Cultural proximity and local firms’ catch up with multinational enterprises

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Abstract: Integrating and extending new growth theory and resource-based views, this paper attempts to provide a theoretical foundation for the technology gap hypothesis and examines the role of technology gap, technological capabilities and cultural proximity in local firms’ productivity catch-up with multinational enterprises. Two hypotheses are developed and tested with a dynamic model on a very large firm-level panel data set from Chinese manufacturing for the period 1998-2007. Our results confirm that productivity catch-up is positively related to the technology gap and local firms’ technological capabilities. However, in the presence of cultural proximity, the speed of local Chinese firms’ catch-up with overseas Chinese MNEs is not significantly lower than that with other MNEs.

Key words: New growth theory; Resource-based views, Technology gap hypothesis; International knowledge spillover; Cultural proximity; Catch up; China

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