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## **Labor Clauses in Regional Trade Agreements and Effects on Labor Conditions: An Empirical Analysis**

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### *Summary/Outline of the Paper*

The recent progress of economic globalization has been intensifying public concerns about the negative impacts of international trade on conditions of workers (such as a ‘race to the bottom’). These concerns are often linked to the idea of including in a trade agreement “labor clauses”—provisions that require or urge the signatory countries to commit to maintaining a certain level of labor standards—, and an increasing number of bilateral or plurilateral trade agreements (or regional trade agreements: RTAs) include labor clauses. Are such labor clauses in RTAs effective to maintain or improve working conditions faced by laborers in the RTA signatory countries? This paper aims to answer to this question through an empirical analysis using macro-level data for a wide variety of countries.

The paper starts with an extensive examination of more than 200 currently-effective RTAs in terms of the existence and contents of their labor provisions. It follows the author’s previous work (Kamata, 2014), but more focuses on the coordination of domestic labor standards between the RTA partners as well as the enforceability of the labor provisions. More specifically, the paper classifies the RTAs according to two criteria: (i) whether or not the agreement urges or expects the signatory countries to harmonize their domestic labor standards with internationally recognized standards, and (ii) whether or not the agreement stipulates the procedures for consultations and/or dispute settlement on labor-condition issues between the signatory countries, and defines 22 RTAs that satisfy both of these criteria (plus another 9 RTAs that satisfies (ii) only) as “RTAs with labor clauses” to distinguish them from the other “RTAs without labor clauses” (Table 1).

The paper then estimates the impacts of RTA labor clauses on domestic working conditions in countries. The paper employs two empirical specifications: one is to measure the significance of labor-clause-inclusive RTAs for each country by the aggregate share of the partners of labor-clause-inclusive RTAs in that country’s manufacturing trade, and the other is to focus on the impacts of the first

labor-clause-inclusive RTA and the importance of the partner(s) of that RTA as an export partner(s) for each country. The estimation takes into account possible time length for domestic labor conditions to be adjusted complying labor clauses in RTAs. The estimation is also extended to consider potential difference in the impacts across income-group pairs of trading partners (i.e., high-, middle-, and low-income grouping for every pair of countries based on the World Bank's income classification). The estimation is performed with the sample covering 136 countries or economies (Table 2) and years from 1995 through 2011.

The empirical results shows that for any of the four labor-condition measures (mean monthly earnings, mean weekly work hours per employee, fatal occupational injury rate, and the number of the ILO's core conventions ratified), almost none of the coefficient estimates on the labor-clause-inclusive RTA indexes is significant (Tables 4 and 8), which suggests that the expected effects of labor provisions in RTAs to maintain or improve the domestic working condition of the RTA members are not evident. This result may be consistent with (or supporting) the view of economics literature as well as arguments among some national governments (particularly of developing countries) that question the relevance of using trade policy as an instrument to improve labor conditions. However, considering the limitation in the sample of labor-clause-inclusive RTAs—only 22 (or 31) of over 200 RTAs are with labor provisions, and many of them were signed and became into force in the late 2000s or after 2010—, it may be desirable to have the empirical analysis supplemented with a close investigation of some case(s) of a labor-clause-inclusive RTA(s) with a relatively long history to confirm the conclusion.

\* The study has been conducted as a part of the Project “Economic Analysis of Trade Policy and Trade Agreements” at the Institute of Developing Economies (IDE-JETRO).

#### **References:**

Kamata, Isao (2014), “Regional Trade Agreements with Labor Clauses: Effects on Labor Standards and Trade,” RIETI Discussion Paper Series 14-E-012, Research Institute of Economy, Trade & Industry

**Table 1. List of Regional Trade Agreements with Labor Clauses**

(RTAs with \* are included only according to the *liberal* classification.)

USA-Australia	* EFTA-Hong Kong
USA-Bahrain	* EFTA-Montenegro
USA-Chile	* EU-CARIFORUM States
USA-Colombia	* Carribean Community and Common Market (CARICOM, 2002 revised)
USA-Jordan	
USA- Korea (South)	* Chile-China
USA-Morocco	* Chile-Colombia
USA-Oman	* New Zealand-China
USA-Panama	* New Zealand-Malaysia
USA-Peru	* Nicaragua-Taiwan
USA-Singapore	
North American Free Trade Agreement (NAFTA)	
USA-CAFTA-Dominican Republic (CAFTA-DR)	
Canada-Chile	
Canada-Colombia	
Canada-Costa Rica	
Canada-Jordan	
Canada-Peru	
European Economic Area (EEA)	
EU- Korea (South)	<i>No. of RTAs with labor clauses:</i>
Chile-Turkey	22 according to the <i>conservative</i> classification
Trans-Pacific Strategic Economic Partnership (TPSEP or P4)	31 according to the <i>liberal</i> classification

*Notes:*

- RTAs with labor clauses are defined as RTAs, according to the *conservative* classification, that satisfy both of the following two criteria:
  - The RTA has provisions that demand, urge, or at least expect the signatory countries to harmonize their domestic labor conditions and regulations with the internationally recognized standards such as the ILO's "core" standards or an equivalent set of labor standards,
  - the RTA has an extensive set(s) of articles that stipulates the items/issues for which the signatory countries shall cooperate and the procedures for consultations and/or dispute settlement on issues concerning labor conditions, as a part (chapter(s) or title(s)) of the main body of the RTA or a separate side agreement or MOU.
 RTAs with labor clauses under the *liberal* classification are those that satisfy the criterion (ii). (This classification includes the RTA with \* in the list above, which satisfy (ii) but not (i).)
- The labor-clause-inclusive RTAs listed above are classified from the population of 223 RTAs that had entered in force and are notified to the WTO as of July 2013. The Generalized System of Preferences (GSP) are not included in the RTA populations.

**Table 2. Countries in the Sample for Empirical Analysis**

High-income Countries (26 countries)	Middle-income Countries (69 countries)		Low-income Countries (39 countries)
Australia	Algeria	Moldova	Albania
Austria	Antigua & Barbuda	Morocco	Armenia
Bahamas	Argentina	Namibia	Azerbaijan
Belgium	Barbados	Panama	Bangladesh
Canada	Belize	Papua New Guinea	Benin
Cyprus	Bolivia	Paraguay	Bosnia & Herzegovina
Denmark	Botswana	Peru	Burkina Faso
Finland	Brazil	Philippines	Cambodia
France	Bulgaria	Poland	Cameroon
Germany	Chile	Romania	Congo
Iceland	Colombia	Russian Federation	Ethiopia
Ireland	Costa Rica	St. Kitts & Nevis	Georgia
Italy	Croatia	St. Lucia	Ghana
Japan	Cuba	St. Vincent & the Grenadines	Guyana
Korea (South)	Czech Republic		Honduras
Kuwait	Dominica	Samoa	India
Luxemburg	Dominican Republic	Slovakia	Kenya
Netherlands	Ecuador	Slovenia	Kyrgyzstan
New Zealand	Egypt	South Africa	Liberia
Norway	El Salvador	Suriname	Madagascar
Portugal	Estonia	Syria	Mali
Singapore	Gabon	Thailand	Mongolia
Spain	Grenada	Trinidad & Tobago	Mozambique
Sweden	Guatemala	Tunisia	Nepal
United Kingdom	Hungary	Turkey	Nicaragua
United States	Indonesia	Ukraine	Nigeria
	Iran	Uruguay	Pakistan
	Jamaica	Uzbekistan	Rwanda
	Jordan	Vanuatu	Senegal
	Kazakhstan	Venezuela	Sierra Leone
	Kiribati		Sri Lanka
	Latvia		Tajikistan
	Lesotho		Tanzania
	Lithuania	(Income group N.A.) (2 countries)	Togo
	Macedonia		Uganda
	Malaysia		Vietnam
	Maldives	Montenegro	Yemen
	Malta	Serbia	Zambia
	Mauritius		Zimbabwe
	Mexico		

Notes:

- The numbers of data years are different for different countries, ranging from 1 to 16 of the entire 16 time points (between years 1996 and 2011, with lagged variables).
- Income groups are based on the World Bank's income classification as based on the country's gross national income (GNI) per capita as of 1995, defined as follows:
  - High income: \$9,386 or more
  - Middle income: \$ 766 to \$9,385
  - Low income: \$ 765 or less

**Table 4. Impacts of RTA with Labor Clauses vs. RTA without Labor Clauses on Labor Conditions (RTAs with labor clauses defined by the conservative classification; and RTA trade concentrations are based on the RTA partners' manufacturing trade share as of 1995.)**

	Dependent variable: Labor Condition Measure															
	Log of Mean Real Monthly Earnings ( <i>earnings</i> )				Mean Weekly Hours Actually Worked ( <i>hours</i> )				Fatal Occupational Injury Rate ( <i>injury</i> )				No. of ILO Core Conventions Ratified ( <i>conventions</i> )			
	Lag 1	Lag 2	Lag 3	Lag 4	Lag 1	Lag 2	Lag 3	Lag 4	Lag 1	Lag 2	Lag 3	Lag 4	Lag 1	Lag 2	Lag 3	Lag 4
RTA Concentration with Labor Clauses $t-1$	.205 (.660)				-7.31 (9.25)				-.0806 (1.41)				.0506 (.293)			
RTA Concentration w/o Labor Clauses $t-1$	.709 (.978)				-8.54 (19.0)				-.515 (4.35)				.531 (.522)			
RTA Concentration with Labor Clauses $t-2$		.218 (.709)				-8.18 (11.7)				.252 (1.69)				.248 (.317)		
RTA Concentration w/o Labor Clauses $t-2$		-.526 (1.28)				-4.67 (20.5)				5.34* (3.16)				.111 (.404)		
RTA Concentration with Labor Clauses $t-3$			.196 (.582)				-12.4 (14.9)				-.577 (1.94)				.397 (.313)	
RTA Concentration w/o Labor Clauses $t-3$			.359 (.840)				-.551 (21.9)				8.04** (3.22)				-.342 (.299)	
RTA Concentration with Labor Clauses $t-4$				-.633 (.564)				-23.0 (19.4)				-.546 (2.45)				.403 (.283)
RTA Concentration w/o Labor Clauses $t-4$				.492 (1.01)				19.4 (15.1)				5.55 (4.04)				-.549** (.279)
ln(GDP per capita)	-14.7 (9.10)	-16.1 (10.8)	-16.0 (11.4)	-18.4 (12.0)	114.4** (47.4)	138.7** (58.6)	104.1 (64.1)	39.5 (70.8)	-8.82 (10.4)	-6.78 (12.2)	-13.3 (15.5)	-17.9 (12.6)	6.96** (2.74)	7.77*** (2.81)	8.19*** (3.03)	6.18** (3.08)
ln(GDP per capita) <sup>2</sup>	.906* (.470)	1.00* (.555)	.964* (.581)	1.12* (.611)	-5.50 (4.33)	-6.75 (5.24)	-4.86 (5.71)	-6.90 (5.76)	-.672 (.673)	.554 (.768)	1.04 (.948)	1.19 (.790)	-.377** (.149)	-.426*** (.153)	-.435*** (.166)	-.297* (.172)
Industry employment (% in total empl.)	-.0139 (.0795)	-.0101 (.0891)	-.0143 (.0938)	-.0237 (.0970)	-1.61 (1.01)	-1.98* (1.15)	-2.01* (1.19)	-2.02 (1.34)	.0660 (.108)	.110 (.128)	.0921 (.137)	.153 (.128)	-.0110 (.0245)	-.0123 (.0237)	-.0184 (.0235)	-.0287 (.0217)
Manufacturing VA (% of GDP)	.0753 (.0496)	.0586 (.0459)	.0645 (.0477)	.0715 (.0481)	-1.30** (.612)	-1.50** (.730)	-1.32 (.796)	-1.46 (.904)	-.181 (.149)	-.188 (.180)	-.219 (.196)	-.135 (.123)	-.0105 (.0188)	-.0100 (.0186)	-.0151 (.0183)	-.0235 (.0186)
Political rights index	-.0058 (.215)	.0546 (.247)	.139 (.314)	.187 (.327)	2.58 (2.77)	3.14 (3.32)	5.42 (4.68)	7.06 (5.57)	.606 (.381)	.571 (.416)	.407 (.470)	.363 (.471)	-.0268 (.0913)	-.0238 (.0816)	.0414 (.0649)	.115 (.0762)
Civil liberty index	-.347 (.286)	-.353 (.303)	-.332 (.310)	-.320 (.312)	-6.51 (4.77)	-6.99 (4.79)	-7.06 (4.95)	-7.92 (4.83)	-.882 (.630)	-.682 (.683)	-.969 (.766)	-.347 (.593)	-.0809 (.130)	-.0241 (.122)	-.0364 (.113)	-.0578 (.110)
No. of observations	700	648	597	540	623	585	548	505	500	468	434	398	1229	1158	1084	1007
Adjusted R <sup>2</sup>	.809	.806	.811	.808	.810	.809	.807	.810	.983	.984	.984	.651	.829	.839	.847	.860

Notes: Fixed-effect regressions for countries. Time (year) dummies are also included. Clustered standard errors are reported in parentheses. \*, \*\*, and \*\*\* indicate the significance at the 10%, 5%, and 1%, respectively.

**Table 8. Impacts of the First RTA with Labor Clauses on Labor Conditions  
(RTAs with labor clauses defined by the conservative classification)**

	Dependent variable: Labor Condition Measure			
	Log of Mean Real Monthly Earnings ( <i>earnings</i> )	Mean Weekly Hours Actually Worked ( <i>hours</i> )	Fatal Occupational Injury Rate ( <i>injury</i> )	No. of ILO Core Conventions Ratified ( <i>conventions</i> )
1 <sup>st</sup> LC-RTA dummy $t-1$ ( $D_{t-1}$ )	-.400 (.663)	2.42 (2.94)	1.78 (1.07)	-.0268 (.194)
$D_{t-1}$ * Initial EX Share of the RTA partner	-.129 (.984)	-14.6 (11.1)	-2.85* (1.65)	.277 (.396)
1 <sup>st</sup> LC-RTA dummy $t-2$ ( $D_{t-2}$ )	-.231 (.786)	3.08 (3.85)	2.94* (1.65)	.248 (.387)
$D_{t-2}$ * Initial EX Share of the RTA partner	-.330 (1.36)	-1.02 (7.19)	-3.26* (1.68)	-.0039 (.528)
1 <sup>st</sup> LC-RTA dummy $t-3$ ( $D_{t-3}$ )	-.0545 (.412)	.310 (3.87)	2.22 (3.87)	.236 (.458)
$D_{t-3}$ * Initial EX Share of the RTA partner	-.372 (.935)	2.41 (7.42)	4.16 (8.47)	.124 (.600)
1 <sup>st</sup> LC-RTA dummy $t-4+$ ( $D_{t-4+}$ )	-.308 (.582)	.0370 (3.57)	2.25* (1.25)	.149 (.418)
$D_{t-4+}$ * Initial EX Share of the RTA partner	.297 (.872)	-20.8* (12.3)	-3.03 (1.86)	.0906 (.542)
ln(GDP per capita)	-12.9 (9.88)	95.5 (58.2)	-9.15 (24.4)	3.26 (3.47)
ln(GDP per capita) <sup>2</sup>	.961 (.583)	-5.57 (3.72)	.448 (1.41)	-.109 (.214)
Industry employment (% in total employment)	-.137* (.0802)	.499 (.497)	.0872 (.195)	-.0500*** (.0177)
Manufacturing VA (% of GDP)	.113* (.0623)	-.728 (.951)	-.0787 (.195)	-.0217 (.0190)
Political rights index	-.269 (.187)	-.0751 (1.30)	-.328 (.683)	-.140 (.0908)
Civil liberty index	-.365 (.338)	.512 (1.95)	-.307 (.570)	-.122 (.133)
No. of observations	453	445	398	705
Adjusted R <sup>2</sup>	.810	.888	.985	.881

*Notes:* Fixed-effect regressions for countries. Time (year) dummies are also included. Clustered standard errors are reported in parentheses. \*, \*\*, and \*\*\* indicate the significance at the 10%, 5%, and 1%, respectively.