UNIVERSITI TEKNOLOGI MARA

FINANCIAL SUBSIDIES, TAX INCENTIVES, AND INNOVATION QUALITY: EMPIRICAL EVIDENCE FROM CHINA'S STRATEGIC EMERGING INDUSTRIES

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ABSTRACT

As the new wave of scientific and technological revolution and industrial transformation progresses, innovation has emerged as a crucial catalyst for economic growth. Confronted with the disparity in innovation between China and other industrialized nations, along with several impediments to its economic advancement, China introduced the notion of strategic emerging industries (SEIs) in 2009. Since 2010, China has been enacting and executing financial subsidies and tax incentives to foster the advancement of SEIs. Nonetheless, it remains unverified whether the execution of the pertinent policies has positively influenced the innovation of SEIs, specifically regarding the impact on the innovation quality. The primary aim of this study is to employ empirical research to examine the correlation between financial subsidies, tax incentives, and the innovation quality of SEIs in China. This study utilises a sample of Chinese A-share-listed companies in SEIs and employs 10 years of panel data from 2013 to 2022 for empirical analysis. Studies indicate that financial subsidies and tax incentives can enhance the quality of innovation in SEIs. The impact of financial subsidies on the innovative quality of enterprises in the new energy industry is more pronounced than in the new energy automotive industry. Tax incentives exert the most substantial positive influence on the innovation quality of enterprises within the high-end equipment manufacturing industry, while their impact on the new energy industry is negligible. Corporate income tax incentives substantially enhance the innovation quality of enterprises in SEIs, but the effect of turnover tax incentives is negligible. The incentive effect is more pronounced when the two policy tools are employed concurrently rather than sequentially. Regarding the property features of enterprises, financial subsidies, tax incentives, corporate income tax, and turnover tax incentives significantly enhance the innovation quality of non-state-owned enterprises (NSOEs) in SEIs more than that of state-owned enterprises (SOEs). Financial subsidies effectively enhance the innovation quality of enterprises in SEIs across both the eastern and central-western regions, with no significant difference in the intensity of their effects between these areas. Tax incentives effectively improve the quality of innovation in SEIs throughout the eastern and central-western areas, with enterprise innovation in the eastern region outperforming that in the central-western regions. Corporate income tax incentives in the eastern area are more successful than those in the central-western regions in improving the innovation quality of enterprises. The impact of transfer tax preferences on the quality of firm innovation is not significant across various areas. This study presents pertinent policy recommendations to enhance the innovation quality of enterprises in SEIs based on the aforementioned findings. It is anticipated that it will offer insights for the execution of differentiated fiscal and tax policies, enhance the precision of policies concerning SEIs, and foster the innovation and advancement of these industries, thereby significantly accelerating the pace of innovation and development within China's SEIs.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter serves as the initial stage of the study, marking the first step in the "problem identification - problem research - problem solving" process. Its primary objective is to elucidate the precise nature of the research problem and establish the groundwork for the succeeding study framework. The primary objective of this study is to identify potential research problems within the research context. This is achieved by conducting a comprehensive literature review, which serves as the basis for identifying potential areas of innovation and research directions. Furthermore, this study aims to define the research objectives and contributions, providing guidance for future research endeavours.

1.2 Research Background

In the context of global economic development, innovation has emerged as a pivotal catalyst for economic progress. The entire world is currently experiencing the wave of the digital age and profound scientific innovation, with increased intensity in research and development investments (R&D) globally. Recent data indicates that global R&D exhibited strong growth in 2021, with a growth rate of 5.2%, surpassing the 3.2% growth rate observed in 2020. This represents a growth rate of about 6% before the worldwide pandemic in 2019. Simultaneously, the proportion of corporate R&D spending about the overall worldwide R&D climbed by 7% in 2021, marking the fastest pace of growth since 2014, as depicted in Figure 1.1. In 2022, the top 7 industries that received the highest amount of R&D investment from global industry and corporate sectors were ICT hardware and electrical equipment, software and information communication technology services, pharmaceuticals and biotechnology, automotive,