POLICY BRIEF

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Private Security Companies in Kenya and the Impact of Chinese Actors

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POLICY POINTS

The Kenyan government needs to resolve wage and training disputes within the security sector and work with labor unions and the private security industrial association to balance conflicts between PSCs of different sizes.

The Chinese government should develop a integral regulatory framework emphasizing a systemic guarantee of security management and emergency response processes.

Chinese PSCs need to actively participate in industrial associations and increase local hiring, risk management efforts, public relations engagement, and community involvement.

JOHNS HOPKINS SCHOOL of ADVANCED INTERNATIONAL STUDIES

WITHOUT THE PEOPLE'S LIBERATION ARMY'S (PLA) PROTECTION overseas, who should provide security for Chinese companies and citizens? How do host countries and private actors contribute to public security in Africa? Are current business models among Chinese private security companies (PSCs) sustainable, and to what extent have Chinese actors penetrated the local market? This policy brief examines the development and impact of Chinese PSCs in Kenya. Summarizing field interviews with different stakeholders, the analysis focuses on the legal, policy, governance, and oversight issues that private contracting raises in both China and Kenya. Compared with the unprecedented pace of growth in China's investment in Africa, Chinese engagement in overseas security protection is far behind other sectors. Lack of market share is due to fierce competition among PSCs and Chinese investors' ignorance about security needs. While Western PSCs' sophisticated security solutions have squeezed Chinese PSCs out of the market, the low awareness on behalf of Chinese investors (both state-owned and private-owned) has led their security budgets to dry up quickly. Besides a trade and investment presence in Africa, Chinese policymakers should develop a more integral regulatory framework emphasizing a systemic guarantee of security management and emergency response processes.

THE RISE OF THE PRIVATE SECURITY INDUSTRY

ON THE AFRICAN CONTINENT, THE GROWTH OF CRIME and the rise of the private security industry has coincided with the erosion of state capacities and services. As a result, there is a large gap between the supply and demand sides of the private security market. On the demand side, declining government expenditures associated with structural adjustment requirements have resulted in the deterioration of the quality of public services, including the provision of law and order. Although the global average police to civilian ratio is 1:400, Kenya has a 1:1,250 ratio.[1] People from the developing world have come to rely on external sources, especially private providers, for their daily security needs. On the supply side, private security has become a lucrative market for both local and transnational companies. Estimates suggest that the number of private security guards across Africa is now more than double that of police and government security forces. The global market for private security services, including private guarding, surveillance, and armed transport, was worth an estimated US$ 180 billion in 2016 and was projected to grow to US$ 240 billion by 2020.[2]

CHINA: A NEWCOMER & REGULATORY CHALLENGES

FOLLOWING THE RAPID EXPANSION of China's commercial and political activities in Africa, Chinese citizens and assets have become exposed to threats from transnational terrorism, civil unrest, and anti-Chinese sentiment, making security a priority in the African continent. According to the Ministry of Foreign Affairs, about 30,000 Chinese enterprises are located overseas and more than 100 million Chinese citizens travel abroad annually. From 2006 to 2016, there were about 300 recorded cases of violent attacks, including terrorist attacks, against overseas Chinese workers that led to nearly 1,000 deaths and injuries.[3] The actual numbers, as opposed to those officially recorded, could be much higher. Those incidents catalyzed changes in China's foreign policy, materialized by the concept of "protecting overseas nationals" in the 18th National Congress's priority list. For the time being, the PLA is not deployed overseas to protect Chinese companies and citizens. As a result, Chinese private security companies are stepping in to fill this security vacuum.

Figure 1: Chinese Private Security Sector Development Timeline

2004	The first Chinese private security company, Hua Xin Zhong An (华信中安保安服务有限公司) established
2009	"Regulation on the Administration of Security and Guarding Services" (保安服务管理条例) passed, legalizing the private security sector in China for the fist time
2010	First overseas security unit in China set up by Chinese PSC Shandong Huawei Security Group (山东华威保安集团)
2011	"Work Safety Regulations on Chinese-Invested Enterprises and Organizations Overseas" issued by MOFCOM
2016	Xi Jinping emphasized the importance of overseas security protection in a forum promoting the BRI's construction work
2017	"Several Opinions on Improving the Safety of Overseas Enterprises and Outbound Investments" had been adopted at the 36th meeting of the Central Leading Group for Comprehensively Deepening Reform
2018	2nd edition of "Guidance on the Safety Management of Overseas Chinese-funded Enterprises, Institutions and Personnel" issued by MOFCOM

Source: MERICS China Monitor, "Guardians of the Belt and Road", 2017.

The regulation of Chinese PSCs only started recently and has yet to be fully developed. Summarized by a report from the Mercator Institute for China Studies, the strengthening of security regulation in China's global engagement presents challenges for both Africa and traditional Western PSCs.

As the MERICS' report points out, the blurry line between public and private entities in China complicates matters for host governments. Staffed by former PLA officers, Chinese PSCs tend to operate with the Chinese government's implicit support and encouragement. Chinese PSCs in foreign markets are in "a legal grey zone" since Chinese domestic law and international law regulations do not apply to their activities. The absence of precise regulations governing PSCs' overseas activities at a domestic level has turned China into an outlier among countries with an active private security sector. China's use of PSCs to protect its overseas interests is risky. Due to their relative inexperience, there is a high potential for mistakes that could create a political backlash.

MAPPING THE PRIVATE SECURITY MARKET IN KENYA

PRIVATE SECURITY IS ONE OF THE BIGGEST employment sectors in Kenya, with about 2,500 registered private security firms that employ nearly 500,000 security guards. However, our fieldwork indicates that only 600 companies are currently active, of which about 150 are transnational firms. The other 1,900 companies, mostly Kenyan, are collapsing due to the non-payment problem. Transnational firms control most of the market share, among which K.K. Security and Group 4 Securicor (G4S) take the lead. They compete in a wide range of customer sectors crossing mining, oil and gas, retail, energy, agriculture, and financial services. Within this market, only five Chinese owned PSCs are currently active.

A private security company usually has four major business types: armed transportation and logistics, manned security services, risk consulting, and tracking services. The biggest profit margins are generated from transportation and tracking services, while manned security contributes the most in creating jobs. In recent years, PSCs have been increasingly competing for cooperation with Chinese companies like Huawei and large construction state-owned enterprises (SOEs). However, Chinese companies have not become Western PSCs' major clients yet.

CHINESE PSCS IN KENYA

CURRENTLY, CHINESE PSCs ONLY OPERATE in the logistics and manned security sectors in Kenya. There are five Chinese private security companies in Nairobi: DeWe Security, Frontier Service

Group (FSG), China Security Technology Group (CSTG), Dragon Security, and Riskon International (*Ke Wei Ke Xian*). Of these, only the first three are still active in the market, while Dragon has suspended operations and Riskon appears to exist only on paper. Dragon Security's suspension is due to staff work permit issues.

Table 1: Summary of the Five Registered Chinese PSCs in Kenya

Company	Legal Status	No. Employees	Business	Local Registry Completed	Training Academy in China	Parent Company in China	Other Branches in Africa
Frontier Service Group	Corporation	~400	Logistics (Aviation)	In process	Yes	Yes (Hong Kong)	Yes
Beijing DeWe Security Services	Partnership	~2,000	Manned Security	Yes	Yes	Yes (Beijing)	Yes
China Security Technology Group	Corporation	~50	Manned Security	Yes	No	Yes (Hong Kong)	Yes
Dragon Security	Partnership	~10	Manned Security	In process	No	No	No
Riskon International	Sole Proprietorship	~5	Risk Consulting	No	No	No	No

Case 1: CSTG's Registration Experience

AS A TYPICAL CHINESE PSC, CSTG IS CHARACTERIZED by its' small business scale, PLA military background of its founders, strong national government connections of the parent company, and a project-oriented operation in foreign markets. In most cases, Chinese PSCs only provide services to a foreign country to meet client needs, often project-based, and leave as soon as the project is finished. CSTG, however, chose to localize in order to seize opportunities arising from a growing Chinese presence in Kenya. Localization can overcome cultural obstacles and help Chinese PSCs avoid potentially detrimental cultural *faux pas*. However, restrained by Kenya's "Private Security Regulation Acts" and minimum wage requirement, business localization and legalization have turned out to be a long process in Kenya. The main challenge for a newly registered foreign PSC is the difficulty expanding business scale. Most Chinese companies are located remotely in suburban areas; thus, most choose to work with the closest PSCs to cut costs. Consequently, CSTG's "targeting at Chinese clients" strategy does not work. It has not joined any industrial association because it is too small to meet the minimum membership requirements. Such professional isolation has meant that CSTG cannot keep up with Kenyan policy changes and makes it difficult to establish a solid reputation or build a mutual relationship with local communities.

Case 2: The SGR, CRBC and DeWe Security

IMPLEMENTED BY CHINA ROAD and Bridge Corporation (CRBC), SGR is the largest infrastructure project in post-independence Kenya, worth US$ 3.2 billion. SGR's security work was divided into two stages, construction and operations, which have both involved DeWe's participation. Three important takeaways: First, DeWe's security plan during the construction period shows a strong resemblance to PLA's military deployment. In this setting, private security is not simply a junior partner to the state but instead acts as a key component in state forces' operations. Second, operations where CRBC is working with the Kenyan government, PSCs, and the police force require a high degree of cultural sensitivity and diplomatic skills, which is a delicate task. Finally, Kenyan police are paid supplementary wages by the Chinese company, supervised by local PSC officers, but continue, in principle, to take orders from their Kenyan police commanders. This creates a contradiction between public and private authority and responsibility.

Case 3: FSG and CITIC's Grand Strategy

FSG IS A HONG KONG-BASED COMPANY founded by Erik Prince, the former U.S. Navy SEAL who created Blackwater. After China International Trust Investment Corporation (CITIC) acquired the majority share in 2015, Prince became the vice-chairman, and CITIC started to take the lead in actual operation. As an SOE, CITIC's involvement reflects the Chinese government's concern over overseas Chinese enterprises' property and personnel. In 2018, the company announced that new investments from shareholders "will be utilized to expand Frontier's global office footprint, expand teams, grow its asset base, and support operational working capital requirements for projects across the Belt & Road."[4] FSG's security services in Kenya are all in the early stages, and it has not yet shown continuous profits. The main challenge comes from the limited security budget most

Chinese investors have. The cooperation between Prince and CITIC has shown how a lack of understanding of local politics and sensibilities has prompted Chinese PSCs to seek foreign partners when undertaking overseas projects.

POLICY RECOMMENDATIONS

CHINESE POLICYMAKERS DO NOT HAVE A FIXED blueprint for overseas security management, but rather tend to respond to on-the-ground emergencies. DeWe's success in Kenya appears to be "a one-time thing" and Chinese PSCs still have a long road ahead before they are deemed to have successfully penetrated the Kenyan PSC market. The investment barrier comes from three sources: institutional voids left by Kenya's security privatization process, China's immature overseas security regulations, and Chinese investors' low awareness of how to manage security affairs.

For the Kenyan government:

- Resolve current disputes, including those pertaining to training curriculum design, the minimum wage, and whether security guards should or should not be armed.
- Work with labor unions and the private security industrial association to balance the conflicts between small local PSCs and large transnational PSCs.

For the Chinese government and enterprises:

- Develop a integral regulatory framework emphasizing a systemic guarantee of security management and emergency response processes.
- Increase both security budgets and foresight to understand security needs in overseas markets.

For Chinese PSCs:

- Actively participate in industrial associations, making policy lobbying a common practice.
- Achieve localization by increasing local hiring, risk management efforts, public relations engagement, and community involvement. ★

ENDNOTES

1. Kenneth Omeje and John Mwangi Githigaro, "The challenges of state policing in Kenya," *Peace & Conflict Review* 7, no.1 (2012).
2. Private Security Services Market Worth USD 68.74 Billion, at 6% CAGR During 2018-2022, Technavio, June 27, 2019, https://www.businesswire.com/news/home/20190627005578/en/.
3. Zi Yang, "Securing China's Belt and Road Initiative," United States Institute of Peace, 2018.
4. Marc Cohen, "Frontier Services Group - Strategy Update & Capital Raise," PRNewswire, March 5, 2018, https://www.prnewswire.com/news-releases/frontier-services-group---strategy-update--capital-raise-675798833.html.

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THE SAIS CHINA-AFRICA RESEARCH INITIATIVE at the Johns Hopkins University School of Advanced International Studies (SAIS) in Washington, D.C. was launched in 2014. Our mission is to promote research, conduct evidence- based analysis, foster collaboration, and train future leaders to better understand the economic and political dimensions of China-Africa relations and their implications for human security and global development.

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