Multinationals’ Property Rights and International Joint Ventures in An Emerging Market

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Abstract

Under its socialist market system, China’s economic reforms have been conducted through a gradual adjustment of agency-principle relationship, rather than through a dramatic transfer of ownership or privatization of Chinese enterprises. State-owned enterprises (SOEs) and collective enterprises (COEs) are the two major ownership types of Chinese firms that dominated the socialist market economy in China during 1990s (Lieberthal & Lieberthal, 2003). Although privatization has been increasingly adopted as a means both to reduce possible corruption and to improve management efficiency, both SOEs and COEs will remain popular until China’s political systems can be changed. We explored the relevance of the extant property rights in an emerging market during the transition of China’s economic take-off in the mid 1990s when IJVs increased significantly as China reinstated its open-door policy towards market economy.

This paper examines how the property rights help shape these IJVs in China in terms of their formation and performance in the mid 1990s. We sought to accomplish this task by comparing two types of IJVs in China: 1) the IJVs partnered with SOEs (IJVs-S), and 2) the IJVs partnered with COEs (IJVs-C), including both urban collective enterprises and rural township and village enterprises. We used the archival IJV data from a field questionnaire survey conducted by China’s State Statistical Bureau in some major cities in 1995. The sample we received consists of 320 sample IJVs that were partnered with either SOEs or COEs. For this study, we screened each sample firm by using a set of variables that related to property rights, IJV formation and performance, and consequently got 240 IJVs after deleting those with missing values. We conducted ANOVA tests to examine if IJVs-S differ from IJVs-C in terms of these variables.

The test results reveal that: 1) IJVs-S are always more technology-intensive than IJVs-C, when we control foreign shareholdings. 2) Chinese partners of IJVs-S rely more on foreign technology and capital than that of IJVs-C. 3) As shareholdings increase, foreign partners of both IJVs-S and IJVs-C tend to contribute more capital, which indicates that well-defined property rights and quality corporate governance systems allow foreign majority shareholding partners to contribute more capital than do the minority and equal ones. 4) IJVs-S with foreign majority shareholdings enjoy the highest revenue growth, which indicates that property rights positively impact on IJV performance. 5) The revenue growth of foreign minority IJVs-C is significantly higher than that of foreign minority IJVs-S. Due to “local corporatism,” foreign minority IJVs-C tend to perform better than foreign minority IJVs-S. 6) The average revenue growth (70.44%) of foreign majority IJVs-S is significantly higher than that (16.71%) of foreign majority IJVs-C. Since IJVs-S enjoy better access to the market and strategic resources than do IJVs-C, with well-defined property rights and corporate governance, foreign majority IJVs-S can generate higher financial performance than foreign majority IJVs-C.