

"New Imported Inputs, New Domestic Products"

Italo Colantone (Erasmus University Rotterdam and ERIM)

Rosario Crino' (University of Brescia, LdA and IAE-CSIC)

Sintesi

We study the effects of new imported inputs on the entry of new domestic products and their characteristics. To this purpose, we construct a novel, comprehensive and extremely detailed dataset, which contains product-level information on foreign trade and domestic production for 25 EU countries over 1995-2007. Using these data, we identify new domestic goods and new imported inputs, controlling for all changes in commodity classifications over time. We then show that new imported inputs substantially boost the introduction of new domestic products. We also show that this effect is directly proportional to the quality of new imported inputs and inversely related to their price (conditional on quality). Finally, we document that new products are characterized by higher prices and higher quality relative to existing goods, and that such premia are larger the greater is the use of new imported inputs in production.