

## **Institutions and International Trade in Next Eleven Countries**

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### **Abstract:**

Next Eleven (N-11) is a group of countries that identified by Goldman Sachs first time in December 2005, and consists of Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, and Vietnam. These countries are promising substantial economic progresses nearhand with their great potential in areas such as energy, urbanization, infrastructure, health, and technology. Although N-11 countries do not have an important role in world trade as much as BRICs yet, they have great potential to compete with many developed countries in a close future. Unlike BRICs, the performance of N-11 economies depends mainly on their ability to improve their effectiveness in international markets rather than local. In the literature, there is a consensus on the existence of a link between institutions and international trade. However, empirical literature provides mixed results on the direction and sign of this relationship. The purpose of this study is to examine the causal linkages between institutions and international trade in N-11 countries. In order to capture the different aspects of institutional quality, six different indicators of World Governance Indicators are used. The panel causality testing approach that takes into account the cross-sectional dependency across the members is applied. The country specific results indicate that while causality from institutions to trade occurs mostly in the voice & accountability, the causality runs from trade to institution mostly in control of corruption, regulatory quality and rule of law. The findings present important implications for policymakers in these economies.

**Keywords:** Institutions, international trade, causality

**JEL Codes:** E02, F1, C01