

# **Reconceptualise Expatriation by Analysing the Capital and Labour Power in MNCs: Evidence from Chinese MNCs Abroad**

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## **Abstract**

This paper explores the dynamic relationship between capital and labour power on patterns of employment in multinational companies, with a special focus on the use of expatriates. 'Expatriation' has been conceptualised as a firm-based bureaucratic functionality awarded to senior and loyal employees. There is an increased use of expatriation as the spread of the capitalist system opens up new territories for expansion and re-location. Meanwhile, labour move more independently across countries in search for work, and such movement is facilitated by the emerging international employment agencies and profession and occupational networks formed by international migrants. As a result, expatriation is becoming more dispersed and open. The paper draws on evidence of expatriate use in Chinese multinationals companies (MNCs) and argue that a hard definitional boundary between 'expatriates' and rest of the workforce in MNCs has lost its appeal to dividing capital and labour functions. An alternative framework is proposed to capture the complex and segmented division of labour constructed within the MNC under more globalised labour markets.

## **Introduction**

Research of employment relations in MNCs has singled out expatriates as 'a small number of expensive people in crucial positions' (Brewster, Bonache, Cerdin, & Suutari, 2014, p. 1921) – a relatively secure and trusted segment of the workforce. Based on the assumption that there is a shortage of people who can be entrusted a *liaison* role in MNCs (Edström & Galbraith, 1977), expatriate is conceptualised as a generic group of managerial professionals

to and expatriation as the structural arrangement to enforce coherency in the complex networks of MNCs. Expatriate is essentially an internal knowledge based category of workforce, typically dispatched through the administrative mechanism of the MNC, assumes technical or managerial authority and transmits the administrative functions by representing the headquarters (Collings, Morley, & Gunningle, 2008; Perlmutter, 1969; Tarique, Schuler, & Gong, 2006; Tung, 1984). The literature on expatriates has evolved and developed to emphasise the shared occupational characteristics and common organisational processes.

There is a shifting context as to what constitutes an employee within the MNC. And this shift exposes the conceptual shortcomings of the existing discourse in expatriation. While expatriates still make up the majority of top managerial posts in MNCs' subsidiaries today (The Economist, 2014), firms increasingly find it hard to identify employees internally, who are willing to spend significant amounts of time overseas (Collings & Scullion, 2006). MNCs make more extensive use of expatriates to fill in non-managerial posts as MNCs increasingly operate with more segmented divisions of international workforce from different regions and on different contracts and conditions (Collings, Scullion, & Morley, 2007; Mayerhofer, Hartmann, Michelitsch-Riedl, & Kollinger, 2004; Tarique, Schuler, & Gong, 2006). It is partly because people today, especially professionals, move more independently of the firm, which in turn have made it easier to recruit qualified individuals from outside headquarters (Collings, Morley, & Gunningle, 2008). Some argue that such an internationally mobile workforce has altered the landscape of expatriation drastically (Carr, Inkson, & Thorn, 2005). Expatriates have become more diversified in terms of their country-of-origin as well as the flexibility of expatriation terms (Mayerhofer, Hartmann, Michelitsch-Riedl, & Kollinger, 2004; Collings, Scullion, & Morley, 2007). Their employment status with MNCs has also changed, with more expats supplied on a temporary basis, something previously unthinkable (National Foreign Trade Council (NFTC) and Cigna Global Health Benets (CGHB), 2013).

Compared to the changing context of expatriation, the subject of expatriate research has made very few changes. There has been some attempt to re-categorise expats. For example, some identify systematic differences in HR practices applied to the 'self-initiated expatriates' and the 'firm-assigned expatriates' (Andresen, Bergdolt, Margenfeld, &

Dickmann, 2014; Cerdin & Selmer, 2014). These studies highlighted the increasing diversity of the pool of expatriates. Nevertheless, most research follows the agenda set by the orthodoxy on expatriate research: the links between individual adjustment and well-being, motivation and performance, turnover intentions and compensation. We have yet explored how the changing demographics of 'expatriates' will affect the way expatriation is theorised.

The parent firm-centric approach in the conceptualisation of expatriation seems to have lost touch with the reality of modern MNCs. It does not actually uncover the growing diversity within labour markets and the increased transnationalisation of employment (Sater, 2014). Our understanding of expatriation may need an overhaul, given there are major shifts in expatriation. This paper aims to address this research gap by developing a framework that captures the emerging archetypes of expatriation. By doing so, we intend to recontextualise international staffing in the growingly integrated international labour markets.

### **Expatriation: what do we know so far**

Periodical reviews suggest that the agenda of expatriate research is parent firm-centric, elite-focused and managerial issue-dominated [see (Brewster & Hugh, 1997; Bonache, Brewster, & Suutari, 2001; Collings, Scullion, & Dowling, 2009; Dabic, Ganzalez-Loureiro, & Harvey, 2013)]. MNCs are the central actors of expatriate deployment and expats serve the firms' purpose by fulfilling their assigned tasks. Three review papers on expatriates and staffing show that issues around staffing the top subsidiary management team make up the majority of international HRM papers concerning MNCs (Littrell, Salas, Hess, Paley, & Riedel, 2006; Collings, Scullion, & Dowling, 2009; Dabic, Ganzalez-Loureiro, & Harvey, 2013). This establishes the discourse around the staffing concepts as applied to the MNC, and in particular with the widespread literature on expatriates.

The discourse began with identifying ideal types of international staffing - ethnocentric, polycentric and geocentric as staffing cohorts to be strategically deployed by a central HQ (Perlmutter, 1969). This set a frame for subsequent categorisations - parent-country nationals (PCNs), host-country nationals (HCNs) and third-country nationals (TCNs) (Morgan, 1986), or home, host and third country nationals (Harzing, 2001b) - that

continued within a functionalist and ideal typical stratification of 'balanced staffing'. Through these archetypes, country context, as historical reality, was removed. Underpinning early classifications was considerable practitioner orientation. The field emerged, as described below, through problems of 'expatriation failure' in US corporations, early returns of managers, and grew as training and learning interventions by HR practitioners to reduce this risk found a ready market in US and later other MNCs (Tung, 1987). Although broadening subsequently, in essence the expatriate field remained a positivist, functional and strongly pragmatic strand of HR writing.

In a review of 438 papers covering four decades of research on expatriates in MNCs, Dabic, Gonzalez-Loureiro and Harvey (2013) document the construction of discourse on what they call "privileged' workers overseas" (ibid. p.2) – that is, the elite within the multinationals' internal administration who move through the company from HQ to subsidiary or between subsidiaries, acting as "human glue" (Kamoche, 1996, p. 239) and embodied command of senior management across the geography and hierarchy of the international firm. Dabic et al (2013) show that US researchers and journals have dominated the field, reflecting the strength of the US economy and US MNCs, and therefore not surprisingly 'research has been mainly governed by US perspectives' (ibid. p.6). While champions of European expatriate research exist (Scullion & Brewster, 2001) they largely follow US discourse on research themes. This involves concerns with a categorical definition of expatriates as elite managers, who flow through the firm on 'assignments', negotiating cultural space between 'home' and 'host' societies, where issues are individualised as problems of cultural adjustment (Mendenhall & Oddou, 1986) – performance, dual careers, and turnover risks that can nevertheless be muted by pragmatic interventions of pre-departure training and good organisation within the MNC (Scullion & Brewster, 2001).

In a sophisticated review of international staffing in the MNC, Briscoe, Schuler and Tarique (2012) list some 21 types of international employees, emphasising the outdated nature of the three-fold categorisation (PNC, HNCs, TNCs) for more globalised environments with more diverse workforces, where increased migration has given MNCs and workers more choice. However, the authors proceed to apply the same 'types of questions' for these new 'global enterprises' to 'better manage their global workforces' (ibid, 2012: 213), which reproduces virtually the same checklist of cross-cultural competency training, international

compensation, repatriation etc. In other words, it remains decontextualised abstracted thinking within the same discourse – functionalist, managerial and firm centric. They also return to the three-fold classification of staffing when applying this checklist – perhaps 21 types of international employees are difficult to plan for.

In summary, we can see that 40 years of research into expatriates has produced a narrow frame of discourse relating to actions through the HR department within the context of the organisation, that can affect the positive outcomes for expatriate management career development though pragmatic interventions for assignment adjustment to ensure organisational efficiency between home and host cultural spaces. There is limited context to the firm, limited context to the country of origin, and no attention to the political economy of capitalism and to how firms fit into new developments, both cyclical and structural. For example, commodity chain analysis does not appear, and yet this has profound importance for the movement of labour within the firm. Overwhelmingly, it presents a flat, functionalist world, where problems are solved pragmatically by far sighted management (and researchers) and by good training directed at other managers. The dominant discourse to emerge reduces MNCs to ‘international firms’ without context or history. Where the occasional national prefix appears, such as Japanese, it invariably exists purely to demonstrate ‘cultural’ difference - the opposition between collective and individual ‘cultures’ of the US and Japan, a la Hofstede (Yamazaki & Kayes, 2007). But in general contexts are aggregated into ‘host’ and ‘home’ settings – with abstracted variables such as ‘institutional distance’ (Kostova & Zaheer, 1999) or ‘cultural toughness’ (Mendenhall & Oddou, 1986)) measured or scaled in ahistorical and decontextualized ways [see (McSweeney, 2002) for critique]. Here, all expats are (elite) managers with differing personal traits or capacities for working abroad, and all international companies are considered to be in need of cross-cultural or acculturation training, diversity management training, communication and personal effectiveness training for elite staff in order that they can manage overseas staff effectively.

The underlining discourse of expatriation has increasingly become inadequate as firms increasingly operate with more segmented divisions between managers and workers, from different regions, and on different contracts and conditions. Expatriation is not simply an administrative function of the firm (typical career development through internal labour market) or self-initiated through personal networks, but involves new players (e.g.

employment agencies), new management practices and possibly new discourse. We therefore need to examine emerging patterns in expatriations to re-interrogating dominant paradigms and framing the management of expatriates in the changing global labour markets. This paper will propose a major re-orientation of the field and examine the direction of travel through the two archetypes of internalisation and externalisation, within a context of more labour and capital mobility, but persistent contextual differences that require examining in detail through empirical research.

### ***Changing capital and labour relations in MNCs: two directions***

Changing capital and labour relation in MNCs is reflected in two directions of expatriation—*internalisation* and *externalisation*. By *internalisation*, we mean that multinationals expand the range of staff being transferred through the firm-directed administration system. Expats are often seen as the agency of bureaucratic authority in MNCs, fulfilling headquarters' management objectives of either management control over local managers and workers or knowledge transfer through socialisation of locals (Harzing, 2001a). Expats are tied to a HQ agenda as a trusted part of the MNC because locals are not simply less knowledgeable, but less trusted. In this sense, expats are dispatched in small numbers not because of unique skills or knowledge but because they are control agents from HQ sent to manage local managers and workers. Over time subsidiaries build up subalterns: a local class of managers or cadres created and typically socialised through education and training to perform the functions of expatriates. As knowledge is standardised and a subaltern local cadre is produced in the subsidiary, and informal bureaucratic or technological rules are generated to run MNCs, the management control embodied in the person of the expatriate will decline, and consequently expat numbers will decline.

By *externalisation*, we mean that firms increase the use of professionals, spin-off the managerial function of expatriation and/or delegate the administration of expats to third party actors. Expatriation is not simply bounded with MNCs through bureaucratic administration or self-initiated through personal network (von Koppenfels, 2014). Rather, an extended body of third party actors, such as employment agencies, plays increasing roles to supply expatriates and manage terms of expatriation.

### ***Internalisation of expatriation***

The Chinese MNCs may represent an extreme case of *internalisation*, transferring substantial scale and scope of parent country nationals (PCNs) through the internal administrative mechanisms (Zheng & Smith, 2015). With the rise of MNCs from China we have witnessed a deepening use of expatriates, as Chinese firms expand from home to international operations. MNCs from China are staffed by managers, engineers, technicians and workers from China to a greater extent than witnessed in other recent processes of global expansion, such as Japanese or Korean companies. Zheng and Smith (2015) highlight the scale of use of expatriated labour from China within Chinese MNCs abroad. Whereas the typical scale of expatriate deployment is less than one percent of total employees, in the Chinese case the total numbers of expatriates exceeds locally recruited workers – an inverse of the norm.

These observations shed light on transnational labour deployment driven by the increasing international mobility of capital from emerging economies. However, such empirical observation has not been yet been integrated into existing staffing theory, which tends still to deal with ideal types developed during a period when US and European MNCs dominated the global economy. MNCs from emerging economies, when they are considered, are thought most likely to conform to existing practices, and are not seen as transformational of the field.

### ***Externalisation of expatriation***

Some HR writers have noted the move to externalisation, but remain wedded to a cost and efficiency based explanation for it. For example, Tarique and Schuler (2008, pp. 1400-1401) note that ‘with the rising costs associated with expatriates, North American MNEs have decreased their reliance on the “traditional expatriate” (Tarique & Schuler, 2007) and have turned to third country nationals (TCNs) and host country nationals (HCNs) as vital sources of staffing, for both non-managerial and managerial positions (Reynolds, 1997) ... MNEs [have] shifted their staffing focus from one primarily driven by the parent country to one better described as “global”’. Yet within this literature there remains a view of such staffing as functional to the optimum balance within the organization, with different categories

performing different efficiency functions within the firm, and while country context is considered, it is treated as a 'moderator' and not as a contradiction or challenge to such firm-centric approaches.

So, against the stress on the high costs of non-local staffing of the MNC in the mainstream management literature, the process of using TCNs, through migrant labour meant labour costs were controlled by the reserves of labour available on a regional and even on a global scale (Baldwin-Edwards, 2005). Theoretically, the segmented labour market and stratified hierarchy in a given host country is not the outcome of corporate rationality in MNC staffing, but a political-economic process of states interacting with their position within global capitalism and creating what Harvey (2001, p. 305) notes as capitalism's ability to generate an 'expansion in the exploitable population' at home, which is achieved by 'labour surpluses imported from abroad' (Scott, 2013, p. 305).

### **Chinese MNCs: a deviant from the 'norm' of expatriation?**

International expansion of Chinese MNCs is accompanied by growing research interests in the management of employees in these firms' overseas subsidiaries (Cooke, 2014). Empirical evidence so far suggests that expat use in the Chinese MNCs stands out as a 'deviant' from the paradigm of home country elitism. In Chinese MNCs, PCNs are widely employed to fill in non-elite positions overseas. In a number of African countries where Chinese MNCs have become well established foreign investors, non-elite expats are despatched in large numbers to both capital-intensive sectors such as large-scale construction sites (Zheng, 2008) and mining projects (Lee, 2009), and some labour intensive sectors such as textile mills (*ibid.*). Given the availability of low-cost local labour and relatively relaxed immigration rules, Chinese MNCs' preference for expats over the locals is considered strategic rather than pragmatic (Zheng, 2008, p. 6). This reflects the Chinese firms' preference to creating a 'dependent' workforce through the international deployment of labour.

The idea of expatriation is being stretched or transformed in Chinese MNCs. The China Association of International Contractors (CAIC) conducts surveys among their member firms each year and publishes an *Annual Report of China International Labour Cooperation*. The report published in 2013 showed an aggregated record of 6.92 million expatriates



between 2004 and 2013. CAIC also started collecting data on locally recruited employees in 2011. Table 1 below shows the net total of Chinese expats and the locally recruited employee working in Chinese MNCs. Although the number and promotion of the locally recruited employees have both increased over the three years, the net total of locally recruited employees was approximately 10%-15% less than the expats.

Table 1 Chinese expatriates and locally recruited employees 2011-2013

Year	Net total of expatriates by end of year (percentage in total workforce)	Net total of locally recruited employees by end of year (percentage in total workforce)
2011	812,000 (58.77%)	569,711 (41.23%)
2012	850,000 (58.48%)	603,593 (41.52%)
2013	853,000 (56.57%)	654,809 (43.43%)

Source: CAIC Annual Report of China International Labour Cooperation (2013)

The numbers of expatriates makes the Chinese case quantitatively different from the practices in other MNCs. In MNCs from the US and other European countries, expatriates form a tiny fraction (normally less than 1%) of the total overseas workforce. Existing empirical research on Japanese MNCs (which are known for their ethnocentric staffing approach) has highlighted that they use more expatriates than equivalent European and US MNCs (Lam, 1997; Elger & Smith, 2005). But Japanese MNCs, overall, remain very small users of expats. We calculate the proportion of Japanese expatriates based on company data published by Toyo Keizai Inc. (2013) – a reliable annual survey of all Japanese overseas MNCs which provides accurate information on Japanese expats by firm. Toyo Keizai data for 2013 shows that Japanese expatriates account for 1% of the overseas Japanese workforce. The number varies by industry with the greater use of expatriates in the manufacturing sector (3%). But compared to the Chinese MNCs, expatriate usage in Japanese MNCs is closer to the dominant ‘Western’ model. The proportion of expatriates to locals in Chinese MNCs looks totally different alongside the established MNCs.

The second distinctive feature of expatriation in Chinese MNCs is the composition of expats. While it is unclear whether the statistics in Table 1 include the expatriates at senior

level, the proportion of expat on top-managerial posts is likely to be small, according to existing research. Like all MNCs, Chinese companies assign a small number of senior managers to subsidiaries, and these can be seen as the ‘elite group’ as depicted by existing expatriate research. Some suggest that these senior managers have strong ties with the headquarters (Yao, 2014), playing the roles of control and learning agents in their organisations (Zhang, 2003). But what has been under-reported and insufficiently analysed is the far greater use of employees on non-managerial positions despatched from China through the conduit of the MNC.

Studies comparing expatriate use in Chinese MNCs with other MNCs are very rare. In one early and very explorative study of expatriates in Hong Kong, Selmer, Ebrahimi & Li (2002) found that non-managerial expatriates considerably outnumbered expatriated CEO and managers (see Table 2 below).

**Table 2. Chinese expatriates vs. Western Expatriates**

	Chinese Expatriates		Western Expatriates	
	Number	Percent	Number	Percent
<b>Position</b>				
<b>CEO</b>	15	13%	220	64%
<b>Managerial</b>	44	39%	111	33%
<b>Non-managerial</b>	54	48%	11	3%

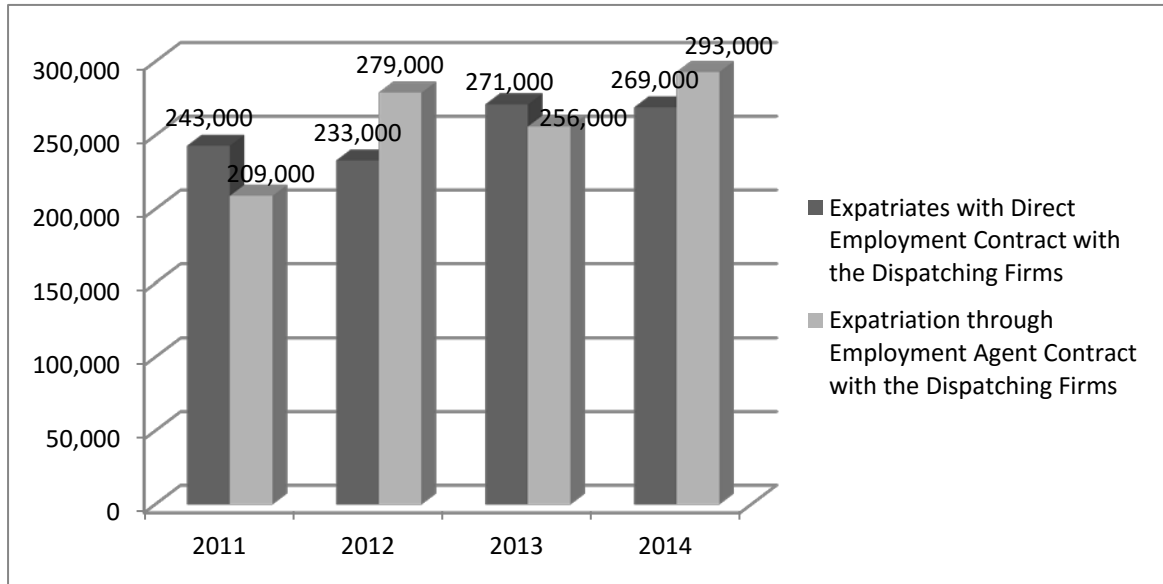
Source: Selmer, Ebrahimi and Li (2002): 23

In this study the proportion of non-managerial workers is significantly higher (48%) as compared to that of the Western expats (3%). There is also a significant contrast at the top management level, where a large proportion of Western expats are filling the post of a CEO (64%) and while less than a sixth (13%) of the Chinese expats are CEOs.

A third distinctive feature observed in the Chinese MNCs is the role played by employment agencies in the process of expatriate staffing. Expatriation takes two forms based on type of employment contract: *Overseas Contracted Projects* and *Overseas Labour Services*. The category of *Overseas Contracted Projects* refers to expatriates working on overseas construction projects run by Chinese MNCs. The category of *Overseas Labour Services* refers to the ones despatched overseas through agencies to work for foreign firms (National Bureau of Statistics of China, 2014). Between 2011-14 (when methods of expatriation are included in the statistics), there is only a marginal difference in terms of the

number of expats directly employed by Chinese MNCs compared with those despatched through employment agencies (see Figure 1 below).

**Figure 1 Expatriates by method of dispatch in Chinese MNCs**



Source: CAIC Annual Report of China International Labour Cooperation (2013) \*Published by the Ministry of Commerce, China

Given the scale of expatriates, perhaps more striking in terms of being different is the lack of ‘preparedness’ of Chinese expats in dealing with employment issues (Zhu, et al., 2014), including expatriation. Staffing decisions are often made based top managers’ personal preferences rather than a systematically designed selection criteria (Shen & Edwards, 2007). There is generally a lack of “on-assignment” and “repatriation support”, which is believed to have negative impact on career advancement and organisational development of Chinese expats (Yao, 2014). Expatriation is admitted to be costly but compensation is merely adequate considering the hardship of the assignments (Cooke, 2012). Even in the host countries where the Chinese MNCs have gained more experience, research shows that expats’ attitudes towards locals and tactics of management are found ‘immature’ (Komoche & Siebers, 2014).

These observations invite questioning about why Chinese MNCs adopt such distinctive expatriation practices. Existing comparative research scrutinises employment practices adopted by Chinese MNCs and examines their proximity to the ‘norms’ of expatriation. The source of heterogeneity (or uniqueness) is often traced back to the ‘national model’ of HRM, or the MNCs’ country-of-origin (Kopp, 1994; Harzing, 2001;

Zsuzsanna & Maury, 2009) (Harzing, 2001b). In line with this nationality discourse, some argue that Chinese MNCs are at a developmental stage and hence evolving towards standard practice (Shen & Edwards, 2007). China's transitional institutional environment and its lack of a representative national model have encouraged an approach in subsidiary management where trust relations are personal, not bureaucratic and standardised (Cooke, 2012; 2014). The preference for using 'trusted' expats within the personal connections of managers therefore mirrors the need for continuous and incremental adjustment to a dynamic external environment, seen by some as unique to the Chinese MNCs (Shen, 2006). Others turn to post-colonial studies for theoretical frames and explain Chinese MNCs' 'distinctiveness' as a manifestation of cultural superiority promoted by big firms backed-up by an emerging powerful state (Jackson, 2012; Komoche & Siebers, 2014).

These arguments reflect strengths of a nationality discourse, particularly in highlighting the distinctiveness in the patterns of expatriation and in tracing the national social institutions that enable or embrace these patterns. The 'home country' serves as an underlining reference point to explain the employment policies adopted by MNCs. These studies are insightful in terms of unpacking the 'Chineseness' embodied in the patterns of expatriations. However, limited effort has been made to work out the theoretical significance of such 'polar type' of cases, in which the central construct of a social phenomenon is most evident (Eisenhardt & Graebner, 2007: 27). In particular, we need to consider roles played by Chinese MNCs as an agency of capital, which takes commodification of labour beyond the national stage and into an increasingly integrated global labour market. It seems we rarely raise the question on what the quantitative distinctiveness of the newcomers' approach means to 'the rules of the game' played by multinationals, which to a large extent reflects 'a predominantly Anglo-American approach to theorizing the MNCs' (Mathews, 2006, p. 17). The empirical significance of the China case points us towards rethinking the dominant paradigm on the comparative studies of expatriation. It might well be time to move away from probing the national origins or the Chinese character of expatriation, and reframe expatriation in the context of the international political economy of capital relocation and cross-border work deployment.

With the rise of MNCs from China, we have witnessed both a deepening use of expatriates and a tiered pattern of expatriation. The Chinese case means that on the one

hand, the economics of expatriation need to be revisited. We know the surpluses of labour within China have been a significant incentive for capital to move to China. Empirically, use of expatriates highlighted in the case of Chinese MNCs challenges the very conceptualisation of expatriates as an elite group. This removes the cost element, and enhances the control dimension of the firm continuing with its established labour management system. Extensive use of non-elite expats redirects our attention to the labour function of expats, who are the replacement or displacement of labour that would otherwise be sourced locally or elsewhere. These observations echoes such transnational labour deployment driven by the increasing international mobility of capital from China. On the other hand, as the majority of expats take up non-managerial posts, the dominant idea in the literature that expatriate deployment is for the execution of authority within MNCs needs major qualification. Other questions relate to the effect of a tiered-expatriation employment relationship on expatriate and local managers and workers. Below, we will explore these questions through our discussion of three themes that challenges the orthodoxy on expatriate research and needs to be taken forward in future research.

***Theme 1. Continued access of labour in capitalist expansion: the dual capital and labour functions of expatriation***

Heavy use of expatriations in the Chinese MNCs shows the possibility of firms' access to home country workforce, which was rarely reported in MNCs from the established economies. Continued access of labour is most evident among the state-owned enterprises (SOEs) as observed by a number of authors, although level of expatriate use varied across sectors (Lee, 2009; Scott, 2013; Zheng, 2008) (see Table 3). This preference for a home sourced workforce over locally recruited workforce has often been interpreted as a political move accompanying economic expansion (Bräutigam & Tang, 2011; Scott, 2013). In particular, the resource-based investments by the Chinese SOEs are believed to not only challenge the aim of profit maximisation, but also reflect the political agenda of the Chinese state to enhance its international power (Alon, et al., 2009; Quer, et al., 2012; Deng, 2013). Although expatriates and locals work side by side, they were segregated by the terms of employment offered by the MNCs. In this sense, the expatriation is to *shut out* the influence of local stakeholders (Jackson, 2012). A tiered system of expatriation embodies a dual capital and labour function: a top tier expats played the capital function of as the 'loyal

servant' or agent of state capital. And, heavy use of a second tier of home country workers played a *labour function* as a displacement of an available local workforce--something atypical of expatriation practice.

While the politics of FDI offers some explanation to tiered-expatriation in the Chinese SOEs, the non-state-owned MNCs are less state-bounded. Coming from a less developed economy, Chinese MNCs are found to be more inclined to integrate knowledge seeking and internationalisation as a strategy to 'overcome competitive disadvantages' (Buckley, et al., 2007; Child & Rodriguez, 2005). In comparison with the SOEs 'persistence' of sending home-country labour overseas, the private firms are found to be more cost conscious when assessing their expatriate schemes (Cooke, 2012). Expats are used as a replacement, where local workers are not able to perform the job (or deemed less efficient compared to Chinese workers). What we want stress here is that a tiered system of expatriation coincides with a trend of *reverse relocation* both in the form of fixed assets and technical/managerial knowledge (Zhang & Edwards, 2007; Bentley, 2007; Larsson & Yu, 2012). A first tier of Chinese expats are performing a capital function as control and transfer agencies to acquire competitive advantages, as are expats in more established MNCs (Liu & Buck, 2009). The second tier and the majority of the Chinese expatriates take up the labour function and work alongside local workers, technicians, engineers. This second tier of expatriates connects the labour reserves at home and home countries, while recruitment of either group can be supplement or replacement for the purpose of work relocation.

Such dual capital and labour functions played by expatriates are also found in the MNCs from the Greater China region (Hong Kong, Macau and Taiwan), although a tiered system of expatriation takes a slightly different form. These firms have established their main production functions in China, which becomes a 'home base' for internationalising into other regions. Technically they are 'foreign' firms in China. Labour expatriated from China is not fundamentally different from labour recruited locally or sourced elsewhere. They perform similar tasks, work on similar contractual terms and are managed by similar employment policies. For example, Wang's (2008) study of Taiwanese MNCs in Vietnam shows how Chinese workers and Vietnamese workers were mutually replaceable and employers' preference is not evident. In the Eastern European subsidiaries of Foxconn, a China-based Taiwanese MNC. A first tier of 'knowledge workers' are dispatched from

countries on higher wage level to those on lower wage level (e.g. from Scotland to the Czech Republic). A second tier of industrial workers were expatriated from countries on lower wage-level to countries on higher wage-level (from Romania to Czech Republic), often through employment agencies (Andrijasevic & Sacchetto, 2014). While some may argue that access to overseas reserves of labour is less a driver of internationalisation because Chinese MNCs have these in China (Deng, 2004; 2013). But tapping into and mobilising the relative discrepancy in labour costs across countries still underpins the tiered-expatriation system in this case.

### ***Theme 2. Reorganising the space of the 'Chinese regime'***

Among the Chinese MNCs that demonstrated the pattern of tiered-expatriation, relocation overseas shows the possibility of extending the 'Chinese regime', although such extension takes different forms. For the SOEs, deploying expatriates from a rich home-based labour pool is largely conducted through the administrative control system, which is perpetuated and supported by both home and host country institutional actors (Cooke, 2014). Of particular significance is the creation of Chinese Special Economic Zones (SEZs) where Chinese MNCs dominate production (Lee, 2009; 2014). The SEZs create an 'enclave' and a strong possibility that they will remain Chinese dominated, with little spill-over of technology and skills into the host society, but a primary conduit for the linkages between Chinese firms and the Chinese employment system. Some suggest that these SEZs are 'a re-territorialization of the nation state in order to accommodate and attract capital, trade in goods and labour' (Arnold & Pickles, 2011, p. 1605). Labour management reflected an 'enclave' form of investment, with Chinese MNCs recreating environments similar to those in China, and hence reducing the friction between labour flows from China to MNCs within the SEZ (Bräutigam & Tang, 2011).

Others have explored the use of such SEZs as a means of transferring (neo-liberal) casualised labour conditions (Lee, 2009; 2014). These zones operate as spaces of neoliberal 'exception' which actually function to 'normalize a specific model of capital accumulation, underwritten in particular ways by state authority' (Mohan, 2013, p. 1262). The lack of transparency in these zones means that labour conditions are often unknown to outsiders. Transfer is facilitated by actors, such as the Chinese managers and workers, who have

learned at home through the reforms of SOEs the practices of casualised employment, hard work and sacrifice (Lee, 2009; Brooks, 2010).

These observations remind us that MNCs often negotiate spatial and institutional territory that is a politicised space, bounded by state or political actors. Within China, ‘special economic zones’ and other such territorial vehicles are used to facilitate greater freedom for the MNCs to move and remove themselves from regulated national space (Peck & Zhang, 2013). We might question whether MNCs’ capacity in creating such politicised space may vary, based on sectors, regions and/or companies. Industrial sector based analysis of the use of expats indicate the answer might be positive. The fixed-term project based sectors (such as construction) and the manufacturing sectors are the heaviest users of expats (see Table 4 below).

**Table 3. Chinese Expatriates by Industry Sector (by the end of 2014)**

Industry	No. of expatriates on overseas assignment	Percentage among total expatriates
Agriculture, farming and fishing	6,2000	7.3%
Fishing	2,5000	2.9%
Plantation	16,000	1.9%
Manufacturing	161,000	18.9%
Textile	24,000	2.8%
Electronics	14,000	1.6%
Machinery	18,000	2.1%
Construction	396,000	46.4%
Transport	80,000	9.4%
Sailors	74,000	8.7%
IT and software	2,000	0.2%
Hotel and restaurant	39,000	4.6%
Education, entertainment and leisure	4,000	0.5%
Others	10,900	12.8%

Source: CAIC Annual Report of China International Labour Cooperation (2014)

Firm-level analysis echoes the trend found by national statistical data. Comparing the use of expats among Chinese MNCs in some African countries, Chen and Orr (2009) noted that variation existed according to the nature of the project, the firm involved, productivity levels and labour market conditions. Cooke (2014) observed different patterns of skill formation among Chinese MNCs. She suggested *sector effects* as the reasons for such a divide. Faced



by skill-shortage, key firms in the IT and telecommunication sectors were inclined to localise the subsidiary workforce and to transfer some 'welfarist' parent HR policies. Whereas in the manufacturing, construction and resource sectors, resilient despotic employment policies from China were applied to manage both expats and locally recruited workforce (*ibid*: 886).

The observation of such variance in expatriation reminds us of the complexity and diversity of reorganising work in a new space. Existing literature has widely acknowledged that internationalisation poses questions about the feasibility of transferring employment practices across countries through the vehicle of MNCs (see Elger & Smith 2005; Peck & Theodore 2007; Zhang & Peck 2013). Different scales and variations in patterns of expatriation are evident in a more globalized environment (National Foreign Trade Council (NFTC) and Cigna Global Health Benets (CGHB), 2013). The empirical observation of tiered-expatriation in Chinese MNCs is not simply a story of transferring what the Chinese firms are familiar with at home. But also, it reveals an emergent and transcendent character of MNCs, being political actors, and able to challenge the reality imposed upon them by new actors. Powers of these actors are uneven, and therefore employment outcomes are likely to vary. As Lee's (2009) comparative case work on two African firms shows, some local actors are more successful in challenging the flexibilization of employment conditions imposed by the Chinese firm whereas others are forced to embrace this neo-liberal agenda. This contested terrain (Collinson & Morgan, 2009; Edwards & Bélanger, 2009) of international employment relations has to be integrated into the analysis of expatriate research.

### ***Theme 3. An extended chain of expatriate management***

Tiered-expatriation observed in Chinese MNCs also encouraged us to look beyond the firm level in order to better understand the patterns of expatriation. In particular, we needed to reassess the increased use of international employment agencies, and the dispatching of labour on a global scale (Peck, et al., 2005; Coe, et al., 2008; 2010).

The existing literature has provided ample examples of employment agencies role in facilitating expatriation. At the executive level, sourcing external candidates through head-hunters is considered an alternative to intra-firm transfer (Dickmann, et al., 2008). This is often theorised as the end of the internal labour market, loyalty and commitment based

employment practices (Finlay & Coverdill, 2007; Bonet, et al., 2013). Professional HR consultancy firms also offer complementary and sometimes supplementary services to the HR functions within MNCs such as searching and screening potential candidates (Laia, et al., 2008), providing pre-departure training and coaching (Shih & Chiang, 2011), delivering logistic and administrative support for managing the transitions (McCracken & McIvor, 2013). The role of employment agencies in channelizing the movement of work and individuals, however, is not yet explored.

The officially reported number of Chinese expatriates may not reflect the scale of Chinese working overseas. This is because some expatriates become 'invisible on paper'. Chinese expatriates are sometimes categorised as non-expatriates, if they are sourced locally (Scott, 2013). We need to remember that migration of Chinese workers is often independent of Chinese MNCs. On the one hand, independent migration creates a supply of 'local' Chinese workers that are then recruited by Chinese MNCs. On the other, many Chinese workers are actively seeking international job opportunities through international employment agencies, which are expanding to deliver workers independently to Chinese subsidiaries (Mohan & Power, 2009).

The case of Chinese MNCs brings to attention a wider range of such 'agencies', or third-party actors, who facilitate expatriates' movement across countries and MNCs. The role of the Chinese government in promoting expatriation has been discussed above, and acknowledged by other authors (Cooke, 2014). For all countries, government policies on border controls provide guidelines for international mobility. The significance in China's case is the political alliance between the Chinese state and with the local national governments where expatriates are used. Government involvement is not restricted to developing countries. After signing bilateral agreements between the Chinese government and the Japanese government, Japan became the largest recipient of expatriated labour from China (MOC, 2013). During the same time, Chinese expatriates also became the largest group of foreign employees in Japan, accounting for 43 per cent of all expatriates in the country. The scale of expatriates is negotiated with employers' associations and labour representative bodies in the recipient countries. These associations are also actively take part in the selection process (China International Contractors Association, 2013).

The host country employment agencies' role in sourcing expatriates from China is much more directive than observed in the existing literature. Within the Egyptian SEZ, Chinese firms were exempt from labour regulations pertaining in the rest of the country, and although nominally only 10 per cent of the workforce was supposed to be non-Egyptian, because Chinese firms in the SEZ use local employment agencies, these could be a mechanism for introducing significant numbers of Chinese workers 'as Egyptians sub-contractors carry-out the work, they dispose themselves of any obligations towards locals' (Scott, 2013, p. 22). In a study of use of Chinese professionals in a Taiwanese invested firm in Vietnam, both employment agencies in China and in Vietnam are actively engaged in searching for qualified employees from China (Wang, 2008). In fact, the number of expatriates despatched through agencies accounts for one-third of all the expatriates employed in the subsidiary. The authors show how these employment agencies form a collaborative relationship with the firm to mobilise skilled labour internationally.

Apart from more active sourcing function played by the third party actors, training of expatriates has also extended beyond the firm-level through the involvement of employment agencies. While research based on the top tier expatriates indicates the inadequate pre-departure training provided to senior managers (Shen & Edwards, 2007), the training of the non-management actors can be extensive. Some set up training is based in the sourcing site, where workers are prepared for an extended time before being selected to an expatriate job. Especially in locations where there is shortage of semi-skilled labour, registration of potential expatriates are done by setting up an extended training programme.

These findings lead us to further probe the question: who bares the cost of selection failure in the tiered-expatriation model? Existing expatriation literature is based on the assumption that expatriate failure is 'costly', and the entire academic field was established in order to reduce expatriate failures and hence costs to the firms associated with this. As the sources of expatriated labour extends through the chain of actors outside the MNCs, the cost of expatriation failure is also distributed (or passed down) to the external bodies (such as employment agencies) and sometimes down to the individual expats. The cost of expatriation is no longer an internal HR outlay. Rather, the agencies take up the cost of replacement and sometimes pass the cost on to the expatriates (China Labour Bulletin, 2011). Under neo-liberalism, flexible employment relations have been pursued, weakening

the bonds between worker and organisation. In this sense, tiered-expatriation exercised by the Chinese MNCs is not necessarily a deviant. The model has emerged and developed against the backdrop of neo-liberalism within the international labour market.

Examining the case of Chinese MNCs reminds us the role of third party actors as moderators of the economics of expatriation. In the top expatriate destination of Chinese expats--Japan, for example, industrial associations and employee representative bodies have the power to restrict the number, types and terms of expatriation. These organisations are not only involved in advising the national state on policies concerning international migration, but also taking part in the sourcing, controlling and repatriating of expatriates (Iguchi, 2002). Shipper (2002) even argues that individual firms' role in deciding the terms and conditions of foreign migrant workers becomes secondary in face of state ministries, industrial association and organised crime gangs. Collectively, the latter constructed and perpetuated a hierarchical system in employing foreign migrant workers, with foreign-born Japanese taking the higher end jobs and South Asian nationals at the low end (*ibid.*: 43). Foreign migrant workers, including Chinese expatriates, are politically labelled to be 'fit' in certain sectors. Some 'cost-cutting' employment practices, such as casual employment relations, are sustained despite the fact that labour shortages at the national level would otherwise have put pressure on firms to improve employment conditions in these sectors. Third-party actors, to a large extent, have shaped the dynamics between segmentation of work at firm level (as reflected in tiered-expatriation in the Chinese MNCs) and stratification of international labour force.

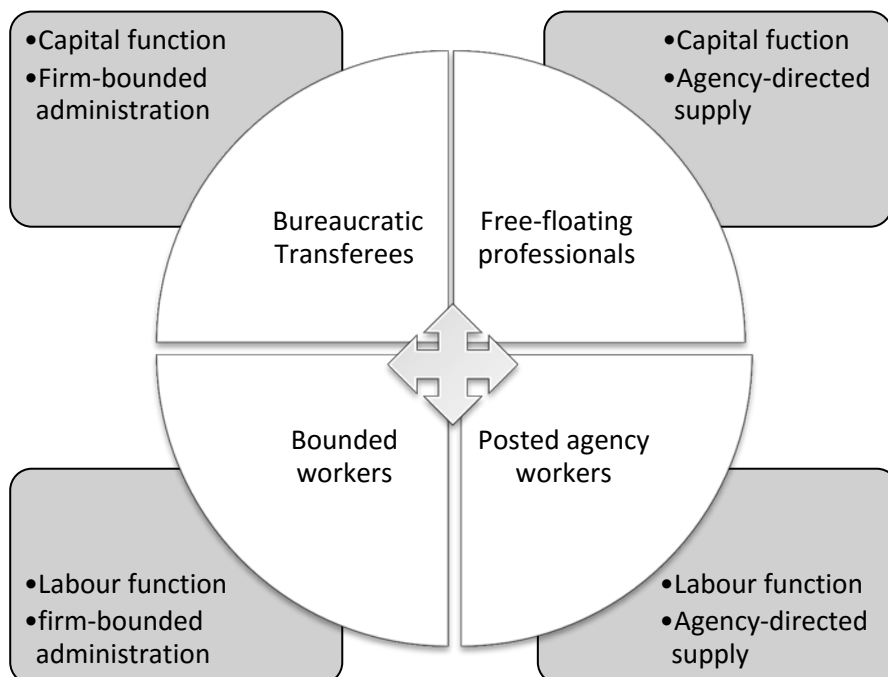
### **Re-categorising expatriation**

The theme-based analysis shows stratification in what is traditionally known by the broad term-- 'expatriate'. The distinctions between who constitutes an expatriate, a local or a third country national are increasingly blurred and the labour function of expatriate become more evident as expats and local workers form alliances as an 'emerging' working class (Smith, 2013). However, MNCs' ability to access and deploy labour needs some qualification. Among the Chinese MNCs, the source of capital includes state-backed capital, privately-owned capital and internationally-sponsored capital. As highlighted by a number of

researchers, the source of capital has very much shaped the patterns and strategy of Chinese MNCs' international operations (Luo & Tung, 2007; Wei, et al., 2014).

As shown earlier, the source of capital has enabled deployment of an international workforce by accessing different segments of international labour markets. The patterns of the tiers within expatriates therefore varied across the 'Chinese' MNCs. As illustrated in Figure 2 below, this tiered system of expatriation exists in two dimensions: the function of expatriates (including *capital* and *labour* function) and the instrument of delivering expats, which includes *firm-bounded administration* (as observed in the Chinese SOEs and many private firms) and *agency-directed supply* (as observed in the Greater Chinese MNCs). We can therefore categorise expatriates into four archetypes: the bureaucratic transferees, the free-floating professionals, the bounded workers and the posted agency workers. The bureaucracy transferees are appointed by the firm and embody a capital function. The free-floating professional also plays predominantly a capital function. They are often called upon through (or headhunted by) professional agencies in service to designated projects/tasks. The functions of expatriates and the instruments of expatriation form a tiered system of expatriations (see Figure 2 below).

**Figure 2 Tiered System of Expatriation**



The two functions played by expatriates highlight the diversity of international assignments or tasks created by the increasing international activities of multinational firms. The two instruments of expatriation can potentially stand as 'functional equivalents', which enable the creation of an *accessible, substitutable and replaceable workforce* and allow greater control over the global workforce. This makes a significant contrast to how expatriation is conceptualised in the existing literature, which is built on the assumption that expats play the role of transferring and reproducing the firm-specific competitive advantage -- something 'unique, irreplaceable and non-substitutable'.

Also worth noticing is that stratification in workforce deployment is not unique to the Chinese MNCs. There has been reported as a category of 'posted labour' across European countries (Caro, et al., 2015) and 'global body shopping' (Biao, 2007). We need to reconsider the implications of the role played by the third party actors to theorising expatriation. At the organisational level, expatriation agencies other than the firm, such as state, industry associations and professional HR consultancy, have largely been neglected. We know that the organisation of MNCs' global operation has become more networked-based. Administrative control has been supplemented, and even replaced by other forms of coordination and collaboration between MNCs and chain of external actors (Bonet, et al., 2013). The impact of such third party actors as state, education institutions or employer/ee representative bodies on the management of MNCs can be direct or indirect. Likewise, HR functions are supported or partly outsourced to external bodies. While HR practices are fundamentally decided and implemented at firm level, research from a political economy perspective on MNCs, also reminds us that some powerful agencies shape the employment decisions, policies and outcomes (Ferner, et al., 2012; Geppert & Dörrenbächer, 2013).

## **Conclusions**

In this paper, we reassess the existing literature on expatriation through the lens of Chinese MNCs. We argue that Chinese MNCs' access to and deployment of home country workforces will usefully inform, extend and develop theorizing on expatriation. Our current understanding of expatriation in terms of why and how MNCs use expatriates is framed through a nationality discourse. The economic incentives of expatriation as 'position-filling' is undermined because today's MNCs show continuous and strong preference over

assigning parent country nationals for expatriates, even though local replacements are not difficult to find between countries with similar income distributions (e.g. US and Western Europe) (The Economist, 2014). The nationality discourse has its advantages in highlighting the significance of the capital function of expats, who act as the agents of the parent firms. The execution of such capital functions requires internally created attributes built upon home-country embeddedness. The control function of home-country expats as the 'loyal servant' of the parent firm, for example, is often associated with expatriates' tenure with the parent firm in the home country. Arguably, such attributes as trust and loyalty are built through tenure and are not purchasable on the open market. Likewise, the knowledge case made in the use of expatriates in MNCs echoes the capital function of expatriates as well. Transferring contextualised and tacit knowledge defines the logic of expatriation (Lam, 1997; Downes & Thomas, 2002), despite the fact that codified and standardised managerial knowledge is widely disseminated through the global expansion of business schools. The segment an elite group of expatriates embody are a set of unique attributes, skills and knowledge-set which are tied with an MNC's country-of-origin.

The observation that Chinese MNCs' 'deviate' from the above norms of expatriation is significant in itself. Chinese MNCs are staffed by parent-country nationals to a much greater extent than the elite individual-focused expatriation pattern developed during a period when the American and European MNCs dominated the global economy. The tiered system of expatriation is also fundamentally different from the functional team-based expatriation witnessed in other recent processes of global expansion, such as Japanese or Korean MNCs. Unlike the committed elite expats that come through the internal labour market of the firm for career enhancement, Chinese expats come in more diverse forms and work as 'bonded labour': transferred directly from the parent firm and employed indirectly through employment agencies, both on fixed-term contracts (Lee, 2009; 2014). In addition, heavy use of expats in places where locals are available (for example in Australia and Singapore) and where locals are cheaper and available (Africa and India) suggest we need to look at diverse motivations for expatriate usage. The significance of extensiveness and segmentation of expatriation as observed in the Chinese MNCs meant we had to reassess the reasons for expatriate use other than position filling, knowledge transfer and organisational development. A line of arguments following the nationality discourse (which

are echoed in some existing case studies) is that Chinese workers are performing work roles similar to those performed in the labour regime back home, and that they are employed to overcome local worker opposition to such practices as continuous overtime and flexible working (Cooke, 2012: 1845). However, researchers also need to look beyond the idea that 'managing Chinese workers overseas in the Chinese way' and consider the expatriation in Chinese MNCs in the context of a global trend of increasing mobility of workers.

In this paper, we argue that the much broader use of expatriates made by Chinese MNCs is a consequence of the deepening impact of neo-liberalism on global labour markets. In particular, the labour function of expatriates as the displacement of local workforce underpins more transaction-based relationship between MNCs and a wider group of home-grown workforces. In other words, it is not simply a national characteristic that Chinese MNCs source their workforce from the home country. Rather, it shows the increased ability of capital to access and mobilise an international workforce. Capital's ability to mobilise labour internationally becomes evident as the scale and scope of home country nationals were brought through an internal system of expatriation in Chinese MNCs. Such mobility may become visible in other forms of expatriates, such as, the increasing use of self-initiated expatriates through international employment agencies. The country-of-origin of the MNCs does not provide sufficient explanation for this new patterns of expatriation. Rather, informalization of international employment relations and segmentation of international workforces is a key to our understanding of the use made of expatriates in today's MNCs.

We must acknowledge that stratification of the global labour market as a consequence of the increasing international mobility of capital from a labour-rich country will be moderated at three levels. At a micro-level, international mobility of labour independent of MNCs will affect the supply of expatriates in various tiers of the global labour markets. At a macro-level, changing national and international institutions will restrain the employment policies and practices adopted to source a workforce. So far, some research attention has been directed to the national state as key actors in reproducing a system of casualised labour regime (Cooke, 2014). And, at the meso-level, the growth of third-party actors will have increasingly more impact on the deployment of an international workforce. As third-party actors increase in the global labour market, the commitment-based values in expatriates may be further undermined.



What we observed in Chinese MNCs exposes the limitation of existing theoretical frameworks when applied to emerging patterns of employment. The China case uncovers the weakness of the nationality discourse, which is possibly the most influential analytical framework in expatriate research. However, we have to admit that some qualification is needed to our tentative proposition that internationalisation of firms from labour-rich countries will lead to further stratification of the global labour markets. Much more research is needed to see the detailed working out of expatriate allocation and operation inside Chinese MNCs across a range of sectors and countries. It will also be useful to compare the Chinese case with workplace-based research based on MNCs from other emerging MNCs, which remains rare. Another possible direction of future research is to compare the use of flexible expatriates in the established MNCs with the expatriate use in Chinese MNCs. This will help establish whether and how third-party actors channelize, moderate and reshape employment relations between expatriates and MNCs.

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