

Responsible Sourcing? Theory and Evidence from Costa Rica

Abstract:

Multinational enterprises (MNEs) increasingly impose “responsible sourcing” (RS) standards on their suppliers worldwide, including requirements on worker compensation, benefits and working conditions. Are these policies just “hot air” or do they impact exposed suppliers? What is the welfare incidence of RS in sourcing origin countries? To answer these questions, we develop a quantitative general equilibrium (GE) model of RS and combine it with a unique new database. In the theory, we show that the welfare implications of RS are a priori ambiguous, depending on an interplay between what is akin to an export tax (+) and a labour market distortion (-). Empirically, we combine the near-universe of RS rollouts by MNE subsidiaries in Costa Rica (CR) since 2009 with firm-to-firm transactions and matched employer-employee microdata. Using these data, we find that RS rollouts lead to significant reductions in firm sales and employment at exposed suppliers, an increase in their salary payments to initially low-wage workers and a reduction in their low-wage employment share. We then use the estimated effects and the microdata to calibrate the model and quantify GE counterfactuals. We find that while MNE RS policies have led to significant gains among the roughly 20% of low-wage workers employed at exposed suppliers ex ante, the majority of low-wage workers in CR lose due to adverse indirect effects on their wages and the domestic price index.