

Export trade risks on the global value chain: an empirical investigation on judicial barriers and the internationalization process of Italian SMEs

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This work investigates the role of judiciary in the internationalization process of SMEs, considering the Italian manufacturing industry and SMEs' import trade flows between 2015 and 2019. The empirical investigation tests the hypothesis that courts' inefficiency in enforcing credit rights amplify the export trade risks on the GVC, discouraging foreigner suppliers in performing international transactions with local SMEs. The proposed hypothesis is assessed taking alternative explanations into account, i.e., absence of ex-ante business networks on the GVC (i), difficulties in collecting financial resources to implement such strategies (ii) and asymmetric information that might amplify the foreigner suppliers' risk (iii). Results are consistent to several robustness tests and, according to the collected evidence, we cannot reject the hypothesis that judiciary might represent an institutional barrier to local SMEs, limiting their opportunities to purchase raw materials and semi-finished products on the global market and, in this way, preventing their internationalization process. We also extend the investigation on the consequence of these missed opportunities in terms of productivity, quantifying the gap created by a lower access to the GVC. Policy implications concerns the opportunity to foster the internationalization process of SMEs through an improvement of the legal environment.