Chinese Foreign Direct Investment in the Caribbean

Kimberly A. L. T. Stephenson

University of Nevada, Las Vegas

Follow this and additional works at: http://digitalscholarship.unlv.edu/honors_theses

Part of the International Relations Commons, and the International Trade Law Commons

Repository Citation
CHINESE FOREIGN DIRECT INVESTMENT IN THE CARIBBEAN

By

Kimberly Ann Lee Tan Stephenson

Honors Thesis submitted in partial fulfillment
for the designation of department honors

Political Science

Dr. Tuman

Dr. Howard

Dr. Tamadonfar

Dr. Hanson

College of Liberal Arts

May 2015
Abstract

The purpose of this study is to examine the influence of trade patterns and market size in a short time period, in order to identify indicators of the objectives for Chinese foreign direct investment (FDI) into the Caribbean region. Key questions assessed are: What makes the Caribbean particularly advantageous for Chinese investors and how does the host country benefit? Is a higher level of trade, or wealthier markets, associated with higher Chinese FDI? Is China pursuing some foreign policy objectives with FDI in the region? I hypothesize that Chinese FDI is associated with trade, natural resources, or certain foreign policy objectives in the Caribbean region. My results found that Chinese imports and Chinese exports are positively correlated, and those Caribbean countries that rely upon imports from China are more likely to receive more FDI, where FDI takes the form of investments in infrastructure, agricultural and natural materials. Overall, Caribbean nations use FDI to stimulate and develop their local economies and infrastructure, but at the expense of the exploitation of their raw materials and natural resources, or by entering into binding foreign policy commitments and contracts that are not necessarily politically or economically beneficial to them in the long run.
INTRODUCTION

Over the past decade, China has become an increasingly integral source of aid and foreign direct investment (FDI) for Latin America and the Caribbean. Rising levels of FDI and trade over time reflect deepening relationships between China and the Caribbean. China continues to strengthen its ties throughout the Caribbean, as imports, exports, and FDI flows have grown steadily since the early 2000s (ECLAC; 2011).

**Figure 1: China’s Foreign Direct Investment in Latin America and the Caribbean in 2005**

![Pie chart showing FDI distribution](image)

**Source: Deutsche Bank**

As Figure 1 shows, Latin America and the Caribbean received the second largest amount of FDI next to Asia in 2005. This is reflective of the continuous commitment China provides both regions. Although these two regions receive higher amounts of FDI in comparison to other regions, there are various factors that contribute to the attractive nature of Asia and Latin America and the Caribbean. China displays interests in a variety of sectors across the Caribbean. As Chinese firms continue to diversify their FDI across sectors in the Caribbean, they have increasingly shown interest in natural resources,
infrastructure, and raw materials. Bauxite in Jamaica, timber and minerals in Guyana, and
gas and asphalt in Trinidad are a few examples of industries that attract Chinese firms.

Within the last two years China and Jamaica have signed agreements valued at
more than US$500 million for road, housing, and other projects, including the
construction of a Chinese Garden at the Hope Botanic Gardens (Gleaner 2010).
Subsequently, in 2011, Chinese national oil company CNPC also began a $6 billion
dollar expansion of Cuba’s oil refinery (Bernal 2010; Reuters 2011). Gregory Chin, from
York University, points out that, “It is not that China cannot get these commodities
elsewhere, but the additional resources that the Caribbean supplies gives the Chinese
government comfort, as well as the ability to negotiate prices”(Chin 2010). Due to
China’s consistent growth across various sectors in the Caribbean, it is clear natural
resources, raw materials, and infrastructure contributes to China’s attraction to the
Caribbean. As Figure 2 displays, the mining sector received a large portion of China’s
outward direct investment (ODI) in 2010. Chinese investment in the Caribbean appears
to reflect a concern for gaining access to minerals as well.
As China continues to indicate interest in this region, it brings forth important questions concerning the long-term policy implications these new economic relationships will have. The Caribbean’s economic ties with states in Asia are of concern to neighboring countries such as the U.S. Influential shifts throughout the region may leave traditionally dominant partners questioning their place. The Caribbean island of Dominica is a living example of the way that China has strengthened its influence by moving into countries that the U.S. have neglected. In 2004, Dominica recognized the PRC signing onto China’s one policy. In return Chinese firms established infrastructural projects worth $100 U.S. millions. China was able to use the 2008 U.S. economic recession as an opportunity to increase aid in the region, when the U.S. was not able too. This allowed China to be both a primary driver and beneficiary across the Caribbean. If
China continues to build their influence throughout the Caribbean region, it raises concerns for competition to the United States (Van Dijk 2009; Gallagher 2010).

Another concern for the U.S. is the possibility of Chinese FDI functioning as a substitute for trade (Van Dijk 2009; Gallagher 2010; Porzecanski; 2010). If Chinese FDI is used as a substitute for U.S. trade with the Caribbean, these effects may be detrimental to stabilizing the U.S. domestic economy. A restriction in bilateral trade will alter the competitiveness of any nation state in the global market. In order for the U.S. to stay competitive they must partake in trade, if the U.S. can no longer remain competitive trade partners they may lose market share.

Some political and business leaders throughout the Caribbean are already concerned about their domestic industries. They are fearful that U.S. export markets will be overwhelmed by cheap Chinese imports. As China continues to grow its presence throughout the region there are many positive implications for the Caribbean, such as the opportunity to develop domestic markets. However, the challenges discussed in relation to trade imbalance, the idea of a new core—periphery model, U.S. geopolitical influences, and concerns over the Caribbean’s domestic production illustrates the significance is assessing Chinese FDI into the Caribbean.

Chinese FDI also has implications for theories of international relations. Although many scholars suggest that Chinese FDI in the Caribbean reflects nerorealism (that is, that the Chinese state directs FDI in order to maximize trade, natural resources, or to limit diplomatic ties with Taiwan); a theory developed by Andre Gunder Frank and Immanuel Wallerstein offers an alternate perspective on China’s long-term agenda. As discussed in
the theoretical section, this theory suggests that there is a world economic system, in which some countries benefit while others are exploited. Developed and developing world into three subcategories, of which are the core, the semi-periphery, and the periphery. Core countries dominate and exploit the peripheral countries for labor and raw materials, and they are generally not dependent on any one state or country. They serve their own economic interest and are focused on a higher skill and capital-intensive production. In contrast, peripheral countries are dependent on core countries for capital, usually lack a strong central government, export raw materials, and have low-skill associated with cheap labor. If this model proves true, China’s FDI may contribute to a new core-periphery relationship between Caribbean states and the core, which will create great challenges for Caribbean countries in attaining economic dependence.

Chinese FDI into the Caribbean has not been widely analyzed, due to the recent nature of this phenomenon. Thus, my research aims to improve the prior research by focusing on the determinants of Chinese FDI in this region. In order to identify indicators of the objectives of Chinese FDI in the Caribbean region, I examined the influence of trade patterns and market size over a short time period. There are three major research questions for this study. First, what economic factors does China evaluate in a country to determine if it should invest in that economy? For example, is a higher level of trade, or wealthier markets, associated with higher Chinese FDI? Second, what

---

1 Indeed, many countries within the Caribbean are questioning what growing Chinese economic relationships will have on domestic control of the economy. What began as a focus on economic aid has progressively diversified into FDI in other sectors such as tourism, oil, gas, and mining. However, unlike regions such as Latin America and Africa, the Caribbean is a more limited producer of raw materials and food (Bernal 2011; CARICOM 2011).
sectors are Chinese firms investing in? And what makes the Caribbean particularly advantageous for Chinese investors and how does the host country benefit? Third, is China pursuing some foreign policy objectives with FDI in the region?

I hypothesize that Chinese FDI is associated with trade, natural resources, or certain foreign policy objectives in the Caribbean region. My independent variables are trade and GDP per capita, whilst FDI was my dependent variable. In measuring these economic factors, I investigated potential driving factors influencing Chinese FDI into the region.

I used a data set that covers six countries across the Caribbean: Barbados, Cuba, Jamaica, Antigua and Barbuda, Dominica, and St. Vincent and the Grenadines. These six countries have the highest GDP/capita in the region in the periods of 2008-2013. The study begins with a literature review, covering the existing literature on FDI and trade theories in the region. After this, I present and analyze the data, explaining the methods used to formulate my findings. I then discuss the statistical outcomes. Lastly, I conclude with the broad implications of my conclusions on the Caribbean, China, and neighboring regions.
LITERATURE REVIEW

Chinese FDI Policy and “Going Global”

In order to understand the trends in Chinese FDI, it is important to begin with a discussion of recent changes in the Chinese state’s policies on outward investment. Recent flows of outward Chinese FDI have been influenced by Chinese government’s policy of encouraging its companies to expand overseas. FDI began to expand exponentially to developing regions beginning in 2001. China’s economic and political policies shifted immensely upon joining the World Trade Organization (Li 2010; Zhang 2003; Wong and Chan 2003; Wu and Chan 2003; Wu and Chen 2001; Ye 1992; Ding 2000). This act, established the platform for China’s global expansion, however, radical FDI policy shifts began in 1979 with the integration of state guidance in FDI.

Chinese FDI policies most recognizably began in 1979 with the implementation of China’s ‘open door policy.’ FDI was now permitted for State-owned companies under the supervision of the Ministry of Foreign Trade (now the Ministry of Commerce). Regulated by the Chinese government, Chinese outward FDI facilitated China’s initial integration into the world economy. China’s ‘open door policy’ also marked the internalization of Chinese firms under strict control by national and provincial government. Government control was most prevalent through direct administrative fiat, or economic policies (Buckley 2007; Clegg 2007; Cross 2007; Liu 2007; Voss 2007; Zheng 2007). Initial investment projects were minimal, the state allowed approximately US$197 million in projects abroad. The following decade consisted of gradual diversification and an increase in project allowances to approximately U.S. $1.2 billion. It was not until 1992 that China’s FDI policy shifted drastically under the guidance of Ding
Xiaoping’s Southern Tour Speech and his determination to create a socialist market economy. This era was outlined by three key characteristics—rapidly increasing the rate of FDI, expanding investments to include resource development, agricultural, industrial production, and other service industries, and a domestic shift in policy objectives demonstrated by the state to increase profits and influence on world politics and economics (Li 2010; Yu et. Al 2005; Zhang 2003; Wong 2003; Chan 2003; Wu 2001; Chen 2001; Ding 2000).

If Ding Xiaoping’s policies initiated post-revolutionary Chinese engagement with the world economy, the final push to globalize came through vigorous state implementation of the ‘going global’ initiative. Implemented in 2000, ‘Going global’ was a policy designed to promote continuous increases in overseas FDI. Large state enterprises and highly institutionalized private enterprises began to lead overseas projects. This change in policy reflected a shift from selective FDI projects to reduce governance over economic development. Administrative controls became relaxed, approval processes expedited, and a formerly scarce budget for foreign exchange budgets increased (Sauvant 2005). China’s economic determination to expand took effect immediately. State guidance and the role of policy in Chinese FDI, have been discussed across various fields, and are still prevalent today.

The Growth of Chinese FDI in Latin American and the Caribbean: An Overview

Since the early 2000s, Chinese outward foreign direct investment (FDI) has acquired notable attention from the global economy. Several indicators point to a
strengthening of China’s role as an investor country. By 2004, China was the eighth most important FDI source among the developing world and other advanced middle income economies (Buckley 2007; Clegg 2007; Cross 2007; Liu 2007; Voss 2007; Zheng 2007). The data in Figure 3 demonstrate the increase in outward FDI flows to developing areas over the last decade. These statistics reveal China’s commitment to strengthening FDI to the developing world, including investment in countries located in Latin America and the Caribbean (Deng 2007; and Van Dijk 2009).

**Figure 3: Foreign Direct Investment from the PRC (People’s Republic of China)**

![Graph showing FDI from the PRC to Developing Asia and Rest of the World]

*Source: CEIC Data Company; 2013*

According to the annual statistics from the Ministry of Commerce (as cited in Panadeiros 2010), at the end of 2006 Latin America had received 26.6% of FDI stock...
and was China’s second largest recipient of FDI between 2003-2013. Thus, in order to assess factors that attract China to the Caribbean, it is essential to look at what China has already accomplished in neighboring developing regions such as Latin America. There are numerous cases of overlapping interest in sectors, policy approaches, forms of FDI, and geopolitical influences throughout the region.

One of the main contentions concerning China’s FDI is that investment flows are associated with certain economic and policy objectives. This perspective dictates the kind of investment strategies pursued by Chinese companies in their commitment to establishing trade relationships with Latin America and the Caribbean. Indeed, China’s approach to trade and FDI in Latin America has consisted of mainly three principles. These principles include remaining an exporter of manufactured goods to countries in the region, functioning as a buyer of raw materials principally from South American countries, and becoming a strong competitor in the export market (Gallagher; 2010). Although China’s trade patterns with the Caribbean and Latin America are different, a comparative analysis of trade flows among China, Latin America, and the Caribbean also show various similarities.

China is an important source of imports for all economies in Latin America and the Caribbean. However, in Latin America, China also provides for an important export market. Approximately 23 percent of Chilean, 15 percent of Peruvian, and 13 percent of Brazilian exports go to China. China primarily exports manufactured goods to the region (53% of which are medium or high tech). The region exports raw materials to China and its trade pattern is made up of a few products. Additionally, the items China imports from South America are very selective and reflective of its domestic demands. For
example, Soybean seeds represent 46 percent of Argentine exports to China, copper is 42 percent of Chilean and 34 percent of Peruvian exports, and oil is 89 percent of Ecuador’s exports (ECLAC 2008). The problem with China’s exclusive export selections are that Central America is not an important trading partner. Therefore, large portions of Central America are threatened by the exports of almost every country in the sub region.  

The main reason behind China’s global FDI expansion, particularly in Latin America, is the attempt to acquire and secure natural resources. With China’s growing population and consumption, there are simply not enough resources locally to service the country. This places immense pressure on state-owned and private firms to secure raw materials from markets outside of China. As the need for natural resources predominantly drives Chinese FDI, there are several methods China takes specifically in Latin America that creates security. For the most part, Chinese companies have invested in Latin America to reduce their exposure to raw material price rises. This business rationale was combined with pressure from the Government of China to secure sufficient 

---

2 An additional problem with Chinese trade is the impact of Chinese imports in certain markets. This problem is illustrated clearly in the case of Mexico. Mexico competes with China in many of its exports, 85 percent, of which are under threat. This stems from China’s accession to the World Trade Organization (WTO) in 2001 (Gallagher 2010, Porzecanski 2010). A consequence of this has been Mexico’s slowed exports to the U.S. Although the Mexican automobile industry has been able to secure an export market to the U.S, garment and textile producers in Mexico have been displaced by Chinese imports and have seen immense setback (see Tuman 2014). The trade problem Mexico faces has worsened overtime. “In 2009 the import/export ratio with China was 15:1, creating a trade deficit of over U.S. 30 billion- and a trade problem of growing political dimensions (Lall; 2005, Weiss; 2005). This disparity in exports and competition received from China also has affected their local social and political communities. Due to a large number of Chinese imports, local producers and business in Mexico have left workers unemployed and out of business. Although this is one of the challenges trade can have on FDI relationships, there appears to be consistent factors that drive Chinese FDI into Latin American and the Caribbean” (Gallagher 2010).
supplies of energy and raw materials. Additionally, consumption in China has doubled in the past decade, compared with an increase of only 11% in the rest of the world. This has stimulated growth for companies that are in the raw material industry. Accordingly, over 90% of confirmed investments by Chinese companies in Latin America have gone to natural resource extraction (ECLAC 2011). Rising prices in raw materials have prompted many governments to adopt strategies that insure sufficient supplies of the resources. China has taken diplomatic and trade measures to obtain their own supplies and resources. This is inclusive of FDI, donations to exporting countries, and purchasing contracts that are long-term. In 2009, the bank lent U.S $10 billion to the Brazilian company Petrobras, in exchange for 200,000 barrels of oil a day. It also lent the government of Bolivia US $10 billion in 2010, where the repayment plan is distributed in oil exports. These contracts allow China to create security in the material they need to meet their high consumption levels.

In light of China’s growing demand, there is a large incentive for Chinese companies to explore investments in agriculture, fisheries, and forestry resources. As discussed below, this is also a potential motivator for Chinese companies to invest in the Caribbean. Indicators of a strong demand from China for natural resources and agriculture together in Latin American and the Caribbean will create potential FDI for sectors in crops, livestock, and forestry. However, Caribbean countries will need to take caution as consequences of foreign rights to agricultural sectors come at the expense of the livelihoods of locals in rural areas.

Another potential driver of Chinese FDI is the objective of gaining access to local markets. Companies contracted to build public works and industrial infrastructure have
developed their capacities in the Chinese market, and are looking to expand internationally. Some manufacturing companies chose FDI as a mean of serving specific markets, instead of exporting. This allows the company to provide a service in an international market, supplying a demand, whilst providing the company the ability to outsource labor.³

Most countries throughout Latin America and the Caribbean believe that infrastructure is vital for its development and would like to see more FDI into construction. This poses as an incentive for host countries, looking to attract Chinese FDI. Infrastructure is undoubtedly the sector that has received the most Chinese investment in Latin America and the Caribbean after mining and hydrocarbon. Figure 4 displays future projections of sectors for investment, of which infrastructure is predicted to maintain a large percentage of FDI.

³ China has also been known to diversify in order serve a global market. These are companies that simply cannot function in China, due to inaccessibility, a lack of demand, and unavailable resources such as minerals and raw materials. The last factor that has been seen to drive Chinese FDI in Latin America has been efficiency-seeking investment. As production costs go up, more companies are choosing to move production outside to reduce overall costs. The Chinese government openly supports diversification and the acquisition of natural resources and key assets, while market-seeking and efficiency-seeking strategies are supported to a lesser degree or not explicitly.
Throughout Latin America many companies have developed their capacities thanks to large sums of FDI placed into infrastructure. For example, investments in railways have increased tremendously since 2005, reaching U.S $124 billion in 2010. China’s methods of investing in infrastructure in Latin America are typically completed through one of three routes. These routes include acquiring existing assets, infrastructure-building under binational agreements, and channeling investment through public tenders. Through utilizing these strategies to pursue infrastructure investment both countries are able to benefit, suggesting notions of a symbiotic relationship.

Infrastructure investment in the Caribbean is largely characterized by infrastructure-building that occurs through bilateral agreements. Infrastructure-building under binational agreements typically begin with the Chinese government offering financing in the form of a loan to the partner government, under the condition that work is carried out by the Chinese company. This has happened numerous times across the Caribbean in recent years. For example, in the Bahamas U.S. $59 million investment has
been provided to build a motorway and the National Stadium saw an investment of U.S. $40 million. Additionally, a national stadium is also being built in Costa Rica with a net worth of U.S. $100 million. In Barbados, several projects are under way. These include construction of St. John Polyclinic, Sherbourne Conference Centre and Empire Theatre, and renovation of Cheapside Market (Tax News 2011. ECLAC 2011). In January 2011, Antigua and Barbuda received a soft loan from China for U.S. $45 million to build a new airport carried out by Chinese companies, which normally import both the materials and components and the labor. These methods are increasingly important to the Caribbean. However, because Chinese companies in this sector import labor from China it can have a negative impact on the local economy since it fails to generate new jobs or develop capacity among local providers (MOFCOM 2010).

Another potential incentive that allows host countries to benefit from investments is manufacturing for the domestic market. Chinese FDI into manufacturing receives a large percentage of China’s overall FDI, as exhibited in Figure 5. Although the data in Figure 4 suggest that Chinese FDI in manufacturing is only a small percentage (4.3%), one can see examples of the importance of manufacturing FDI in some countries. Chinese firms have exhibited this largely in Brazil. In almost every case, products are made exclusively for the domestic market, and are not exported to other countries in the region (Deng; 2004). This again, creates a mutualistic relationship between the host and the lender. The host is able to use domestic products created, while the lender gains the ability to outsource labor, and receive materials as a form of repayment for resource rich countries.
To summarize, Chinese FDI behavior throughout Latin America provides some clues about the sources of Chinese FDI behavior in the Caribbean. As discussed, there are various sections that overlap in FDI acquisition, benefits on both the host and lending end, possible indicators of why Latin America and the Caribbean may be attractive areas, types of FDI and investing strategies China has regularly employed throughout Latin America, and the relationship between trade and FDI in both regions. Although there are many similarities, the Caribbean is still extremely distinct from Latin America in relation to geographical proximity, historical relationships, economic stability, development, and markets. Thus, it is critical to look at what China has done specifically in the Caribbean.
Trends in Chinese FDI in the Caribbean

Having discussed the general trends in Chinese FDI across Latin America, I now turn to a more focused discussion of FDI in the Caribbean. China has established itself as a significant economic partner throughout the Caribbean region. Importation of Chinese goods and services has grown steadily in the Caribbean. Since 2000, Chinese state banks have established themselves as the leading lenders in the region. By 2010, China has extended about $35 million in credit to the Caribbean, primarily through grants and loans for large-scale public works projects (Bernal 2011). As Chinese finance and FDI continues to expand into the Caribbean, many political scientists and economists question what factors drive Chinese investment explicitly into the Caribbean region.

Table 1: Chinese FDI Stock by Country in the Caribbean 2003-2011 U.S. Millions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda (PRC)</td>
<td>0.20</td>
<td>0.20</td>
<td>0.40</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>4.84</td>
</tr>
<tr>
<td>Bahamas (PRC)</td>
<td>44.45</td>
<td>80.10</td>
<td>14.69</td>
<td>17.52</td>
<td>56.51</td>
<td>0.60</td>
<td>1.60</td>
<td>1.60</td>
<td>1.60</td>
</tr>
<tr>
<td>Barbados (PRC)</td>
<td>1.87</td>
<td>1.65</td>
<td>2.01</td>
<td>2.42</td>
<td>3.25</td>
<td>6.00</td>
<td>3.88</td>
<td>3.13</td>
<td></td>
</tr>
<tr>
<td>Belize (PRC)</td>
<td>0.02</td>
<td>0.02</td>
<td>0.08</td>
<td>0.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cuba (PRC)</td>
<td>13.95</td>
<td>14.85</td>
<td>33.59</td>
<td>59.91</td>
<td>72.05</td>
<td>85.32</td>
<td>68.98</td>
<td>146.37</td>
<td></td>
</tr>
<tr>
<td>Dominica (PRC)</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>4.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Republic (ROC)</td>
<td>0.60</td>
<td>0.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grenada (PRC post 2005)</td>
<td>4.03</td>
<td>7.53</td>
<td>7.65</td>
<td>7.65</td>
<td>14.25</td>
<td>14.54</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guyana (PRC)</td>
<td>14.04</td>
<td>12.86</td>
<td>5.60</td>
<td>8.60</td>
<td>68.60</td>
<td>69.50</td>
<td>149.61</td>
<td>183.71</td>
<td>135.13</td>
</tr>
<tr>
<td>Jamaica (PRC)</td>
<td>0.02</td>
<td>0.02</td>
<td>2.16</td>
<td>2.16</td>
<td>4.37</td>
<td>39.07</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Vincent/ The Grenadines (ROC)</td>
<td>5.60</td>
<td>5.60</td>
<td>12.27</td>
<td>14.92</td>
<td>20.80</td>
<td>32.49</td>
<td>23.03</td>
<td>36.19</td>
<td>36.20</td>
</tr>
<tr>
<td>Suriname (PRC)</td>
<td>10.06</td>
<td>10.25</td>
<td>13.02</td>
<td>32.21</td>
<td>65.28</td>
<td>67.70</td>
<td>68.80</td>
<td>78.84</td>
<td>78.84</td>
</tr>
<tr>
<td>Trinidad and Tobago (PRC)</td>
<td>0.80</td>
<td>0.80</td>
<td>0.80</td>
<td>0.80</td>
<td>0.80</td>
<td>0.90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>88.30</td>
<td>125.73</td>
<td>81.22</td>
<td>141.99</td>
<td>290.42</td>
<td>258.83</td>
<td>347.12</td>
<td>398.14</td>
<td>468.89</td>
</tr>
</tbody>
</table>


Objective of Chinese FDI in the Caribbean

Previous literature has discussed Chinese FDI’s emphasis on resources. Natural resources and sector targeting are large attractors to Chinese FDI to the region, specifically throughout the Caribbean. Resource-seeking FDI is particularly different in this region because unlike Latin America, the Caribbean does not have an abundance of oil and gas. Chinese investment in 2003 was predominantly focused on resource exploitation, processing and manufacturing, and service trades. Resource-seeking FDI is driven by the need to acquire raw materials and energy sources that are scarce domestically. As previously mentioned Latin America provides raw materials to China through exports. In contrast, the Caribbean imports a substantial amount of manufactured products for domestic consumption from China. In return for products they offer rich
resources in agriculture, infrastructure projects, tourism, and mining. Together these resources assist to make the Caribbean an attractive region to invest in.

The importance of natural resources is illustrated in the case of Jamaica. Sugar cane is a very important sector. “Following a privatization in Jamaica, the Chinese trader Compant Sugar bought assets worth US $92 million. The operation includes the lease of 30,000 hectares of land for 50 years to cultivate sugar cane, improvements in sugar cane fields, and mills for US $126 million during the first phase and a possible expansion to include a refinery and an ethanol plant for US $221 million (Financial Times 2011).

Similarly, Trinidad and Tobago, Jamaica, and Guyana have taken the lead in presenting themselves as strategic areas of interest to China, among the CARICOM countries. Trinidad offers gas and asphalt, bauxite in Jamaica, and timber, bauxite, and minerals in Guyana. Economic sector distribution for FDI in 2003 reflected 23% resource exploration, 42% service trade and commercial service, 25% processing and manufacturing, and only 8% allocated across various other sectors (China Commerce Yearbook 2004). In 2004 China increased their initiatives to diversify, which expanded their percentage of FDI into resources. Industry distribution mainly flowed 52.8% into mining, 26.5% in commercial services, 13.5% in manufacturing, and 3% to retail (Li 2010; Xilin 2004; China Commerce Yearbook 2005). China’s Ministry of Commerce reported that foreign direct investment in the Caribbean totaled nearly $7US billion in 2009, a more than 300% increase from the 2004 foreign direct investment of $1.7US billion. By 2010 China has extended more than $35US million in credit to the Caribbean. China’s FDI in the Caribbean region totaled almost $500US million by the end of 2010.
According to resource-seeking FDI theory, China will continue to search for resources, and raw materials in areas that are developing in order to minimize operation costs.

Another reason China may find the Caribbean an attractive region for investment is due to their ability to outsource labor. As China’s population continues to expand there is a greater demand for food and energy. In 2004, China agreed to undertake infrastructural development projects totaling over US$100 million in Dominica. These projects entail a sports stadium, a grammar school, major road developments, and rehabilitation of the Islands major medical facility (Sanders 2011). Chinese immigration to Latin American and Caribbean countries is not a new phenomenon. However, over the past five years there has been an influx of thousands of Chinese immigrants across the Caribbean employed to work on local projects.

Increased Chinese migration has been widely demonstrated in Suriname. Suriname, formerly known as Dutch Guiana, has a growing Chinese demographic. Data from China’s embassy estimates that 10 percent of Suriname’s population is Chinese. This calculates to approximately 40,000 people in a population of about 500,000. Chinese laborers from China Dalian International, which is upgrading Suriname’s roads, reside in camps along the forest. Suriname’s growing Chinese community supports two daily newspapers and a new television station with 15 employees that broadcast each day in Mandarin. Although Suriname is the most discussed case of Chinese immigration, other Caribbean countries are seeing a larger Chinese presence also. Countries such as Jamaica, Cuba, Trinidad and Tobago, Guyana, are all seeing Chinese business owners opening convenience stores and restaurants across the Caribbean. China’s ability to outsource labor in large numbers may be a reason for continuous interest in the Caribbean.
As Chinese FDI continues to rise, there has been a notable effect on trade. Trade volumes have increased at an annual average rate of 32.7 percent from the years 2008-2013 (Wu 2013). Trade between China and the Caribbean has dramatically expanded. According to the International Monetary Fund (IMF), trade between China and the Caribbean community specifically CARICOM members have grown exponentially. CARICOM’s 15 member regional group grew, which resulted in financial growth by a factor of 100 between 1990 and 2008, from a paltry $20 million to over $2 billion (Erickson 2009). China’s top two trading partners in CARICOM are Antigua and Barbuda. They are followed by Tobago, Jamaica, the Bahamas, and Dominica. Although trade is extremely prevalent in these countries, it is also one-sided. In 2008, 93 percent of CARICOM-China trade came in the form of Chinese exports to the region. The only outlier was Dominica, whom approached a balance exporting over $60 million in goods to China in that year. In the last ten years, Chinese exports have consistently made up more than 70 percent of total trade (IMF Trade Statistics Directory). This imbalance may cause concern for Caribbean countries economies and lead to shifts in domestic policies. This is indicative of the severe economic imbalance that Caribbean and Chinese economic relationships face.

As discussed below, China may attempt to use its economic leverage in the Caribbean to isolate countries that continue to offer diplomatic recognition to Taiwan. In China’s continuous efforts to gain sole diplomatic recognition over Taiwan, state guidance in FDI policies can shape foreign economic policy in accordance with this agenda. Beijing and Taipei may utilize investment, lending, development aid, technical assistance, and academic cooperation strategies in order to acquire diplomatic support.
throughout the Caribbean region. There have been several accounts of this economic FDI behavior since the early 2000s.

In October 2010, for example, the Bank of China and China’s foreign Trade Bank stated they would extend U.S $462 million dollars in financing for an exclusive tourism complex in Punta Perla in the eastern part of the Dominican Republic. In February of the same year, Taipei had allocated funds in the form of soft loans and grants to their ally-St. Vincent and the Grenadines. Ambassador to St. Vincent the Grenadines, Camillo Gonsalves, met with Taiwanese officials over the construction of the country’s international airport and other issues. The airport is scheduled for completion in 2013. To further diplomatic initiatives, Prime minister of Guyana (Beijing ally) Samuel Hinds received the ‘Medal of China-Latin America Friendship.’ The award was bestowed on behalf of a delegation from the Chinese-Peoples Association for Friendship. Additionally, recognition was given to Barbados, as a good friend and important partner to China. China has also expanded their monetary diplomacy strategies beyond the realm of trade and investments. In October 2011, China pledged military assistance worth U.S $1.1 million USD to the Jamaican Defense Force (JDF). This initiative is funded by Chinese investments.

In sum, the Caribbean region attracts Chinese FDI due to its size and extensive natural resources, agriculture, and raw materials. In the next section, I discuss various other theories that assist us in interpreting the implications of Chinese FDI throughout the Caribbean.
THEORETICAL FRAMEWORK

There are various theorists in economic foreign economic policy and international relations that seek to explain what nation states try to achieve in the external realm, and why. One school of thought in international relations theory, which attempts to provide the framework for understanding how states seek to maximize their security by making strategic choices about foreign economic policy, is that of Neorealism (also referred to as Structural Realism). In understanding Neorealism, we can better understand how countries interact with each other, and can utilize FDI to gain economic power. In what follows, I discuss the theory of Neorealism and how it might be applied to Chinese FDI behavior. In addition, I discuss World Systems theory as an alternative perspective.

Neorealism and Chinese FDI

Realism comes in multiple variants that aim to highlight actions in the international system on state behavior. A subcategory of realism that most parallels the behavior of the Chinese state in FDI patterns is that of neoclassical realism. Neorealism includes some general assumptions about the motivation of individual states, but departs from classical realism in suggesting that states make foreign policy independent of domestic interests. Neorealism also purports that the international system is characterized by anarchy. Anarchy does not imply chaos, but only that there is no world government to enforce outcomes in the international system (Goldstein; 2010)

Neorealists adhere to the argument that the goal of a state’s foreign policy is driven first and foremost by its place in the international system and specifically by its relative material power capabilities (Desch 1997; Glaser 1996). They argue that relative
material power establishes the basic parameters of a country’s foreign policy. By defining ‘power’ in relation to capabilities or resources of which states can influence each other, and ‘interests’ in relation to goals or preferences that guide the country’s external behavior. Instead of assuming that states seek security, neoclassical realists assume that states respond to the uncertainties of international anarchy by seeking to control and shape their external environment. In this way, states may adopt foreign economic policies (that involve trade and FDI) to enhance their power capabilities. Empiricists claim that material powers, acquired in the long run, will shape the magnitude and ambition of foreign policies: as their relative power rises states will seek more influence abroad, and as it falls their actions and ambitions will be scaled back accordingly (Waltz 1997). Characteristics demonstrated in Chinese FDI behavior lead theorists to believe that China alludes to neoclassical realist behavior are in the case of Taiwan, and timing in intervention.

As noted, much of the literature on Chinese FDI discussed the important role of the Chinese state in directing outward FDI in order to achieve certain national objectives. Currently, company investment projects have to be approved by the National Development and Reform Commission (NDRC), which reports to the State Council, or the Ministry of Commerce, and by the State Administration of Foreign Exchange (SAFE). Other factors taken into account are the presence of state owned companies, whether it involves obtaining natural resources, and whether the destination of the investment is an entity with which China does not have diplomatic relations with the NDRC. The process to approve FDI projects usually takes no more than 25 working days (RBS 2009). The incentive to invest abroad has become so critical to Chinese companies
that the government offers subsidies to firms that invest abroad in certain priority areas such as natural resources, manufacturing and infrastructure projects that involve exporting Chinese technology. Almost all Chinese companies today are state owned, or state influenced. Their shareholders often include public institutions, and retain a link with local government as a means of facilitating the company’s operations in it home municipalities. This is primarily due to the continued pursuit of national economic imperatives with state-owned enterprises being utilized as an instrument of policy. Although state owned guidance and policy is important in understanding Chinese FDI, it cannot be explained as the sole response to Chinese FDI in the Caribbean.

Consistent with Neorealism, the state not only takes the lead in FDI decisions, but it may also try to use FDI in the Caribbean to achieve national objectives. For example, recent flows of Chinese FDI took off at a time when world flows were plunging owing to the financial crisis in 2008. China’s investment overseas in 2008 exceeded US $50 billion for the first time and in 2009 China was the world’s fifth largest investor country. This was clearly the case in the Caribbean as the U.S. was facing a national economic recession; neighboring regions faced economic instability, allowing China to intervene. Reasons why China may strategically invest in times of financial vulnerability may be found in the host countries response to help. Host countries in the Caribbean that are financially weak may offer stronger incentives at the lender’s benefit, offer flexible negotiations, and can work to monopolize a region completely. This behavior aligns with that of Neorealism because China assumes the position of responding to the uncertainties of international anarchy by seeking to control and shape the external environment.
The Chinese state’s emphasis on trade and FDI in the Caribbean may also be understood through a Neorealist framework. As noted in the literature review, FDI has been used to expand Chinese imports of important raw materials. This is also evident in the Caribbean. In 2008, for example, Antigua and Barbuda became China’s top trading partner in the Caribbean with an average worth of U.S $600 million. Trade standards between China and the Caribbean community are outlined through the CARICOM agreement. 4

Finally, China’s battle of monetary diplomacy with Taiwan reflects patterns of behavior rooted in Neorealism. China uses its domestic policy to shape their foreign economic policy and FDI in order to acquire more material power to spread their influence abroad. Neorealist thought defines ‘power’ in relation to capabilities or resources of which states can influence each other, and ‘interests’ in relation to goals or preferences that guide the country’s external behavior. They are utilizing their power viz. economic resources of FDI to influence the Caribbean to attain their domestic goal in fulfilling the ‘One China Policy’ across the region. Beijing’s desire to see change in the

4 The CARICOM agreement originally began as the ‘The Caribbean Free Trade Association’ (CARIFTA), and was founded by Antigua and Barbuda, Barbados, Guyana, and Trinidad and Tobago on December 15 1965, with the signing of the Dickenson Bay Agreement (the Agreement establishing the Caribbean Free Trade Association). They were joined on July 1, 1968 by Dominica, Grenada, St Kitts-Nevis-Anguilla, Saint Lucia and St Vincent and the Grenadines; and on August 1, 1968 by Montserrat and Jamaica. The last country to join in 1971 was Belize. CARIFTA became known as ‘The Caribbean Community’ (CARICOM) in 1973, of which CARICOM has been actively in place since its formation. CARICOM was intended to encourage balanced development of the region by increasing trade through buying and selling more goods among the member states, diversifying trade in order to expand goods and services available for trade, and liberalizing trade throughout reoccurring tariffs and quotas on goods produced and traded within the area.
global balance of power will require a network of allies from the Caribbean, in converting Taipei allies to Beijing.

In the past few years China has taken an aggressive approach in attempting to dissuade Taipei’s ability to invest into the region. One of the approaches China has taken to achieve this is the implementation of a policy that attempts to make diplomatic recognition of China versus Taiwan a zero sum game. Thus, Beijing suggests that any state that recognizes Taipei does so at the risk of losing economic relations with China. Only 23 countries that still recognize Taiwan, and all 11 of them are in the Caribbean and Latin America region. Due to the high number of countries that still recognize Taiwan the Caribbean is a competitive arena in which both Beijing and Taipei have strong interests.5

World Systems Theory

Another theory that might be useful to understand Chinese FDI is that of Immanuel Wallenstein’s Core-periphery model (and the associate model of Andre Gunder Frank on Latin America). As mentioned in the introduction, core countries usually exploit peripheral countries for labor and raw materials. However, core countries are usually capitalist and serve the interests of the economically powerful, because they are focused on higher skill and capital-intensive production. Core countries tend to be powerful, and with this power these countries pay lower prices for raw goods and exploit

5 Due to the small number of countries in my statistical sample, and the lack of variation, I will not be able to examine the influence of diplomatic recognition of Taiwan on FDI. However, recent studies of Latin America and Africa have noted that diplomatic recognition is negatively associated with FDI flows (Tuman and Shirali 2015).
cheap labor, which reinforces the inequality seen between the core and periphery (The Capitalist World- Economy; 1979; Dependent Accumulation and Underdevelopment; 1979).

Periphery countries fall on the low end of the economic spectrum, and lack a strong central government and may be controlled by other states. These are countries that predominantly export raw materials to the core countries, or they are dependent on core countries for capital and have underdeveloped industries. Periphery countries are often characterized by low-skill, labor intensive production. These traits and behaviors represent the periphery.

When this theory is put into practice it presents a deeply rooted dependency from the periphery to the core. Periphery states are vulnerable to exploitation because they rely on the core for trade, investment, loans, and technology. However, the dependency is completely asymmetrical and one-sided. Core countries don’t necessarily need resources from the area they are exploiting, but Periphery countries become dependent on the receipt of manufactured goods, technology, investment and loans for capital, where they are forced to sell raw materials and agricultural products very cheaply in return to the Core.

Scholars such as Andre Gunder Frank have found evidence of emulated Core-periphery models in Latin America, which may raise concerns for Caribbean countries. Latin American economies were predominantly creating cash crops and raw materials. FDI was being used to create foreign owned plantations, but did not expand the industry or help countries develop. It resulted in global capitalism forcing countries into a state of
under-development. Frank’s study focused on Chile and Brazil. Frank’s findings on Chile help to characterize what a core-periphery model looks like in application.

“Chilean history suggests the conquest not only incorporated this country fully into the expansion and development of the world mercantile and later industrial capitalist system but that it also introduced the monopolistic metropolis-satellite structure and development of capitalism into the Chilean domestic economy and society itself. This structure then penetrated and permeated all of Chile very quickly. Since that time and in trade imperialism, and the present, Chile has become increasingly marked by the economic, social, and political structure of satellite underdevelopment. This development of underdevelopment countries today through the acute polarization of Chile’s domestic economy” (Frank 1979, 21-22).

The Chilean example demonstrates the self-perpetuating model of economic underdevelopment, and forces Chile to depend on the Core due to its inability to develop on its own. As Caribbean countries continue to deepen economic ties with China through FDI, government officials should take note of the previous case study of Chile. Periphery countries appear to be developing, however the relationship is reinforcing underdevelopment due to a dependence on FDI. The receipt of FDI, trade, and soft loans used to promote development among Caribbean countries may deter independence in the long-run due to institutionalized dependency. If this model proves true to China and the Caribbean, this may be detrimental to the economic development of the developing
Caribbean region. In accordance with this theory, countries across the Caribbean may need to tread cautiously in creating a dependence on China in order to develop.\textsuperscript{6}

Wallenstein’s core-periphery model, in addition to neorealist theory assists to address broader concerns for the Caribbean. These are the implications of China’s global strategy. China’s ability to outsource labor to the Caribbean may allude to a larger strategy that utilizes demographics among a population as a method of foreign policy. Neorealist perspectives outline China’s capability to circumnavigate through specific economic policies designed to enhance their stance in the global market. While the core-periphery model alludes to the notion that reinforcing underdevelopment in the Caribbean may further institutionalize dependency. As the Chinese population increasingly grows

\textsuperscript{6} Investment and trade linkages have been studied most widely by Harry Broadman, in “Africa’s Silk Road.” His study uses Africa, India, and Asia to illuminate how firms engage in trade of intermediate goods (or services) through FDI, or through subcontracting which has been a key agent in transforming the global economy (Broadman 2007). As a result of these phenomena, there has been a rapid growth of intra-industry trade, also known as network trade.

China has moved progressively from production and trade in labor-intensive, low value-added products to production and trade in higher stages of the value chain. With China’s growing middle class and increasing purchasing power, there is a large demand for imported goods. This follows that China is in search of higher value-added goods and services. China’s imports as a percentage of GDP are more than 25%, while for the United States, EU, and Japan they are only 15%, 14%, and 11% respectively (Broadman 2007). Through analyzing the ways in which businesses operate in Africa with a focus on the linkages between their investment and trade activities, the literature examines where opportunities for network trade might exist in Sub-Saharan Africa. This is accomplished through assessing the characteristics of select country-level-industry value chains in Africa in comparison to international competitor. Broadman’s results suggest that some of the concerns raised by World System’s theory are valid, but others are not. In particular, while African countries are at a disadvantage, he finds that some countries have been able to improve their standing after receiving higher levels of Chinese FDI.
within the Caribbean, it opens the possibility to further reinforce Chinese ideals in the form of reproduction. By recreating a demographic that is largely of Chinese-Caribbean decent, it would assist to institutionalize Chinese norms and ideas throughout a region that is particularly close to the West. China continues to utilize geopolitics to reinforce power; however as Wallerstein and neorealist theorists discuss it raises broader implications through their global agenda.

**RESEARCH DESIGN**

The following section details the hypothesis, data and methodology for the statistical analysis of Chinese FDI in the Caribbean. The hypothesis that guides this analysis is that Chinese FDI is associated with the trade levels and market size of a Caribbean country. I hypothesize that these factors function as determinants for China’s decision to directly invest in specific countries across the Caribbean; and characterizes the Caribbean as an attractive region for FDI.

**Data and Measures**

The dataset was compiled from a number of sources. First, the data for total Chinese FDI stock in country and year were obtained from the Government of China, National Bureau of Statistics, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*. The figures are in current millions of U.S. dollars. Second, the import and export data were obtained from the International Monetary Fund (IMF) *Data
of Trade Statistics (various years). The IMF obtains their data following the Special Data Dissemination Standard (SDDS) and, the National Summary Data Page (NSDP). The trade data are also in current millions of U.S. dollars. Finally, as a measure of market size, I obtained the data for per capita GDP from the World Bank’s World Development Indicators (2013).

In 2008, the U.S. recession left the Caribbean vulnerable to economic instability. The U.S., which has formally been the Caribbean’s largest trading partner, left the Caribbean region questioning their economic status and viability. In 2008 China’s investments into the Caribbean region exceeded U.S. $50 billion for the first time. This began the rapid growth of Chinese FDI into the Caribbean at a time when world flows were plunging in the midst of the financial crisis (ECLAC 2010). Thus, the dataset begins in 2008, and ends in 2010 to capture the most recent data available that follows IMF standards of certified data. However, there are some gaps in the data due to insufficient information from host government countries across the respective years.

Lastly, this study evaluates the top six nations in the Caribbean with the highest per capita GDP across the region for the stated time series of 2008-2010. The six countries include: Jamaica, Cuba, Dominica, Barbados, Barb and Antigua, and St. Vincent and the Grenadines.

Statistical Model

This study is largely based upon statistical analysis of panel data. Therefore, the author conducted multiple regression analysis in order to determine which explanatory factors influence China’s FDI. The model may be described by the following equation:
Model 1: \( Y'(FDI) = b_0 + b_1(GDP \text{ per capita}) + b_2(\text{Chinese Trade}) + e \)

Where FDI = Foreign Direct investment in Caribbean

GDP/Capita = Gross Domestic Product per capita in each country and year

Chinese Trade = the sum of Chinese exports and imports from Caribbean countries in each year
**FINDINGS**

**Table 2**

**Pearson Correlation Analysis**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Chinese Imports</th>
<th>Chinese Exports</th>
<th>FDI Stock</th>
<th>GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Imports</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese Exports</td>
<td>0.5356***</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI Stock</td>
<td>0.7960***</td>
<td>0.4691</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.4697***</td>
<td>0.0861</td>
<td>-0.4519***</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Note: ***p<.05 for two tailed test.

I begin with a discussion of the Pearson correlation matrix. As the findings in Table 2 illustrate, Chinese imports and Chinese exports are positively correlated at the 0.05 significance level, which is an anticipated finding. Because of this high association, I used a combined trade variable (the sum of exports and imports) to avoid collinearity of the variables, a potential problem in multivariate regression. The results also reveal that there is a strong positive correlation between FDI stock and Trade imports. This means countries that are poorer according to their reliance upon imported goods are more likely to require FDI to jump start their economy. Also, we observe a strong negative correlation between Chinese imports and GDP, which is consistent with the previous
finding and our hypothesis that poor countries as evidenced by low GDP demonstrate a reliance upon imported goods. Similarly, the strong negative correlation between GDP and FDI stock indicates that poorer countries as evidenced by a low GDP may be implementing stronger incentive policies to attract Chinese FDI as a means of obtaining capital to stimulate the economy.

**Table 3**

**Multiple Regression Analysis of the Impact of Trade and GDP on FDI in the Caribbean**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Trade</td>
<td>.0319***</td>
</tr>
<tr>
<td></td>
<td>(.0065991)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-.0028061***</td>
</tr>
<tr>
<td></td>
<td>(.0002862)</td>
</tr>
<tr>
<td>Adjusted R-Squared</td>
<td>.75</td>
</tr>
<tr>
<td>Wald Chi-Square</td>
<td>1557.07***</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
</tr>
</tbody>
</table>

Note: The dependent variable is stock of Chinese FDI. Entries are unstandardized OLS regression coefficients (panel corrected standard errors in parentheses). ***p<.01 (two tailed test)

The regression results are reported in Table 3. The model explains approximately three-fourths of the variation in Chinese FDI among this sample of Caribbean countries.
(adjusted $R^2$ is 0.75). The results also indicate that both independent variables are statistically significant. The coefficient for Chinese trade is positive and significant at the .01 level.\textsuperscript{7} These findings are consistent with our hypothesis in that those Caribbean countries that rely upon imports from China are more likely to receive more FDI, with this FDI taking the form of investments in infrastructure, agricultural and natural materials. Likewise, the coefficient for GDP per capita is negative and significant. This finding suggests that countries with lower GDP per capita are more likely to attract or need FDI. Because the regression model specified holds trade constant, we cannot determine whether the Caribbean’s reliance upon trade with China ultimately has a negative impact on GDP that increases the need for FDI. Unfortunately, we are limited by our data and model specification. However, a cyclical paradox of dependency would not be surprising, if later research is able to pinpoint this relationship.

Although I was unable to estimate the effects of imports and exports separately in the regression model (due to collinearity), it should be recalled that the Pearson’s correlation analysis supports the hypothesis because exports do not have a strong statistical relationship with FDI. China does not have an export-oriented market in the Caribbean which accounts for the large disparity between imports and exports in the region. The states in the Caribbean region are heavily reliant upon Chinese imports—almost exclusively. Consequently, there is not a large export market. Thus, exports would not affect FDI because in order for states to receive FDI they would largely be import

\textsuperscript{7} A separate model with the log transformation of trade produced results that are completely consistent with Table 3. This suggests that the results are not distorted due to large different in trade among these countries (probably due to the similar economic size of most Caribbean economies).
based economies, and have a low GDP. Therefore, even the findings that do not achieve statistical significance in the model lend credence to the hypothesis.
CONCLUSION

This study sought to understand how Chinese FDI is allocated among countries in the Caribbean. By compiling a dataset and conducting a statistical analysis of total trade and GDP in relationship with FDI, the study has produced results that suggest that some Chinese national interests (trade) are important. As discussed, the results for trade in the regression model, along with the examples discussed in the review of the literature, are consistent with a Neorealist view of the role of the Chinese state in FDI decisions. In addition, by showing that a country’s GDP is inversely affected by FDI, this study has clarified the economic indicators China looks for to invest in the Caribbean. As noted in the literature and supported by this study, China seeks to build import based markets, with low GDP countries becoming dependent upon FDI, in various forms – which is consistent with Neorealism. The outcome is that Caribbean nations use FDI to stimulate and develop their local economies and infrastructure, but at the expense of the exploitation of their raw materials and natural resources, or by entering into binding foreign policy commitments and contracts that are not necessarily politically or economically beneficial to them in the long run (as suggested by World Systems theory).

This study has many implications for Caribbean countries. First, this research identifies potential factors that China explicitly looks for when making the decision to invest in Caribbean nations. However, it also discusses the possible negative affects FDI based economies can have and are having in the Caribbean and Latin America. For example, the large disparity between imports and exports, a new core-periphery model of dependence that will ultimately hinder any form of permanent individual development, and the social implications of natural resources and agriculture to the local economy. By
looking at trade and FDI in relation to natural resources and foreign policy it is clear that Chinese FDI is influenced by these factors, and that they play a large role in the decision-making process of how Chinese FDI is distributed among regions.

The main weakness I found in the study was a lack of data. Unfortunately, the data are not available to conduct a comprehensive analysis of the relationship between trade, GDP and FDI. Many developing countries simply lack any form of officially reported data and with that it is difficult to track down which sectors China is investing in, as well as the per capita GDP and total FDI stock for the Caribbean countries. This study was completed with data that is officially available, however due to large gaps in the data sets there is still not enough information to offer a comprehensive study. Additionally, because the phenomenon is relatively new there are still many gaps in the literature. Further studies are needed in order to fully address Chinese FDI in the Caribbean.

Although there are limitations, this study contributes to the existing literature by identifying some of the factors that China looks for in Caribbean nations when making the decision to invest. Therefore, the study findings have relevant implications because it highlights political, social, and economic concerns of the Caribbean region. I believe that Chinese FDI can be beneficial to a nation’s economy because it allows many underdeveloped countries the opportunity to make advancements; however, there are also negative implications that have resulted in economic dependency and the exploitation of raw materials and natural resources. With that in mind, this study advocates for the implementation of strategic local level policies that address these risks, while also taking advantage of the symbiotic benefits of FDI.
BIBLIOGRAPHY


