Discussion of Alfaro-Ureña et al.: Responsible Sourcing? Theory and Evidence from Costa Rica

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Multinational firms have adopted recently Responsible Sourcing requirements

... imposing minimum requirements on work conditions on their suppliers in developing economies
... which increase supplier’s marginal costs

• How were suppliers in Costa Rica affected by these requirements?
  - Great merged database of multinational firms operating in CR
    ... including transactions with their local suppliers (sales)
    ... and information on the suppliers’ employment and wages
  - Heterogeneity in rollouts of RS requirements key to identify effects

• What can we say about welfare effects =⇒ structural model
Main Results

Firms exposed to Responsible Sourcing rollouts in Costa Rica

... reduce their (total) sales and employment
... but increase the earnings of their workers
... especially for low-wage workers

- Ambiguous welfare effects
  - Terms of trade improvement (akin to export tax)
    ... and productivity gains for suppliers
  vs local price increases
    ... and labor market distortions
  - The authors find with the model a net positive welfare gain
The model is a large, static, general equilibrium, trade model with

- multinational firms
- intermediate goods
- monopolistic competition
- and possible monopsony in labor markets

- Great accounting framework, but several economic margins exogenous
  - Responsible Sourcing adoption
  - Productivity improvements
  - Pass-trough to domestic prices
  - The effects are carefully estimated, but perhaps not fully micro-founded