

Chinese Foreign Direct Investment in the Caribbean

Potential and Prospects

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Abstract

China has recently become the third largest source of foreign direct investment (FDI) in the world and is a major source of development aid for developing countries, including those in the Caribbean. The capital flows it provides have taken the form of loans to governments to finance infrastructure projects and to expand production of oil and other raw materials. There have been indications of interest in further investment in the Caribbean from Chinese enterprises and entrepreneurs. This is driven by both state policy, which seeks to more actively integrate China into the global economy, and enterprise-level interests by both state and private enterprises. Caribbean governments have generally been receptive to prospective incoming FDI. This paper identifies the instances of Chinese FDI in the Caribbean to date and discusses the potential for further investment, highlighting opportunities in agriculture, tourism, manufacturing, mining, infrastructure, and fishing. The factors influencing the emergence of Chinese FDI in the Caribbean include: the ongoing learning process by both investors and the governments of host countries; the performance of vanguard companies; transnational ethnic business networks; the local business environment; and the policies of Caribbean governments.

JEL Codes: F13, F21, F30

Keywords: China, Caribbean, Chinese economic foreign policy, foreign direct investment, Chinese firms

Introduction

Since 2005, China has made over US\$119 billion in loan commitments to Latin American and Caribbean (LAC) governments, mainly to finance Chinese firms in the construction of infrastructure and energy projects.¹ Nevertheless, the pattern of capital flows from China is likely to diversify as foreign direct investment (FDI) increases in response to both market forces and the policy of the state. Chinese enterprises will increasingly seek opportunities for FDI as the pattern of economic growth in China evolves and as China becomes more integrated into the global economy.

In his report to the 18th Party Congress on 8 November 2012, then-President Hu Jintao mandated that “Chinese companies should expand their overseas presence at a faster rate, enhance their cooperation in an international environment and develop a number of world-class multinational corporations.”² China has since followed this path, globalizing its economy and raising new prospects, opportunities, and implications for Chinese FDI. This paper examines the potential of and prospects for Chinese FDI in the Caribbean. The economic circumstances of the Caribbean countries make increased Chinese FDI an important new development. Although the region has no special attraction for Chinese FDI, such as large markets or significant sources of energy or supplies of scarce raw materials, there are still potential opportunities. This paper’s analysis of the Caribbean will be valuable to other similarly placed developing countries.

This paper consists of five sections. The first contains an overview of the current trends and features of Chinese FDI. The second section provides an estimate of the value of the stock of Chinese FDI in the Caribbean. Section three discusses the factors influencing Chinese FDI. The potential opportunities for Chinese FDI in the Caribbean are identified in the fourth section. Section five explores the factors that will influence the prospects for increasing Chinese FDI in the Caribbean. The paper ends with the presentation of the conclusions.

¹ On one occasion in 2010, financing from China to LAC exceeded the combined lending of the World Bank, the Inter-American Development Bank, and the U.S. Export-Import Bank to these countries. Inter-American Dialogue. “China Latin America Finance Database”. http://www.thedialogue.org/map_list/

² “China: Full Text of Hu Jintao’s report at 18th Party Congress.” Retrieved 12 March 2015 from http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259.htm .

A. Trends and Features of Chinese FDI

1. Emergence of China as a Source of FDI

Outward FDI from China was authorized in 1979 when state-owned enterprises (SOEs) were first allowed to invest abroad and, since then, regulation has progressively been relaxed, especially after promulgation of the “Go Global Strategy” in 1999 (Buckley et al., 2010). Starting from a low level, China’s FDI grew slowly throughout the 1980s and early 1990s, rapidly increasing over the last two decades. The impetus for FDI emanates from both state and non-state enterprises, operating either in tandem or at least in alignment (Buckley et al., 2007; Fornes and Philip, 2012).³ While the state has an overarching role, it is not possible for it to control all FDI given the number of firms involved. Based on a survey of executives of Chinese companies, it is reported that: “The first primary push factor propelling the internationalization of Chinese SOEs is the central government’s “go global” policy and related incentives, while the second relates to the business strategies adopted by enterprise leaders” (Alon, 2012: 4). The government of China has also made it easier for enterprises to get permission to make foreign investments. In February 2011, the National Development and Reform Commission (NDRC) raised the threshold on overseas direct investment (ODI) requiring government approval from US\$30 million to US\$300 million for investments in resources and, concomitantly, from US\$10 million to US\$100 million in non-resources projects. (Laidler et al., 2013).

On a purchasing power parity basis, China is now the largest economy in the world. Between 1979 and 2014 (despite the global economic crisis from 2008), China saw average GDP growth of nearly 10 percent per year (CRS, 2015), although growth rates have since slowed. FDI has contributed to this economic growth; by 2002, when total FDI inflows reached US\$53 billion, China had become the largest recipient of FDI, surpassing the United States (Yang, 2003). Since then, China’s outward FDI flows have increased steadily, reaching US\$21.2 billion in 2006 and US\$107.84 billion in 2013, an increase of 23 percent from 2012 levels (Government of the People’s Republic of China, 2014). During this period the total stock of Chinese FDI increased dramatically from US\$90.6 billion to US\$531.9 billion (Government of the People’s Republic of China, 2013). In 2012, China’s outward FDI accounted for 6.3 percent of global FDI and 2.3 percent of global stock of FDI, which put China third behind the United States and Japan in global FDI and thirteenth in terms of stock of global FDI (*World Investment Report 2013*). This trend is likely to continue: in November 2014, President Xi Jinping

³ FDI by Chinese companies, which are mostly state owned, are “in alignment” with the plans of the State. See Buckley et al. (2007) and Fornes and Philip (2012).

proclaimed that Chinese offshore investment would reach US\$1.25 trillion over the next decade (Anderlini, 2014).

Capital flows from China to countries in the Caribbean have so far largely been composed of development aid in the form of loans to fund infrastructure projects, built by Chinese enterprises (Bernal, 2014). As part of China's strategic thrust into the global economy, Chinese delegations and investment missions, with participation by the China Development Bank (CDB), have made several trips to the Caribbean to identify FDI projects. In addition, the Ministry of Commerce, Ministry of Foreign Affairs, and the NDRC have developed and published a detailed guide for Chinese investors interested in LAC.⁴ This country-by-country and sector-by-sector enumeration of investment opportunities will undoubtedly assist Chinese enterprises looking to invest abroad. Opportunities exist in tourism, manufacturing, agriculture, energy, and raw materials. However, Chinese preparedness has not been matched by the Caribbean governments, which have been slow to progress from a ubiquitous but vague recognition of the possibilities.

2. Investment Decision Making in China

The Chinese state has implemented a deliberate strategy to create internationally competitive state-owned companies that operate as multinational corporations. Buckley et al. point out that the internationalization of Chinese firms "has been tightly controlled" in order to "advance the economic development agenda" of China (Buckley et al., 2010: 81-118). According to the 2009 Statistical Bulletin of China's Outward Foreign Direct Investment, centrally controlled SOEs were responsible for 68 percent of total Chinese outward direct investment compared to less than 1 percent by private enterprises. Approximately 30 percent was attributed to a variety of other economic entities owned by regional and provincial authorities (Government of the People's Republic of China, 2010). Approximately 87 percent of Chinese overseas foreign direct investment (OFDI) in LAC during the period 2000–11 came from public companies (Peters, 2012). Because a large proportion of its international reserves were invested in low-yielding government securities, in particular US Treasury paper, China made a decision to diversify how it invested its foreign exchange around the time of the onset of the 2008 global economic crisis (Jacques, 2012). Some diversification into high-yielding instruments, as well as the country's need for raw materials, impelled the Chinese state to create a sovereign wealth fund, the China

⁴ Country-specific investment guides have been prepared by the Chinese Ministry of Commerce for Chinese investors looking to invest abroad, including the following Caribbean countries: Antigua and Barbuda, the Bahamas, Barbados, Cuba, Dominica, Guyana, Grenada, Jamaica, Suriname and Trinidad and Tobago. These are in Mandarin only and can be found at <http://fec.mofcom.gov.cn/article/qbdqzn/>.

Investment Corporation (CIC), in 2007, with an initial capitalization of US\$200 billion (Martin, 2008). The CIC is now one of the world's largest sovereign wealth funds, with assets of US\$482 billion (Dobbs et al., 2013).

The state dominates economic decision making in China, which is a complex and bureaucratic process (USITC Investigation, 2007). For both SOEs and private firms, the involvement of the state has a direct bearing on the objectives and strategies of the firm (Morck et al., 2008) because, in addition to profit maximization, the firm has to be cognizant of the state's economic strategy and policies. Therefore, inducing investment from China inevitably requires state-to-state relations with the Chinese government.. The level of state engagement varies, depending on the role of the Department of Foreign Economic Cooperation of the Ministry of Commerce,⁵ which results in the formation of different types of firms. Some are enterprises under the direct control of the state, either the central government or at provincial level, and some are private firms; these include multinational enterprises, large firms which have expanded overseas, and small and medium-sized enterprises (SMEs) that are involved in international trade and looking to invest abroad (Gates and Reilly, 2007). The difference for private firms is that they independently take the first initiative and then later can benefit from the support of the state; in the case of SOEs, the state is involved in both initiation and execution. Beyond these issues, the willingness of the Chinese state to direct and/or encourage OFDI in a particular country is a reflection of relations between China and that country and the place of that investment in the overall strategy of OFDI. Good relations with China are a necessary but not sufficient condition for mobilizing Chinese OFDI.

The state's overarching presence in Chinese OFDI can be seen in the role of the China Development Bank in Africa and Venezuela (Sanderson and Forsythe, 2013), especially regarding investments in oil, minerals, and telecommunications. Investments in these sectors remain under the control of the state and, in most cases, the investments are made by SOEs (Salidjanova , 2011). Ten SOEs account for 65 percent of China's US\$84 billion OFDI in Latin America (Laidler, et al., 2013). Similarly, the three leading Chinese investors in Africa are state-owned oil companies: China Petrochemical Corporation, China National Petroleum Corporation, and China National Offshore Oil Corporation (Kiggundu, 2008). For all of these firms, the state gives explicit direction regarding overseas investment priorities. For example, a 2004 joint directive from the NDRC and the Export-Import Bank of China (EIBC) placed an emphasis on securing projects that mitigate the domestic shortage of natural resources, promote the export

⁵ This Ministry is responsible for supervising all firms with foreign investments over US\$10,000.

of domestic products, equipment, and labor, and “enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets” (Salidjanova, 2011). The regulatory institutions included the State-owned Assets Supervision and Administration Commission (SASAC), which oversees large SOEs, the State Administration for Foreign Exchange (SAFE), and the Ministry of Commerce (MOFCOM).

While the state has an overall vision of the internationalization of Chinese firms and the process of OFDI, there has been a growing degree of freedom since 2003, when private firms were no longer legally prohibited from investing abroad. This relaxation of the decision-making process at the enterprise level forms part of a continued thrust toward “going global” which was a key objective of the 12th Five Year Plan (2011-15). Along with the sheer size of the economy, the complexity of the multi-level bureaucracy and the increase in the number and variety of Chinese firms, the state no longer dictates China’s FDI decisions.

3. Enterprise-level Drivers of Chinese FDI

There are three main types of Chinese enterprise. First, there are the large SOEs that are undertaking FDI on an ever-increasing scale and with increasing frequency. Their activities are aided and abetted by the state within an overall strategy of internationalization. Second, there are the SMEs, also engaged in FDI, which account for 99 percent of the companies in China and around 50 percent of GDP (Fornes and Phillip, 2012). Third, there are the privately owned firms, large and small.

An expanded version of Dunning’s typology of investment drivers can be applied to China’s FDI in the Caribbean. The typology identifies FDI drivers as raw material seeking, market seeking, efficiency seeking, asset seeking, or driven by the recovery of debt. The fifth form of FDI Dunning identified is what might be called “involuntary” FDI, and it arises when a country has agreed to provide an asset, for example, land, in preference to a repayment of debt by cash. Dunning’s five-category typology reveals that, to date, most global investment has been raw material seeking and market seeking, with little driven by efficiency and strategic-asset seeking motivation (Dunning, 1981; Dunning, 1993). In the Caribbean, Chinese investment is not likely to be motivated by seeking markets, given the small size of Caribbean economies, but investors could see the region as a platform for exports to the global market. This has already happened with the sale of Chinese apparel and textiles in Africa, where exporters have used special trade arrangements with African nations, such as the EU’s “Everything but Arms Agreement” and the United States’ “American Growth and Opportunity

Act” to expand their own markets (Renard, 2011). For example, Huajian, one of China’s largest manufacturers of shoes for export, has invested in Ethiopia to take advantage of lower labor costs and preferential access to the markets of the EU and the United States (Wallis, 2013).

Resource-seeking FDI is more likely to occur if, in addition to the availability of resources, there is high demand to extract and export the raw materials. Empirical analysis by Hurst shows that Chinese FDI in developing nations has been driven by natural resources, lower levels of property rights and the potential for trade relationships (Hurst, 2011: 74–91). In some cases, Chinese companies have been willing to engage in exploration of raw materials, particularly for energy deposits. This is evident in China’s involvement in the energy sector in Africa and Latin America. During 2000–10, 87 percent of Chinese FDI in LAC went into projects in energy and raw materials (Peters, 2012). The energy sector absorbed 53 percent of total Chinese OFDI in Latin America between 2005 and the first half of 2013 (Laidler et al., 2013). Chinese enterprises are involved in oil and gas in Argentina, Brazil, Colombia, Ecuador, Peru, and Venezuela (WEF, 2013). Labor-seeking investments are not likely to occur, as labor costs in China are lower than those in the Caribbean.

While the state has an overall strategy and plays an overarching role in directing Chinese FDI, it does not make every decision. Instead, decision making and implementation are conducted by a multi-layered hierarchy of bureaucracies (Backaler, 2014), consisting of ministries at the national level, provincial bodies, and city councils. Which investments are handled by which body depends on (a) the ownership: private, state, hybrid; (b) the size of the enterprise: multinational corporation, large national enterprise, or small firm; and (c) the proposed investment. Since the promulgation of the Going Global Strategy, the promise of funds to support Chinese projects, and the endeavours of Chinese firms in the Caribbean, it has not become evident that China has an investment strategy specifically designed for the Caribbean. It can thus be assumed that the drivers of Chinese FDI, which are evident in China’s global FDI, are also applicable in the Caribbean.

B. Stock of Chinese FDI in the Caribbean

China's FDI in the Caribbean is very small, both as a share of China's FDI and as a share of the total stock of FDI into the Caribbean. Data regarding Chinese FDI stock for the period 2005–13 are shown in Table 1 and exclude deposits held in financial centers in the Caribbean, an issue discussed in Appendix I. Four aspects need to be mentioned: first, by 2013 the largest recipients of Chinese FDI stock were Cuba with US\$111.3 million and Guyana with US\$225.2 million. Second, there are some unexplained changes in the value of the stock of investment over time; for example, Chinese FDI in the Bahamas was US\$56.5 million in 2007 but just US\$0.6 million a year later. In Cuba, Chinese FDI declined from US\$85.32 million in 2009 to US\$68.98 million in 2010, only to jump to US\$146.4 million in 2011, but then to decline again to US\$111.3 million in 2013. Third, total Chinese FDI in the Caribbean amounted to US\$604.45 million in 2013, not including the US\$2.6 billion port facility in Freeport, Bahamas, built and operated since 2000 by the Hong Kong–owned Hutchison Whampoa (Collins, 2001). Fourth, there is no Chinese FDI in Haiti, St. Kitts, and St. Lucia. These countries have diplomatic relations with Taiwan and are not approved by the PRC for FDI.

The stock of Chinese FDI amounted to US\$81.2 million in 2005, but by 2013 it had grown to US\$604.45 million. The stock has increased tenfold in a decade. Chinese companies have initiated ventures in several Caribbean countries, with Cuba, Guyana, Jamaica, and Suriname standing out as the most important destinations for investment (Government of the People's Republic of China, 2014). In 2013, Cuba and Guyana were the countries with the largest amount of investment with US\$111.3 million and US\$135.1 million, respectively.

Table 1: Chinese FDI Stock in the Caribbean by Country 2005–13 (US\$ millions)

Countries/Years	2005	2006	2007	2008	2009	2010	2011	2012	2013
Antigua and Barbuda (PRC)	0.4	1.3	1.3	1.3	1.3	1.3	4.8	5.5	6.3
Bahamas (PRC)	14.7	17.5	56.5	0.6	1.6	1.6	1.6	0.6	0.6
Barbados (PRC)	1.7	2.01	2.4	3.3	6	3.9	3.1	4.0	5.0
Belize (PRC)	-	0.02	0.02	0.08	0.08				0.35
Cuba (PRC)	33.6	59.9	66.5	72.1	85.3	70.0	146.4	135.7	111.3
Dominica (PRC)	-	0.7	0.7	0.7	0.7	4.15	8.2	8.2	8.5
Dominican Republic (ROC)	-	-	-	0.6	0.12	0.12	0.1	1.1	1.1
Grenada (PRC)	-	4.0	7.5	7.65	7.65	14.25	14.5	14.5	14.5
Guyana (PRC)	5.6	8.6	68.6	69.5	149.	183.7	135.	151.	225.

Countries/Years	2005	2006	2007	2008	2009	2010	2011	2012	2013
					6		1	9	2
Haiti (ROC)	-	-	-	-	-	-	-	-	-
Jamaica (PRC)		0.02	0.02	2.16	2.16	4.37	39.1	74.9	79.7
St. Kitts and Nevis (ROC)	-	-	-	-	-	-	-	-	-
St. Lucia (ROC)	-	-	-	-	-	-	-	-	-
St. Vincent and the Grenadines (PRC)	12.2 7	14.92	20.8	32.5	23.0 3	36.2	36.2	36.2	36.2
Suriname (PRC)	13.0 2	32.21	65.3	67.7	68.8	78.8	78.8	45.6	111. 9
Trinidad and Tobago (PRC)	-	0.8	0.8	0.8	0.8	0.8	0.9	1.1	3.9
Caribbean	81.2	142.0	290.4	258.8	347. 1	398.1	468. 9	479. 2	604. 5
Caribbean without Cuba	47.6	82.1	123.9	186.8	262. 8	332.5	322. 5	343. 5	493. 2

Source: Government of the People's Republic of China (2014).

- a. PRC-Diplomatic relations with the People's Republic of China
- b. ROC-Diplomatic relations with the Republic of China (Taiwan)

Chinese FDI is beginning to grow in the Caribbean, but as indicated by the Economic Commission for Latin America and the Caribbean (ECLAC), Chinese FDI is still small compared to traditional sources of FDI, such as Canada, the United States, and the United Kingdom (DeGroot and Ludena, 2014). The sectors in which Chinese FDI has been strongest are agriculture, tourism, minerals, and energy. Table 2 shows Chinese FDI based on identifiable projects. While not a complete list, it gives an indication of the sectors in which investments have been made.

Table 2: Chinese FDI in the Caribbean by Country, Company, Sector and US\$ Value

Country	Company	Sector	Investment	
			Value	Date
Guyana	Bosai Mining ^a	Mining investment	\$100mn	2006
	Haier Computer Store ^b	Computer service center		2012
		Computer and TV assembly plant	\$10 mn	Deferred indefinitely
	Bai Shan Lin/China Forest Industry Group ^c	Forestry		
		Wood processing factory	\$70mn	Delayed
		Gold mining		2014
		Housing and mall development		2014
Datang ^d (20% shares in GT&T)	Telecommunications	\$30 mn	2012	
Jamaica	Xinfa ^e	Mining	In discussion	
	China National Complete Plant Import-Export Corporation ^f	Agriculture (cane farming)	\$156mn.	2011
		Manufacturing (sugar)	\$9mn.	2011
	China Harbour Engineering Co ^g	Transport	\$600mn.	2014
		Tourism–hotels		
Suriname	China Zhong Heng Tai Investment ^h	Agriculture/mfg (palm oil)	\$4.5mn.	
Trinidad and Tobago	Chaoyang BVI (25.5% share)	Energy (oil production)	\$0.78mn.	2009
	China Investment Corporation	Energy (natural gas)	\$850mn.	2011
	China Investment Corporation (30% share)	Energy (exploration)	In discussion	
	ENN ⁱ	Energy (compressed natural gas)	MOU signed	2014
	SINOPEC/SABIC JV ^j	Alternative energy (methanol)	Aborted	
The Bahamas	China State Construction Engineering ^k	Tourism	N/A	2014
Antigua	Yida International Investment Group ^l	Tourism	\$1bn	2015

Sources:

a. "Bosai Mining acquires South America bauxite mining company." *Mining Top News*, 2006. Retrieved on 23 November 2009.

b. "Haier service centre opens in Guyana." *Guyana Times International*, 24 February 2012.

c. *Kaieteur News* online edition.

d. "US\$25 mn from sale of GT&T shares going to NICIL." *Stabroek News*, 23 November 2012.

- e. Henry, B. "God returns." *Jamaica Observer*, 7 May 2014,
- f. Douglas, L. "Govt. seals sugar deal with Complant. Chinese company investing US\$156m in industry." *Jamaica Observer*, 16 August 2011, and "J\$8b Sugar Divestment Agreements Signed Between Government and Chinese Investors." 2 August 2010 Available at: <http://jis.gov.jm/j8b-sugar-divestment-agreements-signed-between-government-and-chinese-investors/>
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- h. Ellis, R. E. 2012. "Suriname and the Chinese: Timber, Migration, and Less-Told Stories of Globalization." *SAIS Review* XXXII(2): 9; "Suriname's palm-oil sector to be rehabilitated." Available at: <http://agritrade.cta.int/Agriculture/Commodities/Oil-crops/Suriname-s-palm-oil-sector-to-be-rehabilitated>.
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- k. "Nassau's British Colonial Hilton Sold." Available at: <http://www.caribjournal.com/2014/10/27/nassaus-british-colonial-hilton-sold/#>
- l. "Soil Turned, Jobs On." *Antigua & Barbuda News*, 1 May 2015.

C. Pending Investments

In July, 2016 Jiuquan Iron and Steel (Group) Company Ltd (JISCO), a Chinese company, agreed to purchase from UC RUSAL, a Russian mining company, its bauxite mining and alumina processing plant. The purchase price for what is known locally as Alumina Partners of Jamaica (Alpart) was US\$299 million. Alpart's current production capacity is approximately 1.7 million tons of alumina annually, but its capacity can be expanded to 2 million tons per annum. JISCO intends to invest \$1.7 billion over five years to make the plant more energy efficient and construct a coal-powered aluminium smelter (Collinder, 2016). However, the announcement by JISCO that it was contemplating the use of coal as an energy source has been greeted by public outcry. In addition, the economic viability has been questioned given the current and projected global demand for aluminium.⁶

⁶ Aluminium consultant says Alpart restart will add downward pressure on prices - *Jamaica Gleaner*
<http://jamaica-gleaner.com/article/lead-stories/20160824/aluminium-consultant-says-alpart-restart-will-add-downward-pressure>
 Gleaner Company, 24 August 2016

D. Factors Influencing Chinese FDI

1. Chinese Interest in FDI in the Caribbean

The Caribbean has prospects for garnering FDI from China in tourism, agriculture, energy, and mining. But some of these opportunities are not unique to the region. Caribbean governments therefore need to stand out in terms of the attractiveness of their environmental policies and the ease of doing business in their countries to prosper. In this regard, size is not necessarily a disadvantage. Not all Chinese FDI is executed by giant state enterprises or multinational corporations. Despite the enormous size of the Chinese economy, there are a range of firms of different sizes and, for some of these firms, the Caribbean economies will be a suitable fit. Firm heterogeneity is complex in China, and the mix and relative weight of different types of firms has changed dramatically in last 20 years, with a marked decline in the number of publicly owned companies (Lee et al., 2012; Tse, 2010). It is not necessarily the business focus of a firm that matters in the Caribbean; rather, what matters is the type of business it conducts from its Caribbean location. In this regard, the Caribbean has some geographical advantage, given its close proximity to the United States—the largest market in the world.

2. Caribbean Receptivity to Chinese FDI

Caribbean receptivity to Chinese FDI derives from several factors:

- (a) Throughout its history, the Caribbean has received FDI from a variety of countries in all sectors of the economy. As Caribbean economies are private sector-led and market-driven, FDI has had an established and important role in investment.
- (b) Like all developing countries, Caribbean economies are trying to accelerate economic growth by raising the level of local investment. One way to increase the level of investment is by inflows of FDI.
- (c) Capital flows from China to the Caribbean have predominantly taken the form of grants or loans, and Chinese aid to the region has grown, reflecting geopolitical concerns and the significant increase in Chinese aid worldwide (Chin, 2012). If political rapprochement and economic integration continue between Taiwan and China, both countries may be less inclined to provide aid to the Caribbean. If China reduces its development aid to the Caribbean, governments in the region would have to formulate and implement strategies to shift from reliance on development aid to attracting FDI.

(d) Debt in several Caribbean countries (Robinson, 2015; Sahay, 2005) has already reached levels that constrain economic growth (Greenidge et al., 2012). If the current trend continues, the debt payments of the already heavily indebted Caribbean countries could become unsustainable. Debt restructuring exercises have already been undertaken in Belize, Jamaica, and St. Kitts and Nevis (IMF Press Release, 2012).⁷

⁷ St. Kitts and Nevis concluded a successful debt exchange with bondholders and external commercial creditors on 18 April 2012. The exchange covered US\$135 million, representing about 13 percent of the total debt portfolio and 19 percent of GDP. St. Kitts and Nevis—Second Review Under the Stand-By Arrangement and the Financing Assurances Review, and Request for Waivers of Applicability—Staff Report and Press Release, International Monetary Fund, 4 May 2012.

E. Potential Opportunities for Increased Chinese FDI to the Caribbean

This section discusses the prospects for increased and diversified Chinese FDI in the Caribbean. China already has a long, stable, and supportive relationship with several Caribbean governments, including Guyana, Jamaica, and Trinidad and Tobago, with which it established diplomatic relations in the 1970s. However, more needs to be done on the Caribbean side to further enhance prospects for Chinese OFDI. Trinidad and Tobago only established an embassy in Beijing in 2013 (Cambridge, 2013), despite almost 40 years of diplomatic ties, including the visit of the Prime Minister of Trinidad and Tobago, Eric Williams, to Beijing in 1974.

There may be opportunities for Chinese investment in the Caribbean tourism, agriculture, forestry, construction, infrastructure, education, real estate, and healthcare sectors. Chinese firms are being encouraged by both their own government and those of the Caribbean countries to examine investment prospects in the region. The Government of Trinidad and Tobago held an investment promotion event in Beijing in April 2010, and Jamaica has sent several tourism promotion delegations to events in China, such as the Shanghai Trade Show, in an attempt to attract Chinese tourists to the country. In 2013, just 2,420 of more than 2 million tourists to Jamaica were from China. In March 2014, Jamaica waived visa requirements for tourists from China (Walker, 2014) in the hope of encouraging more arrivals (Taylor, 2014).⁸

Demand for food in China will increase with population growth and rising income levels; consequently, food imports will escalate, which could induce further Chinese investment in agricultural production overseas. The fertile, well-watered land of Belize, Guyana, and Suriname, are attractive possibilities, as much of this land is suitable for food crops, including rice. Likewise, China's need for lumber for construction could impel investment in the timber reserves of Belize, Guyana, and Suriname. China Zhong Heng Tai Investment Company (CZHT) (Hanson, 2008) has made an investment that will resuscitate palm oil production in Suriname. China's purchasing and leasing of land is, therefore, likely to continue. While there have been some concerns expressed in the media suggesting that China is involved in a neo-colonial "land grab" in developing countries ("Cornering foreign fields", 2009), the facts do not support such an exaggerated characterization (Olsson, 2012).

Caribbean countries could be attractive as production platforms for exports to the United States, Canada, and the European Union. Some Caribbean countries have preferential trade

⁸ This prompted the speculation that in a Jamaica with almost 20 percent unemployment, "the number of work permits to Chinese increasing and the waiving of visitor visas, it is not difficult to understand that the average worker could feel threatened by the 87 million unemployed Chinese." See Taylor (2014).

arrangements, including the Caribbean Basin Economic Recovery Act,⁹ which has been extended to 2020 by the Haiti Economic Lift Program Act of 2010 (HELP), the Caribbean–Canada Trade Agreement (CARIBCAN),¹⁰ the Central American–Dominican Republic–United States Free Trade Agreement (CAFTA-DR),¹¹ and the CARIFORUM–EU Economic Partnership Agreement. This possibility is beginning to elicit interest from Chinese investors, such as Mindray, a joint Chinese-U.S. venture that manufactures electro-medical equipment in China for sale in more than 60 countries around the world, which is currently exploring the possibilities of investing in Jamaica. In addition to a logistics and distribution center in Jamaica to serve export markets in the Western Hemisphere, it is also considering the establishment of a manufacturing, assembly, and/or repair and after-sales facility (JAMPRO Press Release, 2012). Chinese companies may also be interested in producing in the Caribbean for export markets where Chinese goods face non-tariff barriers (Wong, 2003)¹² and phyto-sanitary barriers.

China has made a strong push for involvement in ports across the globe and activities related to shipping and shipyards. Chinese companies have investments in ports in The Bahamas, Bangladesh, Belgium, Djibouti, Greece, Nigeria, Pakistan, Singapore, Sri Lanka, Togo, and the United States (Los Angeles, Seattle) (“China’s foreign ports”, 2013). Chinese companies have shown interest in upgrading the port of Kingston and establishing a proposed logistics hub.

China has huge potential as an investor in the region, particularly in the minerals and agriculture sectors. The Caribbean has several raw materials that are of interest to China, in particular, bauxite, natural gas, and fish stocks. China has a strong interest in bauxite because it currently consumes over 40 percent of the world’s aluminum production (ECLAC, 2012), up from roughly 5 percent in 1990. Indicative of China’s interest in mineral supplies was its willingness to finance and construct a US\$400 million aluminum smelter in Trinidad in 2008 (China Aluminum Network, 2008). However, the current Government of Trinidad and Tobago decided not to proceed with this project for reasons unrelated to China’s potential involvement.

⁹The beneficiary countries of the Caribbean Basin Economic Recovery Act that are not parties to the Central America–Dominican Republic–United States Free Trade Agreement (CAFTA–DR) are Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, the British Virgin Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

¹⁰ The Caribbean–Canada Trade Agreement is a Canadian government program established in 1986 to provide duty-free access to the Canadian market for all products except the following items: textiles and apparel, footwear, luggage and handbags, leather garments, lubricating oils, and methanol. The beneficiary countries are Anguilla, Antigua and Barbuda, the Bahamas, Bermuda, Barbados, Belize, the British Virgin Islands, the Cayman Islands, The Commonwealth of Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the Turks and Caicos Islands.

¹¹ The CAFTA-DR agreement is a free trade agreement between the United States and five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic.

¹² Avoiding non-tariff barriers has been identified as one of the motives for FDI. See Wong and Chan (2003).

The possibility of discovering oil and mineral deposits in the vast expanses of Guyana, as well as the unexplored marine and seabed resources of the Caribbean, is unlikely to have escaped China's attention. China is already the second largest importer of hydrocarbons, and demand is projected to grow ("The Rise of China," 2011).

There is also the prospect of unexpected investment opportunities to consider; for example, the potential extraction of rare earth metals from the residue of alumina plants in Jamaica, which is currently being explored by a Japanese company. China is currently the world's largest producer of rare earth metals (McFadden, 2013),¹³ accounting for 90–95 percent of total production (mostly found in Inner Mongolia), of which Japan imports 60 percent. The rapid increase in demand in recent years has led to a shortage and, since 2009, China has instituted measures to limit its supply. The potential developments in Jamaica are particularly attractive because deposits of rare earth elements are typically widely dispersed and not often found in economically exploitable concentrations.

In addition to the natural resource and trading advantages of the Caribbean, there is also the potential for the region to develop its relations with China through a number of people-to-people links. Given the projected growth of global tourism in years to come, and the role that an increasing number of Chinese tourists will play within this trend, Chinese investment in the global tourism industry is likely to expand. Chinese companies have already invested in hotel construction in the Dominican Republic, and this type of investment could increase should Caribbean nations seek it out, both for hotels and in cruise shipping. It is estimated that 234 million Chinese will travel globally by 2020 and expenditure is projected to amount to US\$422 billion in that year (Booker, 2015). The Caribbean could be early in capitalizing on these new trends, especially if opportunities are designed specifically with Chinese tourists in mind, such as shopping (Silverstein et al., 2012).

The alacrity with which Chinese investors are buying luxury properties in the United States and Europe is indicative of an appetite for luxury real estate. The Caribbean, however, has been slow to entice wealthy Chinese to invest, particularly in luxury resort properties. For countries to transfer this latent appetite into actual investment requires the right approach. Real estate firms in the United States have sent Mandarin-speaking salespersons to China to meet prospective purchasers (Schuker, 2012), and builders have incorporated Chinese culture into the design and outfitting of properties.

¹³ Rare earth elements or rare earth metals are seventeen chemical elements; specifically, the fifteen lanthanides, scandium, and yttrium. See McFadden (2013).

The provision of education and training by Chinese institutions in the Caribbean, including universities, is a possibility, particularly in science and technology. This could be implemented in the same way that US universities currently operate in Grenada and St. Kitts. There are opportunities for cooperation between universities in the Caribbean and those in China in language training, research, and in teaching and student exchanges. This could be an important part of China's soft power outreach and could easily be expanded, as only a small number of Caribbean students have taken up scholarships to study in China. The return and employment of these graduates could be beneficial to the efforts of Caribbean governments wishing to deepen diplomatic relations and enhance the private sector's capacity to do business with China.

Chinese investors have also shown a marked affinity for the acquisition of brands as a faster method of market penetration, rather than introducing and popularizing their own brands (Backaler, 2014). The Minister of Commerce has been quoted as stating: "We will encourage the best firms to acquire or build up overseas operations and to license or acquire famous global brands in order to obtain international recognition and improve the image and competitiveness of Chinese products."¹⁴ The Caribbean has high-end products and globally renowned brands such as El Dorado rum, Angustora Bitters, Red Stripe beer, Appleton rum, Tia Maria coffee liqueur, Grace Foods, and Mount Gay rum.

¹⁴ "China pushes firms to shop for famous global brands." Reuters Mar 7, 2011.
<http://www.reuters.com/article/us-china-overseas-deals-idUKTRE72626G20110307>

F. Prospects for Chinese FDI in the Caribbean

1. Diplomatic Recognition of the People's Republic of China

The unabated rivalry between China and Taiwan for diplomatic recognition as the sole and rightful government of China has a decisive influence on the amount and allocation of development aid and the countries with which the state in China encourages FDI. China's policy is to provide aid to and allow FDI in only those Caribbean countries that recognize the PRC as the sole legitimate Chinese government (Bernal, 2010). FDI from China has been increasing rapidly in the Caribbean countries that have done so (Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, Suriname, and Trinidad and Tobago)—in sharp contrast with the virtual absence of FDI in the countries that recognize Taiwan (Belize, the Dominican Republic, Haiti, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). Grenada, which changed its policy regarding Taiwan and established formal relations with Beijing in 2005, saw its Chinese FDI grow from next to nothing to over US\$14 million in 2011.

Despite this, some private Chinese firms, particularly those engaged in trade, continue to conduct business with Caribbean countries that choose to recognize Taiwan. China Harbour Engineering Company (CHEC), which has its LAC headquarters in Kingston, Jamaica, is one such company. CHEC has opened a sub-regional office in Panama City. The establishment of the office followed successful bids on infrastructure projects on a container terminal in Colon, Panama valued at US\$66 million and a terminal construction and repair project in San Vicente, Chile worth US\$77 million.¹⁵ CHEC's first project in Panama was in 2002 when it was awarded the contract for Phase 3 of the development of the Port of Balboa Container Terminal. Interestingly, the project, which was finished on schedule, employed approximately 550 workers, all of whom, according to CHEC, "were locals".¹⁶

In the Dominican Republic, the Australian company Perilya Limited acquired 100 percent of the shares of the mining company Cormidom in 2011, and 53 percent of Perilya shares are owned by Shenzhen Zhongjin Lingnan Nonfemet Company Limited, a Chinese company ("Outlet questions China's Entry," 2013). This illustrates how a Chinese firm can become involved in FDI in a country with which it does not have diplomatic relations, by having a subsidiary of a Chinese company make the investment. This type of investment could happen more frequently in the future as the corporate configuration of globally operating Chinese firms becomes more diverse and complex.

¹⁵"CHEC opens subregional office in Panama City," Panama-CHEC. Available at <http://latin.checlatin.com/index.php/panama>

¹⁶"CHEC opens subregional office in Panama City," Panama-CHEC. Available at www.checlatin.com/index.php/panama

2. China's Promotion of Outward FDI

The number of Chinese-owned enterprises operating overseas has been growing rapidly. In 2010 there were 13,000 Chinese-owned overseas enterprises in 177 countries (Shambaugh, 2013), and by 2012 there were 16,000 in 179 countries (WEF, 2013). Most of the Chinese firms operating in the Caribbean have been service providers and not investors. These firms have been almost exclusively involved in the provision of construction services to governments in the Caribbean. The funding for these construction projects has come from agencies and financial institutions of the Chinese government. Investment, aid, and provision of construction services have been a nexus and a mechanism for the introduction of Chinese firms into Caribbean countries. Most of China's projects have been funded by preferential loans from state-owned Chinese banks, the Chinese Development Bank being the most important (Anderlini, 2011). For example, in Suriname, where the government has agreed on several infrastructure projects with two Chinese enterprises, Cheng Don International and China Harbour, involving the financing and execution of projects, Cheng Don International will construct 8,000 public housing units, and China Harbour will be engaged in road and railroad links between Suriname and Brazil, a deep-sea harbour, a sea dam from Albina to Nickerie, and a highway to Zanderij.

China is interested in promoting, or at least facilitating and supporting, OFDI because it sees the obvious benefits of this type of development in terms of expansion of exports, outsourcing production, and control of raw material supplies. In September 2007, China announced that it would provide US\$530 million in concessional loans over three years to Chinese companies investing in the Caribbean. These funds from state-owned financial institutions have been used to finance projects in which Chinese firms have been awarded the contract for construction, financed by loans to governments in the Caribbean. In June 2013 President Xi Jinping announced that China would make available US\$3 billion for infrastructure projects in the Caribbean countries that have diplomatic relations with China.¹⁷ While undoubtedly the projects will be executed by Chinese companies, they could result in these firms becoming investors.

There is a learning curve that Chinese firms will inevitably have to climb, especially because of their very limited experience with FDI in the Caribbean. The learning curve is not confined to the Caribbean: it is also taking place in Latin America (Ellis, 2012), but it is

¹⁷ "China's Xi Offers Caribbean Nations \$3 Billion in Loans", <http://www.bloomberg.com/news/articles/2013-06-03/china-s-xi-offers-caribbean-nations-3-billion-in-loans>. 3 June 2013.

complicated in the Caribbean because of the differences in the investment environments among the countries.

3. Business Environment in the Caribbean

Given the competition globally for investment, governments in the region would be advised to proactively facilitate the ease of doing business for Chinese firms. Ensuring that the costs of entry are minimized and bureaucratic processes streamlined will be key to this process. One of the prerequisites for expansion in business activity is to make it as easy as possible for enterprising individuals, local and foreign, to establish and operate businesses. The World Bank and the International Finance Corporation's *Doing Business 2014* report states that most Caribbean governments have progress to make with regard to making it easier for businesses to establish and operate.

4. Learning Process

The process of Chinese FDI is more complicated than the process for a non-Chinese private foreign company investing in the Caribbean. First, FDI is a relatively new phenomenon in China; hence, there is a learning process, particularly when many of the Chinese enterprises are young, that is, they only came into existence in the 1980s and 1990s (Backaler, 2014) and are relatively inexperienced at making overseas investments. Second, Chinese firms do not follow the existing theories of the firm, which assume that firms internationalize to exploit competitive advantages. Instead, many Chinese firms make such foreign investments to address competitive disadvantages at home (Child and Rodriguez, 2005). Third, there is also a learning process for the country that receives the investment. Caribbean countries have some experience in dealing with state enterprises from socialist countries such as Cuba and the Soviet Union (Davis, 1995), but their experience lies primarily with government officials and public enterprises. Few in the Caribbean private sector have had dealings with Chinese firms outside of arms-length trade that focused almost entirely on importing from China. Fourth, Chinese FDI inevitably involves state-to-state negotiations, which adds an additional layer of negotiations compared with normal private enterprise transactions. Given the state control of the Chinese economy and governance process, the involvement of the state in some form—national, provincial, or local—is inevitable, even when it involves a private enterprise. Adam Hersh observes: “There is often no clear distinction between ‘privately owned’ and ‘government-owned’ enterprises in terms of government support,” and cites a U.S. diplomat who opines: “In

the United States you can do whatever you want unless the government says you can't. In China you can only do what the government permits you to do" (Hersh, 2012).

Because Chinese firms are inexperienced in operating in foreign countries (Shambaugh, 2013), they are increasingly employing mergers and acquisitions of foreign firms to expand overseas (Jacques, 2009). Mergers and acquisitions up to the end of 2009 accounted for 30 percent of China's total OFDI (Government of the People's Republic of China, 2010) and for the vast majority of Chinese investment in the United States in 2010 and 2011 (Haneman, 2011). The majority of mergers and acquisitions have been in oil, gas, and minerals (Davies, 2012).

Mergers and acquisitions are one way Chinese firms have sought to shorten the learning process of investing in the Caribbean and to gain market acceptance through the acquisition of an established brand or renowned firm. Chinese investors may seek to acquire Caribbean firms and/or Caribbean export products that are established global brands, as they have done with some US firms. The acquisition of IBM's personal computer division by Lenovo—a virtually unknown Chinese computer manufacturer—and the purchase of Volvo from Ford by the Zhejiang Geely Holding Company and of Rover by Nanjing Automobile Corporation, for example, obviated the need to establish a product in a new market. It is important for both the host country and the foreign investor that strategic business alliances and mergers have positive externalities in which the local enterprise is an opportunity investor and not a necessity investor, and that they help to internationalize local businesses rather than merely encapsulate local firms at the lowest levels in global value chains. Corporate alliances can be beneficial to foreign investors as they integrate local knowledge-based competitive advantages and furnish immediate access to local networks of suppliers and customers.

4. FDI Policies of Caribbean Governments

The Caribbean countries have sought to induce FDI by establishing bilateral investment treaties (BITs) with a number of countries, mainly in Europe and North America. Eighty-two BITs have been signed in total. A number of BITs have been signed with China, a trend that started well before China became a major source of investment in the Caribbean. Jamaica signed a BIT with China in 1994 and a Double Taxation Avoidance Agreement (DTA) in 1996. Barbados signed a BIT in 1998 and a DTA in 2000. Trinidad and Tobago signed a BIT on 22 July 2002 and a DTA in 2003. In 2003, Guyana signed an Agreement for the Encouragement and Reciprocal Protection of Investment. These BITs vary in focus as they relate to coverage of assets, dispute resolution, expropriation, and compensation.

The role that BITs play in encouraging FDI is open to debate (Sachs and Sauvant, 2009). For example, it is interesting that the United States has BITs with Grenada, Haiti, and Jamaica, but the stock of U.S. investment is largest in the Bahamas, Barbados, and Trinidad and Tobago (Hornbeck, 2008) China has nevertheless considered BITs and DTAs an important part of its “active investment diplomacy” since the early 1980s. It had signed 127 BITs by 1 June 2010 and 112 DTAs by 1 June 2009 (Davies, 2010: 5).

Although China constitutes a huge pool of potential foreign investment for the Caribbean, efforts by Caribbean governments and firms have been limited to investment promotion missions rather than a sustained and planned campaign. As China becomes more economically involved in the region, its investment interests could expand, but the extent to which this occurs will be influenced by how the Caribbean countries market themselves. For example, investment promotion missions have been mounted by Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago, although there is often insufficient scope for embassy staff to follow up on these missions once they have taken place. The embassies have, however, been able to make small improvements to facilitate exchange; for example, the bureaucratic and time consuming process of issuing visas for business travel to Jamaica has now been abolished.

Investment would be more likely to grow if it involved partnerships, joint ventures, and strategic business alliances between Chinese and Caribbean firms. Government investment promotion agencies could encourage these by disseminating information and brokering strategic corporate alliances (“China extends aid to Jamaica,” 2010). Further, the Caribbean, as a group of small investment destinations, should collectively present the region as a cluster development opportunity for China. The efficacy of presenting the Caribbean as a region in which there are broad similarities and commonalities has been proven through tourism in the region, without obscuring the uniqueness of each country. Marketing the region also has the advantage of presenting a larger market to Chinese investors.

Cuba has traditionally been reticent about the role of FDI in its economy (Feinberg, 2012), but attitudes have been changing in recent years. Increased Chinese interest in Cuba might have been prompted by that country’s March 2014 investment law,¹⁸ which provides exemption from tax on profits for eight years for joint ventures with the Cuban state and between foreign and Cuban companies. It also allows for 100 percent foreign ownership of companies, although these investments are not eligible for tax exemptions. In addition,

¹⁸ “Cuba passes law to attract foreign investors—Americas.” <http://www.aljazeera.com/news/americas/2014/03/cuba-passes-law-attract-foreign-investors-2014329174342904833.html> 30 March 2014.

foreigners doing business in Cuba are exempted from personal income tax. Foreign investment is allowed in all sectors, other than health care and education.

5. Transnational Ethnic Business Networks

For the Caribbean countries, transnational ethnic business networks are already an important determinant of the growth of trade and investment with China (Rama and Wilkinson, 2012). Peter Drucker was prompted to describe the overseas Chinese as a “new economic superpower” (Drucker, 1995: 205). Kao suggests that Chinese businesses, many of which are located outside of China, constitute the world’s fourth economic power (Kao, 1993). Chinese business networks are a global phenomenon (Weidenbaum and Hughes, 1996), and have been important in the development of commerce in several countries, for example, in Asia. (Chung, 2005). Chinese private enterprises depend on the local overseas Chinese network and other networks to facilitate their entry into overseas markets (Song, 2011). Particularly in the early stages of internationalization “Chinese firms operating overseas tended to lean on ethnic and other similar networks for business opportunities, relations with local authorities and management of labor” (Fornes and Philip, 2012: 85-86). The government of China has mounted a strategy to engage Chinese diaspora communities in an effort to strengthen political relations and promote business ties. Chinese officials met with representatives of 25 Chinese organizations in Havana in October 2009 and mooted their role in fostering closer relations between China’s embassies and the local businesses (Navejas, 2011).

In Suriname, the Chinese community accounts for 8 percent of the population, a figure which has increased following recent migration. According to Ellis, they have been “local” partners in investment projects with Chinese companies, and play “a leading role in the business and political structures of the country” (Ellis, 2012: 88). The existence of a strong business community of Jamaicans of Chinese descent with links to Hong Kong and recent immigrants from China has contributed to a social and cultural comfort level that has allowed China to step up its relations with Jamaica and extend from there to the rest of the Caribbean. The Chinese-Jamaicans have always been involved in trade with Hong Kong, including through relatives and family friends. In recent years, the number and range of imports has grown and is no longer dominated by Chinese-Jamaicans. The Chinese-Jamaican business community, like Chinese social networks elsewhere in the world (Rauch and Trindade, 2002) has the comparative advantage of family links, knowledge of both cultures, a command of both English and Mandarin, and knowledge of supply and demand in both countries. These advantages allow

them to develop relationships of trust (Rauch, 2001)¹⁹ and overcome information asymmetries that would inhibit other traders and allow them to achieve lower transaction costs. These types of business connections between people from ethnic Chinese backgrounds could be important for the development of trade and investment between China and the Caribbean.

7. Potential Non-economic Frictions

It is not unusual for FDI to arouse nationalist sentiment within the receiving country. Due to both reality and perception, considerable misunderstanding and resentment can build up between foreign investors, the government, and in the populace at large. The impression of the inexorable rise of China and the frequently expressed view that China is literally “buying up the world” is emotive though unfounded (Nolan, 2012). Nonetheless, this idea can arouse nationalist sentiment against FDI, particularly as the experience with Chinese FDI is not without real problems. Regarding Chinese FDI in Africa, UNCTAD reports that “the average Chinese firm operating on the continent is a large state-owned enterprise and tends to enter new markets by building new facilities, is highly vertically integrated, rarely encourages the integration of its management and workers into the African socioeconomic fabric, conducts most of its sales in Africa with government entities, and exploits its ability to out-compete other bidders for government procurement contracts” (UNCTAD, 2011: 12). Interestingly, however, Africans, by a two-to-one majority, view China’s investments favorably rather than negatively (Moyo, 2012).

In small developing economies such as those of the Caribbean, the sizes of multinational corporations compared with local governments can quickly lead to feelings that the economy is inundated and overwhelmed. A single large investment or project in a small developing country can, and has, aroused hostility. In many instances local trade unions and contractors, for example, in Barbados,²⁰ architects in Trinidad and Tobago, and engineers have complained about the employment of Chinese workers on projects being executed by Chinese firms. There have been protests against Hutchinson Port Holdings of Hong Kong in the Bahamas, China Harbour in Jamaica, China Jiangsu in Trinidad (Ellis, 2013), and Shanghai Construction Group in Guyana (Chabrol, 2013).

¹⁹ Social networks engender trust that facilitates contractual arrangements that promote trade. (See Rauch 2001).

²⁰ “Influx of Chinese Workers Irks Local Unions.” Available at <http://www.ipsnews.net/2007/07/caribbean-influx-of-chinese-workers-irks-local-unions/> 27 July 2007

The Chinese community has become increasingly visible in the Caribbean: in Suriname, it is approaching 10 percent of the population (Romero, 2011). In general, the community has two sources: Caribbean citizens of Chinese descent and those who are recently arrived from China. The newly arrived Chinese often originate as workers, brought from China to work on a particular project, who choose to remain in the Caribbean after the project's completion. Some of these individuals settle, with the intention of going elsewhere, particularly to the United States (Dean, 2011),²¹ while others opt to establish small trading businesses. The new settlers are often so successful that local traders and small businesses lose customers to them. This occurs because they are able to import goods from China more cheaply than local traders by taking advantage of their language capability and contacts. This has become an economic issue and nascent source of social friction in parts of the Caribbean, as well as Africa (Alden, 2007). In Suriname, for example, this has led to opposition to Chinese investment in the country's palm oil production (Ellis, 2012). Further fragmentation of relations with the local community have been linked in some Caribbean countries to the alleged relationship of the Chinese community to human trafficking (Ellis, 2014), and to illegal gambling and money laundering.²²

8. Performance of the Vanguard Companies

The development of FDI in a new sector or country by a “vanguard” company can, in some instances, develop momentum for other operations to enter a market. As a result, the successful operation of pioneering Chinese enterprises can have a demonstration effect on other potential Chinese investors. The successful entry of foreign firms into a market shows that the business environment is receptive to foreign investment and that any problems of market penetration can be resolved. There are currently several Chinese companies—only a few at this time—that could play this role and whose activities are already a vanguard in operating in the Caribbean.

China Harbour Engineering Company Ltd. (CHEC), a subsidiary of China Communications Construction Company Ltd (CCCC), a large state-owned transportation infrastructure group, has carried out several construction projects throughout the Caribbean, operating from its regional head office in Kingston, Jamaica. CHEC, which is focused on basic infrastructure construction, such as marine engineering, dredging, reclamation, and the construction of buildings, roads, bridges, railways, airports, and ports, has 40 overseas offices with activities in more than 70 countries. CHEC is now the major international operating division

²¹ Concern about new Chinese migrants/settlers is also evident in the United States because the U.S. government is concerned about Chinese workers entering the United States from The Bahamas rather than staying there or returning to China. See Dean (2011).

²² “Roulette machines, who who linked to laundering.” *Trinidad and Tobago Guardian*, 5 October 2014, 1.

of CCC group, which was ranked first among all Chinese international contractors in 2011.²³ CHEC established offices in Jamaica in April 2010. Having completed several major infrastructure projects, CHEC is highly visible and its success could encourage other Chinese enterprises to explore the Jamaican business environment.

9. Foreign Investor–Host Country Partnership

The contribution of FDI and its efficacy in promoting economic growth and economic development has been a longstanding debate in both development economics²⁴ and in Caribbean economic policy.²⁵ The generally accepted conclusion from this debate is that FDI can make a positive economic contribution under the appropriate conditions. The appropriate conditions vary from country to country and will depend on the local laws, regulations, guidelines, institutions, and policy framework within which FDI is expected to operate. The issue for the host country is to ensure that the benefits of FDI are maximized and exceed any costs (OECD, 2002).

FDI can make a significant contribution to the growth targets of developing economies through increased productive capacity, raised exports and foreign exchange, higher taxes, and employment. It can also create positive spillover where it generates learning and feeds best practice with regards to management techniques, business innovation, and integration into global value chains. (Farole and Winkler, 2014). The extent to which spillover occurs depends on the development of backward and forward linkages (Hirschman, 1958) and the domestic factor of productivity, in particular human capital (Borensztein et al., 1995). FDI can alleviate investment, foreign exchange and trade constraints (Chenery and Strout, 1966), and can therefore be mobilized in an effort to raise the level of gross investment above that financed from national savings. FDI has costs and benefits for the host country (Bernal, 1984), especially when that country is a developing economy. The small developing countries of the Caribbean, while welcoming FDI, remain wary of its implications, particularly where multinationals and large corporations enter the domestic market with revenues above national GDP levels. Foremost among concerns is the impact on market share, where overseas actors secure significant ownership and control of specific sectors and attendant assets such as land. Equally, overseas

²³ China Harbour Engineering Company Ltd. > About CHEC ...www.chec.bj.cn > Home > About CHEC > Corporate Overview.

²⁴ It is not the intention to survey this literature but merely to indicate some of the sources which set out the pros and cons of FDI and cite them from different dates to indicate that the debate has continued. For a succinct overview see Meier (1970), Moran (1998), Loungani and Razin (2001), Moran (2011), and Faroule and Winkler (2014).

²⁵ Discussions of FDI in the Caribbean include Lewis (1950), Carrington (1968), Girvan (undated), Bernal (1984), and Ramsaran (1985).

ownership can feed narratives of asset-stripping where profits are removed from the national economy, harming longer-term development aims.

The prospective development of a logistics hub in Jamaica has triggered a debate over the desired equilibrium to be found between regulations that protect the environment and the business practices proposed by investors to secure their desired returns. The prospect of Chinese investors in Goat Island, an integral location for some of the activities of the proposed hub, has raised the issue of the impact of Chinese foreign investors on the natural environment (“Chinese Contractor”, 2012).²⁶ Some vociferous groups and individuals have argued that the development of Goat Island would destroy unique natural features not found anywhere else in the world. The government, however, has dismissed such claims of uniqueness as spurious, though this has not assuaged critics (“Time China got serious on pollution,” 2014).²⁷ They cite the operations of Chinese firms in Africa in mining and the polluted air in several cities in China.

All foreign investors, regardless of their country of origin, should be made to operate in a manner that facilitates development with minimal adverse impact on the natural environment. In order for Caribbean governments to ensure their economies gain the maximum from the operations of FDI, they must establish a regulatory regime involving the following:

First, in their investment promotion programs, Caribbean governments must screen and identify the “right” foreign investors. The considerations here go beyond the financial capacity of the firm to make the initial investment, and include the encouragement (not enforcement) of technology transfers, joint ventures, and the utilization of local labor, raw material, and local suppliers. It is vital to weigh the size of both firms and their investments against their credibility as ethical corporate actors. Due diligence, and the institutional capacity to undertake it, on foreign investment will be paramount for Caribbean countries, to protect against money laundering and to ensure the protection of national standards and reputations.

Second, Caribbean countries must create and maintain a business environment that provides the incentives that maximize the benefits of FDI, such as encouraging joint ventures, local sourcing of inputs and collaborations with local institutions, such as in research and development. In this regard the stable, democratic traditions and the high quality of human resources in most Caribbean countries will be an asset.

²⁶ These concerns prompted the Prime Minister of Jamaica to give a public assurance that all regulations would be observed in a road construction project being executed by a Chinese company, China Harbour Engineering Company, which has satisfactorily completed several projects in Jamaica. See “Chinese Contractor Has to Adhere to The Rules-PM.” *The Gleaner*, 6 December 2012.

²⁷ The *Financial Times* suggested in an editorial that the political leadership in China “needs fast growth more than it needs clean air, clean soil and clean rivers”. See “Time China got serious on pollution.” *Financial Times*, 4 March 2014,10.

Third, the greater role of overseas investors comes with a need to create a regulatory structure capable of ensuring that benefits are secured at an acceptable cost. It is worse to attract bad investment than no investment at all. This point is of particular relevance given the lessons to be learned from the case of the Port Royal logistics hub in Jamaica and its track record of attracting investment “pirates.” As a result, legislation is required to uphold standards on a number of fronts, such as labor, taxation, and environmental protection. Caribbean governments must exercise surveillance and when necessary to enforce regulations and impose penalties on foreign and local investors who violate these regulations. If all else fails, the governments must also be prepared to institute the ultimate remedial action of closing down undesirable operations.

Conclusions

China's FDI seems likely to increase significantly in the future as China continues to grow and becomes more integrated into the global economy. Chinese FDI is spreading to all parts of the world in pursuit of opportunities in a wide range of sectors, but particularly in energy, raw materials, and food production. China has established a growing political and economic presence in the Caribbean, primarily through development assistance. A limited amount of Chinese FDI has taken place in the Caribbean in recent years, however, and there is potential for the number of investments and the amount of FDI to increase quickly. The circumstances for increased Chinese FDI in the Caribbean are propitious. On the Chinese side, there have been indications of interest by Chinese enterprises and entrepreneurs prompted by a combination of the existing drivers of Chinese FDI and the factors peculiar to the Caribbean. On the Caribbean side, there is the well-established receptivity of Caribbean governments to FDI in general. The expansion and spread of Chinese FDI could be an important development for the Caribbean countries, given their economic circumstances, and it may assume some urgency if there were a reduction in Chinese aid and loans. Such an eventuality could arise if the contentious diplomatic dispute with Taiwan abates.

The analysis of the prospects for Chinese FDI in the Caribbean has revealed findings and issues pertinent to developing countries in general. The potential for increased Chinese FDI clearly exists and is growing with the encouragement of the political directorate. The impulses for Chinese FDI are arising at the level of enterprises and from the overarching policy of enhanced engagement with the global economy, which will not direct all aspects, but seeks to prompt FDI in the general direction of the priorities of the state. The Caribbean provides a range of investment opportunities and a policy framework which, although it could be made more investor friendly, generally seeks to induce FDI. The favorable disposition and interest of both sides is conducive to Chinese FDI but there is an unavoidable learning process taking place on both sides. Among the considerations that will determine the amount, sectoral distribution, and pace of Chinese FDI are factors internal to China and the Caribbean and those prevailing in the global economy. The global context impinges on the increased possibility of Chinese FDI in the Caribbean because most of the existing opportunities are not unique to the region. As a result, the Caribbean countries must continue to compete with other countries, especially other developing countries, for Chinese FDI.

Appendix I: What is Chinese FDI in the Caribbean?

Establishing what exactly constitutes Chinese FDI in the Caribbean is complicated for the following reasons:

First, it is necessary to differentiate FDI from other capital flows from China. There is a tendency in the literature to conflate all capital flows and label them “investment.” This is particularly misleading in the case of the Caribbean because these flows are almost entirely loans from the Chinese state and its agencies and institutions. Data compiled from sources other than the government of China do not differentiate the two types of capital flows; therefore, it is not possible to identify FDI.

Second, care has to be exercised when interpreting the data on FDI available from the government of China both at the aggregate level and regarding disaggregated flows (Rosen and Hanemann, 2009).

Third, funds originating in China and deposited in Caribbean financial centers such as the Cayman Islands and the British Virgin Islands are frequently classified as part of China’s stock of FDI. The magnitude of the misrepresentation is evident when the data suggests that the British Virgin Islands and the Cayman Islands accounted for 11.5 percent of total FDI by the end of 2012 (Government of the People’s Republic of China, 2013). These significant pools of funds in Caribbean financial centers are indicative of (a) “round-tripping,” i.e., the practice of sending capital out of China to bring it back as foreign investment and thereby gain the benefits of special concessions and lower taxes and (b) capital flight mainly exited to Hong Kong that is being repatriated. These funds may have accounted for 20–30 percent of FDI inflows (Xiao, 2004).

Fourth, another complication lies in determining the actual sources and destinations of FDI, because some investment flows are routed through Caribbean jurisdictions and therefore could be misinterpreted as originating in those states. Estimates vary: some sources suggest that by 2006 the Cayman Islands accounted for one-fifth of China’s total OFDI (Sutherland and Matthews, 2009); some rank the British Virgin Islands as the second largest source of FDI into China (Palan et al., 2010), and other calculations suggest that in 2009 the Cayman Islands and the British Virgin Islands together accounted for 12 percent (Salidjanova, 2011).

Fifth, information on Chinese FDI is not complete because it does not capture small private investments. There are several small enterprises owned and operated by Chinese

migrants which fall under the proverbial radar screen of registration by the state in China. These are settler-type investments in which the investor and their capital move to the Caribbean.

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