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## International Trade and Domestic Legal Systems: Examining the Impact of Islamic Law

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# **International Trade and Domestic Legal Systems: Examining the Impact of Islamic Law**

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*What factors determine countries' international trade relations? Recent theories point to the potential importance of domestic legal traditions. Countries' legal systems influence the enforcement of contracts. This has been shown to affect trade flows in common law and civil law countries. However, these two legal systems do not constitute the universe of legal traditions. Islamic law is an important and fundamentally distinct legal system that has been largely overlooked. In this article, we offer the first direct test of the effect of Islamic law on countries' trade relations. We find that, on average, levels of bilateral trade are lowest among Islamic law states, holding all else constant. This finding suggests that, contrary to conventional wisdom, shared institutions alone are insufficient to enhance trade flows. Instead, levels of bilateral trade depend critically on the quality of shared institutions. The importance of countries' legal systems for trade declines over time, possibly due to the increased role of international arbitration bodies and/or the standardization of international sales contracts.*

**KEYWORDS** *contract enforcement, Islamic law, international trade, legal systems, UNIDROIT*

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International trade flows have increased dramatically over the past several decades. In 2003, world merchandise exports were nearly 7.3 trillion dollars; world exports of commercial services were close to 1.8 trillion dollars (Helpman 2006). Yet, even in today's highly integrated global economy, substantial variation exists in countries' trade policies. Although some countries are quite open to international trade, others remain largely closed to foreign goods. Even in countries that are relatively open, substantial variation exists in bilateral trade relations. What factors explain the variation in countries' trade relations?

Recent theories point to the potential importance of countries' legal traditions (for example Anderson and Marcouiller 2002; Helpman 2006; Levchenko 2004; Nunn 2007). Differences in legal systems influence the enforcement of contracts. Contracts form the basis of international trade. To exchange goods and services across national borders, buyers and sellers enter into international sales contracts. These contracts are intended to reduce the risks and costs involved in international exchange. However, they do so only to the extent that they are likely to be enforced. Uncertainty over contract enforcement raises the risks of doing business. Legal systems that engender superior contract enforcement reduce the costs of exchange. The implication is that countries with legal systems that have stronger contract enforcement will enjoy higher levels of international trade.

Previous studies find empirical support for this argument. For example, Nunn (2007) finds significant differences in trade patterns in common and civil law countries. Common law countries tend to export relatively more goods produced in contract-intensive industries, as compared to civil law countries. Nunn (2007) argues that this is because common law systems are better at enforcing contracts and therefore have an advantage in producing and exporting contract-intensive goods.

Like Nunn (2007), most previous studies of the effects of legal systems on international trade focus exclusively on common and civil law systems. However, these two legal traditions do not constitute the universe of legal systems. In fact, nearly 10% of countries use a fundamentally distinct legal system: Islamic law. In this article, we provide the first direct test of the effect of Islamic law on countries' trade relations. We compare the effects of Islamic law with common and civil law. We find that, on average, levels of bilateral trade are lowest among Islamic law states, holding all else constant; levels of bilateral trade are highest among common law states. On average, common law states trade more than civil law states, which in turn trade more than Islamic law states.

Our findings confirm the importance of domestic legal institutions for international trade. However, two novel points emerge from this study. First, good institutions appear to do more to promote trade than similar institutions. Although previous research suggests that countries with similar institutions will enjoy higher levels of trade (for example Islam and Reshef

2006), we find that shared institutions alone are insufficient to enhance trade flows. Instead, it depends critically on the *quality* of the shared institutions.<sup>1</sup>

Second, the importance of domestic legal institutions for international trade is declining. One possible explanation is the increased internationalization of sales contracts and arbitration. International arbitration bodies play a larger role in cross-border trade today and international sales contracts have become increasingly standardized. Both developments may serve to reduce the role of domestic legal systems in international trade relations (Brown 2002). This raises the intriguing possibility that internationalization may mitigate the effects of domestic institutions on international economic relations.

In the remainder of this article, we discuss the importance of contracts for international trade. We briefly summarize the growing literature on domestic legal systems and international trade. We then outline the distinct characteristics of Islamic law and theorize how these characteristics affect contract enforcement and the costs of cross-border exchange. The empirical implications are tested using a standard gravity model. We also estimate a monadic model of trade. We conclude by discussing the findings and highlighting their implications.

### TRADE AS A LEGAL CONTRACT

Although trade can be conceptualized as the aggregate flow of goods and services between countries, these flows actually represent a series of contracts between buyers and sellers. Imagine, for example, a buyer in country A wants to purchase a good (or service) from a seller in country B. This transaction requires the consent of the two parties. Their agreement takes shape via an international sales contract. International sales contracts often include details about the product, the price and mode of payment, the mode of transport, delivery dates and locations. These details are formalized in a written contract to minimize the uncertainty involved in the transaction. Yet however carefully the parties draft the sales contract, circumstances may arise that are not explicitly addressed. These unforeseen contingencies necessarily make the contract incomplete (Hart and Moore 1988; Tirole 1999). In the event of an unforeseen contingency, contracting parties may appeal to domestic courts for help.<sup>2</sup>

Contracting parties may also appeal to domestic courts when one of the parties violates the terms of the contract, as in the following example. In 1996, a Japanese firm was hired to construct an office building in Jakarta.

<sup>1</sup>Throughout this paper, quality refers to contract enforcement.

<sup>2</sup>In fact, most contractual disputes that come before courts concern an issue arising from incomplete contracts (Dawson, Harvey, and Henderson 1982).

The building was completed just prior to Indonesia's economic crisis in 1997. The Indonesian company that hired the Japanese firm refused to pay the retention and contract balance. In an attempt to secure payment, the Japanese firm appealed to the Indonesian legal system for redress. However, the Japanese firm found that they had no effective legal remedy to collect the monies due (Reid 2004). In fact, they discovered that no award had ever been issued or confirmed in the Indonesian courts against an Indonesian entity in favor of a foreign entity (Reid 2004).

This illustrative example makes two key points. First, a country's legal system may be called upon to enforce an international contract. The enforcement of a contract (or even just the potential for it) helps to lower the risks and costs of doing business (Johnson, McMillan, and Woodruff 2002). The risks involved in signing an international sales contract vary systematically with the likelihood of enforcement. Where courts consistently and systematically enforce contracts, it will be less risky to do business. Where enforcement is imperfect, as in the Indonesian case, the risks and costs of doing business will be relatively higher.

Second, unfamiliarity with a country's legal system may increase the risk of contracting with parties in that country. In this example, the Japanese firms' ignorance of the Indonesian legal system was costly. More generally, when country A's legal system is different from country B's, firms in country A will incur some cost in getting to know country B's institutions and in writing contracts compatible with their system (Islam and Reshef 2006:4).

The experience of the Japanese firm illustrates two ways by which domestic legal systems may impact on cross-border trade: 1) contract enforcement, and 2) institutional similarities (or differences). The academic literature has grown up around these two possible causal mechanisms. We examine each in turn.

## LITERATURE REVIEW

Contract enforcement is one mechanism by which domestic legal institutions may affect international trade. A country's domestic legal system may be called upon to enforce an international sales contract, as in the Japanese/Indonesian example. International sales contracts are implicitly enforced by the threat of appeal to countries' legal systems. Signatories are deterred from violating the terms of the contract by the threat that doing so will result in a legal judgment against them. However, legal systems differ systematically in their enforcement of contracts (Acemoglu and Johnson 2005; Djankov, La Porta, Lopez-de-Silanes, and Shleifer 2003; Lerner and Schoar 2005; Nunn 2007). Common law systems tend to have better contract enforcement than civil law systems (Djankov et al. 2003; Hayek 1960;

La Porta, Lopez-de-Silanes and Shleifer 2008). This is due, in part, to the fact that civil law states heavily regulate legal proceedings. Exhaustive regulation is meant to provide all-inclusive statements of judicial powers and procedural devices (Mitchell and Powell 2011; Powell and Wiegand 2010; Schlesinger, Baade, Damaska and Herzog 1988). However, this formalism “is associated with higher expected duration of judicial proceedings, less consistency, less honesty, less fairness in judicial decisions, and more corruption” (Djankov et al. 2003:453). Empirical studies find that the legal formalism that characterizes civil law systems weakens contract enforcement (Djankov et al. 2003). On average, common law systems are better at enforcing contracts than civil law systems (Djankov et al. 2003).

Because legal systems differ in their enforcement of contracts, some argue that domestic legal institutions influence patterns of international trade (e.g., Anderson and Marcouiller 2002; Helpman 2006; Levchenko 2004; Nunn 2007). This argument builds on the well-established insight that when investments are relationship-specific, under-investment will occur if contracts cannot be (perfectly) enforced (Grossman and Hart 1986; Hart and Moore 1990; Klein, Crawford, and Alchian 1978; Williamson 1979, 1985). Anderson and Young (2006) formalize this insight. They demonstrate that imperfect contract enforcement is equivalent to a tariff on trade. Using subjective evaluations of contract enforcement from surveys conducted by the World Economic Forum (WEF), Anderson and Young (2006) find evidence that imperfect contract enforcement reduces international trade. The implication is that countries with legal systems that are systematically better at contract enforcement will enjoy higher levels of trade.

A second causal mechanism through which domestic legal systems may affect trade is institutional similarity. Distinct legal traditions share common features. For example, the doctrine of precedent (*stare decisis*) is a key feature of common law systems, but it is absent from civil and Islamic legal systems (Powell and Mitchell 2007). Such similarities help to reduce the insecurity of an exchange between countries with similar legal traditions. Sharing similar legal institutions may help to reduce transaction costs which may, in turn, increase trade flows. Islam and Reshef (2006) test this argument using a simple indicator variable for different legal system. They construct this indicator using data from Djankov et al. (2003) that identifies five different legal systems: British common law, French civil law, German civil law, Scandinavian civil law, and Socialist law. Using this indicator, Islam and Reshef (2006) find that countries that share similar legal systems trade relatively more with each other, all else equal.

Islam and Reshef (2006), like Nunn (2007), focus only on secular legal traditions. In doing so, they overlook an important and fundamentally distinct legal system, namely Islamic law. Islamic law is found in nearly 10% of the world’s countries and the influence of Islamic law is increasing in

some regions of the world.<sup>3</sup> Our study provides the first direct test of this distinct legal tradition on international trade. In doing so, we bring to bear new evidence on the relative importance of the two causal mechanisms previously identified as reasons why countries' legal systems may affect trade. Before presenting our results, we first provide a brief description of the Islamic legal tradition. We then outline how we expect Islamic law to influence patterns of international trade.

## ISLAMIC LAW

Unlike secular legal traditions, Islamic law is founded on religious principles. Islamic legal tradition proceeds "from a high divine source embodying God's will and justice" (Khadduri 1956:359). The four primary sources of Islamic law are religious in nature; they include the Koran, the Sunna, judicial consensus, and analogical reasoning (Vago 2000).<sup>4</sup> Muslim firms are expected to operate "under the guidance of norms drawn from the traditional sources of Islam" (Kuran 1995:159).

Several key differences between Islamic law and secular legal traditions hinder the enforcement of contracts in Islamic law states (Kuran 1995). First, Islamic legal systems grant significant discretion to judges. Legal interpretation of contracts and obligations often relies on the sole discretion of an individual judge. Their decision may be based on their personal reading of the Koran. As a result, "religious courts might overturn written contracts" (Bhala quoted in Weltmer 2006). Second, Islamic law incorporates a different conception of property rights. Property is placed in a broader social context. "Absolute ownership of property is seen as vested ultimately in God" (Glenn 2007:182). As a result, contract enforcement tends to be weaker in Islamic law states than in common or civil law states (Kuran 1995).

The lack of standardized judicial procedures in Islamic law states further increases uncertainty about the enforcement of international sales contracts. Firms wishing to litigate a case in an Islamic law country often find that there is no standard procedure to do so (Glenn 2007). Further increasing the uncertainty is the often archaic (and sometimes absent) documentation of cases in Islamic law systems (Bassiouni 1982; Glenn 2007). Firms interested in investigating the courts' record on contract enforcement in an Islamic law country are frequently unable to do so. This increases the risks,

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<sup>3</sup>Pakistan recently imposed Islamic law in a vast region of the north west called Malakand (Shah 2009).

<sup>4</sup>The Koran is the sacred book of the Muslims, and it literally means "the Reading." The Sunna literally means "the path taken or trodden" by the Prophet Muhammad, and it contains his explanations, deeds, sayings, and conduct (Glenn 2007). Judicial consensus is established by "a common religious conviction" of major traditional legal scholars (Glenn 2007) and it regards specific points of Islamic law. Analogical reasoning, the fourth source of Islamic law, is used in circumstances not addressed by the Koran or the other two sources (Vago 2000).



and subsequently the costs, of doing business with partners in Islamic law countries.

## ISLAMIC LAW AND INTERNATIONAL TRADE

Because contract enforcement is relatively weaker in Islamic law countries, as compared to common or civil law countries, Islamic law is expected to have a negative impact on international trade flows. Weak contract enforcement in Islamic law countries increases the risks, and hence the costs, of trade and this deters business (Anderson and Young 2006). Profit maximizing firms will seek opportunities elsewhere where the costs of trade are lower (that is contract enforcement is stronger). Our hypothesis then is that Islamic law countries will tend to have lower levels of trade than secular law countries, holding all else equal (Hypothesis 1). This hypothesis suggests a monadic test. Using a monadic set-up, it is possible to directly test the further implications of the contract enforcement mechanism. If contract enforcement matters for trade, then we expect that common law countries will trade more than civil law countries which in turn will trade more than Islamic law countries. We evaluate the empirical support for this hypothesis by comparing the estimated coefficients on legal system indicators in monadic level tests.

If institutional similarity matters for trade, then we expect that countries with similar legal systems will trade more than countries with dissimilar legal systems (Hypothesis 2). This hypothesis suggests a dyadic test. In addition to providing a direct test of the institutional similarity argument, the dyadic test also provides additional leverage over the relative importance of contract enforcement, as compared to institutional similarity. By comparing trade in mixed dyads (that is, those with two different legal systems) to trade in non-mixed (similar) dyads, it is possible to tease out the empirical support for these two distinct causal mechanisms. The two mechanisms generate different empirical predictions for certain country-pairs.<sup>5</sup> The similarity mechanism predicts that mixed dyads will have lower levels of trade than non-mixed (similar) dyads. In contrast, the contract enforcement mechanism suggests that mixed dyads may, at times, enjoy higher levels of trade than non-mixed dyads. For example, dyads with a common law country and an Islamic law country may have higher levels of trade than dyads with two Islamic law countries, according to the contract enforcement mechanism. This is because Islamic law dyads have the lowest average levels of contract enforcement. In contrast, dyads with one Islamic law country and

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<sup>5</sup>It is important to note, however, that at times these two mechanisms point in the same direction like, for example, in dyads with two common law countries. We thank an observant reviewer for pointing this out.



one common law country have higher average levels of contract enforcement. In this mixed dyad, there is the possibility that litigation will occur in the common-law country where contract enforcement is relatively certain. If contract enforcement does more to reduce transaction costs than similar institutions, some mixed dyads (that is, those with at least one common law country) will have higher levels of trade than non-mixed dyads (i.e. those with two Islamic law countries) (Hypothesis 3).

## RESEARCH DESIGN: DYADIC

To test our hypotheses, we estimate two different empirical models. The first is a dyadic model; the second is a monadic model. We begin with a discussion with the dyadic model. The key independent variable is a measure of a country's legal system. Table 1 reports on the frequency of different legal systems. We use Powell and Mitchell's (2007) categorization of major legal traditions of the world.<sup>6</sup> Civil law states constitute the largest group in the sample (67%). The second largest group is common law states (22%), they are followed by the Islamic law states (7% state-years), and the mixed law states (4% state-years).<sup>7</sup> For the dyadic model, we construct seven dichotomous variables that describe the legal systems of both states in a dyad: *CommonCommon*, *CivilCivil*, *IslamicIslamic*, *CommonCivil*, *CivilIslamic*, *CommonIslamic*, and *MixedDyad*.

**TABLE 1** Domestic Legal System Frequencies 1955–2002

	Percentage of years
Civil	67%
Common	22%
Islamic	7%
Mixed	4%

*Note.* Number of observations: 94,821.

<sup>6</sup>This categorization is constructed using the CIA Fact Book, as well as other subsidiary legal sources, such as Glendon et al. (1994), Opolot (1980), website created at the Law Faculty of the University of Ottawa (<http://www.droitcivil.uottawa.ca/world-legal-systems/eng-generale.html>), and Kritzer (2002). The Appendix contains description of the legal systems of all countries (also see Mitchell and Powell 2011).

<sup>7</sup>Mixed legal system, which is present in some states, represents a legal design where two or more systems apply interactively or cumulatively (systems where a clear form of any of the three legal systems cannot be observed). Although countries belonging to the mixed category constitute a rather small portion of the entire data set, for the purpose of correct estimates, inclusion of this category is critical. Examples include: Botswana, Brunei, Cameroon, China, Israel, or Japan. We do not have any theoretical expectations relating to the mixed law states, since this legal tradition constitutes an amalgamation of other legal systems.

To estimate the dyadic model, we use a standard gravity model.<sup>8</sup> The gravity model posits that the volume of trade between two nations is an increasing function of the incomes of those nations and a decreasing function of the distance between them. Additional variables, including whether countries share a common language, are often added to the basic model (for example Bliss and Russett 1998; Frankel, Stein and Wei 1995; Rose 2004a).<sup>9</sup> The gravity model has proved to be an extremely effective framework for gauging “natural” levels of trade between countries (Frankel and Wei 1993; Bergstrand 1985, 1989).<sup>10</sup> As a result, the model can be used to identify “abnormal” or distorted patterns of trade (Hiscox and Kastner 2004). We use the gravity model to estimate the extent to which distorted patterns of trade are due to countries’ legal systems. The dependent variable in the gravity model is the natural log of the dyadic trade in a given year. These data come from Rose (2004a) and cover all states from 1948 to 1999.<sup>11</sup> However, our sample is restricted to the period from 1955 to 1998 to allow the legal systems of newly independent states to fully crystallize.<sup>12</sup> To account for the main variables of interest, the gravity model is extended in the following way:

$$\begin{aligned} \ln(\text{TRADE}_{ijt+1}) = & \beta_0 + \beta_1 \ln(\text{GDP}_i^* \text{GDP}_j)_t \\ & + \beta_2 \ln(\text{GDP}/\text{percapita}_i^* \text{GDP}/\text{percapita}_j)_t \\ & + \beta_3 \ln(\text{DISTANCE}_{ij})_t + \beta_4 \text{CommonCommon}_{ijt} \\ & + \beta_5 \text{CivilCivil}_{ijt} + \beta_6 \text{CivilCommon}_{ijt} + \beta_7 \text{CivilIslamic}_{ijt} \\ & + \beta_8 \text{CommonIslamic}_{ijt} + \beta_9 \text{CmixedDyad} + \beta_{10} \text{CFatalMID}_{ijt} \\ & + \beta_{11} \text{CjointDemocracy}_{ijt} + \beta_{12} \text{RTA}_{ijt} \\ & + \beta_{13} \text{CommonLanguage}_{ijt} + \beta_{14} \text{Alliance}_{ijt} \\ & + \beta_{15} \text{CommunistDyad}_{ijt} + \beta_{16} \text{NotCommunistDyad}_{ijt} + E_{ijt} \end{aligned}$$

<sup>8</sup>The unit of analysis is non directional dyad-year.

<sup>9</sup>We follow suit by including a variable, *Common Language*, that is equal to one if the primary language spoken in each state in a dyad is the same, and zero otherwise. Data come from Rose (2004a).

<sup>10</sup>Microfoundations for the gravity model have been provided by Bergstrand (1985, 1989), and Helpman and Krugman (1985).

<sup>11</sup>One of the most important advantages of Rose’s (2004a) data is that he deflates trade by a base Consumer Price Index. These data may be obtained at <http://faculty.haas.berkeley.edu/arose/RecRes.htm#Trade>

<sup>12</sup>Legal structures need several years to become stable after a state becomes independent.

The first three parameters,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  represent the basic gravity influences on trade. Gross Domestic Product (GDP) measures the size of a state's economy and serves as a proxy for national income. The expected coefficient on the joint product of the dyad's GDP is expected to be positive as richer countries tend to trade relatively more (Rodrik 1995). GDP per capita is included as a proxy for a state's capital-to-labor ratio in order to account for intra-industry trade (Bergstrand 1985, 1989; Helpman and Krugman 1985). Higher capital-labor ratios indicate more capital-intensive countries. Capital-intensive countries trade more with other capital-intensive countries; this trade often takes the form of intra-industry trade. As a result, the coefficient  $\beta_2$  is expected to be positively signed. In contrast, the coefficient on *Distance* is expected to be negative. As distance increases, transport costs increase which deters trade between countries.

The next six variables are the legal dummies, which are designed to test the influence of domestic legal systems on international trade. The variable *IslamicIslamic* has been left out of the model in order to avoid the "dummy trap." The data are structured as a time-series cross-sectional design. The baseline estimation technique that we use to overcome problems associated with such data is Ordinary Least Squares with panel corrected standard errors (Beck and Katz 1995). However, since this technique does not take into account fixed dyad-specific effects, we check the robustness of our results using a fixed-effects model, which controls for the dyadic heterogeneity (Green, Kim, and Yoon 2001).<sup>13</sup>

Several additional control variables are also included. For example, *Joint Democracy* is added to capture the potential impact of democratic institutions on trade flows. A vigorous academic debate exists over the precise relationship between democracy and trade. Some argue that democracy unequivocally promotes free trade (e.g., Bliss and Russett 1998; Mansfield, Milner and Rosendorff 2000). Others suggest that democracy promotes trade but only under certain conditions (e.g., Kono 2006, 2008; O'Rourke and Taylor 2007; Tavares 2008). The empirical evidence is mixed. A number of influential studies find that democratic dyads have higher levels of trade than mixed or autocratic dyads (e.g., Bliss and Russett 1998; Dixon and Moon 1993; Morrow, Siverson and Tabares 1998). However, other important studies find that democracies do not trade any more with each other (e.g., Green et al. 2001; Gowa and Mansfield 1993; Mansfield and Bronson 1997). Although existing research does not provide unambiguous guidance as to whether to include democracy as a control variable, we choose to do so here. Given our interest in the effects of Islamic law on bilateral trade flows, it seems particularly important to control for regime type as it tends to

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<sup>13</sup>Results of this model are supportive of our conclusions based on the OLS model.

co-vary with secular legal traditions. We use the Polity IV data set (Marshall and Jaggers 2003) to construct the variable *Joint Democracy*.<sup>14</sup> This is a dummy variable coded 1 when both states are democratic and 0 otherwise. Countries are considered to be democratic if they score 6 or above on the Polity IV scale.

Several analyses have found that members of preferential trade agreements tend to trade more than nonmembers (Mansfield, Milner and Rosendorf 2000; Pollins 1989).<sup>15</sup> Regional trade agreements reduce transaction costs and increase levels of bilateral trade (Frankel, Stein, and Wei 1995; Mansfield and Bronson 1997; Souva, Smith, and Rowan 2008). To control for this, we include a variable that equals one if both states belong to a regional trade agreement. Data on regional trade organizations come from the World Trade Organization.<sup>16</sup>

Numerous scholars have suggested that military conflict between states can influence international trade relations (for example Hufbauer, Schott, and Elliott 1990; Li and Sacko 2002; Mansfield and Bronson 1997; Morrow et al. 1998). However, not all conflicts are equally likely to affect trade relations. Conflict that are short or relatively mild may have little effect on trade. In contrast, severe conflicts substantially increase the risks of transnational transactions. To account for this, we include fatal Militarized Interstate Disputes (*fatalMIDs*) as a control variable in the estimated gravity model. This dichotomous variable equals one if a dyad is involved in a MID with fatalities during a given year. Data on MIDs come from the Correlates of War project.<sup>17</sup> The coefficient is expected to negatively signed; dyads experiencing severe military conflict will tend to have lower levels of trade, all else equal.

*Alliance* is a dummy variable coded one for dyads with a defense pact, entente, or nonaggression agreement, and zero otherwise. Because allies typically trade more with each other than non allies (Gowa 1989; Gowa and Mansfield 1993; Mansfield and Bronson 1997), the coefficient on *Alliance* is expected to be positively signed. Data come from the Correlates of War project (Gibler and Sarkees 2004).

In our analyses, we also account for the fact that patterns of international trade may be different for communist states. In our model, we include three dichotomous variables, *Communist Dyad*, *Not Communist Dyad*, and *Mixed Communist Dyad* (one state is communist and one is

<sup>14</sup>The validity of the Polity IV democracy scale is supported by its strong correlation (.85 to .92) with numerous conceptually and operationally different indicators of democracy developed by various researchers (such as Freedom House, and others) (Jaggers and Gurr 1995).

<sup>15</sup>Although GATT membership should also boost trade openness, Rose (2004a, 2004b) finds no evidence of this.

<sup>16</sup>See [www.wto.org/english/tratop\\_region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_region_e/region_e.htm). Some of the regional organizations include ASEAN, EEC/EC/EU, US-Israel FTA, NAFTA, CARICOM, SPARTECA, Mercosur, etc.

<sup>17</sup>The variable was assembled using the Expected Utility Generation and Data Management Program (EUGene) (Bennett and Stam 2000; Jones, Bremer, and Singer 1996).

not). Information on communist states has been gathered using The CIA Fact Book.<sup>18</sup>

## EMPIRICAL RESULTS: DYADIC

Table 2 presents the gravity model results. Domestic legal systems have an important and systematic effect on bilateral trade flows, consistent with previous studies. The novel finding is that Islamic dyads exhibit the lowest levels of bilateral trade, all else equal. Recall that the *IslamicIslamic* dummy is excluded from the model (benchmark category). The positive and significant coefficients on the legal system indicators demonstrate that all of the other dyads (i.e., *CommonCommon*, *CivilCivil*, *CommonCivil*, *CivilIslamic*, *CommonIslamic*, and *MixedDyad*) enjoy higher levels of trade

**TABLE 2** Gravity Model of Bilateral Trade 1955–1998

<i>Variables</i>	
Gravity Model Variables	
Ln(GDP)	.838*** (.003)
Ln(GDP per Capita)	.584*** (.005)
Ln(Distance)	−1.405*** (.009)
Key Variables	
CommonCommon	1.793*** (.059)
CivilCivil	1.136*** (.052)
CommonCivil	1.425*** (.053)
CivilIslamic	1.118*** (.053)
CommonIslamic	1.17*** (.057)
MixedDyad	1.60*** (.054)
Control Variables	
FatalMid	−.949*** (.224)
JointDemocracy	−.201*** (.016)
RTA	.147*** (.008)
CommonLanguage	.537*** (.018)
Alliance	−.02 (.022)
CommunistDyad	.503** (.161)
NotCommunistDyad	.037 (.027)
Constant	−29.5*** (.16)
Wald $\chi^2(16) = 159207.6$	
Prob> $\chi^2 = 0.000$	
R-squared = .65	

*Note.* Number of observations: 94,821.

\* $p < .10$ , \*\* $p < .05$ , \*\*\* $p < .001$ ; panel corrected standard errors reported in parentheses.

<sup>18</sup>Since there are three possible dyadic combinations of states in a dyad (both states are communist (Communist Dyad), neither state is communist (Not Communist Dyad), or only one state in a dyad is communist (mixed Communist Dyad), in order to avoid “the dummy trap,” we excluded the Mixed Communist Dyad from the model.

than *IslamicIslamic* dyads. On average, joint Islamic dyads have the lowest levels of bilateral trade flows arguably because of the weak contract enforcement in Islamic law systems.

Several additional results point to the importance of contract enforcement for bilateral trade flows. First, *IslamicIslamic* dyads have lower levels of bilateral trade than dyads with only one Islamic law country, as demonstrated by the positive and significant coefficients on *CommonIslamic* and *CivilIslamic*. This finding runs counter to the institutional similarity argument, which suggests that *IslamicIslamic* dyads will trade more than *CommonIslamic* or *CivilIslamic* dyads because they share similar legal institutions. However, our results show that dyads with one Islamic law country trade relatively more than dyads with two Islamic countries. This points to the potential importance of contract enforcement. Dyads with only one Islamic law country arguably have higher average levels of contract enforcement than dyads with two Islamic law countries. In a *CommonIslamic* dyad, for example, it is possible that a dispute may be litigated in the common law country where contract enforcement is relatively certain. This possibility reduces the risks of trade and as a result, the costs of trading are lower in *CommonIslamic* dyads than in *IslamicIslamic* dyads, on average.

Second, *CommonIslamic* dyads enjoy higher levels of trade than *CivilIslamic* dyads. Again, this points to the potential importance of contract enforcement. Recall that common law systems tend to have better contract enforcement than civil law systems. Given this, the average level of contract enforcement in *CommonIslamic* dyads will tend to be higher than in *CivilIslamic* dyads. In other words, the possibility that a dispute may be litigated in a common law system will do more to lower the costs of trade than the possibility of litigating in a civil law system. As a result, trade flows tend to be higher in *CommonIslamic* dyads than *CivilIslamic* dyads, all else equal.

Third, dyads with at least one common law country have higher levels of bilateral trade than dyads without a common law country. Because common law countries have the strongest record of contract enforcement, the presence of a common law country in a trading dyad may reduce the costs of trade. This may explain why *CommonCivil* dyads have higher levels of trade than *CivilCivil* dyads and why *CommonIslamic* dyads have higher levels of trade than *CivilIslamic* dyads. Taken together, these results suggest that countries' legal systems matter for international trade via their effects on contract enforcement. Strong contract enforcement does more to reduce the cost of trade than similar legal institutions. Shared institutions alone are insufficient to engender trade between two countries; instead, it depends critically on the quality of the shared institutions.<sup>19</sup>

<sup>19</sup>It is no surprise that *CommonCommon* dyads enjoy the highest levels of bilateral trade. These dyads are doubly blessed; they share similar institutions and the institutions they share have a strong record of contract enforcement.

A few words on the estimated effects of some key control variables is warranted before we move on to a discussion of the monadic results. The estimated coefficient for *Joint Democracy* is negative and statistically significant. Controlling for countries' legal systems, democratic dyads appear to have slightly lower levels of trade, on average, than mixed dyads or autocratic dyads. This finding is consistent with several previous studies. For example, Green et al. (2001) show that democratic countries trade less with each other. Mansfield and Bronson (1997) find that democratic dyads do not have higher trade flows than other dyads. Gowa and Mansfield (1993) find, in a study of major powers, that joint democracy is not related to trade in most cases.

Several explanations exist for why democracies may trade relatively less with one another. Verdier (1998) argues that because trade engenders political conflict, democracies may be less likely to pursue free trade and more likely to adopt protection against each other. Dai (2002) illustrates that the level of trade in democratic dyads depends critically on the preferences of elected leaders. As a result, the effect of democracy on trade is ambiguous; democratic dyads may have higher or lower levels of trade than mixed or autocratic dyads. Similarly, Kono (2008) argues that democracy can lead to either liberalization or protection. He demonstrates that the effect of democracy on trade varies across countries and trading partners. Dai (2006) shows that democracies have a monadic bargaining advantage in international trade negotiations and this advantage may make economic cooperation between democracies *more* difficult rather than less.

While these explanations are all entirely plausible, the negative correlation reported here between joint democracy and bilateral trade flows may be related to the inclusion of legal systems in the estimated gravity model. It is possible that the previously reported positive correlations between joint democracy and trade may be due, in part, to the dominance of secular, contract-enforcing legal traditions in democratic countries. We attempt to isolate the effects of legal and political institutions by including measures of both in our dyadic model.<sup>20</sup> In doing so, this study brings new evidence to the ongoing debate over the effect of democracy on trade. Our results suggest that countries' legal systems have a substantially larger effect on trade relations than regime type. The average coefficient on legal systems is nearly seven times larger than the estimated coefficient on *Joint Democracy*. This finding is consistent with Souva, Smith, and Rowan (2008) who also conclude that market institutions do more to promote trade than political institutions.<sup>21</sup> In their study, they use the amount of contract-intensive

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<sup>20</sup>This strategy is recommended by Rigobon and Rodrik (2005) who argue that failure to do so may introduce systematic bias.

<sup>21</sup>It is also consistent with research that finds market-protecting institutions matter more than democratic institutions for attracting foreign direct investment (Li and Resnick 2003).



money in circulation in a country as a proxy for contract enforcement. When this measure of contract enforcement is included in a gravity model of bilateral trade, they also find a negative and significant coefficient on *Joint Democracy*. They conclude that democracy does not always increase trade flows; instead, the effects of regime type depend critically on a country's market protecting institutions.

Our results, like Souva et al.'s point to the importance of identifying the effects of individual facets of democracy on trade. Democracy is a multifaceted conceptualization and different aspects of democracy may have different effects on international economic relations (Simmons 2000). For example, firms interested in cross-border trade may be less concerned about citizens' voting rights than they are about the record of contract enforcement. To better understand the aggregate effects of democracy on trade, it is important to understand how particular elements of democracy and institutions that co-vary with democracy matter (Dai 2006).

The coefficient for *Alliance* does not have a statistically significant effect on international trade, which supports the findings of Bliss and Russett (1998), and Souva et al. (2008). Firms when making a decision regarding their trading partner are more concerned with preexisting legal structures than with security alignments on the state level. Not surprisingly, shared communist regime seems to encourage bilateral trade. Communist states tend to promote "inter-communist" trade to show support for shared political and economical principles. Shared language promotes international trade. Julian Johansen, the Dubai Investment Group lawyer describes the importance of shared language: "There are two main advantages of having the language ability. One it gets clients comfortable at 'meet and greets' and allows you to be a bit more sociable without any awkwardness. Second, it makes you feel a lot more comfortable working in the region . . ." (Middleton 2007:19). Not surprisingly, common membership in a regional trade agreement encourages international trade. The gravity variables perform as expected. Bigger and wealthier dyads trade more and the distance between states inhibits interstate trade.

## EMPIRICAL RESULTS: MONADIC

As an additional test of the empirical validity of the contract enforcement mechanism, we estimate a monadic model. In the monadic model, country-years are the unit of analysis; the dependent variable is a country's yearly total trade volume (logged). Trade data come from the Correlates of War Project (2008) (Barbieri, Keshk, and Pollins 2008). The key independent variables are indicators of a country's legal system. These indicators are simple dummy variables coded one if the country has a particular legal system and zero otherwise. We construct four such variables: *Civil Law*,

*Common Law*, *Islamic Law* and *Mixed Law*. As in the dyadic model, *Islamic Law* constitutes the excluded (benchmark) category. We use a simple OLS technique with robust standard errors to estimate the monadic model.

Monadic models of trade are relatively infrequent, especially as compared to dyadic models. As a result, there is less agreement on the correct model specification. We choose to follow most closely Rose's example. Like Rose (2004a), we estimate a parsimonious monadic model of trade with population, GDP, and financial remoteness as control variables. These variables account for the most well-known features of trade policy and apply the logic of the dyadic gravity models to a country-level study. These data are from Rose (2004a) and Rose and Spiegel (2009). To this somewhat sparse model, we add democracy and legal systems. We include both in order to isolate the effects of legal traditions on trade. Doing so also ensures that the estimated effects of democracy pick up the influence of political institutions rather than legal institutions (Rigobon and Rodrik 2005). The results of the monadic model are reported in Table 3.

The monadic results provide strong evidence in support of the contract enforcement mechanism. Islamic law countries have the lowest levels of total trade on average.<sup>22</sup> Common law countries have the highest average levels of trade.<sup>23</sup> In short, countries with stronger records of contract enforcement

**TABLE 3** Monadic Levels of Trade 1955–2000

Variables		
Civil Law	12.16*	(7.6)
Common Law	26.01**	(10.7)
Mixed Law	2.16	(10.6)
Ln(Population)	.680***	(.015)
GDP	.0001***	(.000)
Financial Remoteness	-1.55***	(.051)
Democracy	.08***	(.003)
Common*Year	-.013**	(.005)
Civil*Year	-.006*	(.004)
Mixed*Year	-.001	(.005)
Year	.015***	(.004)
Constant	-45.62***	(7.27)
F(11, 4227) = 975.46		
Prob>F = 0.000		
R-squared = .72		

Note. Number of observations: 4,239.

\* $p < .10$ , \*\* $p < .05$ , \*\*\* $p < .001$ ; robust errors reported in parentheses.

<sup>22</sup>Recall that Islamic law is the benchmark category. Therefore, the positive and significant coefficients on *Common law* and *Civil law* indicate that trade levels are higher on average in secular law countries as compared to Islamic law countries, all else equal.

<sup>23</sup>This is true despite the negative and significant coefficient on the interaction term *Common\*Year*. The positive and significant coefficient on *Common law* in this model is correctly interpreted as the marginal effect of *Common law* when *Year* equals zero. The reported coefficient indicates that trade

enjoy higher levels of total trade. We argue that this is because profit maximizing firms are sensitive to the costs of trading in an environment with weak contract enforcement. When contract enforcement is uncertain, the costs of trade are relatively higher. This deters business and helps to explain why Islamic law countries exhibit lower levels of trade than common or civil law countries, holding all else constant.

The control variables in the monadic model perform as expected. More populous and wealthier states trade more. More distant states, on the other hand, trade less. Interestingly, the estimated coefficient on democracy is positive and statistically significant. Recall that the estimated effect of *Joint Democracy* was negative in the dyadic model. This suggests that although democracies enjoy higher levels of total trade, they tend to trade relatively less with each other. This finding is supportive of Dai's analytical argument (2006). She demonstrates formally that democracies have a monadic bargaining advantage in international trade negotiations. This advantage serves to reduce trade barriers in foreign partners but increase barriers at home. Our results suggest that the reduction in trade barriers abroad is larger than the increase in trade barriers at home. Our results also indicate that democracies' monadic bargaining advantage does not translate into increased bilateral trade with other democracies. Instead, the democratic bargaining advantage appears to make economic cooperation between democracies *more* difficult rather than less, as predicted by Dai (2006).

As in the dyadic tests, we find that countries' legal institutions matter more for international trade than their political institutions. The average effect of secular legal traditions on total trade is more than 200 times greater than the effect of democracy.

## EFFECTS OF LEGAL SYSTEMS OVER TIME

The impact of countries' legal systems on trade may vary over time. It is possible, for example, that countries' legal systems are less relevant for international trade today. In recent years, firms engaged in cross-border trade have increasingly turned to lawyers for help drafting international sales contracts (Schaffer, Earle, and Agusti 2005).<sup>24</sup> International trade lawyers often advise clients to explicitly stipulate in the sales contract where disputes will

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is 26 percentage points higher in common law countries as compared to Islamic law countries in 1955 (i.e. that is, when *Year* equals zero). However, given the magnitude of the coefficients on *Common law* and *Common\*Year*, we can conclude that trade is significantly higher in common law countries throughout the entire sample.

<sup>24</sup>International law firms also assist in supervising litigation abroad (Schaffer, Earle and Agusti 2005).

be arbitrated or litigated (Morrissey and Graves 2008).<sup>25</sup> Clients are regularly advised to avoid arbitration or litigation under Islamic law and increasingly, contracts specify that disputes will be referred to neutral arbitration bodies (Dezalay and Garth 1995). Examples of such bodies include the International Chamber of Commerce (ICC), International Centre for Dispute Resolution (ICDR), American Arbitration Association (AAA), and the London Court of International Arbitration (LCIA). These bodies have emerged in recent years as an attempt to minimize the uncertainties associated with litigation in national courts. The increased use of international arbitration suggests a declining role for countries' domestic legal systems in international trade relations.

The standardization of international sales contracts may further reduce the influence of countries' legal systems. In 1994, the International Institute for the Unification of Private Law (UNIDROIT) drafted a set of principles to assist parties in writing internationally accepted sales contracts. These principles have helped to harmonize international sales contracts and minimize the role played by national legal systems in cross-border transactions (Brown 2002). A survey conducted by the Center for Transnational Law (CENTRAL) in 1999 found that two thirds of respondents used the UNIDROIT Principles when negotiating and drafting international commercial contracts (Bonell 2004). Today, relatively little remains under the authority of national law thanks to widespread use of the UNIDROIT Principles of International Contracts (Brown 2002). This suggests that countries' legal systems will have a relatively smaller impact on trade flows in recent years, as compared to earlier years in our sample (Hypothesis 4).<sup>26</sup>

To test for this possibility, we reestimate the gravity model with interaction terms constructed by multiplying the dyadic legal system indicators (e.g., *CommonCommon*, *CivilCommon*, *CivilCivil*, etc.) with a linear time trend (*Year*). Using these interaction terms, it is possible to examine the effects of legal institutions over time. Table 4 displays the results of this model. The negative coefficients on the linear time trend and all interaction terms indicate that the effects of legal systems on international trade are declining. Figures 1, 2, and 3 show the marginal effects of common, civil, and Islamic law on international trade during period from 1955 to 1999.<sup>27</sup> Figure 1 illustrates that common law has the largest positive marginal effect on trade in the earliest years of the sample. This positive marginal effect

<sup>25</sup>In the Indonesian example discussed earlier, the international sales contract contained a clause requiring the parties to resolve all disputes by arbitration in Indonesia, applying Indonesian law, utilizing the Indonesian National Arbitration Body Rules (BANI).

<sup>26</sup>Recall that our sample covers the period from 1955 to 1998.

<sup>27</sup>Figures 1, 2 and 3 were produced using the STATA do program created by Brambor, Clark, and Golder (2005)

**TABLE 4** Gravity Model of Bilateral Trade with Interaction Terms 1955–1999

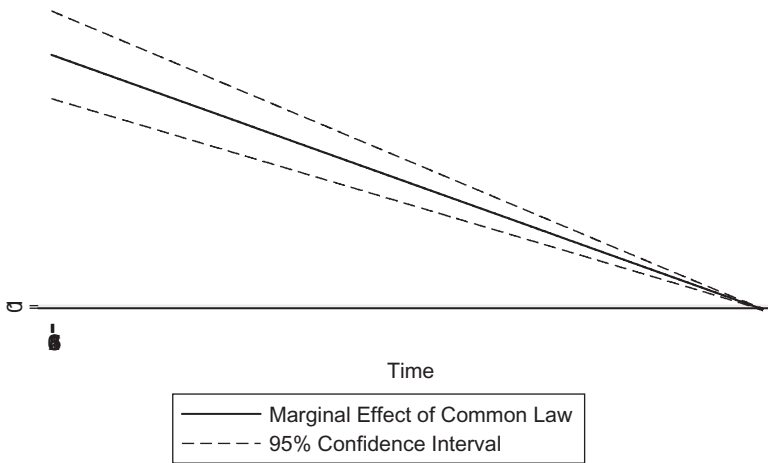
Variables		
Gravity Model Variables		
Ln(GDP)	.841***	(.003)
Ln(GDP per Capita)	.63***	(.006)
Ln(Distance)	-1.38***	(.008)
Key Variables		
CommonCommon	139.9***	(4.33)
CivilCivil	69.6***	(2.16)
CommonCivil	110.8***	(2.02)
CivilIslamic	104.6***	(2.4)
CommonIslamic	120.9***	(4.3)
MixedDyad	103.4***	(2.3)
Legal – Time Interactions		
CommonCommon*Year	-.07***	(.002)
CivilCivil*Year	-.04***	(.001)
CommonCivil*Year	-.06***	(.001)
CivilIslamic*Year	-.05***	(.001)
CommonIslamic*Year	-.06***	(.002)
MixedDyad*Year	-.05***	(.001)
IslamicIslamic*Year	-.0006***	(.00008)
Year	-.02***	(.005)
Control Variables		
FatalMid	-.46***	(.08)
JointDemocracy	-.09***	(.015)
RTA	.205***	(.007)
CommonLanguage	.537***	(.018)
Alliance	-.02	(.022)
CommunistDyad	.504***	(.14)
NotCommunistDyad	.148***	(.026)
Wald $\chi^2(16) = 167666.03$		
Prob> $\chi^2 = 0.000$		
R-squared = .7		

Note. Number of observations: 94,821.

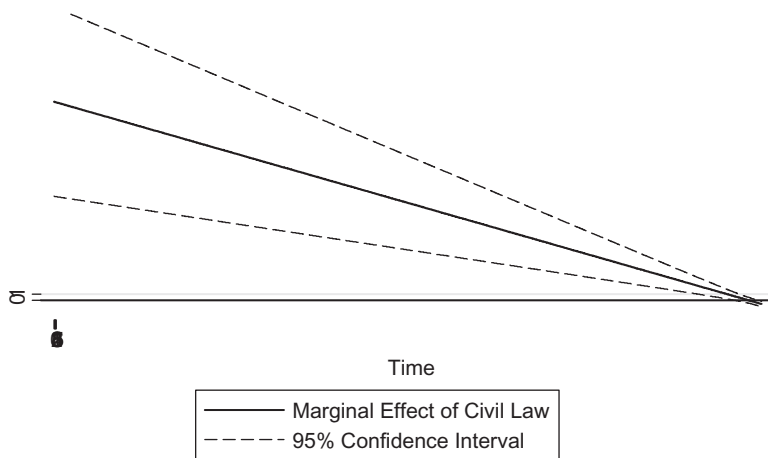
\* $p < .10$ , \*\* $p < .05$ , \*\*\* $p < .001$ ; panel corrected standard errors reported in parentheses.

declines over time and approaches zero in the most recent sample years. Figure 2 demonstrates a similar pattern for civil law.<sup>28</sup> Like common law, civil law has the largest positive marginal effect on trade in the earliest sample years. This positive marginal effect declines as time goes by. Figure 3 illustrates how the marginal effect of Islamic law on trade changes over time. Islamic law has the largest reductive effect on trade flows in the earliest sample years. This negative marginal effect declines over time. In

<sup>28</sup>However, the coefficients for civil law are estimated with a greater amount of error.



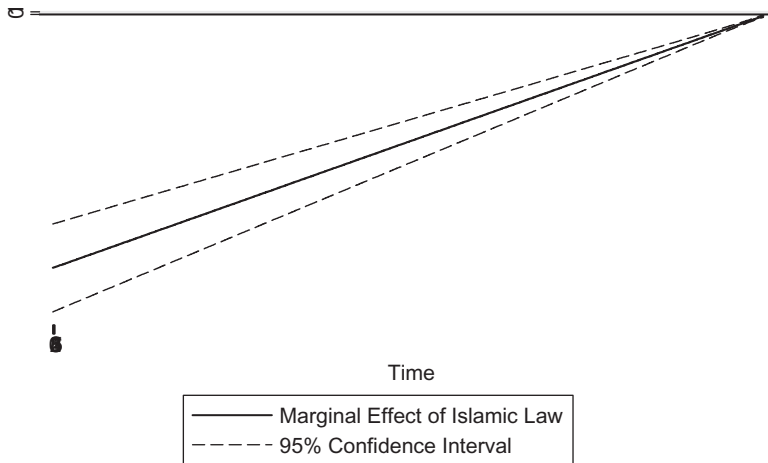
**FIGURE 1** Marginal effect of common law on trade over time.



**FIGURE 2** Marginal effect of civil law on trade over time.

the most recent sample years, the marginal effect of Islamic law on trade approaches zero.

The monadic results display similar trends. Differences in trade due to legal systems tend to attenuate over time. Common and civil law have the largest positive marginal effect on total trade in the earliest years of the sample. The positive marginal effect declines over the sample period. Taken together, these results suggest that countries' legal systems have become relatively less important for trade relations over time. Possible explanations for the decreased importance of national legal systems include the growing role of international arbitration bodies and/or the increased standardization of international contracts.



**FIGURE 3** Marginal effect of Islamic law on trade over time.

## CONCLUSIONS

In this article, we offer the first direct test of the effect of Islamic law on international trade. We find that Islamic law deters trade. Countries with Islamic legal traditions have lower average levels of total trade, as compared to secular law countries. Furthermore, Islamic law countries trade relatively less with each other. These findings advance our understanding of how national legal systems affect international trade. Our results point to the potential importance of contract enforcement. Countries with stronger records of contract enforcement enjoy higher levels of trade; common law countries trade relatively more than civil law countries who trade relatively more than Islamic law countries.

Quality legal institutions appear to do more to reduce the cost of trade than similar legal institutions. Although Islamic law dyads share similar legal institutions, they have, on average, lower levels of trade than dyads with only one Islamic law country. This suggests that shared institutions alone are not sufficient to ensure trade flows between two countries; instead, bilateral trade depends critically on the quality of the shared institutions. This result has important policy implications as many multilateral agencies promote the harmonization of institutions as a way to increase trade (Islam and Reshef 2006). This study suggests that a more effective strategy may be to promote quality legal institutions. Particularly useful reforms would be those that increase the likelihood and certainty of contract enforcement.

This study has several additional implications. First, it suggests that increased internationalization may reduce the importance of cross-national differences in legal institutions. We find that the effects of countries' legal



systems on trade decrease over time. One possible explanation is increased role of international arbitration bodies and international trade layers. This may also be due, in part, to the emergence of international norms regarding sales contracts. The UNIDROIT Principles of International Contracts have played an important role in assisting parties in negotiating and drafting cross-border sales contracts since 1994 (Bonell 2004). These principles have been credited with harmonizing international sales contracts and reducing the role of domestic legal systems in international trade (Bonell 2004; Brown 2002). Our study provides the first systematic evidence of this. This finding raises the intriguing possibility that globalization may mitigate the effects of cross-national differences in domestic institutions. This possibility deserves further investigation.

Second, this study provides a possible alternative explanation for the stylized fact that high income, capital-abundant countries trade disproportionately with each other. This pattern of exchange is not predicted by models of trade based on factor endowments (for example Jones 1971; Stolper and Samuelson 1941). In an attempt to explain the high levels of trade amongst capital-abundant countries, new models have been developed based on product differentiation rather than factor endowments (for example, Krugman 1980). Legal systems provide a simple alternative explanation: good institutional support for trade among high-income countries lowers transaction costs and encourages these countries to trade disproportionately with each other (Anderson and Marcouiller 2002:342). Legal institutional differences generate “a disproportionately high volume of trade among high-income countries,” a pattern “which happens to accord well with trade patterns in the real world” (Deardorff 1998:16). More generally, this study illustrates the importance of controlling for national legal systems in empirical models of international trade flows.

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## APPENDIX: DOMESTIC LEGAL SYSTEM TYPES

### Common Law Countries

United States of America, Canada, Bahamas, Jamaica, Trinidad and Tobago, Barbados, Dominica, Grenada, St. Lucia, St. Vincent and Grenadines, Antigua & Barbuda, St. Kitts-Nevis, Belize, Guyana, United Kingdom, Ireland, Cyprus, Liberia, Sierra Leone, Ghana, Uganda, Tanzania, Zanzibar, Zambia, Zimbabwe, Malawi, Lesotho, India, Bhutan, Bangladesh, Myanmar, Nepal, Malaysia, Singapore, Philippines, Australia, Papua New Guinea, New Zealand, Solomon Islands, Kiribati, Tuvalu, Fiji, Tonga, Nauru, Marshall Islands, Palau, Federated States of Micronesia, Samoa, Mauritius

### Civil Law Countries

Cuba, Haiti, Dominican Republic, Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Surinam, Ecuador, Peru, Brazil, Bolivia, Paraguay, Chile, Argentina, Uruguay, Netherlands, Belgium, Luxembourg, France, Monaco, Liechtenstein, Switzerland, Spain, Andorra, Portugal, Germany, Poland, Austria, Hungary, Czech Republic, Slovakia, Italy, San Marino, Albania, Macedonia, Croatia, Yugoslavia, Bosnia-Herzegovina, Slovenia, Greece, Bulgaria, Moldova, Romania, Russia, Estonia, Latvia, Lithuania, Ukraine, Belarus, Armenia, Georgia, Azerbaijan, Finland, Sweden, Norway, Denmark, Iceland, Cape Verde, Sao Tome and Principe, Guinea-Bissau, Equatorial Guinea, Mali, Benin, Ivory Coast, Guinea, Burkina Faso, Togo, Gabon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Burundi, Djibouti, Ethiopia, Angola, Mozambique, Swaziland, Madagascar, Turkey, Turkmenistan, Tajikistan, Kyrgyz Republic, Uzbekistan, Kazakhstan, Mongolia, Taiwan, North Korea, South Korea, Cambodia, Laos, Vietnam, Republic of Vietnam, Indonesia, East Timor

### Islamic Law Countries

Gambia, Nigeria, Comoros, Morocco, Algeria, Tunisia, Libya, Sudan, Iran, Iraq, Egypt, Syria, Lebanon, Jordan, Saudi Arabia, Yemen Arab Republic,

Yemen, Yemen People's Republic, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Afghanistan, Pakistan, Maldives

#### Mixed Law Countries

Malta, Senegal, Niger, Cameroon, Kenya, Rwanda, Somalia, Eritrea, South Africa, Botswana, Seychelles, Israel, China, Japan, Myanmar, Sri Lanka, Thailand, Brunei, Vanuatu, Namibia