The Chinese Way of Economic Reform
and Development in the Context of Globalization

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What makes a joint venture: micro evidence from sino-italian contracts

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In the last two decades, the world stock of Foreign Direct Investment has increased almost ten-fold, with a substantial share of it performed in partnership with local firms[1]. Evidence shows that cross-country cooperation may take a variety of forms, with joint ventures (JVs) and international alliances playing a prominent role[2]. JVs in particular are the focus of a vast literature modelling foreign entry mode as a choice between partial vs. total ownership of local affiliates. This is a neat distinction, but it does little to unveil the nature of partnerships between foreign and local enterprises. In fact, it concentrates attention on the determinants of equity shares and it leaves unanswered questions about control. The latter feature prominently in the anecdotal evidence about business relations and are shown to be paramount when and where contract enforceability is an issue[3]. A framework to predict the allocation of control rights among cooperating partners is provided by the property rights theory of the firm[4].

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[1] UNCTAD (2011). World investment report 2011: Non-equity modes of international production and development. http://www.unctad.org/wir.

[2] Buchel, B. (2003). Managing partner relations in joint ventures. MIT Sloan Management Review, Summer, 91-95; Moskalev, S.A., & Swensen, B.R. (2007). Joint ventures around the globe from 1990-2000: Forms, types, industries, countries and ownership patterns. Review of Financial Economics, 16, 29-67.

[3] Midler, P. (2009). Poorly made in China: An insider's account of the tactics behind China's production game. Hoboken, New Jersey: John Wiley & Sons.

[4] Grossman, S., & Hart, O. (1986). The costs and benefits of ownership: a theory of vertical and lateral integration. Journal of Political Economy, 94, 691-719; Hart, O. & Moore, J. (1990). Property rights and the nature of the firm. Journal of Political Economy, 98, 1119-1158.

In this paper we ask: What makes a joint venture? Do they present features consistent with the predictions of the property rights theory? To answer these and similar questions, we present new empirical evidence, at the contract level, on sino-italian joint ventures. Original data derive from survey interviews, conducted by the authors in the period 2010-2011, and involving the whole population of Italian enterprises with JVs in the People's Republic of China. With an exceptional response rate of 60%, we document the main characteristics of 77 contracts, offering an unprecedented large number of details about negotiation process, JV establishment and investment decisions as well as control rights, equity shares and governance issues.

To the best of our knowledge, this is the first attempt at collecting survey data on international partnerships at the contract, rather than country, industry, or firm level, providing such a comprehensive picture in terms of sample representation and topic coverage. The main contribution of the present paper is to offer an exhaustive definition of JVs by exploring the empirical relevance of the different characteristics postulated by the theoretical literature. In doing this, we suggest that what makes a JV in (property rights) theory makes a JV in practice and thus offer a guide to select among competing modelling approaches to joint ventures.