

## **Testimony before the U.S.-China Economic and Security Review Commission**

Hearing on “China in Latin America and the Caribbean”

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### **“The Caribbean is not a Rorschach Test”**

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Commissioner Bartholomew, Commissioner Scissors, distinguished members of the US-China Economic and Security Review Commission, thank you for inviting me to testify today on China’s engagement in the Caribbean.

For decades the U.S. has been sleepwalking towards the Caribbean. Recently, foreign policy discussions around China-Caribbean engagement have been uniformly skewed towards speculation on China’s intentions in the Caribbean. Everytime the U.S. perceives a Communist threat in the Caribbean a new acronym is unilaterally created. When Cuba sided with the Soviet Union, President Kennedy created the AIP (Alliance for Progress) in 1961. After the Marxist-led revolution in Grenada, President Reagan created the CBI (Caribbean Basin Initiative) in 1983. Now with the increased engagement of China in the region, President Biden created the SALPIE (Small and Less Populous Island Economies) Initiative in 2021. But given the precedent of previous acronym-initiatives there is justification for not setting high expectations.

Little effort has been placed on honing a nuanced understanding of what the Caribbean has gained and hopes to gain from its engagement with China. The Caribbean is not an idle player. Regional governments actively seek deals from Chinese firms and government organizations - often with significant success. The fundamental question should not be why is China engaging in the Caribbean. Rather, it should be why do Caribbean countries so readily seek out deals with Chinese firms?

One problem that prevents this question from being posed is that the U.S. (from think tanks to policy staff) tends to treat the Caribbean as a foreign policy Rorschach test - they look down the island chain and see what they want instead of what is actually there. This imprinting leads to policy miscalculation. The Caribbean region is heterogeneous and has its own agency. A robust U.S. foreign policy must take that fact head on and not brush it to the side.

It is not too late for the U.S. to arrest the deepening of China-Caribbean engagement that could go contrary to U.S strategic interests. But it requires wrestling with the facts on the ground and countering with realistic and robust alternatives. By geographical, historical, and cultural fact the Caribbean is tethered to the U.S. - not China. However, the U.S. has to be a reliable partner in sustaining that link.

The body of this testimony lays out broad Caribbean-China engagement case studies in four sections. Section one will cover Taiwan in the Caribbean. Section two will focus on Caribbean offshore and China. Section three will discuss Chinese infrastructure construction in the Caribbean. Section Four will focus on Caribbean passport sales to Chinese citizens. In the fifth section I will conclude with policy recommendations to Congress. It is my goal herein to argue that the U.S. should (non-ironically) “seek truth from facts” in order to adjust policy prescriptions accordingly.

## **1. Cross-Strait Relations in the Caribbean**

Taiwan’s future as a formally recognized country is significantly contingent on the Caribbean’s continued recognition. Latin America and the Caribbean accounts for 9 of Taiwan’s remaining 14 formal diplomatic allies. Within the Caribbean specifically, 5 of the 15 members of CARICOM formally recognise Taiwan <sup>1</sup>. This curious feature of policy heterogeneity in the Caribbean often leads U.S. foreign policy in the region astray. In this section I will attempt to demonstrate why the U.S. should reduce its attempts of “Taiwan promotion” in the Caribbean.

Guyana entered international headlines in February this year on matters concerning cross-strait relations. On February 3, 2021 the U.S. Embassy of Guyana announced a new partnership between Guyana and Taiwan to support the “deepening ties between”<sup>2</sup>. This announcement by the U.S Embassy was made even before any official statement was publicly given by the

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<sup>1</sup> Taiwan has 14 formal diplomatic allies in addition to the recognition of the Holy See. Within CARICOM the Taiwan allies are Belize, Haiti, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. Within Latin America, the Taiwan allies are the Republic of Guatemala; Republic of Honduras; Republic of Paraguay. See <https://www.mofa.gov.tw/AlliesIndex.aspx?n=167&sms=33>

<sup>2</sup> See <https://gy.usembassy.gov/the-united-states-applauds-the-agreement-to-establish-a-taiwan-office-in-guyana/>

government of Guyana. Taiwan made an official statement on the following day February 4 during a press briefing<sup>3</sup>. Guyanese, Taiwanese, and international media alike ran with the story that this new Taiwan Office in Guyana marked a “new breakthrough in diplomacy” for Taiwan<sup>4</sup>. Less than 24 hours later, Guyana’s Ministry of Foreign Affairs and International Cooperation terminated the agreement to open a Taiwan Office in the country<sup>5</sup>.

The Taiwanese government subsequently blamed China for pressuring Guyana to terminate the agreement, saying that China used “bullying tactics to suppress Taiwan's international presence”<sup>6</sup>. Although this conclusion is an easy one to reach it nevertheless misses the core problem that led to the termination of the agreement.

It is highly unlikely that China would deploy “bullying tactics” to pressure the Guyanese government to terminate the Taiwan Office as China was aware of the agreement before the public announcements. Guyana’s Permanent Secretary in the Ministry of Foreign Affairs stated that the agreement was signed in January and China already knew about it<sup>7</sup>. Additionally, Taiwanese representatives were already in Guyana since January 15, 2021 to facilitate the local elements of the opening.<sup>8</sup> It would appear that the messaging used by the U.S Embassy and the Taiwan Ministry of Foreign Affairs inadvertently enabled the narrative of diplomatic recognition to pervade the international press. Guyana in turn failed to accurately project its framing of the Taiwan Office publicly. This was a breakdown of communication among the parties involved and not a clear example of China trying to exert influence<sup>9</sup>.

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<sup>3</sup> See [https://en.mofa.gov.tw/News\\_Content.aspx?n=1328&sms=273&s=95318](https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95318)

<sup>4</sup> 绿媒欢呼在圭亚那设“台湾办公室”是“外交新突破”，圭外长：我们不承认“台独 (Pan-Green media [Pro-DPP] hailed the establishment of the "Taiwan Office" in Guyana as a "new diplomatic breakthrough" but Guyana's foreign minister says: “we do not recognize" Taiwan independence) [https://www.sohu.com/a/448668801\\_162522](https://www.sohu.com/a/448668801_162522)

<sup>5</sup> In its statement the Guyana Ministry of Foreign Affairs made it explicit that Guyana “has not established any diplomatic ties or relations with Taiwan and as a result of the miscommunication of the agreement signed, this agreement has since been terminated.” See <https://www.minfor.gov.gy/press-releases/press-release/>

<sup>6</sup> Office statement by the Taiwan Ministry of Foreign Affairs: [https://en.mofa.gov.tw/News\\_Content.aspx?n=1328&sms=273&s=95339](https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95339)

<sup>7</sup> It was also emphasised that the Taiwan Office was solely set up to promote private sector engagement. Taiwan has several such offices around the world in other countries that do not formally recognise Taiwan. See <https://guyanachronicle.com/2021/02/05/one-china-policy-remains-intact/>

<sup>8</sup> Statement issued by Taiwan Ministry of Foreign Affairs: [https://en.mofa.gov.tw/News\\_Content.aspx?n=1328&sms=273&s=95318](https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95318)

<sup>9</sup> It should be noted that the government of Guyana which signed the agreement with Taiwan only came to power in August 2020. This may boil down to inadequate preparation and inexperience with such matters.

U.S. interest in the Taiwan-Caribbean relationship sometimes presents itself in unusual ways. In February 2021, Secretary of State Blinken's official statement on Saint Lucia's Independence Day was merely 134 words however, he found this a reasonable venue to mention Taiwan<sup>10</sup>. Caribbean countries have much to be proud of but it could be interpreted that the relationship with Taiwan is so important that it must even be mentioned in an unrelated congratulatory message. This risks the perception that the U.S. primarily prioritises Caribbean partners simply because of their status with Taiwan, which may result in the alienation of their partners.

A striking feature of the oft-repeated "debt trap" narrative is that in the Caribbean that narrative is linked with Taiwan and not China. If the U.S persists in leveraging debt trapping as an argument to counter China in the region it is likely to have the opposite effect.

After Grenada was virtually decimated by Hurricane Ivan in 2005, the country decided to switch its recognition to China which came to Grenada's aid in rebuilding key infrastructure.<sup>11</sup> It should be stressed that China was not the first choice for Grenada but it was the only country willing to provide the necessary assistance.

At that time Taiwan was Grenada's largest bilateral lender<sup>12</sup>. Understandably, Taiwan did not take news of the switch well. It was reported that the Taiwanese foreign ministry accused Grenada's leaders of "extortion-like behaviour", because Grenada allegedly made demands for USD \$245 million<sup>13</sup>. Grenada eventually defaulted on its debt owed as Taiwan refused to participate in the debt restructuring program initiated by Grenada<sup>14</sup>.

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<sup>10</sup> The message included this line: "Together with Taiwan, we promoted business development through entrepreneurship networks and startup incubators." <https://www.state.gov/saint-lucia-independence-day/>

<sup>11</sup> The damage from Hurricane Ivan was estimated to be over 200% of Grenada's GDP. Over 90% of homes were damaged or destroyed. According to government reports around 50% of the population was left homeless. For many weeks utilities such as water, electricity, and telecommunications were unavailable. The hurricane also wiped out the entire nutmeg crop (Grenada is the world's second largest producer of nutmeg after Indonesia. Nutmeg accounted for 22% of the country's exports). See <https://www.imf.org/en/Publications/WP/Issues/2017/07/24/Sovereign-Debt-Restructurings-in-Grenada-Causes-Processes-Outcomes-and-Lessons-Learned-45101>

<sup>12</sup> While Grenada still had diplomatic relations with Taiwan, the Export-Import Bank of Taiwan (Ex-Im Bank) provided USD loans to Grenada on four occasions: \$10 million in 1990; USD \$2 million in 1997; USD \$6 million in 1997; and USD \$10 million in 2000. By 2004, Taiwan was Grenada's largest individual bilateral creditor accounting for 12% of total debt. Whereas 85.4% of the debt was owed to private bondholders and 2.6% of the debt was owed to a mix of Paris Club lenders. See <https://chinacaribbean.substack.com/p/the-taiwanese-debt-trap>

<sup>13</sup> See <https://www.jstor.org/stable/24384486?seq=1>

<sup>14</sup> All of Grenada's other creditors had agreed to participate in the debt restructuring program. By the end of 2008 Grenada's debt-to-GDP ratio ballooned to 107%. See <https://chinacaribbean.substack.com/p/the-taiwanese-debt-trap>

Following the diplomatic switch, Taiwan sued Grenada in the U.S. In 2011 Taiwan went further and served restraining notices on Grenada's assets in the U.S. In effect, Taiwan attempted to obtain any assets owned by or owed to Grenada from entities based in the U.S. This pushed Grenada to file a series of appeals in the U.S. to remove the restraining notices<sup>15</sup>. After a decade-long legal battle both sides agreed to settle outside of court. Taiwan eventually agreed to join the restructuring program and allowed Grenada to finally reprofile its external debt<sup>16</sup>.

Throughout the Caribbean there is no robust evidence that China has tried to influence countries to switch their recognition away from Taiwan. It is more accurate to argue that domestic political interests are the driving forces for diplomatic recognition. St. Lucia, in fact, switched recognition multiple times. From 1984-1997, St. Lucia recognised Taiwan. Then from 1997-2007 recognition was switched to China. From 2007 until the present they have been realigned with Taiwan<sup>17</sup>. It was once a common perception that a simple change in the Saint Lucian government could potentially lead to a recognition switch in that country.

Not all voices are confident that the recognition of Taiwan represents the best interest of St. Lucia. The country's External Relations Review Committee (established by the Ministry of External Affairs and International Trade) issued a report that was critical of the continued recognition of Taiwan over China<sup>18</sup>.

A wikileaks document from 2010 revealed that China actually rejected then Panamanian President Martinelli's offer of diplomatic recognition<sup>19</sup>. The proposal was rejected in order to sustain the improving cross-strait relations (at that time). From this it can be seen that the recognition decision was not initiated from China. In 2014, the former Guatemalan President Alfonso Portillo admitted in the U.S. Federal Court that he received USD \$2.5 million in bribes

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<sup>15</sup> The court based its ruling on its interpretation of the US Foreign Sovereign Immunities Act (FSIA) which stipulated that the funds owed to Grenada were still covered by sovereign immunity. See <https://www.law360.com/articles/406345?scroll=1&related=1>

<sup>16</sup> See <https://thecommonwealth.org/sites/default/files/inline/Introducing%20Hurricane%20Clauses.PDF>

<sup>17</sup> See <https://www.scmp.com/news/china/diplomacy/article/3035240/taiwans-allies-dwindle-st-lucia-stands-firm-against-china>

<sup>18</sup> The report noted that "any decision to maintain recognition of Taiwan will be perceived in the arenas of international diplomacy, and pre-eminently at the United Nations, as inevitably temporary, the result of specific contingent circumstances and objectives of the Saint Lucian state, and therefore subject to change and lacking final certainty". Page 44, Review of the External Relations Policy of St. Lucia, 2012. See <http://saintluciaconsulateny.org/wp-content/uploads/2014/08/Lewis-Report1.pdf>

<sup>19</sup> "The Feb. 23, 2010-dated cable from then U.S. Ambassador to Panama Barbara Stephenson came in the midst of [Taiwan] President Ma Ying-jeou's efforts to improve ties with China." See <https://www.foxnews.com/world/wikileaks-china-rejects-panamas-wish-for-ties>

from Taiwan between 1999-2002 in exchange for continuing diplomatic recognition<sup>20</sup>. In 2011, Taiwan donated a helicopter as a gift to the President of Paraguay<sup>21</sup>. It is insufficient to suggest that Latin America and Caribbean (LAC) countries retain Taiwan as an ally merely or solely because of “democratic values”. It is this lack of nuance that encumbers effective U.S. policy in the region on the question of promoting Taiwan.

Caribbean countries do not continue to recognise Taiwan because of economic benefits. If that was the primary rationale then China could have easily influenced these countries to switch recognition. It is not possible for Taiwan to out compete China in terms of investment, aid, and financing. A recent paper by Long and Urdinez estimated the amount of money that LAC countries have forgone by recognizing Taiwan. They call this opportunity cost the ‘Taiwan Cost’.

Long and Urdinez estimated that between 2005-2019 if a country switches recognition from Taiwan to China then: 1) Chinese investment would be expected to grow by 7 times and 2) Chinese loans would be expected to grow by 122 times<sup>22</sup>. By analysing the money Paraguay in particular received from Taiwan in the same period they calculated that “Taiwan invested on average, US \$4 million a year in Paraguay, provided aid for an average of \$14.8 million and offered no loans.” Relevaltive to the potential gains Paraguay could receive from China, the Taiwan Cost is particularly pronounced. The obvious question, then, is why would LAC countries continue to recognise Taiwan given the explicit economic gains that can be received from a switch to China?

Elite politics plays a substantial role in small countries maintaining diplomatic recognition with Taiwan over China. A visit by, say, St. Kitts’ ambassador to Taipei has a lot more fanfare than the treatment St. Kitts’ ambassador would be given in Beijing. Long and Urdinez studied this phenomenon within the politics of Paraguay. Taiwan “lavished attention on Paraguayan elites, affirming Paraguay’s importance and providing symbolic material benefits.”<sup>23</sup> There is a

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<sup>20</sup> “The \$2.5 million Portillo received from Taiwan is only a small fraction of the tens of millions of dollars U.S. prosecutors have alleged Portillo embezzled from the Guatemalan government and laundered through US banks.” See <https://www.jurist.org/news/2014/03/former-guatemala-president-admits-to-taking-bribes-from-taiwan/>

<sup>21</sup> “The Taiwanese ambassador to Paraguay Lien-sheng Huang handed over the keys of a Bell 427 to President Fernando Lugo as a gift from the far eastern country.” The Bell 427 will be used solely for the president and operated by the Army Command.” See <https://helihub.com/2011/07/11/taiwan-donates-bell-427-to-president-of-paraguay/>

<sup>22</sup> “On average, LAC countries that recognise Taiwan receive roughly USD \$850 million less in combined investment, aid, and finance from China than those that recognise China.” See <https://tomlongphd.com/2020/05/01/out-in-fpa-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china/>

<sup>23</sup> “Taiwan expanded its invitations for travel delegations, including broader segments of Paraguayan society - politicians, military, business, civil society, and artists - interviewees repeatedly noted. Taiwan extends a

looming sense that the Taiwan relations imbibe a sense of importance to small status-seeking countries<sup>24</sup>. Taiwan's active and well-executed diplomatic engagement strategy enables Taiwan to continue its status-enhancing function. President Tsai attended the inauguration of the new Paraguay President in 2018. She also successfully visited 4 Caribbean countries in 2019<sup>25</sup>.

The U.S. should resist the temptation of animating its Caribbean policy with the premise that 'Taiwan promotion' must be a central pillar. Caribbean countries that recognize China do so based on their own domestic considerations. Any insinuation that China consistently attempts to influence Caribbean countries to switch sides runs the risk of condescension. And persistent condescension runs the risk of a Caribbean drift. Moreover, Taiwan on its own terms is a vibrant democracy and a key node in the global economy. Even if Taiwan had no formal diplomatic allies very little would change. Trade will still continue with all major players. And the domestic systems will remain robust and vibrant<sup>26</sup>.

## 2. How Caribbean Offshore Enabled Modern China

The Caribbean is well-known for its offshore financial centres<sup>27</sup>. Foreign policy discussions usually do not mention how important the Caribbean is for Chinese-US relations given that capital markets are often relegated to financial policy debates. The offshore financial centres of the Cayman Islands and the British Virgin Islands, in particular, are used by Chinese firms to access global financial markets - primarily the United States.

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“permanent invitation” for “senators, delegates, ministers [and] generals, and they love it.” Even at lower levels, Paraguayan diplomats are treated to well-appointed training courses in Taipei. Taiwan invites young Paraguayan leaders and funds their education, building sympathy. Paraguayans noted that Taiwan sent ambassadors to Paraguay who had previously held high-ranking positions. Major legislators are invited to Taiwan each year and nearly all presidential candidates receive Taiwanese donations, followed by a grant to cover set-up costs.” See <http://centroestudiosinternacionales.uc.cl/publicaciones/otras-publicaciones/3261-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china>

<sup>24</sup> As one interviewee noted: “From the moment that we stop recognizing Taiwan...we lose our transcendence and importance.” See <http://centroestudiosinternacionales.uc.cl/publicaciones/otras-publicaciones/3261-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china>

<sup>25</sup> Haiti; St. Kitts; St. Lucia; and St. Vincent and the Grenadines. <https://www.taiwannews.com.tw/en/news/374165>

<sup>26</sup> “Some Americans see the loss of Taiwan’s diplomatic allies as existential, but most Taiwanese seem to not particularly care. Pay attention to Taiwanese domestic reactions. The Taiwanese are the ones who vote on the island’s future.” See <https://www.chinafile.com/conversation/taiwan-losing-allies-what-should-taipei-and-dc-do>

<sup>27</sup> Definition from the OECD Glossary of Statistical Terms: “Countries or jurisdictions with financial centres that contain financial institutions that deal primarily with nonresidents and/or in foreign currency on a scale out of proportion to the size of the host economy. Nonresident-owned or -controlled institutions play a significant role within the centre. The institutions in the centre may well gain from tax benefits not available to those outside the centre.” See <https://stats.oecd.org/glossary/search.asp>

China's stock market reopened in 1991 after being closed for decades following the Communist Revolution in 1949<sup>28</sup>. By 2000 only 1% of companies listed on China's stock exchanges were private companies. Even up until 2006, a study suggests that 98% of private Chinese companies could not get access to business loans from the state-owned banks<sup>29</sup>. Those banks preferred to only do business with other state-owned enterprises. This had a dramatic dampening effect on China's emerging market economy. While the Chinese economy was rapidly increasing in the late 1990s and early 2000s, private firms were generally left behind because of capital constraints. This precarious situation led to a dual movement of interests - Chinese private firms needed foreign capital and foreign investors wanted to participate in the booming of China's economic rise.

However, foreign investors are unable to buy equity in Chinese firms. This is for two main reasons. First, the Chinese government restricted or prohibited foreign ownership of firms in particular industries - the same industries of interest to foreign investors (like the 'internet' sector). Secondly, there are only two types of companies allotted under China's Company Law<sup>30</sup>. These two types of companies are not designed in a way to suit the requirements of many outside equity ownership investment agreements<sup>31</sup>. So even if foreign investors were allowed to put money into certain Chinese firms, there are generally few Chinese firms capable of receiving the money for reasons of legal structure<sup>32</sup>.

Facing these constraints, foreign investors and Chinese firms alike sought out jurisdictions with both robust legal certainty and legal flexibility to manage their risk while performing substantial cross-border capital transactions. Caribbean offshore fit both requirements. The Cayman Islands (fund management), British Virgin Islands (incorporation), and Bermuda (insurance) are

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<sup>28</sup> See [https://www.nber.org/system/files/working\\_papers/w20957/w20957.pdf](https://www.nber.org/system/files/working_papers/w20957/w20957.pdf)

<sup>29</sup> See <https://www.chinaaccountingblog.com/weblog/2019-03-vie-gillis.pdf>

<sup>30</sup> "In the PRC, there are only two types of companies: limited liability companies (有限责任公司) (PRC LLC) and joint stock companies (股份有限公司)." See <https://www.chinalawinsight.com/2019/06/articles/corporate-ma/global-ma-know-the-differences-btw-prc-and-foreign-company-law/>

<sup>31</sup> To form a Joint Stock Company is tedious and expensive. 5 million registered capital at least. Most companies will decide to not go through this process. See <https://www.smeschina.com/form-joint-stock-company/>

<sup>32</sup> "A common law company may issue its share capital at different prices and attach different rights to different classes of its shares. In the PRC, the concept of "registered capital" is applicable. The founding members of a PRC LLC will decide the amount of registered capital the PRC LLC shall have upon its incorporation, the portion they each subscribe for and how and when they will each contribute their subscribed registered capital. In the PRC, every company must have a "legal representative", who is the principal representative of the company with legal power to represent and bind the company." <https://www.chinalawinsight.com/2019/06/articles/corporate-ma/global-ma-know-the-differences-btw-prc-and-foreign-company-law/>



internationally recognized as leaders in commercial law<sup>33</sup>. All three of them are British Overseas Territories, meaning that the highest court of appeal is the Judicial Committee of the Privy Council in the UK<sup>34</sup>. They have been at the forefront of legal and regulatory innovation for decades - the concept of an international business company was invented in the British Virgin Islands<sup>35</sup>. Accordingly, these British Caribbean were already used by capital market firms around the globe to manage legal risks. The Cayman Islands, for example, is the domicile of 60% of the world's hedge funds<sup>36</sup>.

To overcome the prohibition on foreign ownership in certain Chinese firms, lawyers and accountants in the U.S. created a new and special type of legal structure for two Chinese companies to IPO on the NASDAQ.<sup>37</sup> They decided it would be effective to parse the restricted business from the part of the business that can actually be owned by foreign investors (the WFOE)<sup>38</sup>. The WFOE is then owned by (usually) a Cayman Island holding company and the restricted business is owned by Chinese individuals - which can be called the Variable Interest Entity (VIE)<sup>39</sup>. The lawyers would then create a complex network of contracts and operating agreements to bind the VIE and the WFOE together without representing ownership via equity - a kind of "synthetic ownership"<sup>40</sup>. This structure enabled Chinese firms to consolidate financial statements for a group of entities even though not all of the entities are directly owned by the parent company.

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<sup>33</sup> "The international business and finance centre employs 2,200 people directly and supports a further 3,000 jobs – and generates US\$330 million of gross value added and accounts for three-fifths of government revenues." See <http://www.bvihouseasia.com.hk/uploads/Capital-Economics-Report-FINAL-for-print.pdf>

<sup>34</sup> The BVI also has a dedicated "Commercial Court": <https://citywireselector.com/news/traditional-alt-hubs-squeezing-out-smaller-players-survey-finds/a785775/print?section=global>

<sup>35</sup> See Confidentiality in Offshore Financial Law by Rose-Marie Belle Antoine, Oxford University Press, 2014

<sup>36</sup> See <https://citywireselector.com/news/traditional-alt-hubs-squeezing-out-smaller-players-survey-finds/a785775/print?section=global>

<sup>37</sup> Sohu.com Inc. (along with Sina) was one of the two Chinese companies listed in 2000 on NASDAQ. See Sohu's Securities and Exchange Commission IPO Registration Prospectus (Form S-1) here: <https://sec.report/Document/0001021408-00-001824/>

<sup>38</sup> Within Chinese Company Law there is an entity category called 'Wholly Foreign Owned Entity' (WFOE)

<sup>39</sup> VIE is a U.S. accounting terminology that exploits a reporting convention known as Fin 46R in Financial Accounting Standard Board (FASB) Codification of Accounting Standards in Section 810. See [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1175801627792&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1175801627792&acceptedDisclaimer=true)

<sup>40</sup> For details on the complex contracting structure of "synthetic ownership" see [http://www.law.harvard.edu/programs/olin\\_center/papers/pdf/Fried\\_1041.pdf](http://www.law.harvard.edu/programs/olin_center/papers/pdf/Fried_1041.pdf)

In effect, the mesh of companies (some uniquely owned by Chinese persons and others owned by a cascade of offshore entities with foreign beneficial owners), was given the greenlight by the U.S SEC to list on U.S capital markets like the NASDAQ. To put this in more simple terms: If a U.S citizen purchases shares in, say, Alibaba, listed on the NYSE, that person only owns shares in an entity in the Cayman Islands. They do not own any part of the ownership of Alibaba, the operating company in Hangzhou, China. For obvious reasons this presents a risk to foreign investors (primarily from the U.S.)<sup>41</sup>.

There are around 217 China-based companies listed on major U.S. exchanges as noted by a recent USCC report<sup>42</sup>. Another study calculates that 69% of these China-based companies use the VIE structure to list on U.S. exchanges<sup>43</sup>. Though, it should be noted that the use of offshore centres is not essential to the VIE structure. The ‘Entity’ in the ‘VIE structure’ is specially the entity within China owned by Chinese citizens. The foreign part of the structure can in theory be based in any other jurisdiction<sup>44</sup>.

The reason Caribbean offshore is typically used is because of their speciality in flexible yet robust commercial law and regulatory frameworks<sup>45</sup>. Somewhat ironically, Caribbean offshore in some ways enabled China to maintain rigid domestic regulations over the market while not materially impeding growth of business capital. The flexibility was “offshored” in a similar way that China’s special economic zones gave flexibility without total reform.

Although the aforementioned USCC report noted the number of Chinese companies and mentions the total market capitalization, it did not mention the equities exposure of U.S investors to Chinese firms. Official U.S. Treasury data indicates that U.S investors hold \$154 billion USD in Chinese equities.

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<sup>41</sup> Alibaba is based in China but is subject to U.S. securities law and to Cayman Islands corporate law. “The main problem, we show, is that almost every person or thing required to enforce the law...is behind China’s “Great Legal Wall” and out of reach both for private plaintiffs and for public prosecutors in the United States.” See <https://corpgov.law.harvard.edu/2020/12/17/china-and-the-rise-of-law-proof-insiders/>

<sup>42</sup> See USCC ‘Chinese Companies Listed on Major U.S. Stock Exchanges,’ October 2020, [https://www.uscc.gov/sites/default/files/2020-10/Chinese\\_Companies\\_on\\_US\\_Stock\\_Exchanges\\_10-2020.pdf](https://www.uscc.gov/sites/default/files/2020-10/Chinese_Companies_on_US_Stock_Exchanges_10-2020.pdf)

<sup>43</sup> Paul Gillis and Fredrik Oqvist, “Variable Interest Entities in China,” GMT Research. <https://www.chinaaccountingblog.com/weblog/2019-03-vie-gillis.pdf>

<sup>44</sup> There is a common sentiment that Caribbean offshore is primarily for asset privacy. That may be the case for certain jurisdictions. But for example, the Cayman Islands has signed Tax Information Exchange Agreements with major jurisdictions including the U.S. The privacy primacy argument is baseless. See <https://www.oecd.org/countries/caymanislands/taxinformationexchangeagreementstieas.htm>

<sup>45</sup> See Kristian Wilson ‘Rationale and Use of Offshore Jurisdictions in the PRC.’ Tsinghua Law Review 2014 for a detailed explanation on the legal management reasons for doing business in Cayman Islands/BVI as a Chinese company. [http://www.tsinghuachinalawreview.org/articles/0602\\_Wilson.htm](http://www.tsinghuachinalawreview.org/articles/0602_Wilson.htm)

But as a result of a truly herculean study recently published in April 2021, it has been shown that U.S investors have an exposure of closer to \$700 billion USD in Chinese equities<sup>46</sup>. The reason why the Chinese equities exposure is so dramatically underreported is because a large part of the official capital flow is from the U.S to the Cayman Islands, primarily. The researchers were able to analyse and cross-reference thousands of data points to remap the capital from a ‘residency-statistic’ to a ‘nationality-statistic’ to get a better picture of where the capital is truly flowing.

After realizing how enormous the more accurate equities exposure is, they have rightly pointed out that “while much attention has been paid to the \$1.1 trillion of U.S. Treasuries held by China, almost no attention has been paid to the \$700 billion of U.S. holdings in Chinese equities.”<sup>47</sup>

Caribbean offshore (particularly the British Overseas Territories) act as a link between China and the U.S. in terms of capital flow. Were it not for Caribbean offshore there would likely not be as many Chinese firms on U.S. exchanges. This also applies to exchanges in Toronto and London.

While Chinese private sector flows through Caribbean offshore are significant, it should also be mentioned that Chinese state funds also flow through the Caribbean<sup>48</sup>. China’s State Administration of Foreign Exchange (SAFE) is the government body that primarily manages China’s \$3.1079 trillion USD foreign reserves (as of 2019)<sup>49</sup>. SAFE also has a series of subsidiaries in its investment division which operates as entities to channel funds to foreign investment targets. One of these subsidiaries is “Beryl Datura Investment Ltd” based in the British Virgin Islands; responsible for global infrastructure financing and investment<sup>50</sup>. Given the nature of this entity it is likely that it alone could be responsible for a significant portion of China’s global investment in BRI projects.

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<sup>46</sup> The main researchers of the study are economists from Harvard Department of Economics, Stanford School of Business, University of Chicago School of Business, and Columbia Business School. ‘Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens’. See <https://globalcapitalallocation.s3.us-east-2.amazonaws.com/CMNS-Paper.pdf>

<sup>47</sup> See Page 21. <https://globalcapitalallocation.s3.us-east-2.amazonaws.com/CMNS-Paper.pdf>

<sup>48</sup> According to SAFE, China's external portfolio investment assets (excluding reserve assets) amounted to USD 646 billion by the end of 2019, including USD 373.8 billion in equity investments and USD 272.2 billion in bond investments. The top 5 recipients of Chinese investments were Hong Kong (\$226.4 billion), the US (\$162.8 billion), Cayman Islands (\$55 billion), the British Virgin Islands (\$45.9 billion) and the UK (\$21.8 billion). See <https://www.safe.gov.cn/en/2020/0529/1691.html>

<sup>49</sup> China State Administration of Foreign Exchange Annual report for 2019. See [http://www.safe.gov.cn/en/file/file/20201221/6202b5b2b3834bafaa47fb7a5e81375b.pdf?n=Annual%20Report%20of%20the%20State%20Administration%20of%20Foreign%20Exchange%20\(2019\)](http://www.safe.gov.cn/en/file/file/20201221/6202b5b2b3834bafaa47fb7a5e81375b.pdf?n=Annual%20Report%20of%20the%20State%20Administration%20of%20Foreign%20Exchange%20(2019))

<sup>50</sup> ‘外管局和它的四朵金花’ (In Chinese language reports the four main SAFE subsidiaries are referred to as the ‘Four Golden Flowers’: 华安、华新、华欧、华美却. See <http://www.eeo.com.cn/2014/0711/263258.shtml>

The Caribbean also features the only stock exchange outside of China where the majority of listed entities are Chinese<sup>51</sup>. Over 60% of firms listed on the Dutch Caribbean Stock Exchange (DCSX) are China-based (with a registered entity in the British Virgin Islands or the Cayman Islands). What is striking is that most of the Chinese firms listed on DSCX have no tradable stock. That is, they are listed on the exchange but have not raised any capital through the exchange. The DSCX terminology for this is a “technical listing.”<sup>52</sup> Yet, It appears that at least a few of the Chinese firms listed on the exchange may not even have substantial operations in their domestic jurisdiction (China)<sup>53</sup>.

### 3. The Most Important Contractor in Caribbean History is Chinese

It is well known that Chinese China’s international construction and engineering contractors operate across the Caribbean. But there are two blindspots usually encountered. First, U.S. policy work is usually unaware of the extent to which Chinese contractors are engaged in the region. Second, too often projects are viewed in a negative light because of superficially obtained information. In this section I will attempt to dissolve these blindspots.

Between 2011 and 2013 China used more cement than the U.S used in the entire 20th century<sup>54</sup>. It should not be surprising then that Chinese firms have become globally well-established as engineering contractors. The capacity built up within China needs a global market to sustain its growth. In doing so, China’s international construction and engineering contractors (ICECs) have entered the Latin America and Caribbean market.

From the outset I should clarify that while Chinese ICECs are mostly state-owned enterprises (SOEs) they are not necessarily state directed. That is, these SOEs go into the world to find projects to build for their self-interested profit motive. SOEs compete against each other to win

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<sup>51</sup> “Red Curacao” See <https://www.thewirechina.com/2021/03/14/red-curacao/>

<sup>52</sup> On their website the DSCX explain that “some companies, and primarily the overseas ones that we have mentioned earlier, seek out international exchanges like Curaçao, not primarily for liquidity, marketability or raising money, but so that their listed company can benefit from the compliance requirements that DCSX as an exchange offers or for tax efficiency benefits back in their home country.” See <https://www.dcsx.cw/listings-tradeable-or-technical-what-does-that-even-mean-part-1/>

<sup>53</sup> “荷兰加勒比证券交易所之深度解析” (“In-depth Analysis of the Dutch Caribbean Stock Exchange”). The article uses credible evidence to suggest that firms may be listing on the DSCX without operational soundness in China. See <https://zhuanlan.zhihu.com/p/99476206>

<sup>54</sup> The U.S. used 4.5 gigatons of concrete between 1901-2000. China used 6.6 gigatons of concrete between 2011-2013. See <https://www.gatesnotes.com/Books/Making-the-Modern-World>

contracts. The tidy rhetoric of the ‘Belt and Road Initiative’ has obscured the fact that the ‘Initiative’ is just a branding campaign, haphazardly organized with little centralization<sup>55</sup>.

Moreover, it is often overlooked that it is the ICECs themselves that arrange the financing from China EXIM (and others) instead of China EXIM reaching out to governments to provide loans<sup>56</sup>.

## **Jamaica**

China Harbour Engineering Company (CHEC) has active projects in almost every major Caribbean country and has a regional headquarters in Kingston, Jamaica. CHEC was the contractor for the \$400 million USD Jamaica Infrastructure Development Project between 2010-2015<sup>57</sup>. Subsequently, in 2013 CHEC was engaged for the \$350 million USD Major Infrastructure Development Program (MIDP) again in Jamaica. The Government of Jamaica published a report containing the details of the entire MIDP on the website of the National Works Agency. All budgets are published. All subcontracting arrangements are public. It cannot be argued that the program is not transparent<sup>58</sup>. CHEC is also the main contractor for the construction of the North-South highway project in Jamaica. Without equivocation, CHEC is the single most important infrastructure contractor in Jamaica’s history (and plausibly the Caribbean).

The North-South highway, which would lead to an economic boost for Jamaicans, was started since 1999 with initial work by a French contractor Bouygues Travaux<sup>59</sup>. But it was abandoned

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<sup>55</sup> “I wish less analysts asked, “What did Xi hope to accomplish by creating the Belt and Road?” and instead wondered, “What did Xi hope to accomplish by associating the SOE infrastructure-industrial complex so closely with his personal foreign policy?” See <https://scholars-stage.blogspot.com/2020/10/rethink-what-you-think-you-know-about.html>

<sup>56</sup> See Hong Zhang ‘Chinese International Contractors in Africa: Structure and Agency.’ 2021 CARI Working Paper for a thorough discussion. <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/6099cc5d267fb10016b82045/1620692064252/WP+47+-+ZHANG%2C+Hong+-+Chinese+Int+Contractors%27+Market+Power+Africa.pdf>

<sup>57</sup> 85% of the Project was financed by the China EXIM bank and 15% was provided by the Government of Jamaica. See <https://www.mtw.gov.jm/index.php/news/21-2010/274-jamaica-infrastructure-development-project-launched-in>

<sup>58</sup> 85% of the financing came from the China EXIM bank. See MIDP details here: <https://www.nwa.gov.jm/major-infrastructure-development-programme>

<sup>59</sup> Even though the French company abandoned to project “the [Jamaican] Government had to reimburse the French company the US\$120 million it had already invested in the construction.” See [https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips\\_98374?profile=1373](https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips_98374?profile=1373).

because of financial difficulties. In 2009 the government of Jamaica approached Chinese contractors and policy banks to restart the highway project. They wanted to finance the project without increasing the debt burden of the country<sup>60</sup>. The Chinese parties agreed to Jamaica's unorthodox request. China Development Bank loaned \$700 million USD to Jamaica for the highway project to be completed by the CHEC.

To repay the loan, Jamaica transferred 500 hectares of land for a 50-year concessionary period. The land transfer includes coastal areas on which CHEC has agreed to build over 2000 hotel rooms - further boosting the economy of Jamaica. As the Leader of the Opposition Party in Jamaica noted: "This highway cannot leave Jamaica. This highway, at the end of the concession period, reverts to the ownership of the people of Jamaica, and the hotels and other entities that are built will always be there for the people of Jamaica."<sup>61</sup>

Jamaica's total debt outstanding to China is less than 4% of GDP<sup>62</sup>. At the same time Jamaica has been engaged in the numerical lion's share of major Chinese led construction projects in the Caribbean. One common refrain is that Chinese ICECs primarily used Chinese labour but CHEC has reported that 90% of their workforce in Jamaica are locals<sup>63</sup>.

## **The Bahamas**

Baha Mar Resort, the largest project of its kind in the Caribbean, was built in the Bahamas for almost \$4 billion USD<sup>64</sup>. The main contractor for Baha Mar was China Construction America

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Additionally see, 'Varieties of Capital and Predistribution: The Foundations of Chinese Infrastructural Investment in the Caribbean' by Ruben Gonzalez-Vicente, 2020. <https://madeinchinajournal.com/2020/05/06/varieties-of-capital-and-predistribution-chinese-investment-caribbean/>

<sup>60</sup> Jamaica entered a partial International Monetary Fund (IMF) structural adjustment program around 2009. As a consequence of borrowing from the IMF the receiving country must commit to certain fiscal targets often relating to external debt management. Accordingly, the Jamaican government was keen to seek an unorthodox arrangement with China in hopes of finally finishing the highway project. See <https://www.imf.org/external/pubs/ft/scr/2010/cr10267.pdf>

<sup>61</sup> See [https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips\\_98374?profile=1373](https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips_98374?profile=1373)

<sup>62</sup> "Finance Minister Dr Nigel Clarke in January said loans from the Chinese accounted for 3.9 percent of Jamaica's total loan portfolio." See <https://jamaica-gleaner.com/article/news/20191110/no-new-loans-china-says-pm>

<sup>63</sup> See <https://twitter.com/CHECJamaica/status/1359897737014239232?s=20>. It can be said that since this is a self-reported figure then an independent verification is warranted. However, this figure mirrors the independent research conducted in Ethiopia showing that similar Chinese firms have a workforce of 90% local workers. Therefore, these firms are substantial job creators in the local economies. See <https://www.soas.ac.uk/idcea/publications/reports/file141857.pdf>

<sup>64</sup> "It is to include four luxury hotels with 2,323 rooms, the largest casino in the Caribbean, a premier Jack Nicklaus Signature 18-hole golf course, a 30,000 square foot spa, and a 200,000 square foot convention center. Since its

and the main financier was China EXIM bank (providing around \$2.5 billion USD.) Although the project is now completed it was marred by a several public court cases leading some observers to erroneously call it a “white elephant” project<sup>65</sup>. A more accurate framing of Baha Mar is important to prevent it from becoming a misused and abused example of the “debt trap” narrative similar to the Hambantota Port in Sri Lanka<sup>66</sup>.

Baha Mar was not conceptualized by the Chinese. In the early 2000s the then Bahamian Prime Minister Perry Christie envisioned the project and named Sarkis Izmirlian as the lead developer<sup>67</sup>. In 2005 Izmirlian formed Baha Mar Development Holdings Ltd. (BMD Holdings Ltd.) and announced the ambitious plan of building a 1000 acre resort complex to rival the offerings in Las Vegas and attract around 450,000 more U.S. tourists a year<sup>68</sup>. Izmirlian invested around \$900 million (via a mix of loans and self-contributed assets) into BMD Holdings Ltd to purchase land for the project. But he was unable to secure the remaining financing to move the project forward<sup>69</sup>.

In 2007 a deal was prepared between BMD Holdings Ltd and Harrah’s Entertainment of Las Vegas to develop Baha Mar but it did not materialize. Following the 2008 global recession Harrah’s Entertainment pulled out of the deal. It seemed like the project would remain only an idea. Then in March 2009, China Construction America (CCA) informed Izmirlian that they were interested in the ambitious Baha Mar project and can help secure funding from the China EXIM bank<sup>70</sup>.

The Prime Minister of the Bahamas flew to China to negotiate the terms of the loan agreement. The details of the loan were then discussed in Bahamian Parliament and was approved unanimously<sup>71</sup>. There are only very few instances in Caribbean politics when Parliament of

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inception, Baha Mar has been touted as “the largest single-phase resort development in the western hemisphere” and an economic engine for the Bahamas, with projections that it could grow the country’s gross domestic product by 12.8%.” See <https://fsi.stanford.edu/publication/bahamas-baha-mar-rescuing-mega-resort-bankruptcy>

<sup>65</sup> See ‘Jevon Minto, Examining The Lending Practices Of Chinese 153 Policy Banks In The Caribbean (2000-2018)’. *Page 153* in *China’s Financing In Latin America And The Caribbean*, Edited by Enrique Dussel Peters (2019) <https://www.dusselpeters.com/146.pdf>

<sup>66</sup> Brautigam and Rithmire correct the worn-out myth of the debt trap in Sri Lanka. See <https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/>

<sup>67</sup> Izmirlian is a Swiss-born businessman of Armenian heritage residing in the Bahamas at the time. He is the son of the billionaire peanut tycoon Dikran Izmirlian whose company, Alimenta, once controlled a significant proportion of the peanut industry in the Gambia. See <https://www.superyachtfan.com/yacht/totally-nuts/owner/>

<sup>68</sup> See [https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the\\_bahamas\\_baha\\_mar\\_proofread\\_final.pdf](https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the_bahamas_baha_mar_proofread_final.pdf)

<sup>69</sup> Ibid.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

opposing parties vote unanimously on such a large fiscal commitment. This shows the wide scale government and public support of the deal.

After a promising start the situation between the developer (BMD Holdings Ltd) and the contractor (China Construction America, CCA) began to sour. BMD Holdings Ltd accused CCA of being too inexperienced and understaffed<sup>72</sup>. These failings were compounded by CCA's refusal to partner with a more experienced contractor of mega resorts. On the other side, BMD Holdings Ltd frequently changed the parameters of the project - altering timelines on which aspects to build at a particular time and changing design specifications. It was revealed in court documents that CCA sent thousands of emails trying to confirm specific project parameters but BMD Holdings responded slowly - delaying construction<sup>73</sup>.

Unsurprisingly, Baha Mar missed its opening date<sup>74</sup>. The developer could not afford the payments to staff it had hired in preparation for the opening. Izmirlian filed for Chapter 11 bankruptcy in the courts of Delaware. He did this without notifying the government of the Bahamas or the contractor. In fact, the government of the Bahamas said that the case should be heard in the Bahamas and not in the U.S. This is understandable since 13 of the 14 entities involved in the case filing are Bahamian entities. And the success of Baha Mar significantly affects the local economy.

The Bahamas supreme court did not grant Izmirlian temporary leave to proceed with the case in Delaware. The courts of Delaware decided to dismiss the bankruptcy case because they don't believe they had jurisdiction given the economic bases of the dispute is rightfully in the Bahamas<sup>75</sup>. Accordingly, the bankruptcy hearing was returned to the Bahamas Supreme Court for adjudication.

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<sup>72</sup> At that time CCA had not built a project of that scale. However, CCA has been the contractor for several major projects in the U.S in the years leading up to Baha Mar. For example, CCA was the contractor for the Alexander Hamilton Bridge in New York. This was the largest contract ever awarded at that time from the New York State Department of Transportation valued at \$419 million USD. See <https://www.chinaconstruction.us/project/alexander-hamilton-bridge-rehabilitation/>

CCA was also the contractor for the One Thousand Museum in Miami, Florida - a 62 story residential complex designed by Zaha Hadid. See <https://www.chinaconstruction.us/project/1000-museum/>

<sup>73</sup> See [https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the\\_bahamas\\_baha\\_mar\\_proofread\\_final.pdf](https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the_bahamas_baha_mar_proofread_final.pdf)

<sup>74</sup> It is unsurprising on a practical level as well. Large construction projects globally are known to have delays and cost overruns. This is not unique to a project built by a Chinese company or the Caribbean. See Aljohani et. al. 'Construction Projects Cost Overrun: What Does the Literature Tell Us?' International Journal of Innovation, Management and Technology, Vol. 8, No. 2, April 2017

<sup>75</sup> See <https://www.globalconstructionreview.com/news/court-dismisses-baha-mar-us-protection-7b7i7d-what/>



Izmirlan faced intense public ridicule in the Bahamas for what they perceived as him trying to stall the project further. This was worsened when Izmirlan made a series of off-colour comments about the government of the Bahamas. In a radio interview, Izmirlan (who is not Bahamian) accused the government of attacking him personally and insinuated that the voters of the country will punish the current ruling party in the next election for mishandling the Baha Mar situation (i.e not in his favour)<sup>76</sup>.

Government ministers publicly replied to show their displeasure with Izmirlan. The then-Minister of Labour, Shane Gibson, remarked that “all of a sudden this one man [Izmirlan], because he got couple dollars, believe that he could come to the Bahamas, and talk to us and the Prime Minister any way he feel like.”<sup>77</sup> The then-Minister of Foreign Affairs Fred Mitchell added that “there are only citizens of the Commonwealth of the Bahamas. That is the country to which we owe loyalty. Baha Mar is a commercial entity, designed purely for the profit of the developer.”<sup>78</sup>

The Bahamas Supreme Court ruled that the Baha Mar resort would be placed in receivership. That is, the largest creditor China EXIM will need to find a new buyer. After a bidding process the privately-owned Hong Kong-based global conglomerate Chow Tai Fook Enterprises (CTFE) purchased Baha Mar in 2016<sup>79</sup>. Baha Mar has been open since 2017 creating thousands of jobs in the Bahamas<sup>80</sup>.

## **Antigua and Barbuda**

The recently established Antigua and Barbuda Special Economic Zone (ABSEZ) is not well known in discussions of China’s engagement in the Caribbean despite being exceedingly ambitious. ABSEZ was created primarily for the development of a series of massive projects led

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<sup>76</sup> In the same interview “He also twice referred to the 2,500 Baha Mar employees as “Baha Mar citizens.” See <https://www.globalconstructionreview.com/perspectives/baha-mar-de8ve6lop8er-sarkis-izmirlian-mad/>

<sup>77</sup> See <https://www.globalconstructionreview.com/perspectives/baha-mar-de8ve6lop8er-sarkis-izmirlian-mad/>

<sup>78</sup> Ibid.

<sup>79</sup> CTFE was privately founded in 1929 in Hong Kong and has been involved in several large scale projects globally including London, Philippines, and Australia. <https://www.globalconstructionreview.com/news/baha-mar-sold-chow-t7ai-fo7ok-enterp7rises/>

<sup>80</sup> The resort is managed by globally recognized luxury product executives. The President of Baha Mar group is a U.S citizen. See <https://bahamar.com/>

by a Chinese investor - Yida Zhang<sup>81</sup>. In 2015, the Antiguan parliament approved the allocation of 1600 acres of land in northern Antigua, consisting of three islands and one large peninsula<sup>82</sup>.

This land was partly purchased by the Yida Group for \$60 million USD<sup>83</sup>. Yida Group was then licensed by the Antigua government to develop the special economic zone<sup>84</sup>. Yida Zhang is also the Chairman of the Administrative Committee of the ABSEZ; responsible for the oversight of the zone<sup>85</sup>.

The 20 year 'Master Plan' for the ABSEZ approved by the government includes a "7-star hotel", cliff villas, an international finance centre, an international education zone, a casino zone, and more<sup>86</sup>. An environmental impact assessment of the proposed projects was also completed and approved by the cabinet of Antigua<sup>87</sup>.

Recently in March 2021, Yida Group signed a multi-million deal with an investment partner to open an international medical school with the ABSEZ. The deal was witnessed by the Antiguan Prime Minister<sup>88</sup>. It should be noted that there are several accredited "offshore" medical schools in the Caribbean. In fact, St. George's University, a medical school in Grenada, produces the second most registered physicians in the USA<sup>89</sup>.

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<sup>81</sup> Technically, Yida Zhang is no longer a Chinese citizen. He became a citizen of Antigua a few years ago via the country's Citizenship by Investment Program. See <http://abstvradio.com/pm-doubles-down-in-yida-support/>

<sup>82</sup> Speech from the Prime Minister of Antigua <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>83</sup> 2015 Land Certificate. See <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>84</sup> Antigua And Barbuda Special Economic Zone (Yida International Investment Antigua Limited) Licence Order, 2015. See <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>85</sup> Speech from the Prime Minister of Antigua <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>86</sup> Principle Approval of Master Plan by Government 2015. See <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>87</sup> Environment Impact Assessment Approval signed by the Secretary of the Cabinet. See <https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5>

<sup>88</sup> "Western Imperial Capital Limited said that it is committed to spending over \$100 million US dollars over a period of two years on the new projects at [in Antigua]" See <https://embassy.ag/dario-item-antigua-barbuda-yida-zhang-signs-multi-million-dollar-agreement-with-investment-company/>

<sup>89</sup> Indiana University Medical school ranks #1(11,828 licensed physicians); St. George's University ranks #2 (10,791 licensed physicians). See FSMB Census of Licensed Physicians in the United States, 2018 <https://www.fsmb.org/siteassets/advocacy/publications/2018census.pdf>

#### 4. Chinese Citizens Are the Main Buyers of Caribbean Passports

Caribbean Citizenship by Investment Programs (CIPs) are an overlooked discussion in foreign policy. It is not commonly known that the CIPs are a core source of Chinese direct investment in the Caribbean. A robust framing of China-Caribbean relations should be aware of this fact.

There are 5 Caribbean countries that have Citizenship by Investment Programs (CIPs). They are St. Kitts and Nevis (which in 1984 was the first country to invent this product)<sup>90</sup>, Antigua and Barbuda<sup>91</sup>, St. Lucia<sup>92</sup>, Dominica<sup>93</sup>, and Grenada<sup>94</sup>. Nationals of other countries are able to purchase citizenship in one of these countries once their application is approved. Across the 5 islands, Chinese nationals are the single largest source of applicants/new citizens (for available data)<sup>95</sup>. Given the trends of similar Caribbean CIPs metrics it would be reasonable to assume that the Chinese prominence trend tracks across countries<sup>96</sup>.

Dominica started its Citizenship by Investment Program (CIP) in 1993. Since then, the country has raised more than \$300 million USD via the CIP<sup>97</sup>. There are several paths to investment which qualify for purchasing citizenship. In St. Lucia the lowest investment option is a contribution of \$100,000 USD to the National Economic Fund<sup>98</sup>. Last year because of the pandemic the Lucian government initiated a temporary investment option; investment in a ‘COVID-19 Relief Bond’ requiring a minimum investment of \$250,000 USD<sup>99</sup>.

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<sup>90</sup> <https://www.ciu.gov.kn/>

<sup>91</sup> <https://cip.gov.ag/>

<sup>92</sup> <https://www.cipsaintlucia.com/>

<sup>93</sup> <https://cbiu.gov.dm/>

<sup>94</sup> <https://www.cbi.gov.gd>

<sup>95</sup> St. Lucia (37% of new citizens were Chinese in the 2019-2020 period); Antigua and Barbuda (34% of all applicants since the program started were Chinese); Dominica (top applicant nationality is Chinese). See <https://www.imidaily.com/imi-club-data-center/>

<sup>96</sup> The U.S. has a similar program called an EB-5. The biggest group is Chinese people as well. <https://www.uscis.gov/working-in-the-united-states/permanent-workers/eb-5-immigrant-investor-program>

<sup>97</sup> According to data available on Investment Migration Daily. See <https://www.imidaily.com/the-dominica-citizenship-by-investment-programme/>

<sup>98</sup> Additionally applicants can acquire citizenship by real estate investment (\$300,00 USD), Enterprise Investment (\$3,500,00 USD), Government Bond investment (\$500,000 USD). See <https://www.cipsaintlucia.com/investment-opportunities-st-lucia-citizenship>

<sup>99</sup> See Government of St. Lucia Bond Prospectus 2020 <https://static1.squarespace.com/static/5e70a15bb2e3335af0f036b3/t/5f7c77427e5e054ca08b0133/1601992521827/CIP+Bond+Prospectus++Zero+Coupon+Covid+Relief++Bond+%281%29.pdf>

Applicants must apply for citizenship through an agency licenced by the government<sup>100</sup>. These agents are responsible for conducting thorough due diligence investigations. The entire process for application to approval can take a few months. In Dominica it takes on average 3 months<sup>101</sup>.

These CIP programs provide substantial benefit to the countries that have them. In St. Kitts and Nevis revenue from the CIP is estimated to be valued at 25% of GDP<sup>102</sup>. According to an International Monetary Fund paper the St. Kitts CIP supported a sustained “economic recovery, improved key macroeconomic balances and boosted bank liquidity”<sup>103</sup>. Further, the CIP revenue has “benefited real estate and tourism developments, and fueled a pickup in construction. The fiscal balance has substantially improved to a surplus of about 12 percent of GDP”<sup>104</sup>. It is quite apparent that the CIP is a net positive for the small islands of the Caribbean.

Yet, they are constantly threatened by foreign governments (usually the U.S. and the EU). Recently, the Prime Minister of Antigua and Barbuda, Gaston Browne, accused the U.S. of trying to “kill” the CIPs in Antigua and the rest of the Caribbean. In his comments he went on to say that “[the U.S. attacked St. Kitts and Dominica too. And they do that so often I don’t even know what to say. But anytime they kill it, countries like Dominica and St Kitts, their economies will be decimated and they will plunge tens of thousands of people [into] poverty and then you end up with so many social ills.”<sup>105</sup> The implications are indeed stark.

Since CIPs are the economic lifeblood of some Caribbean countries and Chinese citizens are the main target audience. U.S. policy in the region should avoid casting them in a negative light. This will only cause resentment in many Caribbean countries towards the U.S.

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<sup>100</sup> Each country publishes a list of licensed agents. For example those licensed in St. Lucia see <https://www.cipsaintlucia.com/authorised-agents>

<sup>101</sup> See <https://www.imidaily.com/the-dominica-citizenship-by-investment-program-faq/>

<sup>102</sup> CIP “...estimated 13% GDP in St. Kitts in 2013 [ in the form of fees to the government budget]. Moreover, in St. Kitts and Nevis, there are further [CIP] inflows to the NDF, the Sugar Industry Diversification Foundation (SIDF), estimated at about another 12 percent of GDP in 2013, in addition to inflows to the private sector for real estate development.” <https://www.imf.org/external/pubs/ft/wp/2015/wp1593.pdf>

<sup>103</sup> Ibid.

<sup>104</sup> Ibid.

<sup>105</sup> See <https://dominicanewsonline.com/news/homepage/homepage-carousel/antigua-pm-accuses-us-of-trying-to-kill-caribbean-citizenship-by-investment-programs/>

## 5. Conclusion and Recommendations

The cases presented are meant to add nuance to the conversations around China-Caribbean engagement. In so doing, the U.S Congress may implement and promulgate recalibrated Caribbean foreign policy with respect to China. In my judgement, without presuming comprehensiveness, I offer the following recommendations for maintaining U.S centrality in the Caribbean by limiting potentially ostracism by Caribbean partners.

**The U.S. should expand its diplomatic posture and presence in the Caribbean.** In the last 20 years a U.S. President has only visited the Caribbean 3 times<sup>106</sup>. To show commitment to regional partners high level U.S. government executives should visit the Caribbean with increased regularity. There is only one U.S. Embassy concurrently accredited to 7 Caribbean countries<sup>107</sup>. This limits the U.S. diplomatic groundwork that can be done in a large segment of the region whereas China has embassies in each of the Caribbean countries to which it has gained diplomatic recognition<sup>108</sup>. I recommend that U.S. Embassies should be established in each Caribbean country.

**The U.S should use diversity as a strategic foreign policy tool in the Caribbean.** People of African descent make up the primary ethnic group in the Caribbean. U.S. Ambassadors in the region tend to not reflect this but they definitely could. It would be easier for the U.S. to deepen its diplomatic engagement with Caribbean publics by making it easier for these publics to see themselves reflected in America. It is impossible for China to deploy this same strategy potentially rendering Chinese diplomacy soft power as perpetually marginal. In moving towards

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<sup>106</sup> Each time was Barack Obama: Trinidad and Tobago April 17-18 (2009); Jamaica April 9-10 (2015); Cuba March 20-22 (2016) See [https://en.wikipedia.org/wiki/United\\_States\\_presidential\\_visits\\_to\\_the\\_Caribbean](https://en.wikipedia.org/wiki/United_States_presidential_visits_to_the_Caribbean)

<sup>107</sup> The U.S. Embassy based in Bridgetown, Barbados also represents Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

<sup>108</sup> See Chinese embassies in Latin America and the Caribbean [https://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/zwjg\\_665342/2490\\_665344/2497\\_665358/](https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/2490_665344/2497_665358/)

this orientation the U.S State Department should leverage the expertise of organizations such as the Black China Caucus<sup>109</sup> and the Caribbean Policy Consortium<sup>110</sup>.

**U.S Embassies in the Caribbean along with the U.S. Department of State Bureau of Western Hemisphere should hire and train specialists in Caribbean political economy.**

A robust policy needs to be grounded in robust information analysis. Without specialists hosted in the region who understand the nuances of politics, economics, and culture in the Caribbean there is no way for sufficiently accurate information to flow back to the State Department.

Within the State Department itself policy staff must be able to credibly synthesise and formulate strategy proposals based on the information obtained. To do this they also need to be keenly aware of the dynamics of the Caribbean on its own terms. Further, the State Department should commission annual comprehensive reports (jointly authored by non-State Dept. subject matter experts) on Caribbean political economy and foreign policy.

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<sup>109</sup> See <https://www.blackchinacaucus.org/>

<sup>110</sup> See <https://lacc.fiu.edu/news-1/2020/lacc-and-caribbean-policy-consortium-cpc-launch-caribbean-policy-series/>