Disclaimers: This paper is the product of professional research performed by staff of the U.S.-China Economic and Security Review Commission, and was prepared at the request of the Commission to support its deliberations. Posting of the report to the Commission’s website is intended to promote greater public understanding of the issues addressed by the Commission in its ongoing assessment of U.S.-China economic relations and their implications for U.S. security, as mandated by Public Law 106-398 and Public Law 108-7. However, the public release of this document does not necessarily imply an endorsement by the Commission, any individual Commissioner, or the Commission’s professional staff, of the views or conclusions expressed in this staff research report.

The authors thank Evan Ellis for his very helpful review of early drafts. Dr. Ellis may or may not agree with this staff research report, and any errors should be attributed to the authors.
China–Caribbean* ties have strengthened since the mid-2000s and likely will continue to expand under President Xi Jinping, who has emphasized relations with the region more than his predecessors. China’s engagement with the Caribbean is primarily economic in nature and appears to be tied to Beijing’s broader efforts to gain access to key markets, expand Beijing’s political links to Caribbean countries, and build goodwill throughout the region. Political and diplomatic concerns – namely competition with Taiwan for diplomatic recognition – also drive Beijing’s involvement in the region. China’s security cooperation in the Caribbean is expanding but remains modest, likely because Beijing judges that the region does not have the potential to directly affect China’s primary security interests in Asia. Nevertheless, Beijing likely views the Caribbean as strategically important by virtue of its proximity to the United States and major maritime trade routes and infrastructure, such as the Panama Canal and the region’s many ports.

**Economic Relations**

Chinese firms since 2008 have been expanding investment, contracted projects, and bilateral trade in the Caribbean.† This has been encouraged and enabled in large part by China’s central government, which since the early 2000s has increased its support for Chinese firms to invest overseas.‡ Beijing and Chinese businesses also likely are seeking to take advantage of what they see as declining U.S. and European commercial engagement in the region in the wake of the global economic crisis in 2008. In addition, China’s increased economic attention to the Caribbean conforms to China’s overall interest in growing its ties with Latin America and the developing world more broadly.²

As with its relations elsewhere in the world, Chinese economic activities in the Caribbean both reflect and augment China’s diplomatic and political objectives. China’s use of state-owned companies and state-sponsored financing allows Beijing to incorporate many normal economic activities abroad into its diplomatic strategy in a way that most other countries cannot. Furthermore, China’s economic engagement is visible and concrete, because it focuses on construction of physical infrastructure. Such projects by nature garner widespread attention from local populations as well as leaders and foreign observers, which provides China opportunities to leverage its economic engagement for outsized diplomatic benefits.‡

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* For the purpose of this report, the Caribbean region includes these countries and overseas territories: Anguilla (United Kingdom), Antigua and Barbuda, Aruba, the Bahamas, Barbados, British Virgin Islands (United Kingdom), Cayman Islands (United Kingdom), Cuba, Curaçao (Netherlands), Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat (United Kingdom), Navassa Island (United States), Puerto Rico (United States), Saint Barthelemy (France), Saint Kitts and Nevis, Saint Lucia, Saint Martin (France), Saint Vincent and the Grenadines, Sint Maarten (Netherlands), Trinidad and Tobago, Turks and Caicos Islands (United Kingdom), and Virgin Islands (United States).


Trade

Trade is China’s top economic priority in the region, according to Beijing’s November 2008 policy paper on Latin America and the Caribbean. China’s trade with the Caribbean thrived even during the global financial crisis, when the region’s trade ties with the rest of the world suffered. The region’s exports to China increased by 5 percent in 2009, while exports to the United States and Europe each decreased by more than 25 percent.

China runs a trade surplus with the Caribbean. In 2013, China’s exports to the Caribbean totaled $4.21 billion, more than double its imports from the region that year ($1.88 billion). China’s major exports to the region are vessels and other floating structures, electronic equipment, machinery, and iron and steel products. China’s major imports are inorganic compounds, iron, steel, and other metals, mineral fuels, and wood products.

The Caribbean’s robust tourism market likely will benefit from an increase in Chinese visitors to the region. China is the world’s fastest-growing tourism source market and in 2012 became the world’s largest spender on international tourism. As Caribbean countries with large tourism industries seek to recover from slow or negative growth after the global financial crisis, they increasingly are looking to China as a source of growth for their tourism industries. Enhanced cooperation in the tourism industry appears to be a shared goal of the Xi Administration and various Caribbean governments. During his June 2013 trip to the region, President Xi emphasized tourism as an area of cooperation with Antigua and Barbuda, the Bahamas, Barbados, Cuba, and Jamaica. As prospects grow for Chinese tourists in the Caribbean, Chinese commercial airlines, like Air China, reportedly are considering expanding service to cover destinations in the region.

These developments notwithstanding, the Caribbean still accounts for less than 1 percent of China’s trade with the world. The Caribbean does not offer the kinds of goods China covets (like raw materials or high-technology products) in significant volume; nor does it provide large markets for Chinese exports.

Outward Foreign Direct Investment

Most Caribbean governments appear to welcome Chinese investment, particularly in the wake of the global economic crisis. China has signed bilateral investment treaties with the Bahamas, Barbados, Cuba, Jamaica, and Trinidad and Tobago.

Chinese outward foreign direct investment (ODI) stock in the Caribbean totaled $62.1 billion in 2012, the latest year for which data are available. All but $282 million of this ODI was destined for the tax havens of the British Virgin Islands and Cayman Islands, which likely were not the final destinations for the vast majority of those investments. Chinese ODI flows to the Caribbean (excluding the British Virgin Islands and Cayman Islands) in 2012 totaled $31 million. Both ODI stock and flows to the region (again, excluding the British Virgin Islands and Cayman Islands) constituted about one-twentieth of one percent (0.05 percent) of China’s global ODI flows and stock for the year.

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Figure 1: Chinese ODI in the Caribbean

<table>
<thead>
<tr>
<th>Country</th>
<th>2012 ODI flow (millions)</th>
<th>2012 ODI stock (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Virgin Islands</td>
<td>2,239</td>
<td>30,850</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>827</td>
<td>30,072</td>
</tr>
<tr>
<td>Cuba</td>
<td>-5.57</td>
<td>136</td>
</tr>
<tr>
<td>Jamaica</td>
<td>36</td>
<td>75</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>Grenada</td>
<td>0</td>
<td>14.5</td>
</tr>
<tr>
<td>Dominica</td>
<td>0</td>
<td>8.2</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>0</td>
<td>5.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>.81</td>
<td>4</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>.19</td>
<td>1.1</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0</td>
<td>.6</td>
</tr>
</tbody>
</table>


Chinese-Financed Projects in the Caribbean

Development finance, particularly for infrastructure projects, is an important component of China’s engagement with the region. Evan Ellis, associate professor at the National Defense University’s William J. Perry Center for Hemispheric Defense Studies, wrote in 2013:

> [T]he explosion of Chinese bank-financed infrastructure and resort projects in the Caribbean and the Andes is fuelling a wave of work by Chinese construction companies and workers in the region. An estimated $75 billion in such loans have been made in the past two years, with the use of Chinese companies typically a key condition for the funding.15

Development finance manifests most frequently in the form of market-rate loans from Chinese banks for large infrastructure projects.16 In recent years, two Chinese state-owned banks, China Export-Import Bank (China Exim) and China Development Bank, have pledged, disbursed, or partially disbursed the majority of China’s loans to Caribbean countries.17

- From 2005 to 2012, China Exim and China Development Bank loaned about $4 billion to the Bahamas and Jamaica.17 $2.5 billion of this amount (from China Exim) financed much of the construction of the Bahamas’ $3.5 billion Baha Mar resort and casino, which is slated to open in late 2014. The resort’s development company, Baha Mar Ltd., expects the resort to boost the country’s gross national product by ten percent.18 The loans to Jamaica mostly financed projects like roads and shoreline reconstruction.19

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* China Exim and China Development Bank are two of China’s policy banks. These banks are vehicles for the Chinese government to finance development projects that serve Beijing’s interests. Deborah Brautigam, China, Africa, and the International Aid Architecture (Tunis, Tunisia: African Development Bank, 2010), p. 7.
At the 2011 China-Caribbean Economic and Trade Cooperation Forum meeting, then Chinese Vice Premier Wang Qishan promised $1 billion in preferential loans on behalf of China Development Bank to Caribbean countries. It is unclear whether these loans have been disbursed or how they will be used.

China in March 2013 announced a $2 billion contribution to the Inter-American Development Bank’s “China Co-financing Fund for Latin America and the Caribbean.” Over the next six years, the People’s Bank of China will contribute to this fund “to support public and private sector projects that promote sustainable economic growth in the region.”

During his June 2013 visit to Trinidad and Tobago, President Xi reportedly promised ten Caribbean nations a total of $3 billion in loans, although specific details about the timing, financing, and purpose of the loans have not been disclosed.

Caribbean populations have become increasingly critical of the local economic impact of Chinese-invested projects, particularly China’s insistence on using large numbers of Chinese subcontractors and laborers on construction projects. For example, the Baha Mar resort was expected to utilize around 7,000 Chinese workers, though this number later was revised downward by almost half. Discontent over imported Chinese labor appears to be a major driver of change in Chinese labor practices in the region. Between this local backlash and the increasing cost of paying Chinese laborers, the Inter-American Dialogue predicts Chinese projects in the Caribbean likely will rely less on Chinese labor in the coming years. Outcries over the use of Chinese laborers do not appear to have significantly impacted generally positive attitudes toward Chinese projects in the region.

Grants and Gifts

Although China’s gifts to Caribbean countries have declined since 2008, when China and Taiwan’s competition for diplomatic recognition in the region was informally suspended, China continues to make gifts. During the 2011 China-Caribbean Trade and Economic Cooperation Forum, China pledged the following: a $1 million donation to the CARICOM (Caribbean Community) Development Fund; over 2,500 opportunities for Caribbean professionals to train in China; support in the building of seismic and tsunami early-warning and monitoring networks and training on disaster mitigation and prevention; and technical assistance for Caribbean fishing and agricultural sectors. Furthermore, in 2012, China completed construction on a $35 million sports stadium in the Bahamas. According to Bahamian officials interviewed by the New York Times, the stadium was a “reward” for switching diplomatic recognition from Taiwan to China in 1997. China also has provided scholarships for Caribbean students.

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Chinese Port Projects in the Caribbean

Chinese companies are involved in port infrastructure projects in the Caribbean, likely in an effort to capitalize on the commercial boost Caribbean ports expect from the Panama Canal expansion in 2015. The expansion is projected to double the canal’s tonnage capacity by 2025 and make transit more cost-effective.  

Chinese companies have made, or plan to make, significant investments in ports in the Bahamas and Jamaica. In 1995, Hong Kong-based conglomerate Hutchison Whampoa Limited entered into a partnership with the Grand Bahama Development Company to develop a deepwater container port in Freeport in the Bahamas. The conglomerate, which initially invested $2.6 billion in the port, operates the port and related logistical infrastructure, including an airport. The conglomerate later expanded the port and developed a cruise ship harbor and passenger terminal. State-owned China Harbour Engineering Company reportedly plans to invest between $1.2 and $1.5 billion in a transshipment port in Jamaica. The location of the facility and the development timelines are unclear.

Chinese involvement in port infrastructure in the Caribbean probably is part of a larger effort to improve Chinese access to transportation routes and markets in the Western Hemisphere. Hutchison Whampoa operates container terminals on both sides of the Panama Canal, and Chinese companies are invested in ports in Brazil, Chile, Mexico, Suriname, and Venezuela. In June 2013, Hong Kong-based HKND Group won a 50-year concession to design, build, and operate a canal through Nicaragua. The estimated $50 billion project is intended to provide an alternative route to the Panama Canal for goods traversing the Atlantic and Pacific oceans.

According to Adriana Erthal Abdenur, general coordinator for the BRICS Policy Center in Rio de Janeiro, Brazil, Chinese investments in port infrastructure in the Caribbean and Latin America are a positive development in light of diminishing U.S. and European investment after the global economic downturn. However, she warns heavy reliance on China for infrastructure investments in Latin America and the Caribbean has resulted in an environment in which construction and technology standards and institutional ties in the region overwhelmingly favor Chinese companies. This could limit opportunities to attract non-Chinese investors in the medium-term.

Diplomatic Relations

President Xi’s June 2013 visit to the Caribbean, less than one year into his administration, suggests the Chinese government recently elevated the Caribbean on China’s foreign policy agenda (Xi’s predecessor, Hu Jintao, did not travel to the Caribbean until much later in his presidency). Beijing likely intends to continue to expand and deepen its engagement with the region in the near term.

Chinese diplomacy in the Caribbean (and in many other countries in Latin America) until 2008 was aimed almost exclusively at securing diplomatic recognition of the People’s Republic of China (PRC), which for decades had been competing for diplomatic recognition with the Republic of China (Taiwan). In 2008, Beijing and Taipei agreed to a truce on “checkbook diplomacy” to win diplomatic recognition by third countries. The truce notwithstanding, China still seeks to strengthen its position in the region vis-à-vis Taiwan.

Beijing maintains some economic and political relations with the five Caribbean states that still recognize Taiwan (Haiti, the Dominican Republic, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines). In fact, the Dominican Republic, which recognizes Taiwan and
has no formal diplomatic ties with China, was China’s third-largest trading partner in the region in 2013. While China excludes these states from formal modes of diplomatic cooperation, the Chinese Communist Party (CCP), and particularly the CCP’s International Department, cultivates informal political ties with these countries. Beijing presumably could leverage these ties should its diplomatic truce with Taipei falter.

China’s diplomatic efforts in the Caribbean are not limited to the contest for influence with Taiwan. They also seek to achieve other political objectives:

- Beijing, largely through the CCP’s International Department, cultivates ties with opposition groups and rising leaders throughout the region, as it does globally. According to one U.S. expert on Chinese foreign policy, the International Department is “very deeply embedded in the Western Hemisphere” in this way.

- Beijing seeks to bolster political and diplomatic links to the region to build goodwill and increase China’s influence. While most Caribbean countries are small and poor with little global influence, each has a vote in important international bodies like the United Nations, and Beijing likely sees its diplomatic and economic investments in these countries as a low-cost way to generate support for Chinese positions and policies in the international community.

- Chinese embassies in the Caribbean play an important role liaising with Chinese working overseas and overseas Chinese communities in the region.

Military and Security Relations

China’s military and security relations in the Caribbean are secondary to economic and diplomatic engagement and remain confined to relatively small-scale, low-level assistance, training, and personnel exchanges and visits. Chinese military and defense assistance, while limited, is intended primarily to augment China’s broader efforts to promote friendly relations with Caribbean countries. As China’s overall interests in the Caribbean deepen, efforts to ensure the security of its human and commercial presence there likely will grow as well.

China’s security presence in the Caribbean began in 2004, when it deployed 200 military observers and support troops – including engineering, transport, and medical units – to the United Nations Stabilization Mission in Haiti (MINUSTAH). China maintained between 16 and 743 troops in MINUSTAH between 2004 and November 2012, when China’s peacekeeping presence in Haiti ended. Deploying peacekeepers to Haiti was one of the first in a series of steps the People’s Liberation Army (PLA) took to fulfill then President Hu Jintao’s 2004 directive that the PLA expand its mission beyond its traditional focus on Taiwan to include safeguarding China’s interests abroad, humanitarian assistance and disaster relief, and promoting world peace. In Beijing’s view, these noncombat missions are important for China’s national development because they help ensure a peaceful and stable international security environment. The PLA’s involvement in peacekeeping missions provides it with valuable real-world experience operating in a foreign environment and cooperating with foreign militaries (including the United States).

- China’s most high-profile military engagement in the region occurred in December 2011, when the PLA Navy’s first purpose-built hospital ship deployed to the Caribbean. The cruise included port calls in Cuba, Jamaica, and Trinidad and Tobago. This marked the PLA Navy’s first operational deployment to the Caribbean.
• The PLA pursues high level visits and exchanges with Caribbean countries in order to enhance its understanding of Caribbean militaries and to cultivate institutional and personal ties between Chinese military leaders and current and future Caribbean military leaders. According to successive Chinese defense white papers, China participated in eight “major international military exchanges” with Caribbean countries (seven with Cuba and one with Jamaica) between 2007 and 2012.

• China’s military cooperation with Cuba likely represents China’s closest defense ties in the region. The PLA and Cuba’s Revolutionary Armed Forces (FAR) hold high-level meetings, personnel exchanges, and conduct training. In recent years, some of the PLA’s highest-ranking officials have visited Cuba. Unconfirmed reports suggest China may have access to Cold War-era signals intelligence facilities in Cuba.

• China in 2012 donated $7.5 million in non-lethal military gear to the Jamaican Defense Force, including tents, uniforms, helmets, binoculars, backpacks, and bulletproof vests.

China likely will continue its modest engagement with militaries and security forces of Caribbean countries. However, China’s primary security interests are in Asia, so cooperation likely will remain minimal and be aimed at supplementing China’s economic and diplomatic engagement there. Moreover, Beijing has been careful to avoid deeper defense cooperation in the region for fear of raising alarm in the United States – a pattern that is likely to persist in the near future.

**China’s Soft Power in the Caribbean**

In general, Caribbean countries – at the official and grassroots levels – tend to view China favorably. Exceptions to this include displeasure at the local level with imported Chinese laborers and other problems associated with the influx of Chinese into local communities and markets.

Beijing includes the Caribbean in its global campaign to enhance its soft power through cultural outreach. In 2010, the Chinese Ministry of Foreign Affairs signed cooperation agreements on culture, education, tourism, and media exchanges with the Caribbean nations that recognize China. To date, China has opened Confucius Institutes for the study of Chinese language and culture in Jamaica and Cuba. The University of the West Indies in Trinidad and Tobago in 2013 announced plans to open a Confucius Institute as well, and the official Confucius Institute website also lists the Dominican Republic – which recognizes Taiwan, not the PRC – as hosting a Confucius Institute.

Educational exchanges also facilitate informal ties and goodwill. As part of its economic assistance packages, China provides scholarships to Caribbean students and professionals to study or train in China. A number of Chinese students pursue academic programs in the Caribbean as well. More than anywhere else in Latin America and the Caribbean, Chinese students go to Cuba. According to Dr. Ellis, from 2006 to 2011, 5,000 Chinese students studied in Cuba, although numbers since have decreased.

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Outlook and Implications for the United States

China’s engagement with the Caribbean remains modest but appears poised to increase in the coming years and decades, especially if China’s trade and investment ties with the wider Latin American region continue to grow. China’s political engagement continues to be limited, but it could increase substantially if Beijing and Taipei resume their global competition for diplomatic recognition.

China emphasizes its growing foreign engagement does not seek to challenge U.S. interests. Indeed, there are many opportunities for the United States to benefit from China’s economic engagement in the region, particularly its investments in and financing of port infrastructure and shipping and its involvement in humanitarian aid and disaster relief efforts.

These opportunities notwithstanding, U.S. policymakers should closely monitor China’s growing involvement in the Caribbean. Beijing likely judges it has an opportunity to fill a vacuum caused by a decrease in U.S. and European trade, investment, and other business ties following the global economic crisis. In Caribbean countries, the narrative that the United States has neglected the region while China has embraced it is pervasive. Although this message is misleading (current U.S. trade and diplomatic ties with the region are more robust than those of China), its persistence could limit the effectiveness of U.S. policy in the Caribbean.


35 Open Source Center, “OSC Analysis: Xi’s Latin America Trip Emphasizes Economic Over Political Ties,” OSC ID: CPF20130606025001.


