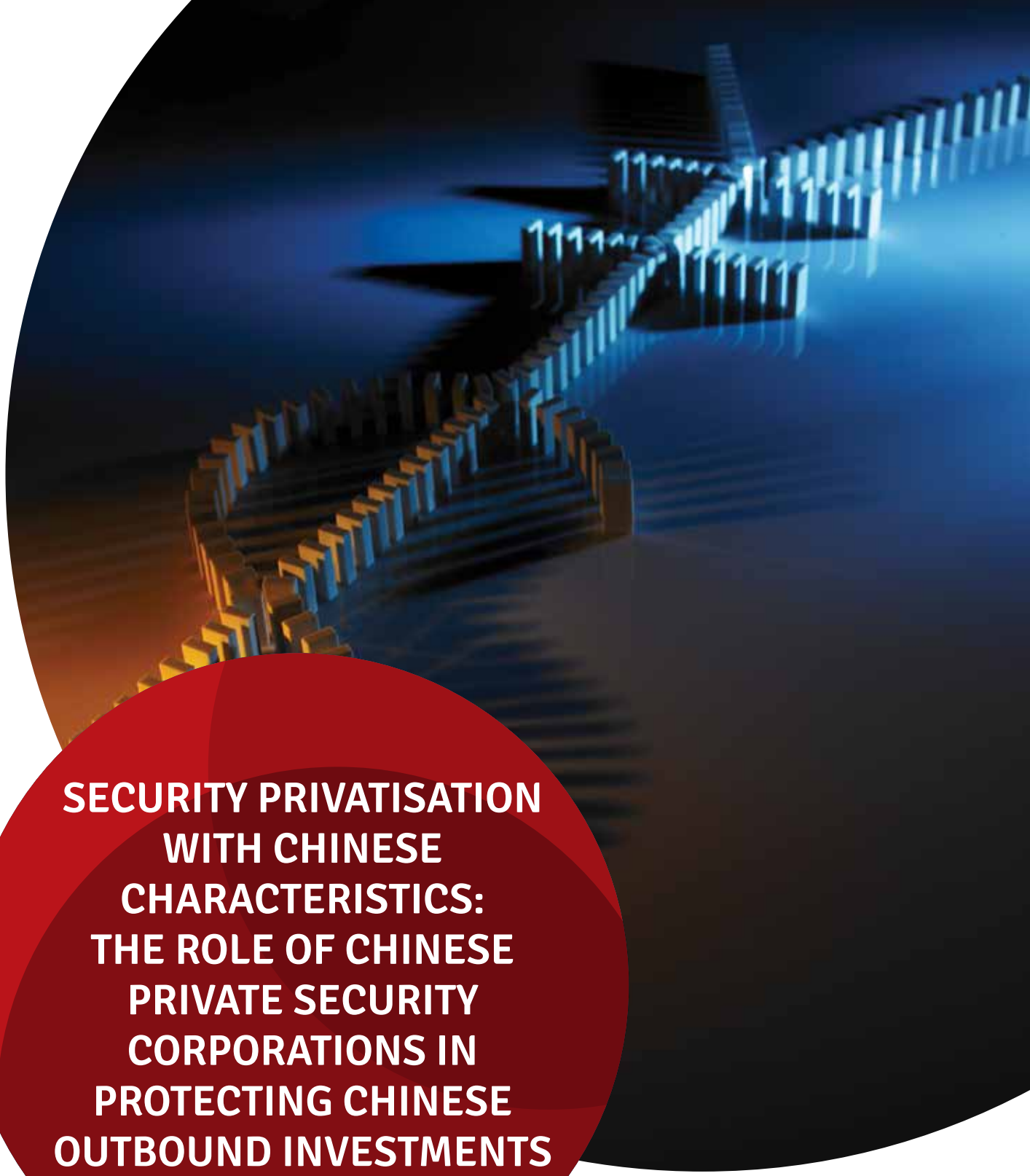

SECURITY PRIVATISATION WITH CHINESE CHARACTERISTICS: THE ROLE OF CHINESE PRIVATE SECURITY CORPORATIONS IN PROTECTING CHINESE OUTBOUND INVESTMENTS AND CITIZENS

Policy Report

June 2015

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RSiS Nanyang Technological University | S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

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EXECUTIVE SUMMARY

The expansion of Chinese outbound investments, aimed to sustain the increased need for natural resources, has amplified the magnitude of a possible international crisis that the People's Republic of China may face in the near future. Consequently, the threats to China's enterprises and Chinese workers based on foreign soil are poised to increase. Fragile states that acquire Chinese technology and infrastructure, granting exploitation rights of natural resources to Chinese State Owned Enterprises (SOEs), do not have the capacity to assure adequate security. Therefore, Chinese infrastructure and personnel could be an easy target by politically motivated rebel groups, or even criminal gangs who perceive Chinese citizens as wealthy targets. This policy brief attempts to address the impact of the Chinese private security companies (PSCs) in protecting Chinese outbound investments and citizens focusing on engaging China towards a mutually agreed code of conduct. Although the rising and falling cycle of the security services privatisation is nothing new, this paper underlines the uncertainty that still surrounds the research on Chinese PSCs. The impact of "Private Security Companies with Chinese Characteristics" is going to profoundly affect the security landscape and an early adoption of internationally agreed rules and regulation will foster transparency, efficiency and sustainable development. This policy brief examines the practical aspects for Chinese PSC engagements and the supervision on the provision of their services.

Failing to include China in an international code of conduct could allow history to repeat itself; as it happened during the African post-colonial wars that have been negatively affected by the employment of highly trained but unaccountable mercenaries.

INTRODUCTION

The expansion of Chinese outbound investments, aimed to sustain the increased need for natural resources, has amplified the magnitude of a possible international crisis that the People's Republic of China may face in the near future. At the same time, China's economic diplomacy and non-intervention policy is gradually shifting towards a more assertive posture on international affairs. Consequently, the threats to China's enterprises and Chinese workers based on foreign soil are poised to increase. During the race to acquire hydrocarbons and other natural resources, China has heavily invested in several unstable areas. Additionally, the kidnapping of 29 Chinese by Sudanese rebels in 2012 and the political violence which erupted in Vietnam in 2014 well highlights a trend that Beijing has to take into serious account in the near future.

Compared to the U.S., China is not engaged in large-scale conflicts and does not have at present a necessity to outsource logistical and infrastructural services in war zones.[1] Nevertheless, the necessity for security protection and emergency evacuation in different areas of the globe could drive Beijing to formally privatise various security roles. Fragile states that acquire Chinese technology and infrastructure, granting exploitation rights of natural resources to Chinese SOEs, do not have the capacity to assure adequate security. Therefore, Chinese infrastructures and personnel could be an easy target by politically motivated rebel groups, or even criminal gangs who perceive Chinese citizens as wealthy targets. Numerous troubled spots from Afghanistan, Egypt, Libya, Pakistan, Iraq and Sudan contain a volatile combination of Chinese investments and clear and present dangers.

Furthermore, during the last few decades, kidnapping and ransom (K&R),[2] from South America to former Soviet Union's Republics, has become a lucrative business targeting foreign corporate CEOs and specialised foreign workers. Following China's growth as a leading world economy, it is plausible to infer an increase in kidnappings for Chinese State Owned Enterprises' CEOs, as well as for wealthy Chinese tourists in different areas of the world.

As a result of the Chinese Foreign Service personnel and SOEs operating abroad, China is facing the necessity to formalise a trend that started several years ago in the oil and mining sectors, which is the employment of Private Security Companies (PSCs).

1 United States Central Command, reported in January 2015 that 54,700 private contractors worked for the Defense Department in its areas of responsibility. http://www.acq.osd.mil/log/PS/reports/CENTCOM%20Census%20Reports/5A_January2015.pdf

2 "K&R… a market worth about $250m in 2006 doubled in size by 2011..." from The Economist; Schumpeter Business and Management "Kidnap and Ransom Insurance. I'm a client … get me out of here." Jun. 27th (2013) http://www.economist.com/blogs/schumpeter/2013/06/kidnap-and-ransom-insurance?fsrc=rss

THE IMPACT OF CHINESE PRIVATE SECURITY COMPANIES

This policy brief attempts to address the impact of Chinese private security companies in protecting Chinese outbound investments and citizens by analysing:

- How the PSC service market has been influenced by growing Chinese economic power and the role of State Owned Enterprises in securing natural resources abroad.
- How the international community should engage China in a common definition of roles and boundaries in the privatisation of the use of force.

The significance of this policy issue will be relevant not only to the security arena but also to a broader area including peace building for countries that benefit from abundant natural resources but rely on fragile state structures. Engaging China's PSCs in an internationally agreed code of conduct will also enhance efficiency and oversight. At the same time, the code of conduct will enable the international community and China's ODI receivers to promote accountability and sustainable development.

While it seems clear that China's growing economic might is actively influencing political outcomes, the role of Chinese SOEs as the main contractors for Chinese and international PSCs does not seem to be linked with a hidden political agenda at this time.[3] Examples of Beijing's economic influence in shaping international institutions are already common, ranging from the support to ASEAN members or Central Asian countries to avoid multilateral confrontations.

The global financial crisis (2007–2008) and the rebalancing of U.S. and EU forces in Afghanistan and in the Middle East (2014) have subsequently diminished the demands for PSC employment, following an exponential growth of the sector since the two Gulf Wars.[4]

Furthermore, a new breed of PSC and international corporations with a PSC spin-off has mushroomed after the second Iraq War and the rampant increase of terrorist threats. The shrinking budgets of Western states for corporations devoted to the private security sector has not been equally matched by the growth of the Chinese security market. Therefore, international PSC competition to enter into the Chinese arena is fierce. Securing a Chinese PSC partner in order to operate more freely in the Chinese regulatory limbo, without being perceived as a wholly foreign owned enterprise, is especially beneficial. This competition strikes several commonalities with the first wave of MNCs that were eager to accept any kind partnership with local actors just to gain a foothold in China. Moreover, it is possible to foresee that a more coherent approach to the use of PSCs in China will be driven not by the SOEs that operate in the extraction of natural resources but by the Ministry of Foreign Affairs. The FAO is increasingly under pressure to be accountable for overseas Chinese workers and tourists. This difficult task is going to force Beijing to actively influence the regulations of PSC partnerships and deployments. Nevertheless, the historical legacy of Chinese warlords has left a profound mistrust over private soldiering. Therefore, it is not difficult to forecast large constraints in the development

Civilians Contracted to Support Military Operations throughout U.S. History

War/Conflict	Contracted Personnel	Military	Ratio
Revolution	1,500 (Est)	9,000	1:6 (Est)
Mexican/American	6,000 (Est)	33,000	1:6 (Est)
Civil War	200,000 (Est)	1,000,000	1:5 (Est)
World War I	85,000	2,000,000	1:20
World War II	734,000	5,400,000	1:7
Korea	156,000	393,000	1:2.5
Vietnam	70,000	359,000	1:6
Persian Gulf War	5,200	541,000	1:100
Rwanda/Somalia/Haiti	No Records Kept	N/A	N/A
Balkans	5,000–20,000	(Varied) 20,000	Up to 1.5:1
Iraq	95,461	95,900	1:1
Afghanistan	112,092	79,100	1.42:1

3 Author's interviews with international PSCs operators in China.

4 Table 1. Source :Office of the Under Secretary of Defense for Acquisition, Technology and Logistics http://www.acq.osd.mil/dpap/pacc/cc/history.html

of leading Chinese PSCs with higher operational capabilities, especially if those PSCs have exclusive links with top national SOEs. This would be essential in order to avoid SOEs own interests that are not fine-tuned with the national ones.[5] At the same time, it will be quite challenging for Beijing to control the SOEs' outbound investments and operations, especially the ones related to the flow of money between overseas accounts. In this case, the PSCs could benefit from SOEs' capital accounts located outside the reach of the People's Bank of China.

The growth of China as a leading economic power has brought about new dynamics in the geopolitical sphere, influencing the new structure of the international system. Also the role, which has characterised the employment of PSCs in the last five decades, is going to be affected by the Chinese economic assertiveness. The security environment is already transforming due to a growing international unease with respect to the perception of a Chinese threat. Moreover, the private security dynamics that are mainly influenced by market requests are facing a deep shift from West to East, in terms of deals and partnerships.[6] The market economy with Chinese characteristics is not the stage to which international private security actors are accustomed to. Since the 90's, the market economy justification for the employment of PSC was the rationale behind the private efficiency versus the public one. During the Thatcher-Regan period, the trends behind the New Public Management (NPM) were summarised by the 3 Es—economy, efficiency and effectiveness[7]—three dimensions in which the private sphere was supposed to be better in managing the provision of public services. Therefore, an important part of the state NPM has been related to the privatisation of hospitals, schools, public utilities and even detention facilities. Looking at the Chinese dimension, the reform towards government efficiency in the public sector has been enacted in several areas, but the growth of bigger SOEs labelled "national champions" do not envisage a trend towards "small is beautiful" for the private sector. The Western perceived inefficiency of the public sector, even in the management of force, has been one of the mainstream reasons in justifying the employment of PSCs. However, Chinese reasoning in the use of PSC has to be seen under different lenses, including the need to upgrade management expertise in the use of force by exposing local actors to foreign best practices. At the same time, China has already showcased an increasing crisis management capability in the evacuation of Chinese nationals from dangerous zones, as in Libya in 2011 and more recently in Yemen. In this latest crisis, a joint effort between Chinese diplomatic missions in the area and the PLAN warships operating in the Gulf of Aden secured hundreds of Chinese nationals, transferring them from Yemen to Djibouti. The frigates Linyi, Weifang and several other support vessels that were employed in anti-piracy missions near Somalia were diverted to Yemen in the evacuation effort. The growing role of the Chinese PLAN in the area is symbolised by the fact that the two frigates docked in the foreign port during the Yemen evacuation and the missile frigate Xuhou provided long-range support to the ships evacuating Chinese nationals from Libya. In addition to the already mentioned protection of structures and personnel, the rise of new terrorist threats has also increased the role of PSCs in the delivery of security services and transfer of tactical capabilities. Referring to possible terrorist actions, China could benefit from the expertise that several American or Israeli PSCs provide in the in the training of air Marshalls. Meanwhile U.K. and Singaporean PSCs and insurance companies specialised in anti-piracy will be able to transfer best practices enabling Chinese PSCs to cooperate with the PLAN task force already operating from the Somali coast to the Malacca Straits.

Whereas China's defence spending has increased steadily in the last years averaging 2 per cent[8] of its GDP (in absolute terms with a double digit increase per year), it is more difficult to track the expenditure incurred by SOEs in private security. Proxy figures related to the operational cost of international PSCs could be used to infer the capital involved, but Chinese accounting's lack of transparency constrains this exercise to just a mere educated guess.

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5 Hinyan Liu, Leashing the Corporate Dogs of War: The Legal Implications of the Modern Private Military Company, 15 Journal of Conflict & Security Law (2010) p. 167–168

6 "A Private Dilemma. Chinese security companies struggle to find footing overseas" by Southern Weekly – China Global Times; April 21st (2015)

7 Moore, M. "*Creating public value*." Cambridge, MA: Harvard University Press. (1995).

8 SIPRI Military expenditure network on China 2015: http://milexdata.sipri.org/; *IHS Jane's Annual Defence Budgets Review* from IHS Inc 2014: "By 2015, China will spend more than the UK, France and Germany combined. (…) in 2015.)

HISTORICAL CYCLES

Since the Blackwater's[9] Nisour square incident,[10] the media once more portrayed the role of private security corporations (PSC) and private military companies (PMC) to the general public as "guns for hire". The contemporary mercenaries' negative perception is still linked to the despicable actions committed by private soldiers during the African post-colonial wars. Also, the negative public perception of the PSC is the result of almost two centuries of affirmation of the post Westphalia national armies, where the soldier-citizen has been gradually replacing the "lance for hire".

Since the end of the Cold War, the PSC's scope and size has been increasing due to several intertwined factors:

- Demobilisation of large armies after the collapse of the Soviet Union and an increased availability of qualified operators in the market, ranging from Special Forces to intelligence and technical personnel.
- Changing dynamic of warfare towards trans-national small conflicts and legitimacy of the role of non-state actors in the use of force,[11] and the recent paradigm of hybrid war.[12]
- Economic globalisation and an increase in outbound investments and trans-national natural resources exploitation, hence private corporations' necessity for security operators.

One of the several problems related to the PSC's role begin with the lack of an unambiguous and mutually agreed definition of what a private security firm really is.[13] Unclear boundaries associate mercenaries with private security companies, private military corporations or global corporations that provide hybrid services ranging from: logistic support, intelligence gathering, Special Forces training, emergency evacuation, anti-piracy protection, fixed emplacements security as well as tactical support involving the pre-emptive use of force. For practicality, the term PSC used in this paper also encompasses PMC and global corporations that offer a mix of security services, but a clear definition of each one of the actors involved is still urgently needed. Numerous researchers address the differentiation between PSC and PMC focusing solely on the degree of force employed. Several others analyse the state's monopoly of violence privatisation exclusively under culturally-situated moral lenses. Both perspectives are needed, together with a broader range of disciplines, ranging from the IR to the economic one. At the same time, the lack of a mutually agreed definition of check and balances allow the PSC to operate in a legal limbo that is prone to abuse.[14] Actually, the current self-imposed code of conduct established by international operators is quite far from an internationally agreed framework of law that could lead to an effective and efficient public–private partnership.[15] Besides the common problems related to the enforcement of a voluntary code of conduct in precarious international situations where the rule of law is non-existent, the evolution of the current code of conduct (ICoC 2013) from the first draft agreed under the so-called Montreux Document on Private Military and Security Companies,[16] provides a positive trend that could be followed by Chinese stakeholders. China is poised to increase the employment of PSC, influencing marked demands

9 Daniel Kramer, "Does History Repeat Itself? A Comparative Analysis of Private Military Entities." in Tomas Jager, Gerhard Kummel (Eds.) Private Military and Security Companies. Chances, Problems, Pitfalls and Prospects. VS Verlag (2007)

10 2007 Baghdad, 17 Iraqis civilian are shot death by Blackwater's contractors covering an armoured convoy. At the end of 2014 the USA Federal district court convicted 4 of the contractors on murder, manslaughter and weapons charges.

11 Colin S. Gray "Modern Strategy" Chapter 10: Small Wars and other Savage Violence" Oxford University Press (2009)

12 "Baptized in its modern form after the 1991 Gulf War, the hybrid threat construct is a sophisticated amalgam of unrestricted threat activities that have resisted codification and generated a labyrinth of contradictory explanation. The hybrid concept bypasses the cognitive boundaries of traditional threat characterization and the application of organized collective violence." (Major Brian P. Fleming, U.S. Army 2011)

13 Peter Warren Singer, Corporate Warriors: The Rise of the Private Military Industry; Ithaca, NY London; Cornell University press (2003) p. 51

14 Dirk Siebels "International Standards for the Private Security Industry" RUSI Journal (Oct 2014) Vol. 159, No. 5.

15 ICoC International Code of Conduct for Private Security Service Providers is an inter-state document that applies international humanitarian law and human rights law to PSC. Employed in conflict zones. http://www.icoc-psp.org/

16 The Montreu Document t is the result of a joint initiative launched by Switzerland and the International Committee of the Red Cross in 2006.

and outcomes, hence the necessity to engage Beijing in the creation of an agreed international framework of laws and regulations:

- Establishing clear procedures
- Promoting information exchange
- Developing a chain of accountability
- Endorsing an oversight and enforcing mechanism

Besides the scarcity of complete and reliable information on the structure and scope of a PSC as well as the lack of financial transparency, it is critical to take into account the role of PSC not as an individual entity but as a part of a complex network that entangles public and private actors on a global stage. The complex dynamic system in which the PSC operates is continuously mutating and only a non-linear approach could be employed in the framing of a commonly agreed PSC definition. Focusing on a single component without taking in to account the continuous interaction of the parts could promote bias and flawed perspectives.

"The privatization of security serves different goals and actors. For first world countries it is a way of avoiding putting their own soldiers and material at risk. (…) For governments in weak state it is a possibility to secure their position and enhance inner as well as external security. For TNC especially in the extractive branch, it is necessary to guard their investment in insecure areas. (…) Finally, the humanitarian community, which conducts a historically new global 'business', needs security to operate."[17]

17 Daniel Kramer, "Does History Repeat Itself? A Comparative Analysis of Private Military Entities." in Tomas Jager, Gerhard Kummel (Eds.) Private Military and Security Companies. Chances, Problems, Pitfalls and Prospects. VS Verlag (2007)

PSC LACK OF DEFINITION

Since the establishment of the Westphalia order and the birth of modern national armies, the role given to the "free lances" or the "condottieri" has been increasingly assuming a negative connotation. "Terrorism is not the only facet of contemporary conflict that is not new. Non-state actors, many of them in the business of war for personal profit, were features of medieval and early modern warfare: indeed the effort by seventeen-century European states to establish a monopoly on the use of armed force was in part a direct response to the suffering and destitution, the rape and pillage, wrought by competing freebooters, mercenaries and private military companies."[18] Historical positive exceptions involve private chartered companies with a legal mandate to use force, granted by the respective governments. Examples ranges from Portuguese, Holland's VOC and British Companies of the Indies where the State's monopoly on violence was contracted to chartered companies in order to protect holdings and monopoly rights from pirates and competitors. During that period, the positive attitude towards the use of private armies was justified by the necessity to protect investments far from the immediate reach of the State without incurring the high costs of fixed garrisons. In this respect, even the British Army, until the late stages of the First World War, was smaller than other European counterparts counting on a reduced contingent of trained volunteers to be deployed in the colonies and ready to fight small wars.[19]

Today's economic globalisation and increasingly multipolar world is leading back to smaller conflicts and the need for specialised operators that recall a pre-Westphalia situation. While the Napoleonic wars have led to modern national armies based on drafting the able male population, and the two World conflicts have introduced the total war paradigm, today's small war model emphasises the necessity for a limited number of highly trained professionals. The employment of trained operators who are able to utilise advanced weapon systems, drones or possess medical evacuation or ransom negotiation expertise is going to influence strategies and tactical paradigms as well as business models.

The process of political and economic globalisation has led multinational companies, especially the ones related to energy and other natural resources extraction, to operate in international and often unstable contexts. In this regard, the PSC fill the vacuum of power that weak states are not able to fill. On several occasions, the PSC's profit driven strategy to protect the principal interest diverges from the public one. The friction point is generated when the PSC substitutes or overlaps the provision of services that previously were only delivered by national armed forces and law enforcement agencies. Hence, the unregulated Shareholder-Stakeholder conflict of interest is at the origin of numerous problems linked with the employment of PSCs. Furthermore, the use of force in a private capacity could be channelled to fulfil hidden agendas inside the contracting company—diverging from the headquarters or the State's own international policy—or even by the same PSC that could profit by the protraction of the status quo. Since the 60s, the United Nations has dedicated increasing attention to "mercenary activities", underlining the need for better involvement in the interaction between states and other actors, attempting to regulate the modern private security services industry and to make business enterprises accountable in respecting human rights.[20]

While the provision of security services is not a new phenomenon, the modern PSCs—evolved during the last two Iraq wars—are going to affect how economic powers influence other states. Another aspect that will draw much scrutiny to Chinese PSCs is the possibility of pre-emptive use of force, an act that crosses the thin line between security services and military ones. While the legal boundaries between PSCs that provide security services and the ones that provide military seems quite easy to define, it is important to remember how PSC "passive services" are aimed to transfer or enhance military capabilities and have

18 Hew Strachan, "The Direction of War. Contemporary strategy in historical perspective"; Cambridge University Press (2013) p. 21

19 Basil H. Liddell Hart, "The British Way in Warfare"; Faber, London. (1932) p. 113

20 International Convention against the Recruitment, Use, Financing and Training of Mercenaries art. 1, December 4, 1989, 2163 U.N.T.S. 75; also United Nations' Secretary General Ban Ki-moon address to urgently review its use of mercenaries to carry out security and peacekeeping work ahead of the 2013 General Assembly. "UN Unions believe this practice is damaging the UN and putting staff at increasing risk, and taking place against the worrying backdrop of an attack on staff employment rights by UN management." http://staffcoordinatingcouncil.org/attachments/article/191/UN%20report%20working%20group%20mercenaries.pdf

to be considered as a potential force multiplier. “The delivery of such services involves civilian rending of expertise that, nonetheless, directly enhances the recipient’s military and security capabilities. All the services on offer by the private military industry have a direct impact on and contribute to the management of state’s monopoly of legitimate violence.”[21]

Nevertheless, it is quite unlikely that China is going to see the growth of its own version of infamous PSCs such as Executive Outcomes (EO) or Sandline. In the 90s, the South African company EO became the epitome for the provision of highly trained mercenaries rewarded by corporations that were profiting from the Angola and Sierra Leone civil wars. Similarly, Sandline—a U.K. company with links to EO—provided direct combat personnel to support Papua New Guinea government efforts against rebels. In both cases, the small but efficient employment of highly trained mercenaries operating advanced hardware and tactics enabled the local governments to overcome the opposing forces. Even air support was provided, with EO deploying a privately owned Russian Mi-24 Hind attack helicopter.[22]

21 Carlos Ortiz “ The Private Military Company: An Entity at the Center of Overlapping Spheres of Commercial Activity and Responsibility” in Tomas Jager, Gerhard Kummel (Eds.) Private Military and Security Companies. Chances, Problems, Pitfalls and Prospects. VS Verlag (2007)

22 Robert Young Pelton ” Licensed to kill, hired guns in the war on terror” Crown (2006) p. 255

CHINESE APPROACH TO PSC EMPLOYMENT: "CROSSING THE RIVER FEELING THE STONES"

Without taking in to account the overseas Chinese communities, more than a million Chinese workers are employed all around the globe and the Chinese Ministry of Foreign Affairs is in charge of the mapping of migrant workers distribution. A daunting task itself without taking in to account that large numbers operate in unpredictable zones such as: Afghan Mes Aynak copper mine by China Metallurgical Group, China National Petroleum Corporations South Sudan's oil wells, Ethiopia ITC network by Huawei-ZTE and Minmetal Nord Korea mining areas near the Chinese border.

The rising numbers of Chinese PSC private actors on the scene well underline the novelty of the phenomenon as well as the current lack of a leading local security provider. Since the beginning of the new millennium, several Chinese firms have evolved their business model from local security providers—so-called "bodyguard" for wealthy clients—to international operations with liaison offices in Beijing not far from the headquarters of the energy sector SOEs and Chinese Energy and Foreign Affairs ministries. Several Chinese PSCs emerged onto the international arena, employing a mix of local and foreign resources. The mixed changes with respect to each specific necessity depend heavily on foreign expertise in risk assessment and the use of armed personnel. Chinese PSCs—with some rare exceptions related to maritime security—are barred by the FAO to employ Chinese armed contractors. The above mentioned trend strikes several resemblances with the industrial JVs between Chinese and foreign corporations that have characterised the last three decades of Chinese GDP double digit growth. Similarly, Chinese PSCs are utilising foreign expertise and best practices in combination with their preferential access to the state owned contractors. The main question, as has happened in several sectors of the Chinese economy—that benefitted from foreign technology transfers—is when the Chinese PSCs will feel confident enough to avoid any external help and utilise only local resources. Therefore it is possible to assume that the "Made in China" private security forces' learning pattern will be similar to those of Chinese JVs that employed Western technology transfers and foreign workers' best practices to achieve international standards. Discounting the time necessary to fill the gap in reaching international efficiency standards, another problem arises in the employment of Chinese PSCs. The use of "Chinese only contractors", besides being economical compared to the use of the Western counterparts, could foster the "Chinese fear" syndrome. As an example, in areas such as Central Asia where local populations harbour resentment towards Chinese migrant workers since the Tsar times,[23] the use of private Chinese contractors could be perceived as PLA related or at least as officially endorsed by Beijing. Therefore, the economic and political negative spillovers could overshadow in the long-term the short-term financial gains.

Nevertheless, one key point is already clear, while the Chinese Ministry of Foreign Affairs and state insurance companies are still debating on the use of Chinese PSCs, the business opportunity for reaping high profits is already being perceived by a growing number of local and international security service providers. Also, increasing instability and a growing need for protective services by Chinese enterprises has attracted a large number of international players looking for cooperation with the emergent local PSCs.

The recent waves of Chinese PSCs could be divided in four macro groups:

1. Domestic companies focused on basic personnel close protection and credit recovery.
2. Domestic companies that have evolved from the first category, offering more specialised service ranging from IPR protection, corporate security, HR security management and logistic armoured protection.
3. Domestic companies that cooperate with foreign ones in order to provide local bidding support on Chinese tenders for international security services, risk assessment and overseas support to Chinese insurance companies.
4. Chinese companies with a developed international background in security services that cooperate with the Chinese Ministry of Foreign Affairs and large SOEs.

23 Alessandro Arduino "China in Central Asia. A new economic, security and logistic network" in "China's Power and Asian Security" Edt. By Mingjiang Li and Kalyan M. Kemburi Routledge (2015) p. 216

The first macro group involves hundreds of companies that are benefitting from a cheap workforce, some municipal or provincial links to police and military police officials, and a favourable environment due to the lack of regulations in this line of business. The growing business segment is not gone unnoticed and bigger players are going to tap this market segment, an example being the electronic distributor giant Guo Mei is going to launch a training facility for professional bodyguards in Mainland China.

Also, the second macro group is evolving at a fast pace due to the increased need of IPR protection and corporate anti-espionage by Chinese brands that are becoming recognised in the international arena, not only for their cheap and low quality "Made in China" production but for competitive and innovative products. This group offers a more sophisticated glimpse of the market trends, with companies such as Keen Risk Solutions from Shenzhen, but is only marginally related to companies that are going to evolve in a full PSC. Global players such as Control Risk are already operating with offices in China, providing consultancy services on anti-bribery and corruption policies as well as risk assessment for M&A.

The third macro group encompass a wide range of different actors that are set to leap into the fourth group of mature PSCs due to a different set of variables including a strong network of connections with big SOEs, the Ministry of Defence, the Ministry of Foreign Affairs and the banking and insurance sectors. The actors in this group have started some initial contact with international PSCs in order to upgrade their knowledge base and overall international capabilities and risk assessment. Companies like Jin Wei Security in Shanghai, in cooperation with the British NGS, provides international security services for Chinese CEOs in low security threat areas during their business trips abroad. At the same time, the main constrains to their growth is not the lack of suitable clients but inner weaknesses related to the scarcity of properly trained domestic human resources, especially the ones with skill sets ranging from risk assessment, logistical expertise, and foreign cultures and languages. Also, several factors concur to constrain their international expansion—from the lack of risk management and insurance coverage to their employee, to unattractive premiums to work in hazardous areas. Foreign experts also move this critic even to the more mature Chinese actors underlining how the focus on cutting costs produces high-risk acceptance behaviour.[24]

The fourth group is also experiencing a growth, albeit at a slower pace, than the other three. In companies belonging to the mature side of the security market, it is possible to list some interesting actors such as: VSS Security Group, involved with the securities duties for CNOPC in Iraq and Afghanistan, Huawei Security Company,[25] who provide security services in hot areas including K&R insurance and global response services in cooperation foreign partners, Dingtai Anyuan International Security & Defense Limited (DTAY) that operates mainly in Iraq, Huaxin Security Company who cooperate with international corporations, especially those based in Singapore on anti-piracy security, also on behalf of COSCO shipping company providing close protection armed guards on ships operating in dangerous transit lines. This group does not present a mature leader and is not committed—at the moment—to cooperate and share experience in order to improve the overall situation. Several international firms are already operating in China with representative offices, preferential agreements with local partners and even registered enterprises under the Chinese law. Several other companies prefer to market their services in areas that support the role of Chinese PSCs abroad such as the case of the Hong Kong company-registered in Beijing as logistic service provider and Frontier Services Group (FSG) which is benefitting from the experience of the group chairman Mr Erik Prince,[26] founder of the American PSC Company Blackwater.

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24 Author's interviews with local and international PSC operators in China.

25 "Huawei provides internal services, but in October 2010, opened an "Overseas Service Center" in Beijing. The company's statement on the centre's opening explicitly cites the withdrawal of U.S. troops from Iraq, and the potential for a security vacuum to result, as key drivers of its decision to target the Iraq market", Andrew Erickson, Gabe Collins "Enter China Security Firsm" The Diplomat 21 February (2012) http://thediplomat.com/2012/02/enter-chinas-security-firms/

26 "Critics may have questioned my company's tactics, but to this day no one has ever doubted our results. In some fifty thousand completed personal security detail mission, we never suffered a single loss of life or serious injury to those in our care." Erik Prince, David Coburn "Civilian Warriors: the inside story of Blackwater and the unsung heroes of the War on Terror" Penguin (2013)

Whereas the PLA local involvement in the Chinese business environment has been tamed in the last decade, the role of SOEs in shaping foreign policies has been increasing. Specifically with the use of private security firms, this trend is going to develop into more elaborate structures. With the latest purge of corrupted officials in the PLA, President Xi Jinping has accomplished a long-standing reform to detach the PLA from the entrepreneurial side of the Chinese development. At the same time, the so-called move to privatisation has been steered towards more efficient public sectors where the SOEs still benefit from government support and a favourable line of credit from the State Banks. Therefore with a declining economic power held by PLA, and a growing but still not mature Military Industrial Complex (MIC), the power distribution towards the leading SOEs is going to increase the opportunities for a large area of intervention in the shaping of international policies without the direct influence of the military.

Currently the sector's standards are set by a group of British and American companies, but with the evolution of the market's demands and conditions, it is possible to assume that mature Chinese companies will be able to attract qualified personnel and nurture their own Chinese talents. These companies will have to establish clear operational security parameters starting with the provision of medical assistance and emergency evacuation capabilities, and long-term strategy vs. short-term problem solving. An approved Chinese association with a standardised certification would be helpful to improve the market and operational conditions, also taking in to account all the variables ranging from investments in dangerous environments to business leaders' travel risk. In the meantime the PSC that aspires to become the leading security provider has to take into serious consideration the organisation capacity to absorb new competencies, which have taken international PSCs decades, and costly errors, to develop. Therefore adaptability and organisation learning is one of the key pillars for the new Chinese PSCs. Mutatis mutandis from the Chinese industrial sector it is possible to infer that as soon as a leading PSC will be recognised among its peers, fierce talent poaching will start. Chinese managers currently operating in the PSC field with a good command of foreign languages and some international exposure are a scarce resource, and have on average hold less than five years' experience in the field. Implementing new changes while growing exponentially on a global scale will be an imposing challenge, and in the security field, the process of trial and errors can be very costly in terms of a negative spill -over that a mishandled crisis situation will generate. Also, some Chinese PSCs underlined how foreign operators, mainly British, have better experience in communicating with local populations not only in terms of risk assessments and intelligence gathering but also in dealing with daily workforce issues. In different areas ranging from Africa to Central Asia and the Far East, several of the threats to the Chinese enterprises profitability came from the inside, and are mainly related to the problems between the local and Chinese workforces.

Focusing on overtime and productivity bonuses, Chinese workers often spend a year abroad returning home only during the Chinese New Year, as their main objective is to capitalise as much as possible on their only source of income, long working hours. At the same time local workforces that are used to different employment conditions perceive the Chinese worker as a threat to their lifestyle, and possibly damaging to their surrounding environment. Often small strikes for better pay lead to mass gatherings and violent revolts towards Chinese infrastructure and personnel.

At the same time the new role of PSCs could also foster innovation and adaptation of new technologies in the field. Drone recognisance capabilities, matched with satellite data gathering provided by specialised PSCs, could foster not only SOEs risk assessments and strategy building but also could provide affordable specialised services to other PSCs that do not have the need to train and maintain dedicated hardware and personnel. Additionally, Chinese PSCs providing this kind of specialised support do not need to overcome the language and cultural barriers where "a lost in translation" could compromise an entire operation.

FORECASTING GLOBAL RESPONSE TO CHINESE PSCS

In the near future Private Security Companies with "Chinese characteristics" are going to be a subject of increasing academic interest not only in the field directly related to the monopoly of violence but in many more intertwined areas, ranging from international law to defence economics and peace building. The augmented role that is going to be played by the Chinese PSCs in the security arena is going to affect not only the security actors but also the security stage as a whole. The outcome is greater than the singular consequences just added together. Nevertheless the new PSC breed is going to retain some of the former advantages of the previous market oriented security corporations, ranging from increased efficiency and cost effectiveness to a superior flexibility toward complex and fast changing environments. Although some of the previous advantages, such as public deniability in the use of force in international context, will be affected by the peculiar nature of Chinese enterprises. An "all Chinese" operators team is going to be perceived by locals as Chinese government related. Perhaps physical distinguishing traits are going to be taken more in to consideration than proven links with Beijing's international agenda.

Although the rising and falling cycle of the security services privatisation is nothing new, this paper underlines the uncertainty that still surrounds the research on Chinese PSCs, uncertainty that is not due to a well-conceived shrouding of PSC activities but mostly by the emergent nature of this trend in China. The basic lack of communication and coordination among local actors is further proof. While the time frame for a mature market for local PSCs is still undefined, the need to engage China in developing commonly agreed international rules is a present necessity. Moreover, the adoption of a code of conduct is poised to benefit not only Chinese emergent capabilities but also the situation in the developing countries that receive Chinese ODI.

A mature Chinese PSC, understanding the security environment complexity, will be able to detect and counter threats posed by non-state armed actors, as well as avoid and manage crisis generated by SOE investment negative spillovers.

Therefore it is imperative to involve China, at an early stage, in an international effort to promote transparency and accountability. Furthermore, a new breed of Chinese PSC has to provide services that benefit not only the principal but also the international community, fostering the development of weak state's structures without superseding the state institutions in the monopoly of violence.

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