

Trade, Institutions and New York Convention: A Panel Data Analysis of Canada's Bilateral Trade from 1980 to 2000

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Does ratifying the New York Convention promote bi-lateral trade between Canada and its trading partners? Berkowitz, Moenius and Pistor (2006) argue that international institutions like the New York Convention that facilitates the enforcement of foreign and international arbitral awards in private contracts, act as a substitute for domestic institutions, especially in the exporting country. So in case there is a fear of non-enforcement of trade contracts due to poor legal institutions in the exporter's domicile, the New York Convention can assure the importer of arbitration awards and thus promote bi-lateral trade between them by reducing the anticipated transaction costs.

I take a gravity model approach in testing the effects of New York Convention and institutional quality with data on bi-lateral trade flows between Canada and 180 countries disaggregated into three product categories (as defined by Rauch, 1999) over the period 1980 to 2000. Apart from the standard gravity controls and variables of interest, I also include variables to capture the effects of being in a common Free Trade Area or any other preferential arrangement to better compare the effects of New York Convention and institutions to that of trade agreements geared towards tariff reductions.

I find mixed results from the estimation compared to the existing literature, especially Berkowitz et al (2006). However, data and estimation results, at the least, confirmed that New York Convention and better domestic institutions have positive effects on trade, especially for differentiated goods; and are comparable to free trade agreements as effective trade-policy instruments.