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FINANCING FIRM-INNOVATION : A COMPARISON BETWEEN INDIA AND CHINA

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ABSTRACT

This paper examines the impact of financial constraints on firm innovation. We use World Banks's Enterprise survey data for India and China and compare the role of alternative forms of financing innovation. Core and composite innovation indices are used and Ologit estimations are presented for the two indices. Findings suggest that for India as firms undertake more paired innovations role of bank finance with retained profits is elevated and dependence on equity finance falls. Complementarities in various forms of finance suggest that a combined policy of provision of institutional credit and tax concessions to firms can play a positive role in easing the financial constraints faced by firms. With bank finance and retained profits, equity finance is also significant for Chinese firms. R&D is complementary to finance for both India and China. Further, an explanation for China being more innovative lies in the synchronized access to finance and improvement in the absorptive capacity of firms in the form of training and skill development of workers and adoption and assimilation of foreign technology.

KEYWORDS

Firm innovation, Financial constraints, India, China.
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