

Voting on a Trade Agreement: Firm Networks and Attitudes Toward Openness*

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Abstract

We exploit a unique event to study the extent to which popular attitudes toward trade are driven by economic fundamentals. In 2007, Costa Rica put a free trade agreement (FTA) to a national referendum. With a single question on the ballot, 59% of Costa Rican adult citizens cast a vote on whether they wanted an FTA with the United States to be ratified or not. We merge disaggregated referendum results, which break new ground on anonymity-compatible voting data, with employer-employee, customs, and firm-to-firm transactions data, and data on household composition and expenditures. We document that a firm's exposure to the FTA, directly and via input-output linkages, significantly influences the voting behavior of its employees. This effect dominates that of sector-level exposure and is greater for voters aligned with pro-FTA political candidates. We also show that citizens considered the expected decrease in consumer prices when exercising their vote. Overall, economic factors explain 7% of the variation in voting patterns, which cannot be accounted for by non-economic factors such as political ideology, and played a pivotal role in this vote.

Keywords: trade policy, political economy, firm networks, gains from trade

*Corresponding author: diana.vanpatten@yale.edu. We thank the Editor, Thomas Chaney, and three anonymous referees for comments that greatly improved the paper. We thank Jason Abaluck, Laura Alfaro, Alonso Alfaro-Ureña, David Argente, Costas Arkolakis, David Atkin, Andy Bernard, Zach Bleemer, Matilde Bombardini (discussant), Ariel Burstein, Lorenzo Caliendo, Thomas Chaney, Davin Chor, Arnaud Costinot, Jose-Antonio Espin-Sanchez, Ben Faber, Cecilia Fieler, Jeffrey Frieden, Gordon Hanson, Doug Irwin, Pablo Fajgelbaum, Gene Grossman, Amit Khandelwal, Sam Kortum, Róger Madrigal López, Giovanni Maggi, Isabela Manelici, Eduardo Morales, Evelyn Muñoz Salas, Nathan Nunn, Steve Redding, Andrés Rodríguez-Clare, Dani Rodrik, Esteban Rossi-Hansberg, Ken Scheve, Todd Schoellman, Pete Schott, Ilse Sobrado González, José Vásquez, Eric Verhoogen, David Weinstein, and participants at various seminars and conferences for helpful comments and discussion. The views expressed herein are those of the authors and do not necessarily represent the views of the Central Bank of Costa Rica.

1 Introduction

Survey evidence suggests that economists and the broader public view trade issues in starkly different ways (Blendon et al., 1997; Sapienza and Zingales, 2013), and given the importance elected officials grant to public attitudes about trade policy, an understanding of the possible correspondence between public sentiments and economic determinants can be consequential. Moreover, analyzing the determinants of public attitudes toward trade openness can, in turn, inform economic theory and the study of a country’s gains from trade and its distributional effects.

This paper studies the extent to which popular attitudes about trade reflect economic fundamentals. This topic is challenging to study, as popular attitudes about economic issues like trade are typically unobservable. To overcome this challenge, we exploit a unique event: In 2007, Costa Rica was the first developing country to put a free trade agreement (FTA) to a national referendum. With only one question on the ballot, 59% of all Costa Rican adult citizens voted on the ratification of an FTA with the U.S. (hereafter, CAFTA). This referendum on opening the country’s trade policy represents a unique opportunity to observe voting choices that had clear economic consequences for voters. Further, the setting allows for an analysis with unprecedented data quality, which has the promise of setting a new gold standard for empirical work on voting and trade while breaking ground on previously unexplored questions.

Delving further into the specifics, although CAFTA included several countries—the U.S., Central America, and the Dominican Republic—the discussion in Costa Rica was centered around the U.S.¹ This policy decision was consequential to voters, as the U.S. had been Costa Rica’s main trading partner for years, accounting for 45% of Costa Rica’s imports and exports. The agreement stipulated zero tariffs for most traded goods and services. Although many of these goods already had zero tariffs at the time of the referendum, Costa Ricans risked tariffs rising to Most Favored Nation (MFN) levels if the agreement was not ratified. The vote

¹Tariffs with Central America and the Dominican Republic were not part of the FTA. CAFTA was an FTA between the U.S. and each other country individually—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic.

was extremely close, with 51.23% of the voters in favor of ratification.

The data available lies at the edge of what is feasible with voting records while respecting confidentiality. In Costa Rica, each voter is allocated by place of residence to a voting center, which is usually housed in a school. Within voting centers, voters are allocated to voting boards, which usually correspond with classrooms, alphabetically. On average, 500 citizens are assigned to each voting board.

We obtained official records of voting outcomes by voting board, along with the list of unique national identifiers for each individual voter and the voting board to which she was assigned. We merge these unique national identifiers with employer-employee data, information about employee characteristics (occupation, wage, age, gender, etc.), firms' balance sheets and customs records, and firm-to-firm transactions data. From this rich dataset, we construct a mapping from the disaggregated voting results to individual firms. This mapping allows us to measure the relationship between economic forces and voting outcomes and puts us in a unique position to test whether some observable characteristics of workers are systematically related to their voting choices. We go further and use the identity of each voter's partner (husband or wife) to measure, not only individual exposure, but to construct exposures from the household's perspective. The available data allows us to match 41% of adult citizens to a firm directly, and 53% of households to a firm once we exploit the information on partners.

Armed with the experimental setup and the data, the paper is divided into three sections, which conduct analyses at the voting-board level. The first two sections explore the role of economic fundamentals while distinguishing between the *income* channel and the *expenditures* channel. We study these outcomes with an unprecedented mapping of votes to economic exposure via trade: on the income side, not just firm direct exposure but also indirect exposure; and on the expenditure side, to cost-of-living measures. The third section studies non-economic factors with an emphasis on the influence of *political ideology*. Then we compare the relative importance of each factor in explaining voting behavior.

A study of the *income* channel depends on the model of real income which is in

mind; a voter’s vote can depend, for instance, on whether her employer, industry, skill group, or local labor market were exposed to the tariff changes implied by the trade agreement. Our analysis of this channel uses the role of employers as a benchmark, as we can measure it very precisely and the study of the role of firms is novel. We explore how a firm’s dependence on international trade shapes its employees’ attitudes toward openness via (i) firm *direct* trade exposure, which depends on the products the firm is trading (exporting and importing) with the U.S. and the expected change in the tariffs on those products; and (ii) *indirect* firm-to-firm exposure, whereby an employer is exposed via trading partners who are themselves directly exposed. To the best of our knowledge, this is the first study of the role of within-industry heterogeneity in shaping popular support using information about all firms and documenting the salience of an indirect exposure measure via input-output linkages.

We find that firm-level exposure is salient to voters. In particular, a \$1,000 decrease in revenue for the employers of individuals at a voting board, if the FTA did not pass, is associated with a 3.4 percentage points (pp) increase in the share of votes in favor of the FTA at that board.² Indirect exposure for firms that are one link away from a directly exposed firm also matters to voters; the coefficient for indirect exposure is approximately two-thirds the size of the one for direct exposure. While we cannot completely rule-out confounding factors that might affect both individuals’ selection of jobs and their voting choices on the referendum, a series of robustness exercises suggests that selection of workers into firms played a limited role in driving our result.

We document that the salient role of firms persists after accounting for other factors which might affect voters’ earnings. In particular, we consider the role of industries, occupations, local labor market import competition, and expectations about future job opportunities. We find that a worker’s industry plays a limited role conditional on firm exposure. This result highlights the importance of within-industry heterogeneity in determining the distributional effects of trade.

²According to estimates by Alfaro-Ureña et al. (2021), this decrease in sales would translate into a \$90 wage decrease for each worker.

We document that low-skill workers are significantly more likely to vote *against* the FTA. Moreover, commuting zones more exposed to import competition are *less* likely to vote in favor of the FTA. Finally, we find a limited role for expectations playing a role in shaping votes conditional on exposure, which could relate to expectation formation being difficult in the presence of uncertainty or discounting of future outcomes.

Next, we focus on the *expenditures* channel. If the FTA did not pass, consumer prices would increase for at least some goods. This is another channel that voters may have considered when deciding about the FTA. To measure each voter’s exposure through changes in expenditures, we rely on the National Household Income and Expenditure Survey, which asks households how they spend their income across goods and services in a detailed consumption basket. The survey data are rich in respondent characteristics—including income, occupation, location, gender, age, and marital status—and allow us to map a consumption basket to a household based on this set of characteristics, which we observe both in the survey and for each voter. We then estimate the expected change in the price of this basket given the expected changes in tariffs. We find that voting boards where voters consume goods that would become more expensive if CAFTA did not pass (as suggested by the demographic characteristics of voters) support CAFTA: a \$8.3 decrease in the price of a voter’s consumption basket increases the probability of voting in favor of the FTA by 1 pp.

We then study the role of non-economic factors, with an emphasis on the role of voters’ political inclination. In line with a long literature on political science, we find that political ideology is highly significant; a 1 pp increase in the share of voters at a voting board who align with a pro-FTA political party is associated with a 0.5 pp increase in the share of pro-ratification votes. Moreover, political views interact with trade exposure in an interesting way; we find that high trade exposure is more salient for voting boards composed of voters affiliated with pro-free trade political parties.³

³This result holds after implementing an IV strategy to isolate how the FTA might have influenced voters’ choice of party.

Finally, we conduct a broad comparison of the importance of different factors. To do so, we compare the partial R^2 across a series of regressions to grasp what percentage of the variation in voting behavior can be attributed to each factor. Aligned with the results of the previous paragraph, we find that political alignment plays a relatively important role, accounting for 9% of the variation which cannot be explained by other factors. However, we can also verify that economic factors play a non-negligible role, explaining 7% of the observed variation in voting behavior, which cannot be explained by non-economic factors. Thus, economic fundamentals are almost as important as political ideology in explaining the CAFTA vote, and were particularly key in this setting in which the referendum was approved with a slim lead in votes, and more generally, might play paramount significance in closely contested elections.

2 Related Literature and Contribution

Our work contributes to the literature in economics and political science that asks whether individuals' policy preferences reflect economic principles. This question is fundamental to the assessment and modeling of trade's welfare implications. Using public opinion polls and surveys, early studies suggested that popular attitudes about trade tend to align with economic self-interest and the predictions of standard trade models (Beaulieu, 2002; Mayda and Rodrik, 2005; O'Rourke et al., 2001; Osgood et al., 2017; Scheve and Slaughter, 2001). However, more recent survey-based studies contradict prior work, question that popular attitudes are connected with economic models, and consistently argue that attitudes toward openness depend mainly on ideology and social and cultural considerations (Hainmueller and Hiscox, 2006; Mansfield and Mutz, 2015; Rho and Tomz, 2017; Sabet, 2016), and are hard to change based on evidence (Alfaro et al., 2023). Our study contributes to this literature by analyzing a setting in which individual responses have concrete implications for trade policy, unlike the hypothetical settings of surveys. Further, as opposed to analyzing attitudes toward trade in general, we focus on a particular trade agreement, which admits clear theoretical predictions

that we can measure and test precisely. Thus, documenting a non-zero result is, in itself, an important contribution to this debate.

The present study also builds on work that examines how economic openness impacts domestic politics in the U.S., including Autor et al. (2013), Che et al. (2016), Blanchard et al. (2024), Bombardini et al. (2023), and Autor et al. (2020). These papers mainly examine how the mid-2000s Chinese import surge, known as the “China Shock,” affected political polarization and voting in presidential and congressional elections. Earlier work by Irwin (1994) and Irwin (1995) also analyzed how election outcomes depended on attitudes about trade. In contrast with these studies of presidential or congressional elections, in which voters were deciding on large sets of issues, our design allows us to isolate tariffs’ effects on voter decisions, specifically about trade policy. Furthermore, while a standard approach in the literature is to adopt a shift-share approach based on industry composition at the county level, our data allow us to highlight the importance of within-industry heterogeneity and individual firms in explaining voter behavior using precise relationships between disaggregated results and firms.

In a sense, the findings of the survey-based and election-focused papers described above seem to contradict each other, with the former often arguing that popular attitudes are unaffected by economic factors and the latter arguing that trade shocks have a great effect on elections. The present work can help reconcile these perspectives. Our study, unlike survey-based work, observes trade attitudes directly through voting records, suggests that individuals might behave differently—and more selfishly—than what their responses to surveys might suggest. Decisions in the referendum have real and well-defined implications that we also observe, granting a unique perspective on popular attitudes about trade. In addition, the paper documents the relevance of expected gains and losses for voters’ employers in the FTA referendum. This finding connects the already established literature on the role of economic fundamentals for political outcomes with work in labor economics that shows that employers explain a great deal of an individual’s labor market outcomes (Card, 2022) by showing that when voting on an economic policy, workers care about how that policy would affect their

employer.

This paper also addresses the political science literature. Related studies include Urbatsch (2013) and Hicks et al. (2014), who rely on surveys and census data to analyze how districts voted on the CAFTA referendum depending on their composition and political views, and Spilker et al. (2008), who study how exporting firms in Costa Rica changed their exports *after* CAFTA was ratified. Our study complements these works by exploiting disaggregated data at the levels of voting boards, firms, and individuals, along with employer-employee links, to assess the importance of within-industry heterogeneity and economic and social conditions in explaining the vote.

Our work also contributes to the literature on the distributional effects of trade, by providing direct evidence about the relative salience of various economic factors in shaping individuals' attitudes. This literature usually focuses on either earnings or expenditures exclusively. Literature on the earnings channel, summarized by Goldberg and Pavcnik (2007), finds evidence inconsistent with the effects predicted by Stolper and Samuelson (1941), which would dictate that in countries in which low-skill workers are relatively abundant, wages should increase with trade. These studies usually focus on the analysis of sectors or skill groups. Contemporaneously, Stantcheva (2022) relies on surveys to show that individuals particularly care about adverse distributional consequences from trade. The present work complements these findings by highlighting the key role that individual employers play in shaping employee perceptions of gains and losses.

Studies of the expenditure channel have mainly focused on the effects of trade on inequality, both using microdata and exploiting major reforms in individual countries (Atkin et al., 2018; Faber, 2014; Porto, 2008), and leveraging theoretical frameworks to measure inequalities in gains from trade between consumers as in Fajgelbaum and Khandelwal (2016) and Borusyak and Jaravel (2021). Costinot and Rodríguez-Clare (2014) summarize the literature that quantifies aggregate welfare gains from trade. Our paper leverages the theoretical framework of Fajgelbaum and Khandelwal (2016), links consumption baskets to individual voters, and measures the perceived gains in earnings that voters expect after a pro-trade

policy change. We can also compare the salience of the expenditures and earnings channels from the perspectives of both individuals and households.

The rest of the paper is organized as follows. Sections 3.1 and 3.2 provide an overview of the setting, including details about the FTA and voting in Costa Rica. Section 3.3 presents details on the data used in our analysis. Sections 4 and 5 are devoted to analyzing economic factors, and develop, respectively, the study of the income and expenditures channel. Section 6 explores the role of non-economic factors, and provides a broad comparison between their relevance and that of economic fundamentals, and Section 7 concludes.

3 Background and Data

3.1 The Free Trade Agreement: CAFTA

In August 2004, the United States signed a free trade agreement—known as CAFTA—with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. The agreement included large reductions in tariffs, along with provisions on intellectual property rights, on regulatory agreements (environmental regulation and investors protection), and on liberalizing specific markets which were previously monopolized by the government—the main markets, both in terms of their size and their saliency in the discussion, being the telecommunications (including internet provision) and insurance markets.⁴

The matter at hand was quite relevant to workers in Costa Rican firms, as the U.S. was Costa Rica’s main trading partner, accounting for 45% of the country’s imports and exports, Costa Rica’s trade-to-GDP ratio was 86%, and absent the FTA, tariffs for trade with the U.S. could considerably increase. The agreement implied zero tariffs for most of the goods and services traded with the U.S.⁵ While most of these goods had zero tariffs by the time of the referendum, the U.S. pledged that, if the FTA was not ratified, there would be no renegotiation, existing trade preference programs would not be renewed, and tariffs faced by

⁴These provisions can be relevant both for import competition and lower prices.

⁵In particular, 95.9% of the tariffs on exports to the U.S., and 83.8% of tariffs on U.S. imports, would be zero as soon as the agreement was in effect.

Costa Ricans would then increase to MFN levels.⁶ Thus, a no-vote is more of a vote in favor of tariff increases rather than against tariff decreases.⁷

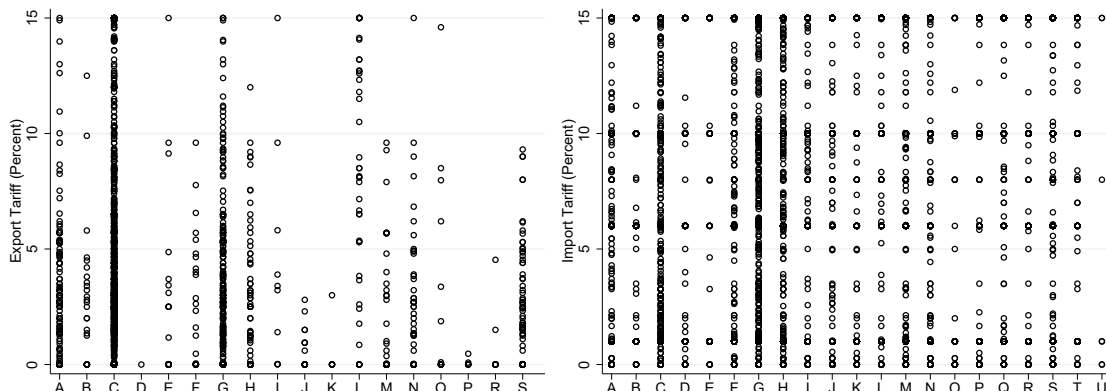
Figure 1 shows the tariff changes per product for exports and imports, which correspond mainly to the difference between zero and MFN tariff levels, and show significant variation within and between industries. Table A.1 shows the average changes in export and import tariffs by industry, along with the share of each industry in total exports and imports in 2007.⁸ Moreover, as the FTA had an indefinite duration, its ratification would also reduce future tariff uncertainty.

⁶The counterfactual tariffs given a no-vote were printed on CAFTA for each HS-6 code.

⁷To the extent that voters are subject to gain-loss asymmetry, this matters in the interpretation of our results. I.e., if people tend to feel the pain of a loss (of openness) more acutely than the benefit of a gain of the same magnitude, then one would expect a vote for a reduction of tariffs to have a smaller impact on the measures of exposure which are positive (like firm exposure) and a larger one for measures of exposure which are negative (like import competition).

⁸The average export tariff, weighted by the importance of each product in total exports, was 3.1%; while the average import tariff, weighted by the imports of each product, was 3.4%.

Figure 1: FTA's Counterfactual Tariffs



(a) Costa Rican Exports

(b) Costa Rican Imports

A: Agriculture, forestry and fishing	L: Real estate activities
B: Mining and quarrying	M: Professional, scientific and technical activities
C: Manufacturing	N: Administrative and support service activities
D: Electricity, gas, steam, AC supply	O: Public admin. and defense; compulsory social security
E: Water supply, sewerage, waste mgt. & remediation activities	P: Education
F: Construction	Q: Human health and social work activities
G: Wholesale & retail trade; repair motor vehicles/motorcycles	R: Arts, entertainment and recreation
H: Transportation and storage	S: Other service activities
I: Accommodation and food services	T: Activities of households as employers; undifferentiated good/service-producing activities for households own use
J: Information and communication	U: Activities of extraterritorial organizations and bodies
K: Financial and insurance activities	

Notes: The figures show the tariff differences with and without FTA approval, mainly showing changes between zero and MFN levels. Each ring represents an HS-6 code. For visual purposes, we show changes smaller or equal to 15%, which capture over 98% of products both for exports and for imports, and truncate larger ones at 15%.

We have information on each person who was employed by the government and on each person who was employed in one of the government companies subject to the liberalization (in particular). Our main results always control for the share of people on each voting board who were government employees. The coefficient is largely negative, aligning with severe pushback from government employees against liberalization. We also have a robustness check where we control for the share of employees at the government companies that would start facing competition if the agreement was approved (on top of the control regarding government employees in general). Not surprisingly, the coefficient is both large and negative.

Although CAFTA was signed in 2004, signing an FTA only means that the countries agreed on its terms, but it does not make it legally binding. Ratifying an FTA, on the other hand, is the stage in which the countries involved formally

approve the agreement (after signing it) and make it legally binding. This stage involves going through the respective domestic legal processes of each country to ensure that the terms of the agreement are in line with their own laws and regulations. By late 2006, Costa Rica was the only country that had not ratified CAFTA due to delays in the vote of its Legislative Assembly, as the opposition delayed the vote on the agreement repeatedly, and the congress—split between opponents and supporters—was not able to get a majority vote on whether to ratify the FTA or not for the next two years. Thus, as a way to reach a decision before the ratification deadline and after receiving approval from the Supreme Court, the government opted for an unusual route: Costa Rica would be the first developing country to conduct a national referendum to decide on the ratification of a trade agreement.

All adult citizens of the country could cast their vote *with a single question on the ballot*: whether CAFTA should be ratified or not. Importantly, there was no other issue on the table for this referendum; Costa Ricans attended the voting centers to express their opinion on this matter only. Figure A.1 shows a sample of the referendum ballot. Although the national referendum was only about this issue, participation was high; in October 7th 2007, 59.2% of adult citizens cast a vote. The result of the vote was unexpected, yet undisputed; after newspapers and polls predicted a statistical tie, CAFTA was ratified with the support of 51.23% of the voters.

3.2 Voting in Costa Rica

In Costa Rica, citizens who are 18 years or older are eligible and automatically registered to vote. The logistics of Costa Rican elections are standard but relevant to the disaggregation we discuss in the following. First, each eligible citizen is assigned to a voting center, which usually corresponds to a school, depending on her place of residence. Within the voting center, each voter is assigned to a voting board, which usually corresponds to a classroom, alphabetically depending on her last name. On average, approximately 500 people are assigned to vote on each voting board. This is the case for all presidential and municipal elections and

was used for both the presidential election in 2006 and the 2007 referendum. For the referendum, in particular, votes were cast in 4,932 voting boards distributed among 1,952 voting centers throughout the country. Figure A.2 shows the spatial distribution of the voting centers. This allocation usually does not change dramatically from year to year. In fact, most citizens who voted on a voting board in the 2006 election voted on the same voting board in the 2007 referendum (exceptions mostly being citizens who died, turned 18, or changed residence within that year). We will exploit this persistence in our empirical section to isolate the effect of political alignment as a motive to vote in favor or against the referendum.

3.3 Data Sources

Voting and Referendum Results Data on the results of the referendum were obtained from the Supreme Electoral Tribunal of Costa Rica (*Tribunal Supremo de Elecciones de Costa Rica*). While the vote of each citizen is secret, we use data on the results of the referendum by voting board. Each voting board, on average, hosted approximately 500 voters.⁹ Thus, although we do not know each person’s vote, we observe how citizens voted up to a level of aggregation of only 500 individuals. In addition, we also acquired lists with unique national identifiers of voters on each voting board.¹⁰

National Registry We obtained family network data from the Civil Registry of Costa Rica. This data allows us to identify if a citizen is married and to whom. This will be useful in estimating households’ exposure to the FTA, especially for individuals who are not in the labor force but who are married to someone who is employed.

Employer-Employee Records, Firm-to-Firm Transactions, and Customs

We match voters with their employers using data from the Costa Rican Social Se-

⁹If everyone eligible to vote had actually attended, each voting board would have hosted approximately 500 citizens.

¹⁰Although there were 4,932 voting boards in the referendum, the main analysis considers 4,914 because we exclude voting boards located within jails and on Cocos Island (a protected natural area located about 500 km from Costa Rican mainland). Table B.1 shows that the results are robust to using all voting boards.

curity Fund, which tracks formal employment and labor earnings. This data also includes details on each employee, including her occupation, earnings, and employment history between 2005 and 2017. Importantly, informal workers make up a relatively small share of all workers in Costa Rica (27.4%), which is significantly below the Latin American average of 53.1% (ILO, 2018).

Data on firm-to-firm transactions in Costa Rica are collected by the Ministry of Finance and are available between 2008-2017.¹¹ All private businesses and other entities in the economy, like individuals providing professional services independently and public enterprises, are required to report the amount transacted with every supplier and buyer with whom they generate at least 2.5 million Costa Rican colones—which are approximately 4,200 U.S. dollars—in transactions, along with a tax identifier. This data is key in the government’s enforcement of tax law and tax collections, including the general sales tax and corporate income tax. These data can be merged with corporations’ annual income tax returns, which cover the universe of formal firms in the country and contain typical balance sheet variables, including sales, input costs, and net assets.

In addition, we link each firm’s identifier with customs records, which are available for the period 2005-2017, and which we use to track the individual foreign transactions made by each firm. Each transaction, both for imports and exports, includes a six-digit HS code, along with data on the amount transacted, the quantity traded (and thus the price), and the country of origin or destination. This data also allows us to identify firms operating within a Special Economic Zone.

CAFTA and Tariff Changes We digitized the tariff changes directly from the CAFTA’s text approved by the Special Commission of International Affairs and Foreign Trade of the Legislative Assembly, published in the Alcance No. 2 of La Gaceta—the country’s official newspaper—on January 26th, 2007. That is, the text that was to be ratified by the referendum (see Figure A.1 in Appendix A). In

¹¹Note that this dataset is available only starting in 2008. As the referendum occurred in October 2007— although it was not effective until January 2009—this forces us to use 2008 as a proxy for the 2007 domestic network.

addition to tariff changes, the agreement also includes a schedule for the timing with which old tariffs would converge to new ones.¹²

4 Income Channel

An FTA can affect individuals by changing their income. In turn, this effect depends on what the boundaries for factor markets are and the model of real income considered. For example, the relevant factors defining changes in a worker's income might be her firm, her industry, her occupation, the sectorial composition of the commuting zone where she lives, or even her expectations about future job opportunities. All these economic factors could affect a voter's position through the income channel. In this section, we will analyze each factor using the firm's exposure as our baseline, as this is a factor that we can measure particularly well and that has been largely unexplored by the literature, and we aim to determine if an employer's exposure remains relevant after accounting for other economic forces. In particular, the next subsection constructs measures of firm (direct and indirect) exposure, exposure by sector, exposure by occupation or skill, local labor market import competition, and expectations about future job opportunities.

4.1 Income Channel: Measures of Exposure

We will construct measures of exposure to CAFTA which are intrinsically imperfect. For instance, our measure of direct firm exposure will be an average of trade-weighted changes in tariffs. This measure is imperfect in the sense that it roughly corresponds to the potential gains/losses from trade in a specific model. The latter can be viewed as a *strength* of the paper, not a weakness: we will propose very simple measures of exposure to CAFTA, and one would have to blindly believe a particular trade model to think these are the "true" measures of exposure; however, even with this unavoidable distance between crude measures and

¹²While most tariffs are ad-valorem, a few are ad-quantum. For these, we use the good's average price (which is available from customs data) and calculate the ad-quantum tariff as a percentage of this price, to make it comparable to ad-valorem tariffs. Most tariffs immediately converge to zero (over 96% of them, both in terms of their number and their value); for the rest, the change to zero is staggered.

what would be the “ideal” measures, we will find a strong relationship between crude measures and votes, suggesting that the role of economic determinants in explaining votes is very strong and detectable, even with an imperfect measure.

Direct Firm-Level Exposure to the FTA Recent models of firm heterogeneity imply that trade could affect employment and wages. The literature has proposed several channels by which this might be the case, such as rent sharing, efficiency wages, and assortative matching.¹³ As for empirical results, recent work by Alfaro-Ureña et al. (2021) has shown how the rent-sharing mechanism is relevant in the Costa Rican case, and particularly so for firms engaged in trade with foreign countries. Alfaro-Ureña et al. document that when multinational firms expand, their direct and indirect suppliers are affected, and the salaries of incumbent workers increase due to rent sharing. This evidence leads us to derive measures of firm exposure that would be relevant to employees’ economic interests, assuming that they are employed under a rent-sharing scheme.

Namely, we calculate an average of trade-weighted changes in tariffs, which exploits the variation shown in Figure 1. This measure is motivated by Helpman et al. (2016), who propose that the change in the wage bill of a firm i ($\Delta w_i L_i$) is an increasing function of the change in its profits.¹⁴ Thus, we consider:

$$Exp_i^{Trade} = \sum_{j=1}^n \frac{X_{ji}^{US}}{L_i} \Delta \tau_j^{US,X} + \frac{M_{ji}^{US}}{L_i} \Delta \tau_j^{US,M} \propto \Delta w_i, \quad (1)$$

where X_{ji}^{US} represents firm i ’s sales of product j in the U.S., $\Delta \tau_j^{US,X}$ stands for the expected percentage change in tariffs for product j which is exported to the U.S., M_{ji}^{US} are firm i ’s purchases of product j from the U.S., and $\Delta \tau_j^{US,M}$ represents the

¹³Helpman et al. (2010) and Helpman et al. (2016) discuss how rent sharing between workers and firms might cause wages to vary with firm revenue. Thus, changes in trade costs, such as tariffs, can affect worker welfare via earnings. Besides rent-sharing, alternative mechanisms include efficiency wages (Amiti and Davis, 2011; Davis and Harrigan, 2011; Egger and Kreickemeier, 2009) and assortative matching (Burstein and Vogel, 2010; Bustos, 2011; Verhoogen, 2008; Yeaple, 2005).

¹⁴Helpman et al. (2016) show that a firm’s wage bill is a constant share of its revenue. While Helpman et al. (2016) focus on exports, we also consider imports, which is consistent with measures developed by Dhyne et al. (2021) for both exports and imports.

expected change in import tariffs from the U.S. for product j if the agreement were to be ratified.¹⁵ We normalize this exposure by each firm’s number of employees (L_i), which would be consistent with the amount that a change in profits would affect a single worker under a rent-sharing scheme. In fact, Alfaro-Ureña et al. (2021) find that, in the case of Costa Rica, each extra dollar of value added per worker increases wages by 9 cents. This measure of a firm’s exposure leverages our data about each firm’s balance sheets, customs transactions, and the expected changes in tariffs due to CAFTA. Figure A.6 in Appendix A summarizes the variation in this measure across space. When examining correlations, we find that younger, male, and richer individuals tend to have higher firm trade exposure. While equation (1) proposes a compound measure, we will later on decompose it into exports and imports.

Indirect Firm-Level Exposure to the FTA Our measures of each firm’s *indirect* exposure to the trade agreement rely on firm-to-firm transactions data. In particular, we differentiate between the number of links that separate a firm from the shock and how the shock influences employees’ response to the firm’s exposure. This construction is carried out in steps. We first calculate indirect exposure for firms that are at most *one link away* from a directly exposed firm. A firm can be linked to another in the network as a seller or as a buyer, and we follow a logic similar to that of the previous section in the calculation:

$$IndirectExp(1)_i^{Trade} = \sum_{k=1}^K \left(\frac{R_{ki}}{R_i} + \frac{C_{ik}}{C_i} \right) \frac{L_k}{L_i} Exp_k^{Trade}, \quad (2)$$

where we sum across all firms k to which firm i is selling (buying), and $\frac{R_{ki}}{R_i} \left(\frac{C_{ki}}{C_i} \right)$ represents the fraction of i ’s total sales (purchases) associated with firm k .

Measures of indirect exposure for firms that are at most n -links-away from a

¹⁵We consider imports of both inputs and final goods in this measure. Note that, later on when we use this measure in a regression, a sufficient condition for a Bartik-like strategy is for the product-specific tariff changes experienced at the national level to be uncorrelated with the regression’s error terms (Borusyak et al., 2021), which is likely as over 95% of the changes in tariffs depend on the difference between: (i) zero (under the FTA) and (ii) MFN tariffs (if the FTA is not ratified).

directly impacted firm can then be described recursively as

$$IndirectExp(n)_i^{Trade} = \sum_{k=1}^K \left(\frac{R_{ki}}{R_i} + \frac{C_{ki}}{C_i} \right) \frac{L_k}{L_i} IndirectExp(n-1)_k^{Trade}, \quad (3)$$

for a chain of domestic traders of length K .

Individual and Household Firm Exposure Unlike the measures we will describe below (which are derived from individual’s occupations, location, or wage), direct and indirect firm exposures are firm-specific, so we proceed by linking these exposures to the firms’ employees. First, as we observe the list of unique IDs of citizens assigned to each voting board, we can match these IDs to our employer-employee data. The data allows us to link 41% of voters to an employer. Second, we can assign each employed voter to her employer’s exposure. This is an *individual* measure of exposure to the FTA via earnings. Third, we can go further and calculate measures of *household* exposure using information on each voter’s marital status and the identity of his or her spouse. If the voter is married, we calculate the household exposure measure as the weighted average of the exposure of each partner, where the weight corresponds to the share of household income contributed by each partner. That is, we follow the unitary model of the household.¹⁶ This exercise allows us to increase the share of voters that we can match to an employer, from 41% without exploiting partners’ IDs to 53%. This success rate in matching voters with firms is close to the best possible, as 9% of the voters are retired, 29% are estimated to be in the informal sector and 6% are estimated to be adult students; thus, we are roughly capturing the remaining share.¹⁷

¹⁶For instance, if each partner is earning the same wage, then the household’s exposure is the average of the exposures of the partners’ employers. In contrast, if only one partner is employed, or if the voter is single, the household’s exposure is simply the employed voter’s exposure.

¹⁷Given the nature of our shock, which hits firms trading internationally, it is not unreasonable to assume that employees working at informal firms have zero direct exposure, as informal businesses, which tend to be smaller and less productive, are unlikely to be engaged in foreign trade. We estimate these groups as follows: a retiree is an adult who has over 65 years of age and is not employed; a college student is an adult under 23 years of age who is not employed *and* who appears as a high-skilled employee after 2013; finally, an informal worker is an adult who is not employed or a student, who is between 18 and 65 years of age, who is not married to an employed worker, and who does not appear among the employed within one year of 2007—our 29% estimate is close to the 27% reported in other surveys (ILO, 2018).

Sectors and Occupations We construct measures of exposure to the FTA at the industry level (4-digit ISIC codes), which are analogous to those presented in equation (1), but at the sector level. We also explore the effects of a voter’s occupation on her choice in the referendum. To do so, we classify workers by occupation to measure the importance of skill groups; a worker is classified as “low-skill” if her occupation requires *at most* a high-school diploma, while a worker with an occupation that requires education or training beyond high school is labeled as “high-skill.”¹⁸ This leads to 57% of workers being classified as low-skill.¹⁹

Local Labor Markets and Import Competition Attitudes toward the FTA might be affected by local labor markets and import competition (Autor et al., 2013). To explore this, first, we use the 2011 Population Census to estimate commuting zones (CZ) in Costa Rica from observed flows, following Tolbert and Sizer (1996). To the best of our knowledge, such an exercise has not been conducted before for Costa Rica. We report the country’s map with the estimated CZs in Figure A.3. Second, we construct the following measures of import competition for each CZ i across j industries:

$$\Delta ADH Comp_i = \sum_j \frac{L_{ij}}{L_j} \frac{M_j^{US} \Delta \tau_j}{L_i} \text{ and } \Delta M Comp_i = \sum_j \frac{M_{ij}^{US} \Delta \tau_j}{L_i}, \quad (4)$$

where $M_j^{US} \Delta \tau_j$ is the expected change in imports from the U.S. given the change in tariffs for industry j and $M_{ij}^{US} \Delta \tau_j$ is the expected change in imports in industry j and located in commuting zone i . We can construct the second measure as our data specifies, for each firm, their imports and location.

Expectations About Future Job Opportunities Measures of ex-ante exposure reflect how voters’ conditions at the time of the referendum influence their

¹⁸Descriptions of the educational requirements of each occupation are obtained from Costa Rica’s Social Security Administration.

¹⁹While we have information at the *census-block* level regarding years of schooling, our data does not include information on educational attainment at the individual level. We, however, do observe each worker’s occupation, thus, we use it as a proxy of her skill group. This analysis would therefore vary at the voting-board level, as opposed to one using census-block data on years of schooling, which would only vary at the voting-center level.

choice. We now ask whether voting behavior reflected correct perceptions of the benefits that emerged from the FTA’s approval, *but that were not necessarily captured by ex-ante conditions*.²⁰ Namely, we calculate the discounted change in real earnings experienced by each voter h in the years after the referendum, as follows:

$$\sum_{t=2}^{2017} \beta^t \frac{wage_h^{2007+t}}{CPI^{2007+t}}. \quad (5)$$

We then consider the residual of a regression of the term in (5) on our direct firm exposure, Exp_b^{Trade} .²¹ This residual term, which we call *Ex-post*, aims to capture drivers of ex-post income that are not captured by ex-ante direct trade exposure.

4.2 Income Channel: Empirical Strategy

As described in Section 3.3, our data on voting outcomes is available at the voting-board level, and observe the individuals assigned to each voting board and their characteristics. This breaks new ground on anonymity-compatible voting data; while the vote’s secrecy is preserved by the voting outcomes being aggregated by voting board, voting boards are quite small (approximately 500 people, on average). We then perform an analysis at the voting-board level. Namely, we consider:

$$YesVoteSh_b = \alpha + \beta X_b + \Gamma K_b + \lambda_b^r + \varepsilon_b, \quad (6)$$

where $YesVoteSh_b$ is the share of pro-FTA votes at each voting board b and X_b is a vector of average exposure measures of voters assigned to voting board b , which is defined in alternative ways in the next section, *but that always results from averaging the exposure measures of voters assigned to each voting board*. K_b is a vector of voter characteristics (age, wage, gender, participation rate, employment share by industry, employment share in the public sector, firm size, and firms’ trade with the U.S.) averaged at the voting-board level, along with voter

²⁰For instance, a worker might have anticipated that she could get a better job if the FTA was approved; this would not be captured by our firm exposure measure.

²¹We assume that voters could project at most 10 years into the future, and that they discounted using the prevailing interest rate. Details on timing are provided in Appendix C.2.

characteristics averaged at the voting-center level (average years of schooling from census data geo-referenced by census-block and average distance to the school); and λ_b^r denotes region fixed effects.²² We cluster standard errors at the voting center level and weight each voting board by the number of voters.²³

We rely on a linear probability model, which delivers fitted values in the $[0, 1]$ interval for 100% of voting boards.²⁴ This model also admits a straightforward interpretation and, under some assumptions, allows for interpreting the coefficients as *individual-level* effects, and not only as group-level effects.²⁵

4.3 Income Channel: Results

Direct Firm Exposure Table 1 shows that direct firm exposure, Firm Exp_b^{Trade} , is salient to voters; across specifications, we find that referendum votes were cast in alignment with the interests of voters’ employers and that this effect is extremely stable. To interpret the coefficients, recall that our analysis is conducted at the voting-board level and, as an example, consider column (1): an increase of \$1,000 in the exposure of the average employer—which is a proxy of the average expected change in profits, in thousands of dollars—is associated with a 3.4 pp higher share of votes in favor of the FTA at a voting board; a 6.9% increase with respect to the mean. Note, however, that a \$1,000 change *in profits* is not the same as \$1,000 in the pockets of a voter; in fact, Alfaro-Ureña et al. (2021) estimate that such a

²²The 2011 Census was the closest to the 2007 referendum, which is why we use it in our main specification. Table B.2 shows that the results remain statistically equal if instead we use the second-closest census, which took place in 2000. Regions correspond with municipalities. Details on these censuses can be found in Méndez and Van Patten (2022).

²³In Appendix B.1, we show that our results are robust to alternative levels of clustering, and that unweighted estimates yield very similar estimates (see Tables B.3 and B.4, respectively).

²⁴Figure A.5 shows this distribution. At first blush, a logit model might seem well-suited for our experiment, but recall that we do not observe our dependent variable at the individual level. As each individual would have different states as independent variables, aggregating the individual logit model to the voting-board level would deliver a sum of logits on the right-hand side of the estimation equation, instead of a standard logit; a similar problem to BLP (see Montero (2016) and Rekkas (2007)).

²⁵Further, Figure A.4 shows the distribution of vote shares across all the voting boards in our sample, which is centered around 50% and has thin tails, thus, we do not rely on a censored regression model.

change would correspond with an average increase in *wages* of \$90.²⁶

Decomposing Direct Firm Exposure While our main measure in equation (1) considers changes in exports and imports, we can explore the effects of these changes separately, so that: $Exp_i^X = \sum_{j=1}^n \frac{X_{ji}^{US}}{L_i} \Delta\tau_j^{US,X}$ and $Exp_i^M = \sum_{j=1}^n \frac{M_{ji}^{US}}{L_i} \Delta\tau_j^{US,M}$. As shown in columns (7) and (9) of Table 1, we find that a \$1,000 increase in exposure via exports leads to an over 8 pp increase in the share of people in favor of the FTA at a voting board—more than twice the effect of the original measure. On its part, an increase in exposure through imports increases the share of pro-FTA votes by 1 pp (columns (8) and (9)) and is statistically insignificant, suggesting that exports play more of a role in determining voter choices. A possible explanation for this asymmetric effect is that, while an increase in revenue via exports would unambiguously increase a worker’s wage under a rent-sharing scheme, the same is not true of an increase in profits via lower costs of imports, as reduced import prices might function as a substitute for labor in the production process, adversely affecting workers (Verhoogen, 2008). Other potential explanations include different salience to the worker and different effects on skill intensity.

Indirect Firm Exposure Results related to a firm’s direct *and* indirect exposure (for buyers and sellers who trade with a directly exposed firm) are presented in column (2) of Table 1. As shown, indirect exposure for firms that are “one-link-away” from a directly exposed firm matters. The coefficient of indirect exposure is approximately two-thirds the size of the coefficient of directly exposed firms. This result highlights the role of indirect exposure via the firm network in shaping worker attitudes toward trade; a channel which has remained largely unexplored by the literature. Beyond this one-link-away relationship, we do not find effects of firms connected via their network, as reported in Table B.5.²⁷

Decomposing Indirect Exposures Equation (3) groups relationships between firms, regardless of whether an indirectly shocked firm is buying from or selling to a

²⁶Alfaro-Ureña et al. (2021) calculate this pass-through from changes in profits due to foreign shocks to changes in domestic wages also for the case of Costa Rica.

²⁷This finding is consistent with Dhyne et al. (2022), who document that direct demand effects decay quickly with the distance to direct exporters in the supply chain. Table B.7 also reports results for direct and indirect firm exposure without controls.

Table 1: Income Channel and Voting Behavior

Dependent variable: YesVoteSh_b

Panel (a): Income Channel Factors

	(1)	(2)	(3)	(4)	(5)	(6)
Firm Exp_b^{Trade}	0.034 (0.013) ^{***}	0.034 (0.013) ^{***}	0.035 (0.013) ^{***}	0.033 (0.013) ^{***}	0.037 (0.015) ^{**}	0.034 (0.013) ^{***}
$IndirectExp(1)_b^{Trade}$		0.023 (0.005) ^{***}				
Industry Exp_b^{Trade}			0.036 (0.121)			
$LowSkillSh_b$				-0.334 (0.079) ^{***}		
$\Delta M Comp_b$					-0.034 (0.013) ^{***}	
$Ex-post_b$						0.0000 (0.0001)
Adjusted R^2	0.636	0.639	0.599	0.624	0.501	0.636

Panel (b): Decomposition of Firm's Direct and Indirect Exposure

	Direct			Indirect
	(7)	(8)	(9)	(10)
Firm Exp_b^X	0.082 (0.026) ^{***}		0.081 (0.026) ^{***}	
Firm Exp_b^M		0.014 (0.012)	0.011 (0.012)	
Firm Exp_b^{Trade}				0.031 (0.013) ^{**}
$IndirectExp(1)_b^{Seller2Seller}$				0.052 (0.018) ^{***}
$IndirectExp(1)_b^{Seller2Buyer}$				-0.042 (0.018) ^{**}
$IndirectExp(1)_b^{Buyer2Seller}$				-0.053 (0.048)
$IndirectExp(1)_b^{Buyer2Buyer}$				0.025 (0.005) ^{***}
Adjusted R^2	0.636	0.635	0.636	0.638

Notes: The unit of observation is the voting board. All regressions have 4,914 observations and 1,934 clusters. Robust standard errors, adjusted for clustering by voting center, are in parentheses. Voting boards are weighted by their number of voters. Regressions control for voter's average characteristics (age, wage (thousands of USD), gender, participation rate, employment share in the public sector, firm size, and firm trade with the U.S.), and average characteristics by voting center (years of schooling from census data geo-referenced at the census-block level and distance of the average voter to the school); and region fixed effects. All columns but (3) also include employment share by industry; column (3) instead includes employment and trade by industry. For all columns but (5), regions correspond with municipalities; for column (5), we use provinces and each of them spans approximately three commuting zones. We denote: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

directly shocked firm. We can first ask if the effect is symmetric when considering buyers vs. sellers. As shown in Table B.6, coefficients are exactly the same in both cases. Moreover, the effect disappears for relationships that are more than “one link away” from each other. We can further decompose this indirect effect into four categories: an indirectly shocked firm which is (i) selling to an exporter to the U.S. (“seller2seller”), (ii) selling to an importer from the U.S. (“seller2buyer”), (iii) buying from an exporter to the U.S. (“buyer2seller”), and (iv) buying to an importer from the U.S. (“buyer2buyer”). Column (10) of Table 1 displays the results. We find that the effect is positive and significant only for sellers to exporters and buyers from importers, i.e., cases (i) and (iii), but the effect is negative and insignificant for cases (ii) and (iv). This result is intuitive: for sellers to exporters, the FTA potentially means more business; for buyers from importers, the FTA might translate into cheaper prices; however, for sellers to importers and for buyers from exporters, the FTA might translate into more competition.

Sectors and Occupations A worker’s industry seems to play a limited role conditional on firm exposure, as shown in column (3) of Table 1, which highlights the relevance of within-industry heterogeneity. Without including the firm exposure measure, the coefficient of sectorial exposure becomes twice as large, as shown in Table B.8.²⁸ Moreover, column (4) of Table 1 shows that the relatively abundant low-skill workers are more likely to vote against the FTA. A 1 pp increase in the share of low-skill voters at a voting board (*LowSkillSh*) is associated with 0.3 pp fewer citizens voting in favor of the FTA. This finding is against predictions of the Heckscher–Ohlin model, but it is in line, for instance, with Urbatsch (2013), Hicks et al. (2014), and Verhoogen (2008).²⁹

Import Competition Our findings suggest that competition in local labor markets might influence voters to position themselves *against* the trade agree-

²⁸Regressions regarding sectorial exposure do not include industry shares by voting board. Instead, they control for total employment and total trade with the U.S., by industry.

²⁹In fact, if we consider wage schedules *after* the FTA was ratified as a dependent variable, we find that the *interaction* between firm exposure and *LowSkillSh* is negative and significant, which suggests a lower pass-through from exposure to wages for the low-skilled.

ment, as shown in column (5) of Table 1. This finding is robust to using alternative measures of import competition, as described in Appendix B.3.

Expectations About Future Opportunities As column (6) of Table 1 shows, we find no evidence that ex-post differential outcomes factored into voting decisions. The latter could relate to expectation formation being difficult in the presence of uncertainty, or to individuals' stochastic discounting of future outcomes. This evidence suggests that ex-ante exposures are good measures of voters' perceptions of the FTA's effects.³⁰

4.4 Addressing Selection

To measure the impact of possible income gains from trade on referendum votes, the ideal (yet impossible) experiment would be to take two identical individuals, randomly assign one to work at a firm that would gain from trade, another to a firm that would lose, and compare their votes. Instead, the unique event we study features workers that have endogenously chosen to work in different firms (some that benefit more, or less, from trade with the U.S.). A valid concern is reverse causality: a worker that favors free trade with the U.S. may endogenously choose to work at a firm that benefits from trading with the U.S. We now conduct some exercises which alleviate this concern of confounding factors which might affect both voter's job choice and their voting choices.

Counterfactual Tariffs Virtually all tariffs are zero under the FTA, and would be MFN tariffs otherwise. This fact is helpful for our purposes, since those tariffs were not applied to Costa Rican trade in the recent past.³¹ Thus, whatever factor may have determined a worker's employment choice—including the volume of trade with the U.S.—is not necessarily correlated with the potential loss from CAFTA not passing. Moreover, as shown in panel (B.1), our design is robust to the inclusion of a demanding additional control, both at the household- and

³⁰We present results following an alternative approach in Appendix C.2.

³¹Recall that, absent the FTA's ratification, the preferential tariffs Costa Rica had been enjoying would not be renewed, so effectively tariffs would increase to MFN levels.

individual-level, namely: $\sum_{j=1}^n \frac{X_{ji}^{US} + M_{ji}^{US}}{L_i}$. This term is similar to our main regressor described in equation (1), but it omits the exogenous tariff changes implied by the FTA. Adding this control is quite demanding in terms of variation, but it carries the benefit that identification would come solely from changes in tariffs, which can be regarded as exogenous shifts, as we have argued above.

Selection into Global Firms We can also construct placebo exposures for firms trading with countries *other than the U.S.* These measures are computed following equation (1) for each firm, but with exports and imports *to other countries not including the U.S.* in the numerator. As the FTA does not change tariffs with other countries, this placebo allows us to test if workers who choose to work at firms that engage in foreign trade are special in a way captured by Equation (1), but not directly related to CAFTA. Results are presented in Table B.11. Reassuringly, not only the resulting coefficient is statistically insignificant, but it is negative. This placebo remains insignificant if we consider only firms trading with the European Union, Costa Rica’s second-largest trading partner at the time. We again obtain null results when conducting an analogous exercise for firms’ indirect exposure.³²

The previous results suggest that selection of workers into firms engaged in foreign trade or into firms that would benefit from the FTA was not the main driver of the effect we documented. However, we cannot completely rule out confounding factors that might affect both individuals’ selection of jobs and their voting choices in the referendum. In this sense, our estimate is akin to a LATE, as it measures the effect of, for instance, workers of certain type making certain voting choices.

4.5 Income Channel: Robustness

Figure 2 summarizes a series of robustness exercises, all of which are explained in detail in Appendix C.1. Our results are unchanged by considering individual-level exposure (panel A2) and controlling for a firm’s trade with the U.S. (panel B1),

³²These results are presented in Table B.12.

the share of production by firms within a Special Economic Zone (panel B2), and the share of firms which engaged in lobbying prior to the referendum (panel B3). We also find that voters employed in patent-intensive industries behave similarly to those in other sectors (panel B4), even though the FTA had guidelines regarding intellectual property (IP) rights. This null result can be interpreted as evidence of the inattention of voters to alternative forces, other than tariffs, which can be affected by the FTA. Finally, panels B5, B6, and B7 control, respectively, for the share of informal workers, the share of voters employed at the National Insurance Institute (INS) or the Institute of Electricity (ICE), and the share of retirees assigned to each voting board, none of which alters the effect of direct firm exposure.³³ Appendix C.3 discusses other three dimensions: the role of selection into voting, the high levels of awareness and information among voters, and makes a comparison of Costa Rican attitudes with those of other countries.

5 Expenditures Channel

If the FTA did not pass, consumer prices would increase for at least some goods, which would adversely affect voters. In fact, when Costa Ricans were surveyed one month before the referendum, in September 2007, 73% of respondents answered “yes” to the question: “*Will the FTA benefit consumers?*”³⁴ This section will approximate the predicted effects in voters’ expenditures and estimate the extent to which these predictions affected voter choice in the referendum.

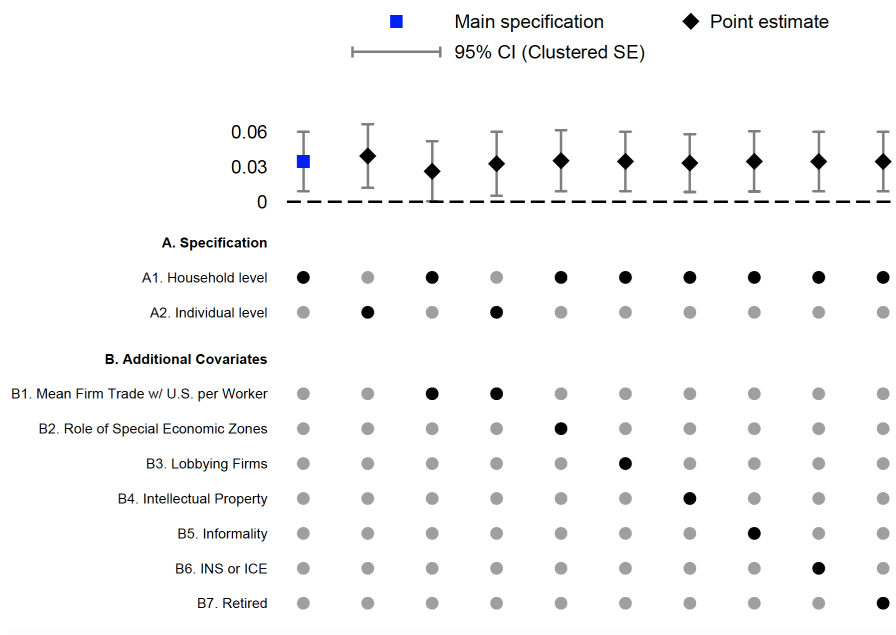
5.1 Measuring Exposure Via Expenditures

To measure each voter’s exposure to the trade agreement via expenditures, we rely on the National Household Income and Expenditure Survey (*Encuesta Nacional de Ingresos y Gastos de los Hogares*). This survey aims to understand households’ expenditure structure and asks households how they spend their incomes

³³Being employed at the INS or the ICE was potentially relevant, as these public institutions had monopolies in insurance and telecommunications, and the FTA would force both of them to face competition (see Section 3.1).

³⁴Details on this survey coincide with those described in Section C.9. This question was asked only in September.

Figure 2: The Impact of Firms' Direct Exposure: Robustness Exercises



Notes: In bottom panels A and B, black dots indicate the specification of the regression that generates the point estimate which is vertically aligned with these dots. Individual tables with these regressions are reported in supplementary Online Appendix C.

across goods and services in a detailed consumption basket. The survey is representative at the regional level and the results include several characteristics of the respondents, including income, occupation, location, gender, age, and marital status. We use the last survey conducted before the 2007 referendum, in 2004. The sample included 5,287 housing units.

The survey allows us to *map a consumption basket to each household* based on this large set of characteristics, which we observe both in the survey and for each voter. Details on this exercise are provided in Appendix D. Then, we estimate an expected change in the price of this basket, based on the share of the good that is imported from the U.S. and its expected change in tariffs. In particular, following Fajgelbaum and Khandelwal (2016), we define the expenditure effect of consumer h as

$$Expend_h = \sum_{j=1}^J (-\Delta p_j)(s_{j,h} - S_j)(p_h q_h), \quad (7)$$

where p_j denotes the price of good j , $s_{j,h}$ denotes the share of good j in the total expenditures of individual h , S_j denotes the share of good j in average expenditures. It follows that $-\Delta p_j s_{j,h}$ represents an expenditure-share weighted average of price changes, and defines the consumer's expenditure effect. If this change is negative, it represents a reduction in the cost of living caused by a decrease in prices applied to the pre-shock expenditure basket. We include the term $p_h q_h$, which captures the expenditures of household h , to have a change in expenditures in dollars that is comparable to other measures in our study.

To calculate the price changes for each good j , we first identify the share of total domestic absorption of good j that is imported from the U.S., and we denote this quantity $s_j^{M,US}$. Second, we assume complete pass-through such that

$$-\Delta p_j = s_j^{M,US} \Delta \tau_j,$$

where $\Delta \tau_j$ is the change in tariff that would occur if the FTA were to be ratified. Note that assuming complete pass-through in this setting might not be unreasonable, as the majority of voters are unlikely to take a more-sophisticated approach for predicting a change in the price of her consumption basket.

Finally, through a lasso regression, we select the variables that better explain each household's exposure via expenditures. We then predict each voter's exposure to the trade agreement via household-level expenditures. Appendix D gives more details on how to generate this mapping and an example of how to compute changes in prices. It is worth noting that, unlike the measure for firm exposure, *every single voter is assigned an expenditures exposure via their observables* through this mapping (even if they are informal, unemployed, not in the labor force, etc).

5.2 Expenditures Channel: Results

Similarly to the analysis of the income channel, the study of the expenditures channel is run at the voting-board level. To do so, we follow equation (6) and use the exposure to the FTA via household-level expenditures, averaged across the individuals assigned to a voting board, as our main independent variable.

Table 2: Expenditures Channel vs. Earnings Channel

<i>Dependent variable: YesVoteSh_b</i>			
	(1)	(2)	(3)
<i>Expend_b</i>	-0.022 (0.002)***	-0.011 (0.005)**	-0.011 (0.005)**
<i>Exp_b^{Trade}</i>			0.035 (0.013)***
Controls	No	Yes	Yes
Observations	4,914	4,914	4,914
Clusters	1,934	1,934	1,934
Adjusted <i>R</i> ²	0.084	0.636	0.636

Notes: The unit of observation is the voting board. Robust standard errors, adjusted for clustering by voting center (school), are given in parentheses. Voting boards are weighted by their number of voters. All regressions control for voter’s average characteristics (age, wage (thousands of USD), gender, participation rate, employment share by industry, employment share in the public sector, firm size, and firm trade with the U.S.), and average characteristics of people voting at the school (average years of schooling from census data and distance of the average voter to the school); and region fixed effects. We denote: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2 presents our results. Column (1) shows results *without* including any controls. As expected, the coefficient without controls or fixed effects is larger than the ones in columns (2) and (3), but the overall message remains unchanged across specifications. We interpret the coefficient in column (2) as follows: The average household whose expenditures would decrease by \$1 if the agreement were to be approved—on top of the decrease in expenditures experienced by the average consumer (\$7.3)—is 1 pp more likely to vote in favor of the FTA. In other words, a one-standard deviation (1.556) decrease in a voting board’s average exposure via expenditures is associated with the share of voters in favor of a trade agreement at that board being 1.63 pp greater. This effect is significant even after controlling for firm-level exposure, as reported in column (3).

6 Non-Economic Factors and Comparison

In this section, we first explore the role of a potentially crucial non-economic factor: political alignment. We then proceed by comparing the role of political alignment and demographics (non-economic factors) in explaining voting behavior

with the one of economic factors, with an emphasis on firm-level exposure.

6.1 Political Alignment

Voter behavior might be influenced by political views, and political views might, in turn, be correlated with economic factors. To explore this possibility, we use the results of the 2006 presidential election as an explanatory variable. First, we divide political parties according to whether they were for or against the FTA. To make this classification, we follow Vargas Cullell (2008), who documents how each party voted in the Congress when it was trying to decide whether to approve CAFTA.³⁵ Then, we include the share of 2006 presidential votes for a pro-FTA party at each voting board ($Pres_b^{2006}$) in our main regression, as follows:

$$YesVoteSh_b = \gamma_0 + \gamma_1 Exp_b^{Trade} + \gamma_2 Pres_b^{2006} + \hat{\Gamma} X_b + D_r + \hat{\epsilon}_b. \quad (8)$$

The measure $Pres_b^{2006}$ is particularly informative given that the 2006 presidential election happened only slightly over a year before the 2007 referendum, and the composition of voting boards changed very little within this year; the citizens assigned to each board, for the most part, would only change if someone turned 18 years old, died, or moved her residence. We verify that voting boards remained almost constant by following all 2007 voters back to the voting boards where they were assigned in 2006. Thus, $Pres_b^{2006}$ is a good measure of voters' political affiliations at the time of the referendum, and allows us to determine whether the role of the firm's exposure is relevant even after accounting for voters' political motivations.

As shown in column (1) in panel (a) of Figure 3, a 1 pp increase in $Pres_b^{2006}$ is associated with a 0.5 pp increase in the share of pro-ratification voters. Column (2) in panel (a) of the same figure shows that this association holds even after accounting for the effect of political affiliation. Note that the magnitude of the coefficient for a firm's exposure is smaller when including $Pres_b^{2006}$ as an additional regressor, although it remains statistically equal to the coefficient in our main

³⁵As explained in Section 3.1, the referendum took place because the Congress was split.

specification (Table 1). This is an unsurprising result, as one of the topics on the agenda for the 2006 presidential candidates was precisely CAFTA.

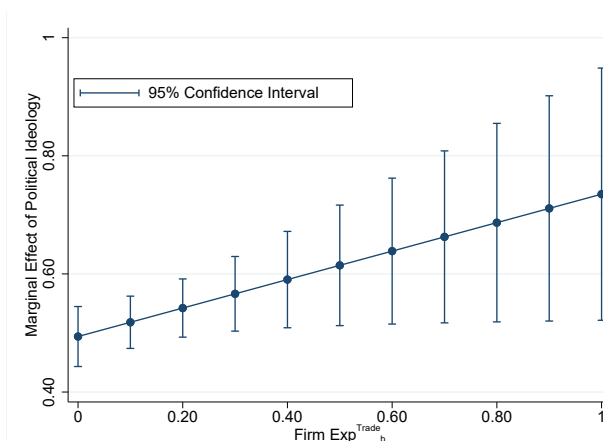
IV Strategy As shown above, the coefficient on firm exposure becomes smaller once we account for political alignment. This can happen if people’s position with regard to the FTA’s approval influenced their presidential vote in 2006. To orthogonalize our notion of political preferences from the FTA, we employ an IV strategy. Namely, we use votes for pro-FTA political parties in the 2002 presidential election—before any discussions on CAFTA were on the table—to instrument for the 2006 votes for these parties. Further details on the construction of this instrument are presented in Appendix E, and results are presented in Table E.1. As expected, we find that the coefficient of firm exposure is larger and closer to the values presented in Table 1 when using the instrument; however, it is remarkable that overall the effects remain quite similar to those presented in Figure 3.

Figure 3: Politics, Firm Exposure, and Referendum Outcomes

Dependent variable: YesVoteSh_b

	(1)	(2)
$Pres_b^{2006}$	0.515 (0.023)***	0.514 (0.023)***
Exp_b^{Trade}		0.026 (0.011)**
Controls/FE	Yes	Yes
Observations	4,914	4,914
Clusters	1,934	1,934
Adjusted R^2	0.701	0.701

(a) Political Affiliation and Voting



(b) Marginal Effect of Political Ideology

Notes: Panel (a): The unit of observation is the voting board. Robust standard errors clustered by voting center are in parentheses. Voting boards are weighted by number of voters. Regressions control for voters’ average characteristics, average characteristics of people assigned to the voting center, and region fixed effects. Panel (b): This figure plots the marginal effect of political ideology ($Pres_b^{2006}$) for different levels of direct exposure (Exp_b^{Trade}).

When Economic Interest and Ideology Collide The setup gives us a rare opportunity to analyze the interaction between views on politics and trade. Based

on panel (a) of Figure 3, we do a back-of-the-envelope calculation of the effect of political alignment on voters’ sensitivity to an extra dollar of trade exposure. We estimate that if *all* voters at a voting board voted for a pro-FTA presidential candidate, the effect on *referendum votes* is equivalent to the voting board having an average trade exposure (Exp_b^{Trade}) of \$19,838.³⁶

Beyond this comparison, we can also extend equation (8) with an interaction term between the composition of presidential votes in 2006 and trade exposure. Panel (b) of Figure 3 reports the marginal effect of this regression and shows that the effect of the presidential vote is heterogeneous depending on the level of trade exposure considered. We find that trade exposure, as measured by Exp_b^{Trade} , is significantly more salient for voting boards composed of voters with pro-trade political preferences. Conversely, voters with anti-trade political ideologies are less sensitive to trade exposures that might impact their earnings.

6.2 Comparison Across Factors

We now provide a broad comparison of the importance of different factors. Namely, we compare partial R^2 across regressions, after removing certain factors, to grasp what percent of the variation in voting behavior can be attributed to each. To do so, we consider equation (6) while including direct firm exposure, exposure via expenditures, and political alignment as explanatory variables. Note that this regression includes a battery of demographic and economic controls as well. We then define as economic factors: firm exposure, firm size, firm’s trade with the U.S., exposure via expenditures, and employment shares by industry; and as non-economic factors: political alignment and demographics, which include: age, wage, gender, participation, and years of schooling.³⁷

Table 3 presents a partial R^2 that results from removing each element from the full specification and calculating the percentage change in R^2 with respect to

³⁶Given the 9 cents on the dollar pass-through (Alfaro-Ureña et al., 2021), this result implies that if each person at a voting board had on average \$1,785 of “money in their pocket” due to the FTA, this effect would be akin to everyone at the voting board having a pro-FTA ideology.

³⁷Note that wage and years of schooling are not solely non-economic. We include them in this category to be conservative and potentially get a lower bound of the role of economic factors.

the full model. A comparison of columns (1) and (3) confirms the relatively large coefficient for political alignment in Table 3. However, we can also verify that economic factors play a non-negligible role in explaining the observed variation in voting behavior. The latter was particularly true in this setting, in which the referendum was approved with only a 1 pp lead in votes.³⁸

Table 3: Comparison Across Factors—Partial R^2

Economic Factors (1)	Non-Economic Factors (2)	Political Alignment (3)
-6.8%	-11.6%	-9.1%

Notes: The table presents a partial R^2 which results after removing each factor from a full specification given by equation (6) and calculating the percentage change in R^2 with respect to the full model, with direct firm exposure, exposure via expenditures, and political alignment as explanatory variables.

7 Concluding Remarks

While the general public tends to hold a wide variety of views about the consequences of trade, economists have strong and specific priors about how trade affects people’s lives. Survey evidence suggests that economists and the broader public have starkly different views on trade issues (Blendon et al., 1997; Sapienza and Zingales, 2013). If people were given the choice to cast a vote on a specific trade policy, how would they vote? Would they vote based on their own economic interest and in line with predictions from economic theory? A better understanding of the determinants of the public’s attitudes toward trade policy may strengthen the ability of economists to aid policy makers in communicating the consequences of policy decisions to the public and in designing trade policy so that it leads to welfare benefits *and* garners popular support. Moreover, insights

³⁸The partial R^2 exercise removes factors “in block.” Removing only firm exposure and then evaluating the partial R^2 to see its importance would be an unfair comparison with other factors, as we are including controls precisely to remove variation which is not exogenous from the exposure. When adding these controls, the measure of firm exposure has limited, but cleaner, variation, which is what we exploit, but the partial R^2 would irremediably underestimate the relevance of firm exposure alone. Thus, we instead remove all economic factors at once.

about the determinants of popular attitudes may be relevant to how economists understand the distributional effects of trade.

This paper exploits the unique event afforded by a national referendum held in Costa Rica in which every adult citizen was allowed to vote on the ratification of CAFTA. This unambiguous and specific policy choice allows us to observe individuals' preferences on the topic. Moreover, we leverage voting-board-level data on voting outcomes, along with information on the individuals who compose each voting board to break new ground on anonymity-compatible voting data: while the secrecy of the vote is preserved by the voting outcomes being aggregated by voting board, voting boards are small (approximately 500 people, on average), which leads to a precise analysis. We match voters to their employers, and in turn match firms with customs records, balance sheets, records of firm-to-firm transactions. We also create a mapping between citizens and data on household composition and expenditures. To the best of our knowledge, this mapping represents the frontier of data quality compatible with a secret ballot.

The paper studies the role of both economic and non-economic factors. Regarding economic factors, we first examine those related to the income channel. A key message of the paper is that employers' exposure to the FTA, via its impact on employees' earnings, plays a relevant role in shaping votes, especially for pro-trade voters.³⁹ We also document that indirect exposure through input-output linkages plays a salient role in explaining votes, with a magnitude of about two-thirds the one of the direct effect. Moreover, within-industry heterogeneity—firm level exposure—is more significant in explaining votes than exposure at the sector level.

The study of the income channel is complemented by analyzing the role of the expenditures channel. This analysis is possible by leveraging expenditures surveys to construct a correspondence between consumption baskets and levels of exposure, and then creating a mapping where every voter is assigned an expenditures exposure via their observables. We find that voting boards where voters consume

³⁹This measure, which might inform future work, is reported in the replication package as part of Figure A.6.

goods that would become more expensive if CAFTA did not pass (as suggested by the demographic characteristics of voters) support CAFTA.

In terms of non-economic factors, our main emphasis is on political alignment, which has been singled as potentially crucial. Indeed, we find that supporting a pro-FTA political party is an important determinant of individual's votes, and we document that voting boards where voters are politically aligned with pro-trade parties are more sensitive to the economic determinants of the CAFTA vote.

A comparison among factors finds that economic determinants are almost as important as political ideology in explaining the CAFTA vote. Hence, economic fundamentals played a pivotal role in this context, characterized by the narrow approval margin of the referendum. Moreover, in closely contested elections, they are likely to wield significant influence.

Data Availability Statement: The data and code underlying this research is available on Zenodo at <https://doi.org/10.5281/zenodo.14270925>.

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