Sirius International
The Age Of Omnipresence

**CONGRESSIONAL TESTIMONY**

**Of**

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**"China-Caribbean Economic and Trade Relations and Implications for the United States – The Way Ahead"**

Allow me first to thank the Chairman and Sub Committee members for the invitation to offer my testimony today on the subject of "China-Caribbean Economic and Trade Relations and Implications for the United States." I laud the efforts of the Subcommittee for holding this hearing and more so the timing of it. In recent weeks the media has been inundated with the responses of global markets to stock market jolts in Beijing as this resonated in both hemispheres.

## Preamble

My contribution to this Subcommittee is a rejoinder to a trove of concerns which have been comprehensively anatomized in a recently concluded four-year inquisition that I had undertaken on the inroads made by the P.R.C. in the political, economic, diplomatic, technological and cultural spheres in the Americas and other hemispheres.

The Statement on hand is confined to the following themes -

- A description of China's engagement with the Caribbean.
- Why Caribbean countries are interested in Beijing and what Beijing's interests are in the Caribbean.
- China's objectives in the Caribbean and the success to date in achieving these objectives.
- A description of the economic relations between China and the Caribbean and the significance of these activities for U.S. interests (including positive and negative outcomes of Chinese engagements in the Caribbean) - this includes the areas of trade, purchase of assets and port transformation.
- Recommendations for the U.S. Congress on how to more effectively balance China's activities in the Caribbean.

## Introduction

Chairman, we are well aware that the People's Republic of China (P.R.C.) is currently the world's second largest economy and in recent times its heightened interest in Caribbean economies has been a hotly debated topic among government officials, academia, defense planners and entrepreneurs. China is the most populous country in the world with an estimated 1.35 billion compared to 318.5 million in the United States and has accumulated a prodigious build-up of foreign reserves of which $1.5 billion is in US holdings. China has also surged ahead with alternative energies and continues to make impressive inroads in the sphere of innovation and technologies.

The P.R.C. has made its presence felt in the Caribbean and engagements so far are primarily economic. Less than one (1) percent of its trade with the world is conducted in the Caribbean. China is now the third largest investor in the Caribbean with the United States and the European Union occupying the top two spots. Its share of foreign investment regionally is an estimated 9% with a trade volume of US $ 156 billion. Given this modest quantum, in order to make sense of the region's magnetism to Beijing we need to take stock of its strategic and ideological significance, bearing in mind that the Caribbean is part of the wider Inter-American landscape the history and character of which is uniquely circumscribed by legal and political instruments that, in principle and in practice, have helped create an environment conducive to building and sustaining democratic institutions and the rule of law. The P.R.C. is in contrast unconversant with these aphorisms and if only for this reason their engagements will have repercussions that challenge the political culture of democratic tradition and values.

Another key consideration is that despite the existence of the OAS as the only credible and truly multilateral forum for political dialogue, our hemispheric institutional architecture is changing considerably. The last ten years has seen the the phenomenon of outward bound regionalism whereby the emergence of many subregional organizations such as ALBA, UNASUR and CELAC. These nascent multilateral blocs have highlighted the growing autonomy of the South thereby amplifying the need for strengthened, continuing and constructive dialogue. Added to this, the fall in the prices of commodities has precipitated a hemispheric economic downturn.

## Concerns Among Analysts

Contacts between China and Latin America and the Caribbean are known to have existed and gone practically unnoticed for very many years. History would show that prior to the decline of a booming Asian market around 1800, there was a flourishing and interconnected world economy at the center of which China, as the Middle Kingdom, was very dominant. Apart from prodigious capital flows throughout East Asia typical of that period (1500-1800) there were equally significant flows of people and against this setting that Asian migratory movements to Latin America and the Caribbean (LAC) occurred in three discernible phases.

The first was during the pre-nineteenth century when the profitable three-century trade between Manila and Acapulco triggered an initial stream of migrations into Mexico and Peru. The second phase of migrants, commonly referred to as "the coolie trade" in Chinese Diaspora studies, was characteristic of the classic period between the nineteenth and twentieth centuries, renowned for the steady flow of indentured Chinese workers to the plantations of slave and former slave Americas, especially in relation to Cuba, Peru and to a lesser degree the British, French and Dutch Indies. Many Caribbean islands became the final destination of these arrivals, who constituted a distinct cohort from the prolonged influx of traders (huashang) that came before and thereafter. Commingled with the indentured migrants was a substantial number of persons that were literally "shanghaied," along with a less conspicuous group ignominiously labeled in relevant bills of lading as "cargo."

The more recent newcomers arrived in three further surges - initially out of the Guandung province in the early twentieth century; followed by a second stream from Hong Kong with the formation of the Republic in October 1949 following the defeat of the nationalist government by peasant-backed communists; with the most recent from the Fujian province during the 1980s and 1990s. Chinese triad activity permeated all migratory waves, and is known to have existed in many capitals of the region for well over one hundred years.

## Defining the Caribbean

Chairman, for the purpose this Statement serves, the Caribbean would be taken to include: Anguilla (United Kingdom), Antigua and Barbuda, the Bahamas, the British Virgin islands (United Kingdom), Cayman Islands (United kingdom), Cuba, Curacao (Netherlands), Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat (United Kingdom), Navassa Island (United States), Puerto Rico (United States), St Barthelemy (France), St. Kitts and Nevis, St. Lucia, St. Martin (France), St. Vincent and the Grenadines, Sint Maarten (Netherlands), Trinidad and Tobago, Turks and Caicos Islands (United Kingdom), and the Virgin Islands (United States).

The region may be broadly divided into two groups: the first, which comprise the bulk of economies are largely dependent on tourism and offshore banking; and the second consists of a very small number of nations that are disproportionately dependent on mining, minerals and the agricultural commodity sectors. Regarding the former category, the IMF estimates that the tourism-based economies grew by only 1.1% in 2014 and are projected to expand by 1.7% in 2015. This notwithstanding, these countries are held back by numerous structural challenges that have constrained their economic performance and placed severe restrictions on avenues to promote profitable trade , commercial engagements and to access development financing.

## What Beijing's Interests Are in the Caribbean

In order to get our arms around Beijing's interests in this part of the world we need to pay closer heed to how the Chinese policy evolved as well as to pertinent historical analogues. It would be recalled that roughly ten years ago China launched its China's Peaceful Development Road (2005). This was presented to the world in the form of a White Paper that completely and systematically clarified the Chinese government's theory and practice in its outreach to the developing world and its modernization agenda. It was a programmatic response articulating policy objectives specifically aimed at extending financial and development aid to developing and heavily indebted countries in various sub-regions. This represented Beijing's grand pitch for the stature of third world leader and regional power. No government worth its salt could resist such inducements, which in many instances, potentially set the stage for continued tenure of the political elite in many bankrupt countries.

Essentially the deal entailed (1) providing a zero tariff treatment for Least Developed Countries (LDC) with which China shared diplomatic relations; (2) expanding aid to Heavily Indebted Poor Countries (HIPC) and Least Developed Countries (LDC) through bilateral channels; (3) exempting or rescinding outstanding interest-free and low- interest loans due at the end of 2004 and owed by Heavily Indebted Poor Countries (HIPC) having diplomatic relations with China, within a two-year time frame; (4) financing $10 billion in preferential loans and preferential export buyers' credit to developing countries to help them upgrade their infrastructure within three years; (5) endorsing industrialization at bilateral level and conduct joint venture cooperation; and (6) increase aid to developing states in general. This road map and prescription was used to successfully infiltrate many African markets and its instructiveness lies in the striking analogies that can now be imputed in our hemispheric experiences.

The backdrop to this was that China saw the African continent as a venue of strategic opportunity given its natural resources including land space and promising demographic surge of 21st Century consumers. Latin America and the Caribbean hold out similar possibilities.

In addition to these economic incentives the Chinese Communist Party and top military strategists have moved in a clear-cut departure from conventional modeling. What this holds out for the Caribbean is the deployment of unconventional strategies that are perhaps unlooked for with tactfully applied soft power in the spheres of trade, financial, resource, cultural, technological and ecological means and which capitalize on the vulnerabilities of strategically important sectors of their respective societies. How leaders harness these strategic opportunities whilst retaining their commitment to the regional integration project - the commitment to which is incontestable - would require careful deliberation, intense collaboration and statecraft.

Beijing's strategy and objectives are being pursued by (1) exploiting the resource vulnerabilities of target nations' scarce or essential resources - ultimately this will place the P.R.C. in a position to control or deny the access and market value of critical commodities; (2) strategically positioning itself along key international shipping routes by investing in port facilities cheek by jowl with such routes; (3) launching or instigating non-kinetic assaults on financial systems to maintain economic high-ground over competitors and/or at worst flooding host markets with illegal goods; and (4) unleashing a concoction of ill-conceived media and cyber-warfare. These measures, which are by no mean untypical of the Chinese grand strategy, are being deployed through soft power rather than confrontationally, since to do otherwise would risk, and unnecessarily so, polarizing its most critical constituents in the region.

In order to put logic to Beijing's ambitions we need to keyhole its interests - which for the most part appear to be quite legitimate - and to recognize and how these converge with the disposition of the regional political elite to capitulate without hesitation to Chinese profligacy. What becomes patently clear judging from the PRC's historic course of conduct is that the CCP is placing its licensed focus on:

- Sourcing and consolidating cheap supplies of food to sustain its burgeoning population - China's population is 1,401,586,609 which is 19.13% of a world population of 7,324,782,225 ( 2015) with projected annual increases of 0.61% in 2015.
- Gaining comparative advantage in key trading routes - in the Caribbean, as already alluded, this takes the form of port development projects at key chokepoints which incidentally are vital to Western Hemisphere (American) trade and defense concerns.
- Gaining access to raw materials and vital resources in anticipation of the looming problem of worldwide resource scarcity in fuels, metals and minerals –in this regard, bauxite (aluminum ore) mining is a strong revenue source in countries like Suriname and this potential has been considerably bolstered by the discovery and exploitation of oil and gold; whilst Grenada in the southern Caribbean is a lead world producer of an array of spices including cinnamon, cloves and ginger mace.
- Infiltrating fuel markets through asset acquisition as demonstrated in projects in mainland Colombia, Venezuela and Ecuador.
- Securing access to reserves of natural gas which positions Trinidad and Tobago as an ideal strategic partner.
- Accessing and utilizing large areas of fertile land in promising locations such as mainland Guyana , Suriname and Belize.
- Diversifying and consolidating its commercial portfolio to attain competitor advantage and market supremacy while penetrating new markets and prevailing in already developed ones.
- Introducing more enticing economic structures for countries to adopt - this avenue provides a counterweight to the classic neoliberal model and its supporting Western monetary systems and carefully sidesteps conditionalities tied to democratic principles and universal rights.
- Gaining a foothold in the U.S. market indirectly through invigorated trade and investment initiatives in frontline jurisdictions, examples being the Bahamas and Jamaica.
- Opening employment opportunities abroad for its tens of thousands of nationals by negotiating large-scale infrastructural projects that effectively preclude the hiring of "host country" personnel - this helps to mitigate P.R.C. issues involving the mass migration of rural Chinese job-seekers to urban centers who are denied basic rights and are compelled to settle for low

wages, mandatory overtime, and dehumanizing living conditions; and the ever-present risk of mass civil unrest.

- Capitalizing on "game-changing transitions" and political vacuums. This was typified in the years immediately following the events of 9/11 with the drawdown of US interests in the Caribbean and America's re-direction of resources on the Middle East. Beijing seized upon this strategic opportunity to make impressive inroads into the Caribbean and Latin America in the fields of trade, investments , infrastructural development and military exchanges.
- Canvassing without let-up for the withdrawal of diplomatic support for Taiwan consistent with its "One-China" policy and concurrently building cordial relations with countries that recognize Taiwan, illustrated in its engagements with the Dominican Republic as a case in point.

Chairman, these strategic interests on China's part are valid. Indeed, they mirror Beijing's futuristic approach to planning and its deference to a rapidly evolving multipolar world with diverse opportunities and to equally formidable possibilities of vital resources drying up. Reciprocally, the political leaders of the Caribbean are concerned with their own domestic priorities and this brings us to the outcome of continuing Chinese overtures…and to the wider issue of to what extent they ultimately serve the interests of individual countries and the region as an integral limb of the Inter-American system.

## Why Caribbean Countries Are Interested in Beijing

Chairman, the lure of Sino engagement becomes logical when one considers that the so-called "Golden Age of Latin America and the Caribbean" (2003-2013) has come to an end; that the region must now change gear to maintain what was achieved within the last decade; and that countries are now confronted with the fifth successive year of economic deceleration based on assessments of the World Bank (WB), the International Monetary Fund (IMF) and the Economic Commission for Latin America and the Caribbean (ECLAC). Caribbean countries are currently in the grips of structural economic constraints by which they are being crippled economically, politically and socially and see in China a world power replete with opportunities for monetary support through loans, trade, investments and funding; a feasible alternative to the U.S.A. and the EU for developmental aid and assistance; and a competent intermediary in terms of a voice for the global South that provides a buffer (when the need arises) in relations with the developed world.

Chairman, the key structural constraints facing the region can be directly attributed to diminishing trade and investment opportunities and this can be attributed to eight factors and I shall describe them as succinctly as possible, with your leave as time permits.

The constraints are: (1) inflexible fiscal policies (2) low gross domestic product growth (GDP) rates (3) high levels of violent crime and illicit traffic (4) their inability to attract development assistance (5) the increasing liberalization of global trade which has diminished market access (6) the small size of countries which depletes from the full benefits of economies of scale (7) the failure of intraregional single market arrangements to serve the interests of Caribbean Community members (8) the increasing costs of energy in the face of fluctuating prices.

(1) Inflexible Fiscal Policies

The first factor, the legacy of inflexible fiscal policies, has left many governments with little room for maneuver since the 2008 global financial crisis. The tourism destinations were particularly hard hit. In 2001, foreign visitors spent as much as 75% more per capita in the Caribbean than in broadly comparable destinations, and by 2010 this decided advantage had virtually disappeared. Equally material to this is that employment in most Caribbean countries is provided by the public sector whose unionized workers are often unwilling to support necessary changes advocated by policy makers.

(2) Low GDP Growth Rates

A second factor, the relatively low GDP growth rates of Caribbean economies, is attributed to the extraordinarily high levels of public debt amassed by these countries, as a percentage of their GDPs. Research has shown that Caribbean economies with GDP ratios above 56% suffer reduced economic growth due to the fact that investors refrain from making investments based on their expectations of lower returns and the possibility of higher taxes being imposed. As a case in point, the public debt of Barbados as a proportion of GDP continued to increase since 2012 from 84% that year to 103% in 2014; while in Jamaica the measure has remained above 130 % since 2009. In the meantime, St. Kitts and Nevis , Guyana and Jamaica continue to collaborate with the IMF to control their fiscal deficits. Nevertheless, despite these stout-hearted efforts the public debt in tourist-centered economies continues to exceed 90% of GDP on average and persists as a drag on sustainable growth.

(3) High Levels of Violent Crime

A third major drawback is the increasingly high levels of violent crime that has the potential to place at risk the performance of the hospitality sectors in already fragile economies, rendering then unattractive to investors.

(4)Inability to attract Development Asssistance

A fourth challenge resides the inability of countries to attract development assistance. This dilemma is owed to the status of many countries as upper middle or high-income societies. This somewhat misconceived categorization renders certain countries ineligible for development assistance with no guarantee of access to financial and other resources. Since the bulk of external finance in the Caribbean historically originates from Foreign Direct Investment (DFI) and remittances the key challenge confronting governments rests on firstly, devising ways of accessing capital for developmental concerns bearing in mind that private capital is driven by profit rather than by developmental needs; and secondly, in gaining access to alternative sources of finance since more traditional forms of financing for development, such as ODA, have declined ; and thirdly prevailing in a situation whereby in recent years donors that are no longer confined to member countries of the official Development Assistance Committee. This extended group of contributors has virtually mushroomed and is gaining in influence.

(5) Increasing liberalization of Global Trade

The fifth factor is the increasing liberalization of global trade and finance. This has eroded preferential access to developed country markets and increased the vulnerability of smaller markets to external market conditions.

(6) Smallness Diminishes Economies of Trade

A sixth consideration is that the small size of Caribbean economies limits their ability to attain full potential and reap the benefits of economies of scale and scope. Furthermore limited access to natural resources and labor supplies and high costs of transport, renders the cost of goods uncompetitive in the wider markets.

(7) CSME Has Fallen Short of Expectations

Chairman, one must also take into account developments in the trade arena at regional level, as well. The CARICOM Single Market and Economy (CSME) is an economic bloc among CARICOM countries established in 2006 to fulfill the objective of achieving a fundamental economic space. The rational for CSME was the sustained development of the standard of living of all Caribbean peoples through the Free Movement of Capital, Labor, Goods, the provision of services, the right of establishment with the Member States and the establishment of a common external tariff. However, the mechanism has registered a disappointing track record due to the underperformance of intraregional trade and the disproportionate advantage it affords to larger members to the detriment of the smaller partners.

(8) Increasing Costs of Energy and Fluctuating Prices

As in all regions of the world, the cost of energy is a critical factor more so for non-oil producing countries. The recent economic and political developments in Venezuela could put at risk the benefits that are currently available through the mechanism of Petrocaribe. One of the advantages of this compact is that up to 50% of all oil purchases can be converted into 25 year loans at interests rates from as low as 1%. A tenor of optimism resonated on the eve of the 10$^{th}$ Commemorative

Summit of the Petrocaribe Agreement hosted by the Jamaican government when the it was hinted that upon the conclusion of the annual devaluation of the Agreement, there would be set in motion among signatories to strengthen and deepen the Agreement by pursuing expanded opportunities , one being the issue of regional transportation .

Chairman, you would no doubt appreciate the complexity of coordinating and combining a wide cross-section of actors, funding mechanisms and instruments under a coherent development financing architecture that is favorable to the region. This lack of coherence at national and regional levels has opened up "opportunities" for the P.R.C.

I shall now briefly advert to the region's trade portfolio vis-à-vis China. There is a progressively widening trade deficit in the Caribbean that works overwhelmingly in China's favor. This is due to the nature of goods being traded. The main products imported from China into the region consist of ships, boats and other floating structures; machinery nuclear reactors and boilers; iron and steel; plastics; articles of apparel; prefabricated buildings; footwear and the like; whilst Caribbean exports consist in large part of raw materials, inorganic chemicals; precious metal compounds, iron and steel, mineral fuels, oil and distillation products, aluminum, slag and ash. In 2012 Jamaica's Prime Minster the Honorable Portia Simpson-Miller, while reiterating her commitment to regionalism, observed that the trade imbalances with China were in fact a distorting feature in the fifteen-member trade bloc.

## A Description of China's Engagements with the Caribbean

Chairman, the Third China Caribbean Trade and Economic Forum was a major milestone for the region since it precipitated an open-handed flow of loan and concessional arrangements between the PRC and many governments. That year a loan agreement valued at $400,000 million for infrastructural work on the Montego Bay Convention Center was signed by the Jamaican government along with a further $600,000 million loan agreement for infrastructural work and the $65.3 Million Palisadoes Peninsula project negotiated with the China EXIM Bank. Equally notable, the Chinese company COMPLANT acquired the assets of Jamaica 's sugar industry to invest in the renovation of three of the country's sugar factories and lands (Douglas 2011).

At the said forum, Trinidad and Tobago received 40 million Yuan in grant funding from the Chinese government. This gesture was preceded by a concessional loan for the construction of a National Academy of the Performing Arts (NAPA) and an additional 210 million Yuan in concessional loans for completion of infrastructural work on the facility in March 2011 (Tach 2010). A Chinese corporation, Investment Corporation (CIC), initiated the acquisition of ten percent stake from the French firm GDF Suez in Atlantic LNG in Trinidad and Tobago. The Chinese have also committed to funding a Children' Hospital in Trinidad. Not to be outdone, a Technical Agreement was signed between the Chinese and Bahamian governments ahead of the 2009 China Caribbean Trade and Economic Forum freeing up funding for infrastructural projects and bringing total Chinese investments in that country to a whopping $2.66 billion by 2011 (Thomson 2011).

Barbados was also well endowed. The Chinese agreed to provide Barbados with a grant of roughly BDS $6.15 million to underwrite an array of small-scale development projects (Greene 2011); and a further Chinese grant would fund four score boards for the renowned Widley Gymnasim, the country's premier indoor sports facility, valued at BBS $3.38 million (Austin 2011). Guyana has in turn benefitted from a trove of grants, interest free and concessional loans and the writing off of no less than nine (9) mature debts.

As well, the Commonwealth of Dominica is venue to a series of infrastructural projects coming on stream after receiving a ECD $7.2 million endowment under a Technical and Economic Cooperation Agreement (2007). The negotiated agreement involved grant aid of US $100,000.00 for disaster relief in that country (Government of Dominica 2007). Antigua and Barbuda also received concessionary loans and grants. These went towards the construction of the Sir Vivian Richards Cricket Stadium, an airport terminal and a secondary school in Five Islands (Caribarena News 2011); whilst eighty-six (86) percent of the cost of rehabilitating the regionally acclaimed St. Paul's Sports, Cultural and Development Organization in Grenada was provided by the PRC.

This is a mere snapshot of the wider panorama of economic engagements between Caribbean countries and the P.R.C.

## Assessment of China's Objectives and Success and Intra-Regional Dynamics

U.S. Debt Held by China

Chairman, the elephant in the room is irrefutably the US $1.261 Trillion debt held by China as the United States' largest foreign creditor, only second to Japan's share of debt held, which according to US Treasury data, amounted to US $1.227 Trillion in February 2015. In order to stimulate demands for Chinese goods, Beijing has been keeping its money cheap by maintaining a low value for the remnibi and simultaneously buying up U.S. dollars. China thus becomes a major player in sustaining confidence in the US dollar over the short-term and bolstering its survivability in the longer-term. In divergence to this, Beijing's responses resonate many versions of assault ranging from suggestions to trade partners to abandon trading in U.S. currency, to engaging in "money swaps" as what transpired with Argentina in 2009, employing gold as an international reference point, introducing the notion of a new global currency as it did in the BRICS Summits of 2009 and

2012, diversifying its cash reserves away from dollar determined instruments of any kind, and the indiscriminate purchasing of gold. Currency wars, as we are all aware, are among the most deadly non-kinetic weapons that can be unleashed on a country and they have the potential to disrupt the world's financial systems in a serious way. Any shift from the U.S. dollar as the reserve currency is therefore worthy of attention.

Posthaste, Beijing has now moved to introduce remnibi in its trade relations with CARICOM. This was formalized with signing of an agreement in principle in 2015 between the PRC and the Bahamas and paves the way for trade using remnibi currency. In 2013, the World Bank ranked the Bahamas as one of the wealthiest nations in the Caribbean Community based on its prolific offshore banking centers. This agreement therefore opens up a range of benefits and opportunities for both signatories including currency exchange savings from direct bilateral transactions ; same-day or expedited currency exchanges for time-sensitive transactions; the strengthening of trade and investment relationship between signatories; and notably the possibility of extending remnibi settlement services to other Caribbean partners. It also becomes crystal clear that asymmetric linkages are being tactfully crafted, much to the credit of Chinese diplomatic aplomb, and this is not necessarily confined to trade and finance, as shall be demonstrated.

## Port Infrastructure

Chairman, it is history that from the late nineties, Beijing has made impressive in-roads in port infrastructural development and this brand of entrepreneurialism has consistently found its way to locations that constitute crucial hemispheric chokepoints. Amidst the ongoing discourse among defense analysts are hints of a possible threat that this may pose to Western trade and the U.S. defense posture. However, such undertones can be readily dispelled from an economic standpoint, since given the emergence of new trade partnerships, it is conceivable that China is positioning itself for securing high-ground in a growing Asian market as Asia re-asserts itself and assumes center-stage in the global economy.

i. For starters in the Bahamas the Hong-Kong-based Hutchinson Whampoa Limited shipping giant is responsible for what is arguably the largest Chinese investment in that country and has been in operation since 1997. The company is owned by Hong Kong tycoon Li Ka-Shiing, who has personal ties to the People's Liberation Army (PLA). Estimated at US $2.6 Billion, the hub occupies a whopping 88 acres of the 530 square mile land space of the Grand Bahamas Island and enjoys 3,400 feet of berthing and a projected annual capacity of 1 million 20-foot equivalent units (TEU).

ii. The Panama Canal is another of the better-known examples of Sino port diplomacy. Located a mere 900 miles from the U.S. and controlling at least one third of the world's shipping, the canal is vital to Western trade and defense. 20% of US imports and exports pass through the Canal along with 40% of all grain exports. A Chinese corporation called the Great Wall of Panama has a 60 year lease for an export zone at the Atlantic end of the Canal. Hutchinsom Whampoa, the Hong Kong-based multinational conglomerate with a market capitalization of roughly US $53 Billion, has already ploughed in excess of US $100,00,000 to manage Port Cristobal on the Atlantic end and Port Balboa on the Pacific side. Moreover, the conglomerate is 10% owned by China Reserves Enterprises (CRE) which is reputedly a front-base for Chinese military intelligence. I need say no more.

iii. The Nicaragua Canal and Development Project is the most recent demonstration of Chinese strategic posture in an obvious attempt to eclipse the Panama Canal and possibly stage-manage a major shipping route that would connect the Caribbean Sea to the Pacific Ocean. In June 2013, Nicaragua's General Assembly approved a Bill to grant a 50 year concession to a private corporation , the Hong Kong Nicaragua Canal Development Company (HKND), headed by Chinese billionaire Wang Jing. At one point Russia had expressed an interest in this venture. However as of August 2015 no significant development has taken place. It is noteworthy that the terms of reference of this deal confer on the HKND group, "…the sole rights …to plan, design, construct and thereafter to operate and manage the Nicaragua Grand Canal and other related projects including ports , a free trade zone, an international airport and other infrastructural development projects…"

Taken in tandem these highly visible port projects and others on the mainland in places like Colombia, Peru, Chile, Ecuador and Mexico are making the region more connected and accessible and serve as a prognostication of much awaited expanded commerce between the Caribbean and Latin America and booming Asian markets . The region's strategic geography in combination with China's market-oriented approaches have undoubtedly provided a boon in making this possible.

The Taiwan Issue

Intra-regional dynamics is also visible in the sphere of an Asian policy. The failure within CARICOM to arrive at a consensus on the China-Taiwan issue works to the detriment of the region by amplifying divided loyalties and shifting priorities at Community and local levels. Of the fifteen members of CARICOM, four currently have diplomatic relations with Taiwan while eleven maintain diplomatic ties with the P.R.C. At Community level, under the Revised treaty of Chaguaramas that establishes CARICOM, signatories of the 15 member bloc commit to "enhanced coordination of member states' foreign and (foreign) economic policies." Despite this there is ambivalence surrounding the issue at subregional levels primarily among the Organization of Eastern Caribbean States (OECS) which comprises six independent countries. So that despite the obligations of signatories under two treaties, in the case of CARICOM to "harmonize" foreign policy; and in the case of the OECS compact to "coordinate" their foreign policy , neither the letter nor the spirit is upheld in the China-Taiwan issue and this has delayed the formulation of a cohesive policy towards Asia.

Once again, Beijing's largesse fostered by the Chinese Communist Party (CCP), state-backed banks and pro-establishment corporations appears to have created fissures in the region that go beyond the incentivization of governments to precipitating spirited competition that erodes attempts for more coordinated approaches to trade and economic foreign relations.

Furthermore, a closer scrutiny of bilateral trade arrangements discloses that Chinese trade and investment agreements with Caribbean countries restrict knowledge and technology transfer, and in lieu of this, insist upon the hiring of Chinese nationals as a pre-condition. Invariably, this restriction works to the disadvantage of the local employment market and breeds disaffection among nationals, often drawing heated protests, as obtained in the Bahamas and Guyana, which are by no means singular examples.

## Assessment and Recommendations

Proximity, vulnerability and instability have made the Caribbean Basin of particular strategic interest to the United States and it is primarily for this reason the U.S. Congress has approved an array of trade preference programs. The economic and political stability of the Caribbean is vital to U.S. security interests and trade relations and this was the underpinning factor in the Monroe Doctrine which is motivated by commercial, political and security interests. Against this setting unilateral trade preferences became integral to the U.S. foreign economic policy. These types of trade arrangements give market access to selected developing country goods, duty free or at tariffs below normal rates, without requiring reciprocal trade concessions. These arrangements have taken many forms with the common goal of promoting economic growth and development in poor and developing countries.

As I have previously iterated, attention must now be directed to the wider financial landscape where changes have led to increasing complexities for the region regarding how to combine financing options under a coordinated architecture in an environment in which domestic resource mobilization must be treated as a key pillar for development. Let us therefore consider some of the principal trade preferences that have been implemented in U.S-Caribbean trade relations, what lessons can be learnt from them and how this could inform future trade arrangements between the United States and the Caribbean.

Chairman , I wish to recall that in 1964 the U.S. government ushered in the preferential tariff program based on production sharing. The Caribbean Basin and Mexico were early beneficiaries of this agreement whose major advantage was in production sharing based on a mutually competitive business strategy, proximity, and low transportation costs. By the 1970s there was a shift in policy to preference programs, that is to say, unilateral trade preferences as a form of development assistance. This materialized with the Generalized System of Preferences (GSP) under the auspices of the General Agreement on Tariffs and Trade (GATT)which permitted developed countries to grant unilateral tariff preferences for selected imports for developing countries. The U.S. GSP Program which was, as previously alluded, driven by regional security needs, required Congressional approval and was last authorized through December 31, 2010.

In the early eighties concerns over the region's economic collapse and political radicalization resulted in attempts to usher in the Caribbean Basin Initiative (CBI) . Two points on this score must be made clear: the first is that the first bill of the CBI died in the 97th Congress due to objections raised by interests representing import competing firms to the proposed tax incentives, aid and trade preferences; the second is that the unpopularity of the Bill prompted the passage of the Caribbean Basin Economic Recoveries Act (CBERA 1983) which, like its precursor, drew stiff resistance from U.S. textile and labor interests and ultimately had to be radically scaled back to modest duty-free treatment for a mere 10 percent of Caribbean exports. Twenty-seven countries, including members of the CARICOM bloc, were beneficiaries of this pact. All were eligible for duty-free or reduced duty access for selected exports, provided that they satisfied specific U.S. requirements. This, Chairman, is a significant criterion given the non-doctrinaire posture attributed by the Chinese to related deals. Countries designated by Washington as "Communist countries;" those which had seized U.S. properties without compensation; nations that failed to recognize or enforce awards arbitrated in favor of U.S. citizens; those that afforded preferential treatment to goods from other countries to the detriment to U.S. commerce; broadcasted U.S. copyright material without permission; had not signed an extradition agreement with the United States; or had not taken steps to afford internationally recognized worker rights were automatically disentitled to benefitting from the program. A further caveat lay in exceptions imposed for specific articles defined by the Congress as "import sensitive." These included textile and apparel articles under the Multi Fiber Arrangement, petroleum products, footwear, handbags, luggage, flat goods, work gloves, leather wearing apparel, canned tuna, and watches or watch parts.

The Caribbean call for the inclusion of a greater number of Caribbean goods to qualify for additional tariff benefits to textiles, apparel, sugar, petroleum and leather goods and other items excluded from the 1983 legislation and appeals for CBERA to become a permanent program, did not go unheeded. This would find its way into amended legislation in which textiles and apparels were again removed making way for the passage instead of Title II of the Customs and Trade Act; tariff granted tariffs for certain items like handbags, luggage, flat goods, work gloves and leather goods and would be phased in over time ; reduced tariffs for items that eligible for GPS treatment; and fresh wave of limited benefits for ethanol products .

CBI, which had provided preferential entry into the United States for the majority of Caribbean exports was eventually eroded with the ushering in of NAFTA, the most glaring example being in the area of apparel exports . NAFTA provided to Mexico duty and quota free access for textile and apparel products in excess of that which was accorded to the Caribbean. This resulted in a situation in which Mexican apparel exports were growing at a rate three times that of the Caribbean. The Caribbean Textile Apparel Institute estimated that NAFTA had been a factor in the loss of roughly 123,000 jobs in the region and the closure of no less than 150 apparel factories. The situation was compounded by the challenge to the EU banana regime launched by a U.S –led coalition of Latin American countries. This second course of action precipitated the dismantlement of the banana industry in the Windward Islands, which accounted at time, for an estimated 16.5 percent of the GDP and 40 to 80 percent of total export earnings.

The Haitian Hemispheric Opportunity Through Partnership Encouragement Act of 2006( HOPE I) which was intended to introduce new trade preferences for Haiti also warrants special mention. This agreement was sui generis based on the fact that the United States is the main destination for Haitian apparel exports which comprise the country's dominant export sector, generating an estimated 80% of its foreign exchange. Added to this, the apparel sector provides a potential avenue for employment growth. With these concerns in view, HOPE I permits the duty free treatment for apparel imports in limited quantities assembled, knit-to-shape in Haiti with inputs from third-part countries, and countries outside the region that are not party to either a preferential trade arrangement or free trade arrangement with the United States. Taking all things into account, Congress amended the CBERA at its 109th.Session with the passage of HOPE I. The revised legislation provided enhanced benefits for Haitian goods in the form of duty- free treatment for select apparel imports made in part from a less expensive country, and yarns and fabrics provided that Haiti met the eligibility criteria relating to core labor rights, human rights and anti-poverty policies.

In order to ensure the full realization of HOPE I, HOPE II was introduced with the specific aim of making the rules and Regulations under the Food, Conservation and Energy Act of 2008 simpler and more flexible. HOPE II required Haiti to create a new apparel sector monitoring program and labor Ombudsman to ensure that country' compliance with internationally recognized core labor principles. Thereafter and following the earthquake in 2010, Congress enacted the Haiti Economic Lift Program (HELP) by amending the HOPE Act to provide for more free-handed trade preferences aimed at encouraging increased investment in the country's apparel assembly businesses that would ultimately contribute to increases in output, exports and employment.

Another more recent shift in the U.S.-led trade preference landscape occurred when the Dominican Republic Central America United States Free trade Agreement

(CAFTA-DR) was launched on March 01, 2006. This agreement has resulted in nearly full free trade between the U.S. and partner countries once fully implemented. Provisions covering textile and apparel , the largest import category for the region, were made permanent and provided that components are sourced from any one of the member countries the finished assembled product can be exported to the United States, duty free.

This review is by no means exhaustive but provides a fair snapshot of policies pursued by the U.S. to promote more diversified and multi-track trade preference programs and free trade agreements in its efforts to increase imports from partners in the hemisphere. It also demonstrates the fact that there is a viable and reciprocal trade relationship between the United States and regional partners based on reciprocity and that from time to time positions must be negotiated based on converging an diverging interests.

Chairman, U.S. policies are logically driven by U.S. interests in much the same way as China's policies are driven by Chinese interests. The Caribbean in turn has to charter a course for itself to achieve a win-win.

## Recommendations on How to Rebalance

It is obvious that since the 1990s, trade integration has resulted in cooperation among Latin American and Caribbean partners and that many countries have pursued a multi-tiered liberalization strategy comprising a combination of unilateral opening; regional trade agreements inclusive of free trade arrangements ; customs unions exemplified among our MERCOSUR partners further south; common markets; and multilateral trade liberalization under the WTO. But this has not adequately supported the interests of the smaller countries. Neither have sub-regional integration initiatives – among which is the Caribbean Single market and Economy - achieved the set goals.

Pragmatic alternatives must now be considered: consolidating trade preferences and moving towards deeper common markets is one option. Another is devising politically feasible solutions in response to the proliferation of preferential trade Agreements in the form of "convergence" – a process by which regional Free Trade Areas could become connected to each other with tariff elimination being a pre-condition.

However, China is ubiquitous to this debate given its impressive market penetration into critical strategic areas and the fact that the P.R.C. now has to protect and consolidate its investments. To compound this, the lack of adequate physical infrastructure and less than robust trade links in the Caribbean (and to a large extent Latin America) precludes closer integration. This contrasts with Asia's engine growth which is largely fuelled by robust infrastructure and a complex network of vertical supply chains that contribute to intra-firm and intra-industry trade and integrated cross-supply chains - these very assets that are foundational for 21$^{st}$

Century sustainable development in the region. China recognizes this and has adopted a futuristic outlook, positioning itself for a multipolar world in which Asia would assume preeminence, economically speaking. Here is where the Caribbean-Pacific gateway becomes crucial.

A Congressional Research Paper entitled “U.S. Trade Policy and the Caribbean: From Trade Preferences to Free trade Agreements” produced in January 2011 by J.J. Hornbeck, Specialist in International Trade and Finance, anatomizes successive U.S. trade agreements and policy options that can inform the way ahead , when the “design flaws” of tariff preference programs of the past are taken into account. Admitting that structural design flaws in Caribbean tariff preference programs can limit the effectiveness of unilateral trade, Hornbeck believes that given the proliferation of large low-cost Asian producers and the increasing substitution by the United States of the reciprocal Free Trade Agreements the strategy of selective export and economic growth may have run its full course. Three options on the way ahead were raised.

The first option was to allow the trade preference programs to expire - was rejected previously rejected by Congress on grounds that such course of action is likely to trigger a potential bi-lateral FTA. The second was to redefine the unilateral preference programs – raises another range of concerns. The argument was that except for energy and chemical exports which comprise just short of 80% of CARICOM’s merchandize exports to the U.S. , barring the CAFTA-DR the remaining CBI countries will have little to take advantage of. It is unlikely that Caribbean countries could benefit considerably under apparel goods which currently amount to less than 5% of CBI exports. The third was a possible U.S. – CARICOM FTA.

Key to all of this is that CARICOM nations have a large service sector, with a focus on tourism, financial and professional services. As already discussed, labor costs and the cost of transportation and energy erode competitiveness. This is a given. Hence, a U.S. market for goods emanating out of CARICOM becomes less incentivized. Another critical concern is the diversity and disparity between countries with the most vulnerable smaller countries disposed to reticence in renegotiating; the more developed countries like Trinidad and Tobago more amenable to an FTA, but less so than natural resource-based countries like Guyana and Jamaica.

## The Caribbean Basin Security Initiative

In light of the above, my view is that at this critical point in time the U.S. could exploit its already deepened security relationships with the Caribbean which are rooted in Inter-American idealism, common concerns and a rich history of interoperability among our security forces and agencies . Given the shifting priorities of regional leaders, prevailing economic disparities, a situation of outward bound regionalisms whereby countries are members of overlapping blocs (not all of which share the same ideological persuasions) compounded by the slowing down of the U.S. economy, the most feasible option would appear to be for us to “close ranks” and recalibrate and consolidate those efforts that are grounded in common concerns such as transborder criminality as a case in point.

Members of this House may recall that in 2010 the Caribbean Basin Security Initiative (CBSI) was launched at a time when Caribbean societies were reeling under an unprecedented surge in gun-related murders and violence and renewed waves in the illicit drugs and firearms trade. The initiative was part of wider hemispheric responses to increase public safety and security and promote social justice. An initial appropriation of US $43 million was allocated to the program in 2010 to be increased to $79 million in the following year. At a Round Table hosted by the Institute of National Strategic Studies (INSS) in Spring of 2010 precursory to the CBSI launch to discuss ways and means of enhancing North South dialogue, I called attention to the need for programmatic responses that were aligned with the concerns of regional governments noting, among other things, that -

“*A US conceived region-wide strategy that aims at responding should ideally be complementary to the security concerns of regional governments.”*

The Alpha Barrier of North South Dialogue (2010)

These views were shared with the U.S. Ambassador in Port of Spain in 2011. I recognized at that time, and still do, that security is indispensable to development and sustainable economic growth and equally vital to preserving peace and security and the attainment of good governance. In fact, none of these is mutually exclusive. This call is in alignment with President Obama’s undertaking at the Fifth Summit of the Americas hosted in Port of Spain, Trinidad in 2009 for *a new era of engagement* to achieve prosperity throughout the Americas and imputed a reframing of the discourse. CBSI committed to deepening security cooperation in the Caribbean and the cooperative dialogue process in order to sustain capabilities in (1) maritime and aerial security cooperation (2) law enforcement and capacity building (3) justice sector reform and (4) citizen security as a social dimension. However, we need to enlarge now upon CBSI’s goals and achievements which are essentials to economic recovery – this is every government’s top priority.

First: my appeal is for partners to recommit to the elementals of the Inter-American Democratic Charter - respect for the rule of law; human rights and fundamental freedoms; periodic free and fair elections; a pluralistc system of political parties; the separation and independence of powers and fundamental core values and values such as probity and transparency in governance. This is well in train. Then we adopt a programmatic approach to CBSI with focus placed on institutional strengthening of the regional security architecture while simultaneously building capacity at satellite bodies in each capital thereby preserving the legacy of Cricket World Cup which should not be allowed to go astray.

Reconsolidating this partnership would be a timely move in light of recent changes on the political landscape of Guyana and Trinidad and Tobago – which along with other partners provided the impetus and commitment for this effort. Of this we are assured.

Chairman, let me once more applaud the efforts of this Committee and record my appreciation for the opportunity to contribute my views and recommendations. I have the fullest confidence in the potential of a reinvigorated Caribbean-U.S. partnership under the umbrella of a revamped CBSI. May God continue to favor your arduous and unstinting efforts.

Thank you very much.

## SERENA ROSE JOSEPH-HARRIS
## CO-FOUNDER AND EXECUTIVE OFFICER,
## SIRIUS INTERNATIONAL (CARIBBEAN) DEFENCE CONTRACTORS LTD.

A former High Commissioner of the Republic of Trinidad and Tobago to the United Kingdom of Great Britain and Northern Ireland, Serena Joseph-Harris has contributed inter-governmentally in an array of leadership and advisory capacities including national security council advisor, strategic intelligence director, governmental expert on drug control, the combating of money laundering, terrorist financing and the illicit trafficking of small arms and light weapons. Ms Joseph-Harris is widely acknowledged in international, regional and bi-regional policy and expert group forums in the United Nations specifically in relation to disarmament affairs; the Organization of American States Inter-American Drug Abuse Control Commission where she served as Chair of the Governmental Experts Group of the Multilateral Evaluation Mechanism; and the European Union Latin America Caribbean Coordination and Cooperation Mechanism on Drugs where as Co-President representing Latin American and Caribbean interests she worked alongside the German and British Co-Presidencies in succession. She has consistently promoted dialogue, forged consensus and advanced clear-minded solutions to the welter of issues confronting governments in both hemisphere and maintains this legacy through her bureau, Sirius International.

As a keynote speaker and lecturer she has taken the podium at the Institute for National Strategic Studies (INSS) Washington D.C; the William J. Perry Centre for Hemispheric Defense Studies Washington D.C; the Royal United Services Institute for Defense and Security Studies (RUSI), Whitehall, London; the Royal Military College (RMC) Kingston, Ontario, and the Diplomatic Academy of the Caribbean sharing and exchanging ideas with teaching faculty, diplomatic professionals, research fellows, policy makers, defense planners, and intelligence analysts.

She is a member of the Friends of the Inter-American Democratic Charter, a group of former presidents, prime ministers and cabinet ministers who seek to increase the visibility and understanding of the Inter-American Democratic Charter and to more effectively prevent democratic tensions from erupting into crises. Members consult with one another and informally advise the Organization of American States (OAS) about challenges to democratic development in the Americas and engage in a variety of activities including private assessment visits to countries experiencing difficulties with democratic governance to draw attention to the potential contributions of the Democratic Charter.

Ms. Joseph-Harris is a prolific writer and her recently concluded title "The Twilight of America's Omnipresence: China's Aggrandizement in A New Era of Multipolarity" anatomizes with depth and precision the strategic inroads made by Beijing in the political, diplomatic, economic, and technological spheres and the decided challenges this is presenting to U.S. preeminence, and more so, to its pervasive and internationally dispersed ideological machinery.

United States House of Representatives
Committee on Foreign Affairs

**"TRUTH IN TESTIMONY" DISCLOSURE FORM**

*Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, as required by House rules.*

1. Date of Hearing: *Thursday 10th September, 2015*

2. Your Name: *Serena Joseph-Harris*

3. Organization or organizations you are representing:
   *Sirius International (Caribbean) Defense Contractors Ltd*

4. Since January 1, 2013, have you or your organization(s) received any Federal grants or contracts (including subgrants and subcontracts) related to the subject of the hearing or your representational capacity at the hearing? □ Yes ■ No *(select one)*

5. Since January 1, 2013, have you or your organization(s) received any contract or payment originating with a foreign government related to the subject of the hearing or your representational capacity at the hearing? □ Yes ■ No *(select one)*

6. If you answered "Yes" to either item 4 or 5, list the source and amount of each grant, contract, or payment. You may list additional grants, contracts, or payments on additional sheets.

7. Are you an active registrant under the Foreign Agents Registration Act (FARA)?
   □ Yes ■ No *(select one)*

Signature: ______________________

SERENA JOSEPH-HARRIS
04 SEPTEMBER 2015

*Please attach a copy of this form to your written testimony.*