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# **CHINA'S BELT AND ROAD INITIATIVE SECURITY NEEDS**

**THE EVOLUTION OF CHINESE PRIVATE SECURITY COMPANIES**

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**S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES  
SINGAPORE**

**29 AUGUST 2017**

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## Executive Summary

The unprecedented amount of Chinese funds funnelled into the Belt and Road Initiative and Beijing's vision of global connectivity will face a harsh reality that encompasses a wide spectrum of threats. Chinese corporations have just started to acknowledge that the risks associated with outbound foreign direct investments carry higher failure rates due to intertwined factors such as economic crisis, conflict, civil unrest, nationalisation, and currency devaluation, to name a few. In several cases, the Chinese state-owned enterprises' infrastructural projects add stress to the already unstable socio-political environments because of their size and speed of implementation. Understanding and managing this stress is a challenge that cannot be ignored if benefits of these projects are to be realised. The solution to political and criminal violence requests a broader participation that encompasses the insurance and private security sectors.

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He has been appointed Knight of the Order of the Italian Star by the President of the Italian Republic.

## Introduction

On 31 May 2016, the Sindhudesh Revolutionary Army (SRA), a little-known local group directly challenging the Pakistani central government's control over the Sindh province, made an attempt on the lives of Chinese workers based in the Pakistani city of Karachi. The attack, delivered with an improvised explosive device, injured a Chinese engineer and his driver. In early 2016, three Chinese executives of the China Railway Corporation were killed alongside other foreigners in the terrorist attack at the Blue Radisson hotel in Bamako, Mali's capital.

All groups of Chinese had neither adequate protection nor appropriate forewarning of the imminent threats in the area. In the case of the Bamako terror attack, the Chinese executives became a target of opportunity for no other reason than that they were foreigners. In the SRA attack, the Chinese workers were the designated targets in order to dissuade further Chinese economic support for Pakistan's weakening economy. Beijing's backing for Islamabad had already fomented open opposition in the Baluchi tribal region. However, the port city of Karachi was considered a relatively safe area for the enclave of Chinese workers. The Chinese-Pakistani Economic Corridor, with an estimated investment value of US\$56 billion from China, is a strategic part of the Belt and Road Initiative (BRI) that connects Central Asia to the Indian Ocean port of Gwadar in Pakistan. The BRI, launched by Chinese President Xi Jinping in 2013, is intended to promote economic development and exchanges between China and over 60 countries. The BRI is the product of renewed Chinese foreign direct investment (FDI) efforts.

Confrontations between the local population and Chinese workers are not new in Africa, Central Asia, and South Asia as disputes over working conditions and environmental degradation issues have raised concerns over China's FDI. While the volume of Chinese overseas investment has increased eight fold in the last decade, the amount of Chinese funds dedicated to the BRI is unprecedented.

One oversight that must be addressed is that the BRI requires a wide range of security considerations along both the maritime and land routes. The Karachi attack showed that local problems had been given insufficient attention to during the project's economic and security impact analysis; what had been missing was the assessment of the local communities' opposition to the BRI. According to an official press release, in the incident the attackers left a note that protested against the "rise of Chinese imperialism". The communiqué presented a propaganda clash against the BRI's idea of a "win-win" sustainable development. Since the launch of the BRI in 2013, China's public diplomacy, presenting the project as the new Silk Road and an opportunity for global connectivity, has attempted to manage or mitigate anxiety over what has been characterised as "China's rise". This effort, which has not been successful in all the countries involved in the initiative, could be the harbinger of several other conflicts.

Just after the bombing of the Chinese Embassy in the Kyrgyz capital of Bishkek, China's Foreign Ministry spokesperson Mr Hua Chunying restated<sup>1</sup> how the safety of personnel abroad is of paramount importance, and that the Ministry of Foreign Affairs is taking precautions to ensure the well-being of Chinese personnel overseas. These first open blows to the BRI have urged Beijing to reconsider if the countries that host Chinese investments are able to guarantee the safety of Chinese nationals.

While the security problems have not gone unnoticed in Beijing, the solutions could be found elsewhere, namely in international companies that provide special risk assessment, insurance, private security, and perhaps most importantly, crisis mitigation.

In the last few decades, the demise of the bipolar global order has ignited the rise of private corporations that offer military-style services as part of their core business model. The old mercenaries are now contractors – offering their capabilities through social media platforms like Facebook. In the 70s, aspiring lances for hire had to meet in dark alleys after answering to African bush wars job listings in *Soldier of Fortune* magazines. Today, private contractors of the new generation scan for armed security assignments from the comforts of their homes. By logging onto websites such as *shootersjob.com*<sup>2</sup>, they can search for well-paid engagements in Iraq or Afghanistan offering salaries up to US\$150,000 a year.

The requirements of the U.S. war efforts in Iraq and Afghanistan sculpted the physiognomy of modern Private Military and Security Companies. Since 2013, the security imperatives of the Chinese BRI are dictating new market conditions for private security companies (PSCs). The shift from a western-centred market for force to an Asian one has already started. PSCs with “Chinese characteristics” and Russian *Chastnye Voennye Kompaniy* (ChVK) are filling the gaps that U.S. or U.K. counterparts are not able to cover due to the lack of political proximity with new clients.

Beijing's economic influence is just starting to be perceived in the market for force, and the Chinese insurance sector is beginning to realise the importance of this business niche. Traditional static security, counter terrorism, as well as kidnapping for ransom are going to provide important contracts along the BRI, and Chinese insurance experts are starting to acknowledge the role of prevention in this line of business. Chinese insurance companies just entering the special insurance market are aware of the need to improve their operational capabilities to levels consistent with international best practices. Special insurance is a lesser-known niche market, but due to the expansion of Chinese FDI,

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<sup>1</sup> Hua Chunying “Remarks on Chinese Embassy in Kyrgyzstan Hit by Terrorist Attack. China strongly condemns the horrific terrorist attack against the Chinese Embassy in Kyrgyzstan. Terrorism is the common enemy for the international community, posing the gravest threat on regional countries. China also falls victim to terrorism. We will strengthen anti-terrorism cooperation with regional countries including Kyrgyzstan under bilateral and the Shanghai Cooperation Organization (SCO) frameworks, clamp down on all forms of terrorism, and take tangible efforts to ensure the safety of Chinese institutions and people in relevant countries and uphold regional peace and stability.” [www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/t1393115.shtml](http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1393115.shtml)

<sup>2</sup> ‘From overseas high risks contracting jobs to local armed security and law enforcement Shooters has you covered’ We don't cover admin jobs, only positions that require former military or law enforcement experience’ [http://www.shooterjobs.com/contents/2/contact\\_us](http://www.shooterjobs.com/contents/2/contact_us)

it is already proving to be a highly profitable sector. Leading Chinese insurance companies such as Ping An and China Taiping are already extending feelers to seek cooperation with British insurance experts. With rising Chinese presence and an increased perception of the Chinese as wealthy citizens, kidnapping for ransom<sup>3</sup> is not only an increasing concern but also a new market opportunity.

In this respect, Chinese requirements for private security call for a more complex set of solutions. Chinese state-owned enterprises (SOEs) require a set of integrated services in which armed personnel are just one of the many components. Albeit the market for force renaissance, the role of PSCs in both China and the U.S. is in dire need of a clearer definition. The lack of checks and balances has allowed the PSCs to operate in a grey area that is easily exploited. Also, the market for force benefits is constrained by ineffective oversight and control.

### **Private Security Corporation with “Chinese Characteristics”: From Government-to-Government Relations to Private Crisis Management**

Chinese corporations have just started to acknowledge that the risks associated with outbound FDIs in emerging economies carry higher failure rates due to intertwined factors such as economic crisis, conflict, civil unrest, nationalisation, and currency devaluation, to name a few. At the same time, due to their public nature with commercial capacity, the Chinese SOEs have the tendency to blur the commercial and political lines. Consequently, they tend to rely too optimistically on Beijing’s support in times of crisis.

The Chinese overseas contracting companies, particularly those involved in heavy industry and construction, are first in line to gain from the new Silk Road’s promises of global connectivity. Hit hardest when the Chinese economy began slowing down towards a new normal in 2011, these sectors are the ones that will experience a revival with the BRI constructions contracts. Beijing’s new plans for the BRI will not only fuel the recovery for the Chinese heavy industry sector, but will also increase investor confidence in the overall construction sector ranging from steel mills to concrete factories. After more than five years of falling commodity prices and industrial overcapacity,<sup>4</sup> confidence in the business has returned and the SOEs that are building along the BRI are starting to invest again. For the first time since 2011, heavy machinery sales have risen due to government-led investments. As an example, the overall demand for excavators in China skyrocketed by 50 per cent by the end of 2016 thanks to the BRI’s promises<sup>5</sup> of future contracts and gains. Unfortunately, even up to the beginning of 2017, there has been little interest in the upgrading of security apparatuses among

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<sup>3</sup> “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 27, 2013. [www.economist.com/blogs/schumpeter/2013/06/kidnap-and-ransom-insurance?fsrc=rss](http://www.economist.com/blogs/schumpeter/2013/06/kidnap-and-ransom-insurance?fsrc=rss)

<sup>4</sup> After 54 consecutive months of year-on-year falls the producer price index (PPI) rose 0.1% year-on-year in the month, according to the National Bureau of Statistics (NBS) October 14, 2016

<sup>5</sup> “China’s Digger Market Poised for Recovery Says Top Supplier,” *Bloomberg*, July 20, 2016 [www.bloomberg.com/news/articles/2016-07-20/china-s-excavator-market-poised-for-recovery-says-top-supplier](http://www.bloomberg.com/news/articles/2016-07-20/china-s-excavator-market-poised-for-recovery-says-top-supplier)

SOEs companies.<sup>6</sup> The SOEs' risk perception, as well as their willingness to pay for professional security services, still remain low. As more than half of the BRI projects are related to infrastructure building, several small and medium Chinese enterprises that are SOEs subcontractors run their business on limited profit margins that do not allow high security expenses.

The BRI encompasses over 60 countries, differentiating broadly in local conditions. In this respect, the tasks of Chinese corporations operating along the BRI share one commonality: high complexity.

Each project, from the Sino Pakistan Economic Corridor (US\$56 billion) to the Natural Gas Pipeline in Ethiopia (US\$5 billion) or the Mes Aynak copper mine in Afghanistan (US\$3 billion), includes several layers of complexity ranging from financial, technical, operational, political, and physical security risks. Not surprisingly, greater complexity entitles greater risks.

The main risks related to China's overseas interests, with the exception of the investments in financial structures (e.g. bonds, stocks, funds, futures), are summarised into three levels: (i) liability (general, third party, employer's, environmental, etc.), (ii) construction (commercial), and (iii) political risk/terrorism/ kidnap & ransom/ criminal risk.

The risks indicated in level three will directly influence China's reaction in the employment of PSCs. While the energy sector has reached a certain degree of maturity in risk management and mitigation, majority of the Chinese SOEs and private corporations that are interested in becoming active stakeholders along the BRI are still unaware of the complexity of the task.

The BRI approach to crisis management is rooted in the government-to-government (G2G) agreements. This bilateral approach provides a risk assessment that is legally binding between China and the countries involved in the BRI. Nevertheless, the G2G approach is encumbered by several limitations. The most obvious is the separatist's antagonism towards their central government. Other limitations include weak links between central and provincial governments, cultural and religious barriers, as well as historically rooted unresolved disputes. Due to these challenges, the ability of Chinese PSCs to provide accurate, ongoing security assessments, scenario planning, crisis prevention, and mitigation is going to be a key requirement for successful long-term international economic cooperation.

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<sup>6</sup> Author interview with the Chinese Contractors Association managers, Beijing September 2016

The Chinese SOEs are already facing a number of crises along the BRI's new railway lines that link China to Europe via Central Asia. The threats range from regional political and social instability such as the border clashes between Tajikistan and Kyrgyzstan, to increasing protests and acts of violence between Chinese workers and the local population (e.g. the 2015 Aktogay copper mine incident in Kazakhstan).<sup>7</sup>

The threats and associated risks over the BRI are concentrated mostly in the Chinese Pakistan Economic Corridor (CPEC), with Beijing rightfully aware of the security threats Chinese workers in Pakistan face.<sup>8</sup> Islamabad has already pledged to deploy a considerable military force to protect Chinese nationals in that region and promised 15,000 uniformed personnel in support of the CPEC. The previous attack in Kharaci against Chinese workers and the recent violence in the coastal city of Gwadar<sup>9</sup> reflect the lack of a comprehensive, ongoing risk assessment as the projects rolled out. While an initial risk analysis is mandatory during the pre-project assessment by the National Development and Reform Commission of the People's Republic of China (NDRC), it is also imperative to monitor how the ongoing project is affecting local communities. Security is dynamic and the Chinese infrastructural projects' size and speed in the implementation add stress to the already unstable socio-political environments. Understanding and managing this stress is a challenge that cannot be ignored if benefits of these projects are to be realised.<sup>10</sup> Furthermore, CPEC internal challenges are augmented by a complex web of international friction points that involve ethnic and sectarian proxy wars. Indo-Pakistan and Saudi-Iranian disputes could embroil China in undesirable political confrontations.<sup>11</sup>

Separatism and insurgency are primary variables in the risk assessment equation not only in Pakistan, but also over several countries that are connected by the BRI. More often than not, their value is overestimated without taking into account local problems that are ignited by the influx of Chinese capital and workers. The influx of Chinese infrastructure projects in local communities often disrupt the internal dynamics of power and wealth, creating a new breed of winners and losers as well as provoking the danger of anti-Chinese sentiments. From Central Asia to Africa to Southeast Asia, several cases of violent confrontations have arisen because of the changes Chinese investments have stimulated in their local communities.

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<sup>7</sup> Catherine Putz. "China-Kazakhstan Copper Mine Brawl: Food for Thought? Authorities stress that the fight was just a fight, not a pending geopolitical flash point." *The Diplomat*, July 14, 2015  
<http://thediplomat.com/2015/07/china-kazakhstan-copper-mine-brawl-food-for-thought>

<sup>8</sup> "Key part of Pakistan economic corridor opens up." *China Daily*, November 15, 2016

<sup>9</sup> "Soon we'll start hiring 700-800 police to be part of a separate security unit dedicated to Chinese security, and at a later stage a new security division would be formed," Jafer Khan, regional police officer in Gwadar told Reuters. Syed Raza Hassan. "To protect Chinese investment, Pakistan military leaves little to chance." *Reuters* January 26, 2016. [www.reuters.com/article/pakistan-china-security-gwadar-idUSKCN0VH06F](http://www.reuters.com/article/pakistan-china-security-gwadar-idUSKCN0VH06F)

<sup>10</sup> Interview with Control Risks Partner Michael Humphreys, November 2016 Shanghai

<sup>11</sup> "The deep-sea port of Gwadar in Balochistan is a lynchpin of China's One Belt, One Road initiative, and a mere 70 kilometres from the Indian-backed port of Chabahar in Iran, viewed by Saudi Arabia as a potential threat to one of the most important sea routes facilitating the flow of oil from the Gulf to Asia." James Dorsey "Pakistan Caught In The Middle As China's OBOR Becomes Saudi-Iranian-Indian Battleground." *The Huffington Post*, May 05, 2017. [www.huffingtonpost.com/entry/pakistan-caught-in-the-middle-as-chinas-obor-becomes\\_us\\_590bfa74e4b046ea176ae9bd](http://www.huffingtonpost.com/entry/pakistan-caught-in-the-middle-as-chinas-obor-becomes_us_590bfa74e4b046ea176ae9bd)

The expansion of Chinese outbound investments—aimed at sustaining the increased need for natural resources, industrial sector overcapacity, and increase connectivity – has amplified the possibility of an international crisis that China may face in the near future. Consequently, the threats to China’s enterprises and Chinese workers based in foreign soil are expected to increase significantly. Moreover, fragile states that acquire Chinese technology and infrastructure, or that grant exploitation rights of natural resources to Chinese SOEs, do not have the capacity to assure adequate security. Therefore, Chinese infrastructure and personnel could be an easy target for politically motivated rebel groups and criminal gangs who perceive Chinese citizens as wealthy. At the same time, China’s economic diplomacy and non-intervention policy is gradually shifting towards a more assertive posture on international affairs.<sup>12</sup>

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.<sup>13</sup> Nevertheless, the necessity for security protection and emergency evacuation in different areas of the world is driving Beijing to formally privatise various security roles.

Without taking into account the overseas Chinese communities, more than a million Chinese workers are employed all around the globe. In charge of mapping the distribution migrant workers, China’s Ministry of Foreign Affairs (MFA) also has to account for the large numbers operating in unpredictable zones such as Afghan Mes Aynak copper mine by the China Metallurgical Group, China National Petroleum Corporations South Sudan’s oil wells, and the Ethiopia Poly Group gas pipeline.

Several Chinese PSCs coming into the international arena employ a mix of local and foreign resources. The combination depends heavily on whether the client requires greater foreign expertise in risk assessment or the use of armed personnel. Chinese PSCs, with maritime security as an exception, are barred by the MFA to employ Chinese armed contractors.

Nevertheless, one key point is already clear. While the Chinese government officials are still debating on the issue of Chinese PSCs, the business opportunity is already being perceived by a growing number of local security service providers. Also, the growing need for protective services by Chinese enterprises has attracted a large number of international players looking for cooperation with the emergent local PSCs.<sup>14</sup> Since the 2010<sup>15</sup> amendment of the law that regulates Chinese PSCs, several Chinese firms have evolved from being local security providers to international operators with liaison

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<sup>12</sup> Mathieu Duchâtel et al. “Protecting China’s Overseas Interests. The Slow Shift away from Non-interference” *SIPRI Policy Paper* no. 41, June 2014. <http://books.sipri.org/files/PP/SIPRIPP41.pdf>

<sup>13</sup> United States Central Command reported in January 2015 that 54,700 private contractors worked for the Defense Department in its areas of responsibility. [www.acq.osd.mil/log/PS/reports/CENTCOM%20Census%20Reports/5A\\_January2015.pdf](http://www.acq.osd.mil/log/PS/reports/CENTCOM%20Census%20Reports/5A_January2015.pdf)

<sup>14</sup> Alessandro Arduino ‘Security Privatisation with Chinese Characteristics: The Role of Chinese Private Security Corporations in Protecting Chinese Outbound Investments and Citizens’ IDSS / RSIS / Non-Traditional Security / Policy Reports, 30 June 2015 [www.rsis.edu.sg/rsis-publication/idss/security-privatisation](http://www.rsis.edu.sg/rsis-publication/idss/security-privatisation)

<sup>15</sup> Regulation on the Administration of Security and Guarding Services, adopted in 2009 via State Council Order No. 564, Article 1. English translation. [www.lawinfochina.com/display.aspx?lib=law&id=7779](http://www.lawinfochina.com/display.aspx?lib=law&id=7779)

offices in Beijing. More than 5,000 registered local Chinese security corporations that offer close personnel protection and unarmed guards employ roughly three million security officers. Among these companies, less than a dozen have the capabilities and the experience to provide stand-alone international services. At the same time, the growing need for protective services by Chinese enterprises has attracted a large number of international players looking for cooperation with emergent local PSCs (e.g. Control Risks, G4S, Prosegur).

While the Chinese PSC capabilities in providing overseas security services are not comparable to those provided by their foreign counterparts, Chinese SOEs still prefer to employ Chinese contractors. The cooperation with international PSCs is deemed a “necessary evil” until the Chinese PSCs acquire the skill sets required to reach high-level operational capabilities. The desire to employ only Chinese PSC is rooted not only language and cultural familiarity, but also in the opinion that only Chinese security corporations will be able to preserve the SOEs’ business confidentiality. PSCs with ‘Chinese characteristics’ employ former People Liberation Army (PLA) personnel, People’s Armed Police (PAP), or Chinese security officers with links with the national security apparatus. Hence, the perception that only local PSCs are able to protect the integrity of the SOEs’ business data.

According to the research published by the Chinese Think Tank Phoenix<sup>16</sup> in collaboration with Tsinghua University in Beijing, the top 10 Chinese security firms are:

- 1) G4S
- 2) Control Risks
- 3) Beijing Dewei Security Service
- 4) Zhongguo Anbao China Security Industry
- 5) Huaxin Zhongan (Beijing) Security Service
- 6) Shanghai Zhongchenwei Security Service Group
- 7) Beijing Dingtai Anyuan Guard & Technology Research Institute
- 8) Shengzhen Zhongzhou Tewe Security Consultant
- 9) Beijing Guan Security & Technology
- 10) Shandong Huawei Security Group

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<sup>16</sup> Phoenix International Think Tank official website: Haiwai anquan guangli baogao (overseas security management report) <http://pit.ifeng.com/event/special/haiwaianquanguanlibaogao>

The services provided by them include the protection of the workers' compound during large-scale energy and infrastructure projects; the security of the Chinese shipping companies vessels and logistic hubs; and the safety of corporate officials and high-value individuals travelling abroad. The spectrum of services provided is summarised:

- 1) Risk assessment, providing security reports in order to provide the compulsory business and security feasibility study requested by the government
- 2) Risk management, monitoring the evolution of the Chinese footprint and the reaction of the local stakeholders, adapting with the daily risks and threats
- 3) Risk mitigation, coping with ongoing crisis, providing medical extraction for injured personnel and Chinese nationals evacuation in cooperation with the Chinese MFA
- 4) Risk transfer, supporting insurance companies in finding suitable partners to share the risk burdens
- 5) Security compliance audit reports on overseas offices
- 6) Training of security personnel and company officials

Whereas the PLA local involvement in the Chinese business environment has tamed in the last decade, the role SOEs play in the shaping of foreign policies has become more significant. With the latest purge of corrupted officials in the PLA,<sup>17</sup> President Xi has accomplished a long-standing reform to detach the PLA<sup>18</sup> from the entrepreneurial side of the Chinese development. At the same time, the privatisation reform of the state assets has been steered towards a more efficient public sector where the SOEs still benefit from government support and a favourable line of credit from the State's banks.

Currently, the private sector's security standards are set by Western companies and consultants. 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 local talents. These companies will have to establish clear operational security parameters starting with: (i) the provision of medical assistance and emergency evacuation capabilities, and (ii) long-term strategy versus short-term problem solving.

A Chinese governing body issuing standardised certification would be helpful in improving the market and operational conditions. In the meantime, PSCs that aspire to become leading security providers have to take into serious consideration the organisation's capacity to absorb new competencies as this was something international PSCs have taken decades, and costly errors, to develop. Therefore, adaptability and organisation learning should be one of the key pillars of the new Chinese PSCs. Chinese managers currently operating in the PSC field with a good command of foreign languages

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<sup>17</sup> "Xi Jinping's Fight against Corruption in the Military Continues," *The Economist*, July 31, 2015 [www.economist.com/news/china/21660257-china-nets-its-most-senior-army-general-yet-xi-jinpings-fight-against-corruption-military](http://www.economist.com/news/china/21660257-china-nets-its-most-senior-army-general-yet-xi-jinpings-fight-against-corruption-military)

<sup>18</sup> Derek Grossman and Michael Chase. "Xi's Purge of the Military Prepares the Chinese Army for Confrontation," *RAND Blog* 2016. [www.rand.org/blog/2016/04/xis-purge-of-the-military-prepares-the-chinese-army.html](http://www.rand.org/blog/2016/04/xis-purge-of-the-military-prepares-the-chinese-army.html)

and some international exposure are a scarce resource; on average, they hold less than five years of 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 error can be very costly in terms of a negative spill-over a mishandled situation will generate. Also, some Chinese PSCs managers underline<sup>19</sup> how foreign operators, mainly British, have better experience communicating with local populations in the Middle East that is critical not only in terms of risk assessments and intelligence gathering, but also in dealing with daily workforce issues.

In different areas ranging from Africa, Central Asia, to the Far East, several of the threats to the Chinese enterprises profitability are internal, 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 working, and return home only during the Chinese New Year. Their main objective is to capitalise as much as possible on the long working hour and maximise their source of income. At the same time, the local workforce that are used to different employment conditions perceive the Chinese worker as a threat to their livelihood and their environment. Often, small strikes for better pay lead to mass gatherings and violent revolts against Chinese infrastructure and personnel.<sup>20</sup>

At the same time, the PSCs' new role is posed to foster innovation and adaptation of new technologies in the field. Drone recognisance capabilities, matched with satellite data gathering and threat intelligence analysis provided by specialist PSCs will not only foster risk assessments and strategy building for SOEs, it will also 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 to Chinese enterprises do not need to overcome the language and cultural barriers where a "lost in translation" situation could compromise an entire operation. In this regard, Singaporean citizens with previous military or police background are employed by Chinese PSCs because of their Mandarin speaking abilities.<sup>21</sup>

The contemporary role of PSCs with "Chinese characteristics" is entirely different from PMSCs employed during the two Iraqi conflicts and the Afghanistan stabilisation campaign. Nevertheless, Chinese SOEs that deploy PSCs still struggle with several perception gaps with regard to present security threats as well as how best to utilise security contractors.

The ability of Chinese enterprises to acquire funds from Chinese investment banks to invest abroad is not equally matched by the ability to produce accurate, ongoing risk assessments and contingency

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<sup>19</sup> Interview with Beijing PSC managers that operate in Iraq protecting Chinese oil companies infrastructures. "Several time we have to ask to our British security contractors to talk with the local workers as they are not listening our directives". DTAY Beijing February 2015.

<sup>20</sup> "Zambian miners kill Chinese manager during pay protest," *BBC*, August 5, 2012. [www.bbc.com/news/world-africa-19135435](http://www.bbc.com/news/world-africa-19135435)

<sup>21</sup> Author's interviews with retired Singapore Military attaché and former Singapore police force expert in K&R.

planning. With the exception of the Chinese oil and gas sector, there is a dangerous lack of interest among Chinese SOEs in understanding security. The fact that Chinese corporations still cannot differentiate anti-Chinese violence from political and criminal activity is an alarming example.

Most of the SOEs and the private Chinese firms involved in the BRI are not yet cognisant of the full spectrum of threats they are likely to face. The method and information required to produce the type of risk assessment required for contemporary Chinese SOE operations abroad include the need to first understand the impact of a project in the region where the SOE will operate. This assessment is a critical part of the overall country risk analysis. Most of the time, diseases, local disputes, and car crashes generate more victims than the average terrorist attack. The root of the problem is not only related to the lack of security and risk managers inside the SOEs, but also the different risk perceptions that Chinese companies hold. They are, however, becoming more aware of the political risk and the possible social media fallout that a kidnapped or killed Chinese citizen can generate.

The first characteristic of Chinese foreign direct investment is that most of the time, it involves a greater scale of materials, capital, and workers as compared to the other projects in the host country. Chinese SOEs tend to move swiftly from one project to the next, engaging in a steep learning curve each time they attempt to adapt to local necessities and habits. At the same time, their sole reliance on Chinese workers who are segregated in gated compounds near to work sites evokes anti-Chinese sentiments; the perception of local job loss or the suspicion of environmental degradation is also common. Typically, the small segment of the local community benefitting from the Chinese companies increases the bitterness in the other part of the community that is cut out from the sudden influx of Yuan.

Most of the time, the Chinese management whose focus is on project delivery and financing opportunities, fails to read the local community before and during the project implementation. The managers typically rely heavily on the illusion that the central government of the host country will preserve their safety and intervene to protect their businesses.

Regarding human resource management, Chinese security sectors are still promoting a 'race to the bottom' culture to improve profitability by relying on competitors undercutting each other.<sup>22</sup> A business culture of high-level service provision must be substituted for the current approach that tends to favour the lower bidder.

The Chinese central government, the driving force behind developing China's PSC efficiency and accountability, is in the process of promoting changes not only in overseas deployment but also in the local security arena. Present dangers to the Chinese workers and infrastructures have demonstrated to Beijing that throwing money at the problem is not always the most viable solution.

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<sup>22</sup> Author's interview with Western security companies top management in Shanghai and Singapore.

## From U.S. to China, and Russia's Market for Force

The United States has opened the proverbial Pandora's box, releasing mercenarism back into international affairs. Now that the industry is back and unlikely to go away anytime soon.<sup>23</sup> (S. McFate)

In its involvement in Iraq and Afghanistan following the 9/11 attacks, the U.S. government chose to rely heavily on contractors to provide security services. In 2007, the U.S. army had 160,000 soldiers in Iraq, supported by some 180,000 private employees working for 630 contractors from more than 100 nations. According to the "Cost of War"<sup>24</sup> report, the number of U.S. troops who have died fighting in both wars surpassed 6,800 by the beginning of 2015. In the same year, the number of contractors killed surpassed 6,900. The U.S. Government Accountability Office (GAO) and Department of Defense (DOD) did not provide an accurate count on the number of deceased non-uniformed personnel, so it is therefore possible to presume that the figures do not reflect the gravity of the problem. At the peak of the conflicts, Defence Secretary Donald Rumsfeld expanded the privatisation of the U.S. government's military and legal support, and granted the contractors immunity from the jurisdiction of local law. The contractors' immunity, normally granted by the law of war to military personnel, created a particular anomaly in the private market for force that increased the risk of it being abused.<sup>25</sup>

Today, a new actor is entering the market for force scene. China's investment in the BRI reached US\$51.1 billion<sup>26</sup> in the first half of 2016. This amount of money is influencing the market for force in directions different from the pattern previously established by the U.S.

As already mentioned, China, compared to the U.S., is not engaged in large-scale conflicts and does not have at present a necessity to outsource logistical and infrastructural services in war zones.<sup>27</sup> Therefore, Beijing's first requirement is to assure adequate security to the SOEs that wish to establish ventures in fragile states. The global financial crisis between 2007 and 2008, and the rebalancing of

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<sup>23</sup> Sean McFate. "The Modern Mercenary: Private Armies and What They Mean for World Order" p.49 *Oxford University Press*, 2014.

<sup>24</sup> "The Costs of War Project is a team of 35 scholars, legal experts, human rights practitioners, and physicians, which began its work in 2011. We use research and a public website to facilitate debate about the costs of the post-9/11 wars in Iraq and Afghanistan, and the related violence in Pakistan and Syria. There are many hidden or unacknowledged costs of the United States' decision to respond to the 9/11 attacks with military force. We aim to foster democratic discussion of these wars by providing the fullest possible account of their human, economic, and political costs, and to foster better informed public policies." Watson Institute for International and Public Affairs. <http://watson.brown.edu/costsofwar/costs/human/military/killed>

<sup>25</sup> Paul L. Bremer, US Ambassador to Iraq employed Blackwater contractors for his close protection and security. "Under Bremer's orders, the 170 private contractors in Iraq enjoy immunity from prosecution. Iraqis cannot bring charges against them; in fact, Iraqi and U.S. authorities have never put a contractor on trial for a crime." Jeremy Scahill "Blackwater. The Rise of the World's Most Powerful Mercenary Army" Nation Books, 2007

<sup>26</sup> Xinhua "Belt and Road Initiative to embrace greater achievements" Shanghai Daily (Thursday 29 September) Belt and Road Initiative to embrace greater achievements' *By the end of June (2106 ndr) China has signed bilateral investment treaties with 104 countries along the belt and road, while its investment in these countries have totalled USD 51.1 billion.*

<sup>27</sup> United States Central Command, reported in January 2015 that 54,700 private contractors worked for the Defense Department in its areas of responsibility. [www.acq.osd.mil/log/PS/reports/CENTCOM%20Census%20Reports/5A\\_January2015.pdf](http://www.acq.osd.mil/log/PS/reports/CENTCOM%20Census%20Reports/5A_January2015.pdf)

the U.S. and EU forces in Afghanistan and in the Middle East since 2014, have subsequently diminished the demands for PSC employment by the West. Following the exponential growth of the sector since the two Gulf Wars,<sup>28</sup> the temporary shrinking of the market for force has been counterbalanced by new threats and new business opportunities. New conflicts in countries such as Syria and Yemen have generated a renewed demand for mercenaries and have ignited the contracting of new PSCs in the area.

The employment of Russian PSCs in Syria before the Russian Federation official support to the Assad regime or the United Arab Emirates (UAE) deployment of South American contractors in the ongoing Yemen conflict is no more matter of speculation. In the latter's case, the South American unit overseen by Blackwater founder Mr Erik Prince<sup>29</sup> and managed by the UAE company Reflex Responses<sup>30</sup>, was supposed to take a passive stance in the area: protect the oil fields and if necessary, quell local riots. Contrary to the provisions and with no more apparent connection with Mr Prince, the call for arms in the Yemen conflict led the UAE Army to employ the contractors as a quick reaction force.<sup>31</sup>

Furthermore, a new breed of PSC and international corporations with a PSC spin-off has mushroomed after the second Iraq War along with the rampant increase of terrorist threats. The counter terrorist efforts as well as the Western fear of imminent attacks on the civilian population have led several PSCs to adapt their business models to this new market. However, the shrinking economies of Western countries could not sustain the budgets that supported the PSCs' growth during the previous conflicts. At the same time, the growth of the Middle East and the Chinese security market is no match to the former U.S. contracting capacity. Therefore, international PSC competition to enter into new markets, especially China, is fierce. Securing a Chinese PSC partner in order to operate more freely within the Chinese regulatory limbo, without being perceived as a wholly-owned foreign enterprise, is especially beneficial. This competition has striking commonalities with the first wave of multinational corporations in the early 80s that were eager to accept any kind partnership with local Chinese actors just to gain a foothold in the opening Chinese market.<sup>32</sup>

Another point of divergence with the U.S. model is related to the profound differences between the two military-industrial complexes (MICs). In the U.S., the MIC casts its powerful influence on the U.S. Army and on the PSCs' that operate on the DOD and the State Department accounts. Also, the U.S. army uses a wide array of high-technology weapons. Therefore, the new weapon platforms allow for service outsourcing that is contracted most of the time to the same manufacturer that produced the system.

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<sup>28</sup> Table 1. Source: Office of the Under Secretary of Defense for Acquisition, Technology and Logistics [www.acq.osd.mil/dpap/pacc/cc/history.html](http://www.acq.osd.mil/dpap/pacc/cc/history.html)

<sup>29</sup> Mark Mazzetti and Emily Hager. "Secret Desert Force Set Up by Blackwater's Founder". May 14, 2011 [www.nytimes.com/2011/05/15/world/middleeast/15prince.html](http://www.nytimes.com/2011/05/15/world/middleeast/15prince.html)

<sup>30</sup> Bloomberg [www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=128162717](http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=128162717)

<sup>31</sup> Emily Hager and Mark Mazzetti. "Emirates Secretly Sends Colombian Mercenaries to Yemen Fight". November 25, 2015. [www.nytimes.com/2015/11/26/world/middleeast/emirates-secretly-sends-colombian-mercenaries-to-fight-in-yemen.html?\\_r=0](http://www.nytimes.com/2015/11/26/world/middleeast/emirates-secretly-sends-colombian-mercenaries-to-fight-in-yemen.html?_r=0)

<sup>32</sup> Alessandro Arduino. "Security Privatisation with Chinese Characteristics: The Role of Chinese Private Security Corporations in Protecting Chinese Outbound Investments and Citizens." *IDSS / RSIS Policy Reports*, June 30, 2015. [www.rsis.edu.sg/rsis-publication/idss/security-privatisation](http://www.rsis.edu.sg/rsis-publication/idss/security-privatisation)

Nevertheless, the convergence of the U.S. and the Chinese PSC model is founded upon the 'revolving door' concept between corporate managers and government officials. Both Washington and Beijing share the same modus operandi. For example, the now-defunct Blackwater board of directors had the former Central Intelligence Agency (CIA) coordinator for counter terrorism Mr Cofer Black serve as vice chairman from 2004 to 2008. The corporations that benefited the most from the latest conflicts could rely on even higher former U.S. government officials in their corporate structure. For instance, the Halliburton Group's former CEO Dick Cheney became the vice president of the United States during the George W. Bush administration. Similarly, the top management of leading Chinese PSCs comprises PLA and police officials as well as former Ministry of State security operators. Another commonality is apparent by the almost monopolistic role of the PSC client. U.S. corporations in the last few decades were almost dependent on one client, the U.S. DOD. Similarly, the Chinese PSCs clients – the SOEs – are part of the State apparatus. Therefore, both markets are characterised by close links between the public and private sectors. In the U.S., all contracts and licencing must be approved by the Office of Defence and Trade Controls (ODTC). In China, the government bodies in charge of license and approval are the National Development Reform Commission,<sup>33</sup> the Ministry of Foreign Affairs, and the Ministry of Defence. All these government bodies have a say on the matter, but none have a definitive veto power. China's solicitations for the provision of security services by private companies differ considerably from the Requests for Proposal issued by the U.S. during the Iraq and the Afghanistan conflicts.

As with the U.S. war efforts, China is learning an important lesson: the PSC employment practice offers short-term flexibility and economic benefits, but could produce long-term negative spillovers if not properly managed.

In this respect, China's business and security specific needs are related to the culture embedded within Chinese SOEs. The "Chinese characteristics" that permeate China's political and business culture are going to affect the security market's demand and supply. While Chinese expertise in the security sector is still improving, the Chinese SOEs capabilities in building infrastructures and the availability of funds from Chinese banks are unmatched.

Contrary to the U.S. model, the utility of private force in China (i) fills a gap in the provision of high security services, (ii) provides on-demand force that is not available locally, (iii) transfers security technologies and capabilities, and (iv) adds a layer of plausible deniability to the BRI win-win narrative.

International and local Chinese corporations are well aware that the new dynamics for force-on-demand are going to produce massive profits.<sup>34</sup> The large number of Chinese PSCs present in the internal market does not match the expectations of the international market. At the moment, foreign corporations and professionals supply the needed expertise. The one-stop-shop for special insurance,

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<sup>33</sup> NDRC official website <http://en.ndrc.gov.cn>

<sup>34</sup> Comment by Randal Phillips, partner and heads of the Mintz Group's Beijing office and former Central Intelligence Agency's National Clandestine Service. Shanghai January 2016.

risk assessment and mitigation, and crisis management operators in Mainland China is not there yet. Nevertheless, the business turnover expected in the security market along the BRI is already forcing fast-paced changes and professionalisation.

From Moscow's standpoint, the role given in the military doctrine to proxy warfare has not changed since the time of the Soviet Union; only the actors have changed since as Russia is unable to count on former Soviet satellite states to provide the proxy forces needed for political and economic interest abroad. The annexation of Crimea and the hybrid conflict in Ukraine showcase how 'volunteers' and PSCs (ChVK in Russian) have replaced proxy armies such as the Cuban volunteers in the Angola Conflict.<sup>35</sup> Nevertheless, the role of Russian PSCs will extend beyond the protection of Russian energy companies abroad or the support of Russian commercial vessels on anti-piracy measures. Prior to the official Kremlin intervention in Syria, the involvement of the Russian PSCs in the Middle East was a matter of guesswork. Since the 90s, the Russian market for private force has been contained by the state in order to avoid heavily armed bodyguards, in protection of oligarchs, roaming around Moscow with impunity. Recently, the restrictions in the private use of force have been gradually lifted, especially with regards to the private security forces contracted to protect the interest of state corporations such as Gazprom within the energy sector.<sup>36</sup>

In other words, we are not talking of a typical western PMC charged with guarding a power plant in Afghanistan or Iraq, what appears to be in the making is a professional intervention force controlled by the state and used to advance Russian interest outside the country. At the same time such a force would be deniable at the outset of any intervention.<sup>37</sup> (M. Worcester)

Compared to the U.S., Russia presumably started using PSCs in close cooperation with the military, but in a more subtle manner due to the Russian law limitation that constrains the use of private armed personnel abroad. Albeit the employment of private contractors for deniable off-the-budget operations by the CIA in Iraq and Afghanistan<sup>38</sup>, Russia is trying harder to reach a "Zero Footprint" while deploying PSC.

At the same time, the need for plausible deniability from the Chinese side is considered minimum. The mercantilist blueprint of the BRI most likely will not have China contract the addition of employing of PSCs like the U.S. and Russia.

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<sup>35</sup> Piero Gleijeses. "Conflicting Missions Havana, Washington, and Africa, 1959-1976," *University of North Carolina Press*, 2002

<sup>36</sup> "... already-relaxed restrictions on the security forces of gas giant Gazprom and oil pipeline corporation Transneft are to be lifted, allowing them increased access to lethal weapons and rules of engagement for their use." Mark Galeotti. "Russia and "elastic power": will the burgeoning private security industry lead to private military companies, too?". <https://inmoscowshadows.wordpress.com/2013/06/16/russia-and-elastic-power-will-the-burgeoning-private-security-industry-lead-to-private-military-companies-too>

<sup>37</sup> Maxim Worcester. "Putin's Proxy Warf Strategy". ISPSW Strategy Series: Focus on Defense and International Security Issue No. 282, Aug 2014.

<sup>38</sup> Micah Zenko. "The Unknown Soldiers of Afghanistan and Iraq," *Foreign Policy*, May 29, 2015 <http://foreignpolicy.com/2015/05/29/the-new-unknown-soldiers-of-afghanistan-and-iraq>

Quite similar to the Chinese law against nationals engaging in armed conflict for profit, mercenary activity is outlawed by the Russian criminal code.<sup>39</sup> Currently, the role and the partnership between the government and the private security sector is suspended in a legal limbo with ample grey areas that can be easily circumvented.

According to Mr Denis Korotkov's investigative reports on contemporary Russian mercenaries, the unregistered private military contracting agency called ChVK Vagner operates with heavily-armed former Russian servicemen in Syria. He said: "Based on information coming out of Syria at first- or secondhand, the Vagner group is often used as elite infantry, which naturally leads to casualties much greater than special forces typically see. But who coordinates this work and who commands them, I don't know."<sup>40</sup>

The Vagner mercenaries reportedly played an important role in helping the forces of Syrian President Bashar al-Assad recapture the city of Palmyra. Also the main difference between the Chinese and U.S. PSCs is the rate of casualties. The website *militaryarms.ru* reports that the Vagner forces, employed as shock troops in the most delicate areas of the conflict, are distinguished by their high percentage of losses. While American and Russian PSCs are entangled in war efforts and have to take a proactive stance through the use of force, the Chinese PSCs are just on the fringe of active involvement.

Contrary to the American and Chinese PSCs, the employment of Russian PSCs appears to be about minimising political risks rather than maximising economic ones. During the Cold War, Moscow has already mastered the use of external forces that do not carry a traceable connection back to the Russian foreign policy. While the Russian Federation Army's overall reform and strengthening process has been slowed down by the collapse of the oil prices, the role of Russian PSCs has grown not only as an undeniable force in promoting Moscow interest abroad, but also as employer of professional soldiers dismissed during the army's demobilisation. Moscow and Beijing are concerned with the fact that a large number of demobilised soldiers can join the ranks of criminal gangs and use their training in support of criminal activities. Compared with the Chinese contractors, the main difference is that most of the demobilised Russian forces are veterans with active combat experience.

At the same time, while several Western scholars believe that the Russian PSCs' role in China is limited compared to the Israeli, EU or U.S. counterparts, it is not improper to forecast that their employment by foreign corporations will be in post Soviet spaces. One of the selling points of the Russian private security firm Russian Security System (RSB) Group<sup>41</sup>, as indicated on their website, is that RSB offers their services to countries and corporations that do not feel comfortable with engaging Western security service providers.

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<sup>39</sup> The Russian Criminal Code prohibits creating unlawful armed groups, training and supplying mercenaries. The Articles 359 punishes for recruitment, training, financing and using mercenaries. The Article 208 punishes for creating unlawful armed groups.

<sup>40</sup> Вагнер в Кремле [www.fontanka.ru/2016/12/12/064/?utm\\_source=novapress](http://www.fontanka.ru/2016/12/12/064/?utm_source=novapress) 9:46 PM - 12 Dec 2016

<sup>41</sup> RSB Group Military Consulting Company <http://rsb-group.org/about>

In the meantime, several Chinese PSCs involved in the protection of Chinese interests in the Central Asia part of the BRI are probing possible cooperation with Russian professionals; considering the fact that the Russian language it is still the most used medium in the area. Just by examining the websites of several Russian PSCs with leading Chinese counterparts, it is possible to identify several differences. The latter's key expertise are related to the provision of service as static guards and VIP protection, while the Russian advertise a more kinetic approach that underscores how companies such as RSB have practical battle command and control experience. Also, the Chinese websites are mostly written in Mandarin; underlining how their offers are mainly targeted at local clients.

In comparison to the Western counterparts, Russian PSCs offer China several advantages. From a strict Chinese SOE point of view, Russian PSCs can provide: (i) competitive pricing; (ii) personnel with language capabilities that could be essential in the BRI; (iii) no links with Western countries that could endanger business confidentiality; and (iv) the appeal of machismo, catering to Chinese PSCs that are more concerned with firepower than security intelligence and prevention.

### **Does China Need Another Blackwater?**

According to Mr Eric Prince, founder of the now defunct U.S. private military company Blackwater, the answer can only be yes.

After the killing of 17 Iraqi civilians in Nisour Square in Baghdad, the actions of Blackwater generated a media outcry against the employment of private security contractors. The immediate fallout forced Mr Prince to abandon the U.S. government's lucrative contracts. In contrast to Western perceptions, a significant section of the Chinese security apparatus and PSC management perceive the Blackwater model as efficient.<sup>42</sup> Mr Prince's sales pitch for Blackwater, "no client has died during Blackwater's watch"<sup>43</sup>, has found fertile ground in China.

Therefore, it comes as no surprise that Mr Prince's corporation in Hong Kong, Frontier Services Group (FSG)<sup>44</sup>, also has an office in Beijing. In addition, he was one of the few foreign guests of honour invited to the Chinese 2016 PSC Association annual meeting.

Blackwater's aggressive tactics have earned critique and scorn, yet at the same time, have been praised by those they have escorted.

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<sup>42</sup> Author interview with Chinese PSC managers in Beijing during the preparation of "Security Privatisation with Chinese Characteristics: The Role of Chinese Private Security Corporations in Protecting Chinese Outbound Investments and Citizens". IDSS/RSIS China Programme 30 June 2015. [www.rsis.edu.sg/rsis-publication/idss/security-privatisation](http://www.rsis.edu.sg/rsis-publication/idss/security-privatisation)

<sup>43</sup> Eric Prince. "Civilian Warriors: The Inside Story of Blackwater and the Unsung Heroes of the War on Terror" Penguin, November 18, 2013.

<sup>44</sup> Frontier Services Group Limited, previously known as DVN (Holdings) Limited (HKSE: 00500), China investment bank CITIC Group is one of the major shareholders. "Security and logistics services in frontier markets. We help businesses operating in frontier markets overcome complex security, logistics and operational challenges. From Asia to Africa, FSG delivers reliable, bespoke and fully integrated project logistics solutions that cover air, sea and ground transport."

While Blackwater's personnel have performed acts of bravery in support of marine counterparts in distress,<sup>45</sup> acts of violence and blatant infractions of Iraqi law have reportedly caused lasting damages in the efforts to win the hearts and the minds of the Iraqi population.

The case of Blackwater's rapid expansion leading to the employment of thousands of contractors from various countries underlines the possible risk a hyper inflated growth can bring to Chinese PSCs. As mentioned in the Phoenix Think Tank report, overly aggressive expansion will not promote stable growth of the Chinese private security market because increasing numbers do not automatically mean increasing competencies. Without the proper control and auditing systems in place, unprofessional PSC personnel, potentially even those with former criminal records, could fill the growing ranks of PSCs and generate more problems than solutions. Unaccountable contractors operating in legal grey areas could not only endanger civilians' lives, but also perpetrate criminal acts such as illegal weapons trade.

U.S. contingency contractors, opportunistic labor brokers, and international criminal organizations have taken advantage of the easy flow of people, money, goods, and services to capitalize on this source of revenue and profit. Their actions bring discredit to the United States and act as a barrier to building good diplomatic relations.<sup>46</sup>

Mr Prince succeeded in evolving his company from a shooting range to an army worth billions in contracts in the span of years. At the apex of the company's expansion, Blackwater's contractors could even rely on their own armed air support. After the 9/11 attacks, Blackwater's scope expanded exponentially and so did the company's revenues. Their portfolio grew to include the U.S. State Department and even the CIA. While the initial revenue in 1998 was in the range of US\$400,000, by 2006, the total revenue surpassed US\$1 billion in no-bid contracts with the State Department. Chinese PSCs aim for the same growth trend, quoting the Blackwater model as a successful and profitable one considering the fact that despite fines and investigations, the company had continued to win contracts from the government.<sup>47</sup> At the same time, several Chinese academics in Beijing's security circle are already underlining the incompatibility of the Blackwater model with China's security needs.<sup>48</sup> While Blackwater's high profile does not fit well with Deng Xiaoping's mantra of "tao guang yang hui"

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<sup>45</sup> Erik Prince. "Civilian Warriors: The Inside Story of Blackwater and the Unsung Heroes of the War on Terror". 2008.

<sup>46</sup> "Transforming Wartime Contracting Controlling costs, reducing risks". Final report to Congress Findings and recommendations for legislative and policy changes; Commission on wartime contracting in Iraq and Afghanistan. August 2011. The report is still available online at: [https://cybercemetery.unt.edu/archive/cwc/20110929213820/http://www.wartimecontracting.gov/docs/CWC\\_FinalReport-lowres.pdf](https://cybercemetery.unt.edu/archive/cwc/20110929213820/http://www.wartimecontracting.gov/docs/CWC_FinalReport-lowres.pdf)

<sup>47</sup> "In June, the State Department awarded Blackwater a \$120 million contract to provide security at its regional offices in Afghanistan, while the C.I.A. renewed the firm's \$100 million security contract for its station in Kabul." James Risen. "Blackwater Reaches Deal on U.S. Export Violations," *New York Times*, August 20, 2010. [www.nytimes.com/2010/08/21/world/21blackwater.html](http://www.nytimes.com/2010/08/21/world/21blackwater.html)

<sup>48</sup> Interview with Dr Jianming Mei, Director Research Center for Counterterrorism, People's Public Security University of China in Beijing, February 2017.

(keeping a low profile),<sup>49</sup> the new trend under President Xi's BRI emphasises "fen fa you wei" (striving for achievement).<sup>50</sup>

The Chinese PSC footprint is still far from the Blackwater model but Beijing is already well aware of the potential negative consequences that would emerge if that kind of notoriety was going to be achieved. Several incidents in Africa and Central Asia have already surfaced involving Chinese managers firing their locally-acquired weapons on throngs of local workers, or even getting killed during working condition disputes.<sup>51</sup>

Mr Prince business in China began with his participation in the Hong Kong company Frontier Services Group (FSG) that has offices in Hong Kong and Beijing and it is supported by the Chinese state financial group CITIC. Until December 2016, the company's vision advertised on their website was related to the provision of advanced logistical services with respect to Sudan and other African states. FSG analysts and Mr Prince himself have participated in Chinese think tank conferences discussing the role of private security in protecting the BRI. At the end of 2016, the FSG website statement changed abruptly, underlining how the company is ready to support the training of unarmed Chinese security personnel along the BRI. At the same time, Mr Prince came back into the spotlight thanks to his sister Ms Betsy DeVos' nomination as the new Education Secretary under the Trump administration.<sup>52</sup>

With allegations that FSG is transferring military expertise to the PLA to increase its capabilities, Mr Prince's role in China has already lifted some eyebrows.<sup>53</sup> FSG's intention is to set up training camps not in Beijing, but in the provinces of Xinjiang and Yunnan. While Xinjiang is considered by Beijing to be a hotbed for insurgents and terrorist attacks, the autonomous province is also a cornerstone of the BRI. At the same time, the choice of Xinjiang could cast doubt on the intentions of FSG, as the province is at the centre of the Chinese counter-terrorist efforts against the perceived menace of Uighur separatists. Further, the province of Yunnan is at the frontline of China's struggle to contain suspected terrorist routes from Xinjiang to Thailand, and the province remains central to Beijing's battle against the drug trade sourced to China's south-eastern borders.

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<sup>49</sup> Tao Guang Yang Hui: "Xiaoping's proposal, which he reads as meaning "observe calmly, secure our position, cope with affairs calmly, hide our capacities and bide our time, be good at maintaining a low profile, and never claim leadership." But some foreigners read it as advocating deception about China's true strength. Zhao maintains that "keep a low profile" is not a trick, but an expression of a particular approach. Yet other scholars point out that in a classical context, the phrase is used to indicate a strategic ruse. *Global Times*, June 15, 2011 [www.globaltimes.cn/content/661734.shtml](http://www.globaltimes.cn/content/661734.shtml)

<sup>50</sup> Fen Fa You Wei: "The key difference between the KLP and the SFA is that the former focuses on economic gains and the latter seeks to strengthen political support." Yan Xuetong. "From Keeping a Low Profile to Striving for Achievement." *The Chinese Journal of International Politics*, 2014

<sup>51</sup> 'In 2010, Zambian police charged two Chinese supervisors at the Collum mine after they shot and wounded 13 miners during another pay dispute' Andrew England 'Zambian strikers kill Chinese supervisor'. *Financial Times* August 5, 2010. [www.ft.com/content/6967bc22-df24-11e1-b615-00144feab49a](http://www.ft.com/content/6967bc22-df24-11e1-b615-00144feab49a)

<sup>52</sup> Jeremy Scahil. "Notorious mercenary Erik Prince is advising Trump from the shadows". *The Intercept*, January 18, 2017. <https://theintercept.com/2017/01/17/notorious-mercenary-erik-prince-is-advising-trump-from-the-shadows>

<sup>53</sup> "Former Blackwater chief under investigation for deals with China, Libya: report". *The Washington Times*, March 24, 2016. [www.washingtontimes.com/news/2016/mar/24/erik-prince-former-blackwater-chief-under-investig](http://www.washingtontimes.com/news/2016/mar/24/erik-prince-former-blackwater-chief-under-investig)

FSG's claims as recent as last year of merely being a logistics company are contradicted by the release of a new business model that is reflective of Mr Prince's principal skill set. According to FSG's press release, in order to "help clients take advantage of China's One Belt One Road initiative, FSG will provide training, communications, risk mitigation, risk assessments, information gathering, medevac, and joint operations centres that coordinate security, logistics, and aviation".<sup>54</sup> A reasonable question is whether the next change in its business model will include FSG's direct involvement in Beijing's armed security efforts.

### **In Search of a Safe Chinese Dream**

A lot of ink has been spilled defining what a PSC is, and whether security privatisation is a solution, or just another part of the problem. Despite different historical and cultural settings, the role of lances for hire constantly shifts between indispensable and disposable. Chinese PSCs, which will also surge and decline, will not deviate from the traditional pattern.

The post-Cold War security vacuum is characterised by an increasing demand for private military and security services. Currently, the rise of the BRI in 2013, spearheaded by the Chinese SOEs, induces novel demands for a new market for force. New actors include a spectrum of contractors that range from international PSCs with a corporate structure more similar to a multinational corporation, and an increasing number of Chinese PSCs with global ambitions. The growth of the Chinese PSCs resonates with the controversial role played by international PSCs in U.S.-led conflicts.

The natural selection process to develop mature Chinese PSCs has been ignited by the BRI's security requirements. At the same time, the protection of Chinese infrastructure and nationals abroad is only the start of what could become a larger trend in the privatization of force with "Chinese characteristics".

Albeit marginalised in the first wave of the Chinese FDI, the role of the Chinese PSCs is poised to increase in unison with threats directed at Chinese foreign direct investments. The evolution of Chinese PSCs from the Mainland's simple model of static guards to modern international security providers is already on-going. The mix of terrorist threats, criminal extortions, political violence, and the increase of Chinese SOE security budgets are already catalysing the changes. At the same time, a more mature domestic insurance security sector is going to support the increase of professionalism in the Chinese market for force.

A quick glance at today's private security market, as compared to the involvement of PSCs in the Iraq and Afghanistan conflicts, could lead one to believe a scaling back in quality and quantity of private security services is in order; however, this is not the case. The BRI "glocal" need for security in today's global marketplace will supply lucrative contracts and demand sophisticated PSCs capable of

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<sup>54</sup> FSG press release on PR Newswire, Hong Kong December 9, 2016. [www.prnewswire.com/news-releases/frontier-services-group-strategy-update-607417306.html](http://www.prnewswire.com/news-releases/frontier-services-group-strategy-update-607417306.html)

intelligence acquisition, risk analysis, and crisis management across several countries. PSCs with “Chinese characteristics” are not at the forefront of the next battlefield, but will rather occupy a niche market between state provision of security and the preservation of Chinese economic interests overseas. The contemporary market for force’s main driver, as in all business, is profit, and Chinese PSCs are well aware of the potential.

Chinese SOEs without the proper security market knowledge and economical evaluation of risk are prone to choosing the cheapest available option. The asymmetry in the pricing is something most of the Chinese SOEs are still unable to appreciate. Focusing solely on the price of security services and not on the quality of the output is still a common mistake among SOEs managers that are already fighting narrow profit margins. This situation is also encouraged by a current lack of detailed regulations and a performance monitoring system.

Private soldiering in the new millennium has left unanswered centuries-old questions on how the use of force by non-state actors is appropriate. The BRI security narrative will experience the same problems when the increase of violent threats to Chinese assets is going to blur the line between defensive security and pre-emptive strikes. At the same time, the various stakeholders that are involved in the BRI could deviate or cause deviations from Beijing’s blueprint. SOEs with different agendas and Chinese PSCs not aligned with the central government long-term strategy could ignite unexpected crisis.

The lack of transparency, accountability, and separation from established chain of command structure is a current fixture of the private market for force. Whether Chinese PSCs will have foreign policies of their own or not, their undisputed allegiance to Beijing should not be taken for granted.

The never-ending story over the legitimacy of PSCs is not going to end with the involvement of China. Nevertheless, the debate over the market for force must strive to impose a strict regulatory and auditing framework that includes multilateral cooperation and enforcement mechanisms. The Chinese “socialist market” approach could promote real incentives for the best practices, as well as punishment for misconduct.

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