China's Rising Investment Profile in the Caribbean

RICHARD L. BERNAL*

INTER-AMERICAN DIALOGUE

Over the past decade, China has become an increasingly important source of investment for developing countries, both in terms of foreign direct investment (FDI) and investment financed by loans and grants from China's state-owned banks. China's investment in the Caribbean is still minimal, however, especially when excluding sizeable flows to the Cayman Islands and British Virgin Islands.[1] And it is largely directed toward securing supplies of raw materials and developing infrastructure, including the construction of buildings, stadiums, and roads.[2] Opportunity exists to increase Chinese investment in the Caribbean, however, especially by means of a collective regional approach.

After two decades of rapid growth, China has become the second largest economy in the world, projected to surpass the US in terms of GDP within the next decade. With its economic ascent, it has amassed considerable reserves from increases in exports, substantial inflows of capital, and a carefully managed exchange rate regime. China's reserves fuel more than $74 billion of FDI in emerging markets,[3] including about $15 billion (or 9 percent of total FDI)[4] in Latin America and the Caribbean. Investment abroad is expected to increase in the coming years as China expands its economic presence.[5]

Although active in the Caribbean for years, much of China's early involvement was tied to ongoing diplomatic competition with Taiwan. More recently, China has established itself as a significant economic partner in the region. Imports of Chinese goods have grown steadily since 2000.[6] Burgeoning capital flows are even more impressive. Over the past five years, Chinese state banks have established themselves as the leading lenders in the region. By 2010, China had extended more than

* These are the views of the author and not those of the Inter-American Development Bank or its member states.

[1] Large pools of capital exist in these countries mostly because they are used for "round-tripping," the practice of sending money out of China and then bringing it back as foreign investment so as to gain the benefits of special concessions and lower taxes. Capital flight (mainly to Hong Kong) that is repatriated may have accounted for an additional 20 to 30 percent of FDI. Although Sutherland and Matthews (2009) note that some capital in these locations may represent legitimate and long-term investments, the flows cannot be accurately identified using existing statistics. For this reason, this paper has not included FDI from China to the Cayman Islands and the British Virgin Islands in estimates of regional FDI. Given the limitations of available data, regional statistics presented throughout should be interpreted as a conservative estimate of FDI in the Caribbean originating from the People's Republic of China (therefore excluding FDI from Hong Kong, Macau, and Taiwan).

[2] Richard L. Bernal, "Dragon in the Caribbean: China-CARICOM Economic Relations," Round Table, Vol. 99, Issue 408 (June 2010), pp. 281-302.

[3] "China's 2011 outward investment growth slows to 8.5 percent," Reuters, Aug. 30, 2012. http://uk.reuters.com/article/2012/08/30/china-economy-investment-idUKL4E8JU2MW20120830

[4] "Foreign Direct Investment in Latin America and the Caribbean," ECLAC, 2010, p. 99. http://www.eclac.org/publicaciones/xml/0/43290/Chapter_III._Direct_investment_by_China_in_Latin_America_and_the_Caribbean.pdf

[5] Chinese Communist Party 12th Five Year Plan (2011-2015).

[6] ECLAC, "China and Latin America and the Caribbean: Building a strategic economic and trade relationship," 2012, pp. 65-119.

FOREWORD

The Inter-American Dialogue is pleased to publish this issue brief prepared by Richard Bernal, senior counselor for the Caribbean region at the Inter-American Development Bank. As former Jamaican ambassador to the United States and permanent representative to the Organization of American States, Bernal has written and spoken widely on development policy, prospects for economic growth, Caribbean trade relations and China's expanding presence in the region. This brief examines China's growing role as an economic partner in the Caribbean, with a specific focus on Chinese foreign direct investment.

Bernal's paper is the fifth in a series of economics briefs published by the Inter-American Dialogue's China and Latin America Program. Previous contributors to the series have addressed such topics as China's approach to renminbi internationalization in Latin America, China's free trade agreements in Peru and Chile, commodities-related trends in the region, and the competitiveness of Asian and Latin American cities. We are pleased to recognize Open Society Foundations and The Henry Luce Foundation for their assistance in publishing this and forthcoming China and Latin America economics briefs.

Margaret Myers
Director, China and Latin America Program

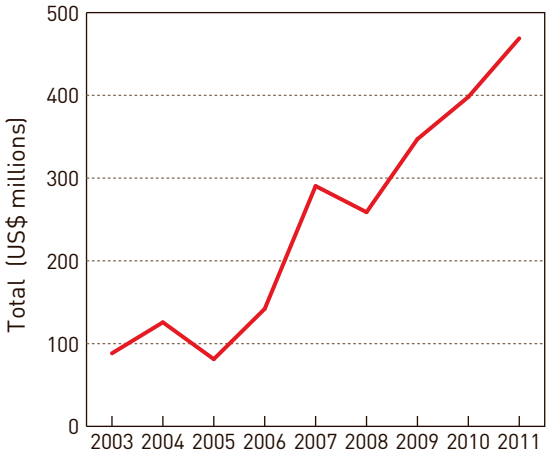
Michael Shifter
President

$35 million in credit to the Caribbean, primarily through grants and loans for large-scale public works projects.[7]

China's FDI increased by more than 500 percent in relative terms between 2003 and 2011, with estimated stock of Chinese FDI in the region totaling almost $500 million in 2011.[8] Chinese companies have initiated ventures in more than dozen Caribbean countries. Cuba, Guyana, Suriname, and Jamaica stand out as the most important destinations for investment.[9]

Rising levels of FDI reflect deepening economic engagement between China and the Caribbean over the past two decades. Beijing signed a series of bilateral investment treaties (BITs) with Cuba, Jamaica, Belize, and Barbados

Figure 1. Total Chinese FDI Stock in the Caribbean, 2003–2011



Source: Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

[7] Kevin P. Gallagher, Amos Irwin and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," Inter-American Dialogue Report, 2012.

[8] Extrapolated from data available in the Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

[9] Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

Table 1: Chinese FDI Stock in the Caribbean by Country, 2003–2011 (US$ millions)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011
Antigua and Barbuda (PRC)	0.20	0.20	0.40	1.25	1.25	1.25	1.25	1.25	4.84
Bahamas (PRC)	44.45	80.10	14.69	17.52	56.51	0.60	1.60	1.60	1.60
Barbados (PRC)		1.87	1.65	2.01	2.42	3.25	6.00	3.88	3.13
Belize (PRC)				0.02	0.02	0.08	0.08		
Cuba (PRC)	13.95	14.85	33.59	59.91	66.49	72.05	85.32	68.98	146.37
Dominica (PRC)				0.70	0.70	0.70	0.70	4.15	8.15
Dominican Republic (ROC)						0.60	0.12	0.12	0.12
Grenada (PRC post-2005)				4.03	7.53	7.65	7.65	14.25	14.54
Guyana (PRC)	14.04	12.86	5.60	8.60	68.60	69.50	149.61	183.71	135.13
Jamaica (PRC)				0.02	0.02	2.16	2.16	4.37	39.07
St. Vincent / the Grenadines (ROC)	5.60	5.60	12.27	14.92	20.80	32.49	23.03	36.19	36.20
Suriname (PRC)	10.06	10.25	13.02	32.21	65.28	67.70	68.80	78.84	78.84
Trinidad and Tobago (PRC)				0.80	0.80	0.80	0.80	0.80	0.90
Total	**88.30**	**125.73**	**81.22**	**141.99**	**290.42**	**258.83**	**347.12**	**398.14**	**468.89**

Note: PRC refers to the People's Republic of China; ROC refers to the Republic of China (Taiwan).

Source: Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

in the 1990s and with Trinidad and Tobago, Guyana, and the Bahamas in the 2000s. High-level Chinese delegations and investment missions (some involving the China Development Bank) have visited the Caribbean to identify projects, and a 2011 Ministry of Commerce, Ministry of Foreign Affairs, and National Development and Reform Commission guide for Chinese investors[10] lists certain Caribbean states as global investment destinations.

Drivers of Chinese Investment in the Caribbean

China's economic activity in the Caribbean has historically been driven by so-called checkbook diplomacy,[11] or aid-based political competition with Taiwan.[12] Caribbean countries represent a voting bloc in institutions like the United Nations, making them attractive to China as it promotes foreign policy interests. For this reason, and perhaps to demonstrate its commitment to "South-South" cooperation, China reportedly is expanding the size of its official missions in many Caribbean countries.[13]

Diplomatic competition between China and Taiwan[14] continues to influence Chinese investment. Despite an informal diplomatic truce in place since the election of Taiwanese president Ma Ying-Jeou in 2008, China invests most often in countries that recognize the People's Republic of China (PRC) as the sole legitimate Chinese government (see Figure 2).[15] When Grenada switched allegiance to establish diplomatic relations with the PRC in 2005, inward FDI from China ballooned; from almost nothing, it rose to

[10] China's 2011 Overseas Industry Investment Guide (对外投资国别产业指引) was published in September 2011 by China's Ministry of Commerce, Ministry of Foreign Affairs, and National Development and Reform Commission.

[11] Juan Gabriel Tokatlian, "A View from Latin America" in Riordan Roett and Guadeloupe Paz (eds.), *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Washington DC: Brookings Institution, 2008) p. 65.

[12] Daniel Erikson and Janice Chen, "China, Taiwan, and the battle for Latin America," *Fletcher Forum Of World Affairs*, 2007, 31:69.

[13] Benedict Mander and Robin Wigglesworth, "China steps up its Caribbean strategy," *Financial Times*, May 20, 2013. http://www.ft.com/intl/cms/s/0/678d99d2-bbc7-11e2-a4b4-00144feab7de.html

[14] The rivalry extends to Central America and the Pacific. See Richard L. Bernal, "China and Small-Island Developing States," African East-Asian Affairs, *The China Monitor*, Issue 1 (August 2012) pp. 3-30.

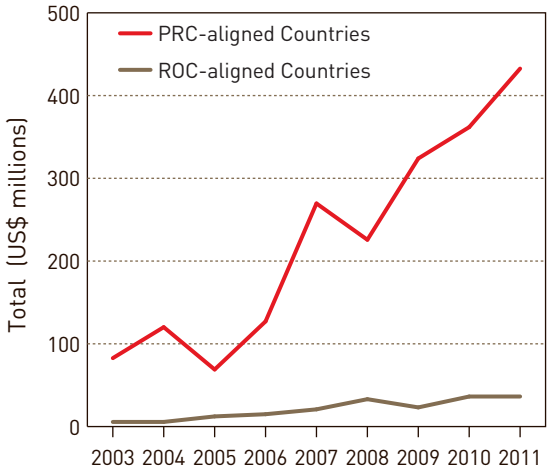
[15] Richard L. Bernal, "Dragon in the Caribbean. China-CARICOM Economic Relations, Round Table, Vol. 99, No. 408 (June 2010) pp. 281–302.

more than $14 million in 2011.[16] The promise of Chinese economic engagement has made PRC affiliation an increasingly attractive option[17] for the few remaining Taiwan supporters in the Caribbean[18] and Central America.

China's agenda in the Caribbean now more closely approximates its interests in Latin America and Africa, however. Chinese firms are increasingly active in natural resources and infrastructure sectors, and are seeking avenues to employ Chinese equipment and construction teams.

With China's expanding population and rapid economic development comes a growing demand for energy and food. As they have elsewhere in the Western Hemisphere, Chinese companies have shown escalating interest in the Caribbean's natural resources and agricultural sectors. In 2011, Chinese national oil company CNPC began a $6 billion expansion of Cuba's Cienfuegos oil refinery.[19] Chinese state-owned enterprises have also established stakes in Trinidad and Tobago's offshore oil industry.[20] Activity by the Chinese government and its firms in global resource sectors reflects an effort to secure access to raw materials and lucrative construction contracts.

Figure 2. Chinese FDI in PRC and ROC-aligned Countries, 2003–2011



Source: Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

The Chinese company Bosai Minerals Group purchased a controlling 70 percent stake in Omai Bauxite Mining, Inc. in Linden, Guyana, in December 2006 for $100 million. (The government of Guyana retained 30 percent ownership.) Bosai Mining, a privately owned firm based in Chongqing, will link Guyanese operations to annual production of 400,000 tons of refractory bauxite, making Bosai the largest bauxite producer in the world.[21]

Agricultural investment is especially evident in Jamaica where, in 2011, Chinese company Complant International acquired three sugar factories and leased 30,000 hectares of cane fields. In August 2011, Complant began injecting a proposed $156 million over four years into improvements in fields and factories. The corporation plans additional investment in a new refinery to process 200,000 tons of raw sugar per annum.[22] China Zhong Heng Tai Investment (CHZT), meanwhile, has claimed a stake in palm oil production in Suriname.[23]

As in other regions of the world, Chinese firms in the Caribbean also focus to a considerable extent on infrastructure development. Multiple deals have been negotiated in the transportation sector. Chinese Communications Construction Company is involved in harbor construction in Jamaica and the shipbuilding industry in Guyana while China Harbour Engineering has reportedly expressed

[16] Chinese Statistical Bulletin of Outward Foreign Direct Investment, 2011.

[17] When Dominica switched allegiance to Beijing it received commitments of grants amounting to $122 million, approximately one-third of GDP. "A Chinese beachhead?" *The Economist*, March 10, 2012.

[18] The countries that do not have diplomatic relations with China are Belize, the Dominican Republic, Haiti, St. Kitts, St. Lucia, and St. Vincent.

[19] "China signs letter of intent to redo Cuban refinery," Reuters, June 5, 2011. http://www.reuters.com/article/2011/06/05/cuba-china-idAFN0519986820110605

[20] "T&T, China Talk Trade and Energy," *Trinidad Express*, May 21, 2013. http://www.trinidadexpress.com/business/TT-China-talk-trade-energy-208416111.html

[21] "Bosai Mining acquires South America bauxite mining company," *Mining Top News*, Dec. 21, 2006. http://www.miningtopnews.com/bosai-mining-acquires-south-america-bauxite-mining-company.html

[22] Luke Douglas, "Govt. seals sugar deal with Complant. Chinese company investing US$156m in industry," *Jamaica Observer*, August 16, 2011, and Jamaica Information Service, "J$8b Sugar Divestment Agreements Signed Between Government and Chinese Investors," Aug. 2, 2010. http://www.jis.gov.jm/news/opm-news/24875

[23] "Suriname's Palm Oil Sector to be Rehabilitated," Agritrade, July 5, 2011. http://agritrade.cta.int/Agriculture/Commodities/Oil-crops/Suriname-s-palm-oil-sector-to-be-rehabilitated

interest in developing Trinidad's shipbuilding and dry-docking capabilities.[24]

Chinese banks have also entered the Caribbean's robust tourism industry. In February 2011, construction began on the 3,800-room Baha Mar, a $3 billion resort in Nassau, Bahamas, financed by the Export-Import Bank of China.[25] The Bank of China and the Foreign Trade Bank of China will provide $462 million in financing for the Punta Perla tourism complex in the Dominican Republic, a project spearheaded by Spanish investors.[26]

Large-scale overseas construction projects are of considerable interest to both state-owned and private Chinese firms, which seek opportunities to employ their underutilized service teams. The use of Chinese construction firms is often stipulated as a condition of financing. The Baha Mar project alone has employed some 5,000 Chinese construction workers.[27]

More Chinese Investment in the Caribbean?

China continues to express interest in deepening ties with the Caribbean. President Xi Jinping's visit to Trinidad and Tobago in May 2013 was viewed as an indication of China's ongoing commitment to the region.[28] The Caribbean faces competition for Chinese investment, however, most notably from neighbors in Latin America. Higher wages, modest resource endowments, and smaller markets relative to Latin America make the Caribbean less attractive as a destination for Chinese capital.

[24] "China Harbour To Invest US$1.5 Billion in Development Of Transshipment Port In Jamaica," *Jamaica Gleaner*, May 1, 2013. http://jamaica-gleaner.com/extra/article.php?id=2424

[25] M. Whitfield, "China is financing $3 billion resort in the Bahamas," *Miami Herald*, February 23, 2010.

[26] Amber Coast Realty, "Dominican Tourism Project financed by China," February 20, 2011.

[27] M. Whitfield, "China is financing $3 billion resort in the Bahamas," *Miami Herald*, February 23, 2011.

[28] "China's president makes ever first to Trinidad," Yahoo News, June 1, 2013.

Further business opportunities in areas of strategic interest still exist for companies like China National Petroleum Corporation, China Communications Construction Company, China State Construction Engineering, and their subsidiaries. By establishing solid working relationships with Caribbean governments and the private sector, state-owned enterprises can also pave the way for investment by small and medium-sized firms.

Higher wages, modest resource endowments, and smaller markets relative to Latin America make the Caribbean less attractive as a destination for Chinese capital.

As Chinese investors look for new opportunities, Caribbean governments will need to advance beyond traditional trade and investment to offer prospects in areas such as entertainment, sports training and real estate. China is also a key market for high-end Caribbean products, among them Jamaica Blue Mountain Coffee and Mount Gay, El Dorado, Appleton, and Angostura rums.

The region is also attractive as a production platform for manufactured exports to the United States, Canada, and the European Union. Preferential trade arrangements like the Caribbean Basin Economic Recovery Act, the Caribbean-Canada Trade Agreement (CARIBCAN), the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and the CARIFORUM–EU Economic Partnership Agreement have generated some interest among Chinese investors. Mindray, a China-U.S. joint venture that manufactures electro-medical equipment, is currently exploring investment possibilities in Jamaica. In addition to the construction of a logistics and distribution center to serve export markets in the Western Hemisphere, Mindray is reportedly considering the establishment of a manufacturing, assembly, and/or repair and after-sales facility in Jamaica.[29]

[29] "Chinese manufacturer mulls Jamaican investment," *Jamaica Observer*, December 25, 2012. http://www.jamaicaobserver.com/business/Chinese-manufacturer-mulls-Jamaican-investment_13211219

To attract more Chinese investment, Caribbean governments must establish themselves as attractive and diversified partners. Doing this requires an increased diplomatic presence in China and a higher profile in that country's major business centers. Caribbean nations must also work to expand their range of economic and commercial activities, offering a broader spectrum of goods and services in tourism, health care, entertainment, and sports. Improved understanding of China's economic and political system, as well as increased activity by Chinese companies, will be critical to this process.

Governments must also manage high levels of public debt—more than 80 percent of GDP in some cases[30]—and oversee ongoing natural resource extraction and construction operations in a way that attracts foreign investment, benefits local development, and encourages strategic business alliances and joint ventures. In taking the steps necessary to strengthen and balance relations with China, a collective regional approach will reduce the costs of trade promotion, investment, and tourism.

Caribbean governments must establish themselves as attractive and diversified partners.

[30] Caribbean Small States: Challenges of High Debt and Low Growth, International Monetary Fund, February 20, 2013.

The Inter-American Dialogue is the leading US center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address hemispheric problems and opportunities. Together they seek to build cooperation among Western Hemisphere nations and advance a regional agenda of democratic governance, social equity, and economic growth.

The Dialogue's select membership of 100 distinguished citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Sixteen Dialogue members served as presidents of their countries and more than three dozen have served at the cabinet level.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to US policy discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

1211 Connecticut Avenue, NW, Suite 510
Washington, DC 20036

PHONE: 202-822-9002 ■ FAX: 202-822-9553
EMAIL: iad@thedialogue.org ■ WEB SITE: www.thedialogue.org