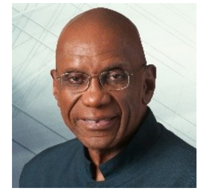

Economic Letter October 2020

Why a Current Account Deficit with China is a Good Thing

The main benefit that small economies in the Caribbean derive from commerce with China comes via imports. In a recent paper which is on my website, I've suggested that Caribbean countries were able to import between six percent and ten percent more than if they had to buy from less affordable non-Chinese sources ("China in the Caribbean's economic future," *DeLisleWorrell.com,* Table 1). That benefit derives from the fact that Chinese productivity has increased faster than the world average. As a result, Chinese-made products offer better value for money, and the consumer's dollar goes further. The more Chinese products and services we use, the better off we are, for any given amount of income and spending.

The Caribbean produces very little that competes with products made in China; if we hadn't imported Chinese products, we would have had to buy more expensive items of comparable quality made elsewhere. We would not have been able to import as much as we did.

As it stands, Caribbean exports to China, and Chinese visitors to the Caribbean, are so limited that their contribution to foreign currency inflows is hardly noticeable. What is more, the payoff that can be expected from efforts to increase exports to China, or to attract tourists from that country, is not substantial. After all, there is no shortage of demand from our traditional markets, and we can fill our hotels and sell everything we produce in those markets, so long as we match the US dollar prices of goods and services of comparable quality. Producers from the small countries of the Caribbean have access to markets of unlimited size in Europe and the Americas, markets which are near at hand.

There is every reason that the Caribbean should seek customers in China for its quality rums, luxury resorts and other exclusive and niche products. But we need not go after middle-income Asian tourists when we have such very large untapped markets in North America, Latin America and Europe. What limits our foreign currency earnings is not a shortage of customers, but limited capacity, inappropriate pricing, inadequate marketing, and failure to offer value for money.

The logic of the geography of the Caribbean dictates that the region should export and sell services, including tourism, mainly to the Americas and Europe. We should use the foreign currency earned from those markets to import products made in China, which are more affordable than goods and services of comparable quality sourced from traditional suppliers.

The Caribbean's balance on current transactions with China will continue to be in deficit for the foreseeable future, and that is a very good thing.