



A podcast about the economics of trade & policy
with Chad P. Bown

Episode 188. Did responsible sourcing by multinationals help workers in poor countries?

[Episode webpage](#)

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Transcript

(lightly edited)



Chad Bown: In the early 2010s, there were a series of deadly industrial accidents that killed workers at factories in developing countries.

PBS Newshour: *Two industrial fires in Pakistan claimed the lives of more than 280 people overnight, 258 of them died in a garment factory in Karachi. Firefighters there said that many could not escape because there were no emergency exits or basic safety equipment. The plant had only one accessible exit and all of the other doors were locked...*

Chad Bown: After Pakistan came the collapse of the Rana Plaza building in Bangladesh.

BBC News: *Over 1,000 people died when an illegally extended 8-story building, which was a garment factory, collapsed in an instant. They made clothes mainly for western fashion brands...*

Chad Bown: These tragedies revealed a huge problem. Big multinational companies – i.e., these western brands – were contracting out production to suppliers at these factories where workers were being killed.



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Jose Vasquez: And at that point, how multinationals were treating workers at suppliers came into the spotlight.

Chad Bown: That is Jose Vasquez, a Costa Rican economist. I first met Jose at a trade nerd conferences we were both attending in Boston. I was late, and he kindly offered to let me share his taxi to the airport. Jose told me about his research into workers and these multinationals.

Jose Vasquez: As consumers started thinking that they don't want to be associated with brands that were themselves associated with the building that collapsed, people started questioning themselves, "Do we really want to have cheap products at the expense of how workers in developing countries are treated?"

Chad Bown: Facing pushback from American and European consumers, Jose described to me how dozens and dozens of multinational companies, all around the world, suddenly began to adopt policies of something called "Responsible Sourcing."

Responsible Sourcing was the code of conduct that multinationals began to demand of their suppliers in poor countries. The multinationals promised that Responsible Sourcing would result in better treatment of workers.

"Trust us," the multinationals told their consumers.

But did these Responsible Sourcing policies work at making lives better for workers? Or was this just a slick public relations move by some media savvy global corporations? And even if Responsible Sourcing helped some workers, were there unintended consequences hurting other workers in those same developing countries?

This episode examines these Responsible Sourcing policies. To do so, I will be joined by Jose Vasquez. Jose is a trade economist and professor at the London School of Economics. Jose is going to tell us about an incredible new study in which his research team examines the impact of Responsible Sourcing on workers, on suppliers, and on multinationals in one particularly interesting country – Costa Rica.

Chad Bown: Hi, Jose.

Jose Vasquez: Hi, Chad.

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow at the Peterson Institute for International Economics in Washington.



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THE EPISODE

Chad Bown: Jose, let's jump right into it.

What do consumers, especially consumers in the United States and Europe, really know about the products they buy?

Jose Vasquez: Nowadays we consume things where, thanks to global value chains, we see the final product, but we have no idea where the parts come from or where the inputs to produce that good come from.

We could have a t-shirt, we could have a chair, we could have any product that you have in mind, and most likely it has several parts from several different parts of the world. And consumers, in general, have no idea how these parts were made, who made them, how much the workers making these parts were paid, or under what conditions these workers worked.

Chad Bown: So consumers don't know much about how the things they buy were being made.

But how have multinational companies historically thought about these issues? I.e., the western brands that have these supply chains all over the world – were they concerned with making sure workers in their supply chains weren't being mistreated?

Jose Vasquez: What multinational firms want to do, just as any firm in the economy, is to generate profits and be profitable. So of course they have incentives to go and produce in developing countries where wages are cheaper and where labor standards may be weakly enforced.

For instance, suppose you go to a country that even has a good labor law, but it has weak enforcement because it doesn't have enough labor inspectors. Maybe you can pay less than the minimum wage, and who would know? Maybe you can force workers to work extra hours without extra pay, and who would know?

Maybe you don't allow them to unionize. Maybe you don't care about sexual harassment at the workplace. Maybe you don't care about gender representation.

Chad Bown: Before the Rana Plaza incident in 2013, and those other tragedies in which unsafe working conditions killed hundreds of workers, why weren't multinationals paying closer attention to how workers at their suppliers were being treated?



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Jose Vasquez: Because they might think this is not their problem. We treat our workers at the multinational nicely. If workers at the supplier are not treated nicely, then it's the problem of the supplier, but it's not the problem of the multinational.

However, after the Rana Plaza incident and the press it generated, consumers in the western part of the world started realizing that this was not enough of an answer. They wanted someone to make an effort to treat workers in developing countries more nicely, even when those workers worked outside of the boundaries of the multinational firm.

Chad Bown: This potential outrage from western consumers led a wave of multinationals in the early and mid-2010s to roll out something called *Responsible Sourcing* policies. That is the topic of your research.

What was in these new codes of conduct that multinationals were demanding from their suppliers? How does it work?

Jose Vasquez: The way it works is almost like a contract. And into these contracts, the multinationals will write whatever they are requiring. For instance, they could say, "We will pay beyond minimum wage to workers. We will have X amount of days of vacation. We will have a longer maternity leave than the law states."

And this is a contract that, at the end of the day, is a voluntary contract. I.e., there is no obligation from the multinational to implement it. There's no breaking the law if they don't do it.

Chad Bown: The Responsible Sourcing policy is a voluntary contract between the multinational and its suppliers. But it's not written into any country's laws.

So how is it enforced? Is there some sort of external auditing to make sure multinationals and suppliers live up to these promises?

Jose Vasquez: There are some instances, like the Rana Plaza event, in which this attracted so much anger from the public that there were some committees formed and there were some NGOs heavily involved that required multinationals to actually have some third party verification, and third party auditing, to make sure they were following through on their promises.

But in most other instances, multinationals are the ones claiming that they will do the auditing of their own policies. They visit plants of their suppliers most of the time to do quality checks,



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but now they will start doing checks related to what they ask in the Responsible Sourcing policy or Responsible Sourcing Suppliers Code of Conduct, as they also sometimes call it.

Chad Bown: Multinationals announce these Responsible Sourcing policies designed to improve worker wellbeing in developing countries. This sounds great, so what's the problem?

Jose Vasquez: There could be at least two problems.

The first one is, would multinationals follow through? Maybe not. We could be skeptical and think maybe this is just hot air and this is just an announcement that they make. They think it's good press for them, but at the end of the day, there is no incentive to implement it.

And second, even if they do, there could still be some unintended consequences. And so it's more complicated than it looks at the beginning.

And that's the reason why we wanted to look at it in more detail.

Chad Bown: Jose's research is going to tackle two big questions.

First, did the multinationals live up to the promises made when they rolled out these Responsible Sourcing policies?

Second, were there unintended consequences of those policies that we need to worry about? Might *Responsible Sourcing* have inadvertently hurt consumers, suppliers, and even other workers in different supply chains in those developing countries.

But this Responsible Sourcing question is so new – I wanted to spend a couple of minutes to really ask Jose to help us understand the potential unintended consequences that we need to be watching out for.

And as a warning, put your thinking cap on. This project is amazing. But there is a lot to keep track of.

Jose, help us identify what we should be looking out for. Let's start with workers. Can you walk us through the potential impacts of a multinational company rolling out a Responsible Sourcing policy on all of the different kinds of workers out there.

Jose Vasquez: Since these policies are all about working conditions, what we expect, if they actually do something, is you might see an improvement in wages or other benefits for workers that work at the suppliers of the multinationals.



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Of course not all workers in the economy work for suppliers of multinationals. There are all sorts of workers working for other firms that have nothing to do with the Responsible Sourcing policy. However, these workers could be affected indirectly.

Let's say low skilled workers might become relatively more expensive for firms, and firms might switch to other types of workers. Suppliers might say, "Let me just switch and hire more higher-skilled workers or robots," and this will create a decrease in the demand for workers that are lower skill, which might eventually hurt their employment prospects.

Chad Bown: This is so important I wanted to step in with a little example to make sure we really get the idea.

Suppose there are 10 lower skilled workers in the economy: Four of them initially work for the supplier to the multinational and the other six work for some "other guy" who does not supply to the multinational. This "other guy" will not face the Responsible Sourcing policy.

When the multinational rolls out the policy, the lower skill workers for the supplier to the multinational become more expensive. That is the purpose of the policy – they need to be paid a higher wage.

The supplier might say, "At that higher wage I can now only afford to hire two of these workers, not four like before. Maybe I'll buy a robot or hire more of other highly skilled workers whose wage has not gone up. But I'm not going to hire four lower skilled workers anymore, only two."

So that now means two original workers leave to go and work for the other guy. With a lot more workers available to the other guy – there used to be six, now there are eight – wages for those other workers might fall.

Jose, another implication of these Responsible Sourcing policies is that a supplier who signs up has to promise to treat all of its lower skilled workers better, even those who only make things that the supplier sells to the domestic market and not to the multinational.

Why does this matter?

Jose Vasquez: Domestic consumers consume those goods that now are more expensive, which means that as long as those producers also sell to the domestic market, then there's an increase in the living cost for those workers as well.

Directly you could have workers that benefit from the policy and their wages could go up, and their benefits could also increase.



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But indirectly, there could be also increases in the cost of living.

Chad Bown: The Responsible Sourcing policy is costly to the supplier. That means prices for what the supplier also sells in the domestic market will go up.

And the problem is that workers – the ones the Responsible Sourcing policy are trying to help – those workers are also consumers. They do benefit from higher wages; they also suffer from higher prices.

To figure out which effect is bigger, we need to keep track of two things. First we need to track wages to the different types of workers – those exposed to Responsible Sourcing who are expected to benefit and those who work for the other guy and who might get hurt.

Second, we also need to track price changes. Even when wages go up, if prices go up more, workers could still be hurt.

Let's turn next to the potential impact of the multinational's Responsible Sourcing policy on suppliers themselves.

Jose Vasquez: The suppliers need to pay for the new standards for the working conditions from somewhere.

So let's assume for a second that the multinational holds all the bargaining power in the relationship with the supplier. So in that case, the multinational says, "If you want to sell to me in the future, you need to satisfy certain requirements, ABC, but then you're on your own figuring out how you pay for it."

If that's the case, then we will also see suppliers losing their profitability because now they incur higher costs because of the worker benefits, higher wages, et cetera, but they don't see any improvement in the relationship with the multinationals.

Of course, the real world is more complicated than that, and it could also be that the multinational commits to pay part of this cost or maybe, in a lucky scenario, the multinational commits to pay all of these costs.

Chad Bown: How the suppliers will be impacted depends on how much of the cost of those higher worker benefits the supplier can pass on to the multinational.

If the supplier has a lot of bargaining power against the multinational, it can pass along a lot of the costs and its profitability won't be hurt.



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But if the supplier is just a little guy – and the big giant multinational holds all of the bargaining power – the supplier might suffer lower profits by not being able to pass along to the multinational the costs of the better benefits to the worker.

Jose, this is amazing. But just to remind everyone, so far this is only the theory. Some things could go up, some things could go down. Some workers could be helped, other workers could be hurt.

The answer to which effect is bigger is why we ultimately need to go and look at the data happening in the real world. And we'll get to that in a minute.

But before we do, are there any other last potentially good things we should also be on the lookout for happening when the multinational rolls out its Responsible Sourcing policy?

Jose Vasquez: The last two things:

When multinationals conduct audits and they would start visiting suppliers, then as part of these visits, they may not only discuss Responsible Sourcing but better managerial practices as well. If that was the case, then the Responsible Sourcing policies were also improving the wellbeing of the domestic economy through helping suppliers become more productive.

And lastly, it could also be that a multinational having this Responsible Sourcing policy increases demand from Western consumers for the multinational's good. Which means that the multinational might want to expand and might want to hire more workers and buy more locally. This increase in demand will also benefit the domestic economy.

Chad Bown: We have described a lot of moving pieces, but your work provides a framework to tell researchers where to look to ultimately figure out how a multinational's Responsible Sourcing policy is going to impact various people in a country. It can also help policymakers evaluate whether Responsible Sourcing might be good or bad for the country as a whole.

Before we move on, how would you summarize this framework?

Jose Vasquez: The part that is not 100 percent intuitive is that you might think to just go and look at wages. If wages go up, then it's good for the country. If wages don't go up, then it's not good.

But the answer is complicated because it depends on who pays for these extra wages.



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The first element that is important to know whether this will increase the wellbeing of the country is what is the bargaining power between the multinational and its domestic suppliers. As long as the domestic suppliers have some bargaining power in that relationship, and they can shift part of the cost onto the multinational, then we'll be good because they will just pass through this cost directly to foreign consumers. That will bring resources from outside of the world into the country.

The second thing that you have to take into account is how much of the production of the suppliers that are part of the Responsible Sourcing supply chain is sold in the domestic market.

If you have, in the extreme case, that suppliers sell 1 percent to the multinational and they sell 99 percent to the domestic market – if they increase the cost of production for that 1 percent but this additional cost of production might lead to higher prices to the other 99 percent of the production that is consumed locally – then that's bad for the country's economic wellbeing.

Chad Bown: One impressive part of your research is that it provides a framework that can really be applied to any country. It is a toolkit that can help us identify the impact of Responsible Sourcing in any setting.

But another thing you do is to provide an actual example where you show how to use this toolkit and what we can learn from it.

In this study, what country do you examine and why?

Jose Vasquez: Costa Rica!!! It is the most beautiful country in the world. (I'm saying this because I am Costa Rican. 😊)

Costa Rica is a middle-income country that has seen an increased presence of multinational corporations in the last decade. This is not only the multinationals themselves, but also the firms – i.e., the suppliers – the Costa Rican firms that sell to those multinationals.

Just to give you an example, by the end of our sample, around 40 percent of the private domestic production in the economy was either done by multinationals or by suppliers of multinationals, which makes the rollout of the Responsible Sourcing policies potentially important for the country as a whole.

Chad Bown: So, 40 percent of Costa Rican production being tied to multinationals and their suppliers means there is a strong chance the country will be impacted by these Responsible Sourcing policies.



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That said, Costa Rica probably isn't the first country many people think of when it comes to the reasons behind Responsible Sourcing – and the problems arising at factories in places like Bangladesh, with Rana Plaza, or Pakistan.

Jose Vasquez: The choice of Costa Rica as a country to study has some trade-offs. On the one hand, it's not the obvious example of violations in labor laws or things that you would expect in other, poorer countries.

However, in the case of Costa Rica, even if labor laws are very good, the implementation of labor laws and the compliance with labor laws is very bad. Just to give you an example, around one third of the workers are paid less than the minimum wage. And if you think about the number of labor inspectors per worker, Costa Rica is doing poorly with respect to peer countries, let alone with respect to OECD countries.

Chad Bown: Are there other reasons why Costa Rica is an especially *good* country to study the impact of Responsible Sourcing?

Jose Vasquez: Another thing to mention about the Costa Rican case is that there was not a Rana Plaza like event. There was no tragedy that triggered Responsible Sourcing policies in Costa Rica.

What our research takes advantage of is the fact that these Responsible Sourcing policies are rolled out globally. The multinational headquarters would say, starting tomorrow, all our suppliers around the world would be satisfied with A and B. And they're not doing this because they think of Costa Rica. Costa Rica is a small economy. It is true that Costa Rica has increased the employment share of multinationals in the economy, but it's not big enough to say that multinationals started implementing Responsible Sourcing policies because of Costa Rica.

But most importantly, Costa Rica is a good country to study because of its amazing data. This allows us to track and to follow workers over time – i.e., firms who sells to whom, who buys from whom, which are the multinationals, et cetera.

Chad Bown: What types of multinationals – as well as their affiliates and suppliers – are important for the Costa Rican economy?

Jose Vasquez: You shouldn't expect that Costa Rica will only host agricultural multinationals, such as Dole, who are producing and selling bananas or pineapples.



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There are many sophisticated multinationals and many of them on the Fortune 500 list operate or have affiliates in Costa Rica. Examples include Intel, producing microchips, that many years ago opened a \$300 million plant producing microchips in Costa Rica. Other examples are firms in medical devices like Baxter or Boston Scientific, but we also have other types of firms like Walmart, or other agricultural firms as well.

Chad Bown: Earlier, we worked through your framework and toolkit describing all the different ways that Responsible Sourcing could impact workers, firms, and consumers, including those potential unintended consequences we need to watch out for.

Before we get to your results, one last time, can you walk us through how you are going to apply this framework to suppliers in a country like Costa Rica.

Jose Vasquez: Suppose that you have two identical suppliers in Costa Rica. Suppose that one of them supplies Coca-Cola and the other one supplies Pepsi. (I'm making up names, just for the sake of the example.)

Suppose that, at some point, the headquarters of Coca-Cola rolls out a Responsible Sourcing policy, whereas the headquarters of Pepsi doesn't.

Then the question in the data is, "What happens to their suppliers?" The one selling to Coca-Cola and the one selling to Pepsi, which are otherwise identical *other than* one was supplying to a multinational rolling out as Responsible Sourcing policy and the other one wasn't, "What happens to the firm and what happens to the workers of the firm?"

Chad Bown: What do you look at, and what do you find?

Jose Vasquez: The first thing we look at is what happens to workers. In particular, we look at what happens to the wages of workers at preexisting suppliers of the multinationals rolling out the Responsible Sourcing policy.

What we find is that wages go up and, in particular, wages go up for low wage workers. And this is good news (!!) because this is what the point of the policy actually was.

There are also improvements in other types of benefits. For instance, the maternity leave period for workers who are part of the responsible supply chain also increases, which is also good news because this is already an indication that the policy is doing something. (It has bite on the ground.)



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There's not a lot of action happening for high wage workers. So the managers of those suppliers basically remain with the same wage, whereas the low wage workers that were close to the minimum wage are the ones experiencing the biggest wage increases.

Chad Bown: Were you surprised by these results?

Jose Vasquez: What surprised me about our results is that we had intuition that the Responsible Sourcing rollouts would just be “hot air.” We had in mind that multinationals might say all these things that they wanted to implement, but when we went to the data, we would find that nothing moves and nothing happens. (That was the prior we had when we started this study.)

We thought it was a very interesting idea, and that we had the right data environment to test it. We thought it would be a much easier project to do because we would not find anything. And we would just say the message of the paper would be that this was just hot air. I.e., that we shouldn't pay too much attention to these public relations statements.

Actually, the difficulty was when the results pointed in some other direction that initially confused us. This actually made us think harder about the more general problem.

We were surprised and, initially we were a bit confused, but then we said, “We need to figure out why!”

Chad Bown: You found these surprising results that it was not just hot air, and that suppliers of these multinationals in Costa Rica were actually paying higher wages to the lowest wage workers when the Responsible Sourcing policy was implemented.

But what about those unintended consequences. Was it all good news?

Jose Vasquez: Not everything was good news here. We also see that suppliers start hiring fewer low skilled workers and hire relatively more high skilled workers because the policy is making low skilled workers more expensive.

In addition, we also see that sales and employment of the suppliers goes down in general. Some of that is because those suppliers that are exposed might say, “Thank you, but no thank you,” and they might just drop the relationship with the multinational. These are big clients for those firms, and some losses in employment come from that. Some other losses in employment would come, particularly for low skilled workers, just because they become relatively more expensive, so firms just hire less in general.



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We see some good stuff happening to certain workers, but then some other workers are being hurt.

Chad Bown: What you have described so far is the average effect on workers. When you look more closely, do you get a clearer sense of where these Responsible Sourcing results were coming from?

Jose Vasquez: The results tend to be stronger once we look at the Responsible Sourcing rollout by multinationals with headquarters in the US and Western Europe. The reasons why this happens in general are twofold.

First, these might be the multinationals that care the most about the Responsible Sourcing policy, simply because their consumers might be the ones putting more pressure on the firms to implement them.

Second, these multinationals usually tend to have higher management scores, so they are better managed firms overall, which makes it likely that they have the managerial capacity to implement these policies and make sure that their suppliers comply with them.

Once we dug deeper into the data, we also realized that the effects on wages and employment are mostly driven by suppliers, which are small suppliers and in services sectors. This is intuitive because usually those firms are the ones hiring a higher share of initially low wage workers, who are the ones affected by the policy directly.

Chad Bown: Next I want to turn to the suppliers. What was the impact of the Responsible Sourcing on the suppliers' sales? What did you learn from this to help us understand their relationship and bargaining power with respect to the multinationals?

Jose Vasquez: We saw that wages increase for workers at the suppliers. So this is good news.

But there was also some bad news for the suppliers themselves. For them, implementing these policies turns out to be costly. In the end, if they have to improve the benefits of their workers, then the payment of that has to come from somewhere.

We looked at what happened to the suppliers in two ways. First, we have the data to observe what part of their sales goes to domestic buyers and what part of their sales goes to multinational buyers. Overall, we see that suppliers exposed to Responsible Sourcing policy see the sales to their domestic buyers also decrease. This likely means that because of the higher



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cost of production, now they have to charge a higher price and therefore the demand for their good in the domestic market will go down.

We also look at what happens in the relationship with the multinational. You would expect that, if the multinational bears all the cost of the policy, then nothing will happen in terms of how much they buy from the supplier, and it would be just a transfer from the multinational to the supplier.

However, what we see in the data is that sales to the multinational also go down. It means that there is not full passthrough of the cost. For the supplier to remain profitable, they have to increase the price, and because they increase the price, then the multinational just buys less from them.

Chad Bown: Why won't the supplier be able to pass through all of the cost to the multinational, and why is this pass-through issue so important?

Jose Vasquez: Because multinationals tend to be large buyers and domestic suppliers are small suppliers, there is an asymmetry in their relationship in terms of importance for each other. It's likely that the multinational holds more of the bargaining power in that relationship.

This is bad because the more bargaining power the multinational holds in the relationship, the more of the cost is going to be eaten up by the domestic economy, which will lower the potential gains from the Responsible Sourcing policy. A world in which the supplier could pass through all the cost to the multinational – that is the best scenario for the domestic economy.

Chad Bown: For the case of Costa Rica, what did you learn about the effect of Responsible Sourcing on the multinationals themselves?

Jose Vasquez: We cannot say anything about profits because this is not what we observe. But what we can say is that, at least in terms of sales, we don't see an increase in sales for those multinationals that roll out the Responsible Sourcing policy relative to other similar multinationals that do not.

Additionally, we do not see a big increase in the sales of multinationals themselves once they roll out this policies, which was a possibility given that foreign consumers might value these policies a lot. I.e., this might create a demand shift toward the domestic economy because the multinational might want to expand and hire more workers locally, buying more inputs locally, which would have been beneficial for the domestic economy. But we just simply don't find that evidence in the Costa Rican case.



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Chad Bown: Unfortunately, there was little evidence that western consumers were so happy about Responsible Sourcing that they were willing to pay for it by increasing demand or shifting their demand toward the brands that were rolling it out. That's a bummer.

Earlier, you described another potential benefit involving productivity gains for local suppliers in Costa Rica. Did you find any evidence of that?

Jose Vasquez: In the case of Costa Rica, we don't find that the rollout of the Responsible Sourcing policies is associated with increases in productivity of the suppliers of multinationals.

There is the potential the multinational and supplier could meet and talk not only about Responsible Sourcing, but also about managerial practices. And this could potentially increase the productivity of suppliers. But we don't see evidence of that.

Chad Bown: Now, since these Responsible Sourcing policies are being rolled out globally, we might worry that multinationals would just pull out of Costa Rica and other developing countries altogether.

Maybe multinationals would try to avoid the headache of sourcing from developing countries and switch to only buying inputs from richer supplying countries where the Responsible Sourcing policies are already being met.

Do you see any evidence of that concern?

Jose Vasquez: We test this hypothesis in the case of Costa Rica by looking at the share of overall multinational production that happens in the country. And we see no evidence that the multinational is reallocating production away from Costa Rica because of the Responsible Sourcing policy.

Chad Bown: That is some good news then.

With all of the moving pieces you identified, the last thing your framework allows you to do is to add it all up. When you aggregate all of these pieces together, was the multinationals' Responsible Sourcing policies *good* or *bad* for Costa Rica as a whole?

Jose Vasquez: Overall, we find that the policy has a small positive effect for the country as a whole. However, this result masks a lot of distributional effects across workers in the country.

We find strong positive effects for those low-skilled workers who are exposed to the policy and, at the same time, negative effects for those workers who are not exposed to the policy. Even if



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the strong positive effects of the first group are higher than the negative effects of the second group, the second group constitutes a majority of workers in the economy.

Once we take into account there is a relatively smaller group that is benefiting a lot versus a much larger group, that is hurt a little bit, when we put the two parts together, there's a small positive effect for the economy as a whole.

Chad Bown: Jose, you and your team have developed this incredible framework and used that framework to provide an extremely detailed case study of Costa Rica.

But Costa Rica is just one country. Are there warnings to how we should interpret your results?

Jose Vasquez: First, in theory, the effects of the policy are ambiguous, so anything can happen. The fact that in Costa Rica we find a small positive effect doesn't mean that we would find the same effect in some other country, say, like Ecuador. So that's why we need to connect the framework with the data.

Second, Costa Rica is a middle income country, so the type of policies that might have a bite in Costa Rica are very different from the type of policies that might be relevant in other less developed economies. For instance, you could think of banning child labor as part of the Responsible Sourcing requirements. This is a policy that, fortunately in the case of Costa Rica, doesn't bite because child labor is already minimal. But the effects that this could have in a different context, where child labor is more important, might be relevant in ways that we haven't covered in our study.

Chad Bown: As my last question, I wanted to ask for your policy advice. Suppose the minister of economy for Bangladesh or Ecuador wants help for their country. They see your results for Costa Rica, but they know their economy is different. They are worried about the potential impact of these multinational Responsible Sourcing policies on their economy – i.e., is Responsible Sourcing likely to be good or bad for them.

What does your approach tell them to look out for?

Jose Vasquez: The policy is likely to be good the less bargaining power multinationals have with their suppliers, it's likely to be good the less production of affected suppliers is sold to the domestic market. Is likely to be good if there are productivity increases at domestic suppliers that come from this interaction with the multinationals. And it's likely to be good if the multinational itself receives a demand increase from Western consumers because they now treat workers nicely.



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Conversely, the policy is likely to be bad if multinationals hold a lot of bargaining power because the cost of the policy is likely to be paid by some by domestic suppliers. And it's likely to be bad if a lot of the production of domestic suppliers is sold to the domestic market because the increasing cost of the policy will be translated into an increase in the prices for domestic consumers.

And whether it's good or it's bad, it's likely to be exacerbated by the share of the economy's production that is part of their responsible sourcing supply chain. Of course, if multinationals account for a small share of the economy, then even if you have a Responsible Sourcing policy, it is going to affect such a small share of the workforce that is likely that the indirect effects on other workers are going to be very small. At the same time, if the share of multinational employment is very large in the economy, then whatever affects you see from the Responsible Sourcing policy, whether they are positive or negative, are going to be magnified by the relative importance of suppliers of multinationals in the overall economy.

Chad Bown: Jose, thank you very much

Jose Vasquez: Thanks for having me.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Jose Vasquez at the London School of Economics. Do check out Jose's amazing paper titled "Responsible Sourcing? Theory and Evidence from Costa Rica." It is joint work with Isabela Manelici, Cecile Gaubert, Ben Faber and Alonso Alfaro-Ureña. I will post a link to the paper on the episode page of the Trade Talks website.

Thanks to Melina Kolb, our supervising producer. Thanks to Sarah Tew, on digital. As always, thanks to Collin Warren, our audio guy.

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<insert super funny double underscore joke here>. ■



A podcast about the economics of trade & policy
with Chad P. Bown

Read more...

- Alonso Alfaro-Ureña, Ben Faber, Cecile Gaubert, Isabela Manelici, and Jose Vasquez. 2022. "[Responsible Sourcing? Theory and Evidence from Costa Rica](#)." NBER Working Paper No. 30683, November.