# Editorial

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**Biographical notes:** Ilan Alon is Cornell Chair of International Business and Director of The China Center at Rollins College, and Visiting Scholar and Asia Fellow at Harvard University. He published 24 books, and over 100 peer-reviewed papers and chapters. His recent books on China include *Chinese Culture*, *Organisational Behaviour and International Business Management* (Greenwood, 2003), *Chinese Economic Transition and International Marketing Strategy* (Greenwood, 2003), *Business and Management Education in China: Transition, Pedagogy and Training* (World Scientific, 2005), *The Globalisation of Chinese Enterprises* (Palgrave Macmillan, 2008), and *Biographical Dictionary of New Chinese Entrepreneurs and Business Leaders* (Edward Elgar Publishing, 2009), *China Rules* (www.chinarules.org) (Palgrave Macmillan, 2009).

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## 1 Introduction

This special issue of *International Journal of Business and Emerging Market*, co-edited by Ilan Alon of Rollins College, The China Center and International Business, and William Xiaojun Wei of the MacEwan Business School, Institute of Asia Pacific Studies, focuses on research related to East/West business competition and cooperation, with a particular focus on emerging markets such as China. The works selected for inclusion were originally presented at a May 2009 research conference organised around the aforementioned theme by the MacEwan School of Business at Grant MacEwan University, Edmonton, Alberta. This issue consists of six papers including four on China and two beyond the scope. The issue begins with four papers exploring the globalisation of Chinese firms and competitiveness of Chinese trade. Their topics are: The globalisation of China's financial capital; Macroeconomic determinants of Chinese Outward Direct Investment (ODI), International Entrepreneurship and Knowledge Acquisition in Chinese International Firms and Comparison of China and Vietnam's responses to the Elimination of US Textile and Apparel Quotas. The issue concludes with two papers on the function of social networks in expatriate effectiveness as well as direct investment and spillover effect. In sum, the papers provide a plethora of ideas relating to East–West cooperation/competition. Asia will more likely become the West's balancer of power, and the impetus for new rounds of globalisation led to a greater extent by the developing world. New conceptions of world order will reflect the shifting economic power.

## 2 Globalisation of Chinese firms and competitiveness of Chinese trade

Although China has been the world's major recipient of Foreign Direct Investment (FDI) for nearly 20 years, China's ODI flows only started to increase significantly in the past several years. In addition, Chinese companies such as PetroChina, Huawei, Haier and TCL became aggressive in investing globally. A number of studies on Chinese ODI have concentrated on the regulatory framework and the influence of the government regarding ODI growth and sectoral patterns, geographical distribution; as well as on the investment motives of Chinese companies (Alon and McIntyre, 2008; Buckley et al., 2007; Child and Rodrigues, 2005; Taylor, 2002; Wang, 2002; Wu, 2005; Zhan, 1995). Other studies have applied an international management perspective and have focused on the internationalisation strategies of Chinese companies (e.g., Deng, 2004, 2007, 2009; Liu and Tian, 2008; Rui and Yip, 2008; Warner et al., 2004).

Chinese outward portfolio investments have begun to attract growing attention in recent years. Yet, efforts to assess the motivations and implications behind such investments remain significantly burdened by misperceptions and misrepresentations, whether as a result of political rationalisation, ideological rigidity, or emotion-driven agendas. The issue begins with a piece on political economy of China's financial capital by Schortgen. This paper aims to elucidate manifestations and implications of the unfolding globalisation of Chinese financial capital, through deeper contextual grounding than currently prevails in much of the commentary surrounding the expanding outward orientation of the Chinese economy. The approach of the research is one of contextual analysis, suggesting a general conceptual framework for the study of China's growing financial clout. The proposed framework includes *situational*, *assessment* and *political* *economy environment* levels designed to strengthen contextual analysis by evaluating the motivations behind as well as challenges and opportunities presented by China's nascent financial globalisation. Bringing contextualisation back in ensures that the analysis of this popular financial globalisation method will eschew simple political rationalisation and overgeneralisation in favour of deeper appreciations of critical situational factors and vested interests. The paper moves beyond the simple China Fever-China Threat dichotomy to argue that China has a vested interest in sustaining, if not strengthening, rather than overtly challenging established international economic and financial systems, given the current state of global economic and financial interdependence. China's financial ascendancy is not a zero-sum proposition; rather, it should compel *general* flexibility on the part of the West to adjust to the distinct possibility of *relative* decline in economic/financial power and influence.

In 'Chinese outward direct investment: a study on macroeconomic determinants', Wei and Alon propose a model and test the hypotheses from home-country macroeconomic variables to explain Chinese ODI. An examination of a fair amount of the current literature from their paper indicates that a variety of explanatory variables have been addressed to account for the growing Chinese ODI and its global economic and political impact. Therefore, studies on Chinese ODI determinants can be categorised into two groups:

- Firm-level explanatory variables, which belong to the specific ownership advantages of each firm. Such variables mainly refer to the organisation and management know-how the firm is able to apply to acquire, train and coordinate researchers towards the development of methods, technologies and products, which effectively form the basis of its ability to supply markets.
- Macro-level explanatory variables include both host and home-country variables. The host country variables focus on the location advantages. Such attributes include market characteristics, endowments of natural resources and comparative advantages, etc.

Home country variables involve factors such as institutional environment, capital market imperfections, exchange rate and level of economic development. On the basis of Dunning's Investment Development Path (IDP), this paper tries to analyse Chinese ODI from distinctive economic development of China and the results show that exchange rate, import, interest rate and foreign currency reserve are the most significant factors to determine Chinese ODI.

'International entrepreneurship and knowledge acquisition in Chinese international firms' by Yang, Ding and Liu explores the role of Chinese firms' external and internal factors in acquisition of foreign knowledge during firm internationalisation. Extant research has confirmed the benefits of international entrepreneurship for knowledge acquisition. However, few studies have investigated the effectiveness of international entrepreneurship in the domain of new and established companies and how an organisation's structure and network influence this effectiveness. The authors hypothesise that international entrepreneurship is positively related to foreign knowledge acquisition. Furthermore, this relationship is moderated by factors that include the organisation's organic structure and network strength. On the basis of a sample of 219 Chinese international firms, the research results indicate that the organic structure positively moderates the relationship between international entrepreneurship and foreign knowledge acquisition. In contrast, the organisation's network strength hinders the effectiveness of international entrepreneurship. Their study confirms that both new and established firms engaging in entrepreneurial behaviours are the beneficiaries of enhanced foreign knowledge acquisition. To survive in a foreign market, a firm should strive to engage in innovative, proactive and risk-risking activities to acquire foreign knowledge. In addition, their results clearly suggest that the utility of international entrepreneurship is contingent upon the structure of an organisation. For a firm to survive and prosper, managers should consciously design organisational structures to support foreign knowledge acquisition. In their study, Yang, Ding and Liu only examined the moderating role of network strength. However, one extrapolation from the results was the identification of the direct effect of a strong network. Therefore, further research needs to extend their framework by testing direct and moderating effects simultaneously.

With respect to the competitiveness of Chinese trade, we include one paper entitled 'Comparison of PRC and Vietnam's responses to the elimination of US textile and apparel quotas: economic and cultural perspectives' by Pelzman and Shoham. This paper contributes to the understanding of how the new textile and apparel markets (after expiration of the global quota system) impacted local industries in the PRC and Vietnam and explores how the expiration of the global quota system for textiles and apparel impacted the global markets for those goods. This topic is important because textiles are a major industry in several Far Eastern countries, including the PRC and Vietnam. This paper compares the responses of the People's Republic of China (PRC) and Vietnam to the quota's end by focusing on demand in the US market, supply considerations, institutional differences between the countries, their different government policies and unique cultures, which are used as proxies to determine supply-side responses. The authors find strong competition between the PRC and Vietnam in a very limited number of items. In the majority of three-digit categories originating in the PRC, there was no significant cross-price elasticity of demand. The reality behind the regression results is that the quality of PRC apparel and textile products improved drastically while Vietnam has only a single cost advantage: cheap labour.

## 3 Beyond the scope of research on China

Two papers beyond the scope of research on China conclude this issue.

'The function of social networks in expatriate effectiveness' by Li, Wang and Rothstein examines the role of social networks in expatriate effectiveness in their overseas assignment. In this research, an internet-based survey was used to collect data from expatriates who reported on network size and closeness, cultural information, social support, expatriate adjustment, job satisfaction and job performance. Partial Least Squares (PLS) model is adopted to test the hypotheses. Their results show that expatriates with more network contacts perceived more social support and that expatriates with closer relationships with their network contacts received more cultural information. Cultural information was positively related to expatriate adjustment and job performance, while social support was positively related to expatriate adjustment and job satisfaction. This study makes a contribution to the existing social-network literature by providing evidence on the role of social-network characteristics within the context of overseas assignments. In addition, this study provides support for the value of social networks in the context of an expatriate assignment. The paper suggests that network development deserves more attention from organisations sending expatriates overseas. Individual expatriates also need to realise that social networks are great sources of cultural information and social support; they should devote time and effort to extend their social networks during assignments overseas. There is also support for considering a broader view of expatriate effectiveness.

Yapici's 'Foreign Direct Investment and spillover effect: a local firm perspective' provides an understanding of two related phenomena:

- different results in spillover effect studies
- how local firms benefit from external knowledge and knowledge spillovers to achieve superior performance.

This paper combines FDI literature with network theory on knowledge transfer and absorptive capacity literature on assimilation and exploitation of external knowledge. The author argues that knowledge spillovers lead to superior local-firm performance if local firms use networks available to them to gain access to external knowledge and enhance their absorptive capacity through exploitation of external knowledge. Advanced absorptive capacity allows local firms to recognise knowledge spillovers before competitors do and exploit them, giving rise to superior products relative to competition in the industry. The paper limits itself to a general view of emerging market economies regardless of institutional and cultural differences. The Foreign Direct Investment (FDI) literature on spillovers generally considers emerging market firms as the subjects of MNC investments in the local markets. This paper is among the few that focus on our knowledge of spillovers appropriation of local firms in emerging markets. Overall, this paper is useful for assessing the difference in local firm performance in different developing countries. For instance, in a developing country that houses local firms with no concept of networking and collaboration among them and low levels of absorptive capacity, it will be more difficult to observe spillover effects.

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