Social Capital Participation in Public-Private Partnership Projects in China: Do Government Credit Risks Matter?

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Abstract

In China the Public-Private Partnership (PPP) projects are adopted to achieve the strategic goals of governments and to ensure the sustainable operation of local government finances. However, rigorous empirical research on the determinants of social capital’s participation in PPP is sparse. This study investigates the effects of government behaviors on the participation of social capital in the PPP projects by focusing on the role of government credit risks. We construct a dynamic game and adopt an empirical analysis using panel data of Chinese provinces from 2013 to 2018. Our findings reveal a significant inverse relationship between the government credit risk and the social capital participation in PPP. It provides policy-makers and researchers with useful information about using the PPP to promote investment on infrastructures while ensuring a sustainable local fiscal system.

Keywords: Public-Private Partnership, Government Credit Risk, Local Government Debt, Incomplete Information Dynamic Game, Tobit Panel Model JEL: C73, H72, R53

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