

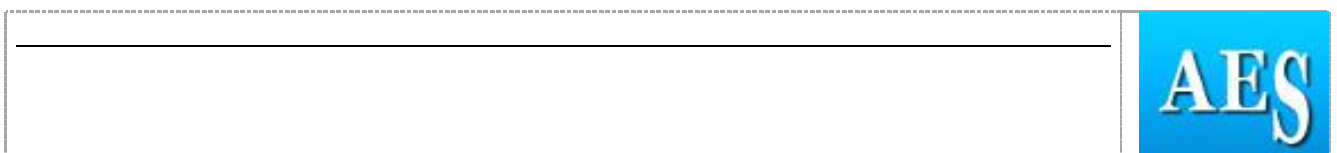
## Extended Abstract

Please do not add your name or affiliation

<b>Paper/Poster Title</b>	<b>Imported Intermediate Inputs and Export Performance of Italian Food Firms</b>
---------------------------	--

**Abstract prepared for presentation at the 98th Annual Conference of The Agricultural Economics Society will be held at The University of Edinburgh, UK, 18th - 20th March 2024.**

<b>Abstract</b>	<b>200 words max</b>
<p>More competition in the input market contributes to improved access to lower-priced, higher-quality/technology-embodied inputs and a broader range of inputs. This increases the likelihood of firms manufacturing and selling more diverse final products. In this paper, we examine the impact an increase in imports of intermediate inputs has on the quality of exported products and the diversification of exported final goods, utilizing detailed trade and firm-level data from Italy from 2012 to 2020. We find a strong positive relationship between the variety of imported intermediate inputs and the quality of exported products. Furthermore, our analysis indicates that imported intermediate inputs positively affect the scope of exported end products. The results suggest that local firms innovate and create new types of goods by acquiring a greater choice of intermediate inputs. The findings show that product quality upgrading supported by quality inherent in imported intermediate inputs improves the overall export performance of Italian enterprises.</p>	
<b>Keywords</b>	Intermediate Inputs; Food Exports; Product Quality; New products
<b>JEL Code</b>	F12; F14; C10
<b>Introduction</b>	<b>100 – 250 words</b>
<p>In recent years, consumer demands for food quality have expanded to encompass not only taste, appearance, and convenience but also considerations such as the food production process's environmental impact and food safety. Internationally, this increased demand for higher food quality has led to establishing both public and private food quality standards, potentially influencing trade flows. Consequently, food industry firms have adopted vertical product differentiation strategies, as consumers are becoming less price-sensitive. The rise in demand for food quality has resulted in firms producing quality-differentiated food products seeking intermediate agricultural inputs that meet relevant product-quality specifications. These characteristics, crucial for meeting consumer expectations and food standards, are often embodied in production process inputs. Firms may benefit from importing higher-grade varieties of intermediate goods to enhance product quality, making them more competitive in accessing new export markets or expanding exports to existing markets. Despite the growing availability of inputs due to global trade integration, there is a limited number of papers in the literature analyzing the effect of increased availability of intermediate inputs on the export performance of food firms. This paper aims to fill this gap by exploring the impact of input import penetration on various firm-level outcomes, including the quality of exported products, the likelihood of entering new markets, and the diversification of exported final goods. The study, focusing on the unique characteristics of the food industry, provides industry-specific</p>	



insights and practical recommendations for policymakers, managers, and practitioners aiming to optimize export strategies.

### **Methodology**

*100 – 250 words*

The analysis utilizes a unique database, combining balance-sheet data from the Bureau Van-Dijk ORBIS database and export/import firm-level data from ISTAT (Italian National Institute of Statistics). This dataset covers approximately 7,000 Italian food and drink firms from 2012 to 2020. The ORBIS database provides firm-level balance-sheet data, while ISTAT provides information on annual export and import values and volumes at an 8-digit product disaggregation level, along with destination (or origin) countries. Our empirical analysis aims to explore the impact of input import penetration on various firm-level outcomes, including the quality upgrading of exported products, the probability of entering new markets, and exports of new products. For this purpose, we consider input import penetration at the industry level (NACE 4-digit) for Italian food and drink sectors, as well as firm-level variables such as the number, the value, and the quality of imported intermediate inputs. Using OLS, we also include other control variables such as output import penetration, TFP, and bilateral tariffs. Additionally, the study examines the relationship between newly imported inputs and newly exported products. The analysis accounts for firm-level and year fixed effects and controls for potential endogeneity bias.

### **Results**

*100 – 250 words*

Our results show a robust positive relationship between Input Import Penetration and the quality upgrading of the food and drink sectors' firm exports. Furthermore, our analysis indicates that imported intermediate inputs positively affect firms' extensive margin of trade, expressed as the probability of exporting to new destination markets and the number of served destination markets. When also considering the number of intermediated inputs imported at the firm level, we find evidence that an increase in the number of inputs is positively associated with export quality upgrading and the extensive trade margin. When considering heterogeneous effects across sectors characterized by different levels of competition, our results suggest that imported intermediate input positively affects export quality upgrading only for more concentrated sectors, thus characterized by lower competition.

Finally, our main findings reveal a positive and significant relationship between newly intermediate inputs and newly exported products. This effect is particularly significant when inputs come from EU countries.

### **Discussion and Conclusion**

*100 – 250 words*

In this paper, we empirically analyze to what extent imported intermediate inputs affect firms' export performance, particularly quality upgrading and the exports of new products. We

provide compelling evidence that a higher firm's exposure to intermediate inputs promotes export quality growth, especially if imported inputs are high quality. We also find that importing new inputs increases the probability of firms exporting new products, especially when inputs come from developing countries. The results of this paper may have relevant policy implications. We shed new light on the importance that exposure to imported inputs has in promoting the competitiveness of the Italian food and drink sector. From this perspective, our findings may encourage EU policies to promote imports of intermediate inputs. However, the recent EU Farm to Fork strategy goes in the opposite direction, as its implementation may reduce the array of intermediate inputs available in the agri-food sector. It is also worth mentioning that policies promoting imports of intermediate inputs should also take into consideration the recent findings from the literature providing evidence that the global structure of trade policies, which is on average less restrictive for intermediate inputs, has accidentally promoted an increase in the emission of CO<sub>2</sub>, as in-puts are generally more polluting than outputs.