

Abstract

This paper empirically investigates the relationship between institutional quality and outsourcing to developing economies. In contrast to cross-sectional studies on institutions, this paper uses panel data for 76 countries over 25 years (1980-2004). Employing panel data helps to show the causal relationship by controlling for the fixed effects and dynamic factors. Using within and IV estimations, we find that there is a positive effect of institutional quality on outsourcing in the lower-middle income countries. The quality of institutions is not an important determinant of outsourcing to either low or high income countries