RESEARCH NOTE

**Caribbean-China Economic Relations: what are the Implications?**

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_Abstract:_ This paper considers the Caribbean’s economic relations with China and the implications of the relationship for Caribbean development. First, it explores the Caribbean’s interest in engaging with China and vice versa and how this interest is manifested in the China Caribbean relationship. Subsequently, the implications of China’s engagement with the Caribbean are examined. The paper concludes that the relationship has proven to be both beneficial and detrimental to Caribbean development. The Caribbean China liaison provides expanded options and greater confidence and space to manoeuvre in its external relations; ease of access to and additional sources of funding and China provides a counterweight to US and EU hegemony in the Caribbean. On the other hand, China’s model of development may be replicating traditional patterns of exploitation and unsustainable development patterns and the presence and strategies may be hindering Caribbean unity.

_**Keywords:** China, CARICOM, China-Caribbean Economic Relations, Caribbean Trade and Economic Relations_

_INTRODUCTION_

Traditionally, the Caribbean had economic relations predominantly with the United States (USA), Canada and Europe and it is only in recent times that the Caribbean has been diversifying its relations
to include other partners. Ties with North America were informed primarily by geostrategic considerations, the USA, and Canada to a lesser extent, seeing the Caribbean as having significance particularly in the context of the Cold War due to its geographical location. Relations with Europe were based on the historical colonial relationship. Traditional economic relations with China were established from Chinese migrants who came to work in the Caribbean after the abolition of African slavery. Current geopolitical considerations and changes in the global economy have led the Caribbean to engage in a new type of relationship with China. This engagement has several implications for Caribbean development as well as for the Caribbean’s foreign relations with other partners.

**CHINA’S GROWTH IN THE WORLD ECONOMY**

In 2003, a Goldman Sachs study projected that China’s economy would be larger than that of the USA by 2041 and larger than any other country by 2016; could overtake Germany by 2007, Japan by 2015 and the USA by 2039. In terms of income it was projected that China’s per capita income could reach that of developed economies by 2050 (about $30,000 per capita, 2003 level). In terms of currency movements, China’s currency could be twice in value by 2013 if growth was sustained and the exchange rates were allowed to float freely. In terms of growth patterns, it was projected that while there would be a slowdown in growth, high investment rates, a large labour force and ‘steady convergence’ would allow China to become the largest economy by 2041 (Wilson and Purushothaman 2003). On an average China has had close to double–digit annual growth rates for the last thirty years. In 2009, the Chinese economy grew by 8.7 per cent while that of the USA and the European Union (EU) went into recession. China will therefore be the main driver of global growth creating opportunities for a market for Latin American and Caribbean exports (Bárena and Rosales 2010). Chinese overseas investment grew from less than one billion before 2001 to over 60 billion in overseas investment in 2010 (Chen 2011). The phenomenal rise of China provides an attractive option to the Caribbean. The specific factors driving the Caribbean’s interest in China are outlined below.
THE CARIBBEAN’S INTEREST IN CHINA

First, Caribbean States engage with China because of the prospect the latter holds for contributing to the economic and social development of the Region. More specifically, China is able to provide development assistance, investments and an opportunity to diversify the Caribbean’s trade and economic relations. The Caribbean views China as an important source of development aid, Foreign Direct Investment (FDI) and trade for generating long term growth and development in the region. Therefore, China’s membership in the Caribbean Development Bank and the Inter-American Development Bank is important for deeper financial and economic cooperation with the Region (China Daily 2010).

Second, the Caribbean sees China as a voice for Southern countries and an intermediary between the Caribbean and developed countries in multilateral fora. In essence, China is seen to be able to bridge the gap between developed and developing countries, in particular, small and vulnerable countries (ibid). Further, the Caribbean wishes to align with China, because of the potential that China holds for transforming the global economic order.

Third, China presents an alternative to USA and EU aid and development assistance. The Caribbean has decreased in importance to both the EU and the US. The ACP as a group is no longer considered to be a relevant framework to the EU. Additionally, among the three regions in the ACP, Africa has stolen the spotlight and the Caribbean and the Pacific have been largely marginalised. The Caribbean saw declining US interest, aid and assistance from the beginning of the 1990s. Caribbean countries are particularly attracted by Chinese policy of neutrality, non interference and ease of access to Chinese loans. Along with the other emerging players in the Caribbean, China therefore represents an emerging counterweight to the economic and political influence of the EU and the USA in the Caribbean Region.

We now turn to the Caribbean’s interest in China and examine the reasons why the Caribbean has embraced China as a partner.

CHINA’S INTEREST IN THE CARIBBEAN

First, the ‘One China Policy’ plays a major role in defining China’s economic relations with the Caribbean. Historically, China’s Interest in the region had been driven by its ambitions to
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Completely usurp Caribbean diplomatic support for Taiwan. Taiwan needs support as it continues to seek recognition at the UN and in other multilateral fora and has been courting leaders with aid for infrastructural and development projects. China too is very generous to countries supporting the One China Policy. Both the People’s Republic of China and Taiwan continue to battle in the Caribbean using aid and grants as weapons as they vie for supremacy.

Second, more recently, the motivation for China’s actions in the region has evolved from solely the narrow ‘One China Policy’ and is simultaneously being driven by larger global geostrategic interests. China’s foreign policy position towards the Caribbean is a reflection of their broader foreign policy objectives in an increasingly globalised economy. Starting from the late 1970s, China undertook economic and diplomatic reform driving them to seek and receive foreign investment, technology, and expertise. Since then, the People’s Republic of China has emerged as a major global exporter, increased its membership and participation in international organizations (Dumbaugh 2008) and extended its tentacles to various parts of the globe, including the Caribbean. Current relations between the Caribbean and China must therefore be seen in the context of the forces of economic globalisation which have created opportunities for the rise of China as a global player, fuelling the need for new markets, investment opportunities and new sources of raw materials to sustain its economic growth.

Third, China is also interested in the Caribbean as part of its objectives for attaining food and energy security and sustaining its rapid economic growth. China’s growth is happening at a phenomenal rate and so are its energy needs. China therefore desires to get its hands on oil reserves wherever they exist and the Caribbean is one such place. The Caribbean is the source of minerals: asphalt and gas in Trinidad and Tobago; bauxite in Jamaica and Guyana and timber and minerals in Guyana. The Caribbean also has vast amounts of maritime resources and Guyana, Belize and Suriname have land for agricultural production (Bernal 2010).

Fourth, the Caribbean provides an attractive market for Chinese products and investments. The Caribbean, including Cuba and the Dominican Republic and the Overseas Countries and Territories (OCTs) has a combined population of about 40 million people offering a market for Chinese products. Additionally, the Caribbean can be an entry point for Chinese products to US, Canada and EU
markets. CARICOM countries provide a ‘production platform’ due to preferential arrangements provided by the Caribbean Basin Economic Recovery Act (CBERA), (Caribbean-Canada Trade Agreement) CARIBCAN and the CARIFORUM–EU EPA. The Caribbean also provides openings for Chinese investments and business opportunities for Chinese firms and employment of Chinese labour (Bernal 2010).

Fifth, China’s presence in the Caribbean is also part of its strategy towards acquiring big power status. China’s behaviour is indicative of its ambitions towards having a global reach and exerting influence across various regions of the globe. China is doing this on several fronts, the spread of Chinese firms and investments beyond traditional spaces to places as the Americas and their efforts at influencing the agenda of entire regions. China has been trying to do this through its participation in regional institutions such as the Inter-American Development Bank and the Caribbean Development Bank. Their desire to participate in regional and multilateral fora in the Caribbean and Latin America was stated in their 2008 policy document towards this region (Ministry of Foreign Affairs of the Republic of China 2008).

The next section examines how these mutual interests are manifested in economic relations between the two parties.

**CARIBBEAN–CHINA ECONOMIC RELATIONS: TRADE, INVESTMENT AND DEVELOPMENT COOPERATION**

China’s economic relations with the Caribbean are largely bilateral in nature although the China Caribbean Economic and Trade Cooperation forum represents a pseudo regional approach. The 3rd Trade and Economic Forum in September 2011, points to a deepening of China - Caribbean relations. At the forum, China promised $1 billion in preferential loans for Caribbean economic development; US$1 billion from the China Development Bank for special commercial loans towards infrastructural development; a donation of $1 million to the CARICOM Development Fund; approximately 2,500 training opportunities and 30 opportunities for studies for master's degrees in China; support and training for natural disaster mitigation and prevention and support for increasing and diversification of export (Wang 2011). Below we undertake a brief analysis of China’s trade with CARICOM.
Figure 1 – Value of CARICOM trade with China 2001 - 2010

Source: Based on International Trade Centre calculations

Figure 1 indicates that CARICOM Trade with China is on the increase; however it is overwhelmingly in China’s favour. Except for 2009, imports of China have grown steadily in the ten year period, 2001--2010. CARICOM exports to China have not seen a similar pattern increasing only slightly up to 2004, and fluctuating between 2005 and 2010 seeing the highest increase in 2006. Therefore the trade deficit is getting progressively larger except in 2009 but there was a widening of this deficit again in 2010.
Table 1: Value of CARICOM’s Top ten Exports to China for the Period 2001-2010 (thousands of $USD)

<table>
<thead>
<tr>
<th>Product label</th>
<th>Total Value: 2001-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>All products</td>
<td>1,262,001</td>
</tr>
<tr>
<td>Inorganic chemicals, precious metal compound, isotopes</td>
<td>711,037</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>173,679</td>
</tr>
<tr>
<td>Mineral fuels, oils, distillation products, etc</td>
<td>95,145</td>
</tr>
<tr>
<td>Wood and articles of wood, wood charcoal</td>
<td>94,531</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>61,076</td>
</tr>
<tr>
<td>Ores, slag and ash</td>
<td>41,254</td>
</tr>
<tr>
<td>Copper and articles thereof</td>
<td>18,636</td>
</tr>
<tr>
<td>Aluminium and articles thereof</td>
<td>17,054</td>
</tr>
<tr>
<td>Articles of iron or steel</td>
<td>11,542</td>
</tr>
<tr>
<td>Electrical, electronic equipment</td>
<td>10,503</td>
</tr>
</tbody>
</table>

Source: Based on International Trade Centre calculations
Table 2: Value of CARICOM’s Top ten Imports from China for the Period 2001-2010 (thousands of $USD)

<table>
<thead>
<tr>
<th>Product Label</th>
<th>Total Value: 2001-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>All products</td>
<td>9,484,332</td>
</tr>
<tr>
<td>Ships, boats and other floating structures</td>
<td>2,417,264</td>
</tr>
<tr>
<td>Electrical, electronic equipment</td>
<td>7,870,13</td>
</tr>
<tr>
<td>Machinery, nuclear reactors, boilers, etc</td>
<td>7,120,12</td>
</tr>
<tr>
<td>Articles of iron or steel</td>
<td>5,220,17</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>3,493,14</td>
</tr>
<tr>
<td>Plastics and articles thereof</td>
<td>3,307,82</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway</td>
<td>3,145,13</td>
</tr>
<tr>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>2,921,78</td>
</tr>
<tr>
<td>Furniture, lighting, signs, prefabricated buildings</td>
<td>2,879,00</td>
</tr>
<tr>
<td>Footwear, gaiters and the like, parts thereof</td>
<td>2,829,33</td>
</tr>
</tbody>
</table>

Source: Based on International Trade Centre calculations

Tables 1 and 2 indicate that China’s top ten products are finished manufactured products while CARICOM’s top ten exports are in raw materials. This indicates that there may be existing opportunities in the Chinese market that are underexploited by CARICOM entrepreneurs for example plants and cut flowers, meats, dairy products and eggs. Chinese products may also be competing with local businesses, farmers and craftsmen for example ceramic products, beverages and vegetables.
**Figure 2**

Line Chart Showing Exports from CARICOM to China, US and the EU for the 10 Year Period 2001 to 2010

Source: Based on International Trade Centre calculations

**Figure 3**

Line Chart Showing Imports to CARICOM from China, US and the EU for the 10 Year Period 2001 to 2010

Source: Based on International Trade Centre calculations
Figure 2 illustrates that exports to China have fluctuated for the ten year period. Additionally, China is a very small export market vis-à-vis the US and the EU for the ten year period.

Figure 3 shows that unlike the exports market for the ten year period 2001-2010, China has become an increasingly significant import market vis-à-vis traditional partners, the USA and the EU. However, as imports from China increase, imports from the USA and the EU are not decreasing. Chinese imports therefore do not seem to be displacing those from the USA and the EU but total imports are increasing with China in the equation.

Figure 4

Line Chart Showing Trade Balance between CARICOM and China, US and the EU for the 10 Year Period 2001 to 2010

Source: Based on International Trade Centre calculations

Figure 4 shows that whereas there have been periods of surplus in trade with the US and the EU, there has consistently been a trade deficit with China for the ten year period.

Having looked at developments in the trade arena, we now examine recent examples of development projects with select Caribbean countries. In September 2011, Jamaica signed grant
agreements totalling US $7.985 million with China. China has in the past assisted with several major projects including in the tourism sector among them the Montego Bay Convention Centre completed with Chinese assistance in 2011. China signed a loan agreement with the government of Jamaica in 2011 valued at US $400 million for infrastructural work. The $65.3 million Palisadoes Peninsula project is being financed by a loan from the China EXIM Bank (Jamaica Information Service 2011). Trinidad and Tobago received 40 million Yuan in grant funding from the Chinese government during the 3rd China Caribbean Trade and Economic Forum. In 2009, the National Academy of the Performing Arts (NAPA) was completed through a concessional loan by China (Government of the Republic of Trinidad and Tobago 2009) and in March 2011, Trinidad and Tobago and China signed a concessional loan agreement valued at 210 million Yuan for the completion of infrastructural work on NAPA (Tach 2011). China and the Bahamas signed a Technical and Cooperation Agreement ahead of the 3rd China Caribbean Trade and Economic Forum which provides grant funding for infrastructural and other projects. This agreement brings the total Chinese investment in the Bahamas to an estimated $2.66 billion (Thompson 2011). In June 2011, China agreed to provide Barbados with a grant of approximately BDS $6.15 million for various small scale development projects (Greene 2011). In 2011, Chinese grant funding built four score boards for the Widley Gymnasium in Barbados valued at BDS $3.38 million (Austin 2011). At the 3rd China Caribbean Trade and Economic Forum Guyana and China signed an agreement for a RMB 30 million grant for the funding several projects (Stabroek News 2011). Over a forty year period China provided about 40 aid funds in the form of grants, interest free and concessional loans to Guyana and wrote off nine mature debts (Kaiteur News 2011). Upon establishing diplomatic relations with China, the Chinese promised to undertake infrastructural development on four projects in Dominica totalling over $100 million (Saunders 2011). Dominica has received approximately ECD $7.2 million from China having signed an agreement on Technical and Economic Cooperation. China agreed in 2007 to provide grant aid of USD $100,000.00 for disaster relief (Government of Dominica 2007). China has assisted Antigua and Barbuda in various areas, including a street lighting programme, concessionary loans and grants for the Sir Vivian Richards Cricket Stadium, an airport terminal and a secondary school in Five Islands (Caribarena News 2011). In 2010, China provided 86 per cent of
the cost of the rehabilitation of the St. Paul’s Sports, Cultural and Development Organisation in Grenada (Government of Grenada 2011). In Suriname, China has designed and built the Foreign Ministry building; China has provided aid in the following areas: military assistance, construction of low-income housing, help with shrimp farming and an upgrade of the national television network (Simone 2011).

While there may be benefits to be derived from this type of engagement, there are concerns about how balanced the benefits are. One of the distinct features of development cooperation in the area of infrastructural projects in the Caribbean is the dominance of Chinese labour. In the case of Trinidad and Tobago, between 2008 and 2011, out of 2,996 Chinese who obtained permits to work, approximately 2,731 were for the construction sector (Ministry of National Security). It means that Chinese workers held jobs that almost 3,000 Trinidadians could have had in this period.

In Guyana, Chinese investments in the metal and manufacturing sectors totalled $1,000 million between 2003 and 2008 (Kiateur News 2011). In Jamaica, the Chinese company COMPLANT acquired assets of Jamaica’s sugar industry, and in August 2011 China announced plans to invest approximately US$156 million for the renovation of three sugar factories and lands (Douglas 2011). In August 2011, Investment Corporation (CIC) announced plans to acquire the ten percent stake from French firm GDF Suez in Atlantic LNG in Trinidad and Tobago. CIC will also acquire 30 percent of GDF Suez’s Exploration and Production division (Bagoo 2011).

Chinese foreign direct investment in the Caribbean reached $72 billion from the end of 2001 to 2005. However, this investment has been concentrated in the manufacturing sector and has not been matched by investments in the services sector (CRNM 2007). This limits the extent to which CARICOM businesses are able to pursue linkages with their Chinese counterparts.

The above developments have implications for Caribbean development, regional integration and the Caribbean foreign policy relations. This is the subject of the concluding section.

**IMPLICATIONS AND THE WAY FORWARD**

First, the huge and increasing trade deficit that exists between CARICOM and China is very unhealthy and unsustainable for long term development. Increasing amounts of cheaper Chinese imports may also be replacing local products. CARICOM countries need to
balance their efforts at boosting exports to China against promoting infrastructural development. Additionally, there is need to undertake an evaluation of the effectiveness of infrastructural projects to assess their impact on social and economic development.

Second, the trade relationship between China and the Caribbean is largely based on the importation of manufactured products from China and the exportation of raw materials from the Caribbean. Scholars have already observed that the nature of the trade relationship with China holds the danger of replicating that of the Caribbean with traditional partners (Girvan 2011). Additionally, the nature of Chinese investment employing mainly Chinese labour does not promote technology transfer. Many would have hoped that the relationship with China, a fellow developing country would have been different from that of traditional partners and would have encouraged innovation and creativity but this is not the case up to this point.

Third, CARICOM has not engaged with China in a manner which promotes regional integration. This is reflected in the predominantly bilateral nature of the relationship which may be leading to competition among Caribbean States for assistance from China. If this trend continues, this poses the danger of further hindering the cohesion of CARICOM and the integration process. Regional integration should be the foundational pillar for informing the nature of engagement with China.

Fourth, the increasing comfortable relationship that the Caribbean has now developed with China means that the latter has greater confidence in its foreign policy relations with other partners. China is increasingly being seen as a favoured partner which may result in a divergence away from traditional partners especially for development cooperation. The fact that China is seen by the Caribbean as a fellow developing country may further contribute to the shift. China comes with advantages, among them the fact that they were never colonizers and is not perceived to have been in an exploitative relationship with the Caribbean in the past. There is therefore a greater feeling of camaraderie and partnership that makes the relations with the emerging players more comfortable even if it is not necessarily always more beneficial.

In this context, the Caribbean may be able to use the opportunity to take advantage of the competition among the emerging and traditional players for their benefit in negotiations
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and other areas of engagement. This has already sparked renewed interest in the Caribbean (and Africa) by the EU for example. The EU's interest in seeking Caribbean support in multilateral fora through the Joint Caribbean-EU Strategy (JCEUS) is a manifestation of this interest. The JCEUS is in part informed by the recognition by the EU that its position and influence in the region is being challenged. This scenario also has implications for US foreign policy towards the region. Although the Caribbean has declined in geopolitical/strategic importance, there is now cause for concern regarding the US’ security for example. This concern stems out of China's investments in oil and gas in Venezuela and the wider hemisphere.

Fifth, China’s policy of non-interference in the governance of countries and claims of no conditionalities attached to development assistance have a special appeal to Caribbean countries. These are particularly appealing because of complaints about cumbersome and tied assistance related to aid and development assistance from traditional partners. For instance, EU trade and development cooperation and assistance are dependent on partners' ability to adhere to particular normative principles. The Caribbean is therefore drawn to China because it is easier to secure loans and access development assistance.

Although China has denied that they are pursuing a particular model of development, there are some key elements that are common in their engagement with Third countries: China has indicated that each country should choose a development path that is suited to their peculiar needs; China claims that non-interference is at the centre of their policy of engagement and claims not to get involved in a country’s internal affairs; China’s development strategy is not driven by ideological considerations and they do not insist on values such as good governance, democracy and human rights as a prerequisite for engagement on trade and development cooperation. While it is true that China is not concerned with governance, human rights and the rule of law, there are other types of conditionalities, i.e. the use of Chinese labour, design, and technology associated with Chinese aid and investment that may make engagement with them less than conditionalities free. Additionally, lack of emphasis on human rights, the rule of law and good governance may be very detrimental for the long term social and economic development of the Caribbean Region.

In conclusion, the critical value of any type of engagement with new or traditional players is the extent to which the relationship
strengthens regional integration, an important prerequisite for Caribbean development. Development projects and programmes should be part of a broad long term strategic plan for strengthening regional integration. A more coordinated regional approach is therefore necessary in directing Chinese aid and development assistance towards Caribbean integration. Perhaps one way this can be fostered is through greater coordination among Caribbean air and sea ports; telecommunication networks and innovations relating to ease of travel among CARICOM countries. In this vein it is important for CARICOM like China did in 2008 to produce a joint policy paper towards China as well as towards other emerging and traditional partners.

NOTES ON CONTRIBUTOR

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