

Non-Trade Provisions in Deep Trade Agreements and Non-Trade Outcomes

Joseph Francois, Bernard Hoekman, Miriam Manchin and Filippo Santi

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Trade agreements increasingly incorporate non-trade provisions (labor standards, environmental protection and civil and political rights). Whether this leads to improvements in associated non-trade outcomes is an important and under-researched question. In a recent paper we use data covering more than 180 countries and 279 trade agreements to assess this question. We find that inclusion of environmental provisions is associated with changes in some environmental indicators, but no relationship between non-trade provisions and labor, civil or political rights. There is substantial variation in the sign of estimated relationships associated with binding and non-binding non-trade provisions, and suggestive evidence that binding (non-binding) non-trade provisions are associated with a reduction (increase) in official development assistance for the respective non-trade issue area. Overall, the results suggest that non-trade provisions in trade agreements have not resulted in better non-trade outcomes.

Recent decades have seen steady growth in the number of preferential trade agreements (PTAs) that address behind-the-border regulation pertaining to both economic and noneconomic issues (Limão, 2016; Fernandes et al. 2021). Non-trade provisions (NTPs) often pertain to labor standards, environmental protection, and human rights-related provisions (Borchert et al., 2020). Whether NTPs improve performance of signatory countries with respect to the policy domain they target is an under-researched question.

The existing empirical evidence is mixed, context specific, and depends on the indicators considered (Ferrari et al., 2021). Given that a country may join various PTAs over time and that similar countries may participate in different PTAs it is difficult to identify causal relationships between signing a PTA that includes NTPs and associated outcomes. Research has tended to investigate specific provisions and specific indicators. For example, Abman and Lundberg (2020) explore the causal impact of environmental provisions on forest cover loss, finding that PTAs increase deforestation in developing countries which is partially offset by inclusion of binding environmental protection obligations.

In a recent paper, Francois et al. (2022), we investigate the relationship between NTPs in PTAs and a range of specific non-trade outcome indicators. We focus on three policy areas: environmental protection, labor standards, and civil, social and human rights, in each case differentiating between binding provisions (those subject to formal dispute settlement procedures) and non-enforceable (“soft law”) provisions. We allow for the effect of a NTP in a PTA to be heterogeneous, depending on the countries involved, and on the power relations among the signatories.

We combine the World Bank Deep Trade Agreements database (Mattoo et al, 2020) with different measures of environmental, labor market and human rights performance from Manchin (2021), and apply the Synthetic Difference-in-Differences estimator proposed by Arkangelsky et al. (2021) to evaluate whether:

- (i) a NTP in one of the domains of interest is associated with a change in outcome indicators in a signatory country;
- (ii) estimates differ depending on the type of NTP – enforceable or non-binding; and
- (iii) relationships depend on whether the countries participating in the agreement include the EU or the US.

We focus on all agreements signed by non-OECD low-, and middle-income countries, including those signed with the EU and the US. We consider a country to be “exposed” to a provision if it signs an agreement

including the provision of interest in a given year, which is taken as the reference year.¹ Due to data limitations and to preserve a sufficiently long pre- and post-treatment period, we further restrict the sample to all agreements signed in the period 1995-2010.² Exposed and control countries are matched based on country characteristics and factors that may shape a country's willingness to implement NTPs, including trade openness, the extent of trade with specific partners (EU or US), and official development assistance projects targeting the policy areas of interest in signatory countries.

Findings

The results reveal that (i) NTPs seldom are associated with improved performance of environmental, labor or civil rights indicators; and (ii) relationships vary substantially depending on the type of NTP, countries involved in a PTA and the policy areas covered. Legal enforceability is not necessarily associated with better outcomes. Binding and non-binding provisions often have very different relationships with outcome indicators. In case of environmental outcomes (Figure 1, top block), a non-binding NTP is accompanied with a significant reduction in overall greenhouse gas emissions, but worsened ozone exposure, protected areas coverage and agricultural nitrogen management. Conversely, binding NTPs are associated with ozone exposure improvement, as well as forest coverage increase and particulate matter reduction (PM 2.5). When all PTAs and partners are considered, we find no significant relationship with civil and human rights or labor standards-related indicators (Figure 1, center and bottom blocks)

As the EU and the US are the major proponents of NTPs in PTAs, we also investigate whether the results in Figure 1 reflect specific sets of agreements or the type of provisions in different subsets of PTAs. We again find that NTPs are not associated with labor or civil rights indicators, whether binding or non-binding. The notable exception is binding provisions in EU PTAs, which are associated with a deterioration in a broad measure of worker protection.

Statistically significant estimates are heterogeneous, with a mix of positive and negative associations for some indicators that differ across EU, US and ROW agreements. Several statistically significant estimates imply that NTPs are associated with worse outcomes, i.e., implying that whatever detrimental consequences greater trade may have for a nontrade area is not offset by the inclusion of a NTP. A comparison of the estimates for non-binding and binding NTPs reveals that non-binding NTPs are associated with improved performance in some areas where binding provisions are not, and vice versa. This suggests that the efficacy of the two types of NTPs may be issue-specific and potentially affected by the complementary policy instruments.

One such policy is issue-specific development assistance projects in areas addressed by NTPs. In our working paper we find some evidence that development assistance increases with non-binding provisions and decreases for some policy areas in cases where countries have agreed to binding NTPs. This is consistent with the idea that other factors may play a role in making PTAs with non-binding NTPs more effective in improving non-trade outcomes (Bilal and Hoekman, 2019; RESPECT, 2021).

Conclusion

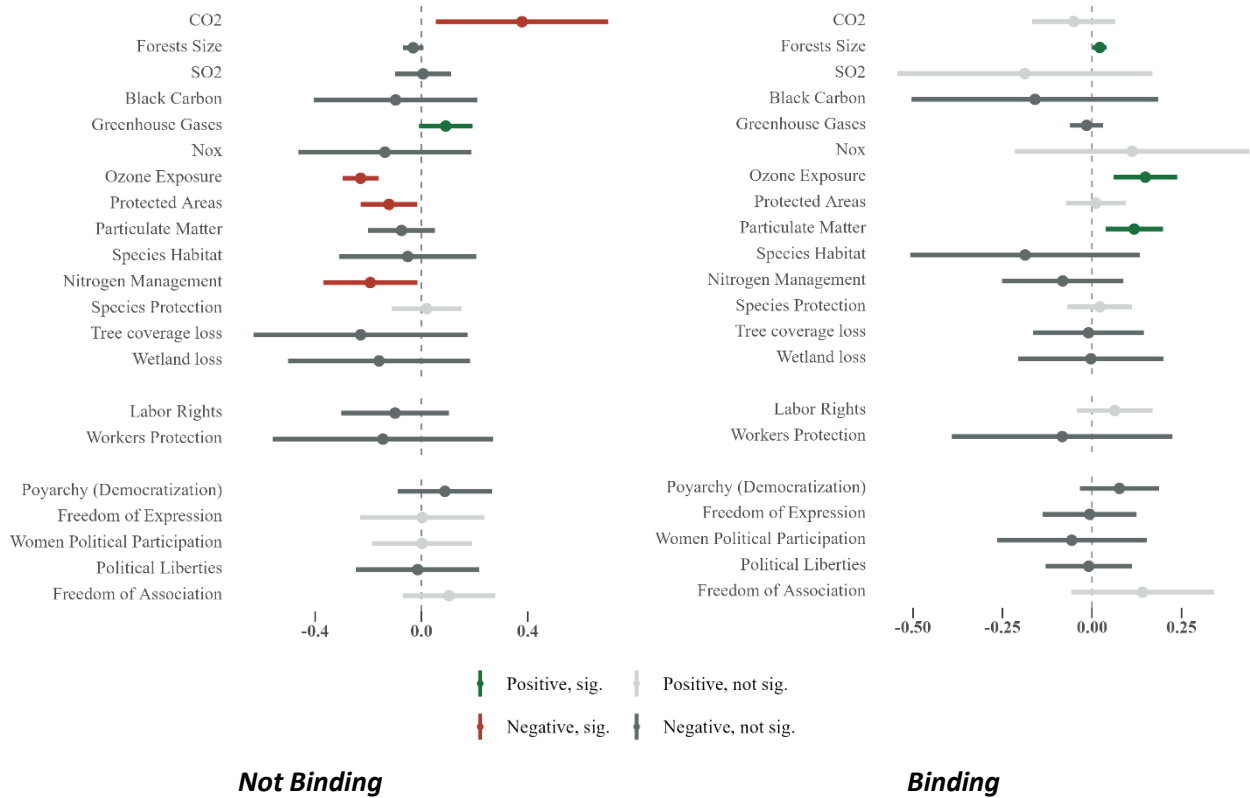
High-income countries increasingly pursue non-trade policy objectives in their PTAs. We find little evidence that inclusion of NTPs in trade agreements improves non-trade outcomes in partner countries. We also find substantial heterogeneity across types of provisions: non-binding NTPs may do more to improve

¹ If a country signed more than one agreement containing the same provision in the period of interest, the earlier one is chosen to set the reference year.

² Data limitations are particularly relevant for the policy outcomes considered. Overall, we cover a period of 25 years, from the 1990 to 2015. The first and the last 5 years in the sample serve to provide a reasonably long pre- (post-) treatment period.

performance in some areas than binding provisions, and vice versa. This suggests that the efficacy of NTPs may depend on the issues addressed, the type of NTP and use of complementary policy instruments.

Figure 1 - Average Treatment Effect on the Treated



Notes: Standardized ATT effect. The charts report the point estimates of the standardized coefficients with their 95% confidence interval. Source: Francois et al. (2022).

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