

Intermediate input import policy uncertainty and firm innovation: evidence from China

ABSTRACT: Innovation is crucial for driving economic growth. This paper conducts a comprehensive analysis of the effect of intermediate input import policy uncertainty (IIIPU) on firm innovation. Specifically, leveraging China's entry into the WTO as a quasi-natural experiment, this study utilizes a difference-in-differences strategy to analyze the intermediate input import policy uncertainty on the innovative activities of Chinese manufacturing firms. The findings reveal that a reduction in intermediate input import policy uncertainty (IIIPU) significantly hampers firm innovation activities. This negative impact persists even after undergoing a series of tests on identification assumptions and robustness checks, and it intensifies annually after China's accession to the WTO. In addition, the reduction in IIIPU has a more pronounced effect on high-productivity firms, foreign-invested enterprises, and utility model patents.