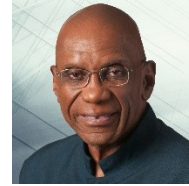




Commentary



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China's Economic Impact in the Caribbean

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The importation, directly or indirectly, of affordable products made in China has provided Caribbean countries with additional goods (and some services) of up to ten percent of total imports, over and above what would have been available from alternative sources. This is equivalent to an even larger gain in real income for economies where imports are needed for all domestic activity. This benefit may be amplified by initiatives to reduce transport costs, and to source a larger percentage of imports directly from China.

Every year the Caribbean receives substantial benefits from the importation of affordable products made in China, many of them sold by American companies under brand names that are familiar to Caribbean consumers. Additional benefits are provided by imports from North America and elsewhere that are lower priced because they use affordable Chinese components. These benefits are not fully appreciated because Caribbean consumers have become used to their prices, and do not realise how much more expensive these items would have been, if the products or their components were not available from highly productive Chinese factories. In this essay I will share the results of some calculations I have made of the magnitude of these benefits, and suggest some areas in which the Caribbean might seek to improve the gains from importation from China. I will also comment on Chinese investment in the Caribbean, Caribbean exports to China and Chinese visitors to the Caribbean.

The benefit of affordable imports made in China

In a paper published in 2021¹ I estimated the benefit of the import of Chinese-made goods and products made with Chinese components, for six Caribbean countries: the Bahamas, Barbados, the Dominican Republic, Guyana, Jamaica and Trinidad and Tobago. I found that, in the case of Trinidad-Tobago, the country was able to purchase six percent of additional imports, over what could have been obtained with the same expenditure, thanks to more affordable Chinese products. For the other countries the benefits were greater, up to as high as ten percent for the Bahamas. The extra purchases made a major contribution to the national product of these islands, because they all depend on importation for the products they need for everyday living. Unlike large economies like China, the tiny economies of the Caribbean use the foreign currency they earn from tourism and exports to purchase the imports that are needed for all domestic economic activity.² The more imports they can buy with the foreign currency they earn, the more economic activity and domestic income can be generated. The six-to-ten percent of additional imports Caribbean countries were able to purchase with their earnings of foreign currency results in a much larger gain in terms of domestic economic activity. What is more, these benefits accumulate, year after year.

This additional growth in economic activity and national income is by far the main economic benefit that Caribbean countries derive from commerce with China. Therefore, the priority for Caribbean commerce with China should be to get maximum benefits from importation, by sourcing directly from China, by improving transportation links and reducing transport costs, and by faster, more convenient and less costly payments arrangements.

Importing directly from China

Caribbean nations might increase the benefits of importation by exploring the possibilities of sourcing directly from China products which are currently imported from North America and elsewhere, as well as items which are purchased under American and other non-Chinese brand names. The little device I use to monitor my blood pressure carries the brand name of an American company which is headquartered in the state of Illinois in the USA, but it is made in China. I was advised to purchase this brand because the medical fraternity in Barbados knows that this company sells appliances that give reliable results. However, I am quite sure there are Chinese brands of comparable quality which are as yet unknown in the Caribbean. It would be worthwhile for Caribbean importers to seek to get the full benefit of lower-cost Chinese products by greater knowledge of Chinese producers, rather than share those benefits with non-Chinese companies. This may have the additional benefit of avoiding tariffs which the US and other countries impose on Chinese-made products. There will be challenges, however, including the Caribbean's limited knowledge of Chinese production systems, the small size of Caribbean import orders, shortage of persons who are fluent in Chinese and similar obstacles.

¹ Worrell, DeLisle, 2021, "Measuring China's economic impact in the Caribbean," *Global Discourse: An Interdisciplinary Journal of Current Affairs*, Volume 11, Number 4, November. The estimates are approximate, because much of the data needed for the calculation is not published anywhere.

² For an in-depth explanation of how open economies work, see Worrell, DeLisle, forthcoming in 2023, *Development and stabilization in small open economies*, Abingdon, UK: Routledge.

A related potential opportunity that also comes with challenges relates to trading links with China. The needs of Caribbean countries are too small to make it profitable to trade directly with China. Goods destined for the Caribbean travel either eastward to transit through the Panama Canal or westward, the longer but less expensive route, to transit through the Suez Canal. In either case they are likely to be trans-shipped via the port of Miami in the US. Recently, an option to trans-ship via the port of Kingston in Jamaica has become available. It would be worthwhile to explore further arrangements to improve the efficiency and lower the cost of these or alternative transport networks, in order to make imports from China even more affordable.

The expansion of the port of Kingston, with Chinese investment, is the prime example in the Caribbean of investment with the potential for long-term benefits to the region from improving the international trading infrastructure. The expanded Kingston port can become an important node in the international sea transport of major Chinese trading and transportation companies. In addition to increasing the efficiency of transport from China, the expanded port and the related area of industrial activity creates jobs for Jamaicans in warehousing, assembly, processing, accounting, legal and other activities and services, which can add significantly to domestic activity.

Improvements in payments systems

Improvements in the speed and convenience of payments systems would also help to maximise the benefit to the Caribbean of importation from China. Although technology now makes instantaneous communication possible across the globe, international payments are no swifter than they were before modern telecommunications were developed. Several new payments systems have been introduced in countries everywhere, but they are all designed for domestic use in the countries of origin. The Caribbean is particularly disadvantaged by the proliferation of currencies within the region. The countries of the Caribbean region would benefit from adopting the US dollar for domestic use, replacing their separate currencies, which are of very limited use. The US dollar is already the currency used for commerce between countries within the Caribbean. Using the US dollar would also reduce the cost of making payments between China and the Caribbean somewhat, since domestic currency would not have to be converted to US dollars before it could be used to make payments to China, as is now the case. Most Caribbean nations have gone some distance in this direction, by allowing individuals and companies that do international commerce to maintain domestic accounts denominated in US dollars.

No official policy changes are needed

Apart from adopting the US dollar as the domestic money, there is little that is needed by way of government policy changes, either by the Chinese or Caribbean governments, to improve the economic benefits of commerce between the region and China. The Caribbean is not short of investment for hotels, mineral extraction, manufacturers of clothing and small appliances, and other activities which are clearly profitable. There is also ample international interest in investment in energy systems, ports, airport, roads, hospitals, educational institutions and other infrastructure and public utilities, for governments that have maintained their international credit-worthiness. What stands in the way of greater investment in the Caribbean is the region's limited capacity to design and present competitive investment projects, and the fact that a majority of countries have poor credit. What is more, Caribbean governments have a dismal record of project implementation, and the quality of public administration is generally below par. Once

these deficiencies are addressed, the Caribbean will attract as much foreign investment as it needs, from traditional sources as well as from China.

The Caribbean is so small, relative to the markets in North America and Europe from which the region attracts visitors, that the region cannot possibly exhaust the supply of tourists from these sources. If there is any difficulty in achieving full capacity for tourism services from these markets, it must be that the product is not correctly priced for the quality of product on offer. We should expect that Chinese visitors will also expect to get good value for the money they spend, especially as they have comparable tropical resorts much closer at hand in the Pacific with which the Caribbean must compete.

Much the same logic applies to Caribbean oil and manufactured exports. Why would Caribbean exporters find it more profitable to ship products to the other side of the world when their production capacity is so small that they can never exhaust the possibilities of markets in the Caribbean and North America? The notion that the Caribbean needs to balance its trade with China is misguided. On the contrary, the Caribbean reaps greatest benefit from attracting visitors and exporting to markets that are familiar and accessible, using the foreign exchange earned to import affordable Chinese products. In that way they minimise the costs of sales, and maximise the amount of imports they can buy with their foreign currency earnings. In regard to investment, the Caribbean must focus on building capacity to design and present internationally competitive projects, and Caribbean governments should seek to restore their credit-worthiness through judicious management of their public finances.

DeLisle Worrell

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Dr DeLisle Worrell is President of the Association for Barbados-China Friendship. He was formerly Governor of the Central Bank of Barbados.