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SPECIAL REPORT

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About the Report

As more projects associated with China's Belt and Road Initiative are launched in conflict-prone states, the need for security to protect Chinese workers and investments is increasing. This report focuses how Chinese private security firms are supplementing—and in some cases supplanting—local and Western security forces in protecting China's economic interests abroad. Supported by the Asia Center at the United States Institute of Peace, the report is based on an extensive review of Chinese-language sources as well as interviews conducted in 2017 and 2018 with security company representatives, government officials, academic researchers, and knowledgeable members of the public in China and Eurasia.

About the Author

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Securing China's Belt and Road Initiative

Summary

- China's Belt and Road Initiative—a large-scale connectivity project encompassing infrastructure, energy, and trade—has extended China's economic presence throughout Eurasia and around the world. It has also posed new security challenges for Chinese companies operating abroad.
- China employs three strategies in safeguarding its economic interests abroad. First, Chinese companies rely on a host country's government for security needs. Second, Chinese companies hire local security firms. Third, Chinese companies employ a combination of Western and Chinese security firms.
- The number of Chinese security companies is growing steadily. Still, only a handful of these companies operate abroad.
- Although China's security industry is privately operated, the Chinese government is heavily involved as both a corporate stakeholder and regulator.
- Chinese private security firms are most active in high-risk Middle Eastern countries such as Iraq. However, these companies have not expanded their reach significantly in Southeast Asia, particularly in Laos and Indonesia, despite significant Chinese investment in projects in the region.
- The Chinese government's cautious approach to the development of the country's private security industry stems from its wariness of paramilitary entities. Abroad, actions of rogue security contractors could jeopardize China's overall investment plans and diplomatic standing. At home, unemployed security personnel, who are highly trained and organized, could pose a threat to social stability.
- As China's global economic influence expands, China's private security industry can expect continued cautious encouragement from the government. However, if the Belt and Road Initiative falters, Beijing could put the brakes on the growth of the country's private security industry to minimize potential challenges to the government.

Introduction

Launched in 2013, China's government-supported Belt and Road Initiative (BRI) is an ambitious, trillion-dollar global connectivity project encompassing infrastructure, energy, and trade. Although the project seeks to invest in sixty-five countries across Eurasia and around the world, not all BRI countries have proven to be ideal investment destinations. By late 2017, China had concluded a total of sixty-nine cooperation agreements under the BRI framework for the construction of ports, maritime routes, roads, and railways.[1] Yet some BRI countries are mired in simmering social conflicts, with others facing insurgency, deepening civil unrest, or the threat of war. As Chinese companies venture into fragile states, security concerns are rising—and the number of attacks on Chinese worksites and workers is increasing.

Like their Western counterparts, Chinese companies have employed private security contractors to protect projects in high-risk areas. Although Chinese clients still overwhelmingly rely on established and experienced Western firms, homegrown Chinese security companies are making inroads in the market as they expand their operations abroad.

As more and more BRI-related projects are launched in conflict-prone regions, Chinese security companies are likely to play a greater role in the coming years—especially given their growing capabilities and the deep-rooted Chinese distrust of outsourcing security to foreign companies. But the growth and competitiveness of the Chinese private security industry could be slowed by new policy constraints stemming from the government's historic wariness of the private ownership of guns and other weapons—especially when they are in the hands of a well-trained, tightly organized, militia-like group.

Chinese Investment Abroad

China's state-sponsored overseas investment policy can be traced to August 1979, when the Communist government, emerging from the Cultural Revolution, called on Chinese state-owned enterprises (SOEs) to do business outside of the country. However, this initiative fizzled out due to lack of capital and experience, in addition to government red tape barriers. Beijing was nevertheless determined to expand its global economic reach, and so in March 2000 the government unveiled its "Go Out" policy, which pushed Chinese SOEs to grow their businesses overseas. To support those SOEs willing to venture abroad, the government allocated new funds, offered tax incentives, handed out low-interest loans via state banks, and created new insurance companies to provide comprehensive coverage.[2]

China has numerous reasons for encouraging SOEs to pursue operations abroad. First, China hopes to increase its global clout through more outbound direct investment (ODI)—the expansion of domestic company operations into foreign countries—in order to secure access to natural resources and raw materials. China's ODI rose 130-fold from $920 million in 2000 to over $120 billion in 2017.[3] Second, the Chinese government wants its SOEs to gain more experience abroad in order to raise the quality of Chinese products, build the profile of Chinese brand names, and ultimately boost trade. Finally, more foreign trade is beneficial to the internationalization and strengthening of China's official currency, the renminbi.

China expanded on the Go Out policy in 2013 with the announcement of the BRI, which seeks to promote China's connectivity with countries across Eurasia and around the world, particularly through massive infrastructure investments. Some of its flagship projects include the Pan-Asia Railway Network that links Kunming in southern China to Singapore, the China-Pakistan Economic Corridor that connects China's northwestern Xinjiang region to the Pakistani port of Gwadar on the Indian Ocean, and high-speed rail lines across Eurasia.

Chinese corporations signed contracts valued at $265.3 billion in 2017, according to figures from China's Ministry of Commerce. China's direct investment stock in Southeast Asian countries amounted to $88.4 billion in 2017, a 24 percent increase from the previous year. In 2016, more than 50 percent of China's BRI investment went to Southeast Asian countries. And with the expansion of economic activity came Chinese workers: as of May 2016, an estimated 987,000 Chinese were working overseas.[4]

The Belt and Road Initiative is an ambitious project with a trillion dollars in reserve, but implementation is not without difficulties. China's BRI-related ODI fell by almost 30 percent in 2017. There have been setbacks, with dozens of failed projects since BRI's launch. According to Li Guangxi of Tsinghua University, China has suffered great investment losses in politically unstable countries such as Iraq, Libya, Sudan, and Syria. A number of projects also failed in Africa and Latin America, such as the $1.5 billion Lake Victoria Free Trade Zone and the $7.5 billion Venezuela High-Speed Railway.[5]

The safety of BRI workers and property is also a special concern of Chinese firms. In 2015, China's diplomatic corps reported 86,678 cases of assistance and protection cases, which was a nearly 50 percent increase from the year before. From 2006 to 2016, there were 265 recorded cases of violent attacks, including terrorist attacks, against overseas Chinese workers that led to the death of 619 people and the injury of 403 others.[6] The actual numbers could be much higher.

Strategies for Protecting China's Overseas Economic Interests

Threats to the safety of Chinese citizens and businesses abroad come in all forms and degrees of severity. The cases of Laos, Indonesia, and Iraq illustrate the different approaches China is using to protect its economic interests abroad.

Laos: Reliance on the Host Government

Laos is a stable country, but sporadic attacks on Chinese nationals and businesses have occurred in recent years. The Laotian government welcomes Chinese investment and has deployed its military to protect major Chinese projects in dangerous parts of the country.

As the seventeenth-largest recipient of Chinese investment, Vientiane has been welcoming of Chinese grants and low-interest loans.[7] By the end of 2016, China had provided financing for 764 projects in Laos; of those 552 were wholly Chinese funded while the remaining 212 were joint ventures.[8] In 2017, China had invested an additional $5.7 billion in Laos, according to data from the American Enterprise Institute's China Global Investment Tracker. China has also offered a number of "large-scale assistance projects free of charge," such as a bridge over the Mekong River at Houayxai, the Lao People's Revolutionary Party Central Committee headquarters, and programs to help Laos step up its internet surveillance capabilities.[9] The centerpiece of China-Laos economic relations is the Laotian section of the Pan-Asia Railway Network, a signature project of the BRI that is designed to connect all of mainland Southeast Asia, from Kunming to Singapore and from Yangon, Myanmar, to Ho Chi Minh City, Vietnam. The China-Laos section is 414 kilometers (257 miles) long, with an estimated cost of $5.8 billion. China is footing 70 percent of the bill.[10] This section is important to Beijing not only because it will provide China with new access to the ocean via Laos and Thailand, but it is also the only section where construction is moving ahead at full speed. For Laos, an impoverished and landlocked country, the completion of the China-Laos railway—along with another section linking the northeastern Thai city of Nong Khai (connected by a bridge to Vientiane) to Bangkok—is expected to bring substantial economic benefits.

Still, the Pan-Asia Railway Network has not been without controversies and setbacks. Compensation for Laotian villagers displaced by construction has yet to be delivered, and some critics have accused China of attempting to trap Laos into indebtedness.[11] In 2014, the Myanmar government cancelled the much-anticipated $20 billion Kunming-Yangon high-speed railway.[12] The eastern route connecting China's southern Yunnan Province and Vietnam is stalled due to Hanoi's mistrust of China's intentions.[13]

China's SOEs are also heavily invested in Laos's infrastructure, mining, and energy sectors. Currently, there are over three hundred Chinese-owned businesses operating in Laos, according to China's embassy in Vientiane. Gold, silver, copper, and other operations make up 50 percent of Chinese investment in the country.

Although Laos is generally a safe country, it is also host to a long-running insurgency dating from the Cold War era. Remnants of the Hmong army—about one thousand in total—have been waging a guerilla war against the communist government in Vientiane since 1975. The insurgents are most active in Xaisomboun Province, in the center of the country, which is home to the Phu Kham Copper-Gold Operation, the Ban Houayxai Gold-Silver Operation, and other smaller Chinese-owned projects.[14] In recent years, there have been a number of attacks on Chinese workers in Xaisomboun. The latest occurred in June 2017, when an unidentified gunman shot and killed a Chinese worker.[15] In January 2016, two Chinese employees of a mining company were killed in a bomb attack in the same province.[16] The Laotian government blamed the incidents on "bandits"—a blanket term for antigovernment forces.[17] However, Laotian informants quoted in an *Asia Times* report believed the attacks on Chinese workers in Laos might have been part of the Hmong insurgency's strategy to create tensions between Beijing and Vientiane.[18] According to a retired Lao military officer familiar with the situation, some Hmong are unhappy with Chinese resource extraction in their territory. Chinese road-building efforts have extended the government's presence to remote regions of the country, thus increasing the sense of vulnerability of Hmong antigovernment guerillas.

China's economic expansion is also stirring dissatisfaction among non-Hmong Laotians. Chinese companies prefer to bring in their own laborers, and disputes over compensation for land and other contentious issues have occurred between locals and Laotian officials, who are seen as representing the interests of Chinese businesses.[19] Chinese-funded housing developments in Vientiane have pushed residents to the capital's peripheries, again without adequate compensation. Moreover, while the Laotian government has been welcoming of Chinese investment and associated economic opportunities, a sense of public resentment is slowly developing. There is a perception that Chinese businesspeople in Laos do not care much about the concerns of ordinary Laotian people, and that Laotian businesspeople are preoccupied with promoting pro-growth economic policies and less so with the concerns of workers and residents.

Today, the Laotian military provides armed guards for all major Chinese-owned projects. Despite sporadic violence, the security situation is mostly stable and can be contained with indigenous forces led by local commanders. Still, because of the Laotian government's strict control over information, there is no detailed information available beyond the fact that the Laotian military is providing security to select Chinese businesses and worksites.

Chinese enterprises, protected by the Laotian military, view additional security personnel as unnecessary, especially because the presence of foreign security forces could fan discontent among the Laotian public. In fact, the first foray of China's People's Liberation Army into Laos in recent years had a distinctly soft-power objective: delivering medicine and medical care to members of the Laotian military, an institution that not only provides security for China's commercial interests in unstable parts of the country but wields significant political clout and influence over the future investment projects.[20]

Indonesia: Reliance on Local Security Companies

Anti-Chinese sentiments run deep in Indonesia, and there are concerns about growing Chinese economic influence in the country. The issue of illegal Chinese workers has become a point of contention between the current government and the opposition. China's influence on Indonesia's economy, along with the presence of legal and illegal Chinese workers, is likely to remain a contentious issue—especially in the months leading up to presidential and legislative elections in April 2019. In this tense political environment, Chinese companies have tended to rely mostly on local Indonesian security companies for their needs.

Jakarta and Beijing presently share warm ties. Indonesian President Joko Widodo, better known as Jokowi to his supporters, is a political outsider with an ambitious goal of liberalizing the Indonesian economy and modernizing the country's underdeveloped infrastructure. Since becoming president in 2014, Jokowi has made infrastructure a main focus of his economic policies. Jokowi's government is seeking $327 billion to modernize Indonesia's infrastructure, covering the building of roads, railways, airports, seaports, communication systems, and electricity plants and grids; funds are also needed to upgrade Indonesia's hospitals and schools.[21] Jokowi views China's technical expertise and financial capacity as helpful to Indonesia's growth goals, and his administration has welcomed Chinese investment. Under Jokowi's leadership, Indonesia has moved closer to China through its participation in the Belt and Road Initiative.

Indonesia's ethnic Chinese community—totaling 2.8 million—is one of the largest among the entire diaspora.[22] Still, ethnic Chinese make up only about 1 percent of Indonesia's 261 million people, although Chinese-Indonesians are well represented in Indonesia's trade and business sector. The country's largest conglomerates—the Astra Group, the Lippo Group, the Salim Group, and the Sinar Mas Group—were all founded and are currently operated by Chinese-Indonesian businesspeople.[23] Chinese-Indonesians have served as intermediaries for Mainland Chinese businesses attempting to capture the Indonesian market.[24] However, there have been tensions in these relations. In the past, Chinese-Indonesian fraudsters have targeted Mainland Chinese businesspeople.[25]

For its part, China has a keen interest in Indonesia's natural resources and also sees the potential of the Indonesian government's infrastructure blueprint. Presently, China is the second-largest investor in Indonesia (after Singapore), with most of its investment targeting infrastructure and mining.[26] The latest Belt and Road investment package was sealed in April 2018, when the countries signed five contracts totaling $23.3 billion under the BRI framework. According to the Jakarta Post, the projects include "a $2 billion hydropower plant in Kayan, North Kalimantan, a $700 million contract to develop facilities to convert coal to dimethylether and a $17.8 billion joint venture to build a hydropower plant on the Kayan river."[27]

Nevertheless, Chinese investment in Indonesia has actually been fluctuating in recent years due to Chinese concerns about the country's stagnating growth as well as rising political opposition to Jokowi's liberal economic policies. Chinese investment peaked at $7.9 billion in 2015, according to the China Global Investment Tracker, but dipped to $3.7 billion in 2016, before rebounding to $5.5 billion in 2017.

Security threats in Indonesia differ from Laos due to the existence of deep-seated, anti-Chinese sentiments in segments of society. Whereas racially based, anti-Chinese feelings are uncommon among Laotians, Sinophobia has been on repeated public display in parts of Indonesia, especially during periods of economic downturn, and has sometimes turned violent. From 1996 to 1999, violence against the country's Chinese minority broke out across Indonesia. Ethnic Chinese-owned businesses were looted and torched. More than one thousand ethnic Chinese were killed, and eighty-seven women, mostly of Chinese descent, were raped.[28]

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Anti-Chinese feelings resurfaced in Indonesia's political sphere in 2017 during the blasphemy trial of then Jakarta governor Basuki Tjahaja Purnama, better known by his Hakka

Chinese nickname Ahok. Islamists demanded that Ahok, an ethnic Chinese-Indonesian Christian, be publicly executed for allegedly making a derogatory comment about a Quranic verse. Ahok's conviction in May 2017, after which he was sentenced to two years in prison, emboldened the Islamists. In August 2017, Islamists in the province of East Java threatened to destroy a 30-meter-tall statue of a Chinese god, eventually forcing the government to cover the entire statue with a white sheet in an effort to de-escalate the tensions.[29]

Indonesia was ranked 96th out of 180 countries and territories in Transparency International's 2017 Corruption Perceptions Index, behind both China (77th) and neighboring Malaysia (62nd). Compounding endemic corruption, Indonesia's labor laws stipulate that foreign companies must hire ten locals for every foreign worker, which poses a challenge to Chinese businesses that prefer better-trained and more efficient Chinese workers who do not face, as do local workers, Chinese-language and cultural barriers. Although Chinese companies generally comply with Indonesia's labor laws, some firms have reportedly exploited the visa-waiver policy that permits Chinese passport holders to bring in Chinese workers.[30]

Chinese business owners are increasingly frustrated with the labor situation in Indonesia. In one survey, 80 percent of Chinese businesspeople in Indonesia believe labor problems delay project completion, more than 85 percent criticized interference from labor unions, and 96 percent said it was too hard to get work visas for Chinese workers.[31]

The labor issue is stirring up frustration among Indonesians as well. The number of Chinese workers in Indonesia that Jokowi has cited publicly is around 21,000. However, this number is likely higher due to Chinese companies skirting official channels to bring in their own workers. Indonesia's opposition parties have seized on the issue of Chinese migrant workers and accused Jokowi of being pro-China, thus reinvigorating long-standing anti-Chinese feelings, particularly among Indonesia's working poor. Nationalist politician Dede Yusuf has spread false stories that 50 percent of China's population is unemployed, and that Belt and Road projects are a way of creating jobs for them in Indonesia. The Islamic Defenders Front, which is staunchly anti-Chinese and anti-Christian, propagated the idea that Chinese workers are actually People's Liberation Army members in disguise and will one day occupy Indonesia.[32] Indonesian labor unions are also critical of Chinese workers. For example, the 750,000-strong Indonesian Trade Union Confederation stands firmly against what it deems "unskilled" or "low-skilled" illegal Chinese labor and has repeatedly called on the government to revoke visa-free entry allowances for Chinese citizens.[33]

Thus, in Indonesia, there is an informal alliance between anti-Jokowi old guards, nationalists, Islamists, and labor unions that are together manipulating popular anti-Chinese sentiment and concerns about growing Chinese influence to challenge Jokowi's liberal, pro-business stance.[34] Yet the future of Chinese investment hinges on the success of Jokowi's policies. With economic growth leveling off at around five percent, many Indonesians and foreign observers fear potential violence against Chinese workers and businesses in the event of an economic downturn.[35] Although riots in the past targeted mostly ethnic Chinese-Indonesian businesses, it is possible that organized violence and criminal acts can fall upon Mainland Chinese citizens and enterprises. Potential terrorist attacks on Chinese businesses are another ongoing security challenge, but the more pressing security concern for many Chinese workers and businesses remains the prospect of renewed mob violence.

Indonesians are both cautiously optimistic and openly concerned about Chinese investment.[36] While most Indonesians accept China's steadily growing economic presence, they also worry about China's intentions and fear overwhelming Chinese economic influence in the future.[37] As a result, China is likely to proceed with extreme caution when it comes to the growth of Chinese security companies in Indonesia for fear of inflaming anti-Chinese feelings and providing Jokowi's opponents with an issue to exploit.

Iraq: Reliance on Chinese and Western Security Companies

Iraq is a petrostate—with crude petroleum accounting for more than 90 percent of its exports while importing almost all of its daily necessities. Iraq's lucrative oil resources have captured billions of dollars of investment from China and other nations. The country's instability, however, forces foreign businesses to hire security companies with extensive experience. In Iraq, China uses a combination of Chinese and Western security firms to protect its economic interests.

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Oil is the linchpin of Iraq's ties to China, as is the case with Iraq's relations with most countries. Today, Chinese energy SOEs have a visible presence in Iraq's major oil fields. China is the biggest buyer of Iraqi oil, and China's big three petroleum SOEs—the China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), and Sinopec—all operate in Iraq. CNPC and CNOOC operate in Iraq's south, and Sinopec operates in the Kurdistan Region—areas responsible for more than 90 percent of Iraq's oil production.

However, because of the different types of contracts the SOEs operate under, the high risks do not automatically generate high profits. CNPC and CNOOC work on technical service contracts, whereby they bring in equipment and experts for drilling operations. Iraqi oil SOEs partnering with CNPC or CNOOC keep all petroleum revenues, whereas the Chinese corporations receive only a modest technical service fee for every barrel of oil produced. Chinese companies contracted to work on the Ahdab oil field have the highest technical service fee, at $3 to $6 per barrel. The lowest fee is in Halfaya, at $1.40 per barrel.[38]

In contrast, Sinopec—which acquired the Swiss company Addax Petroleum in 2009 and took over its production-sharing agreement in the Kurdistan Region—has a much better deal, one that allows it to keep 36 percent of the oil revenue minus a drilling royalty.[39] This lucrative contract, however, has entangled Sinopec in the tug of war over control of oil resources between Iraq's central government in Baghdad and the Kurdish regional government in Erbil. Iraq's central government bars foreign firms from signing oil and gas contracts directly with the Kurdistan regional government.[40] After Sinopec refused to terminate the production-sharing agreement it inherited in its acquisition of Addax, the Iraqi government blacklisted Sinopec from bidding on any other oil fields in the country.[41]

Iraq continues to top the list of high-risk investment destinations in Chinese risk-assessment reports.[42] Despite the recent drop in violence, terrorism, political instability, and social divisions are expected to pose significant threats to stability well into the future. War and instability are important factors influencing Chinese investment decisions. In 2013, the year prior to ISIS's offensive in northern Iraq, China invested over $2.5 billion in Iraqi projects, according to China Global Investment Tracker data. But in 2014, that number halved to $1.2 billion. As the unrest continued, the volume of investment shrunk again to $530 million in 2015. With Iraqi security forces regaining the upper hand in 2016, the number rebounded to $1.8 billion.

Although Chinese energy SOEs operate in relatively safe areas in southern Iraq and Kurdistan, they have not let their guard down. In the past, armed locals have assaulted Chinese compounds over minor disagreements.[43] The responses of Chinese companies have been varied. In one case, armed Chinese security personnel fought back and drove off the armed attackers. In another case, unarmed Chinese contractors simply stood by and watched armed locals plunder the compound. There have also been cases where Chinese companies have simply paid armed groups to go away.[44]

In light of the uncertain security environment in Iraq, Chinese companies generate considerable demand for security contractors, and many have adopted a mix of Chinese and foreign private security firms. Chinese companies hire Chinese contractors mostly because of language and cultural affinities as well as to protect commercial secrets. Still,

Table 1. Major Chinese Security Companies with Overseas Operations

	Africa	Asia	Europe	Middle East	North America	South America	Oceania
Beijing Dewei Security Service	●	●		●			
Beijing Dingtai Anyuan Guard & Technology Research Institute	●	●		●			
Beijing Guanan Security & Technology	●	●		●			
Huaxin Zhongan (Beijing) Security Service		●					
Shengzhen Zhongzhou Tewei Security Consultant	●	●					
Zhongguo Anbao China Security Industry	●	●	●	●	●	●	●

Source: Phoenix International's 2016 Ranking of Overseas Chinese Security Companies.

the experience and expertise of Western security companies are a valuable supplement. It is therefore common for companies to hire armed Western contractors, such as the British firms G4S Risk Consulting and Control Risks, to protect the external defense perimeters of a compound while having Chinese contractors guard the interior.

The Emerging Chinese Private Security Industry

Over the last several decades, globalization and the growth of trade has been a strong stimulant to the private security industry. The global demand for private security services is roughly $244 billion. China's overseas security market makes up only about $10 billion of that figure—but it is sure to grow as a result of the rapidly growing number of Chinese businesses operating overseas.[45] In 1979, only four China-based companies maintained overseas operations; by 2015, that number had grown to forty thousand.

Phoenix International, a Chinese think tank, divides the security companies providing services to Chinese companies abroad into four categories: large, transnational security companies headquartered in developed, mostly Western countries; large native Chinese security companies; small Chinese companies; and the security companies of host countries.[46]

Large transnational security companies headquartered in developed, mostly Western countries were the first to offer their services to Chinese companies operating overseas. These companies maintain worldwide networks—G4S has 120 branches worldwide, and Control Risks operates thirty-six offices. Their China offices cater primarily to the needs of large Chinese SOEs. Professionally managed, the annual revenues of large transnational security companies are in the billions and capture the majority of China's overseas security market. In contrast, homegrown Chinese security companies account for just 10 percent of this market.[47]

Headquartered in the major coastal cities, China's large private security companies maintain offices in lucrative markets outside the country. (Table 1 provides a list of some of China's best-known private security companies.) Most provide services to Chinese SOEs and private Chinese corporations. Overall, the fees charged by large Chinese security companies are competitive compared to Western firms such as G4S. The revenues of large homegrown security companies are normally above ¥1 billion ($150 million) annually. From 2012 to 2017, Beijing Dewei Security Services, one of the leading Chinese security companies, has protected $9.6 billion worth of China's overseas assets and provided security services to more than 150 Chinese institutions, companies, and projects abroad.[48] In 2017, Dewei had 325 Chinese contractors working abroad while employing more than three thousand host-country contractors worldwide. Large Chinese security companies such as Dewei are steadily improving their business operations and management, which is in turn contributing to their gradual increase in market share.

By contrast, small Chinese security companies generally cater to companies that have relatively modest security budgets. Small Chinese security companies typically generate above ¥1 million ($150,000) in revenues per year. These smaller security companies tend to suffer relative to their larger counterparts from less professional management and are far more dependent on personal connections to build their client bases. In some cases, they have been accused of dispatching personnel abroad without proper visas and work permits.

Security companies of host countries provide services to both Chinese SOEs and private companies. These companies rely heavily on local networks to connect with potential Chinese clients, and they sometimes partner with Chinese security companies on joint-venture contracts. According to Phoenix International, although host-country companies frequently charge lower fees, their business practices and expertise often do not measure up to accepted international standards.

Apart from the firms that specialize in training bodyguards and providing personal security services, China's larger security companies can be well-rounded in their expertise, providing an array of services from risk assessments, security consultations, and background investigations to personnel and security training, maritime security, and compound defense. Yet several factors place Chinese security companies at an operational disadvantage compared to non-Chinese companies.

Given a lack of personnel who speak fluent or even conversational Arabic or English, many Chinese firms face difficulties communicating with locals. This is compounded by the generally low level of educational attainment of many Chinese contractors: many are military and police veterans with, at most, a high school education.[49] In addition, China currently lacks programs that help military veterans or young people interested in becoming security contractors with much-needed training and education before they enter the private security industry.

Chinese contractors are also underpaid compared to their Western counterparts. The average annual salary of a Chinese security contractor is a little over $40,000, a fraction of the potential salary commanded by contractors working for Western companies (although still an attractive salary in China, where the average annual salary for an urban employee is just under $10,000).[50]

China's rigid laws on the personal ownership of weapons creates another, significant disadvantage for the country's security contractors. Firearms are heavily regulated, and even the ownership of sharp, metal objects such as swords and knives is closely monitored. Since Chinese security contractors are private citizens, they are generally prohibited from carrying firearms and other weapons, which clearly limits their ability to protect Chinese workers and property abroad. China's stringent control over the private ownership of weapons is rooted in the state's insecurity regarding an armed population. On paper, gun ownership is allowed under strict circumstances; but in reality it is nearly impossible, especially for individuals in the private sector.[51] These restrictions make it difficult for Chinese security companies operating in high-risk areas to bring firearms from China. As a result, Chinese security contractors working in dangerous areas in Libya and Iraq have armed themselves by acquiring weapons from local sources.[52]

In 2010, wary of the existence of armed, well-trained, and highly organized paramilitary groups controlled by private interests, China implemented its Regulation on the Administration of Security and Guarding Services, which stipulated that the state must wholly own or be the controlling shareholder of any armed security company.[53] Thus, the Chinese private security companies that are permitted to carry weapons are administered and supervised by the state. In other words, none of China's private armed security companies are wholly private: they are controlled by the state, either through its status as a majority shareholder or by way of its public security bureaus.

China is also concerned about the anxiety that the presence of armed Chinese security companies might cause in the countries that are the focus of its Belt and Road Initiative. The Belt and Road Initiative was meant to improve China's image around the world. Yet, while the BRI has undoubtedly improved the economic prospects of many developing countries, the influx of Chinese investment and businesses has also harmed the interests of indigenous enterprises and caused concern among locals who are wary of China's intentions.[54] As a result, at least in some cases, the BRI has negatively shaped perceptions of China and its economic influence. For example, the CEO of the Pakistan Business Council said that rising Chinese imports have hurt local industries and referred to the much-hyped China-Pakistan Economic Corridor—the Chinese-financed initiative to build transportation and energy infrastructure in Pakistan—as a potential "Trojan horse."[55] In countries like Indonesia, where ethnic Chinese tycoons have traditionally dominated various sectors of the economy, increasing BRI investment has caused worry among locals uncertain about China's political influence that comes with BRI investment packages.

This, in turn, could touch off unintended conflicts that could cause great harm to the BRI's overall success. Chinese policymakers remember the case of the American private security firm formerly known as Blackwater, whose employees shot and killed seventeen Iraqi civilians in Baghdad in September 2007. This incident, which drew worldwide condemnation, strained US-Iraq relations and tainted the United States' image in the Muslim world. Thus, rapid, uncontrolled growth of armed security companies is not an appealing prospect to China's leaders.

Chinese policymakers remember the case of the American private security firm formerly known as Blackwater, whose employees shot and killed seventeen Iraqi civilians in Baghdad in September 2007.

Conclusion

China employs three strategies for safeguarding its commercial interests abroad: relying on the host country's government for security needs (as in Laos), hiring local security companies (as in Indonesia), or employing a combination of Western and Chinese security firms (as in Iraq). In the coming years, if the Belt and Road Initiative continues to grow and create additional demand for security services, Chinese security companies will likely take on an even larger role in protecting China's assets abroad. However, it will take a while before Chinese homegrown security companies catch up with their large competitors in the West—not just in terms of their operational expertise and reliability but in terms of their share of the global market for security services.[56]

Besides the stiff international competition, domestic political considerations will influence the growth of Chinese security companies. As a political organization that came to power via a prolonged armed struggle, one of the Chinese Communist Party's greatest fears is having paramilitary groups outside its absolute control. Despite the state's pronounced influence in the private security industry via its majority stakeholder status and regulatory power, private control of highly trained security professionals is nonetheless an ongoing source of concern.

The Chinese state sees homegrown security companies as useful in protecting Chinese interests abroad, and the country's private security industry will likely continue to receive cautious government encouragement. However, should the demand for overseas security services recede, Chinese security companies can expect Beijing to enact new laws to regulate and limit their growth, with the goal of preventing any large security company from posing a threat to the state's total authority in security matters within and beyond China's borders.

Notes

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