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What Type of Institutions Matter More to World Trade -
National or Supranational? A Comparative Gravity
Analysis Controlling for Institutional and Governance
Environment

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Asia-Pacific Research and Training Network on Trade

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What Type of Institutions Matter More to World Trade - National or Supranational?

**A Comparative Gravity Analysis
Controlling for Institutional and
Governance Environment**

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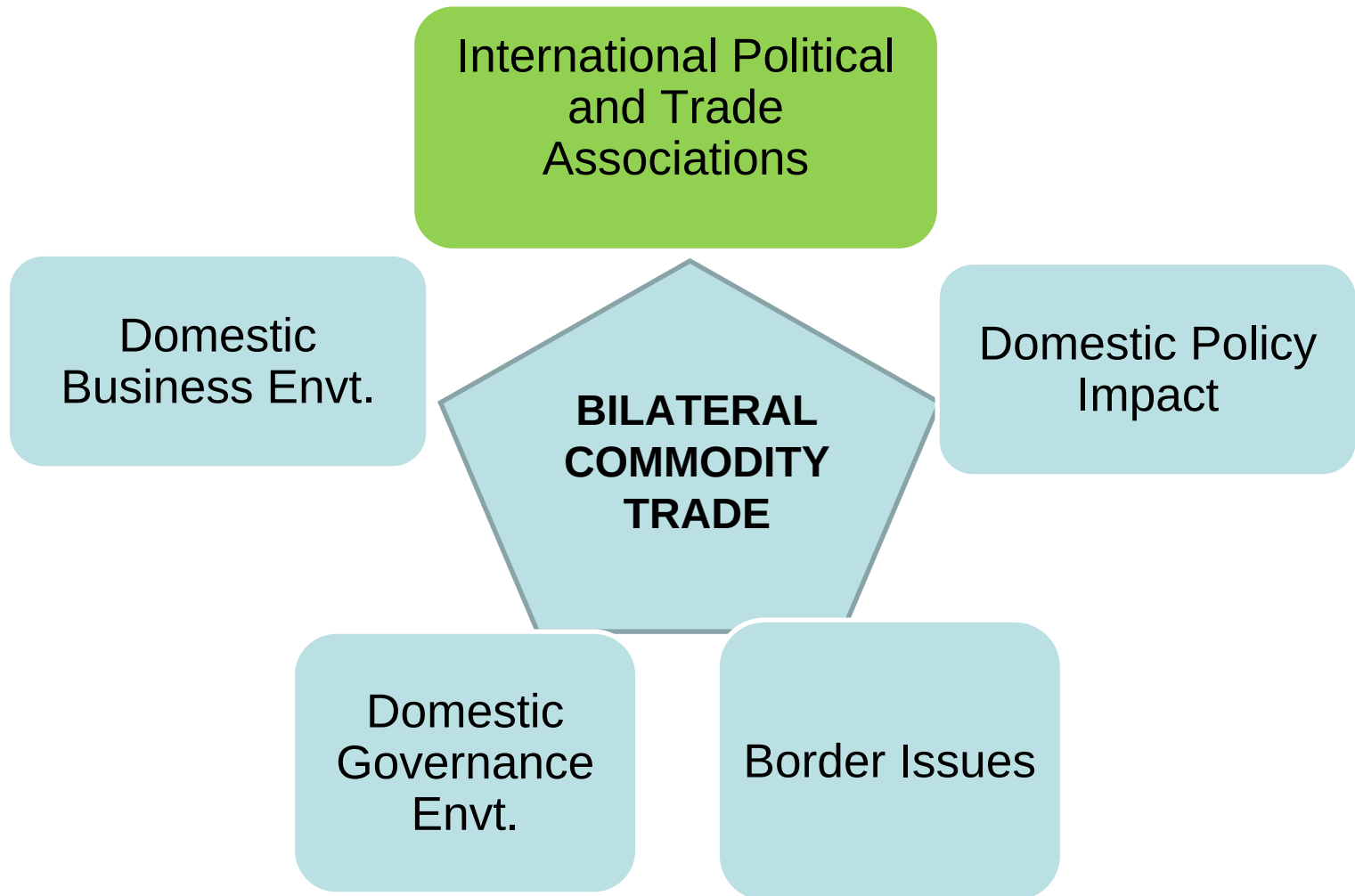
PROBLEM

Distance Effect in International Trade...

- According to the data available for any recent year, many country pairs have a low volume of trade and even more country pairs have no trade at all.
- Although there are obvious differences in economic strength and size between countries, economic and demographic differences alone would not justify such disproportionality (Linders et al., 2008).

RESPONSE

- From this disconnect, this paper draws its motivation to attempt further articulation of the Distance Puzzle in terms of institutions.
- Aim is to extend the conceptualization of distance to incorporate the heterogeneity of institutional environment.
- A potential comparison is attempted between the relative importance of national and supranational institutions.
- Strategy adopted is to estimate a series of specifications of the famous gravity model of trade controlling for multiple indicators of institutional quality at both national and supranational level.



Challenge 1 -Gauging National Institutional Quality

- **Quality of Business Institutional Environment:**
Doing-business Data
- **Institutional Bottlenecks at Trading Interfaces :**
Enabling Trade Data
- **Domestic Trade Policy Effect :** trade restrictiveness index by Hiscox and Kastner (2002)
- **Governance Variables :** World Governance Indicators

Doing Business Data

- (1) Starting a business;
- (2) Registering property;
- (3) Getting credit;
- (4) Contract Enforcement.

enabling Trade Data

et access,

er administration,

port and communications

cture, and

usiness environment.

ariff barriers 2. Proclivity to trade 3. Efficiency of customs
iciency of import-export procedures 5. Transparency of
n 6. Availability and quality of transport infrastructure 7.
ity of transport services 8. Availability and use of ICTs 9.
nent 10. Physical security.

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