

Can RTA Labor Provisions Prevent the Deterioration of Domestic Labor Standards?: the Cases of Statutory Minimum Wages and Employment Protection Regulations*

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Abstract

This study addresses the question of whether labor clauses in RTAs are effective to prevent the domestic labor standards in RTA signatory countries from deterioration. Empirical analyses are conducted for two measures of labor standards: statutory minimum wages and the strictness of employment protection. The impacts of RTAs with and without labor clauses and the importance of the RTA partners in a country's trade are estimated using data on minimum wages and employment protection for a wide variety of countries for multiple years. The results show that labor-clause-*non*inclusive RTAs with more and/or larger trading partners are associated with lower statutory minimum wages, while such association is not found for labor-clause-inclusive RTAs. Furthermore, estimation with separate samples in terms of the income groups of RTA partners clarifies that the estimation results are chiefly driven by middle-income countries that sign RTAs with high-income partners. This may indicate that signing RTAs with more and/or larger high-income trading partners would create to the governments of middle-income countries that have comparative advantage over the high-income partners in labor-intensive sectors a downward policy pressure on minimum wages, while that negative policy impacts on minimum wages in middle-income countries could be alleviated if the RTAs contain labor clauses. This result is also an interesting contrast with the result in the author's preceding study (Kamata, 2016) in which no systematic relationship is found between trade concentration with RTA partners and *actual* labor earnings regardless of whether or not the RTAs have labor provisions. On the other hand, no evidence is found for the impacts of RTAs with or without labor clauses on the strictness of employment protection.

Keywords: International trade, Regional trade agreements, Labor clauses, Minimum wages, Employment protection

JEL classification: F13, F14, F16, F66, J81, J88

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