Firm Heterogeneity and Technology Transfers to Local Suppliers:
Disentangling the effects of Foreign Ownership, Technology Gap and Absorptive Capacity

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Abstract

In this paper, I present novel microeconomic evidence on the effects of firm heterogeneity on the creation and impact of technology transfers from FDI to local suppliers in a developing country setting. The main findings are three-fold. First, FDI firms are significantly more involved in knowledge transfer activities than domestic producer firms. In particular, FDI firms offer more technological support, support with a direct positive impact on production processes of local suppliers. Second, type of ownership also influences the effect of the technology gap on technology transfers. A large technology gap between a producer firm and its suppliers lowers the provision of support; however, FDI firms offer more technological support to their suppliers of material inputs when the technology gap is large. Independent of the support that the suppliers receive, foreign ownership of client firms and a large technology gap make it more likely that suppliers experience large positive impacts. Third, the level of absorptive capacity of local suppliers is also important for the impact of the technology transfers, confirming the notion that heterogeneity among both producer firms and local suppliers affect the level, nature and impact of local technology transfers.

Key words: FDI, knowledge transfer activities, local suppliers, spillovers, technology gap, absorptive capacity, Mexico

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