

Cultural proximity and local firms' catch up with multinational enterprises

Xiaming Liu, Chengang Wang, Jue Wang, Yingqi Wei

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

Xiaming Liu, School of Business, Economics and Informatics, Birkbeck College, University of London, London WC1E 7HX, UK (TEL) +44 (0) 20 7079 0895 (Email) Xiaming.liu@bbk.ac.uk

Chengang Wang, School of Management, Bradford University, Bradford BD7 1DP, UK, (TEL) +44 (0) 1274 234378 (Email) cwang9@bradford.ac.uk

Jue Wang, Southwestern University of Finance and Economics, Chengdu, China, (TEL) +44 (0) 28 86284757 (Email) juewang8236@swufe.edu.cn

Yingqi Wei, The York Management School, University of York, York YO10 5DD, UK, (TEL) +44 (0) 1904 325041 (Email) yingqi.wei@york.ac.uk