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Chinese Investment in the Caribbean: Turning Opportunity into Growth

Sara Ghebremusse

Abstract

Caribbean Community (CARICOM) Member States continue to depend on foreign direct investment (FDI) as a source of external finance in mineral and petroleum based industries, tourism, and the financial sector. As the People's Republic of China strengthens its position as a global economic leader following the 2008 recession, its developing country partners, and notably CARICOM countries, are becoming more reliant on its investment. This situation has drawn criticism from the Caribbean development community as to the lack of real impact of Chinese investment on local communities or sustainable economic growth. This paper uses case studies to explore Chinese investment in tourism in the Bahamas, sugar production in Jamaica, and energy in Trinidad and Tobago, and proposes strategies that may be used to restructure or expand investment to support growth in these sectors.

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Contents

I. Introduction

Foreign direct investment ("FDI") can help promote economic growth in developing countries. It is a stable source of finance, and can also contribute to the transfer of knowledge and technology to the developing country.[1] Member States of the Caribbean Community[2] ("CARICOM") continue to depend on FDI, predominately as a source of external finance in the areas of mineral and petroleum based industries, tourism, and the financial sector.[3] As the People's Republic of China ("PRC" or "China") continues to lead global economic recovery following the 2008 recession,[4] the Caribbean is increasingly relying on China as a source of investment, which has garnered criticism from the Caribbean development community.[5] China's investment in the Caribbean is criticized as being minimal and of little assistance to local communities. Most of the PRC's investments in the region have focused on "large construction projects like roads, government buildings and sports venues",[6] which are seen to benefit governments rather than supporting sustainable economic growth.

In this paper I intend to consider how CARICOM countries can turn Chinese investment opportunities into growth by examining the current investment and making recommendations aimed at either restructuring or expanding the investment. Three specific case studies are surveyed: tourism

1 Peter Nunnenkamp & Julius Spatz, "Foreign Direct Investment and Economic Growth in Developing Countries: How Relevant Are Host-country and Industry Characteristics?" (2003) Kiel Working Paper No. 1176, online: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=425260> at 1 [Nunnenkamp].

2 The Member States of CARICOM are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago; these countries will also be described collectively as the "Caribbean".

3 Caribbean Community, "Caribbean Trade and Investment Report, 2010 – Strategies for Recovery, Renewal and Reform, Executive Summary", online: <http://www.caricom.org/jsp/community_organs/ctir_2010_executive_summary.pdf> at 5 [CARICOM].

4 Osvaldo Rosales & Mikio Kuwayama, *China and Latin America and the Caribbean: Building a Strategic Economic and Trade Relationship*, online: United Nations Economic Commission for Latin America and the Caribbean <http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/6/46566/P46566.xml&xsl=/comercio/tpl-i/p9f.xsl&base=/comercio/tpl/top-bottom.xsl> at 15 [Rosales].

5 See for example Annita Montoute, "Caribbean-China Economic Relations: What are the Implications?" (2013) Caribbean Journal of International Relations & Diplomacy 1:1 110 [Montoute].

6 Jerome McElroy & Wenren Bai, "The Political Economy of China's Incursion into the Caribbean and the Pacific" (2008) Island Studies Journal 3:2 225 at 239 [McElroy].

in The Bahamas; sugar production in Jamaica; and Trinidad and Tobago's ("TT") energy sector. I will argue that for Chinese investment in these sectors to effectively contribute to growth, The Bahamas should ensure greater levels of local employment in tourism-related construction, while Jamaica and TT should strive for additional investment in value-added production.[7] Without value-added activity, sugar and energy production will not make significant additional contributions to economic growth in Jamaica and TT, respectively. In its current form, Chinese investment will only contribute to exploitative production that offers minimal returns to local economies. Before turning to the case studies in Section Four, Section Two summarizes the link between FDI and economic development, and Section Three reviews China's investment in the Caribbean by examining the history, motive, and CARICOM's need for Chinese investment. The paper concludes with lessons learned and recommendations for other CARICOM Member States receiving Chinese investment either now or in the future.

II. Foreign Direct Investment and Economic Development

The link between FDI and development is not directly positive;[8] studies have shown that certain host country conditions are required for FDI to promote economic development through positive spillover effects in the form of technology and knowledge transfer, and increased employment. [9] These will occur if the host country has the absorptive capacity to effectively benefit from the investment.[10]

Industry characteristics can also influence the impact of FDI on growth.[11] These characteristics include: "technology intensity", linkages to local firms, and the "degree of vertical

[7] CARICOM, *supra* note 3 at 6.
[8] Nunnenkamp, *supra* note 1 at 1.
[9] Peter Nunnenkamp, "To What Extent Can Foreign Direct Investment Help Achieve International Development Goals?" (2004) 27:5 The World Economy 657 at 668.
[10] Nunnenkamp, *supra* note 1 at 5.
[11] Nunnenkamp, *supra* note 1 at 6.

integration" of the foreign investment.[12] Depending on their nature, these factors have the potential to supplement local investment, enhance technology and knowledge transfer, and promote competition in the local economy.[13]

The different effect of FDI in the extractive sector versus manufacturing illustrates the impact of industry characteristics. FDI in resource extraction tends to include significant sunk costs with "few linkages to the local product and labour markets."[14] Extractive sector FDI may also lead to "Dutch Disease", wherein the host state's economy is dominated by resource extraction to the detriment of other industries, particularly manufacturing.[15] Alternatively, FDI in manufacturing is likely more compatible with a developing country's absorptive capacity, and has a greater chance of creating positive spillover effects through technology and knowledge transfer.[16]

In its current form, Chinese investment in CARICOM minimally encourages positive spillover effects and increased employment, which are necessary to support sustained economic growth. After a review of Chinese investment in the Caribbean in Section Three, the case studies in Section Four address how the investment can be restructured to create some of the positive effects discussed in this section.

III. Chinese Investment in the Caribbean

Formal relations between the PRC and CARICOM Member States date back to the early 1970s, when China established diplomatic ties with Jamaica and Guyana.[17] Since that time, China went on to establish diplomatic relations with most other CARICOM members, but not all; some

[12] *Ibid* at 5.
[13] *Ibid.*
[14] *Ibid* at 6.
[15] *Ibid.*
[16] *Ibid.*
[17] Richard Bernal, "The Dragon in the Caribbean: China-CARICOM Economic Relations" (2010) The Round Table 99:408 281 at 282 [Bernal, Dragon].

Member States have chosen to recognize Taiwan, and therefore retain diplomatic relations with the Republic of China rather than the PRC.[18] Due to the lack of homogenous recognition of China by CARICOM states, Chinese relations with CARICOM members is primarily conducted bilaterally, and not multilaterally as has been the case with CARICOM economic relations with Canada, the European Union, and the United States ("US").[19] Two multilateral economic forums between China and the greater Caribbean (the China-Caribbean Economic and Trade Cooperation Forum and the China-Caribbean Business Council) are in place; however, to date there is neither a free trade agreement nor investment treaty between the PRC and CARICOM.[20]

Economic relations between China and CARICOM are not robust, historically. Most of the PRC's investment in the greater Caribbean is directed to the Cayman Islands and British Virgin Islands.[21] Despite low levels of Chinese investment to CARICOM Member States largely directed "toward securing supplies of raw materials and developing infrastructure,"[22] the levels are increasing in relative terms. Recent investments include approximately US$3 billion towards the construction of a new resort in The Bahamas,[23] and US$1.6 billion to upgrade sugar production operations in Jamaica.[24] Compared to China's other developing country investments, however, this recent activity remains minimal. Asia and the Pacific region continue to be the main recipient of Chinese FDI, accounting for over 78 percent of the total, followed by 12.5 percent in Latin America and the Caribbean, of which the Cayman Islands and British Virgin Islands receive 95 percent.[25]

Since China has few investments in CARICOM Members States, many commentators

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[18] *Ibid*. The CARICOM Member States with diplomatic relations with Taiwan are: Belize, Grenada, Haiti, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines.
[19] *Ibid*.
[20] *Ibid* at 283.
[21] Richard Bernal, "China's Rising Investment Profile in the Caribbean" (October 2013), online: Inter-American Dialogue: <http://thedialogue.org/PublicationFiles/IAD9325_Bernal_China_10142.pdf> at 1 [Bernal, China].
[22] *Ibid*.
[23] *Ibid*.
[24] Douglas McIntosh, "Labour Minister Welcomes $1.6 Billion Investment in Sugar" (27 February 2014), online: Jamaica Information Service <http://jis.gov.jm/labour-minister-welcomes-1-6-billion-investment-sugar/> [McIntosh].
[25] Rosales, *supra* note 4 at 31, 33.

contend that China is making investments as part of its ongoing diplomatic standoff with Taiwan.[26] Five CARICOM Member States currently maintain formal diplomatic relations with Taiwan. This number decreased, however, as China's growing economic prowess in the late 1990s swayed both The Bahamas and Dominica to withdraw their recognition of Taiwan with large economic incentives, including investment and aid.[27] Switching allegiance back to Taiwan results in the reversal of economic assistance, which Saint Lucia discovered in 2007 when the PRC halted construction of a hospital and closed its embassy in the country.[28]

In addition to its standoff with Taiwan, China's investment in the Caribbean may be aimed at fostering important allegiances that can potentially benefit Chinese interests in international forums such as the United Nations, where one country equals one vote. The Caribbean's traditional international allies – the US, Europe, and Canada – are less and less interested in providing much needed economic assistance, through aid or investment. China is able to fill part of the vacuum, particularly when it is needed most by CARICOM states.[29]

Many CARICOM members are currently experiencing a crippling economic crisis. Fiscal and debt instability is plaguing the Caribbean, as many countries are operating under large budget deficits.[30] Since 2010, five CARICOM Member States – Belize, Antigua and Barbuda, Grenada, Jamaica, and St. Kitts and Nevis – have had to restructure their debts.[31] Growth in the region is also stagnant (except in the area of commodity exports).[32]

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[26] See for example Bernal, Dragon, *supra* note 17 at 291, and Robin Wigglesworth, "Caribbean in Crisis: Chequebook Diplomacy" (17 December 2013), online: Financial Times <http://www.ft.com/intl/cms/s/2/7f7b0d8e-5ea8-11e3-8621-00144feabdc0.html#axzz2x1bL6rzF> [Wigglesworth].
[27] McElroy, *supra* note 6 at 231.
[28] *Ibid.*
[29] Wigglesworth, *supra* note 26.
[30] Bernal, Dragon, *supra* note 17 at 294.
[31] Robin Wigglesworth, "Caribbean blown by winds of financial crisis" (16 December 2013), online: Financial Times <http://www.ft.com/intl/cms/s/2/ead62cda-60ec-11e3-b7f1-00144feabdc0.html#axzz2xwtywvkt>.
[32] Sebastian Acevedo, Aliona Cebotari & Therese Turner-Jones, *Caribbean Small States: Challenges of High Debt and Low Growth*, online: International Monetary Fund <http://www.imf.org/external/np/pp/eng/2013/022013b.pdf> at 10.

As a result of the crisis, China is a much-needed "pool of potential foreign investment"[33] that can help boost fledgling CARICOM economies. China is currently an engine of global economic growth, with high levels of outward investment. In 2012, China's FDI reached a new high of US$87.8 billion, placing the PRC among the top three global sources of outward investment.[34] Although most of China's investment in dollar figures is concentrated in the energy, financial services and business sectors, a greater proportion of Chinese investors operate in the manufacturing and commercial sectors.[35]

These qualities of China's FDI bode well for the Caribbean. Investment in the region has decreased in the wake of the global economic crisis, falling from a peak of US$6.9 billion in 2008 to US$3.8 billion in 2009.[36] Natural resource extraction, and services sectors like tourism (and its related construction projects) are the main recipients of FDI.[37] Chinese enterprises have already invested in these sectors, although they have been criticized for their minimal linkages to local enterprises and almost exclusive use of Chinese labour.[38] For example, the construction of the US$3 billion Baha Mar resort in The Bahamas, which is being financed by the Export-Import Bank of China, will use 5,000 Chinese construction workers.[39]

Restructuring Chinese investment to create positive spillover effects and increased employment will require that CARICOM states renegotiate the terms of Chinese investment and introduce slight modifications to their investment regimes. CARICOM states can potentially leverage their diplomatic relations with the PRC as a bargaining position to renegotiate terms of Chinese

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33 Bernal, Dragon, *supra* note 17 at 294.
34 Economic Commission for Latin America and the Caribbean, "Chinese foreign direct investment in Latin America and the Caribbean", online: <http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/1/51551/P51551.xml&xsl=/publicaciones/ficha-i.xsl&base=/publicaciones/top_publicaciones-i.xsl> at 7.
35 *Ibid.*
36 CARICOM, *supra* note 3 at 4.
37 *Ibid.*
38 Montoute, *supra* note 5 at 121.
39 Bernal, China, *supra* note 22 at 5.

investment. Although there is significant disparity in negotiating power between China and any Caribbean country (particularly when that country lacks any economic advantages for the PRC), Caribbean states are not receiving high levels of investment that make them beholden to China. Taiwan – in its efforts to combat China's chequebook diplomacy – also provides investment to its allies in the region. One major difference and attraction of Taiwanese investment is its lack of conditionalities; unlike China, Taiwan does not require that Taiwanese labourers service its investments.[40] Leveraging an allegiance with Taiwan is potentially one way for CARICOM states with diplomatic relations with China to try and negotiate different conditionalities on Chinese investment.

CARICOM Member States may also wish to consider minor reforms to their investment regimes, both nationally and regionally, by introducing nationality requirements in its foreign investment laws (particularly in the areas of employment and the use of local materials) and fostering greater movement of labour in the region. These requirements can be interim measures to help boost local employment and production during the current economic crisis, and can mirror similar regulations in developed countries, such as Canada's foreign worker program.[41] In cases where there is insufficient local labour to service the investment, preference should be given to other CARICOM nationals, regardless of the status of the diplomatic relations of their home state with China. Although a regional employment strategy is currently not in place, such an initiative can act as an incentive for the development of one. A regional oversight strategy can also be developed to ensure compliance with the regulations. Creating an oversight entity may be difficult in a time of austerity; however, funding can potentially be secured from regional development banks such as the Caribbean Development Bank or the Inter-American Development Bank. Any regional oversight

[40] Wigglesworth, *supra* note 26.
[41] "Fact Sheet – Temporary Foreign Worker Program", online: Citizenship and Immigration Canada <http://www.cic.gc.ca/english/resources/publications/employers/temp-foreign-worker-program.asp>.

body can be designed to fit the region's needs, which are not significant given the small size of CARICOM economies and the low volume of foreign investment.

To illustrate how Chinese investment can be restructured to turn opportunity into growth, Section Four examines three case studies of recent PRC investment in the region: tourism in The Bahamas, sugar production in Jamaica, and Trinidad and Tobago's energy sector.

IV. Cases Studies – Turning Opportunity into Growth

a. Investment in Bahamian Tourism

The greater Caribbean is the most tourism-dependent region in the world, and is four times more dependent on tourism than any other region.[42] Although the Caribbean only accounts for five percent of the international tourism market, tourism contributes to over 15 percent of the region's Gross Domestic Product ("GDP").[43] In The Bahamas, tourism accounts for approximately 42 percent of GDP.[44]

The Bahamas attracted over 6 million tourists in 2013.[45] Most tourists to The Bahamas originate from the US, accounting for close to 79 percent in 2011.[46] Due to its reliance on American tourists, The Bahamas is susceptible to fluctuations in the US economy that may impact international travel. For example, the number of US tourists declined in the year following the 2008 economic crisis.[47] Consequently, The Bahamas should seek to diversify its source of tourists; China is one viable source.

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[42] Leisa Perch, "Managing Resource-Dependence amidst Opportunities and Challenges: Defining a New Sustainability Narrative for Caribbean Coastal Economies", online: International Policy Centre for Inclusive Growth <http://www.ipc-undp.org/pub/IPCPolicyResearchBrief36.pdf>.
[43] CARICOM, *supra* note 5 at 26.
[44] *Ibid.*
[45] Tourism Today, "Bahamas Tourism Arrivals 2013", online: The Islands of The Bahamas <http://www.tourismtoday.com/home/statistics/visitor-arrivals/foreign-air-sea/>.
[46] *Ibid.*
[47] *Ibid.*

As the Chinese middle class grows, greater numbers of Chinese will travel abroad. In 2008 alone, 46 million Chinese travelled abroad, spending approximately US$30 billion.[48] The majority of China's tourists travel to nearby destinations (Hong Kong, Macau, and other parts of Asia);[49] however, the potential exists to attract Chinese tourists to tropical destinations like the Caribbean. Although increasing the number of Chinese tourists is not a form of FDI, it is vital to ensuring any tourism-related investment that does take place in The Bahamas generates wealth, since tourists ensure a strong tourism sector. The Bahamas should continue to seek partnership opportunities with Chinese firms in order to market tourism in the PRC.[50]

As mentioned in Section Three, the Export-Import Bank of China is financing one of the largest resort developments The Bahamas has seen in recent years. In addition to the Baha Mar investment, other Chinese investment in the Bahamian tourism sector includes the ownership of a number of hotels and casinos by a sister company of Hong Kong's Hutchison Port Holdings.[51]

Despite these increased levels of Chinese investment in Bahamian tourism, direct and indirect employment in the tourism sector has not grown. Approximately half of the Bahamian labour force is employed directly or indirectly by the tourism sector.[52] Following the dip in tourism after the 2008 global economic crisis, over 100,000 Bahamians were receiving unemployment benefits. In an effort to increase employment, the Bahamian government introduced a stimulus package aimed at road and public infrastructure projects.[53] Yet this is occurring when approximately 5,000 Chinese labourers were brought in to work on the construction of the Baha Mar resort after

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[48] Bernal, Dragon, *supra* note 17 at 295.
[49] *Ibid.*
[50] "Ministry of Tourism talks marketing strategy with Baha Mar" (21 February 2014), online: Baha Mar <http://www.bahamar.com/media/press/release/?post_id=1196>; "Bahamas to be promoted in China through new partnership" (4 March 2014), online: thebahamasweekly.com <http://www.thebahamasweekly.com/publish/international/Bahamas_to_be_promoted_in_China_through_new_partnership33556.shtml>.
[51] "The Caribbean: A Chinese beachhead?" (10 March 2012), online: The Economist <http://www.economist.com/node/21549971>.
[52] "Bahamas: Economy", online: globalEDGE <http://globaledge.msu.edu/countries/bahamas/economy>.
[53] *Ibid.*

the Bahamian government approved an initial request for 8,150 Chinese workers for the project.[54]

Reliance on Chinese workers to service tourism-related infrastructure investment is doing little to boost employment and support economic growth in The Bahamas. Tourism is not an industry with significant technology and knowledge spillovers; consequently, direct and indirect employment in tourism is the main benefit. Undoubtedly Bahamian nationals will be employed in the resort once it is completed; however the opportunity to utilize Bahamian labourers in the construction of Chinese investment projects should not be missed. Increased employment boosts individual wealth and promotes consumption, which contributes to economic growth and development. If, however, Chinese workers are being relied on because of their knowledge, employing Bahamians and utilizing local Bahamian construction firms to work with the Chinese is one potential form of knowledge transfer that can be beneficial.

b. Investment in Jamaican Sugar Production

Jamaican sugar production historically benefitted from preferential access to the US and European markets (although access to the American market was limited due to the protection of US sugar farmers).[55] Preferential access to Europe was made possible through the various preferential trade agreements the European Union had in place with the African, Caribbean, and Pacific group of countries.[56] The industry has largely survived as a result of the stable access to these two markets, particularly as the sector underwent major changes over the past 40 years. In the 1970s, the Jamaican government nationalized the industry.[57] Rather than operate the farms, however, the government leased the property back to the original owners.[58] In recent years, the Government of Jamaica has

[54] *Ibid.*
[55] "Brief on the Jamaican Sugar Industry", online: Jamaica Sugar Industry Authority <http://www.jamaicasugar.org/SIASection/HistJamaicanSugarIndustry.pdf> at 1-2.
[56] *Ibid.*
[57] *Ibid.*
[58] *Ibid.*

divested its sugar farms to both local firms and foreign investors, including Chinese entities.

Jamaica and China have a long history of bilateral relations. Jamaica is China's largest trading partner in the Caribbean, and is also one of the few states to have a bilateral investment treaty with the PRC, which came into force in 1994.[59] Sugar is one of the main exports, as approximately half of China's sugar originates in the greater Caribbean.[60] Chinese investors recently acquired interests in Jamaica's sugar industry when the China National Complete Plant Import and Export Company Limited's ("Complant") purchased three sugar factories and leased over 30,000 hectares of sugar cane fields.[61] Complant boosted its investment when it devoted US$1.6 billion to upgrade its facilities over the next three years.[62]

Chinese interests have also gained a further foothold in the industry when Pan-Caribbean, a Complant subsidiary, was granted authority to act as a marketing board on behalf of Jamaican sugar producers. Pan-Caribbean will now sell sugar and molasses on behalf of Jamaican farmers, in addition to setting a pricing regime,[63] despite issuing a warning regarding potential losses to shareholders in July 2013.[64]

Sugar cane production is one of the largest agriculture employers in Jamaica, with an 18 percent employment rate;[65] therefore investment that secures or increases employment in this sector positively contributes to Jamaica's economy. Chinese investment, however, is dominated by primary production with little value-added, which limits any positive contributions to economic growth and

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[59] Bernal, Dragon, *supra* note 17 at 283, 289.
[60] McElroy, *supra* note 6 at 228. McElroy states that China's sugar imports from the Caribbean are from Jamaica, Trinidad and Tobago, and Cuba. Specific figures for Jamaica where not specified in McElroy's article nor on the Jamaica Sugar Industry Authority website.
[61] Bernal, China, *supra* note 22 at 4.
[62] McIntosh, *supra* note 24.
[63] Alphea Saunders, "Pan-Caribbean to Sell Sugar and Molasses on Behalf of Cane Farmer's" (16 January 2014), online: Jamaica Information Service <http://jis.gov.jm/pan-caribbean-sell-sugar-molasses-behalf-cane-farmers/> [Saunders].
[64] Shamille Scott, "Jamaica sugar operation drags Chinese company further in the red" (26 July 2013), online: Jamaica Observer <http://www.jamaicaobserver.com/business/Jamaica-sugar-operation-drags-Chinese-company-further-in-the-red_14733881>.
[65] Saunders, *supra* note 63.

development.

Complant's investment (in its current form) appears to consist exclusively of raw sugar and molasses production, which are forms of primary production. Value-added production can make greater contributions to economic growth by diversifying the economy and moving Jamaica up the value chain in the production of more advanced sugar products. Rum manufacturing is a major form of value-added sugar production currently in Jamaica. Other possible activity can include the production of refined sugars, special sugars, and even green energy.[66] China is one of the world's leading producers of green energy,[67] and investment in green energy production can help Jamaica meet its high demand for energy.[68] Jamaica's recent divestment of sugar farms was a missed opportunity to demand greater value-added investment; as was the recent agreement reached granting the Pan-Caribbean Company marketing board authority. The government, however, can still act by providing incentives and revising the regulatory framework to ensure a minimum level of value-added production.

c. Investment in Trinidad and Tobago's Energy Sector

Trinidad and Tobago is one of the stronger economies in the Caribbean, having experienced 16 consecutive years of real GDP growth up until 2008.[69] Since the global economic crisis, TT experienced varied growth but is currently seeing real GDP rise.[70] Energy production – both in oil and natural gas – is the main driver of TT's economy, and will maintain growth levels over the long-

[66] "Value-added products of sugar cane", online: Mauritius Sugar Producers' Association <http://www.mspa.mu/index.php?rubrique=15>.
[67] Peter Coy, "Green China? It Leads the World in Adding Renewable Electricity" (21 November 2013), online: Bloomberg Businessweek <http://www.businessweek.com/articles/2013-11-21/green-china-it-leads-the-world-in-adding-renewable-electricity>.
[68] Malte Humpert, "Jamaica's Energy Market" (18 November 2013), online: Inter-American Development Bank <http://blogs.iadb.org/caribbean-dev-trends/2013/11/18/jamaicas-energy-market/>.
[69] "Trinidad and Tobago: Economy", online: globalEDGE <http://globaledge.msu.edu/countries/trinidad-and-tobago/economy> [globalEDGE].
[70] "Output Annual", online: Central Bank of Trinidad and Tobago <http://www.central-bank.org.tt/content/output-annual-0>.

term. Industries related to the energy sector – such as petrochemicals, fertilizers, iron/steel, and aluminum – are also supporting energy-related growth.[71] TT relies extensively on the energy sector as it accounts for 43.5 percent of the state's GDP and is the source of approximately 57.5 percent of government revenue.[72] The sector, however, only employs three percent of the working population.[73]

Today, TT's energy sector is dominated by natural gas production. The country is the world's fifth largest exporter of liquefied natural gas.[74] TT's energy sector also conducts various downstream energy activities, primarily in ammonia, methanol and urea production; currently, TT is the world's largest exporter of ammonia, and the second largest exporter of methanol.[75] The dominance of energy production risks TT facing "Dutch Disease" conditions; however, downstream energy production in TT suggests the country can sufficiently diversify within the sector in order to avoid the negative effects. Alternatively, TT can explore alternative economic activities in order to diversify its economy even more.

Chinese investment in TT's energy sector should also be directed to downstream production activities if it is to support continued economic growth and development in the country. Currently, China's investment has focused in upstream offshore oil production.[76] With the current downstream production in its energy sector, TT has the demonstrated capacity to absorb any Chinese investment in that sector. In a recent visit to Beijing, TT's Prime Minister Kamla Persad-Bissessar identified alternative industries, such as agribusiness, maritime industries, and manufacturing – in addition to downstream energy production – as areas for potential Chinese investment during talks with

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71 globalEDGE, *supra* note 69.
72 Malte Humpert, "Trinidad and Tobago's Energy Market" (2 December 2013), online: Inter-American Development Bank <http://blogs.iadb.org/caribbean-dev-trends/2013/12/02/trinidad-and-tobagos-energy-market/>.
73 *Ibid*.
74 *Ibid*.
75 "Downstream Gas Industry: Annual Report 2012", online: Ministry of Energy and Energy Affairs <http://www.energy.gov.tt/wp-content/uploads/2013/11/Downstream_Gas_Industry_Annual_Report_2012.pdf> at 3 and 8.
76 Bernal, China, *supra* note 22 at 4.

President Xi Jinping.[77] With decreasing investment interest from traditional partners, greater Chinese investment in diverse sectors of TT's economy can further support growth and development.

V. Conclusion

Chinese FDI is a potential source of financing that can help Caribbean states through the current economic crisis. Structured in its current form, however, Chinese investment is doing little to support growth and development, particularly in economies that lack oil and natural gas wealth. The presence of FDI on its own has been shown to not contribute to economic growth; it is the positive spillover effects, through technology and knowledge transfer, and employment that contribute to growth. These effects are more prominently incurred through manufacturing rather than extraction; Chinese investment is predominately the latter.

The three case studies examined in Section Four identified some of the ways in which Chinese investment can be restructured to lead to greater spillover effects. In tourism-related investment, contributions to economic growth are made when the local workforce is employed. Currently, the PRC is requiring that Chinese labourers be used on infrastructure projects, to the detriment of local, unemployed workers. Chinese infrastructure investment is an opportunity to increase employment, particularly during the economic crisis when several Caribbean governments lack the financial resources to fund stimulus programs. If Chinese investment conditions cannot be renegotiated bilaterally, CARICOM states should introduce local-employment requirements into their investment regimes.

Primary industries, such as sugar and energy production, require greater value-added production if the sectors are to contribute to economic growth and development. Chinese

[77] "Trinidad's Prime Minister heads to China for trade and investment talks" (20 February 2014), online: InvesTT <http://www.investt.co.tt/blog/investt-blog/2014/february/trinidad-prime-minister-heads-to-china-for-trade-investment-talks >.

investment in these areas is currently lacking any value-added component. Caribbean states should attempt to leverage diplomatic relations with China in an effort to negotiate greater value-added production. FDI in value-added production is more likely to result in positive spillovers. It also moves the domestic industry up the global value chain, which also creates greater financial benefits for the investor as higher-level production activity generates more wealth.

Chinese investment in the Caribbean is a current opportunity that can contribute greatly to economic growth and development in the region. It is a missed opportunity for meaningful growth, however, if the investment remains exploitative and continues to offer few positive spillovers.

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