China and the Caribbean

Background paper for the Advisory Committee of the Caribbean Council

A decade or more ago it would have been hard to find much that was tangible to write about China and the Caribbean. Today it is difficult to know where to begin, so pervasive and economically vital has its role become in the region.

From an approach originally driven by Beijing’s one China policy, the need to identify new sources of raw materials, and a special relationship with Cuba, China’s interest in the region has turned into something much broader and seemingly more strategic.

So much so, that China’s involvement in the Caribbean is gradually rebalancing the region’s relationship with North America and Europe, in a way, Caribbean Ministers suggest, that is more in tune politically with Caribbean thinking about the world.

In private conversations they reflect on the relative political and economic neglect of traditional partners such as the US and the UK, their unilateralism, and a sense of disillusion illustrated most frequently by reference to the invasion of Iraq. They see, in contrast, China as a nation with a world view that is much closer to their own and without a negative colonial history in the Americas.

One consequence is that China’s relationship with the majority of Governments across the region has passed far beyond the construction of, for instance, national sports facilities, to one that now encompasses trade, investment in infrastructure, offshore finance, agriculture, tourism and even a growing involvement in the retail sector. It involves the Chinese state at the highest level and the active participation of Chinese entities that range from its largest companies to its military.

Some suggest that China’s long term political and economic focus on the region, and in particular the Western Caribbean, reflects economic self-interest in particular in relation to manufacturing and providing services to the geographically proximate US market. Others note the region’s accessibility to the Panama Canal and the need for China to protect its maritime interests because of its high dependency on the import of raw materials and its exports. In parallel, some voices in Washington additionally ascribe geo-strategic motives to Beijing’s growing presence in the region and regard it as a threat to US national security interests in the hemisphere.

What is not in doubt, at a time when the Caribbean’s traditional partners have given priority to security, the projection of soft power and have limited budgets to spend in the region, is that China is engaging in a manner that no other major power is willing or able to match.
In the clearest demonstration of this yet, China’s Vice Premier, Wang Qishan, brought a delegation of twelve Ministers and eighty officials to the Third China-Caribbean Economic and Trade Cooperation Forum held in Trinidad on September 12, 2011. The event, to which all Caribbean states were invited*, was attended by Heads of Government and senior Ministers from Barbados, the Bahamas, Cuba, Dominica, Jamaica, Grenada, Guyana, and Suriname and Trinidad and some 200 Caribbean officials and businessmen and women.

During the opening ceremony Mr Wang made clear that the Chinese government intends to further deepen China-Caribbean co-operation in areas that include finance and investment, capacity building, environmental protection, renewable energy, culture, education, health, trade, tourism as well as agriculture and fisheries.

To help achieve this, the China Development Bank will establish a US$1billion fund for business loans to finance infrastructure development and will donate US$1m to the Caribbean Development Fund. China also intends offering training courses for up to 2,500 Caribbean students and 30 postgraduates to study in China. It will also support the building of an early warning monitoring network for earthquakes and tsunamis, and will provide training for disaster reduction and prevention.

Although details of the commercial loan offer have yet to be revealed, this ‘special purpose fund’ for infrastructure development is believed to require the borrower to contribute 30 per cent and will be available to the Chinese and Caribbean private sectors and to regional Governments. It is expected to be offered at competitive interest rates and is likely to require guarantors so as to satisfy lending requirements on viability. For this reason Chinese and Caribbean commercial banks may be encouraged to co-operate in the development of the fund and China hopes to sign investment protection agreements signed with regional governments.

Separately China has recently concluded new bilateral co-operation agreements with Barbados (US$16m); Jamaica (US$8.8m); the Bahamas (US$5m); and Guyana US$(US$4.7m) and has other programmes in Antigua and Suriname. It also has some US$400m of investment in the region and the presence of thousands of Chinese workers.

According to the Chinese government over the last six years bilateral trade has increased by an annual average of 24 percent, to reach US$7.2bn in 2010. However, at present the majority of this trade is heavily skewed in China’s favour. Speaking at the Third China Caribbean Economic Forum Guyana’s President, Bharrat Jagdeo, suggested, using slightly different figures, that in 2008 some 93 per cent of Caribbean - China trade consisted of Chinese exports with the region exporting around US$60m to China annually.

Irrespective, what is clear is that China is in the process of establishing a long term relationship that will permeate every aspect of those Caribbean nations that are prepared to engage in a dialogue.

*Belize, Dominica, Dominican Republic, Haiti, St Kitts, St Lucia, and St Vincent did not attend as they recognise Taiwan

In Suriname, for instance, a memorandum of understanding has been signed recently with two Chinese companies for US$600m of projects to build a new deep sea harbour, a highway and railway from Paramaribo to Brazil, an east-west sea wall from Albina to Nickerie, a new highway to the airport and 8000 low cost houses.
The projects, which show every sign of going ahead, appear to undercut Guyana’s plans to construct a similar port and road that aims to link Brazil’s northern province of Roarima to the coast. Despite this, according to the Chinese Ambassador in Guyana, Chinese companies are preparing to invest huge sums in projects there with significant investments likely in the field of mining and forestry. An arrangement has also reportedly been put in place in grant aid for ‘the social and economic development of the country’ under a recently signed economic and technical co-operation agreement. China has also signed a deal to finance a hydroelectricity project and is involved in a training programme with the Guyana Defence Force that will, in part, enhance the nation’s maritime surveillance arrangements and is looking at other projects relating to tourism and alternative energy.

In Jamaica too the relationship is deepening following a visit to Beijing by Jamaica’s Prime Minister and other Ministers. China is already heavily involved in road construction and the rebuilding of critical pieces of infrastructure, has completed a national convention centre and is interested in taking over the port in Kingston; a move which the US has raised objections to. It is also interested in restoring the island’s railway, work on Kingston airport, and investing in agriculture, initially in the sugar sector. Under another agreement, a first in the English speaking Caribbean, China will provide the Jamaica Defence Force with US$1.1m in military aid and establish military exchanges with China.

In the Bahamas, Hong Kong based Hutchison Wamphoa own and operate the US$1 billion Freeport Container port. China is soon to construct at a cost of US$2.6 billion a 2,250 room hotel complex, Baha Mar, involving initially some 8000 Chinese workers.

More generally, China is increasing its oil exploration, refining and storage capacity in the region. China’s National Petroleum Corporation recently signed a US$6 billion agreement with Cuba. This involves Chinese engineering and construction companies and Venezuelan-guaranteed loans to build in Cienfuegos a new heavy oil refinery and associated industries such as liquefied natural gas and petrochemical plants. It has recently leased a large petroleum storage facility on St Eustatius and media reports suggests that it may also be looking at the possibility of a further refinery purchase in Aruba.

The China relationship is also expanding into the overseas territories of the Caribbean. The British Virgin Islands has long been a centre for the offshore registration of many of China’s companies but there now appears to be an interest in directly participating in infrastructure projects. Interest is also being shown in the Cayman Islands in a cruise pier, major road works and improvements to airports.

High level visits of a kind rarely seen from traditional partners are proliferating largely unremarked with for instance in early 2011 China’s highest ranking female politician, Madame Liu Yandong, visiting Antigua.

Chinese construction companies are establishing a presence in the region to bid for contracts and at another level there appear to be a significant influx of Chinese traders who in some Caribbean nations are taking over small stores and larger retail outlets. Trade too is growing especially with some of the regions larger nations. China has also established a Confucius Institute at the University of the West Indies (UWI) Mona campus and is looking at other locations in the region.

There are also the first signs of a Chinese naval presence in the region. The Chinese media noted recently that the tour of the Caribbean hospital ship, the Peace Ark, which will provide medical services, is ‘the first time a naval vessel will visit the area’.
Most regional nations have approached China’s involvement in the Caribbean with relatively little thought about the political and philosophical underpinning of a closer relationship between Beijing and the Caribbean and Latin America.

From conversations with Caribbean Ministers and Prime Ministers the picture that emerges in a Caribbean context is that most Caribbean nations see closer engagement with China from four perspectives.

Firstly, almost all Caribbean Governments, including those that do not formally recognise Beijing, accept the geopolitical importance of China globally and in the hemisphere. As an advanced developing nation with a high degree of respect for sovereignty and a voice in international fora, China is seen as a natural global ally. It offers, as one senior Jamaican Minister recently noted in private, the opportunity to rebalance relations with US and Europe and for Jamaica to be able to demonstrate to traditional partners a greater degree of independence.

Secondly at a time of global austerity, Caribbean nations see China’s willingness to offer the region significant levels of support through loans, grants and other forms of assistance as a way of addressing growth and budgetary constraints.

They are aware too that Chinese direct investment offshore is in the process of undergoing exponential growth – more than US$1,000bn around the world by 2020 some reports suggest – and that it is likely in time that the Chinese Renimbi could become a reserve currency.

They welcome the lack of complex conditions attached to development support, although in some cases, particularly in the Eastern Caribbean where political parties have sought to play off recognition of Taiwan and China for financial support, policy appears to be driven more by national or even personal mendacity than any true desire for a lasting relationship.

Thirdly there is a growing awareness that China is prepared to offer much needed training and capacity building without the bureaucratic hurdles and delays experienced with Europe and other traditional donors.

And fourthly there is the perception that despite its distance from the region, China may offer opportunities for trade and tourism, although so far making this real has proved elusive.

So far US reaction has been muted to China’s increased involvement in the Caribbean. In contrast, for the most part, Europe and other nations with an historic relationship with the Caribbean are trying to better understand China’s thinking and where there are opportunities for co-operation in the region and other parts of the developing world.

In this respect European officials and diplomats regret the fact that there are few opportunities to engage with their Chinese counterparts. While the absence of conditionality in the provision of development assistance alarms some, this appears to be more than offset by senior figures in European chanceries who have a relaxed attitude and welcome Chinese and Brazilian involvement in the Caribbean.

No one should remain in any doubt about the extent of China’s interest in a deep and long lasting relationship with all of the nations of the Caribbean and Latin America.
Significantly, there are many straws in the wind: China is upgrading its diplomatic facilities across the region; is looking at the possibility of establishing a manufacturing logistics and distribution centre in one or another northern Caribbean nation for transhipment of goods to North America, Latin America and the Caribbean; is exploring with some nations such as Suriname double tax agreements and visa waiver arrangements; and is providing equipment to a number of Caricom defence and police forces. It also signed eight agreements during the recent visit of Cuba’s President, Raul Castro, to Beijing that may see much greater Chinese involvement in many aspects of the Cuban economy including the construction and rehabilitation of infrastructure, port development, oil exploration, health care facilities, and in agriculture in relation to food production and export.

At a broader level China is encouraging the internationalisation of its own currency. It is promoting, the Yuan, in trade in Latin America, particularly in relation to payments for minerals and food, with the apparent objective of supporting its use as a reserve currency and to facilitate the purchase of Chinese capital goods and trade. Separately, the Export Import Bank of China is in negotiations with the IADB to establish a Yuan fund worth US$1billion to finance infrastructure projects in Latin America and the Caribbean.

Where this seems to lead is to the possibility that if well considered, China’s support with Caribbean economic development could drive growth.

China has made clear it wants to continue to deepen its relationship with the Caribbean. There is willingness on the part of most governments to harness its positive intent towards the region. What is still missing is any significant public debate about the new relationship, how it might develop, its implications for relations with Europe and North America and how best to ensure that it results in positive long term benefit in the form of jobs, employment and growth.

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