

# The Effect of Intangible Capital on Offshoring

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Feb 20, 2026

## Abstract

This paper analyzes the impact of intangible capital on firms' offshoring decisions, aggregate productivity, and external competitiveness. I develop a two-country offshoring model with endogenous intangible investment that captures its unique scalability in a framework featuring heterogeneous firm entry and exit. We find that the introduction of intangible capital successfully accounts for the post-GFC U.S. data, characterized by productivity improvement and real exchange rate appreciation. This occurs as productivity shocks induce domestic firm entry, which lowers average productivity and raises domestic prices, thereby intensifying the Harrod–Balassa–Samuelson effect. Incorporating intangibles yields substantially larger aggregate productivity gains than non-intangible models by enhancing resource allocation. This research contributes by endogenously modeling the scalability of intangible capital, a previously understudied factor in offshoring models.

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