

How Do Offset Policies Affect the International Division of Labour?

The Case of the Defence Industry

Gueorgui Ianakiev

ADIS – Université Paris Sud

Institut d'Etudes Politiques de Paris

Abstract

Offsets represent a crucial issue in the field of defence industry and trade. Their importance has been constantly growing since the 1970's, and a large majority of arms importing countries now possesses a formal or informal offset policy. These policies often aim at helping the importer's defence industry to build relations with the foreign producer of the supplied equipment. In this paper we analyse how offsets can contribute to achieving this objective. Therefore we assume that the foreign defence equipment producer faces search and switching costs in establishing industrial relations with the importing country's companies. Economic literature on offsets shows that they can often be trade distorting. However, one of our most striking results is that, under certain conditions, they can improve the international division of labour in the defence industry.

Keywords: Offsets, Defence Trade, International Division of Labour, Search Costs, Switch Costs.

Gueorgui Ianakiev
11, Avenue Lulli
92330 Sceaux
France
Tel : +33663642275
Email : gueorgui@ianakiev.org