belgian labor force survey.

detailed tariff information is available along two dimensions (country and product) is a pretty unique feature of these data compared to, for example, the widely used UNCTAD's TRAINS data base in which only information at the HS6 digit is available. Although the database contains information about many trade restrictive measures (like quotas, weight-based tariff, etc.) we only use ad valorem tariffs to construct our IVs. To construct a comprehensive trade barrier index that utilizes information on all trade measures is in fact both cumbersome and highly questionable. For this reason we decide to focus on ad valorem tariff data only.

We use exchange rates in order to construct both group  $c$ -industry specific and group  $c$ -firm specific IVs for, respectively, industry-level and firm-level imports. To this end we exploit trade ratios using them as weights. We denote by  $IVEXCHSHA_{jt}^c$  the exchange rate IV for  $IMP SHARE_{jt}^c$  and by  $IVEXCHFIN_{it}^c$  ( $IVEXCHINT_{it}^c$ ) the exchange rate IV for outsourcing of finished (intermediate) goods. We construct them as follows:

$$IVEXCHSHA_{jt}^c = \sum_{h \in c} \frac{IM_{j0}^h}{IM_{j0}} EXCH_t^h$$

$$IVEXCHFIN_{it}^c = \sum_{h \in c} \frac{IMF_{i0}^h}{T_{i0}} EXCH_t^h$$

$$IVEXCHINT_{it}^c = \sum_{h \in c} \frac{IMI_{i0}^h}{T_{i0}} EXCH_t^h$$

where  $h$  denotes a country,  $EXCH$  denotes exchange rates, and 0 denotes the initial value of the corresponding variable. We use the oldest information on trade ratios only (1995) rather than the contemporaneous one because the current trade ratio is likely to be endogenous. We further consider firm turnover rather than firm total imports as the denominator of  $IVEXCHFIN_{it}^c$  and  $IVEXCHINT_{it}^c$  because the variable would otherwise be defined for importing firms only.

Similarly, denoting by  $IVDUTYSHA_{jt}^c$  the tariff IV for  $IMP SHARE_{jt}^c$ , and by  $IVDUTYFIN_{it}^c$  ( $IVDUTYINT_{it}^c$ ) the tariff IV for outsourcing for finished (intermediate) goods we construct the as follows:

$$IVDUTYSHA_{jt}^c = \sum_{h \in c, p \in j} \frac{IM_{p0}^h}{IM_{j0}} D_{pt}^h$$

$$IVDUTYFIN_{it}^c = \sum_{h \in c, p \in fp} \frac{IMF_{pi0}^h}{T_{i0}} D_{pt}^h$$

$$IVDUTYINT_{it}^c = \sum_{h \in c, p \in ip} \frac{IMI_{pi0}^h}{T_{i0}} D_{pt}^h$$

where  $D$  denotes ad valorem tariffs,  $p$  denotes an 8-digit CN product code, and  $fp$  ( $ip$ ) denotes the set of finished (intermediate) goods.<sup>13</sup> Again, we use the oldest information on trade ratios only to be on the safe side.

## 4 A few intriguing figures and descriptive statistics

In this Section we provide some aggregate descriptive information on the key variables we use both at the whole manufacturing level and at two digit NACE industry level. Figure 1 shows that the import share of China for manufacturing as a whole increased substantially during the period 1996-2007. Starting from the same level as other low-wage countries in 1996, China's import share triplicate during the period while the import share of other low-wage countries has only slightly increased. This remarkable difference is one of the empirical facts that make us believe that China needs to be treated separately. Incidentally in 2001, which is the year China officially entered WTO, Belgian manufacturing employment started, as showed in Figure 2, to fall sharply. Is it China to blame for this? The answer that we provide in the next Section is actually "not much".

Figures 1 and 2 just display two common time trends without any pretence of causality. However, they have the virtue of summarizing rather well what is the common fear about the increase in competition due to Chinese imports: employment losses. What is usually less emphasized is that another performance measure is also correlated with the increase in China's import share: the skill upgrading of the workforce. Figures 3 and 4 show the evolution over the period 1996-2007 of, respectively, the share of non-production workers and the share

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<sup>13</sup>It is important to stress that both  $fp$  and  $ip$  are firm-time specific as they depend on the NACE 3-digit industry code of a firm.



of skilled workers in Belgian manufacturing. Both are indeed steadily increasing over time (especially after 1998) and we will show in the next Section that import competition from China has largely contributed to within firm skill upgrading.

Last but not least, what makes the picture even more interesting is the fact that import competition is not the only channel via which Chinese and other low-wage countries imports are eventually affecting manufacturing firm in the western world. Some Chinese goods are in fact directly imported by manufacturing firms for either immediate sale (finished goods) or further processing (intermediate goods). This is a rather different form of trade for these firms who might actually benefit a lot in terms of increased performance and profitability. Figures 5 and 6 shows the time evolution of the share (%) of Belgian manufacturing firms involved, respectively, in outsourcing of finished and intermediate goods with China and other low-wage countries over the period 1996-2007. Again, a rather flat line for BJS countries and a straight increasing line for China. Is outsourcing more or less important than import competition for firm performances? The evidence we provide in the next Section points towards import competition having a much sizeable effect on firms.

The above evidence does not certainly provide a basis for casual statements and econometric analysis is needed. This is the goal of the next Section. However, one necessary condition to reach some conclusions is that there is enough identifying variation in the data. Our key explanatory variables vary across the NACE 4-digit (import share) and firm (outsourcing of finished and intermediate goods) dimensions. Table 1 provides evidence that there is already considerable variation in our dependent variables across the relatively aggregated NACE 2-digit breakdown over the period of analysis. While being strongly negative in the case of Apparel and Leather product and footwear, employment growth has been remarkable for Office machinery and computers. On the other hand the Apparel and Leather product and footwear industries have experienced an impressive increase in both the share of non-production and skilled workers. However, the Other Transportation equipment industry has also experienced a noticeable skill upgrade while keeping a modest exit rate and a pretty good employment growth.

Tables 2 to 4 further report the value and changes of our main explanatory variables over the sample period by NACE 2-digit industry. As in the previous case, these Tables highlight

the fact that there is quite a lot of variation even at the relatively aggregated NACE 2-digit breakdown. Table 2 shows the value of the import share of China and other low-wage countries in 1996 and 2007 as well as their change over the period. One can see, the import share of both China and other low-wage countries increased in almost all industries, but Chinese imports increased generally faster, especially in relative high-tech industries like office machinery and computers, electrical machinery, radio, TV and communication equipment, etc. Actually, even in 2007, imports from other low-wage countries still concentrate on low-tech industries like textile, apparel and leather goods, while Chinese imports span both low-tech and high-tech industries from the beginning of the period. This fact is in line with the literature emphasizing the relative sophistication of Chinese exports (Schott, 2008).

Table 3 and 4 report, respectively, the 1996 and 2007 levels (and change) of the share of firms that are involved in outsourcing of finished and intermediate goods from China and other low-wage countries by NACE 2-digit industry. The pattern is similar to that shown in Table 2: more and more firms start importing from low-wage countries over the period, especially from China. There is a lot of heterogeneity across industries with, for example, the Radio, TV and Communication Equipment industry experiencing the highest level and increase of the share of firms importing finished and intermediate goods from China. Though this industry might, to some extent, be considered as low tech, the increase in the share of outsourcing firms from China in the Chemical industry speaks about the high technological content of some Chinese products.

## 5 Econometric results

In this Section we analyze the impact of both import competition and outsourcing on four firm outcome measures: employment growth, firm exit, share of blue collar workers and share of skilled (highly educated) workers. Import competition ( $IMPSHARE_{jt}^c$ ) is measured by industry-level import shares from the four different country groups (OECD, China, BJS, Other). As in BJS (2006), our underlying assumption is that firms within an industry experience a similar competitive pressure on their final products which can be proxied by the importance of imports of the same goods from other countries. As for outsourcing, we de-

part from the standard practice of using aggregate data and input-output tables and follow Biscourp and Kramarz (2007) by using firm-level imports. In order to capture the different facets of outsourcing we divide, for each country group, a firm’s imports into two categories: imports of finished goods ( $OUTFIN_{it}^c$ ) and imports of intermediate goods ( $OUTINT_{it}^c$ ).

In order to solve the potential endogeneity problems arising from omitted variables and simultaneity we use exchange rates and ad valorem tariffs data to construct instrumental variables. The main insight of our IV strategy is to exploit the exogenous variation of trade-weighted exchange rates and tariffs as predictors for changes in  $IMP SHARE_{jt}^c$ ,  $OUTFIN_{it}^c$ , and  $OUTINT_{it}^c$ . In particular, we use 1995 industry (firm) weights in order to minimize the issue of the endogeneity of weights for import share (firm outsourcing).

## 5.1 Econometric model

Equation (2) is based on BJS (2006) and the dependant variable ( $Y_{it+1}$ ) will be either firm employment growth ( $\Delta E_{it+1}$ ), or firm exit ( $Death_{it+1}$ ), or the firm share of non-production workers ( $NP/E_{it+1}$ ) or its share of skilled workers ( $S/E_{it+1}$ ).  $V_{it}$  is a vector of time-varying firm  $i$  controls including firm size, age, labor productivity, capital intensity, and its intangible capital intensity (the latter being used as control for expenditure in technology). When considering employment growth and firm exit we also include the current share of non-production workers as a further control in  $V_{it}$ .  $T1_{jt}$  is instead a vector containing the time-varying industry  $j$ -level variables which measure the degree of import competition from different country groups ( $IMP SHARE_{jt}^c$ ).  $T2_{it}$ , which is not considered in BJS (2006), is a vector containing the time-varying firm-level variables which measure the importance of outsourcing of final ( $OUTFIN_{it}^c$ ) and intermediate ( $OUTINT_{it}^c$ ) goods from the different country groups. Finally,  $\delta_t$  is a vector of time dummies and  $\delta_i$  is firm fixed effect.

$$Y_{it+1} = c + V_{it}'\alpha + T1_{jt}'\beta_1 + T2_{it}'\beta_2 + \delta_t + \delta_i + \varepsilon_{it} \quad (2)$$

Following BJS (2006), in additional specifications we have interacted  $T1_{jt}$  and  $T2_{it}$  with some firm characteristics (factor intensities and labor productivity) in order to account for the impact of import competition and outsourcing *across* firms within an industry. We do not find

any significant effect for the interaction between outsourcing and firm characteristics, while for import competition we find some results for employment growth and firm exit only. We thus report only results about interactions of import competition in the case of employment growth and firm exit.

In some other specifications we interact  $T1_{jt}$  with categorical dummies indicating whether a given NACE 4-digit industry is low, medium-low, medium-high, or high-tech. The technological ranking of industries we build upon, reported in Figure 7, has been obtained by Eurostat based on R&D spending statistics. The purpose of this exercise is to see whether Chinese import competition have different effects on firms in industries characterized by different technology levels. While it is clear from the descriptive statistics in the previous Section that sizeable imports from China can be found in both low- and high-tech industries, it is less clear whether the competitive pressure they exert on firms is the same.

For all of the above estimations, we use exchange rates and ad valorem tariffs data to construct IV's for import competition and outsourcing of finished and intermediate goods. For firm-level trade, lagged firm-level imports are also used as instruments. The estimation results are shown in Tables 5 to ???. Tables 5 to 7 show estimation results for equation (2) for employment growth and firm exit with the first two Tables focusing on import competition and the last one on firm-level outsourcing. Tables ??? to 10 show estimation results of equation (2) for the share of non-production and the share of skilled workers with the first two Tables being devoted to import competition and the last one to outsourcing. Tables ??? to 16 in the Appendix provide robust evidence of our results by using industry-level import shares of the EU15 (instead of Belgium) as measures of import competition from the different country groups. Results are virtually identical and so we will not discuss them any further.

We use robust standard errors and statistics. At the bottom of each Table we report the under-identification (Kleibergen-Paap LM), weak identification (Kleibergen-Paap Wald F), and over-identification (Hansen J) statistics and p-values. The number of endogenous variables and number of instruments are also indicated along with the number of observations, firms, and the  $R^2$ . Results indicates that our instruments for both industry-level and firm-level trade are overall not weak. At the same time, however, the Hansen J statistic sometimes rejects the null of no over-identification when industry-level import competition is instrumented. This

suggests that caution is needed in such cases. Note that such problem does not arise in the regressions where only outsourcing of finished and intermediate goods is instrumented.

## 5.2 Employment growth

Table 5 reports the relationship between firm employment growth and import competition for our four country groups: OECD, China, other low-wage countries (BJS), and the rest of the world (Other). In order to make our results comparable to previous studies, and in particular to BJS (2006), we do not consider for the moment firm-level outsourcing variables, i.e. the vector  $T2_{it}$ , in the estimation of (2). The first three columns report within estimates while the remaining three columns report IV estimates. Columns 1 and 4 refer to the baseline specification. In columns 2 and 5, we add interaction terms of some firm characteristics (share of non-production workers, capital intensity and productivity) with both Chinese and BJS import shares. In column 3 and 6 we instead consider interaction terms of industry-level categorical dummies measuring technological intensity with China's import share.<sup>14</sup> In all the regressions, we include year and firm fixed effects to control for aggregate trends in manufacturing employment growth and unobserved (time-invariant) firm characteristics.

Within estimation results in column 1 reveal that employment growth is negatively associated to import competition from China as well as BJS countries with roughly similar magnitudes. This is not the case for both OECD and Other countries' import competition which have insignificant coefficients. These findings echo those of BJS (2006) and are *partially* confirmed by IV estimations in column 4. Indeed, when instrumenting, only import competition from BJS countries has a significant (and larger) coefficient with respect to China. Columns 5 and 6 further qualify IV results. The interactions of  $IMP SHARE_{jt}^c$  for BJS countries and China with firm characteristics indicate that, contrary to the case of BJS countries, Chinese imports are inducing a re-allocation of resources across Belgian firms characterized by different capital intensities. In particular, firms with *high* capital intensity are particularly hit by Chinese import competition which is somewhat in line with the Schott (2008) story discussed earlier. However, capital intensity does not necessarily correspond to high-tech. Indeed, column 6 indicates that the only group of industries whose employment

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<sup>14</sup>The omitted category refers to low-tech industries. See the data Section and Figure 7 for further details.

growth is significantly affected by import competition from China is the excluded category (i.e. the low-tech). As for other industries, the sum of the reference category parameter and the interaction term is in fact never significant. Last but not least, the implied growth magnitude of our coefficients is far from being shocking. The average firm yearly employment growth in our panel data is 0.58%. Taking the coefficient value corresponding to low-tech industries (who account for roughly 36% of Belgian manufacturing employment) in column 6 (-0.5167) and considering that the average across firms (belonging to this subset of manufacturing) of  $IMPSHARE_{jt}^c$  for China has steadily increased from 0.0138 in 1996 to 0.0502 in 2007, we get that import competition from China could be blamed for a  $-0.5167 \times 0.0138 = -0.71\%$  firm employment growth effect in 1996 and a  $-0.5167 \times 0.0502 = -2.59\%$  firm employment growth effect in 2007. As for other low wage countries, using the coefficient in column 6, which now refers to all manufacturing, and the average import shares in 1996 and 2007 reveals that import competition from BJS countries turns into a -0.47% growth effect for 1996 and a -1.19% growth effect in 2007.

Overall, our qualitative findings so far are in line with the existing literature while further qualifying China as being different from other low-wage countries. Though, our Hansen J calls for caution and we cannot unfortunately compare the quality of our over-identifying restrictions with previous studies.<sup>15</sup> In Table ?? we report results on the relationship between employment growth and firm-level trade which are given in the first 3 columns. The full econometric model in (2) is now estimated with column 1 (2 and 3) providing within (IV) estimates. Import competition variables, i.e. the vector  $T1_{it}$ , is included but coefficients are not reported in order to save space. Our preferred specification is the one in column 3 where industry-level trade, in contrast to column 2, is not instrumented and our Hansen J statistic does not reject the validity of our instruments.

Two key features stand out from our results. First of all, contrary to a widespread fear, firm outsourcing does not dramatically affect firm employment growth. This is certainly the first order effect and comes from coefficients being almost never significant or, when they are significant, having a small magnitude. The coefficient on imports of intermediates from OECD

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<sup>15</sup>Though the number of instruments in BJS (2006) is larger than the number of endogenous variables, no over-identifying test statistic is provided and/or mentioned.

countries (0.1296) is actually positive and significant. The relatively stable over time mean of  $OUTINT_{it}^c$  for OECD countries across manufacturing firm is 0.0396 meaning that this type of outsourcing accounts for a  $0.1296 \times 0.0396=0.51\%$  firm employment growth effect. While the coefficient of outsourcing of finished goods to China (-0.3182) is significant and negative, it is in the end economically small. Outsourcing to China steadily increased from 0.0005 in 1996 to 0.0015 in 2007 implying that it accounted only for  $-0.3182 \times 0.0015=-0.05\%$  firm employment growth in Belgian firm level manufacturing in 2007.

Two comments are in order. First, our firm-level analysis confirms both the ambiguity and the limited impact of outsourcing on employment found in previous industry-level studies in the literature (Amiti and Shang-Jin Wei, 2005). Second, our finding on China is in line with the hypothesis put forward by Biscourp and Kramarz (2007) that outsourcing to low wage countries has a negative effect on firm employment only when the imported goods are final in nature. While Biscourp and Kramarz (2007) could only perform a correlation exercise our IV results suggest, at least for China, a deeper causal relationship.

### 5.3 Firm exit

Table 6 reports the relationship between firm exit and import competition from different country groups while columns 4, 5 and 6 of Table 7 contains our estimations of the full model for firm exit with a focus on the role of outsourcing. The structure of the different specifications presented is the same as for employment growth.

Focusing on IV results in Table 6 reveals that, contrary to import competition for other low-wage countries, imports from China are not increasing the likelihood of firm exit. This is again another dimension in which China is different from BJS countries whose import competition instead induces significantly more exit. OECD countries behave like China in that their import competition does not significantly affect firm survival while imports from other countries actually decrease the likelihood of exit. This latter result is quite puzzling and might be related to measurement error in this residual country category.

Interactions with firm-level variables in column 5 further indicate that neither for China nor for BJS countries there is a strong evidence of an heterogenous firm response. Only

the interaction between import competition from BJS countries and productivity is in fact significant at the 10% level. Moreover, results from column 6 actually suggest (although significance is weak) that Chinese imports *decrease* exit in high-tech industries. This finding confirms the descriptive evidence we provided about the active role of China in high-tech industries and might reflect the existence of some complementarities. Implied magnitudes of significant coefficients are, in line with the case of employment growth, not stunning. The unconditional probability of firm exit in the panel is 11.92% and import competition from BJS countries increases the probability of exit by 0.44% in 1996 and 1.00% in 2007.

Overall, our findings on import competition are again in line with the existing literature while further qualifying China as being different from other low-wage countries. We now turn to IV results about the role of firm-level outsourcing on exit reported in Table 7. For the same reasons explained above, the specification in column 6 is our preferred one. Again, the big picture is that most coefficients are not significant and/or small with results for China and OCED standing out. Outsourcing of finished goods from OECD countries increase the likelihood of firm exit. This might be due to firms moving out of Belgium to the country of origin of final goods sourcing. On the other hand, outsourcing of intermediate (finished) goods from China increases (*decreases*) the probability of exiting. Combined with the previously identified negative impact on firm employment growth, our finding on finished goods depicts a scenario in which firms respond to globalization by outsourcing some of their jobs to China (via the import of finished goods) but in turn gets more competitive and are able to survive.

Finally, turning coefficients into induced exit probabilities by means of average values of  $OUTFIN_{it}^c$  and  $OUTINT_{it}^c$  reveals that, in 2007, outsourcing of finished (intermediate) goods with China causes a decrease (increase) of the exit probability of 0.03% (0.06%). As for OECD countries, the effect of  $OUTFIN_{it}^c$  in 2007 is larger and equals 0.21%.

## 5.4 Skill upgrading

Tables 8 and 9 report the relationship of, respectively, firms's employment structure (share of non-production workers) and skill intensity (share of skilled workers) with industry-level import competition from different country groups. The first two columns of each Table report



within estimates while the remaining two columns report IV estimates. In column 2 and 4 of each Table, we consider interaction terms of our industry-level categorical dummies measuring technological intensity with the Chinese import share. In all the regressions, we include year and firm fixed effects to control for aggregate trends and unobserved (time-invariant) firm characteristics.

The basic message from IV results of both Tables is the same: import competition from China is inducing *within firm* skill upgrading by both fostering an increase of the share of non-production workers and an increase in the share of workers with tertiary education. At the same time neither import competition from OECD nor from other low-wage countries has a significant effect on skill upgrading. These original findings are of high policy relevance and pins down a key firm adjustment margin to globalization to be added to those identified in BJS (2006).

The magnitude of the impact is big.  $NP/E_{it+1}$  and  $S/E_{it+1}$  are, contrary to employment growth and firm exit, stock variables so that a more useful way of interpreting coefficients' magnitudes is to compute what share of the observed time change (between 1996 and 2007) of  $NP/E_{it+1}$  and  $S/E_{it+1}$  can be accounted for by the time change of  $IMP SHARE_{jt}^c$ . Doing this back of the envelope calculation with coefficients from column 3 reveals that import competition from China is responsible for 19.77% (42.71%)<sup>16</sup> of the increase in the share of non-production (skilled) workers in Belgian manufacturing over our period of analysis. As further shown in column 4, all of the adjustment is taking place in low-tech industries with, for example, China accounting for 79.25% of the increase in the share of skilled workers in these industries.

Skill upgrading in low-tech industries due to increased import competition from China has to be compared with the negative impact we found on employment growth due to Chinese imports and the non significant effect on firm exit for those industries. Overall, our results can be rationalized by the following argument. Even though imports from China raise the degree of competition in the Belgian market pushing firms to reduce their employment, it also induces firms to upgrade their technology and employment structure. In the presence of

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<sup>16</sup>Using the firm sample in column 3 of Table 8, we get that the import share of China increased by 0.026 from 1996 to 2006, while  $NP/E_{it+1}$  increased by 0.038 from 1997 to 2007, thus we get the contribution of China's import share is  $0.026 \times 0.289 / 0.038 = 0.1977$ , or 19.77%, where 0.289 is the coefficient of China's import share in column 3 of table 8. The other numbers used in this Section are calculated in similar way.

market failures limiting technology adoption, like those described in Bloom et al. (2008), this may ultimately be beneficial for firms and make them less likely to die. Bloom et al. (2008) show that import competition from China is inducing a sizeable within firm technological upgrade as measured by firm-level IT spending and patents. Our findings complement their results by pointing that such technological upgrade goes hand in hand with skill upgrading. Skill upgrading certainly requires an upgrade of the technology used by firms and vice versa, meaning that it is hard to disentangle the two. However, our results indicate that skill upgrading in response to import competition from China is taking place over and above what can be explained by our control variable measuring expenditure in technology. In this light, the specialization of multi-product firms into more skill intensive products (Bernard et al, 2010) represents a plausible complementary explanation.

Table 10 reports our estimation results for skill upgrading and outsourcing. The first three columns report the relationship between the share of non-production workers and firm-level imports while the last three columns contains results for the share of skilled workers. The structure of the different specifications presented is the same as for Table 7.

Looking at results for  $NP/E_{it+1}$  reveals that firm-level outsourcing has, contrary to the case of employment growth and exit, in many cases a significant impact. A more careful inspection tells us that in the IV specifications, outsourcing of finished goods from all country groups induces skill upgrading. This is a very strong result and is in line with, for example, the trade-in-tasks model of Grossman and Rossi-Hansberg (2008). To the extent that the final production stage (assembly) is low skill intensive as compared to other stages like design and commercialization, the involvement of a firm into outsourcing of final goods can reasonably induce skill upgrading due to shift of a firm domestic activities towards more skill intensive tasks. However, the magnitude of the effects we are talking about is rather small. Given estimated coefficients in column 3 and time changes of  $OUTFIN_{it}^c$  across the four country groups, the increase in outsourcing (from all origins) of final goods during the period 1996-2007 accounts for a mere 0.50% of the increase in  $NP/E_{it+1}$ . Interestingly, China is different, i.e., also the outsourcing of intermediate goods induces skill upgrading. Again, the effect is small (0.68%).

The picture is quite different when looking at estimations for the share of skilled workers.

In this case, only outsourcing from OECD countries has a significant impact which is pointing again towards skill upgrading. Both outsourcing of final and intermediate goods to OECD countries induces a within firm increase in the share of college educated workers with the impact being stronger for the finished goods. Indeed, the time change of outsourcing of finished (intermediate) goods to OECD countries accounts for 3.48% (1.06%) of the time change of  $S/E_{it+1}$  over our period of analysis.

## 6 Conclusion

Imports from China into Belgium have risen faster than from other low-wage country imports in recent years. This paper evaluates the effect of both industry-wide and firm-level imports from China separately from other countries' imports on Belgian manufacturing firms in terms of employment growth, firm survival and skill-upgrading. In obtaining our results we use an IV strategy exploiting product-country level ad-valorem tariffs and trade weighted exchange rates as instruments.

We find that, with respect to imports from other low-wage countries, Chinese imports have a different impact on within firm-level employment changes. Import competition from China significantly and negatively affects employment growth, but only for firms in low tech industries. Contrary to the popular belief, import competition from China does not negatively affect firm survival in manufacturing. This result holds even when accounting for firm heterogeneity within an industry. Our findings on firm-level outsourcing actually suggest that imports of finished goods decrease the probability of firm death. However, these effects are small in magnitude.

The strongest result we obtain is about skill upgrading. Import competition from China accounts for 42% (20%) of the within firm increase in the share of skilled workers (non-production workers), with most of the adjustment taking place in low tech industries. Firm-level outsourcing to China of both finished and intermediate goods further accounts for a small but significant increase in the share of non-production workers. These changes in employment structure are in line with predictions of offshoring models and Schott's (2008) 'moving up the quality ladder' story while complementing the findings about import competition from China

and technological upgrade by Bloom et al. (2008). Even though imports from China raise the degree of competition in the Belgian market pushing firms to reduce their employment, it also induces firms to upgrade their technology and employment structure. In the presence of market failures limiting technology adoption, like those described in Bloom et al. (2008), this may ultimately be beneficial for firms and make them less likely to die.

We propose two directions for future research. First, the set of instruments for firm-level outsourcing can be widened to improve instruments' strength further. Second, there are other firm-level margins of adjustment in the face of import competition (such as product switching, quality upgrading, technology upgrading) that are likely to be related to those we examined and whose relative importance and interaction represent an interesting avenue for future research.

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Table 1: Evolution of dependent variables across manufacturing industries over the period of analysis

Nace	Industry	Employment (FTE)	Average firm	Share of white collar	Share of skilled workers
		change (%)	exit rate (%)	change (percentage)	change (percentage)
		96-07	96-05	96-07	96-07
15	Food	-1.1	4.6	0.2	6.0
16	Tobacco	-35.0	2.4	2.1	8.0
17	Textile	-34.2	4.4	0.2	9.4
18	Apparel	-57.1	6.0	20.7	19.9
19	Leather product and footwear	-43.0	5.7	11.1	12.2
20	Wood products	-0.1	3.7	-7.2	5.7
21	Paper	-11.8	3.9	0.1	3.2
22	Publishing	-13.7	5.1	6.9	22.2
23	Nuclear	17.8	4.4	14.9	0.5
24	Chemical	5.9	4.5	8.3	6.2
25	Rubber and plastic	10.9	3.8	4.8	3.4
26	Non-metallic mineral	-10.7	3.7	1.4	9.5
27	Basic metal	-23.0	4.5	-0.7	5.5
28	Fabricated metal	11.5	3.6	0.3	5.8
29	Machinery and equipment	-0.4	4.2	0.6	9.3
30	Office machinery and computers	56.8	5.6	4.1	-1.7
31	Electrical machinery	-19.8	4.9	4.8	10.2
32	Radio, TV and Comm. Equip.	-37.0	6.5	7.8	24.3
33	Medical and optical instr.	8.1	3.5	8.4	7.3
34	Motor vehicles	-15.4	4.2	-8.5	3.5
35	Other transp. Equip.	19.5	5.2	13.4	4.9
36	Furniture and other	-24.4	4.4	2.3	9.9
37	Recycle	14.0	4.8	-1.0	6.3
Total		-9.1	4.4	2.9	8.3

Notes: 1. Firm exit after 2005 cannot be observed due to its definition.

Notes: 2. The share of skilled workers is available only for large firms, i.e. those filing a complete form.

Table 2: Import share of China and other low-wage countries across manufacturing industries over the period of analysis

Nace	Industry	Import share (%)		Import share(%)		Import share change	
		China 1996	BJS 1996	China 2007	BJS 2007	China 96-07	BJS 96-07
15	Food	0.1	0.5	0.4	1.0	0.2	0.5
16	Tobacco	0.0	0.0	0.0	0.1	0.0	0.1
17	Textile	1.4	4.7	6.0	5.5	4.7	0.8
18	Apparel	4.2	4.9	21.7	12.0	17.4	7.1
19	Leather product and footwear	15.9	4.2	32.0	15.2	16.0	11.0
20	Wood products	0.7	0.3	3.9	0.6	3.2	0.3
21	Paper	0.0	0.0	0.8	0.0	0.8	0.0
22	Publishing	0.1	0.0	0.8	0.1	0.7	0.0
23	Nuclear	NA	NA	NA	NA	NA	NA
24	Chemical	0.4	0.1	0.6	0.3	0.2	0.1
25	Rubber and plastic	0.6	0.3	2.9	0.5	2.3	0.2
26	Non-metallic mineral	0.3	0.2	3.2	1.0	2.9	0.8
27	Basic metal	0.3	0.6	3.8	2.5	3.5	1.8
28	Fabricated metal	0.8	0.1	3.2	0.3	2.5	0.2
29	Machinery and equipment	0.6	0.0	3.1	0.2	2.5	0.2
30	Office machinery and computers	1.6	0.0	16.8	0.0	15.1	0.0
31	Electrical machinery	1.3	0.0	5.6	0.4	4.3	0.3
32	Radio, TV and Comm. Equip.	3.5	0.0	10.3	0.3	6.9	0.3
33	Medical and optical instr.	1.8	0.0	3.8	0.4	2.0	0.3
34	Motor vehicles	0.0	0.0	0.3	0.1	0.3	0.1
35	Other transp. Equip.	0.4	0.1	5.1	0.5	4.7	0.5
36	Furniture	3.8	8.3	13.4	13.2	9.6	4.9
37	Recycle	0	0	0	0	0	0
Total		0.9	0.9	3.0	1.3	2.1	0.4

Notes: NA for industry 23 means not available



Table 3: Share of outsourcing firms in Belgium manufacturing industries (finished goods)

Nace	Industry	Share (%) of firms that import finished goods from				Change	
		China 1996	BJS 1996	China 2007	BJS 2007	China 96-07	BJS 96-07
15	Food	0.4	0.5	0.6	0.7	0.2	0.2
16	Tobacco	0.0	7.1	0.0	0.0	0.0	-7.1
17	Textile	0.8	2.4	4.5	4.2	3.7	1.8
18	Apparel	3.1	3.5	7.9	6.0	4.8	2.5
19	Leather product and footwear	7.4	6.7	9.4	5.5	2.0	-1.2
20	Wood products	0.4	0.7	0.8	0.4	0.4	-0.3
21	Paper	0.0	0.0	2.4	0.3	2.4	0.3
22	Publishing	0.4	0.1	0.8	0.3	0.4	0.2
23	Nuclear	0.0	0.0	0.0	7.0	0.0	7.0
24	Chemical	2.8	2.4	7.9	3.7	5.9	1.0
25	Rubber and plastic	0.7	0.9	6.6	1.9	5.1	1.3
26	Non-metallic mineral	0.2	3	4.5	2.3	4.3	-0.7
27	Basic metal	2.5	1.9	5.9	4.2	3.4	2.3
28	Fabricated metal	0.3	0.1	1.0	0.4	0.7	0.3
29	Machinery and equipment	0.8	1.1	4.5	2.1	3.7	1.0
30	Office machinery and computers	2.6	1.3	4.5	1.5	1.9	0.2
31	Electrical machinery	1.7	1.0	9.0	2.8	7.3	1.8
32	Radio, TV and Comm. Equip.	4.4	2.2	14.0	4.1	9.6	1.9
33	Medical and optical instr.	0.6	0.4	3.2	1.3	2.6	0.9
34	Motor vehicles	0.3	0.3	3.9	1.6	3.6	1.3
35	Other transp. Equip.	1.0	0.0	4.2	2.3	3.2	2.3
36	Furniture	1.2	0.7	3.8	1.1	2.6	0.4
37	Recycle	0	0	0	0	0	0
Total		0.8	1.0	2.8	1.4	2.0	0.4

Table 4: Share of outsourcing firms in Belgium manufacturing industries (intermediate goods)

Nace	Industry	Share (%) of firms that import intermediate goods from				Change	
		China 1996	BJS 1996	China 2007	BJS 2007	China 96-07	BJS 96-07
15	Food	1.1	1.1	2.4	1.3	1.3	0.2
16	Tobacco	14.3	42.9	10.3	51.7	-4.0	8.8
17	Textile	2.2	11.4	9.4	10.2	7.2	-1.2
18	Apparel	2.7	2.9	9.3	6.0	6.6	3.1
19	Leather product and footwear	6.7	4.4	6.3	2.4	-0.4	-2.0
20	Wood products	0.6	0.3	2.8	0.7	2.2	0.4
21	Paper	1.9	1.6	6.9	1.4	5.0	-0.2
22	Publishing	0.6	0.2	1.6	0.2	1.0	0.0
23	Nuclear	3.1	0.0	9.3	0.0	6.2	0.0
24	Chemical	5.6	4.1	15.1	8.4	9.5	4.3
25	Rubber and plastic	1.3	1.7	10.6	4.8	9.3	3.1
26	Non-metallic mineral	0.8	2.0	5.9	3.1	5.1	1.1
27	Basic metal	4.3	2.8	14.1	6.5	9.8	3.7
28	Fabricated metal	0.5	0.5	3.5	1.0	3.0	0.5
29	Machinery and equipment	1.2	1.3	6.6	2.4	5.4	1.1
30	Office machinery and computers	5.2	0.0	11.4	2.3	6.2	2.3
31	Electrical machinery	2.9	1.3	13.4	5.1	10.5	3.8
32	Radio, TV and Comm. Equip.	6.0	2.2	20.5	9.9	14.5	7.7
33	Medical and optical instr.	0.7	0.4	5.0	2.0	4.3	1.6
34	Motor vehicles	1.2	0.3	7.6	2.6	6.4	2.3
35	Other transp. Equip.	1.9	1.0	5.0	2.3	3.1	1.3
36	Furniture	1.3	1.3	3.6	1.3	2.3	0.0
37	Recycle	0.3	2.4	1.3	1.5	1.0	-0.9
Total		1.4	1.9	5.0	2.5	3.6	0.6

Table 5: Import Competition Analysis. Employment Growth:  $\Delta E_{it+1}$

Dep. Variable: Specification Estimation Method	$\Delta E_{it+1}$					
	(1) FE	(2) FE	(3) FE	(4) IV	(5) IV	(6) IV
<b>Controls</b>						
NP/ $E_{it}$	-0.0966 <sup>a</sup> (0.0131)	-0.1017 <sup>a</sup> (0.0138)	-0.0953 <sup>a</sup> (0.0131)	-0.0953 <sup>a</sup> (0.0125)	-0.1055 <sup>a</sup> (0.0139)	-0.0941 <sup>a</sup> (0.0125)
log(K/E) <sub>it</sub>	0.0325 <sup>a</sup> (0.0021)	0.0326 <sup>a</sup> (0.0023)	0.0325 <sup>a</sup> (0.0021)	0.0326 <sup>a</sup> (0.0019)	0.0341 <sup>a</sup> (0.0022)	0.0325 <sup>a</sup> (0.0019)
log(VA/E) <sub>it</sub>	0.0996 <sup>a</sup> (0.0046)	0.0985 <sup>a</sup> (0.0049)	0.0994 <sup>a</sup> (0.0046)	0.0994 <sup>a</sup> (0.0043)	0.0973 <sup>a</sup> (0.0047)	0.0993 <sup>a</sup> (0.0043)
log(E) <sub>it</sub>	-0.2680 <sup>a</sup> (0.0124)	-0.2682 <sup>a</sup> (0.0124)	-0.2691 <sup>a</sup> (0.0124)	-0.2696 <sup>a</sup> (0.0124)	-0.2703 <sup>a</sup> (0.0125)	-0.2706 <sup>a</sup> (0.0123)
log(Age) <sub>it</sub>	-0.0161 <sup>a</sup> (0.0054)	-0.0154 <sup>a</sup> (0.0054)	-0.0164 <sup>a</sup> (0.0054)	-0.0154 <sup>a</sup> (0.0049)	-0.0142 <sup>a</sup> (0.0050)	-0.0157 <sup>a</sup> (0.0049)
log(Intang.K/E) <sub>it</sub>	0.0196 <sup>c</sup> (0.0109)	0.0195 <sup>c</sup> (0.0109)	0.0196 <sup>c</sup> (0.0109)	0.0199 <sup>c</sup> (0.0109)	0.0193 <sup>c</sup> (0.0110)	0.0196 <sup>c</sup> (0.0109)
<b>Import Competition Variables</b>						
OECD <i>IMP SHARE</i> <sub>jt</sub>	0.0296 (0.0259)	0.0291 (0.0259)	0.0274 (0.0260)	0.1164 (0.2603)	0.2210 (0.2914)	0.0953 (0.2040)
Other <i>IMP SHARE</i> <sub>jt</sub>	0.0268 (0.0535)	0.0259 (0.0535)	-0.0087 (0.0535)	1.0041 <sup>b</sup> (0.4270)	0.7688 <sup>c</sup> (0.4176)	0.5654 (0.3967)
BJS <i>IMP SHARE</i> <sub>jt</sub>	-0.4593 <sup>a</sup> (0.1379)	-0.4932 (0.3713)	-0.4842 <sup>a</sup> (0.1448)	-0.9198 <sup>b</sup> (0.4676)	-0.0296 (0.7765)	-0.7063 <sup>c</sup> (0.4145)
×NP/ $E_{it}$		-0.1900 (0.3623)			0.3072 (0.5357)	
×log(K/E) <sub>it</sub>		0.0670 (0.0452)			0.1131 (0.0793)	
×log(VA/E) <sub>it</sub>		-0.1199 (0.0967)			0.0651 (0.1623)	
China <i>IMP SHARE</i> <sub>jt</sub>	-0.3883 <sup>a</sup> (0.0743)	-0.2746 (0.2476)	-0.5716 <sup>a</sup> (0.0864)	-0.2035 (0.2555)	-0.9210 <sup>b</sup> (0.3753)	-0.5167 <sup>b</sup> (0.2508)
×NP/ $E_{it}$		0.3162 <sup>c</sup> (0.1862)			0.2437 (0.2643)	
×log(K/E) <sub>it</sub>		-0.0409 (0.0315)			-0.1253 <sup>a</sup> (0.0417)	
×log(VA/E) <sub>it</sub>		0.1157 <sup>c</sup> (0.0682)			0.0334 (0.0801)	
×Medium-low tech. <sub>jt</sub>			0.6773 <sup>a</sup> (0.1413)			0.7517 <sup>b</sup> (0.3734)
×Medium-high tech. <sub>jt</sub>			0.3904 <sup>b</sup> (0.1812)			0.5634 <sup>c</sup> (0.2961)
×High tech. <sub>jt</sub>			0.4054 (0.2943)			-0.0239 (0.6602)
Number of endogenous variables				4	10	7
Number of instruments				8	20	14
Under-identification statistic				156.921 (0.0000)	191.247 (0.0000)	202.851 (0.0000)
Weak identification statistic				21.271	10.027	15.096
Hansen J statistic				42.775 (0.0000)	57.086 (0.0000)	43.342 (0.0000)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	119,399	119,399	119,399	117,526	117,526	117,526
R-squared	0.1681	0.1682	0.1684	0.1644	0.1654	0.1672
Number of firms	16,915	16,915	16,915	15,289	15,289	15,289

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a</sup><sup>b</sup><sup>c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 6: Import Competition Analysis. Firm Exit: Death<sub>it+1</sub>

Dep. Variable: Specification Estimation Method	Death <sub>it+1</sub>					
	(1) FE	(2) FE	(3) FE	(4) IV	(5) IV	(6) IV
<b>Controls</b>						
NP/E <sub>it</sub>	-0.0008 (0.0047)	-0.0012 (0.0050)	-0.0010 (0.0047)	-0.0005 (0.0044)	0.0017 (0.0049)	-0.0003 (0.0044)
log(K/E) <sub>it</sub>	-0.0040 <sup>a</sup> (0.0009)	-0.0027 <sup>a</sup> (0.0010)	-0.0039 <sup>a</sup> (0.0009)	-0.0040 <sup>a</sup> (0.0009)	-0.0031 <sup>a</sup> (0.0010)	-0.0040 <sup>a</sup> (0.0009)
log(VA/E) <sub>it</sub>	-0.0287 <sup>a</sup> (0.0021)	-0.0289 <sup>a</sup> (0.0023)	-0.0286 <sup>a</sup> (0.0021)	-0.0288 <sup>a</sup> (0.0019)	-0.0272 <sup>a</sup> (0.0023)	-0.0288 <sup>a</sup> (0.0019)
log(E) <sub>it</sub>	-0.0189 <sup>a</sup> (0.0047)	-0.0189 <sup>a</sup> (0.0047)	-0.0188 <sup>a</sup> (0.0047)	-0.0208 <sup>a</sup> (0.0043)	-0.0201 <sup>a</sup> (0.0043)	-0.0210 <sup>a</sup> (0.0043)
log(Age) <sub>it</sub>	0.0539 <sup>a</sup> (0.0030)	0.0541 <sup>a</sup> (0.0030)	0.0540 <sup>a</sup> (0.0030)	0.0549 <sup>a</sup> (0.0028)	0.0547 <sup>a</sup> (0.0028)	0.0552 <sup>a</sup> (0.0028)
log(Intang.K/E) <sub>it</sub>	0.0075 <sup>c</sup> (0.0044)	0.0075 <sup>c</sup> (0.0043)	0.0075 <sup>c</sup> (0.0044)	0.0063 (0.0039)	0.0065 (0.0039)	0.0060 (0.0039)
<b>Import Competition Variables</b>						
OECD <i>IMP SHARE</i> <sub>jt</sub>	0.0102 (0.0112)	0.0104 (0.0113)	0.0099 (0.0113)	0.1614 (0.1327)	0.1505 (0.1286)	0.1884 <sup>c</sup> (0.1100)
Other <i>IMP SHARE</i> <sub>jt</sub>	0.0200 (0.0223)	0.0172 (0.0222)	0.0270 (0.0223)	-0.6189 <sup>a</sup> (0.2351)	-0.4346 <sup>c</sup> (0.2257)	-0.5234 <sup>b</sup> (0.2172)
BJS <i>IMP SHARE</i> <sub>jt</sub>	0.0795 (0.0631)	-0.1486 (0.1609)	0.0949 (0.0654)	0.5927 <sup>b</sup> (0.2748)	-0.1735 (0.3381)	0.5994 <sup>b</sup> (0.2432)
×NP/E <sub>it</sub>		-0.1567 (0.1367)			-0.0102 (0.2066)	
×log(K/E) <sub>it</sub>		-0.0134 (0.0249)			-0.0299 (0.0402)	
×log(VA/E) <sub>it</sub>		-0.0647 (0.0522)			-0.1616 <sup>c</sup> (0.0928)	
China <i>IMP SHARE</i> <sub>jt</sub>	0.0006 (0.0347)	-0.0398 (0.1006)	0.0310 (0.0398)	-0.2470 (0.1595)	0.0193 (0.1948)	-0.2167 (0.1496)
×NP/E <sub>it</sub>		0.1223 (0.0884)			-0.0881 (0.1359)	
×log(K/E) <sub>it</sub>		-0.0426 <sup>b</sup> (0.0171)			-0.0155 (0.0231)	
×log(VA/E) <sub>it</sub>		0.0515 (0.0324)			0.0432 (0.0430)	
×Medium-low tech. <sub>jt</sub>			-0.1621 <sup>b**</sup> (0.0658)			0.2056 (0.1821)
×Medium-high tech. <sub>jt</sub>			0.0259 (0.0937)			0.4140 <sup>b</sup> (0.1960)
×High tech. <sub>jt</sub>			-0.1340 (0.1260)			-0.3244 <sup>*</sup> (0.3339)
Number of endogenous variables				4	10	7
Number of instruments				8	20	14
Under-identification statistic				169.221 (0.0000)	225.137 (0.0000)	193.770 (0.0000)
Weak identification statistic				25.822	12.968	15.826
Hansen J statistic				1.395 (0.8450)	23.006 (0.0107)	3.005 (0.8845)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	116,140	116,140	116,140	114,474	114,474	114,474
R-squared	0.0261	0.0263	0.0261	0.0150	0.0200	0.0165
Number of firms	17,366	17,366	17,366	15,891	15,891	15,891

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a,b,c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient, \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Table 7: Firm-Level Outsourcing Analysis. Employment Growth ( $\Delta E_{it+1}$ ) and Firm Exit ( $\text{Death}_{it+1}$ )

Dep. Variable Specification Estimation Method	$\Delta E_{it+1}$ (1) FE	$\Delta E_{it+1}$ (2) IV1	$\Delta E_{it+1}$ (3) IV2	$\text{Death}_{it+1}$ (4) FE	$\text{Death}_{it+1}$ (5) IV1	$\text{Death}_{it+1}$ (6) IV2
<b>Controls (Import Competition Variables not Reported)</b>						
NP/ $E_{it}$	-0.0939 <sup>a</sup> (0.0132)	-0.0903 <sup>a</sup> (0.0130)	-0.0916 <sup>a</sup> (0.0129)	-0.0012 (0.0047)	-0.0037 (0.0044)	-0.0040 (0.0043)
$\log(K/E)_{it}$	0.0318 <sup>a</sup> (0.0021)	0.0314 <sup>a</sup> (0.0019)	0.0314 <sup>a</sup> (0.0019)	-0.0036 <sup>a</sup> (0.0009)	-0.0033 <sup>a</sup> (0.0009)	-0.0033 <sup>a</sup> (0.0009)
$\log(VA/E)_{it}$	0.1073 <sup>a</sup> (0.0050)	0.1154 <sup>a</sup> (0.0051)	0.1154 <sup>a</sup> (0.0051)	-0.0320 <sup>a</sup> (0.0023)	-0.0377 <sup>a</sup> (0.0022)	-0.0375 <sup>a</sup> (0.0022)
$\log(E)_{it}$	-0.2711 <sup>a</sup> (0.0123)	-0.2827 <sup>a</sup> (0.0107)	-0.2821 <sup>a</sup> (0.0104)	-0.0194 <sup>a</sup> (0.0047)	-0.0252 <sup>a</sup> (0.0043)	-0.0237 <sup>a</sup> (0.0042)
$\log(\text{Age})_{it}$	-0.0119 <sup>b</sup> (0.0055)	0.0159 <sup>b</sup> (0.0064)	0.0146 <sup>b</sup> (0.0061)	0.0512 <sup>a</sup> (0.0030)	0.0498 <sup>a</sup> (0.0034)	0.0489 <sup>a</sup> (0.0032)
$\log(\text{Intang.K/E})_{it}$	0.0184 <sup>c</sup> (0.0109)	0.0067 (0.0086)	0.0059 (0.0084)	0.0074 <sup>c</sup> (0.0044)	0.0039 (0.0039)	0.0049 (0.0038)
<b>Firm-Level Outsourcing Variables</b>						
OECD $OUTFIN_{it}$	0.0079 (0.0258)	-0.0119 (0.0487)	-0.0101 (0.0475)	-0.0026 (0.0116)	0.0603 <sup>b</sup> (0.0249)	0.0639 <sup>a</sup> (0.0246)
OECD $OUTINT_{it}$	0.1008 <sup>a</sup> (0.0198)	0.1276 <sup>a</sup> (0.0460)	0.1296 <sup>a</sup> (0.0458)	-0.0178 <sup>b</sup> (0.0083)	0.0009 (0.0221)	-0.0006 (0.0219)
Other $OUTFIN_{it}$	0.0664 (0.0543)	0.1284 (0.1005)	0.1596 (0.0988)	-0.0457 (0.0313)	-0.0744 (0.0518)	-0.0804 (0.0518)
Other $OUTINT_{it}$	0.1083 (0.0979)	0.1860 (0.1817)	0.1478 (0.1777)	0.0331 (0.0382)	-0.0849 (0.1301)	-0.0535 (0.1256)
BJS $OUTFIN_{it}$	-0.0824 (0.1679)	0.2898 (0.4980)	0.1753 (0.4786)	-0.0045 (0.0441)	0.0692 (0.1589)	0.1147 (0.1536)
BJS $OUTINT_{it}$	-0.0863 (0.1479)	-0.4877 (0.4229)	-0.4760 (0.4223)	-0.0457 (0.0933)	-0.2105 (0.2282)	-0.2258 (0.2236)
China $OUTFIN_{it}$	-0.3111 <sup>b</sup> (0.1389)	-0.3050 <sup>c</sup> (0.1832)	-0.3182 <sup>c</sup> (0.1827)	-0.1079 <sup>b</sup> (0.0524)	-0.1684 <sup>b</sup> (0.0799)	-0.1739 <sup>b</sup> (0.0764)
China $OUTINT_{it}$	0.0529 (0.1982)	-0.0629 (0.2399)	-0.0750 (0.2354)	-0.0732 (0.0719)	0.2885 <sup>c</sup> (0.1564)	0.3152 <sup>b</sup> (0.1530)
Number of endogenous variables		12	8		12	8
Number of instruments		32	24		32	24
Under-identification statistic		180.346 (0.0000)	30.995 (0.0200)		178.640 (0.0000)	31.330 (0.0182)
Weak identification statistic		5.935	1.181		6.613	1.356
Hansen J statistic		57.785 (0.0000)	18.620 (0.2889)		13.114 (0.8724)	10.300 (0.8505)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	118,717	112,490	112,742	115,437	108,919	109,114
R-squared	0.1712	0.1660	0.1702	0.0266	0.0213	0.0272
Number of firms	16,835	14,692	14,707	17,296	15,158	15,171

- 1.FG indicates finished goods, IG indicates intermediate goods
- 2.Coefficients for industry-level trade variables are not reported
- 3.IV1 use IV's for both firm- and industry-level imports
- 4.IV2 only use IV's for firm-level imports and treat industry imports as exogenous
- 5.Firm level imports are measured by imports over turnover
- 6.Robust standard errors (p-values) in parentheses for coefficients (test statistics)
- 7.<sup>a</sup><sup>b</sup><sup>c</sup>indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

Table 8: Import Competition Analysis. Share of Non-Production Workers: NP/E<sub>it+1</sub>

Dep. Variable: Specification Estimation Method	NP/E <sub>it+1</sub>			
	(1) FE	(2) FE	(3) IV	(4) IV
<b>Controls</b>				
log(K/E) <sub>it</sub>	0.0016 <sup>c</sup> (0.0009)	0.0016 <sup>c</sup> (0.0009)	0.0015 <sup>b</sup> (0.0006)	0.0016 <sup>b</sup> (0.0006)
log(VA/E) <sub>it</sub>	-0.0085 <sup>a</sup> (0.0016)	-0.0084 <sup>a</sup> (0.0016)	-0.0083 <sup>a</sup> (0.0013)	-0.0082 <sup>a</sup> (0.0013)
log(E) <sub>it</sub>	0.0263 <sup>a</sup> (0.0044)	0.0268 <sup>a</sup> (0.0044)	0.0271 <sup>a</sup> (0.0031)	0.0274 <sup>a</sup> (0.0031)
log(Age) <sub>it</sub>	-0.0005 (0.0027)	-0.0005 (0.0027)	-0.0001 (0.0020)	-0.0001 (0.0020)
log(Intang.K/E) <sub>it</sub>	0.0112 <sup>a</sup> (0.0039)	0.0114 <sup>a</sup> (0.0040)	0.0115 <sup>a</sup> (0.0027)	0.0116 <sup>a</sup> (0.0027)
<b>Import Competition Variables</b>				
OECD <i>IMP SHARE</i> <sub>jt</sub>	-0.0142 (0.0114)	-0.0130 (0.0114)	-0.0288 (0.1069)	-0.0155 (0.0773)
Other <i>IMP SHARE</i> <sub>jt</sub>	-0.0236 (0.0228)	-0.0103 (0.0228)	-0.0156 (0.1681)	-0.0600 (0.1577)
BJS <i>IMP SHARE</i> <sub>jt</sub>	0.1319 <sup>c</sup> (0.0688)	0.1236 <sup>c</sup> (0.0703)	-0.0125 (0.1749)	-0.0525 (0.1537)
China <i>IMP SHARE</i> <sub>jt</sub>	0.0731 <sup>b</sup> (0.0357)	0.1577 <sup>a</sup> (0.0445)	0.2891 <sup>a</sup> (0.1118)	0.3238 <sup>a</sup> (0.1065)
×Medium-low tech. <sub>jt</sub>		-0.2514 <sup>a</sup> (0.0707)		-0.3949 <sup>a</sup> (0.1364)
×Medium-high tech. <sub>jt</sub>		-0.3589 <sup>a**</sup> (0.1045)		-0.6805 <sup>a***</sup> (0.1317)
×High tech. <sub>jt</sub>		-0.0477 (0.1435)		-0.6550 <sup>b</sup> (0.2980)
Number of endogenous variables			4	7
Number of instruments			8	14
Under-identification statistic			158.868 (0.0000)	206.188 (0.0000)
Weak identification statistic			21.459	15.308
Hansen J statistic			4.436 (0.3502)	12.855 (0.0757)
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes
Observations	119,316	119,316	117,444	117,444
R-squared	0.0195	0.0201	0.0184	0.0190
Number of firms	16,889	16,889	15,267	15,267

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a</sup><sup>b</sup><sup>c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient \*\*\*, p&lt;0.01, p&lt;0.05, \* p&lt;0.1

Table 9: Import Competition Analysis. Share of Skilled Workers:  $S/E_{it+1}$

Dep. Variable: Specification Estimation Method	$S/E_{it+1}$			
	(1) FE	(2) FE	(3) IV	(4) IV
<b>Controls</b>				
$\log(K/E)_{it}$	0.0199 (0.0176)	0.0195 (0.0176)	0.0187 (0.0147)	0.0186 (0.0147)
$\log(VA/E)_{it}$	0.0409 (0.0284)	0.0413 (0.0284)	0.0449 <sup>c</sup> (0.0241)	0.0452 <sup>c</sup> (0.0241)
$\log(E)_{it}$	0.2039 <sup>a</sup> (0.0789)	0.2048 <sup>a</sup> (0.0790)	0.2090 <sup>a</sup> (0.0669)	0.2093 <sup>a</sup> (0.0669)
$\log(\text{Age})_{it}$	-0.0461 (0.0494)	-0.0457 (0.0495)	-0.0561 (0.0357)	-0.0527 (0.0351)
$\log(\text{Intang.K/E})_{it}$	-0.0142 (0.0128)	-0.0137 (0.0128)	-0.0123 (0.0119)	-0.0123 (0.0120)
<b>Import Competition Variables</b>				
OECD $IMP SHARE_{jt}$	-0.0411 (0.0549)	-0.0432 (0.0548)	-0.3874 (0.3493)	-0.1898 (0.2644)
Other $IMP SHARE_{jt}$	-0.1014 (0.1697)	-0.1044 (0.1672)	-2.2695 <sup>a</sup> (0.7345)	-2.3051 <sup>a</sup> (0.7019)
BJS $IMP SHARE_{jt}$	0.1998 (0.3338)	0.0443 (0.3443)	0.6816 (0.4918)	0.4830 (0.5125)
China $IMP SHARE_{jt}$	0.5492 (0.3413)	0.8636 <sup>c</sup> (0.5067)	1.8586 <sup>a</sup> (0.4978)	2.0796 <sup>a</sup> (0.5631)
×Medium-low tech. <sub>jt</sub>		-0.0517 (0.7464)		0.6849 (1.1999)
×Medium-high tech. <sub>jt</sub>		-1.0516 <sup>b</sup> (0.5347)		-1.9155 <sup>a</sup> (0.5485)
×High tech. <sub>jt</sub>		-0.8052 (0.5413)		0.2824 (1.0544)
Number of endogenous variables			4	7
Number of instruments			8	14
Under-identification statistic			48.547 (0.0000)	64.185 (0.0000)
Weak identification statistic			5.755	4.987
Hansen J statistic			12.370 (0.0148)	23.490 (0.0014)
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes
Observations	20,056	20,056	19,935	19,935
R-squared	0.3280	0.3281	0.3188	0.3201
Number of firms	2,560	2,560	2,463	2,463

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a</sup><sup>b</sup><sup>c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient \*\*\*, p<0.01, p<0.05, \* p<0.1

Table 10: Firm-Level Outsourcing Analysis. Share of Non-Production (NP/ $E_{it+1}$ ) and Share of Skilled Workers (S/ $E_{it+1}$ )

Dep. Variable Specification Estimation Method	NP/ $E_{it+1}$ (1) FE	NP/ $E_{it+1}$ (2) IV1	NP/ $E_{it+1}$ (3) IV2	S/ $E_{it+1}$ (4) FE	S/ $E_{it+1}$ (5) IV1	S/ $E_{it+1}$ (6) IV2
<b>Controls (Import Competition Variables not Reported)</b>						
$\log(K/E)_{it}$	0.0017 <sup>c</sup> (0.0009)	0.0014 <sup>b</sup> (0.0007)	0.0015 <sup>b</sup> (0.0007)	0.0182 (0.0174)	0.0136 (0.0145)	0.0149 (0.0144)
$\log(VA/E)_{it}$	-0.0102 <sup>a</sup> (0.0016)	-0.0108 <sup>a</sup> (0.0014)	-0.0111 <sup>a</sup> (0.0014)	0.0456 (0.0293)	0.0553 <sup>b</sup> (0.0250)	0.0494 <sup>b</sup> (0.0247)
$\log(E)_{it}$	0.0259 <sup>a</sup> (0.0044)	0.0272 <sup>a</sup> (0.0032)	0.0267 <sup>a</sup> (0.0031)	0.2014 <sup>b</sup> (0.0788)	0.2015 <sup>a</sup> (0.0673)	0.1967 <sup>a</sup> (0.0671)
$\log(\text{Age})_{it}$	-0.0030 (0.0028)	-0.0031 (0.0026)	-0.0040 (0.0025)	-0.0410 (0.0500)	-0.0441 (0.0360)	-0.0353 (0.0354)
$\log(\text{Intang.K/E})_{it}$	0.0113 <sup>a</sup> (0.0039)	0.0122 <sup>a</sup> (0.0028)	0.0122 <sup>a</sup> (0.0028)	-0.0139 (0.0127)	-0.0113 (0.0122)	-0.0135 (0.0119)
<b>Firm-Level Outsourcing Variables</b>						
OECD $OUTFIN_{it}$	0.0460 <sup>a</sup> (0.0128)	0.0990 <sup>a</sup> (0.0208)	0.0928 <sup>a</sup> (0.0202)	0.1440 (0.1053)	0.3494 <sup>b</sup> (0.1621)	0.2577 <sup>c</sup> (0.1553)
OECD $OUTINT_{it}$	-0.0018 (0.0076)	0.0112 (0.0158)	0.0077 (0.0157)	0.1266 <sup>b</sup> (0.0644)	0.4094 <sup>b</sup> (0.1883)	0.3940 <sup>b</sup> (0.1870)
Other $OUTFIN_{it}$	0.0207 (0.0298)	0.1053 <sup>b</sup> (0.0493)	0.1106 <sup>b</sup> (0.0493)	-0.0906 (0.1141)	-0.0802 (0.1830)	-0.2264 (0.1835)
Other $OUTINT_{it}$	0.0770 <sup>b</sup> (0.0318)	0.0043 (0.0741)	0.0051 (0.0737)	0.1501 (0.1278)	-0.0943 (0.4419)	0.0675 (0.4143)
BJS $OUTFIN_{it}$	0.0627 (0.0717)	0.5238 <sup>b</sup> (0.2343)	0.5581 <sup>b</sup> (0.2406)	0.8007 (0.6109)	1.5001 (1.0666)	1.7324 (1.3139)
BJS $OUTINT_{it}$	0.1106 (0.0995)	0.0728 (0.1656)	0.0926 (0.1641)	0.2988 (0.3212)	1.6237 <sup>c</sup> (0.8799)	1.4384 (0.8767)
China $OUTFIN_{it}$	0.1074 <sup>c</sup> (0.0553)	0.1658 <sup>b</sup> (0.0693)	0.2029 <sup>a</sup> (0.0688)	-0.1443 (0.3911)	-0.7165 (0.6576)	-0.5608 (0.7116)
China $OUTINT_{it}$	0.1722 <sup>b</sup> (0.0721)	0.2618 <sup>b</sup> (0.1100)	0.2727 <sup>b</sup> (0.1075)	-0.0500 (0.2636)	-0.4062 (0.4605)	-0.4041 (0.3915)
Number of endogenous variables		12	8		12	8
Number of instruments		32	24		32	24
Under-identification statistic		180.203 (0.0000)	30.493 (0.0230)		77.875 (0.0000)	28.208 (0.0426)
Weak identification statistic		6.086	1.205		2.700	1.182
Hansen J statistic		40.743 (0.0040)	35.725 (0.0032)		24.555 (0.2190)	18.038 (0.3217)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	118,629	112,390	112,643	20,036	19,897	19,921
R-squared	0.0204	0.0184	0.0192	0.3296	0.3150	0.3273
Number of firms	16,803	14,652	14,666	2,558	2,461	2,461

- 1.FG indicates finished goods, IG indicates intermediate goods
- 2.Coefficients for industry-level trade variables are not reported
- 3.IV1 use IV's for both firm- and industry-level imports
- 4.IV2 only use IV's for firm-level imports and treat industry imports as exogenous
- 5.Firm level imports are measured by imports over turnover
- 6.Robust standard errors (p-values) in parentheses for coefficients (test statistics)
- 7.<sup>a</sup><sup>b</sup><sup>c</sup>indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

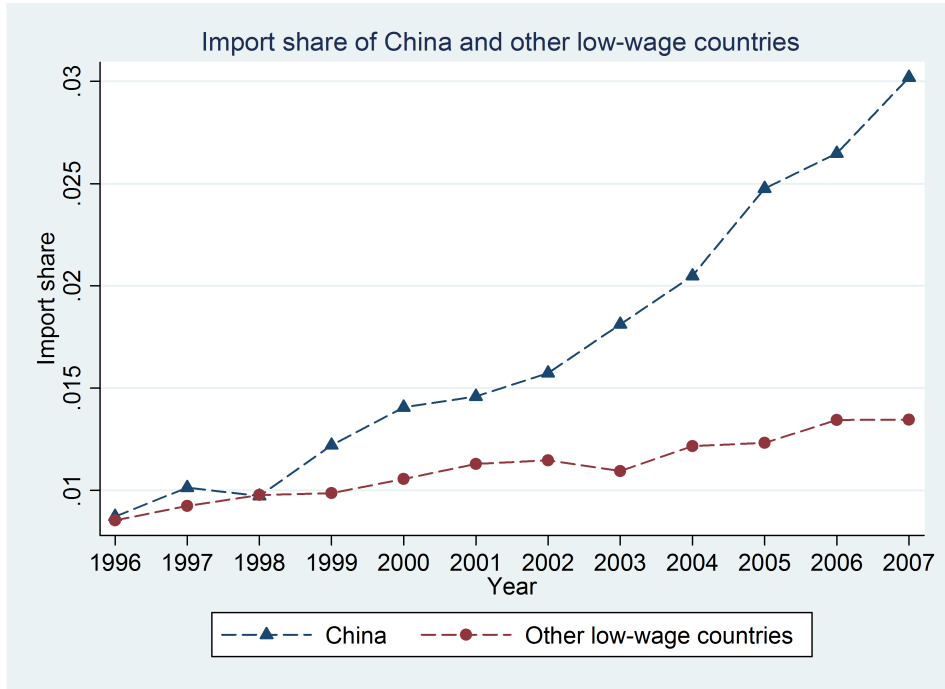


Figure 1: Import share of China and other low-wage countries over the period 1996-2007.

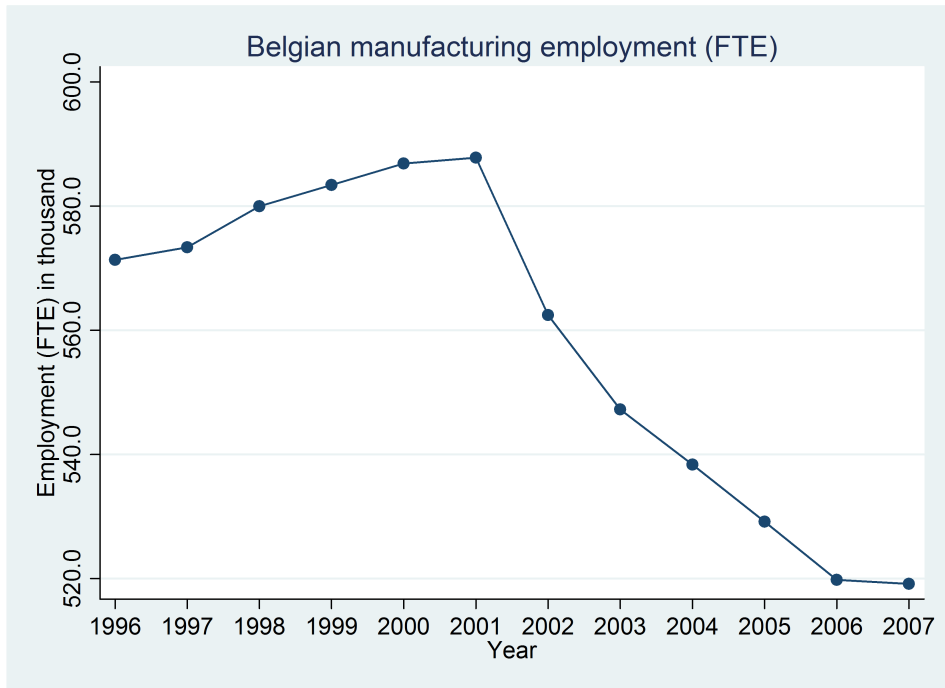


Figure 2: Belgian manufacturing employment in full time equivalent (FTE) over the period 1996-2007.





Figure 3: Share of non-production workers in Belgian manufacturing over the period 1996-2007.

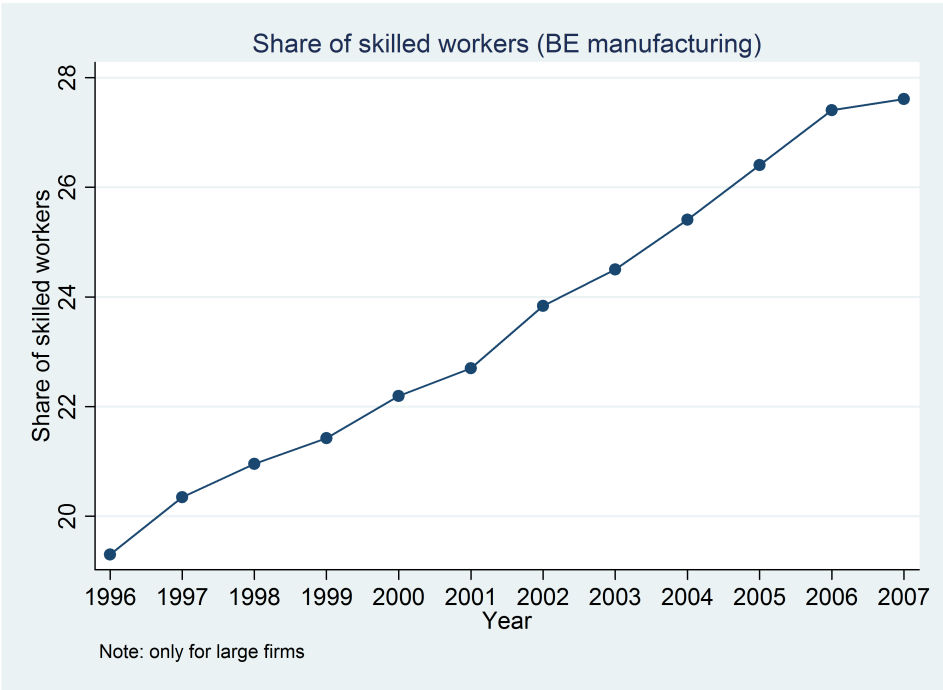


Figure 4: Share of skilled workers in Belgian manufacturing over the period 1996-2007.

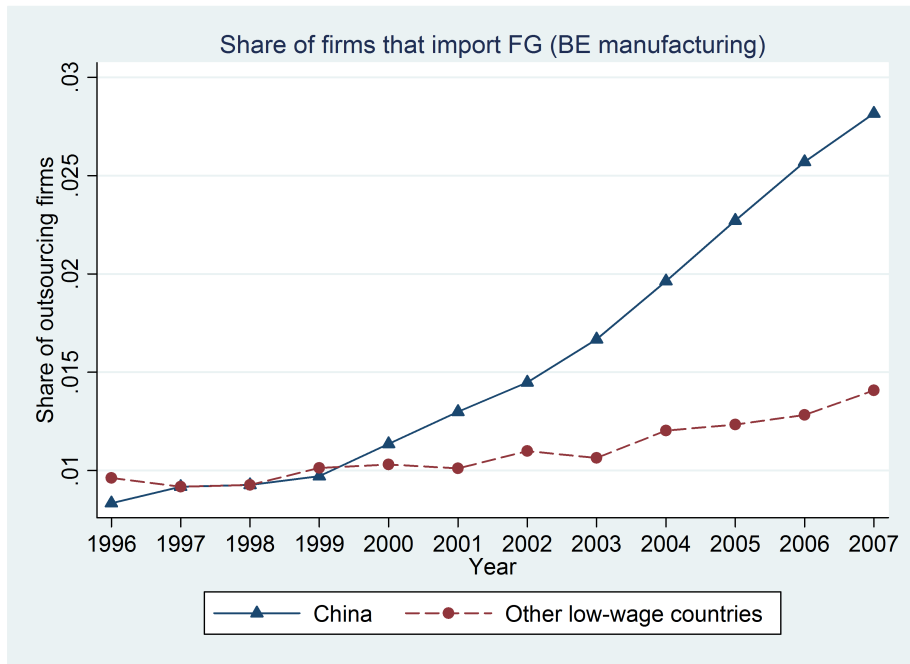


Figure 5: Share of firms involved in outsourcing of final goods from China and LW countries in Belgian manufacturing over the period 1996-2007.

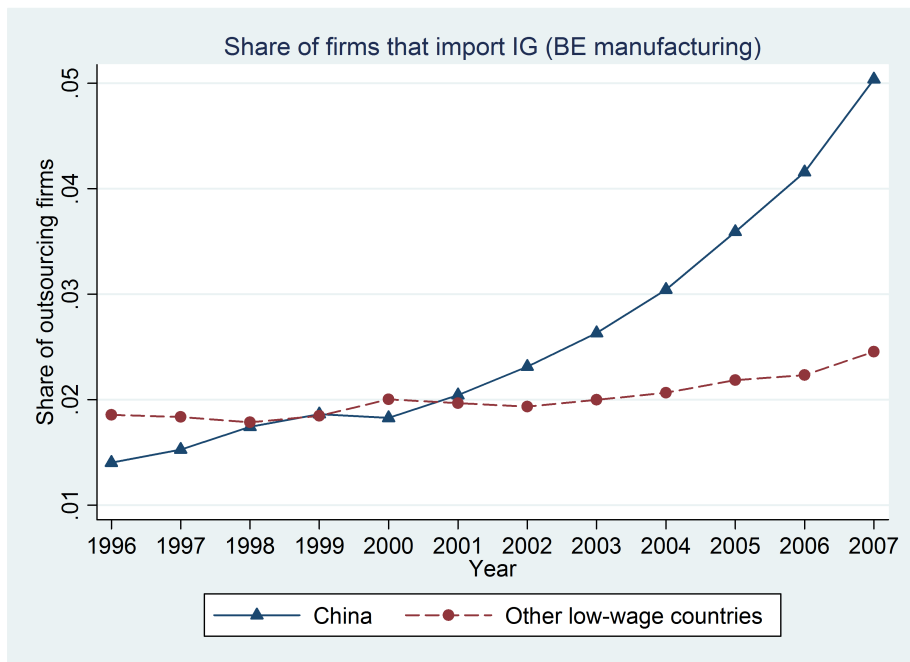


Figure 6: Share of firms involved in outsourcing of intermediate goods from China and LW countries in Belgian manufacturing over the period 1996-2007.

<b>Manufacturing industries</b>	<b>NACE Rev 1.1 codes</b>
<b>High-technology</b>	<b>24.4</b> Manufacture of pharmaceuticals, medicinal chemicals and botanical products; <b>30</b> Manufacture of office machinery and computers; <b>32</b> Manufacture of radio, television and communication equipment and apparatus; <b>33</b> Manufacture of medical, precision and optical instruments, watches and clocks; <b>35.3</b> Manufacture of aircraft and spacecraft
<b>Medium-high-technology</b>	<b>24</b> Manufacture of chemicals and chemical product, <b>excluding 24.4</b> Manufacture of pharmaceuticals, medicinal chemicals and botanical products; <b>29</b> Manufacture of machinery and equipment n.e.c.; <b>31</b> Manufacture of electrical machinery and apparatus n.e.c.; <b>34</b> Manufacture of motor vehicles, trailers and semi-trailers; <b>35</b> Manufacture of other transport equipment, <b>excluding 35.1</b> Building and repairing of ships and boats <b>and excluding 35.3</b> Manufacture of aircraft and spacecraft.
<b>Medium-low-technology</b>	<b>23</b> Manufacture of coke, refined petroleum products and nuclear fuel; <b>25 to 28</b> Manufacture of rubber and plastic products; basic metals and fabricated metal products; other non-metallic mineral products; <b>35.1</b> Building and repairing of ships and boats.
<b>Low-technology</b>	<b>15 to 22</b> Manufacture of food products, beverages and tobacco; textiles and textile products; leather and leather products; wood and wood products; pulp, paper and paper products, publishing and printing; <b>36 to 37</b> Manufacturing n.e.c.

Figure 7: Breakdown of NACE industries depending on their technological intensity,

# Appendix: Robustness checks Tables with EU15 import shares

Table 11: Import Competition Analysis. Employment Growth:  $\Delta E_{it+1}$  (Robust EU15 Imports)

Dep. Variable: Specification Estimation Method	$\Delta E_{it+1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	FE	FE	FE	IV	IV	IV
<b>Controls</b>						
NP/ $E_{it}$	-0.1016 <sup>a</sup> (0.0141)	-0.1071 <sup>a</sup> (0.0150)	-0.1010 <sup>a</sup> (0.0141)	-0.0990 <sup>a</sup> (0.0136)	-0.1025 <sup>a</sup> (0.0158)	-0.0989 <sup>a</sup> (0.0136)
log(K/E) $_{it}$	0.0321 <sup>a</sup> (0.0022)	0.0331 <sup>a</sup> (0.0024)	0.0321 <sup>a</sup> (0.0022)	0.0316 <sup>a</sup> (0.0020)	0.0356 <sup>a</sup> (0.0025)	0.0318 <sup>a</sup> (0.0020)
log(VA/E) $_{it}$	0.1001 <sup>a</sup> (0.0049)	0.0984 <sup>a</sup> (0.0053)	0.1000 <sup>a</sup> (0.0049)	0.1002 <sup>a</sup> (0.0046)	0.1010 <sup>a</sup> (0.0059)	0.1002 <sup>a</sup> (0.0046)
log(E) $_{it}$	-0.2614 <sup>a</sup> (0.0126)	-0.2617 <sup>a</sup> (0.0126)	-0.2620 <sup>a</sup> (0.0126)	-0.2637 <sup>a</sup> (0.0127)	-0.2623 <sup>a</sup> (0.0125)	-0.2638 <sup>a</sup> (0.0126)
log(Age) $_{it}$	-0.0180 <sup>a</sup> (0.0057)	-0.0172 <sup>a</sup> (0.0058)	-0.0180 <sup>a</sup> (0.0057)	-0.0178 <sup>a</sup> (0.0051)	-0.0175 <sup>a</sup> (0.0052)	-0.0177 <sup>a</sup> (0.0051)
log(Intang.K/E) $_{it}$	0.0204 <sup>c</sup> (0.0110)	0.0202 <sup>c</sup> (0.0109)	0.0202 <sup>c</sup> (0.0110)	0.0206 <sup>c</sup> (0.0111)	0.0205 <sup>c</sup> (0.0109)	0.0203 <sup>c</sup> (0.0110)
<b>Import Competition Variables</b>						
OECD <i>IMPSHARE</i> $_{jt}$	0.0797 <sup>c</sup> (0.0480)	0.0787 (0.0480)	0.0697 (0.0483)	0.8679 <sup>b</sup> (0.4335)	0.2529 (0.4387)	0.5932 (0.3878)
Other <i>IMPSHARE</i> $_{jt}$	-0.0442 (0.0767)	-0.0446 (0.0767)	-0.0588 (0.0772)	-0.5000 (0.4320)	0.1896 (0.4567)	-0.3386 (0.4183)
BJS <i>IMPSHARE</i> $_{jt}$	-0.6803 <sup>b</sup> (0.2834)	-0.8002 (0.9478)	-0.5710 <sup>c</sup> (0.3007)	-2.3836 <sup>b</sup> (0.9719)	-1.9124 (2.8830)	-1.3861 (1.0427)
×NP/ $E_{it}$		-0.5445 (0.6098)			-0.9548 (1.4035)	
×log(K/E) $_{it}$		0.0332 (0.0809)			-0.1634 (0.1968)	
×log(VA/E) $_{it}$		-0.1379 (0.2230)			-0.4320 (0.4815)	
China <i>IMPSHARE</i> $_{jt}$	-0.4082 <sup>a</sup> (0.0915)	-0.3883 (0.2991)	-0.5042 <sup>a</sup> (0.1094)	-0.2604 (0.2412)	-0.5634 (0.5372)	-0.4930 <sup>c</sup> (0.2567)
×NP/ $E_{it}$		0.4516 <sup>b</sup> (0.2066)			0.5148 (0.3881)	
×log(K/E) $_{it}$		-0.0553 (0.0362)			-0.0605 (0.0592)	
×log(VA/E) $_{it}$		0.1264 <sup>c</sup> (0.0718)			0.1756 <sup>c</sup> (0.1017)	
×Medium-low tech. $_{jt}$			0.5757 <sup>a</sup> (0.2119)			0.9332 <sup>b</sup> (0.4750)
×Medium-high tech. $_{jt}$			0.2909 (0.2048)			0.5680 <sup>c</sup> (0.3027)
×High tech. $_{jt}$			0.2470 (0.2488)			-0.3978 <sup>**</sup> (0.5365)
Number of endogenous variables				4	10	7
Number of instruments				8	20	14
Under-identification statistic				361.929 (0.0000)	469.684 (0.0000)	248.384 (0.0000)
Weak identification statistic				46.402	22.561	19.360
Hansen J statistic				46.495 (0.0000)	69.702 (0.0000)	44.599 (0.0000)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	108,277	108,277	108,277	106,597	106,597	106,597
R-squared	0.1651	0.1652	0.1652	0.1604	0.1642	0.1632
Number of firms	15,123	15,123	15,123	13,717	13,717	13,717

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a b c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 12: Import Competition Analysis. Firm Exit:  $Death_{it+1}$  (Robust EU15 Imports)

Dep. Variable: Specification Estimation Method	Death <sub>it+1</sub>					
	(1) FE	(2) FE	(3) FE	(4) IV	(5) IV	(6) IV
<b>Controls</b>						
NP/E <sub>it</sub>	-0.0010 (0.0050)	-0.0008 (0.0054)	-0.0010 (0.0050)	-0.0019 (0.0046)	-0.0034 (0.0054)	-0.0024 (0.0046)
log(K/E) <sub>it</sub>	-0.0039 <sup>a</sup> (0.0010)	-0.0021 <sup>b</sup> (0.0011)	-0.0039 <sup>a</sup> (0.0010)	-0.0037 <sup>a</sup> (0.0009)	-0.0016 (0.0012)	-0.0037 <sup>a</sup> (0.0009)
log(VA/E) <sub>it</sub>	-0.0281 <sup>a</sup> (0.0022)	-0.0287 <sup>a</sup> (0.0025)	-0.0281 <sup>a</sup> (0.0022)	-0.0282 <sup>a</sup> (0.0020)	-0.0303 <sup>a</sup> (0.0025)	-0.0283 <sup>a</sup> (0.0020)
log(E) <sub>it</sub>	-0.0182 <sup>a</sup> (0.0047)	-0.0181 <sup>a</sup> (0.0047)	-0.0182 <sup>a</sup> (0.0047)	-0.0177 <sup>a</sup> (0.0042)	-0.0179 <sup>a</sup> (0.0042)	-0.0176 <sup>a</sup> (0.0043)
log(Age) <sub>it</sub>	0.0523 <sup>a</sup> (0.0032)	0.0526 <sup>a</sup> (0.0032)	0.0523 <sup>a</sup> (0.0032)	0.0526 <sup>a</sup> (0.0029)	0.0530 <sup>a</sup> (0.0029)	0.0523 <sup>a</sup> (0.0029)
log(Intang.K/E) <sub>it</sub>	0.0070 (0.0043)	0.0069 (0.0043)	0.0069 (0.0043)	0.0070 <sup>c</sup> (0.0039)	0.0071 <sup>c</sup> (0.0039)	0.0069 <sup>c</sup> (0.0039)
<b>Import Competition Variables</b>						
OECD <i>IMP SHARE</i> <sub>jt</sub>	0.0073 (0.0231)	0.0063 (0.0231)	0.0046 (0.0234)	-0.1641 (0.2512)	0.0034 (0.2357)	-0.4062 <sup>b</sup> (0.2070)
Other <i>IMP SHARE</i> <sub>jt</sub>	-0.0096 (0.0250)	-0.0086 (0.0251)	-0.0097 (0.0250)	0.2426 (0.2441)	0.0271 (0.2403)	0.3554 (0.2531)
BJS <i>IMP SHARE</i> <sub>jt</sub>	0.1363 (0.1175)	-0.1134 (0.3126)	0.1591 (0.1220)	1.0210 (0.7016)	-0.3585 (0.6633)	1.8134 <sup>b</sup> (0.7216)
×NP/E <sub>it</sub>		-0.4266 <sup>c</sup> (0.2542)			0.7217 (0.4604)	
×log(K/E) <sub>it</sub>		-0.0443 (0.0425)			-0.2514 <sup>a</sup> (0.0906)	
×log(VA/E) <sub>it</sub>		-0.0528 (0.0903)			0.2651 (0.1626)	
China <i>IMP SHARE</i> <sub>jt</sub>	-0.0069 (0.0413)	-0.1110 (0.1156)	-0.0206 (0.0477)	-0.1334 (0.1688)	0.1341 (0.2267)	-0.3173 <sup>c</sup> (0.1757)
×NP/E <sub>it</sub>		0.1954 <sup>c</sup> (0.1005)			-0.2194 (0.1729)	
×log(K/E) <sub>it</sub>		-0.0510 <sup>b</sup> (0.0199)			0.0265 (0.0297)	
×log(VA/E) <sub>it</sub>		0.0538 (0.0360)			-0.0383 (0.0511)	
×Medium-low tech. <sub>jt</sub>			-0.2050 <sup>c**</sup> (0.1091)			-0.1309* (0.2178)
×Medium-high tech. <sub>jt</sub>			0.0810 (0.1050)			0.4164 <sup>b</sup> (0.2070)
×High tech. <sub>jt</sub>			0.1579 (0.1242)			0.6886 <sup>b*</sup> (0.3171)
Number of endogenous variables				4	10	7
Number of instruments				8	20	14
Under-identification statistic				185.995 (0.0000)	271.800 (0.0000)	174.608 (0.0000)
Weak identification statistic				26.614	15.186	13.393
Hansen J statistic				13.991 (0.0073)	35.103 (0.0001)	13.548 (0.0598)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	105,206	105,206	105,206	103,743	103,743	103,743
R-squared	0.0261	0.0265	0.0262	0.0238	0.0253	0.0184
Number of firms	15,509	15,509	15,509	14,263	14,263	14,263

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a,b,c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 13: Firm-Level Outsourcing Analysis. Employment Growth ( $\Delta E_{it+1}$ ) and Firm Exit ( $\text{Death}_{it+1}$ ): Robust EU15 Imports

Dep. Variable Specification Estimation Method	$\Delta E_{it+1}$ (1) FE	$\Delta E_{it+1}$ (2) IV1	$\Delta E_{it+1}$ (3) IV2	$\text{Death}_{it+1}$ (4) FE	$\text{Death}_{it+1}$ (5) IV1	$\text{Death}_{it+1}$ (6) IV2
<b>Controls (Import Competition Variables not Reported)</b>						
NP/ $E_{it}$	-0.0991 <sup>a</sup> (0.0141)	-0.0961 <sup>a</sup> (0.0140)	-0.0988 <sup>a</sup> (0.0139)	-0.0011 (0.0050)	-0.0046 (0.0046)	-0.0039 (0.0045)
log(K/ $E_{it}$ )	0.0314 <sup>a</sup> (0.0021)	0.0303 <sup>a</sup> (0.0020)	0.0307 <sup>a</sup> (0.0020)	-0.0036 <sup>a</sup> (0.0010)	-0.0033 <sup>a</sup> (0.0009)	-0.0034 <sup>a</sup> (0.0009)
log(VA/ $E_{it}$ )	0.1068 <sup>a</sup> (0.0053)	0.1144 <sup>a</sup> (0.0054)	0.1143 <sup>a</sup> (0.0054)	-0.0312 <sup>a</sup> (0.0024)	-0.0361 <sup>a</sup> (0.0023)	-0.0360 <sup>a</sup> (0.0023)
log( $E_{it}$ )	-0.2647 <sup>a</sup> (0.0125)	-0.2776 <sup>a</sup> (0.0108)	-0.2759 <sup>a</sup> (0.0106)	-0.0185 <sup>a</sup> (0.0047)	-0.0223 <sup>a</sup> (0.0042)	-0.0225 <sup>a</sup> (0.0042)
log(Age) <sub><math>it</math></sub>	-0.0142 <sup>b</sup> (0.0059)	0.0095 (0.0065)	0.0085 (0.0065)	0.0496 <sup>a</sup> (0.0032)	0.0482 <sup>a</sup> (0.0034)	0.0481 <sup>a</sup> (0.0034)
log(Intang.K/ $E_{it}$ )	0.0192 <sup>c</sup> (0.0109)	0.0071 (0.0086)	0.0065 (0.0084)	0.0069 (0.0043)	0.0045 (0.0038)	0.0046 (0.0038)
<b>Firm-Level Outsourcing Variables</b>						
OECD $OUTFIN_{it}$	0.0140 (0.0256)	-0.0144 (0.0506)	-0.0012 (0.0478)	-0.0032 (0.0117)	0.0570 <sup>b</sup> (0.0276)	0.0578 <sup>b</sup> (0.0246)
OECD $OUTINT_{it}$	0.0991 <sup>a</sup> (0.0199)	0.1372 <sup>a</sup> (0.0479)	0.1360 <sup>a</sup> (0.0464)	-0.0179 <sup>b</sup> (0.0085)	-0.0024 (0.0236)	-0.0027 (0.0222)
Other $OUTFIN_{it}$	0.0702 (0.0548)	0.1791 <sup>c</sup> (0.0994)	0.1625 (0.0994)	-0.0438 (0.0316)	-0.0805 (0.0521)	-0.0790 (0.0520)
Other $OUTINT_{it}$	0.1170 (0.1010)	0.1720 (0.1833)	0.1748 (0.1829)	0.0346 (0.0396)	-0.0338 (0.1307)	-0.0467 (0.1297)
BJS $OUTFIN_{it}$	-0.0822 (0.1683)	0.1620 (0.4635)	0.1316 (0.4718)	-0.0053 (0.0446)	0.1363 (0.1586)	0.1151 (0.1535)
BJS $OUTINT_{it}$	-0.0713 (0.1470)	-0.4605 (0.4220)	-0.4490 (0.4223)	-0.0452 (0.0934)	-0.2625 (0.2236)	-0.2325 (0.2242)
China $OUTFIN_{it}$	-0.3160 <sup>b</sup> (0.1345)	-0.3022 <sup>c</sup> (0.1815)	-0.3188 <sup>c</sup> (0.1816)	-0.1091 <sup>b</sup> (0.0522)	-0.1746 <sup>b</sup> (0.0777)	-0.1741 <sup>b</sup> (0.0757)
China $OUTINT_{it}$	0.0694 (0.2027)	-0.0603 (0.2453)	-0.0409 (0.2443)	-0.0781 (0.0738)	0.2978 <sup>b</sup> (0.1502)	0.2882 <sup>c</sup> (0.1497)
Number of endogenous variables		12	8		12	8
Number of instruments		32	24		32	24
Under-identification statistic		443.504 (0.0000)	30.742 (0.0215)		242.704 (0.0000)	31.478 (0.0175)
Weak identification statistic		17.830	1.182		11.129	1.363
Hansen J statistic		57.689 (0.0000)	16.523 (0.4171)		18.507 (0.5541)	10.233 (0.8542)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	107,684	102,370	102,651	104,595	99,085	99,308
R-squared	0.1679	0.1631	0.1668	0.0267	0.0264	0.0272
Number of firms	15,050	13,222	13,239	15,447	13,661	13,676

- 1.FG indicates finished goods, IG indicates intermediate goods
- 2.Coefficients for industry-level trade variables are not reported
- 3.IV1 use IV's for both firm- and industry-level imports
- 4.IV2 only use IV's for firm-level imports and treat industry imports as exogenous
- 5.Firm level imports are measured by imports over turnover
- 6.Robust standard errors (p-values) in parentheses for coefficients (test statistics)
- 7.<sup>a</sup><sup>b</sup><sup>c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

Table 14: Import Competition Analysis. Share of Non-Production Workers: NP/E<sub>it+1</sub> (Robust EU15 Imports)

Dep. Variable:	NP/E <sub>it+1</sub>			
Specification	(1)	(2)	(3)	(4)
Estimation Method	FE	FE	IV	IV
<b>Controls</b>				
log(K/E) <sub>it</sub>	0.0020 <sup>b</sup> (0.0009)	0.0020 <sup>b</sup> (0.0009)	0.0021 <sup>a</sup> (0.0007)	0.0020 <sup>a</sup> (0.0007)
log(VA/E) <sub>it</sub>	-0.0060 <sup>a</sup> (0.0016)	-0.0059 <sup>a</sup> (0.0016)	-0.0059 <sup>a</sup> (0.0013)	-0.0058 <sup>a</sup> (0.0013)
log(E) <sub>it</sub>	0.0253 <sup>a</sup> (0.0044)	0.0259 <sup>a</sup> (0.0045)	0.0265 <sup>a</sup> (0.0031)	0.0268 <sup>a</sup> (0.0031)
log(Age) <sub>it</sub>	-0.0030 (0.0029)	-0.0029 (0.0029)	-0.0024 (0.0020)	-0.0024 (0.0020)
log(Intang.K/E) <sub>it</sub>	0.0118 <sup>a</sup> (0.0039)	0.0121 <sup>a</sup> (0.0040)	0.0120 <sup>a</sup> (0.0028)	0.0124 <sup>a</sup> (0.0027)
<b>Import Competition Variables</b>				
OECD <i>IMP SHARE</i> <sub>jt</sub>	-0.0403 <sup>b</sup> (0.0174)	-0.0295 <sup>c</sup> (0.0175)	-0.5015 <sup>a</sup> (0.1866)	-0.2369 (0.1580)
Other <i>IMP SHARE</i> <sub>jt</sub>	0.0269 (0.0226)	0.0401 <sup>c</sup> (0.0230)	0.6155 <sup>a</sup> (0.1945)	0.4597 <sup>b</sup> (0.1785)
BJS <i>IMP SHARE</i> <sub>jt</sub>	0.2114 <sup>c</sup> (0.1221)	0.1132 (0.1264)	0.8957 <sup>b</sup> (0.4008)	-0.0124 (0.4402)
China <i>IMP SHARE</i> <sub>jt</sub>	0.1026 <sup>b</sup> (0.0477)	0.1854 <sup>a</sup> (0.0560)	0.1751 <sup>c</sup> (0.1020)	0.3818 <sup>a</sup> (0.1129)
×Medium-low tech. <sub>jt</sub>		-0.3244 <sup>a</sup> (0.1132)		-0.6451 <sup>a</sup> (0.1614)
×Medium-high tech. <sub>jt</sub>		-0.4286 <sup>a**</sup> (0.1215)		-0.7210 <sup>a***</sup> (0.1368)
×High tech. <sub>jt</sub>		-0.1581 (0.1438)		-0.3618 (0.2257)
Number of endogenous variables			4	7
Number of instruments			8	14
Under-identification statistic			339.737 (0.0000)	242.889 (0.0000)
Weak identification statistic			45.080	19.009
Hansen J statistic			17.365 (0.0016)	13.431 (0.0623)
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes
Observations	108,217	108,217	106,536	106,536
R-squared	0.0172	0.0178	0.0002	0.0118
Number of firms	15,101	15,101	13,697	13,697

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a</sup><sup>b</sup><sup>c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient \*\*\*, p<0.01, p<0.05, \* p<0.1

Table 15: Import Competition Analysis. Share of Skilled Workers:  $S/E_{it+1}$  (Robust EU15 Imports)

Dep. Variable: Specification Estimation Method	$S/E_{it+1}$			
	(1) FE	(2) FE	(3) IV	(4) IV
<b>Controls</b>				
$\log(K/E)_{it}$	0.0216 (0.0184)	0.0213 (0.0184)	0.0199 (0.0152)	0.0199 (0.0152)
$\log(VA/E)_{it}$	0.0400 (0.0288)	0.0401 (0.0288)	0.0409 <sup>c</sup> (0.0240)	0.0397 <sup>c</sup> (0.0239)
$\log(E)_{it}$	0.2045 <sup>b</sup> (0.0802)	0.2057 <sup>b</sup> (0.0802)	0.2070 <sup>a</sup> (0.0682)	0.2069 <sup>a</sup> (0.0680)
$\log(\text{Age})_{it}$	-0.0460 (0.0503)	-0.0448 (0.0503)	-0.0548 (0.0357)	-0.0493 (0.0353)
$\log(\text{Intang.K/E})_{it}$	-0.0148 (0.0130)	-0.0141 (0.0130)	-0.0138 (0.0125)	-0.0136 (0.0124)
<b>Import Competition Variables</b>				
OECD $IMP SHARE_{jt}$	0.0087 (0.0673)	0.0198 (0.0683)	-0.4520 (0.7754)	-0.4840 (0.6540)
Other $IMP SHARE_{jt}$	-0.0075 (0.0938)	0.0070 (0.0931)	-0.7593 (1.1224)	-0.1927 (1.0348)
BJS $IMP SHARE_{jt}$	0.5608 (0.5676)	0.4041 (0.6155)	3.0185 (2.2692)	1.5828 (2.1392)
China $IMP SHARE_{jt}$	0.5951 <sup>c</sup> (0.3165)	0.9952 <sup>c</sup> (0.5407)	0.6074 (0.5813)	1.1318 <sup>c</sup> (0.5879)
×Medium-low tech. <sub>jt</sub>		-0.3621 (0.6015)		-2.2835 (2.6313)
×Medium-high tech. <sub>jt</sub>		-1.0753 <sup>c</sup> (0.5562)		-1.3977 <sup>b</sup> (0.6107)
×High tech. <sub>jt</sub>		-0.6178 (0.5601)		0.7927 <sup>***</sup> (0.6934)
Number of endogenous variables			4	7
Number of instruments			8	14
Under-identification statistic			180.321 (0.0000)	209.659 (0.0000)
Weak identification statistic			23.524	18.840
Hansen J statistic			9.185 (0.0566)	10.193 (0.1779)
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes
Observations	19,602	19,602	19,454	19,454
R-squared	0.3287	0.3289	0.3242	0.3261
Number of firms	2,505	2,505	2,406	2,406

1. Robust standard errors (p-values) in parentheses for coefficients (test statistics)

2. <sup>a,b,c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1

3. \* indicates the significance of interaction plus the level coefficient: \*\*\*, p<0.01, p<0.05, \* p<0.1



Table 16: Firm-Level Outsourcing Analysis. Share of Non-Production (NP/ $E_{it+1}$ ) and Share of Skilled Workers (S/ $E_{it+1}$ ): Robust EU15 Imports

Dep. Variable Specification Estimation Method	NP/ $E_{it+1}$ (1) FE	NP/ $E_{it+1}$ (2) IV1	NP/ $E_{it+1}$ (3) IV2	S/ $E_{it+1}$ (4) FE	S/ $E_{it+1}$ (5) IV1	S/ $E_{it+1}$ (6) IV2
<b>Controls (Import Competition Variables not Reported)</b>						
log(K/E) $_{it}$	0.0021 <sup>b</sup> (0.0009)	0.0019 <sup>a</sup> (0.0007)	0.0018 <sup>a</sup> (0.0007)	0.0199 (0.0182)	0.0154 (0.0151)	0.0164 (0.0150)
log(VA/E) $_{it}$	-0.0072 <sup>a</sup> (0.0017)	-0.0074 <sup>a</sup> (0.0015)	-0.0078 <sup>a</sup> (0.0015)	0.0447 (0.0296)	0.0486 <sup>c</sup> (0.0249)	0.0487 <sup>c</sup> (0.0249)
log(E) $_{it}$	0.0251 <sup>a</sup> (0.0044)	0.0265 <sup>a</sup> (0.0033)	0.0256 <sup>a</sup> (0.0031)	0.2019 <sup>b</sup> (0.0800)	0.2003 <sup>a</sup> (0.0689)	0.1967 <sup>a</sup> (0.0683)
log(Age) $_{it}$	-0.0050 <sup>c</sup> (0.0030)	-0.0043 <sup>c</sup> (0.0026)	-0.0052 <sup>b</sup> (0.0026)	-0.0404 (0.0509)	-0.0465 (0.0370)	-0.0341 (0.0361)
log(Intang.K/E) $_{it}$	0.0119 <sup>a</sup> (0.0039)	0.0127 <sup>a</sup> (0.0029)	0.0127 <sup>a</sup> (0.0028)	-0.0145 (0.0129)	-0.0130 (0.0125)	-0.0143 (0.0121)
<b>Firm-Level Outsourcing Variables</b>						
OECD <i>OUTFIN</i> $_{it}$	0.0472 <sup>a</sup> (0.0129)	0.0937 <sup>a</sup> (0.0215)	0.0960 <sup>a</sup> (0.0204)	0.1352 (0.1077)	0.3584 <sup>b</sup> (0.1745)	0.2514 (0.1588)
OECD <i>OUTINT</i> $_{it}$	-0.0010 (0.0076)	0.0233 (0.0168)	0.0141 (0.0157)	0.1326 <sup>b</sup> (0.0666)	0.3162 <sup>c</sup> (0.1897)	0.4196 <sup>b</sup> (0.1956)
Other <i>OUTFIN</i> $_{it}$	0.0171 (0.0299)	0.0887 <sup>c</sup> (0.0497)	0.1085 <sup>b</sup> (0.0495)	-0.0905 (0.1155)	-0.2869 (0.2024)	-0.2371 (0.1862)
Other <i>OUTINT</i> $_{it}$	0.0741 <sup>b</sup> (0.0324)	0.0011 (0.0720)	-0.0034 (0.0749)	0.1331 (0.1361)	-0.0076 (0.4589)	0.0503 (0.4558)
BJS <i>OUTFIN</i> $_{it}$	0.0657 (0.0725)	0.5211 <sup>b</sup> (0.2359)	0.5762 <sup>b</sup> (0.2438)	0.8196 (0.6256)	1.5988 (1.2021)	1.7165 (1.3042)
BJS <i>OUTINT</i> $_{it}$	0.1052 (0.0982)	0.0908 (0.1624)	0.0846 (0.1634)	0.2289 (0.3091)	1.0330 (0.8483)	1.3026 (0.8750)
China <i>OUTFIN</i> $_{it}$	0.1135 <sup>b</sup> (0.0560)	0.1893 <sup>a</sup> (0.0691)	0.2137 <sup>a</sup> (0.0697)	-0.1392 (0.3943)	-0.5321 (0.6640)	-0.5248 (0.7099)
China <i>OUTINT</i> $_{it}$	0.1793 <sup>b</sup> (0.0728)	0.3259 <sup>a</sup> (0.1090)	0.3094 <sup>a</sup> (0.1067)	-0.0183 (0.2994)	-0.1494 (0.5057)	-0.2077 (0.5063)
Number of endogenous variables		12	8		12	8
Number of instruments		32	24		32	24
Under-identification statistic		419.407 (0.0000)	30.584 (0.0224)		171.866 (0.0000)	28.319 (0.0413)
Weak identification statistic		12.805	1.215		6.098	1.175
Hansen J statistic		56.815 (0.0000)	36.786 (0.0022)		25.862 (0.1704)	18.092 (0.3185)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	107,619	102,295	102,577	19,583	19,418	19,469
R-squared	0.0182	0.0014	0.0164	0.3304	0.3219	0.3279
Number of firms	15,022	13,193	13,209	2,503	2,404	2,406

- 1.FG indicates finished goods, IG indicates intermediate goods
- 2.Coefficients for industry-level trade variables are not reported
- 3.IV1 use IV's for both firm- and industry-level imports
- 4.IV2 only use IV's for firm-level imports and treat industry imports as exogenous
- 5.Firm level imports are measured by imports over turnover
- 6.Robust standard errors (p-values) in parentheses for coefficients (test statistics)
- 7.<sup>a b c</sup> indicate the significance of the coefficient, <sup>a</sup> p<0.01, <sup>b</sup> p<0.05, <sup>c</sup> p<0.1