

How does agglomeration promote the product innovation of Chinese firms?

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Abstract

This paper analyzes empirically the effect of agglomeration economies on firm-level product innovation (new product), using Chinese firm-level data from 1998 to 2007. I find that in terms of new product introduction and new product output, Chinese firms benefit from urbanization economies (as measured by the number of workers in other industries in the same city, and by the diversity of industries in the same city), whereas I find no evidence of localization economies (as measured by the number of other workers in the same industry and in the same city). These results suggest that urbanization economies play an important role in fostering the product innovation by urban size and diversity in China.

Keywords: Agglomeration, Localization, Urbanization, Product Innovation, New Product

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