

# Market Development and Performance of Vietnamese Subsidiaries in China

Feng Sheng Chien<sup>a</sup>, ShengYao Lin<sup>b</sup>, Ka Yin Chau<sup>c\*</sup>

## Abstract

Foreign direct investment has always played an important role in China's economic development, but what is lacking is its uneven distribution among Chinese provinces. In addition, a series of national policy implementations and program improvements have effectively promoted the development of different regions, making China's economic market development more diversified. Then these evidences provide a good theoretical basis for this article to analyze how market development contributes to foreign subsidiaries in emerging markets. The empirical results in this article are based on data from Vietnamese subsidiaries in China. A Chinese manufacturing company suggested that emerging markets should abandon obscure and inefficient intervention systems to attract foreign investment in China. In addition, protecting intellectual property rights is an effective strategy to send signals to multinational enterprises, which can properly safeguard their core benefits in emerging markets.

**Keywords:** emerging markets, foreign subsidiaries, market developments, performance.

## 1. Introduction

Since the beginning of economic reforms in 1978, the average economic growth rate in Mainland China has been around 10%. China advocated a policy of gradual reforms, in the transition from a planned economy to a market economy. China's economic development was concentrated in the Pearl River Delta in the 1980s, the Yangtze River Delta in the 1990s, and the Bohai Rim since the late 20th century. The Great Northwest has been the focus of China's economic construction in the past decade, so the economic and market development of Mainland China is very diverse.

From 2000 to 2009, Fan and Wang established the market development indicators of 31 provinces and the degree of legal protection from five perspectives: the relationship between the

government and the market, the development of the non-state economy, the development of the commodity market, and the development of the factor market., and through their experimental results to provide a good foundation for studying the relationship and influence of market development and economic activities in emerging markets.

It is well known that many developing countries seek foreign direct investment (FDI) from other countries. Through the investment of multinational enterprises, enterprises tend to use FDI to gain advantages of resources, which can lead to an increase in exports in the export market and thus lead to a trade surplus to improve their market economy activity (Amy & Kamal, 1999; Lance et al., 1996). FDI has played an important role in the economic development of mainland China (Sun et al., 2002; Hsiao & Shen, 2003; Cole et al., 2011; Cai et al., 2019; Ayamba et al., 2020; Long et al., 2020). According to our survey, it is generally believed that the increase in FDI contributes to the formation of domestic capital, while the increase in

*a. School of Finance and Accounting, Fuzhou University of International Studies and Trade*

*b. Faculty of International Tourism and Management, City university of Macau, Macau, China*

*c\*. Faculty of International Tourism and Management, City university of Macau, Macau, China*

*\*Corresponding Author: Dr. Ka Yin Chau  
Email: gavinchau@cityu.mo*

FDI has decreased (Walid et al., 2003; Alfaro et al., 2000). There is no literature to study the relationship between market development and the performance of foreign subsidiaries. It provides an excellent opportunity to fill in the understanding of multinational enterprises. Therefore, the purpose of this research is to analyze how market development affects the performance of Vietnamese subsidiaries in China to supplement the knowledge of multinational corporations (MNEs).

The opening and reform policies have transformed the Chinese economy from a planned economy to a market economy. In 1979, the "Law of the People's Republic of China on Chinese-Foreign Joint Ventures" was successfully passed at the second meeting of the Fifth People's Congress, which represented that the People's Republic of China allowed foreign investors and Chinese enterprises to form joint ventures. Since then, mainland China has successfully established four special economic zones (Shenzhen, Zhuhai, Shantou and Xiamen) and fourteen coastal open cities (Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai), two development zones (Hainan Special Economic Zone and Shanghai Pudong New Area) and three economic regions (Pearl River Delta, Yangtze River Delta, and BoHai Rim). Subsequently, the State Council promulgated the "Regulations on Encouraging Foreign Investment" in 1986 to encourage foreign investment in China and grant foreign investment enterprises more rights and independent business freedom. In order to attract foreign investment, local authorities in mainland China provide more favorable tax policies for foreign investment. According to the World Investment Report of the United Nations Conference on Trade and Development held in 2010, China is the second largest recipient of foreign direct investment after the United States. But China is the fastest growing country to accept FDI.

Many studies found that FDI is positively correlated with China's economic growth (Chen et al., 1995; Wei & Liu, 2001; Fu, 2011; Chen, 2015; Lin & Kwan, 2017; Ayamba et al., 2018; Fan et al., 2019; Balasubramanyam et al., 1996; Borensztein et al., 1998). However, FDI is unevenly distributed among Chinese provinces, especially concentrated in coastal areas (Chen & Fleisher, 1996; Broadman & Sun, 1997). Zhang and Felmingham (2002) pointed out that China's FDI is transferred from east to west in two levels, first from the eastern region

to the central region, and then from the central region to the western region. Actually, ever since China's reform and opening up, a series of improved measures and preferential policies have shown significant regional tendencies. Therefore, the economic and market development in Mainland China is greatly diversified.

In September 2013, President Xi Jinping proposed the "Belt and Road" cooperation initiative. "One Belt One Road" is the abbreviation of "Silk Road Economic Belt" and "21st Century Maritime Silk Road". It runs through Asia, Europe and Africa. Its members cover 136 countries or regions. It relies on major international channels on land and key ports on the sea. It will fully rely on the existing bilateral and multilateral mechanisms between China and relevant countries, with the help of existing and effective regional cooperation platforms, to actively develop economic partnerships with countries along the route, and to jointly build political mutual trust, economic integration, and cultural tolerance. Community of interests, community of destiny and community of responsibility.

Vietnam is a developing country. The reform and opening up began in 1986. In 2001, Vietnam decided to establish a socialist-oriented market economy system and determined three major economic strategic priorities, namely, to focus on industrialization and modernization, develop multiple economic components, and give play to the dominant position of the state-owned economy. Establish a supporting management system for the market economy.

Vietnam mainly relies on industrial and agricultural development. The main industrial products are coal, crude oil, natural gas, etc. Vietnam is also a traditional agricultural country. The agricultural population accounts for about 75% of the total population, and arable land and forest land account for 60% of the total area. Food crops include rice, corn, potatoes, sweet potatoes and cassava. The main cash crops are coffee, rubber, cashew nuts, tea, peanuts, silk and so on. These two main industries have kept Vietnam's economy at a relatively fast growth rate, with increasing exports and rapid accumulation to promote economic growth. This is achieved through a large number of exports (Lucas, 1993). The total economic volume has continued to expand, and the tertiary industry structure has become more coordinated. This basically forms a pattern with the state-owned

economy as the leading factor and the development of multiple economic components.

When the domestic market cannot meet the needs of enterprise development, enterprises will inevitably choose to take the development path of international management, and seek broader development space among enterprises. Therefore, economic globalization and regional integration is an inevitable trend, which means that international operation is the only way for enterprise development. Economic globalization has deepened the interdependence of the economies of various countries, and the binding force has also been continuously strengthened. In this era, countries in the world should open their doors, adapt to this trend, and take advantage of their advantages on the world economic stage to grasp the opportunities. As a developing country, Vietnam's integration into economic globalization is unstoppable. Joining this mainstream can fully share international interests and advance with the world's advanced economic technology. Joining the One Belt One Road can help Vietnam's economy better integrate into the international economy and society, and make better use of international resources and the optimized resource allocation function of the international market.

In the past few years, Vietnamese enterprises have come to China for transnational operations, and the study of Vietnamese transnational operations in China has become a focus of current research. With the surge in two-way trade and the gradual improvement of trade imbalances, China has become one of Vietnam's most important trading partners. In 2017, Vietnam and China signed a cooperation document on the joint implementation of the "Belt and Road" plan. There is great potential for cooperation between the two countries in terms of policy communication, facility connectivity, unimpeded trade, financial integration and people-to-people bonds. Focus on strengthening cooperation to expand opportunities for Vietnamese enterprises and advantageous commodities such as agricultural products, aquatic products, and electronic products to enter the Chinese market, and actively promote balanced and sustainable trade (Lance et al., 1996).

The largest export of Vietnamese products to China is crops. The reason why Vietnam has made great achievements in recent years is largely due to the agricultural innovation, which stabilized the foundation of the national economy, and maintained the world's third largest rice export for

many years. The status of the country. In order to speed up development in the future, Vietnam will continue to make use of this favorable condition, and at the same time make progress in adjusting the agricultural production structure.

" China-Vietnam economic and trade cooperation is developing rapidly. Under the current situation, it is time to promote China-Vietnam 'Belt and Road' cooperation. The cooperation between China and Vietnam within the framework of the "Belt and Road" will boost the modernization of the two countries and contribute to the development of bilateral relations. Lay a more solid foundation. Vietnam has learned from China's economic model of high growth and low inflation. In 2019, Vietnam's GDP growth reached 7.08%, setting the highest growth rate in Vietnam in the past ten years and surpassing their economic expectations.

Most Vietnamese enterprises choose non-contractual approach when entering the Chinese market. Non-contractual types include: (1) Entry in the form of trade: entering the target country through export sales of products; (2) Entry in the form of direct investment, where most foreign direct investment is undertaken by export-oriented enterprises (Zhang and Felmingham, 2002). Enter the target market through foreign direct investment (sole proprietorship, joint venture, cooperative operation contract, joint-stock company, etc.).

Although the starting point of Sino-Vietnam trade is low, it has developed rapidly. Since 2004, China has become Vietnam's largest trading partner for 10 consecutive years, and Vietnam has become China's ninth largest trading partner. Most Vietnamese enterprises enter the Chinese market through product sales. Use Vietnam's abundant agricultural products to increase exports to China and increase the country's economy.

The organization of this paper is as follows. Following the introduction, Section 2 reviews the literature. Section 3 provides the research framework. Section 4 includes data sources, variable descriptions, empirical results and discussions. Section 5 concludes this paper.

## 2. Literature Review

Many enterprises that invest directly in foreign countries are called multinational enterprises (Dunning, 1993). Particularly many theories explain why countries accept foreign direct

investment (Calvet & Louis, 1981). According to the theory of unique advantages of individual enterprises, Hymer (1960) pointed out that if multinational enterprises have unique corporate advantages and can overcome foreigners' responsibilities in overseas markets and make profits, they will engage in FDI. Horst (1960), Wolf (1972) and Lall (1977) found based on the data of a large number of American enterprises that the unique advantages of enterprises including tangible assets, intangible assets and core capabilities will significantly affect the investment intentions of American enterprises. In addition, Buckley and Pearce (1976) found similar results when studying the world's largest 156 multinational enterprises.

Vernon (1966) proposed an international product life cycle theory based on comparative advantage. The development of the product stage and the change of comparative advantage will affect the change of production location. It also reflects the company's motivation for FDI and transformation. Buckley (1976) pointed out the internalization theory that suggested the enterprises transfer expertise, human resources, marketing and other intermediate products from parent enterprises to subsidiaries in order to maximize their profits in an incomplete market. The internal market will substitute the external market. Dunning (1993) proposed a compromise paradigm, classified the advantages of MNEs into three types: ownership advantages, location advantages and internalization advantages. The enterprises will adopt various strategies when they have different advantages.

Blomström and Kokko (1996) and Sinani and Meyer (2004) pointed out that a particularly large number of developing countries or countries in transition use preferential policies to attract foreign investors to obtain the spillover effect of direct investment by investors (Zhang & Felmingham, 2002; Sinani & Meyer, 2004; Hejazi & Safarian, 1999). So many countries hope to modernize the industrial structure, improve the role of infrastructure and acquire new capabilities. Many studies have shown that FDI can make a relatively positive contribution to China's economic growth (Sun et al., 2002; Chen et al., 1995; Wei & Liu, 2001; Fu, 2011; Chen, 2015; Lin & Kwan, 2017; Ayamba et al., 2018; Shia, 2019). In addition, the participation of FDI can also encourage local enterprises to go global (Chen et al., 1995).

The literature shows that there are many factors that affect the performance of overseas subsidiaries

of multinational enterprises (Hitt & Hoskisson, 1997; Fey & Björkman, 2001; Zhao & Luo, 2002; Filatotchev et al., 2007; Delios et al., 2008; Dellestrand & Kappen, 2012; Fang et al., 2013; Lee et al., 2014; Matolcsy & Wakefield, 2017; Liu et al., 2016; Mao et al., 2020). According to the literature, there are many determinants of foreign direct investment (Amy Jocelyn Glass et al., 1999; Broadman & Sun, 1997). They may be affected by the economic, political, industrial, and cultural influences of the importing or exporting country, and present different results (Chen, 1992; Gold & David, 1991; Rolfe et al., 1993; Schneider et al., 1985). Filatotchev et al. 2007; Graham et al., 1989) based on data from newly industrialized economies and developed countries respectively, it is found that high-level corporate governance will have a negative impact on other countries' investments in their subsidiaries. Fey and Björkman (2001) found a direct relationship between human resource management and overseas subsidiary performance based on 101 subsidiaries invested in Russia. Hit et al. (1997) believed that the development of product diversification was positively correlated with the performance of foreign subsidiaries, which was empirically proved by Zhao and Luo (2002) and Delios et al. (2008) Foreign subsidiaries in Mainland China and overseas subsidiaries in Japan. Woodcock et al. (1994) and Nitsch et al. (1996) found that green industries are more profitable than mergers and acquisitions, while Theingi and Tang (2006) believe that wholly-owned subsidiaries can make more profits than joint venture subsidiaries. Although many scholars have studied the performance of overseas subsidiaries of multinational enterprises from different perspectives, they have not yet studied the relationship between market development and the performance of foreign subsidiaries.

### 3. Research Framework

The economic systems can be divided into three types: command economies, mixed economies, and market economies. In a market economy, all productive activities are privately owned and production is determined by the interaction of supply and demand. They follow economic laws. The role of government is to encourage free and fair competition among private agents. It does not directly interfere with the market economy. In a mixed economy, parts of the economy is left to private ownership and free market mechanisms, while other sectors are state-

owned and have government plans. The governments tends to own firms that are considered important to national security, while other sectors are privately owned and free market mechanisms. Here, the government will slightly intervene in the market In a command economy, the government plans the goods and services that a country produces, the quantity that is produced, and the prices as which they are sold. All enterprises are state-owned and the government allocates resources. The government plays a leading role here.

Friedman (1962) believes that market liberalization is the best strategy for allocating social resources and managing personal affairs. Historical documents show that there is a positive correlation between the level of freedom and economic growth (Scully, 1988; Shiva et al., 2004; Orr & James, 1991). Barro (1991) found that countries with free enterprise systems have higher rates of economic growth than those with socialist systems, while it is insignificant between free enterprise systems and mixed systems. In addition, countries related to good property rights protection are more inclined to achieve higher economic growth rates than those related to poor property rights protection. Therefore, a country's economic system and property rights system may well indicate the potential long-term benefits of doing business in a country. This may indicate that MNEs are more likely to achieve goals and/or make profits in host countries that are more relevant to market development. Hence, we propose the hypothesis H1 as follows:

**H1: Market development will benefit local foreign subsidiaries.**

Due to the complexity of market development, Fan Hewang constructed the market

development indices from five aspects: the relationship between the government and market, the development of non-state-owned economy, the degree of goods market development, the degree of factor market development, and the degree of legal protection. Hence, we establish hypotheses H1a to H1e as follow:

**H1a: The weaker the role of the local government in the market is, the stronger the performance of local foreign subsidiaries has.**

**H1b: The non-state-owned economic development can contribute positively to local foreign subsidiaries.**

**H1c: The degree of goods market development is positively related to the performance of local foreign subsidiaries.**

**H1d: The degree of factor market development and the performance of local foreign subsidiaries are positively related**

**H1e: The degree of legal protection is positively related to the performance of local foreign subsidiaries.**

Based on previous studies, we add firms' characteristics (Chen et al., 1998; Li & Hu, 2002; Nachum & Zaheer, 2005) and local infrastructures (Loree & Guisinger, 1995; Cheng & Kwan, 2000) as control variables in order to truly reveal the impact of the market development and infrastructures on the performance of local foreign subsidiaries. Figure 1 illustrates the conceptual framework of this study.

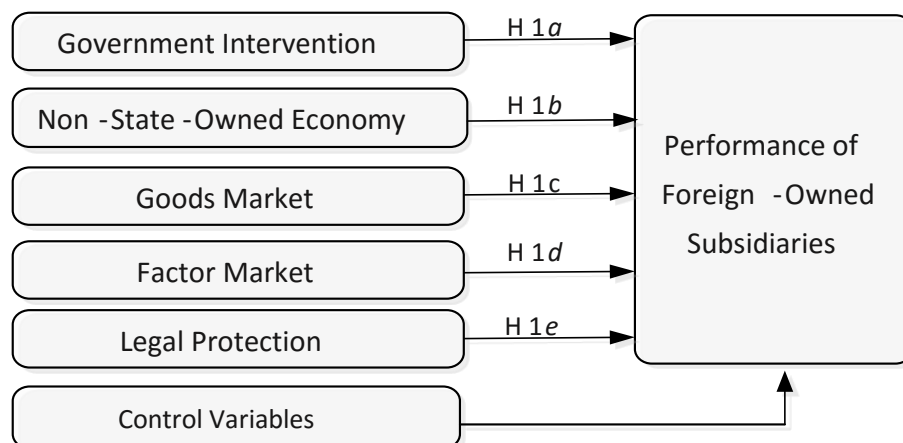


Figure 1. The conceptual framework

#### 4. Empirical Analysis

##### Data and Variable Description

This data set was obtained from China Credit Information Service Corporation. China Credit Information Service Corporation is currently the largest professional credit company in Taiwan, providing extensive business information, including 689 Taiwan's manufacturing enterprises in China and 2,074 observations from 2003 to 2017. Since we have 14 years of panel data, all nominal variables are reduced by GDP deflator with 2015 as the base year.

The dependent variable is the natural logarithm of sales. The explanatory variables include three categories: market development, local infrastructure and company characteristics. Fan and Wang provided annual information on the comprehensive market development index of different provinces from 2003 to 2017. The report constructed the market development indices from five aspects: the role of local government (GOV), the degree of non-state-owned economic development (NSTATE), the degree of development of commodity markets (GOODS), the degree of development of factor markets (FACTOR), and legal protection Degree (LEGAL). The higher the index value, the higher the level of market development.

When a country's economy began to grow, it will steadily increase its infrastructure. Advanced infrastructure can boost commercial development, reduce transportation costs and time, and increase trading opportunities. Loree and Guisinger (1995) and Cheng and Kwan (2000) found that infrastructure can reduce the expected operating cost of the host country, and thus, affecting the location decision of MNEs. Dunning and Gatignon (2001, 2002) and Kimberly (2004) believed that transportation costs will affect the internationalization strategy of MNEs. A complete local infrastructure can reduce information

asymmetry, create a convenient business environment, and increase the willingness to invest. Benefited from the business environment, local foreign subsidiaries are capable of improving their operational performance. This study includes three variables to measure infrastructure: telephone intensity (*TEL*), consumption wastes treated (*WASTE*), electric consumption (*POWER*).

The characteristics of the enterprise include its size and research and development (R&D). Large sized firms have more resources to market their products and assume operational risks, and thus, may enjoy large volume of sales. However, the effect will decline as a firm's size increases. A firm's size hence is anticipated to enlarge sales, but at a diminishing rate. R&D activities are positively related to innovation. Innovation could be defined as a new method of producing the same product, a new source of raw materials, or a new way of organizing the business, all of which can improve firms' performance. Therefore, R&D activities are expected to have a positive impact on sales. Table 1 lists the definitions and sample means of the variables used in the empirical model.

Regarding the precise or nearly precise linear relationship between the explanatory variables, multicollinearity is an undesirable situation because it misleadingly inflates the standard errors. Thus, it makes some variables statistically insignificant when they otherwise should be significant. The variance inflation factor (VIF), based on the coefficient of determination ( $R^2$ ) of auxiliary regressions, is generally used to detect multicollinearity. Chatterjee and Price (1991) suggested that values above 10 are problematic. The last column of Table 1 shows that all values of VIF are less than 7. Hence, we conclude that all explanatory variables used in our empirical model do not exhibit the problem of multicollinearity.

Table 1 Definition and Sample Means of Explanatory Variables

Variable	Definition	Mean	VIF
GOV	The relationship between market and government	8.047	3.946
NSTATE	The development of non-state-owned economy	9.932	3.886
GOODS	The degree of goods market development	11.244	1.662
FACTOR	The degree of factor market development	9.587	5.327
LEGAL	The degree of legal protection	8.031	6.089
TEL	Telephones per 10,000 persons (sets)	447.117	4.936
WASTE	Ratio of consumption wastes treated over consumption wastes produced (%)	87.065	1.774
POWER	Annual total electricity consumption (billion kwh)	31.259	6.929
SIZE	Total assets (RMB 100 thousand)	83.502	4.261
SIZESQ	Square of SIZE divided by 1000	65.905	4.249
RDI	Ratio of R&D expenditures over total sales (%)	0.219	1.019

**Note:** All nominal variables are deflated by the GDP deflator with 2011 as the base year.

#### Empirical Model

When analyzing the panel data, ordinary least squares (OLS) estimators may be inconsistent and/or meaningless if there exists heterogeneity across firms (2003). The fixed- and random-effects models can take into account the heterogeneity across firms by allowing variable intercepts. Our choice among these three models is based on some statistical tests: F-test (the OLS model vs. the fixed-

effects model), LM test (the OLS model vs. the random effects model), and the Hausman test (the random-effects model vs. the fixed-effects model). We will use these three tests to select the best model to analyze the performance of Taiwan's overseas subsidiaries in mainland China.

This study specifies the following regression

model to test the hypotheses we proposed:

$$\ln \text{Sales}_{it} = \alpha_i + \beta_1 \text{GOV}_{it} + \beta_2 \text{NSTATE}_{it} + \beta_3 \text{GOODS}_{it} + \beta_4 \text{FACTOR}_{it} + \beta_5 \text{LEGAL}_{it} + \beta_6 \text{TEL}_{it} + \beta_7 \text{WASTES}_{it} + \beta_8 \text{POWER}_{it} + \beta_9 \text{SIZE}_{it} + \beta_{10} \text{IZESQ}_{it} + \beta_{11} \text{RDI}_{it} + \varepsilon_{it} \quad (1)$$

where  $\varepsilon_{it}$  are random disturbances for firm  $i$  at period  $t$  with mean 0 and variance  $\sigma_u^2$ ;  $\alpha_i = \alpha$  for all  $i$  in the OLS model,  $\alpha_i$  are fixed in the fixed-effects model,  $\alpha_i$  are  $iid(\alpha, \sigma_\alpha^2)$ , and both  $\alpha_i$  and  $\varepsilon_{it}$  are independent in the random-effects model.

#### Empirical Results

The F-test and the LM-test in Table 2 show that both the fixed-effects model and random-effects model are better than the OLS model. In other words, there exists heterogeneity among firms. Moreover, the results of the Hausman test indicated that the fixed-effects model is better than the random-effect model. Hence, we only present and interpret the fixed-effects models.

The empirical results of the panel regression show that the estimated coefficients of GOV,

NSTATE, LEGAV, SIZE, SIZESQ, RDI, TEL, and WASTE for the whole sample are significantly different from

0, where the significance level of Legal is 10%, and the others are at the 5% level or 1% level of significance. The coefficients in front of GOV, NSTATE, and LEGAL are significantly positive, supporting hypothesis H1a, H1b, and H1e, while our study does not support hypothesis H1c and H1d.

With the exception of RDI and POWER, the estimated coefficients of all control variables are significantly different from zero at the 5% level of

significance. Therefore, we claim that other conditions are the same: (1) Infrastructure can benefit local foreign subsidiaries (2) The growth rate

of sales for foreign subsidiaries in China exists the scale of economy, but at a diminishing rate.

**Table 2** Empirical Results of the Fixed-Effects Model

Covariate	Coefficient	t-ratio	p-value
<i>GOV</i>	0.1087 ***	3.666	0.0002
<i>NON-STATE</i>	0.0747 ***	3.355	0.0008
<i>GOODS</i>	0.0013	0.037	0.9703
<i>FACTOR</i>	-0.0088	-0.295	0.7684
<i>LEGAL</i>	0.0262 *	3.042	0.0584
<i>TEL</i>	0.0005 **	1.756	0.0241
<i>WASTE</i>	0.0015 **	0.293	0.0412
<i>POWER</i>	-0.0060	-1.653	0.1185
<i>SIZE</i>	0.0031 ***	7.173	< 0.001
<i>SIZESQ</i>	-0.0004 ***	-4.749	< 0.001
<i>RDI</i>	0.0520	0.782	0.4343
<b>R<sup>2</sup> (Adjusted R<sup>2</sup>)</b>		0.9712 (0.9566)	
<b>Observations (Number of firms)</b>		2,074 (689)	
<b>F-test<sup>a</sup> [df<sub>1</sub>, df<sub>2</sub>] (p-value)</b>		34.024 [688, 1374] (< 0.001)	
<b>LM test<sup>b</sup> [df] (p-value)</b>		2,030.40 [1] (< 0.001)	
<b>Hausman test<sup>c</sup> [df] (p-value)</b>		219.50 [11] (< 0.001)	

Note : (1)\*, \*\*, and \*\*\* represent the 10%, 5%, and 1% levels of significance, respectively.

(2)<sup>a</sup> F-test : H<sub>0</sub> : OLS vs. H<sub>A</sub> : Fixed effects model ; <sup>b</sup> LM-test: H<sub>0</sub> : OLS vs. H<sub>A</sub> : Random effects model ; <sup>c</sup> Hausman test: H<sub>0</sub> : Fixed effects model vs. H<sub>A</sub> : Random effects model

### Discussion

The conventional theories argued that the free market system can effectively allocate resources, and thus, efficiently promote firms' performance, which is empirically supported by Scully (1998) and Barro (1991). However, there is no study to investigate how the degree of market development affects the performance of foreign subsidiaries. Since the economic reforms in 1978, FDI has played an important role in the economic development of mainland China (Sun et al., 2002; Hsiao & Shen, 2003; Chen et al., 1995; Wei & Liu, 2001). In addition, preferential policies have shown significant regional tendencies. Therefore, foreign subsidiaries are unevenly distributed among provinces within China, especially concentrated in the coastal regions (Broadman & Sun, 1997). The movement of FDI in

China is from the eastern region to the central region, and then from the central region to the western region. Hence, the degrees of economic and market developments are greatly diversified within mainland China. These phenomena provide a good chance to explore relationship between the degrees of market development and the performance of foreign subsidiaries.

Fan and Wang used five dimensions to build a market development index. They are the relationship between government and market (*GOV*), the degree of non-state-owned economic development (*NSTATE*), the degree of development of commodity markets (*GOODS*), the degree of development of factor markets (*FACTOR*), and the level of legal protection (*LEAGE*). The Empirical results showed that the coefficients in front of *GOV*



and *STATE*, and *LEGAL* are significantly positive, supporting hypothesis *H1a*, *H1b*, and *H1e*. These results suggest that the overseas subsidiaries will have higher sales growth rates in provinces with less provincial government intervention, higher non-state economic development, and/or stronger legal protection. Hence, if the host countries want to attract foreign investment to promote economic development, local governments have to improve the opaque and inefficient intervention system to encourage privately productive activities.

When deciding whether to invest in emerging markets, many MNEs worry about their technologies and/or core competences are likely imitated and/or stolen. It is generally true that if the host country cannot protect intellectual property rights well, local foreign subsidiaries may suffer considerable loss. Our empirical results also showed that legal protection can contribute significantly to the performance of foreign subsidiaries in China. Hence, emerging markets should effectively protect intellectual property rights to signal MNEs that their core competitiveness and interests will be properly protected when investing in the country.

The other two market development indices *GOODS* and *FACTOR* will not have a significant impact on the performance of foreign subsidiaries. Taiwan's FDI took off in 1986 and most FDI was undertaken by export-oriented firms. In other words, foreign subsidiaries from Taiwan regarded China as the production site, and then exported goods to the U.S. and the rest of the world. This may provide a possible explanation why the coefficient in front of *GOODS* is insignificant.

Vietnam and China share a common social system and common social philosophy. Both of these factors can reduce the learning costs and uncertainty of Vietnamese enterprises investing in China rather than other foreign markets. Therefore, for some enterprises that may not be able to survive in other countries, China provides them with opportunities for profit. The higher development of the factor market can attract more investment from multinational enterprises, which may erode the local advantages of foreign subsidiaries in Vietnam. This may be one of the possible reasons why factor market development cannot make a positive contribution to its performance.

## 5. Conclusion

China is the world's second-largest recipient of FDI, second only to the United States since 2009, and the largest recipient of FDI from developing

countries since 1991. After undergoing reform and opening up policies, China has gradually transformed from a planned economy to a market economy. In this process, although foreign direct investment has played an important role in economic development and promoted China's overall economic growth, it has also resulted in uneven development among China's provinces, making coastal areas better than domestic land area (Andrew Sumner, 2005). Therefore, China's economic and market development is very diverse. This research analyzes how market development contributes to the performance of foreign subsidiaries in China to supplement the knowledge of multinational enterprises.

The empirical results show that less local government intervention, higher non-state economic development and/or stronger legal protection will stimulate better performance of foreign subsidiaries. Other findings are as follows. (1) Infrastructure can make a positive contribution to the performance of foreign subsidiaries (2) The economic scale of foreign subsidiaries in China exists, but the growth rate is declining.

International operation is the only way for enterprise development. Economic globalization has deepened the interdependence of the economies of various countries, and the binding force has also been continuously strengthened. In this era, countries in the world should open their doors, adapt to this trend, and use their advantages on the world economic stage to seize opportunities. Vietnam has taken advantage of China's One Belt One Road policy to increase exports to China, especially agricultural crops. The reason for Vietnam's great achievements in recent years is largely due to agricultural innovation, which stabilizes the foundation of the national economy and maintains the world's third largest rice export for many years.

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