

# Do Labor Clauses in Regional Trade Agreements Reduce the Trade Creation Effect?

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## Abstract

We empirically test the hypothesis that labor clauses (LCs) in regional trade agreements (RTAs) reduce the trade creation effect of RTAs. We estimate a structural gravity model using a panel of bilateral trade data for the sample of 192 countries/regions for the 25-year period of 1990–2014. The information on the coverage and enforceability of labor provisions in RTAs is obtained from the World Bank’s database on “deep” RTAs. We find that the impact of LCs on trade varies according to the nature of country pairs. Our results indicate that LCs actually reduce the trade creation effect of RTAs when a developed country is the importer, regardless of whether the exporting partner is a developing or developed country/region. Otherwise, the effect of LCs on trade is statistically insignificant.

*Keywords:* labor clause; regional trade agreement; trade creation effect; structural gravity model.

*JEL classification:* F14; F15; F16.

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