

HCSS GLOBAL TRENDS

# The Belt and Road Initiative Looks East

Political Implications of China's Economic Forays in the Caribbean and the South Pacific





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and the South Pacific

HCSS Global Trends

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Authors: Willem Oosterveld, Eric Wilms, Katarina Kertysova.

Contributions: Rob de Wijk, Hannes Rõõs, Kumar Bhattacharyya, Mischa Sibbel,

Kristina Tranakieva

Interviews for this report were primarily held with interlocutors in Jamaica, Trinidad and Barbados. The authors like to thank all interviewees for their contributions and insights.

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The Hague Centre for Strategic Studies info@hcss.nl hcss.nl

Lange Voorhout 1 2514EA The Hague The Netherlands

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## **Executive Summary**

On January 22, 2018, the People's Republic of China formally invited countries in Latin America and the Caribbean to join its Belt and Road initiative (BRI). Although the invitation did not amount to adding countries in the region to the USD 40bn Silk Road Fund, it portends the BRI's full embracement of the globe as a whole. Created in 2013 at the instigation of Xi Jinping and then named the One Belt, One Road Initiative (OBOR), the BRI has mainly be seen as an endeavor to secure steady supplies of raw materials, principally from Africa and the Middle East, and to tie the economic fates of its Asian neighbors to that of China.

The rationale of the extension of the BRI across the Pacific and into the Caribbean raises questions among pundits and policy-makers alike. For instance, neither the Pacific nor the Caribbean is highly promising in terms of critical raw materials. In absence of an evident economic rationale, speculation about Chinese engagement has focused on political motives. Indeed, there is still a number of islands in both the South Pacific and the Caribbean that maintain ties with the Republic of China (Taiwan). Another motivation could be to win over support at the international level for China's bid for global hegemony, which is deemed relatively easy given the small size of the economies concerned and the deep pockets that Beijing has available. Other reasons mentioned are gaining goodwill, and the desire to be recognized as a global power. Besides this, the infrastructure projects also gain economic windfalls.

This study aims to understand the consequences of China's dealings with Small Island Developing States (SIDS) in the South Pacific and the Caribbean. China's engagement with the outside world is chiefly driven by economic gains ("win-wins" as the Chinese themselves like to say) and to increase geopolitical security. Friend and foe agree that China is making significant inroads in both the Caribbean and the South Pacific.

#### China in the Caribbean

China has not officially integrated the area into the Belt and Road Initiative (except for Trinidad and Tobago). Bilateral arrangements are preferred in most of its engagements in the region, due to the fact that CARICOM, the region's leading interstate arrangement, also includes countries that recognize Taiwan. China's role in the region is operationalized by focusing on trade (still relatively modest), investing

in and carrying out infrastructure projects, the provision of cheap and opaque loans to governments or private companies, and the purchase of fossil fuels or other raw materials, albeit on a small scale.

It can be said that in various ways, China is the 'only game in town' in the Caribbean these days. It has quickly established itself as an important power in the Caribbean region with great levels of visibility. Its increasing engagement with the Caribbean is often framed as a 'stepping into a void', left by world powers like the USA and the EU. However, rather than imposing itself on small Caribbean nations, China is being actively courted by these nations, mostly because of its competitive offerings and because of a lack of interest from Western countries. At the same time, there are no evident signs that an inability of servicing Chinese loans is used for gaining political leverage, neither that more engagement with Chinese partners has led to higher levels of corruption. However, the inflow of Chinese workers, poor quality of work and lack of local profit does cause resentment in Caribbean Countries, inducing a rise in xenophobia.

In the military realm, China shows moderate though increasing activity in the Caribbean. This includes the donation of inexpensive supply of military equipment and training for officers from the region in China. So far, no permanent military bases have been established in the region. The United States thus remains still by far the biggest and most active military actor in the region, mainly because of "the war on drugs."

Overall conclusions regarding the Caribbean are:

- As China deepens its engagement with the region, Caribbean countries may
  become more dependent on Beijing, a development which is further amplified by
  the fact that many countries in the region suffer from chronic indebtedness and
  have poor governance environments.
- However, Chinese predominance is not a foregone conclusion in that civil society in various countries in the region is likely to continue to push back and hold elites accountable.
- At the same time, an increasing Chinese presence in terms of imported workers could exacerbate social tensions and perhaps violence.
- China's military and navy in particular appear to be careful not to become too
  visibly present in the Caribbean. First, it could lead to a response from the United
  States. Second, local military leaderships are not yet 'sold' on the idea of engaging
  with the Chinese armed forces. Their loyalty to Beijing is far from guaranteed.

#### China in the South Pacific

Although China does not follow an official strategy in the South Pacific, its extended presence in the South Pacific can be seen as an attempt to prepare the ground for making the region the next leg of the BRI. Beijing's diplomatic efforts focus on strengthening the bilateral relations and deepening its engagement in the region. In doing so it seems there is a greater interest in countries that show higher degrees of political instability. In contrast to the Caribbean, the Taiwan issue is of greater importance in this region.

China's role in the region is operationalized by focusing on trade, which has seen a boom during the last 10 years. Furthermore, as in the Caribbean, Beijing is investing in and carrying out infrastructure projects. These projects are subject to stronger Chinese involvement and control. It provides loans against non-transparent terms to local governments or private companies.

In comparison to its engagement in the Caribbean, China's military posture in the South Pacific appears to be more robust. This is partly because it considers the islands in the region instrumental for its (future) military ambitions, and thus its security interests. Secondly, it feels less inhibited in relation to Australia than it does vis-a-vis the United States in the Caribbean. Indebtedness to China is now likely used as a lever to gain concessions on military cooperation, for instance to obtain docking rights for its navy. Although denied by both countries, there is strong evidence for a potential permanent Chinese military base in Vanuatu; the second Chinese overseas permanent stronghold after Djibouti.

Overall conclusions regarding the South Pacific are:

- As China deepens its engagement with the region, particularly in (but not limited to) the economic sphere, Pacific Island countries may feel more indebted to Beijing and choose to side with China in international fora, such as the UN General Assembly.
- At the same time, despite political allegiance and/or the situation of indebtedness, regional partners are not always fully in line with China's stance. China's increasing presence and support provided to regional fora has given Beijing more opportunities to promote its views and facilitate access for Chinese businesses.
- Looking ahead, given the region's interest in benefiting from the BRI initiative, China is all but certain to boost its economic, political but also military position in the region.
- In responding to China's engagement, Australia and New Zealand are taking active measures to try and keep various of the island nations on 'their side', including through security arrangements.

### **Dutch** interests in the Caribbean

Looking at the Caribbean part of the Kingdom of the Netherlands, apart from the interest in tourism infrastructure on St. Maarten and the oil refineries on Aruba and Curacao, there are no major Chinese involvements identified on the islands. This is partly the case because of the dependency of the islands on the European part of the Kingdom, and that China's influence is much bigger in key locations such as Jamaica and Trinidad. However, due to the strategic location of the islands -especially Aruba and Curacao- in relation to Venezuela, it cannot be excluded that China will seek to gain a bigger stake in the islands in the future.

Overall, in both regions, China might have established a policy to win plaudits for its approach for some time to come. However, China's soft power in the region is very fragile. One major mishap might destroy its reputation beyond repair. China may thus seem to have the field to itself, but it is still walking on a tightrope.

## 1. Introduction

On January 22, 2018, the People's Republic of China formally invited countries in Latin America and the Caribbean to join its Belt and Road initiative (BRI). The occasion was the second meeting of the Community of Latin American and Caribbean States (CELAC), a body that was consciously created to exclude the United States, and thus to serve as an alternative to the long-established Organization of American States (OAS). Although the invitation did not amount to adding countries in the region to the USD 40bn Silk Road Fund,<sup>2</sup> it portends the BRI's full embracement of the globe as a whole. Created in 2013 at the instigation of Xi Jinping and then named the One Belt, One Road Initiative (OBOR), the BRI has mainly been seen as an endeavor to secure steady supplies of raw materials, principally from Africa and the Middle East, and to tie the economic fates of its Asian neighbors to that of China.

The rationale of the extension of the BRI across the Pacific and into the Caribbean raises questions among pundits and policy-makers alike. For instance, neither the Pacific nor the Caribbean is highly promising in terms of critical raw materials. Some countries harbor some quantities - Trinidad and Tobago has a modest oil industry but on a global scale, their amounts are "too small and limited to offer much by way of economic incentives for the Chinese" as one observer notes. Indeed, only 0.012% of all of China's raw materials imports hails from the Caribbean (2016). In terms of trade, the smaller Caribbean and Pacific islands<sup>4</sup> only represent a combined GDP of about 75bn (2016). This study thus aims to understand the consequences of China's dealings with Small Island Developing States (SIDS) in the South Pacific and the Caribbean. Will corruption becomes more entrenched or even worse? Can we expect a militarization of these islands? And, most germane to Dutch policy-makers, will these developments replicate themselves in the Dutch Caribbean? At the same time, one should not discount the possibility that China could still develop as a security partner

Cambero, Fabian, and Dave Sherwood. "China Invites Latin America to Take Part in One Belt, One Road." Reuters. January 22, 2018. https://www.reuters.com/article/us-chile-china/china-invites-latin-america-to-takepart-in-one-belt-one-road-idUSKBN1FB2CN.

Myers, Margaret, and Ricardo Barrios. "Inter-American Dialogue | LAC's Not Part of the Belt and Road, but Does That Matter?" The Dialogue. January 26, 2018. https://www.thedialogue.org/blogs/2018/01/lacs-not-part-of-thebelt-and-road-but-does-that-matter/.

Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean." *Institute for Defence Studies and Analyses*. August 3, 2016 https://idsa.in/idsacomments/china-growing-influence-in-the-caribbean\_sbmaharaj\_030816.

For the purposes of this study, we focus on independent island nations being in the Caribbean and the South Pacific: Antigua & Barbuda; Bahamas; Barbados; Dominica; Grenada; Haiti; Jamaica; St. Kitts; St. Lucia; St. Vincent & Grenadines; Trinidad & Tobago; Fiji; Kiribati; Marshall Islands; Micronesia (federated states); Nauru; Palau; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu.

for the Netherlands, for instance in relation to resolving the situation in Venezuela, or in supporting efforts to mitigate the effects of climate change.

In absence of an evident economic rationale, speculation about Chinese engagement has focused on political motives. For instance, there is still a number of islands in both the South Pacific and the Caribbean that maintain ties with the Republic of China (Taiwan). Another motivation could be to win over support at the international level for China's bid for global hegemony, which is deemed relatively easy given the small size of the economies concerned and the deep pockets that Beijing has available.

But no matter Beijing's motivations, friend and foe agree that China is making significant inroads in both regions. Indeed, it can be said that in various ways, China is the 'only game in town' in the Caribbean these days. However, given China's patchy track record in extending the BRI into Africa and in view of concerns about China's engagement in Eastern Europe<sup>5</sup> and Western Balkans, there is a need for a better understanding of the why and the how of China's forays, and what will be their (geo-) political implications.

In the first part of this study, we will briefly examine China's BRI strategy and how it is being extended towards the South Pacific and Caribbean. Subsequently, we look more in depth at how China's forays in these two regions are materializing, and the political and security implications they bring. This is followed by three case studies focusing on Jamaica, Trinidad & Tobago, and Fiji.

See discussed in De Jong, Sijbren, Willem Oosterveld, Michel Roelen, Katherine Klacansky, Agne Sileikaite, and Rianne Siebenga. "A Road to Riches or a Road to Ruin? The Geo-Economic Implications of China's New Silk Road." The Hague Centre for Strategic Studies. 2017. https://hcss.nl/sites/default/files/files/reports/Geoeconomics\_ Behind\_OBOR\_FINAL%20%283%29.pdf.

## 2. China and the BRI

It is hardly an exaggeration to say that the 'rejuvenation' of China is among the most momentous socio-economic and political developments of our time. Indeed, the shift of power to the East cannot help but affect all parts of the world sooner or later. From the Chinese perspective though, this shift is merely a restoration of power relations as they had existed before about 1800.

It is a time-honored tradition to note that in restoring itself to its righteous position in the community of nations - namely, at its center - China is showing lots of patience and taking a long-term view going beyond decades. For our purposes, this is important because it helps to put in perspective Beijing's current approach to the global institutional architecture, anchored in organizations such as the United Nations (UN), the World Bank, and the World Trade Organization (WTO). While the UN is largely uncontroversial in Beijing, global institutions that have traditionally underpinned the so-called 'Washington Consensus' have been perceived more critically.

In a way, this is reflective of the fact that in the postwar era, China has been a leading 'developing nation' and is still classified as such for the sake of the WTO, in spite of its rapid growth. In this role, it has been able to act as a spokesperson for countries from the Global South, and has been instrumental in coalescing opposition to 'neoliberal conditionality' policies through the BRICS arrangement. As Martin Jacques noted some years ago, "China's criticism of the Western-dominated international system and its governing institutions strikes a strong chord with the developing world at a time when these institutions are widely recognized to be unrepresentative and seriously flawed."

In fact, it can be argued that China had been positioning itself as a veritable alternative to the Washington-dominated order, an approach which subsequently acquired the sobriquet of 'Beijing Consensus.'9 By posing as a provider of alternative development aid, focused on infrastructure rather than, say, improving good governance, it

<sup>6</sup> The term used for the historical exhibition on the rise of China in Beijing's National Museum on Tiananmen Square.

<sup>7 &</sup>quot;The World's Shifting Centre of Gravity - Daily Chart." The Economist. https://www.economist.com/blogs/graphicdetail/2012/06/daily-chart-19.

<sup>8</sup> Jacques, Martin. When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World. London, England: Allen Lane. 2009. p. 354

<sup>9</sup> Ramo, Joshua Cooper. The Beijing Consensus. London: Foreign Policy Centre. 2005.

benefited, and continues to benefit, from being perceived by developing countries as anti-Western in the same way that the United States benefited from being seen as anti-colonialist during the Cold War.

This ideological positioning began to change in the past few years as the Western world seemed to enter a mode of self-destruction, epitomized by US President Donald Trump's reneging on international trade agreements, and Europe's fissuring as a result of the financial crisis and Brexit. In short, where the West began to hedge against the outside world, China started to embrace it. This shift was best captured in President Xi Jinping's speech at the World Economic Forum in 2017<sup>10</sup> in which he stood up in defense of the global economic architecture.

In a way, it underlined the fact that China had actually started to benefit from rules that were once drawn up by Western hegemons in Bretton Woods and beyond. Indeed, China consciously set out to make trade, loans, and investments the centerpiece of its foreign strategy, taking full advantage of the international financial architecture. Already in 1999, China issued its 'Go Out' policy to encourage investments abroad.<sup>11</sup> The showcase of China's involvement in the 1990s and the first decade of the 21st century has been Africa, where it built up a formidable but also at times controversial track record. China's forays into Africa were primarily driven by the need to secure raw materials, <sup>12</sup> and also to control strategic world markets, for instance in relation to rare earth elements (REEs).

The big question is what China's long-term strategy is, and this is also the question posed by observers in the Caribbean. China's reassertion is frequently cast in a historical perspective. Until the late Manchu empire, China regarded itself as 'the Middle Empire', one which expected other nations to pay tribute to it, sometimes in the literal sense of the word. As Jacques wrote, "A fundamental feature of the tributary state system was the enormous inequality between China and all other nations in its orbit, and this inequality was intrinsic to the stability that characterized the system for so long." Hence, for most of its history, China's leaders did not accept the principle of sovereign equality, now a cornerstone of the UN-based world order.

The way the Belt and Road Initiative is presently unfolding suggests to many that a reconstitution of the old tributary order could be China's long-term objective. <sup>14</sup> What is more, while various countries in the South Pacific and Caribbean appreciate China's

<sup>&</sup>quot;President Xi's Speech to Davos in Full | World Economic Forum." We Forum. January 17, 2017. https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum.

<sup>11</sup> See e.g. China Policy. "China Going Global: Between Ambition and Capacity." *Policy CN.* April 2017. https://policycn.com/wp-content/uploads/2017/05/2017-Chinas-going-global-strategy.pdf.

<sup>12</sup> Jacques, Martin. When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World. p. 188

<sup>13</sup> Ibid. p. 375

<sup>14</sup> Zhao, Suisheng. "Rethinking the Chinese World Order: The Imperial Cycle and the Rise of China." *Journal of Contemporary China* 24(96). November 2, 2015: 961–82. https://doi.org/10.1080/10670564.2015.1030913.

largesse, they also recognize the dangers of creating new dependencies.<sup>15</sup> This is partly driven by the notion that it is sometimes believed that China's friendly trade facade hides more sinister objectives: "using civil actors to promote political ends', CCP united front officials and their agents try to develop relationships with foreign and overseas Chinese personages (the more influential the better) to influence, subvert, and if necessary, bypass the policies of their governments and promote the interests of the CCP globally." Hence, when the BRI comes to embrace the world as a whole, it becomes all the more important to craft effective political strategies on how to deal with China.

## 2.1 China's Eastern strategy

China's engagement with the outside world is chiefly driven by economic gains ("winwins" as the Chinese themselves like to say<sup>17</sup>) and to increase geopolitical security. These have provided the main impetus behind the BRI scheme, which was initially focused on areas west of China. As a result, the Pacific and Latin American and the Caribbean have not figured largely in China's strategic vision. For the South Pacific, there is as of today no formal strategy in place. The closest equivalent is in fact the China-Pacific Islands Countries Economic Development and Cooperation Forum, which was created in 2006. It focuses mainly on trade, but also on tourism and disaster relief.<sup>18</sup>

In relation to the Caribbean, in 2013 the situation was that "there have been few signs of China exerting political sway apart from on the Taiwan issue, and little indication that Beijing has a special 'Caribbean policy' separate from its wider strategy in Latin America, which is primarily driven by its thirst for commodities and markets." This has changed markedly over the past years, and culminated in China's official Latin American and Caribbean Strategy, issued in 2016.<sup>20</sup>

At the core of this strategy is a raft of proposals for economic cooperation including financial cooperation in the shape of loans, the creation of Renminbi clearing

<sup>15</sup> Interview

Brady, Anne-Marie. "Magic Weapons: China's Political Influence Activities under Xi Jinping." Wilson Center. September 16, 2017. https://www.wilsoncenter.org/sites/default/files/magicweaponsanne-mariebradyseptember162017.pdf,

<sup>17</sup> Wells, Ricardo. "China: Our Help Is a 'Win Win." Tribune 242. April 10, 2018. http://www.tribune242.com/news/2018/apr/10/china-our-help-win-win/.

<sup>18 &</sup>quot;China, Pacific Island Countries Set Guiding Framework for Economic, Trade Ties." Xinhua. May 4, 2018. http://www.gov.cn/english/2006-04/05/content\_245504.htm

<sup>19</sup> Mander, Benedict, and Robin Wigglesworth. "China Steps up Caribbean Strategy." *Financial Times (FT)*. May 20, 2013. https://www.ft.com/content/678d99d2-bbc7-11e2-a4b4-00144feab7de.

MOFA. "China's Policy Paper on Latin America and the Caribbean." *Ministry of Foreign Affairs of the People's Republic of China*. November 24, 2016. http://www.fmprc.gov.cn/mfa\_eng/wjdt\_665385/2649\_665393/t1418254. shtml. This plan was preceded by a Cooperation Plan (2015-2019). See discussed in Blanco, Daniel. "Éste Es El Plan de China Para Ser El Socio Número Uno de América Latina." *El Financiero*. May 29, 2017. http://www.elfinanciero.com.mx/economia/este-es-el-plan-de-china-para-ser-el-socio-numero-uno-de-america-latina.html.

arrangements,<sup>21</sup> support for infrastructure development, energy cooperation, and, in a rare departure from the generic tone of the document, climate change cooperation, given the 'special concerns' faced by Caribbean islands. The strategy also has a section on military cooperation, which stresses 'friendly exchanges' between defense forces, as well as judicial cooperation on issues such as 'economic crimes.'

At the same time, the strategy cannot hide that by far the largest share of China's trade has been going to the region's southern cone rather than to the Caribbean, with the latter exporting only just over USD 1.5bn to China between 2010-2016--just 0.26% of all Latin American exports to China. In total, the Caribbean only represents 0.017% of all imports to China (2016). A similar picture applies to foreign direct investment (FDI) by China in the region, made up of loans and investment (mainly) in infrastructure projects which, apart from two specific destinations, have been puny overall. Nevertheless, Barbados Foreign Minister Maxine McClean recently said that there is a sense that extension of the BRI to the region is "critical for all CELAC member-states 'as a whole."<sup>22</sup>

In regards to the Caribbean itself, separate from Latin America as a whole, it cannot be said that there is a discernible Chinese strategy that drives its activities in the region. This is not just the case in the economic realm, but also in the security realm. Where for instance around East Africa, China has an interest to participate in antipiracy missions, <sup>23</sup> and where in the Middle East, it has at least a moderate interest in becoming involved in regional diplomatic peace efforts, <sup>24</sup> there are no such compelling interests for China in the seas between Miami and Maracaibo. As one regional observer said, the region "will never become a priority;" neither for Western powers and nor, so it seems, for China.

However, presuming that China is taking a long term view on the region, then things look rather different. The Soviet experience in the Caribbean can then be instructive indeed. As two analysts wrote back in 2013: "The Soviets, (...) "knew the Panama Canal was essential for moving US naval vessels (...) US oil imports arrived at Gulf of Mexico refineries via Caribbean waterways," and that "in the event of war, the

<sup>21</sup> See specifically discussed in Maier, Stephan, Roger Mcleod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." Central Bank of Barbados. December 31, 2017. http://www.centralbank.org.bb/Portals/0/Chinese%20Renminbi%20in%20the%20Caribbean\_Opportunities%20 for%20Trade,%20Aid%20and%20Investment%20by%20Stephan%20Maier,%20Roger%20McLeod%20and%20 Amos%20C.%20Peters.pdf.

<sup>22</sup> Bousquet, Earl. "Celac Driving Latin America and the Caribbean Along the New Silk Road Route!" *Telesur*. February 29, 2018. https://www.telesurtv.net/english/opinion/Celac-Driving-Latin-America-and-the-Caribbean-Along-the-New-Silk-Road-Route-20180129-0007.html.

<sup>23</sup> See e.g. "China's Military Deployments in the Gulf of Aden: Anti-Piracy and Beyond" *IFRI - Institut Français Des Relations Internationales*. November 21, 2016. https://www.ifri.org/en/publications/notes-de-lifri/asie-visions/chinas-military-deployments-gulf-aden-anti-piracy-and.

Weng Hoong, Ng. "China, the Wild Card in the Israel-Palestine Peace Process." *Asia Times*. March 4, 2017. http://www.atimes.com/china-wild-card-israel-palestine-peace-process/.

<sup>25</sup> Interview

Soviets reasoned they could disrupt these transportation lines, harm the US economy, and distract attention from Europe."<sup>26</sup> The symbolism of the canal is such that the Panamanian government "has quietly leased the Chinese a huge building plot (...) at the mouth of the canal, to use as the site of a new Embassy. Sailors on every ship in the canal will see the proof of China's rising power, as they enter a waterway that once symbolized the global influence of the United States."<sup>27</sup> It is thus quite possible that China is using a surreptitious long term strategy to bind various Caribbean nations to it by making them part of the Belt and Road Initiative in such a way that the United States (and Europe) will only realize their strategy when it is too late. And the more forceful way that China is going about in the South Pacific can then be seen as a harbinger of what might come to the Caribbean.

But rather than China pushing its way into the region, it is strategic neglect by the Western powers that today drives many Caribbean nations into the arms of China. And rather than ignoring these nations, China is taking the opportunity to develop many new friendships at what turns out to be little cost. The consequence is that China is expected to remain a force to be reckoned with in the region for many years to come. But while China's regional strategy may still be vague and its commitment to including the region, as well as the South Pacific, as an integral part of the Belt and Road Initiative, equivocal, the Caribbean itself is beginning to define a common strategy towards the behemoth from Beijing.<sup>28</sup> The European Union and its member states should take note of this development.

<sup>26</sup> Menéndez, Fernando. 2014. "China Comes to the Caribbean." *China-US Focus*. January 25, 2014. https://www.chinausfocus.com/finance-economy/china-comes-to-the-caribbean.

<sup>27</sup> Anderson, John Lee. "The Diplomat Who Quit the Trump Administration." *The New Yorker.* May 28, 2018. https://www.newyorker.com/magazine/2018/05/28/the-diplomat-who-quit-the-trump-administration.

<sup>28</sup> Margolis, Mac. "Latin America Needs a China Strategy." *Bloomberg.* December 14, 2017. https://www.bloomberg.com/view/articles/2017-12-14/latin-america-needs-a-china-strategy.

## 3. China in the Caribbean

### 3.1 Aims and Objectives

China's foreign engagements are different. Different in where they take place, how they take place, and why they take place. In terms of where, it is striking that China has built large embassies in about every single country in the region, <sup>29</sup> and thus seems not to be 'picking winners' among them. The embassies are only one manifestation of China's ubiquitous presence in the region: for it has also built resorts in the Bahamas, Jamaica and St. Maarten; hospitals in Trinidad, Dominica and St. Kitts; sports stadiums in Antigua and Grenada; roads in Guyana and Suriname and government buildings in Jamaica and Trinidad.

The how is also different. Rather than working through the traditional multilateral lenders, the Chinese have a predilection for bilateral deals with a mix of gifts and loans, of which the precise terms often remain hazy, even for the local cognoscenti. The loans are often provided at below-market price interest rates or involve no-bid contracts.<sup>30</sup> In the execution, Chinese companies - mostly huge stateowned enterprises - often try to keep as much control as they can, and limit local involvement.

The why question is arguably the most intriguing. One observer affirmed that "[n]early every island in the Caribbean, from the smallest on up, currently has a substantial investment from China," However, "[i]t seems that what nobody knows is what is motivating China."<sup>31</sup>

Several answers have been proffered to date. From a geopolitical perspective, it could be that China is playing a 'tit-for-tat' game with the United States in plying waters which America has regarded as its preserve since the days of the Monroe Doctrine, all because of America's naval presence in the South China Sea.<sup>32</sup> One military analyst noted that "China's increased presence in Caribbean affairs can be understood as a

<sup>29</sup> Interview

<sup>30</sup> Interview

Fieser, Ezra. "Why Is China Spending Billions in the Caribbean?" *Public Radio International*. April 22, 2011. https://www.pri.org/stories/2011-04-22/why-china-spending-billions-caribbean. Question asked to David Jessop.

<sup>32</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade." *Radio Free Asia*. August 30, 2017. https://www.rfa.org/english/commentaries/caribbean-china-08302017165130.html.

subtle jab at American Western Hemisphere dominance at a time when Washington is pushing Beijing in the South China Sea."<sup>33</sup> However, this argument seems to be overstated and not comport with the evidence at sea level (so far),<sup>34</sup> even if China's business logic might reflect the region's strategic value, as China watcher Evan Ellis concluded.<sup>35</sup>

A second argument is that China is merely trying to garner goodwill in the region, possibly for the sake of building up diplomatic support.<sup>36</sup> Indeed, Richard Bernal, the doyen of Chinese-Caribbean relations, believes that "China's motivation for targeting the Caribbean is diplomatic."<sup>37</sup> A Chinese scholar noted back in 2006 that since "in the current UN system, each member country has one vote [...] China should win the support of Caribbean countries on many issues."<sup>38</sup>

Thirdly, the Taiwan recognition issue is often mentioned as an argument. Common reasoning is that Caribbean countries which still recognize the Republic of China (Taiwan, ROC) as the sole government of China regret missing out and the People's Republic (PRC) largesse extended to neighbors who recognize Beijing, and that this would prod them to switch their allegiance. The reality is more complicated. There are examples of countries which were showered with gifts from China subsequent to recognizing the Beijing government, as was the case with the Bahamas in 1997, which was given a new stadium "in part [as a] reward for breaking ties with Taiwan." Dominica in 2004 provides a similar example. St. Lucia, a country which had switched its allegiance from Taipei to Beijing in 1996 and reversed this decision in 2007 saw the construction of a hospital being halted by the PRC. The reverse has also happened: Grenada, which switched its allegiance towards the PRC in 2007, was subsequently sued by the government of Taiwan for refusing to restructure debt issued by Taipei.

At the same time, there are also less straightforward examples. For instance, Haiti, a diplomatic ally of Taiwan, has received significant Chinese investments, perhaps as

<sup>33</sup> Ward, Jared. "Making Sense of China's Caribbean Policy." *China Brief* 17(10). July 21, 2017. https://jamestown.org/program/making-sense-of-chinas-caribbean-policy/.

<sup>34</sup> Interview

The Economist. "A Chinese Beachhead?" *The Economist*. March 10, 2012. http://www.economist.com/node/21549971.

<sup>36 &</sup>quot;Analyst Says China-Caribbean Forum Will Bolster Ties." *Jamaica Observer*. January 19, 2018. http://www.jamaicaobserver.com/news/analyst-says-china-caribbean-forum-will-bolster-ties\_122842?profile=1373.

<sup>37</sup> Fieser, Ezra. "Why Is China Spending Billions in the Caribbean?"

<sup>38</sup> Shixue, Jiang. "Recent Development of Sino-Latín American Relations and Its Implications." Estudios Internacionales. 38(152) 2006: 19–41.

<sup>39</sup> Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean." *The New York Times*. April 7, 2012. https://www.nytimes.com/2012/04/08/world/americas/us-alert-as-chinas-cash-buys-inroads-in-caribbean.html.

<sup>40 &</sup>quot;Public Sector Debt in the Caribbean: An Agenda for Reduction and Sustainability." Caribbean Development Bank. 2013. http://www.caribank.org/uploads/2012/05/Public-Debt-in-the-Caribbean-An-Agenda-for-Reduction-and-Sustainability.pdf, p. 36

<sup>41</sup> Peters, Enrique Dussels, and Ariel C Armony. "Beyond Raw Materials Who Are the Actors in the Latin America and Caribbean-China Relationship?" *Friedrich Ebert Stiftung*. 2015. http://www.redalc-china.org/v21/images/docs/Dussel\_Armony\_BeyondRawMaterials.pdf, p. 208

<sup>42 &</sup>quot;Public Sector Debt in the Caribbean: An Agenda for Reduction and Sustainability." p. 127

part of an effort to make Port-au-Prince reconsider its ties. <sup>43</sup> Panama, a country which only recognized Beijing in 2017, ironically got more out of China in 11 months than countries such as Costa Rica or Colombia have received from China in decades. <sup>44</sup> A country such as St. Vincent and the Grenadines even cultivates a sense of pride in its ties with Taiwan. While the opposition there suggested in a recent electoral campaign to switch allegiance, this gained little support. <sup>45</sup> Meanwhile, Taiwan is determined to maintain its diplomatic foothold in the region, <sup>46</sup> and is prepared to spend significantly as a result. In most other parts of the world, it would not succeed, but given the size of the regional economies, Taiwan manages to hold on. <sup>47</sup>

Taiwan		
St. Vincent and the Grenadines		
St. Kitts and Nevis		
Haiti		
St. Lucia		
Belize		

China/Taiwan Recognition Breakdown in the Caribbean

This brief overview shows that there is no simple one-to-one relationship between Chinese economic engagement with countries in the Caribbean and recognition of Taipei. What is more, "most of the recent investment [since 2012] has been in countries that already recognized China." Hence, investments for the sake of changing allegiances is far from being a consistently compelling explanation. Nevertheless, the idea floated by some local insiders that the Taiwan issue is not a major driver of China's regional foreign policy anymore may be a premature conclusion. So

<sup>43</sup> Zaka. "Les Chines dans la Caraïbe: anatomie d'une fake news en Haïti." KARRDR (blog). August 11, 2017. https://karrdr.com/2017/08/11/les-chines-dans-la-caraibe-anatomie-dune-fake-news-en-haiti/. Mantilla B., Sebastián, ed. La expansión de China en América Latina. Quito, Ecuador: Centro Latinoamericano de Estudios Políticos. 2015.

<sup>44</sup> Heine, Jorge, and Anders Beal. "The Strategy Behind China's Diplomatic Offensive in Latin America." Americas Quarterly. May 14, 2018. http://americasquarterly.org/content/strategy-behind-chinas-diplomatic-offensive-latin-america.

<sup>45</sup> Maier and "St. Vincent Outlines 5 Pillars for Continued Relations with Taiwan." *iWitness News*. August 31, 2017. https://www.iwnsvg.com/2017/08/31/st-vincent-outlines-5-pillars-for-continued-relations-with-taiwan/.

<sup>46</sup> Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."

<sup>47</sup> Interview

<sup>48</sup> The Economist. "A Chinese Beachhead?"

<sup>49</sup> Interviews

<sup>50</sup> Kennedy, Ed. "Caribbean to Be an Epicentre of China-Taiwan Geopolitics in 2018." The St. Lucia STAR (blog). December 24, 2017. https://stluciastar.com/caribbean-epicentre-china-taiwan-geopolitics-2018/.

Finally, economic ties can also be pursued for their own sake. One World Bank economist argues a key reason for China's outward economic engagement is that "[i] ts own growth is slowing down as investment opportunities within the country are diminishing and as the rapid aging of its population has led to the labor force peaking in size and starting to decline. Earnings on overseas investments could help China finance its public pension system and the safety net more broadly."51 The argument that the questionable profitability of many of China's projects makes for a bad economic proposition was dismissed by one interviewee who noted that "China has undertaken many dozens of large-scale economic ventures around the world. It does not matter much if some fail. It's a matter of entrepreneurial risk-taking."52

In the Caribbean, China's ambitions with the digging of a second transcontinental canal across Nicaragua<sup>53</sup> suggest that this region has significant potential as a transshipment hub, and that it can perhaps take up its old role as a "crossroads of empires"<sup>54</sup> once more. Ironically, it is the proximity of the US market which makes this only more interesting. As Richard Bernal noted, "Caribbean countries could be attractive as production platforms for exports to the United States, Canada, and the European Union."<sup>55</sup> Indeed, a Chinese vessel was the first to cross the recently expanded existing canal.<sup>56</sup>

Interestingly, the natural resources indigenous to the region are not as significant to China. As the *New York Times* noted, "its presence in the Caribbean derives mainly from long-term economic ventures, like tourism and loans, and potential new allies that are inexpensive to win over, analysts say."<sup>57</sup> In the end though, says Ronald Sanders, a respected observer of Caribbean politics, "China expects that the money it has invested in Latin American countries will give it returns not only in political

<sup>51</sup> Dollar, David. "China's Investment in Latin America" *Geoeconomics and Global Issues Brookings*. January 2017. https://www.brookings.edu/research/chinas-investment-in-latin-america/ p. 8-9.

This argument is reminiscent of an argument made in Daniel Kahneman's *Thinking Fast and Slow*: "Richard Thaler tells of a discussion about decision making he had with the top managers of the 25 divisions of a large company. He asked them to consider a risky option in which, with equal probabilities, they could lose a large amount of the capital they controlled or earn double that amount. None of the executives was willing to take such a dangerous gamble. Thaler then turned to the CEO of the company, who was also present, and asked for his opinion. Without hesitation, the CEO answered, 'I would like all of them to accept their risks.' In the context of that conversation, it was natural for the CEO to adopt a broad frame that encompassed all 25 bets. Like Sam facing 100 coin tosses, he could count on statistical aggregation to mitigate the overall risk." See p. 341

Watts, Jonathan. "\$50bn Nicaragua Canal Postponed as Chinese Tycoon's Fortunes Falter." *The Guardian*. November 27, 2015. http://www.theguardian.com/world/2015/nov/27/nicaragua-canal-postponed-chinese-tycoon.

Gibson, Carrie. Empire's Crossroads: A New History of the Caribbean. New York, NY: Pan Books, 2015.

<sup>55</sup> Bernal, Richard L. "Chinese Foreign Direct Investment in the Caribbean: Potential and Prospects." *Inter-American Development Bank.* November 2016. https://publications.iadb.org/bitstream/handle/11319/7977/Chinese-Foreign-Direct-Investment-in-the-Caribbean-Potential-and-Prospects.pdf?sequence=1.

<sup>56</sup> Hon, Johnny. "Why the Caribbean Is Drawing Investment from China." *Caribbean Journal*. August 5, 2016. https://www.caribjournal.com/2016/08/05/caribbean-drawing-investment-china/.

<sup>57</sup> Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."

influence on issues that are important to China in the international community, but also in financial benefits."58

But of course, this also requires consolidating its gains, and being able to rely on the local political classes. The types of economic engagements that China has undertaken so far do seem to demonstrate that this is a concern to the Beijing leadership. Thus, its engagements are at times highly strategic also from a political point of view, and are outlined in the next section.

## 3.2 China's Economic Engagement in the Caribbean

China's increasing economic engagement with the Caribbean is often framed as 'stepping into a void' left by the United States: "China's influence in the Caribbean has grown at a time that the USA and Europe have a reduced appetite for trade and investment in the region, as well as for granting aid." The disconnect between Washington and the region was poignantly illustrated when former Secretary of State Rex Tillerson reminded his Latin American audience in a summit meeting in January 2018 of the Monroe Doctrine, long seen in the region as an imperialist device, whilst at the same time warning against "imperial' Chinese trade ambitions." Relations between the Caribbean and their former European masters are generally better, but in general, do not represent serious competition to Chinese trade and investment initiatives in the region, which is "the only game in town" today.

#### 3.2.1 Growth in Trade and Investments

Indeed, economic figures show that Chinese economic involvement in the region has sharply increased in the past decade. The Caribbean Development Bank (CDB) calculated that among its member states, "total merchandise trade with China, which includes imports and exports, increased from USD 167mn in the year 2000, to USD 1,731mn in the year 2014, which corresponds to a 18.2% annual growth rate." Looking at the countries selected for this study yields the picture below.

<sup>58</sup> Sanders, Ronald. "China-Caribbean Relations: A New Footing Needed." Jamaica Observer. August 11, 2013. http://www.jamaicaobserver.com/columns/China-Caribbean-relations--a-new-footing-needed\_14842821.

<sup>59</sup> Maier, Stephan, Roger Mcleod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment."

<sup>60</sup> Johnson, Keth, and Robbie Gramer. "Tillerson Praises Monroe Doctrine, Warns Latin America of 'Imperial' Chinese Ambitions." Foreign Policy. February 2, 2018. https://foreignpolicy.com/2018/02/02/tillerson-praises-monroe-doctrine-warns-latin-america-off-imperial-chinese-ambitions-mexico-south-america-nafta-diplomacy-trump-trade-venezuela-maduro/.

<sup>61</sup> Interview

<sup>62</sup> Maier, Stephan, Roger Mcleod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." p. 10

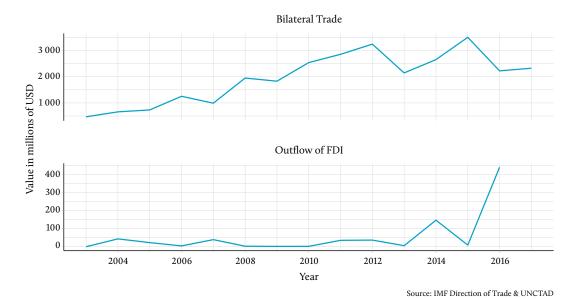


Figure 1. China-Caribbean economic relations

As a share of total trade (exports/imports) between China and the Latin American region, the Caribbean share is rather modest (around 2.3bn in 2017), given that in 2016, the figure for the entire region amounted to over USD 200bn. <sup>63</sup> Meanwhile (outward) <sup>64</sup> FDI by China in the region as a whole reached about USD 11bn (2015), <sup>65</sup> most of which was focused on the raw materials industry in countries such as Brazil, Peru and Argentina. <sup>66</sup> An overview of (O)FDI inflows into the region between 2001-2016 shows that Jamaica (USD 4.9bn), Barbados (USD 2.6bn) and Trinidad and Tobago (USD 1.4bn) are the largest recipients among the smaller islands considered in this study (see below). <sup>67</sup>

Ray, Rebecca, and Kevin Gallagher. "China-Latin America Economic Bulletin 2017 Edition." *BU Global Economic Governance Initiative*. 2017. https://www.bu.edu/pardeeschool/files/2014/11/Economic-Bulletin.16-17-Bulletin. Draft\_.pdf. Another source notes that Recent studies cited by the United Nations Economic Commission for Latin America and the Caribbean indicated that China invested in excess of US\$141 billion dollars during the period 2005 to 2016 and estimate the value of trade between the two sides at US\$266 billion dollars in 2017." See Fenty, Mailisa. "Region Committed To Deeper China." *Barbados International Business Association*. January 26, 2018. http://biba.bb/region-committed-to-deeper-china-relations/.

<sup>64</sup> Outward FDI = "exported' FDI

<sup>65</sup> Avendano, Rolando, Angel Melguizo, and Sean Miner. "Chinese FDI in Latin America: New Trends with Global Implications." *Washington: Atlantic Council.* 2017, p. 1.

Peters. Enrique Dussel. "Monitor de La OFDI de China En América Latina y El Caribe (2001-2016)." Red ALC-China. June 8, 2017. http://www.redalc-china.org/monitor/images/pdfs/menuprincipal/DusselPeters\_ OrtizVelasquez\_2017\_MonitorOFDIchinaALC\_Espanol.pdf.

<sup>67</sup> Ibid.

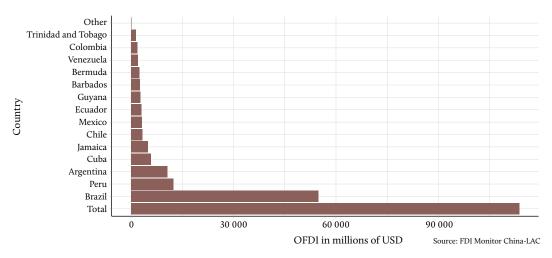


Figure 2. China OFDI by destination country (2001-2016)

Given the small share of China's OFDI (outward foreign direct investment = FDI 'exported' by China) going to the Caribbean, the CDB noted that "there is room for improvement." Also, in spite of China's rapidly growing trade with the Caribbean, its relative share remains modest.

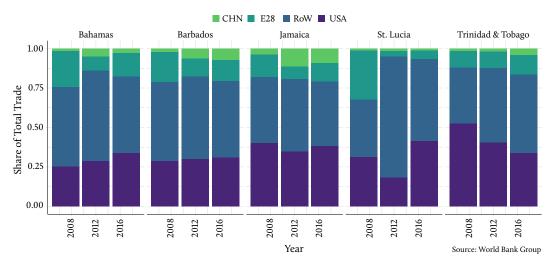


Figure 3. Chinese Trade with Selected Caribbean Countries. Where 100% is total trade (imports and exports combined) per country/year is shown, and the percentage share for China, Europe, the rest of the world, and the U.S..

Hence, the trade and FDI figures only tell part of the story about Chinese economic engagement. Partly, this is because reported figures may not always reflect actual amounts. Another is that much of the economic activity is not registered in terms of trade or investments, but for instance in grants or loans. In that sense, China's approach has also evolved over the years. Where since the 1990s, the focus was mainly

<sup>68</sup> Maier, Stephan, Roger McLeod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." p. 5

on trade, it shifted to OFDI in the wake of the global economic crisis, and since 2013, has focused more on infrastructure projects.<sup>69</sup>

China's economic involvement can rightly be qualified as a two-way street: for China, it has been a way to utilize its accumulated reserves in emerging markets. The Caribbean nations see it as an increasingly viable alternative to looming protectionism, especially in the United States. However, China's approach is not without its problems and risks. One is that loans, which are the most frequently used instrument by China, exacerbate a country's indebtedness. This is especially a problem for countries such as Jamaica, which have suffered from crippling debt burdens for decades. But for many countries, loans are often the best option. China offers them at lower rates than available at international markets or offered by multilateral agencies. But even a low-interest loan (2.5%) that was accepted by the finance minister in Barbados led to the opposition fearing further indebtedness. Meanwhile, an alternative such as entering public-private partnerships is at times seen as a "sell-out of the country."

Indebtedness is something that IMF chief Christine Lagarde warned against in a speech, noting that "[i]n countries where public debt is already high, careful management of financing terms is critical. This will protect both China and partner governments from entering into agreements that will cause financial difficulties in the future." In fact, low-interest loans help to edge out multilateral lenders such as the World Bank, IADB (now IDB) and regional organizations such as the Caribbean Development Bank. In 2016, total loans disbursed by the China Development Bank and Ex-Im Bank outstripped those of the World Bank and IDB together. The consequence is that conditionality aimed at the long-term viability of development projects are often no longer part of a package, since Chinese enterprises often do not include such terms. There is a sense, however, that the multilateral lenders accept that this is a new reality that they have to deal with.

<sup>69</sup> Pastrana Buelvas, Eduardo, "La Proyección de China en América Latina y el Caribe." *ILO Americas*. April 2017; and Peters, Enrique Dussels, and Ariel C Armony. "Effects of China on the Quantity and Quality of Jobs in Latin America and the Caribbean." *ILO Americas*. http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms\_563727.pdf.

<sup>70</sup> Bousquet, Earl. "Celac Driving Latin America and the Caribbean Along the New Silk Road Route!"

<sup>71</sup> Interview

<sup>72</sup> Interview

<sup>73</sup> Alleyne, George. "Chinese Doing Well in Barbados." *Caribbean Life*. August 10, 2017. https://www.caribbeanlifenews.com/stories/2017/9/2017-09-15-ga-barbados-chinese-economy-cl.html.

<sup>74</sup> Interview

<sup>75</sup> Lagarde, Christine. "Belt and Road Initiative: Strategies to Deliver in the Next Phase." IMF. April 11, 2018. https://www.imf.org/en/News/Articles/2018/04/11/sp041218-belt-and-road-initiative-strategies-to-deliver-in-the-next-phase.

<sup>76</sup> Luxner, Larry. "China Overtakes West in Development Funding to Latin America." The Tico Times Costa Rica. February 25, 2016. http://www.ticotimes.net/2016/02/25/china-overtakes-west-development-funding-latin-america.

<sup>77</sup> Interview

#### 3.2.2 How the Chinese Operate

Within the Caribbean, Chinese operators predominantly work on a bilateral basis. One reason for this could be that, in fact, there are no real multilateral options available for China, since CARICOM, the region's leading interstate arrangement, also includes members that recognize Taiwan, precluding the Chinese from working with this forum.<sup>78</sup> However, since China recently concluded an MoU with the CDB, which also has pro-Taiwan members in its ranks, it is not evident that this is an insurmountable obstacle.<sup>79</sup>

For China, a bilateral approach also has the advantage that it creates competition between the Caribbean nations seeking assistance from China. Above all, a bilateral approach offers more room for setting specific conditions, leaving often even local experts in the dark about the precise terms of government contracts agreed with Chinese counterparts. For local governments, a bilateral approach can allow for "greater self interest" to prevail. 22

Regarding "procedural requirements, [China] may appear a little bit easier to deal with", one financial expert told HCSS.<sup>83</sup> In addition, for Chinese companies, it is often easier to secure financing from their government than it is for US companies from their government, giving the former an extra advantage.<sup>84</sup> Capitalizing on this approach, China's bilateral approach has long been known as 'chequebook diplomacy.'<sup>85</sup> Today however, given China's presumed long-term strategy, it can be characterized as a 'patient capital' approach.<sup>86</sup>

Another issue is that Chinese companies continue to prefer to work with Chinese employees, rather than to hire locals. This is a practice that has also been seen in other parts of the world, including in Africa. Back in 2009, a Chinese researcher found that sending Chinese workers abroad could be a way to "solve the problem of Chinese unemployment." A recent report also concluded that "[s]ince China has (...) surplus

- 78 Interviews
- 79 "CDB Signs MOU with Export-Import Bank of China | Caribbean Development Bank." *The Caribbean Bank*. July 13, 2017. http://www.caribank.org/news/cdb-signs-mou-export-import-bank-china.
- 80 Peters, Enrique Dussels, and Ariel C Armony. "Beyond Raw Materials Who Are the Actors in the Latin America and Caribbean-China Relationship?" p. 212
- 81 Interviews
- 82 Interview
- 83 Interview
- 84 Interview
- Wenner, Mark D., and Dillon Clarke. "Chinese Rise in the Caribbean: What Does It Mean for Caribbean Stakeholders?" *Inter-American Development Bank*. 2016. p. 9
- Kaplan, Stephen. "China Is Investing Seriously in Latin America. Should You Worry?" The Washington Post. January 24, 2018. https://www.washingtonpost.com/news/monkey-cage/wp/2018/01/24/china-is-investing-seriously-in-latin-america-should-you-worry/?noredirect=on&utm\_term=.353aa20994f5. See also Kaplan, Stephen B. "The Rise of Patient Capital: The Political Economy of Chinese Global Finance." Social Science Research Network. February 1, 2018. https://papers.ssrn.com/abstract=3108215.
- 87 Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean."

labor, (...) "tied deals" would seem to serve Chinese interests."88 More frequently though, it is said that Chinese workers are sent for two reasons. One is because of work ethic, and another is control over terms of employment.

Regarding work ethics, Sir Ronald Sanders, a commentator on Caribbean issues, wrote that a Chinese academic was once told by a former Chinese ambassador to the Caribbean that "the region has "a two-party system" - one party during the day and another party at night," implying "that Caribbean workers prefer to 'party' than to work."89 "It has to be recognized," Sanders added, "that Caribbean workers will also have to improve their performance if they are to compete in a global market where costs and output are crucial factors in production."90 Local interlocutors also acknowledged this as an issue, with one of them noting that "when I went home, I saw Chinese workers arrive at the construction site for the night shift," something unthinkable for local workers.

Workers' rights are another bone of contention. For instance, "[Chinese companies] are pressured by Caribbean governments to deliver projects quickly and they cannot do so without importing Chinese workers to whom they do not apply the labor laws and practices of Caribbean countries." At the same time, a US-based Chinese academic acknowledged that bringing in cheap labor from China is a prime reason for Chinese companies operating abroad to hire their compatriots. Even more so, "Chinese investments [are] oftentimes conditioned upon the acceptance of some amount of Chinese labor. While this should not be to the detriment of qualified local labor, labor cost efficiencies can be a conflicting issue in some cases."

Such practices have led to resentment on various occasions. For instance, in Trinidad, the construction of a hospital by the China Railway Construction Corporation, a company that is being investigated in China itself, was being criticized by a local labor rights defender: "This is the third hospital being built by foreign contractors. It is disturbing that large sums of money are to be paid to foreigners and yet not a single child from our universities will have the opportunity to design a ward or a driveway or a building of that hospital." <sup>94</sup>

<sup>88</sup> Wenner, Mark D., and Dillon Clarke. "Chinese Rise in the Caribbean: What Does It Mean for Caribbean Stakeholders?" p. 12

<sup>89</sup> Sanders, Ronald. "China-Caribbean Relations: A New Footing Needed." Jamaica Observer. August 11, 2013. http://www.jamaicaobserver.com/columns/China-Caribbean-relations--a-new-footing-needed\_14842821.

<sup>90</sup> Ibid

<sup>91</sup> Ibid

<sup>92</sup> Lumsden, Andrew. "Jamaicans Must Read China's Record, Not Just Its Lips." *COHA*. June 15, 2015 http://www.coha.org/jamaicans-must-read-chinas-record-not-just-its-lips/.

<sup>93</sup> Maier, Stephan, Roger Mcleod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." p. 6

<sup>94</sup> Sookraj, Radhica. "Chinese firm picked for T&T project faces Corruption Probe." Trinidad & Tobago Guardian. October 6, 2013. http://www.guardian.co.tt/news/2013-10-06/chinese-firm-picked-tt-project-faces-corruption-probe

One solution to this problem is the imposition of local content rules. In Barbados, for the rebuilding of Sam Lord's Castle, a resort which had burnt down in 2015, the Chinese constructor Complan agreed to a 60/40 workers agreement, with the bulk of the work to be done by local workers. <sup>95</sup> In the Bahamas, a 50/50 deal was reached on the building of a large resort: "The Bahamas agreed to allow up to 8,000 foreign workers, most of them Chinese, to work on the project in stages, but it also required employment for 4,000 Bahamians, dampening concerns that Chinese workers were taking jobs. American companies will also take part in building and running it." <sup>96</sup> In general, "Caribbean officials and peoples have tended to view China favorably except when it comes to tensions created by thousands of imported Chinese laborers doing jobs which local workers feel they could have performed."

Apart from using imported laborers, there is an added issue of such workers staying behind. In Roseau, Dominica, it is said that "[s]o many [Chinese businesses] have opened (...) that local merchants have complained about being squeezed out." What is more, Chinese laborers who settle down on the islands "could cause potential demographic shifts among the small population of the islands of the region where even small numbers could have a significant impact." Ironically, this did not stop the government from creating a scheme by selling passports to Chinese citizens for USD 200,000.

A final issue are claims that projects done by Chinese contractors disproportionately suffer from defects, either during the construction phase or thereafter. One local constructor from Trinidad complained that "Chinese construction has been a disaster for national development, for the local construction sector and for local labor, and no money has been saved," adding that "many projects (...) have been awarded with no public tender and end up over-budget, late or poorly built." Another notorious example is the Bahamas flagship Baha Mar resort, which, "reputedly costing \$3.5 billion, has failed to open, with China Construction America (CCA) missing deadlines and facing numerous allegations of shoddy workmanship and poor construction quality." 102

- 96 Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."
- 97 Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade."
- 98 Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."
- 99 Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean."
- 100 "Dominica Offers Citizenship to Chinese Investors for \$200,000." Dominica News Online. April 1, 2015. http://dominicanewsonline.com/news/homepage/news/business/dominica-offers-citizenship-to-chinese-investors-for-200000/.
- 101 The Economist. "A Chinese Beachhead?"
- 102 Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean."

<sup>95</sup> Brathwaite, Jewel. "Wyndham Starts." *Barbados Advocate*. June 28, 2016. https://www.barbadosadvocate.com/news/wyndham-starts. The building is to be rebuilt with a USD 240mn loan provided by the Chinese Ex-Im Bank and executed by the Chinese China National Complete Plant Import & Export Corporation. The Jamaica Gleaner noted that "This makes China the only country that offers large-scale preferential loans to finance infrastructure projects in Barbados," the ambassador said at the signing ceremony last Friday." See "Chinese Bank Funding Rehab of Sam Lord's Castle Hotel." *Jamaica Gleaner*. November 15, 2015. http://jamaica-gleaner.com/article/business/20151125/chinese-bank-funding-rehab-sam-lords-castle-hotel. And Interview

#### 3.2.3 China's Infrastructural Footprint in the Region

China has engaged in three kinds of infrastructural projects, many of which have garnered visibility for better or for worse: those that are apparent signs of creating goodwill, those that have an ostensible economic function, and those that are likely to serve political ends. The most prominent among the goodwill projects are the stadiums it built, dotted across the region. In the past forty years, they have built some 80 stadiums around the world, many in tiny island nations. Some prime examples are a USD 35mn stadium that opened in 2012 in Nassau, Bahamas; a cricket stadium in Antigua and Barbuda, a multipurpose stadium in Dominica; the Trelawny stadium in Jamaica; as well as an athletics stadium in Grenada that opened in 2016.

Some of these stadiums, however, have not brought their constructors or their recipients what they had hoped for. In Jamaica for instance, the Chinese are disappointed that a USD 248mn sports facility has now fallen in disrepair. Meanwhile, the Trelawny Stadium is costing local taxpayers up to USD 50mn annually, causing local grumbles. As a result, the end of China's 'stadium diplomacy' may be nigh. Apart from stadiums, China has also engaged in building schools and hospitals for instance, with countries such as Dominica, Trinidad and St. Lucia being among the recipients.

Among the more economically purposeful projects are the construction of roads, railways, ports and airports. The most prominent is the north-south highway in Jamaica. Other significant roads projects were undertaken in Dominica, Grenada, Suriname<sup>111</sup> and Guyana,<sup>112</sup> though not always without stirring controversy, as was the case in the latter two countries. Chinese companies have also undertaken

<sup>103</sup> Menary, Steve. "China's Programme of Stadium Diplomacy." *Research Gate.* Vol. 3 No. 3. ICSS. January 2015. https://www.researchgate.net/profile/Steve\_Menary/publication/309195359\_ICSS\_Journal\_Vol\_3\_No\_3/links/5804ad4008aefc585950aab4/ICSS-Journal-Vol-3-No-3.pdf. See also. Will, Rachel. "China's Stadium Diplomacy." *World Policy Journal.* no. Games People Play (Summer 2012). http://www.worldpolicy.org/journal/summer2012/chinas-stadium-diplomacy.

<sup>104</sup> The Economist. "A Chinese Beachhead?

<sup>105</sup> Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."

<sup>106</sup> Helbert, Hannah. "Growing Influence of China Easy to See Half a World Away in Caribbean." *Dominica News Online*. February 8, 2012. http://dominicanewsonline.com/news/homepage/news/general/growing-influence-of-china-easy-to-see-half-a-world-away-in-caribbean/.

<sup>107</sup> Niland, Dana. "A New \$40 Million Stadium, Built by China, Opens in Grenada." *Caribbean Journal*. January 27, 2016. https://www.caribjournal.com/2016/01/27/a-new-40-million-stadium-built-by-china-opens-in-grenada/#.

Brown, Ingrid. "Chinese Lament Waste of Money on Sligoville Mini-Stadium." *The Jamaica Observer.* May 19, 2013. http://www.jamaicaobserver.com/news/Stadium-built-with-Chinese-money-in-ruins\_14278481.

<sup>109</sup> Clarke, Paul. "Taxpayers Carrying Trelawny Stadium's Multimillion-Dollar Load." Jamaica Gleaner. January 3, 2018. http://jamaica-gleaner.com/article/lead-stories/20180103/taxpayers-carrying-trelawny-stadiums-multimillion-dollar-load.

<sup>110</sup> Wilson, Tim. "Latin America and the Twilight of China's Stadium Diplomacy." *Nearshore Americas*. August 26, 2014. http://www.nearshoreamericas.com/latin-america-twilight-chinas-stadium-diplomacy/.

Writer, Staff. "Chinese Company to Build US\$ 250 Million Highway in Suriname." Stabroek News. October 22, 2012. https://www.stabroeknews.com/2012/news/regional/10/22/chinese-company-to-build-us-250-million-highway-in-suriname-2/.

<sup>112</sup> Solomon, Alva. "China Railway Awarded East Coast Highway Project." *Guyana Chronicle* (blog). December 9, 2016. http://guyanachronicle.com/2016/12/09/china-railway-awarded-east-coast-highway-project.

some railway projects in the region. Examples are Panama and Grenada. New port facilities have been undertaken in Suriname, <sup>113</sup> the Bahamas, <sup>114</sup> and Antigua, to name a few. A USD 1bn megaport is being built in Panama by the China Communications Construction Company. <sup>115</sup> Airport construction has been done in countries such as Guyana, <sup>116</sup> Antigua, and Barbuda, <sup>117</sup> and again Suriname. But in this domain too, Chinese companies have elicited controversy. For instance, the Antigua airport was originally undertaken by a Brazilian company. When the government could not service a payment to the Brazilians, they abandoned the project. Later on, the Chinese came in. They finished the project, but only in exchange for a new loan and a side deal where the government ceded "a large parcel of prime beachfront real estate" and handed it to a Chinese investment group. <sup>118</sup> Meanwhile, procurement and tendering practices have brought the China Harbour Engineering Company into disrepute with its Guyana projects. <sup>119</sup>

Perhaps the most controversial types of edifices constructed by the Chinese are government buildings. One of these is the new Ministry of Foreign Affairs building on the waterfront of Kingston, Jamaica. Also in Kingston, a subsidiary of China State Construction Engineering Corporation (CSCEC), which was implicated in the Baha Mar fiasco in the Bahamas, is now set to undertake the construction of Jamaica's new parliament building, these announcements have led to complaints from local architects that they are being ignored in favor of Chinese counterparts. Elsewhere in the region, Chinese firms have signed off on government building projects in Dominica, a new home of the Barbados Ministry for Education and Science, and the new prime

120 Interview

<sup>113</sup> Denoon, David B. H. China, The United States, and the Future of Latin America: U.S.-China Relations. NYU Press, 2017. p. 250

<sup>114 &</sup>quot;Bahamas, China Sign Abaco Contract." *Caribbean Journal*. October 25, 2011. https://www.caribjournal.com/2011/10/25/bahamas-china-sign-abaco-contract/.

<sup>115 &</sup>quot;Chinese Firm Starts Work on \$1bn Panamanian Megaport - News - GCR." *Global Construction Review.* June 12, 2017 http://www.globalconstructionreview.com/news/chinese-firm-starts-w7rk-1bn-panama7nian-meg7aport/.

<sup>&</sup>quot;Guyana's Cabinet Approves \$138 Million Airport Expansion Deal with China." Caribbean Journal. November 19, 2011. https://www.caribjournal.com/2011/11/19/guyanas-cabinet-approves-138-million-airport-expansion-deal-with-china/#

<sup>&</sup>quot;Antigua and Barbuda Closer to Completion of New Airport Terminal." *Caribbean Journal*. February 18, 2015. https://www.caribjournal.com/2015/02/18/antigua-and-barbuda-closer-to-completion-of-new-airport-terminal/.

<sup>118</sup> Marshall, Georgia, and Opinion. "The Caribbean New Airport Experience." *The Royal Gazette.* January 19, 2016. http://www.royalgazette.com/opinion/article/20160919/caribbean-new-airport-experience.

<sup>119</sup> Editor, Staff. "Chinese Contractor for Timehri Airport Racking up Procurement Concerns across Caribbean." Stabroek News. May 7, 2012. https://www.stabroeknews.com/2012/news/guyana/05/07/chinese-contractor-for-timehri-airport-racking-up-procurement-concerns-across-caribbean/.

<sup>121 &</sup>quot;Baha Mar Builder, China's CCA, Lined up for New Jamaican Parliament - News - GCR." Global Construction Review. March 17, 2017. http://www.globalconstructionreview.com/news/baha-mar-builder-chinas-cca-lin7ed-n7ew-jama7ican/.

<sup>122 &</sup>quot;GOJ Signs MoU for First Phase of the Redevelopment of Downtown Kingston." *Jamaica Information Service*. March 9, 2017. http://jis.gov.jm/goj-signs-mou-new-parliament-redevelopment-downtown-kingston/.

<sup>123 &</sup>quot;Jamaican Architects 'insulted' That Chinese Firm Being Used To Design New Gov't Buildings." *RJR News Online*. March 17, 2017. http://rjrnewsonline.com/local/jamaican-architects-insulted-that-chinese-firm-being-used-to-design-new-govt-buildings.

<sup>124</sup> Helbert, Hannah. "Growing Influence of China Easy to See Half a World Away in Caribbean."

minister's residence in Trinidad's capital of Port-of-Spain. That Chinese companies continue to undertake such kinds of projects is interesting given that at home, the Beijing leadership instituted a five-year ban in 2013 on constructing new government buildings. 126

Aside from these infrastructure undertakings, China also invests in mining and other industrial facilities used for extracting or processing raw materials. However, it is not a foregone conclusion that China will succeed in this respect in the Caribbean: "[o]n the whole the region's natural resources are not sufficiently sizeable to matter much to China. Higher wages and heavy unionization make Caribbean countries unattractive investment destinations and tiny populations mean they will never be important export markets." But in spite of the very small gains to be had (China imports 0.01% of it raw imports from the islands, and only 0.04% of its fossil fuel needs) it has entered several commitments. In Guyana, Chinese companies are eyeing gold and diamond mines; In Jamaica, a USD 360mn investment was made into a bauxite facility; and new oil and gas finds off the coasts of Guyana and Suriname are also to be exploited.

In the future, tourism may become a primary focus on China's economic footprint in the region. As mentioned earlier, China has already invested itself into various large-scale resorts in the Bahamas, but has also undertaken construction in St. Maarten, St. Lucia and Guyana. However, like the plagued project in the Bahamas, these projects are also not bereft of controversy, even if not on the scale of the Baha Mar complex. In St. Lucia, a USD 2.6bn resort complex developed by Hong Kong-based Desert Star Holdings has drawn criticism because of environmental concerns. The project in Guyana, a USD 52mn Marriott Hotel built by the Shanghai Construction Company, has attracted attention because two years after its opening in 2015, it already needs some USD 5mn in repair work. According to a local newspaper, the hotel itself has

<sup>125</sup> Ellis, Evan. "Chinese Engagement with Nations of the Caribbean." English Version of "Actividades Chinas En Las Naciones Del Caribe." Air and Space Power Journal En Espanol (4th Semester). 2011. 48–57.

<sup>126</sup> Rabinovitch, Simon. "China Bans Construction of Government Buildings for Five Years." *Financial Times*. July 24, 2013. https://www.ft.com/content/352ea1a6-f40d-11e2-942f-00144feabdc0.

<sup>127</sup> Wigglesworth, Robin. "Caribbean in Crisis: Chequebook Diplomacy." *Financial Time.* December 17, 2013. https://www.ft.com/content/7f7b0d8e-5ea8-11e3-8621-00144feabdc0.

<sup>128 &</sup>quot;Chinese Investors Eye Guyana's Gold, Diamond Mining." *Kaieteur News* (blog). June 9, 2017. https://www.kaieteurnewsonline.com/2017/06/09/chinese-investors-eye-guyanas-gold-diamond-mining/.

<sup>129 &</sup>quot;First Cargo of Alumina Ships From Jamaica Bauxite Refinery Under Chinese Ownership." *Caribbean360* (blog). January 4, 2018. http://www.caribbean360.com/business/first-cargo-alumina-ships-jamaica-bauxite-refinery-chinese-ownership

<sup>130</sup> Zaremba, Haley. "The Caribbean Is Poised To Become The Next Major Oil Region." OilPrice.com. August 22, 2017. https://oilprice.com/Energy/Crude-Oil/The-Caribbean-Is-Poised-To-Become-The-Next-Major-Oil-Region. html.

<sup>131</sup> Dart, Tom. "Caribbean Resort Project Draws Heat over Threat to Vulnerable Species." The Guardian. March 31, 2017. http://www.theguardian.com/world/2017/mar/31/st-lucia-pearl-of-the-caribbean-resort-environmental-threat.

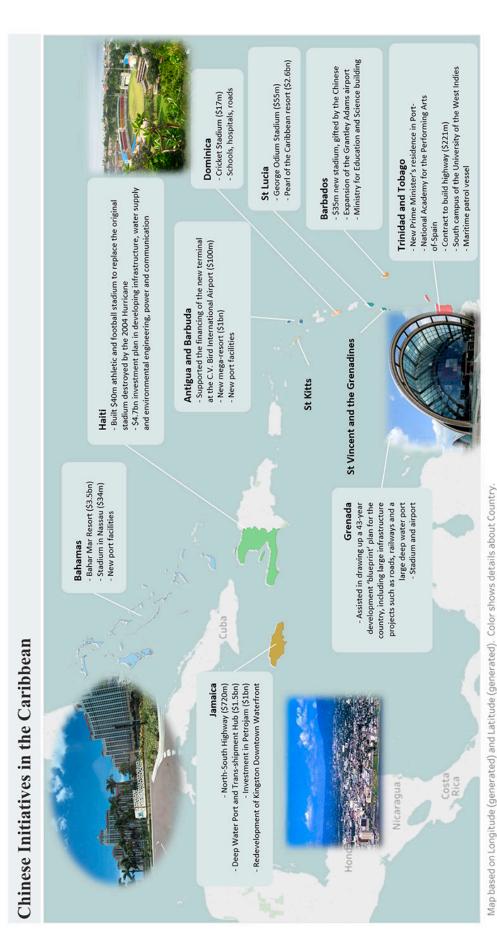


Photo Credit: Top-left: photo by Adog14 on commonswikimedia.org / CC BY SA 4.0; Top-right: photo by D-Stanley on Foter.com / CC BY; Bottom-left: photo by Wolmadrian "commonswiki on commonswiki on commo

been "deemed over the years as a monument of corruption, and a colossal waste of taxpayers' money."<sup>132</sup>

At present, these projects are not primarily aimed at Chinese tourists. For now, tourism should be a growth market for the Caribbean, but for Chinese customers, it is still quite far away but will come within reach. One optimistic voice claims that "China's emerging and affluent middle class is becoming increasingly interested in international tourism." What is more, recently opened direct flights to the region could help spur the supply of Chinese tourists to the region.

#### 3.2.4 Barbados, a Regional Bellwether?

For a large number of islands in the region, budding relations with China are often partly shaped by the quality of ties to the United States. This is certainly the case in Grenada, a country once invaded by the United States, where Chinese companies are now undertaking a host of infrastructure projects - roads, railways, a port, airport, and a windfarm - that could change the face of the island nation. Barbados, however, has no such history with the United States. It has generally maintained good ties with America, and has pursued a cautious approach to engaging with China. Its establishment as one of Barbados' chief trading partners is thus "remarkable." 137

Chinese projects in Barbados include a business center, the reconstruction of the Sam Lord's Castle hotel, and the expansion of the island's main airport, the Grantley Adams airport. However, Barbados has also entered into forms of military cooperation, having received a vessel and other equipment worth USD 6mn. The overture was likely incentivized by the fact that the United States withdrew military aid at the time of the Bush administration when Barbados refused to sign an accord that would preclude cooperation with the International Criminal Court, an issue that also affected US military ties in Trinidad. At the same time, Barbados opposition leader Mia Mottley said some years ago that "her country will stand up to Beijing, too, if required. If we want to say [something] to China we will do so, just like we did with

<sup>132 &</sup>quot;Newly Chinese Built Marriott Hotel in Guyana Needs Millions in Repairs | SXM Talks." May 17, 2017. https://www.sxm-talks.com/local-news/newly-chinese-built-marriott-hotel-in-guyana-needs-millions-in-repairs/ See also Sankey, Pete. "Guyana Marriott Hotel Opens amid Protests." *Jamaica Observer*. April 16, 2015. http://www.jamaicaobserver.com/news/Guyana-Marriott-hotel-opens-amid-protests.

<sup>133</sup> Interview

<sup>134</sup> Hon, Johnny. "Why the Caribbean Is Drawing Investment from China."

<sup>135</sup> Ibid

<sup>136</sup> Chen, Stephen. "China Set to Move into United States' Backyard with National Development Plan for Grenada." South China Morning Post. December 19, 2017. http://www.scmp.com/news/china/diplomacy-defence/article/2124925/china-set-move-united-states-backyard-national.

<sup>137</sup> Alleyne, George. 2017. "Chinese Doing Well in Barbados." *Caribbean Life*. August 10, 2017. https://www.caribbeanlifenews.com/stories/2017/9/2017-09-15-ga-barbados-chinese-economy-cl.html.

<sup>&</sup>quot;Chinese Investment Plays Large Role in Island Nation's Tourism." China Daily. March 25, 2016. http://www.chinadaily.com.cn/cndy/2016-03/25/content\_24086690.htm.

<sup>139 &</sup>quot;BDF Receives Equipment from China." NationNews Barbados. February 27, 2018. http://www.nationnews.com/nationnews/news/133824/bdf-receives-equipment-china. And Interview Maier

the US on the criminal court." She continued "we did not become independent to become subservient ... We are equal to China, even though we are smaller." <sup>140</sup>

Although this military deal with China is far from full-fledged military cooperation, it is an indication that countries such as Barbados with few resources to speak of nor a strong inclination towards China are still prepared to engage with Beijing, including on security matters. Also typical are goodwill initiatives such as the 2017 creation of a Confucius Institute on the local campus of the University of the West Indies (Cave Hill), including grants for scholarships in the area of information technology. However, the Chinese presence has also raised some wariness among Barbadians, or Bajans, to the extent that the Barbados police apparently accepted a grant from the Chinese ambassador to help look after the Chinese on the island, who are occasionally the subject of attacks.

### 3.2.5 China in the Caribbean part of the Kingdom of the Netherlands

Although not the focus of this study, it is worthwhile to briefly review China's activities in relation to the Caribbean part of the Kingdom. At present, the Chinese economic presence on the six islands is modest at this time. From the Chinese point of view, their main interests are in tourism, climate change adaptation and energy. On the first count, the Chinese showed interest in 2016 to develop a hotel on St. Maarten, and to make the island a "hub for Chinese business people," as one analyst said. In Aruba, PetroChina had sought in 2012 to acquire a refinery owned by US-based Valero Energy, the deal never saw the light of day.

The most serious Chinese involvement in the Caribbean part of the Kingdom is in Curacao, where China National Petroleum Corp (CNPC) had aimed to take over a refinery belonging to Venezuela's PVDSA. Allegedly, Chinese Guangdong Zhenrong had proposed a USD 1mn kickback<sup>147</sup> to get a contract, but after the Curacao authorities had found that the company has 'misled' them and that GZE was not capable of

<sup>140</sup> Wigglesworth, Robin. "Caribbean in Crisis: Chequebook Diplomacy."

<sup>141 &</sup>quot;Barbados-China Cooperation." *Barbados Beijing Embassy*. http://www.foreign.gov.bb/documents/media-publications/120-barbados-upload-to-web-site/file.

<sup>142</sup> Interview

<sup>143 &</sup>quot;Richard Gibson Announces Major Chinese Hotel Development Project In St. Maarten." TODAY - The Newspaper for Country St. Maarten. September 1, 2016. http://today.sx/news/richard-gibson-announces-major-chinesehotel-development-project-st-maarten/.

Tannenbaum, Ben. "Filling the Void: China's Expanding Caribbean Presence." Council on Hemispheric Affairs (blog). April 3, 2018. http://www.coha.org/filling-the-void-chinas-expanding-caribbean-presence/.

<sup>145</sup> McGurty, Janet, and Charlie Zhu. "PetroChina in Talks to Buy Valero's Aruba Refinery: Sources." Reuters. May 10, 2012. https://www.reuters.com/article/us-petrochina-valero-aruba/petrochina-in-talks-to-buy-valeros-aruba-refinery-sources-idUSBRE84904420120510.

<sup>146 &</sup>quot;China Abandons Downstream Investments on Poor Returns." Platts. October 21, 2013. https://www.platts.com/latest-news/oil/singapore/china-abandons-downstream-investments-on-poor-27541936

<sup>147</sup> Interview

running the plant, they rescinded the contract. At around the same time, the Chinese consulate had made a gift to the local authorities for the reconstruction of schools.

The relative lack of Chinese involvement could be due to the fact that islands such as Curacao, Aruba and St. Maarten, though independent, are still part of the Dutch Kingdom and are thus less interesting for the sake of generating diplomatic support. But given how China's economic footprint is likely to develop in the region, the Caribbean part of the Kingdom could still see more Chinese economic activity in the years to come. The question that follows is then to what extent this has political repercussions at the domestic level. To answer this question, we will look below at what the political impact of engagement with China has been in other Caribbean nations, including at the military level. This should provide insight into what the Kingdom's Caribbean islands can likely expect.

## 3.3 Political implications

#### 3.3.1 At the International Level

China's economic engagement in the Caribbean raises the question about possible underlying political motives. Indeed, "China's use of state-owned companies and state-sponsored financing allows Beijing to incorporate many (...) economic activities into its diplomatic strategy in a way that most other countries cannot." Local experts also affirm that "the economic returns for Chinese companies are not always obvious, so economics may not be a key motivation. It can be about buying political alliances." One Chinese ambassador flatly denied any political motivations for his country's economic engagement. <sup>152</sup>

If the motivation of China's economic initiatives is to obtain more support in, for instance, the UN General Assembly, then the evidence does not exhibit significant changes in voting alignment. This follows from the graph below, where voting similarity is measured between China and some target countries, where the Netherlands is added for the sake of comparison.<sup>153</sup>

<sup>148 &</sup>quot;Curacao Scraps Deal for Chinese Firm to Run Isla Refinery." *Reuters*. January 2, 2018. https://www.reuters.com/article/us-curacao-refinery/curacao-scraps-deal-for-chinese-firm-to-run-isla-refinery-idUSKBN1ER1AJ.

<sup>149 &</sup>quot;Chinese Consulate in Willemstad Donates in Aid of Schools and Homes." St. Maarten Government. November 8, 2017. http://www.sintmaartengov.org/PressReleases/Pages/Chinese-Consulate-in-Willemstad-donates-in-aid-of-schools-and-homes.aspx.

<sup>150</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade."

<sup>151</sup> Interview

<sup>152</sup> Interview

<sup>153</sup> Where 1.0 is 100 percent alignment with Dominica when voting in the UN for that year based on roll-call votes in the General Assembly. This is based on the following formula: voting similarity index (0-1) equal to (total # of votes where both states agree)/(total # of joint votes) – computed using 2 category vote data (1 = "yes" or approval for an issue; 2 = "no" or disapproval for an issue.)

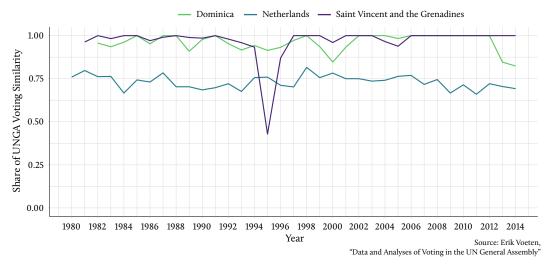


Figure 4. UNGA Voting Similarity between China, the Netherlands and Selected Caribbean Countries. Voting records match completely with China at 1,00.

In relation to Dominica, for instance, an island that switched diplomatic recognition to China (PRC) in 2004 and which China has been significantly invested in, there has been a closer alignment since about 2002, but a subsequent decline after 2012. Looking at St. Vincent and the Grenadines, a country that has been a steadfast ally of Taiwan, it is noticeable that in spite of non-recognition, the small archipelago is still very closely aligned in the UN context.

Indeed, most countries in the eastern Caribbean (Antigua, Bahamas, Barbados, Jamaica, St. Kitts, and Trinidad) show very close alignment with China. Even a country such as St. Lucia, which changed its allegiance twice, shows little movement in its voting alignment with China, and not nearly as much as with, for instance, the Netherlands, with which relations have been stable. Hence, while economic support in exchange for votes in international bodies may not be a primary motivation, it is possible that such long-term economic commitments do help to consolidate support for China in global fora.

Also noticeable is that in spite of China's preference for bilateral dealings, it has embedded itself more firmly in regional bodies. For instance, it became a permanent observer in the Organization of American States (OAS) in 2004 and a member of the IDB in 2009. Furthermore, it has taken part in the Economic Commission for Latin America and the Caribbean (ECLAC) in the last decade. While close cooperation with CARICOM is not an option, China has created parallel fora for exchanging with Caribbean nations, including the China-Caribbean Trade and Economic Cooperation Forum; the China-Caribbean Consultations; the China-Latin America and Caribbean Business Summit; and the China-CELAC summit, which effectively amounts to bypassing CARICOM. 155

<sup>154</sup> Peters, Enrique Dussels. "China's Evolving Role in Latin America: Can lt Be a Win-Win?" *Adrienne Arsht Latin American Center*. September 2015. http://www.atlanticcouncil.org/chinalatam/.

<sup>155 &</sup>quot;Barbados-China Cooperation." *Barbados Beijing Embassy*. November 30, 2016. http://www.foreign.gov.bb/documents/media-publications/120-barbados-upload-to-web-site/file.

Within regional and international organizations, interviews with some international civil servants showed that China's regional engagement is informally discussed, but that this is rarely if ever criticized in formal meetings or through statements. One such example is that in January 2018, CARICOM was reported to welcome China's BRI initiatives, but hastened to add that "it will be important to ascertain the best means of linking the opportunities it might bring, to the Caribbean's own development priorities, including regional transportation, renewable energy, and the strengthening of its disaster management capacity." <sup>156</sup>

#### 3.3.2 At the Domestic Level

The Chinese track record of concluding no-bid bilateral contracts without transparency, in combination with the large sums of money that are involved in debt-burdened countries, easily invokes the idea that China's economic involvement has deleterious consequences for local governance in the various Caribbean nations. While there is some evidence for this (see also the case studies below), the links between Chinese involvement and governance records are not always easy to identify, if they are to be blamed at all.

The quantitative evidence is far from conclusive. First of all, a look at the evolution of governance and rule of law indicators for several countries shows that there have been no significant overall trends, upwards or downwards. It is striking, though, that the countries which score among the lowest on both indices, Jamaica and Trinidad, are also the ones where China is relatively most invested in the region.

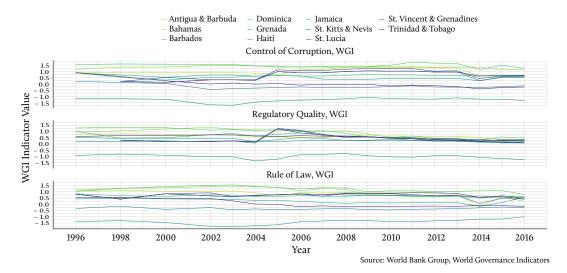


Figure 5. World Governance Indicators for the Caribbean

<sup>156 &</sup>quot;The US, China and the Caribbean." The Caribbean Council. January 28, 2018. https://www.caribbean-council.org/us-china-caribbean/.

Perhaps most telling is the scatterplot below that shows that there is in fact a positive correlation between Chinese financial commitments as a percentage of GDP and control of corruption. When we look at regulatory quality, though, there is a distinct downward trend that started around 2006 and which affected the Bahamas and Trinidad & Tobago. The statistical deterioration cannot of course be attributed directly to the increasing presence of China, but merits a closer investigation into its causes.

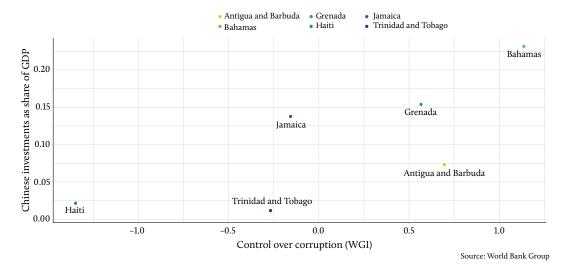


Figure 6. Investments/GDP and Control over Corruption, the Caribbean

Various studies suggest, however, that China's business practices and perhaps its ulterior motives as well can give rise to more corruption in the region, and it is well known that the construction sector in particular is prone to corruption. One IDB study suggested that "[w]hen foreign partners are prone to non-transparency in business practices this may reinforce the power of corrupt local elites, especially in country settings with compromised procurement systems, weak systems of oversights and audits, inadequate enforcement of anti-corruption laws and a weak press that could serve as deterrents or countervailing sources of power in the host country. Another study concluded that a key policy issue is "whether China's state-to-state financing is sustaining poor governance in some countries. The projects in the worst governance environments may not be returning economic benefits, but China's money is going somewhere. In some countries Chinese funding is likely supporting corrupt political elites and helping them maintain their hold on power. This same study also stated that while historically, FDI inflows correlate with strong rule of law, this was not the case for Chinese FDI.

<sup>157</sup> Matthews, Petter. "Why Is the Construction Industry so Corrupt and What Can We Do about It?" *World Economic Forum*. February 2016. https://www.weforum.org/agenda/2016/02/why-is-the-construction-industry-so-corrupt-and-what-can-we-do-about-it/.

<sup>158</sup> Wenner, Mark D., and Dillon Clarke. "Chinese Rise in the Caribbean: What Does It Mean for Caribbean Stakeholders?" p. 14

<sup>159</sup> Dollar, David. "China's Investment in Latin America." p. 9

<sup>160</sup> Ibid.

A countervailing narrative states, however, that there is little evidence that China's economic involvement is having a negative impact on democracy in the region. <sup>161</sup> What is more, Chinese investors claim to be insisting at times that they can operate in a clean and transparent business environment. Sir Ronald Sanders, for instance, reported in 2013 that he had attended a meeting with Chinese officials who insisted that their businesspeople be provided with "a stable and better investment environment, in particular more facilities in areas such as national treatment, tax, visa and residence." <sup>162</sup> In Grenada, Chinese prospective investors even warned that "the development envisioned by blueprint would not be achieved unless the Grenadian government took strong, effective measures to ensure and protect the interests of foreign investors." <sup>163</sup> Of course, such statements could merely imply that only Chinese investors be afforded such safeguards, but a more charitable reading is possible in view of the domestic anti-graft campaign in China itself.

Apart from the examples mentioned earlier, there are others where Chinese companies have been found to be involved in corrupt practices. One example is a bribe paid to a senior Antiguan UN official to secure certain investments. Another is the alleged offer of 3.1bn in investments promised to the Dominican Republic if it recognized Beijing instead of Taipei. Yet another is the creation by Sinopec and CNOOC of offshore companies in the Caribbean. Concluding this brief overview is the 2017 case of the extension of an airport in the British Virgin Islands, to which opposition was raised after it turned out the contract contained provisions for land cessions and financial loopholes that could possibly benefit local politicians.

However, there are two important caveats to be made. One is that, as one interviewee said, "there has been corruption in the region for a very long time," 168 implying that Chinese involvement may not necessarily exacerbate or amplify such corruption. Another suggests that these stories amount to more of the same: "[t]he Europeans were corrupt, the Americans were corrupt, and now the Chinese too, so there is nothing new there." 169

<sup>161</sup> Mantilla B., Sebastián, ed. *La expansión de China en América Latina*. Quito, Ecuador: Centro Latinoamericano de Estudios Políticos. 2015. p. 40

<sup>162</sup> Sanders, Ronald. "China-Caribbean Relations: A New Footing Needed."

<sup>163</sup> Chen, Stephen. "China Set to Move into United States' Backyard with National Development Plan for Grenada."

<sup>164</sup> Press, Associated. "Antiguan Ex-President of UN General Assembly Faces \$1m Corruption Charges." *The Guardian*. October 6, 2015. sec. World news. http://www.theguardian.com/world/2015/oct/06/antiguan-ex-president-un-general-assembly-faces-corruption-charges.

<sup>165</sup> Yu, Jess Macy, and Ben Blanchard. "Taiwan Says China Dangled \$3 Billion to Grab Ally Dominican Republic." Reuters. May 1, 2018. https://www.reuters.com/article/us-china-dominicanrepublic-taiwan/taiwan-condemns-chinas-deal-to-establish-ties-with-dominican-republic-idUSKBN1122LN.

<sup>166</sup> Ball, James. "Chinese Oil Giants Make Use of Offshore Shell Companies in Caribbean." The Guardian. January 22, 2014, sec. World news. http://www.theguardian.com/world/2014/jan/22/chinese-oil-giants-offshore-shell-companies-caribbean.

<sup>167 &</sup>quot;Chinese Tender Unearthed! Cost of Airport Project Could Double by Completion" Virgin Islands News Online. January 13, 2017. http://www.virginislandsnewsonline.com/en/news/chinese-tender-unearthed-cost-of-airport-project-could-double-by-completion.

<sup>168</sup> Interview

<sup>169</sup> Interview

Overall, engagement with the Chinese requires fresh levels of vigilance for local constituencies in the Caribbean. One reason is that dealing with partners which are less conscientious in implementing regulations and meeting certain standards requires more government capacity. Another is because such investments can arouse strong anti-foreign or pro-nationalistic feelings amid controversies surrounding the design of the investment agreement. It is important that all stakeholders are involved in the negotiations to ensure that such feelings are minimized. It

# 3.4 Military implications

## 3.4.1 A Shifting Military Balance in the Caribbean

From a military perspective, the United States has always been the big player in the Caribbean. Ever since the enunciation of the Monroe Doctrine in 1823 and even more so the Roosevelt Corollary in 1904, the US has always considered the Caribbean as "its backyard." In effect, America's hegemony remained unchallenged for decades on end.

In the post-Cold War period, this has started to change. First of all, the perennial menace of Cuba was reduced to a mere annoyance, and official diplomatic relations between Washington and Havana were even resumed in 2016. Secondly, American attention since 9/11 was mostly focused on the Middle East, and later also on the Asian theatre (Obama's 'pivot to Asia') and, increasingly, the African continent. Thirdly, because of the forced closure of US military bases in Panama, Colombia and Ecuador, and not being able to open new facilities, America's military presence in the Caribbean has been gradually reduced. At this time, Washington's main (sometimes ambiguous) preoccupations in the region appear to be the ongoing 'war on drugs' and the situation in Venezuela.

America's track record in the region has in various ways left a bitter taste. The threat of intervention, or actual intervention, as in Grenada in 1983, along with recent disparaging comments by president Donald Trump about Puerto Rico and climate change skepticism have given Caribbean countries reasons to look elsewhere for support. As one analyst wrote, "The U.S. can learn from China's successes by making Caribbean nations understand that Washington also cares about and relates to their

<sup>170</sup> Wenner, Mark D., and Dillon Clarke. "Chinese Rise in the Caribbean: What Does It Mean for Caribbean Stakeholders?" p. 12-13

<sup>171</sup> Maier, Stephan, Roger McLeod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." p. 6

<sup>172</sup> Stuenkel, Oliver. "US Military Bases, Quasi-bases, and Domestic Politics in Latin America." *Post Western World.* April 3, 2016. http://www.postwesternworld.com/2016/04/03/military-domestic-politics/

priorities. If the United States continues to ignore and neglect its regional leadership status, China appears ready to fill the void."<sup>173</sup>

#### 3.4.2 Enter China

The gradual withdrawal of American military troops from the Caribbean region does not imply a simultaneous full-fledged military entrance by China into the region's waters. To date, China's approach has been very circumspect. In its 2016 policy paper for the region, China specified that it will "actively carry out military exchanges and cooperation with Latin American and Caribbean countries, increase friendly exchanges between defense and military leaders from the two sides, strengthen policy dialogue and set up working meeting mechanisms, conduct exchanges of visits between delegations and vessels, deepen professional exchanges in such fields as military training, personnel training and UN peacekeeping, expand pragmatic cooperation in humanitarian relief, counter-terrorism and other non-traditional security fields, and enhance cooperation in military trade and military technology." 174

In practice, China has used its military on occasion as a tool for building political goodwill and leverage to increase openness to Chinese economic initiatives. In 2011 for instance, under the banner of "Harmonious Mission 2011," the Chinese Navy's hospital ship, the Peace Ark, made a voyage around the Caribbean. The mission was to provide medical services to local people and military and administrative personnel of countries visited. Stops included Cuba, Jamaica, Grenada and Trinidad and Tobago. The craft had 300 hospital beds and eight operating rooms and carried 416 personnel, 107 of them medical workers. Military activities are deemed useful by the Chinese because the armed forces remain an important political actor in most Latin American countries, and this thinking is consistent with the ideological line of the Chinese Communist Party (CPC).

But China has also engaged in more 'traditional' military cooperation initiatives.<sup>176</sup> One example is a 2017 donation of military equipment worth US\$1.2 million to the Royal Bahamas Defence Force (RDBF).<sup>177</sup> That same year the Guyana Defence Force (GDF) received two new Chinese-made Harbin Y-12s planes, combined with training for pilots and engineers. Already in 2001, the GDF had purchased a Y-12 aircraft. In 2014, it was reported that this plane was experiencing corrosion of its fuselage, but

<sup>173</sup> Tannenbaum, Ben. "Filling the Void: China's Expanding Caribbean Presence."

<sup>174</sup> MOFA. "China's Policy Paper on Latin America and the Caribbean."

<sup>175</sup> Marcella, Gabriel. "China's Military Activity in Latin America, What is the Chinese military doing in Latin America?" *Americas Quarterly*. 2012. http://www.americasquarterly.org/Marcella

<sup>176</sup> R. Evan Ell. "China-Latin America Military Engagement: Good Will, Good Business, and Strategic Position." Strategic Studies Institute. 2011. http://publications.armywarcollege.edu/pubs/2150.pdf

<sup>177 &</sup>quot;China donates military equipment to the Bahamas." *Janes*. September 12, 2017. http://www.janes.com/article/73692/china-donates-military-equipment-to-the-bahamas

continuous repairs by Chinese contractors saw it receiving an extra five-year life span at the time.<sup>178</sup> In addition, the GDF has also received other equipment worth \$1.2 billion in other equipment including three wheeled dozers, two wheeled loaders, one large wheeled excavator, two wheeled graders, and various other vehicles.<sup>179</sup>

Apart from these deals, China has also developed military ties to varying degrees with countries such as Jamaica (since 2011, see further below);<sup>180</sup> Antigua and Barbuda, where military training was provided;<sup>181</sup> and, most prominently, with Trinidad and Tobago (see case study below). Other examples are Grenada, which recently received 37 police vehicles worth USD 2mn;<sup>182</sup> and Suriname, where, in addition to gifting a new foreign affairs ministry building, China also provided military assistance and training.<sup>183</sup>

A particularly contentious case is Dominica. In 2018, it received USD 4.3mn in military vehicles, the stated purpose being to "enhance Dominica capacity in areas of recovery, disaster reduction and maintaining stability and medical emergency." However, the deal came under a cloud of controversy because of corruption allegations leveled against the country's prime minister, Roosevelt Skerrit, because of the sale of passports, many of which had ended up in the hands of Chinese intelligence officers. An earlier military agreement with China in 2017 even led to large-scale protests in February of that year and demands for the prime minister to resign. The fact that China maintains its largest Caribbean embassy in Dominica, a nation of about 72,000 souls, and why it needs military equipment with no security threat in sight, continues to evoke questions. <sup>186</sup>

<sup>178 &</sup>quot;China to add new planes to GDF fleet." *Guyana Chronicle*. February 27, 2017. http://guyanachronicle. com/2017/02/21/china-to-add-new-planes-to-gdf-fleet

<sup>179 &</sup>quot;China's army donates \$1.2B in equipment to GDF." Stabroek News. April 4, 2017. https://www.stabroeknews.com/2017/news/stories/04/04/chinas-army-donates-1-2b-equipment-gdf/

<sup>180 &</sup>quot;Jamaica, China Sign Military Aid Pact." *Caribbean Journal*. August 22, 2011. https://www.caribjournal.com/2011/08/22/jamaica-china-sign-military-aid-pact/.

<sup>181 &</sup>quot;Antigua and Barbuda." Ministry of Foreign Affairs, China. May 19, 2018. http://www.fmprc.gov.cn/mfa\_eng/wjb\_663304/zzjg\_663340/ldmzs\_664952/gjlb\_664956/3448\_664958/.

<sup>182 &</sup>quot;China Donates over US\$2 Million Worth of Vehicles to RGPF." *The New Today Newspaper Grenada*. October 26, 2017. https://thenewtoday.gd/local-news/2017/10/26/china-donates-over-us2-million-worth-of-vehicles-to-rgpf/.

<sup>183</sup> Bourcier, Nicolas. "China Finds an Eager South American Stablemate in Suriname." *The Guardian*. June 23, 2015. http://www.theguardian.com/world/2015/jun/23/suriname-china-business-influence.

<sup>184 &</sup>quot;Dominica Receives Military Vehicles from China." *Dominica News Online*. April 10, 2018. http://dominicanewsonline.com/news/homepage/news/general/dominica-receives-military-vehicles-from-china/.

Tribune, World. "The Unreported Dominica Crisis, Continued: PM Responds but Fails to Address China Ties." World Tribune: Window on the Real World (blog). February 12, 2017. http://www.worldtribune.com/the-unreported-dominica-crisis-continued-pm-responds-but-fails-to-address-china-ties/.

Tribune, World. "Unrest Roils Dominica after Reports Reveal Government's Collusion with China, Iran."

World Tribune: Window on the Real World (blog). February 8, 2017. http://www.worldtribune.com/unrest-roils-dominica-after-reports-reveal-governments-collusion-with-china-iran/.

### 3.4.3 Geopolitical perspective

From a geopolitical perspective, some analysts view Chinese military activities in the Caribbean as a counter to U.S. naval activities in the South China Sea. As Jared Ward noted, "[a]t a time when Washington is accusing China of bullying smaller countries in the South China Sea, Beijing has held up the Caribbean as an example of America's history of big power chauvinism." Also, Beijing's military provisions to Venezuela "can be treated as China's response to the U.S. arms sales to Taiwan and to the American military presence in the Asia-Pacific region."188

In all though, China's forthcoming growing presence in the Caribbean poses no immediate military threat to other States. China and Cuba hold high-level military meetings and conduct joint training exercises. However, the People's Liberation Army (PLA) does not have alliances or basing agreements in the Caribbean. Nevertheless, Evan Ellis, a research professor at the U.S. Army War College, says that China's military activities in Latin America and the Caribbean are "more extensive than commonly realized." In a time of conflict, he says "China's substantial commercial base, its access to ports, and its military-to-military contacts in the Caribbean might prove useful. All of these add up to growing Chinese influence in a region."189

In the immediate term, the one true geopolitical issue in the Caribbean is the future of Venezuela. Having teetered on the brink for a number of years now, the country has steadily increased its military ties with China. China is already Venezuela's largest trade partner and also the second largest importer of Venezuela oil, behind the United States. 190 Until 2014, Russia was Venezuela's largest provider of military wherewithal when it was overtaken by China.<sup>191</sup> Caracas bought various military aircraft from Beijing in the past decade worth several hundred millions<sup>192</sup> and even acquired a satellite from China. 193 Arguably the biggest issue for China is the fact that Caracas is badly in arrears in repaying loans from China, which now amount to USD 23bn. In exchange, China is likely to demand oil shipments for years to come, and to gain control over PDVSA, Venezuela's state-run oil company. 194

<sup>187</sup> Ward, Jared. "Making Sense of China's Caribbean Policy."

<sup>188</sup> Shamshina, V. "China-Venezuela Strategic Partnership: Problems and Prospects." Mirovaya Ekonomika i Mezhdunarodnye Otnosheniya 60, no. 8 (2016): 96-102.

<sup>189</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade"

<sup>190 &</sup>quot;OEC - Venezuela (VEN) Exports, Imports, and Trade Partners." The Observatory of Economic Complexity. https:// atlas.media.mit.edu/en/profile/country/ven/.

<sup>191</sup> Vicente Caro, Carlos Jose. "Venezuela Is Not a Big Priority for Russia, China or Iran." Yale Global Online. January 4, 2018. https://yaleglobal.yale.edu/content/venezuela-not-big-priority-russia-china-or-iran.

<sup>192</sup> Gosset, David. "The Sino-Venezuelan Strategic Partnership." Huffington Post (blog). September 24, 2013. https:// www.huffingtonpost.com/david-gosset/the-sinovenezuelan-strate\_b\_3940857.html.

<sup>193</sup> Marcella, Gabriel. "China's Military Activity in Latin America."

<sup>194</sup> Cunningham, Nick. "China Could Be the New Owner of Venezuela's Oil Industry." Business Insider. April 6, 2018. http://uk.businessinsider.com/china-could-be-the-new-owner-of-venezuelas-oil-industry-2018-4.

The Venezuela case crisis also involves Russia, which may actually become China's chief geopolitical rival in the Caribbean. A onetime provider (2005) of two dozen Sukhoi SU-30 fighter jets, <sup>195</sup> Moscow has reportedly demanded "that Venezuela allow Russian warships to anchor at its ports in return for [debt servicing] assistance." <sup>196</sup> And like China, Russia also seeks more control over Venezuela's oil sector, mostly as a result of financing of the sector provided by Rosneft, worth about USD 17bn. <sup>197</sup> The Venezuela crisis thus constitutes "a perfect storm of opportunity for China and Russia to gain geopolitical influence over America, Canada, Central America and Mexico."

But Russia's security interests stretch beyond Venezuela into other parts of the Caribbean. For instance, it has been reported that Russia is discussing military cooperation with Suriname, and is also interested in economic ties with Grenada. In addition, it is in the process of rebuilding ties with its old ally Cuba, and also maintains stakes in the bauxite and aluminum industries in Jamaica and Guyana. A Russian naval intelligence vessel has also been plying the waters of the Caribbean. Taken together, professor Evan Ellis believes that the difference between China and Russia is that while the Chinese "want to build an economic presence to position itself softly, the Russians are the opposite; they want to use their presence to provoke."

This view is also reinforced by the fact that, as one Russian scholar noted, "Beijing is not ready to support Venezuela's anti-American initiatives despite the fact that China by no means advocates the American hegemony."

Where does this leave the other major players? The United States, for its part, remains preoccupied principally by transnational crime emanating from the region, and to a lesser extent migration and climate change issues (damage from hurricanes).<sup>203</sup> Also, calls by senior officials prodding the military in Venezuela to commit a coup might in the end play into the hands of both China and Russia.<sup>204</sup> The only other outside power

<sup>195</sup> Sonnel, Holly K. "Explainer: Venezuela's Oil and Military Ties with China and Russia." *AS/COA*. February 15, 2017. http://www.as-coa.org/articles/explainer-venezuelas-oil-and-military-ties-china-and-russia.

<sup>196</sup> Toyama, Naoyuki. "Venezuela Crisis Lets China and Russia Maneuver in US Backyard." Nikkei Asian Review. December 5, 2017. https://asia.nikkei.com/Economy/Venezuela-crisis-lets-China-and-Russia-maneuver-in-US-backyard2.

<sup>197</sup> Humire, Joseph. "Iran, Russia, and China's Central Role | Middle East Forum." *Middle East Forum.* February 14, 2018. https://www.meforum.org/articles/2018/iran-russia-and-chinas-central-role-in-the-venezue.

<sup>198</sup> Royal, Todd. "Venezuela's Loss Is Russia and China's Gain." *The National Interest.* January 4, 2018. http://nationalinterest.org/feature/venezuelas-loss-russia-chinas-gain-23937.

<sup>199</sup> Jessop, David. "Russian Interest in the Caribbean Continues to Grow." *The Nassau Guardian* (blog). October 31, 2017. https://thenassauguardian.com/2017/10/31/russian-interest-caribbean-continues-grow/.

<sup>200</sup> Forrest, Brett. "In Cold War Echo, Russia Returns to U.S.'s Backyard." Wall Street Journal. January 31, 2018. sec. World. https://www.wsj.com/articles/russia-returns-to-u-s-s-backyard-1517403600.

<sup>201</sup> Fieser, Ezra. "Russia and China Are Bulking Up in the U.S.'s Backyard." *Bloomberg.* June 5, 2017. https://www.bloomberg.com/news/articles/2017-06-05/russia-and-china-are-bulking-up-in-the-u-s-s-backyard.

<sup>202</sup> Shamshina, V. "China-Venezuela Strategic Partnership: Problems and Prospects."

<sup>203</sup> Matera, Michael. "The Relevance of U.S.-Caribbean Relations Three Views." Center for Strategic and International Studies. June 2017. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/170629\_Matera\_ RelevanceUSCaribbeanRelations\_Web.pdf?QySNcvX2G\_6uLjUcahyCEz1cn9KO.gnc.

Fonseca, Brian. "The Perils of a Putsch in Venezuela." *Foreign Policy* (blog). April 5, 2018. https://foreignpolicy.com/2018/05/04/the-perils-of-a-putsch-in-venezuela/.

that seems intent to compete with China in the region is Japan, whose interests are exclusively economic in nature.<sup>205</sup>

### 3.5 Conclusions

Although trade relations with the Caribbean remain relatively modest, China has quickly established itself as a major power in the region with great levels of visibility. This is partly by default, in that other powers such as the US and the EU (and its member states) have not made the region a priority in their economic or security policies. At the same time, China is treading carefully in the military domain, not wanting to upset the United States.

## 3.5.1 Strategy/diplomacy

- China has adopted a strategy for engaging with the Latin America and Caribbean region, but has not officially integrated the area into the Belt and Road Initiative. However, Trinidad and Tobago has been formally admitted as a BRI beneficiary.
- Partly due to the fact that CARICOM also includes countries that recognize Taiwan, China prefers bilateral arrangements, which constitute the majority of its engagements in the region.
- As such, the Taiwan recognition issue seems to become less important, but opinions in the region are divided on this point.
- Rather than imposing itself on small Caribbean nations, China is being actively courted by these nations, mostly because of China's competitive offerings and because of a lack of interests from Western countries.

#### 3.5.2 Economic ties

- Both China's trade and investment in terms of FDI remain very modest across the Caribbean.
- Much of China's economic engagement consists of infrastructure projects, which range from stadiums to ports, roads, schools, hospitals and government buildings.
- Loans disbursed by Chinese entities tend to be opaque, making them attractive to local elites and helping corruption to persist. One consequence is that traditional multilateral lenders (IDB, IMF, World Bank) are being sidelined.
- In general, control over natural resources is only a minor factor explaining Chinese interest in the region. Only a tiny fraction of China's energy imports hails from the Caribbean, and most of it from Guyana, Suriname and Trinidad and Tobago.

205 Interview

While a number of countries in the Caribbean suffer from chronic indebtedness, there are no evident signs that an inability of servicing Chinese loans (which underwrite the bulk of China's infrastructure projects in the region) is used for the sake of gaining political leverage.

#### 3.5.3 Political influence

- While there is no structural evidence that more engagement with Chinese partners leads to higher levels of corruption, there are several examples where Chinese firms have benefited from political favoritism. However, there does appear to be a pattern whereby Chinese entities are more likely to invest in countries with weak governance regimes.
- It is not clear that more economic involvement in a given country in the Caribbean also leads to greater alignment of voting with China in the UN's General Assembly.
- Allegiance with Beijing or Taipei is far from a reliable indicator on whether or not a country benefits from China's largesse.
- Chinese firms are often able to sway political elites in Caribbean countries due to the sheer scale of funds and loans they offer to undertake projects, and are thus said not always to need to actually make side payments to government decisionmakers.
- The inflow of Chinese workers does cause resentment in some Caribbean countries, inducing a rise in xenophobia in Jamaica, and even killings of Chinese in Trinidad.
- China also seeks to gain goodwill by building schools and hospitals, and in recent years, opened a number of Confucius institutes around the region.
- Caribbean countries such as Jamaica and, to a lesser extent, Trinidad, have a vibrant civil society and culture of free press, and provide pushback against unbridled ambitions shared between Chinese firms and local elites.

## 3.5.4 Military engagement

- China's military involvement in the Caribbean has been restrained to date, most likely because Beijing is careful not to provoke the United States.
- At the same time, local experts mostly discount the idea that China's budding military presence is designed as a tit-for-tat game for America's presence in the South China Sea.
- Much of China's military engagement manifests itself in military aid (provided) as a gift, such as donation of military vehicles or other equipment) and providing (institutionalized) training to individuals.
- The opening of a second Panama Canal could portend a larger Chinese military presence in the future.

#### 3.5.5 Overall conclusions

- As China deepens its engagement with the region, Caribbean countries may become more dependent on Beijing, a development which is further amplified by the fact that many countries in the region suffer from chronic indebtedness and have poor governance environments.
- However, Chinese predominance is not a foregone conclusion as civil society in various countries in the region is likely to continue to push back and hold elites accountable.
- At the same time, an increasing Chinese presence in terms of imported workers could exacerbate social tensions and perhaps violence.
- China's military and navy in particular need to be careful not to become too visibly present in the Caribbean. First, it could lead to a response from the United States. Second, local military leaderships are not yet 'sold' on the idea of engaging with the Chinese armed forces. Their loyalty to Beijing is far from guaranteed.

In order to assess whether China's approach to the Caribbean is typical for its general approach to small island developing states (SIDS), the following part examines China's engagement in various independent island nations in the South Pacific. Does this region hold a different strategic value to China? Does this affect its economic and political approach? These are some of the issues examined here.

# 4. China in the South Pacific

# 4.1 Aims and Objectives

The South Pacific may seem remote at first glance, but is increasingly becoming the subject of great power interest. While the region is not formally part of the Belt and Road Initiative, it is easy to imagine it being integrated into that initiative, if only because China recently issued an Arctic BRI policy paper.<sup>206</sup> In comparison to its engagement in the Caribbean, China's military posture in the South Pacific appears to be more robust. Some analysts thus think that the maritime infrastructure it is presently developing "could also be used to support increasing power-projection operations in the region."<sup>207</sup>

In a way, China's involvement in the region can be seen as a mere extension of its BRI plan. As in the Caribbean, it gains from securing new markets and providing employment opportunities to its workers abroad. <sup>208</sup> In fact, the region has known influxes of Chinese immigrants since the 18th century. <sup>209</sup> However, a recent study by a US-based think tank concluded that "[m]aritime infrastructure investment is inherently dual-use and is capable of furthering both legitimate business activities and military operations." Briefly put, "several marked examples of unprofitability suggest that Beijing is actively seeking to leverage the geopolitical capacity of its port projects." <sup>210</sup>

Such concerns led one Australian analyst to call for "protecting the South Pacific from Chinese expansion."<sup>211</sup> Indeed, at the diplomatic level, Australia, the United States, India and Japan are considering an alternative proposition to the BRI that should also

<sup>206</sup> Daly, Robert, and Matthew Rojansky. "China's Global Dreams Give Its Neighbors Nightmares." Foreign Policy. December 3, 2018. http://foreignpolicy.com/2018/03/12/chinas-global-dreams-are-giving-its-neighbors-nightmares/.

<sup>207</sup> Green, Michael, Shearer Andrew. "Countering China's Militarization of the Indo-Pacific."

<sup>208</sup> Field, Michael. "China Fills a Vacuum in the South Pacific from Fiji to Australia." WikiTribune. February 8, 2018. https://www.wikitribune.com/story/2018/02/08/china/china-fills-a-vacuum-in-the-south-pacific-from-fiji-to-australia/34079/.

<sup>209</sup> Willmott, Bill. "Varieties of Chinese Experience in the Pacific." Centre for the Study of the Chinese Southern Diaspora (CSCSD) Occasional Papers. 1 (2007): 35–42.

<sup>210 &</sup>quot;China's 'Belt Road Initiative' exposes its ulterior strategic motives." The Economic Times. April 23, 2018. https://economictimes.indiatimes.com/articleshow/63877035.cms?utm\_source=contentofinterest&utm\_medium=text&utm\_campaign=cppst

<sup>211</sup> Mitchell, Troy. "Protecting the South Pacific." *RealClearDefense*. February 27, 2018. https://www.realcleardefense.com/articles/2018/02/27/protecting\_the\_south\_pacific\_113121.html.

affect islands in the Pacific. Given that the South Pacific constitutes a critical link to Latin America and that China can embed itself relatively easily in this region, it is certainly plausible that it will be the next leg of the BRI.

In the South Pacific too, recognition of Taiwan is a definite issue. At this time, there are six countries in the region which recognize Taipei: Kiribati, the Marshall Islands, Nauru, Palau, Tuvalu, and the Solomon islands. Like some Caribbean islands, they seek to create a bidding war between the two Chinas.<sup>212</sup> Between China and Taiwan though, there appears to have been a lessening of tension in relation to their Pacific islands ties.<sup>213</sup>

# 4.2 China's Economic Engagement in the South Pacific

In recent years, the South Pacific has seen a boom in investment from China, which spent USD 1.78bn from 2006 to 2015 and implemented over 200 projects in the region.<sup>214</sup> The increase in Chinese investment comes at a time when traditional powers in the region, such as the U.S., Australia, and New Zealand have become less involved. Recent instability in the islands of the South Pacific have made them particularly vulnerable and in need of aid, <sup>215</sup> which China is happy to provide, including to more questionable regimes such as in Fiji. Much like the Caribbean, China's aid has been marked by soft loans, often against non-transparent terms, <sup>216</sup> and the implementation of infrastructure projects.

#### 4.2.1 Trade and Investment

Accordingly to some figures, trade with China in the first decade of the 21st century has increased seven-fold.<sup>217</sup> When looking at the independent nations in the region, the following trends in trade and investments can be recognized:

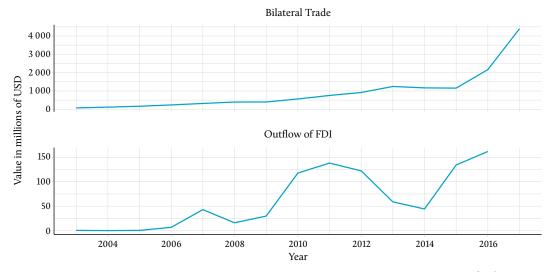
<sup>212</sup> Wyeth, Grant. "What to Make of China in the South Pacific?" The Diplomat. September 29, 2016. https:// the diplomat.com/2016/09/what-to-make-of-china-in-the-south-pacific/.

<sup>213</sup> Atkinson, Joel. "China-Taiwan Diplomatic Competition and the Pacific Islands." The Pacific Review. 23. no. 4: 407-27. https://doi.org/10.1080/09512748.2010.495998

<sup>214</sup> Field, Michael. "China Fills a Vacuum in the South Pacific from Fiji to Australia." WikiTribune. February 8, 2018. https://www.wikitribune.com/article/34079/

<sup>215</sup> Brant, Philippa. "Chinese Aid in the South Pacific: Linked to Resources?" Asian Studies Review. Vol. 37. no. 2. June 2013. p. 158-77. https://doi.org/10.1080/10357823.2013.767311

<sup>217</sup> Hegarty, Matt. China's Growing Influence in the South-West Pacific: Australian Policies That Could Respond to China's Intentions and Objectives. Australian Defence College. March 2015. http://www.defence.gov.au/ADC/ Publications/IndoPac/150327%20Hegarty%20IPS%20Paper%20China%27s%20Growing%20Influence%20in%20 SWP%20(final%20PDF%20amended).pdf.



Source: IMF Direction of Trade & UNCTAD

Figure 7. China-South Pacific economic relations

Most striking is the fact that trade with the South Pacific was almost USD 1bn more in 2015 than it was with the Caribbean. FDI outflows remain behind in comparison to the Caribbean, most likely due to the fact that there are no obvious tax havens in the Pacific. When looking at the relative trade share of China in Fiji, Palau and the Solomon Islands, to take some examples, the following picture emerges:

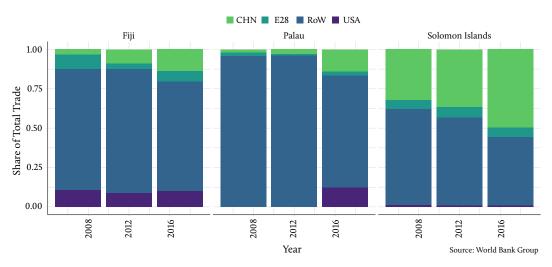


Figure 8. Chinese Trade with Selected Pacific Countries. 1.00 is total trade (imports and exports combined) per country/year is shown, and the percentage share for China, Europe, the rest of the world, and the U.S..

Again, like in the Caribbean, while the share of Chinese trade is generally increasing, the bulk is still done with other economic blocs, being the US in the case of Palau, and the EU in the case of the Solomon islands. A significant share of the 'rest of the world' category is taken up by Australia and New Zealand.

China's aid program in the region is widely criticized for being opaque, <sup>218</sup> although one Samoan prime minister thinks otherwise. <sup>219</sup> One estimation by the Australian Lowy institute reports that between 2006-2016, China provided some AUD 172mn in aid to Tonga, AUD 360mn to Fiji and AUD 632mn to Papua New Guinea, the largest recipient in the region. <sup>220</sup> But because a large share of these aid packages are made up of loans (estimated at 80%), <sup>221</sup> various countries get into financial trouble repaying these loans, with the most distress experienced in Tonga, Vanuatu and Samoa. <sup>222</sup> According to one source, "the aid programme has various purposes, including promoting development and trade, but it is also designed to carry influence." <sup>223</sup>

## 4.2.2 China's Infrastructural Footprint in the region

Like in the Caribbean, China has used infrastructural projects in order to "raise its profile" in the South Pacific. <sup>224</sup> Its business practices, while similar to those deployed in the Caribbean, appear to be less flexible. For instance, it has been said that "in the case of concessional loans in particular, the contractor must be a Chinese company and at least 50 per cent of the materials must be procured from China." Another study found that "some recipient officials express frustration with Chinese aid, in part because "nothing is in writing." In discussions with the Chinese about terms and conditions of loans, including repayment periods and transformation into grants, "the Chinese always say, we can sort it out if and when it comes to that." Details of contracts and procurement are often scarce and recipient communities have legitimate issues about ensuring that the costs are accurate and they are getting best value for money. <sup>226</sup>

Notwithstanding this criticism, the Chinese have delivered a host of infrastructural projects across the region. Some examples are "a sports arena in the Cook Islands, a multi-storey government office building and hospital in Samoa, the Melanesian Spearhead Group's Secretariat building in Vanuatu, and the rebuilding of a cyclone-

<sup>218</sup> Pryke, Jonathan. "The Bad – and Good – of China's Aid in the Pacific." *The Lowy Institute*. January 18, 2018. https://www.lowyinstitute.org/the-interpreter/bad-and-good-china-aid-pacific and "China Aid Transparency in Pacific Questioned." *Radio New Zealand*. February 28, 2015. https://www.radionz.co.nz/international/pacific-news/267348/china-aid-transparency-in-pacific-questioned.

<sup>219</sup> Feagaimaali'i-Luamanu, Joyetter. "P.M. Tuilaepa Says China Aid Is 'All Transparent." *Samoa Observer*. March 5, 2018. http://www.samoaobserver.ws/en/06\_03\_2018/local/30787/PM-Tuilaepa-says-China-aid-is-'all-transparent'.htm.

<sup>220 &</sup>quot;Chinese Aid in the Pacific." The Lowy Institute. https://www.lowyinstitute.org/chinese-aid-map/.

<sup>221</sup> Brant, Philippa. "Chinese Aid in the Pacific." *The Lowy Institute*. February 2015. https://www.lowyinstitute.org/sites/default/files/chinese\_aid\_in\_the\_pacific\_regional\_snapshot\_0.pdf.

<sup>222</sup> Pryke, Jonathan. "The Bad – and Good – of China's Aid in the Pacific."

<sup>223</sup> Pearlman, Jonathan. "Questions over Beijing's Rising Loans to Pacific Nations." The Straits Times. January 18, 2018. https://www.straitstimes.com/asia/australianz/questions-over-beijings-rising-loans-to-pacific-nations.

<sup>224</sup> Mollman, Steve. "New Zealand Risks Becoming a 'Strategic Nincompoop' as China Woos Tiny Pacific Islands." Quartz. March 2, 2018. https://qz.com/1219925/new-zealand-risks-becoming-a-strategic-nincompoop-as-china-woos-tiny-pacific-islands/.

<sup>225</sup> Brant, Philippa. "Chinese Aid in the South Pacific: Linked to Resources?"

<sup>226</sup> Ibid.

devastated part of Nuku'alofa, the capital of Tonga."<sup>227</sup> Other projects include a USD 320mn fish farm in French Polynesia<sup>228</sup> and a sports stadium in Fiji worth USD 3mn. Much more than in the Caribbean, China's focus in terms of infrastructure is "on high-profile projects with public relations value for the donor and recipient politicians. The hardest projects to get aid for are vital services like sewage that are underground and unattractive."<sup>229</sup>

The country showing the most concern about these developments is Australia. While still the dominant player in the region, it is increasingly worried about Chinese designs on the region. Earlier this year, a government minister criticized Chinese projects in the region, saying that "[y]ou've got the Pacific full of these useless buildings which nobody maintains, which are basically white elephants."<sup>230</sup> An example of one of these 'white elephants' could be a swimming complex in Samoa, given that it is racking up excessive maintenance costs that are hard to shoulder for a city of less that 40,000 inhabitants.<sup>231</sup> In April, Australia's former Prime Minister Malcolm Turnbull even appealed to Britain to step up its involvement in the region, particularly in the area of development aid.<sup>232</sup>

# 4.3 Political implications

#### 4.3.1 At the international level

If the aim of China in the South Pacific is to garner more support in international fora, then the record is decidedly mixed. With respect to voting patterns in the UN General Assembly, research found that while there is a large degree of convergence between votes cast by Pacific island States and China, there is a marked discrepancy when it comes to human rights issues. This may be due to the fact that Beijing tends to vote against resolutions criticizing other states' human rights abuses, while Asia-Pacific countries are more inclined to abstain.<sup>233</sup>

- 227 Hegarty, Matt. "China's Growing Influence in the South-West Pacific: Australian Policies That Could Respond to China's Intentions and Objectives." *Australian Defence College*. March 2015. http://www.defence.gov.au/ADC/Publications/IndoPac/150327%20Hegarty%20IPS%20Paper%20China%27s%20Growing%20Influence%20in%20SWP%20(final%20PDF%20amended).pdf.
- 228 Riordan, Primrose, and Rowan Callick. "China's Pacific Investment Push Lands in Solomon Islands." The Australian. May 1, 2018. https://www.theaustralian.com.au/national-affairs/foreign-affairs/chinas-pacific-investment-push-lands-in-solomon-islands/news-story/9c85024e3245ed8e163763c15ab0d812.
- 229 Hegarty, Matt. China's Growing Influence in the South-West Pacific: Australian Policies That Could Respond to China's Intentions and Objectives.
- 230 "China Funding White Elephant Projects in Pacific, Says Minister." South China Morning Post. January 10, 2018. http://www.scmp.com/news/china/diplomacy-defence/article/2127626/china-funding-white-elephant-infrastructure-projects.
- 231 Brant, Philippa. "Chinese Aid in the South Pacific: Linked to Resources?"
- 232 Crowe, David. "Government Calls on Britain to Raise Effort in the Pacific amid China Push." *The Sydney Morning Herald.* April 15, 2018. https://www.smh.com.au/politics/federal/government-calls-on-britain-to-raise-effort-in-the-pacific-amid-china-push-20180415-p4z9qk.html.
- 233 Ferdinand, P. "Foreign Policy Convergence in Pacific Asia: The Evidence from Voting in the UN General Assembly." The British Journal of Politics and International Relations. 16(4) 2014: 662-679.

Taking a closer look at four countries as examples - Tonga, Micronesia, Nauru and Kiribati - the following picture occurs:

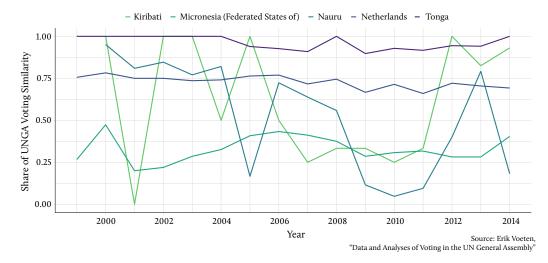


Figure 9. UNGA Voting Similarity between China, the Netherlands and Selected South Pacific Countries. Voting records match completely with China at 1,00.

The message here is that allegiance does not buy alignment. A country like Tonga, which is firmly encamped on the Chinese side, shows a record that is to be expected, of being mostly aligned with Beijing. Micronesia, in contrast, is another country that is on the Beijing side of the Straits standoff, but exhibits a much more divergent record. Nauru, a country that recognizes Taiwan, has a voting record that follows the Dutch record almost in lockstep. Finally, Kiribati, a country that recognizes Taiwan, also shows a highly erratic voting record, sometimes aligning with Beijing before widely diverging again.

Nevertheless, one study has found a reciprocal pattern, as recipients of Chinese development assistance are rewarded with greater amounts of funding if they vote with Beijing in the General Assembly. The magnitude of this effect is quite substantial as a 10 percentage-point increase of recipients' voting similarity with China yields an 86 per cent increase in Chinese development assistance. <sup>234</sup> In all, the data suggests that political allegiance is far from a guarantee that China could count on support in international fora--at least for as far as the UN and the South China Sea dispute is concerned.

An interesting case is point is Papua New Guinea, whose prime minister said during a 2016 visit to Beijing that he supported the Chinese position on the South China Sea in an "apparent bowing to China's pressure."<sup>235</sup> In fact, "China's willingness to put public

<sup>234</sup> Dreher, A. and A. Fuchs. "Rogue Aid? An empirical analysis of China's aid allocation." Canadian Journal of Economics. 48(3) 2016: 988-1023.

<sup>235</sup> Hayward Jones, Jenny. "PNG in 2017 | Changing Geopolitical Dynamics for Papua New Guinea," *Lowy Institute*. December 6, 2017. http://interactives.lowyinstitute.org/publications/PNGin2017/png-in-2017-changing-geopolitical-dynamics-for-papua-new-guinea.html.

rather than private pressure on Papua New Guinea to align itself with its position on such a critical strategic issue suggests that it is no longer content with its image as a generous and altruistic partner and will be making more public calls on Papua New Guinea for support for United Nations votes or in other regional disputes."<sup>236</sup> Ironically, due to its debt burden, Papua New Guinea actually temporarily lost its vote in the General Assembly in 2017 as it was unable to pay its contribution in time.<sup>237</sup>

Generally speaking, most countries' attitudes toward the South China Sea issue can fall into three categories. Counties in the first category, epitomized by Japan, oppose China's position by supporting the Philippines' stance. The second group includes countries that explicitly express their firm support for China. Finally, many countries, categorized as the third group, support China's position in terms of resolving the disputes through consultations and negotiations in line with the Declaration on the Conduct of Parties in South China Sea (DOC). Among the 71 countries that publicly support China's position over the South China Sea dispute there is one in the South Pacific, the Republic of Vanuatu.

#### 4.3.2 At the domestic level

Even more so than in the Caribbean, indebtedness in the island nations of the South Pacific makes the governments there vulnerable when taking on significant loans. One report concludes that "[w]hile China's loans and projects may be lavish, it is questionable whether already indebted Pacific island nations can truly afford to repay without eventual sovereignty-eroding concessions. Debt dependence ensures long-term relationships which ultimately will work in Beijing's long-term strategic interest." A knock-on effect of this degree of dependency is that Chinese businesses are likely to bring in more workers from the mainland, "and thus do not provide local people with desperately needed employment opportunities." Yet many islands need significant overseas investment, rendering them "particularly vulnerable to external players."

<sup>236</sup> Ibid.

<sup>237</sup> Tlozek, Eric. "PNG Loses UN Vote over Unpaid Annual Contributions." ABC News. February 24, 2017. http://www.abc.net.au/news/2017-02-24/papua-new-guinea-loses-un-vote-over-unpaid-contributions/8298486.

<sup>238 &</sup>quot;Declaration on the conduct of parties in the South China Sea." *The Association of Southeast Asian Nations*. October 17, 2012. http://asean.org/?static\_post=declaration-on-the-conduct-of-parties-in-the-south-chinasea-2 See also Wang, Wen. "Who Supports China in the South China Sea and Why." *The Diplomat*. July 27, 2016. https://thediplomat.com/2016/07/who-supports-china-in-the-south-china-sea-and-why/

<sup>239 &</sup>quot;Vanuatu Supports China's Position On South China Sea Dispute." *Pacific Islands Report*. May 25, 2016 http://www.pireport.org/articles/2016/05/25/vanuatu-supports-china%E2%80%99s-position-south-china-seadispute In the Caribbean Region there's firm support for China's position from Grenada and Dominica; two countries which major capital inflows from China.

<sup>240</sup> Lintner, Bertil. 2018. "China advances, West frets in South Pacific." Asia Times. April 25, 2018. http://www.atimes.com/article/china-advances-west-frets-in-south-pacific/

<sup>241</sup> Hannan, Kate, and Stewart Firth. "Trading with the Dragon: Chinese Trade, Investment and Development Assistance in the Pacific Islands." *Journal of Contemporary China* 24 (95) 2015: p. 865–82. https://doi.org/10.1080/ 10670564.2015.1013377.

Sometimes called "debt trap" diplomacy,<sup>242</sup> Chinese loan disbursement practices have indeed already led Tonga to the edge of bankruptcy. In 2006, it borrowed USD 136mn from China for infrastructure purposes which led to a debt crisis in 2013-14. Reportedly, China's Ex-Im Bank, to whom the loans are owed and which represent about 44% of the country's GDP, is not prepared to forgive them.<sup>243</sup> Papua New Guinea, which owes China over AUD 600mn, and faces increasing difficulty in repaying debt due to declining resource prices, nevertheless turned to China once more, even if it has received much more aid from Australia (AUD 3.4bn).<sup>244</sup>

When looking at the data on domestic political conditions, a highly erratic picture emerges, just as it did in relation to trade and FDI.

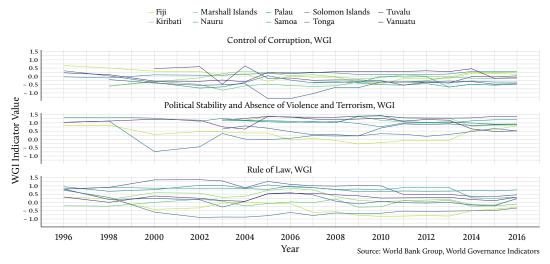


Figure 10. World Governance Indicators for the South Pacific

In terms of control of corruption, the most striking trends are those of Tonga, which dipped in 2004 before making its way up, chiefly as a result of restrictions imposed on the media and a bid to strengthen monarchical powers.<sup>245</sup> Vanuatu saw a steep decline after 2014, possibly in relation to its debt crisis. Both countries maintain strong ties to China. Regarding the rule of law, there is a small general upward trend including in Fiji, following years of rule by an interim military regime.

<sup>242</sup> Var, Veasna. "Cambodia, Sri Lanka and the China Debt Trap." *East Asia Forum* (blog). March 18, 2017. http://www.eastasiaforum.org/2017/03/18/cambodia-sri-lanka-and-the-china-debt-trap/.

<sup>243 &</sup>quot;Reports China Won't Forgive Huge Tongan Debt." *Radio New Zealand*. February 27, 2015. https://www.radionz.co.nz/international/pacific-news/267296/reports-china-won%27t-forgive-huge-tongan-debt.

Takahashi, Kaori. "Papua New Guinea's Premier Faces Balancing Act between Australia, China." *Nikkei Asian Review.* May 3, 2017. https://asia.nikkei.com/Politics/International-Relations/Papua-New-Guinea-s-premier-faces-balancing-act-between-Australia-China2.

<sup>245 &</sup>quot;Freedom in the World 2004: Tonga." Freedom House. 2004. https://freedomhouse.org/report/freedom-world/2004/tonga.

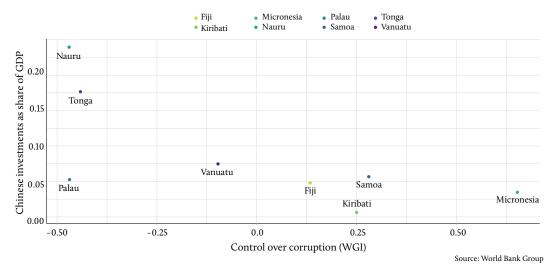


Figure 11. Investments/GDP and Control over Corruption, the South Pacific

Interestingly though, when relating control of corruption to the relative share of Chinese investment in a number of countries, an inverse relationship emerges in comparison to what was found in the Caribbean. It also appears that, generally speaking, there is more political instability in this region than in the Caribbean. Tonga, Fiji and the Solomon Islands have witnessed the biggest swings, having experienced regime change or actual conflict. While these developments cannot necessarily be ascribed to Chinese influence, China does maintain a propensity to invest in unstable countries.<sup>246</sup>

# 4.4 Military implications

In regard to military implications, China appears much less reticent in the South Pacific than it is in the Caribbean. Its posture is partially explained by the fact that it has a relatively large diaspora in the region. One study noted that this creates "a subset of overseas Chinese who are at increased risk to threats, ranging from natural disasters to the breakdown of civil order, acts of terrorism, and exposure to war zones. Due to these risks, the growth in the footprint of overseas Chinese communities will be accompanied by the continued growth of the military capability to protect China's interests and population abroad (including joint force-projection capabilities)."<sup>247</sup>

More importantly, China's military activity in the South Pacific can be explained by the fact that as the Western powers withdrew, "China [became] a regional power

<sup>246</sup> Hegarty, Matt. China's Growing Influence in the South-West Pacific: Australian Policies That Could Respond to China's Intentions and Objectives. p. 12

<sup>247</sup> Connolly, Peter J. "Engaging China's New Foreign Policy in the South Pacific." Australian Journal of International Affairs. 70(5) 2016: p. 484–505.

in the Pacific by default."<sup>248</sup> Already in 2003, two academics from New Zealand and Australia wrote that "China is in the process of incorporating the Pacific islands into its broader quest to become a major Asia-Pacific power at the expense of the United States, Japan and other Western allies" and that part of that strategy would be to base military capabilities in the region akin to the so-called 'string of pearls' that China has established across the Indian Ocean.<sup>249</sup> A fresh report by a US government agency claims that gaining control over the 'second island chain' that encircles China also motivates its naval activity.<sup>250</sup>

Tonga, Fiji and Vanuatu have frequently been discussed as island nations where the Chinese could create a military foothold. In Tonga, questions about a possible naval base arose in 2013, when it was unable to pay off its loans and there was talk about Nuku'alofa having to agree to host a base. <sup>251</sup> A more serious rumor exists surrounding Fiji. The Suva port already hosts the Yuanwang Satellite, tracking ships from time to time. <sup>252</sup> Curiously, the Chinese ambassador to Fiji suggested in relation to a discussion about a possible Chinese naval station in Fijian territory that "[i]f there is a need from the Fiji side, we will be happy to look at it," implying the demand came from the Fijian side. <sup>253</sup>

The most concrete development, though, revolves around Vanuatu. Given that today, "Vanuatu's external debt amounts to approximately one third of its GDP, with around half of that owed to China," Beijing has gained important leverage over the island group. Although the Vanuatu government has denied there are discussions about a military base, developments suggest otherwise. For instance, one report said that "[t]he Chinese government provided a USD 54mn concessional loan for a Chinese company to build a 360-meter wharf at Luganville. The wharf is ostensibly to accommodate visiting cruise liners, but at some point in the future — under a different Vanuatu government — it could support large naval vessels." One strategy

<sup>248</sup> Hegarty, Matt. China's Growing Influence in the South-West Pacific: Australian Policies That Could Respond to China's Intentions and Objectives.

<sup>249</sup> Henderson, John, and Benjamin Reilly. "Dragon in Paradise: China's Rising Star in Oceania." *The National Interest* 72. Summer 2003. https://crawford.anu.edu.au/pdf/staff/ben\_reilly/breilly1.pdf.

<sup>250</sup> Meick, Ethan, Michelle Ker, and Han May Chan. "China's Engagement in the Pacific Islands: Implications for the United States." *USCC*. June 14, 2018. https://www.uscc.gov/sites/default/files/Research/China-Pacific%20 Islands%20Staff%20Report.pdf.

<sup>251</sup> Cass, Philip. "Rumours That China Wants Vanuatu Naval Base Recall Pohiva's 2013 Claim over Debt Threat." Kaniva Tonga | Largest New Zealand-Based Tongan News Service (blog). May 12, 2018. http://kanivatonga. nz/2018/05/rumours-that-china-wants-vanuatu-naval-base-recall-pohivas-2013-claim-over-debt-threat/.

<sup>252</sup> Field, Michael. "China Fills a Vacuum in the South Pacific from Fiji to Australia." WikiTribune. February 8, 2018. https://www.wikitribune.com/story/2018/02/08/china/china-fills-a-vacuum-in-the-south-pacific-from-fiji-to-australia/34079/.

<sup>253</sup> Doviverata, Rosi. "China Happy To Help Fiji Set Up A New Navy Base | Fiji Sun." *The Fiji Sun.* November 6, 2015. http://fijisun.com.fj/2015/11/06/china-happy-to-help-fiji-set-up-a-new-navy-base/.

<sup>254</sup> Green, Michael, Shearer Andrew. "Countering China's Militarization of the Indo-Pacific."

<sup>255 &</sup>quot;Vanuatu and China Deny Holding Military Base Talks." Reuters. April 10, 2018. https://www.reuters.com/article/us-china-defence-vanuatu/australian-media-report-china-proposes-military-base-in-south-pacific-idUSKBN1HH019.

<sup>256</sup> Green, Michael, Shearer Andrew. "Countering China's Militarization of the Indo-Pacific."

could be that "Beijing's military ambition in Vanuatu (...) be realized incrementally, possibly beginning with an access agreement allowing Chinese naval ships to dock routinely for refueling. This arrangement could then be built on. [This had] intelligence and security figures in Australia, New Zealand and the United States becoming increasingly worried about China's growing influence." This development has alarmed the Australians more than any other country. One professor declared that "the most troubling implication" with a base in Vanuatu is that it "would give China a foothold for operations to coerce Australia, outflank the US and its base on US territory at Guam, and collect intelligence in a regional security crisis."

In response to these developments, Australia's 2016 Defence White Paper set out a "quasi–Monroe Doctrine in the Pacific, asserting that Australia will work "to limit the influence of any actor from outside the region with interests inimical to our own." Apropos this strategy, former prime minister Malcolm Turnbull remarked that "[w] e would view with great concern the establishment of any foreign military bases in those Pacific island countries and neighbours of ours." The doctrine also calls for stronger partnerships for economic growth and supportive relationships between the people of Australia and the region.

The doctrine is being put in practice by Australia (and also by New Zealand) through a wide-ranging security pact with South Pacific nations, to be signed in September 2018. The agreement is to be concluded at the Pacific Islands Forum in Nauru, and entails defence cooperation among the forum's eighteen countries. Australia's International Development Minister, Ms Concetta Fierravanti-Wells said that the pact "provide[s] a framework for responding to emerging threats." It comes about as a result of increasing concern in Australia and New Zealand about China's conduct in the South Pacific. 262

In the context of these developments, the Australian Defence Force (ADF) established military ties with local forces such as the Papua New Guinean Defence Force. However,the largest security investment in the region is Australia's Pacific Maritime Security Program (PMSP), which has been described by former prime minister

<sup>257 &</sup>quot;We Are Just Not Interested': Vanuatu Says No to China Military Base." Hong Kong Free Press HKFP (blog). April 10, 2018. https://www.hongkongfp.com/2018/04/10/just-not-interested-vanuatu-says-no-china-military-base/.

<sup>258</sup> Connor, Neil. "China Denies Moves toward Second Military Base Abroad on Tiny Pacific Island Nation of Vanuatu." The Daily Telegraph. April 10, 2018. https://www.telegraph.co.uk/news/2018/04/10/china-eyes-tiny-pacific-island-nation-vanuatu-second-military/.

<sup>259 &</sup>quot;2016 Defence White Paper." *Australian Government Department of Defense*. February 24, 2016 http://www.defence.gov.au/WhitePaper/Docs/2016-Defence-White-Paper.pdf

<sup>260</sup> Batley, James, "Review: Safeguarding Australia's security interests through closer Pacific ties." Lowy Institute. June 24, 2018. https://www.lowyinstitute.org/the-interpreter/review-safeguarding-australia-s-security-interests-through-closer-pacific-ties

Pearlman, Jonathan. "Australia, NZ to sign security pact with South Pacific nations." Straits Times. July 7, 2018.
 https://www.straitstimes.com/asia/australianz/australia-nz-to-sign-security-pact-with-south-pacific-nations
 lbid.

Turnbull as "the centrepiece of Australia's defence engagement in the South Pacific." 263 The PMSP builds on the Pacific Patrol Boats program, and aims to deliver and sustain 19 new offshore patrol vessels to 12 Pacific Island nations. 264 A local commentator also points at the need to take the China-Vanuatu developments in the broader picture: "The pattern is that China's various 'bits and pieces' under construction make far more sense as parts of a much larger structure than they do as individual elements. The world has had a lousy record of predicting Chinese moves in those 30 years, too. Now would be a good time to start reading the tea leaves correctly."265

### 4.5 Conclusions

In comparison to the Caribbean, China's posture in the South Pacific is more robust. This is partly because it considers the islands in the region instrumental for its (future) military ambitions, and thus its security interests. Secondly, it feels less inhibited in relation to Australia than it does vis-a-vis the United States in the Caribbean. In general, its regional engagement can be summarized as follows:

## 4.5.1 Strategy/diplomacy

- Although China does not follow an official strategy in the South Pacific, its extended presence in South Pacific can be seen as an attempt to prepare the ground for making the region the next leg of its Belt and Road Initiative (BRI).<sup>266</sup>
- Beijing pursues greater influence in regional organizations to promote its political and economic interests, protect its sea lines of communication, and support Chinese firms' access to the Pacific Islands.
- China's diplomatic efforts accelerated under President Xi, with high-level visits, focusing on strengthening of bilateral relations and deepening of its engagement in the region.

#### 4.5.2 Economic ties

• In terms of trade, the South Pacific has seen a boom in investment from China, which spent USD 1.78 bn from 2006 to 2015 and implemented over 200 projects in the region.

<sup>263</sup> Colton, Greg. "Safeguarding Australia's security interests through closer Pacific ties." Lowy Institute. April 4, 2018. https://www.lowyinstitute.org/publications/stronger-together-safeguarding-australia-s-security-intereststhrough-closer-pacific-0

<sup>264</sup> Colton, Greg. "Safeguarding Australia's security interests through closer Pacific ties."

<sup>265</sup> Wallis, Paul. "Op-Ed: China Building Bases in Pacific Nations." Digital Journal. April 9, 2018. http://www. digitaljournal.com/news/world/op-ed-chinese-military-bases-in-pacific-what-s-the-real-strategy/article/519453.

<sup>266</sup> Meick, Ethan, Michelle Ker, and Han May Chan. "China's Engagement in the Pacific Islands: Implications for the United States." p. 3

• Still, overall trade with islands in the South Pacific remains modest. They continue to trade mostly with, for instance, Australia, the US and European countries.

#### 4.5.3 Political influence

- Countries in the South Pacific appear to be highly vulnerable to Chinese influence as a result of an ever-increasing 'debt trap,' although until now there has been no data that proves that political allegiance guarantees support for China in the UN (for the countries examined).
- Within the region, China appears to be concentrating on countries that show higher degrees of political instability as a whole.

## 4.5.4 Military engagement

- Much of China's military engagement manifests itself in military aid (provided as a gift, such as donation of military vehicles or other equipment).
- There is also evidence that China is using indebtedness as a lever to gain concessions on military cooperation, e.g. in terms of landing rights for its navy.
- Also, there has long been talk of Chinese naval bases in the Pacific. Although
  denied by both countries, discussions over a potential Chinese military base in
  Vanuatu were reported in 2018. Establishment of a Chinese base in the Pacific
  Islands could pose challenges to the interest of countries such as the United States,
  Australia and New Zealand.

#### 4.5.5 Overall conclusion

- As China deepens its engagement with the region, particularly in (but not limited to) the economic sphere, Pacific Island countries may feel more indebted to Beijing and choose to side with China in international fora, such as the UN General Assembly.
- At the same time, despite political allegiance and/or the situation of indebtedness, regional partners are not always fully in line with China's stance. China's increasing presence and support provided to regional for has given Beijing more opportunities to promote its views and facilitate access for Chinese businesses.
- Looking ahead, given the region's interest in benefiting from the BRI initiative, China is all but certain to boost its economic, political but also military position in the region.
- In responding to China's engagement, Australia and New Zealand are taking active measures to try and keep various of the island nations on 'their side', including through security arrangements.

# 5. Case Studies

## 5.1 Jamaica

#### 5.1.1 Introduction

As one of the larger economies in the West Indies, Jamaica has become "the hub of the Chinese presence in the Caribbean." <sup>267</sup> It plays host to some of the most visible Chinese projects in the entire region, and has a vigorous relationship with its Chinese counterparts. Although it can be said that Chinese companies are well implanted in Jamaica, this does not amount to a dependency relationship where China can call all the shots. With the unions and civil society having ample space, China's maneuvers on the Caribbean island are carefully scrutinized.

In the 19th century Jamaica had already received Chinese workers in the form of indentured laborers. <sup>268</sup> These Chinese have now been 'Jamaicafied' and speak the language. They are often owners of production means. For instance, the island's largest bakery is owned by a Chinese descendant. They are seen as Jamaican, and even as defining what it means to be Jamaican. <sup>269</sup> Although it has been suggested that "the strong business community of Jamaicans of Chinese descent living in Jamaica has encouraged China to increase efforts in improving political relations," <sup>270</sup> it is said that there is not much interaction between the indigenous and new Chinese, <sup>271</sup> and that the Chinese diaspora is not being mobilized by Beijing for its purposes.

Politics in Jamaica has been defined as "patronage-based, a system in which citizens, especially those in lower-income groups, are integrated into politics through clientelistic relationships with their political parties." This system, researchers say, "results in the breach of democratic rules and freedoms via the dominance of one

<sup>267</sup> Laville, Sandra. "Beijing Highway: \$600m Road Just the Start of China's Investments in Caribbean." The Guardian. December 24, 2015. https://www.theguardian.com/world/2015/dec/24/beijing-highway-600m-road-just-the-start-of-chinas-investments-in-caribbean.

<sup>268</sup> Tortello, Rebecca. "Pieces of the Past: The Arrival Of The Chinese." *The Jamaica Gleaner*. http://old.jamaica-gleaner.com/pages/history/story0055.htm.

<sup>269</sup> Interview

<sup>270</sup> Maier, Stephan, Roger Mcleod, and Amos Peters. "Chinese Renminbi in the Caribbean: Opportunities for Trade, Aid and Investment." Based on Bernal (2016)

<sup>271</sup> Interview

party in some constituencies, particularly in the capital city."<sup>272</sup> Indeed, in Jamaica, politics has such a bad reputation that it is often called 'politricks.' This system is further amplified by the fact that Jamaica consists of a small elite and large underclass. Hence, there is hardly a sizeable middle class.<sup>273</sup> It is likely that such structural conditions facilitate interaction between the elites and their foreign clients, affecting transparency and accountability. Political cleavages though are not an inhibition for the Chinese to work with one or another political party. They are said to be working with whichever side is in power.<sup>274</sup>

## 5.1.2 China's economic ties and flagship projects

As a country that has had chronic debt issues for decades, <sup>275</sup> Jamaica has understandable reasons for seeking support in China, which shows less concern for debt levels or the quality of the regulatory environment. <sup>276</sup> Following a recent political scandal involving members of the opposition party PNP and alleged donations from parties including China, <sup>277</sup> Jamaica dropped 14 places on Transparency's Corruption Perceptions Index. <sup>278</sup> At the same time, the country still scores highest among Caribbean countries in the Ease of Doing Business Index. Yet, being aware of the potential of Jamaica as a shipping hub, the country's foreign minister intimated that it could become "a logistics hub for BRI initiatives in the wider region." <sup>279</sup>

China's flagship project in Jamaica to date has been the much-discussed USD 720mn North-South highway running from Kingston, the capital, to Ocho Rios, a major seaside resort on the north coast. Interestingly, the road was named after former prime minister Edward Seaga, who in fact had opposed the construction of the road in the first place. The road was built by the China Harbour Engineering Company (CHEC) which earned a notorious reputation due to issues with projects in Guyana and Trinidad. Until January 2018, it was even blacklisted by the World Bank and the International Finance Corporation (IFC) because of fraudulent activity.<sup>280</sup> Faulty

<sup>272 &</sup>quot;Jamaica Country Report." Bertelsmann Stiftung. 2016. https://www.bti-project.org/fileadmin/files/BTI/ Downloads/Reports/2016/pdf/BTI\_2016\_Jamaica.pdf p. 4

<sup>273</sup> Interview

<sup>274</sup> Interview

<sup>275</sup> Interview

<sup>276</sup> Interview

<sup>277</sup> Wright, Debbie-Ann. "Chinese Embassy Shocked by Allegations Contractors Paid PNP Bribes." Jamaica Gleaner. August 31, 2016. http://jamaica-gleaner.com/article/news/20160831/chinese-embassy-shocked-allegations-contractors-paid-pnp-bribes.

<sup>278 &</sup>quot;Jamaica Falls in Corruption Ranking." *The Economist Intelligence Unit*. January 30, 2017. http://country.eiu.com/article.aspx?articleid=205064204&Country=Jamaica&topic=Politics&subtopic=Forecast&subsubtopic=Political+stability&u=1&pid=426495426&oid=426495426&uid=1.

<sup>279</sup> Bousquet, Earl. "Celac Driving Latin America and the Caribbean Along the New Silk Road Route!"

<sup>280</sup> Interview

construction has been blamed for a landslide that covered part of the road, which only opened in March 2016.<sup>281</sup>

The project is mostly deemed controversial because of the known and unknown conditions on the basis of which the Chinese have undertaken its construction. For instance, the Chinese were given a 50 year concession on the toll road, which is much longer than any normal concession, or even than what is allowed under the law. Another is the issue of whether an agent's fee (called "an established practice for large Chinese firms") had been paid to a government minister that would have amounted to up to USD 12mn.

A third issue is the extent to which the deal also included land deals. For instance, it is reported that "[i]n return for the investment, Chinese companies will operate the toll road and build three luxury hotels on land granted to them alongside the road." Apart from land adjacent to the road, the Chinese have reportedly also been offered land on the north coast and west of Kingston. <sup>285</sup>

Finally, there is the issue of using local workers. In this regard, "critics allege that much of the work done by Chinese workers could be done by ordinary Jamaicans" and that there was "opposition from trade unionists who assert that the Chinese presence will do little to lift Jamaicans out of unemployment."<sup>286</sup> In fact, CHEC did not even "recognize the rights of the Bustamante Industrial Trade Union and the National Workers Union to represent Jamaican workers on CHEC's Highway 2000 North-South Link project."<sup>287</sup> In view of these practices, one opposition MP, Peter Bunting, accused Chinese firms of engaging in 'economic colonialism'; claims which the Chinese embassy publicly repudiated.<sup>288</sup>

The issue surrounding the rebuilding of the government district also provides insight into a typical tit-for-tat game that is played out in the local press, where complaints from a business sector or civil society are answered by a Chinese official statement. Following a complaint that local architects were being sidelined in the building of the new complex, the Chinese Embassy responded by noting that the company involved,

<sup>281 &</sup>quot;Work to Stop Land Slippage on North/South Highway to Be Completed next Month." *Jamaica Observer*. January 20, 2017. http://www.jamaicaobserver.com/news/Work-to-stop-land-slippage-on-North-South-highway-to-be-completed-next-month.

<sup>282</sup> Interview

<sup>283 &</sup>quot;CHEC Speaks out - Biggest Chinese Investor in Jamaica Distance Itself from PNP Scandal." Jamaica Gleaner. September 4, 2016. http://jamaica-gleaner.com/article/lead-stories/20160904/chec-speaks-out-biggest-chinese-investor-jamaica-distance-itself-pnp.

<sup>284</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade."

<sup>285</sup> Saunders, Alphea. "Land Swap Deal Made Highway Possible — Phillips." *Jamaica Observer*. May 10, 2017. http://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips\_98374?profile=1373.

<sup>286</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade."

<sup>287</sup> Lumsden, Andrew. "Jamaicans Must Read China's Record, Not Just Its Lips."

<sup>288 &</sup>quot;FULL STATEMENT: Chinese Embassy Hits Back at Bunting." Jamaica Gleaner. August 11, 2017. http://jamaica-gleaner.com/article/news/20170811/full-statement-chinese-embassy-hits-back-bunting.

China Construction America, the CSCEC subsidiary, "is a state-owned company. But all state-owned companies in China have to operate on a commercial basis. (...) The government does not intervene in business decisions of the company." Answering the fear that the Chinese builder could place wiretaps in the parliament complex, it added that "China has no interest in other countries' internal affairs, be it a friendly country like Jamaica or another country less friendly."<sup>289</sup>

Chinese companies have been involved in many more projects besides the highway. Examples are the road to Kingston Norman Manley Airport; the Barbican road - a connector road in north Kingston; and the new Parliament building as part of a larger redevelopment of downtown Kingston, executed by China Construction Company of America, CCA, which attracted controversy in the Bahamas.<sup>290</sup> In addition, Chinese firms own various plants and facilities, including Complant, a sugarcane company, and the former ALPART bauxite plant, owned by Jiuquan Iron & Steel Company (JISCO).<sup>291</sup>

The resilience of Jamaica's civil society prevailed when discussion began about the construction of a transshipment port on the south coast of Jamaica, which could serve as a way station for the BRI in the Caribbean by hosting large container ships from the widened Panama Canal. The project, estimated at USD 1.5bn and to be executed by CHEC, was to be located in the environmentally vulnerable Portland Bight Area.<sup>292</sup> However, a concerted effort by the Jamaica Environmental Trust and the Caribbean Coastal Area Management Foundation ensured that the project was relocated.<sup>293</sup> It will now be a part of the expanded port of Kingston, and become the largest transshipment hub in the Caribbean.<sup>294</sup>

#### **5.1.3** Military ties

As a former British dependency, the Jamaican armed forces have traditionally maintained solid ties with the United Kingdom. Because the government was at times allied with Cuba, military ties with the United States have been uneven.

The military relationship between Jamaica and China commenced in 2004 when, at the invitation of the Chinese side, the Jamaica Defence Force (JDF) dispatched a military officer to participate the 2004 Beijing International Conference on Military

<sup>289 &</sup>quot;China No Infringement On Jamaican National Pride." *Embassy of the PR China in Jamaica*. May 13, 2018. http://jm.chineseembassy.org/eng/xw/t1461216.htm.

<sup>290 &</sup>quot;Gov't Signs MoU with China Harbour for New Parliament Building." *Jamaica Observer*. March 9, 2017. http://www.jamaicaobserver.com/news/Gov-t-signs-MoU-with-China-Harbour-for-new-Parliament-building.

<sup>291</sup> Interview

<sup>292 &</sup>quot;Jamaica Country Report" p. 24

<sup>293 &</sup>quot;Kingston Port to be region's biggest transshipment hub." *Jamaica Observer*. January 25, 2018. http://www.jamaicaobserver.com/environment/Enviro-groups-concerned-about-rumoured-location-of-facility\_14913615

<sup>294 &</sup>quot;Trans-shipment port for Portland Bight Protected Area?" *Jamaica Observer*. August 21, 2013. http://www.jamaicaobserver.com/latestnews/Kingston\_Port\_to\_be\_regions\_biggest\_transshipment\_hub\_?profile=1228

Environment Protection. That same year, the Agreement on China's Provision of Military Aid (Gratis) to Jamaica was signed in Kingston between the Ministry of National Defence of the People's Republic of China and the Ministry of Defence of Jamaica. Subsequently, the Ministry of National Defence of China also offered training courses to military officers from the JDF at regular intervals.<sup>295</sup>

The military relationship deepened following a 2010 visit to Beijing by Jamaica's Prime Minister and other ministers. Under a new agreement in 2011, China provided the Jamaica Defence Force (JDF) with USD 1.1mn in military aid and established military exchanges with China.<sup>296</sup> The items, which were provided directly by the People's Liberation Army (PLA) included uniforms, helmets, boots, jungle hats, camouflage fabric and other equipment.<sup>297</sup>

In view of strengthening its ties with China, the JDF appears to conduct a balancing act between its military partners. In March 2018, for instance, the US Coast Guard Cutter 'Resolute' visited the Kingston port, which the United States welcomed as underscoring Jamaica's "key role in disrupting and dismantling transnational criminal activities in the region". Hence, the JDF is relatively independent in its choice of preferred partners. This is also made possible because the Jamaican electorate generally has evinced little interest in military issues since independence.<sup>298</sup>

## 5.1.4 Political implications

China is arguably the largest influencer today in Jamaica.<sup>299</sup> However, this does not mean that the influence of the United States has become marginal. In fact, it is still the main trade partner, and the queues in front of the US embassy visa section are very long indeed. The obsession with achieving parity with the United States even goes so far that China lowered the price for a visa to the same level as what is needed for a US visa. An insider who spoke to the ambassador claimed that the envoy said it was merely "because of reciprocity between Jamaica and China." 300

If the point of China's investments in Jamaica was to garner its support in international fora, then there is little urgency in that Jamaica already has a voting record that is by-and-large aligned with China's. Revealingly, a 2007 study on Jamaican

<sup>295 &</sup>quot;Embassy of the PRC in Jamaica, Exchanges on military affairs and others." Embassy of the PR China in Jamaica. http://jm.china-embassy.org/eng/zygx/jsjqt/

<sup>296 &</sup>quot;China and the Caribbean; Background paper for the Advisory Committee of the Caribbean Council." The Caribbean Council. November 12, 2012. http://www.caribbean-council.org/wp-content/uploads/2014/02/ China-and-the-Caribbean-Advisory-Committee-Background-article.pdf

<sup>297 &</sup>quot;JDF receives military aid" Jamaica Defense Force. January 1, 2011. http://www.jdfmil.org/info/releases/2011/Jan1.

<sup>&</sup>quot;Jamaica - Foreign Relations." Global Security. https://www.globalsecurity.org/military/world/caribbean/jm-298 forrel.htm

<sup>299</sup> Interview

<sup>300</sup> Interview

foreign policy stated that "China sees Jamaica as the leading voice in the Caribbean and has expressly stated that they are interested in Jamaica because of the influence Jamaica has with other CARICOM countries." This could be why Jamaica is able "to obtain concessionary loans and grants that [it] otherwise would not have [had access to]."

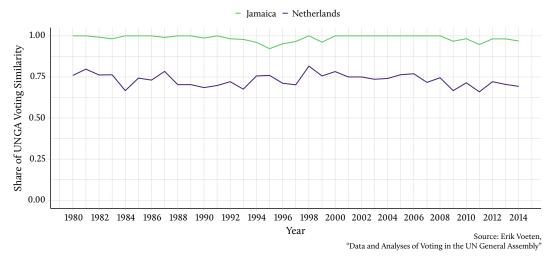


Figure 12. UNGA Voting Similarity between China, Jamaica and the Netherlands

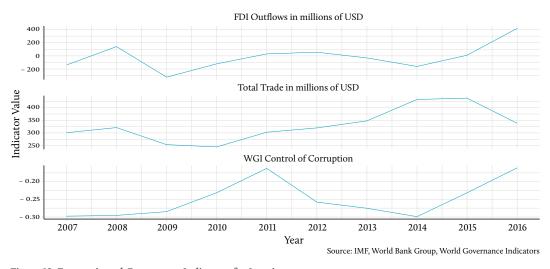


Figure 13. Economic and Governance Indicators for Jamaica

When comparing China's rising trade and FDI ties to control of corruption, it is noticeable that over time, Jamaica has even somewhat improved on that count. An important domestic factor though is rising xenophobia towards the Chinese who work on the big infrastructural projects. Chinese workers are said not to be integrating into society, mostly because of the considerable language barrier. At the

<sup>301</sup> Thorburn, Diana, and Dana Marie Morris. "Jamaica's Foreign Policy: Making the Economic Development Link." Caribbean Policy Research Institute. June 2007, p. 9

same time, Chinese immigrants feel "targeted by criminals" and some are closing down their businesses.302

To be able to count on societal support for Chinese living in Jamaica, Chinese institutions such as the local Confucius Institute -which was inaugurated by Xi Jinping in 2009, and is located on the campus of the University of the West Indies near Kingston- need to engage in lots of outreach. However, one expert believes China can do better: "Right now US telecom companies are trying to bring Netflix series to Jamaica, and this could make a big difference for America's standing in this country."303

In spite of the occasional recriminations towards the Chinese presence on the island, there are also voices that express support. One local expert for instance believed that the local unions actually support the Chinese projects because they bring in extra work for Jamaicans. "For every Chinese worker, two Jamaicans are said to have a job." What is more, projects such as the north-south highway do bring economic dividends and are not always 'white elephants', some believe. "In the end, the Chinese do what they do best, and Jamaicans and Chinese get what they want."304

# 5.2 Trinidad and Tobago

#### 5.2.1 Introduction

More than any other country in the Caribbean, Trinidad and Tobago embodies the promises and perils of engaging with the Chinese. As the only island nation in the region with significant fossil fuel resources, it is of interest to countries such as China seeking such resources. Although there is some cooperation in this area, China's imprint on the country is mostly expressed in large infrastructure projects. While most of Trinidad's trade continues to be done with the US, for China, Trinidad is its most important economic partner in the Caribbean region.<sup>305</sup> In May 2018, the two countries signed a formal memorandum so as to make Trinidad & Tobago the first nation in the eastern Caribbean to be part of the Belt and Road Initiative. 306

<sup>302</sup> Carter, Jediael. "Chinese Shun Jamaica." Jamaica Observer. November 5, 2016. http://www.jamaicaobserver.com/ news/Chinese-shun-Jamaica\_78653.

<sup>303</sup> Interview

<sup>304</sup> Interview

<sup>305 &</sup>quot;Trinidad and Tobago, China Consolidate Ties With State Visit." Telesurftv. May 15, 2018. https://www.telesurtv. net/english/news/Trinidad-and-Tobago-China-Consolidate-Ties-With-State-Visit-20180515-0024.html.

<sup>306</sup> Li, Weida. "China, Trinidad and Tobago sign Belt and Road memorandum." GB Times. May 15, 2018. https://gbtimes.com/china-trinidad-and-tobago-sign-belt-and-road-memorandum

The perils of dealing with the Chinese are compounded by the fact that the country is widely seen to be rife with corruption. One interlocutor told HCSS that "where Jamaica is a primary school, T&T is the university of corruption." This is partly driven by a "political compulsion of showcasing visible projects for maximizing electoral gains [which] has rendered the region peculiarly susceptible to the allure of Chinese fiscal blandishments." For instance, for the previous government, the purchase of a Chinese patrol vessel was considered attractive because it was "deliverable prior to (...) elections."

Trinidad and Tobago, while being the richest among the Caribbean island nations, also stands out because of its levels of violence.<sup>310</sup> This also seems to spill over in local race relations. With the largest minorities being people of Indian and African descent (both about 37%), there has been an increase in xenophobia and violence directed against Chinese people. The first wave of Chinese immigrants arrived just over 200 years ago. Many of these are well integrated and run many small businesses on the island. There is however a degree of skepticism towards the latest wave of arrivals in Trinidad: "speculation is rife that Chinese immigrants are involved in illicit activities such as prostitution, gambling and trafficking. All transactions are done in cash and are kept within a tight circle of customers."<sup>311</sup>

These developments have seen several Chinese businesspersons being killed in recent years, allegedly because "there was the perception that all Chinese people in T&T had money." Remarkably, the Chinese actually tried to downplay them, saying that "the attacks were not ethnically motivated" and that it is the result of the country being "in for a rough ride" due to declining oil prices. The killings of Chinese businesspersons could also be the result, though, of Chinese mafia operating in Trinidad, being called Triads, which are "involved in drug trafficking, money laundering, counterfeiting, illegal money lending, illegal casinos and many more illegal activities." 312

## 5.2.2 China's economic ties and flagship projects

China's clear interest in Trinidad and Tobago is evidenced by the fact that between 200-2015, it received much more in loans than any other Caribbean nation; over

<sup>307</sup> Looney, Robert. "Once a Caribbean Success Story, Trinidad and Tobago Faces an Uncertain Future." World Politics Review. January 13, 2017. https://www.worldpoliticsreview.com/articles/20904/once-a-caribbean-success-story-trinidad-and-tobago-faces-an-uncertain-future.

<sup>308</sup> Interview

<sup>309</sup> Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean."

<sup>310</sup> Brown, Calvin G. "Trinidad 7th in Countries with Highest Crime Rate." *WiredJa.* June 20, 2016. http://www.wiredja.com/news/caribbean/item/2828-trinidad-7th-in-countries-with-highest-crime-rate.

<sup>311 &</sup>quot;The Chinese Presence in T&T." The Trinidad Guardian Newspaper. May 8, 2011. http://www.guardian.co.tt/ news/2011/05/09/chinese-presence-tt.

<sup>312 &</sup>quot;Businessmen Warn of Second Exodus of Chinese from T&T." *The Trinidad Guardian Newspaper*. July 29, 2017. http://www.guardian.co.tt/news/2017-07-29/businessmen-warn-second-exodus-chinese-tt.

USD 2.5bn.<sup>313</sup> Like other countries in the region, Trinidad has been facing serious budgetary issues for some time, making low-interest loans from Chinese partners more attractive.<sup>314</sup> In principle, the budget for infrastructure spending is determined annually and made transparent, with the Joint Consultative Council (JCC), the main construction sector lobby in the country, being aware of what will be spent where.315 In practice however, Chinese-constructed projects have stirred more controversy than perhaps anywhere else in the region.

The most visible among Chinese projects to date is the National Academy for the Performing Arts (NAPA) in Port-of-Spain, which opened in 2009 and was built by the Shanghai Construction Group (SCG), one of the world's largest construction companies. The project was "built under an undisclosed government to government arrangement with China. There was no competitive tender for the project," one newspaper reported. What is more, artists who had to use the building identified many shortcomings, and when structural flaws came to the fore, the building was closed in 2015, needing millions in repair costs.<sup>316</sup> The theatre has been closed now for over two years.317

The saga surrounding the theatre also highlighted the insidious relationship between SCG and the Urban Development Corporation of Trinidad and Tobago (UDeCOTT), the state-owned real estate development agency. Under former chairman Calder Hart, there had been a "protective" relationship between UDeCOTT and SCG, such that one interviewee said that "the secrecy that shrouds their relationship is like 'the construction of an embassy." 318 It has been suggested that one reason why UDeCOTT awarded so many projects to SCG is because Hart's wife hails from Shanghai.<sup>319</sup> After his resignation in 2010, he fled the country and was later found in Florida, 320 being charged with embezzlement of TDD 5bn (around EUR 630mn) which has never been accounted for.321 At the same time, the head of the Shanghai Construction group had been given a 99-year lease on a property just north of Port-of-Spain. 322

<sup>313</sup> Pastrana Buelvas, Eduardo, and Hubert Gehring. La Proyección de China En América Latina y El Caribe. p. 210

<sup>314</sup> Interview

<sup>315</sup> Interview

<sup>316 &</sup>quot;Millions Needed to Repair Napa Defects." The Trinidad Guardian Newspaper. August 21, 2016. http://www.guardian.co.tt/news/2016-08-20/millions-needed-repair-napa-defects.

Writer, Staff. "Trini Performing Arts Centre to Be Shut down over Substandard Work by Chinese Company." Stabroek News. August 14, 2015. https://www.stabroeknews.com/2015/news/regional/08/14/trini-performingarts-centre-to-be-shut-down-over-substandard-work-by-chinese-company/.

<sup>318</sup> Interview

<sup>319</sup> Interview

<sup>320 &</sup>quot;The Saga of Udecott and Calder Hart." The Trinidad Guardian Newspaper. February 20, 2012. http://www.guardian.co.tt/business-guardian/2012-02-20/saga-udecott-and-calder-hart.

<sup>322</sup> Bagoo, Andre. "Zhang's \$5mn House." Trinidad and Tobago Newsday Archives. December 19, 2010. http://archives.newsday.co.tt/2010/12/19/zhangs-5m-house/.

A subsequent inquiry into government real estate contracts, the so-called Uff Inquiry (2008-10), qualified the award to a consortium led by the Shanghai Construction Group to build the NAPA as "controversial." It also affirmed that "the quality of Chinese construction has left something to be desired for as serious structural flaws have resulted in the closure of NAPA for more than a year with substantial costs to be incurred in its repair." In the wake of the Inquiry, The Joint Consultative Council for the Construction industry (JCC) requested in a letter to the then prime minister Persad-Bissessar, that she "halt the present initiatives" and have a broad based consultation on government-to-government deals and "the use of foreign contractors and consultants." 325

The NAPA is far from the only project that attracted outside scrutiny. Another well-known case is that of the Couva children's hospital, which was built by SCG and opened in 2015. Having experienced some incidents during the construction phase, it was never used as a children's hospital after it opened, and was converted into a teachers hospital in 2018.<sup>326</sup> The Arima hospital, 50 km west of the capital, also became a *cause célèbre* as building costs were reduced due to cutting expenses relating to corruption.<sup>327</sup> It was financed with a loan from the Chinese Ex-Im Bank, and constructed by the China Railway Construction Caribbean Company, which subsequently came under investigation for fraud in China itself,<sup>328</sup> but was later cleared.<sup>329</sup> That same company has now also been awarded a contract to build a highway interchange worth USD 221mn. The award was steeped in controversy since the first ranked bidder was not awarded the contract. Also, the chairman of the responsible government agency issuing the contract "could not provide the details" on how the project would be funded.<sup>330</sup>

Various Chinese-led projects also attracted attention for issues of local content. This was the case for instance with the construction of the south campus of the University of the West Indies at Debe.<sup>331</sup> Construction of this campus, built by the China Jiangsu

<sup>323</sup> See Uff inquiry, p. xxvii

<sup>324</sup> Ragoonath, Reshma. "Serious Structural Flaws Keep Napa Closed." *Trinidad & Tobago Guardian*. May 10, 2015. http://www.guardian.co.tt/news/2015-05-09/serious-structural-flaws-keep-napa-closed.

<sup>325 &</sup>quot;JCC Letter to T&T PM." The International Criminal Court. April 24, 2012. http://www.jcc.org.tt/procurement/lettertoPM24-04-12.pdf.

<sup>326 &</sup>quot;Couva Hospital to become offshore medical school." The Guardian. April 27, 2018. http://www.guardian.co.tt/news/2018-04-26/couva-hospital-become-offshore-medical-school

<sup>327</sup> Matroo, Carol. "Arima Hospital Costing \$250M Less." *Trinidad and Tobago Newsday Archives* (blog). March 25, 2017. http://archives.newsday.co.tt/2017/03/25/arima-hospital-costing-250m-less/.

<sup>328 &</sup>quot;Chinese Firm Picked for T&T Project Faces Corruption Probe." *The Trinidad Guardian Newspaper*. October 6, 2013. http://www.guardian.co.tt/news/2013-10-06/chinese-firm-picked-tt-project-faces-corruption-probe.

<sup>329</sup> Sookraj, Radhica. "Company Tipped to Build Arima Hospital Cleared of Corruption." *The Trinidad Guardian Newspaper*. October 8, 2013. http://www.classifieds.guardian.co.tt/news/2013-10-09/company-tipped-build-arima-hospital-cleared-corruption.

<sup>330 &</sup>quot;China Railway Gets Major T&T Road Project - Stabroek News," Stabroek News. August 18, 2017. https://www.stabroeknews.com/2017/business/08/18/china-railway-gets-major-tt-road-project-2/.

<sup>331</sup> Sookraj, Radhica. "Concerns Grow over Local Content." *The Trinidad Guardian Newspaper*. August 12, 2013. http://www.guardian.co.tt/news/2013-08-12/concerns-grow-over-local-content. The main campus of this university at St. Augustine also hosts a Confucius Institute, which was opened by president Xi Jinping in 2013.

International Economic Co-Operation Corporation, was once completely halted for undisclosed reasons, leading to significant financial losses.<sup>332</sup> It has also been reported that Chinese workers had allegedly been trafficked into the country to work on a construction site in the capital. One local businessman said that "the Chinese were taking food out of the mouths of citizens."<sup>333</sup> However, local content requirements are now increasingly being included in building contracts.<sup>334</sup>

In spite of past problems, Chinese construction companies continue to be involved in large-scale projects in Trinidad and Tobago. This is partly also because, as one expert told HCSS, "local companies don't have the capacity to take on the largest infrastructural projects."<sup>335</sup> Examples of such projects include the Solomon Hochoy Highway, built by the CRCC; the construction of a business park south of the capital -undertaken by Beijing Construction Engineering Group- which is supposed to contribute up to 5% to the country's GDP;<sup>336</sup> a transshipment hub, for which a contract was awarded in 2014 to CHEC, the beleaguered construction firm;<sup>337</sup> and a recently announced dry-dock facility, to be built by the China Communications Construction Company.<sup>338</sup> There is even talk about having the Chinese fund a bridge to the mainland.<sup>339</sup>

## 5.2.3 Military ties

The Trinidad and Tobago Defence Force (T&T DF) has had a relationship with the People's Liberation Army (PLA) since the beginning of the 21st century, which has since gradually deepened. The willingness of the T&T DF to cooperate with the PLA can be explained by the fact that US involvement in the region decreased in the past decade and a half, compounded by the fact that the USA cut millions in military aid because Trinidad and Tobago refused to exempt American citizens and military personnel from the (ICC), of which former President Arthur Robinson was a chief architect.<sup>340</sup>

- 332 Santoo, Sandhya. "Work Resumes on UWI's South Campus." *Trinidad Daily Express.* March 9, 2018. https://www.trinidadexpress.com/news/local/work-resumes-on-uwi-s-south-campus/article\_483b9f36-23bc-11e8-b539-fb4c04d9ff91.html.
- 333 Connelly, Corey. "Cheap Chinese Labour." *Trinidad and Tobago Newsday Archives* (blog). August 6, 2017. http://archives.newsday.co.tt/2017/08/06/cheap-chinese-labour/.
- 334 "TT\$1.8b Loan from China for Trinidad Health, Sport Centres Stabroek News." Stabroek News. March 17, 2013. https://www.stabroeknews.com/2013/news/regional/03/17/tt1-8b-loan-from-china-for-trinidad-health-sport-centres/.
- 335 Interview
- 336 "Chinese Construction Firm to Build Industrial Park in the Caribbean Nation." *CGTN*. May 16, 2018. https://news.cgtn.com/news/3d3d774d3445544e77457a6333566d54/share\_p.html.
- 337 "CHEC Wins Two Projects in Trinidad and Tobago." *Dredging Today*. March 25, 2018. https://www.dredgingtoday.com/2014/03/25/chec-wins-two-projects-in-trinidad-and-tobago/.
- 338 Sant, Rosemarie. "TT\$1.8b Loan from China for Trinidad Health, Sport Centres Stabroek News." *Stabroek News*. March 17, 2013. https://www.stabroeknews.com/2013/news/regional/03/17/tt1-8b-loan-from-china-for-trinidad-health-sport-centres/.
- 339 Samaroo, Akash. "China Unveils US\$15Bn Mega Bridge." *The Trinidad Guardian Newspaper*. October 17, 2017. http://www.guardian.co.tt/news/2017-10-16/china-unveils-us15bn-mega-bridge.
- 340 Interview

In recent years, there have been multiple military staff visits. In 2012 the PLA's band played at Trinidad's National Academy for Performing Art for the country's 50th independence anniversary, which included Chinese music.<sup>341</sup> In 2016, the Chief of Trinidad and Tobago Defence Staff, Major General Kenrick Maharaj, was paid a courtesy call by a Military Delegation comprising high ranking Officers from the PLA. The delegation also met with members of the Trinidad and Tobago Defence Force who would have benefited from various types of training in China, in order to keep the ties vibrant.<sup>342</sup> China's military training establishments now annually host a substantial number of officers from Trinidad and Tobago.

In 2014, China made a controversial arms sale to Trinidad and Tobago. Following President Xi's visit to Trinidad and Tobago in 2013, the island nation's then prime minister Persad-Bissessar visited China in February 2014, and secured an agreement (earlier rejected by a former Trinidad government) to purchase a long-range maritime patrol vessel facilitated by Chinese loans. The ship was actually first ordered by a Chinese province before the central government in Beijing decided the ship should go to Trinidad. This was the first sale of its kind in the region and also the first sale of a non-Western military hardware to the Caribbean nation since the end of the Cold War. The need for such as vessel was widely discussed in the local media, particularly after the Government of Trinidad and Tobago had agreed earlier to purchase a complete package of vessels for the Trinidad and Tobago Defence Force from Netherlands-based Damen Shipyards company. He islands and Tobago Defence Force from Netherlands-based Damen Shipyards company.

Despite the reduction of US military aid and the increase of Chinese involvement, it is expected that there will be a limit to what the US can accept with respect to Chinese military involvement. Especially in Trinidad and Tobago, which is considered the most important and leading country within the group of small island states in the West Indies, the USA will be very cautious in letting the Chinese build up an overt presence, also in view of Trinidad's proximity to Venezuela.

#### 5.2.4 Political implications

In terms of international support, Trinidad and Tobago appears to be closely aligned with China in regards to the UN General Assembly (see below).

<sup>341</sup> Wigglesworth, Robin. "Caribbean in Crisis: Chequebook Diplomacy."

<sup>342 &</sup>quot;Chinese military delegation visits T&T." *Jamaica Observer*. April 15, 2017 http://www.jamaicaobserver.com/news/Chinese-military-delegation-visits-T-T

<sup>343</sup> Southerland, Dan. "China Makes Inroads in Caribbean Nations Through Aid, Trade."

<sup>344 &</sup>quot;Trinidad and Tobago Coast Guard Contracts Damen for Fleet of Coastal Patrol Craft." Damen. May 14, 2018. https://www.damen.com:443/en/news/2015/05/trinidad\_and\_tobago\_coast\_guard\_contracts\_damen\_for\_fleet\_of\_coastal\_patrol\_craft.

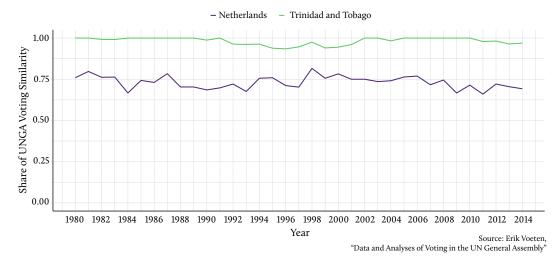


Figure 14. UNGA Voting Similarity between China, Trinidad and Tobago, and the Netherlands. Voting records match completely with China at 1,00.

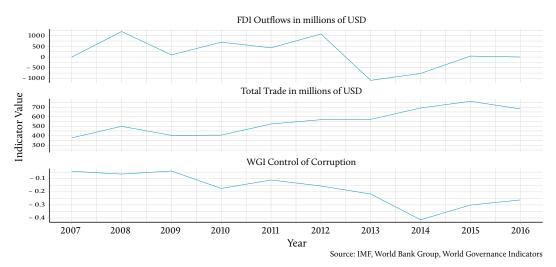


Figure 15. Economic and Governance Indicators for Trinidad and Tobago

The trend in relation to controlling corruption is more worrisome, in that it has declined as trade with China has steeply increased. It is also significant in that respect that while the current government repeatedly criticized the previous government under Prime Minister Persad-Bissessar, and that was felt that she was giving away the country to China, the current occupants of the (Chinese-built) office of the prime minister equally engage with Chinese companies and the government in Beijing, and signed Trinidad up as part of the BRI.<sup>345</sup>

Another point is that corruption is so rife that it is not just Chinese parties that are the only culprits in Trinidad. For instance, a Brazilian firm was also caught paying bribes

<sup>345</sup> Weida Li, China. "Trinidad and Tobago sign Belt and Road memorandum." *GB Times*. May 15, 2018. https://gbtimes.com/china-trinidad-and-tobago-sign-belt-and-road-memorandum

in the recent past.<sup>346</sup> The political system in Trinidad is also said to help engender corruption. For instance, there are 41 constituencies in the country with a first-past-the-post system that needs to get financed every election round.<sup>347</sup> And although the country significantly improved its ranking on the Corruption Perceptions Index (moving from 101 to 77 in 2017), there is still a lot of room for illicit dealings.<sup>348</sup> Given the pervasive presence of Chinese construction firms in Trinidad, and the fact that the country's democracy is not as vibrant as for instance Jamaica's,<sup>349</sup> Trinidad could continue to exhibit the perils of partnering with Beijing.

### **5.3** Fiji

#### 5.3.1 Introduction

In 1975, Fiji became the first Pacific Island to establish diplomatic ties with China. Although the two countries have enjoyed very close relations ever since, the strategic relationship deepened even further after the 2006 Bainimarama military takeover. The sanctions regime imposed on Fiji after the coup diminished the diplomatic influence and leverage on Fiji on the part of Fiji's traditional partners (being New Zealand, Australia and the US) and drove the island closer to China, India and Russia. This pivot is reflected in the government's 'Look North' foreign policy, which explicitly prioritizes an active development of relationships with Asian countries, especially China.

Interest in deepening ties has been mutual: while China has market size, technology and capital, Fiji is abundant in resources, including unused land, forestry, minerals, fisheries and scenery.<sup>352</sup> Fiji is regarded as a geographic and socio-economic hub of the Pacific region, which makes the island particularly relevant for the Belt and Road Initiative. In addition to infrastructure, the Initiative has expanded to cover finance, culture, education, people-to-people relations, and political relations between participating states.<sup>353</sup> Fiji, which constitutes an extension of this Road to the South

<sup>346</sup> Achong, Derek. "Court Orders OAS Construtora to Pay \$6 Million to Contractor." *The Trinidad Guardian Newspaper*. January 9, 2016. http://www2.guardian.co.tt/news/2016-01-08/court-orders-oas-construtora-pay-6-million-contractor.

<sup>347</sup> Interview

<sup>348</sup> Julien, Joel. "Corruption Our Major Challenge." *The Trinidad Guardian Newspaper*. August 27, 2017. http://www.guardian.co.tt/news-lead/2017-08-26/corruption-our-major-challenge.

<sup>349 &</sup>quot;EIU Democracy Index 2017." The Economist. https://infographics.economist.com/2018/DemocracyIndex/

<sup>350</sup> Buchanan, Paul G. "Fiji Gets Closer to Its New Friends: Russian Arms Received by Increasingly Authoritarian Regime." *The Interpreter*. February 2, 2016. https://www.lowyinstitute.org/the-interpreter/fiji-gets-closer-its-new-friends-russian-arms-received-increasingly-authoritarian.

<sup>351</sup> Kun, Li. "Why Does China Value Fiji Look North Policy?" *China Central Television (CCTV)*. July 17, 2015. http://english.cntv.cn/2015/07/17/ART11437116047087342.shtml.

<sup>352</sup> Yang, Jian. "China in Fiji: displacing traditional players?" Australian Journal of International Affairs 65 (3) 2011: 310.

<sup>353</sup> Brînză, Andreea. "Redefining the Belt and Road Initiative." *The Diplomat*. March 20, 2018. https://thediplomat.com/2018/03/redefining-the-belt-and-road-initiative/.

Pacific, perceives its participation in this initiative as a "tremendous opportunity" and "an enabler that will facilitate [Fiji's] connection to the global community". 354

From a political point of view, Fiji is home to the regional headquarters of many international governmental and non-governmental organizations, 355 and has a long tradition of participating in UN peacekeeping missions. In 2013, Fiji held the chairmanship of the Group of 77 developing countries as the first Pacific Small Island Developing State in the history of the G77. Political importance accorded to Fiji internationally has helped the island gain leverage over other South Pacific island states, making it a strategic partner of choice for China.

In addition to political interests, Chinese investments in Fiji are driven by its economic, military and cultural objectives too. In 2012, the Confucius Institute at the University of South-Pacific (CI-USP) was established in Suva, which served as a springboard for the establishment of Confucius institutes and classrooms elsewhere in the Pacific. In 2015, a Confucius classroom opened in Vanuatu, and another one followed in the Cook Islands Campus.<sup>356</sup>

For Fiji, the approach towards China has been very positive, largely due to Beijing's policy of non-interference in domestic affairs, and willingness to provide aid without strings attached.<sup>357</sup> While the official view in Fiji towards China remains very positive, the public perception in China (and new Chinese migrants) has started to deteriorate lately.358

#### 5.3.2 China's economic ties and flagship projects

An important driving force behind China's policy towards Fiji is its economic interest. In absolute terms, Fiji is China's major trade partner in the South Pacific. In 2015, the total amount of trade between the two countries reached 344,2 million USD. 359 In relative terms, it is comparable to, for instance, Palau and Samoa.

<sup>354 &</sup>quot;Fiji, China Enjoy Close Relations, Eye for Future Cooperation: Fijian Official." XinhuaNet. September 2, 2018. http://www.xinhuanet.com/english/2018-02/09/c\_136962716.htm.

<sup>355</sup> Examples include the UNDP Pacific Office, The Pacific Subregional Office of the Asian Development Bank (ADB) or the Pacific Islands Forum Secretariat. See: Regional & International Organizations Accredited to Fiji. http://www.foreignaffairs.gov.fj/foreign-missions/regional-international-organisations-accredited-to-fiji

<sup>356</sup> Xin, Zhou. "Spotlight: Confucius Institute Provides Platform for Promoting Friendship, Cooperation between China, Fiji." XinhuaNet. October 13, 2017. http://www.xinhuanet.com/english/2017-10/13/c\_136677973.htm.

Tarte, Sandra. "Fiji's 'look North' strategy and the role of China." China in Oceania: Reshaping the Pacific. 2010. p. 128.

<sup>358</sup> Ibid.

<sup>359</sup> WITS/World Bank data

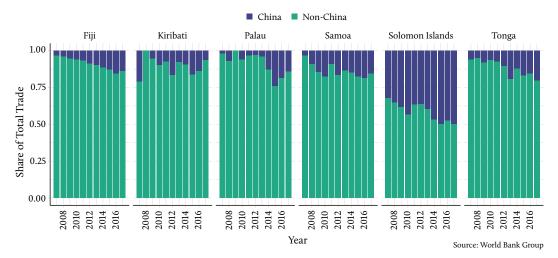


Figure 16. Relative Share of Chinese Trade with Selected Countries

For a long time, Fiji's economy largely depended on investment from Western countries. Following the 2006 military takeover, when Western countries withdrew direct capital support from the government, China helped Fiji prevent economic recession by increasing its support and investment.<sup>360</sup> Today, China constitutes the most important source of FDI to Fiji. China, however, does not regard Fiji as a major destination of its FDI and has not even recorded its FDI in Fiji in its statistics yearbook.<sup>361</sup>

According to the Lowy Institute, between 2006 and 2016 Fiji received \$359.8 million in Chinese aid in the form of grants and concessional loans. As such, Fiji constitutes the second largest recipient of Chinese aid in the Pacific, right after Papua New Guinea. China's assistance to Fiji covers various sectors, such as infrastructure, construction, energy, agriculture, healthcare, humanitarian aid and education. Projects such as Somosomo Hydropower Station, Rice Technical Cooperation Project, Juncao Mushroom Demonstration Center or the Navua Hospital Technical Cooperation Project helped promote socio-economic development and improve livelihoods. Infrastructure projects such as Nabouwalu-Dreketi Highway and recently opened Vatuwaqa Bridge and Stinson Parade Bridge eased traffic and brought convenience to public transportation. The vehicle project constitutes another flagship initiative on the island. In the beginning of this year, China provided Fiji with 200 aid vehicles (50 school buses, 50 minibuses, 50 police cars, 30 ambulances and 20 panel vans) to contribute to a better service in healthcare, education and other sectors

<sup>360</sup> Kun, Li. "Why Does China Value Fiji Look North Policy?"

<sup>361</sup> Yang, Jian. "China in Fiji: displacing traditional players?"

<sup>362 &</sup>quot;Chinese Aid in the Pacific." Lowy Institute. https://www.lowyinstitute.org/chinese-aid-map/.

<sup>363</sup> Ibid

<sup>364</sup> Xin, Zhou. "Interview: China's Assistance to Fiji Reflects China's Aspiration of Building a Community of Shared Future: Chinese Ambassador." Xinhua Net. February 22, 2018. http://www.xinhuanet.com/english/2018-02/22/c\_136992146.htm.

<sup>365</sup> Ibid.

in rural and urban areas alike.<sup>366</sup> The Seaport and Airport Security Inspection System Project lists among the notable projects that are yet to begin.<sup>367</sup>

The Fijian economy also benefits from Chinese outbound travellers and from Chinese investment in tourism, which provides an important source of revenue for the island. In 2015, China and Fiji reached a visa exemption agreement, which produced an increase in Chinese arrivals to the Island (from 28,333 visitor arrivals in 2014 to 48,796 in 2017). Since 2017, China constituted the fourth largest source market of tourists to Fiji.

#### 5.3.3 Military ties

The reasons behind China's interest in Fiji go beyond economics. On the strategic side, there has long been talk of the construction of Chinese naval bases in the Pacific, which would enhance China's strategic standing in the region. The closest currently to any kind of base is Suva, a key port for China's deep water fishing, where Chinese Navy's Yuanwang satellite tracking ships often anchor. However, China is believed to be exercising caution in this regard: its naval visits have been fewer than those of Australia and New Zealand, and have consisted primarily of medical and non-lethal military aid. The strategic side, there has long been talk of the Pacific, which would enhance China's strategic standing in the region. The closest currently to any kind of base is Suva, a key port for China's deep water fishing, where Chinese Navy's Yuanwang satellite tracking ships often anchor.

Fiji lists among the few Pacific Islands nations with military forces.<sup>372</sup> In addition to weapons transfers, Fiji is benefiting from bilateral military education exchanges and training exercises with the Chinese military (PLA).<sup>373</sup> China also provides military logistics supplies, has donated computers to Fiji's Ministry of Defense, and assists in the provision of vehicles, uniforms and stationery equipment for defense personnel.<sup>374</sup> China has also undertaken and funded numerous infrastructure projects (such as road building or port dredging) with dual use potential that can serve civilian and military purposes alike.<sup>375</sup> It is reasonable to speculate that in addition to safeguarding its

<sup>366</sup> Hui, Lu. "200 China-Aided Vehicles Handed over to Fiji." Xinhua Net. February 22, 2018. http://www.xinhuanet.com/english/2018-02/22/c\_136991745.htm.

<sup>367</sup> Lacanivalu, Losirene. "Fiji-China Link Continues To Grow." Fiji Sun Online. January 13, 2018. http://fijisun.com. fj/2018/01/13/fiji-china-link-continues-to-grow/.

<sup>368 &</sup>quot;Is Fiji the Next Big Destination for Chinese Tourists?" Jing Travel. October 2, 2017. https://jingtravel.com/fiji-next-big-destination-chinese-tourists/.

<sup>369</sup> Fiji Bureau of Statistics. https://www.statsfiji.gov.fj/

<sup>370 &</sup>quot;China fills a vacuum in the South Pacific from Fiji to Australia." WikiTribune. 8 February 2018. https://www.wikitribune.com/article/34079/

<sup>371</sup> McCarthy, Joanna. "China Extends Its Influence in the South Pacific." *ABC News (Australian Broadcasting Corporation)*. September 10, 2016. http://www.abc.net.au/news/2016-09-10/china-extends-its-influence-in-the-south-pacific/7812922.

<sup>372</sup> Macias, Amanda. "From Aruba to Iceland, These 36 Nations Have No Standing Military." *CNBC*. April 3, 2018. https://www.cnbc.com/2018/04/03/countries-that-do-not-have-a-standing-army-according-to-cia-world-factbook.html.

<sup>373</sup> Buchanan, Paul G. "Fiji Gets Closer to Its New Friends: Russian Arms Received by Increasingly Authoritarian Regime."

<sup>374</sup> Guixia, Lyu. "China's Development Aid to Fiji: Motive and Method." *The Research Centre of the Pacific Island Countries*. November 27, 2015. https://www.victoria.ac.nz/chinaresearchcentre/programmes-and-projects/chinasymposiums/china-and-the-pacific-the-view-from-oceania/24-Lyu-Guixia-Chinas-Development-Aid-to-Fiji-Motive-and-Method.pdf.

<sup>375</sup> Buchanan, Paul G. "Fiji Gets Closer to Its New Friends: Russian Arms Received by Increasingly Authoritarian Regime."

maritime interests, China has set the stage for a deepening of military ties, possibly leading to forward basing rights in Fiji in the future.<sup>376</sup>

#### 5.3.4 Political implications

Fiji has played an important part in China's diplomatic strategy in the Pacific. The island favors a one-China policy and has decided to close its representative offices in Taiwan in 2017. Although this closure officially followed a review of Fiji's embassies and missions worldwide, it happened to coincide with Fiji's Prime Minister Frank Bainimarama attending China's Belt and Road summit in Beijing.<sup>377</sup> Fiji is a staunch supporter of China's Road and Belt Initiative, which the government considers as "an enabler that will facilitate [Fiji's] connection to the global community."<sup>378</sup>

Despite close ties with Beijing, Fiji is not always fully in line with China's stance. The issue of the South China Sea provides a good case in point. When Beijing claimed support from Fiji for its position in the South China Sea, Fiji called on all parties to adhere to international law and resolve the territorial dispute peacefully. This move was considered as surprising and a much weaker sign of support than Beijing had hoped for.<sup>379</sup>

In terms of international support, Suva appears to be very aligned with China with regards to the UN General Assembly voting (see below).

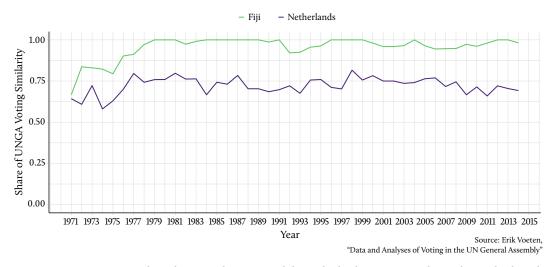


Figure 17. UNGA Voting Similarity between China, Fiji, and the Netherlands. Voting records match completely with China at 1,00.

<sup>376</sup> Ibid.

<sup>377 &</sup>quot;Fiji Closes Taiwan Office, Holds Talks with Beijing | Radio New Zealand News." *Radio New Zealand.* May 19, 2017. http://www.radionz.co.nz/international/pacific-news/331030/fiji-closes-taiwan-office-holds-talks-with-beijing.

<sup>378</sup> Xiang, Bo. "Fiji Lauds China-Proposed Belt and Road Initiative." XinhuaNet. December 10, 2017. http://www.xinhuanet.com/english/2017-10/12/c\_136675215.htm.

<sup>379</sup> Powles, Anna, and Jose Sousa-Santos. "Principled engagement: Rebuilding defence ties with Fiji." *Lowy Institute*. July 2016. https://www.lowyinstitute.org/publications/principled-engagement-rebuilding-defence-ties-fiji

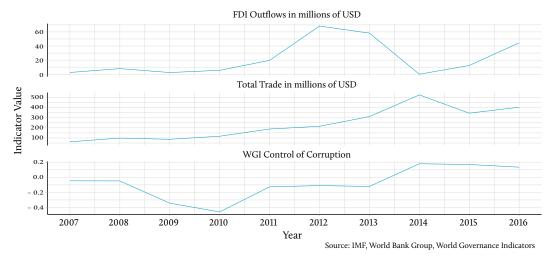


Figure 18. Economic and Governance Indicators for Fiji

When comparing China's rising trade and FDI ties to control of corruption, it is noticeable that over time, Fiji has somewhat improved on that count, particularly since 2010. According to Transparency International, political corruption and nepotism constitute main corruption risks in Fiji. An association has been observed between organized crime and recent Chinese arrivals in Fiji (many with Hong Kong connections), which places a strain on Fiji's economic relations with China. The Chinese have also been associated with corruption in the fishing industry. As a result, the public perception of new Chinese migrants has deteriorated.

A remarkable development is Fiji's willingness to work with Beijing to deport Chinese nationals suspected of illegal activities back to China. Apparently, Xi Jinping himself pledged back in 2014 that such cooperative behavior would gain Fiji economic benefits. Other issues are possible culture clashes, misunderstandings between Chinese migrants and the islanders, and the environmental impact of tourist arrivals in the absence of sufficient safeguards.

The track record to date of Chinese firms -especially those in the construction business- in the Caribbean provide a reminder that engagement with such firms brings its own set of risks, in particular in those situations where small political elites can easily be swayed and when public scrutiny is wanting.

<sup>380</sup> Wickberg, Sofia. "Corruption and Anti-Corruption in Fiji." *Transparency International Knowledge Hub.* May 25, 2018. https://knowledgehub.transparency.org/helpdesk/corruption-and-anti-corruption-in-fiji.

<sup>381</sup> Tarte, Sandra. "Fiji's 'look North' strategy and the role of China."

<sup>382</sup> France-Presse, Agence. "Mass Deportation of Chinese from Fiji in Latest Offshore Crackdown by Beijing." *The Guardian*. August 8, 2017. http://www.theguardian.com/world/2017/aug/08/mass-deportation-of-chinese-from-fiji-in-latest-offshore-crackdown-by-beijing.

<sup>383</sup> Chan, Minnie. "Xi Jinping Thanks Fiji for Help in Tackling Corrupt Officials, Pledges Raft of Deals in Return." South China Morning Post. November 23, 2014. http://www.scmp.com/news/china/article/1646577/xi-jinping-thanks-fiji-help-tackling-corrupt-officials-pledges-raft-deals.

## 6. Conclusion

"The tragedy of the Caribbean is that it will never become a priority region for the western powers." This is what one local expert told HCSS. Another said that the region is "too democratic and not poor enough" for Western countries to pay attention to it. Something similar applies to the South Pacific, where Australia is the only 'big player' to take a genuine interest, and needs to appeal to its Western counterparts in order to draw attention to it. In the same way that a 'Latin American and Caribbean' strategy almost invariably only focuses on the Southern Cone, it is perhaps telling that in the United States, 'Pacific strategy' is often subsumed under the sobriquet 'Indo-Pacific' and thus relegates Pacific concerns to a secondary status, behind the much more important Indian Ocean.<sup>384</sup>

This gives China by and large free rein in two basins whose strategic importance is only set to increase.<sup>385</sup> In a way, it is gaining a foothold, perhaps much more than that, almost in a fit of absent-mindedness, in the sense that it is the island nations themselves who often first knock on China's door for assistance. Especially in the Caribbean, the Chinese operate very cautiously in the security realm, knowing that the United States will not tolerate an overt assertion of force from an outside power. Analysts note that "the Chinese are not building bases or forging any military ties that could invoke fears of another Cuban missile crisis. But they do see an emerging superpower securing economic inroads and political support from a bloc of developing countries with anemic budgets that once counted almost exclusively on the United States, Canada and Europe."<sup>386</sup>

Looking at the Caribbean part of the Kingdom of the Netherlands, apart from the interest in one hotel on St. Maarten and the oil refineries on Aruba and Curacao, there are no major Chinese involvements identified on the islands. This is partly the case because of the dependency of the islands on the European part of the Kingdom, and that China's influence is much bigger in key locations such as Jamaica and Trinidad. However, due to the strategic location of the islands, especially Aruba and Curacao, in relation to Venezuela, it cannot be excluded that China will seek to gain a bigger stake in the islands in the future.

Tellis, Ashley J. "Protecting American Primacy in the Indo-Pacific." *Carnegie Endowment for International Peace*. April 25, 2017. https://carnegieendowment.org/2017/04/25/protecting-american-primacy-in-indo-pacific-pub-68754.

<sup>385</sup> Zaremba, Haley. "The Caribbean Is Poised To Become The Next Major Oil Region."

<sup>386</sup> Archibold, Randal C. "U.S. Alert as China's Cash Buys Inroads in Caribbean."

The nations of the Pacific and the Caribbean will soon be compelled to reconsider their China engagement policies, mostly for the following reasons:

- There is a lack of economic and strategic interest from other regional or outside powers such as the US and Europe, making China the default power in these regions.
- Some countries in these regions still support Taiwan. But the number of countries supporting Taiwan is likely to dwindle -following Dominican Republic, Haiti is rumored to go next<sup>387</sup>- as China will continue to pressure other countries switch their allegiance.
- China has preferred dealing with countries on a bilateral basis, as a result of which "the Caribbean nations lack the means to leverage better contractual terms with the Chinese." While this has benefited China itself (and some local elites), a common CARICOM position will be called for in the future among Caribbean nations.
- China increasingly considers the South Pacific a strategic kind of protectorate; the Caribbean not (yet).
- Especially in the South Pacific, China has demonstrated that it is prepared to use its economic weight to gain political or strategic leverage.
- When it comes to future permanent military basing, there is definitely more demonstrated Chinese appetite in the South Pacific than in the Caribbean. Pacific countries could therefore face more pressure to facilitate this because of their sizeable external debt to China.
- Influx of relatively large amounts Chinese people (in small countries) can lead to increased xenophobia and tensions within societies.
- Statistically speaking, there is no evident link between Chinese involvement and levels of corruption, but China does show a predilection for engaging with countries with already weak governance structures.

China's involvement in the Caribbean and the South Pacific has by and large only elicited mild responses. However, in the latter region, Australia and New Zealand have recently decided on a forward-looking response in seeking to tie several island nations into a strategic pact. How this will evolve and how China will respond to this will be most relevant for the region's future, and can also be instructive for the longer-term future of the Caribbean.

These perspectives should not hide the fact that China can and has also brought positive benefits to the region. In Jamaica, friend and foe agree that the new highway

<sup>387</sup> Charles, Jacqueline. "Dominican Republic Ditched Taiwan for China. Is Haiti Next?" *Miami Herald.* May 17, 2018. http://www.miamiherald.com/news/nation-world/world/americas/haiti/article210790414.html

<sup>388</sup> Badri-Maharaj, Sanjay. "China's Growing Influence in the Caribbean."

has also brought new economic opportunities, and something similar goes for airports and other vital infrastructure. But China can bring more: it is ready to step up to help island nations become more resilient in the face of climate change<sup>389</sup> and to develop renewable energy resources. The fact that in the Caribbean, China eschews a singular heavy-handed policy akin to America's war on drugs, enables it to win plaudits for its approach for some time to come. However, as one local expert said, "China's soft power in the region is very fragile. One major mishap might destroy their reputation beyond repair." China may thus seem to have the field to itself, but it is still walking on a tightrope.

<sup>389 &</sup>quot;Government of China Supports Caribbean Countries to Build Back Better after Hurricanes." *UNDP.* October 20, 2017. http://www.undp.org/content/undp/en/home/news-centre/announcements/2017/China-supports-Caribbean-countries-to-build-back-better.html.

# 7. Policy Recommendations

#### 7.1 Economic (National and EU)

- Reconsider the strategic value of investments offered to and made in island nations in the Pacific and the Caribbean in terms of sectors and visibility, with reference to the EU's Global Strategy (EGS);
- Offer attractive alternatives for Chinese loans and investments;
- Consult with island nations whose levels of indebtedness put them in a vulnerable position, and how to mitigate or prevent such;
- · Support regional investment banks and related organizations so that their offerings remain competitive;
- Invest in resilience projects with respect to climate change.

#### 7.2 Political

#### National:

• Reaffirm the constitutional adherence of the Caribbean part of the Netherlands in concrete ways, ensuring that Dutch or European (investment) partners remain preferred partners;

#### With the EU and its partners:

- Strengthen EU policies on supporting good governance in either region, especially in cooperation with civil society organizations;
- Empower local media outlets, especially those which engage in investigative journalism;
- Reach out to the United States to reconsider the position of Transatlantic partners towards the Caribbean, especially on the basis of a common strategic assessment of mutual interests in the region;
- Consult more frequently with Caribbean and Pacific nations in international fora so as to be better aligned politically;

## 7.3 Security (National and EU)

- Rethink our national strategy with respect to security in the Caribbean (presence, power projection, international cooperation etc.);
- Reach out to EU/European partners in particular on reconsidering how to enhance security in the Caribbean and the South Pacific;
- Reach out to the United States in order to promote a wider security policy towards the Caribbean in particular;
- Actively monitor and/or support initiatives taken by Australia and New Zealand to strengthen security in the South Pacific;
- But also: reach out to China in seeking to make it a responsible security partner both in the Caribbean and in the South Pacific.

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## The Hague Centre for Strategic Studies

info@hcss.nl

hcss.nl

Address: Lange Voorhout 1 2514EA The Hague The Netherlands

