For many goods, quality improvements involve the use of more sophisticated, higher quality inputs. The production of these sophisticated inputs requires greater collaboration between suppliers and final good producers, with suppliers developing relationship-specific inputs, and final good producers customizing their production processes to incorporate them. In countries with poor legal institutions, the relationship-specific investments needed to achieve strong collaboration, and by extension more sophisticated inputs and higher quality outputs, will arguably be hard to achieve. As the incomplete contracts literature suggests, doubts over contract enforcement will render the return on relationship-specific investments less certain, rendering both suppliers and final good producers less willing to undertake the customization necessary to improve quality. Employing a difference-in-difference methodology on highly disaggregated US import data, this paper studies the impact of legal institutions on product quality. It finds that poor contracting institutions substantially impede a country’s ability to produce high quality final goods: in industries where the potential use of customizable inputs is extensive, countries with weaker contract enforcement regimes produce lower quality final goods.  
JEL classification: F14; O17; D23; O11