Abstract
With the help of a theoretical model we analyze the relation between equity sharing in an international joint venture (EJV) and local public goods provision in a setting where the local government faces a commitment problem to provide public services ex post to the set-up of the firm. We show that to overcome such a dual agency problem, the multinational leaves more local rents to the local partner than in the first-best, so as to provide stronger incentives for the government to supply public goods. Applying dynamic panel data estimation, we test the trade-off between local public goods and ownership shares across 31 Chinese provinces to find support for our mechanism