

Foreign Ownership and Productivity of Joint Ventures

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I. Introduction

The linkage between foreign ownership and productivity has been the subject of much discussion in the literature that asks this basic question: Is foreign ownership positively associated with productivity? Most empirical studies focus on productivity comparisons between foreign-owned affiliates and domestic firms, and the overwhelming evidence supports the argument that foreign-owned affiliates are more productive than domestic enterprises (e.g., Aitken and Harrison 1999; Griffith 1999; Girma, Greenway, and Wakelin 2001). However, little is known about the extent to which the ownership structure of a joint venture could affect enterprise productivity. On the one hand, with strong complementarities in parent resources, joint ownership between local and foreign partners may improve enterprise efficiency. On the other hand, sharing control over the assets may cause suboptimal investment from the parents since their contributions are not completely contractible. With this "holdup" problem, joint ownership may be less efficient than full internalization. This article complements the previous literature by focusing on the effect of ownership structure on the productivity of joint ventures.

This empirical analysis is conducted using a unique panel data set of all large- and medium-sized joint ventures in the Chinese manufacturing sector from 1998 to 2005. To our best knowledge, it is the most comprehensive microlevel panel data set available for joint ventures in China. As the world's largest emerging economy, China has offered favorable policies to attract foreign direct investment (FDI), based on the belief that FDI brings inflow of capital, advanced technology, and employment opportunities. The FDI inflow into

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