JAMAICA INFRASTRUCTURE

Some background & context to Highway 2000 and proposed Transhipment Hub within the Portland Bight Protected Area by the China Harbour Engineering Company
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MEDIA RELEASE

OCG TO LAUNCH SPECIAL INVESTIGATION INTO AWARD OF US$400 MILLION JDIP CONTRACT TO CHEC AFTER WORKS PERMANENT SECRETARY FAILS TO SUBSTANTIATE PUBLIC STATEMENTS MADE BY WORKS MINISTER MIKE HENRY

Kingston; July 22, 2011 – The Office of the Contractor General (OCG) has taken the decision to launch a Special Investigation into the circumstances surrounding the award of a US$400 million Government contract to the China Harbour Engineering Company Limited (CHEC), for the execution of the Jamaica Development Infrastructure Programme (JDIP).

The OCG’s decision follows the failure of the Permanent Secretary in the Ministry of Transport and Works, Dr. Alwin Hales, to substantiate the widely published claims that were recently made by Minister of Transport and Works Mike Henry “…that the US$340 million loan being used to fund the (JDIP) project came from the China Exim Bank with a pre-condition for a Chinese firm of their choice to undertake the programme”. (OCG Emphasis).

The Minister, in making the claim, had publicly branded the OCG as being “manipulative and misleading in its publication of information” about the controversial JDIP. He had also said then that “… the process of selecting China Harbour was well known to the OCG”.

The Minister’s questionable statements were made on Monday, June 27, 2011, after the OCG had issued a Media Release on the same day in which it outlined several concerns regarding the JDIP. Among the OCG’s listed concerns was the following:

“One of the critical issues which is of prime concern to the OCG, regarding the JDIP, is that it represents the first occasion in the history of Jamaica that a major road works rehabilitation contract of this value and magnitude has been awarded by the Government of Jamaica to a single contracting entity, CHEC, and has been so awarded without competition. Indeed, it is important that the public is made aware of the fact that the National Contracts Commission (NCC), in its letter of January 20, 2010, written to the Ministry of Transport and Works, with copy to the NWA, expressly stated that it was ‘… concerned that a contract of this size (i.e. US$400 million) should be entered into without competition in order to ensure that value for money was being obtained’.”

When the Minister publicly claimed that it was the China Exim Bank that had imposed the selection of CHEC upon the Jamaican Government, the OCG’s concerns in the matter were heightened further,
particularly since a careful perusal, by the OCG, of the contractual and financing documentation which the Ministry had previously submitted to it, had failed to substantiate the Minister’s claims.

Consequently, and out of an abundance of caution, a decision was taken by Contractor General Greg Christie to write immediately to the Permanent Secretary in the Ministry of Transport and Works, Dr. Alwin Hales, to have him provide, among other things, documented proof of the Minister’s assertions.

By way of letter, dated June 28, 2011, the Permanent Secretary was requisitioned by the OCG to provide a “… comprehensive Executive Summary outlining, inter alia, …the specific provision, in the agreement between the GOJ and the Export-Import Bank of China, which imposes the pre-condition upon the Government of Jamaica to engage China Harbour Engineering Company”.

In his response of July 13, 2011, to the OCG, the Permanent Secretary failed to explicitly point the OCG to the provisions in the agreements which would lend credence to the Minister’s claims.

Consequently, by way of a further letter which was dated July 18, 2011, the OCG again wrote to the Permanent Secretary requiring him to “… respond clearly to the referenced request and provide the necessary explanation, in support of the said imposition, by no later than July 21, 2011”.

In his July 19, 2011 response to the OCG, which was hand-delivered to the OCG yesterday afternoon, the Permanent Secretary responded to the OCG, inter alia, in the following terms:

“... There are areas of the (news) reports (about Minister Henry’s statements) that conflict with the facts attending this issue. Accordingly, your request to be directed to the specific provision, in the agreement between the GOJ and the Export Import Bank of China, which imposes the pre-condition upon the Government of Jamaica to engage China Harbour Engineering Company Limited, cannot be fulfilled, as there is no such provision in the agreement”. (OCG Emphasis).

The commencement of the OCG’s Investigation will enable it to invoke its special powers under the Contractor General Act, as a Judge of the Supreme Court of Jamaica, to secure the information which it will now require to clarify the true circumstances surrounding the award of the JDIP contract to CHEC. Sworn statements, given under oath, on the pain of criminal prosecution, will be solicited by the OCG from several persons, inclusive of Minister Mike Henry and other senior public officials.

Section 4 (1) of the Contractor General Act mandates a Contractor General, acting on behalf of the Parliament of Jamaica, to ensure that Government contracts are awarded impartially and on merit and in circumstances that do not involve impropriety or irregularity.

-END-

Contact: The Communications Department, Office of the Contractor General of Jamaica
C/o Craig Beresford, Senior Director of Monitoring Operations, Corporate Communications and Special Projects
E-mail: communications@ocg.gov.jm Tel: 876-929-8560; Direct: 876-926-0034; Mobile: 876-564-1806
Our approach to 2011 is marked by a renewed sense of hope, which has been buttressed by our diligent efforts to implement measures that seek to advantageously position Jamaica for increased investment, even as the world continues to recover from the worst global economic crisis in 80 years.

As the government agency with responsibility for promoting business opportunities in Jamaica, JAMPRO has been streamlining its operations and refining its strategies with a view to achieving greater efficiency and effectiveness in investment promotion, facilitation and support services. Ranked as the leading investment promotion intermediary (IPI) in the Caribbean by the World Bank Group in 2009, JAMPRO participated in a regional workshop last year that sought to upgrade its skills and systems in an effort to attract a greater share of the market for foreign direct investment (FDI).

To better serve potential and existing investors, the agency recently launched the JAMPRO Interactive Investment Map, which is a resourceful online mapping tool that is accessible from our website at www.tradeandinvestjamaica.org. It serves as an aid in the investment decision-making process by providing a pictorial view and related data on key infrastructure and institutions, investment projects, lands for development, film locations and natural resources.

As part of a public-private sector collaborative aimed at capitalising in a tangible way from Brand Jamaica at the 2012 Olympics in London, JAMPRO and the Private Sector Organisation of Jamaica (PSOJ) will be embarking on an exciting promotional programme of investment and trade missions, as well as cultural and consumer events, to concretely connect Jamaica to the UK.

The aforementioned initiatives have placed JAMPRO in an excellent position to promote Jamaica’s many business opportunities while meeting the needs of investors, who will undoubtedly be impressed by the range of opportunities presented in this publication. Jamaica is ready to do business, and we look forward to developing mutually beneficial connections with discerning investment interests.

Efficient and Effective Investment Facilitation
Mrs. Sancia Bennett Templer
President, JAMPRO

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Jamaica, the largest English-speaking Caribbean Island, boasts the distinct qualities of a vibrant emerging market with enormous possibilities for trade and inward investment. Its comparative advantages that attract strategic investors and tourists include natural beauty, geographical location (only one hour and twenty minutes by air from Miami), time zone, English-speaking skilled labour force, strong financial services sector, the world’s seventh-largest natural harbour and mineral resource endowments, as well as a spirit of enterprise and well-established traditions of democracy and accountability.

These endowments have aided Jamaica’s rise as the hub for trade within the Caribbean Community and Common Market (CARICOM) and into a popular centre for some of the world’s major transnational corporations (TNCs). But Jamaica’s fortunes, like other small/open economies, depend heavily upon the health of the global economy, which is now recovering from the 2009 financial storms. The International Monetary Fund (IMF) expects global output and trade volume (goods and services) to increase by 4.4% and 7.1%, respectively, in 2011.

By contrast, the global economy and international trade fell by 0.6% and 10.7%, respectively, during 2009. Concurrently, external shocks negatively impacted Jamaica’s tourism receipts, remittances and the bauxite industry. Nonetheless, the number of tourist arrivals actually rose by 3.4% on an annual basis, whilst many other Caribbean Islands reported significant declines in 2009. Given benign global market conditions and the government’s commitment to macro-prudential policies, Jamaica is well positioned to attract Greenfield investments.

The country offers numerous foreign direct investment (FDI) opportunities in sectors such as infrastructure development, tourism, financial services, beverages, agro-business, base-metal processing, construction, private security information communication technology (ICT); and emerging sectors such as healthcare and education.

Jamaica’s close proximity to the North American Free Trade Agreement-NAFTA countries (the US, Canada and Mexico) provides ample scope to attract vertical
or asset-seeking FDI, which is export-oriented and involves relocating parts of the production chains to low-cost locations. The output is mainly exported to the investor’s home country and/or regional markets. Hence, FDI is unaffected by the host country’s market size. Jamaica is an ideal place for TNCs to base their Caribbean operations and tap into the wider NAFTA markets of 448mn customers worth some US$17 trillion – the world’s largest trading bloc.

It also enjoys favourable access to the US under the Caribbean Basin Trade Preferences. The island’s infrastructure is geared towards supporting output facilities and handling exports with good transport linkages both internal and external, utilities and access to communications. Unit labour costs and wages are moderate. Historically, relations with Britain are strong, with increasing numbers of UK nationals and corporates investing in real estate and tourism on the island.

INVESTING IN DURABLE RECOVERY

The government, led by Prime Minister Bruce Golding, is working towards achieving fiscal/debt sustainability and tackling development challenges with support from a 27-month IMF Standby Arrangement and budgetary support from the World Bank, the European Union (EU) and the Inter-American Development Bank (IADB). “Fiscal sustainability requires containing and reducing debt, enhancing government revenues and increasing the efficiency of public sector spending and investment”, advised the World Bank. At the core of reform is the new Fiscal Responsibility Framework, which seeks to cut public debt to below 100% of GDP by 2015/16 (from a peak of 139.8% in 2009/10).

The Jamaica Debt Exchange (JDX) programme involving outstanding public debt of J$1.26 trillion (US$14.2bn) was successfully concluded on February 24, 2010 with a participation rate of 99.2%. This national initiative will generate fiscal savings of 3% of GDP over 2010/11 and a 70% reduction in the amount of maturing debt over the medium-term. It also extended maturities on short-term instruments by over two years and reduced the interest rates by 7 and 2 percentage points respectively on outstanding domestic and US dollar denominated bonds. The fiscal savings will help divert funds for social and capital spending in the coming years.

The market’s confidence has been boosted by the JDX programme, thus Jamaica’s sovereign credit rating was upgraded to B- (with stable outlook) by Standard & Poor’s and Fitch Ratings. Most significantly, Jamaica’s debt-servicing record is

Jamaica continues to rank favourably in business/investment freedom indicators. The 2011 Index of Economic Freedom published by the US’s Heritage Foundation ranks it at 58 out of 79 countries.

ECONOMIC OVERVIEW
‘untarnished’ by defaults. The donors are pleased with Jamaica’s performance on the structural reform agenda. Jamaica has passed 4 consecutive rounds of the IMF’s quantitative performance assessment under the existing Stand-by Agreement, and an improvement in the perception of ‘country risk’ is reflected in lower yields on the Eurobonds. The Eurobond was reopened on 14 February and was oversubscribed.

Nominal gross domestic product (GDP) rose by two-fold between 2004/05 and 2009/10 and is projected by the IMF to reach J$1.23 trillion (US$14.2bn) in 2010/11 (ending March 31), representing a compound annual growth rate of 20.7%. Creative entrepreneurship, skilled-adjustable workforce and pro-business policies have supported dynamic expansion in the tourism, financial services, telecoms, and leisure and distribution sectors. Although services accounted for 60% of GDP in 2009, Jamaica also boasted a diversified manufacturing base. Export-free zones were created to encourage industrial diversification and FDI.

The Planning Institute of Jamaica (PIOJ) estimated that the goods-producing sector grew by 2% in 2010, driven by moderate growth in agriculture and mining. Bauxite output recovered after the reopening of the Windalco alumina refinery (majority-owned by Russia’s UC Rusal) and the expansion in hotels and restaurants was helped by positive trends in tourism. According to PIOJ, stopover arrivals rose by 3.1% to about 2mn visitors – equivalent to 70% of Jamaica’s total population – while tourist spending increased by 1.9%, thanks to intensified marketing efforts and discounts by hoteliers.

An upturn in economic activity led to the creation of 21,000 jobs, in net terms, after consecutive quarters of job losses. Overall, real GDP growth is conservatively forecast at 1.8% in 2011/12, edging up to 2% in 2012/13. CPI inflation and interest rates are falling, which in turn, should revive private consumption and boost lending for micro, small and medium-sized enterprises (MSMEs) – the engine of job creation. The Jamaican dollar is relatively stable versus the US greenback. The Bank of Jamaica (BoJ) is likely to sanction further cuts in policy rate in the near-term. In late 2010, the central bank’s policy rate stood at 7.5%.

A SAFE FDI DESTINATION

Jamaica has a track record of implementing micro-business reforms that underpin private enterprise and FDI. Many sectors are fully accessible to prospective investors, though media, life insurance and mining are subject to some restrictions. The FDI code encourages inward investments, guarantees capital repatriation, compensation (if a property is expropriated) and the ‘equal treatment’ of all investors with respect to fiscal incentives. There are no limits on the foreign control of companies and non-residents can purchase real estate. The legal system upholds the sanctity of contracts.

The tax regime offers added incentives such as tax holidays, duty concessions on imports of capital goods and other preferences targeted at key sectors – notably tourism, manufacturing, mining/energy, infrastructure, agro-business and ICT, coupled with an investor-friendly environment that is not stifled by heavy red tape.

The UN Conference on Trade and Development (UNCTAD) figures put total...
The key success factor for foreign investors in Jamaica is simply the good returns on capital. 

Net FDI during 2000-09 at US$7.82bn (see Table 3). Indeed the total 2009 FDI stock (US$11bn-plus) to GDP ratio (84.5%) was among the highest in the region. The key success factor for foreign investors in Jamaica is simply ‘the good returns on capital’. Retained earnings account for larger chunks of inward investment.

Jamaica is the International Finance Corporation (IFC) second-largest country exposure in the English-Speaking Caribbean, behind Trinidad and Tobago, with a portfolio of US$1.37bn at end-2009. The IFC, the private-sector arm of the World Bank, has invested US$85mn (including US$20mn in syndications) for the development of the Montego Bay Airport, as well as US$73mn in Jamaica Energy Partners (JEP). In 2010, it approved US$25mn in new commitments for the Montego Bay airport expansion and credit/equity to First Global Bank. IFC is also providing advisory services on the privatisation of Air Jamaica, the national carrier, and a number of other state-owned enterprises.

The Multilateral Investment Guarantee Agency (MIGA) provides demand-driven guarantees to Jamaican-based projects, mainly in the tourism, financial services, and power sectors. Its portfolio includes a total guarantee exposure of US$72.2mn. Recent projects include guarantees for the financing of two stages of the expansion of the Kingston Port Container Terminal. MIGA’s online investment promotion services feature 100 documents on public-private investment opportunities and the legal and regulatory environment in Jamaica.

For strategic investors, privatisation offers outlets to acquire undervalued assets that could be turned to profitability after restructuring and capital injections. The Development Bank of Jamaica is responsible for the divestment of state assets. Potential candidates include

BOOSTING COMPETITIVENESS INDEX

Jamaica continues to rank favourably in business/investment freedom indicators. The 2011 Index of Economic Freedom, published by the US’s Heritage Foundation, ranks it (58) out of 179 countries, which is higher than some EU members, for example, France (64); Portugal (69); Italy (87) and Greece (88). Procedures for conducting a business are straightforward and simple. The legal system is based on English common law and regulations on working hours are flexible.

The World Bank’s Doing Business 2011 survey ranked Jamaica in the upper half of 183 economies on the ease of doing business for the period April 2009-June 2010. Its global ranking (81) exceeded regional peers – Dominican Republic (91); and Trinidad & Tobago (97). On several criteria such as business start-up –

ECONOMIC OVERVIEW
ups, obtaining construction permits, registering property, enforcing contracts and bankruptcy law, Jamaica scores above the regional average (see Table 6).

The overall rating is undermined by high top corporate tax rate (33.3%), plus other taxes on property transfer and interest. Moreover, higher trading costs impact export competitiveness, despite the island’s strategic geographic location. Excess administrative costs in paying taxes are a major hurdle for businesses. The government recognises the need to simplify a complicated tax system. Development partners are advising on the simplification of tax payment procedures, which should improve business climate indicators.

However, to restore sustained job-creating growth, Jamaica needs to improve competitiveness in trade and productivity through innovations and market efficiency. Minh Pham of the United Nations Development Programme (UNDP) in Kingston believes: “With the right measures, implemented effectively and in tandem, Jamaica can create a momentum that finally sets the country on the long-hoped-for path of development for all.”

SMALL BUT PRUDENT BANKS

Jamaica ranks relatively well in ‘financial market development’ – reflected in sound/well-capitalised banks and a developed stock exchange in Kingston. Five of the seven banks are foreign owned – with the three top lenders (National Commercial Bank of Jamaica Ltd, Scotia Group Jamaica Ltd and Pan Caribbean Financial Services Ltd) accounting for over 80% of total assets. These banks provide corporate, retail and trade financial services that are similar to OECD banks. They rely on local deposits for funding domestic activities; credit to the private sector in 2009/10 totalled J$49bn, up from J$33bn on previous year.

The ongoing efforts to improve the regulatory framework for the banking sector are reflected in the passage of a Credit Reporting Bill and reform of the National Payments System. The banks, however, were not immune to global crises. Consequently, non-performing loans (NPLs) as a percentage of total credit jumped from 2.2% in June 2008 to 5.7% in September 2010, whilst the ratio of bad debt provisions over NPLs declined from 120% to 71% over the same period, according to the BoJ. Fortunately, Jamaican-run banks, unlike their European and US counterparts did not face ‘systematic risks’ during global crises.

THE NATIONAL AGENDA

The country’s first longer-term strategy “Vision 2030” (launched in 2008) aims to transform the economy from one fuelled largely on exploiting “basis factors” – notably sun/sand tourism, mineral deposits and basic agricultural commodities – to one that is chiefly based on higher forms of capital, including human skills, knowledge and institutional – thereby capable of sustaining its own development and achieving OECD se d ace d o w t  tx e n e ht  rev o s u tat s  yr tn u o c

The Vision’s four ‘pillars’ are: a robust productive economy that helps nationals to realise their full potential; human development seeks to build world-class educational (especially science/technology) and health services; effective governance and public institutions to channel resources to priority sectors with
ECONOMIC OVERVIEW

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High domestic input costs (mainly electricity) adversely affect Jamaica’s competitiveness. The country needs to commission about 300MW of new generation capacity over the medium-term to meet demand and to replace costly generating installations. Public-Private Partnerships (PPPs) in energy, transport and telecoms sectors will help in infrastructure development. Jamaica is promoting liquefied natural gas (LNG) as a fuel for future power generation. The offshore areas offer scope for oil-gas exploration programme.

Jamaica can set up aluminium smelters with its known bauxite deposits. Similarly, sea salt reserves along the coastline could be used to produce caustic soda (a vital raw material for the soap/detergent industry). It also possesses marble and limestone for roads and housing construction. Such activities are labour-intensive. A skilled workforce and fairly good infrastructure can help develop export capacity in manufactured products and agriculture, too, offers value-added agro-processing activities.

Jamaica’s market share of regional tourism has steadily increased in recent years. But it has not fully tapped the market for ‘culture-oriented’ tourism, which offers potential, especially in rural areas that could be promoted and developed. The U.N. World Tourism Organisation study “Impact of the Global Economic Crisis on Local Tourism Destinations,” revealed marked trends within the industry; it showed sluggish growth of the Sun, Sand and Sea market – rising by 2-3% a year in the Caribbean, in the decade before the onset of global crises. In contrast, tourism focused on nature, cultural and adventure grew at robust 15-20% and is more resilient to unexpected downturns in travel demand.

In the aftermath of global recession, Jamaica stands at a crucial stage in its development. Achieving a higher ‘self-sustaining’ growth, reducing output volatility and greater social harmony are key challenges. This island-nation, among the pioneers of globalisation, is firmly on a growth path and has a strong resolve to expand trade and attract productive investment in the coming years.
### Economic Overview

#### Table 1: Key Macroeconomic & Financial Indicators

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<td><strong>Nominal Gross Domestic Product (GDP)</strong></td>
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<tr>
<td>(in billions of Jamaican Dollars)&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1,028</td>
<td>1,112</td>
<td>1,234</td>
<td>1,356</td>
<td>1,477</td>
</tr>
<tr>
<td>(in millions of U.S. dollars)</td>
<td>13,586</td>
<td>12,510</td>
<td>14,211</td>
<td>15,256</td>
<td>16,400</td>
</tr>
<tr>
<td><strong>Nominal GDP growth (annual % chg)</strong></td>
<td>12.1</td>
<td>8.2</td>
<td>11.0</td>
<td>10.0</td>
<td>9.0</td>
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<tr>
<td><strong>Consumer Prices (period average)</strong></td>
<td>20.2</td>
<td>9.7</td>
<td>11.1</td>
<td>7.0</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Real GDP Growth (annual % chg)</strong></td>
<td>-1.7</td>
<td>-2.5</td>
<td>-0.1</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Gross Fixed Capital Formation (%) of GDP</strong></td>
<td>25.0</td>
<td>26.0</td>
<td>27.0</td>
<td>27.5</td>
<td>28.0</td>
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#### Government Operations (% of GDP)

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<tr>
<td><strong>Budgetary Revenue and Grants</strong></td>
<td>26.9</td>
<td>27.0</td>
<td>26.0</td>
<td>26.2</td>
<td>26.3</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>34.3</td>
<td>37.9</td>
<td>32.3</td>
<td>28.5</td>
<td>26.5</td>
</tr>
<tr>
<td><strong>o/w Primary Expenditure</strong></td>
<td>22.0</td>
<td>20.9</td>
<td>21.1</td>
<td>19.3</td>
<td>18.9</td>
</tr>
<tr>
<td><strong>Overall Fiscal Balance</strong></td>
<td>-7.4</td>
<td>-10.9</td>
<td>-6.3</td>
<td>-2.3</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>Gross Financing Needs, J$ billions</strong></td>
<td>180.7</td>
<td>290.6</td>
<td>179.2</td>
<td>152.1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Government Debt, excl. IMF, J$ billions</strong></td>
<td>1,119</td>
<td>1,266</td>
<td>1,361</td>
<td>1,406</td>
<td>-</td>
</tr>
<tr>
<td><strong>Public Sector Debt (%) of GDP</strong></td>
<td>108.8</td>
<td>113.8</td>
<td>110.3</td>
<td>103.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Overall Fiscal Balance, % of GDP</strong></td>
<td>21.5</td>
<td>10.5</td>
<td>7.5</td>
<td>6.0</td>
<td>5.0</td>
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<sup>1</sup>JAMAICA has the second-largest GDP of the Commonwealth Caribbean after Trinidad & Tobago. Fiscal years run from April 1st to March 31. 

#### Table 2: Balance of Payments & External Debt

( IN US$MN, UNLESS OTHERWISE INDICATED)

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<td><strong>Exports, fob.</strong></td>
<td>2,315</td>
<td>1,406</td>
<td>1,648</td>
<td>1,939</td>
<td>2,202</td>
</tr>
<tr>
<td><strong>Imports, f.o.b.</strong></td>
<td>6,786</td>
<td>4,425</td>
<td>4,920</td>
<td>5,314</td>
<td>7,280</td>
</tr>
<tr>
<td><strong>Merchandise Trade Balance</strong></td>
<td>-4,471</td>
<td>-3,019</td>
<td>-3,272</td>
<td>-3,375</td>
<td>-5,078</td>
</tr>
<tr>
<td><strong>Total Foreign Trade (%) of GDP</strong></td>
<td>67.0</td>
<td>46.6</td>
<td>46.2</td>
<td>47.5</td>
<td>57.8</td>
</tr>
<tr>
<td><strong>Tourism Receipts</strong></td>
<td>1,939</td>
<td>1,964</td>
<td>1,960</td>
<td>2,212</td>
<td>-</td>
</tr>
<tr>
<td><strong>Private Transfers (net)</strong></td>
<td>1,955</td>
<td>1,761</td>
<td>1,905</td>
<td>1,913</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current Account Balance</strong></td>
<td>-2,497</td>
<td>-932</td>
<td>-1,000</td>
<td>-1,017</td>
<td>-984</td>
</tr>
<tr>
<td><strong>As percent of GDP</strong></td>
<td>-18.4</td>
<td>-7.4</td>
<td>-7.7</td>
<td>-6.7</td>
<td>-6.0</td>
</tr>
<tr>
<td><strong>Gross External Financing Need</strong></td>
<td>3,000</td>
<td>1,300</td>
<td>1,500</td>
<td>1,600</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>As percent of GDP</strong></td>
<td>22.1</td>
<td>10.4</td>
<td>10.5</td>
<td>10.4</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Gross International Reserves</strong></td>
<td>1,644</td>
<td>2,434</td>
<td>3,268</td>
<td>3,602</td>
<td>3,494</td>
</tr>
<tr>
<td><strong>FX Reserves (in months of imports)</strong></td>
<td>2.9</td>
<td>6.3</td>
<td>8.0</td>
<td>8.1</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Public External Debt</strong></td>
<td>6,983</td>
<td>8,569</td>
<td>9,947</td>
<td>10,480</td>
<td>11,267</td>
</tr>
<tr>
<td><strong>Total Debt Stock (%) of GDP</strong></td>
<td>51.4</td>
<td>68.5</td>
<td>70.0</td>
<td>68.7</td>
<td>65.4</td>
</tr>
<tr>
<td><strong>External Debt Services</strong></td>
<td>1,438</td>
<td>685.7</td>
<td>503.7</td>
<td>846.5</td>
<td>960.8</td>
</tr>
<tr>
<td><strong>Debt service ratio (%)&lt;sup&gt;2&lt;/sup&gt;</strong></td>
<td>33.6</td>
<td>16.8</td>
<td>11.9</td>
<td>17.2</td>
<td>18.4</td>
</tr>
</tbody>
</table>

<sup>2</sup>Scheduled debt service (principal & interest) as % of total exports.

Sources: IMF, World Bank, Jamaican authorities and private estimates.

Main Export Commodities: Alumina, Bauxite, Sugar, Rum, Coffee, Yams, Beverages, Chemicals, Wearing/Apparel, Mineral fuels.

Main Import Commodities: Food & other consumer goods, Industrial supplies, Fuels, Parts & accessories of capital goods, Machinery & Transport equip, Construction materials.

---

**Note:** The table provides an overview of key economic indicators and financial metrics for Jamaica, focusing on nominal GDP, consumer prices, real GDP growth, fiscal operations, government debt, and balance of payments. Additional details include projections for select years and specific data points for exports, imports, tourism receipts, and debt service ratios. The data is sourced from international and local authorities, with notes on data completeness and source reliability provided.
### TABLE 3: FDI INFLOWS TO JAMAICA (US$MN)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2000-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward FDI (net)(^{(1)})</td>
<td>469</td>
<td>721</td>
<td>682</td>
<td>867</td>
<td>1,062</td>
<td>126.4</td>
</tr>
<tr>
<td>Total FDI stock(^{(2)})</td>
<td>3,317</td>
<td>4,930</td>
<td>6,335</td>
<td>8,580</td>
<td>11,166</td>
<td>236.6</td>
</tr>
<tr>
<td>As (%) of GDP</td>
<td>42.0</td>
<td>62.4</td>
<td>65.1</td>
<td>66.5</td>
<td>84.5</td>
<td>-</td>
</tr>
</tbody>
</table>

**Sources:** UNCTAD World Investment Reports.

\(^{(1)}\) After repatriation of interest, profits and dividends (IPDs).

\(^{(2)}\) FDI stock represents the value of the share of affiliate enterprise at book value or historical cost, reflecting prices at the time when the investment was made and reserves (including retained profits) attributable to the parent firm, plus net indebtedness of the affiliate to the parent company.

### TABLE 4: FINANCIAL SECTOR INDICATORS\(^{(1)}\) (IN PERCENT)

<table>
<thead>
<tr>
<th></th>
<th>Dec-09</th>
<th>Mar-10</th>
<th>Jun-10</th>
<th>Sep-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet Growth (yr-on-yr)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Base</td>
<td>14.6</td>
<td>11.6</td>
<td>11.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Non-performing Loans (NPLs)(^{(2)})</td>
<td>65.1</td>
<td>78.0</td>
<td>40.2</td>
<td>39.1</td>
</tr>
<tr>
<td>Liquidy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans/Deposit Ratio</td>
<td>73.9</td>
<td>70.1</td>
<td>69.2</td>
<td>69.7</td>
</tr>
<tr>
<td>Asset Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for Bad Debts/NPLs</td>
<td>75.0</td>
<td>70.0</td>
<td>70.3</td>
<td>71.4</td>
</tr>
<tr>
<td>NPLs to Total Loans</td>
<td>4.6</td>
<td>5.5</td>
<td>5.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Capital Base</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Base/Total Assets</td>
<td>10.4</td>
<td>10.3</td>
<td>10.8</td>
<td>10.9</td>
</tr>
<tr>
<td>Capital Adequacy Ratio (CAR)</td>
<td>189</td>
<td>187</td>
<td>198</td>
<td>19.6</td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-tax Profit Margin</td>
<td>17.8</td>
<td>17.8</td>
<td>21.2</td>
<td>23.8</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>0.6</td>
<td>0.5</td>
<td>0.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Includes Commercial Banks, Merchant Banks and Building Societies.

\(^{(2)}\) Non-performing loans are bad debts – (typically in interest arrears for 90 days or more). Banks are required to cover these credit losses commonly referred to as “Expected Losses” on an ongoing basis by provisions & write-offs.

**Source:** The Bank of Jamaica.

### TABLE 5: SECURITIES INDUSTRY FINANCIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>Dec-09</th>
<th>Mar-10</th>
<th>Jun-10</th>
<th>Sep-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds Under Management (FUM)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in billions of Jamaican Dollars)</td>
<td>610.1</td>
<td>610.7</td>
<td>614.5</td>
<td>579.8</td>
</tr>
<tr>
<td>(in millions of U.S. dollars)</td>
<td>6,830</td>
<td>6,837</td>
<td>7,167</td>
<td>6,740</td>
</tr>
<tr>
<td>(In percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital to Risked Weighted Assets</td>
<td>64.5</td>
<td>67.2</td>
<td>56.4</td>
<td>56.6</td>
</tr>
<tr>
<td>Capital to Total Assets</td>
<td>9.9</td>
<td>10.3</td>
<td>11.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Net Profit to FUM</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Net Interest Income to FUM</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

**Source:** The Bank of Jamaica.
# ECONOMIC OVERVIEW

## TABLE 6: JAMAICA’S BUSINESS DATA

<table>
<thead>
<tr>
<th>Services</th>
<th>Jamaica</th>
<th>Latin America &amp; Caribbean</th>
<th>OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Starting a Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>6.0</td>
<td>9.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Duration (days)</td>
<td>8.0</td>
<td>56.7</td>
<td>13.8</td>
</tr>
<tr>
<td>Cost (% of GNI per capita)</td>
<td>5.2</td>
<td>36.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Paid in min. capital (% of per capita)</td>
<td>0.0</td>
<td>4.6</td>
<td>15.3</td>
</tr>
<tr>
<td><strong>Dealing with Construction Permits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>10.0</td>
<td>16.6</td>
<td>15.8</td>
</tr>
<tr>
<td>Duration (days)</td>
<td>156.0</td>
<td>220.0</td>
<td>166.3</td>
</tr>
<tr>
<td>Cost (% of income per capita)</td>
<td>258.3</td>
<td>191.1</td>
<td>62.1</td>
</tr>
<tr>
<td><strong>Registering Property</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>6.0</td>
<td>6.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Duration (days)</td>
<td>37.0</td>
<td>68.6</td>
<td>32.7</td>
</tr>
<tr>
<td>Cost (% of property value)</td>
<td>7.5</td>
<td>5.9</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Paying Taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments (number per year)</td>
<td>72.0</td>
<td>33.2</td>
<td>14.2</td>
</tr>
<tr>
<td>Time (hours per year)</td>
<td>414.0</td>
<td>384.7</td>
<td>199.3</td>
</tr>
<tr>
<td>Profit tax (%)</td>
<td>28.6</td>
<td>20.9</td>
<td>16.8</td>
</tr>
<tr>
<td>Labour tax and contributions (%)</td>
<td>13.0</td>
<td>14.7</td>
<td>23.3</td>
</tr>
<tr>
<td>Other taxes (%)</td>
<td>8.5</td>
<td>12.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Total tax rate (% profit)</td>
<td>50.1</td>
<td>48.0</td>
<td>43.0</td>
</tr>
<tr>
<td><strong>Trading Across Borders</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documents for exports (number)</td>
<td>6.0</td>
<td>6.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Time for exports (days)</td>
<td>21.0</td>
<td>18.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Cost to export (US$ per container)</td>
<td>1,750.0</td>
<td>1,228.3</td>
<td>1,058.7</td>
</tr>
<tr>
<td>Documents for import (number)</td>
<td>6.0</td>
<td>7.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Time for import (days)</td>
<td>22.0</td>
<td>20.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Cost to import (US$ per container)</td>
<td>1,420.0</td>
<td>1,488.0</td>
<td>1,106.3</td>
</tr>
<tr>
<td><strong>Enforcing Contracts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>35.0</td>
<td>39.8</td>
<td>31.2</td>
</tr>
<tr>
<td>Duration (days)</td>
<td>655.0</td>
<td>707.0</td>
<td>517.5</td>
</tr>
<tr>
<td>Cost to enforce; in (% of claim)</td>
<td>45.6</td>
<td>31.2</td>
<td>19.2</td>
</tr>
<tr>
<td><strong>Protecting Investors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of disclosure index(^a)</td>
<td>4.0</td>
<td>4.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Extent of director liability index(^a)</td>
<td>8.0</td>
<td>5.3</td>
<td>5.2</td>
</tr>
<tr>
<td>Ease of shareholder suits index(^b)</td>
<td>4.0</td>
<td>6.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Strength of investor protection index(^a)</td>
<td>5.3</td>
<td>5.1</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Getting Credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strength of legal rights index(^a)</td>
<td>8.0</td>
<td>5.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Depth of credit information index(^a)</td>
<td>0.0</td>
<td>3.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Public registry coverage (% adults)</td>
<td>0.0</td>
<td>10.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Private bureau coverage (% adults)</td>
<td>0.0</td>
<td>31.5</td>
<td>61.0</td>
</tr>
<tr>
<td><strong>Closing a Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time (years)</td>
<td>1.1</td>
<td>3.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Cost (%) of estate</td>
<td>18.0</td>
<td>15.9</td>
<td>9.1</td>
</tr>
<tr>
<td>Recovery rate, cents on dollar</td>
<td>65.1</td>
<td>32.8</td>
<td>69.1</td>
</tr>
</tbody>
</table>

\(^a\)(0-10) - Most 10; Least 0-1. \(^b\)(0-6) - Scope and accessibility of credit information distributed by public credit registries and private credit bureaus; Most 6; Least 0-1.  

ECONOMIC OVERVIEW

**Chart 1: Surge in FDI Stock US$MN**

Source: UNCTAD World Investment Reports

**Chart 2: Domestic Interest Rates Are Falling**

Source: IMF, International Financial Statistics

**Chart 3: Main Destination of Exports (Percent of Total 2009)**

Source: IMF, Direction of Trade Statistics Yearbook

**Chart 4: Main Sources of Imports (Percent of Total 2009)**

Source: IMF, Direction of Trade Statistics Yearbook
Agriculture

Agriculture represents great potential for much of Jamaica’s future prosperity and prospective revenues. There are roughly 2.7 million acres of land in the country, of which 17% or 450,000 acres are considered arable.

Agricultural exports have generated some US$100mn per annum for the island over the last five years. Given the effects of globalisation and competing market demands, there are many ways that the sector can be diversified in order to improve its competitive advantage. The government of Jamaica supports this, and whilst ensuring that consistently high traditional exports such as coffee are maintained, focus is also being placed on increasing resources in areas such as organic farming, biotechnology and aquaculture, which enable the cultivation of plants that contain nutrients that can be extracted for the nutraceutical and functional foods industries.

The demand from overseas, as well as from the tourist trade, means that there will be a need for expansion and improved efficiency in the industry; Agriculture currently contributes 5.6% to the Jamaican economy and employs over 18% of the workforce, which is likely to increase. An example is in shrimp production, where tourism accounts for over 80% of the consumption of the product. With this high demand, which is likely to grow with the tourism industry, there is a need for investment in facilities that can farm shrimp on a sustainable basis to levels that are sufficient to meet current and future demand.

There are many examples around Jamaica of businesses that are looking for FDI in order to maximise their potential; one such example is the Sheep Farm Development Project. Between 2002 and 2006, import costs for lamb and mutton stood at J$2.35bn, whereas local production stood at only between J$1.5-2mn annually. Recognising that this as an unsustainable situation, the government is trying to boost local production in order to close the gap between imports and exports, respond to the demand from the tourist industry and others, and increase revenues for the island.

The Cocoa Industry Board of Jamaica is a member and signatory of the International Cocoa Organisation (ICCO). Only 17 countries that are producers of fine or flavoured cocoa are recognised by the ICCO, and Jamaica is recognised as one of eight exclusive producers of fine cocoa. Presently there are 11,000 farmers producing around 650 tons of cocoa, though there is a national capacity for the production of 1,400 tons. There is a drive within the sector to expand the cocoa industry by maximising production. This move, however, will require private sector investment through joint venture or equity partnerships.

With such a wealth of fertile land, Jamaica has yet to reach its potential in agricultural production. With the right level and type of investment, not only will Jamaica see its revenues from agriculture dramatically increase, but investors will see healthy, sustainable returns, plus associations with quality products that are recognised and respected around the globe.

Reorganisation and sustained, government-supported investment in the agricultural sector itself would result in significant increase in the island’s productivity. There are growing markets for Jamaica’s produce; the large, consistent tourist trade; inhabitants of Jamaica; the large markets of nearby USA, central and South America; countries around the world who are used to the quality goods that Jamaica produces; and the Diaspora populations, who are hungry for a taste of home.

JAMPRO is actively engaged in developing opportunities for Jamaican companies to leverage strong consumer demand for specialty foods in external markets. The primary focus is on market entry and partnership opportunities for individuals or clusters of companies dealing with functional foods, nutraceutical ingredients, seasonings, condiments, spices, and other authentic Jamaican food and beverages.

**INCENTIVES AND OPPORTUNITIES**

- The government has extended numerous incentives to investors in the agricultural sector, including income tax relief, duty concessions on production-related imports
- In a bid to improve competitiveness in international trade, the government has introduced online registration for importers and exporters that allows access to all trade-related agencies
- There is access to information on commerce and industry such as information on product marketing, trade statistics and government incentives
- Large scale improvements to the transport infrastructure and services
- Incentives to provide traders with information on financing and technical assistance
- Contract farming joint venture opportunities to produce crops all year round.
Creative Industries

Jamaica’s reputation as the ‘cultural mecca of the Caribbean’ has positioned the country’s Creative Industries as a key revenue generator with strong linkages potential to other areas of the economy. The island’s success in this regard is clearly demonstrated in its manifold creative offerings, which promote Jamaican culture and inventiveness to the world. The Creative Industries are those sectors that are born out of individual creativity, skill and talent and have the potential for wealth and job creation through the generation and exploitation of intellectual property. Chief among the core areas encompassed by the Creative Industries are Film, Music, Fashion and Sports.

FILM

Jamaica, with its cascading waterfalls, incredible beaches, green rolling mountains, caves, lagoons, mini-jungles, varied architecture and diverse flora and fauna, has been a premier choice for film production for over 50 years. The more than 3,200 projects that have been shot in Jamaica, which range from full length features and documentaries to television series and music videos, confirm the island’s status as a sought-after location. Hollywood movies such as Dr No, Golden Eye, How Stella Got Her Groove Back, License to Wed and Knight & Day were filmed in Jamaica. The island has even hosted prominent television dramas, such as the BBC’s Small Island, and reality shows, such as Bad Girls’ Club. Projects such as these have not only increased the island’s visibility as an investor-friendly, competitive and attractive filming destination, but have also aided in the dramatic growth of the industry.

Jamaicans are famous for their vibrant spirit, excellence, and creativity, which are attributes that combine to make Jamaica the production capital of the English-speaking Caribbean. A corps of skilled English-speaking professionals, trained and accredited in the latest film techniques, is available to work on location and post-production. Through JAMPRO’s Film Commission and other agencies, filmmakers can access a comprehensive suite of administrative and support services. These include location scouting, acquisition of filming licences and the provision of incentives to production companies.

The abounding talent that drives Jamaica’s Creative Industries is underscored by shrewd business acumen, skill and ingenuity. The country is ripe with potential, and the Jamaican brand is already rich with associations of excellence in athletics, music, the arts and cuisine. Now is the perfect time for filmmakers from around the world to come and take their best shot!

MUSIC

Reggae music is the pulse of Jamaica. It is undoubtedly the heartbeat and essence of the island. The dynamic expression of the vibrant Jamaican spirit, reggae music speaks of Jamaica’s past, its present and its vision for the future. It is the vibration of a people whose creativity and ingenuity...
have given the world some of its greatest and most renowned artists, producers and sound engineers.

As the capital of reggae, Jamaica is home to a multi-billion dollar industry. No other small, developing country or island in the Caribbean has been as popular or influential as Jamaica has been in the global entertainment industry. Bob Marley, voted the most prolific reggae superstar of all time, established Jamaica as a nation abounding in creative talent. In the 1960s, Jamaican Chris Blackwell founded Island Records, which was headquartered in Kingston, and it has grown to become the largest independent record company in the world – Jennifer Lopez and Bon Jovi are among the prominent signings by Island Records. A decade later, Sir Richard Branson started Virgin Records by capitalising on the powerhouse that is reggae music. Today, Jamaica has the largest number of recording studios per square mile worldwide. Many are outfitted with state-of-the-art equipment and operated by highly skilled and reputable producers and trained technicians. The studios include Arrows Recording, Studio One, Big Yard, Harmony House, Penthouse Recordings, the Marley family’s Tuff Gong Studios and Gee Jam Studios.

The presence of these studios has resulted in dozens of new releases each day, the most per capita in the world. Jamaican producers and engineers continue to record for not only the local market, but the international market as well. The global appeal of reggae has commanded the attention of international artists and producers, many of whom have come to Jamaica to catch the vibe and record material. Among the artists who have worked in Jamaica are the Rolling Stones, Paul Simon, Simply Red, Drake, No Doubt, Amy Winehouse and Nas. The original version of the popular FIFA World Cup anthem ‘Wave Your Flag’ was recorded in Jamaica at Tuff Gong Studios. International acts have also frequently worked on collaborations with Jamaican artists.

Blockbuster movie soundtracks such as Bad Boys, Rush Hour 2, I Am Legend, The Best Man and The Little Mermaid have all capitalised on Jamaica’s sound. Jamaica’s picturesque landscapes and urban chic have also provided an enviable and highly sought after backdrop for the filming of music videos for numerous artists including Alicia Keys, Gwen Stefani, Willie Nelson and Gnarls Barkley.

FASHION

Jamaicans are a vibrant people with a strong, creative spirit that resounds throughout the world. This is uniquely captured and expressed in our fashion, which utilises a kaleidoscope of tones and a plethora of patterns and shapes that are distinctly Caribbean and reflective of our historical and cultural experiences. Complemented by the beauty of the people and its connection to reggae and dancehall in the music industry, Jamaican fashion is one of the fastest growing of the Creative Industries.

The island’s annual fashion calendar boasts two major events – Saint International’s Style Week Jamaica (SWJ), with the internationally acclaimed Fashion Block, and Caribbean Fashion Week (CFW), produced by Pulse Entertainment Group. A stunning majority of established and new designers use the SWJ platform to shine in the local and international spotlight as Jamaica becomes the centre of global glamour. Staged annually during the period that strategically

Jamaicans are a vibrant people with a strong, creative spirit that resounds throughout the world.

**TAX INCENTIVES**

- Waiver of duty on temporary importation for the film industry
- Income tax relief for up to nine years for feature films produced in Jamaica
- Duty-free and tax-free concessions on equipment, machinery and materials for the building of film studios and support facilities
- An investment allowance of 70% of sums spent on investment in infrastructure, with a carry forward of the unused portion
- No withholding tax on dividends paid to resident shareholders with investments in film companies. Non-resident shareholders earn dividends taxed according to the provisions of the Double Taxation Treaty with their respective countries (e.g. the USA and UK are treaty members, thus eliminating the payment of taxes in Jamaica)
- Discount on government-owned locations
- Benefits exist under existing Co-Production Treaties/Production Treaties.
encapsulates Memorial Day Weekend in the US and Banking Holidays in Europe, SWJ’s shows, after parties, international editorial photo shoots, development seminars and roundtable discussions contribute to the strong positioning of Jamaica as a serious fashion/lifestyle market.

Since its debut in 2005, Fashion Block – the finale of SWJ – has been one of the most recognisable fashion events in the region. Block a major business thoroughfare and staging a spectacle on a 150-foot catwalk remains a feat to be topped anywhere in the world. International fashion media consider it one of the top fashion shows in the world, with favourable comparisons being made to Victoria’s Secret Christmas Fashion Show.

CFW has been hailed for the creative ingenuity of its designers, the brilliance of its supermodels as well as its high production standard. The event’s amazing success is reflected in its recognition by British Vogue as an important trend in the fashion world. Now aired on Fashion TV, CFW is seen in close to 400 million households worldwide. The parties, entertainment and social networking opportunities abound and provide a lively backdrop for both the established and emerging Caribbean designers and models. As part of its 25th anniversary celebrations in 2005, Pulse opened the $40m Caribbean Fashion Centre extension to its Trafalgar Road Complex in New Kingston. It also launched the Caribbean Fashion Collective project, aimed at manufacturing and marketing the work of Caribbean designers throughout the region as well as in external markets.

Both major fashion events provide a platform for investment and sponsorship. Relationships can be established with designers seeking loan financing technical and marketing assistance as well as supply-side and distributor partnerships. They also present opportunities to establish linkages beyond the fashion industry in related cultural areas such as film and music. As we ‘show off’ our style to the world, the Creative Industries Unit of JAMPRO is standing by, ready to facilitate local and international companies and individuals who choose Jamaica as a destination to conduct business in the Creative Industries.

SPORTS

A solid track record of excellence through the decades has earned Jamaica the undisputed title of ‘The Sprint Capital of the Caribbean’, if not the world. The name Usain Bolt looms large in the international athletics arena, and has taken Brand Jamaica to the world. The record-breaking exploits of Bolt, the fastest man on the planet, has the world waiting with bated breath to see the Jamaicans in action at the London 2012 Olympics. Jamaica will also have the distinction of fielding reigning 100m Olympic and World champion Shelly-Ann Fraser; five-time Olympic medallist Veronica Campbell-Brown and Asafa Powell, the former 100m word recorder holder.

Jamaica’s prowess is clearly demonstrated in other areas of sport. The island is home to the Reggae Boyz, the highest-ranked football team in the English-speaking Caribbean and qualifiers in the 1998 FIFA World Cup in France, and the Sunshine Girls, who consistently rank among the top four netball teams in the world.

As a tropical country, Jamaica defied the odds in the 1994 Winter Olympics by finishing in 14th place in the bobslde competition, ahead of the United States and Russia. Jamaica has also produced top cricketers such as George Headley, Courtney Walsh and Chris Gayle.

The fact that a significant portion of Jamaican teams train at home presents a clear investment opportunity in sports. The main training facilities are currently preparing for expansion. The Racers Track Club, which counts Bolt among its cadre of athletes, and the MVP Track Club, which is home to Asafa Powell and Shelly-Ann Fraser, are both homegrown Jamaican clubs that already train athletes from all over the region. In fact, the University of Technology (UTECH), home to the MVP Track Club, has the distinction of being the university with the most Olympians in training – 11.

Jamaica has also quietly built a reputation for excellence in other areas of sport. The island is home to the Reggae Boyz, the highest-ranked football team in the English-speaking Caribbean and qualifiers in the 1998 FIFA World Cup in France. Jamaica has also produced top cricketers such as George Headley, Courtney Walsh and Chris Gayle.

The University of Technology (UTECH) is currently seeking investment to facilitate construction of a multi-modal, multi-purpose sports centre.

Fashion designers seeking investments include:

• Biggy’s Fashion – Dancehall-influenced designs by Earl Turner, who has been designing for international celebrities for over 15 years
• Carlton Brown – Men’s formal wear, recognised for its quality and affordable prices
• Lez Campbell – Men’s formal and casual wear, recognised for its unique designs
• Kendrick Linton – Women’s modern and semi-formal wear, displayed at international fashion weeks

Additionally, there is an investment opportunity for a fashion incubator, as a number of designers require a place to manufacture their pieces. Jamaica already has an established fashion design cluster with over 100 members.
Recognising the way that business is evolving in the modern, fast-paced and inter-connected world, the government of Jamaica has introduced a range of reforms and measures designed to support information and communication technologies (ICT) industries and therefore attract businesses to the island.

In 2001, the government launched a decisive ICT development strategy, which in the ensuing years has served to establish Jamaica’s reputation as a strong regional ICT service provider. The country is now in a position to look towards the United States and beyond as an important recipient of its services. The growing sophistication of Jamaica’s ICT industry is evidenced by the enacting of new legislation in support of the development strategy, such as the Cyber Crime Act (2010), as well as an overhaul of the existing 2007 Telecommunications Policy. These efforts clearly demonstrate to overseas investors that the necessary measures are being taken to ensure that their operations and investments are secure.

Jamaica’s Human Employment and Resource Training/National Training Agency (HEART/NTA) currently operates 28 training institutions across the island. Funded and operated by the government, these institutions focus on employer-specific training, while new training programmes will be developed to specifically support ICT.

**TELECOMMUNICATIONS**

Jamaica’s world-class and robust telecoms infrastructure supports all the requirements for global connectivity and ranks among the most developed in the world when compared to the US and UK. Jamaica has the highest teledensity rate in the entire Latin America and Caribbean (LAC) region, while mobile penetration exceeds the rest of the Caribbean and rivals many developed nations in the World. Other key features of the local telecoms landscape include:

- Ample bandwidth capacity as a result of multiple telecoms providers offering a wide choice of circuits, including T1, DS3 and OC3
- Three major broadband carriers that provide triple redundancy and 99.99% up-time on broadband services. Broadband penetration stands at over 35%, with accessibility from anywhere in the island
- Multiple mobile service providers offer 3G, 4G, WiMax and international roaming capabilities. The island’s extended Fibralink submarine cable network provides reliable delivery of business and broadband traffic
- Three parallel fibre routes (and drop off points) on the island link to the Americas Region Caribbean Ring System (ARCO5-1) submarine cable in the Dominican Republic. This provides seamless connectivity to North America, Latin America and the Caribbean. There is also a complete fibre ring around Jamaica, with fully digital networks.
- Additional telecoms players will be entering the market to provide undersea broadband connection; this will increase the overall capacity and redundancy on the island.

**BUSINESS PROCESS OUTSOURCING (BPO)**

Today’s Jamaica is a highly competitive and attractive business destination, which has emerged as the leading contact centre location in the English-speaking Caribbean with over 10,000 full time agents in the offshore business process outsourcing (BPO) sector. With an
established track record in finance & accounting, human resource outsourcing (HRO), receivables management, technical helpdesk support, outbound sales and lead generation, Jamaica has been recognised by Gartner as a destination to watch and by A.T. Kearney as a favourable BPO destination.

With nearshore access to the US, low attrition rates and high labour force availability among secondary and university graduates (over 20%), Jamaica provides great value to anyone looking for a BPO destination. This value proposition is bolstered by average call centre and BPO salaries being 40-60% lower than the corresponding salaries in the USA. These advantages, as well as the fact that the government has demonstrated its support for this priority sector, have kept industry heavyweights such ACS (Xerox), Teleperformance and West Corporation operating in the island for almost a decade.

**WHY JAMAICA FOR OUTSOURCING?**

- Close to the United States
- Educated English speaking workforce
- Dedicated and productive workers
- Competitive business costs
- Priority on improving Data security
- Excellent telecoms infrastructure
- Established track record in BPO
- Strong government support for ICT
- Stable business climate
- Great quality of life

Jamaica’s BPO providers typically operate as free zone-type companies, whether or not they are physically located in a Free Zone. The flexibility of Jamaica’s Free Zone laws allows for Single Entity Free Zones, which can be established anywhere outside of a designated free zone space. In both scenarios, companies operating under the Free Zone Act are eligible for a range of benefits (See ‘Incentives and Opportunities’). Designated Free Zone areas in the island are located in Montego Bay, Kingston and Portmore.

In addition to the work being done by the government to provide more space within the Free Zones for expansion among existing players and the accommodation new entrants, there are private sector-focused BPO projects, such as the Barnett Tech Park in Montego Bay, which will allow operators to build their own facilities or to partner with the park owner in the build out process. Currently, Vistaprint, a leading online provider of marketing collateral, is building its Caribbean headquarters in the Barnett Tech Park. They have hosted their English language customer service operations in Jamaica since 2003 and will be significantly expanding their operations in this new environmentally friendly workspace.

Jamaica offers great value: a ready domestic market, closeness to other huge international markets, a trained English-speaking workforce and the capacity to support all aspects of businesses operating in the ICT industry. With continued planning and execution by the Jamaica government, the country will continue to be the nearshore destination of choice in the Caribbean and Latin American region for years to come.

**INCENTIVES**

- 100% tax holiday on profits in perpetuity for organisations that export over 85% of their services outside CARICOM
- Duty free import of goods for companies located in the Free Zones, including capital goods, consumer goods, raw materials for approved activities and office equipment

No limits on the repatriation of foreign exchange, and Free Zone companies may operate forex accounts.

The Export Industry Encouragement Act, which offers duty-free importation of raw materials and capital goods, and a tax holiday on profits for ten years for organisations that export less than 85% of their services.
The successful development of any region or country requires the solid underpinning of quality infrastructure and the availability of services to enable businesses to operate. The Jamaican government is leveraging significant resources to ensure that these are in place, with specific attention being placed on the urban centres of Kingston and Montego Bay.

Infrastructural improvements such as the construction of Highway 2000, which links the south and north coast of the island, as well as the revamping of the island’s airports and seaports, have created a number of investment linkage opportunities in the area of logistics and transhipment management, tour operations and other professional services.

The north coast has also experienced significant development, especially in the area of tourism and hospitality. The eagerly anticipated Montego Bay Convention Centre was completed in January 2011 at a cost of US$45 million. The project represented another significant partnership with the government of the People’s Republic of China and was constructed by the China National Complete Plant Import Export Corporation (COMPLANT). The venue will significantly enhance the stock of banquet and conference facilities in the tourist capital of Montego Bay and is in proximity to five major hotels.

Other developments in the tourism sector include the construction of the Falmouth cruise ship pier in Trelawny, which welcomed its first mega cruise ship with 4,500 passengers and crew members on February 17, 2011. The pier, which is expected to increase visitor arrivals to one million passengers annually, is being built by Royal Caribbean Cruise Line and the Port Authority of Jamaica. Initial plans for the new facility include the construction of duty free shops, bars, restaurants, a helipad and tramcar connecting the pier to a model colonial town. The pier presents significant opportunities for the development of tourist attractions and other services within Falmouth.

Jamaica’s main airport, the Norman Manley International Airport (NMIA), which is located about 15 minutes away from the main business district of New Kingston, has recently undergone a US$40mn modernisation programme and presently services over 1.7 million passengers per year. Financing has come from various sources, including the private sector and the European and Caribbean Development banks. By 2022, NMIA will have been completely redeveloped, bringing both direct and indirect benefits to the city and country.

Similarly, a US$200mn investment package has been ploughed into the redevelopment and modernisation of the Sangster International Airport (SIA) in Montego Bay. This has transformed it into the second busiest airport in the Caribbean, serving over 3.3 Million passengers per year.

Following the investment in modernising the NMIA, the government of Jamaica launched the Palisadoes Shoreline Rehabilitation and Protection Project in 2010. This project, which is being executed by the China Harbour Engineering Company at an estimated cost of US$65mn, will expand the Palisadoes strip connecting the airport to Kingston’s main business district.

The government has also sought to position Jamaica as the main multi-modal logistics hub in the region. Leveraging its port and logistics capacity and proximity to key markets, the government is seeking investors to partner in the redevelopment of the Vernamfield property into a major air cargo hub, aircraft maintenance and aviation training facility, as well as a local military base. Current capacity at the property includes a 5,000-foot concrete
The total development project is estimated at US$1 billion to design and construct two parallel 11,000 foot runways and taxi ways. These rehabilitated runways will have the capacity to handle the world’s largest aircraft, including the Antonov AN-124, AN-225 and the Airbus A-380. The development includes the construction of Category Five hurricane-proof aircraft hangers, which will include offices and warehousing. Its redevelopment has been the long-nurtured brainchild of veteran parliamentarian and current Minister of Transport and Works, the Hon. Mike Henry, who has set out to make the project a major catalyst for economic development in the parish of Clarendon and the broader central Jamaica region.

In the short term, the government also intends to develop the Tinson Pen Aerodrome in Kingston into a logistics centre with display rooms and storage space. The Tinson Pen development is envisaged to generate sustainable income by attracting and providing a wide range of logistics and promotional services to the international trade community, thereby broadening the revenue streams of the Port Authority of Jamaica. The 40-hectare site at Tinson Pen is expected to generate 7.5-10% of additional cargo throughput over the port per annum based on international benchmarks of similar facilities.

Within Kingston, there are a number of ongoing and prospective redevelopment plans. New Kingston – the main business district – is growing rapidly, with major businesses moving into the available office space. This area will continue to be the centre for the ongoing modernisation of the city. Downtown Kingston, the old city centre, offers tremendous opportunities for redevelopment, including the buildings, transport network, sanitation and waste management services, and the associated tourism industry that would naturally follow all of this.

The Urban Development Corporation (UDC) and the Kingston Restoration Company (KRC) are leading the plans to redevelop the downtown area, and projects so far include the revitalisation of the West Kingston Market District, the Kingston Waterfront Festival Marketplace, Business Centre and the completion of the Downtown Transportation Centre. Improved public transportation systems were introduced to complement other planned developments such as the construction of the corporate headquarters of Digicel, the leading mobile telecommunications provider, on the Kingston Waterfront. Digicel will construct an 11-storey building with basement as well as a 7,050 square-foot food court and an 11,000 square-foot two storey ancillary building over a basement car park. It is anticipated that this development will spur the expansion of economic infrastructure along the waterfront. The government will also be offering enhanced incentives to companies establishing new facilities or headquarters in Downtown Kingston under the revised Urban Renewal (Tax Relief) Act.

Other proposed developments include the Ward Theatre Cultural Square and various new hotel and conference centres. It is expected that overall investment will top US$5bn. The Prince’s Foundation for the Built Environment is working with a range of agencies in Jamaica on the Rose Town redevelopment, which is at pilot stage. This is a good example of the type of project that is possible and it will have a positive impact on innercity communities once replicated.

### New Kingston – the main business district – is growing rapidly, with major businesses moving into the available office space

The government intends to provide 19,963 housing solutions over five years targeting low to middle income earners through its property development company, the Housing Agency of Jamaica Limited (HAJL). The projected capital investment is US$590mn and it is expected to yield 4000 jobs. The projects are dispersed island wide in two geographical clusters – the North Western Cluster and the South Eastern Cluster. The North Western Cluster comprises of four parishes that are in close proximity to the major tourist resort centres, while the South Eastern Cluster consists of the parishes of Manchester, Clarendon, and St. Catherine, which are near the Highway 2000 corridor that provides access to all major townships and urban facilities. The project is expected to yield positive net returns and should generate sufficient cash flow by year two of the projected period and the average return on the investment for the Greenfield project portfolio is estimated at 20.25%.

### INCENTIVES AND OPPORTUNITIES

- Sites being developed or slated to be developed in the near future offering modern, affordable space for a range of industries
- A skilled workforce at the ready, which can quickly be drafted in to operate support facilities for corporations that establish businesses in Jamaica
- Generous tax and duty concessions, especially for Free Zone situated businesses, easing the burden of operation
- A highly developed island infrastructure allowing easy movement of goods, communications and personnel and access to airports
The government continues to expand and rehabilitate the island’s road infrastructure under the Northern Jamaica Development Programme and more recently the Jamaica Development Infrastructure Project (JDIP). JDIP is a five-year public works programme, funded by a loan from the Export/Import Bank of China. The project is being implemented by the National Works Agency (NWA) and the China Harbour Engineering Company Ltd (CHEC), which serves as the contractor. The projected capital injection is $36 billion and it is expected to create 6700 jobs. The programme has commenced with the Christiana Development Road, which is scheduled for completion by year-end at a cost of US$8.9mn.

Many other projects are likely to commence in the near future, including the development of major roads to open up all areas of the island and link the north and south regions more effectively. The development of the major tourist centres and tourist ports continues, but there remains the opportunity for FDI to increase this and better take advantage of the consistent tourism influx. Port Royal, the historic sunken city, requires investment to develop it as a major tourist attraction close to Kingston. Around Jamaica, there are a number of sites that are waiting to be developed that could accommodate residential, commercial and/or tourist projects. These are often granted with the relevant permits already secured and tax incentives to ensure swift development and maximum returns.

The Jamaican Social Investment Forum (JSIF) has funding to develop infrastructure and community projects that will enhance social development e.g. schools development, community spaces, agro-processing and more. There are a number of high-profile companies that have invested and are investing heavily in the telecoms sector, from infrastructure such as cabling through to the user interface side of the industry. Technology parks are being developed around the island that can accommodate and support the service industries housing call centres, data processing businesses, accounts, legal services, or direct marketing, among others.

Infrastructure and service development is an area that is on the cusp of serious expansion in Jamaica. The number of different industries that are increasing their focus on the island is growing, and with that, there is a growing need to develop capacity to continue to attract and support them. Investment in this area in the short to medium term is very likely to prove wise and to generate sustainable, long-term returns.

**PRE-FEASIBILITY**

To determine hydro-electric power potential of various schemes based on alternative Mahogany Vale Dam configurations and the totality of the water resources of the Blue Mountains. The project will take place in three phases at a total cost of US$930mn. In the first phase, the project will include construction of a 6.8 km tunnel from the Yallahs River to the Flora River in the Hope River system. In the second phase, the project will generate 55 MW at an underground power plant near Gordon Town. In the final stage, the project also includes the construction of a 7.5 km trans-mountain tunnel and a conveyance system of tunnels (22.2 km) and pipelines (3.8 km) on the northern side of the Blue Mountains.
From agro-processing, bedding and leather to stone and clay products, Jamaica boasts a diverse array of manufacturing enterprises. Manufacturing is very important to Jamaica’s economy, as it contributes more than US$700mn in foreign exchange earnings and represents 8.3% of the country’s gross domestic product (GDP). The sector includes small, medium and large enterprises that manufacture for both the domestic and export markets. Many of Jamaica’s manufactured brands are well recognised internationally and have become synonymous with excellence.

In the foods sector, the distinctive flavour of our raw material inputs goes into the making of palate-pleasing end products that are delicious and unique. Companies such as Jamaica Producers (chips and fresh produce), Jablum (coffee) Grace (juices and condiments) and LASCO (soy-based milk products) have tapped into the highly motivated and productive Jamaican workforce to produce goods that are enjoyed internationally. In 2010, the American-based Madrona Speciality Foods Group established the Sandy Bay Sweets manufacturing facility in Hanover, which produces an impressive array of hard candies and cookies that are sold under the ‘Just Delicious’ brand in the US market to large retail distributors such as TJ Maxx, Costco and Wal-Mart.

In the spirits sector, Jamaica continues to grow its market share with an 11.3% increase in the export earnings for this segment during the 2009 period. Red Stripe beer, perhaps Jamaica’s best known brand, is exported to many countries across the globe. Similarly, the world-renowned Appleton Estate Rum continues to grow its international sales with its range of products.

Tobacco continues to be a significant contributor to Jamaica’s export industry, with players such as Adduci Cigars making strides and embarking on a US$50mn expansion plan as part of its efforts to become a premier brand in the international cigar market. The company is actively seeking investment partners to assist them with their expansion and international promotion.

The world is still looking on in awe at Jamaica’s emerging car manufacturing industry, which is being spearheaded by Patrick Marzouca – a boutique car manufacturer since 2000. He managed to overcome challenging odds and successfully exported the locally made Island Cruiser motor vehicles to the Turks and Caicos Islands late last year. For 2011, he has already secured orders for an additional 32 cars, which will be manufactured and shipped over a 24-month period.

These examples provide a peek into Jamaica’s manufacturing industry, which is currently poised for investment as manufacturers seek just-in-time, customised delivery options for the markets they serve. Among Jamaica’s many advantages are:

- Strategic location within major shipping lanes
- The ability to dock the largest ships coming through the new Panama Canal
- Vast tracts of available land within minutes of the Port of Kingston
- Close proximity to the North American and Latin American markets
- Enviable market access through strategic bilateral agreements

Jamaica presents tremendous value for investors in the manufacturing and/or logistics arena and is open and ready for business.
TOURISM

When it comes to breathtakingly beautiful scenery, luxury surroundings and warm hospitality, Jamaica is unequalled in the world of tourism. The very mention of the island’s name conjures up images of famous, world-class white sand beaches, lush forests and soaring mountains. Every year, over two million visitors travel to Jamaica to experience the country’s natural beauty, exotic cuisine and rich cultural offerings.

In the face of increasing competition from other Caribbean islands, as well as from Florida, Central and South America, and further afield, the government of Jamaica is not resting on its laurels. Significant resources are being channelled into tourism infrastructure, with a view to reinforcing the island’s reputation as a high-quality destination in the 21st century.

The North Coast Highway is now complete, giving tourists and islanders alike a quick route along the picturesque stretch of coastline from Negril in the west to the Blue Mountains in the east. A number of resorts and destinations can be found along this route, including James Bond creator Ian Fleming’s former residence, Goldeneye, now a luxury hotel.

Construction is significantly advanced on the South Coast Highway, as well as a north-south highway that will dissect the island geographically, creating easier access between regions in the north and south and opening up the wilder coastline and the wealth of possibilities for investment in the increased tourist trade that this will provide.

The Ian Fleming International Airport in Boscobel, St. Mary on the north coast officially became the island’s third international airport in January 2011, joining Sangster in Montego Bay and Norman Manley in Kingston. Located approximately 10 km west of the resort town of Ocho Rios, the Ian Fleming International Airport can accommodate private jets and small commercial aircrafts.
Accommodation on the island ranges from the economical to the 5-star and attracts a high level of foreign direct investment (FDI). Market leaders such as Sandals, AM Properties and RIU run a number of sites on the island, and with the additional increase in ‘boutique’ hotels, it is expected that an extra 10,000 rooms will be created by 2012 on top of the 24,000 already available.

The cruise industry forms a crucial part of the tourism income for Jamaica, and it remains one of the world’s most popular cruise destinations. In 2009, there was an increase of 9.6% in stop-over arrivals over 2008, which is impressive given the global downturn in the industry. Whilst the number of visitors is expected to stay strong, the key now is to maximise the income from these passengers by providing more and better reasons for them to leave the ships. Around Ocho Rios in the north of the island there is an established infrastructure known as Island Village, which caters to the cruise passengers who dock there, and this type of development is being encouraged in the other destination ports.

The historic town of Falmouth, located in the parish of Trelawny on the north coast of Jamaica, is the latest cruise destination in Jamaica following the recent construction of the Falmouth cruise ship pier. The town is being transformed into a fully-fledged cruise destination with purpose-built facilities to host the new Genesis class vessels including the world’s largest ship Oasis of the Sea. Cruise passengers will be transported back in history to the island’s British colonial past through the beautiful Georgian architecture. Trelawny’s proximity to the resort towns of Montego Bay and Ocho Rios will also allow for access to other exciting attractions.

An integrated tourism system is being encouraged whereby cruise line operators, accommodation, and activity providers work together to attract as many tourists as possible, for as long as possible, maximising the revenue from them whilst they are in the island.

Jamaica has established itself as one of the must-visit destinations in the world. With the ease of international travel and the conceptual shrinking of the globalised...
world, travellers are now more likely to see areas such as the Caribbean – which once were considered by many to be remote and exclusive – as within their reach. As the economic climate improves over the coming years, not only will the tourism industry pick back up again, but so will investment in Jamaica. Sites and businesses relating to tourism that are currently available will be bought, and those that invested will reap the rewards of this good timing and the knowledge that when people are looking for the ultimate holiday experience, one of the first places they will think of is Jamaica.

**HEALTH & WELLNESS TOURISM**

With the global health tourism sector valued at US$40 billion in 2005 and projections indicating that 1.2 million medical tourists will travel from the USA in 2012, Jamaica is ideally poised to attract value-added investments in this area. Investments in the health and wellness sector would enjoy the benefit of leveraging the presence of highly trained medical professionals in Jamaica, as well as the high quality of medical training that may be accessed locally. Jamaica also provides a ‘near shore’ advantage given its close proximity to North American markets, where high medical costs and ease of travel make it an attractive location for accessing health care and wellness services.

The government of Jamaica is currently developing a Health and Wellness Tourism Roadmap to guide investments in the sector, as well as to drive exports of value-added niche products and services. JAMPRO, in its capacity as the premier investment promotion agency, continues to promote the island as a destination for health and wellness tourism investments and has facilitated investment projects in offshore medical education as well as private hospitals that cater to medical tourists.

**CASINO GAMING**

The government of Jamaica (GOJ) approved the introduction of casino gaming in Jamaica within the context of approved integrated tourism resorts, which refers to developments with an investment value of no less than US$1.5 billion and room capacity of 2,000, in addition to other amenities such as a spa or golfing facilities. The number of casinos will be restricted and the casino component will form no more than 20% of the total scope and cost of each approved project. Based on the distinct nature of casino gaming and the specialist expertise required for its proper management, including the establishment of a new taxation regime, it has been determined that the casino gaming facilities would be better administered through the introduction of a separate Casino Gaming Act, which has its own Commission to regulate their activities.

**INCENTIVES**

- The Hotels (Incentives) Act which provides income tax relief and import duty concessions for up to ten years for approved hotel enterprises, and 15 years for convention-type hotels.
- The Resort Cottages (Incentives) Act which provides resort cottages with income tax relief for up to seven years and import duty concessions on imported building materials and furnishings.
Meet Jamaica

The Meet Jamaica 2012 Initiative is a private-public sector collaborative that is designed to increase the trade of goods and services between Jamaica and the United Kingdom by capitalizing on the global brand platform afforded by the 2012 London Olympics. This will be accomplished through the staging of a programme of trade and investment missions and participation in a number of cultural events in the British capital London, as well as in Birmingham, the host city of the Jamaican Olympic team.

JAMPRO, Jamaica’s investment and trade promotion agency, and the Private Sector Organisation of Jamaica, the PSOJ are the principal partners in this ground-breaking Initiative, which will be officially launched in London and Birmingham in mid-March 2011 with the support of the Jamaican Diaspora, and partners in the UK such as the Birmingham City Council. This bold programme of investment/trade missions and business events promoting authentic Jamaican products & services in the UK/European market is designed to:

- Leverage Jamaica’s participation in Olympics 2012;
- Increase visibility, awareness, trial and sale of quality export products & services;
- Create ‘cross-over’ possibilities into mainstream UK market;
- Provide a ‘big tent’ to accommodate merchandising opportunities for Jamaicans at home and in the Diaspora.

In developing the programming for the Initiative, careful consideration was given to those events and locations that would provide the most visibility and impact for the mission, such as those venues with the highest concentration of Jamaican Diaspora, strong commercial ties to the region and proximity to the Olympic Village.

Birmingham will be the launching pad for activities in the UK, and the University of Birmingham will be the base for the Jamaican team.

The Meet Jamaica 2012 Initiative is premised on strong business outcomes that will come from increased trade leads, new supply and distribution contracts for the island’s many export brands especially in the agro-processing industry. Additionally, Jamaica will be looking to leverage foreign direct investments (FDI) in some of the key growth sectors of its economy, namely, Tourism for which it has a strong global reputation, ICT, which has grown exponentially over the past two decades, Agriculture and Manufacturing in which it has strong traditions; and of course its ubiquitous Creative Industries as defined in its culturally inspired music, film, entertainment and wide array of artistic expressions.

Send enquiries on the Meet Jamaica 2012 Initiative to mthomas@jamprocorp.com; jwalcott@jamprocorp.com; sandrag@psoj.org.
Jamaica is the place to do business on a global scale, and JAMPRO – the national investment and export promotion agency – is the gateway that connects the world to Jamaica. In extending Jamaica's image beyond that of a tourist destination, the agency works closely with entrepreneurs from around the globe to enable them to tap into the wealth of investment and trade opportunities available in the country.

Operating under the direction of the Ministry of Industry, Investment and Commerce (MIIC), JAMPRO promotes investments in a number of targeted sectors, which include the creative industries (film, music and entertainment), manufacturing, tourism, agri-business, information and communication technology, mining and professional services. In facilitating both local and foreign direct investment, JAMPRO guides investors through the necessary processes to ensure expeditious and successful start-up. The agency also offers development support services after an investment project becomes operational. This serves to encourage continued growth and maximise the contribution of the investment to the national economy.

In order to ensure the smooth implementation of investment projects, JAMPRO offers a suite of services in partnership with key government agencies and ministries. These services include securing work permits, non-tourist visas, duty waiver concessions, incentives, appropriate permits/licenses, customs clearances, fiscal incentives, and building and development approvals. In this regard, JAMPRO collaborates with the National Environment and Planning Agency (NEPA), Jamaica Customs Department, the ministries of Industry, Investment & Commerce, Finance, Labour and Tourism, and the various Parish Councils. The aforementioned entities are guided by the mandate to simplify and harmonise the processes, procedures and documentation related to getting an investment off the ground.

The agency’s cadre of knowledgeable and professional business facilitators stands at the ready to assist all potential investors, who can also access pertinent information on Jamaica and investment prospects through JAMPRO’s web site at www.tradeandinvest.org. As part of its ongoing efforts to appropriately use technology to efficiently accommodate the information needs of potential investors, the agency launched the web-based JAMPRO Interactive Investment Map. This resource provides a pictorial view and related data on key infrastructure and institutions, investment projects, lands for development, film locations, natural resources and other related information that will assist them in making investment decisions. The Investment Map, which runs on the Google Maps platform, can be accessed from the home page of JAMPRO’s web site or directly at http://projects.monagis.com/jampro_test.

JAMPRO remains committed to improving promoting, stimulating and facilitating the development of industry and trade, improving the nation’s business climate, fostering economic relationships with key players in international markets and deepening the absorptive capacity of the economy.
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The Expanding Chinese Footprint in Latin America

New Challenges for China, and Dilemmas for the US

Evan Ellis

February 2012
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Executive Summary

The physical presence of China in Latin America is entering a phase of significant expansion, as the logical consequence of the rapid growth over the past decade of its trade, investment, and infrastructure for doing business in the region. Although the rapid advance of PRC trade and investment in the region, to date, has not involved a significant number of Chinese companies or personnel in the region, this is changing. The new Chinese physical presence in Latin America is focused in five areas, each with its own dynamics and consequences: (1) leaders visits, business delegations, students and other official groups, (2) construction and infrastructure projects, (3) extractive industry investments and associated service companies, (4) retail and manufacturing, and (5) tourism.

The growing Chinese physical presence will generate five types of challenges which will make it increasingly difficult for the PRC to maintain, in fact, its policy of non-interference in the internal politics of the region: (1) disputes with Latin American governments over tax and regulatory frameworks impacting Chinese companies and operations, (2) disputes over investment terms and with local communities during implementation, (3) labor issues and problems with local suppliers while conducting business operations, (4) resistance to Chinese projects from environmentalists and other interest groups, and (5) threats to the physical security of Chinese personnel and operations.

The PRC is likely to employ its growing understanding of, and sources of leverage in Latin America to protect its increasingly important interests in the region, while simultaneously attempting to avoid that its actions to defend its interests are seen in threatening terms by the United States or other strategically important partners.
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Introduction

During the first decade of the 21st Century, bilateral trade between the People’s Republic of China and Latin America expanded by a factor of 18, from approximately $10 billion in 2001 to $180.2 billion in 2010.¹ This rapid and continuing trade growth has captured the attention of businessmen, academics and policymakers in the region, as well as those in the United States and the rest of the world. Initially, the growth in Chinese investment in Latin America did not keep pace with the growth in trade. Nonetheless, behind the scenes was a rapid and often chaotic process of learning and adaptation and the development of relationships and infrastructures laying the groundwork for more sophisticated transactions. Because this process took place outside the purview of mainstream media coverage, the region was largely taken by surprise at the end of the decade when, contrary to conventional wisdom, Chinese banks and companies began to invest tens of billions of dollars into Latin America.

China’s evolving engagement with Latin America may be divided into three stages: (1) the pre 2002 period, when the relationship was distant, and generally concentrated on political matters such as south-south ties and party-to-party relations, (2) the period of simple trade expansion, from 2002 through 2007, as China’s entry into the WTO, and the “go out” policy announced as part of the 10th 5 year plan of 2002 began to take effect, and (3) the period of investment expansion. This was triggered in part by opportunities for Chinese companies and financial institutions presented by the global financial crisis, but also reflected an expansion of relationships, a growth of infrastructure, and a maturation of Chinese companies. These processes both made it possible and necessary for the Chinese to begin to invest substantially in Latin America, whereas previously their interactions with the region were based on simple financial transactions.

The current expansion of Chinese engagement with Latin America reflects a number of distinct, yet interrelated tendencies. Large state owned enterprises have made a wave of acquisitions in

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extractive sectors to secure control over key resources, and now must follow up by exploiting those investments. At the same time, smaller provincially-backed companies are projecting themselves into international markets and are now led to invest in international distribution networks and local manufacturing hubs for traditional business reasons: serving local markets in a more agile fashion, avoidance of import taxes, inventory and logistics costs, access to the technology of local partners, and other benefits. In addition, logistics, construction and other service companies are also projecting themselves into international markets, backed by the leverage of Chinese banks, and the maturation of supporting infrastructures. Even the Chinese tourism industry is advancing abroad, enabled by the new prosperity.

The core thesis of this article is that the same dynamic which has pushed Chinese SOEs and medium sized companies to begin to invest in Latin America is now propelling an even more fundamental transformation in the China-Latin America relationship. As in other parts of the world that offer the PRC resources and export markets, China’s trade and investment with Latin America, in combination with its political and cultural engagement there, are dramatically expanding its physical presence in the region. These interactions will profoundly change the nature of how China is seen by, and relates to the region, generating new sources of conflict, even while expanding Chinese influence and accelerating learning by government, business, and other personnel involved in the relationship.

This article examines the growing Chinese physical presence in the region, its dynamics and consequences. The first section examines the nature of that presence and the areas in which it is occurring. The second section examines the likely consequences, including the interplay between sources of conflict, growing Chinese leverage within the region, and accelerated learning and adaptation.
The Expanding Chinese Footprint in Latin America, and Factors Behind It

The expanding Chinese footprint in Latin America is the natural product of the expansion and evolution of activities by Chinese companies in the region, in pursuit of both secure sources of supply globally, and new markets as they move up the value-added chain, build distribution networks, and expand global service offerings.

While this engagement may be associated with government policies, such as the endorsement of a “go out” posture in the 10th 5-year plan of 2002, it also reflects the maturation and growth of Chinese companies (both state owned enterprises and provincially backed companies), associated infrastructure, and their ties to Latin America. One significant factor has been a process of learning and confidence. Although major Chinese primary-product oriented state owned enterprises have long had an interest in purchases abroad which would allow them to more reliably service the current and projected needs of their clients, it has taken time for such companies to develop the market knowledge to move forward with multi-billion dollar acquisitions. For market-seeking manufacturing and service companies, the maturation of China-oriented banking and services infrastructures has also played an important role in making such investments financially viable.

Because of the relative lack of transparency of Chinese businesses and government operations to Western analysts, and because the Chinese presence in Latin America is still in its infancy, its analysis and measurement are hampered by methodological issues, including the absence of good data on the number of Chinese personnel and businesses in Latin American countries, survey data on attitudes of the society toward those persons, measures of the influence of Chinese in local communities, and good data on incidents of conflict. Despite the absence of good systematic data, the very rapid development of the Chinese presence in the region since 2002, and the transformational character of this engagement make it critical to study the phenomenon. The analysis done in this paper is thus preliminary, based on anecdotal data, with the purpose of laying out the key dynamics and issues associated with the transformational impact of the expanding Chinese footprint in Latin America.
The expanding Chinese footprint in Latin America can be analyzed in terms of five areas, each of which have their own separate dynamics, and impacts on the local social and political environment: (1) government, culture and business development activities, (2) construction and infrastructure projects, (3) extractive industry investments and associated service companies, (4) retail and manufacturing, and (5) tourism.

**Government, culture and business development activities**

The aspect of the increasing Chinese footprint with the greatest visibility, but arguably, smallest footprint in terms of personnel is increasing visits by Chinese governmental delegations to Latin America, as well as increasing political and cultural exchanges, and an increasing number of visits by Chinese businessmen in pursuit of markets, or evaluating investment deals in Latin America.

Official visits to Latin America by Chinese leaders, including President Hu Jintao, to the Vice President Xi Jinping and Vice Premier Hui Liangyu, traditionally receive significant press coverage in the region, and often serve to facilitate the expansion of business and other contacts.

Within the category of official interactions, China’s expanding military presence in the region has strategic significance that goes beyond the numbers of people involved. This presence includes the contingent of approximately 200 peacekeepers which it has maintained in Haiti since 2004, the deployment of a PLA contingent in Peru in conjunction with the Angel de Paz peacekeeping exercise in November 2010, and the deployment of its new hospital ship “Peace Arc” to the Caribbean in September 2011. PRC trainers and technical personnel have also been deployed to Venezuela, Bolivia, and Ecuador, in conjunction with the acquisition of Chinese military and space hardware by those countries. Such personnel include Chinese sent to Venezuela to train Venezuelan pilots on the recently acquired K-8 light fighter aircraft and personnel to help set up and operate ground stations for the Venesat-1 communications satellite.

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Chinese technical personnel will also likely travel to Venezuela to support the VRSS-1 satellite to be launched in late 2012, and to Bolivia, to support the Tupac Katari satellite, to be launched in early 2014.⁵ Beyond these examples, the PRC has also sent trainers to Venezuela help set up the production of oil drills and electronic warfare facilities at DICOFacebook.

A special category of the “non-commercial” presence in Latin America is increasing number of Chinese students traveling to the region. The greatest concentration of such students are in Cuba, with an estimated 1130 in residence in Havana at the time of President Hu Jintao’s visit in November 2008, and some 5,000 Chinese students passing through Cuba between 2006 and 2011.⁷ Such students, learning the language and culture of the region, lay the groundwork for the next generation of Chinese government and commercial personnel to more effectively engage with the region.

Despite the significance of “official” Chinese activities in Latin America, by contrast to the “state-centered” presence of the Soviet Union in Latin America during the Cold War, the most impactful part of the Chinese footprint in Latin America is arguably its growing commercial presence, to which this paper now turns.

**Construction**

In recent years, Chinese construction companies have won, and are now beginning to execute, increasing numbers of projects across Latin America and the Caribbean.⁸ In executing these projects, where permitted by local governments, they generally bring with them significant numbers of their own workers and logistics support staff, disappointing local construction firms and workers whose expectations of being hired are not fully realized, and creating labor relations challenges among those who are, as well as potential conflicts with local communities and governments, as discussed in the subsequent section of this paper.

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⁸ In part, this reflects the increasing effectiveness of Chinese companies in leveraging loans from Chinese financial institutions to perform the work, as well as the increasing experience of Chinese companies working and winning contracts in the region.
In general, a particularly large portion of these projects are concentrated in the Caribbean, and in the “ALBA” countries.\(^9\) Because the governments are relatively small in the former case, and personalistic regimes increasingly dependent on the Chinese in the latter,\(^10\) it is also in these countries where the relative Chinese bargaining position tends to be strongest, with respect to the number of workers it brings in, and the autonomy with which it conducts the work.

For the purpose of understanding the associated footprint of Chinese companies and personnel, the construction projects may be divided into three categories: (A) Those in which Chinese investors are building facilities in the region and contracting Chinese companies to do the work, (B) those in which the work is a donation by the Chinese government to the receiving country, and the Chinese government contracts a Chinese company to do the work, and (C) that in which the work is paid for by the host country, or a public entity within it, but financed by a Chinese bank, with the work done by a Chinese company as part of the package.

**Chinese Investors Using Chinese Contractors**

In virtually all of the projects in Latin America directly funded by Chinese investors (not considering those funded by loans from Chinese banks), Chinese companies have been selected to do the work, bringing in a significant number of Chinese workers, as well as managers and technical personnel, albeit only on a temporary basis. The majority of these projects fall into two categories: tourist resorts in the Caribbean, and infrastructure supporting Chinese projects in primary product industries in the region.

In the Caribbean, the largest such project is the 3800-rooms “Baha Mar” resort on New Providence Island in the Bahamas,\(^11\) funded by a $2.4 billion loan from the Export-Import Bank of China.\(^12\) The work is to be done by China State Construction and Engineering Corporation, which is reportedly negotiating to bring in approximately

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\(^9\) In the case of the ALBA countries, the anti-US / anti-Western orientation of these regimes has simultaneously pushed Western companies out, foreclosed traditional financing options, and made the regimes involved more receptive to Chinese companies, investments, and loans.

\(^10\) Countries such as Ecuador have explicitly defaulted on prior loan obligations to Western financial institutions, while nationalizations have created a string of lawsuits for compensation that make obtaining funds from Western institutions difficult in practical terms, while the political orientations of these regimes make the pursuit of such aid difficult in political terms.


6,150 Chinese workers. Other examples include the $462 million Punta Perla beachfront resort on the eastern coast of the Dominican Republic, and plans by private Chinese investors to invest $200 million in two hotel resort complexes in Grenada.

Chinese construction work associated with primary product industries typically involve roads and rail lines to extract the materials, or facilities to process them. Examples include the possible construction of a minerals loading facility by the Chinese company Tongling in the port of Machala, so that it can export minerals extracted from its recently acquired mining operations in Zamora Chinchipe. Similarly, Hebei Wenfeng has announced plans to build a mining port in conjunction with its $250 investment to develop the San Fierro mineral deposit in the Atacama region of Chile. Beyond the mining sector, the Chinese company Tierra del Fuego Energia y Quimica plans to expand the port at Tierra del Fuego, as part of the Urea plant that it is building in the region. Similarly, the Chinese firm Sanhe Hopeful has announced plans to invest $7.5 billion in a soy processing and storage complex and related infrastructure in Goais, Brazil, while the firm Chonquing grain plans a similar complex in Bahia, and Beidahuang plans one in the province of Rio Negro, Argentina, including the construction of irrigation systems and other accompanying infrastructure, with the work to be done by Chinese engineers.

In each case, the number of Chinese laborers and contractors used in the project is likely to be particularly high, since Chinese companies and investors are paying for the work.

13 Arnaud de Borchgrave, “Chinese takeaway; Middle Kingdom is eating America’s lunch in our own backyard.” The Washington Times. Sec. B, p. 4.
14 This project is particularly notable because it is one of the few major investments by a Chinese company, where the PRC does not have diplomatic relations with the receiving country. See “China’s Caribbean march.” BBC. http://www.bbc.co.uk/caribbean/news/story/2010/10/101019chinadomrep.shtml. October 20, 2010.
“Gifts” by the Chinese Government
The second category of construction projects increasing the presence of Chinese companies and workers in the region are “gifts” by the Chinese government to Latin American countries in conjunction with a change in diplomatic recognition from Taiwan to the People’s Republic of China. The most recent major example was the construction of the $89 million sport stadium in Costa Rica, following that nation’s diplomatic recognition of the PRC on June 1, 2007. Because the stadium was a gift from the Chinese government, the PRC chose a Chinese company to do the work, with 600 Chinese workers brought in to execute the project. Other recent examples include the construction of a multiuse sports stadium in Grenada following that nation’s diplomatic switch in 2004, with 500 Chinese laborers brought in to do the work, a $21 million stadium in Antigua, a $12 million stadium in St. Kitts, and construction of the National Academy of Performing Arts and the Prime Minister’s residence in Trinidad by Shanghai Construction of China, involving the use of 500 Chinese construction workers.

With the diplomatic rapprochement between the PRC and Taiwan since the election of the nationalist KMT government there in 2008 elections, both governments have refrained from attempting to offer Central American and Caribbean governments such “gifts” as a way of convincing them to change their diplomatic recognition from one country to the other. Nonetheless, if the political rapprochement between Taiwan and China breaks down in the coming years, such competition may resume, with more such “gifts” and a corresponding inflow of Chinese companies and laborers to construct them.

Projects funded by Chinese loans
The most significant source of Chinese construction companies and workers entering Latin America is the third category of projects: the billions of dollars of infrastructure work being done by Chinese companies directly for Latin American governments, tied to loans to those governments from Chinese banks. Since 2010, there has been a massive increase in such projects, as the Chinese government seems to have discovered an effective formula for leveraging their access to the ample capital of Chinese banks to meet the infrastructure needs of cash-strapped Latin American governments.

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To date, the concentration of such projects has been in those countries which have turned away from, or have disqualified themselves from receiving funding from traditional investors and multilateral institutions such as the World Bank and International Monetary Fund.

As of the end of 2011, for example, Venezuela had a portfolio of over $25 billion in infrastructure projects being funded by China Development Bank, all using Chinese companies and workers, including a $520 million effort for China Harbor Engineering Company (CHEC) to expand a new terminal in Puerto Cabello, a $200 million project for the Metallurgical Corporation of China (MCC) to expand the port of Palua, and another $161 million project for China Construction Corporation to dredge the Orinoco river. Also as part of this portfolio, the Chinese company Sinohydro is earmarked to construct the new “El Chorrín” hydroelectric facility, while other Chinese companies including China Harbor Engineering corporation will build seven new thermoelectric facilities in the country, as well as upgrading an existing facility. Also in Venezuela, China Railway Engineering Corporation is building a $7.5 billion high-speed rail line across the center of the country from Tinaco to Anaco. The project will reportedly employ 7500 workers, of which a substantial number are likely to be Chinese. In addition, the Venezuelan mining ministry (MIBAM) has signed $727 million in contracts with four Chinese companies to perform mining-related activities: Wuhan Iron and Steel, China Railway Engineering Corporation, Metallurgical Group Corporation, and China Communications Construction Company LTD.

In Ecuador, the government has awarded a $2 billion contract for the construction of the nation’s largest hydroelectric facility, Coca Coda Sinclair, to the Chinese firm Sinohydro, while the Chinese Gezhouba Group has been contracted to construct the $672 million Sopladora hydroelectric project. Yet another Chinese firm, China Water and Electric Corporation, will construct the $517 million Toachi-Pilaton hydroelectric facility, and in October 2011, a Chinese company was awarded a dam construction project in Chone.

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Beyond these projects, the Chinese may also play a role in the construction of the $12 billion “Refinery of the Pacific” near Manta.\(^{30}\)

In Bolivia, the government has expressed a preliminary interest in Chinese aid to build a rail link from Puerto Suarez to Ilo, on the Pacific Coast of Peru,\(^{31}\) while the Chinese firm CITIC has signed an agreement to develop the lithium deposits in the salt flats of Copiasa.\(^{32}\)

In Cuba, in June 2011, CNPC subsidiary China Huanqiu Contracting & Engineering Corp was contracted to support a Cuba-Venezuela consortium in a $6 billion project to double the output of Cuba’s Cienfuegos refinery.\(^{33}\) To date, there are few indications that the Venezuelan, Ecuadoran, Bolivian, or Cuban governments have tried to limit the role of Chinese companies and workers in these projects funded by Chinese institutions. Moreover, as the ALBA governments’ dependence on funding from the PRC continues to increase, the associated role of Chinese construction companies and workers in these countries is likely to expand.

Although Venezuela and the ALBA countries have been the spearhead for the entry of Chinese companies and construction workers into Latin America, other countries are also increasingly using or considering Chinese service companies. In February 2011, Colombian President Juan Manuel Santos announced that his government was negotiating with a Chinese consortium for a “dry canal” – $7.6 billion in railroad work linking the Atlantic and Pacific coasts of Colombia.\(^{34}\) A Chinese company currently manages six regional airports near Medellin. Other Chinese firms have expressed interest in building a new metro in Bogota,\(^{35}\) as well as participation in a host of other projects including the “Ruta del Sol” and “Autopista de las Americas” highways and the Socomoso and Ituango hydroelectric


\(^{34}\) There has been considerable confusion regarding the specifics of the project, including whether it refers to a direct rail line between Uraba and Cupica near the Panamanian border, or a series of railway improvements linking Cartagena to Buenaventura across the center of the country. Robert Wright, “‘Dry canal’ latest twist in tangled tale of isthmus.” Financial Times. [http://www.ft.com/intl/cms/s/0/72db1e5e-3799-11e0-b91a-00144feabdc0.html#axzz1g37rG1y3](http://www.ft.com/intl/cms/s/0/72db1e5e-3799-11e0-b91a-00144feabdc0.html#axzz1g37rG1y3). February 13, 2011.

projects. In Argentina, Chinese banks are financing $10 billion in railway projects, including the $2.5 billion 1700 kilometer line from Belgrano to Cargas, to be done by China Machinery Equipment Corporation, and subway lines in Cordoba, to be done by China Railway Engineering Corporation. In Costa Rica, the national oil company Recop is engaged in a $1.2 billion project backed by Chinese capital, to significantly expand the refinery at in Moin.

In Brazil, Chinese companies have participated in initial bidding for the $24 billion high-speed rail link from Sao Paulo to Rio de Janeiro in Brazil, while the Chinese national power company State Grid, which established a physical presence in the country through a $989 million acquisition in 2010, will participate in construction of the Belo Monte dam, the third largest hydroelectric project in the world. Previously, the Brazilian state oil company Petrobras contracted with Sinopec for $1.3 billion to construct the 1,300 kilometer long Gasene pipeline.

In the Caribbean, projects funded by Chinese loans and executed by Chinese companies include the $80 million Palisades Road improvement project in Jamaica, which will connect the capital of Kingston to the nearby international airport. China Harbor Engineering Company is doing a total of $400 million in road construction and bridgework in the country under the Jamaica Development Infrastructure Program (JDIP). In Honduras, which does not even have diplomatic relations with the PRC, the Chinese company Sinohydro has signed a $50.5 million contract with Empresa Nacional Energia Electrica (ENEE) to construct the Patauca III hydroelectric facility, with 750 Chinese to be brought in to work on the project, in addition to the

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2000 Hondurans to be employed. Chinese companies have also been involved in housing projects in the region, similarly backed by Chinese banks. These include 26,000 housing units to be constructed in Venezuela, under contract with China's CITIC group, and a $76 million contract for the Chinese firm Complant to construct housing in Jamaica, with funding provided by the Import-Export Bank of China.

Perhaps the largest series of construction projects being done by Chinese companies however are in Suriname, where the company China Dalian International is executing $6 billion in work to build a deep sea port and make highway improvements to support that country's role as a transportation hub for commerce linking northern Brazil to China. According to media reports, the Chinese workers brought in for the project has boosted the Chinese community in Suriname to 40,000 people, or almost 10 percent of the population.

**Primary Product Industries and Associated Service Companies**

Although construction projects are arguably the largest single source of Chinese companies and workers entering the region, an equally important trend involves the entry of Chinese workers, technical personnel and service companies as Chinese companies begin to develop the resources they have acquired through acquisitions in industries such as petroleum, mining and industrial agriculture.

To date, most Chinese investments in the primary product sectors of Latin America have involved the acquisition of assets, such as mines and oilfields. Examples of this approach include the 2005

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48 Such activities are part of the strategy of resource-oriented Chinese companies, supported by the Chinese government, to obtain the resources necessary to meet the current and projected demands of Chinese clients, in support of the country’s continuing growth.
purchase of the Ecuadoran holdings of the Canadian oil firm EnCana for $1.42 billion by a consortium headed by China National Petroleum Corporation, the acquisition of a 50 percent interest in Omimex Colombia by a Chinese-Indian consortium, the 2009 purchase of the Colombian holdings of the Canadian Emerald Energy by Sinochem, the May 2010 $3.1 billion purchase by Sinochem of rights to the Peregrino oilfield in Brazil, the infusion of $7.1 billion by Sinopec into Repsol YPF five months later, the May 2010 purchase of the Argentine petroleum firm Bridas by Sinochem, and the subsequent purchase by the newly formed firm of the Argentine assets of Occidental Petroleum.49

In general, such acquisitions were done with the logic that the new Chinese owner would subsequently put more resources into the operation, to maintain or increase output as part of its broader plans to meet the projected demand of its clients in China and elsewhere.50

In a small number of cases involving ideologically “friendly” Latin American regimes, Chinese companies have directly purchased the rights to develop oilfields from national governments. Examples include $600 million paid by CNPC to Venezuela for rights to develop the Junin-4 block in the Orinoco tar belt of Venezuela, and subsequent agreements to develop the Junin-1, Junin-8, MP3, and Boyaca-4 blocks,51 as well as the development of the Mariscal Sucre gas deposits off the eastern coast of Venezuela.52

In the mining sector, as in petroleum, Chinese companies to date have invested relatively small amounts to acquire assets, with the promise of much larger investments to come to develop the resources. In Peru, Chinese firms spent a mere $235 million from 2003 through 2010 to acquire rights to mines in the country,53 but with a promise to invest more than $10 billion to develop the mines including $2.15 billion by China Aluminum Corporation to develop


50 In the specific case of Mansrovar in Colombia, for example, the objective was to increase production from 24,000 to 100,000 barrels per day, meeting the company’s obligated quota to the Colombian national oil company Ecopetrol, and exporting the rest to Asia. Interview with Ponce de Leon. Mansrovar Energy, Ltd. Bogota, Colombia. January 22, 2010.


Toromocho, $1.44 billion by Zijin Mining Group to develop Rio Blanco, $1 billion by Shougang to develop Maracana, $2.5 billion for China Minmetals to develop Galleno, and a possible $3.28 billion commitment by Nanjizhao to develop Pampa de Pongo.\(^{54}\) Similarly, in Ecuador, the Chinese company Tongling purchased the local assets of the Canadian firm Corriente for $652 million yet has announced plans to spend $3 billion to develop its newly acquired mineral field in the southern province of Zamora Chinchipe.\(^{55}\)

Examples in other countries of mining investments creating larger, long term obligations to exploit the assets include the $1.2 billion purchase of Itaminas, with its Brazilian mining holdings, by East China Mineral Exploration and Development Bureau,\(^{56}\) the 2010 $390M acquisition of Sul Americana de Metais, S.A. (SAM) by the Chinese investment group Honbridge Holdings, and the acquisition of a 20% stake Companhia Brasileira de Metalurgia e Mineração (CBMM) for $1.95 billion by a five company consortium in CITIC and Baosteel-led Chinese consortium.\(^{57}\) They also include the 2006 acquisition by China Metallurgical Group of a 70% interest in the Sierra Grande mine in the Rio Negro Province of Argentina,\(^{58}\) and the May 2007 acquisition by the Bosai minerals of a 70% interest in the Omai bauxite mine in Guyana.\(^{59}\)

As Chinese companies perform the work detailed in the preceding section, they are also likely to continue their practice of favoring their own subcontractors and service companies, further magnifying the footprint of Chinese technicians and workers during implementation. In Colombia, for example, following the acquisition of Emerald Energy in 2009, the new Chinese parent company began bringing in its own service companies, including Great Wall Drilling Corporation (GWDC).\(^{60}\) Similarly, in Ecuador, petroleum service

\(^{54}\) Ruben Gonzalez-Vicente, “Mapping Chinese Mining Investment, With a Focus on Latin America: Politics or Market?” Paper prepared for the China-Latin America meeting at the UCLA Asia Institute. 15-16 April, 2011.


companies such as CPEB Chanquing have followed the entry of larger firms such as CNPC and Petroriental into the country.\footnote{Operadoras chinas dominan negocio petrolero ecuatoriano.} El Universo. Guayaquil, Ecuador. \url{http://www.eluniverso.com}. November 3, 2009.

In the agricultural sector, the entry of Chinese companies and investors has been more complicated than in the petroleum and mining sectors, but also is moving forward with a series of multi-billion dollar investment projects that implies an infusion of new Chinese managers and workers.

Following a number of years in which Chinese companies made expanded purchases of goods from the major agricultural companies with almost no investment, various Chinese groups began to quietly acquire land with the assistance of local partners, and investigate larger projects, including activities in Brazil and Argentina, by Beidahuang Nongken, the Pallas group, China National Agricultural Development Group Corporation (CNADC) and Chonquing Grain Group.\footnote{“Argentina will limit farm land holdings and purchases by foreigners.” Mercopress. \url{http://en.mercopress.com}. April 28, 2011.}

In the face of political resistance to land purchases, including the passage of a law in Argentina,\footnote{“Brazil to further limit foreign ownership of land, says local media.” Mercopress. \url{http://en.mercopress.com}. November 21, 2011.} a restrictive interpretation of an existing law in Brazil, and a proposed new law that would impose further restrictions,\footnote{“Chinese group Chongqing Dragonfly Oil Sunday in Brazil lays first stone of soy processing factory.” MacauHub. \url{http://www.macauhub.com}. June 7, 2011.} Chinese investors have turned to a new strategy involving the renting of land and the construction of agricultural infrastructure in the Latin American countries themselves. Examples include a contemplated $2.4 billion investment by Chongqing Grain group to build industrial complex for processing and transporting soy in Brazil’s Bahia state,\footnote{Thomson Reuters, “Noble bets on Brazil’s center-west soy belt.” The Edge. Singapore. June 23, 2011.} a $237 million project by the Noble group to build similar facilities in Mato Grosso, including soy crushing facilities, storage silos, and a biodiesel plant,\footnote{“China plans to invest 10 billion USD in soy production and processing in Brazil.” Mercopress. \url{http://en.mercopress.com}. April 11, 2011.} plans announced by Sanhe Hopeful in April 2011 to invest $7.5 billion in soy processing facilities in Goiás,\footnote{Rodrigo Orihuela, “Chinese agro giant to invest $1.5b in Argentina.” China Daily. Beijing, China. \url{http://www.chinadaily.com.cn/business/2011-06/10/content_12672742.htm}. June 10, 2011.} and announced plans by Beidahuang for a $1.45 billion project to lease and grow grain on 320,000 hectares of land in the Rio Negro province of Argentina.\footnote{“Chinese capital eyes Brazil’s high-tech sector.” China Daily. \url{http://www.china.org.cn}. July 5, 2011.}
As in the petroleum and mining sectors, Chinese initiatives to establish industrial agricultural operations in the region will bring Chinese managers and technical personnel into the region, as well as the Chinese companies and workers who will be involved in the construction of the facilities and associated infrastructure. It will thus make Chinese companies an important force in the local economy as a purchaser, an employer, and as a direct manager of those facilities that it operates on the ground.

**Retail, Manufacturing, and Supporting Services**

Although the attention given to Chinese activities in Latin America has focused on primary product industries, an equally important phenomenon is Chinese investment in the region’s retail and manufacturing sectors. The reasons behind such investment resemble those driving investments by Western firms: the need to invest in distribution networks in order to support product sales in local markets, and the occasional need to build final assembly facilities to avoid import duties, cut inventory carrying costs and response times, to better serve local markets.

China’s projection into Latin America’s retail and manufacturing sectors may be divided into four categories, each of which has its own dynamics and implications: small scale retail, own brand retail, manufacturing, and service companies.

Small scale retail, such as restaurants, grocery stores and other shops, often leverages members of the existing Chinese community. Although there are no good figures available to characterize the relationship, the Chinese-owned grocery stores in the greater Buenos Aires area offer an example. The expansion of these shops tends to raise the visibility of the Chinese community and merchandise from China, and may come to be perceived as “displacing” the status quo of other small shops, and the “way of life” in the community. Although such shops have been a common feature of Latin American capital cities and other urban areas for many years, the current influx of Chinese merchandise and companies, in conjunction with the “rise of China” globally, casts new light on these “Chinese communities within,” with symbolic connections to the threat perceived from the projection of the PRC from beyond the region’s borders.

“Own brand retail” refers to the activities of major Chinese brands, to establish a chain of retail outlets in the region, or position themselves with existing retailers. Examples include investments by JAC and Chery to set up networks of auto dealerships in Brazil. The projection of a Chinese brand into the region also includes its movement from a Latin American distributor representing various
brands, such as Socoma or Cinascar,\textsuperscript{69} to the direct representation of own brand, with a corresponding increase in the profile of the company.

The third subcategory is the establishment of manufacturing operations in the region by Chinese companies. Examples include auto assembly facilities established by the Chinese firm Chery in Montevideo, Uruguay and Aragua, Venezuela,\textsuperscript{70} and announced plans by both Chery and JAC to establish plants in Brazil.\textsuperscript{71} As well as plans by the heavy equipment manufacturer XCMG to establish facilities in Brazil and Venezuela,\textsuperscript{72} and plans by Sany heavy industries, to construct a $200 million factory in Sao Paulo. In the computer industry, Lenovo has built a 750 person factory in the north of Mexico,\textsuperscript{73} and has announced that it will build a plant for manufacturing notebook computers in Tierra del Fuego, in the south of Argentina.\textsuperscript{74}

Often the factory, or the promise to construct it, plays an explicit role in the efforts of the Chinese company to enter the local market. The Chinese appliance maker Haier has announced that it will construct a factory in Venezuela, as a follow-up to its sale of 300,000 consumer appliances to that country.\textsuperscript{75} In Brazil, China Northern Railroad will invest $125 million in a plant to manufacture trains in Rio de Janeiro, as a condition for its sale of the trains to the Brazilian government.

As with Chinese investment in the extractive sector, these investments imply that Chinese companies will become important actors in Latin American communities. Correspondingly, Chinese personnel will increasingly interact with their Latin American communities.


\textsuperscript{71} “China’s JAC motors to build factory in Brazil, hoping to avoid higher import taxes.” Mercopress. http://www.mercopress.com. October 9, 2011.


 counterparts as supervisors, co-workers, and neighbors, creating new dynamics in Latin American communities at the micro as well as at the macro level with political implications for both Latin America and China.

With respect to service companies, as in other sectors, the growing PRC presence is a function of growing Chinese companies with increasingly sophisticated international operations, projecting themselves into new markets, although they also leverage the increasing Chinese manufacturing and retail presence in Latin America.

In logistics, the Chinese firm Hutchison-Whampoa has operated facilities on both sides of the Panama Canal, at Balboa and Cristobal, since 1999, as well as facilities in the Freeport, Buenos Aires, and in four of Mexico’s major ports: Ensenada, Manzanillo, Lazaro Cardenas, and Veracruz. In the Bahamas, it has invested $2.6 billion to establish a regional hub for its container shipping operations in Freeport, and has expanded to complimentary operations there as well, including administration of the airport, and operation of various commercial shipping and storage facilities. It is also rumored to be interested in acquiring the semi-private regulatory and administrative organization, the Grand Bahamas Port Authority.76

The major shipping firms, such as China Overseas Shipping Company (COSCO) China Shipping, Hanjin, Pil, and others are active in the Latin American ports, transporting goods between Latin America and the region.

In telecommunications, two leading Chinese firms, Huawei and ZTE, are similarly expanding their presence throughout the region. In Brazil, where both Huawei and ZTE have established regional hubs, the former has announced plans to build a training facility,77 while ZTE is expected to build a high tech industrial park with a research and development center, a production plant, and a training and logistics facility in Sao Paulo state.78 In Bolivia, in September 2011, the national telecommunications company Entel signed an agreement with Huawei to help the country build infrastructure to expand cell phone coverage to rural areas.79 In Honduras, Huawei is reportedly interested in acquiring the state telecommunications firm Hondutel, if the later is privatized. The firm Shanghai Alcatel Bell has also been active in Latin America to a lesser degree; with the completion in February 2011 of a fiber optic

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telecommunications line connecting Cuba and Jamaica to the Venezuelan telecommunications infrastructure,\textsuperscript{80} as well as work in building the Venezuelan fiber optic infrastructure.

**Tourism**

Chinese tourism with Latin America, although a recently emerging phenomenon, is the one with the possibility to put Latin Americans in contact with the greatest number of ordinary Chinese. An estimated 100 million Chinese will be traveling internationally by 2015, compared to 65 million in 2011.\textsuperscript{81} Although it is not clear what portion of these will visit Latin America, companies in the tourism business in the region are reporting significant increases, and are adapting their operations for more. Starwood hotels, for example, has reported a 364\% increase in Chinese tourists at its Sheraton hotel in Mexico City, as well as a 260\% increase at its Park Tower facility in Buenos Aires.\textsuperscript{82}

To date, the geographic concentration of investment anticipating Chinese tourism in Latin America has occurred in the Caribbean, including the previously mentioned “Baha Mar” resort in the Bahamas, the Punta Perla resort in the Dominican Republic,\textsuperscript{83} and hotel resort complexes in Grenada.\textsuperscript{84}

One factor shaping where Chinese tourists actually travel to is the granting to Latin American countries as “approved destination status.” In recent years, virtually all Latin American countries with which the PRC has official relations have been approved by the Chinese government as official tourist destinations, including the designation of Bolivia as a “priority” tourist destination in September 2011.\textsuperscript{85}


\textsuperscript{83}This project is particularly notable because it is one of the few major investments by a Chinese company, where the PRC does not have diplomatic relations with the receiving country. See “China’s Caribbean march.” \textit{BBC}. http://www.bbc.co.uk/caribbean/news/story/2010/10/101019_chinadomrep.shtml. October 20, 2010.

\textsuperscript{84}Although the resorts are not oriented solely to Chinese tourists, they are likely to accommodate Chinese tourists more than existing resorts in the region.

Overall, it is likely that increasing Chinese tourism will generate more perceptions of opportunity than conflict, since tourists from the PRC represent a new market. On the other hand, beyond the inevitable cultural clashes between Chinese tourists and the local population, it is likely that a disproportionately large share of the new business will be captured by local Chinese businessmen offering their services in Mandarin Chinese, or China-based booking agents, creating a source of possible disappointment and resentment for other local merchants.
Transformation of the Relationship and Upcoming Challenges for the Chinese

The increasing footprint of the PRC in Latin America in the coming years will fuel a number of significant, but difficult to predict impacts on the region. On one hand, the expanding PRC physical presence will provide its companies, and its government with increased opportunities for learning about how to operate effectively in the Latin American culture. While the Chinese may become more adept in dealing with the region’s sensibilities on issues such as labor relations, the environment, and indigenous rights, they will also become more effective businessmen, learning to better assess the risks of specific projects in the region, and improving their ability to negotiate the labyrinth of influence networks and other informal structures.

As the Chinese become increasingly important as customers, investors, and employers, their leverage in dealing with challenges facing their people and operations will also increase. Such increased sophistication and leverage will rapidly be put to the test, however, since the expanding Chinese physical presence implies that the number of challenges to Chinese interests in Latin America will also expand, along with the perceived importance of defending them.86

This section of the paper builds on the analysis of the previous section regarding the expanded Chinese footprint in the region to explore the ways in which this growing physical presence is likely to raise difficult issues in China’s relationships with the countries of the region. The imperatives for China to respond to challenges and defend its interests in the region, either implicitly or explicitly, will make it increasingly difficult for the PRC to adhere, in fact, to its official policy of non-intervention in the affairs of Latin American states. While it is likely that the PRC will continue to publicly espouse

86 This is because the relative size of Chinese investments in Latin America, and the number of people will be larger, the market share represented by Latin America more important, and the resources flowing from the region an increasingly integral part of global operations ultimately feeding Chinese companies. At the same time, Chinese companies, including not only state owned enterprises, but also provincially backed firms, will increase their prowess in lobbying the government to protect these interests, while the new generation of PRC leadership will likely become more confident in asserting the nation’s growing power and leverage to defend them.
such a policy, its government will increasingly face the need to use its growing “soft power” in Latin America to defend its companies, nationnals, and interests in the region, even as the new generation of Chinese leaders grow in their confidence that they have the ability and “right” to do so.

Challenges to Chinese interests associated with its growing physical presence in Latin America can be grouped into five categories: 87 (1) fights with Latin American governments over the tax and regulatory framework in the region, (2) disputes over investment terms and fights with local communities during implementation, (3) labor issues and problems with local suppliers while conducting business operations, (4) resistance to Chinese projects from environmentalists, and (5) physical protection of Chinese personnel and operations. 88

Fights over tax and regulatory framework

With respect to the region’s tax and regulatory framework, the influx of Chinese companies will naturally generate disputes as national and local governments try to maximize the tax and royalty revenue obtained from the new entities, or alternatively, try to accommodate the interests of local competitors by using taxes and regulatory policies to attempt to block the entry of the would-be Chinese competition. Brazil’s passage of an Industrial Products Tax in September 2011, partially in response to the rapid penetration by the Chinese automaker JAC in the Brazilian auto market, is an example of the later. 89 The action provoked the Chinese automaker, Chery, which had committed to invest $400 million to build an auto factory in Brazil, to seek a 90 day injunction over implementation of the new tax. In a separate case, in March 2011, the Chinese automaker Chery complained that the Argentine government was delaying approval of its request made under the Mercosur framework, to import 6,100 cars from the plant that Chery had recently built in Montevideo, thus seriously impacting the company’s Latin American sales and profitability. 90 Brazil has also passed protectionist measures against the import of Chinese steel, 91 textiles, 92 tires and footwear, among

87 In the near term, challenges to non-commercial elements of the growing Chinese presence, such as resistance to official visits or training operations are not considered a significant challenge.
88 This includes not only Chinese businessmen, but also tourists, students, and to a lesser extent, official delegations.
91 “Brazil Protects Domestic Trade, Slaps Steel Tariff On Chinese Products.”
other goods. Argentina has similarly imposed restrictions on Chinese toys, textiles, and computer equipment. According to a 2010 study by the International Bar Association, Latin America as a whole initiates more anti-dumping cases against Chinese companies than any other region.

Such battles involving Chinese companies have also been prominent in the extractive sectors, and are likely to become more prominent as Chinese investment expands there. Examples include an increase in royalty payments and taxes in the petroleum sector by the Ecuadorian government in 2006, affecting two major Chinese companies which had just entered the sector, and a forced negotiation of petroleum contracts by the Ecuadorian government in 2008.

**Disputes over investment terms**

With the growth in the number of Chinese firms investing in extractive sectors, there is also likely to be an increasing number of disputes over the terms of investment, as well as with relationships with local communities during project implementation. Examples to date include the Toromocho mining project in Peru, in which, despite a substantial public relations campaign, the new Chinese owner of the mine, China Aluminum Company (CHINALCO) has been caught up in disputes with the local community regarding the relocation of the town of Morococho, per the terms of the mining concession. Similarly, in Hierro Peru mine near Marcona, local residents have publicly complained about the water and sanitation services provided by the Chinese owner Shougang. In Argentina, the Sierra Grande mine was shut down by its owner China Metallurgical Group (CMG), over a
dispute with government over storage of explosives, and because of concern from CMG that the government was not supplying the agreed amount of water.\textsuperscript{100}

Such disputes have not been confined to petroleum and mining, but have also arisen in the service sector, particularly with respect to Chinese companies performing construction work in the region. In Jamaica a series of protests broke out in September 2010 against China Harbor Engineering Company (CHEC), contracted to improve the road connecting the international airport to the capital, Kingston, with the argument that the company was not hiring sufficient numbers of Jamaicans.\textsuperscript{101} In Suriname, local residents have complained that Chinese brought into the country to work on road projects do not all leave the country when the work is complete, but rather, fall into the hands of the local Chinese mafia.\textsuperscript{102}

Often, resentment and distrust by the local community is fueled by the lack of meaningful contact with Chinese workers, brought in to perform the task. In the case of workers at the Sierra Grande mine in Argentina, contact between the 80 Chinese workers and the rest of the 340 employed at the mine is limited. As one observer complained, “They have built a safe enclosed neighborhood that even has a gym and are not even seen walking around town.”\textsuperscript{103}

A common element in such problems is the perception by local communities that the Chinese workers and businessmen are both isolated and very different from them, driving suspicion and mistrust by the locals. The “truckers strike” against Chinese shopkeepers in greater Buenos Aires in 2007 included not only specific grievances, but also suggestions that the competitiveness of the Chinese was based in part on their ties to organized crime groups.\textsuperscript{104} More recently, accounts have appeared in the Argentine press concerning incidents against the Chinese shops, possibly connected with a


\textsuperscript{103} “An eye-opener for the Chinese at the Sierra Grande mine.” \textit{No a la Mina}. \url{http://www.noalamina.org/english/rio-negro/an-eye-opener-for-the-chinese-at-the-sierra-grande-mine}. April 6, 2010. Even where interactions are possible, the Sierra Grande case suggests that the language barrier also limits interaction, with few of the 80 Chinese speaking Spanish.

failure to pay “protection money” to the local Chinese mafia. Similar allegations appeared in newspaper reports in Trinidad regarding workers brought into the country to work on construction projects. Media reports of human trafficking networks smuggling Chinese into the region doubtlessly contribute to this image. A large number of such cases appeared in the press in Colombia, for example, following the 2008 decision by neighboring Ecuador to drop its visa requirements for Chinese to enter the country. For whatever reasons, the tendency to associate Chinese merchants and workers with illegal activity will continue to play a significant role in the tensions between Chinese and the Latin American communities in which they operate.

Labor issues

With respect to challenges to Chinese companies in dealing with the local labor force and supplier, the difficulties of Chinese companies operating in the region to date may indicate what is to come as more such firms set up operations in the region. The oldest major case is that of the Peruvian iron mine operated by the Shougang Corporation since 1993, with between one and three strikes per year, including a month-long work stoppage in September 2011 that became a major political event, Peru’s Vice-President taking the complaints of the workers to the Peruvian congress. In neighboring Ecuador, in 2007, a strike against the Chinese oil company Petroriental in the province of Orellana turned violent, forcing the declaration of a state of emergency, and ultimately resulting in the death of over 24 police and military. Protesters blocked road access to the Petroriental facility to call attention to complaints that the oil company had not hired the promised number of workers from the local population. When Petroriental vehicles escorted by Ecuadoran security forces attempted to break the blockade, violence ensued. The Chinese-operated Sierra Grande mine in Argentina has had similar problems with strikes and disputes with subcontractors, while in the Bahamas

110 “An eye-opener for the Chinese at the Sierra Grande mine”, No a la Mina.
in October 2009, bad labor relations with the Chinese port operator Hutchison fueled a political movement to block Hutchison’s attempt to take over Grand Bahamas Port Authority.\footnote{According to newspaper accounts, locals complained that Hutchison treated workers in its Freeport facility “like second class citizens in their own country…violating their rights, classifying permanent workers as temporary workers to avoid paying them benefits.” Ianthia Smith, “Gov’t Told ‘Block Hutchison’”\textit{Jones Bahamas. http://www.jonesbahamas.com}. October 29, 2009.}

\textbf{Resistance from environmentalists}

Beyond labor-management conflicts, the expanding Chinese footprint in Latin America is also likely to generate a range of conflicts with environmental groups, due to a combination of the inherent focus of Chinese extractive industry investment in environmentally sensitive areas, and the lack of experience by Chinese companies in dealing with well organized and politically well connected environmentalist movements.

By its nature Chinese investment in Latin America concentrates in areas which inherently raise conflicts with environmentalists. Examples include the oil sector, with Chinese rigs exploring for oil off the western coast of Cuba, not far from the site of the massive BP Horizon deepwater oil spill. Similarly, since prior to 2006, Chinese firms have expressed interest in the development of the Ishpingo-Tambochococha-Tiputini (ITT) oilfields in the environmentally sensitive Yasuni national parkland.\footnote{Jose Olmos, “Temor de etnocidio por ‘extractivismo’” \textit{El Universo. Guayaquil, Ecuador. http://www.eluniverso.com}. May 2, 2010.} In Peru, the nation’s five major Chinese investment projects all involve exploitations of mines – a sector in which there have traditionally been significant protests over issues such as rights to land and water.\footnote{See, for example, the November 2011 protests in Cajamarca over the diversion of water from traditional agriculture for use in a mining project. “Defensoría del Pueblo buscará mediación en conflicto en Cajamarca.”\textit{Andina. http://www.andina.com}. November 29, 2011.} Indeed, Chinese mine operators in Peru have already found themselves involved in environmental disputes: Shougang has been subject to complaints over the dumping of its mining byproducts into the steams leading from its operation to the sea,\footnote{Robin Emmott, “Peru miners feel oppressed by China’s Shougang.” \textit{Mines and Communities. http://www.andina.com.pe/Espanol/PortalBusqueda.aspx?BuscaEn=0&xcig=Shougang%20huelga}. July 21, 2005.} while the Chinese firm Shen Pe Resources, operating since 2008 in Arequipa, has been accused of dumping and storing its metals without proper protection.\footnote{“GRUPO INICIATIVA ANTICORRUPCION ILO.”}
In the area of agriculture, as Chinese companies continue to expand their Latin American operations, it is likely that their fights with environmental groups will similarly continue to expand. The complaints are likely to resemble those leveled against other agro industrial operators: erosion, chemical runoff from heavy use of fertilizer contaminating local waterways, the legal and illegal transformation of forests into agricultural land, and the transformation of traditional agriculture into a soy monocrop. Such concerns have already been expressed by groups such as Oxfam and the International Land Coalition against investments by the Chinese firm Beidahuang in the Argentine province of Rio Negro, and have played a role in an argentine law limiting the purchase of rural land in the country by foreigners to 1000 acres. Similar concerns were behind a 2010 ruling by Brazil’s Attorney General restricting the ability of foreign entities to purchase land in that country. In Uruguay as well, proposals for new laws restricting land purchases by foreigners have been proposed, ostensibly motivated by Chinese interest in purchasing Uruguayan farmland.

Yet another series of environmental struggles for Chinese companies is likely to stem from the increasing number of current and proposed hydroelectric projects involving Chinese companies, including Coca Coda Sinclair, Sopladora, and Toachi-Pilaton in Ecuador alone, and improvements to Venezuela’s main Guri dam hydroelectric facility. In Chone, Ecuador, local merchants have declared that they will not sell food and other goods to Chinese construction workers because the dam that they are constructing is in a geologically unstable area, and thus represents a threat to the local community. Although to date host governments in Ecuador and Venezuela have tempered local resistance, protests against hydroelectric projects in Brazil over issues of land and the transformation of ecosystems, including occupation of the Belo Monte dam, where a Chinese firm is a key partner, may be indicative of what is to come.


Protection of Chinese personnel

Finally, as the Chinese expand their footprint in the Americas, they will increasingly confront challenges to the security of their people and operations in the region. The likelihood of problems is magnified by the concentration of Chinese investment on petroleum and mining operations in remote areas of the country, whose population often includes criminal and subversive elements, as well as refugees, indigenous groups, and others. In Colombia, there have already been at least two high-profile kidnappings of petroleum industry workers; the kidnapping of a crew from the CNPC subsidiary SAPET near the Pacific coast of Colombia in 2005, and the June 2011 kidnapping in Caquetá of three Chinese oil workers from Great Wall Drilling Corporation.\(^\text{122}\)

In addition to kidnappings, multiple violent incidents have occurred against Chinese mining and oilfield operations in Latin America including Tarapoa, where an oilfield run by Andes petroleum was overrun by protesters in November 2006, with 30 Chinese oilworkers taken hostage,\(^\text{123}\) as well as the previously mentioned violence in Orellana,\(^\text{124}\) with violence that has continued sporadically through 2011.\(^\text{125}\) In Peru the Rio Blanco mine has been similarly plagued by violence since before the Chinese company Zijin acquired the property from Monterrico Metals.\(^\text{126}\) Although Zijin may have calculated that the change in ownership, and the intervention of the Peruvian government would diffuse the conflict, the violence has continued, including two murders in Huancabamba in December 2009 that may have been a reprisal for a prior attack on the mine.\(^\text{127}\)

In preparing themselves for such violence, Chinese companies have found themselves caught in a dilemma. On one hand, as the prior cases have illustrated, the predominant practice to date of contracting private security companies has proven inadequate. The PRC also has few private security companies of its own that

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companies can rely on when going abroad. On the other hand, the Chinese government has reasons to shy away from closer security collaboration with governments of the region, so as not to alarm the United States, although it has cautiously moved toward informal arrangements, such as the deployment of the Honduran armed forces in the vicinity of the Patuka hydroelectric project in that country, so as to protect the Sinohydro workers and operations associated with it.  

Conclusion

The increasing Chinese presence on the ground in Latin America is likely to fundamentally impact the internal political dynamic of the region, as well as China’s relationship with each of its member states. For the PRC, its people and companies will increasingly become part of the region, and as such, will be impacted by, and inadvertently drawn into its political dynamics, insofar as decisions taken by political leaders in the region will impact the livelihood of Chinese companies, and the cooperation of the region’s security forces will impact the well-being of Chinese citizens living and working there.

With ever more people at risk on the ground, ever more valuable assets in the region and ever more critical flows of resources originating from it, the PRC will find it increasingly difficult to maintain, in reality, its policy of “non-intervention.” In this regard, China’s need to evacuate 12,000 of its nationals from Libya in 2011 may have been a “wake-up call” to the Chinese leadership concerning the obligations incurred through its growing economic engagement with the rest of the world.

While the PRC may be reluctant to intervene in the region overtly, in a heavy-handed way, it is likely to use its growing leverage, coming from being a key source of investments and markets and an important player in Latin American communities, in order to shape outcomes to its benefit. Such Chinese leverage will come from multiple sources. They include (1) growing dependence of the region’s governments on Chinese loans and investments (2) increasing reliance on Chinese commodity purchases by select countries in the region, and (3) expectations of future access to Chinese markets, whether or not those expectations are realistic for the particular products involved.

In many cases, the exercise of Chinese influence may be “consensual.” In Venezuela, Bolivia, and Ecuador, for example, governments sympathetic to, or dependent on China, increasingly have the power to approve projects, suppress dissent through press control, and even co-opt problematic figures such as labor union leaders, from within the movement.

As with the history of US engagement with Latin America during the previous century, the PRC may be drawn into applying its influence in the region in response to short-term exigencies, without fully comprehending the path that it is choosing. In the context of upcoming Venezuelan elections in October 2012, for example, the PRC may be tempted to permit otherwise questionable loans so as to avoid undercutting an ally. Conversely, it may be tempted to negotiate with the opposition as the defeat or death of its ally becomes increasingly likely, in an attempt to secure a commitment to respect the debts and commitments entered into by the previous regime.

Whatever the case, two things are certain. With the expanding footprint of China, the political dynamic of Latin America will be vastly different than what it was during the 20th century, dominated by US and European political, business, and cultural influence. Yet China’s engagement with Latin America in the 21st Century will not be the world of consequence-free “win-win” interactions envisioned by official public diplomacy. If the PRC is weaving an ever more tangled web for itself in Latin America that will draw it more closely into the region, the future will belong to those who anticipate the new dynamics, and who position themselves to reap the associated opportunities and avoid the pitfalls.
executive summary

We estimate that since 2005, China has provided loan commitments upwards of $75 billion to Latin American countries. China’s loan commitments of $37 billion in 2010 were more than those of the World Bank, Inter-American Development Bank, and United States Export-Import Bank combined for that year. After providing estimates of Chinese finance, we also examine the common claims that Chinese loans to Latin America have more favorable terms, impose no policy conditions, and have less stringent environmental guidelines than the loans of international financial institutions (IFIs) and Western governments. We find that:

• China Development Bank (CDB) loans carry more stringent terms than World Bank loans.
• The Export-Import Bank of China (China Ex-Im Bank), by contrast, generally offers lower interest rates than the US Ex-Im Bank—though this difference stems from the fact that the World Bank offers concessional interest rates as a form of aid, while China offers concessional rates not through CDB but rather through China Ex-Im.
• Chinese banks provide financing to a significantly different set of countries than the IFIs and Western banks, namely Argentina, Ecuador, and Venezuela, which are not able to borrow as easily in global capital markets.
• Chinese and IFI/Western banks do not overlap significantly in Latin America: They give different size loans to different sectors in different countries. Chinese banks have largely focused on loans to natural resource-based and infrastructure sectors.
• Chinese banks impose no policy conditions on borrower governments but do require equipment purchases and sometimes oil sale agreements.
• The financing terms in oil sale agreements seem to be better for the South Americans than most people believe.
• Chinese finance does operate under a set of environmental guidelines, but those guidelines are not on par with those of its Western counterparts.

It is our hope that this report will provide a more empirical-based foundation for research on Chinese finance in Latin America and the Caribbean (LAC). Our investigation lends credence to some claims about China in Latin America, but less so to others.

On the positive side, China is a new and growing source of finance for LAC, especially for the nations having trouble gaining access to global capital markets. Chinese loans do not come with the policy conditionalities that are tied to IFI and Western loans. Finally, LAC nations can get more financing for infrastructure and industrial projects to enhance long-run development rather than for the latest Western development fads.

However, contrary to much of the commentary on the subject, LAC nations generally pay a higher premium for loans...
Foreword

The Inter-American Dialogue is pleased to publish this report by Kevin Gallagher, Amos Irwin, and Katherine Koleski. Gallagher is associate professor of international relations at Boston University, and senior researcher at the Tufts University Global Development and Environment Institute (GDAE). He is also author of the highly-acclaimed book, The Dragon in the Room: China & the Future of Latin American Industrialization. Irwin and Koleski are researchers at GDAE.

This report, a product of the Dialogue’s China and Latin America program, offers the first comprehensive summary of China’s lending practices in Latin America and the Caribbean (LAC). The authors provide estimates of the volume, composition, and characteristics of Chinese lending to the region since 2005, offer comparisons to international and Western lending institutions, and examine some commonly held notions about Chinese loans to LAC. These include claims that China’s loans have less favorable terms than those of international financial institutions (IFIs) and Western banks, that Chinese lending carries few policy conditions, and that Chinese lenders impose less stringent environmental guidelines than their Western counterparts. The report lends credence to some of these claims, but less so to others.

The Dialogue’s aim in publishing this report, as well as our series of China and Latin America working papers, is to inform and engage policy makers, civil society representatives, and academics from China, Latin America, and the United States on evolving themes in China-Latin America relations. We seek to determine areas of interest, identify shared priorities, and develop ways by which emerging relationships can be made most productive for all countries involved.

Our China and Latin America Working Group, of which Gallagher is a member, has been the centerpiece of the Dialogue’s China-related programmatic efforts since it was launched in 2011. The group is made up of approximately twenty select policy makers, analysts, and scholars from Latin America, China, the United States, Europe, and Australia. Group meetings have generated diverse interpretations of the issues driving China-Latin America relations to highlight opportunities for cooperation and address emerging challenges.

The Dialogue’s China-related papers and reports have dealt with a wide variety of topics including China’s “grand strategy” in Latin America, energy-based engagement and cooperation, the US-China-Latin America dynamic, and the possibility of developing an integrated regional approach to China’s expanding influence. This report in particular seeks to provide a better understanding of China’s often misunderstood financial activity in the region.

We are pleased to recognize the Open Society Institute for its assistance in publishing this report.

margaretmyers
Director, China and Latin America Program

michaelshifter
President
from China. That higher premium comes in the form of interest rates, not loans-for-oil. It is commonly thought that LAC simply sends barrels of oil to China in return for financing and, thus, may lose out given the rising price of oil. Our analysis shows that this misreads the evidence: the majority of Chinese loans-for-oil in Latin America are linked to market prices, not quantities of oil. Another cost of Chinese finance can be tied to working with Chinese contractors and businesses. This reduces “spillover” effects in LAC in terms of local contracting related to the loans.

And finally, the composition and volume of Chinese loans are potentially more environmentally degrading than Western banks’ loan portfolios in LAC. Although the IFI/Western banks’ environmental record is far from perfect, Chinese banks require less demanding environmental standards.

To our knowledge, our report provides the first comprehensive summary of Chinese loans to Latin America.

In 2007–2008, the Congressional Research Service teamed up with students at New York University to produce a report on China’s economic assistance to Latin America (Lum 2009). While pioneering, it only includes concessional loans, and it was published too early to capture the vast majority of Chinese lending that came since 2008. Erica Downs of the Brookings Institution published an analysis of China’s major loans-for-oil borrowers across the globe, including those in Latin America (2011). Our study includes those loans-for-oil projects as well other loans and commitments in other forms and sectors. Our goal in this report is to establish a comprehensive empirical foundation for future analysis of Chinese lending to Latin America.

Most of China’s international lending comes from the China Development Bank (CDB) and China Export-Import Bank (China Ex-Im Bank). During 1994 reforms of the financial sector, the Chinese government created CDB and China Ex-Im Bank as “policy banks,” meaning “tools of the government” (Bräutigam 2009, 79). Their loans would explicitly support the government’s policy objectives. Prior to 1994, policy lending had been the responsibility of the “big four” Chinese banks (Bank of China, China Construction Bank, Agricultural Bank of China, and ICBC), so the new policy banks were designed to free the four to act as commercial banks. In separating policy from commercial lending, the government sought to reduce bank managers’ moral hazard. If managers could blame all their losses on policy loans, they had an incentive to direct their commercial loans toward high-risk, high-return projects (Steinfeld 1998, 71). The creation of separate policy banks would hold commercial banks accountable for rational, market-based lending.

This report provides a foundation for research on Chinese finance in Latin America and the Caribbean. It lends credence to some claims about China in Latin America, but less so to others.

1. Background and methodology

There is a burgeoning literature on the Chinese-Latin American economic relationship and its implications for Latin American development and global geopolitics (see Hearn and Leon-Marquez 2011; Gallagher and Porzecanski 2010; Jenkins and Dussel 2009; Ellis 2009). For the most part, this literature has focused on Sino-Latin American trade relations. There are two reasons for this. First, China-LAC trade took off in the early 2000s, while China-LAC investment and loans did not follow suit until the later part of the decade. Second, unlike the China-LAC trade data in the UN Comtrade database, there is no reliable database of Chinese investment or loans in the region. Despite the lack of data, there has been increasing speculation and alarm about Chinese investment and loans.

Scholars and researchers have had to resort to assembling their own databases in order to study Chinese economic activity overseas. Deborah Bräutigam of American University has been tracking Chinese finance in Africa. Derek Scissors of the Heritage Foundation has compiled data on China’s large foreign direct investments worldwide, but no similar efforts have addressed Chinese loans (2011).
The CDB mainly supports China’s macroeconomic policies—laid out in the Five-Year Plans—focusing on eight areas of development: electric power, road construction, railway, petroleum and petrochemical, coal, postal and telecommunications, agriculture and related industries, and public infrastructure (CDB). An estimated 73.7 percent of CDB’s total new loans went to these sectors (CDB “Strategic Focus”). In contrast, the China Ex-Im Bank’s mandate is to:

There is no easy way to measure Chinese banks’ loans to Latin America. Unlike the World Bank and Inter-American Development Bank, Chinese banks do not regularly publish detailed figures regarding their loan activities.

“It achieves these set objectives through export or import credit; loans to overseas construction contracts or overseas investment projects; Chinese government concessional loans; international inter-bank loans; etc. (China Export-Import Bank).

Though the government designed the reforms to divorce policy and commercial lending, Chinese banks continue to mix them. Steinfeld points out that the government still forced the nominally commercial banks to bail out state-owned enterprises (1998, 70). At the same time, the policy banks have become quite commercial. CDB head Chen Yuan has successfully married the bank’s policy objectives with sound commercial loans so that CDB has high profits and a balance sheet that is even healthier than China’s big commercial banks (Downs 2011, 11). China Ex-Im Bank also often lends at commercial rates and boasts a low share of nonperforming loans (Bräutigam 2009, 114; Downs 2011, 13). Premier Wen Jiabao announced in 2007 that the policy banks eventually would be converted into commercial banks, but the process has stalled following the financial crisis (Downs 2011, 22).

The Chinese government’s “Going Global” policy has brought this amalgamation of commercial and policy lending to the international stage. In 1998, President Jiang Zemin championed the internationalization of Chinese investment and lending. He argued: “Regions like Africa, the Middle East, Central Asia, and South America with large developing countries [have] very big markets and abundant resources; we should take advantage of the opportunity to get in” (Chen 2009). As Downs points out, CDB is the main bank supporting this strategy with loans to Chinese and foreign companies overseas (2010, 9). Bräutigam adds that “the Eximbank has been at the center of China’s strategy of ‘going global’” (2009, 112). Over the last five years, both banks have reached new heights in international lending (Bräutigam 2009, 112, 116).

There is no easy way to measure Chinese banks’ loans to Latin America. Unlike the World Bank and Inter-American Development Bank, Chinese banks do not regularly publish detailed figures regarding their loan activities. We follow the lead of scholars such as Bräutigam, who examine government, bank, and press reports in both China and borrowing countries in order to compile a list of loans and their characteristics. This method is highly imperfect. Although we have gone to great lengths to ensure reliability by confirming reports in both China and LAC, our estimate should not be taken as a precise figure. On the one hand, we may have underestimated Chinese finance in Latin America because we do not examine many loans under $50 million. On the other hand, we may have overestimated the total in the event that most recent loans are partially or entirely cancelled or if a line of credit is not fully committed.

We consulted a wide variety of publicly accessible sources to gather details on each loan. We found loan agreements published by the Venezuelan and Bolivian governments in their Official Gazettes. Brazil’s state-owned oil company, Petrobras, is a publicly traded corporation; we uncovered the interest rate on CDB’s loan-for-oil deals with Petrobras.
by examining the company’s filings with the US Securities and Exchange Commission (SEC). We discovered four Chinese loans in the Jamaican government’s 2011 Annual Report to the SEC.

We classified loans as commercial or concessional based on reports from Chinese embassies in the borrowing countries. We found details on Brazilian and Ecuadorian loans-for-oil in local newspaper interviews with the countries’ finance ministers. We only include one detail that is not publicly accessible online—the interest rate on the 2008 China Ex-Im Bank loan to Chinalco Peru, which we learned in interviews with company officials in Lima. We supplemented and double-checked all sources with newspaper articles or governments in both the borrowing countries and China. We omit loans that have not been confirmed by reliable sources on both sides of the Pacific. We cite the most valuable sources for each individual loan in the report’s annex.

Our best estimate of Chinese loan commitments to Latin America since 2005 is $75 billion. CDB made 82 percent of these loans, and China Ex-Im Bank and the ICBC bank contributed 12 percent and 6 percent, respectively. The loans were quite large and heavily concentrated among the few borrowers. The governments of Venezuela, Brazil, Argentina, and Ecuador received 91 percent of the total.

This paper is divided into eight parts. Part 2 presents our estimates on the quantity of Chinese finance in LAC. Part 3 examines the terms of Chinese finance to LAC with a comparative perspective. Part 4 examines the special case of commodity-backed loans in LAC. Part 5 discusses the composition of Chinese finance. Part 6 analyzes the extent to which Chinese loans attach Western-style conditionality. Part 7 analyzes the nature of Chinese environmental guidelines for its loans and puts that in a comparative perspective. Part 8 suggests topics for further research and draws policy implications.
### Table 1. Summary of Chinese Loans to Latin America

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrowing Country</th>
<th>Borrower</th>
<th>Lender</th>
<th>amount ($m)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Brazil</td>
<td>Gerdau Acominas</td>
<td>ICBC and BNPP</td>
<td>201</td>
<td>Steel mill equipment</td>
</tr>
<tr>
<td>2005</td>
<td>Chile</td>
<td>Codelco</td>
<td>CDB</td>
<td>550</td>
<td>Improve company efficiency and technology</td>
</tr>
<tr>
<td>2007</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im</td>
<td>45</td>
<td>Montego Bay Convention Center</td>
</tr>
<tr>
<td>2008</td>
<td>Costa Rica</td>
<td>Government</td>
<td>SAFE</td>
<td>300</td>
<td>Government bonds</td>
</tr>
<tr>
<td>2008</td>
<td>Peru</td>
<td>Chinalco Peru</td>
<td>Ex-Im</td>
<td>2,000</td>
<td>Mining Equipment</td>
</tr>
<tr>
<td>2008</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Funding infrastructure, other projects</td>
</tr>
<tr>
<td>2009</td>
<td>Bolivia</td>
<td>YPFB</td>
<td>Ex-Im Bank</td>
<td>60</td>
<td>Home gas lines, oil drilling rigs</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Telemar Norte/Oi</td>
<td>CDB</td>
<td>300</td>
<td>Expand telecom network</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Petrobras</td>
<td>CDB</td>
<td>10,000</td>
<td>Pre-salt business plan</td>
</tr>
<tr>
<td>2009</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>PetroChina</td>
<td>1,000</td>
<td>Advance payment for Petroecuador oil</td>
</tr>
<tr>
<td>2009</td>
<td>Mexico</td>
<td>América Móvil</td>
<td>CDB</td>
<td>1,000</td>
<td>Telecom network infrastructure/equipment</td>
</tr>
<tr>
<td>2009</td>
<td>Multiple</td>
<td>BLADEX</td>
<td>CDB</td>
<td>1,000</td>
<td>Regional trade financing</td>
</tr>
<tr>
<td>2009</td>
<td>Peru</td>
<td>Cofide</td>
<td>CDB</td>
<td>50</td>
<td>Transportation, infrastructure</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure, including satellite</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>CVG</td>
<td>CDB</td>
<td>1,000</td>
<td>Mining project credit</td>
</tr>
<tr>
<td>2010</td>
<td>Argentina</td>
<td>Government</td>
<td>CDB and others</td>
<td>10,000</td>
<td>Train system</td>
</tr>
<tr>
<td>2010</td>
<td>Bahamas</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>58</td>
<td>Airport infrastructure</td>
</tr>
<tr>
<td>2010</td>
<td>Bolivia</td>
<td>Government</td>
<td>CDB</td>
<td>251</td>
<td>Chinese satellite</td>
</tr>
<tr>
<td>2010</td>
<td>Bolivia</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>67.8</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2010</td>
<td>Brazil</td>
<td>Vale Mining Company</td>
<td>CDB and Ex-Im</td>
<td>1,230</td>
<td>Ships to transport iron ore to China</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>1,682.7</td>
<td>Hydroelectric dam Coca-Codo Sinclair</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>CDB</td>
<td>1,000</td>
<td>80% discretionary, 20% oil-related</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>621.7</td>
<td>Sopladora hydroelectric dam</td>
</tr>
<tr>
<td>2010</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>340</td>
<td>Road construction</td>
</tr>
<tr>
<td>2010</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>58.1</td>
<td>Shoreline reconstruction</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB and BES</td>
<td>1,500</td>
<td>Trade-related credit facility</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>20,000</td>
<td>Funding infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Bahamas</td>
<td>Baha Mar Resort</td>
<td>Ex-Im Bank</td>
<td>2,450</td>
<td>Resort Construction</td>
</tr>
<tr>
<td>2011</td>
<td>Bolivia</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>300</td>
<td>Helicopters, infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Ecuador</td>
<td>Government</td>
<td>CDB</td>
<td>2,000</td>
<td>70% discretionary, 30% oil-related</td>
</tr>
<tr>
<td>2011</td>
<td>Peru</td>
<td>BCP</td>
<td>CDB</td>
<td>150</td>
<td>Finance</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>ICBC</td>
<td>4,000</td>
<td>Housing</td>
</tr>
</tbody>
</table>

**TOTAL** 75,215.3

Sources: see Annex
to 2008, China’s annual lending never exceeded $1 billion. But in 2008, loans ramped up to $6 billion. In 2009, lending tripled again to $18 billion, passing the World Bank’s $14 billion and IDB’s $12 billion. In 2010, lending doubled once more to $37 billion, well above loan levels of the World Bank ($14 billion) and IDB ($12 billion). China overtook the World Bank and IDB despite the fact that, from 2006 to 2010, both those banks had doubled their lending to the region. Since 2005, China Ex-Im Bank has out-financed US Ex-Im by a factor of almost four, $8.3 billion to $2.2 billion. That said, both China and US Ex-Im banks have historically concentrated on guarantees and insurance, and these direct loans comprise only a small part of their portfolios.

It is unlikely that Chinese lending to LAC will continue to double every year. China’s 2009 and 2010 lending booms were driven by a $20 billion loan commitment to Venezuela and a $10 billion in commitments to Brazil and Argentina. With these mammoth loans to major South American economies already concluded, Chinese lending may plateau due to a lack of demand. We have uncovered less than $13 billion in loans in 2011; China’s 2011 lending will still probably exceed that of the World Bank and IMF, but it will fall short of 2010 levels.

Chinese banks provided financing to a significantly different set of countries than the IFIs and Western banks. Chinese banks dedicated 61 percent of lending to Venezuela and Ecuador. This is an enormous share considering that these countries make up only 8 percent of the LAC region’s population and 7 percent of its GDP. The Chinese loans equal almost 10 percent of the two countries’ combined annual GDP. Over the same period, Venezuela and Ecuador received 13 percent of IDB loans and less than a third of a percent of World Bank loans. IFIs and Western Banks dominate lending to Mexico, Colombia, and Peru. Peru received its largest Chinese loan to date four months after the country’s new president, Ollanta Humala, took office.

Chinese and Western banks barely overlap when it comes to their borrowers. Only Brazil and Argentina have received significant shares of lending from both. In both cases, the vast majority of the Chinese funds came from a single loan. In the case of Brazil, 85 percent of the lending came from a $10 billion loan issued in 2009 to fund an ambitious offshore oil project using Chinese inputs. In Argentina, all 2010 financing came from a single loan: $10 billion to buy Chinese trains.

For Ecuador and Venezuela, the large influx of Chinese lending has served as a key source of foreign finance. The World Bank has almost no lending presence in these countries; since 2005, it has given two small loans to Ecuador and nothing to Venezuela. IDB’s lending to these countries was higher in both absolute and relative terms in 2009-2010 than it was in 2006-2008. The increase in lending in 2009-2010 is significant, since Chinese lending over the same period exploded from zero to over 20 times IDB lending. IDB lending had been higher in 2005, but it fell years before China began lending to these countries. Viewed in this context, Chinese lending is adding to, rather than replacing, IDB lending.
Chinese and Western banks also differed in another way. China’s loans were much larger. The overwhelming majority of Chinese financing packages to LAC were $1 billion or greater, compared to 22 percent for the World Bank and 9 percent for IDB. Some 93 percent of the large World Bank and IDB loans went to Brazil and Mexico, with the remaining 7 percent for Argentina. Meanwhile, 68 percent of China’s large loans went to Ecuador, Bolivia, and Venezuela—countries where large loans from Western banks have been absent.

Interestingly, Chinese lending to Venezuela and Ecuador is filling in for the sovereign debt markets. As energy economist Roger Tissot argues, “Chinese financing is often the ‘lender of last resort.’ It is not a cheap one, but due to the concern the international financial community has over Venezuela and Ecuador, and the large risk premiums they would charge, Chinese lending is an attractive option” (Myers 2011). Argentina and Ecuador essentially cut themselves off from mainstream lending by defaulting on their sovereign debt in 2001 and 2008–2009, respectively. The Venezuelan government has scared off some investors by its domestic actions as well. As a result, the sovereign debt markets charge Argentina, Ecuador, and Venezuela spreads of 838, 935, and 1220 basis points, respectively (Table 4). These are four to six times higher than interest rate spreads for South American countries with similar size economies. For example, the spread for Colombia is 195 basis points and, for Peru, 218 (JP Morgan 2011). Chinese banks loaned disproportionately large amounts to these high-risk

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**Table 2. Recipients of World Bank, IDB, and Chinese Lending from 2005–2011**

<table>
<thead>
<tr>
<th>Country</th>
<th>World Bank</th>
<th>IDB</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>$44,528</td>
<td>$—</td>
<td>$6,028</td>
</tr>
<tr>
<td>Brazil</td>
<td>$39,628</td>
<td>$15,338</td>
<td>$12,559</td>
</tr>
<tr>
<td>Mexico</td>
<td>$27,410</td>
<td>$14,739</td>
<td>$11,671</td>
</tr>
<tr>
<td>Argentina</td>
<td>$26,774</td>
<td>$7,164</td>
<td>$9,610</td>
</tr>
<tr>
<td>Colombia</td>
<td>$12,118</td>
<td>$6,241</td>
<td>$5,877</td>
</tr>
<tr>
<td>Ecuador</td>
<td>$8,914</td>
<td>$153</td>
<td>$2,457</td>
</tr>
<tr>
<td>Peru</td>
<td>$6,113</td>
<td>$3,045</td>
<td>$2,868</td>
</tr>
<tr>
<td>El Salvador</td>
<td>$2,954</td>
<td>$1,196</td>
<td>$1,758</td>
</tr>
<tr>
<td>Guatemala</td>
<td>$2,887</td>
<td>$1,176</td>
<td>$1,711</td>
</tr>
<tr>
<td>Panama</td>
<td>$2,811</td>
<td>$591</td>
<td>$2,220</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>$2,741</td>
<td>$698</td>
<td>$1,743</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>$2,555</td>
<td>$854</td>
<td>$1,701</td>
</tr>
<tr>
<td>Other</td>
<td>$14,073</td>
<td>$2,169</td>
<td>$6,730</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$194,321</strong></td>
<td><strong>$53,365</strong></td>
<td><strong>$67,741</strong></td>
</tr>
</tbody>
</table>
### Table 3. Recipients of World Bank, IDB, and Chinese Loans of $1 Billion or Greater

<table>
<thead>
<tr>
<th>($ Million)</th>
<th>Total</th>
<th>World Bank</th>
<th>IDB</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>$38,500</td>
<td>$—</td>
<td>$—</td>
<td>$38,500</td>
</tr>
<tr>
<td>Brazil</td>
<td>$17,675</td>
<td>$3,445</td>
<td>$3,000</td>
<td>$11,230</td>
</tr>
<tr>
<td>Mexico</td>
<td>$11,221</td>
<td>$8,021</td>
<td>$2,200</td>
<td>$1,000</td>
</tr>
<tr>
<td>Argentina</td>
<td>$11,200</td>
<td>$—</td>
<td>$1,200</td>
<td>$10,000</td>
</tr>
<tr>
<td>Ecuador</td>
<td>$5,683</td>
<td>$—</td>
<td>$—</td>
<td>$5,683</td>
</tr>
<tr>
<td>Bahamas</td>
<td>$2,450</td>
<td>$—</td>
<td>$—</td>
<td>$2,450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$86,729</strong></td>
<td><strong>$11,466</strong></td>
<td><strong>$6,400</strong></td>
<td><strong>$68,863</strong></td>
</tr>
</tbody>
</table>

World Bank and IDB Sources: respective Annual Reports  Chinese sources: Figure 1

### Table 4. Chinese Lending and Government Debt Ratings

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Chinese Lending to Government</th>
<th>OECD Risk Rating</th>
<th>OECD Premium</th>
<th>S&amp;P Rating</th>
<th>EMBI+ Debt Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>0.8%</td>
<td>2</td>
<td>162</td>
<td>A+</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>0.0%</td>
<td>3</td>
<td>177</td>
<td>BBB-</td>
<td>186</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.0%</td>
<td>3</td>
<td>177</td>
<td>BBB</td>
<td>188</td>
</tr>
<tr>
<td>Peru</td>
<td>0.3%</td>
<td>3</td>
<td>177</td>
<td>BBB</td>
<td>218</td>
</tr>
<tr>
<td>Brazil</td>
<td>13.7%</td>
<td>3</td>
<td>177</td>
<td>BBB</td>
<td>219</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.4%</td>
<td>3</td>
<td>177</td>
<td>BB</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>0.0%</td>
<td>4</td>
<td>198</td>
<td>BBB-</td>
<td>195</td>
</tr>
<tr>
<td>Bolivia</td>
<td>0.9%</td>
<td>6</td>
<td>231</td>
<td>B+</td>
<td></td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.6%</td>
<td>6</td>
<td>231</td>
<td>B–</td>
<td>838</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8.6%</td>
<td>7</td>
<td>251</td>
<td>B–</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>13.7%</td>
<td>7</td>
<td>251</td>
<td>B</td>
<td>935</td>
</tr>
<tr>
<td>Venezuela</td>
<td>52.6%</td>
<td>7</td>
<td>251</td>
<td>B+</td>
<td>1220</td>
</tr>
</tbody>
</table>

http://www.cbonds.info/cts/eng/index_detail/group_id/1/

countries, compensating for the lack of sovereign debt lending (Figure 3).

China has used its loans-for-oil and purchase requirements to reduce the cost of lending to these otherwise non-creditworthy borrowers. CDB does not subsidize its interest rates as development aid or to outcompete other lenders, instead offering the loans at cost (Bräutigam 2009, 115). But as CDB founder Chen Yuan stated, “backing loans with oil shipments effectively keeps risks to a minimum level” (Forsythe and Sanderson 2011). The risk mitigation of loans-for-oil seems to explain why CDB was able to offer the $20 billion Venezuelan loan at a floating rate of 50-285 basis points over LIBOR, only a fraction of its 935 basis point cost in sovereign debt markets. Similarly, China’s $10 billion line of credit to Argentina is actually a credit line to Chinese railway companies, meaning that the money will effectively stay in China. Since the $10 billion loan will directly support these Chinese companies, CDB charged 600 basis points above LIBOR, well below the 935 basis point spread on Argentine sovereign debt (Gill 2011). Similarly, China Ex-Im Bank gave Ecuador a $1.7 billion export credit at a rate of 6.9 percent, well below Ecuador’s 838 basis point spread.
Another factor is that CDB is backed by the Chinese government. Borrowers who default risk angering not only the CDB but also the Chinese government, and that might jeopardize future deals with Chinese firms.

China’s surrogate sovereign lending has helped Ecuador heal after its default. Chinese loans have covered its budget shortfall. Only two years after the default, Ecuador has largely regained investor confidence. Government bonds are performing better than any others in Latin America. As nor their borrowers routinely announce loans to the public. That limits us to major loans reported in the news, approved by legislators, recorded by publicly traded companies, or announced by proud government officials. We have likely missed a number of loans under $50 million.

More importantly, we rarely learn of loans between branches of the Chinese government, from state-owned banks to state-owned companies operating overseas. The Heritage Foundation’s China Investment Tracker lists 36 large-scale Chinese investment projects in Latin America worth more than $42 billion, but we have recorded only one case of Chinese intra-state lending, the $2 billion China Ex-Im Bank loan to Chinalco Peru in 2008. We confirmed this deal only because we had the opportunity to interview Chinalco officials in Peru. We assume that similar deals go unreported.

There is another side to this, however. Despite our best efforts to use reliable sources, suspended and canceled loans may cause us to slightly overestimate the loan totals. Moreover, some nations may not draw the full line of credit. Agreed-upon, signed, and ratified loans may not always materialize due to political or economic changes on either end. The Financial Times reports: “In some cases, developing country governments have announced large sums for loan agreements which have not been realised” (Dyer 2011). Congressional Research Services warns in its report on Chinese foreign aid that “estimated totals should be interpreted with caution. Some reported values may be inflated: some loans represent offers or pledges that may not have been fulfilled; some projects may have been cancelled” (Lum 2009). Loan agreements, like Argentina’s $10 billion agreement in 2010, simply set an amount to be carved into projects later. As such, they may only be partially fulfilled. Still, we confirmed that for most major loans the loan tranches have been arriving on schedule, so we anticipate only minor inaccuracies due to loan cancellations. Also, we assume that World Bank and IDB loans will suffer partial and complete cancellations at similar rates.

China has used its loans-for-oil and purchase requirements to reduce the cost of lending to otherwise non-creditworthy borrowers.

As a result, government investment is driving record economic growth (Gill 2011). By taking the place of shell-shocked sovereign lenders, China has given Ecuador a second chance to rebuild investor confidence.

Our China loan totals may actually underestimate the level of Chinese lending. Unlike the World Bank and IDB, which provide annual reports and searchable databases with complete lists of their loans, neither the Chinese banks
3. Chinese Finance terms are not always so “sweet” when there is access to international Capital markets

Some have expressed concern that Chinese banks are replacing the World Bank and Western export credit agencies (ECAs) by offering lower-interest loans and generally better terms. However, we find that this is often not the case.

Melissa Graham at the Council on Hemispheric Affairs argues that Chinese state banks may be replacing Western banks in Latin America by “offer[ing] interest at rates that are lower than other competing developed countries” (Graham 2010). The Washington Post explains that “China is a master at low-ball financing, fashioning loans of billions of dollars at tiny interest rates that can stretch beyond 20 years…” This has become a headache for Western competitors, especially members of the 32-nation Organization for Economic Cooperation and Development (OECD), which long ago agreed not to use financing as a competitive tool” (Pomfret 2010).

The same article notes that the US Ex-Im Bank has complained that China Ex-Im Bank makes its exports more attractive with “below-market interest rates [and] easy repayment terms.” The Financial Times notes “escalating competition over loan deals” between Chinese banks and the World Bank (Dyer 2011).

At the same time, some observers praise the Chinese loans for broadening the financing options for developing countries. Antonio Castillo argues in the China Daily that “China is good news as a source of the much needed development loans” for Latin America (Castillo 2010). Bräutigam calls China’s entrance a “positive development” since it will challenge the “wealthy countries’ rules” that protect excessive financing costs, like upfront fees of 21 percent on US Ex-Im Bank loans (Bräutigam 2011b). She points out that the OECD banned competitive financing to benefit lenders, not borrowers (2009, 298). When Japan and OECD countries competed on financing terms to win deals with China in the 1970s and 1980s, “China saw [this competition] as beneficial for China’s development” (2009, 50). Peter Evans also criticizes the OECD rules, pointing out that they allow developed countries to collude and maximize profits at the expense of developing-country borrowers (2005).

Our study reveals that Chinese banks differ in their use of financing. China’s development bank generally offers higher rates and China Ex-Im Bank offers slightly lower rates when compared with their IFI and Western counterparts. But these comparisons are misleading because Chinese banks package commercial financing and development aid differently than their counterparts. Regardless, it is clear that the real low-ball financing only happens within the Chinese government.

When we compare development banks, CDB offers mostly commercial interest rates that exceed the World Bank rates2 (Table 5). In 2010, CDB offered Argentina a $10 billion loan at 600 basis points above LIBOR. The same year, the World Bank Group’s International Bank for Reconstruction and Development (IBRD) granted Argentina a $30 million loan with a spread of 85 basis points. The Chinese spread is more than 5 percent wider, which more than compensates for the larger size of the loan. In 2009, CDB gave Brazil a $10 billion loan at 280 basis points. The IBRD gave Brazil a $43.4 million loan in 2000 at a variable spread of 30–55 basis points. Again, the Chinese spread is much larger. In 2009, CDB granted Mexico’s América Móvil a $1 billion loan at over 100 basis points. The IBRD gave Chile a $24.8 million loan in 2007 for 5 basis points. Since Chile and Mexico have similar credit ratings, CDB’s rates again seem higher than the IBRD’s. We could not compare loans of similar sizes

Chinese banks differ in their use of financing. China’s development bank generally offers higher rates and China Ex-Im Bank offers slightly lower rates when compared with IFI and Western counterparts.

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2 World Bank rates are not officially concessional but because the bank has an exceptional credit rating and does not often add a country risk premium, its finance is effectively concessional when compared to pure market rates at LIBOR plus country risk.
### Table 5. CDB and World Bank Loan Interest Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Lender</th>
<th>Borrowing Country</th>
<th>Borrower</th>
<th>Spread (bp above Libor)</th>
<th>Amount ($m)</th>
<th>Payment Period</th>
<th>Includes Purchase Requirements</th>
<th>Commodity Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>CDB</td>
<td>Argentina</td>
<td>Government</td>
<td>600</td>
<td>10,000</td>
<td>19</td>
<td>Yes—Trains from CNR</td>
<td>No</td>
</tr>
<tr>
<td>2009</td>
<td>CDB</td>
<td>Mexico</td>
<td>América Móvil</td>
<td>&gt;100</td>
<td>1,000</td>
<td>10</td>
<td>Yes—Huawei telecom equipment</td>
<td>No</td>
</tr>
<tr>
<td>2009</td>
<td>CDB</td>
<td>Brazil</td>
<td>Petrobras</td>
<td>280</td>
<td>10,000</td>
<td>10</td>
<td>Yes—$3b for oil drilling equipment</td>
<td>Oil</td>
</tr>
<tr>
<td>2010</td>
<td>CDB</td>
<td>Venezuela</td>
<td>PDVSA and BANDES</td>
<td>50–285</td>
<td>20,000</td>
<td>10</td>
<td>Yes—70%, incl CITIC construction</td>
<td>Oil</td>
</tr>
<tr>
<td>2000</td>
<td>WB (IBRD)</td>
<td>Brazil</td>
<td>Electrobras</td>
<td>30–55</td>
<td>43.4</td>
<td>15</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>2007</td>
<td>WB (IBRD)</td>
<td>Chile</td>
<td>Government</td>
<td>5</td>
<td>24.8</td>
<td>10</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>2010</td>
<td>WB (IBRD)</td>
<td>Argentina</td>
<td>Government</td>
<td>85</td>
<td>30</td>
<td>25</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>


In the same country in the same year because both CDB and the IBRD make every effort to keep their interest rates secret. However, it is significant that all the CDB interest rates we found exceeded IBRD’s rates, including all standard rates listed on the latter’s website (World Bank Treasury 2010). In other words, the CDB charges higher interest rates than IBRD, despite conventional wisdom to the contrary.

When we compare export credit agencies, China’s Export-Import Bank offers slightly lower interest rates than US Ex-Im Bank. The Washington Post argues that China is using “low-ball financing” to make its export credits more attractive, since “China has handed out billions of dollars at less than 1 percent interest” (Pomfret 2010). However, China Ex-Im Bank is not giving out sub-1 percent loans. China Ex-Im Bank’s lowest-interest loans were its 2 percent loans to Jamaica and Bolivia in 2010. Bräutigam reports similar rates for China’s Ex-Im Bank loans to African countries (Bräutigam 2009, 129, 140, 173). To compare China and US Ex-Im interest rates, we subtract the OECD’s “country risk” premiums to compensate for the fact that some countries are riskier than others. These premiums are substantial; they add 2.51 percent annually on loans to Argentina and Ecuador and 2.31 percent on loans to Bolivia and Jamaica (OECD 2011; OECD 2011). While the US Ex-Im Bank charged 1.5 percent to 2.5 percent above the OECD risk premium, China Ex-Im Bank’s loan rates ranged from 0.31 percent below the premium to 4.4 percent above it. Other than the exceptionally high rate for Ecuador’s Coca-Codo Sinclair Dam, China’s rates fall 1 to 2 percent below US rates.

The lower rates of China Ex-Im Bank stem from China’s unconventional breakdown of commercial and concessional finance rather than from cutthroat competition. The IBRD and other development banks offer concessional interest rates as an official form of development aid. Despite CDB’s “development bank” label, the Chinese bank generally charges borrowers the full cost of finance. For this reason, Bräutigam labels CDB “the development bank that doesn’t give aid” (2009, 115). The IBRD is effectively offering concessional rates in relative terms for the same reasons as the World Bank (see footnote 2), while CDB is not. It is not surprising, therefore, that CDB’s interest rates are higher. Instead of giving development aid through its development bank, China channels it through China Ex-Im Bank.

In order to give concessional loans, like Bolivia’s loans at only 2 percent interest, China Ex-Im Bank receives subsidies directly from the Ministry of Finance (AFP 2011; Bräutigam 2011a, 756). China budgets these subsidies as official development aid, though OECD countries prohibit mixing export credits with development aid. China Ex-Im Bank’s concessional interest rates fall 1 percent to 2 percent below US Ex-Im’s commercial rates. China Ex-Im Bank’s

*As discussed in the previous section, CDB’s commercial rates still shave hundreds of basis points off the commercial rates offered by sovereign debt lenders.
largest loans, however, are unsubsidized commercial loans at much higher interest rates. These include a $2.4 billion loan for the Baha Mar resort in the Bahamas and a $1.7 billion loan for Ecuador’s Coca-Codo Sinclair dam (Hu 2011). China Ex-Im Bank is not undercutting US Ex-Im on these loans; it charged 6.9 percent interest on the latter, about 2 percent higher than US Ex-Im rates, even adjusting for Ecuador’s high risk premium (“Embassy” 2010).

The difference between China Ex-Im Bank’s concessional credits and IFI/Western ECA market-rate credits may not unduly influence borrowers. ECAs are not providing discretionary loans but, rather, lines of credit for purchases from US or Chinese companies. Thus, in addition to interest rates, borrowers have to consider the differences in product quality and pricing between US and Chinese companies. For example, in a recent high-profile case of Ex-Im bank competition in Pakistan, the Wall Street Journal reports that Chinese trains were “30 to 50 percent cheaper” than US trains. Pakistan still chose General Electric trains over Dongfeng trains because they considered GE’s trains to be of higher quality (Reddy 2011). Large price and quality differences outweigh a 1 to 2 percent gap in interest rates, though a 1 to 2 percent interest differential would increase total financing costs by 18 percent to 30 percent for a twelve-year loan. Bräutigam reports a similar discrepancy in the case of China Ex-Im’s loans to Africa. “There is no question that these subsidized loans do help… But their role should not be exaggerated… [Often,] Chinese companies are simply more competitive” (Bräutigam 2009, 98).

China may be outcompeting OECD ECAs by reducing risk exposure fees, which goes beyond the scope of this study. In addition to the risk premium, the OECD requires members to assess a substantial upfront risk exposure fee. For

<table>
<thead>
<tr>
<th>Year</th>
<th>Lender</th>
<th>Borrowing Country</th>
<th>Borrower</th>
<th>interest rate</th>
<th>rate minus OECD risk Premium</th>
<th>amount ($m)</th>
<th>Payment Period</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>China Ex-Im</td>
<td>Jamaica</td>
<td>Government</td>
<td>2</td>
<td>-0.31</td>
<td>45</td>
<td>20</td>
<td>Montego Bay Convention Center</td>
</tr>
<tr>
<td>2009</td>
<td>China Ex-Im</td>
<td>Bolivia</td>
<td>YPFB</td>
<td>2</td>
<td>-0.31</td>
<td>60</td>
<td>20</td>
<td>Home gas networks, oil drilling rigs</td>
</tr>
<tr>
<td>2010</td>
<td>China Ex-Im</td>
<td>Ecuador</td>
<td>Government</td>
<td>6.9</td>
<td>4.39</td>
<td>1,683</td>
<td>15</td>
<td>Hydroelectric dam Coca-Codo Sinclair</td>
</tr>
<tr>
<td>2010</td>
<td>China Ex-Im</td>
<td>Jamaica</td>
<td>Government</td>
<td>3</td>
<td>0.69</td>
<td>340</td>
<td>5</td>
<td>Road construction</td>
</tr>
<tr>
<td>2009</td>
<td>US Ex-Im</td>
<td>Mexico</td>
<td>Pemex</td>
<td>3.81</td>
<td>2.04</td>
<td>600</td>
<td>10</td>
<td>Oil Exploration and Production Equipment</td>
</tr>
<tr>
<td>2009</td>
<td>US Ex-Im</td>
<td>Mexico</td>
<td>Electraca del Valle de Mexico</td>
<td>4.3</td>
<td>2.53</td>
<td>81</td>
<td>4</td>
<td>Clipper Windpower wind turbines</td>
</tr>
<tr>
<td>2009</td>
<td>US Ex-Im</td>
<td>Brazil</td>
<td>MRS Logistica</td>
<td>3.3</td>
<td>1.53</td>
<td>87</td>
<td></td>
<td>General Electric diesel electric locomotives</td>
</tr>
<tr>
<td>2010</td>
<td>US Ex-Im</td>
<td>Dominican Republic</td>
<td>Pueblo Viejo Dominicana</td>
<td>4.02</td>
<td>1.8</td>
<td>375</td>
<td></td>
<td>Caterpillar trucks, bulldozers, and loaders</td>
</tr>
<tr>
<td>2010</td>
<td>US Ex-Im</td>
<td>Honduras</td>
<td>Energia Eolica de Honduras</td>
<td>4.42</td>
<td>2.11</td>
<td>159</td>
<td>18</td>
<td>Gamesa Windturbines</td>
</tr>
</tbody>
</table>

Chinese Sources: See Annex. US Sources: US Ex-Im Annual Reports
Argentina and Ecuador, this fee is 14.4 percent; for Bolivia and Jamaica it declines to 13.2 percent (OECD 2011). While China Ex-Im Bank claims that it charges risk exposure fees according to bank regulations, we found no information on the specific levels of these fees (Export-Import 2009). The Washington Post reports that US Ex-Im Bank competed with China on a Pakistan loan by reducing its exposure fee to 8.2 percent, when the OECD requirement is 14.4 percent (Reddy 2011). If China Ex-Im Bank is indeed offering exposure fees 6 percent lower than OECD countries, its exports will be more competitive, although this 6 percent pales in comparison with a 30 to 50 percent price difference.

The “low-ball” sub-1 percent loans exist, but they fall within a special third class: loans within the Chinese government. State-owned Chinese banks will grant loans at negligible interest rates to state-owned Chinese companies operating abroad since there is little risk that one branch of the government will default on another. In 2008, China Ex-Im Bank granted Chinalco Peru a $2 billion, 15-year loan at less than one basis point above LIBOR (Gallagher 2011). In other words, CDB treats Chinalco like it would treat a trusted fellow bank. We confirmed this interest rate in an interview with Chinalco company officials in Lima. The Washington Post reports that Chinese state banks are supplying similarly cheap financing for Wuhan Iron and Steel’s investments in the Brazilian steel and oil industries (Pomfret 2010). No sources have reported rates this low outside the Chinese government.

In sum, Chinese banks are not offering better interest rates than Western banks across the board or by large margins. CDB’s rates appear high when compared to the IBRD. China Ex-Im Bank’s rates fall slightly below US Ex-Im’s rates, but China Ex-Im’s lower rates stem from government development aid subsidies rather than competition with OECD credit agencies.

4. On China’s terms: Commodity-Backed Loans

Chinese companies recently began arranging a new type of loan package, the loan-for-oil, for LAC (and elsewhere). Loans-for-oil with Latin America have reached $46 billion in only three years, well over half of China’s total commitments to the region (Table 7). Venezuela has negotiated four such loans, totaling $32 billion, since 2008. Brazil signed one for $10 billion in commitments in 2009. Ecuador signed a $1 billion loan-for-oil in 2009 and a second in 2010. In July of 2011, it added a third for $2 billion.

A loan-for-oil generally combines a loan agreement and an oil-sale agreement that involves two countries’ state-owned banks and oil companies. The Chinese bank grants a billion-dollar loan to an oil-exporting country like Ecuador. Ecuador’s state oil company, Petroecuador, pledges to ship hundreds of thousands of barrels of oil to China every day for the life of the loan. Chinese oil companies then buy the oil at market prices and deposit their payments into Petroecuador’s CDB account. CDB withdraws money directly from the account to repay itself for the loan.

These agreements secure more oil than will go to pay back the loan, since it would be politically untenable for the borrowing countries to give China oil and get nothing in return. For example, Venezuela agreed on a ten-year, $20 billion loan-for-oil in 2010. To pay this loan back with $110 barrels over the ten-year tenor, Venezuela would only have to send 50,000 barrels per day. However, Venezuela committed to send 200,000 to 300,000 barrels per day to China, four to six times as much. By incorporating the repayment into a larger supply contract, Venezuela can truthfully say that CDB will only deduct a portion of the revenues to cover loan interest, while the rest will return to Venezuela. Today, Venezuela has signed so many loans-for-oil that it allows China to keep $70 per barrel to pay back the loans, while China refunds the remaining $40 or so according to market prices (Crooks and Rodriguez Pons 2011). Brazil and Ecuador retain a larger percentage of the oil revenue because they have smaller loans. In Ecuador, PetroChina deposits 79 percent of the oil revenue into Petroecuador’s CDB account.

Mainly because of a misconception about oil prices, Chinese loans have been criticized as harmful to Latin American borrowers.
and diverts the remaining 21 percent to pay back the loan (Arias Sandoval 2010). In Brazil, Sinopec pays market prices for Petrobras oil and deposits its payment in Petrobras’ CDB account. Brazil must maintain a minimum account balance equivalent to six months of interest on the loan (Zissis 2009).

CDB has made headlines with its loans-for-oil, but it did not invent them. Indeed, Japan gave China loans for its oil in the 1970s. These deals meant Japanese technology for China and energy security and industrial diversification for Japan (Bräutigam 2009, 13, 47). Both countries considered these loans-for-oil successful; now that China imports oil and exports technology, it has copied Japan’s deals. In fact, Japan and China both signed loans-for-oil with Venezuela in 2011 (Parraga 2011).

Loans-for-oil have received international acclaim for their benefits to China. They help China establish diverse, long-term oil supply chains, promote Chinese exports, put dollar reserves to a productive use, expand the international usage of the Chinese yuan, and win favor with borrowing governments. Jeremy Martin, director of the Energy Program at the Institute of the Americas, calls loans-for-oil the “most important arrows in Beijing’s quiver” (Arnson and Davidow 2011, 17). Downs argues that as a hybrid of policy and commercial banking, CDB has designed the loans-for-oil to fulfill both policy and commercial objectives. In addition to securing oil supplies, helping Chinese companies expand abroad, and building relationships with South American governments, the oil-backed commercial loan terms lower risk and increase profits (Downs 2011, 3).

Still, some scholars also argue that China has turned to loans-for-oil as a second-best strategy. Chinese oil companies would prefer to own foreign oil by buying equity in foreign oil fields, rather than simply gaining an oil purchase agreement. However, foreign governments have blocked many of China’s attempts to buy oil fields, with the most famous example being the US refusal to allow the UNOCAL merger. Unable to buy oil fields, it has been argued that China turned to loans-for-oil to secure at least its oil purchases (Chao 2010, 158; The Economist 2010; Jiang 2010, 14; Arnson and Davidow 2011, 17).

Mainly because of a misconception about the oil prices, the loans have been criticized as harming Latin American borrowers. Chinese scholars and politicians declare loans-for-oil a “win-win arrangement” and argue that they will strengthen China’s image as a great power that helps other developing countries (Chao 2010, 159; Zheng 2010). But Latin American and US observers are wary of the deals. Many have made the assumption that the borrowers are simply giving the shipments of oil to China to pay back the loan. This would be equivalent to selling a fixed quantity of future oil to China at a pre-set price, and it would rob the exporters of massive revenues as oil prices rose.

The New York Times repeats a Venezuelan lawmaker’s claim that “China locked in low prices for the oil Venezuela is using as repayment” (Romero and Barrionuevo 2009). But China cannot “lock in” low prices, since the contract requires it to purchase the oil shipments at the relevant market price on the day they are received. In an interview

### Table 7. Chinese loans-for-oil in Latin America

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrowing Country</th>
<th>Borrower</th>
<th>Lender</th>
<th>amount ($m)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Funding infrastructure, other projects</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Petrobras</td>
<td>CDB</td>
<td>10,000</td>
<td>Pre-salt oil technology</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>PetroChina</td>
<td>1,000</td>
<td>Advance payment for Petroecuador oil</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure, including satellite</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>CDB</td>
<td>1,000</td>
<td>80% discretionary, 20% oil-related</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>20,000</td>
<td>Funding infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Ecuador</td>
<td>Government</td>
<td>CDB</td>
<td>2,000</td>
<td>70% discretionary, 30% oil-related</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>ICBC</td>
<td>4,000</td>
<td>Housing</td>
</tr>
</tbody>
</table>

Sources: See Annex
with the Inter-American Dialogue, energy economist Roger Tissot argued that China can use loans-for-oil to “hedge against future price spikes” (Myers 2011). China cannot hedge using loans-for-oil because it is purchasing the oil at spot market prices. For example, Petroecuador sells to China based on West Texas Intermediate (WTI) prices. If WTI spikes, China’s prices will do the same. This misconception has given loans-for-oil a black eye. Instead, as an IMF Africa specialist noted: “It all depends on the terms” (Bräutigam 2009, 149).

Financing terms in loans-for-oil agreements seem better for the South Americans than most people believe. Some have criticized the loans in Ecuador, the only country to reveal details on its loans-for-oil. Ecuadorian oil analyst Fernando Villavicencio argued that the terms, which include crude oil differentials and deal premiums, “represent million-dollar losses for the Ecuadorian state” (El Universo, “Más” 2010). Since Ecuador’s crude is of lower quality than WTI, the deals subtract a differential of $4.20 to $7.20 per barrel for Oriente crude and $7.90 to $10.70 for Napo crude (El Universo, “Negociaciones” 2010). At the time the deals were concluded, Petroecuador’s official price for Oriente crude included a differential of $5.67 and, for Napo crude, a differential of $9.45 (Recent Business News 2010). These differentials seem to be in line with those in the Chinese deals.

China also pays oil premiums, or per-barrel bonus payments above market price. The 2009 deal adds $1.25 to $1.30 per barrel for the Ecuadorian crude (El Universo, “Negociaciones” 2010). The 2010 deal cut this premium to $0.50, which sparked fierce controversy in Quito. However, Petroecuador has recently sought to encourage high-volume deals by offering per-barrel discounts, so even the small Chinese premiums are positive (“Petroecuador” 2008). The final component of the financial package is the loan’s interest rate. CDB set the rate at 7.25 percent for the first loan, 6 percent for the second, and 6.9 percent for the third. These rates are high because Ecuador defaulted on $3.2 billion in government bonds in 2008 and 2009 (Mapstone 2008). Still, they are lower than the rates charged by sovereign debt lenders. According to JP Morgan’s EMBI+ Index, sovereign lenders charge Ecuador 8.45 percent above Treasury yields (JP Morgan 2011).

Brazil and Venezuela also sell the oil to China for market prices. The Brazilian and Venezuelan governments have not released the particulars of those agreements. But the Venezuelan government recently sent documentation to the Wall Street Journal from which the paper concluded that “China appears to be paying roughly market prices for the oil” (De Córdoba 2011). Chao Caizhen, professor at China’s People’s University, reports that Brazil is also selling oil based on market prices (2010, 160).

If Chinese banks are not reaping large rewards from loans-for-oil, what is their purpose? First, the loans-for-oil have secured China’s access to half a year’s supply of oil. Since only a fraction of the oil payment goes to pay back the loan, for every $1 of loans China has practically guaranteed around $4 of oil supply. Among its seven agreements with Brazil, Ecuador, and Venezuela, China will receive roughly 1.5 billion barrels of oil over the next ten years. With China’s daily consumption at almost 8 million barrels per day, the 1.5 billion barrels constitute about 6.5 months of oil. It should be noted that the volume of deliveries will likely fluctuate on an annual basis due to the structure of the contracts. Nevertheless, this is a small but comforting share of China’s future oil needs.

Second, and perhaps more importantly, the loans-for-oil allow China to give loans to otherwise non-creditworthy borrowers by reducing the risk of borrower default. CDB can siphon interest directly out of the oil payment, ensuring that if the country wants to export oil to China, it will have to pay back the loan. Lower default risk means lower risk premiums and reduced interest rates. Thus CDB could offer Venezuela a ten-year, $20 billion loan. While it cost a spread of 50-285 basis points, no other international lender would give Venezuela such a large, long-term loan. Still, the risk of default is higher than most people believe because the oil is not collateral for the loan. If the borrowers threaten to cut off the supply of oil, CDB cannot seize extra oil or oil revenue to compensate (EFE 2009; El Universo, “Préstamo” 2010; Chao 2010; Jacob 2010).

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In sum, Chinese banks maintain some oversight over their loans by attaching either purchase requirements or oil sale agreements. Most Chinese loans require the borrowers to use a portion for Chinese technology or construction. The latest CDB innovation is the loan-for-oil, which now constitutes 69 percent of total Chinese lending to the region. The Ecuador loans-for-oil do not seem as harmful to Latin American borrowers as is commonly believed, but few financial details are available. These strings-attached loans reduce the risk of default, allowing China to loan to less creditworthy borrowers.

5. Different Development model? China seeks to Finance a Different, but sometimes overlapping, set of Projects

Chinese loans to LAC are more concentrated in certain sectors than IFI and Western loans, although there is overlap. Some argue that this reflects the fact that China has a different development model than IFIs, favoring infrastructure and industrialization over micro-interventions in health and social services. Others argue that Chinese loans reflect Chinese interests in the region and provide access to key natural resources and markets.

Chinese banks loan money for different purposes than their IFI/Western counterparts. The Chinese loans focus on infrastructure and heavy industry, while the Western loans span a range of governmental, social, and environmental purposes (Table 8). Chinese banks channel 87 percent of their loans into the energy, mining, infrastructure, transportation, and housing (EMITH) sectors. Only 29 percent of IDB loans and 34 percent of World Bank loans go to the EMITH sectors. Instead, the IDB and World Bank direct more than a third of their loans toward the health, social, and environment sectors, which are devoid of Chinese investment.

According to the Chinese banks themselves, they give more EMITH loans because they seek to directly support economic growth rather than social welfare. China Ex-Im Bank’s website states that its projects must “be able to generate foreign exchange revenue and create jobs in the borrowing country. The [loans] focus on supporting infrastructure such as energy, transportation, telecommunication projects, and high-efficiency sectors such as manufacturing, processing, and agriculture in the borrowing country.”

Bräutigam argues that in Africa, China is filling an unmet need for EMITH lending, which was all but abandoned by the World Bank decades ago. She points out that from 1946 to 1961, three-quarters of World Bank lending funded transportation and electrification (Bräutigam 2009, 133). Today, that share has plummeted owing to Millennium Development Goals that focus donors’ attention on indicators of social welfare (2009, 77). Chinese banks, on the other hand, copy Japanese banks’ focus on infrastructure and transportation because they credit it with spurring Chinese development in the 1970s (2009,

| Table 8. Bank Loans to Latin America by Sector, 2005–2011 |
|----------------|--------|--------|--------|--------|
| ($ million)  | Total  | World Bank | IDB | Chinese |
| Health       | $17,926 | $8,463 | $9,463 | $—     |
| Education    | $7,008  | $4,389 | $2,619 | $—     |
| Water, Environment | $16,144 | $7,061 | $9,084 | $—     |
| Public Administration | $19,105 | $11,013 | $8,092 | $—     |
| Finance, Trade | $18,328 | $7,170 | $9,858 | $1,300 |
| Housing, Infrastructure | $38,098 | $— | $4,397 | $33,701 |
| Transportation | $27,693 | $7,192 | $8,821 | $11,680 |
| Energy, Mining | $30,061 | $2,565 | $7,576 | $19,920 |
| Other        | $10,651 | $378  | $2,028 | $8,614 |
| TOTAL        | $185,383 | $48,231 | $61,937 | $75,215 |

48). Interestingly, China Ex-Im Bank’s lending philosophy is showing signs of change. The bank’s 2010 annual report notes: “In accordance with the central Government’s foreign investment guidelines, requiring wise and effective use of foreign investments, the Bank gave full support to projects in key areas, such as infrastructure, medical and health care, education, [and] environmental protection” (Export-Import 2010, 28). While loans targeting social indicators may be gaining ground within China, we have not seen evidence of them in China Ex-Im Bank’s international portfolio.

It is possible that Chinese loans in these sectors have complemented, rather than supplanted, World Bank and IDB loans. World Bank and IDB loans to EMITH sectors rose in 2008 and 2010 despite a tenfold increase in Chinese lending over the same period (Figure 1). The share of World Bank and IDB loans going to EMITH sectors did fall by more 50 percent in 2009. However, this relative drop in EMITH loans is misleading because, in 2009, total World Bank and IDB lending doubled as a result of financial crisis-related loans to the financial, health, and social sectors (World Bank 2009, 47). We performed a simple linear regression here and found that Chinese EMITH lending had no significant impact upon Western EMITH lending.

We conclude that Chinese and IFI/Western banks do not overlap significantly in Latin America because they give different size loans to different sectors in different countries.

Chinese banks have focused on loans to the EMITH sectors, but even in this area, Western banks maintain their pre-China lending.

6. no Policy Conditionality for Chinese loans but strings still attached

We compared World Bank and Chinese terms on similar loans to judge if the conditions were significantly different. While the World Bank attempts to reshape the project and even the organization receiving the loan, Chinese loans do not require that a borrower change its policies in return for financing. Instead, Chinese banks usually force borrowers to spend a share of the loan on Chinese goods.

The World Bank imposes stringent conditions on its borrowers. For example, the IBRD’s $30 million loan to Argentina in 2010 required the Argentine government to submit numerous financial statements and evaluation reports as well as hire bank-approved experts to monitor transparency and efficiency (World Bank, “Loan” 2010, 8). World Bank loan terms often go beyond administering the project to reforming the borrowing organization itself. The IBRD loaned $485 million to the Brazilian state of Rio de Janeiro in January 2011 as “budget support” or discretionary funding. Although the World Bank did not tell Rio how to use the loan, it would not transfer the loan the state fulfilled a two-page list of conditions. To receive the first half of the loan, Rio had to integrate tariffs for intercity transportation, expand the environmental department’s human resources and financing, levy a fee on water users for watershed management, implement disaster risk mitigation policy, broker an agreement on housing plans with municipal governments, increase land titling programs, establish social programs in the slums, and set up a directive committee led by the vice-governor. To receive the second half of the loan, Rio will have to restructure the Secretariat of Social Assistance and Human Rights, double land tenure regularization capacity, change the State Housing Fund’s operating rules with respect to low-income families, create an integrated plan for metropolitan governance, and execute a monitoring and evaluation program (World Bank, “Loan” 2011).
Chinese banks give greater loan spending and tracking freedom to borrowers. China’s ambassador to Bolivia, Shen Zhiliang, proudly said it is China’s “principle” not to “impose political conditions on foreign aid” (Ministry 2011a). The Financial Times reports that Chinese banks “tend to impose less onerous transparency conditions” (Dyer 2011). As president of the World Bank, Paul Wolfowitz complained that Chinese companies “do not respect” the Equator Principles that set social and environmental standards for loans (Crouigneau and Hiault 2006). Former European Investment Bank (EIB) President Philippe Maystadt alleged that Chinese banks steal EIB’s projects by “undercut[ting] the conditions it imposed on labour standards and environmental protection” (Parker and Beattie 2006). African officials have noted “there is a risk that some governments in Africa may use Chinese money in the wrong way to avoid pressure from the West for good government” (Swann and McQuillen 2006). As a result, Oxford professor Paul Collier declared that “the Chinese are making [governance] worse” (Bräutigam 2009, 13).

But others argue that Chinese loans offer a new, potentially liberating model of non-interventionist lending. Although a Ugandan government spokesman said “[Western lenders’] conditions are probably well intentioned, but they are humiliating” (Swann and McQuillen 2006), the Heritage Foundation pointed out that “Many African governments like the Chinese policy of ‘non-interference’ in their internal affairs” (Brookes 2007). Venezuelan President Hugo Chávez declared that Chinese aid “differs from other multilateral loans because it comes without strings attached, like scrutiny of internal finances” (Romero and Barrionuevo 2009). Indeed, Bräutigam observes that Chinese lending follows the nation’s Five Principles of Peaceful Coexistence, which prohibit meddling in other countries’ domestic affairs (Bräutigam 2009, 24). She argues that Chinese loans actually constitute a different philosophy of development assistance. Rather than forcing the borrowers to comply with Western norms, Chinese partners treat them as equals and simply seek to do business with them (2009, 10). If Chinese lending appears to generate economic growth, developing countries may reject the World Bank’s “big brother” philosophy and demand Chinese-style equal treatment from Western powers.

While Chinese banks do not seek to reform their borrowers with Western-style policy conditionality, they attach other strings in an effort to mitigate loan risks. Chinese banks almost always tie their loans to the purchase of Chinese goods. Other than a few loans-for-oil and smaller loans with few details available, we found conditions in every loan requiring the borrower to purchase Chinese construction, oil, telecommunications, satellite, and train equipment. Some set aside only a small portion of tied funds, like CDB’s $1 billion loan-for-oil to Ecuador in 2010, which mandated 20 percent Chinese purchases. At the other extreme, China Ex-Im Bank gives 100 percent export credits, like a $1.7 billion loan to pay a Chinese company to build the Coca-Codo Sinclair hydroelectric dam in Ecuador in 2010. Since Venezuela committed to spend the majority of its $20 billion loan in 2010 on Chinese goods and services, CDB denominated half in Chinese yuan (De Córdoba 2011). This is the largest Chinese-currency loan to date, but China Ex-Im has also issued yuan-denominated lines of credit to Jamaica and Bolivia for equipment and construction (Urban Development Corporation 2007; Gaceta Oficial del Estado 2011). Whether the loans are issued in yuan, dollars, or simply establish a line of credit with a given Chinese company, the purchase requirements allow Chinese banks to reduce their exposure to default risk. It also reduces the recipient’s room for corruption (Bräutigam 2009, 293).

The difference between strings attached to Chinese loans and those attached to Western loans helps explain the difference in countries borrowing from the Chinese and those borrowing from Western lenders. The leftist governments in Ecuador, Venezuela, and Bolivia avoid World Bank loans in

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1 It should be noted that China almost never gives foreign aid to countries that recognize Taiwan (Republic of China) as the legitimate government of China. The only exception to our knowledge is Haiti.
order to free themselves from the neoliberal policies the World Bank imposes. They find purchase requirements attached to Chinese loans less objectionable because they seek to build up their EMITH sectors inexpensively using Chinese equipment. The loyal World Bank and IDB borrowers—Mexico, Colombia, and Peru—are undertaking projects outside the EMITH sectors for which Chinese purchase requirements would be a burden. They have been cooperating with the US and World Bank for decades and find the transparency of construction projects in Latin America and Africa. Within China, environmental regulations are constantly circumvented. In 2009, the Ministry of Environmental Protection reported that 15.5 percent of projects started construction without approval, 9.6 percent of enterprises that were closed for environmental reasons resumed production without permission, and 25 percent of the main sources of pollution were not operating properly (McElwee 2009). To add to this concern, a majority of Chinese loans are in environmentally sensitive industries, such as mining, or on infrastructure projects in developing countries with low environmental standards.

International Rivers and Friends of the Earth, two environmental advocacy organizations, noted in July 2004 that the China Ex-Im Bank financed projects that other financial institutions had refused to fund. For example, in December 2003, the China Ex-Im Bank financed the Merowe Dam in Sudan, a project that had attracted little funder interest in part due to the resulting displacement of 50,000 people (Bosshard 2010). In 2007, the OECD recommended that China “improve governmental oversight and environmental performance in the overseas operations of Chinese corporations” (OECD 2007, 12). Even Chinese officials have echoed these concerns. Cheng Siwei, a leading member of the People’s Congress, in January 2007 stated: “Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market.” (Bosshard 2008, 11)

Chinese-led investments in Angola and Zambia have led to documented international labor and environmental violations (Kotschwar, Moran, and Muir). In Peru, poor environmental practices factor into a nearly two-decade-long conflict between the Chinese mining firm Shougang and its workers and the local population. A 2006 inspection by Peru’s mining investment regulatory agency found that 12 percent of Shougang’s workforce had unreported lung disease. Beyond health concerns, Shougang was fined for environmental damage following the contamination of water supplies to the local community and surrounding areas (Kotschwar, Moran, and Muir 2011). According to Hermilia Zamudio, a local resident: “The Chinese see us as

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and reform requirements less costly than Chinese equipment. Brazil and Argentina accept Western loans where they find it acceptable to comply with Western standards. At the same time, they take on Chinese oil, mining, and train loans because they are willing to use Chinese inputs and have little objection to the purchase requirements.

7. environmental Guidelines exist but not on Par with western Counterparts

Major infrastructure and heavy industry projects have the potential to create environmental problems in LAC. In response to civil society efforts to “green” the development banks, many Western banks now have significant environmental guidelines. China has developed similar environmental guidelines for its development banks. However, comparison of those guidelines finds that, despite significant progress in the past decade, China’s guidelines do not yet match those of its Western counterparts.

Environmental advocacy organizations have expressed concern about the potential for Chinese firms to transfer their lax adherence to domestic environmental regulation to construction projects in Latin America and Africa. Within China, environmental regulations are constantly circumvented. In 2009, the Ministry of Environmental Protection reported that 15.5 percent of projects started construction without approval, 9.6 percent of enterprises that were closed for environmental reasons resumed production without permission, and 25 percent of the main sources of pollution were not operating properly (McElwee 2009). To add to this concern, a majority of Chinese loans are in environmentally sensitive industries, such as mining, or on infrastructure projects in developing countries with low environmental standards.

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little more than slaves. They deem it beneath them to talk to us, and when they need to address problems here, they do so with their thugs” (Romero 2010). The negative relationship between Shougang and the community has led other communities to fear similar practices.

Financers play an important role by ensuring social and environmental guidelines are adhered to and practiced. But the lure of large loans to needed areas has led government officials in host countries to skirt domestic regulations. In Argentina, Heilongjiang Beidahuang State Faros Business Trade Group Co. Limited and the Río Negro provincial government signed an agreement in 2010. This agreement awards Heilongjiang the lease of 320,000 hectares of land for agricultural production in Patagonia and the right to build a needed irrigation system for $1.45 billion. However, this agreement has sparked sharp criticism from Raúl Montenegro, president of the Environment Defense Foundation. Montenegro, winner of the prestigious Alternative Nobel Prize, accused the Río Negro government of violating national and provincial environmental laws because of the loan (Hanks and Lopez-Gamundi 2011).

China’s evolving environmental Guidelines

It may come as a surprise to many that the Chinese government over the past five years has sought to incorporate social and environmental guidelines into its banks’ procedures to improve both domestic and international lending practices.

Environmental Guidelines6

Since the 1970s, the State Council has gradually pursued increased environmental protection. The 1979 “Law on Environmental Protection (Provisional)” and the 1989 “Law on Environmental Protection of the People’s Republic of China” created the framework for environmental protection and environmental impact assessment (EIA) procedures within China (Global Environmental Institute 2011). These laws were further strengthened by the State Council’s passage of the “Environmental Impact Assessment Law of the People’s Republic of China,” effective September 1, 2002.

This law specifically expanded the role of EIA from pollution assessment to overall eco-assessment and has been a critical component in encouraging change throughout China’s bureaucracy (Global Environmental Institute 2011). In addition, this guideline officially established EIA as an important factor in deciding whether to go ahead on a project (China Environment Law n.d.).

The Chinese government over the past five years has sought to incorporate social and environmental guidelines into its banks’ procedures.

In subsequent years, the State Environmental Protection Administration (SEPA) has taken a leading role in implementing the “Environmental Impact Assessment Law of the People’s Republic of China.” In February 2004, SEPA and the Ministry of Personnel jointly established a certification system for professional EIA engineers and strengthened requirements on professional EIA practitioners (Zhu and Lam 2009, 55). This effort was further strengthened when SEPA adopted the Equator Principles in January 2008 (Bräutigam 2010, 36). China’s development banks have also followed suit with their own guidelines. The most important guidelines for each are CDB’s “Guidelines on Environmental Protection Project Development Review” and China Ex-Im Bank’s 2007 “Guidelines on Environmental and Social Impact Assessment of Loan Projects” (Global Environmental Institute 2011, 61-63). Under these guidelines, lending practices at China’s leading development banks incorporate social benefits and environmental protections.

The CDB’s “Guidelines on Environmental Protection Project Development Review” focuses on client suitability review, ex-ante EIA, and ex-post environmental monitoring. The CDB conducts a client suitability review by evaluating the environmental record of the company requesting

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**Table 9. Major Environmental Guidelines of Chinese Banks**

<table>
<thead>
<tr>
<th>State Council Regulations</th>
<th>When Adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law on Environmental Protection (Provisional)</td>
<td>1979</td>
</tr>
<tr>
<td>Law on Environmental Protection of the People’s Republic of China</td>
<td>1989</td>
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<td>Environmental Impact Assessment Law of the People’s Republic of China</td>
<td>1-Sep-03</td>
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<tbody>
<tr>
<td>Provisions on the Authorization of Investment to Run Business Abroad</td>
<td>2005</td>
</tr>
<tr>
<td>Guidelines on Sustainable Building of Overseas Forests by Chinese Companies (With State Forestry Bureau)</td>
<td>27-Aug-07</td>
</tr>
<tr>
<td>Guidelines on Sustainable Management and Utilization of Overseas Forests by Chinese Companies (With State Forestry Bureau)</td>
<td>31-Mar-09</td>
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<th>China Banking Regulatory Commission</th>
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<tbody>
<tr>
<td>Opinion on Strengthening the Corporate Social Responsibility of Banking Institutions</td>
<td>Nov-07</td>
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<table>
<thead>
<tr>
<th>China Development Bank</th>
<th></th>
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<tbody>
<tr>
<td>Guidelines on Environmental Protection Project Development Review</td>
<td></td>
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<tr>
<td>Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises (SMEs)</td>
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<tr>
<td>Guidelines on Special Loans for Energy Conservation and Emission Reduction</td>
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<td>Work Plan on Loans for Pollution Control and Emission Reduction</td>
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<table>
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<tr>
<th>Ex-Im Bank of China</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Guidelines on Environmental and Social Impact Assessment of Loan Projects</td>
<td>2004; Revised 28-Aug-07</td>
</tr>
</tbody>
</table>


The loan. Then the CDB conducts an ex-ante EIA review to ensure that resource and environmental protection costs are incorporated into the project’s operational costs. After the project is completed, the CDB will also conduct ex-post environmental monitoring. This monitoring includes consultations with environmental agencies and review to see if the project’s implementation methods complied with environmental protection requirements (Global Environmental Institute 2011, 62-63).

In addition to strengthening internal guidelines, the CDB engaged the international community to enhance its domestic lending practices. For example, the CDB partnered with the World Bank on loan projects, leading to creation of the “Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises (SMEs).” This framework is only applicable within China, but spillover due to familiarity with such lending practices may occur. The CDB is currently considering adoption of the Equator Principle, which would further strengthen its social and environmental procedures (Global Environmental Institute 2011, 62-63).

The China Ex-Im Bank has been a domestic leader in adopting environmental policies. Shortly after passage of the “Environmental Impact Assessment Law of the People’s Republic of China” in 2003, the China Ex-Im Bank drafted its own internal guidelines. The “Guidelines on Environmental and Social Impact Assessment of Loan Projects” were instituted in 2004 and later updated and released to the public in August 2007. These guidelines strengthened requirements for consideration of the environmental and social impact during the loan approval process, requiring EIA both prior and after the project, and regular review of the implementation of the project. More specifically, the guidelines stated that the EIAs must adhere to four key principles:

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8 An excerpt (unofficial translation) of the Guidelines for Environmental and Social Impact Assessments of Loan Projects by the Global Witness can be found at: [http://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CB8QFjAA&url=http%3A%2F%2Fwww.globalwitness.org%2Fsites%2Fdefault%2Ffiles%2Flibrary%2FChinese%2520guidelines%2520EN.pdf&ei=kRrVTo_UHqWP0QGOkIgCag&usg=AFQjCNEmMR00FgH033Cv0LTdvyzYK0dp].
1) Conduct ante and post EIA and monitor project implementation
2) Base EIA on host country’s environmental standards
3) Respect indigenous people’s land and resources rights
4) Solicit public opinion for projects with potential for serious adverse impact on the local environment

Violations can result in the China Ex-Im Bank halting its lending or demanding early repayment from lenders (Global Environmental Institute 2011, 61-62).

The China Ex-Im Bank has also worked with IFIs in establishing international social and environmentally responsible lending practices abroad. In 2007, the China Ex-Im Bank signed two Memorandums of Understanding with the World Bank and International Finance Corporation (IFC). These agreements strengthened cooperation efforts in energy and transport projects in Africa, IFC equity investments, and advisory services on environmental issues (Bosshard 2008, 13).

This progress is due to pressure by the Chinese central government and by non-governmental organizations. In conversations between the president of China Ex-Im Bank and Deborah Bräutigam, the president stated that China Ex-Im Bank only works with Western agencies for EIAs as these organizations had better credibility. Furthermore, the China Ex-Im Bank wanted to avoid making environment the central issue, indicating both internal and external pressure to adhere to social and environmental guidelines (Bosshard 2010).

**Common social and environmental Guidelines**

Over the past twenty years, social and environmental guidelines have been incorporated into many regional and government development banks, establishing a set of internationally agreed upon lending practices. These practices have shaped the rise of social and environmental protection within the developing world by tying such values to availability of loans. These common guidelines include:

1. **Ex-ante EIA**: An EIA “involves a systematic assessment of the potential environmental impacts of a proposed project and its alternatives” (Europe Aid). Similar to international definitions, China’s State Council specifically defined an EIA as “the methods and institutions for analyzing, predicting and appraising the impacts of programs and construction projects that might incur after they are carried out so as to propose counter-measures for preventing or mitigating the unfavorable impacts and make follow-up monitoring” (Zhu and Lam 2009, 26).
2. **Project Review of the EIA**: Once the ex-ante environmental impact assessment is complete, the bank needs to make sure the EIA findings are addressed and mitigate the environmental and social impact of the project.
3. **Industry-Specific Social and Environmental Standards**: The project should adhere to the relevant industry-specific standards. These standards are generally accepted as the ones defined by the World Bank and the IFC.
4. **Ensure Compliance with Host Country Environmental Laws & Regulations**: The bank needs to ensure the project is in compliance with host country’s environmental laws and regulations.
   a. **Ensure Compliance with International Environmental Laws & Regulations**: The bank needs to ensure the project complies with international environmental laws and regulations, usually set by the World Bank or the IFC.
5. **Public Consultations with Communities Affected by the Project**: The government, borrower, or third party expert needs to publically consult with the affected communities and incorporate their concerns into the project as much as possible. Early release of relevant information regarding the project and the results of the EIA is crucial.
6. **Grievance Mechanism**: It requires that the borrower provide a mechanism to receive, facilitate, and address concerns raised by the affected communities during the duration of the project.
7. **Independent Monitoring and Review**: To ensure due diligence, an independent social or environmental expert not associated with the borrower will review the EIA, the project review, and consultation process (Equator Principles 2006).
8. **Establishing Covenants linked to Compliance**: The loans need to link environmental guidelines through covenants. Violation of the set guidelines will lead to review or possible cancellation of funds.
9. **Ex-post EIA**: Once the project is complete, the borrower will conduct a final EIA to review the project’s overall impact on society and the environment.
Using the nine common guidelines listed above, we conducted two side-by-side comparisons of official guidelines to see the degree that the CDB and China Ex-Im Bank have incorporated social and environmental guidelines into their current lending practices. First, since the CDB is most similar to a development bank, we compared CDB guidelines with those of the World Bank, International Finance Corporation, and IDB. Then we compared the guidelines of China Ex-Im Bank to US Ex-Im Bank as both promote their domestic corporations abroad (Table 10).

The CDB currently incorporates four of the common social and environmental guidelines into its lending practices. These guidelines include: environmental impact assessment, project review, public consultations with communities affected by the project, and an ex-post environmental impact assessment. Interestingly, CDB is the only development bank among the three in Table 10 above (WB, IFC, and IDB) that requires an ex-post environmental impact assessment. This requirement is an improvement over current IFI guidelines in that it creates a formal review process on the project’s overall effect on the community and environment, allowing for future corrective action.

The CDB has also worked to increase transparency by publishing an annual corporate social responsibility report on its website in both English and Chinese. As a result of its efforts, the CDB has won numerous domestic awards, including the “People’s Social Responsibility Award” (consecutively for the past five years), “Most Socially Responsible Bank of the Year” in 2010, and “Most Socially Responsible Corporation in 2010” (CDB 2010).

However, the CDB does not incorporate four widely-accepted guidelines: a grievance mechanism, a requirement for adherence to international environmental laws and regulations, an independent review and assessment, or the establishment of covenants linked to compliance. A grievance mechanism and an independent review and assessment are important avenues for addressing public concerns and ensuring transparency throughout the process. Furthermore, the overall environmental standards applied aren’t the host country’s standards, which are generally lower and less restrictive than the international environmental laws and regulations (Global Environmental Institute 2011, 62-63).

The China Ex-Im Bank has also incorporated EIA, project review, public consultations with communities affected by the project, and an ex-post EIA into its social and environmental

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**Table 10. Side-by-side Comparison of IFIs with CDB**

<table>
<thead>
<tr>
<th>Environmental Guidelines</th>
<th>World Bank</th>
<th>International Finance Corporation (IFC)</th>
<th>Interamerican Development Bank (iADB)</th>
<th>China Development Bank (CDB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-ante environmental impact assessment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Project review of environmental impact assessment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Industry-specific social and environmental standards</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure compliance with host country environmental laws and regulations</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X*</td>
</tr>
<tr>
<td>and international environmental laws and regulations</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public consultations with communities affected by the project</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grievance mechanism</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independent monitoring and review</td>
<td>X</td>
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<tr>
<td>Establishing covenants linked to compliance</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ex-post environmental impact assessment</td>
<td>X</td>
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</tbody>
</table>

*The CDB requires that if the host country’s environmental standards are inadequate, the firm follow Chinese standards or international best practices.*
table 11. side-by-side Comparison of China ex-im Bank with Us ex-im Bank*

<table>
<thead>
<tr>
<th>Environmental Guidelines</th>
<th>U.S. Export-Import Bank</th>
<th>Export-Import Bank of China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-ante environmental impact assessment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Project review of environmental impact assessment</td>
<td>X</td>
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<tr>
<td>Industry-specific social and environmental standards</td>
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<tr>
<td>Ensure compliance with host country environmental laws and regulations</td>
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<tr>
<td>and international environmental laws and regulations</td>
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<tr>
<td>Public consultations with communities affected by the project</td>
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<tr>
<td>Grievance mechanism</td>
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<td>Independent monitoring and review</td>
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<tr>
<td>Establishing covenants linked to compliance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Ex-post environmental impact assessment</td>
<td>X†</td>
<td>X</td>
</tr>
</tbody>
</table>

*China Ex-Im Bank requires that if the host country’s environmental standards are inadequate, the firm follow Chinese standards or international best practices.†Members of the Equator Principles are required to submit annual public reports for review. Not sure if this is supposed to be part of the * note or if it stands alone.

guidelines. An unofficial translation of China Ex-Im Bank’s 2007 “Guidelines on Environmental and Social Impact Assessment of Loan Projects” cites the requirement of an ex-ante EIA and further states that “those projects that are harmful to the environment or do not gain endorsement or approval from environmental administration will not be funded.” Like the CDB, the China Ex-Im Bank requires an ex-post EIA. Based on the findings of the ex-post EIA, China Ex-Im Bank “will revise the measures taken before and during the project implementation for similar projects. If necessary, the related requirements and policies will be fully revised.” China Ex-Im Bank, in contrast to other IFIs or the US Ex-Im Bank, does not cite any financial threshold to applying its EIA. This omission could broaden the EIA screening process to cover a greater number of projects (Environmental Defense 2007). China Ex-Im Bank has also made efforts to increase transparency by publishing an overview of major projects and a corporate social responsibility section in its annual report, available on its website in both English and Chinese.

China Ex-Im Bank goes beyond the CDB by requiring project review during the duration of the loan and establishing covenants linked to compliance. Therefore, the discovery of negative environmental impacts prior and during the course of the project will lead the China Ex-Im Bank to “require the implementation unit to take immediate remedial or preventive measures. Otherwise, they will discontinue financial support” (Environmental Defense 2007).

These additions are a step forward for socially and environmentally responsible loans because they directly link the loans to adherence to guidelines.

Still, despite these additions, China Ex-Im Bank’s guidelines remain relatively limited. China Ex-Im Bank has yet to require adherence to international environmental laws and regulations, a grievance mechanisms, or independent review and assessment. These additional requirements would provide an avenue for mitigating any potential social and environmental concerns that emerge during the duration of the project.

**implementation of environmental Guidelines**

Although China has made significant progress over the past five years, measuring the degree with which Chinese development banks have implemented these environmental guidelines is difficult. This difficulty is most likely due to the relative newness of the laws, lax adherence to domestic environmental laws, language barriers in conducting consultations with affected communities, and lack of publicly available information.

Based on the duration of time in the development lending industry, the CDB and China Ex-Im Bank are young players and their adoption of social and environmental guidelines is relatively new. In comparison with the World Bank in the 1980s, the CDB and China Ex-Im Bank are ahead of history,
starting implementation guidelines much earlier. China has loaned Latin America $75 billion since 2005 with more than half of that total issued after 2009. Many of these projects have long construction periods with work still ongoing. That makes it difficult at this point to evaluate the effectiveness of the guidelines on Chinese lending practices.

A complicating factor is lax adherence to domestic environmental laws. In 2004, a joint investigation by the SEPA and Ministry of Land and Resources found that only 30 to 40 percent of the mining construction projects went through the EIA procedure (Gu 2005). This investigation occurred after the implementation of the State Council’s new law, indicating that there are conflicting goals when it comes to rapid economic growth versus environmental protection. Casual adherence to environmental protection has continued as evidenced by the severe impact pollution has on cities across China. In Beijing, the US Embassy has assessed that air quality is unhealthy 80 percent of the time, causing health concerns for the city’s population (Andrews 2011). In 2010 alone, there were an estimated 171 environmental accidents within China (Rong, Ying, Yuan 2011).

Domestic and international environmental accidents have raised concern that, given weak domestic enforcement, Chinese companies’ adherence to another country’s environmental guidelines will remain low. This poor compliance with domestic regulations could potentially transfer to construction projects done by Chinese firms in Latin America and Africa, where a majority of Chinese loans are in environmentally sensitive industries such as mining or infrastructure.

Language barriers are an additional obstacle in measuring implementation of environmental guidelines. Language barriers can hamper efforts to conduct consultations with affected communities, can limit understanding of the host country’s environmental laws and regulations, and can weaken communication between the Chinese company and the host government.

Finally, due to the sensitive nature of loans in China, there is an overall dearth of publicly available information. This is further restricted by the lack of website information: neither CDB nor China Ex-Im Bank websites list EIA findings for their major projects—in either Chinese or English.

Despite this, some Chinese firms are adhering to social and environmental practices. In Peru, Chinalco has taken steps toward following social and environmental guidelines. The company conducted an EIA and held public hearings with the local community. In December 2010, its environmental impact assessment was approved, and the company has since contracted with a Canadian firm to implement an Environmental Information Management System (Kotschwar, Moran, and Muir 2011). Moreover, China Ex-Im Bank suspended funding for a hydropower dam in Gabon after local NGO Brainforest raised environmental concerns over its location in a national park (Bossard 2010).

China’s environmental progress is the result of pressure from the Chinese central government and from non-governmental organizations. Further research is needed to assess how deeply Chinese development banks have implemented these environmental guidelines, particularly on larger infrastructure and mining projects. These projects are the most environmentally sensitive and, as such, are more likely to face EIA scrutiny at home and abroad.

In conclusion, Chinese banks’ adherence to international environmental guidelines is relatively new, beginning approximately five years ago. In comparison to other development-focused banks, the CDB and China Ex-Im Bank incorporate the core principles of EIA, but both have a ways to go to meet internationally established environmentally responsible lending practices. Furthermore, evaluating the overall implementation of these guidelines is hampered by the newness of the loans, lax domestic enforcement of environmental laws, language, and lack of publicly available information. China has made significant progress in incorporating social and environmentally responsible guidelines into its official guidelines, but further progress can be made.
8. summary and Conclusions

For this paper, we estimated the volume of Chinese public financing in Latin America and the Caribbean and looked at the composition and characteristics of those loans. We then compared those estimates with LAC lending by the World Bank, Inter-American Development Bank, and Export-Import Bank of the United States. We found that China has committed approximately $75 billion in loans to Latin American countries since 2005. China’s loan commitments of $37 billion in 2010 were more than those of the World Bank, Inter-American Development Bank, and the US Ex-Im Bank combined for that year. We also examined the extent to which Chinese loans to Latin America are more favorable, impose policy conditionalities, and have less stringent environmental guidelines than the loans of their Western counterparts. Contrary to the suggestions of other observers, we find that the terms of Chinese loans to Latin America can be more stringent than those of Western loans, that Chinese banks impose no policy conditionalities (but do impose conditions of another nature) and, to the surprise of many, we show that Chinese finance does operate under a set of environmental guidelines, although those guidelines are not yet on par with the guidelines of Western lenders.

It is our hope that this paper adds to the empirical research on Chinese finance in LAC. The investigation we performed here gives credence to some claims about China in Latin America but less so to other claims. On the positive side, it is clear that China is a new and growing source of finance for LAC countries, especially for countries having trouble gaining access to global capital markets. Moreover, from a LAC perspective, China’s loans come without the policy conditionalities of IFI and Western loans. Finally, with loans from China, LAC nations can obtain more financing for the infrastructure and industrial projects they seek to enhance long-run development—rather than the latest Western development fads.

Contrary to much of the commentary on the subject, LAC nations, by and large, pay a higher premium for loans from China. That higher premium comes in the form of interest rates, not loans-for-oil. It is commonly thought that LAC simply sends barrels of oil to China in return for financing and, as a result, may end up losing in the face of rising oil prices. But our analysis shows that such thinking misreads the evidence. The majority of Chinese loans-for-oil in Latin America are linked to market prices, not quantities of oil. Meanwhile, the loans are often tied to working with Chinese contractors and businesses, and that condition represents another cost because it reduces the “spillover” effect in terms of local contracting in LAC. Finally, although the IFI/Western banks’ environmental record is far from perfect, Chinese banks do not operate on par with the environmental guidelines of Western banks. This distinction is of grave concern given that the composition and volume of Chinese loans is potentially more environmentally degrading than Western banks’ loan portfolios to LAC.

As more projects move forward, this research should be coupled with on-the-ground case studies comparing Chinese-financed projects with Western-financed projects. However, even this research will be difficult to conduct given the lack of available data and China’s limited experience in reporting on such activities. We hope that we have shed some empirical light on China’s financial activity in LAC, and that others can deepen and expand our analysis in a policy-relevant manner.
annex: Key loan sources

**2005 Brazil (Gerdau Acominas, $201 million)**


**2005 Chile (Codelco, $550 million)**


**2007 Jamaica (Government, $45 million)**


**2008 Costa Rica (Government, $300 million)**


**2008 Peru (Chinalco Peru, $2 billion)**


**2008 Venezuela (BANDES and PDVSA, $4 billion)**


**2009 Bolivia (YPFB, $60 million)**


2009 Brazil (Telemar Norte, $300 million)


2009 Brazil (Petrobras, $10 billion)


2009 Ecuador (Petroecuador, $1 billion)


2009 Mexico (América Móvil, $1 billion)


2009 Multiple (BLADEX, $1 billion)

2009 Peru (Cofide, $50 million)


2009 Venezuela (BANDES and PDVSA, $4 billion)

Gaceta Oficial de la República Bolivariana de Venezuela (2009). Ley Aprobatoria del Protocolo de Enmienda entre el Gobierno de la República Bolivariana de Venezuela y el Gobierno de la República Popular China al Convenio entre el Gobierno de la República Bolivariana de Venezuela y el Gobierno de la República Popular China sobre el Fondo de Financiamiento Conjunto. (accessed January 10, 2012).
2009 Venezuela (CVG, $1 billion)

2010 Argentina (Government, $10 billion)

2010 Bahamas (Government, $58 million)

2010 Bolivia (Government, $251 million)

2010 Brazil (Vale Mining, $1.23 billion)

2010 Ecuador (Government, $1.68 billion)

2010 Bolivia (Government, $68 million)

2010 Brazil (Vale Mining, $1.23 billion)


2010 Ecuador (Petroecuador, $1 billion)


2010 Ecuador (Government, $622 million)


2010 Jamaica (Government, $58.1 million)


2010 Jamaica (Government, $58.1 million)


2010 Venezuela (PDVSA, $1.5 billion)


2010 Venezuela (BANDES and PDVSA, $20 billion)


2011 Bahamas (Baha Mar, $2.45 billion)


**2011 Bolivia (Government, $300 million)**


**2011 Ecuador (Government, $2 billion)**


**2011 Jamaica (Government, $71 million)**


**2011 Peru (BCP, $150 million)**


**2011 Venezuela (CDB, $4 billion)**


2011 Venezuela (ICBC, $4 billion)


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MEDIA RELEASE

Contractor General writes to the Jamaica Observer Newspaper in Response to Flawed Mark Wignall Column

Kingston; February 2, 2012 – Contractor General, Greg Christie has today written to the Editor of the Jamaica Observer Newspaper, in response to a flawed Mark Wignall Column that was published in today’s edition of the Newspaper. The column is entitled – “China Harbour Engineering and Greg Christie’s huge error”. A full transcript of the Contractor General’s letter to the Jamaica Observer is reproduced, verbatim, hereunder, as follows:

“February 2, 2012

Mr. Vernon Davidson,
Executive Editor – Publications
The Jamaica Observer
40-42 ½ Beechwood Avenue
Kingston 5

Dear Sir:

Re: Flawed Column published in the February 2, 2012 edition of the Jamaica Observer entitled – China Harbour Engineering and Greg Christie’s huge error

I write with reference to a column which appears in today’s edition of your newspaper which you have assertively, but misguided, entitled as follows: “China Harbour Engineering and Greg Christie’s huge error”.

The column is written by noted Jamaica Observer columnist Mr. Mark Wignall and appears to be Mr. Wignall’s response to the public recommendation which has been made by the Office of the Contractor General (OCG) (a) to bring to a halt the ‘sole source’ negotiating process which was being pursued, at the direction of the outgoing JLP Administration, for the completion of the construction of the US$600 million North-South Link Highway 2000 by the China Harbour Engineering Company (CHEC), and for the Government’s consequential granting of a Fifty (50) Year Toll Concession to the said company, and (b) having halted the referenced negotiations, for the Government to open up the road construction and toll-road concession opportunity to a transparent and public international competitive bidding process.
Upon a careful reading of the column, it appears that the “huge error” to which the Jamaica Observer and Mr. Wignall have attributed to me, and to the OCG, is that neither I nor the OCG has any lawful jurisdiction whatsoever to monitor or to investigate the referenced CHEC/GOJ contracting/concession opportunity.

This is conclusively borne out in Mr. Wignall’s bold assertion that I, as the Contractor General, have ‘inserted myself in a process where I have pretty much no business’. Further, and in an effort to justify, substantiate and give credence to his contention, he has placed reliance upon what is essentially an immaterial circumstance, via his statement to the effect that “the North-South link of Highway 2000 involves not a loan but an investment of US$600 million by CHEC! In his zeal, was Mr Christie not aware of this?”

However, I must hasten to point out to you, and to your readers, that it is Mr. Wignall and the Jamaica Observer who have both made a very grave error since the substratum of the proposed transaction is not so much that it is intended to be financed by CHEC, but rather that CHEC, in return, will receive a fifty (50) year concession from the Government of Jamaica to operate the toll road, thus bringing the entire transaction within the ambit of the Contractor General Act and, by extension, within the lawful ambit of the Contractor General’s contract monitoring and investigation jurisdiction.

To put the matter beyond doubt, I would respectfully direct your and Mr. Wignall’s attention to Section 2 of the Contractor General Act which expressly defines a “government contract”, over which a Contractor General has lawful jurisdiction, as including “any licence, permit or other concession or authority issued by a public body...”.

It is also critically important that Mr. Wignall and the Jamaica Observer should note that a Contractor General is not only, in point of fact, expressly mandated by Sections 2, 4 and 15 of the Contractor General Act to monitor and to investigate “concessions” of the precise kind which is currently being negotiated between the Government and CHEC, but, more importantly, he is mandated to ensure that any such concession is “awarded impartially and on merit” and in circumstances that “do not involve impropriety or irregularity”.

Since Mr. Wignall’s column has also failed to highlight what lies at the heart of the OCG’s concerns in this matter, I will publicly state it again. It is simply that the only way in which value for money and transparency can be assured for the Jamaican taxpayer, in any Government contracting or concession granting opportunity – particularly one which is valued at US$600 million – is when the opportunity is opened up to a competitive and transparent tender process.

This was made clear in the letter, dated January 6, 2012, that I had written to the Most Hon. Portia Simpson Miller, the Prime Minister of Jamaica, when I stated as follows:

“The OCG continues to maintain that the current negotiations between NROCC and CHEC should be terminated forthwith, and that the said transaction, irrespective of its structure, should be subjected to a transparent and international competitive bidding process whereby Value for Money can be secured for the benefit of the People and Taxpayers of Jamaica.
The OCG is not only amazed, but alarmed, that the former JLP Administration was seemingly bent on persisting in what would be another controversial ‘sole-source’ contract award to CHEC, despite the fact of the ongoing public controversies, audits and OCG Investigations which have arisen in consequence of a similar sole-source award of the US$400 million Jamaica Development Infrastructure Programme (JDIP) Government of Jamaica contract, to the same company.”

Mr. Wignall, in his column, has also mysteriously sought to justify why the Government should continue its closed door, non-transparent negotiations with CHEC, for the granting of the referenced fifty (50) year concession, as opposed to putting same to international competitive tender. In particular, he has curiously made reference to other construction projects which CHEC has completed.

All this would suggest that Mr. Wignall is of the belief that CHEC is the only competent company in the world that has the capacity to cost-effectively undertake and/or finance such projects, although he has absolutely no empirical or credible basis upon which he can come to such a conclusion in the absence of an open international competitive bidding process.

While, however, Mr. Wignall is entitled to his opinions, however flawed they might be, I, on the other hand, as Jamaica’s Contractor General, enjoy no such luxury, for I am mandated by the Contractor General Act “to ensure” that the subject road construction and toll-road concession opportunity is awarded ‘impartially and on merit and in circumstances that do not involve impropriety or irregularity’.

Obviously, I cannot, and neither can the Government, in the present circumstances, and particularly in light of the unique knowledge that the OCG has about the proposed transaction, give any such assurance to the people and taxpayers of Jamaica.

Consequently, and since it is my intention to continue in the faithful discharge of my sworn mandate under the law, I should publicly but respectfully advise that the OCG’s positions in this matter continue to remain wholly undisturbed by your publication of Mr. Wignall’s column.

Having regard to the significant public interest issues which you have raised by the referenced publication, and the errors of fact and of law that are contained therein, I have no doubt that you will give my entire letter the same prominence which you have given to Mr. Wignall’s positions.

Very respectfully yours,

Greg Christie (Signed)

Greg Christie
Contractor General”

(END-)

Contact: The Communications Department, Office of the Contractor General of Jamaica
C/o Craig Beresford, Senior Director of Monitoring Operations, Corporate Communications and Special Projects
E-mail: communications@ocg.gov.jm, Tel: 876-929-8560; Direct: 876-926-0034; Mobile: 876-564-1806
Open Statement by the OCG Regarding the Proposed Highway 2000 North South Link and the Container Transshipment Hub Projects

Introduction

The Office of the Contractor General wishes to publicly express its grave and serious concerns regarding the Government of Jamaica’s (GOJ’s) decision to embark upon two (2) multimillion dollar investment projects, against the considered recommendations which have been advanced to the GOJ, and its representative officers, by the OCG.

The OCG also wishes to utilize this Statement to publicly explain and to highlight the very worrying and credible reasons for its concerns, and to expose and dispel what appears to be the deliberate and disingenuous attempts that have been made to mislead the public on the entire matter, inclusive of the false and patently malicious notion that is being propagated in the public domain that the Government has acted, in the captioned matter, in the way that it has because the OCG is holding up the process of the approval of major national investment projects.

Additionally, the OCG will also conclusively and credibly address, herein, a separate but false and misleading suggestion that has been advanced by a prominent Gleaner Columnist and attorney-at-law, Mr. Gordon Robinson, that the OCG is acting, in this matter, contrary to the laws of the land.

The first of the two (2) projects that have been referenced in this matter by the GOJ, in relation to the OCG, is the North/South Link of the Highway 2000 Project.

This project essentially has two components – namely (a) the construction of the entire Highway 2000 North/South corridor which is estimated to cost approximately US$600 million, with a commitment on the part of the intended contractor/investor, China Harbour Engineering Company (CHEC), to reimburse the GOJ with approximately US$120 million for the Mount Rosser leg of the corridor and, (b) a consequential fifty (50) year toll road concession which is to be granted by the GOJ to the CHEC to enable it to recoup its capital investment.

The second project which has been referenced by the GOJ, in relation to the OCG, concerns the Development of the Gordon Cay Container Transshipment Hub. The GOJ will be leasing lands for between 25 and 35 years, and the prospective investor will be required to undertake the Development, and will ensure revenue which, it is assumed, will be based upon certain equity allocations which will be associated with the operation of the Hub.

The third Project that has been identified by the GOJ, in relation to the OCG, is the Development of the Fort Augusta Container Terminal Project. However, and contrary to a statement that was made by Dr. the
Hon. Omar Davies, the Minister of Transport, Works and Housing, the GOJ, to this date, has not provided the OCG with any information or documentation regarding this project, nor has the OCG communicated with the GOJ or exchanged any correspondence whatsoever with any Public Body regarding this matter.

**Unsolicited Proposals – A Corruption Enabling Device**

The two (2) Projects which have attracted the OCG’s intervention and concern, namely the North/South Link Project and the Gordon Cay Container Transshipment Hub Project, were initiated pursuant to the receipt of Unsolicited Proposals that were submitted to the GOJ by CHEC and by CMA CGM, respectively.

At this juncture, it is critical to highlight the fact that the OCG has long documented its position that the concept of the Unsolicited Proposal, which has found its way into the country’s procurement and contract award conventions, should be excised from the Government’s Procurement Guidelines and should not form the GOJ’s preferred basis for engaging contractors to undertake multi-million dollar investment opportunities or projects.

The OCG is, and has always been, concerned that the Unsolicited Proposal mechanism is a corruption enabling device which can be utilized by unscrupulous Public Officials to direct lucrative multi-million dollar State contracts to connected, undeserving or desired contractors.

This can be easily accomplished by influential but corrupt Public Officials who are willing to clandestinely conspire with a contractor to have the contractor approach the State with what appears to be a ‘unique’ contracting proposal.

It is the OCG’s considered contention that all such proposals must be tested for propriety, legitimacy, cost-effectiveness, quality, value for money and competitiveness in the open market place.

**The OCG has Lawful Jurisdiction in the Relevant Matters**

For the avoidance of doubt, the OCG must also make it clear that both Projects, which are currently under consideration, fall squarely within its remit, since one concerns the award of a fifty (50) year toll concession, by the GOJ to CHEC, and the other concerns, *inter alia*, the Lease of GOJ lands, by the GOJ to CMA CGA, for the purpose of the development of the proposed container transshipment hub.

The OCG’s primary mandate, as is prescribed by Section 4 (1) of the Contractor General Act, is to, on ‘behalf of the Parliament of Jamaica’ – and not on behalf of the Cabinet nor on behalf of the Minister of Transport and Works – ‘monitor the award and implementation of Government Contracts and Prescribed Licenses to ensure that such contracts and prescribed licenses are awarded or terminated, as the case may be, impartially and on merit, and in circumstances which do not involve impropriety and irregularity’.

It is also instructive to note that Section 2 of the Contractor General Act specifically states that a Government Contract “...*includes* any license, permit or *other concession* or authority issued by a public body or *agreement entered into by a public body*.....”

Further, there have been recent suggestions in the public domain, by Gleaner columnist and attorney-at-law, Mr. Gordon Robinson, that the OCG is acting *ultra vires* the law.
For the avoidance of doubt, it is instructive to note that there are many persons, like Mr. Robinson, who are misguided in the belief that the powers of the Contractor General, to monitor or to investigate the “award” of contracts etc., do not arise until the subject contract or licence/permit is actually awarded or issued, as the case may be.

The OCG is obliged to advise that any such belief is unfounded and has absolutely no validity in law. In the case of *Lawrence v. Ministry of Construction (Works) and the A.G.* (1991) 28 J.L.R. 265, the Supreme Court of Jamaica was moved by way of originating summons, at the instance of the then Contractor General, to rule on this very point. Mr. Justice Courtney Orr, in that case, held unequivocally as follows:

> “The proper interpretation of the (Contractor General) Act is one which empowers the Contractor General to monitor the pre-contract stages of government contracts and to obtain information from public bodies prior to the award of such contracts (OCG emphasis)… The ordinary meaning of the words of the statute in light of the context and grammar suggest no other interpretation”.

The OCG has long advised Mr. Robinson in writing of the foregoing decision. However, for reasons that are known only to him, and as an officer of the court, he has not only chosen to ignore the duly considered decisions of the Supreme Court of Jamaica, but he has gone beyond the pale to seek to slaughter the credibility, the integrity and the work of one of Jamaica’s leading national institutions by misleading the media and the public into believing that the OCG is acting arbitrarily, irresponsibly, recklessly and unlawfully.

**Misleading Statements Reportedly Made by the Minister of Transport and Works and Member of Parliament, Daryl Vaz**

The OCG has also noted assertions which have been attributed to certain Public Officials, including Minister Davies and Member of Parliament, Mr. Daryl Vaz, regarding the OCG being an impediment to economic development and that the OCG has caused delays in the execution of certain GOJ multimillion dollar transactions and, in particular, (a) the Development of the Fort Augusta Container Terminal Project, (b) the Development of the Gordon Cay Container Trans-shipment Hub Project and, (c) the North South Link Highway 2000 Project.

These reported assertions, which have taken flight in the media and the public domain, are patently false, misleading and malicious.

For the purpose of clarity, and to correct and address any inaccuracies which have been irresponsibly placed in the public domain regarding this matter, the OCG, herein, now details the extent of its involvement and interaction with the GOJ regarding all three (3) projects. The OCG openly challenges the Minister or any other Public Official to deny what is stated herein.

a) **Development of the Fort Augusta Container Terminal Project** - The OCG has no direct institutional involvement in this Project and has never directly received any correspondence from the GOJ, nor has it sent any correspondence to the GOJ, regarding this Project.

b) **Development of the Gordon Cay Container Trans-shipment Hub Project** – The OCG, since August 10, 2011, has been communicating with the Port Authority of Jamaica regarding this Project, and has never made any demand of the Port Authority to cease and/or otherwise terminate
the said Project. By way of documents that were sequestered from the PAJ, it was gleaned that discussions regarding this Project started from as early as January 2011. In point of fact, the negotiations concerning the referenced Project, and its approval process, have continued apace; and ended with a Cabinet Decision on August 15, 2011, for the GOJ to enter into a Memorandum of Understanding with CMA CGM. This was done, notwithstanding the OCG’s opinion and recommendation that the Project should have been undertaken pursuant to Ministry Paper #34 – Privatisation Policy.

c) North South Link Highway 2000 Project – The OCG’s intervention in this matter commenced in March 2011, although discussions between the GOJ and/or the National Road Operating Construction Company (NROCC) and CHEC started from as early as February 2009. The OCG’s involvement in the matter continued to the period leading up to November 2011, when a recommendation was made by the OCG on November 30, 2011 for the GOJ to cease all direct negotiations with CHEC, pending the resolution of certain issues and concerns which were documented in its letter to the NROCC, or to put the opportunity to competitive tender.

Consequently, the allegations which have been spuriously placed in the public domain that the OCG has caused extensive delays to the referenced Projects are baseless, patently false, malicious, misleading and cannot be supported by the documentary evidence which is on record.

Quite curiously, and what should be even of greater concern to the public, is evidence which suggests that the GOJ has deliberately bypassed the OCG, despite the OCG’s prior written recommendations, given the following fact circumstances:

a) The previous Administration ceased the negotiations between the GOJ and CHEC having regard to the documented concerns which were raised by the OCG, by way of letter dated November 30, 2011.

b) The OCG wrote to the current Prime Minister, the most Honourable Portia Simpson Miller on January 6, 2012, her very first day in office, regarding the GOJ’s posture, having regard to the fact that there was an OCG recommendation on record for negotiations to cease between the GOJ and CHEC or for the contracting opportunity to be put to competitive tender. The OCG also advised that it stood ready to meet with the GOJ to discuss the matter. A copy of the OCG’s letter to the Prime Minister was released to the media on January 9, 2012 and can be reviewed on the OCG’s website. However, and despite the foregoing, to date, the OCG is yet to receive either (i) an acknowledgment of its letter or (ii) the GOJ’s formal and documented positions given the OCG’s considered recommendations.

It must also be noted that on January 12, 2012, during a meeting with Dr. the Honourable Omar Davies, the current Portfolio Minister, the OCG, in a proactive move, provided him with a complete set of documents pertaining to the OCG’s concerns regarding this instant matter for his information and guidance. It is instructive to note that to date, the OCG has received no written communication whatsoever from the Minister regarding the documents which were conveyed to him.

c) No attempts whatsoever have been made by the GOJ to formally communicate with the OCG to resolve the OCG’s concerns. Instead the GOJ, in March 2012, went directly to the National Contracts Commission (NCC) to legitimize the transaction, despite being seized with the
knowledge that the matter was not a procurement related issue. In this regard, the NCC curiously offered its no objection and recommended that “...the merits of the proposal be discussed with the Ministry of Finance & Planning for guidance and further action” (OCG’s emphasis).

d) Thereafter, the Cabinet took the decision to proceed with the negotiations in the absence of any resolution to the issues which were highlighted by the OCG, whilst, at the same time, has, from all appearances, sought to disingenuously cast public blame on the OCG for delaying the process and for being a ‘stumbling block’ in the path of the GOJ and Jamaica’s economic development progress.

**CHEC and The Proposed North/South Link of Highway 2000**

The OCG is aware that CHEC has certain alleged antecedents which have brought into question the company’s *modus operandi* and its adherence to the principles of probity in its contracting processes. CHEC’s presence in the Caribbean and Latin America, inclusive of the Cayman Islands and Guyana has come under increased scrutiny as a number of governments have sought to engage the entity in a similar fashion, without the benefit of competitive tendering.

One of the OCG’s concerns, regarding CHEC, arose subsequent to the patently false representations which had been made by the former Minister of Transport and Works, Mr. Michael Henry, regarding CHEC’s selection as the main contractor under the Jamaica Development Infrastructure Programme (JDIP). At the time, public representations were made by the Minister that the selection of CHEC was a specific and mandatory conditionality of the relevant loan agreement. This has since proven to be untrue and incapable of any credible substantiation.

As a result of the patently false statements which were made in the media, by the then Minister of Transport and Works, Mr. Michael Henry, and which could not be substantiated by the then Permanent Secretary in the MTWH, Dr. Alwin Hales, the OCG, on July 22, 2011, via the issuance of a formal Media Release, announced its commencement of a Special Statutory Investigation, under the Contractor General Act, into the circumstances surrounding the contractual agreements with CHEC which had been undertaken by the GOJ for the execution of the JDIP project.

Subsequently, and through a media report which was published in the UK Guardian on June 23, 2011, entitled “Bangladesh: Ex-PM’s son sentenced over bribes”, the OCG was again made aware of the sentencing, in a Bangladesh Court, of the son of the former Prime Minister of Bangladesh, Arafat Rahman, for laundering money taken as bribes from two global companies – with one of the two companies allegedly being China Harbour Engineering Company (CHEC). The referenced bribes were allegedly paid out to secure the award of Government contracts.

It must also be noted that as recently as Wednesday, April 25, 2012, a news article entitled “Government must find another $19M - Sewerage divestment ‘unrealistic’ by June” was published in the CayCompass in the Cayman Islands, regarding the cruise berthing project for downtown George Town, Grand Cayman.

The referenced article revealed that strong indications had been given by the Overseas Territories Minister, Mr. Henry Bellingham, that the “UK government was not pleased with how the agreement with China Harbour Engineering had been carried out thus far.” The referenced article also revealed, inter alia, that a request had been made of the Cayman Islands Premier, Mr. McKeeva Bush, to grant assurances as to how the process, which currently involves CHEC, will be brought back in line with
Against the background of the foregoing, the OCG is also acutely aware that the award of the US$400 Million Jamaica Development Infrastructure Programme (JDIP) contract to CHEC has been the subject of grave controversy and is currently the subject of two major Investigations in Jamaica – namely the ongoing OCG Investigation, as well as a GOJ commissioned Forensic Audit.

The referenced GOJ Forensic Audit, it should be noted, was initiated by the previous Administration but was finalised by the current Administration, under the guidance of Dr. the Honourable Omar Davies, himself, and has recently resulted in the engagement of a Foreign Based Consultant with clearly defined Terms of Reference.

It is critically important for the public to be aware that the primary objective of the listed Consultancy Objectives, of the Forensic Auditor, is to “Determine whether there was any fraudulent transaction or acts of fraud” which would have ostensibly occurred between the representatives of the Government of Jamaica, former and/or present, and CHEC.

Without imputing any improper conduct to CHEC, it is the OCG’s considered opinion that having regard to the foregoing objectives of the Forensic Audit, which is yet to be concluded, the current actions of the Administration in seeking to grant another sole source US$600 multimillion investment opportunity to CHEC, in the prevailing circumstances, would constitute a clear conflict of interest and is at best premature.

In addition, the OCG’s consternation regarding the GOJ’s continued engagement of CHEC, and its stated intention to allow CHEC to be a beneficiary of future works projects, inclusive of a US$600 million project, via the submission and acceptance of other Unsolicited Proposals, raises significant concerns and critical and seeming unanswerable questions for the OCG, given certain tape-recorded disclosures which have recently been made to the OCG, under oath, by Mr. Ivan Anderson, Managing Director, NROCC, some of which will be detailed herein.

(a) **No Chinese/Jamaica Bilateral Agreement or Chinese or CHEC Concession.** The Ministry of Transport, Works and Housing (MTWH) and the NROCC, have squarely and unequivocally placed upon the formal record the fact that there is no Bilateral Agreement between the GOJ and the Chinese Government which is informing and/or which has informed the GOJ’s acceptance of the ‘unsolicited proposal’ from CHEC. It is also the case that the GOJ is purportedly not in receipt of any form of concession from either the Chinese Government and/or CHEC, as it regards the construction of the North-South Link for Highway 2000.

(b) **CHEC Proposal not Financially Viable.** The OCG is acutely aware that the ‘unsolicited proposal’ which was submitted by CHEC, to the GOJ, has been held out and marketed by the current Minister of Transport and Works, Dr. Omar Davies, and at least by one Opposition Member of Parliament, Mr. Mike Henry, as a financially viable and strictly commercial transaction, which is to be undertaken by CHEC at its own cost. This, however, as will be seen, is patently false. The OCG, for the approximate year that it had been monitoring and questioning the genesis and efficacy of the proposed construction of the referenced highway, had been advised that the GOJ would offer to CHEC a 50-year Concession, to permit it to be the toll operator, from which it could recoup its entire investment. The foregoing was what had informed the OCG’s contention that same ought to have been the subject of a competitive tender process.
(c) **CHEC will not Recover its Investment.** Initially, neither the NROCC nor the MTW had made formal and written disclosures to the OCG regarding the substantive and material financial elements of the ‘Unsolicited Proposal’ which was made by China Harbour Engineering Company (CHEC), as it regards, in particular, the funding and viability of the project.

However, and quite to the OCG’s alarm was the OCG’s receipt of NROCC’s position, as was detailed in its March 13, 2012 letter to the NCC, that the project was not financially viable in terms of the return on investment over the life of the proposed 50 year toll concession, and that, CHEC would not, on the basis of the Government’s projections, and its consultant’s advice, recoup the overwhelming majority of its US$720 million investment on the Project.

(d) **CHEC Proposal Highly Irregular.** The purported Tender, in the form of an “unsolicited proposal”, which has been submitted by CHEC, is a highly irregular transaction which cannot, based upon the recent disclosures of the Managing Director of NROCC, be matched by any other entity and/or person and would, as a consequence, have no relevance in a competitive tender process. The following are the reasons for same:

a. NROCC, in a presentation to the NCC, on March 13, 2012, advised the NCC that “In order to determine the viability of the project [it] also commissioned its own advisors Steer Davies Gleave (SDG) to review the project.” Based upon the aforementioned study, NROCC was able to make the following determinations and to advise the NCC as follows:

   i. “The results of the analysis using SDG revenues projections show that the project is not viable if it is to be undertaken on commercial terms at available interest rates.”

   ii. Differences in projected SDG vs. CHEC Revenues ranged between 268% and 277% for the period 2015 through to 2019.

   iii. “Based on the foregoing the ability of the project even over 50 years to repay the loans is extremely doubtful and could not be undertaken by any other Company but a Chinese Firm given their availability of Cash.”

It must be noted that SDG has been the traffic advisor to NROCC since 2000.

b. It must also be noted that the OCG, by way of a letter which was dated March 19, 2012, required the Permanent Secretary in the Ministry of Transport, Works and Housing, to provide information regarding, *inter alia:*

   1. “The basis upon which the Unsolicited Proposal was considered by the procuring entity;

   2. *...the unique nature of the purported new concept or technology that CHEC’s Unsolicited Proposal presents...”*

Upon a review of the responses which were provided, to the OCG, by the Permanent Secretary, by way of letter dated April 04, 2012, the OCG was left with more questions than answers and as such took the decision to raise its concerns directly with the Managing Director of NROCC, Mr. Ivan Anderson, in a tape-recorded meeting, in an effort to obtain clarity surrounding the proposal which had been forwarded by CHEC.
c. The Managing Director of NROCC, during the taped interview with the OCG, which was held on April 12, 2012, asserted, *inter alia*, as follows – “We have given them (i.e. CHEC) this study, which is the SDG study with the traffic projections. We have given them our projections and this is based on what we know about the market place, so they have the benefit of our information …they have given us their own projections, and there is a big gulf between them, they are making a lot more assumptions about how much traffic they will be able to attract. *We don’t believe on a normal commercial scenario that the project will be able to stand on its own.*”

It must also be noted, that as at December 20, 2011, the CEO of NROCC advised the OCG, *inter alia*, that “…we believe that the Proposed Agreement could not be matched by any other developer operating on a commercial basis, it is only through the support of the Government of China that this is possible”.

The referenced letter also indicated explicitly, *inter alia*, that the Project “…cannot be implemented on a commercial basis”. However, and has been previously represented, by the Government, in response to direct questions that have been posed to them, the CHEC Proposal is neither the subject of a bilateral agreement between the Jamaican and Chinese Governments, nor is the Proposal the subject of a concession or grant of any kind, moving from CHEC to the Government.

Given the compendium of facts, as unearthed by the OCG, there is, of course, the very critical and disturbing question regarding why the GOJ has classified, to the Parliament and to the public, CHEC’s proposal as being a viable commercial transaction and one for which the company would recoup its investment, on the present terms of its Proposal, when the very evidence which is in the possession of the NROCC and the GOJ would unequivocally suggest otherwise.

Further, the GOJ is unable to provide the OCG with any reason whatsoever, which has driven it to accept the proposal from CHEC, a seeming benefactor, despite the fact that same has not been branded as a gift from the Chinese Government, a concession of any sort, or the deliverables of a Bilateral Agreement between the GOJ and the Chinese Government.

**The Following Unanswered Questions, Therefore, Arise:**

1. Why is a commercially non-viable proposal being labeled and marketed by the GOJ to the People and Taxpayers of Jamaica as a strict commercial transaction, when the GOJ knows full well that it does not meet the criteria of a commercially viable proposal?

2. What benefit(s), whether current of future, does CHEC intend to enure from the GOJ, or from the Taxpayers and/or People of Jamaica, by undertaking what is a commercially non-viable transaction?

3. Why is the GOJ unable or unwilling to disclose the full particulars of the non-viability of the transaction and to describe it for what it is – an apparent gift to the People of Jamaica?

4. How, when, and by what means will the Jamaican taxpayer pay back CHEC for its investment, since the present proposed 50 year concession at the projected toll rates are significantly incapable of doing so?
5. Why are both the Government and certain members of the Opposition in a rush to have this suspicious and obviously highly irregular “investment” agreement consummated?

6. What were the bases upon which the NCC, in offering its no-objection to the Project, having being fully informed that the Project was not a commercially viable one, referred the matter to the Ministry of Finance and Planning to, among other things, discuss “…the merits of the proposal”?

Further, amongst the glaring and riveting disclosures which were recently made to the OCG, by the NROCC, in April 2012, was the fact that CHEC advised the GOJ that it would not participate should the referenced project be put to competitive tender.

From the OCG’s vantage point, the representations which were made to it regarding CHEC’s unwillingness to participate in a competitive tender process, when coupled with the knowledge that the ‘tender’ which was put forward by CHEC is not commercially viable, nor is it projected to be viable over the life of the proposed 50 year concession, is clear and incontrovertible evidence as to the reasons why the referenced ‘unsolicited proposal’ would have been unable to withstand the rigors of an open-market competitive bidding process, which would, as a consequence, open up the CHEC proposal to a scorching degree of scrutiny and questioning from its peers in the international market place.

**Concerns Regarding CHEC Sub-Contracts**

It is also of significant importance that the OCG highlights the fact that once the development and construction of the North-South Link of Highway 2000 is packaged and contractually consummated as a strict commercial transaction, to be undertaken by CHEC, then same would remove the construction component of the transaction from the scrutiny of the OCG and would leave the selection of subcontractors which are to be utilized on the project to the sole discretion of CHEC, despite the fact that the GOJ would be granting a 50 year Concession to CHEC, in exchange for the construction of the roadway.

If the facts regarding the true financial viability of the proposed project should be properly interrogated and taken into consideration, then based upon the CEO of NROCC’s own admission, at an Internal Rate of Return of approximately 5%, using the projections of the GOJ’s own advisors and consultants, Steer Davies Gleaves, the investment could only attract an amount of US$100 million.

Therefore, it stands to reason that the additional US$500 million for the construction of the North/South Link of Highway 2000 toll road, and the US$120 million for the reimbursement of the Mount Rosser leg of Highway 2000, bears stark resemblance of the features of a gift to the People of Jamaica, as the revenue projections cannot in any way support a recovery of the overwhelming majority of the proposed entire investment.

It is, therefore, in the foregoing regard that the OCG, as one of its recommendations to the Government of Jamaica, had requested that all sub-contracts emanating from the Concession Agreement, which is being proposed for the North/South Link of Highway 2000, be subjected to the highest level of competition and scrutiny, and that the OCG be given the authority to monitor same.

Given the foregoing, it is the view of the OCG that the GOJ and the Parliament of Jamaica should give the OCG, *inter alia*, the authority, to have full and unfettered monitoring oversight of all sub-contract awards emanating from the concession. The foregoing is of great exigency, and forms part of previous
recommendations which have been advanced, by the OCG, to the Parliament and successive Administrations, which have seemingly fallen on deaf ears.

If given this authority, the OCG, acting solely for and on behalf of the People of Jamaica, will ensure, *inter alia*, that all sub-contract awards are subjected to the highest level of probity, and that said sub-contracts are not directed to politically aligned contractors, and that the resources of the state are not re-directed for unintended use and subjected to various levels of profit margins, which will, in effect, erode the true value of the benefit which should be legitimately given to the People of Jamaica.

The OCG would also ensure that there is equity in the award of said contracts and that all qualified and competent NCC registered contractors are afforded the opportunity to participate and benefit from this major and significant economic investment.

**The Proposed Development of a Container Transshipment Hub in Kingston**

The Memorandum of Understanding (MOU) between the Port Authority of Jamaica (PAJ) and CMA CGM, was brought to the OCG’s attention by way of a RJR online news article, entitled “MOU between Port Authority and shipping company to create close to 1,000 jobs”, dated August 05, 2011. By way of letter, that was dated August 10, 2011, the OCG requested preliminary information from the Port Authority of Jamaica regarding, *inter alia*, the MOU.

The PAJ was requested to provide an account of the genesis of the current arrangement with CMA CGM, as reported in the article, and it advised, *inter alia*, that; “CMA CGM submitted an unsolicited offer to the Port Authority to enter into a long-term arrangement that will involve CMA CGM committing to invest capital in the Port of Kingston in order to secure and preserve TEU capacity ahead of the completion of the Panama Canal expansion.”

The OCG, following upon a review of the documents which were submitted by the PAJ, noted that the referenced transaction and negotiations will conclude with the consummation of a long term lease of a section of the Terminal, between 25 and 35 years, and involves the transfer of risk associated with the operation of the enterprise/activity/asset from the public to the private sector.

The OCG, therefore, documented and voiced its position that transactions of said nature should have been subjected to the dictates of Ministry Paper #34, Government of Jamaica, Privatization Policy, which requires that divestment of state assets, by way of sale, *lease*, joint venture or sale of minority shareholdings, *must be subjected to a competitive process, inclusive of the advertisement of the asset being privatized*.

Ministry Paper #34 makes no provision for the consideration of an Unsolicited Proposal, save and except to assert explicitly that “Premature application can only be acknowledged and it must be stressed that there should be no expectations that privatization will be accomplished with undue or reckless speed considering that it is a fiduciary responsibility of government to find the best optimal mix of transferring risk to the private sector and maximizing the proceeds whilst conducting the process competently and expeditiously.”

Notwithstanding the OCG’s documented concerns, the OCG was informed by the PAJ that the Cabinet approval to proceed was obtained by way of letter dated August 23, 2011, in direct contravention of the Government’s own documented Asset Procedures.
Consequently, with the Government proceeding with the said transaction, in violation of its own Privitization Policy, whilst suggesting to the public that the OCG is a stumbling block in the path of its economic development projects, is not only reprehensible but is highly suspicious and must be publicly questioned.

It is also important to note, that given Jamaica’s strategic geo-economic advantage, i.e., its position between the Panama Canal and its proximity to other markets, that it should have carefully developed a Request For Proposal (RFP) which could have been tested in the competitive market place, whereby varying proposals could have been assessed and analysed to make a determination as to which Proposal would have been in the best interest of Jamaica.

It is the OCG’s considered opinion that if the GOJ had taken that route, it would have been far advanced, by now, in securing a preferred bidder, which, at the end of the process, may have very well been CMA CGM. However, such an efficacy can no longer be tested, as there was no comparative Proposal for analysis which could have been undertaken to make such a determination.

**OCG’s Closing Remarks**

It is of grave and significant concern to the OCG that it is being accused of impeding economic development and delaying the much needed investment that is required for Jamaica, by its faithful, dispassionate and diligent discharge of its mandate, as prescribed by the duly promulgated laws of Jamaica, for and on behalf of the Parliament and People of Jamaica (and not for and on behalf the Cabinet), to ensure probity in the GOJ Procurement, Contract Award and Asset Divestment Processes.

To the contrary, the evidence which has been carefully and painstakingly uncovered by the OCG in this matter suggests that the previous and current Administrations have proceeded with the three (3) multimillion dollars Projects, wholly unimpeded by the OCG, save and except for the North/South Link Highway 2000 Project, in respect of which the OCG had made a strong recommendation for negotiations to cease and/or that the opportunity be put to international competitive tender.

Further, the evidence would also suggest that the current Administration has deliberately circumvented the OCG, without firstly resolving the issues which were documented by it and, instead, has used the NCC and the creation of an Independent Oversight Panel (IOP) as a means to legitimise its circumvention of the OCG, whilst creating a facade of public transparency and accountability.

The question, therefore, arises as to how can a duly constituted Anti-Corruption Commission of Parliament be characterised as being an obstruction or impediment to national development, by the mere discharge of its mandate which is prescribed by law?

The OCG demands that the GOJ, other Public Officials and practitioners urgently bring to the Public’s attention any such evidence which can support the serious and damming allegations that the OCG is an impediment to economic growth, and that it is causing significant delays to the implementation of major Investment Projects, failing which the deliberate attempt to publicly undermine the authority and integrity of the OCG should cease, since no evidence exists to support these patently false and damaging positions and pronouncements.
In point of fact, in most, if not in all the cases, if the OCG’s initial recommendations had been accepted by the GOJ, prior to the commencement of any formally launched Investigation, Projects would have been advanced and duly completed, in reasonable time, with the required diligence, transparency and accountability, for which they should be accorded, and would be in keeping with the highest standards of good governance and public contracting.

The foregoing statement is being publicly issued by the OCG pursuant to the powers that are reserved to a Contractor General by Section 24 (1) (b) of the Contractor General Act.

May 1, 2012

END-

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A REVIEW OF RECENT
GOVERNMENT OF JAMAICA
INFRASTRUCTURE PROCUREMENT
DECISIONS

JAMAICA CIVIL SOCIETY COALITION
May 2, 2012
“This is a hard, cruel world. Nobody is out there waiting to do us a favour and you can't tell the people of Jamaica that we missed the opportunity of garnering investments in excess of $1 billion because we were awaiting a ruling.” Dr. Omar Davies - Parliament April 24, 2012.

And since indeed, no one comes to our shores to do us favours, the discussion on how we engage them is extremely critical to our future prosperity and growth.

PURPOSE

The OCG Act and the bodies that administer the Act are not there solely to eradicate or reduce corruptive acts in the procurement process. It is there to equally enhance competence in procurement process. Many well-intentioned individuals, in the absence of clear guidance and a well-lit path, have erred in securing the best good or service for the country.

That said, this brief has been prepared to guide discussions between the members of the Jamaica Civil Society Coalition [JSSC] with regard to theirs and general public concerns on procurement of goods and services in Jamaica. The brief focuses on three major infrastructural projects that the Government of Jamaica is seeking to undertake with significant roles being played by the private sector. A number of the emerging issues are recurring ones that have dogged different projects over the years and as such, we view all exchanges around the concerns, as an opportunity for all stakeholders to:-

- Seek clarification on the specific projects currently under scrutiny
- Seek and provide the public with a clearer understanding of the roles of the different offices empowered by the Contractor General Act
- Identify the challenges being faced by agencies of the State during procurement
- Identify the challenges being faced by the Office of the Contractor General during procurement exercises.
- Make recommendations for the way forward

The brief is divided into two parts: The first addresses the current debates in the public space, regarding pronouncements made in the House of Representatives by the Minister with portfolio responsibility for Transport, Housing, Water and Works on April 24, 2012. The second seeks to highlight more general concerns regarding the procurement process that have been consistently raised over an extended period that the JCSC believes is inimical to Jamaica’s readiness for business and investment.

The document seeks to provide the background surrounding the current debate, the supporting data that arise from those issues and then outlines the specific questions for which clarification is needed. These are the questions which are intended for the roundtable discussion to be had with the relevant representatives of the Government, the Office of the Contractor General, the National Contracts Commission etc.
BACKGROUND

The Panama Canal Expansion Project

The Expansion of the Panama Canal (Third Set of Locks Project) is a project that will double its capacity by allowing more and larger ships to transit. The project creates a new lane of traffic through the Canal by constructing a new set of locks. The expansion project started officially 4.5 years ago on September 3, 2007, after approval by the Panamanian Cabinet, National Assembly and referendum. The new locks are scheduled to begin operation between the fiscal years 2014/2015. The “New Panamax” vessels\(^1\), with capacities up to 12,500 TEUs will be able to cross the Canal, compared to the current limit on 4,000 TEUs. This will require a major reorganization of shipping, particularly in the Caribbean and North America region. Transport distribution will only be possible from a hub that can accommodate these giants, which is currently not the case for most ports in the Caribbean and on the United States East Coast. Outside Panama, the expansion will create demand along the US Eastern Seaboard for ports able to handle post-Panamax ships.

April 24th Parliamentary Pronouncements

In the Parliament convened on April 24, 2012, the Minister of Housing, Transport, Water & Works, Dr. Omar Davies, put forward an argument that in order to take advantage of the 2014 startup of the widened Panama Canal and the resultant new shipping lanes through the Caribbean, the Cabinet decided to forgo the use of a public tender in selecting contractors for three major infrastructure projects.

He further advised that this was as a consequence of the lengthy procurement process that a competitive tender requires and to undertake such an exercise would mean missing the following opportunities that this small window of two years affords.

i. Capitalising on our strategic position with shipping lanes
ii. Leveraging benefit of the port development
iii. Enhancing internal road linkages & opening up areas for development
iv. Generating employment in maritime and transport sectors
v. Expanding the country’s overall economic base

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\(^1\) New-Panamax or post-Panamax denote ships larger than Panamax that do not fit in the canal, such as supertankers and the largest modern container ships.
Project Background

a) The North-South link for Highway 2000, (See Fig. 2). This project speaks to the connection of the entire Highway 2000 North-South corridor (including the Spanish Town to Ocho Rios link) and is projected to cost in excess of USD$600M (approx. JMD$52Billion). Dr. Davies advised Parliament that:-

“After noting the terms of the framework agreement between National Road Operating and Construction Company (NROCC) and China Harbour Engineering Company (CHEC) signed May 27, 2011, Cabinet Decision No 42/11 dated Nov 7, 2011 approved the signing of an implementation agreement between the GoJ, NROCC, CHEC and the Jamaican North-South Highway Co. Ltd.” A draft concession agreement was prepared to give effect to a 50 year concession to CHEC “…with no financial contribution required of the GoJ.” However, this process was stalled by the OCG’s concerns for a lack of competitiveness in the process.

As reported by the Daily Gleaner (April 26, 2012)² Minister Davies advised in said Parliamentary sitting that though a non-binding agreement has been entered into between CHEC and the authority [NROCC], the Government has not yet entered into any contractual arrangement. He said the Memorandum of Understanding will allow for a feasibility study to be conducted on the project.

Note: The project was originally contracted out to Bouygues Travaux-Publics (which constructed Highway 2000 on the South Coast) to build a 19km four lane highway spanning Linstead to Moneague which covers the Mount Rosser bypass. However, according to the Daily Gleaner (August 19, 2011)³, Bouygues and the Government are currently trying to resolve a stalemate which arose owing to what has been described as geo-technical problems, which were detected in a 650-metre stretch within Zone Two of the Mount Rosser bypass. The original cost for the Mount Rosser bypass was estimated to be US$99.5 million in 2007. However, in 2008, Cabinet approved a variation of approximately 25 per cent, increasing the amount to US$124 million. To date, US$110 million has been spent on the project.

b) The Gordon Cay Container Transshipment Hub. The Port Authority of Jamaica (PAJ) owns the Kingston Container Terminal which is operated by Kingston Container Terminal Services Ltd, a subsidiary of the PAJ. The KCT consists of three terminals - North South and West Terminals. The Gordon Cay Terminal is the South Terminal. The project represents a proposal from the CMA CGM Group of France, to substantially renovate an

² http://jamaica-gleaner.com/gleaner/20120426/lead/lead93.html
HIGHWAY 2000 NORTH SOUTH LINK
Extracted from a NROCC 2009 report

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existing section of the Gordon Cay to accommodate transshipment cargo and to establish a new container terminal on lands owned by the Authority.

Dr. Davies has informed the Parliament that on August 15, 2011, by way of Decision No. 31/11, Cabinet had given approval for the execution of a non-binding Memorandum of Understanding (MoU) between the Ports Authority of Jamaica (PAJ) and CMA CGM, to assess project viability.

Based on information gleaned from the internet\(^5\) the MoU is supposed to speak to the refurbishing and expansion works at the port’s south terminal at a cost of more than J$8 billion (US$100 million) in exchange for a 35 year lease of the facilities. The works will include dredging of the channel and turning basin, strengthening of the berth, and extension of the yard space to accommodate more containers.

![Figure 3 - CMA CGM Proposed Shipping Line Services](image)

c. **The Fort Augusta Container Terminal**

The Port Authority website informs of their future expansion plans under the heading Preparing KCT for 2014. The webpage itself provided no information for the Gordon Cay Terminal but for Fort Augusta it outlines the following specifications that require:-

- Dredging to 18 Metres
- Additional Berthing of 2,500 Metres
- Building New Gantry Cranes
- Creating Additional Terminal Yard Space of 70 Hectares (173 Acres)

According to Gleaner reports of April 26, 2012 Dr. Davies told the Parliament that...

"China Harbour Engineering Company Ltd has also approached the Port Authority of Jamaica to establish a new container terminal on lands owned by the authority at Fort Augusta. Davies said although a non-binding agreement has been entered into between CHEC and the authority, the Government has not entered into any contractual arrangement. He said, as in the case with the Gordon Cay project, the memorandum of understanding will allow for a feasibility study to be conducted on the project."

Dr. Davies’ presentation in Parliament did not speak to the cost of this project however, it is on record that in addressing the Caribbean Shipping Association conference in Barbados, October 2011, Port Authority of Jamaica Chairman, Noel Hylton, said the expansion will cost approximately “US$400 million private investment at Fort Augusta for two new berths”, significantly higher than the Gordon Cay plans.

**Creation of an Independent Oversight Panel**

In the final part of Minister Davies pronouncements, he reported in said Parliamentary sitting that an Independent Oversight Panel (IOP) has been appointed “to expand the framework of monitoring the contracts”. The panel will give oversight to the three contracts to ensure “value for money, transparency, accountability, effective monitoring and controls while providing project evaluation and technical advice”.

Members of the panel are Principal and Pro-Vice Chancellor of the University of the West Indies Professor Gordon Shirley, businessman R Danny Williams, and retired territory senior partner for auditing firm PriceWaterHouseCoopers, Everton McDonald.
QUESTIONS FOR THE GOVERNMENT OF JAMAICA

According to Minister Davies, the Government is not obliged to follow the recommendations of the OCG and that that office does not have “veto power on economic development….the main rationale of that office is to ensure that whenever there is procurement or awarding of specific contracts, that the country gets value for money”. The JCSC is of the opinion, that in fulfilling their promise for good governance, the Government is obliged to explain its decisions to go counter to the OCG’s recommendations. The questions below seek to capture some of the current and key issues that civil society has raised for discussion.

PRE-FEASIBILITY PLANNING PROCESS

1. Hiring Transaction Advisers

Public and private sector arrangements of this nature, that seek to provide public infrastructure services over a period spanning decades, are usually very complex and risky ventures for both the taxpayers and the private investor. Getting these ‘public private partnerships’ (PPPs) right usually requires the expertise of highly trained legal, technical, financial, environmental and procurement specialists to advise the public sector party. The costs for advisers are at times significantly high and at times we fail to invest in that advice at greater cost to the project and country in later delays or technical & financial oversights.

   a) Which firms or individuals represent/ed the team of transaction advisers, advising the Government on the three projects?

2. Assessing Value for Money

GoJ’s Handbook of Public Sector Procurement Procedures for Good and Service outlines in Section 1.1.4, the circumstances under which direct contracting [sole sourcing] is permitted. If these works are valued in excess of JMD $3M it requires the permission of the NCC. Some of these circumstances include:-

   i. Extreme urgency brought on by events unforeseen by the Procuring Entity [and as such] the products or services could not be obtained in time by means of open, selective or limited tendering procedures.

   ii. Where procurement is of a confidential nature.

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6 In an April 27, 2012 radio interview on the Nationwide News Network with hosts Emily Crooks and Naomi Francis.
iii. When equipment is only available from a specific source and additional supply is required for reasons of uniformity.

iv. If a provider has exclusive/proprietary rights in respect of goods and services or works.

v. Etc.

The Government has argued their grounds for sole sourcing based on a provision in the Act for a need to respond based on “extreme urgency”.

It is an understood and accepted practice that requiring prospective contractors to compete for a contract is the method most likely to provide the client with an efficient and credible bid. Meaning, a bid where the design, cost to build operate and maintain, length of time before service is available, etc. are the most favourable for the client. In the absence of a public tender, sole sourcing or direct contracting becomes the alternate procurement option. This implies that the GOJ sits at the table with one service provider or contractor to negotiate the terms of the contract.

a) In such circumstances, what alternate mechanism has been put in place to assess the extent to which Jamaicans will receive value for money?

b) Are these alternatives clearly embedded in any policy document that will ensure that this is done as a matter of course?

The North-South Highway Link

3. Why sole source?

The proposed 19km North-South Link that was scheduled for completion in January 2010 was contracted out to (and was actually under construction) by Bouygues Travaux-Publics who had completed up to 88% of the works before works ground to a halt. Owing to a stalemate between the company and the Government over unanticipated geo-technical issues and budget overruns, it was deemed necessary to identify another contractor. Speaking (post-parliament) on the JIS programme Issues and Answers, Dr. Davies explained that...“There are serious issues relating to timing. The proposal from the Chinese, regarding the North-South link of Highway 2000, is not there waiting in perpetuity and there are deadlines which have to be adhered to.”

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7 The original cost for the Mount Rosser bypass was estimated to be US$99.5 million in 2007. However, in 2008, Cabinet approved a variation of approximately 25 per cent, increasing the amount to US$124 million. To date, US$110 million has been spent on the project. [http://jamaica-gleaner.com/gleaner/20110819/news/news2.html](http://jamaica-gleaner.com/gleaner/20110819/news/news2.html)
The second media release from the OCG on May 1, 2012 reveals that the discussion between the Government and CHEC began from 2009. The Gleaner of August 19, 2011 reports that the Government eventually received an ‘unsolicited proposal’ from CHEC in 2011 for the completion of the works unfinished by Bouygues.

The Handbook of Public Sector Procurement Procedures Vol. 2, advises on how to treat with ‘unsolicited proposals’ in Section 1.2.1. It reads as follows:-

When a Procuring Entity receives an unsolicited proposal it has three (3) options:

(a) to elect not to consider it and, therefore, to return it immediately;
(b) to engage the Competitive Bidding process by means of a price test; or
(c) to enter into the direct negotiation with the proponent.

The GOJ has opted to use option [c].

To have better understanding of the Government’s decision and the current status of the project we ask:-

a) Why has the Ministry bundled the argument for direct contracting for the highway, with the deadline and emergency works for the Panama Canal?

b) If no DIRECT co-relation with the port developments can be established, why shouldn’t the Government proceed with option (b) since (unlike many other countries) the Jamaican Procurement Handbook allows for unsolicited proposals?

4. **What Created the Emergency?**

A Gleaner report of May 2011\(^8\) speaks to an address between the then Minister for Finance, Mr. Audley Shaw and some Observer reporters. Shaw is quoted as saying Cabinet has authorised the Minister of Transport to negotiate completion of the project with an unnamed firm. He further spoke to a cost overrun of up to US$50M and claimed it a perfect example of “haste makes waste”. He was further quoted as saying:-

“There is evidence at the ministry, and the minister will speak to it at an appropriate time, that the (then) Government was advised that there was an engineering problem and they were advised not to proceed and they did... but there is more to come on that,“

In said Gleaner report, we are advised that “geological problems surfaced again in an area known as Mulloch near the St. Catherine/St. Ann border and this is said to have further pushed up the cost....but Mr. Henry was unable to say then, by how much.”

5. What Created the Emergency?

The JCSC fully appreciates the high unlikeliness of Jamaica being ready to accommodate the new Panamax vessels should the contractor selection process be subjected to the competitive tender process. It has noted however, that the report, ‘The Future....Being Implemented Now’ prepared by the Ministry of Transport and Works in July 2010 was documented to “present an overview and status of the major programmes and projects of the Ministry that will take Jamaica into the future”. In reviewing the document, we note that in unveiling the “privatization plans for the Kingston Container Terminal” no mention is made of the then 3 year old Panama Canal Expansion, in the justification of the project. Further to that, no mention is made of the Gordon Cay development, only the Fort Augusta Terminal.

a) To what extent is Jamaica’s lack of timely preparation for the Panama Canal Expansion a significant contributor to the current pressing need to procure port development services under an emergency situation?

6. Early Market Sounding

The early planning process of such sizeable projects would require that the Government perform a market sounding exercise very early in the project planning stage. This is used to determine if the local and/or international market has parties that would be interested in
competing for the contract. This is called an Expression of Interest (EOI) or a Registration of Interest (ROI). The invitation is usually made publicly, in a nationally circulated newspaper or on websites that are built specifically for advertising worldwide tenders, as well as in international publications that target the relevant sectors and players.

On April 27, 2012⁹ the Government responded to the question on why the projects were not tendered via the Minister of Housing, Transport, Water and Works. Dr. Davies advised that “in the shipping industry the top three firms control 40% of the world’s shipping and we are in dialogue with one of them with the development of Kingston Harbour. When they collaborate, when they make a decision it almost invariably goes through”. When asked why we did not invite the three to tender, the response was... “They often do not compete with each other. They make that determination in terms of what’s in their best interest.” This was immediately followed by the statement “There is often this mistaken notion that there is a long line of persons waiting out there to invest in Jamaica.

The JCSC finds that on the surface of it that Dr. Davies suspicions can be interpreted as collusion¹⁰ and therefore finds his response troubling. We therefore ask:-

Can the Government advise and provide evidence of what market sounding exercise(s) was conducted to determine:-

i. That there were only three (3) competent parties, and
ii. That only one (1) of the three would be interested?
iii. Can the JCSC be provided with a copy of the NCC letter authorizing sole source procurement?

FORT AUGUSTA TERMINAL PROCUREMENT CONCERNS

7. Why Sole Sourcing for Fort Augusta?

According to Gleaner reports of April 26, 2012 Dr. Davies told the Parliament that China Harbour Engineering Company (CHEC) has also approached the Port Authority of Jamaica to establish a new container terminal on lands owned by the authority at Fort Augusta. We refer again to Section 1.2 of the Handbook quoted above.

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⁹ In a radio interview on the Nationwide News Network with hosts Emily Crooks and Naomi Francis.
¹⁰ Defined as an agreement between two or more persons/entities, sometimes illegal and therefore secretive, to limit open competition by deceiving, misleading, or defrauding others of their legal rights, or to obtain an objective forbidden by law typically by defrauding or gaining an unfair advantage.
The questions surrounding the award of this contract are particularly of interest as the Fort Augusta project will represent the fourth (4th) contract for major billion dollar infrastructural works in Jamaica, issued to China Harbour without a public tender in the space of 2 years.

a) Can it be confirmed that Fort Augusta is projected to cost approximately US$300M (JMD$26.1 Billion) more than the Gordon Cay works?

b) What is the basis for the GoJ using 'direct contracting' for this terminal development if the upgraded Gordon Cay Terminal will meet the emergency demands for the new Panamax vessels?

c) Shouldn’t the Government await the results of the JDIP probe before engaging CHEC in a 4th billion dollar contract?

d) Is the Government aware CHEC has a growing record of facing controversy in other countries with regards to procurement breaches and guidelines? For e.g. bribery charges in Bangladesh involving the former Prime Minister’s son; the Guyanese Government’s failure to disclose an award of a USD$138M contract to CHEC until it was discovered by the Guyanese in a Jamaican newspaper; Cayman’s Premier is under investigation by the UK for the unsavory procurement process involving CHEC, for infrastructure works.

The OCG in his 'Official Statement Regarding Assertions Made by Dr. the Hon. Omar Davies In Parliament On April 24, 2012' sought to make clarifications and advised that “the OCG has no institutional knowledge of the third project, the Fort Augusta Container Terminal.”

In light of this statement, the JCSC wishes to know:-

a) Did the Ministry of Housing Transport Water and Works submit an application to the National Contracts Commission for permission to enter into a direct contracting arrangement [sole sourcing] with China Harbour Engineering Co.?

b) Can the JCSC/public be provided with a copy of the letter authorizing same?

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11 These include: - The Jamaica Development Infrastructure Programme (JMD$34.8 Billion), The Palisadoes Shoreline Protection and Rehabilitation Works (JMD$5.68 Billion) and the aforementioned North South Highway Link (JMD$52.2 Billion) and the proposed Fort Augusta Terminal (JMD$26.1 Billion)
MONITORING CONTRACT AWARD AND IMPLEMENTATION

8. Concerns for Independent Oversight Panel

In advising the Parliament on April 24, 2012, Dr. Davies explained that the "handpicked" Independent Oversight Panel, a three-man team, would be responsible for giving "oversight" to the award and implementation of certain specified Government contracts, to ensure "value for money, transparency, accountability, effective monitoring, and controls, while providing project evaluation and technical advice".

a) Based on the principle outlined in Section 3 of the Contractor General Act which requires a bi-partisan consultation in appointing a Contractor General and in the interest of good governance, would the Government consider allowing the Leader of the Opposition to appoint one of the three panelists?

b) The responsibilities outlined above mirrors those outlined in Section 4 of the Contractor General Act. In light of the Government's concern for their perceived bureaucracy of the OCG and its impact on what they consider to be a time-sensitive project, how would adding this layer of oversight improve the flow of activities, reduce bureaucracy and shorten the project timeline?

c) The OCG is empowered under Section 4 of the Act to discharge their responsibilities as a "Commission to the Parliament". On what basis has this IOP been empowered or authorised to fulfill the mandate given?

d) What are the skills, resources and/or competencies vacant in the Office of the Contractor General that justifies the appointment of this panel?

e) Beyond integrity, what are the skills and competencies that the panelists provide that will enable them to fulfill their mandate?

f) If the panel is not intended to overstep or replace the OCG does the TOR clearly speak to creating synergy between the panel and the OCG to remove potential duplication? Such as, reporting relationships, data sharing etc. Will the IOP be able to draw on the resources of the OCG? Should it be able to?

g) Is there an additional cost to the country for establishing this panel? What is that cost?
9. CONCERNS IN DISTINGUISHING THE ROLE OF THE OCG VS THE NCC

The Daily Gleaner has reported (April 26, 2012) that Dr. Davies advised Parliament that an assessment of the National Contracts Commission [NCC] was sought and their “no objection” was received for each proposal.

“In the commission’s opinion these proposals are not procurement matters as defined by the Government of Jamaica procurement handbook......” Dr. Davies said.

However, the Office of the Contractor General [OCG] has maintained its stance that a competitive tender is to be undertaken in the best interest of the country.

Functions of the OCG
Under Section 4 provisions of The Contractor General Act, the Contractor-General shall perform the following function on behalf of Parliament:-

i. Monitor the award and the implementation of government contracts with a view to ensuring that:-
   a. Such contracts are awarded impartially and on merit.
   b. The circumstances in which each contract is awarded or terminated, do not involve impropriety or irregularity
   c. Etc.

Functions of the NCC
The Contractor General’s Act states that for the purpose of this Act a body is to be established called the National Contracts Commission. Three of the eight (8) listed functions of the Commission at Section 23D of the Act include:

i. Examining applications for the award of government contracts
ii. Approving/overseeing the award of government contracts within the specified limits
iii. In the case of government contracts above the specified limits, making recommendations to Cabinet regarding the award of such contracts.
iv. Etc.

The JCSC understands that the opinion of the NCC differs from that of the OCG as it relates to the procurement option the Cabinet has selected for the subject three projects.

a) Both offices are creatures of the Contractor General Act but in instances when their opinions are at variance, which takes precedence over the other?
PUBLIC PRIVATE SECTOR SERVICE DELIVERY MODELS

WHAT IS A PUBLIC PRIVATE PARTNERSHIP?
A public private partnership (PPP) has been defined all around the world where such infrastructure projects are undertaken, as an innovative alternative for procuring public goods and services. It is reported as being a model particularly appealing to Governments facing tight fiscal constraints and with little room to manoeuver. Under such PPPs, substantial risks and responsibilities are transferred from the Government, to the private partner, who in return is legally authorised (for e.g. via a concession agreement) to provide a service in exchange for fees.

These fees become payable only when the service becomes available (thus freeing up Government funds during the entire construction period, which usually covers years) and has to be paid by either the Government (who would normally be providing the service and paying for it from taxes) or the direct beneficiary of the service (for e.g. the road user via tolls). IT IS NOT FREE.

The private sector services will include design, construction, operations and maintenance services but most importantly they become responsible for financing the service. Government on the other hand takes on the very crucial monitoring and regulating roles to ensure that value for money achieved at the procurement stage is not loss (as often happens) at the operations and contract management stage.

The private sector's willingness to take on such enormous responsibilities is for the primary reason of obtaining the best possible return on their investment. The government's primary reason for entering such a contract is precisely for the sole purpose of procuring a good or service that for one reason or another they are not able to provide or not able to provide as efficiently and affordably.

That said, the JCSC is of the opinion that such projects are an investment done by the private sector to facilitate procurement of a public good by the State and that this arrangement is secured by means of awarding a contract to the private party.
10. PROCUREMENT OR INVESTMENT – DOES IT MATTER?

By way of example, the road to be built for the North South link of Highway 2000 is a public good and all the activities of the private party to ensure the movement of vehicles efficiently, safely and affordably from entry to exit point on the highway is the public service.

Jamaica Information Service published on its website on Sunday April 29, 2012, an extract from their JIS programme ‘Issues and Answers’, where Dr. Davies elaborated on the issues with the following statements.

"...with the full backing of Cabinet, I have submitted the proposals to the National Contracts Commission, which has jurisdiction, and they have determined two things - they have given us no objection...they have also indicated that they consider these projects as investment projects, not procurement projects," the Minister emphasised.

11. THE GOJ’S FINANCIAL OBLIGATIONS UNDER THESE PROJECTS

Dr. Davies in his report to Parliament on April 24, 2012 can be quoted in referring to the three projects as saying, “Mr. Speaker it is estimated that total investment in these projects will be in excess of USD600M with no financial contribution required of the Government of Jamaica.”

The suggestion that the GoJ will not be required to make a financial contribution has been promulgated by different members of Government, the Opposition and echoed by the members of the media as a basis of garnering support. It has become one of the primary arguments for allaying the fears surrounding the lack of competition and transparency.

The JCSC however, in its research has arrived at an understanding that it would be more accurate to state that generally, there is no up-front financial contribution required from the GoJ at the beginning of the project. We are aware however, that as is often the case in developing States such as Jamaica, Governments are required to put sovereign guarantees in place to enhance the attractiveness of investing in an environment that is prone to an unstable foreign exchange rate, inflation and interest rate. These guarantees are known as contingent

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liabilities[^13] that do not appear on the balance sheet of a government during the life of the project unless unanticipated changes determined to be outside the control of the partner/investor threatens the viability of their projected returns.

**North Coast Highway Example**

From reports on the North Coast Highway, extracted from the Gleaner, we have on record that NROCC has sustained billion dollar losses since operation, on a project that was promulgated as a private investor financed project.

To quote one report[^14], NROCC “losses which accumulated to $18.9 billion at the end of March this year[2010], led the Ministry of Transport and Works to provide NROCC with a $2.6 billion grant last fiscal year and another $2.2 billion this fiscal year”.

The extent to which NROCC can retain the net gain it has made for the first time last year, is heavily dependent on its ability to avoid covering the cost for the 1km highway realignment dispute with Bougyes – hence the need for China Harbour’s involvement.

Finally, these road investments are just that, an investment that is highly leveraged by the company who needs to meet its debt payment every quarter. As we have learnt from all the existing toll roads, the cost has to be covered from day one of operations by road users. If for example, traffic volume falls and cash flow fails to meet the investor’s revenue expectations, it is the taxpayer (including non-users) who steps in to subsidize this service with 'shadow toll' payments made by the Government. This can amount to millions of dollars, making the OCG concerns more than pertinent.

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[^13]: Liabilities that may or may not be incurred by an entity depending on the outcome of a future event.

1. DEVALUING THE COMPETITIVE PROCUREMENT PROCESS

The procurement system in Jamaica is under the microscope and opinions are divided on where the knots are. That it is in need of review is indisputable but there is a growing sentiment being expressed by some of the policy makers, parliamentarians and members of the Government’s executive arm, which on the surface appears to be diminishing the *principle* of competitive tender. For example:

**M.P. Dr. Omar Davies;** the current Minister of Transport, on the Nationwide Programme on April 27, 2012 commented on a statement made by host Emily Crooks on the need for competition: “Even if there is not a long line [of investors] if you open the process those who want to line up, allow them to do so and at the end of the day no one can say it was not open”. Dr. Davies response, “The notion that by simply allowing a whole set of persons and there is time you get – whether it be a small contractor to do a gully - you probably get some nonsense, you go through that whole process and everybody knows from the beginning who is going to win it, in terms of capability or strength of cash etc.”

**M.P. Karl Samuda: in Parliament April 24, 2012.** “The world today, when you speak of large investments, has moved away from this narrow notion that by competing among each other at this level you are getting the best price, what is looked at is usually the viability of the project and the reputation of the persons with whom you are going to negotiate”.

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*Inaccurate statement. The following International Finance Institutions REQUIRE competition as a part of the selection process of all the PPPs they finance - the ADB, IDB, EBRD, IFC etc. See link http://ppp.worldbank.org/public-private-partnership/overview/practical-tools/procurement-bidding*
M.P. Mike Henry, Former Minister of Transport and Works, in a Jamaica Speaks interview on Newstalk 93FM on June 29, 2011 while seeking to address public discomfort about the non-competitive selection of sub-contractors for JDIP posited that “he is not aware of any proof that competitive tender provides value for money”.

The problem is not merely the process. The problem is largely the attitudes and beliefs of members of successive Governments and the competence of the procurement officers of the agencies and ministries. The Jamaican procurement process is well-aligned with best practices of procurement in other countries.

Note: The commendable establishment of a Procurement Policy Unit (1999) at the Ministry of Finance and the successful documentation of the Handbook of Procurement Guidelines (2001) by the Ministry of Finance were both undertaken whilst Dr. Omar Davies had ministerial charge of that portfolio.

2. OPTIMISM BIAS

This is understood in the project world to be a systematic tendency for project appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery. This is a real and present danger for us to be aware of as it is generally observed to manifest itself in Government-related projects; where the pressure of the politics of premature announcements, upcoming elections, ribbon-cutting priorities etc. often translates into the haste of overlooking some essentials.

Dr. Davies’ reassures Parliament -“The feasibility studies are being undertaken at no cost to the Government and do not represent any legal commitment on the part of the Government or its functionaries to award a contract to CMA CGM when the MOU expires”. This implies we can always back out if necessary. True, but......

3. THE SEPARATION OF THE NCC FROM THE OCG

No justification has yet been given by the Government for their intention to separate the Office of the Contractor General from the National Contracts Commission.

The JCSC requests a full explanation for how this will improve the procurement process and enhance transparency, accountability and efficiency in the award and monitoring of contracts.
4. OCG’S ANNUAL UNHEEDED RECOMMENDATIONS FOR....
   I. A single independent national anti-corruption agency - In the plans to have one Anti-
       Corruption Agency by amalgamating all those in existence, why is the Office of the 
       Contractor General being excluded from this umbrella group? 
   II. A mandatory disclosure of beneficial owners of private Entities desirous of bidding on 
       government contracts 
   III. An anti-corruption clause in the body of the government contracts 
   IV. The imposition of a ‘fit and proper’ test for contractors 
   V. The regulation of sub-contractors. 

       .....remain to be addressed by our governments.

5. IMPACT OF PROCUREMENT CONTROVERSY

   Jamaica has long been plagued with a reputation of bureaucratic inefficiency and corruption. Be 
   it perceived or real, justified or not, this perception has an economic value which severely 
   hinders our ability to attract foreign investment.

   A country’s governance constructs have become significant markers for would-be international 
   investors who place a high premium on such before deciding to invest. Having a clear policy and 
   guidelines in place is an important variable for these investors as it is found that the absence of 
   such, invariably translates into higher costs in implementation. It has also been determined that 
   in the absence of clear procurement rules or the perception that they are there but are subject 
   to manipulation, this contributes significantly to the “SHORT LINE OF INVESTORS” that the 
   Government complains of.

   The bidding costs for such huge infrastructural projects amount to USD millions and span more 
   than a year in preparation time. If an investor perceives that a country does not honour its 
   commitment to fairness and transparency in the bidding process they will opt to not risk the 
   time and money to bid here.

   It is counter-intuitive to seek to bypass the Office of the Contractor General on the grounds that 
   it is their office that is discouraging investment. We have to address the knots that might exist.

   To name just a few, the current controversy over the three projects has already been picked up by:-

   • Dredging Today, which provides coverage of news of interest to maritime and port 
     industry stakeholders across the world.
• **Business Monitor International**, which is a British company that provides business analysis, data and forecasts for clients and customers spanning more than 140 countries and more than 400 of the Global Fortune 500 companies for over 25 years.

• **Shipping Herald**, which is a source of information covering every aspect of the shipping business, from shipbuilding and market reports to finance and regulation or the environment.

Let us proceed with care and wisdom in the interest of our beloved island.

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**References**

*Figure 1.* Stan Shebs, Wikimedia Commons


*Figure 2.* [http://www.cma-cgm.com/](http://www.cma-cgm.com/)

*Figure 3.* [http://www.portjam.com/nmCMS.php?p=fexpansion](http://www.portjam.com/nmCMS.php?p=fexpansion)
VERBATIM NOTES
THE PUBLIC PRESENTATION ON THE FINDINGS OF THE ENVIRONMENTAL IMPACT ASSESSMENT FOR THE NORTH SOUTH LINK SECTION 2A – CAYMANAS TO LINSTEAD
WEDNESDAY, OCTOBER 10, 2012

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VERBATIM NOTES OF THE PUBLIC PRESENTATION ON THE
FINIDINGS OF THE ENVIRONMETAL IMPACT ASSESSMENT FOR THE
NORTH SOUTH LINK SECTION 2A – CAYMANAS TO LINSTEAD
HELD AT THE JAMAICA 4-H BUILDING IN THE PARISH OF ST.
CATHERINE ON WEDNESDAY, OCTOBER 10, 2012 COMMENCING AT
5:35 PM.

PRESENT WERE

Mr. Lloyd Lewis – Chairman
Mr. I. Anderson
Mr. C. Campbell
Mr. S. Panton
Mr. R. Deng
Mr. E. Mortley
Mr. R. Brito
Mr. G. Rose

PARTICIPANTS:

Ms. S. DaCosta
Mr. S. Rose
Mr. H. Ellis
Mr. B. McKenzie
Mr. R. Ferguson
Mrs. H. Page
Mr. C. Hilton
Mr. B. Perry
Mr. E. Headley
Mr. H. Dares
Mr. N. Harvey
Mr. A. Hemmings
Mr. S. Gilmore

AND OTHER INVITED GUESTS/COMMUNITY MEMBERS
Good afternoon everyone; apologies for the slight delay in starting. We are not planning to execute the project in this way, in Jamaican time or anything like that; it will be done properly and on time.

So welcome to you all. You are here for the public presentation on the findings of the EIA for the proposed Highway 200 North/South Link.

This Highway will run from Caymanas to Linstead, so that is what we are here to share with you.

What is an EIA? An Environmental Impact Assessment basically is an assessment of the possible impact whether negative or positive that a proposed project may have on the environment. And although we speak about the environment, it does not only include the environment, but the social and economic aspect to be considered in the evaluation. The International Association for Impact Assessment defines an EIA as the process of
Chairman: identifying, predicting, evaluating and mitigating the biophysical and social and other relevant aspects or effects of development proposals prior to major decisions being taken and commitments made; so this is why we are here.

So welcome and I will ask Mr. Hilton to start us off in prayer. Mr. Hilton is from the Deeside community around here.

(Mr. Hilton prayed)

Thank you Mr. Hilton. I will do some introductions now. We have at the head table Mr. Ivan Anderson who is the managing Director for NROCC, who is the developer of the project and the proposer. Beside him we have Mr. Carlton Campbell who is the Managing Director Of CL Environmental Company Limited. And in the audience over there we have Mr. Steven Panton from NEPA. This project really falls under the auspices of NEPA, NEPA being the government agency I will tell you a little bit more about NEPA. And we have Mr. Mortley from NROCC he is the
Chairman: Environmental Manager at NROCC. And we have a contingent from the Chinese Harbour Engineering Company Limited; I think the abbreviation for it is CHEC. And Roy will come up and introduce, I am not too good at Chinese, so Roy will come up and introduce the members of his contingent.

Mr. Deng: Thank you Chairman, good evening to everybody. We will just introduce our members. To the very front is our Deputy General Manager, Mr. Yang Qiwu and next beside him is our Deputy Manager of the Engineering Department Mr. Du Xiegui, and the person behind Mr. Qiwu is our Chief Design Engineer, Mr. Cha Minggao and the lady in front is our Environmental Engineer, she is Ms. Nadine Tarawali and Cha right behind Nadine and Mr. Wang behind Mr. Du and another Mr. Wang all three of them are the design to the project and Mr. Deng Xigui and he is the representative of the company here.

Chairman: Thank you Roy, now you understand why I did not do the introduction of the Chinese.
So as I said before, we are here to speak about the environmental impact of the Caymanas to Linstead leg of the Highway 2000 Project.

Now the EIA is rather a decision aided rather than a decision making tool, but it is an integral part of project planning, a very integral part. But we have to ensure that whatever we do; is compatible with what we want in the environment. And that is where the rule of NEPA comes in.

NEPA’s mission as I understand it is to promote sustainable development by ensuring protection of the environment and orderly development in Jamaica. So this project has to have the approval of NEPA. And part of their mandate or the way how they operate is to have extensive participation among citizens and a high level of compliance to relevant legislation. So that is why NEPA is here.

Chairman: China Harbour, I heard it announced on the news media yesterday has full and total responsibility for this project from
Caymanas to Ochi Rios as I understand it. But there are others who are more knowledgeable about these things than myself, so I now invite Mr. Steven Panton to bring a statement from NEPA.

Mr. Panton: Good evening ladies and gentlemen. What I am going to do is to read an official statement from the National Environmental and Planning Agency as it relates to the proceedings that we are about to convey.

"On the 27th of April, 2012 the National Environmental and Planning Agency received an application from the National Road Operating and Constructing Company for an environmental permit for the proposed highway from Caymanas to Linstead in the Parish of St Catherine.

The information submitted in support of the application is reviewed and a decision arrived at that an Environmental Impact Assessment would be required for the project."
The job terms of reference for the EIA was submitted and reviewed internally and also by external stakeholders.

The TOR was approved in letter dated 7\textsuperscript{th} of August 2012, and the applicant was advised to proceed with preparation of the Environmental Impact Assessment which will be presented later.

The EIA was submitted to NEPA on the 10\textsuperscript{th} of September and circulated internally and externally. The agency is currently awaiting these comments which, when received, will be reviewed collated and communicated to the applicant for the necessary actions to be taken.

This public presentation has been mandated by the agency and it is being mandated by the applicant in accordance with the terms outlined in the document entitled;

Mr. Panton: ‘guidelines for conducting public presentations’.
Please note that consolation is an integral part of the review process conducted by the agency and that based on the issues raised or comments submitted by the relevant stakeholders, which is yourself, the applicant may be required to provide clarification and/or additional information in the form of an addendum.

It is very important that all participants are aware that the agency is represented at this meeting to only observe the proceedings and to hear the issues being raised. The agency will not participate by answering any questions at this time.

Please bear in mind that no final decision has been made on the application.

We wish to remind you that with respect to the public presentation for the EIA is as follows: - A copy of the verbatim minutes of the public presentation is submitted to the agency by the applicant within seven days of the public presentation and the public is allowed thirty days after the date of this
public presentation to provide written comments to the agency. Upon receipt of comments they are collated and sent to the applicant for responses to be provided. Once responses are received a submission is prepared to facilities deliberations on the technical merits of the project in advance of the recommendations being made in the Natural Resources Conversation Authority, NRCA, for a decision to be made. Please note carefully that final decisions and application is the sole responsibility of the NRCA. So please also bear in mind that the EIA’s document is available for access by the public at the following locations; at NEPA office at the documentation centre, it is also on NEPA website which is www.nepa.gov.jm the St. Catherine Parish Library, the St. Catherine Parish Council Office, Angel’s Primary School, Bog Walk Branch Library, Linstead Parish Library and

Mr. Panton:

at National Road Constructing Company website which is www.h2kjamaica.com and it is also available at the CL Environmental
Chairman: Thank you, Mr. Panton. He is repeating that this is a very important process we are going through here, where your participation is expected and your comments will be recognized and will form a part of the decision making process. So this is a very serious exercise we are undertaking, and a very important one, which is not only mandated by Jamaican law, but also is a requirement, I think, Principle 17 of the United Nations Charter with respect to environment I a very important exercise that we are going through here.

Mr. Panton outlined to you NEPA’s role here which is to monitor, listen but not participate in the rule because they are really the government body which is listening too and will assist the feedback that will come from this public presentation.
Our next item is greetings from Mr. Anderson who is the CEO of the National Road Operation and Construction Company. Mr. Anderson.

Mr. Anderson: Thank you, Mr. Chairman.

Carlton, members of the head table ladies and gentlemen good evening.

This is a very important time, I think, in the country’s history. The issue of dealing with the Gorge, the flooding of the Gorge, the issues of dealing with Mount Rosser, the issue of dealing with Fern Gully has been something that the country has grappled with since about 1968. The first studies of how we can get around the Gorge, how we can get around Mount Rosser were done way back in the 60s. Since then there has been about five different studies over the period as to the various options as to how we can get around Fern Gully, how we can get around Mount Rosser and how we can get around the Gorge.
This opportune as well because of what we know about the Gorge, what happens when the Gorge floods, what happens even when under normal circumstances, as we saw what happened last week with the truck/trailer going over into the river.

So today we take another step towards getting rid of those dangerous routes along the section from Spanish Town going through Ocho Rios.

Our discussions with China Harbour began about two years ago, since then we have come through a number of different iterations of the project. Earlier this year we signed a concession agreement for the development of this road. And unlike our exiting Highway 2000 project from Kingston to May Pen this project will be fully financed by CHEC in a combination of loans which CHEC will obtain, and equity which CHEC will provide.

Mr. Anderson: So unlike our existing project like Mandela all the way down to May Pen, the Government of Jamaica will provide no funding for the project. The Government of Jamaica will
provide no equity in the project, the Government of Jamaica will provide no guarantee to the project. So this is a fully private sector project being developed by CHEC under a concession designed to, build, operate and finance and hand back to the Government of Jamaica at the end of the concession period which is about fifty (50) years free of cost to the Government of Jamaica.

So as Mr. Lewis outlined and as NEPA has outlined, before we can start we have to have a permit issued by NEPA. And what has happened is, Carlton is going to go into a little bit more detail. We have done an Environmental Impact Assessment of the alignment and we will have the result, which have been posted on the various websites. And today we start the public meetings to get

Mr. Anderson:

the public’s feedback as to the impact and how they can be mitigated.

What I would like to do is to show you the alignment spend about five minutes and get you familiar with the alignment, and then
Carlton will go into more detail as to the impact at this level.

So for those of you who know Kingston, Mandela Highway, picture yourself coming down Mandela Highway.

So just think of yourself going down Mandela Highway, going down Six Miles, going down Mandela going towards Spanish Town—everybody with me?

Participants: Yes.

Mr. Anderson: Right, so we are coming up to Ferry Police Station and this is where the highway actually starts; it starts at Ferry Police Station just at western pipe. So we turn right going through the Caymanas lands—going too fast or everybody with me?

Participants: Yes.

Mr. Anderson: Going too fast?

Participants: No.

Mr. Anderson: Alright, so we are going through Caymanas, we are at the back of Caymanas now, going up onto the hills this is Caymanas Golf Course,
so we are behind Caymanas Golf Course, running behind the Caymanas Golf Course and then we are going over Sligoville Road. So for the rest of you who know Spanish Town this is Keystone, St Jago Heights and Sligoville Road going up to Sligoville, everybody with me?

Participants: Yes.

Mr. Anderson: Right, we are running parallel to the river now this is the Rio Cobre River Spanish Town, Angels over here and we are running parallel to the river. (Let me just stop and show you) So here we have Angels. Everybody with me?

Participants: Yes.

Mr. Anderson: That round-a-bout that you passed at Angels before you get up to the Dam Head, you know when you get up to Spanish Town before you come to that round-a-bout, that is the round-a-bout right here. So the highway is coming up on the eastern side of the Rio Cobre River, the Dam Head is just over here. (Indicating) Everybody with me?
Participants: Yes.

Mr. Anderson: So here we are on the eastern side of the river, and in fact, here we come to our first interchange, which is the connection to Angles. So just above Dam Head we are going across the river to the western side of the river. So we are coming down the eastern side of the river, coming up to that interchange by Angles, coming up to Dam Head, right at Dam Head we go across the river, following me, so we are now going up on the other side of the Gorge now the western side of the Gorge now so we have the road down in the Gorge, we have Flat Bridge down at the bottom, the train line coming up to Kent Village on the right hand side and

Mr. Anderson: we are now on top of the hill above the train line. Everybody with me?

Participants: Yes.

Mr. Anderson: We are going north. So the train line is down here we are going through the tunnel the road through the Gorge and we are coming up to Giblatore on top of the hill. Just
above Giblatore we start going down the hill and go through the round-a-bout. This is the round-a-bout at Bog Walk Condensery, and we gone around the corner around this side now, round by Cranberry Farm, Tulloch Farm by True Juice, around that side, everybody understand around that side now.

Alright so we are coming down off the hill, wrapping around the hillside coming down gently then we begin to come through the cane land around the back. So we are now west of Bog Walk coming up to Linstead now, we are just coming up to the main road, the old main road from Bog Walk to Linstead. And we are going to cross over the existing Bog Walk/Linstead main road right by the Church, right by Customs Azan church. Everybody know where I am?

Participants: Yes.

Mr. Anderson: This is the church right here there is a little hardware store right here, and we come right between here to get back to the
Linstead Bypass. So we don’t trouble the church...

Mr. Ellis: So what about the hardware?

Mr. Anderson: The hardware may get affected. But we come up to the round-a-bout now, this is the existing round-a-bout, this is a few years ago before we finish it, everybody know where we are?

Participants: Yes.

Mr. Anderson: So we are now right in this building right here now. So the highway comes up very close to the intersection so we are in this building and the highway is coming up here now and it ties into the existing Mount Rosser right at this turn. Everybody with me?

Participants: Yes.

Mr. Anderson: Alright. So then we continue along the existing Mount Rosser Bypass the Forth Charles which has been built, pass the mud-lake beginning to climb up the hill now so all of this is now built and is completed so
we are beginning to climb up the hill. From here all earth works have already been done, this is a part of the EIA that we have done in 2007 and have gotten the approval for previously.

So we come along the hillside, this is the small area which is not yet completed, which China Harbour will now finish as part of their project. Come back over unto the St. Ann side all of this is now paved and we are coming up to Faiths Pen. Everybody knows where we are now?

Participants: Yes.

Mr. Anderson: So we are on top of the hill coming up to Windalco, Faiths Pen vendors are around the back, everybody with me and we are continuing it down. So we come pass the community of Faiths Penn, come pass the Alcan Housing, Windalco Housing where the road runs parallel to the highway coming down the hill and then we come under that tunnel, where the road goes under the tunnel. So the highway goes over the
existing road going, Moneague is over here; with me?

Participants: Yes.

Mr. Anderson: And we are continuing down. So all of this is now paved right up to this round-a-bout there. So Moneague is now over here and this is the road to Ocho Rios, the road to Golden Grove, everybody with me?

Participants: Yes.

Mr. Anderson: So this is the entrance of the section that we call it Section 2, the Mount Rosser Bypass section and then we start the final section going down into Ocho Rios. Incidentally some of these, in our proposal we will remove some of the existing round-a-bouts. So you will get to drive straight through without any round-a-bout.

So from here we go all the way down into Ocho Rios so we have Phoenix Park on the left, the old Lydford operation on the right, coming down to the community of Golden Grove. We come just behind that old
house at Lydford Park right here, then we come down to another interchange which will connect us back to Golden Grove, to Phoenix Park to Browns Town that side of the country.

So the alignment then continues down, we have Dunns River on the right hand side and so we have a big reservation, a watershed around Dunns River we are staying out of all that, we cannot touch that. But this is Davis Town, the UDC development and that is right at the back of Davis Town. Then we come back over the highway just below the church, coming back on to the western side of the road going down into Steer Town, and you know the truck route and the car route.

Mr. Anderson: So you cross over the car route, the cars come this way and the trucks go this way. We cross over the roads for the cars and we cross over the roads for the trucks, we come just in front of the Great House, the UDC Great House and we come all the way down to the north coast just where the water wheel is, just pass where the water wheel is. So
we have Laughing Waters over there and the hydropower station over there. Everybody with me?

Participants: Yes.

Mr. Anderson: So, this was just to give you an indication of the alignment where it is, where we expected to pass.

Any questions on that before I hand over to...

Mr. Ellis: Question, how many toll plazas would you be installing between Ferry and Ocho Rios?

Mr. Anderson: Well Ferry – we don’t expect to actually have – unlike the existing highway, where you have toll plazas, you go through the existing toll plazas you pay as you go. What we anticipate is that you will have toll plazas on the ramp. When you get on the highway you pick up a ticket and you drive as far as you want to. And when you get to the other end you pay when you are coming off. So if you are coming on at Ferry and you are coming off at Bog Walk or Linstead then you come through one toll plaza. You
coming on at Caymanas and you are coming off at Ocho Rios then you only go through one toll plaza that is what we anticipate.

Mr. Ellis: And the same thing would happen at Angels?

Mr. Anderson: Exactly. So if you are coming on at Angels you pick up a ticket and you either go Kingston or you go to Coho Rios.

Mr. Ellis: Will there be any exit at Giblatore?

Mr. Anderson: No, We have exits at the main towns and we look at some of them.

Chairman: Thank you, Mr. Anderson. Everyone is now familiar with this route which this road will be taking. The Chairman is supposed to be neutral, but Mr. Anderson said something which I think bears repeating, it is about time that we bypass the Gorge. And this project is intended to do that, but it is also equally important that the public participate in the planning of the project to ensure that when it is executed all your concerns, your issues are heard and mitigated as far as possible. So it is very
crucial for you to participate actively, to listen to what Mr. Campbell has to say about the environmental impact and make your concerns known.

Another thing I would like to happen is that, whenever you have questions you have to identify yourself. So that we know who is talking because this is being recorded and it will form a part of the records.

And I think I said earlier that it was Principle 17 of the United Nations Environmental Programme, it is actually Principle 7 of the United Nations Environmental Programme that the EIA are required by. So not only is it required by

Chairman: Jamaican legislation, by Jamaican law, but by Principle 7 of the UN Charter.

So it is over to Mr. Carlton Campbell now who will take you through the EIA.

Mr. Campbell: Thank you very much, Chairman, members of the head table welcome.
The presentation has an outline of what we want to do for this evening.

Firstly, I will kind of give you a brief synopsis of Highway 2000 and then the north/south link. Give you an idea of the proposed project, the EIA study team, just to give you an idea as to who is responsible. A description of the baseline, environmental baseline, alternative to the project which we must discuss as part of the EIA process; and also the potential impacts and outline the monitoring programme and what we think are the reporting requirements as the project goes on.

Alright the Highway 2000 project is the centre piece of the government initiated in 1989 by the then Prime Minister PJ Patterson.

The main objective is to upgrade the infrastructure of Jamaica, to provide economic growth and create jobs. The project is a public/private partnership which is
structured to minimize operational efficiency and to minimize cost.

The final objectives of the project is to serve as a catalyst of economic activity, provide direct and efficient links between major economic centres and reducing congestion on the existing roads. Reduce population pressures if you have good system then people can live outside the suburb travel into the town do their work and come back out.

Then of course, with any modern motorway then safety is an issue and we design roads to the highest standard.

Highway 2000 north/south link as, Mr. Anderson was saying, it is envisioned that

Mr. Campbell: when that is put in place, it would take approximately fifty minutes from Caymanas to Ocho Rios. As you said, the origin is near to Caymanas estate as you might be aware, UDC over the years plans to have economic zone and an industrial zone located there.
The bypass to Spanish Town as you can see Linstead, Ewarton, Moneague, the total length is about 66 kilometers and it represents an investment of about US$600 million.

The north/south link is a negotiation between Government of Jamaica and China Harbour, to be implemented by Build Operated and Transfer Model. It will connect Kinston to Ocho Rios as we have said before. And it has the potential to greatly enhance the tourism product of Jamaica. It also acts as a catalyst for land development along the highway. So a four-lane toll road with design speeds of 80 kilometers per hour and all. This phase that we are discussing tonight Phase 2A, this is between Caymanas and Linstead, so we will confine our discussions just for that segment. It says four lanes, with fully grade interchange and interception and it is about 27/28 kilometers long. We will have a cloverleaf interchange at the Caymans area behind Ferry Police Station as you saw before. And about
28 crossings have been identified along the alignment.

Of course, crosses include rivers, local roads, railway and also field connectors roads like in the agricultural area.

These crossings will be facilitated by using either overpasses or underpasses and that design is left by CHEC to do. The main toll plaza three intersections and five separate grade crossing and two main crossing across the river.

It is expected that the overall project will – the construction period is about 36 months that is about three years.

Mr. Campbell: The EIA study team is a big list and we had JNHT to do the historical and cultural aspects of the project.

Okay, baseline we looked at the climate we set up three weather stations in strategic locations. One was set up in Caymanas Bay, the other Content, this is on the other side of the river, and one at Cambria farms. Just to get a feel for what the temperature,
humanity, wind speed and direction was, that generally what it is all of those are considered and acceptable and the norm for Jamaica.

Soils and geology which is an important aspect of any roadmap structure; the proposed alignment traverses fourteen (14) soil types, 13 of those have slight to moderate erosive properties. The Bonygate Stony Loam was one of the most predominant; this also is one that is also erosive and highly susceptible to erosion. This is a map that kind of gives an idea and the soil might be hard to see. This is the alignment here running through the different caves and loams.

Theory, we superimposed the alignment on the topography to give you an idea of how the alignment falls. The grades tend to be lower in heights, the sequent meets sea level and as you go up this is Angels off here, this is Giblatore going into Bog Walk you can see the green - the darker green are the higher
location then it comes back down and back on to the agricultural lands.

As part of it, we also look at the catchments around the highway. Total area of catchment is about 466 km$^2$ kilometers they extend as far as Mannings Hills in the east, just outside Kingston, Thetford mountains in the west, Guys Hill in the north, Christian Pen in the south and the catchment is about 31km long and 29-30km wide.

Hydrology is also important to highway progress we also looked at different water sources and recharge areas sinkholes. The alignment traverse, outdated sinkholes and

Mr. Campbell: ten of these sinkholes will remain in a 50m buffer around the alignment. So in total there are about 28 sink holes in which these could possibly be impacted.

We also looked at wells that is important especially as it dwells around Content that those wells lead to the Kingston metropolitan area it would be portable water.
This is a map showing where the catchments are, this is the Rio Cobre catchment, Gordon Spring, and this is the alignment.

The proposed alignment crosses five rivers, four of these alignments are within 4km radius of Linstead Town and the Rio Cobre entrance area. These rivers are known to have floods, they swell rapidly, they overflow their banks under extreme conditions, whether conditions. We listed the rivers here and where you expect the crossings to take place. We have the Jordon Spring which you are aware of, Thomas River, there are two Tributaries, Springvale River and of course the Rio Cobre. Fresh River the alignment does not pass through Fresh River but as you will see later on, part of it goes through the attachment of the Fresh River.

This is a map showing the possible locations of where these crossings will be; and location of the catchment showing the different flows around the highway and in those catchment areas.
Just some pictures to give you some idea. Jordon Spring, which that picture is taken upstream of the alignment, the proposed alignment you have tributary of the Thomas River there, I mean persons might be familiar looking at these pictures. The dry river bed of Springvale River which is closer to the agricultural area; as I have said before, Fresh River catchment, the highway runs in the catchment of it but does not cross the Fresh River. It is also important that we take note of that because the development that is proposed here for the industrial and economic zone.

Mr. Campbell: Two tributaries of the Caymanas Estate was traversed by 2.4 km and 1.2 km in length and they run through Caymanas Estate and the highway crosses those straight terms. One of the important thing is that, when the final development is done, the hydrological study is used in more detailed way to see how the sizing of the culverts is in that area. This is a map showing the catchment of the Fresh River in the Caymanas area; these are some of
the tributaries of the catchment which extends way up, it is in orange.

Okay, the other thing that we looked at was the flood prone areas. There is a study that was done for NROCC in 2007; it highlighted several flood prone regions. It was reported that flooding was mainly due to ponding and overflowing of the Rio Cobre. But also flooding is influenced by blocked drains which limit the transmission of the flood waters through the channels.

Mr. Campbell: Low-lying areas of the citrus and cane fields also contribute to events, swell events because they act as ponding in the wetlands, the same effect as a wetland.

The 2008, this is a picture the Rio Cobre, I am sure everybody has seen this over and over. Below this is the Springvale River where the rubble blocked the culverts, and this is Thomas River coming through Wakefield.

We also looked at the flood events with ODPFM, they also have a data base that
stores flood events and as you can see the major ones here Caymanas area, and this is outside the scope of the highway alignment. Bog Walk, and right around the detail of that area is prone for flooding based on the ODPEM, Office of Disaster Preparedness Emergency and Management.

Another thing that we looked at was the climate change of rainfall. As you know over the years, the climate has been slowly changing and we have to take that into account. We looked at what the extremes were between 1930 and 1988 and compare them with the new extreme look, rainfall data that the met office had for 1992 to 2008. What it has said with that comparison was that there was an overall increase in rainfall intensity; so percentage here, the overall increase has occurred over a twenty-one (21) year period which equates to about .75% to 5.6% increase per decade. I mean climate change in rainfall pattern is a real and present issue; bearing in mind that the design life for the highway is 75 years.
This map shows areas that might have similar rainfalls, the red are the areas that have higher rainfall, and as you can see, the Jordon Spring area, those areas received the highest rainfall.

Quarries are also important, because apart from the cut and fill that we have, some required material for the building of the highway so we have to look at the quarries that are in close proximity and that is listed in the document.

Hazards, landslides, Bog Walk fault zone is fragmented, it will result in unstable slope, potential for landslide is high and if the highway intersects slivers of volcanic rock then the potential will become even higher.

An example here of land slippage; this is another area it is so soft that this gentleman here can push his cutlass right into the material.
We did a landslide vulnerability assessment using GIS, using data from ODPM, road survey, fault lines and soils with the topography to come up with the vulnerability for landslide assessment.

The most vulnerable locations were in the mountainous sections north of Lime Walk and south of Bog Walk. Other susceptible regions were Crescent and Content where it intersects the Rio Cobra. Based on the GIS

Mr. Campbell: this is the map that we come up with on the model. The orange areas are the areas where you have higher lifestyle vulnerability and as you can see right coming off Giblatore into Bog Walk that is an area that you have landslide. This will guide with the whole development and the geotechnical aspect of the project.

There are sinkholes and steep slopes areas that are also important. There may be issues with caves with the sinkholes and the blockage of sinkholes. I mean sinkholes are important in terms of getting water off, run-off so we have to be careful when we are
doing the highway we don't block the sinkholes which will cause potential for flooding.

There is need as we go along to do a lot more geological study as the finalization of the alignment proposed.

We looked at earthquake as a means of risk of the highway, they will take that into the design, the consideration of the design, and

Mr. Campbell: that black box is where there will be a pitch.

We also looked at water quality three exercises were done over different periods at about six locations. The results their PH was consistently above NEPA standard, phosphates and fecal coliform at different locations were exceeding.

Air quality we looked at both the coarse particles and fine particles. Coarse particles are particles with 2.5 micrometers to 10, and the fine particles are the one that falls below 2.5 micrometers. It is important to distinguish between the two as
you will see further down. Sources of the coarse particles crushing and grinding operations, dust stirred up by vehicles. Fine particles sources include combustion, include motor vehicle, power plants, residents burning wood and forest fires that is important in terms of determining in the long term what impact if any the highway, the operation of the highway will have on the area. So what we call it is baseline information so as the years go by comparison can be made.

This is an example of one of the pumps that were used to collect the data for the particles. This is a location where these pumps were set up. And as you can see there is no red, so we are in compliance with the NEPA standard as is.

We also looked at noise, another important thing with the highway operation. We looked at nine locations; these are the nine locations along the highway. And in comparison at the existing noise with the highway with NEPA guidelines the daytime
which is between 7:00 and 10:00 and the
nighttime is between 11:00 and 7:00, as you
can see two locations exceed the NEPA
daytime noise levels and three locations
exceeded the night. And further down we did
what you call a L90 which is statistical
calculation to determine what the background
noise is how much the noise fluctuates. And

Mr. Campbell: if you looked at those locations, for
example, Station 5 is that you have moderate
to large fluctuation, background noise which
is noise that most of the times in that area
was relatively quiet 40.6, but the last
fluctuations brought change that could
possibly be repeated because of vehicles,
people playing music whatever it is.

We looked at the biological aspects of the
alignment Flora, fifteen (15) sites were
assessed, a total of ninety (90) floral
species were found, of the ninety (90) ten
(10) were endemic, that is found either in
Jamaica or either just at that location,
found only in the Caribbean. Ten (10) of
those ninety (90) species is what you call endemic species.

Tree density vary over the alignment I mean the hilly areas tend to have higher tree density.

The vegetation along this alignment shows various forms of human interaction or influence reason being, we have subsistent farming in the hills, major agricultural farming on the plains, some of it is residential areas people building their homes, certain industrial areas and also areas that people go into to get food stuff ackee and the like.

Mr. Campbell: The St. Johns/Red Hills area which is just over this hill is the area with the highest amount of what you call endemism for trees and the plants that is an area of high numbers endemic trees and plants. When they are going to develop in that area, extreme care will have to be taken in that hilly area.
This is an example of some of the endemic plants that were found of the ten (10) some of them you might not know God Okra, broom thatch which is a palm some of them you might have known the mountain cabbage is another plant. These are the areas which did the vegetation analysis along the highway.

These are some of the pictures that were taken showing the different vegetation and alignment. We have parcel land at Caymanas,

Mr. Campbell: we have the Spanish area in Content, this is on the hill at Bog Walk, Giblatore this is how general it is. At first you know, this is the cane citrus area. We went as far as to do some classification on vegetation it might be hard to see here, but if you look at the hard copies you will see it.

We also looked at fauna, birds; we also looked at invertebrates, insects and stuff.

Thirty-five (35) species were species were identified in the area they called Gully Forest it is mostly the first years. Forty-one (41) were observed in the Caymanas, and
the other side got lower numbers. A number of those were endemic species of birds probably they do not require what you call primary forest, the forest were undisturbed. They also strived in secondary forest that people have disturbed already. So the impact of putting a highway is less with those species.

One amphibian was found, reptiles and there is not much arthropod which are in place.

Mr. Campbell: The species that were found were not known to be endangered or in need of any special protection. Therefore standard environmental practices would preserve those species and you would not have to worry that the development of the highway would impact negatively on them.

We also looked at land use, the existing land use and you know that agricultural, commercial and land, you have the motor rally route around here you have the airstrip, you have caves which is important especially in building the highway, you don’t want to build any over caves. People
have burial grounds which are important if the alignment is passes through it then you know we have to exhume the bodies, it is a whole process.

Power lines, one that we spoke about before is important for persons in the Content area especially the Rio Cobre pipeline in Kingston; the telecommunication they have their towers and that is easier to move.

Mr. Campbell: Historically, based on information gained from JHT you had areas where Tainos or what we used to called the Arawaks, areas that they were found. You also had the Spanish who settled after the Tainos and of course the English came after and constructed new roads. Construction of roads, disturbed natural habitat, especially for the agricultural pursuits, and of course the Bog Walk Gorge was constructed in 1770. You have the agroindustry also and of course the sugar estate.

In the future the ones are, of course, we spoke about it the UDC here for residential industrial and I guess as the alignment
progresses then more and more development will happen.

We also went and did a structure survey and along the alignment to see what structures would have been impacted and approximately 220 would be. And we are in the process of handling that aspect, but they vary from stalls, unfinished structures, farms, pens and things like that. Most of them were found between the Crescent Content area and this is a little map that gives you an idea where the structures are found, the channels and stuffs that will be impacted.

Socioeconomic – thirty-three (33) schools were in the social impact area. And I must tell you that the social impact area is an area that we define as 3km around the alignment. We looked at what is in the three kilometers. The average household size is lower than what was in the parish, but higher than what is national, that is in Jamaica.
We expect a thousand (1,000) persons to be employed during the project during site clearance and preparation; four hundred (400) jobs will be created during operation. Within that 3km is approximately two hundred and ninety-three thousand (293,000) persons which, based on the projected growth rate we expected that it will go up the five hundred (500,000) nearly six hundred (600,000) persons during the next twenty-five (25) years if the growth rate continues the same, and that is even more important to have the highway and not to move these people.

Most of the population can be expressed as fairly youthful, mostly of the females and the majority of the population is between 49 years of age. You have more female in the population that is why the sex ratio is 84.7 compared to St. Catherine which is the parish where you have more males than females.

We also looked at the houses they were living in, most persons build one and three bedrooms along that highway. We also looked
at the tenure most persons in the social impact home. A lot of the persons did not report what their ownership was. Increase in residential, as you know, in St. Catherine there has been an increased in housing, that increases the congestion in Spanish Town. Spanish Town is one of the main trips to Kingston from the north coast where most people come through. So the construction we have several benefits to these commuters coming in from the north coast and also people who live in Spanish Town and heading into were getting into Kingston to work. You will have less congestion on the road, safer driving conditions for the motorist and pedestrian, plus a reduction in travelling time it one of the major benefits here.

We should consider the preservation of vehicular access at current intersections at the round-a-bouts. Pedestrians, we should take into consideration people walking from one community to the other and of course the legal rights of persons that has to be respected. Also there are
community perception, 21 communities were visited, just to have a feel of what people knew about the project, what are your concerns. One hundred and fifty-five (155) were administered and about 43% knew of NROCC, not as much knew what their services they offered. But 37% knew about the proposal of this new alignment and then there were concerns and comments relating to the project. They expressed that the toll will reduced the time it takes to travel. They express the existing off roads be upgraded that is one of their wishes. Some of the concerns they highlighted, the possibility of high toll fees, making current access to the areas inaccessible as we had spoken before, the issue of potential flooding is also a current concern.

Cultural and historic sites there were 19 sites, ten (10) shows signs of Tainos. The NHT collected 235 pieces of historical materials from several of the sites, Caymanas was one of the major one, Cross Pen, Content Crescent is across the river,
Dignum Mountain and Harper and Wakefield. They also had a restructure like the Rio Cobre dam pipeline and the railway at Vanity Fair.

We also asked other persons, one other concern was the removal and the opening of new places that was previously inaccessible.

Mr. Campbell: We also, in terms of the material for the building of the highway was also another concern raised, and also the noise, the potential noise impact from the operation of the highway.

Part of the project that you have - when you are doing an EIA you have to look at - the no-alternatives; one of the alternatives that you have to look at for sure is no-action please do not move, leave it as is, don’t do the project. If that was the case, the no action then there would be no user fees for motorist travelling from Linstead. Destruction of natural habitats would be avoided from cutting and filling operation, but you would also have considerable delays
experienced in Spanish area during morning and during the peak hours. Continual delays in the Bog Walk Gorge and the Spanish Town Bypass, Long Detours through Sligoville and Barry whenever the Gorge is flooded because of the disrepair and also the high accident rate travelling through the Gorge. You have maintenance cost and fuel cost because the waiting and in traffic and poor road condition; loss of potential employment opportunities, for communities near to the alignment.

If you look at the alignment as proposed, it is a poor alternative to use the Bog Walk Gorge which of course the Bog Walk is subjected to flooding and congestion. Reduced travel time from the urban centres and residential centres of St Catherine, and other northern and western parishes.

It will reduce maintenance costs for the vehicle and also the fuel cost, and you get better quality road. And you would not have the experience of the traffic congestion in Spanish Town. It also increases in job
opportunities of the proposed alignment during construction and also during the post construction phase of this project.

The improved travelling conditions, destruction of the habitat, especially in

Mr. Campbell: the hills, especially between Bog Walk and Caymanas Bay and also relocation of some residents whose properties will fall within the proposed alignment.

There is also the potential for contamination of ground water; there are several sinkholes in close proximity. The other option is to relocate the alignment to another location but this would have more or less the same socioeconomic issues and environmental and engineering issues which may vary due to the geology and hydrology of the area so it is not a big difference if you relocate it.

Okay, the potential impacts of this proposed project. I will try and go a little faster. You have soil removal of rock blasting during the construction from the clearance
and preparation; you have soil erosion and siltation. And as you can see the mitigation are on the soil just to minimize the impact of those facilities. Different mitigation installs soil erosion and siltation,

Mr. Campbell: instillation of proper dams, removal of trees only where necessary. The Water Resources we looked at mismanagement of the charged areas for the wells and mapping exercise is best to handle that.

We also said that vexation buffer should be installed around sinkholes drainage just to prevent sediments from getting in there and blocking them.

Also ensure that proper culverts and drainage be implemented wherever the alignment passes the surface drains.

Vegetation, we are going to have to limit right away, I mean the highway may increase access, parts of it will be fencing and stuff to prevent people from getting into the previously vegetated areas which they did not have access. We also suggested
incorporating regular intervals engineering solutions which would minimize habitat fragmentation allowing animals and stuff to pass between areas that you would cut them off especially if it is a feeding ground.

Mr. Campbell: Vegetation, the habitat removal disturbance, a proper plan should be developed concerning transporting routes and storage of equipment to be used in construction of the thing. Noise pollution use low emotion equipment operated during the normal working hours, also for the protection of the workers there is a guideline of what you need to wear to gain protection over 80 decibels for over eight (8) hour period.

Air quality air should be damped every 4-6 hours or within reason to prevent dusting. And I said before, minimize areas that you don’t remove the vegetation that will help produce dusting. Cover or wet construction materials to prevent the dusting sites. Solid waste, having a proper solid waste programme in place, having skips and having them collected on time and having them
disposed of in specified disposal areas. Wastewater generation provide portable conveniences for workers when there is a ratio of 25 workers a chemical toilet should be used and also if possible showers.

Mr. Campbell: Storage of raw material you put them up and burn them if to prevent them from being washed into drainage areas. Storage of fuel you also put then in bondage area so that if the container leak then it would contained and also you need to label the containers so that persons know what are stored in those containers. Transportation of raw material, the appropriate signs flagmen, coverings, you carrying heavy equipment of course you try and do them off peak hours, early morning or late, late nights. Emergency response it is important at every construction site there is the potency to have accident. So a lead person would have to be identified for the safety issues and then you would have to have a nurse or a local doctor who is on call and material with the data sheets which are sheets that
tells you what the chemicals are how
dangerous they are and also how to handle

Mr. Campbell: the. And also to make prior arrangements
with the hospital in case an emergency comes
up.

Workers safety, the necessary safety
equipment the scaffolding if you are doing
the excavation and there are certain
guidelines that needs to be followed.

Traffic management the delivery of the
construction material and stuff that needs
to be done with the community persons in
mind in terms of mining the delays and also
in terms of the weight of the truck, the NWA
has a guideline to prevent damage to the
roads. And also if you are doing traffic
diversion you must identify far in advance
the public must be informed.

Cultural and historical I think one of the
things that will have to be done is that the
NHT will have to be alongside during the
site clearance so that if any artefacts
that turn up they can take them and handle them.

Mr. Campbell: During the operation phase potential of natural hazard design the highway to deal with flood events, earthquake and such.

Climate change take into account that extreme rainfall has been increasing so in terms of designing the opening and bridges and the culverts then that needs to be taken into account. Landslides as pointed out, are areas where there are potential landslides, there are engineering things that can be done geotechnical study to determine how best to approach it and I sure know that those will be done.

Debris flow, sediment, trees tend to flow down into the gullies, to reduce the impact we say put in check dams temporary or permanent constructed across a channel or drainage ditch and sedimentation basins to reduce it.
Emergency response these operations you need to know the routes, adequate signs and stuff to determine the areas.

Mr. Campbell: Noise to conduct annual noise assessment part of the EIA you would need a noise monitor to determine what impact the noise would be during the operation of the highway and so that determine how best to minimize the impact on the residents. Cumulative impact which is the noise that the highway would produce and we added back to our existing noise in our communities. There are certain areas that would have exceeded the limits Content, over Dam Head, Banbury, Vanity Fair and Giblatore over the daytime and then you have nighttime you have Waterloo, Obama Heights, you have Content and Dam Head Banbury, Vanity Fair and Giblatore and for those areas then, of course, the appropriate noise things would have to be put in place.

Air Quality, we don’t anticipate much training with it based on the volume. Run-offs there would be an increase and there is
some calculation with the increase; so the engineer would take that into account in terms of how to handle the runoffs from the highway. There is a monitoring in place now during the construction, site clearance and construction; there is a list that we have drafted that we have submitted. During inspection we have to ensure that construction is not occurring during working hours, not creating any dust nuisance, and there is also a list of responsibilities people who will need to be responsible to ensure that these are done and where possible.

During the site clearance and the construction phase we take the water quality sampling. We also looking at the trucks carrying raw material to make sure that they are covered and they are not dirtying up the place along the way and also not falling along the road.

Look at the soil waste being generated make sure that the appropriate things are in
place for the workers and ensuring that suppliers of the quarry material are licensed, only licensed quarries will be used, and also looking at the refueling and repairing of equipment on site. Of course, as I said before the traffic management system has to be in place to minimize any impact or delays on the public and of course, the source employment from within local communities. Operation phase, we look at the sinkholes and the rivers and the culverts to ensure that there are no impediments that my cause flooding. And checking the road structure and also noise monitoring and water quality monitoring; and if there are any reporting requirement that we think can be avoided, occupational noise, I mean workers in the toll booth. Air quality and for the areas around and of course the water quality and we have listed some of the parameters that we think is important to test.

Thank you very much. (Applause)
Chairman: Thank you Mr. Campbell. We had a very detailed report from Mr. Campbell. I guess it is consistent with the magnitude and importance of this project.

Just a procedural matter before we go on to question and answer for people who have not signed the register; just raise your hand and someone will bring around the register to you so that we don’t want a mad rush to the register. So for those who have not signed the registered someone will bring the register to you.

And remember for the questions, you are to identify yourself and the mike will come to you. So when you get the mike you identify yourself so those are just some procedural matters.

So we are coming on to the possible the most important part of this presentation and the real reason why we are here. There are no foolish questions; Mr. Hilton said that in his prayer, there are no foolish questions.
So feel free to ask any question because as usual we expect people to be respectful and curious in their dialogue, but there are no foolish questions.

Now I will ask that you have us sit during the question and answer because I am neither youthful nor female as Mr. Campbell said in his survey. He noticed that most people were either youthful or female I am neither. He is a little more youthful but I don’t think he will mind sitting either. So we will sit during the question and answer session here so please wait until you are recognize I will have to figure out a way to recognize people. So the question answer session is now open.

**QUESTIONS AND ANSWERS SESSION**

Mr. Ellis: Good evening everyone, my name is Henry Ellis, and I am from the community of Charley Mount. When Mr. Panton read his deposition, he mentioned that it will not be a question and answer session; however, I am glad that it is.
Chairman: Let me just clarify. He said NEPA will not be answering any questions.

Mr. Ellis: Oh NEPA will not be answering any questions. Okay thanks for the clarification.

Okay, Mr. Chairman, some questions came about as a result of Mr. Campbell’s presentation. Let me first say that on behalf of my community we are happy for the development and we would hope that it be taken off with expedition. However, the first question that comes to my mind is the land acquisition and the relocation of residents who actually fall within the highway parameters. When would this begin, where would you relocate people to? And of course, in a great development like this, I would like some light to be thrown in that area? Two other questions and I will give you back the mike. This watershed area...

Chairman: Let us try to answer that question first; we are not so young so we cannot remember all of them so we prefer to answer them one at a
Chairman: time. The first question you asked was about the relocation...

Mr. Ellis: Land acquisition and relocation, yes.

Mr. Anderson: We did not talk so much about the timeframe but let me tell you what time frame we are working with. We expect to be able to start construction somewhere next year in October. So between now and next year October we will be doing land acquisition, the surveys will be going on, we have surveyors out, the engineer designs will be done we are getting the necessary approvals all of that will proceed the actual construction taking place.

So in relations to land acquisition, we have a team already we have a team we call independent valuators who will be in the field carrying out valuations of properties. And basically there are three types of a persons that we will encounter, people who will have titles for their properties, people who will have claim to the property they may not have the title in their name,
Mr. Anderson: they may have a grandfather or a grandmother who have died and left the property so they have claim to the property but not necessarily be in their names. And then you have people who are on the properties without any claim to the property, squatters as we typically call them or informal settlers.

The objective of the property is to try and make sure that nobody is any worse off than they were before. So people who have titles to properties are straightforward. The valuators will come sit with the people negotiate and agree with the acquisition of the property and they will be paid and arrangement made and they take possession of the property.

Mr. Ellis: But, Mr. Chairman, please, sir, I mean you are just going to pay the people?

Mr. Anderson: We will come to an agreement with them. In all the cases that we have operated, most people accept cash rather than relocate but
Mr. Anderson: there are different options. So that is for people who have titles.

For people who don’t have titles but who have claim to the property what we do is we do an assessment of the structure whether the people are building chicken coop, pig pen, farms, crops whatever is on the property and what we do is to pay the people at current price for the building that they have on the property to allow them to relocate the building. Once they are able to go through the process and get titles for the property then we pay for the land. Similarly, for people who don’t have claim for the property informal settlers, we compensate the people in the same way for the building that they have and the property at current value which will allow them to relocate.

Mr. Rose: Mr. Anderson, Sydney Rose Counselor. I am just correcting you’re something, because you mentioned something about the Parish Council which you have not mentioned just
Mr. Rose: now in respect to assisting the person through LAMP so you need to tell them about that aspect.

Mr. Anderson: As Mr. Rose just explained, there are also people who as is mentioned in the category who don’t have titles, they have claim to the property like a grandfather or a grandmother or a relative who have died and left it to them but they don’t have title. So there is a process in going about in getting the title, through LAMP, LAMP is one of the government agencies that help people who are going through that process. So we will work along with the person along with LAMP to assist them to get titles for the property and therefore allowing them to get paid for the property.

Mr. Rose: Pertaining to what he has just said and what Mr. Anderson has answered, in respect to the next year, but it is a phase that is going to be taking place and I think some land acquisition is currently being done.

Mr. Anderson: Right, so we actually have not started the land acquisition yet. But as Mr. Rose said
that over the next year, we are going to be doing evaluation and beginning the acquisition; we don’t actually begin until we have an agreed sign-off from NEPA that the project is okay and we have a permit and then we have a finalized alignment. What we have now is a general alignment it is approximate where it will be, but based on surveys that are now being done, the designs that CHEC are doing, the alignment may shift slightly where it is. So right now we are beginning to process, we have some evaluators out there, there are some areas where we are more confident in terms of where the alignment is and others, and those we will begin as soon as possible hopefully before the end of the year we will start having that discussion with people.

**Mr. Ellis:** Mr. Anderson, having observed that this highway is going to take out a number of trees along the path throughout the whole journey, I would ask sir that as much as is possible especially large trees that two trees be planted for every three that is dug
up along the highway. This is a watershed area, you know, and we depend on it right so we want to have the watershed destroyed along the highway.

And finally, I notice that they have what is known as ‘asphalt team’ paving the roadway nowadays...

Mr. Anderson: Have what?

Mr. Ellis: ‘Asphalt teem’ these are residue that the last product from - rather it is the residue which has been sanded and lit and oiled and they used it and pave the potholes and all those type of stuff. I would ask that China Harbour does not think of using ‘asphalt teem’ but get the good fish from Trinidad mix it with sprit and build the road properly.

Thank you very much, sir.

Chairman: Thank you very much. Any more questions.

Mr. McKenzie: Thank you very much, Chairman, Belford McKenzie from SDC. First I would just like to commend the group for engaging the
community because we believe that community participation is key to any development that is taking place. I just want to, on the matter of the noise pollution, there got to be some restriction pertaining to the working out because I know there are times when plumbing do take place, you leave home for work when you get back 9:00, 10:00 o’clock they are still doing some work creating some havoc, so we must monitor that because I know that whatever it is there some guideline in that, but the monitoring of people at times break down. And as I speak to monitoring I think the community-based organization should be included in the process of monitoring because they are there and understand what is happening and therefore they must be included to give feedback as to what is happening on the ground. And I just want to find out, if you are passing through the Caymanas area are

Mr. McKenzie: you going to have such an intervention there when you meet with the residents also in
Sligoville just as how you are here in Linstead?

Mr. Anderson: Let me answer the last question first. This is the first of a series of meetings that we expect to have. We will have smaller and smaller meetings in smaller groups and what we try to do in the smaller groups is to identify maybe two or three people who will liaise directly with NROCC or with the developer to ensure that if there are any issues that come out of the community that those issues can be brought forward and can be resolved. In terms of the noise issues as part of the permitting process we have restrictions in terms of times when the developer will be able to operate and those we expect to enforce stringently.

Mr. Campbell: Just to answer the part about community organization. As part of the monitoring plan we have rules and responsibility for the citizens association to help with the monitoring of some of those things. As I rightly say they are there you know and they are the ones who are being impacted so they
will let you know if something is going wrong.

Mr. Ferguson: My name is Robin Ferguson I am from the Rose Hall Community. The tolled highway I don’t know if you have worked out all the tolls yet, but say for example between Caymanas to Linstead how many tolls you expect in that route?

Mr. Anderson: As I had indicated a little earlier even before you came in, the highway will be a little different from what we have now, it would be what we call a close processing and you won’t be driving through toll plazas like how you drive through Vineyard or you drive through May Pen along the mainline. What will happen is that when you get on to the highway, whether you get on to Angels or you get on to Caymanas you get a ticket and you drive as far as you want and when you are getting off you hand the toll collector the ticket and they will tell you how much you owe. So you won’t be going through a series of toll plazas when you get
on you get a ticket and when you get off you pay.

Ms. Page: Good evening everyone. I am Heather Page, I am from the community. I would just like you to recap, Mr. Anderson, exactly where the road is going to be. You mentioned Vanity Fair right at the church at the hardware, and that it is to the highway that was prepared before. I need to have it clear in my mind; I don’t know if everybody here knows exactly where it runs?

Chairman: While Mr. Anderson goes back to his computer, to show you again, we can have another question.

Mr. Hilton: Charlie Hilton Bayside Citizens Association President. Looking at the designs and all of, one thing that comes fresh in my mind; you have these various rest stops, for example, like Juicy Patties down at the round-a-bout, at Bog walk, where people

Mr. Hilton: would normally be coming from the north coast and they will stop sometimes not just to buy patties but to relieve themselves. I
have not seen on the design so far wherein you are going to have like rest stops, because travelling the toll that we presently have now, one can easily look forward into going to the toll plaza to relieve themselves; And take into consideration the - a lot of people have diabetes and you know they cannot hold their urine for long, you know, so we need to think about like rest stops along the way.

Mr. Anderson: Just to say that we expect that along the highway possible in the location where you see the Mount Rosser toll plaza will be that we will have a major rest stop that will have bathrooms all other major facilities.

This is the area you were asking about. This is about the church where we come across. So, this is the corridor we are trying to come through, this is the church, this is the hardware store, this is the fire station up north, I think the hardware is going to be affected but the fire station and those properties north of it won’t be affected and
the church won’t be affected, it will come through a very narrow corridor through here. One thing I know, we talked about it earlier, just back to the Linstead Bypass and down to join back Mount Rosser, we have the hardware rightward here, the intersection where we have the stop sign and we come back right here.

Mr. Ellis: So where do you join back to the round-a-bout?

Mr. Anderson: So part of what we are doing is to redesign all of that area, so you are not going to go through a round-a-bout right here we are talking about just driving straight along the highway, you won’t have to go through any round-a-bout, the round-a-bout will remain for the connection going back to Charlie Mount, going back to Thread-way we call it. So you come to the round-a-bout and

Mr. Anderson: go right but the highway will connect back you back to the Linstead Bypass closer to the train line. Everybody with me?

Participants: Yes.
Mr. Anderson: So people coming out the existing Linstead Bypass will come to the intersection and goes under the highway and continue on their way, they won’t be affected by the highway at all. People going into Burmaddy to Mullock, up into that community will come down come through the traffic light into the town there come through the round-a-bout and go right. The highway will go over the existing road.

Mr. Ellis: So what you are saying, Mr. Anderson is that most of this highway will be elevated then, like what happen abroad?

Mr. Anderson: Most of the highway will be on the ground, but where we are coming across the existing road, it is either the road will be elevated from the highway or the highway will be elevated from the road.

Mr. Perry: Yes, Mr. Chairman, thank you very much. My name is Brian Perry I represent the Linstead development area committee. I hear you made mention earlier about the Bog Walk Gorge but the question I have, you bypass the Bog Walk Gorge but we will pay to bypass the Bog Walk
Gorge. So for persons who cannot pay to bypass the Bog Walk Gorge will still have to use it. Why we have to pay to bypass the Bog Walk Gorge.

Mr. Anderson: Yes.

Mr. Perry: So if you cannot pay to bypass the Bog Walk Gorge and there is problem with rain and flooding you are still stuck in Bog Walk Gorge?

Mr. Anderson: You will use the same alternative that you have now, you go Slygoville or you go Barry.

Mr. Perry: Mr. Chairman, sir, the alternative is no alternative right now because the last shower of rain we really had the two alternatives was blocked, so the alternative is no alternative now.

Mr. Anderson: So you use the highway then.

Mr. Perry: This might seem like a laughing matter or a joking matter but it is not. It is a serious issue because the Bog Walk Gorge, we see a problem the two alternative routes is a problem. Now we are talking about a bypass
but you have to pay to use that bypass if you cannot pay to use that bypass and there is heavy rain you are still stuck in that Gorge.

Mr. Anderson: I think you are asking the wrong people. There are two agencies that are responsible for that, the National Works Agency and the Parish Council those are the companies that you would have to ask.

Mr. Perry: So your company would not look towards that one you have to talk to those agencies on that one?

Chairman: Yes you have some councilors here but we won’t take that up right now.

Mr. Rose: But what I can tell you Chairman, that an appropriate arrangement will be worked out with the highway in case of an emergency.

Chairman: Could you repeat that Mr. Rose because I don’t think that everybody understood what you are saying.

Mr. Rose: I am saying that appropriate arrangement will be worked with the government and the
people who own that highway if and when an emergency occurs in respect of flood or something of that nature.

Mr. Headley: My name is Earl Headley and I have some property nearby here in Vanity Fair and I came in late so I heard the lady’s question about the direction the highway is propose to take. I am sure you might have gone over it but just to facilitate me could you show it to me Caymanas and move into Vanity Fair.

Chairman: I missed the name, sir, but we really sympathize with you for coming in late but we really can’t deal with that right now but we will show you on the map after so that we don’t hold up everybody.

Mr. Headley: No problem with that.

Chairman: Afterwards, during the refreshment we will show you that since we went through that already.

Mr. Dares: Thank you very much Herbert Dares Councilor for Linstead. I just have a slight fear that - friends are thinking that the highway will
cause excess water to get on the Bog Walk Gorge or any one of the alternatives and I am here saying I don’t think so hence the question that was asked before.

Chairman: Which question was that?

Mr. Dares: Re the blocking of the - if the Bog Walk Gorge is blocked and the two alternative routes are blocked - I am here saying that I sense that people are thinking that the highway will cause excess flooding and I am saying no. And I just want to say that the highway is not an alternative for the Bog Walk Gorge, you know, it is not an alternative for the Bog Walk Gorge, it is a highway that is going to be built to allow one to move freely up and down.

Mr. Dares: alternative for the Bog Walk Gorge, it is a highway that is going to be built to allow one to move freely up and down.

Chairman: Thank you councilor Dares, there is a lady up here.

Ms. Harvey: I am Nicole Harvey; I am a resident of the Byndloss, beside Prochoice Hardware. If residents have any damages to their homes who can they talk to in case there is damage? Because when the previous company
was constructing the road I had damages to my property and there was no one for me to go to. I have cracks in my wall even on the floor there is damage so there is one one for me to go to so who can I go to if there is more damage because I don’t think my house can take any more damage.

Mr. Campbell: Miss Harvey what is normally done in projects like these when you are close enough and the potential for damage pertains to your building that a structure survey is conducted before hand to see what it is and during the works you have any problem then we can look back and see it works was responsible for the structure being damage. In that case at the end of the day then I think the developer would check and NROCC would in fact be the person that you would have to complain to, but I mean to protect both sides, I would suggest that when you are close enough to a structure a structure survey is done to assess what the present condition of those structures are before the work is done.
Chairman: To help Ms. Harvey, suppose she has a concern about her proximity how does she go about it?

Mr. Anderson: Just to say two things in terms of Mount Rosser Ms. Harvey we did a – we went through and we took photograph of every house before blasting commence. So if you have an issue then we take note of it, the contractor have not being released from their responsibilities at Mount Rosser. So we before we start we take picture of the house inside if it has damages et cetera. When it is finished we do the same thing we take pictures and we compare the pictures after with the pictures before and if there are any cracks which appear on the latter set of pictures which were not there before then the contractor has that responsibility of fixing them. If you still have the problem we can have the contractor come back - but as I said we have pictures before and we have pictures after.

Typically we do within one kilometer - 800 meters on either sides of the road, we take
pictures of every house within 800 meters on either side of the roadway where we are doing blasting, and as I said we have a pre-blast survey and we have a post-blast survey and we compare the two.

Mr. Ellis: Thank you very much, Mr. Chairman, you mentioned in your presentation, Mr. Campbell, that a rhinella what is a rhinella?

Mr. Campbell: I am sorry that is something outside of my scope in terms of the fauna, and the persons are not here but I can find out exactly what it is. But I can find out and give you that information.

Mrs. Page: Good evening again, I notice where this project is privately managed by China Harbour, and it is noteworthy that you are going to have employment here. But is there any ratio as to the Jamaican employment as against Chinese people from China because they are also people here who also have the know with all, so is there any understanding unless privately owned Jamaicans we would
like to be assured that there is a percentage and there is some consideration as to amount. So I don’t know if there is any China Harbour person can.

Mr. Anderson: Thank you and that is an important question and there is absolutely no truth to the rumor that we are going to have all Chinese workers, but at no point in time we are going to have more Chinese – let me not say Chinese – but more expatriate than Jamaicans on the site there is a maximum level of one to one there cannot be no more than one to one at a maximum. We don’t expect it to get to that in fact in the case of When Bouygues was doing their operation we had more than 90% of the workers were actually Jamaicans, but in the case of CHEC, at maximum we don’t expect to get to it but at maximum is no more than one to one.

Mr. Anderson: to one at a maximum. We don’t expect it to get to that in fact in the case of When Bouygues was doing their operation we had more than 90% of the workers were actually Jamaicans, but in the case of CHEC, at maximum we don’t expect to get to it but at maximum is no more than one to one.

Chairman: Just a follow-up to Mrs. Page there, is there a procedure, I know some people here would be interested in that for Jamaicans who have an interest in getting employment for them to follow, I mean who they contact
or how do they go about it, people from this area.

Mr. Anderson: You are asking about how people go about employment.

Mr. Deng: It is difficult for me to finalize how many workers will be employed in the future but China Harbour and the locals will be a one to one but I am sure the locals will be more than Chinese because you know that China is half a global from here so we at China Harbour we will take the skilled workers here.

Mr. Deng: Harbour we will take the skilled workers here.

Mr. Rose: What about the labourers?

Mr. Deng: Yes labourers.

Mr. Anderson: As CHEC begins to move into the construction phase, is that CHEC will have local liaison people working with them and so people who are looking for employment can interface with those local liaison officers.

Mr. Grant: Hello, goodnight everyone my name is Raphael Grant, I am from Bayside I am a home owner, if this project should go through my home
who can I talk to and at what point. I see people do it so I would like to know.

Chairman: Well I think that was answered already.

Mr. Grant: Sorry I came in late.

Chairman: So we will deal with you after I am not being rude but we started at a certain time...

Mr. Grant: I understand.

Chairman: So you know, we could answer that one privately afterwards. But I will just tell you quickly, they did survey, that is it.

Mr. Anderson: Mr. Chairman, we are also going to be publishing some notices we will be going out into the field and putting up notices of all the people that we think we may affect so right now about 180 parcels on this side that we think will be impacted we will be going around putting up notices on those properties that we think we will affect and that is when the discussion will begin.

Mr. Grant: And about when will you start?

Mr. Anderson: Over the next two months you will see the notices going up.
Mr. Hemmings: My name is Alston Hemmings, I am presently resided in Charley Mount Housing scheme. I am concerned about the river training. Will China Harbour be doing river training in the Jackass fording area closer to the Byndloss Gully, because as a young boy I remember that area being flood prone during the flow of rains? And I noticed that your EIA assessment only cover some twenty odd years so when I examined the area that runs adjacent to the Charley Mount housing scheme there are some outlets that are directly deposited into that stream and I am afraid that area is a flood prone area and houses are likely to be impacted there.

I want to know if China Harbour intends to go into extents river training in that area.

Mr. Anderson: Let me talk generally rather than talk specifically about these areas. As Carlton outlined the developers are now doing an engineering hydraulic design so we will look at the whole catchment area how much water we expect and how we can pass the water onto the highway. With all the drainage
structures on the highway the life of the drainage structure are typically designed for a hundred year span. On the south fall side where the water passes under the highway those are areas that we have to be looking at carefully to make sure that all

Mr. Anderson: the outfall of the area can take the water which is passing under the highway and that is where if we need to do any river training to improve the outfall areas then those would have to be dealt with at the same time.

Mr. Hemmings: I don’t know the engineering aspect of it but you said if we need to do any?

Mr. Anderson: Yes.

Mr. Hemmings: And I am saying that there are some twelve outlets right now coming off the highway even in its incomplete state that it is having a direct impact presently. So I think some amount of looking in needs to be done right there.

Mr. Andersons: Thank you.
Chairman: I am not rushing you, you know because this is the most important part of the programme.

Mr. Gilmore: Good evening I am Scott Gilmore from Cambria Farm. When I was looking on when you go through Cambria it seems to me that you are going at the lowest point. And I am wondering you will have to build it up and that would also affect the other farmlands, I don’t know if you could reroute it on a higher ground.

Mr. Anderson: I think in fact we actually - our technical consultants were actually out in the areas with Mr. McConnell on Monday looking on this very same issue where if we adjust the alignment point it is going to take us down to the lowest point. So all of those issues are issues that we are looking at now as I said it is just a preliminary alignment that we have there are some tweets that have to be done as we look at individual areas and the characteristic of those areas.

Chairman: Are there anyone else, I have not heard any foolish questions yet, you know.
Mr. Ellis: Mr. Chairman, when it comes to Vanity Fair, the major development which will have to take place there will be like overhead bridges which will go over the main road from Linstead to Builders area and also the train line. So the question here now, Mr.

Mr. Ellis: Chairman, are we going to reroute the traffic onto the highway out there to bypass that area or what will be done with that?

Mr. Anderson: This is the existing leg of the bypass coming down going towards Ewarton, this will not change everything will be exactly the same.

Mr. Ellis: Right where there is Vanity Fair where you go over – well near to the church and the hardware.

Mr. Anderson: At Vanity Fair as I said we go over the existing road there is a railway line right beside it and we go over both of them at that intersection.

Mr. Ellis: One big bridge.

Mr. Anderson: One big bridge over both.
Mr. Ellis: So at that time you will reroute the traffic onto the highway there?

Mr. Anderson: You mean temporary diversion - we will have to do some temporary diversion but once the construction is finished the road will continue as usual and the railway will continue still.

Mr. Ellis: But Mr. Chairman, this won’t have anything to do with the new developers but that Linstead Bridge cannot take no more traffic and so we are asking that something be done.

Chairman: The one at Vanity Fair, the politicians are here that is an existing problem for them. The NWA needs to look at that Vanity Fair.

Mr. Ellis: I am tired of talking to them about it.

Mr. Rose: Well we have spoken to them about it already they have done an assessment and they are waiting some financing to do some work on it. The structure of the work is good, it need to be taken up and painted but the structure is good. I have been assured by
Mr. Francis that very soon when the financing is in place, it will be done.

Chairman: I think they are asking also for pedestrian access. But that is not for this meeting. Are there any more questions.

Mr. Rose: One thing, as a counsellor Mr. Garret and myself is accessible and we will be volunteering in every respect from a parish council perspective, and as individuals please free to contact us and we will give our support.

Chairman: Thanks for the assurance, sir.

Ms. DaCosta: My name is Simone DaCosta from Bog Walk, I think my question relates to the end of the highway leading on to Mandela. Is it possible to view that image on the screen?

Chairman: You said your name was Ms. Dacosta, we showed that before and we will show it to you again...

Ms. Dacosta: My question is, and this is a question that we are going to face, we actually accept the bypass leading into Kingston for people
living in Ocho Rios and Linstead Bog Walk. But we need to understand that the highway is going to be leading off faster traffic going onto Mandela which is a minor highway we already have the existing problem with

**Mr. DaCosta:** the highway leading off from Mandeville and Spanish Town going on there which is causing a big bottle neck right there in the mornings. How do we address this problem because these are two major highways leading on to a small highway?

**Chairman:** Mr. Anderson will speak to that but there are two independent roads, he answered it already before you came but a new leg will be put in, you will be exiting on the north beside ferry police station going through the Caymans land so there is no interaction with what is happening so you will be going over the road. Did I answer it properly Mr. Anderson?

**Mr. Anderson:** I think she is asking about traffic at Mandela coming out of Kingston going towards Spanish Town. So there are two things that are going to be in the works, NWA I know
have plans to widen Mandala that is in their long term planning I am aware to change Mandala from four lanes to six lanes. But in the short term as part of the CHEC Mr. Anderson: Development we are also going to be looking at some of the issues that affect traffic going into Kingston especially in the mornings.

Ms. DaCosta: Yes, because actually that is going to is a major area right there waiting for future development of the UDC.

(Electricity went)

Chairman: I don’t know when this power will be coming back, so in closing let me thank you all for coming and I believe the exchange was good, the information was good and I expect that NROCC will keep us informed as we progressed. It is a huge project US$600 million, a lot of engineers were involved so a lot of the issues that were spoken about involve engineers which will come out in the detailed engineering. And the output of this meeting I think the seven days that the
consultants have to get its report into NEPA, and you have thirty days up to thirty (30) days that you can write to NEPA with any issues that you have with this presentation that was done today.

Chairman: So you have thirty (30) days if you can send a written submission to NEPA.

So let me thank you all for coming and we are supposed to have refreshment and all of that. I don’t know if the 4-H has a back-up generator.

So thank you all for coming do travel safely home and we expect that we will continue to be involved in the public participation in this project. So thank you all. (Applause)

*Adjournment taken at 8:00 p.m.*
“Beyond ‘Win-Win’ and the Menacing Dragon: How China is Transforming Latin America”

by

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Introduction

In the eight years since Hu Jintao’s November 2004 trip to the Asia-Pacific Economic Cooperation (APEC) summit in Santiago, Chile, China’s expanding engagement with Latin America has profoundly changed the region. The transformation is far more significant than the Chinese motorcycles and car dealerships in Bogotá, Lima and Santiago; the Lenovo computers now commonly found in Latin American offices; and the now ubiquitous Huawei and ZTE cell phones. It is much more significant than the self-instruction CDs and books in Mandarin now available in street vendor kiosks, or the thousands of containers marked China Shipping,

1 The views represented are those of the author, and do not necessarily reflect those of the Center for Hemispheric Defense Studies or the U.S. Government.
COSCO, Pil, or Hanjin on view in Latin America’s ports and on its highways. Beyond these basic symbols of new commerce, China’s transformation of Latin America includes the new China studies programs at its leading universities, and the new physical infrastructure connecting the region to the Pacific. Less apparent, but perhaps more significant, China’s impact is recognizable in the shifting priorities of Latin American business and government leaders. This trend belies statistics indicating the United States is still Latin America’s number one investor and trading partner. Finally, even more subtle but significant are changes in the way countries in the region are relating to one another as a consequence of China’s regional engagement.²

A great deal of research has been done in recent years on China’s engagement with Latin America, whether it constitutes an opportunity or a threat to the region, and what it means for the United States which is bound to the region in human and economic, as well as geographic, terms. From a Latin American perspective, the question is often framed in terms of whether the new commerce with the People’s Republic of China (PRC) hurts established manufacturers; permits new revenue, investment and financing streams; and, on balance, whether it will serve as an engine of the region’s development, or of its deindustrialization.³ From a U.S. perspective, the question is how China’s expansion into Latin America will impact the position of North American companies and the U.S. political and economic policy agenda toward the region. Some look at the advance of China from the perspective of grand strategy: pondering whether behind China’s “innocent” commerce with the region lies more nefarious long-term designs for the political or military dominance of the region, and through the region, to maneuver against the United States.”⁴

Surprisingly, almost none of the growing literature on the commercial or national security dimensions of the new China engagement directly addresses the question: “How is enhanced Chinese engagement in Latin America changing Latin America itself?”

The present essay is focused precisely on that question. It finds that China’s engagement with Latin America is transforming the region and its dynamics in important and multiple ways, including impacts on the internal economic, political and social structures of the region, as well as on the dynamic between the states of the region and the region’s supranational institutions. At the national and subnational level, Latin American engagement with the PRC and its companies and institutions is:

- transforming the priorities of youth and educational institutions

² Survey and other statistical data is employed where available, but in general, the arguments flow from my own experiences and research, as I have followed China’s expanding engagements over the past eight years, including firsthand interviews and research in the majority of countries in the region. Correspondingly, the responsibility for any errors in fact and leaps in logic are mine alone.
³ See, for example, Kevin Gallagher and Roberto Porzecanski, The Dragon in the Room. Stanford, California: Stanford University Press, 2008.
reshaping the agenda of businesses and their institutions
altering the balance between domestic manufacturing and primary product exports
and inserting Chinese entities as players in domestic politics

At the supranational level, China’s engagement with Latin America impacts relations between states, with significant and often contradictory consequences for the dynamics of the region and its processes of integration. It is:

transforming the physical infrastructure of the region and domestic patterns of commerce
diluting the relevance of the U.S. government and companies
expanding the political and economic breach between South America, Mesoamerica
enabling the rise of Brazil and driving its strategic engagement with its neighbors
sustaining the Bolivarian block ALBA (Bolivarian Alliance of the Americas) beyond the point of its logical evolution
and fueling a strategic Atlantic-Pacific split between the nations of Latin America

This essay seeks to present China’s impacts on Latin America in clear and concise terms by highlighting some of the significant ways in which China is transforming the region. The engagement is principally a product of Chinese companies pursuing business interests of strategic importance to the PRC as it expands economically in the context of a global world economy. Such interests include the search by Chinese companies for reliable access to primary products, such as petroleum, metals and agricultural goods, to meet the current and projected demands of its customers. Chinese companies also focus on developing new markets for its products and services, including goods in strategically important sectors such as autos, heavy machinery, computers and telecommunications, as well as services such as construction projects and loans. It is difficult to find an actor in the region, either at the national, supranational, or subnational level, whose interests are not affected by the new role of China in the region.

The Impact of China on Latin America at the National and Subnational Level

Whether or not the PRC consciously strives to do so, its engagement with Latin America is reshaping the economic, social and political dynamics of individual countries of the region.

Youth and Educational Institutions

Across Latin America, the sense of China as the “wave of the future” is palpable. In a PEW research survey released in June 2012, 27% of those surveyed in Brazil indicated that China was currently the world’s leading economic power, versus 43% who afforded the mantle to the United States, and almost double the number who answered China just a year earlier. PEW Research Center. PEW Global Attitudes Project Question Database. http://www.pewglobal.org/question-search/?qid=992&cntIDs=&stdIDs=. Accessed June 19, 2012.

The sense of China as the future is particularly evident among Latin America’s youth. I am repeatedly struck as I interact with students in the region in university-sponsored conferences
and other fora by Latin American students’ interest in investing considerable time and effort to learn Mandarin Chinese, and seeking opportunities for internships or work in places such as Shanghai, Guangzhou and Beijing. For the best and brightest of Latin America, such cities have taken on an aura once held by New York and later by Silicon Valley, where business pioneers can achieve great fortunes on the weight of their competence and long work hours.

Behind such youth are their equally-enthusiastic parents. With surprising frequency, senior Latin American business and government figures with whom I have had the fortune to interact are seeking Mandarin-language instruction and study-in-China opportunities for their children, in order to prepare them to take advantage of the opportunities represented by the emerging China. In an informal survey administered by this author to 42 mid-level professionals from across Latin America, while they were in the United States for a course sponsored by the U.S. government, 48% responded that if they had the financial means, they would have their children study Mandarin Chinese.

At the institutional level, leading Latin American public and private universities recently have taken steps to create or expand China-oriented business or area-studies programs, and to incorporate formal Chinese language programs. These include the Centro de Estudios China-México (CECHIMEX) at the Universidad Nacional Autónoma de México (UNAM), the Centro China-Brasil at the Universidade Federal do Rio de Janeiro (UFRJ), the Centro de Estudios Sobre a China at the Pontificia Universidade Católica de São Paulo, and the Centro de Estudios Latinoamericanos sobre China (CELC) at the Universidad Andrés Bello in Chile. There are also a number of new or expanded Asia-Pacific studies centers in universities in the region, including those at the Instituto Tecnológico de Monterrey (ITESM), the Universidad EAFIT in Medellín, Colombia, the Escuela Superior Politécnica del Litoral (ESPOL) in Ecuador, the Universidade de Brasília, the Universidad de Buenos Aires in Argentina, and the Universidad de Chile, to name but a few. In many more cases, new or expanded China studies programs have been incorporated within existing university departments. Examples include the international studies program at the Universidad de los Andes in Bogotá, the Council for International Exchange of Scholars (CIES) research center at the Universidad ICESI in Cali, Colombia, and the China studies masters program at the Universidad de San Francisco in Quito, Ecuador.

A key indicator of the growing interest in such programs has been the expansion of Confucius Institutes, which represent a partnership between the Chinese government and an individual university for Chinese language and cultural studies. From the opening of the first Confucius Institute in Latin America in Mexico City in February 2006, a total of 21 have been established in the region.7

While the number of China studies programs in the region is still small, they reflect a significant re-orientation in the intellectual focus of the region, which, in turn, feeds the ongoing process of

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growing intellectual awareness of, and attention to, China. All these developments are further accelerating the economic and other bonds now forming across the Pacific.

The New Agenda of Latin American Business

It is difficult to find a company in Latin America that does not have the PRC on its radar screen in one form or another, either as a market, a source of funding or investment, or as a competitor. Latin America’s leading executives, such as Brazil’s Eike Batista and Chile’s Andrónico Luksic, are known in part for their zeal toward the Chinese market. AméricaEconomía, one of Latin America’s leading business journals, dedicated its August 2011 cover story to the experiences of Latin American businesses entering the Chinese market.

The annual China-Latin America business summit, alternately held in Latin America and China, routinely attracts hundreds of business executives from the region. Similarly, hundreds of Latin American business executives regularly travel to China for the opportunity to represent their products at expositions, such as the bi-annual Canton Trade Fair, by paying thousands of dollars each to travel to China on dedicated business expeditions, or paying even more to China-oriented consulting firms which facilitate transactions for Latin American and other companies wanting to import goods from China, or more ambitiously, selling their goods to the Chinese market.

At the aggregate level, business associations, such as the National Federation of Businessmen (FENALCO) in Colombia, and the Industrial Federation of Rio de Janeiro (FIRJAN) in Brazil, are increasingly active in inviting China experts to their meetings, and providing services to facilitate efforts by their members to “get smart” regarding the PRC.

While the United States and Europe continue to be in the business plans of such companies, it is China that increasingly commands their attention and their resources, either because they see China as an opportunity or as a threat.

The New Dominance of Primary Product Exports

In general terms, growing trade between Latin America and China has been a story of an expanding dollar volume of Latin American primary product exports to China, and an expanding volume of increasingly-value-added manufactured goods from the PRC to Latin America. The profitability of Latin American primary product industries has attracted capital to these industries, reinforced by Chinese companies that have invested in these industries in pursuit of secure global sources of supply to meet the current and future obligations of their clients. Large, high-profile examples include the acquisition of Brazil’s Peregrino oil field in 2010 for $3.1 billion by the Chinese company Sinochem, Sinopec’s injection of $7.1 billion into Repsol YPF’s Brazil operations, the acquisition of a 30% stake in Galp in Brazil for $5.2 billion, the acquisition of the Argentine company Bridas by China National Offshore Oil Company (CNOOC) for $3.1 billion, and the acquisition of Occidental Petroleum’s Argentina operations for $2.5 billion.

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among others. Lesser acquisitions made by the Chinese, with the intention of injecting significant new quantities of capital into the field, include the Toromocho, Rio Blanco and Galleno mines in Peru, the holdings of Corriente in Ecuador, Emerald Energy and Omnimex in Colombia, and Itaminas in Brazil, among others. Chinese firms have also purchased concessions to develop new mineral deposits and oilfields, including almost $40 billion in investment commitments in the Orinoco oil region of Venezuela, and multiple new oil blocks in Brazil.

As a consequence of these patterns, Latin America’s extractive sectors have prospered and expanded, while its low-end manufacturing has withered. In the Brazilian case, analysts have bemoaned what they refer to as a process of “deindustrialization.”\(^9\) It is true that Latin American agricultural exporters such as Brazil and Uruguay have made headway in exporting higher value-added goods to the PRC, such as chicken, pork and beef, while some Latin American manufacturers have survived by purchasing factor inputs from Asia, or outsourcing component production to less expensive areas, such as the PRC.

In general terms, however, the rise of China in Latin America has highlighted the role of primary-product exports, and whittled away at manufacturing, which served as the engine of modernization and the backbone of political and social movements for two generations. Ironically, with the partial exception of Brazil, Argentina and Mexico, the return to a primary-product-export economic model has been supported by ruling elites whose macroeconomic figures and associated tax revenues have been buoyed by expanded commodity exports, allowing them to maintain fiscal solvency while funding programs for key constituencies.

The process driven by China not only involves changes in the economic structure of the region, with the associated social impacts of displaced companies and workers, but also involves a return to historically-strong alliances between primary-product export sectors and political leaders, partly at the expense of organized labor and manufacturing interests.

**The Impact of Chinese Companies and Projects on Latin American Domestic Politics**

One of the newest and most significant impacts of the PRC on Latin America’s domestic political dynamics has been the physical presence of Chinese companies on the ground in Latin America. In the mining and petroleum sectors, Chinese companies such as CNPC, Petrochina, CNODC, Minmetals and Chinalco are moving forward to develop assets that they previously obtained the rights to exploit through a combination of acquisitions and negotiations with governments.\(^10\) Chinese companies have tended to use their own petroleum-service companies and engineering companies to develop the properties that they have acquired. Examples include the use of the Chinese firm Kerui in Colombia by Mansrovar Energy, jointly owned by Chinese

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\(^10\) Chinese companies have generally acquired rights to mines and oilfields through acquisitions, negotiating with governments only where there was already a strong political relationship (e.g., Venezuela) or an established presence in the sector (Brazil with respect to the working relationship with Petrobras).
and Indian interests, and the use of Great Wall Drilling by Emerald Energy in Colombia, after the latter was acquired by the Chinese firm Sinochem in 2009. It also includes the use of CPEB Chanquing and other Chinese petroleum-service companies in Ecuador by China National Petroleum Corporation (CNPC) following its acquisition of the Ecuadoran assets of the Canadian firm EnCana in 2006. Major Chinese petroleum projects in Venezuela (Junin 1, 4, 8; Boyaca 3; and Mariscal Sucre), and mining investments in Ecuador (Ecuacorriente), Peru (Marcona, Toromocho, Rio Blanco, Galleno and Pampa de Pongo) and elsewhere are likely to use Chinese subcontractors and large quantities of Chinese labor as well.

Beyond mining and petroleum, the explosion of Chinese bank-financed infrastructure and resort projects in the Caribbean and the Andes is fueling a wave of work by Chinese construction companies and workers in the region. An estimated $75 billion in such loans have been made over the past two years, with the use of Chinese companies typically a key condition for receiving the funding. Finally, in Brazil and other large, usually southern cone nations, Chinese companies are beginning to construct final-assembly facilities and distribution networks in these countries to support the expansion of sales in the region in strategically important high-value-added manufacturing sectors such as autos, heavy equipment, computers and telecommunications. Examples include: assembly facilities by the Chinese carmaker Chery in Venezuela and Argentina, with plans to construct an additional plant in Brazil; heavy equipment manufacturers Sany, Zoomlion and XCMG; and the construction of technology parks and training facilities by the telecommunications firms Huawei and ZTE.

In virtually all of these cases, the investment itself and its subsequent execution have become objects of contention in domestic politics over issues such as the number of Chinese workers brought in, concessions given by the government and the environmental impact. In the Bahamas, for example, the number of Chinese laborers authorized by the government to work on the Bahia Mar resort complex the amount spent by the government to prepare the site with roads, water and electricity, and the question of selling the Grand Bahamas Port Authority semiprivate regulatory organization to the Chinese port operator Hutchison-Whampoa have all become major issues of debate in the two-party political system of the country. Similarly, the number of Chinese workers at a concession granted by the Ecuadoran government to the Chinese firm Tongling to develop a new open-air mine in Zamora-Chinchipe became the object of national protests in March 2012, including the brief occupation of the Chinese embassy in Quito and a march on the capital by environmental and indigenous groups. And in Suriname, an initiative by the firm China Zhang Heng Tai to produce palm oil on a 40,000 hectares (98,000 acres) plantation in Marowijne briefly became the center of a national debate, with local residents vociferously opposing the project on the grounds that Chinese laborers would displace local workers.

Like previous generations of Western companies that invested in the region, when a Chinese entity is established in a country, it causes an impact on relations with the local labor force and community. Prominent examples include threatened work stoppages at the Chery auto factory in Montevideo and ongoing labor unrest at the Shougang Hierro Peru mine in Marcona, including a September 2011 strike that commanded national attention when the Peruvian Vice President personally carried the demand of the miners to the Peruvian congress. In some cases, the disputes have given rise to large-scale violence, such as the takeover of the Andes Petroleum

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27 While it is difficult to find cases where “China” has become the defining issue between political candidates in Latin America, it has become integrated in the political discourse.

Thus, in multiple ways, Chinese companies in Latin America are becoming relevant actors in the Latin American domestic political context, deliberately or inadvertently influencing the political environment in which they operate.

**Impact of China on Supranational Dynamics**

In addition to changing the political, social and economic dynamics of individual Latin American countries, China is also affecting how those countries relate to each other and to the broader set of international players.

**The New Physical Infrastructure Connecting Latin America to the Pacific**

Expanding trade with China and the rest of Asia has accelerated the growth and improvement of infrastructure connecting Latin America to its Pacific coast, with associated implications for the strategic geography of the continent.

Virtually every major Pacific-coast port in the region has been the focus of expansion plans from Manzanillo and Lázaro Cárdenas in Mexico to Buenaventura in Colombia, Callao in Peru, and Iquique and Valparaíso in Chile, among others. Expansion plans have included new terminals, cranes and other facilities, as governments, port operators and investment groups position their facilities to become key hubs in the new commerce with Asia. Formerly low-volume ports, such as Manta and Machala in Ecuador, and Ilo and Paita in Peru, have become the targeted outlets for improved routes across the Andes into the Amazon, or points of access to new mines and oilfields further inland. While some port projects, such as La Union in El Salvador, Farfan in Panama and Manta have stalled short of completion, the mixture of successes and failures only serves to highlight the dynamism with which attempts to connect the continent to Asia are going forward.


Beyond the ports themselves, interest in commerce with Asia has also given new life to road, rail and other infrastructure projects linking the interior of the continent to its coasts. Ironically, the core set of projects was conceived and implemented by Brazilian President Henrique Cardoso as a tool for expanding Brazilian influence among its neighbors, and officially adopted by the broader community of South American leaders in 2000 as the “Initiative for the Integration of the Regional Infrastructure of South America” (IIRSA). Prominent examples include “bi-oceanic” corridors from the Pacific coast of Peru at Ilo and Paita, and from the Ecuadoran port of Manta, to the interior of Brazil, and that from Iquique, in the north of Chile, across Bolivia, to the south of Brazil. Although progress on such projects was initially slow because of the enormous investment required, the importance of connecting the continent to take advantage of the new commerce with Asia has helped to propel such initiatives. The southern bi-oceanic corridor from the ports of San Juan Marcona, Matarini and Ilo in Peru to İnapari in Brazil was inaugurated in December 2010. The Bolivian segments of the Chile-Bolivia-Southern Brazil corridor were nearing completion in June 2012, while the northern “inter-oceanic corridors” from Paita in Peru, and the Manta (Ecuador)-Manaus (Brazil) corridor are complete except for several difficult to construct sections through the Amazon swampland.

A range of smaller, but equally important, infrastructure projects are also part of this same logic, including the “dry canal” railroad upgrades from the Atlantic to the Pacific coast of Colombia and the associated “trans-Colombia” pipeline. Contemplated extensions of each may ultimately connect not just coal- and oil-producing regions in the east of Colombia, but ultimately Venezuelan resources and markets to the Pacific coast across Colombia. Still other projects driven by this logic include improved highway connections over the Andes Mountains between Argentina and Chile, and a possible Russia-funded rail line across Nicaragua from Monkey Point to Corinto.

The transformation of the region’s infrastructure also includes the expansion of the Panama Canal, driven in part by the economic logic of accommodating the larger volumes of larger ships transiting from Asia to, and through, the Americas, as well as repeated attempts to develop a second canal through Nicaragua.

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The net result of the new infrastructure is a region that is more connected, and whose interior is more accessible. While this has positive implications for commerce and state presence, it also expands opportunities for criminal activities, making remote jungle areas more accessible for narcotics labs, illegal loggers and other activities, while bringing previously-isolated indigenous tribes and other groups into greater contact with others in the region.

The Diminishing Influence of the United States in Latin American Politics

Latin Americans are giving ever-less importance to the United States with respect to their domestic political environment. In a 2011 Latinobarómetro survey, just 10% of respondents ranked the United States as the country most exerting leadership in the region, with just 3% of Uruguayans, 2% of Argentines and 1% of Chileans ranking the United States as most influential.\(^{39}\)

At the level of Latin America’s leadership, such diminished importance of the United States was evidenced by broad support in the region for the formation of new multilateral institutions that exclude the United States, including the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC), as well as the “hijacking” of the May 2012 Summit of the Americas to discuss Cuba and the legalization of drugs—issues that the United States almost certainly would have preferred not to have been at the top of the agenda. The declining weight of the United States was also evidenced by the decision by newly-elected Brazilian president Dilma Rousseff to travel to China long before meeting with her U.S. counterpart, and the willingness of Colombia’s President Juan Manuel Santos to publicly embrace new economic and security ties with the PRC, and to advocate drug legalization after more than a decade of Colombia’s being the main U.S. security partner and its largest aid recipient in South America.

It is important to note that the PRC is not “competing with the United States” for the loyalties of Latin American governments, as did the Soviet Union in the Cold War. The current dynamic is more indirect and subtle, and arguably more effective. On the one hand, as discussed in further detail later, the financial solvency of anti-U.S. regimes is increasingly underwritten by Chinese loans, investments and commodity purchases, giving them time and resources to work against the U.S. agenda in the region. On the other hand, the rise of China as a global power, its potential role as a customer, investor and loan provider, and the simultaneous economic stagnation and fiscal difficulties of the United States, leads many Latin American nations to view the United States as but one partner among many, and not necessarily the most attractive one.

The New Divide Between South America and Mesoamerica

Expanding interactions with the PRC increasingly highlights the difference between Mexico and the northern-triangle nations of Central America, whose economies and political interests are closely tied to the United States, and the rest of Latin America, whose extra-hemispheric relationships are diversifying more rapidly, led by commerce with Asia. While Chinese goods

have penetrated Mexico and Central America as extensively as other parts of the region, exports from these countries to the PRC, multi-billion dollar Chinese investments there, and the symbolic trappings of close political bonds with the PRC, have not matched the levels found in South America. In trade terms, in six nations of South America, the PRC has surpassed the United States as the country’s number one or number two trading partner, while in Mexico and the northern triangle, the United States retains the lead by a significant margin.40

With respect to Mexico and the northern triangle, the PRC has arguably approached this area cautiously because of its geographic proximity to the United States, and because five of the six nations in the hemisphere continue to diplomatically recognize Taiwan as the legitimate government of mainland China.41 Reciprocally, the relationship of these countries with the United States has been reinforced by economic structures such as the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA), as well as remittances sent to these countries from families living in the United States, among other human and economic bonds.

In the case of Mexico, the war against transnational criminal organizations launched by President Felipe Calderón in 2006 has deepened the country’s security relationship with the United States, while at the same time distracting it from its traditional leadership role in Latin America.

While these dynamics have played out in Mexico and the northern triangle countries, South America’s relationship with the PRC has expanded significantly, thanks to the growing business of exporting petroleum, minerals and agricultural goods to Asia, plus investment and financial benefits from China that have particularly suited the political agenda of the ALBA countries and the developmental and supraregional political agendas of Brazil.

The forces described in the preceding paragraphs have propelled South America in a very different direction from that of Mexico and the Northern Triangle states, with the former increasingly displaying a China-led “internationalism,” while the latter remain bound to the United States in a relationship largely dominated by security and immigration issues. This distinction may, however, become more blurred in the case of Mexico, whose newly inaugurated president, Enrique Peña Nieto, has announced that he plans to give the economic relationship between Mexico and the United States more importance.

**The Rise of Brazil and its New Strategic Interest in its Neighbors**

The coming of age of Brazil in the previous two decades as a dominant actor in South America with global aspirations has owed much to its expanding relationship with the PRC. Exports of iron and soy to China have funded a key part of Brazilian growth and helped it to escape the global recession of 2008-9. While the contribution of China to the rise of Brazil itself may be considered a “national level” impact, the manner in which engagement with China has impacted

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41 The problem is compounded by the absence of well-organized, primary-product export industries in these countries with goods to sell to the PRC.
Brazil’s engagement with the rest of the region is analyzed here as a supranational impact. Funds from China, including the $10 billion loan to Petrobras in 2009, and the injection of another $7.1 billion into the Brazilian oil sector through Sinopec’s investment in Repsol Brazil,42 have played an important role in the development of the Brazilian oil sector. Moreover, as the Brazilian economy has grown, the new importance of Asia has increased Brazil’s interest in neighboring states—particularly Peru, which separates Brazil from the Pacific coast of the continent, as well as Panama, whose canal-widening project has had a powerful impact on the logistics costs of Brazil’s commerce with Asia.

Brazil’s growing strategic interests in its neighbors on the Atlantic coast are arguably also associated with its expanding commerce with Asia. The export of soy and other agricultural goods from the interior of Brazil via the Paraguay and Paraná river corridors adds strategic importance to Brazil’s relationship with Paraguay and Argentina, through which those rivers flow. Meanwhile, Surinam and Guyana provide access to the vast tract of jungle in the north of Brazil, which the Brazilian government has traditionally regarded as a potential object of foreign encroachment. For this reason, the $6 billion project to expand the port of Paramaribo and build a road from the port into the north of Brazil43 has strategic as well as commercial importance for the country.

The Extended Life of ALBA and its Shadow Over the Region

Although the Chinese state has been very careful not to associate itself with the anti-western agenda of the ALBA, the funds and planning support provided by its banks, and the products and investment of its companies, have allowed regimes such as those of Venezuela and Ecuador to avoid financial insolvency while consolidating and seeking to expand their revolution.

In the case of Venezuela, the $38 billion in loans given by China Development Bank and the Industrial and Commercial Bank of China (ICBC) not only provided liquidity to the Chávez regime to fund its social programs without having to address rampant corruption and mismanagement, but also paid for Chinese products and services that have helped the Chávez regime meet near-term political challenges. Such support included credit to purchase 3 million Chinese Haier-brand appliances to distribute as part of the state social program “My Well-Equipped Home.”44 Similarly, Chinese loans funded construction work on thermoelectric and hydroelectric power plants in January 2010 when the government was confronted by political protests associated with power shortages and blackouts.45 Most recently, Chinese loans

42 “Sinopec to Invest $7.1 Billion in Repsol's Brazil Unit” Bloomberg. http://www.bloomberg.com. October 1, 2010. Other deals, such as the $3.1 billion acquisition of Statoil’s Peregrino field by CNOOC, Sinopec’s acquisition of a 30% stake in Galp, and its January 2012 acquisition of two deepwater oil blocks from Perenco should not be considered investment in Brazil, because the capital was not injected into the Brazilian oil sector, but used to acquire ownership rights that could be used in a possible later investment.


45 The thermoelectric facilities to be constructed in Venezuela by Chinese companies include the 772 MW facility El Palito in Carabobo and a 200 MW facility in Aragua by Sinohydro, the 500 MW El Vigia facility in Merida by
have funded construction of low-income housing by the Chinese company CITIC, to help the Chávez regime overcome an acute housing shortage. Finally, Chinese loans are helping the Venezuelan government meet its portion of investment commitments to develop the oil and mining sectors, whose revenues ultimately generate the capital to keep the state afloat. Beyond the $38 billion in loans, however, is an additional $40 billion in potential future investment, including the development of the Junín-4, Junín-1, and Junín-8 oilfields, MP3, Boyacá-4, and the Mariscal Sucre offshore gas deposits. Without these revenues, it would be increasingly difficult for Venezuela to meet its future commitments. These investments push China’s contribution to the Chávez regime to almost $80 billion.

While these impacts primarily occur at the national and subnational level, they also have supranational impacts, to the extent that they enable the continuity of Venezuela’s role as the leader of the “Bolivarian Socialist” movement in the region, and other direct and indirect influences on its neighbors, including the impact on the politics of the Caribbean through the oil subsidy program “Petrocaribe,” the programs of the Venezuela-led ALBA bloc, Venezuela’s role in persuading Ecuador and Bolivia to purchase Chinese military and space technology, and Venezuelan support for left-oriented political movements throughout the region. Supranational effects also include the role of the China-Venezuela relationship as a “model,” illustrating to other countries in the region that Chinese loans and capital may be used as a “substitute” for Western investors and financial institutions, if those governments choose to pursue policies in opposition to these entities, such as loan defaults, radical changes in terms for resource concessions given to Western investors, or the expropriation of their property.

As in Venezuela, China has also supported the Ecuadoran government through a series of loans, including separate $1 billion deals in 2009 and 2010, each secured by future deliveries of Ecuadoran oil, as well as financing for the Coca-Coda Sinclair and Sopladora hydroelectric projects. When other loans and projects are included, the PRC has provided Ecuador with almost $8 billion in credits to date, with more funding in the pipeline, including possible participation in the $13 billion “Refinery of the Pacific.”

On the investment side, Chinese petroleum firms, including China National Petroleum Corporation, have operated a series of oil blocks in the north of the country since 2005, and is

Currently one of at least four Chinese firms operating in the country. Such firms are positioned to take the lead in developing the new ITT oilfields underlying the environmentally-sensitive Yasuni parkland, if the government chooses to allow drilling there. In the mining sector, the Chinese company Tongling purchased the Ecuadoran assets of the Canadian company Corriente, and is poised to make a $3 billion investment in an enormous new open-pit mine in the department of Zamora Chinchipe under the new Ecuadoran mining law.

In Bolivia, although Chinese support has been more modest than in Ecuador and Venezuela, it has made a number of gifts of military and customs equipment, and has provided support for the development and launch of the country’s first satellite. CiticGouan has made a modest investment to develop mineral deposits in the Coipasa salt flats, and Chinese participation in a hydroelectric project in the eastern part of the country is possible. Moreover, interest from Chinese banks in lending funds for the development of the El Mutú iron deposits has been an effective tool for the Bolivian government in its negotiation with the Indian firm Jindal, which currently holds the contract to develop part of the mineral fields.

When taken together, Chinese economic support for Venezuela, Ecuador and Bolivia, however separate from the political activities of these regimes, has reshaped Latin America, providing the core regimes of ALBA with the funds required in the short term to pursue their economic policies and political projects. At the regional level, as noted previously, this has translated into support for complimentary political and social movements in other Latin American countries, and has impacted the economies and politics of the Caribbean through Petrocaribe. There have been lesser impacts on South America through the regional media organization Telesur and the regional banking organization Bancosur. The facilitation of Iranian entry into the region has also been important.

Chinese economic support and involvement has also served as an indirect enabler for the promotion by the ALBA countries of a family of supranational institutions that exclude the United States, such as UNASUR, and CELAC, which the Venezuelan government of Hugo Chávez played an important role in founding.

**The New Atlantic-Pacific Split**

Perhaps the greatest impact of China has been to inadvertently advance the emerging split between nations of the Pacific coast of Latin America and those of the Atlantic. While the dichotomy has its exceptions (e.g., Ecuador), the states of the “Pacific” have generally adopted a

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52 These were China National Petroleum Corporation (CNPC), Andes Petroleum, Petroriental, Sinopec, and CPEB Chanqing Petroleum.
pro-market, free-trade approach in relation to the opportunities and challenges represented by the emergence of the PRC as an economic actor in the region. They have generally emphasized lowering tariffs and transaction costs, generating a stable and predictable investment environment to both attract Chinese investment and trade, and to serve as a bridge between Asia and other parts of the hemisphere.

The new “Pacific Alliance,” which held its foundational meeting in Paranal, Chile, in June 2012, is the clearest manifestation of this new grouping, with Mexico, Colombia, Peru and Chile as full members, and Panama and Costa Rica as “observers” that may choose to join at a later time. It is illustrative that all three of the Latin American states to have signed free trade agreements with the PRC (Chile, Peru and Costa Rica) are in this group, as well as Colombia, which recently announced its intention to begin negotiating such an agreement. It is also important to note that the new Pacific Alliance signatories have made significant progress in a very short time in agreeing to specific types of collaboration and common structures in areas related to commerce with China, such as trade promotion and investment protection.

In contrast to the new “Pacific Alliance,” the states on the eastern side of Latin America face the PRC with decidedly less market-oriented approaches. This includes Brazil and Argentina, which have each raised tariffs and taken other measures to block the entry of Chinese and other goods into their markets. It also includes Paraguay, which remains largely frozen in diplomatic and economic isolation, as well as Bolivia and Venezuela, each of which has prioritized the state over the private sector in national development.

Such differences do not imply that the states of the Pacific Alliance will automatically outperform the rest of Latin America vis-à-vis China. Indeed, the substantial markets and resource endowments of the Atlantic-facing states may attract more Chinese loans and investments than their Pacific-facing counterparts. Yet whatever the near-term outcome, the rift of economic, and to an extent, political ideology that is forming down the center of the South American continent is only likely to deepen as the continent expands its relationship with the PRC.

Looking to the Future

It is important to acknowledge that the transformation of Latin America is driven by a number of factors associated with globalization and the emerging new world order and is not caused by China alone. Such impacts are not deliberate, nor do they reflect nefarious intent. As noted previously, the pursuit of secure sources of supply by Chinese companies can be interpreted as the pursuit of legitimate strategic objectives, and the attempts by the Chinese government to coordinate this process is an understandable, if often imperfect, exercise of statecraft.

Nonetheless, the rise of the PRC and its engagement with Latin America as one region among many with which it is engaged, has played, and will continue to play, a role in the development

of Latin America. Chinese trade and investment with Latin America are changing the economic and social structure of the countries of the region and permeating the prevailing discourse of students, business executives and political leaders. Chinese companies are increasingly present on the ground in Latin America, impacting and impacted by decisions taken by Latin American governments. At the supranational level, both the reality and the concept of China are affecting the way nations of the region relate to each other, from sustaining the block of Bolivarian socialist countries, to shaping Brazil’s engagement with the region, to accentuating north-south and Atlantic-Pacific splits in the politics and economics of the region.

This essay thus closes with the consideration of three factors that are critical in anticipating the specific ways in which China’s engagement with Latin America will continue to impact the dynamics of the region at the subnational, national and supranational levels: Chinese learning, the exercise of soft power and the sustainability of Chinese growth.

**Chinese Learning**

As China deepens its engagement with Latin America, including the new physical presence of Chinese companies in the region, all actors are in a phase of accelerated learning about the others. Chinese companies are learning how to work with the complex bureaucracies of the region, including participation in Western-style bid and proposal processes, relating to Latin American labor forces and relating to national and local governments and to communities. Their ability to manage such interactions effectively will influence the degree to which China’s expanding engagement in the coming decades gives rise to conflict and stalemate, or whether Chinese and Latin American partners are able to form constructive partnerships.

**Reaction to China’s Exercise of Influence**

As China’s physical and financial footprint in Latin America grows, its interests in protecting its people, operations and sunk investments in the region will grow commensurately. It is unlikely that the PRC will intervene militarily to protect these interests, because such action neither fits the Chinese “style” historically, nor its strategic interests in avoiding conflict with the developed nations upon which it depends for the technology, markets and international financial mechanisms upon which its “reemergence” as a major global power depends.

The PRC is, however, likely to use its loans and investment in Latin America to access its markets, as well as other forms of “soft power,” to persuade Latin American governments not to act contrary to the interests of China’s people and companies. China’s 2010 “cutoff” of soy oil imports from Argentina is an example of the combination of forcefulness and subtlety that may be expected in this approach. China’s leverage, and its sophistication in applying it in the Latin American context, will only grow over time.

In the long run, China’s success in using its growing leverage subtly and effectively in the Latin American context will determine whether it will be able to protect its interests and secure its objectives through a series of small victories, or instead, be forced into a choice between
abandoning its interests or using a “heavy handed” approach that could polarizes major segments of the Latin American public.

**Sustainability**

Lethargic growth rates in the United States and Europe for the foreseeable future mean that the PRC must adapt its economic strategy if it is to sustain the high growth rates that its own leadership has said are important for maintaining domestic order. In the short run, this probably means even greater emphasis on dynamic middle-income markets, such as those of Latin America, and by extension, growing alarm and resistance from threatened sectors. The prospect of a new global financial crisis also looms large, with the debt-driven collapse of the old European order. Chinese banks, already carrying significant questionable debt from their participation in the infrastructure-oriented stimulus package associated with the last global financial crisis, would be unlikely to sustain their demand for capital goods as they did in November 2008 with their $586 billion infrastructure-oriented internal stimulus package. In the face of a new global recession, in contrast to that of 2008, Chinese demand would probably be unable to shield the nations of South America from a drop in commodity demand and associated prices, thereby seriously impacting the region and calling into question the perception that its ties with the PRC “insulates” it from the vagaries of the developed-nation economies.

Nonetheless, even if a global financial crisis is avoided, over the long run China must transition away from an export-led growth model to one more driven by internal demand in order to sustain stable, long-term growth.

If this transition is successful, the political and economic implications for Latin America would be highly positive, with the invasion of inexpensive Chinese goods gradually giving way to collaborative production of globally-destined products, as well as greater opportunities for Latin American companies to sell to a now-substantial PRC middle class. At the same time, however, although a new generation of industrializing nations would probably sustain the mantle of commodity demand, it is likely that Latin America’s primary-product revenue stream would fall off to some degree.

On the other hand, if China’s transition to an economic model that is more reliant on internal demand fails, Latin America will suffer. China’s failure could produce a China-led global financial crisis, a significant loss of dynamism in commodity-export markets and the drying up of Chinese loans for Latin American infrastructure projects. Those regimes that have most ardently defied Western markets and financial institutions would be among the hardest hit.

The purpose of this essay has been to move beyond the prevailing discourse over whether China represents an opportunity or a threat to the nations of Latin America and to help us understand the fashion in which it is impacting the region. It has argued that such impacts are neither necessarily deliberate nor nefarious; nevertheless, China’s engagement is impacting both the

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discourse and the socioeconomic structures of the countries with which it engages, and is transforming the manner in which those countries relate to each other. Although there are many possible outcomes, in the metaphor first postulated at the beginning of this article, China is both the panda and the dragon, offering both win-win trade and investment options, while also threatening the region’s socioeconomic stability and U.S. strategic interests. The mixture of outcomes will depend on the skill and wisdom with which Latin America manages these challenges.

Evan Ellis is professor of national security studies, modeling, gaming and simulation with the Center for Hemispheric Defense Studies at the National Defense University. His research focuses on Latin America’s relationships with external actors, including China, Russia and Iran. His work on the topic includes the book China in Latin America: The Whats and Wherefores, as well as 41 articles in magazines and journals over the past seven years. Dr. Ellis has presented his work in a broad range of business and government forums in the United States, Latin America, Europe and Asia, and is a frequent lecturer at the U.S. Air Force Special Operations School and other defense department institutions. Miguel Perez, assistant to Professor Ellis, did research for this paper.

All statements of fact or expression of opinion contained in this publication are the responsibility of the author.
THE RISE OF CHINA IN THE CARIBBEAN: IMPACTS FOR REGIONAL SECURITY

A thesis presented to the Faculty of the U.S. Army Command and General Staff College in partial fulfillment of the requirements for the degree

MASTER OF MILITARY ART AND SCIENCE
Strategic Studies

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Approved for public release; distribution is unlimited.
The Rise of China in the Caribbean: Impacts for Regional Security

The People's Republic of China (PRC) intensified its relations with Caribbean states in recent years. The Caribbean community is now embracing a growing and purposeful Chinese presence utilizing all the elements of "soft power" and instruments of national power-diplomacy, military assistance, and economic development to strengthen its strategic alliances within the region.

The expansion of China may undermine United States (US) geopolitical dominance in the Basin which has the potential to create gaps in the areas of traditional security cooperation such as border security, law enforcement, military affairs and security policy and strategies.

In the context of US geopolitical interests and Caribbean security, this study seeks to explore China’s motives and ascertain whether any gradual erosion of US geopolitical influence in the region may affect longstanding assistance and cooperation in treating with traditional and current non-traditional threats to Caribbean security; specifically transnational criminal organizations and terrorist networks.

Does China pose a realistic threat to the U.S. in the region? Will current trends pose a conceptual or realistic challenge to the existing balance of security in the Caribbean Basin?
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<td>AOR</td>
<td>Area of Operations</td>
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<tr>
<td>CARICOM</td>
<td>Caribbean Community</td>
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<td>Combined Arms Research Library</td>
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<td>CBSI</td>
<td>Caribbean Basin Security Initiative</td>
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<td>CDB</td>
<td>China Development Bank</td>
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<td>CHDS</td>
<td>Center for Homeland Defense and Security</td>
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<td>COA</td>
<td>Course of Action</td>
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<td>COCOM</td>
<td>Combatant Commander</td>
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<td>CRS</td>
<td>Congressional report Service</td>
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<td>DIME</td>
<td>Diplomacy, Information, Military, Economic</td>
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<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
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<td>IADB</td>
<td>Inter-American Development Bank</td>
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<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
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<td>IMET</td>
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<td>LAC</td>
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<td>NADR</td>
<td>Nonproliferation, Anti-terrorism, Demining, and Related Programs</td>
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<td>NSC</td>
<td>National Security Council</td>
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<td>Acronym</td>
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<td>OAS</td>
<td>Organization of American States</td>
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<td>OECS</td>
<td>Organization of Eastern Caribbean States</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>SIDS</td>
<td>Small Island Developing States</td>
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<td>Third Border Initiative</td>
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<td>TCN</td>
<td>Transnational Criminal Network</td>
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<td>TOC</td>
<td>Transnational Organized Crime</td>
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<td>UN</td>
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<td>USSOUTHCOM</td>
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<td>WMD</td>
<td>Weapons of Mass Destruction</td>
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CHAPTER 1
INTRODUCTION

Chronic wrong doing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.

— The Roosevelt Corollary, “United States Becomes a World Power Policing the Caribbean and Central America”

Introduction

The Caribbean Region has historically been considered the ‘backyard’ of the United States (US) and by extension, a key focus of US strategic geopolitical policy and influence ever since President James Monroe articulated the Monroe Doctrine in 1823. This doctrine asserted the right of the US to be the sole foreign power with authority to intervene in the affairs of Latin America and the Caribbean.¹ The Roosevelt Corollary was a modern manifestation of the Monroe Doctrine; reinforcing US geopolitical influence in the Western Hemisphere. One author, David Ronfeldt, remarked that the US “converted the Caribbean Basin into a geopolitical and strategic asset for the projection of American Power in the Atlantic and Pacific, as well as for transportation between our East and West coasts.”² Ronfeldt continued to assert that the Caribbean was the cradle from which the US arose to become a world power.


The sphere of US control and influence in the region has been affirmed on many occasions and is normally reflected in its foreign policy. In 2001, President George W. Bush endorsed the Caribbean Third Border Initiative which was essentially a reaffirmation of the commitment of the US in treating the region as a major focus for foreign policy and national security. This initiative, among other things, targeted programs designed to enhance diplomatic, economic, health, education, law enforcement cooperation, and collaboration with Caribbean nations. While emphasizing that the Caribbean lies on its southern border, it also recognized that this concept was sometimes overlooked, relegating issues such as regional democracy, trade partnerships, health and education in the region to a low priority status in US foreign policy in times when the US did not need to defend its interests from external incursion. Importantly though, the impact of threats to regional security posed by illegal drug trafficking, migrant smuggling, and financial crime has always been of sufficient importance for US policy makers to appreciate that they pose more than a de minimis threat to US security and interests in the region.

In recent years, the People’s Republic of China (PRC) expanded its economic relations with Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. In addition to diplomatic and economic activities, China increased cooperation and assistance programs with the region’s militaries and has even conducted several high profile military exchange visits in

recent times. In the last decade, for the first time in modern history, China deployed military police to the region as part of a United Nations (UN) mission to Haiti.

The greater part of China’s expansion within the Caribbean occurred in a period where some analysts have reported a simultaneous shift in US foreign policy away from the region. Even to the casual observer, it is clear that this represented a shift in focus away from hemispheric affairs to one centered around the war on terror and other activities in the Middle East. Even so, the confluence of these two events has given rise to a broad range of issues signaling a period of uncertainty regarding the extent of US interests in the Caribbean.

In the context of regional hemispheric security implications, how does a real or perceived decline in US interest in the Caribbean, and the simultaneous growth in China’s relations with almost all of the island states affect current regional security arrangements? Will the expansion of China and the perceived erosion of US geopolitical influence in the Caribbean Region pose any real threat to the current security landscape?

Primary Research Question

What are the implications to regional security posed by the emergence of China as a strategic influence in Caribbean geopolitics?

Secondary Questions

In order to address the research question, the following secondary questions must be answered:

1. What are the current and emerging security threats in the Caribbean Region?
2. What are the current Diplomatic, Informational, Military and Economic (DIME) relations and emerging trends between the US and the Caribbean nations?

3. What are the current DIME relations and emerging trends between the PRC and the Caribbean nations?

4. What are the most likely and most dangerous courses of action for China with respect to Caribbean and US security?

5. What are the most likely and most dangerous US courses of action in response to China’s growing influence?

**Significance**

As the relationship between the People’s Republic of China (PRC) and Caribbean states intensifies, to include substantial growth in cooperation with the region’s militaries over the last decade, the Caribbean Community continues to embrace this new and purposeful China. The PRC has utilized mainly ‘soft power’ through the instruments of national power—diplomacy, information, military and economic means to strengthen its strategic alliances within the region. China’s outreach underscores its leveraging of influence in the hemisphere and the resultant weakening of the sphere of power and influence historically exercised by the US.

This trend may have implications to long-standing security cooperation between Caribbean states and the US in areas such as border security, intelligence sharing, law enforcement, military affairs and joint security policies and strategies. Over the years, the regional security apparatus has matured in many respects and has been able to engage most significant threats to regional security through its national and regional
arrangements, and with significant US cooperation and support. The efforts have been concentrated to fight the growth of Transnational Organized Crime (TOC) and to deter the potential for the development of terrorist networks and safe havens.

This study seeks to explore the motives for China’s surge in interest in the region and to determine whether any gradual erosion or deterioration of US geopolitical influence may impact US and Caribbean relations to the extent that it affects current strategies geared toward dealing with threats to regional security.

Assumptions

The most significant assumption of this study is that a threat to Caribbean security translates directly as a threat to US national security. This relates to the region’s close proximity to the Southern border of the US and the potential regional vulnerability to the terrorist networks and transnational criminal activities.

Definition of Key Terms

The following terms will be used throughout the study:

CARICOM: Group of states forming the Caribbean Community.4

Foreign Policy: A policy pursued by a nation in its dealings with other nations. It is designed to achieve national objectives.5

4CARICOM is the regional organization of the group of Caribbean nations that are party to the revised treaty of Chaguaramas. The Treaty established the Caribbean Single Market and Economy.

Geopolitics: This will be defined as the study of the influence of factors such as geography, economics, and demography on the politics and foreign policy of a state.6

Hirschman’s Influence Effect: The influence effect is defined as the level of dependence, power and domination that can arise out of trade relations.7

Monroe Doctrine: This doctrine asserted the right of the US to be the sole foreign power with authority to intervene in the affairs of Latin America and the Caribbean.

National Instruments of Power: All of the means available to the government in its pursuit of national objectives. They are expressed as diplomatic, economic, informational and military.8

National Security: A collective term encompassing both national defense and foreign relations, specifically the condition provided by a military or defense advantage over any foreign nation or group of nations; a favorable foreign relations position; or a defense posture capable of successfully resisting hostile or destructive action from within or without, covert or overt.9

6Merriam-Webster Dictionary, “Geopolitics.”


**National Security Strategy:** A document approved by the appropriate governing authority for developing, applying, and coordinating the instruments of national power to achieve objectives that contribute to national security.\(^\text{10}\)

**Security:** “The protection and preservation of a people’s freedom from external military attack and coercion, from internal subversion, and from the erosion of cherished political, economic, and social values.”\(^\text{11}\)

**Soft Power:** The term ‘soft power’ is defined as “the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country’s culture, political ideals, and policies.”\(^\text{12}\)

**Transnational Organized Crime:** This research adopts the United Nation’s implied definition which encompasses virtually all profit-motivated serious criminal activities with international implications.\(^\text{13}\)

\(^{10}\)The definition used incorporates aspects of the US DOD definition found in Joint Chiefs of Staff, Joint Publication (JP) 1-02, *Department of Defense Dictionary of Military and Associated Terms* (Washington, DC: Government Printing Office, 2010).


\(^{13}\)It is important to note that the United Nations Office on Drugs and Crime (UNDOC) does not have a precise definition of Transnational Organized Crime (TCO). This is to allow for a broader application of the Organized Crime Convention to new types of crime that may emerge in the constantly changing global criminal landscape over time.
Limitations and Delimitations

The short time available to conduct the research will pose the most significant limitation. As such, the study will narrow its focus on existing data readily available through the Combined Arms Research Library (CARL) and other online sources. Additionally, important information on China’s national security strategy and specific aspects of foreign policy may not be easily accessible due to China’s ‘non-liberal’ policy on information.

The study shall limit itself to the Caribbean Region with only limited relevant references to the larger Latin American bloc of countries. That is to say, it will not concern itself with the more widely discussed security challenges intrinsic to South and Central America unless they directly or indirectly impact Caribbean Regional Security. The security of the US and its Homeland Security will be considered to the extent that a threat to the Southern border of the US translates directly as a threat to Caribbean security.

Contextual Framework

The Caribbean

The area termed Latin America and the Caribbean (LAC) comprises a number of sub-regional groups, namely: Mexico; Central America (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama); the Caribbean (12 countries); South America, which comprises the Andean Community (Colombia, Ecuador, Bolivia, and Peru), and Mercosur (Argentina, Brazil, Uruguay, Paraguay and Venezuela) plus Chile
(see figure 1). For the purpose of this study, only those 13 small independent states concentrated in the Caribbean along with 2 from South America will be examined.

This group of island states is typically classified as small developing states with characteristics uniquely associated with their small sizes. They are particularly vulnerable to global shocks and natural disasters. Thucydides’ account of the Melian debate provides some appreciation of the relative puniness of small states and the vulnerabilities associated with their existence in the international system. Indeed, as many proponents of the Realist perspective would argue, the statement by the Athenians that justice depends on who has the power to compel, has credence not only with respect to geographical outlay but also with the condition of a state’s self-sufficiency, industrial and technological advancement and overall influence in the world. The Caribbean states boast neither large land masses nor any major influence in world politics, and thus would easily fall into the category of weak states espoused by the Athenians.

Over the years the governments of the Caribbean have resisted attempts to fully integrate into a regional entity and the effects of globalization have had far greater impacts on their weak social and political systems and infrastructure. To some extent the impact on their fledgling economies has helped to perpetuate a kind of dependency


15In this research the Caribbean includes 12 island nations (Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Haiti, Jamaica, Monsterrat, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, and Trinidad and Tobago), 2 geographically located on the north coast of South America (Guyana and Suriname), and 1 from Central America (Belize). Guyana, Suriname and Belize have characteristics more common with Caribbean nations and participate in Caribbean regional organizations.
syndrome, especially with their strongest and nearest ally—the United States. According to one analyst, Dr. Thomas P. Barnett, they fall into a category of states outside of the “Functioning Core”\(^{16}\) representing repressive regimes, widespread poverty and disease, routine mass murder and chronic conflicts that incubate the next generation of global terrorists. Dr. Barnett refers to these parts of the world as the “Non-Integrating Gap.”\(^{17}\)

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**Figure 1.** The Caribbean

*Note: Central America is pictured in light green and the Caribbean is pictured in dark green.*


\(^{17}\)Ibid.
Notwithstanding, this rather unfavorable and arguably inaccurate classification, the importance of the Caribbean in the modern international system predates the end of the Thirty Years War in Central Europe (1618-1648). The region’s importance came to fore after the arrival of Christopher Columbus and the European penetration that followed. This heralded an era of human development described as the birth of capitalism and the rise of the New World. The region’s close geographical proximity to the World’s most powerful nation has ever since been a cause for some geopolitical interest—protection from further intervention from European powers, deterring international communism or spreading capitalism.

By the 1930s the region was steeped in its colonial capitalist regime with the US influence steadily growing. At the end of the Second World War, and as the contest between the East and West intensified, the balance of power continued to shift in favor of the US. During this era the US became more and more concerned with maintaining the status quo within the region, or as it is sometimes referred to, its “backyard.”

The Caribbean after the end of the Cold War, and especially since the horrific terrorist attacks on 11 September 2001, gradually and understandably so, retreated to a back seat on the American agenda. The waning of US interest in the region is, however, not a new phenomenon. At different periods in history, the importance of the Caribbean on the American’s foreign policy agenda has fluctuated; depending on other global issues and developments. Notwithstanding, the region still remains critically important in the international system based on a simple, geographical fact- its close proximity to arguably, the most powerful country in the world.
Geopolitics and US Policy in the Caribbean

By virtue of its geopolitical proximity, the Caribbean basin lies within the North American Security Zone. As such, the Caribbean has remained a consistent feature in US foreign policy matters relating to security, but even more importantly, the Caribbean enjoys strong economic and diplomatic ties to the northern, hegemonic super power. History, however, shows a fluctuation in levels of US strategic interests in the region depending on the global security climate. The ebb and flow of its foreign policy dynamics has been typically balanced on an appreciation of any positive incursion by other foreign powers assessed as creating vulnerability threats to US homeland security.

From all indications, and indeed, as was expressed in the original Monroe Doctrine directed at European Colonial powers, the protection of US interests in the region precludes a rationale for the use of military force against perceived threats. By and large, and mainly due to the pre-emptive nature of US directed intervention within the Caribbean, the US foreign policy strategy in the region was always preventive and anticipatory. Prima facie, more demonstrative of a policy is to retain primacy in the region while engaging the interests and cooperation of Caribbean states.

In periods of relative stability, with the primacy of the US unchallenged, policy interests would be manifested in routine security within the Caribbean Basin. This state of affairs has tended to change dramatically and swiftly during periods representing attempts to change the status quo. The early and mid-1960s, during the expansion of Soviet power and the attempts by Russia to establish a foothold in Cuba, the US responded with a concerted military response to deter any potential incursion of a Soviet regime in the Caribbean. Two such examples are: the role of the US in the Bay of Pigs
invasion against the Fidel Castro revolutionary government in 1961, and the US Naval blockade around Cuba in the Cuban Missile Crisis of 1962. Interests again deteriorated or returned to routine status in the 1970s when the US was deeply engaged in the Vietnam War, and the emerging power vacuum created new geopolitical dynamics. Ronfeldt posits that it motivated the local elites and counter-elites to seek new allies outside their countries; beckoned regional powers—Cuba, Mexico and Venezuela—to become more assertive; attracted the Socialist Internationals from Europe; and introduced into the Basin a new political rivalry between European-based Social Democracy and Christian Democracy, and; it encouraged the Soviet Union to further strengthen Cuban ties.18

US interest was stimulated by several issues again in the 1970s—the Panama Canal Treaty negotiation, the Nicaraguan Revolution, Haitian refugee escalation and further development of Cuba’s military capabilities. These issues projected an air of relative complacency by the US in the region which in turn created opportunities for extra-regional powers to further entrench themselves in the hemisphere. Again, these changes reinvigorated US attention to regional affairs.

Other significant events over the decades would prompt increased as well as diminished focus as the region competed with other interests on the world stage. The Grenada intervention, the first Persian Gulf War, and more recently the Global War on Terror, were all considered priorities with respect to other matters of international strategic importance of the day. As different challenges arose, the key principles which traditionally underpin US policy in the Caribbean basin focused on securing US presence, power and passage, deterring hostile foreign powers from acquiring military bases and

18Ronfeldt, vii.
facilities, preventing regional destabilization and dedicating military resources to protecting its interests and assets in the region. These principles preclude new threats from arising in the Caribbean and in many respects represent a modern version of the Monroe Doctrine which emphasize that the US “protect itself by preventing a condition of affairs in which it would be too late to protect itself.”

China’s Expansion in the Caribbean

With the exception of six Caribbean Islands that still maintain diplomatic ties with Taiwan (Belize, Dominican Republic, Haiti, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines), China has strengthened its relationship with every single other Caribbean state. China spent billions of dollars in aid and soft loans to these countries prior to the 2007 Cricket World Cup and over the past decade has invested heavily in areas such as the tourism, infrastructure development, agriculture, training and trade. While it is difficult to establish the exact quantity, analysts report that foreign, direct investment in the Caribbean by Chinese firms totaled nearly 7 billion US dollars in 2009 which represented an increase of over 300 percent from that of 2004.

The rapid expansion of trade and political relations between China and the Caribbean since the beginning of the 21st century has spurred much debate concerning

19 Ibid., v.
20 Ronfeldt, vi.
22 Ibid.
China’s motive and whether there is an overarching strategic imperative for the PRC to gain economic and political advantages within the region. Bernal suggests that while China’s focus is on economic relationships, this aspect of China’s involvement cannot be separated from the political dimension and therefore has to be examined in the wider context of the PRC’s shifting world view, its super power status, and the “geopolitics in the current global conjecture.”

From a foreign policy perspective, China’s objectives are not easily discernible as there is no official data available that could be considered reliable. However, in 2008, China highlighted its priority within both Latin America and the Caribbean in a policy paper which stated that it was seeking to develop a comprehensive partnership featuring equality, mutual benefits, and common development with countries within the region. Bilateral cooperation for resources and energy, tourism, trade and investment, agriculture, among other areas, were emphasized as being the most important in its foreign policy. The paper also mentioned that the country’s broader inter-regional diplomacy is to expand relations with Europe, Asia, Africa, the Middle East, and the US.

The 2005 Congressional Research Service (CRS) analyzed that China’s primary interest in the region was to gain greater access to needed resources such as oil, copper, and iron through increased trade and investment. The report also recognized that Beijing’s additional goal was to isolate Taiwan by seeking to have the twelve Latin

23Bernal, “The Dragon in the Caribbean.”

American and Caribbean nations that still hold ties with Taiwan shift their diplomatic recognition to China.\(^{25}\)

In 2004, the government of Dominica broke long-held diplomatic relations with Taiwan in recognition of the ‘One China’ policy and established diplomatic relations with the PRC. In return, the Chinese promised to undertake infrastructure development projects totaling over 100 million US dollars.\(^{26}\) Grenada also received a token appreciation in the way of a 55 million US dollar stadium when it severed diplomatic ties with Taiwan in 2005.\(^{27}\) On the other hand, St. Lucia, after General Elections in 2006, switched recognition to Taiwan in 2007. Within days of the formal diplomatic change, China withdrew its diplomatic corps from the country.\(^{28}\)

As China’s influence increases within the region, Caribbean states have seemingly embraced the idea of China as a new partner in trade and diplomatic relations. The PRC’s policy on non-interference in the affairs of other countries and its ‘no strings attached’ loan policy have been welcomed by these small economies which view the relationship more in terms of developmental assistance with much less bureaucracy.


\(^{27}\)Fieser.

Although the US and Europe remain the region’s largest trading partners, in many ways China offers a more attractive trade and investment regime. It is also widely viewed that China’s presence comes at an opportune time when there are perceptions of growing neglect and disinterest on the part of the US government, especially over the last decade.
CHAPTER 2
LITERATURE REVIEW

Caribbean states possess a structural feature that is not common to all states in the international system: they are small states in terms of territory and population, as well as in most and in some cases, all—elements of national power and state capacity. This structural feature accentuates their vulnerability.

— Dr. Ivelaw Griffith, “Caribbean Security in the Age of Terror: Challenge and Change”

Literature Focusing on Current Challenges to Caribbean Security

This statement by Dr. Ivelaw Griffith sets the tone for understanding the unique nature of the Caribbean security environment. Small states in general, with a few exceptions, possess certain characteristics that make them more vulnerable to security risks—their size and population being the most crucial. Other factors such as small economies, undeveloped social and physical infrastructure and weak political institutions could be considered off-spring of these two former variables. By virtue of the definition of small states having a population of 1.5 million or less, (Jamaica, Cuba and Haiti have larger populations), the whole region is characterized as a system of small states.

The unique vulnerability to risks associated with small states presents them with security challenges which are sometimes beyond the capacity of individual states to address. Primarily, these challenges are in the form of sophisticated, international crimes which flow from powerful and well-financed transnational criminal organizations. The reach of these enterprises far surpass that of individual country borders and typically span a network which includes the US and European regions. Dr. Griffith identified some of the most significant traditional threats as drug-trafficking, money laundering, illegal
weapons’ trafficking, corruption of public officials and organized crime. When considered on a global platform, many of these challenges would have relatively less impact on overall national security in large, developed states due robust crime fighting institutions and legal systems. Within the region however, large criminal enterprises overwhelm the internal security apparatus of the individual states; creating environments susceptible to narco-trafficking and drug-related violent crimes, gang warfare, and widespread corruption—in essence, weak and ineffective criminal justice systems.

The security landscape is further compounded by the region’s geographical proximity to the United States. The character of transnational criminal networks is such that they are not confined by national borders. In one respect, the spill-over effects of transnational crime will find its way into the porous borders of neighboring countries; the US being no exception. Additionally, and paradoxically, it is the Caribbean’s proximity to the US, with the US being the major consumer of illicit drugs in the world, that creates much of the challenges associated with drug-trafficking for the Caribbean states.

The Caribbean lies on the direct transshipment zone from South America to North America. The United Nations Office on Drugs and Crime (UNODC) reported that in 2008, North America accounted for more than 40 percent of global cocaine consumption. According to the UNODC report, for the North American market, cocaine is typically transported from Colombia to Mexico or Central America by sea, and then onwards by land to the US and Canada; with Colombia remaining the main source of the illegal drug

itself (see figure 2). Colombian cocaine destined for the US travels through Jamaica, Haiti, the Dominican Republic, Puerto Rico and the Bahamas; these countries being largely considered then as “transit zone” countries.

Figure 2. Main Global Cocaine Flows 2008


The US National Security Council (NSC) homepage expresses that “TOC poses a significant and growing threat to national and international security, with implications for

public safety, public health, democratic institutions, and economic stability.”  

There is a recognition that the criminal networks are expanding and are able to penetrate even the most secure democracies. The Security Council indicates that TOCs threaten US economic interests with the potential of crippling world financial systems through subversion, exploitation, and distortion of legitimate trade and economic markets. There is also the nexus between TOCs and terrorist networks, which indicates that terrorists and insurgents are relying on TOCs to generate funding in order to facilitate violent activities. The NSC reports that the most significant international drug trafficking organizations which pose threats to US national security are associated with terrorist groups. The following quote illustrates the extent to which the US considers the danger of linkages between TOCs and terrorists—even the possibility of access to WMDs warrants grave concern:

Involvement in the drug trade by the Taliban and the Revolutionary Armed Forces of Colombia (FARC) is critical to the ability of these groups to fund terrorist activity. We are concerned about Hezbollah’s drug and criminal activities, as well as indications of links between al-Qaida in the Lands of the Islamic Maghreb and the drug trade. Further, the terrorist organization al-Shabaab has engaged in criminal activities such as kidnapping for ransom and extortion, and may derive limited fees from extortion or protection of pirates to generate funding for its operations. While the crime-terror nexus is still mostly opportunistic, this nexus is critical nonetheless, especially if it were to involve the successful criminal transfer of WMD material to terrorists or their penetration of human smuggling networks as a means for terrorists to enter the United States.


32 Ibid.

33 Ibid.
Of the traditional threats to Caribbean security, perhaps the most serious and critical is that posed by the infiltration of terrorist networks. The shock waves of the brutal terrorist attacks in the US on 11 September 2001 have left the Caribbean, much like the rest of the international community, reeling from the realization that no way of life is safe. The attacks exposed the world to the horrific nature of irregular warfare and a new security paradigm requiring a global effort to counter-terrorism in all forms. The fragility of Caribbean states could translate directly into a weakened US southern border if terrorist networks seek to gain a foothold in the region.

It is no surprise therefore that the Third Border Initiative was introduced by the US with the original intent of having a US-led partnership with Caribbean states in order to facilitate and strengthen the nations’ capacities to deal with security issues. The program involves initiatives for combating transnational crime; with special emphasis on illegal drug-trafficking and illicit arms trade, and to promote regional security. Curtis Ward writes about regional security, and had indicated that the TBI was expanded to include enhancement of the region’s capacity for US and Caribbean cooperation in dealing with potential terrorist threats. He further quotes the following statement issued by the governments of the US, the CARICOM, and the Dominican Republic, which emphasized the issue of security in US and Caribbean relations:

We are further bound by a determination to protect our region...n from terrorists and criminals who would destroy our way of life and by a belief that terrorist acts, such as the terrorist attacks on the United States on September 11, 2001, represent a serious threat to international peace and our hemispheric security and require

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our governments to continue our efforts to prevent, combat, and eliminate terrorism. We recognize our interdependence and the importance of close cooperation to combat new and emerging transnational threats that endanger the very fabric of our societies. By virtue of their small size and geographic configuration and lack of technical and financial resources, Caribbean States are particularly vulnerable and susceptible to these risks and threats, especially those posed by illicit trafficking in persons, drugs, and firearms, terrorism, and other transnational crimes.35

Although terrorism permeates as the most dangerous threat to the Caribbean and US security landscape, Dr. Griffith also elaborates that other criminal trends include genuine security issues such as environmental and food security, health security (HIV) and human security. The extent of the security cooperation necessarily involves the protection from the threat of diseases, hunger, unemployment, crime, social conflict and political repression.36

Literature Addressing US and Caribbean Relations–Emerging Trends

In a study of US foreign assistance to Latin America and the Caribbean conducted by the US Congressional Research Service (CRS) in 2012, it was revealed that since 1946, the US has provided over 148 billion dollars in assistance to the region. According to the report, assistance spiked in the 1960s under President John F. Kennedy’s Alliance for Progress, and then declined in the 1970s. It went up again in the 1980s during the Central American conflicts, and fell during the 1990s. Throughout the latter part of the last century and during the first decade of the 21st century, the level of assistance continued an upward momentum; reaching its peak in 2010 in the aftermath of the

35Ibid.

earthquake that ravaged Haiti (see figure 3). This trend is indicative of the inconsistent nature of US foreign policy toward the region, as has been heretofore established.

In support of this observation, Jeremy Azrael and Emil Payin, drawing evidence from a case study on the relationship between the US and the Caribbean, quoted Robert Pastor, Vice President of International Affairs and Professor of International Relations at the American University, “American interest in the Caribbean has been motivated by the onset of crises, but is dominated by large periods of disinterest as the default position.” Professor Pastor continued to suggest that Caribbean states were too small to present any credible threat to the US and only show up on the radar screen when American interests become the focus of attention due to crisis or instability. If there were any doubt as to the veracity of Professor Pastor’s comments, the CRS Report confirmed them by asserting “US policy makers have emphasized different strategic interests in the region at different times.” These statements are pertinent to the issue of this study as it is the seemingly waning or diminishing interest within the region during the first decade of the 21st century that may have opened up opportunities for other foreign powers to gain a foothold. The question is whether the outside relationships have been sufficiently

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developed over time to maintain a position of superior geopolitical influence in the
Western Hemisphere.

The diplomatic relationship that has been forged between the US and the
Caribbean is mainly due to the geographic proximity of the US mainland to the group of
small states within the Caribbean Sea. Different US Administrations have employed
varying strategies based on the most critical issues of the day, but in real terms, whether
apparent to the region or not, a US strategic foreign policy is always in place that would
be sufficient to secure the enduring US interests in the region. Policy priorities are based
on the premise that the US has a responsibility as one of the most powerful nations in the
world to play a part in building stable, prosperous and democratic institutions.
Under the current administration of President Barack Obama, the US policy toward the Caribbean has focused on four priorities. They are: promoting economic and social opportunity; ensuring citizen security; strengthening effective democratic institutions; and securing a clean energy future. Of note is that the Obama Administration has taken some of the same policy approaches as that of his predecessor (President George W. Bush), but has focused mainly on partnering with the Caribbean.

States and allowing them to share responsibility. Mutual respect and dialogue has been a recurring theme as the Obama Administration promotes this policy.\textsuperscript{41} The US commitment to working with Latin America and Caribbean nations was echoed by Ms. Roberta Jacobson, Assistant Secretary of State for Western Hemisphere Affairs, at the Organization of American States (OAS) General Assembly meeting in Bolivia in 2012. During her address she said that the US and its Caribbean alliance will work “in the spirit of genuine and equal partnership to advance liberty and prosperity for all citizens of the hemisphere.”\textsuperscript{42}

Notwithstanding, the new policy trend is to promote more independence in this group of Small States, however, the Caribbean still remains the second largest recipient of US assistance behind Mexico in the Western Hemisphere (see figure 4). There has been a gradual shift in US aid away from security assistance toward that of humanitarian assistance and development. In FY 2013, the Obama Administration’s request was about 31 million dollars or 5.9 percent less than the previous year; with Haiti continuing to be the dominant recipient and amounting to approximately two thirds of total assistance (see table 1).

When compared with other regions of the world, the assistance to Latin America and the Caribbean has been on the decline while aid to Central Asia and the Middle East


has increased (see figure 5).\textsuperscript{43} This trend represents the shift in global priorities on the US agenda and indicates the relative importance of the regions and issues as they relate to US interests around the world.

\begin{table}
\centering
\begin{tabular}{lccc}
\hline
Country/Program & FY2011 (Actual) & FY2012 (Estimate) & FY2013 (Request) \\
\hline
Bahamas & 0.2 & 0.2 & 0.2 \\
Barbados and Eastern Caribbean & 32.3 & 34.2 & 35.2 \\
Cuba & 20.0 & 20.0 & 15.0 \\
Dominican Republic & 37.0 & 30.1 & 29.8 \\
Guyana & 16.9 & 10.8 & 7.0 \\
Haiti & 380.3 & 357.2 & 340.0 \\
Jamaica & 7.6 & 5.7 & 5.4 \\
Suriname & 0.3 & 0.2 & 0.2 \\
Trinidad and Tobago & 0.3 & 0.2 & 0.2 \\
CBSI & 77.4 & 64.0 & 59.0 \\
Total & 572.2 & 522.7 & 492.0 \\
\hline
\end{tabular}
\caption{US Assistance to the Caribbean}
\end{table}


While Caribbean States in general have fragile economies, it is noteworthy that the English-speaking countries in particular, have strong democratic foundations, place a high value on the rule of law and have the institutional mechanisms to promote justice, equality and freedoms. The major problem with these same nations lies in lack of resources and technical capacity to strengthen and to continue to build on these

foundations. To this end, there is congressional oversight for providing assistance to help build capacity and bolster respect for political rights and civil liberties.

In terms of legislation specifically affecting the Caribbean, the US Senate of the 113th Congress approved a resolution following Haiti’s 2010 earthquake. There has also been comprehensive reform legislation and a measure to reform the Organization of American States (OAS). In addition, both Houses of the US Congressional Appropriations Committee have included many provisions for US aid to the region in their reports to the US State Department and Foreign Relations Operations.


In the area of regional security, the US government has funded a number of programs to address security concerns both through bi-lateral arrangements with individual countries, and with the regional body represented by several organizations managed by the US Department of Defense (DOD). The DOD has legislative authority to
carry-out foreign assistance efforts in the region to assist with humanitarian relief, counter-drug and counter-terrorism programs, and stabilization.\textsuperscript{44} There is funding through the International Narcotics Control and Law Enforcement (INCLE) Program which focuses on counter-narcotics and civilian law enforcement, as well as projects to strengthen justice systems.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{r42582fig5.png}
\caption{Regional Distribution of US Assistance, FY 2008 and FY 2012}
\end{figure}


To help in strengthening the capacity to deal with global threats including terrorism and WMD proliferation, funding is provided through the Non-proliferation, Anti-terrorism, De-mining, and Related programs (NADR). The International Military and Education Training (IMET), and Foreign Military Financing (FMF) programs are

\textsuperscript{44}Ibid., 25.
also channels through which foreign militaries in the region may receive funding and training.\textsuperscript{45}

The regional security programs have also targeted the expanding drug trade and drug-trafficking related violence. The new initiatives aim to provide assistance to Central American and the Caribbean governments in efforts to boost their capacities in combating violent crimes and the trafficking of illegal drugs and weapons. Significant emphasis was placed on the recovery efforts in Haiti in 2010, which saw an increase in aid during FY 2010 by over three times that of the previous year.\textsuperscript{46} In addition to this support in 2010, there was also the revitalization of the Caribbean Basin Initiative which supported citizen security, promoted social justice and reduced illicit drug-trafficking.\textsuperscript{47}

\textbf{Literature and Research on Chinese and Caribbean Relations—Emerging Trends}

The \textit{Inter-American Dialogue Journal} reported that in 2010, China’s loan commitments of 37 billion US dollars to Latin American and Caribbean countries were more than those of the World Bank, Inter-American Development Bank, and the United States Export-Import Bank combined (see figure 6).\textsuperscript{48} The report also indicated that not only are Chinese loans to Latin America larger than that of their western counterpart, but

\textsuperscript{45}Ibid., 5.
\textsuperscript{46}Ibid.
\textsuperscript{47}Ibid., 14.
they are also growing faster. These large loans offered by the China Development Bank (CDB), China Ex-Im Bank and the Industrial and Commercial Bank of China (ICBC) over the last 10 or so years cover a wide range of assistance projects in the wider Latin America region as well as in the Caribbean. Countries such as Jamaica and the Bahamas for example, between 2005 and 2011, have benefitted from over 3 billion US dollars in loans for just infrastructural development (see table 2).

![Figure 6. Comparison of Chinese and Western Bank Loans to Latin America](image)

Figure 6. Comparison of Chinese and Western Bank Loans to Latin America


China’s development model typically favors infrastructure and industrialization over micro-inventions in health and social services (see table 3).\(^{49}\) One argument is that

\(^{49}\)Gallagher, Irwin, and Koleski, 17.
the loans represent areas of Chinese interests and provide access to the region’s natural resources. Chinese banks rebut this assertion and explain that they seek to support economic growth rather than social welfare. The Journal also reports that the China Ex-Im Bank states on its website that its projects must create jobs in the borrowing country and therefore the loans typically support technical areas such as infrastructural development, communications, mining and energy, and transportation. It is noteworthy that western loans concentrate mainly on government, social, and environmental purposes, while the Chinese loans focus on energy, mining, infrastructure and transportation. This means that the Chinese are filling a gap left open by the World Bank and IDB loans.51

50 Ibid.

51 Ibid., 18.
Table 2. Summary of Chinese Loans to Latin America and the Caribbean 2005-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrowing Country</th>
<th>Borrower</th>
<th>Lender</th>
<th>Amount ($m)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Brazil</td>
<td>Gerdau Acorninais</td>
<td>ICBC and BNPP</td>
<td>201</td>
<td>Steel mill equipment</td>
</tr>
<tr>
<td>2005</td>
<td>Chile</td>
<td>Codelco</td>
<td>CDB</td>
<td>550</td>
<td>Improve company efficiency and technology</td>
</tr>
<tr>
<td>2007</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im</td>
<td>65</td>
<td>Montego Bay Convention Center</td>
</tr>
<tr>
<td>2008</td>
<td>Costa Rica</td>
<td>Government</td>
<td>SAFE</td>
<td>300</td>
<td>Government bonds</td>
</tr>
<tr>
<td>2008</td>
<td>Peru</td>
<td>ChinaEx Peru</td>
<td>Ex-Im</td>
<td>2,000</td>
<td>Mining Equipment</td>
</tr>
<tr>
<td>2008</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Funding infrastructure, other projects</td>
</tr>
<tr>
<td>2009</td>
<td>Bolivia</td>
<td>YPFB</td>
<td>Ex-Im Bank</td>
<td>60</td>
<td>Home gas lines, oil drilling rigs</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Telemar Norte/Oil</td>
<td>CDB</td>
<td>300</td>
<td>Expand telecom network</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Petrobras</td>
<td>CDB</td>
<td>10,000</td>
<td>Pre-salt business plan</td>
</tr>
<tr>
<td>2009</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>PetroChina</td>
<td>1,000</td>
<td>Advance payment for Petroecuador oil</td>
</tr>
<tr>
<td>2009</td>
<td>Mexico</td>
<td>América Móvil</td>
<td>CDB</td>
<td>1,000</td>
<td>Telecom network infrastructure/equipment</td>
</tr>
<tr>
<td>2009</td>
<td>Multiple</td>
<td>BLADEX</td>
<td>CDB</td>
<td>1,000</td>
<td>Regional trade financing</td>
</tr>
<tr>
<td>2009</td>
<td>Peru</td>
<td>Cofide</td>
<td>CDB</td>
<td>50</td>
<td>Transportation, infrastructure</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure, including satellite</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>CVG</td>
<td>CDB</td>
<td>1,000</td>
<td>Mining project credit</td>
</tr>
<tr>
<td>2010</td>
<td>Argentina</td>
<td>Government</td>
<td>CDB and others</td>
<td>10,000</td>
<td>Train system</td>
</tr>
<tr>
<td>2010</td>
<td>Bahamas</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>58</td>
<td>Airport infrastructure</td>
</tr>
<tr>
<td>2010</td>
<td>Bolivia</td>
<td>Government</td>
<td>CDB</td>
<td>251</td>
<td>Chinese satellite</td>
</tr>
<tr>
<td>2010</td>
<td>Bolivia</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>67.8</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2010</td>
<td>Brazil</td>
<td>Vale Mining Company</td>
<td>Ex-Im</td>
<td>1,230</td>
<td>Ships to transport iron ore to China</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>1,682.7</td>
<td>Hydroelectric dam Coca-Cola Sinclair</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>CDB</td>
<td>1,000</td>
<td>80% discretionary, 20% oil-related</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>621.7</td>
<td>Sopladora hydroelectric dam</td>
</tr>
<tr>
<td>2010</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>340</td>
<td>Road construction</td>
</tr>
<tr>
<td>2010</td>
<td>Jamaica</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>59.1</td>
<td>Shoreline reconstruction</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB and BES</td>
<td>1,500</td>
<td>Trade-related credit facility</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>20,000</td>
<td>Funding infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Bahamas</td>
<td>Baha Mar Resort</td>
<td>Ex-Im Bank</td>
<td>2,150</td>
<td>Resort Construction</td>
</tr>
<tr>
<td>2011</td>
<td>Bolivia</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>300</td>
<td>Helicopters, infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Ecuador</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>2,000</td>
<td>70% discretionary, 30% oil-related</td>
</tr>
<tr>
<td>2011</td>
<td>Peru</td>
<td>COP</td>
<td>CDB</td>
<td>150</td>
<td>Finance</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>ICBC</td>
<td>4,000</td>
<td>Housing</td>
</tr>
</tbody>
</table>

Table 3. China Bank Loans to Latin America and the Caribbean by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>($ million)</th>
<th>Total</th>
<th>World Bank</th>
<th>IDB</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>$17,926</td>
<td>$8,463</td>
<td>$9,463</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Education</td>
<td>$7,008</td>
<td>$4,289</td>
<td>$2,619</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Water, Environment</td>
<td>$16,144</td>
<td>$7,061</td>
<td>$9,084</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Public Administration</td>
<td>$19,105</td>
<td>$11,013</td>
<td>$8,092</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Finance, Trade</td>
<td>$18,328</td>
<td>$7,170</td>
<td>$9,858</td>
<td>$1,300</td>
<td>$—</td>
</tr>
<tr>
<td>Housing, Infrastructure</td>
<td>$38,098</td>
<td>$—</td>
<td>$4,397</td>
<td>$33,701</td>
<td>$—</td>
</tr>
<tr>
<td>Transportation</td>
<td>$27,693</td>
<td>$7,192</td>
<td>$8,821</td>
<td>$11,680</td>
<td>$—</td>
</tr>
<tr>
<td>Energy, Mining</td>
<td>$30,061</td>
<td>$2,566</td>
<td>$7,576</td>
<td>$19,920</td>
<td>$—</td>
</tr>
<tr>
<td>Other</td>
<td>$10,651</td>
<td>$378</td>
<td>$2,028</td>
<td>$8,614</td>
<td>$—</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$185,383</strong></td>
<td><strong>$48,231</strong></td>
<td><strong>$61,937</strong></td>
<td><strong>$75,215</strong></td>
<td>$—</td>
</tr>
</tbody>
</table>


Outside of banking and finance, there are a number of other assistance projects and programs on which the Chinese government has been embarked in their expansion across the region. Dr. Evan Ellis, Assistant Professor with the Center for Hemispheric Defense Studies (CHDS) writes on “Chinese Engagement with Nations of the Caribbean,” and makes an argument that the growth of the Chinese influence in the region should be of strategic interest to the US. He highlights that China’s key logistic hub for the region is a large, deep-water port and airport facility in Freeport Bahamas—a mere 65 miles from the continental United States. Dr. Ellis also mentions that, among other things, the largest population of Chinese students studying in the region is in Cuba,
and that there is a growing military relationship between the region’s militaries and the PRC.  

Some of the major Chinese projects include a deep sea-harbor and highway port in Suriname which will link the country to resource rich Brazil; a 462 million US dollar cash infusion in a beach front resort on the east coast of Dominica; construction and operation of a 1 billion US dollar container in Freeport, Bahamas; several cricket Stadia across the region in preparation for Cricket World Cup 2007; a 100 million US dollar purchase of a major stake in Omai Bauxite Mining from the government of Guyana, and the construction in Trinidad and Tobago of the Prime Minister’s residence and National Academy for the Performing Arts.

With all of these Chinese investments in the region, the question that arises is: “What are the motivating factors for China?” One may begin to analyze this question by looking at China’s expressed foreign policy. This can be traced to their “Five Principles of Peaceful Coexistence.” Their mantra was first articulated by Premier Zhou Enlai and later adopted by Chairman Mao Zedong as a feature of the New China foreign policy. The five principles are: mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-toxic interference in each other’s internal affairs; equality and


mutual benefit, and; peaceful coexistence.\textsuperscript{55} To these one must ask: “Are these principles truly representative of China’s approach in its expansion into the Caribbean?”

According to research conducted at New York’s Wagner University, and used by the Congressional Research Service, the findings suggest that China’s economic assistance and related investments are driven primarily by the PRC’s need for natural resources, and secondly by diplomatic objectives (such as isolating Taiwan). The CRS Report also claims that Beijing aims to open up foreign markets for Chinese goods and to invest, build manufacturing plants, and to develop markets overseas.\textsuperscript{56}

\begin{quote}
\textbf{Literature and Research on the Implications of ‘Soft Power’}
\end{quote}

In his transmittal letter to the 2008 US Committee on Foreign Relations; a report entitled “China’s Foreign Policy and ‘Soft Power’ in South America, Asia, and Africa”\textsuperscript{57} former Senator Joseph R. Biden, then chairman of the Committee, wrote: “China’s emergence as a global power has profound implications for the security and economic


interests of the United States.” He asserted that China’s rise presented both challenges and opportunities for the US, and that China was attempting to exploit foreign aid and reap soft power advantages.

This is the same soft power to which Harvard Professor, Dr. Joseph S. Nye referred when he articulated that “US policymakers were squandering US power and influence.”\(^{58}\) Dr. Nye advocates that soft power is concerned with the “ability to shape the preferences of others and to get what you want through attraction rather than coercion or payments.” It is about a country’s culture, political ideals, and policies.\(^{59}\) Expanding on Dr. Nye’s idea, Dr. R.E. Evans provides an alternate and simpler definition for soft power as “a dynamic created by a nation whereby other nations seek to imitate that nation, become closer to that nation, and align its interests accordingly.”\(^{60}\)

Others have defined the concept following on Dr. Nye’s original work. Dr. Colin Gray’s definition is: “The ability to have influence by co-opting others to share some of one’s values and, as a consequence, to share some key elements on one’s agenda for international order and security.”\(^{61}\) Dr. Alexander V. Vuving, an Associate Professor at

\(^{58}\) Nye.

\(^{59}\) Ibid. x.


the Asia-Pacific Center for Security Studies puts it succinctly as: “Soft power is the ability to affect the behavior of others by influencing their preferences.”

The dynamics of soft power therefore, when viewed in relation to the US government’s traditional relationship with the Caribbean, and China’s expansion into the region, must be a cause of concern to US policy makers. Dr. Evans, in a case study on Chinese Soft Power in Latin America, has already posited that the economic, cultural and institutional battles which the PRC has used to advance its position, have both leveraged and contributed to an erosion of the US global, strategic position. Dr. Evans makes the compelling argument that the “core of Chinese soft power in Latin American, as in the rest of the world, is the perception that China will present significant business opportunities in the future due to its high rate of growth and advancements in technology.” This perception is further categorized as representative of hope for future access to Chinese markets and investments; Chinese influence and infrastructure; culture and work ethic; developmental models; China as a counterweight to US and Western institutions, and China as the ‘wave of the future.’

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64 Ibid., 86.

65 Ibid.
In its political, bi-lateral and multi-lateral connections to Caribbean and Latin American member states, Dr. Evans’ studies have observed that China is careful not to align itself with any anti-US sentiments. He notes that the PRC is also expanding its reach to regional and multinational organizations in order to broaden its influence on non-state actors. Dr. Evans’ research also shows that the major avenues utilized by the PRC are trade and investment, development assistance, diplomacy, culture, education, tourism, humanitarian assistance and disaster relief; operating through political leadership, business communities, students, youth groups, and the general population.66

So what are China’s main objectives? Are there ultimate intentions unbeknownst to the wider international community? For now, there are probably two which may be assessed with any certainty; those being economic development as its primary objective, as well as the further isolation of Taiwan (see table 4).

Table 4. Taiwan’s Official Relationships in Latin America and the Caribbean

| Latin America and the Caribbean (12) | Belize, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines |
| Africa (4) | Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland |
| The Pacific (6) | Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu |
| Europe (1) | The Vatican |

*As of February 2008


66Ibid.
Literature and Research on the Model of Interest and Identity Formation

Central to the understanding of how actors perceive the contemporary operating environment and what conditions influence their behavior is first an understanding of their perspectives of world politics and how they develop coherent approaches to achieve their interests in the international strategic environment. The system of international states operates by a set of rules premised on the idea that states are the central actors. This is the perspective traditionally dictated by the realist theory which offers that states pursue self-determined interests as a pragmatic response to the risks and dangers of a potentially anarchical world. A liberalist view of world politics focuses more on people, institutions and interdependent relationships. This perspective accounts for the role of international organizations and other non-state actors in the international political arena. Liberals also believe that the rule of law and the transparent democratic process facilitates international cooperation.

For the purpose of this study, the constructivist approach to understanding world politics is used as a model to ascertain what may be the US and China’s perceptions of threats in the international system, and more specifically, in the Caribbean. It is considered a fundamental principle of the constructivist social theory that “people act toward objects, including other actors, on the basis of meanings that the objects have for


68 Ibid., 76.
them.” In other words, the actions of states towards other states depend on how they are viewed, that is to say, if they are considered adversaries or not. Small states in the Caribbean for example do not view the power and might of the US military as a threat notwithstanding the overwhelming disparity in strength and capabilities; however, an impending influx of refugees from the neighboring island of Haiti might pose a significant perception of threat from that country to the effect that foreign policies towards that country may be adjusted to reinforce security measures to prevent illegal entry.

What of the relationship between US and China? How are each perceived by the other? Would this perception determine their policies towards each other and their balance in the international system of states? In the constructivist thought meanings and actions are organized and arise out of interaction. It is from these interactions that states develop self-regarding ideas about security which predisposes them to act in a certain direction towards the other.

At the risk of oversimplifying the construct, consider the inference or attribution made by one state about the other’s intention. Alexander Wendt argues that this depends on two factors. The first is the gesture of the physical qualities, which in this


70 Ibid., 100.

71 Ibid., 84.
case may be a state’s military strength or economic power. The second gesture would be the intent of a state where it makes a gesture with its physical qualities. This scenario presents an interesting analysis. The US may make an error of attribution by inferring the wrong Chinese intent based on the China’s rapid economic and cultural expansion in the Caribbean region, however, in a system of anarchical states where it is understood that states act in their self-interest and preservation, it may be unwise to assume, before the fact, that China’s actions are not intended to be threatening. The conundrum is thus, that there exists a situation where a social threat is perceived and constructed but it is not necessarily natural or real.72

The principle presented by the model of identity in figure 7 shows that security systems evolve through interaction in which each party acts in a way which imparts a sense of threat to the other and eventually creates expectations of distrust. The thrust of the argument is that “competitive systems of interaction are prone to security dilemmas.”73 Threats are perceived based on states’ own conceptions of their relationship to the other, regardless of the actual intent or motives for their actions.

72Ibid., 100.
73Ibid., 101.
Figure 7. Model of Identity and Interest Formation

CHAPTER 3
RESEARCH METHODOLOGY

This chapter outlines the process of using a strategic estimate as the methodology to assess possible threat implications within the Caribbean. The method will also incorporate an assessment of the use of power and influence through the instruments of national power. The final analysis entails an examination of the national interests of the US and of China, juxtaposed against the interests of the Caribbean bloc of countries under the auspices of CARICOM; specifically relating to the threats to regional security. The overall strategic estimate process will therefore incorporate critical thinking and problem-solving processes, and seek to identify what actions may constitute the most likely and most dangerous courses of action by the US and China.

The aim of the Strategic Estimate will be to ascertain whether there is any perception of threat leading to a traditional military confrontation, or; whether there is any perception of vulnerability to current non-traditional threats such as TCO’s or acts of terrorism which may be due to China’s expanding influence and the possible decline of US geopolitical dominance in the region. By ascertaining China’s possible strategic motivation, determining the perceptions of threats to and from the US, and analyzing the actual threat environment, this methodology hopes to provide a clear indication of the security implications of China’s rise in the Caribbean.

The Estimate

The strategic estimate provides a comprehensive assessment of the operating environment. It is a problem-solving process which looks at a set of inputs and subjects
them to analysis and synthesis in order to arrive at critically thought out conclusions. The systematic approach integrates joint force strategic estimate doctrine spelled out in JP 5-0 and the Army problem-solving process in Army Tactics, Techniques and Procedures 5-0-1, (Chapter 11) which provides the intellectual framework upon which military commanders and their staffs develop strategies and conduct planning.

The systematic approach has been adjusted to reflect a wholesome assessment rather than a military operational estimate of the Caribbean region. Inputs will incorporate information already covered in the previous chapters on the strategic setting, current events, national and regional policies and peacetime planning. The process will consider the context and definition of the problem question, sources of strategic direction for all stakeholders in the region, describing the strategic geopolitical environment, considering courses of action, and finally, some challenges and risks involved. The approach will culminate with products providing a summary of the findings in the estimate process.

Strategy, Power and Influence

Strategy is a term used to describe a plan of action or the military art of planning operations in battle. US Armed Forces Joint Publication (JP-1) defines strategy as “a prudent idea or set of ideas for employing the instruments of national power in a


synchronized and integrated fashion to achieve theatre, national, and-or multinational objectives.” From this definition it is clear that strategy is not confined to military operations even from a US military, doctrinal perspective. It involves the combined national policy, economic, political and psychological activities designed to achieve stated national objectives. From the national perspective, there is the assumption that all states and non-state actors pursue interests intrinsic to self-preservation. National strategic objectives are derived from these broad interests towards a desired end-state. The elements of power are used to promote, facilitate and advance national interests using all available resources.

Consequently, the role of strategy is to ensure that the pursuit, protection, or advancement of these interests - which are achieved through the application of the instruments of national power—is accomplished in a coherent and optimal manner.”

“National security depends on the complementary application of the instruments of national power.” The Armed forces of the US are guided by the national security policy in the employment of the military instrument of national power in conjunction with the diplomatic, economic and informational means carried out by other organs of the state. These are the instruments which allow the US the ability to exercise influence on


79 Joint Chiefs of Staff, Joint Publication 1, v.
the world stage and apply its power in human potential, economy, industry, science and technology, geography and national will.\textsuperscript{80}

In the application of military power, the military constantly assesses the international security environment to determine possible threats to the US while appreciating that challenges which may be posed from states or groups of states, other non-state actors such as terrorists, criminal networks, and special-interest organizations. The diplomatic instrument is the principal instrument for forging and nurturing relationships with other states and foreign groups towards the achievement and advancement of US values, interests and objectives. The economic instrument is used to facilitate economic and trade relations while promoting US objectives such as general welfare through global markets and resources and economic development and expansion of international partners. Information access and security is fundamental to the overall security of the US and forms a vital part of military operations. The integration of information and denial of essential information to adversaries form a critical part of defensive and offensive security operations.

If it is accepted that a state’s power may be defined in terms of its diplomatic, informational, military and economic influences, the question must then be asked, how much power and influence do these instruments of national power create in the international arena? To answer this question, it is useful to understand the mechanisms which soft power and influence affect.

Some argue that a state’s power is relative and therefore must be considered in relation to other actors in the international realm. The projection of a state’s military

\textsuperscript{80}Ibid., 1-6.
power is then only effective if, when compared to other actors, allows that state to
exercise its free will and dominance without fear of defeat in a battle against an
adversary’s military. The same principle applies to economic, informational and
diplomatic power—all of which may be exercised in the advancement of states’ individual
interests.

As has already been discussed in chapter 2, power in and of itself is a concept
which denotes an ability to project influence. In the analysis of power, it may be applied
directly as hard power such as in the might of a nation’s military, wherein the direct
effect (or threat) of destruction is enough to persuade others to abide by a state’s will or
be deterred from acting against a state’s will. The other dimension of power is however
more subtle and applies influence more in the form of shaping the preferences of others
through attraction rather than coercion or payments. Thus, the gradual injection of a
state’s culture and political ideals across borders through agenda setting, attraction and
co-opting may achieve the same effect of projecting influence through coercion and
inducement (see figure 8).
Figure 8. Dynamics of Power

Source: CGSC IL Common Core C200, “Strategic Environment Advance Sheet and Reading,” August 2013, 82.

Nye argues that this indirect way to achieve influence is the “second face of power” and that it is possible to achieve stated objectives by virtue of just being attractive to others on the world stage without using the threat of military force or sanctions. Instead, he advocates that setting an agenda which expresses values, being an example to emulate, and showing prosperity and openness will greatly influence others.81

Hirschman’s influence effect compliments this view of soft power by stressing the importance of using trade as a means of exerting power and influence. Hirschman argued that “conscious cultivation of asymmetric interdependence, if conducted strategically by the government of a powerful state, would lead weaker states to reorient not only their

economics, but also their foreign policies to the preferences of the stronger state. In fact, it is also a reasoned view that threats and coercion normally inspire resentment and resistance in a target state while rewards and inducements are more likely to prompt a willingness to bargain.

Hirschman outlines two aspects of using trade as an instrument of national power, the supply effect and the influence effect. The supply effect is concerned with the exchange of goods which creates a natural supply and demand relationship, usually a positive effect, wherein the supply of more desired goods replace the less desired goods in a state. The more desired goods improve the war-making machinery of a state. Thus, the supply effect seeks to amplify the military strength of a state and is considered as an indirect source of power. The main principle of the influence effect however, is one of dependency, which may be achieved through the actual dependence of one state on another state’s trade. Alternatively, dependency may be so ingrained that it is difficult to adjust trade conditions from one state to another. In this sense both of these dependency conditions may be deliberately induced by a state in furtherance of its interests over another state.

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83 Ibid.

84 Hirschman, 172.

85 Ibid.

86 Ibid.
CHAPTER 4

ANALYSIS

Strategic Direction

US Policy towards China

The National Defense Strategy of the US is clear in its assessment of the PRC in terms of the PRC being a military threat. It expressly states that China is one ascendant state with the potential for competing with the US in the foreseeable future.\(^8\) The strategy is therefore hedged against the growth and modernization of China’s military and the potential impact of any strategic advantage the PRC may gain in the international community. Military leaders have planned for the continued expansion of China in traditional military capabilities, but have not excluded the idea that US and Chinese interaction will be long-term and multi-dimensional; incorporating peacetime relationships in order to mitigate short term challenges and enhance long term national interests.

The strategy goes on to advance the US government’s approval of the rise of a peaceful and prosperous China emphasizing that there is also a responsibility for China to take a “greater share of the burden for the stability, resilience, and growth of the international system.”\(^8\) Of profound importance is the appreciation that a critical aspect of the strategy is the pursuit of the establishment of a dialogue with China to in order to


\(^8\)Ibid., 10.
ensure a better understanding, improved communication and a reduced risk of miscalculation.\textsuperscript{89}

US Policy towards the Caribbean

The US policy toward the Caribbean has focused on four priorities. They are: promoting economic and social opportunity; ensuring citizen security; strengthening effective democratic institutions; and securing a clean energy future. The Obama Administration has focused mainly on partnering with the Caribbean States and allowing them to share responsibility.

The new policy trend is to promote more independence, shift US aid away from security assistance toward that of humanitarian assistance and development, and provide assistance to help build capacity and bolster respect for political rights and civil liberties.

Legislation has been implemented to provide humanitarian assistance to Haiti following the 2010 earthquake. There has also been comprehensive reform legislation and a measure to reform the Organization of American States (OAS). In addition, both Houses of the US Congressional Appropriations Committee have included many provisions for US aid to the region in their reports to the US State Department and Foreign Relations Operations.

In the area of regional security, the US government has funded a number of programs to address security concerns both through bi-lateral arrangements with individual countries, and with the regional body represented by several organizations. The DOD has legislative authority to carry-out foreign assistance efforts in the region to

\textsuperscript{89}\textit{Ibid.}
assist with humanitarian relief, counter-drug and counter-terrorism programs, and stabilization. There is funding through the International Narcotics Control and Law Enforcement (INCLE) Program which focuses on counter-narcotics and civilian law enforcement, as well as projects to strengthen justice systems.

In strengthening the capacity to deal with global threats including terrorism and WMD proliferation, funding is provided through the Non-proliferation, Anti-terrorism, De-mining, and Related programs (NADR). The International Military and Education Training (IMET), and Foreign Military Financing (FMF) programs are also channels through which foreign militaries in the region may receive funding and training.

The regional security programs have also targeted the expanding drug trade and drug-trafficking related violence. The new initiatives aim to provide assistance to Central American and the Caribbean governments in efforts to boost their capacities in combating violent crimes and the trafficking of illegal drugs and weapons. In 2010, there was also the revitalization of the Caribbean Basin Initiative which supported citizen security, promoted social justice and reduced illicit drug-trafficking.

Military responsibility in the regions falls under the United States Southern Command (USSOUTHCOM). This Combatant Command’s (COCOM) mission is to conduct joint and combined full-spectrum military operations within the area of responsibility (AOR) in order to support US national security objectives and interagency efforts that promote regional security and cooperation. This mission is carried through detection, monitoring, interdiction, combined exercises and operations, building partner

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90This mission was extracted from the USSOUTHCOM Brief, “Theater Engagement Strategy 2022.”
capability, security force assistance theater security cooperation, key leader engagement, humanitarian assistance and disaster relief, among other ways.

USSOUTHCOM supports other non-military efforts through the joint interagency effort in areas such as countering illicit trafficking, combating terrorism and information sharing. The end states of the military policy toward the region are:

1. Threat approaches to the US homeland and vital US interests are monitored and if necessary defended.
2. Partner Nations militaries and security forces have the capability and capacity to protect their sovereign territory from Transnational Organized Crime threats.
3. Partner Nation military and security forces have the capability and capacity to prevent terrorist organizations from threatening stability in the region.
4. Proliferation of Weapons of Mass Destruction (WMD) in the AOR is prevented and the use of WMD is deterred.
5. Partner Nations have the capability and capacity to conduct humanitarian assistance and disaster relief operations to mitigate the effects of natural and man-made disasters.
6. The US and international community has freedom of movement and strategic access through the Panama Canal and the global commons (international maritime, air, and cyberspace domains) throughout the AOR.
7. The US Southern Command is the military partner of choice for AOR states.

China’s Policy Towards the US

China considers its relationship with the US as the most important as well the most sensitive; the most comprehensive yet the most complex, and; the most promising
but the most challenging. The model is based on the principle of mutual respect and win-win cooperation.

The policy begins with the term respect. There is recognition that both countries are different in many ways. There are differences in language, culture, cuisine, natural resources, government and they are at different stages of development. Due to these differences, there is a need to understand that these are the products of history which cannot be changed at will. Both countries must therefore show respect to history and appreciate the differences. This will lay the foundations for constructive and productive relations.

The policy speaks to Cooperation. China recognizes that despite the many differences, the common interests far outweigh them and are still growing. The US is China’s second largest trading partner with bilateral trade amounting to approximately US$ 500 billion in 2012.

There is recognition that both countries share important international responsibilities as permanent members of the United Nations (UN) Security Council. They therefore have a primary responsibility for international peace and security.

There is need for joint efforts and cooperation in the areas of global concern such as climate change, food security, energy security, disease prevention, poverty alleviation, combating transnational crimes, counter-terrorism, and non-proliferation. Additionally, the policy promotes rallying around areas of differences and having economic complements; having cultural and educational exchanges to promote mutual learning; and converting areas of diversity to areas of opportunity.
The policy recognizes that the relationship between the two countries affects the future of the two peoples but also has a major impact on the Asia-Pacific region and the world as a whole. This relationship has to be managed with a strong sense of responsibility. This means being prudent and cautious on all issues that affect the other and not allowing either to be taken advantage of. Responsibility means acting positively and constructively, resisting the temptation to focus too much on short-term gains but instead working towards long-term interests.  

China’s Policy Towards the Caribbean

China’s official policy towards the Caribbean articulates an intention to pursue peaceful development in a “win-win” strategy. It affirms that China, being the largest developing country in the world, is ready to carry out friendly cooperation with all countries based on the Five Principles of Peaceful Coexistence and that the end state is to build a peaceful and prosperous world. It has had long established friendly

91As there is no officially published policy on the US, these policy goals were extracted from Ambassador Cui Tiankai, Chinese Ambassador to the US, “China’s Foreign Policy and China-U.S. Relations” (China Forum, SAIS, 8 October 2013), http://www.china-embassy.org/eng/sgxw/sghds/t1086428.htm (accessed 1 November 2013).

92China’s Five Principles of Peaceful Co-existence were first articulated by Premier Zhou Enlai and later adopted by Chairman Mao Zedong as a feature of the New China foreign policy. These are: mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-toxic interference in each other’s internal affairs; equality and mutual benefit, and; peaceful coexistence. Information may be found at Ministry of Foreign Affairs of the People’s Republic of China, “China’s Initiation of the Five Principles of Peaceful Co-Existence,” November 2000, http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18053.htm (accessed 30 April 2013), 17.

cooperation and diplomatic ties with Caribbean countries in various fields since the
1970s. Over the last decade, there have been increased high level exchanges, stronger
political mutual trust and closer cooperation in economy, trade, science and technology,
culture and education, and mutual support and close coordination in international affairs.

The goals of China’s policy on Latin America and the Caribbean may be
summarized as follows:

1. To promote mutual respect and trust: By strengthening dialogue and
communication; enhancing political mutual trust; expanding strategic common
ground, and; continuing to show understanding and support on issues involving
each other’s interests and concerns.

2. To deepen cooperation and achieve win-win results: By leveraging respective
strengths and seeking to become partners in economic cooperation and trade
for mutual benefit.

3. To draw on each other’s strengths to boost progress: By carrying out more
cultural and people to people exchanges, learn from each other and jointly
promote development and progress.

4. To advance the One China principle as the basis for establishment and
development of relations: By seeking to get countries in the region committed
to the one China policy and supporting China’s reunification and not having
official ties with Taiwan.

In furtherance of these broad areas of official policy, China will continue to have
high profile government exchanges and dialogue to improve bilateral and multilateral
arrangements and to promote economic investments and trade. China continues to
provide professional consultation and cooperate in building macro-economic and
financial policies while working to conclude banking regulatory cooperation agreements
to jointly combat money laundering and terrorist financing.

The PRC is promoting exchanges in agricultural science and technology to
promote development of agricultural techniques and training programs in the region.
China is cooperating in flora and fauna inspection and intensifying agricultural trade to
jointly uphold food security. China is working actively to support cultural cooperation
agreements to strengthen cultural interaction and exchange between cultural art
institutions and professionals. It is encouraging direct contact between sports authorities
and national Olympic committees through bilateral sports exchanges in various forms.

Infrastructure and construction is a major focus of development as the Chinese
work with the Caribbean countries to strengthen transport, information and
communications industries. China is also working on expanding mutually beneficial
cooperation with Caribbean countries in resources and energy within bilateral
cooperation frameworks. Expansion is ongoing in the fields of medicine and health care
and China is ready to enhance scientific and technological exchanges to strengthen
cooperation in bio-fuel resources, environment technology, marine technology and other
areas of mutual interest.

On security matters, China has increased its level of military exchanges and
cooperation utilizing defense dialogue, mutual visits by defense officials and professional
training and exercises to improve professional relationships. The PRC has deepened its
peacekeeping participation and cooperation in non-traditional security matters. China has
also expanded its cooperation in judicial affairs and judicial assistance in criminal and
civil matters, and extraditions in particular. There are planned efforts to increase sharing of information, penalty enforcement and legal services. China has intentions to make concerted efforts in law enforcement and work jointly to combat transnational organized crimes including drug and economic crimes. Strengthening of intelligence and technological assistance under bilateral and multilateral exchange mechanisms are also on the agenda.

In appreciation of the role and importance of regional and sub-regional organizations in the Caribbean, in safeguarding peace and stability, promoting regional stability, development and integration, China supports, encourages and will continue to strengthen consultation and cooperation with relevant organizations in various fields.

Caribbean Policy Towards the US

The CARICOM has no official policy towards the US, although they share many common traditions and goals of peace, democracy and prosperity. There is, however, a longstanding relationship between the governments in the region (individually and through CARICOM) and the US. The US has been the major economic partner of CARICOM in areas of trade, investment, tourism and migration.

It is recognized that US foreign policy has a significant impact on the economic progress of the CARICOM countries and that this economic development is an essential

\[94^\text{In the absence of an official policy, excerpts in whole or part were taken from a testimony given by Richard L. Bernal, Ambassador of Jamaica to the US (1991-2001) to the Subcommittee on the Western Hemisphere of the US House of Representatives Hearings on US Policy towards the Americas in 2010 and Beyond, March 3013, “US Foreign Policy towards the Caribbean Community (CARICOM): Economic Aspects.”}]}
foundation for peace and democracy. It is the driving force in the region’s fight against transnational crimes.

The rationale for the focus of the region’s policy is primarily due to the characteristics of “small states” or small middle-income developing economies (SMIDEs) which make them acutely vulnerable to exogenous external events. This vulnerability is pronounced because of a high degree of openness, narrow range of economic activities, concentration of exports, limitations of economies of scale, and constrained competitiveness of small markets. Sustainable economic growth must be accomplished in the context of global economic recession and great care exercised in the application of macro-economic policy. Efforts should focus on building long-term capacity for international competitiveness through investment and improvement in human resources and modern infrastructure.

Achieving sustainable economic growth will be more likely if developed countries and large developing countries of the G20 refrain from policies, in particular, protectionism, that inhibit access in their markets. The US, given its unique role in the world economy and as the main economic partner of CARICOM, must continue to play a leadership role in shaping and nurturing an international economic environment that is sensitive and supportive to the economic requirements of SMIDEs.

The main areas of focus for a CARICOM policy towards the US should include: (1) sustaining and promoting opportunities; (2) alleviation or elimination of constraints and impediments, and; (3) facilitating the attraction, mobilization, creation, allocation and utilization of resources.
As the largest trading partner of CARICOM, the US should expand trade and extend the duration on the Caribbean Basin Trade Promotion Act which allows imports from CARICOM to enter the US free of cost. The US business community may also help to reinforce market-driven and private enterprises in CARICOM economies.

With the exception of Haiti, US developmental assistance to CARICOM countries has declined from the mid-1980s. Many interpret this as a sign that the US does not regard CARICOM as a priority. Of note is that the decline in US aid has been accompanied by the rise in economic aid from other countries such as China. The US should increase its development assistance to CARICOM countries in order to boost their fledgling economies.

The World Bank’s current portfolio to CARICOM countries focus, inter alia, on economic policy, urban development, education, catastrophe risk insurance, disaster risk management, HIV/AIDS prevention and control, biodiversity conservation, management of climate change impact, public sector modernization and telecommunications. The World Bank should increase the amount of resources provided to CARICOM countries.

The Inter-Development Bank (IADB) has provided vital development funding to CARICOM countries. World Bank should increase the amount of resources provided to CARICOM countries. The Caribbean constituency has had 53 loans amounting to $1.2 billion. During 2009 the Caribbean constituency (the Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago) received $495 million in loans following on $404 million in 2008. To date (in 2010) a further $235 million has been approved. These projects include policy-based lending and investment loans for infrastructure, education, water, agriculture, sanitation, energy and coastal protection. The IADB must be endowed
with additional resources to enable it to continue its policy-based lending and countercyclical financing, and to expand its conduit of resources to the SMIDEs of CARICOM.

The militaries in the region have enjoyed strong ties to the US over the years both from a bilateral perspective and through regional security agreements. Examples include the recent strengthening of the Caribbean Basin Security Initiative (CBSI) and commitment by USSOUTHCOM to strengthen regional capacity through CARICOM Implementation Agency for Crime and Security (IMPACS)\(^5\) in the joint planning of a strategic framework for countering illicit trafficking.\(^6\) USSOUTHCOM has employed many peacetime initiatives in the region through training, conferences and joint-exercises with Caribbean states. While other US Executive agencies such as the Drug Enforcement Administration (DEA) and the US Coast Guard have cooperated at the operational level in the fight against drug trafficking through Caribbean waters.


Caribbean Policy Towards China

Most Caribbean states engage with China because of the Prospect of economic and social development in the region. As shown in chapter 2, China is able to provide a substantial amount of economic assistance towards development of infrastructure, investment and trade, banking and finance, agriculture and culture, among other areas. The Caribbean bloc of countries, therefore on a whole, regard China as an important source of development aid, Foreign Direct Investment, and trade for generating long-term growth and development in the region. The region will look to China for deeper economic and financial cooperation and China’s membership in the Inter-American Development Bank and the Caribbean Development Bank is an important feature of this economic relationship.

China is also seen as an intermediary between the Caribbean and developed countries as the largest and fastest growing developing state. In this respect the Caribbean would benefit from aligning itself with China because of the potential China holds for transforming the global economic order.

As long as there is a perception of a decline in US interest in the region, China will present itself as a viable alternative for aid and development assistance. During the period of the war in Iraq and Afghanistan spanning the last 10 years especially, the US aid and assistance declined in real terms. Chinese policy of non-interference and

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98 Ibid.
neutrality provides easy access to Chinese loans and therefore China presents itself as a strong counterbalance to the economic and financial decline from the US.  

Summary of Inputs for Strategic Analysis

Table 5 summarizes the inputs of the relationships between the US, China and the Caribbean. A critical assessment of these facts provides the foundation for determining the nature of the strategic environment.

<table>
<thead>
<tr>
<th>Input</th>
<th>Questions</th>
<th>Sources (Caribbean Region)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Setting</td>
<td>What are the geopolitical characteristics of the Caribbean region?</td>
<td>Close proximity to US Southern Border</td>
</tr>
<tr>
<td></td>
<td>What is the history of the Caribbean region?</td>
<td>Discovered by Christopher Columbus in 1400s. Former colonies of Europe, Protectorate of US under Monroe Doctrine</td>
</tr>
<tr>
<td></td>
<td>What actors can influence the situation in the Caribbean?</td>
<td>Neighboring states (US, Mexico, Central and South America), Non-state actors (IGOs, TNCs, TCNs)</td>
</tr>
<tr>
<td></td>
<td>Why does China care about the area?</td>
<td>Resources, Influence</td>
</tr>
<tr>
<td></td>
<td>What are the actors’ sources of power?</td>
<td>Economic, Military, Diplomacy</td>
</tr>
<tr>
<td></td>
<td>What is the US domestic situation</td>
<td>Stable</td>
</tr>
<tr>
<td>Current Events</td>
<td>What is occurring that concerns the US?</td>
<td>Chinese economic and diplomatic expansion in the Caribbean</td>
</tr>
<tr>
<td></td>
<td>What is occurring that concerns China?</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>What has changed or is changing?</td>
<td>US no longer distracted by War</td>
</tr>
<tr>
<td></td>
<td>What is the significance of the change?</td>
<td>US may now re-focus attention in the Caribbean</td>
</tr>
<tr>
<td></td>
<td>What actions have relevant actors taken?</td>
<td>Observing</td>
</tr>
<tr>
<td>National Guidance</td>
<td>What US national Interests are involved?</td>
<td>Security, International Order</td>
</tr>
<tr>
<td></td>
<td>What Chinese national interests are involved?</td>
<td>Access to resources, Isolating Taiwan, Solidarity with Developing nations</td>
</tr>
<tr>
<td></td>
<td>What is the Us Policy towards the area?</td>
<td>Security Cooperation, non-interference of foreign powers in domestic affairs of region</td>
</tr>
<tr>
<td></td>
<td>What is China’s Policy towards the area?</td>
<td>Economic development and sharing of resources</td>
</tr>
<tr>
<td>Peacetime Planning</td>
<td>What plans already exist to deal with security in the region?</td>
<td>US/Caribbean security apparatus/ Regional security organizations</td>
</tr>
<tr>
<td></td>
<td>What resources and capabilities−military and non-military- are available?</td>
<td>Limited military and non-military</td>
</tr>
</tbody>
</table>

Source: Created by author.

Ibid.
Assessment Challenges and Opportunities

Major Strategic Challenges

From an assessment of the strategic environment, the major challenges surround answers to the following two questions:

1. Are there emerging threats to Caribbean or US security due to China’s expansion?
2. Does the US perceive China’s growth in the region as a threat to its interests?

The major challenges to Caribbean security remain the threat posed by transnational organized crime-illegal narcotic and arms trafficking, human trafficking, criminal gang violence, extortion, and corruption. The potential for the growth of terrorist networks and the influx of violent extremists will increase if the security apparatus weakens by virtue of lack of capacity or capability within national borders or the strength of alliances in the region, and especially with the US. The region’s ability to deal with the problems posed by these security threats is a direct function of their economic standing and its unique vulnerability to external shocks. Failing economies such as that which exists in the poorest country in the Western Hemisphere, Haiti, coupled with the ever threatening impact of natural disasters, create conditions that invite criminal exploitation. The best remedy for any government and by extension, the region, is economic development which leads to capacity building.

The researcher’s close examination of all the activities conducted by China within the region reveal efforts to improve economic relations, trade and investment and diplomatic cooperation with Caribbean nations. The prima facie implications are therefore, without evidence to the contrary, that these activities will serve to build
economic and infrastructural capacity and serve to strengthen national and regional capabilities. While there remains a question of motive, capacity building will serve to strengthen the region’s security apparatus rather than increase the potential for the growth of transnational criminal or terrorist networks. With aid and development support from the US to the region declining in real terms since the 1990s, having an alternative to US aid may serve to decrease vulnerability to external shocks and the penetration of criminality.

Still, the region’s vulnerability may also be threatened by diminished capacity in the regional security arrangements. Will China’s economic development impact longstanding regional cooperation and support from the US? Any examination of the historical trends of the US when it is perceived that the region may be threatened by any foreign power will reveal that the more likely reaction of the US would be to deepen and strengthen current security arrangements. Successive US Administrations have bolstered and augmented the original intent of the Monroe Doctrine and have not strayed from a foreign policy which reinforces the US’ commitment to a ‘protectorate-like’ figure over the Americas. The geostrategic importance of the region underscores the US’ need to ensure that both the security of the Caribbean island states and the US itself is not threatened, and therefore the region’s most powerful ally will exert all influence and project whatever instrument of national power required to maintain stability.

If there is no obvious emerging security threat posed by the predominantly economic activities of the Chinese in the region, should the US perceive a threat to its sphere of influence and power in the geostrategic lands space? And if so, what are the implications for US and Caribbean security? The answer to the former must be in the
affirmative. If the Chinese are employing strategies in the pursuit and protection of their interest in the long-term, it is quite likely that economic influence used as an instrument of national power, will have the effect of inducing CARICOM states towards a more pro-Chinese relationship. There is the possibility, which cannot be ignored, that this expansion is very much a part of a long-term agenda to attract alliances and co-opt support for China’s policies. Based on the principles of soft power projection already discussed, this may be achieved through institutions and policies as is the current modus operandi of China and Caribbean relationship.

To reiterate Hirschman’s argument on influence, it should also be noted that the cultivation of interdependence, when conducted strategically by the government of a powerful state, may lead weaker states to reorient not only their economies but also their foreign policies in alignment with the stronger state. In this view, economic persuasion by the Chinese may have the double effect of attracting positive alignment towards China at the expense of dis-alignment with the US, and so doing also cultural resentment towards the dis-aligned state.

The long-term effects of a growing economic relationship between China and the Caribbean arguably mean a diminishing of the relationship between the US and the Caribbean, in effect, a zero sum game. It is still not, however, a military or physical threat to US or regional security. It is merely perceived as an indicator a possible deterioration in the relationships that currently exist based on economic influence. Of importance to note is that the studies have indicated that China’s increased trade and investment in the region still lag behind that of the US. The US remains and will continue to be for a very
long time in the future, the region’s largest trading partner along with the European Union.

It is also worthwhile to point out that it is not an all positive relationship between China and the region. First, China does not engage CARICOM in a manner that promotes regional integration. Most of its agreements are bilateral in nature. This poses the danger of hindering cohesion which is the foundation of CARICOM itself. Second is that the trade relations are such that encourage cheaper Chinese imports replacing local products which boost exports from China but reduces local development and export. The agreements, which, contrary to the expressed “no strings attached” policy, normally impose the employment of Chinese labor for major infrastructural development projects. Third, China does not insist on development of values such as good governance, democracy and human rights in their developmental strategy of non-interference. Some studies argue that the lack of emphasis on such important issues will be detrimental for the long-term and economic development of the region.100

Potential Opportunities

While there is the possibility of a deterioration in the sphere of strategic influence exerted by the US in the region over the long-term if the Chinese continue on this path unhindered, there is also the potential for opportunities to be grasped by all stakeholders based on common interests and objectives.

Economic development within the region is in all stakeholders’ interests. It is the cornerstone of stability and the driving force in cutting dependence on external aid and

100 Ibid.
foreign influence. Economic stability reduces the vulnerability of small states to external shocks and possible penetration by criminal entities. Whether this economic development is driven mostly by the US or China, is immaterial at this time as it would serve to improve security rather than improve risks to security. It would be in the best interest of the US and the Caribbean to therefore, leverage opportunities for economic development that are being provided by the Chinese for two main reasons.

The first is that in terms of global concerns and the current US Administration’s policy, the traditional security concerns of the region pale in comparison to the security issues in other parts of the world, such as in the Middle East. They pale compared to concerns about weapons of mass destruction and the rise of violent extremist groups. This means that the relatively peaceful economic development of the Chinese in the region, although important, will not receive the level of attention in US foreign policy as the more immediate and present danger posed by the other issues. Second, the current Administration has stressed a more cooperative and interdependent relationship in its policy towards the Caribbean, and in general. This means it is discouraging what is normally perceived as dependency syndrome associated with its international relationships and encouraging mutual cooperation and independence. Loosely translated-the region must adjust to the fact that it will receive less and less in aid assistance compared to other times in the history of the relationship.

This may also provide the opportune time for the US and China to establish multilateral security arrangements to assist CARICOM in maintaining a secure environment within the region. It would be in the interests of all concerned to invest in security cooperation to create a climate conducive to economic development and less
prone to vulnerabilities to traditional threats such large TCNs or the infiltration of terrorist networks. It would be a win-win arrangement.

**Summary of Interests and Objectives**

Based on the analysis conducted on the strategic environment and given the nature of the relationships that exists among the US, China, and the Caribbean, the information in Table 6 portrays the assessed interests, objectives and possible Courses of Action (COA) for each stakeholder.

**Table 6. Table of Interests, Power, and COAs**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Interests</th>
<th>Power Available</th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Likely COAs</th>
</tr>
</thead>
</table>
| US    | -Security  
      -Prosperity  
      -Values  
      -International Order | Diplomatic  
      Informational  
      Military  
      Economy | All | None | Most Likely: Diplomacy and Economic activity  
Most Dangerous: Military offensive posture |
| CHINA | -Access to Resources  
      -Solidarity  
      -Isolation of Taiwan | Diplomatic  
      Informational  
      Military  
      Economy | All except military | Military | Most Likely: Economic activity  
Most Dangerous: Military defensive posture |
| CARICOM | -Peace  
      -Democracy  
      -Prosperity | Diplomatic  
      Informational | Diplomatic  
      -Military  
      -Economic | -Military  
      -Economic | Most Likely: Diplomacy and economic opportunity  
Most Dangerous: Military and political alignment with China |

*Source: Created by author.*
The US continues to promote and protect its national interests of security, prosperity, values and international order within the Caribbean through all of its instruments of national power. The foreign policy is reflective of a continuation of the original precepts of the Monroe Doctrine and more recent arrangements such as the Third Border Initiative which guarantees US cooperation and protection against threats within the region. Its military is operationally engaged in programs providing capacity building, humanitarian assistance, and security cooperation through USSOUTHCOM. It remains the Caribbean’s largest trading partner and benefactor of aid for developmental assistance. The US most likely course of action based on the strategic assessment is a continuation of its current policy utilizing economic assistance and diplomacy to further its interests. The most dangerous course of action which may be adopted by the US would be to perceive a direct threat posed by China’s expansion and move towards a military offensive posture.

China is focused on mainly utilizing its economic power, with help from diplomacy and strategic communications, to further its interests of solidarity, access to resources and isolation of Taiwan. From all indications, this strategy does not appear to pose any immediate implications to regional security and on the surface, may provide a complementary approach to current US policy towards the region. The emphasis on economic development, while benefitting from the returns of access to resources, does not conflict with the interest of the US nor of the Caribbean community. The advancement of the ‘One China’ policy is being pursued through the power of economic inducement and does not present a security concern. The Chinese most likely course of action would be to continue its strategy of deepening cooperation and promoting
economic development while its most dangerous course of action would be to adopt any form of military posturing.

The CARICOM’s goals are prosperity, democracy and peace. The region will grasp at economic development opportunities in furtherance of these goals. The region’s main source of power is diplomacy and it depends on the assistance of strong allies and a foundation of regional integration in order to ensure the region remains one of the most peaceful and secure in the world. CARICOM’s most likely course of action would be to continue diplomatic and economic outreach to both US and China. The most dangerous course of action would be to adopt a political and military alignment towards China.
CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

Findings

This study attempted to ascertain the implications to regional security posed by the emergence of China as a strategic influence in Caribbean geopolitics. It found, inter alia, that Caribbean states are too small to present any credible challenge to the international security climate and therefore only appear on the radar screen when American interests are at stake due to crisis or instability. Thus, US policy makers have emphasized different strategic interests in the region at different times, and it would appear that attention to the Caribbean is largely motivated by the onset of crises. By default, in periods of relative stability, the US reverts to a position of commensurate disinterest.

This position sets the tone for understanding the region’s security climate and the rationale for attempting to discern security implications from a largely economic relationship between China and the Caribbean in a comparatively stable geographical space. It is a fact that the island states in the Caribbean, collectively organized as CARICOM, have unique challenges based on their sizes which make them unusually vulnerable to risks—whether from global financial shocks or natural disasters. Historically, the region has enjoyed the distinction of falling under the protective umbrella of the US due to its geographical proximity to the hegemonic power.

The US has always discouraged any incursion by external powers into the hemisphere beginning with the Monroe Doctrine articulated by President James Monroe in the early 19th century, and subsequent affirmations in the Roosevelt Corollary and the
Caribbean Basin Security Initiative as recent as 2001. The nature of such incursions, however, would be of such that would be perceived as threats to US interests, typically of a security nature, but not necessarily confined to a military threat. The Monroe Doctrine for instance, was originally aimed at discouraging any further colonization by European powers of countries within the Western Hemisphere. It is no secret however, that the doctrine sought to stamp the US’ authority as the only power that may interfere in the affairs of these states as they were located within the “backyard” so to speak, of the great power.

Over the centuries, when the primacy of the US was unchallenged, its policy would reflect routine security cooperation with the Caribbean. This would however change in periods where there appeared to be challenges to the status quo. Major flashpoints of increased US attention in the region in the last century include: after Haitian revolts (1914-1934), Cuba (1917-1933), Bay of Pigs invasion (1961), Cuban Missile Crisis (1962), Panama Canal Treaty negotiations (1958, 1964), Grenada invasion (1983), Haiti Presidential Coup (1994, 2004), and Haiti after the earthquake devastation (2010). Outside of these periods the Caribbean would experience a diminished level of interest as the US focused attention to other priorities on the world stage.

Here enters China, the largest developing nation in the modern world and one that is considered by many as the greatest threat to the US as a world power. The PRC over the last 10 to 15 years has rapidly expanded its economic ties to countries with the Caribbean. The only states excluded are those six that have maintained diplomatic relationships with Taiwan. China has spent billions of dollars in aid and soft loans to these small island states with which it has ties and has invested heavily in areas such as
infrastructural development, agriculture, finance and trade, and tourism. This expansion in trade and political relations has spurred much debate concerning China’s motives and the seeming incursion into the hemisphere traditionally under the power and influence of the US. Many suspiciously view China’s reach and growing economic and diplomatic influence as either a direct threat to the interests of the US or as a strategic long-term goal in furtherance of a future super power status in the global architecture.

End State

The primary concern of the researcher was the impact which the competing interests of the US and China would have on the current security apparatus within the region, given its unique security challenges. The end state is to critically analyze the strategic environment in order to determine interests, objectives, and possible courses of action of each stakeholder, and to recommend a way forward.

Summary of Security Environment

The nature of security challenges in the region has long been considered a feature of the small size of Caribbean states. This smallness presents an unusual vulnerability to risks especially those associated with sophisticated international crime and well-financed transnational criminal organizations. Some of the most significant traditional threats include drug trafficking, money laundering, illegal arms trafficking, corruption of public officials and organized crime. These types of security threats may have less impact on larger and more developed states with strong crime fighting institutions and infrastructure, but on small states with fledgling economies, many large criminal organizations could overwhelm the security apparatus.
The Caribbean also lies in the direct trans-shipment zone between South America and North America which represent the major supplier and consumer of illegal drugs respectively. The close proximity of islands such as Jamaica and Haiti to the Southern border of the US is a major factor contributing to the flow of drugs and illegal arms in the region. The situation is compounded by the fact that TOC and criminal networks have been expanding and are able to penetrate even secure developed nations. TOC threatens the region’s economies and by extension US economic interests with the potential to cripple financial systems through exploitation, subversion and distortion, or trade and economic markets. There is also a direct link between terrorist networks and TCNs, indicating that terrorist financing is being generated through TOC.

These threats are beyond the capacity and capabilities of Caribbean small states to deal with on their own. Over the years there has been much assistance and cooperation with the US to counter transnational criminal activities. The partnership has focused on strengthening the individual nation’s capacity to combat organized crime with emphasis on the drug trade in order to promote regional security. One of the major initiatives of the US in its security assistance program is the building of independent capacities to fight crime with complementing efforts to promote sustainable economic development within the region.

Strategic Direction

The expanding influence of China throughout the region is due mainly to its economic investments. The PRC has pursued an aggressive campaign to establish strong financial ties with almost every Caribbean state. Those that still have ties with Taiwan would benefit from massive financial aid if they break ties and those who establish ties
with Taiwan would lose financial aid. Without having an expressed motive for the increased interest in the region, it may be concluded, based on the observed trends, that China’s main goals are to advance its ‘One China’ policy and to broaden its global geostrategic interests in furtherance of sustainable economic growth. China has expressed in its policy towards the region that it is pursuing peaceful development and friendly cooperation with an end state to build a peaceful and prosperous world. The PRC’s enduring interests were assessed to be solidarity, access to resources and furthering a ‘One China’ policy. In its outreach China recognizes that it has many differences with the US, but also common goals. It stresses mutual respect for these differences and seeks to deepen cooperation between the two countries. The PRC is also showing signs of intent to have a greater share in the responsibility for international peace and security as a permanent member of the UN Security Council.

The US strategy is hedged in preparation for a modernized Chinese military, but acknowledges that their current relationship is one that is long-term and multidimensional. Importantly, in the strategic analysis of the competing interests, the US approves the rise of China as a peaceful and prosperous China. The analysis revealed that the US would like to see China, as the largest developing nation and the second largest economy in the world, take on more responsibility and share more of the international burden of ensuring stability and growth in the international system. This aligns with the US strategy towards the Caribbean where it seeks to promote economic and social opportunity, ensure citizen security, and strengthen effective democratic institutions. Of even more significance is that the current US Administration’s policy stresses the promotion of independence and a shift in US aid away from security assistance and
towards building capacity, humanitarian assistance and bolstering respect for civil and political rights. It has strengthened assistance that build capabilities and capacities which counter terrorism and target the drug trade while its COCOM (USSOUTHCOM) stands by to support US national interests in its efforts to promote regional security and cooperation.

The CARICOM needs sustainable economic development. It relishes the opportunity to take advantage of China’s investments primarily as an alternative to diminishing aid and assistance from the US. It needs security assistance which is predominantly supplied by the US, but that will eventually shift towards developing capacity in specific areas. In essence, China will fill a need in supplementing US assistance in areas where China is willing to assist, and where the US is shifting focus. If the US is interested in promoting sustainable development and supports the rise of a peaceful China that is able to assist in providing additional developmental aid to the region, then there should be no conflict of interests in China’s expanding economic relationship.

Major Challenges

Security is the main concern of this analysis. The current threats to regional and US security form the basis of the implications of China’s growing relationship with CARICOM states. There is no evidence to support a conclusion that the increased economic developments between China and Caribbean nations will create added traditional security concerns.

The lack of capacity to counter transnational organized crime and terrorist networks is another major challenge. Any assistance that will serve to improve the ability
of these small states to deal with national and regional criminality, and bolster their infrastructure to withstand risks and external shocks would be welcomed in the region.

The growth of Chinese influence may amount to be a security concern, but not an immediate threat. Based on the current US and Chinese relationship, there is no overt activity suggesting any direct military confrontation anytime in the near future.

**Potential Opportunities**

When considered in its totality, the growing influence of China does not indicate any diminished influence over and by the US in the region. In fact, the US still remains CARICOM’s largest trading partner, closest and most powerful ally, and the largest contributor to regional development and security assistance. The growing economic relationship, combined with the US interests and policies at this time, seem to favor an opportunity to cooperate in the promotion of economic investments within the region. It also provides an opportunity for the US to allow China to share in the responsibility of developing the international system and also to establishing regional security cooperation agreements to fight against terrorism and TOC.

**Recommendation**

The researcher recommends that the way forward would be for the US to encourage China to take on more responsibility in the areas of security and economic development of the region. China should continue with its most likely COA to advance its interest through the economic means. The US should continue with its most likely COA to advance its interests through diplomacy, economics, military and informational means, and CARICOM should continue to take advantage of opportunities for economic
development by advancing its interests in the best way possible through the employment of strong diplomacy initiatives.
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OPENING OF SECTORAL DEBATE
PARLIAMENTARY YEAR 2013/2014
by
Dr. the Hon Omar Davies, MP
Minister of Transport, Works & Housing
May 7, 2013
INTRODUCTION

1. I consider it a special honour to have been asked by the Prime Minister to lead off the sectoral debate for the 2013/2014 fiscal year.

2. Let me acknowledge the contributions of the six speakers who spoke in the main debate which ended last week Wednesday. I must however make special mention of the two presentations by my colleague the Minister of Finance and Planning.

3. To use the farming analogy, he had a “hard row to hoe”. There could be no question that this was a difficult budget to craft, given the known needs of the society coupled with inadequate available resources, particularly in light of the pre-conditions to be satisfied for an IMF agreement. The challenge which I believe all members of this House recognize is that it is not simply about reaching an Agreement with the IMF and the passing of quarterly tests. That is a necessary condition for progress, but clearly it is not a sufficient one.

4. The real “Test” is stimulating real economic growth and increased employment.

5. The challenge is for all members of the Administration and indeed this Honourable House to fully recognize that the crisis is real and the fiscal constraints are also real. For our part we must all commit to getting maximum “bang for the buck” from the budget allocations, and from the work of the various public bodies with the clear objective of fostering economic growth and in so doing improve the lives of our citizens.

6. If any message should have come out of the presentation by my colleague Minister of Finance, it must be that the fiscal constraints are indeed real. The imperative of reducing the fiscal deficit has forced the Administration to take, simultaneously, two unpopular steps, namely: to significantly increase a wide range of taxes and to compress expenditure in several critical areas.
7. In terms of the compression of expenditure, most noteworthy is the agreement reached with public sector workers for zero increase over the next two years. As the Minister who, together with our late colleague, Danny Buchanan, engineered the first such agreement a decade ago, I realize the challenge, in advancing such a proposal, much less reaching an agreement.

8. Respect is due to the leaders of the public sector workers, as well as to the chief negotiator of the Administration – Minister with Portfolio in the Ministry of Finance.

9. From the point of view of the sector ministries, every one of us has been called on to make do with much less than we would have liked and much less than we could have efficiently expended.

10. However, the cuts have presented us with an opportunity to address some of the blatant inefficiencies in the public sector bureaucracy. For that reason, I have made it clear to members of my own ministry that, rather than lamenting the difference between what we had hoped for and what was approved, we will compensate for that “reduction” by being more efficient in using the resources at hand.

11. Let me provide a specific example of how this greater efficiency may be achieved by simply using existing resources and systems in a more productive manner.

12. There are often complaints from members of the public as well as the business community about the cost of the delays in the Government bureaucracy to the private entrepreneur. There is much validity to these complaints.

13. What is seldom realized is that this tardy bureaucracy also retards the State itself. Specific example is given by the work of the Infrastructure Sub-Committee of Cabinet.

14. Mr. Speaker, all contracts beyond a certain value have to be vetted by the Sub-Committee prior to presentation to Cabinet.
15. When the new Administration took office in January 2012, we noted that the average time between Requests For Proposal (RFP) being advertised and a contract being presented to the Infrastructure Sub-Committee was between 18 months to two years. This *inter-regnum* can only have negative implications. Costs would inevitably increase greatly over such a period; the various certifications of contractors could have lapsed and clearly, if the matter were of urgency at the time of issuance of the RFP, one would be at a crisis point two years later.

16. Worst of all, when the Infrastructure Sub-Committee considers the proposed contract, even if there is immediate approval, actual project implementation would bring its own set of problems and delays.

17. We have set a path towards improving the throughput and I can inform the members of this Honourable House that we are now reviewing, at the meetings of the Committee, projects for which RFPs went out in January 2013. Our objective is to make the whole process – from issuance of a RFP to approval by Cabinet last three months, and for that to become the norm, rather than the exception.

18. There can be no doubt that the reduction in the time which elapses between the issuance of RFPs to the beginning of actual work on the project will translate into cost savings, all of which can be achieved without spending one additional cent.

19. It is 16 months since I assumed responsibility for this portfolio.

20. I wish to publicly place on record my appreciation to those persons with whom I have worked during this period - beginning with my political colleagues within my Ministry, the Minister without Portfolio, and the Minister of State. However, let me hasten to also thank the Permanent Secretary and the other officials who work in the Ministry, the CEO of the NWA, the Directors General, and the entire staff in the Ministry.
21. A special tribute goes to the staff in my office.

22. At the risk of creating jealousy, I must place on record my special appreciation for the work done by my Permanent Secretary who has ably pulled together all the various departments of the Ministry and the public bodies into an increasingly cohesive system. It is no accident that the newspaper yesterday carried an article about the PS and the two Directors General in the Ministry.

23. I wish also to pay tribute to the various Board Chairmen and Board members who have volunteered to take on onerous tasks. In some instances these positions have turned out to be virtually full time jobs. In a time when so much of the public discourse reflects a sense of doom and gloom, it is heartening that there are so many competent persons willing to volunteer their skills and time for the furtherance of the national good.

24. A special welcome to students and teachers who are present and the staff of constituency office.

STRUCTURE OF PRESENTATION

25. Given the number of departments/public bodies within the Ministry it would be simply impossible to review the work of each. Without seeking to devalue the contribution of any department or entity – it is important to note that I will need to be selective in my presentation – all cannot be covered. The Minister with portfolio responsibility for housing will be making a separate presentation later in the Debate.

26. The approach which will be taken in this presentation is to review progress made during fiscal year 2012/13 on some of the key initiatives by the different departments and then speak to the planned programme of activities for fiscal year 2013/14 and the medium term.
In terms of fiscal year 2012/13, I will briefly review the work undertaken on the JEEP, JDIP, the recovery from Hurricane Sandy and other activities by the NWA, progress made in the privatization of Kingston Container Terminal (KCT) and the Norman Manley International Airport, as well as the significant steps taken in executing one of the mega projects, the North/South leg of Highway 2000.

B: REVIEW OF FISCAL YEAR 2012/2013

1. In reviewing the fiscal year 2012/2013 it must be recalled that this was the first full year of operation of the “new” ministry. Furthermore, execution of capital works was affected by the passage of Hurricane Sandy in October. Close to 200 road sections were damaged by landslides, flooding and scouring. NWA undertook a massive clean-up and reconstruction exercise which is still not complete. The cost of this reconstruction exercise, to date, is in excess of $1.5 billion.

2. Given the tight budgetary constraints, this expenditure had to be accommodated through the reallocation of funds originally programmed for other projects. Special commendation must go to the Permanent Secretary, the CEO of the NWA and his staff, as well as the officials at the Ministry of Finance who worked together to reallocate resources to facilitate the reconstruction activities.

3. It was recognized early in the year that the state of disrepair which characterized much of the road system could not be comprehensively addressed through major reconstruction projects. Consequently, the NWA embarked on an unprecedented island-wide patching project to the tune of $1.1 billion. It is worth noting that every constituency in every parish was included in the programme.

4. JEEP: It would be recalled that the JEEP project was launched in March the 2012 fiscal year. 2012/2013 was the first full year of operation. JEEP was partially funded by the reallocation of (US)$50 million from the JDIP project. Additional funds were received from a grant from the PetroCaribe Fund to finance some special programmes – in particular the housing collaboration with Food for the Poor. Not only did
this programme have a positive impact on employment of over 37,000 persons, but small and medium size contractors also benefitted tremendously from the over 950 projects which were executed.

5. Special commendation to Head of JEEP, Mrs Lucille Brodber and her small hardworking team.

6. Phase I of JEEP consisted of projects involving construction of roadway support structures, culverts, drains, retaining walls, etc. Work was based on the allocation of $12 million per constituency. That phase was successfully completed in September 2012.

7. The second phase of JEEP started in October 2012 and will be completed next month, when financing from the JDIP project comes to an end.

8. Under this segment, road works, support infrastructure and some community projects are being undertaken as well as construction and repair works to the drainage network in Kingston and St Andrew. With regard to the rehabilitation of the Sandy Gully Drainage Network, major contracts have been awarded.

9. JEEP’s collaboration with Food for the Poor in constructing houses for indigent households island-wide will continue. This programme had to be adjusted in the wake of Hurricane Sandy to focus on providing housing units for those persons who had lost their homes.

10. In this regard – the focus was on the parishes of St Mary, Portland and St Thomas where 383 units have been constructed to date to provide shelter to those who had lost their homes.

11. Mr Speaker, as a reflection on the new *modus operandi* of this Ministry, this re-housing project was executed with the full participation of all the MPs and there has been no issue of favouritism or victimization.
12. Another collaborative project involves Food for the Poor, NHT, the JEEP Secretariat and the housing arm of the Ministry.

13. In this project, Food for the Poor is contracted to construct 600 concrete housing units (360 sq. ft.) annually for sale to NHT for the equivalent of (US)$9,500 per unit.

14. Through this project, NHT will be able to make available units to contributors with a weekly income of between $5,000 and $7,500.

15. There are plans to expand this project as it represents an opportunity to respond to the needs of NHT contributors who have historically been denied access to units.

16. **The JDIP Project** – There are several projects under JDIP which were brought to conclusion during, or on which work continued in fiscal year 2012/2013. Among such projects are the Christiana Development Road which was completed in April 2012 and the Palisadoes Road which was also completed in 2012.

17. It should be noted that by means of a variation, work continues on the Palisadoes Road to facilitate the replacement of NWC water mains through collaboration between NWC and NWA. This work will not affect the roadway in anyway.

18. Furthermore, I wish to reassure citizens, particularly the environmentalists that work in terms of restoration of the mangroves has been budgeted for in the 2013/2014 budget and will begin shortly.

19. **Bridge Construction and Repairs:** As part of the JDIP programme the Rio Grande Bridge was completed and opened in October 2012. The Cassia Park and Queensborough Bridges have also been completed. Work continues on the Westmoreland Bridge in St Mary will be completed by next month.

20. The John’s Hall Bridge in Montego Bay is being constructed at a cost of just under $400 million.
21. Modular Bridges are being constructed in Kintyre (St Andrew), Eden River and Fontebelle (St Mary); Crooked River (Clarendon); and Craig Mill (Portland).

C: **FISCAL YEAR 2013-2014**

1. During the current fiscal year the Ministry will continue work on a wide range of projects. This will both be actual construction as well as administrative and institutional initiatives to lead to greater efficiencies in the operation of activities under the aegis of the Ministry.

2. One area relates to **land transportation service**. Much of the policy framework for this sector is dated and dispersed under varying pieces of legislation. Consistent with the objective of modernizing the sector, the Ministry is in the process of hiring a consultant to guide the establishment of the Land Transportation Authority which will result from the merger of the Transport Authority and the Island Traffic Authority. It is expected that the consultant will be engaged during the second quarter of this fiscal year leading to the Authority being established in fiscal year 2014/2015.

3. The Road Traffic Act is in the final stages of a comprehensive revision and a new Act will be passed during this Parliamentary year.

4. I need to say a word here about the economics of the transport sector. The Administration recognizes that there is need for a fare adjustment. Discussions are ongoing with representatives of the sector with the objective of coming to a common understanding of the unavoidable costs faced by operators. Mr Speaker, the system will deteriorate and collapse sooner rather than later, if the need for a fare adjustment is not acknowledged and responded to.

5. Naturally, the same applies to the JUTC.
6. Let me signal to owners/operators involved in this sector, that representatives of the Ministry, whether members of the political directorate or officials, are always available to meet to discuss and resolve problems. But, let me emphasize that such meetings must be in the context of mutual respect and order.

7. Indiscipline and coarseness must be eliminated from this vital sector of our economy and society. We intend to radically improve behavior in the sector.

8. **Jamaica Railway Corporation** - During the last fiscal year, the Board of the Railway Corporation took action to eliminate the “financial bleeding” of the Jamaica Railway Corporation with the intention of preparing it for privatization.

9. This action included terminating the loss making commuter services between Linstead and Spanish Town. Furthermore, a redundancy exercise was implemented and payment of employees commenced. A comprehensive titling and survey of properties owned by the Corporation has been undertaken, with assistance from the National Land Agency in order to prepare it for privatization.

10. **Privatization of the Kingston Container Terminal** – An Enterprise Team was established in December 2012 under the Chairmanship of former Governor Derick Latibeaudiere. The privatization is being undertaken under a public private partnership initiative using a limited tender approach for the selection of the concessionaire/investor/partner. The process is well underway. The objective is to modernize and expand the Port to capitalize on opportunities which will come about through the expansion of the Panama Canal.
11. Related to this is the decision by China Harbour Engineering Company (CHEC) following preliminary feasibility studies, not to proceed with developing Fort Augusta as another terminal facility. (I will say more about this later in the presentation). The availability of this additional space, which is already owned by the Port Authority, should improve the attractiveness of the KCT privatization effort in that land is now available for possible expansion.

12. Privatization of the Norman Manley Airport

An Enterprise Team was established in November 2012 to proceed with the due diligence exercise necessary in order to privatize the facility. It is expected that early in this fiscal year, the Request For the Proposal (RFP) will be issued. Concurrent with the capital development programme aimed at improving the existing infrastructure continues.

13. Donald Sangster’s International Airport: Although long privatized, the government, through the Airports Authority, retains a key role in this facility. Currently work is proceeding in terms of overlay of the runways which will be completed during this fiscal year to the cost of (US)$25M.

14. Mr Speaker, I should indicate that I took note of the reference by the Opposition Spokesman on Tourism for the need to improve the Montego Bay Airport.

15. It is recognized by both the concessionaire and the Government that there is need to extend the runway, both in anticipation of more stringent international requirements as well as to accommodate long haul aircraft.
Discussions are already on-going between the Concessionaire, Airports Authority and the Ministry with the objective of beginning construction during the latter part of this fiscal year. Completion will be in fiscal year 2015/2016.

16. The extension will be facilitated through the acquisition of various adjoining lands.

17. Officials of the Airports Authority will be available to give a full briefing to the relevant Opposition Spokespersons.

18. Caribbean Airlines: The agreement by which Caribbean Airlines assumed responsibility for Air Jamaica flights as well as the right to use the Air Jamaica brand name is well documented.

19. Let me indicate that the Administration supports the work done by the previous Administration in terminating the losses of Air Jamaica. These operations resulted in the GOJ assuming responsibility for nearly US$1B of debt.

20. Not surprisingly, CAL is facing challenges despite receiving significant subsidies from the Government of Trinidad and Tobago.

21. In an attempt to address its worsening financial situation, CAL has taken the decision (incorrect in our view) to drastically reduce the number of flights in and out of Jamaica. The reduced number of flights is below the minimum level required by the agreement which granted permission for use of the Air Jamaica brand name.

22. In addition, CAL has had continuing challenges in meeting its obligations to various Jamaican public sector entities including NMIA, JCAA and Jamaica Customs.
23. Mr. Speaker, there have been calls for the Administration to take aggressive action against CAL. However, this Administration is of the firm view that we should seek to resolve whatever difficulties we are facing through dialogue. Furthermore, there is no benefit to either country to turn our attempts to resolve problems into a public spat.

24. To that end, I have agreed with Minister Bharath, who has responsibility for CAL in the T & T Government that he will come to Jamaica either late this month or early in June with his full team, for a frank exchange of views leading to a resolution of all outstanding matters.

**North South Leg of Highway 2000**

1. The investment by China Harbour in the North South leg of Highway 2000 is the single largest capital project currently being undertaken in Jamaica.

2. On several occasions, I have publicly acknowledged, both in the House and elsewhere, that this project was not conceptualized by the present Administration. For reasons well known, despite the fact that considerable preparatory work was done, the project was stalled. This Administration inherited the plans and we have quickly moved to implement them.

3. At present, work has resumed on Section 2, known as the Mount Rosser Bypass. Just recently we facilitated the importation of 37 pieces of heavy equipment, including trucks, cranes, excavators, bulldozers etc. and they have been mobilized on the site.

4. Barring any unforeseen circumstances, section 2 will be completed within a year from today. Completion of that section will, itself, drastically reduce the travel time between Linstead and Ocho Rios.
5. As regards Section 1, (Ferry to Linstead) and Section 3 (Moneague to Ocho Rios), the process of land acquisition is moving ahead and valuations and negotiations are now being carried out by valuators employed by NROCC.

6. The environmental impact assessments have been completed for both Sections 1 and 3 and all relevant permits have been issued by NEPA.

7. The developers are now finalizing the geotechnical investigations and designs for work. NROCC has convened several public meetings with the various stakeholders to discuss the project.

8. Actual construction work on the section, (Ferry to Linstead), is slated to commence in September and on Section 3 – (Moneague to Ocho Rios), in November of this year.

9. In short, Mr. Speaker, all systems are “go” for this significant project which will imply untold benefits for all Jamaica. It will curtail travel time between Kingston and the North Coast; it will result in a reduction of fuel consumption and it will open up Kingston and its environs with several historical and cultural attractions as a tourism destination for visitors based on the North Coast.

**Major Infrastructure Development Project (MIDP)**

1. During this financial year work will begin on this project value at approximately (US)$350 million. This project is being financed by a loan from the China Exim Bank, (US$300M) and by the GOJ’s contribution of approximately US$50M.

2. The Leader of the Opposition suggested in his presentation in the Budget Debate that the MIDP is a replica of the JDIP, despite our condemnation of that project, when we were in Opposition.

3. Mr Speaker, it is necessary for me to place on record, for colleagues in the House and more important, for members of the public why this assertion is not correct.
4. It is true that there are similarities between the two projects. MIDP is financed by the same source - China Exim Bank and the main contractor is the same company, China Harbour Engineering Company (CHEC). The similarities however end at that stage and the differences are not token.

5. Whilst the JDIP was routed through the Road Maintenance Fund, the new project was deliberately placed, as it should be, in Capital B of the Estimates of Expenditure.

6. Whilst, under JDIP, there was lack of clarity of the role of local contractors vis-a-vis China Harbour, clarity has been clearly established at the outset for the new project.

7. China Harbour will be given responsibility for major projects up to a value of US$220M. Local contractors will be allocated projects with a total value of (US)$130M (US$80M supervised by the NWA) and (US)50M through JEEP. (CHEC will also utilize Jamaican sub-contractors on these projects).

8. A selection of the projects in each category will be made known to Parliament.

9. Another clear difference between the two projects is the amount to be paid to China Harbour for supervision of the projects to be undertaken by local contractors. A major issue of concern with JDIP was that China Harbour was paid 25% of the value of those projects which they were not directly implementing. This supervisory management fee for MIDP projects has been capped at 12½% of the value of contracts.

10. In short, Mr. Speaker, we do not simply speak of transparency in theoretical terms. We do this in reality and never again should Parliament and the country allow a major expenditure of (US)$400M to be treated as was done under JDIP.

11. In fiscal year 2013/2014 the restriction placed on the budget by the target of reducing the deficit and increasing the primary surplus has limited the allocation made to the MIDP to (J)$2.5 billion. The Minister of Finance and I have discussed the implication of this capped amount in the first year and have
agreed that, in the next two fiscal years, 2014/2015 and 2015/2016 the amount allocated to MIDP will be significantly increased.

12. Shortly, I will be bringing to Parliament an explicit statement of the projects which will be undertaken by the MIDP during this fiscal year.

D: GROWTH, EMPLOYMENT AND MEGA PROJECTS

1. Earlier in the presentation I made reference of the fact that there is need for full acceptance that the fiscal constraints, to which constant reference was made by the Minister of Finance, are real. The implications are not solely the need for Ministries and agencies of the State to operate within a more restrictive fiscal environment but more importantly, there should be an aggressive attempt to encourage private sector participation in investment.

2. Acknowledgement of this reality did not start with this Administration. Rather we have inherited projects which were conceived by the previous Administration but not carried through for one reason or another. The North/South link of Highway 2000 is one example.

3. In this period, we should know that the financial constraints in Government expenditure will remain tight in the medium term and hence, in order to foster expanded economic activities, a greater role will have to be played by private investors - foreign and domestic. One area of economic activity, for which Jamaica is eminently positioned to maximize benefits, relates to the development transport facilities, which will spawn complementary economic activities. Such initiatives will form a part of Jamaica’s exploitation of its location as a Logistics Hub.
4. The expansion and modernization of the Panama Canal increase the potential benefits to Jamaica in exploiting its God-given location and for this reason the Administration is pursuing this opportunity with focused application.

5. My colleague, the Minister of Industry, Investment and Commerce has been working hard to solicit investments in various projects which will firmly establish Jamaica’s place as a major transshipment and logistics hub in the Western Hemisphere.

6. Mr. Speaker, it will be recalled that nearly a year ago, Cabinet gave approval for the Port Authority of Jamaica (PAJ) to sign an MOU with China Harbour (CHEC) to explore the development of Fort Augusta as a major transshipment port. CHEC has carried out a great deal of research on this site over the past several months and during this period, their assessment of Jamaica’s potential to become a major transshipment and logistics centre has been greatly expanded.

7. For that reason they have determined that, given the range of projects which they wish to develop to complement a transshipment port, the available land space at Fort Augusta is not capable of accommodating the planned economic activities. They have therefore expressed the desire to explore other sites which will provide in excess of 6,000 acres which they project will be required to accommodate their planned investments.

8. The Port Authority was authorized by Cabinet to sign an extension to the MOU with China Harbour, which will allow CHEC time to carry out the extensive technical studies required for this major investment. The total value of this investment is estimated, at this point in time, to be in the order of (US)$1500 million.
9. The Prime Minister announced this expanded scope of the plans of CHEC and its parent company China Construction Communication Company (CCCC). At the same time, she also indicated that CHEC was no longer interested in developing Fort Augusta as the site for their investment, for the reasons I have already indicated.

10. This project will entail, *inter alia*, the establishment of a transshipment port, construction of various manufacturing facilities, the development of a major IT facility, the development of a cement plant and the possible development of a power plant to provide electricity to the industrial complex. The development will result in the employment of 2,000 construction workers to be followed by over 10,000 permanent jobs, most of which will require high levels of skill.

11. For some strange reason, rather than focusing on the expanded investment plans, several organs of the media carried the story as simply reflecting a termination of CHEC’s interest in Fort Augusta.

12. The Administration is extremely excited about the prospects for this massive investment plan and we are taking the necessary steps to ensure that it materializes.

13. The Administration will ensure that all the required environmental impact assessments will be carried out and no aspect of the development will be carried out without full authorization from the various regulatory authorities – in particular, NEPA.

14. The Administration will be working closely with CHEC to ensure that all preliminary work is completed within a year, leading to actual developmental work beginning in fiscal year 2014/2015.

15. Mr. Speaker, this development has the potential to have a significant impact on the future of the Jamaican’s economy. The coordination of this development will be a complex exercise and it is for
this reason why we were pleased that the Principal of the Mona Campus, Professor the Hon Gordon Shirley, has agreed to be Chairman of the Task Force to guide this and other developments through its various stages.

16. In speaking of the issue of major projects, I note that the former Minister of Finance has warned against total reliance on such project. His point is well taken.

17. It is one of the paradoxes of the Jamaican economy that even where significant capital expenditure has occurred e.g. - the expansion of room capacity in the tourism sector - this has not led to the expected spin-off in terms stimulating growth in other sectors, or indeed in the overall economy.

18. Having said that, there can be no question that a successful implementation of these infrastructure projects will have the potential to act as the catalyst to spur economic growth and development.

19. The Administration recognizes that large projects do not provide all the answers. However, we welcome the immediate positive impact. We also accept that the task is not only to attract such projects but to ensure their integration into the general economy, thus maximizing the benefits from the investments.

E: CONCLUSION

1. In this presentation, we have sought to outline the work done by this Ministry in its first year of operation, Fiscal Year 2012/2013. We have highlighted the attempts to maximize the benefits from an expenditure budget constrained by the fiscal situation. Of interest was the focus on an extensive island-wide patching programme.
2. The first year also marked various initiatives at the community level, particularly as part of the JEEP project. The innovative collaboration with Food for the Poor has facilitated the post-Sandy recovery for those citizens who lost their houses in the parishes of St Mary, Portland and St Thomas. At the same time, the collaboration between Food for the Poor and the NHT in terms of the construction of concrete units presents hope to a segment of the housing market which previously had little expectation of owning their own unit.

3. We have outlined the major projects and activities to be carried out in this present fiscal year. Despite the constraints mandated by the tight fiscal situation we will seek to maximize the presence of the Ministry in all areas of its responsibility.

4. In the spirit of transparency, we have explicitly identified the difficult economic circumstances within which the transportation sector, both public and private, is presently operating. This sector faces deterioration and possibly collapse unless remedial actions are taken. After due consultation with all stakeholders, a fare increase is inevitable later in the year.

5. We have identified progress in terms of the mega projects. We do not consider this the solution to all our challenges, but there can be no doubt that the significant injection of investment capital in this economy, if properly managed, will have far reaching positive effects in terms of facilitating growth in other sectors and in terms of increased employment. We have pledged our commitment to ensuring that every genuine investment interest is facilitated.

6. One of the fascinating developments in terms of the range of portfolio subjects which fall under this Ministry is that these were once seen simply as providing the infrastructure to support real economic activity. An interesting evolution over time is that apart from carrying out this role, infrastructure development itself will form the basis of the expansion of the economy and the creation of employment. In our case the opportunity for this growth derives mainly from Jamaica’s strategic location where it is uniquely positioned to become a major hub in world trade.
7. Mr Speaker, in whatever activities this Ministry is involved, I wish to give the pledge that all individuals, all interests will be treated fairly and with equity. The post-Sandy recovery effort was our first test of whether our actions would be consistent with the verbal commitment.

8. Every Member of Parliament in this Honourable House can testify that the financial resources which have been allocated to the Ministry have been expended consistent with this objective.

9. We in the Ministry are aware of the enormous expectations in terms of our performance. Nonetheless, we are confident that, with the help of the Almighty, we will play our role in moving this country forward. There is too much work to be done for us to join with the doom and gloom which characterizes so much of public discourse.
Lepanthes Orchids: One of Jamaica’s Hidden Treasures

By: Judeen Meikle, (Assistant Botanist, NHMJ)

Orchids are one of the showiest and most beautiful ornamental plants worldwide. There are over 250,000 species of these plants that belong to the family Orchidaceae.

Jamaica boasts approximately 220 species from this family. These orchids can be found naturally occurring in the inner hilly and coastal regions of the island. Interestingly, most of the orchids seen in homes, flower shops or business places are hybrid species and are not found naturally occurring on the island. Of the 220 species, about 20 species may be found frequently domesticated in Jamaica.

One of the least showy and domesticated of the family, is the genus Lepanthes. This genus 30 species of the approximately 220 species of orchids in Jamaica. They also represent the genus of orchids with the highest level of endemism in Jamaica.

Majority of Lepanthes are epiphytic and are usually found in very moist but elevated regions, this habit reduces the visibility and detection of the genus. They are usually cluster forming, with solitary flowers arising from a stem. Each species has its own flowering period and will not flower all year round, and unfortunately each period may only last for a few days at a time. Lepanthes spp. may be referred to as micro orchids and are often overlooked.

Additionally when sterile it is difficult to distinguish different species of Lepanthes. The plants are minute delicate and uniquely formed therefore to observe their floral details one has to be quite meticulous and employ the use of a hand lens or even a microscope. These reasons lead to the fact that most of the Jamaican Lepanthes are understudied and are not represented in national collections as they should. However, the uniqueness, amazing complexity of the minute flowers, endemism and wide range of colours of these plants makes them an interesting but challenging study.

These unique and delicate orchids can therefore be classified as one of Jamaica’s hidden treasures.
Developmental Plans Pose a Threat to the Portland Bight Protected Area

The Goat Islands in the Portland Bight Protected Area, (PBPA), off the south coast of St. Catherine have been at the centre of controversy in recent days. The cays were deemed protected by the Natural Resources Conservation Authority (NRCA) in 1999 in an effort to ensure protection of marine and terrestrial resources within the area. Initially, the PBPA was dedicated to the protection of the coral reefs but has since been extended to the protection of vulnerable and endemic species of organisms in Jamaica. The entire PBPA includes mangroves, sea-grass beds and wetlands.

Talks have been circulating that the Government of Jamaica has been making arrangements with the China Harbour Engineering Company (CHEC) regarding the development of a transshipment hub on the islands.

The Kingston Harbour is ranked as the seventh largest natural harbour in the world. With Port Bustamante being situated in the harbour, the Port of Kingston has been dubbed the largest and most modern transshipment port in the Caribbean. Our island’s location between North and South America is ideal for movement of ships transporting cargo vessels all over the world.

As a transshipment port, many of the vessels that enter into the Port of Kingston do not deliver goods for the use of the domestic market but rather, carry containers that are destined for other locations. This is how the shipping agencies in Jamaica receive the majority of their income.

With the expansion of the Panama Canal underway, it is hoped that there will be space to facilitate larger ships and therefore, allow more vessels access to the area, thus increasing transshipment between nations. It is for this reason that there have been discussions within the Government of Jamaica to expand the port.

(cont’d on page 3)
Developmental Plans Pose a Threat to the Portland Bight Protected Area

It was initially intended that the lands at Fort Augsta would be used as the point of expansion of the port and the development of the transshipment hub; however, in April of 2013, the CHEC decided to withdraw their contribution to the project as the area was not sufficient enough for the plans that they had.

Four months later, buzz began to circulate that the Government was giving serious thought to utilizing the cays for the hub. Although many environment groups have been openly defending the need to protect the biodiversity of the cays and the surrounding areas, the Government seems to believe that the partnership with the CHEC would increase further investments in the country. They have also been adamant that there would be an increase in revenue for the country when operation at the hub commences.

THE ENVIRONMENTAL IMPACTS ON THE GOAT ISLANDS

Construction of the transshipment hub on the cays will result in severe destruction to the natural environment. The water around the cays play a significant role in the seafood industry as this area provides an undisturbed breeding site for many of the marine animals that are of commercial value, such as lobster and fish. There is also a wide variety of life on the islands themselves, with the cays providing habitats for many species of butterflies, bird and reptiles.

Should the cays be used for transshipment, there would be need to dredge the sea floor. This would be detrimental for the sea grass beds that are in the region which act as a nursery for some of the shellfish that is consumed in Jamaica, as well as to the mangroves and coral reefs which offer protection from storm surges and protect some marine wildlife. There would also be the need for significant destruction of the vegetation on the cays to facilitate the development of the hub. The cays are also surrounded by shallow waters and as a result, there would be the need to facilitate deep dredging on the sea floor and this could lead to the extinction of some species that are found only in the Portland Bight Protected Area.
On July 1, 2013, students from the Environmental Club at the Chandler’s Pen Primary and Junior High School hosted representatives of the Trans Jamaican Highway Limited (TJH) and Jamaica Infrastructure Operator Limited as they conducted their assessment of the first year output of the school’s Biodiversity Awareness Project. The students gave the representatives a tour through the garden that contains medicinal as well as native plants, conducted brief talks about the centre and answered questions on various items including work that they had done in the centre.
The teachers and students of the Environmental Club also participated in an end of year trip on July 17th. Members of staff of the Natural History Museum of Jamaica accompanied the group to the Port Royal Marine Laboratory (PRML) and Biodiversity Centre and the Two Sisters Cave in the Hellshire Hills. Miss Brooks of NHMJ highlighted points of interest the different ecosystems that were en route to the two destinations. The students were quizzed and tokens were given out. The trip was held to complement sessions on the ecosystems in Jamaica that were conducted during the term.

At the Two Sisters’ Caves, the students were educated about the formation of the caves and were given the opportunity to see some of the wildlife that were found in the caves. The tour guide also gave background information about the story about the myth surrounding the caves.

Students, parents and teachers of Chandler’s Pen and members of staff of NHMJ pose in their life jackets before heading out in the boat for a tour of the Kingston Harbour at the Port Royal Marine Laboratory.

Students get a hands on experience with marine life in the touch tank at the Port Royal Marine Laboratory as they were guided by a member of staff.

The students stop to pose under a banyan tree on their way up from the second and lower cave.
International Coastal Cleanup Day

International Coastal Clean-up Day was celebrated on September 21st this year. Members of the Education Department participated in clean up activities that were coordinated by the Jamaica Environment Trust (JET) along Fort Rocky Beach in Palisadoes. Hundreds of persons supported the event and the beach, coast line and surrounding mangroves along the roadway were cleaned by the volunteers.

An Afternoon with a Scientist

The first session of An Afternoon with a Scientist 2013-2014 was held on October 9, 2013. Students from the St. Michael’s Primary school were engaged in a presentation from Mr. Kimani Kitson-Walters who is a recent Marine Biology and Biotechnology graduate of the University of the West Indies. He presented on the complex and important nature of DNA and demonstrated a simple extraction of DNA from chicken liver using household items.

Mr. Kitson-Walters discussed the structure and importance of DNA and how it controls everything about an organism. A simplified extraction of DNA demonstrating how scientists would remove genes in biotechnology.
Maritime Awareness Week

The Natural History Museum of Jamaica participated in the Maritime Awareness Week Celebration at the Caribbean Maritime Institute. This year, the theme was “Sustainable Development: IMO's Contribution Beyond Rio +20”. The theme was adopted by the International Maritime Organization to focus public attention on the national and global maritime issues. NHMJ set up a display showcasing some of the marine animals that can be affected by maritime activities. Hundreds of persons passed through the display and were fascinated to learn about the animals that can possibly be affected by activities carried out at sea.

Education Department Outreach to Environmental Clubs

Outreach activities within the rural area for the Education Department for this academic year are already underway. On Friday, September 27, 2013, Dorsia Brooks and Krystina Jones ventured to Kellits Primary School in Clarendon where Miss Jones did a presentation on coral reefs highlighting International Coastal Cleanup Day as one way to protect our marine environment. The students were engaged in a discussion with regards to a display of some coral reef animals. They were also shown two videos that taught them songs about protecting the marine environment.

Feature Articles:

- Lepanthes Orchids: One of Jamaica’s Hidden Treasures
- International Day for the Preservation of the Ozone Layer
- TJH/NHMJ Biodiversity Awareness Project Update

Eye on NHMJ
TransJamaican Highway Donates Computers to Natural History Museum

TransJamaican Highway / Jamaica Infrastructure Operators (TJH/JIO) donated two computers to the Natural History Museum of Jamaica (NHMJ) on August 29, 2013.

The computers will assist with the work of the Education Department and the Science Library of the Division. TJH/JIO are also currently collaborating with the NHMJ in hosting a Biodiversity Awareness Project at the Chandler’s Pen Primary and Junior High School.

NHMJ Botanists Update IUCN Red List

Keron Campbell and Judeen Meikle of the Botany Department played an integral part in conducting assessments of two endemic plants with researchers from the Royal Botanical Gardens, Edinburgh. The subsequent updates were made to the IUCN Redlist where both were cited. The plants, Podocarpus purdieanus and Podocarpus urbanii, are conifers that have been classified as Endangered and Critically Endangered respectively.

*Podocarpus purdieanus* is endemic to central Jamaica where it can be found in St. Catherine, Clarendon, St. Ann and Trelawny. Its population is currently threatened due to illegal logging, removal of trees to make land for agriculture and grazing and mining.

*Podocarpus urbanii* is endemic to the eastern portion of the island, particularly in St. Andrew, Portland and St. Thomas. This conifer is offered some protection because of its location in the Blue and John Crow Mountains National Park, but it faces threat due to deforestation of the mountains by farmers for agriculture. It is also threatened due to illegal timber harvesting as well as an increase in some invasive species of plants within the area.

The links below provide full details of the report:


What is your official job title?
Library Assistant

What are you qualifications?
I have 6 CXC subjects as well as a Library Technical Assistant Certificate

How long have you been employed at the Institute of Jamaica and why did you choose to work here?
I have been employed at IOJ for two and a half years and I chose to work here because it gives me a chance to use my skills and knowledge in this organization. I am also looking for new challenges, more responsibilities and experience.

What are your core functions in NHMJ?
My core functions as the Library Assistant include answering reference queries, updating WINISIS database, accessioning books, shelving books, preparing bibliographies of new acquisitions, identifying and marking newspaper articles containing relevant information...just to name a few.

Describe a typical work day for you.
A typical workday for me...hmmm....let’s see. That would be for starters, I have the ability to assist users with queries/information that they request but not all. A normal day at the office for me starts off with keeping statistics of persons who use the library and updating the WINISIS database and identifying and marking newspaper articles containing relevant information.

What is WINISIS?
WINISIS is a Windows version of CDS/ISIS (Computerized Information Service/Integrated Scientific Information System). It is a generalized information storage and retrieval system. It is intended to be used for structured non-numerical databases containing mainly texts and is specialized in handling variable-length information.

You spoke about preparing bibliographies for new acquisitions. How often are new books added to the collection and how do they contribute to the work that is done at NHMJ?
Bibliographies are done whenever the library receives new publications. I work in a Science Library which is a Special library that is located within the NHMJ and it is mandated to stimulate an interest in science. Natural History Museum of Jamaica has a lot of research officers within its department who depend on our research materials. The publications that we received are mostly related to Science and Technology. We have users both internally and externally who conduct research on Science and Technology so we have to make the resources/materials readily available to them.
What do you enjoy most about what you do?
Well I enjoy just being able to assist people with whatever information they seek. With regards to my job and skills, I enjoy the satisfaction I get from helping users find a solution or the information they need and being able to assist them in the best way possible.

What are your long term ambitions?
My long term ambition is to grow with a company where I can continue to learn, take on additional responsibilities and contribute as much value as I can. Once I gain additional experience, I would like to move on from a technical position to management.

What are some of the challenges that you face working in your capacity?
A challenge that I faced...well, there was an instance where my co-worker went on leave and I had to oversee the activity of the Library Department. I had to give reports which I am not used to and I was very nervous doing so. Another instance was where I was asked to take minutes for a meeting. I was not up for it at the moment because I have never done that before but challenges are good because it makes you a better and stronger person.

In what way do you think you have/could help to enhance the work of NHMJ?
I am a hard worker with experience to get things done effectively. I can be flexible with my hours of work to fill in where you need me. I contribute my professional skills and my ability to work well in a group.

What do you like to do outside of work?
Outside of work, I do voluntary services. I am currently a volunteer for Jamaica Red Cross Society and Jamaica National Action Volunteer. However, I enjoy reading interesting novels and socializing with friends and surfing the internet.

What do you do as a volunteer for Red Cross?
As a volunteer, I am called to assist in the distribution of basic food items and toiletries to persons affected by disaster or those in need. At other times, I visit homes for the disabled and feed them as well as homes for children and offer them encouraging words, issue lunches and read stories to them. We also paint schools from time to time but our primary focus is on assisting persons affected by disaster. I am looking forward in moving up by being trained in First Aid and getting involved more in Uplifting Adolescents Programme training session.

Who would you say is your favourite author and your favourite book?
My favourite author is Stephen King and one of my favourite from his collection is the Medallion, even though there is a lot of violence and murder, I seem to have an interest in it because it makes your imagination run wild as well as puts you in suspense.
SUMMARY
OF THE ENVIRONMENTAL MANAGEMENT SCOPING
OF THE
PORTLAND BIGHT AREA, INCLUSIVE OF THE
GOAT ISLANDS

Prepared by
The Port Authority of Jamaica
October 2013
Cabinet and Parliament have been advised of the fact that an investment proposal has been submitted to the Government of Jamaica by a Chinese investor, China Harbour Engineering Company (CHEC), to establish a transhipment port and an industrial and commercial economic zone on the Goat Islands and the lands to the North of the islands in the Old Harbour Bay area.

The proposed investment, valued at $US1.5 Billion, represents a key development milestone and could have significant positive impacts on the country’s developmental agenda. At the same time, the development is proposed in or near to an environmentally rich area. It is, therefore, critical that the nation achieve an appropriate balance between the pursuit of economic and physical development on one hand and the protection of the environment on the other.

An amended Memorandum of Understanding (MOU), signed between CHEC and the Port Authority of Jamaica, provides the investor with time to undertake feasibility studies/due diligence, including technical, financial and environmental, to facilitate the refinement of a final proposal to the Government of Jamaica. The period of assessment is expected to be completed by the end of April, 2014, after which a decision will be made on whether to proceed to a conclusive agreement, providing that all social, developmental and environmental issues have been resolved.

The Port Authority has been instructed to continue its assessment and monitoring of the proposed project area, undertake detailed environmental and feasibility studies, and to offer effective guidance to the Chinese investors about the required development processes and approvals which must be followed or attained, before any final proposal is put to the Cabinet for consideration.

As a part of the on-going monitoring and assessment exercise, the Port Authority commissioned an Environmental Management Scoping Project to identify the legal and regulatory environment, the natural heritage resources, the industrial and commercial interest and the principal bio-physical and socio-cultural characteristics of the Portland Bight Protected Area. This document serves as a summary of the findings.
THE ENVIRONMENTAL MANAGEMENT SCOPING STUDY

The specific objectives of the study include the following:

- Determining the geographic boundaries of the Portland Bight Protected Area
- Conducting archival research on the historical use of the area
- Identifying applicable international and national environmental policies, legislation, regulations and standards for the area
- Identifying the biologically sensitive features of the marine and terrestrial environment
- Determining the location of rare, threatened and endangered species and their spatial distribution in the Portland Bight and Ridge Area and the Goat Islands
- Identifying the boundaries of fish sanctuaries.

Conducted by a group of appropriately qualified Environmental Management Professionals, the study involved desk research, literature reviews, assessments of remote sensing data including satellite imagery, (limited) terrestrial and marine field investigations and interactions with a range of experts from key institutions.

FINDINGS OF THE STUDY

The Portland Bight Protected Area (PBPA) is located at latitude 17°53’00" and longitude 77°08’00". It spans the parishes of St. Catherine and Clarendon and has a total area of 1,876 km² (724 sq. miles) which consists of 210 sq. km (81 sq. miles) of dry limestone forest, 82 sq. km (32 sq. mile) of wetlands. There are a number of small islands and cays within the PBPA. Those identified are as follows:

**ISLANDS**
- Little Goat Island
- Great Goat Island
- Pigeon Island
- Short Island
- Long Island
- Salt Island
- Dolphin Head Island
- Little Pelican Island
- Big Pelican Island

**CAYS**
- Careening Cay
- Rocky Cay
- Man O’ War Cay
- Bare Bush Cay
- Big Half Moon Cay
- Little Half Moon Cay
- Big Portland Cay
- Little Portland Cay
- Tern Cay

The Goat Islands are not the only small islands in the Portland Bight Protected Area.
Legal, Regulatory And Management Status

The Portland Bight and Ridge was declared a protected area in 1999 under the Natural Resources Conservation Authority Act of 1991 and is recognised as a Multiple Use National Park because in addition to its natural heritage resources, it hosts a number of major industrial, commercial, residential and agricultural activities.

Based on its mixed utilization, the PBPA does not fit any of the International Union for the Conservation of Nature (IUCN) categories:

- Strict nature reserve
- Wilderness area
- Natural monument or feature
- Habitat/species management area
- Protected Landscape/seascape
- Protected area with sustainable use of natural resources.

The Portland Bight Protected Area is not exclusively an environmental conservatory and is intended to facilitate multiple activities in a sustainable manner.

The Scoping Study has determined that there are a total of 68 international and national policies, legislation, regulations and standards that may be applicable to the establishment of a project as currently conceived by CHEC in the Portland Bight Area.

The Caribbean Coastal Area Management Foundation (C-CAM) was established in 1997 to promote coastal conservation and has been delegated management responsibility for the PBPA since 2003. C-CAM has prepared a management plan for the PBPA and is contractually responsible for implementing it. This includes securing funds for financing its activities.

It is important to develop a plan for financing the efficient and effective management of the natural resources of the proposed and declared protected areas of the PBPA.
History Of Human Occupation

There is evidence that Tainos lived in villages near to Portland Bight and the Goat Islands in the pre-Columbian period. In the ensuing period, it is recorded that Christopher Columbus visited the area stopping at Portland Bight where he named the area ‘Cow Bay’ because of the large number of manatees or sea cows seen in the area. It is also known that in the period of English Occupation Sir Henry Morgan maintained his ships at Careening Cay.

The Portland Bight Protected Area is host to important national heritage resources.

Current Industrial Activities In The PBPA

Current Industrial activities in the PBPA include the Jamalco Rocky Point Port, the Jamaica Public Service Old Harbour Power Station and Transmission Sub-Station, the Wallenford Coffee Processing Plant, the Chemical Lime Quarry, the Doctor Bird Power Barges, the Jamaica Broilers Ethanol Plant and several commercial fish, shrimp and chicken farms. In addition, in 2004 Jamalco received a permit to expand its alumina and port, doubling its alumina production capacity from 1.4 to 2.8 million tonnes per year.

It should also be noted that in 2009 Rinker/CEMEX obtained a permit from NEPA to establish a Port to host Post Panamax size vessels with a capacity of 60,000 tonnes. This includes dredging of a ship channel and turning basin to depths of in excess of 14 m.

The PBPA is host to significant industrial, commercial and agricultural activities which are important to the national development agenda.

Key Biological Characteristics Of The PBPA

The major terrestrial (land based) ecosystems in the Portland Bight Protected Area are:

- Tall open dry limestone forests located in Portland Ridge, Brazilletto Mountains and Hellshire Hills
- Broadleaf Forests in the northern sections of the PBPA
Mangroves and herbaceous wetlands in the northern, eastern and western shorelines of the PBPA

Riverine and estuarine ecosystems

There are several rare, threatened and endangered species of animals and plants found in the Portland Bight Protected Area. Among the vertebrates endemic to the Portland Ridge Area are the Portland Ridge tree frog, two species of thunder snakes, the dwarf snake, the blue-tailed galliwasp and the Jamaican fig eating bat. The invertebrates are represented by five species of blind cave dwelling shrimp. In addition to skinks, the Hellshire Hills are the home of the highly endangered Jamaican Iguana and signs of the Jamaican Coney, previously considered extinct, have been reported.

Over 271 plant species have been identified in the Hellshire Hills. These include 53 which are endemic to Jamaica and fifteen (15) species which are endemic to the PBPA.

Within the PBPA, Portland Ridge and Hellshire Hills are host to a number of important rare, threatened and endangered species of animals and plants and are critical conservation sites that require an effective management plan and the appropriate levels of resources for sustainability.

Large sea grass beds and coral reefs represent the major marine ecosystems in the area. The low-lying coastal wetlands support mangrove and sea grass growth and are important as marine nurseries and as sources for harvesting of shellfish among other things.

Within the Portland Bight area there are three areas zoned as special fisheries conservation areas or Fish Sanctuaries – Three Bays (south of the Hellshire Hills), Galleon Harbour (north of the Goat Islands and South of Old Harbour Fishing Village and Salt Harbour (just north of Jamalco’s Rocky Point Port).

2,585 fishers are registered with the Fisheries Division or the Ministry of Agriculture and Fisheries as operating from Rocky Point and Old Harbour as of September 2013. This represents approximately 14% of the total fishers in the island. The majority of these fishers make their catch from Pedro Cays, because the PBPA is in a degraded condition from dynamiting and over fishing.
Fishing provides mainly supplemental income to other activities in which the fishers are engaged. In addition to fishing, they work as farmers, policemen, coal burners, jockeys, disco operators, net makers, fish pot makers, carpenters, masons, boat repairers, restaurant operators and wage workers at the Kingston airport and the JPS power plant at Old Harbour Bay. A few of the fishers are also employed as wardens in the fish sanctuary.

In respect of the three fish sanctuaries, Galleon Harbour is the only one that may be affected by the proposed development. The existing substrate of Galleon Harbour primarily consists of relatively deep, soft hydrogen sulphide enriched sediment which might lead to the development of anoxic conditions which in turn is likely to be the root cause for the less than satisfactory result of this sanctuary.

The only sanctuary likely to be impacted by the proposed project is the Galleon Bay which is experiencing naturally degraded performance. It is important that scientific criteria be used in selecting any areas as a fish sanctuary. The mangroves in Salt Harbour deserve careful consideration for expanded development.

GOAT ISLANDS

The Scoping Study gave special attention to the Little and Great Goat Islands as they have been identified as proposed locations for aspects of the development.

The Great Goat Island rises from sea level to a maximum elevation in excess of 80m, while Little Goat Island has a maximum elevation in excess of 20m. Deep caves have also been identified on the Goat Islands.

The main features and area coverage of the Goat Islands are dry limestone forest (589.6 acres), mangrove wetlands (829.3 acres), coastal vegetation assemblage on sand (82.5 acres), brackish water bodies (287.7 acres), sea grass bed and reef slope.

History of Human Activity

The Goat Islands have experienced human activity from the Pre-Columbian times. Taino remains and relics have been found on the Goat Islands. During World War II Little Goat Island was developed by the United States as a Naval Station under the ‘destroyers for land exchange’ between
Great Britain and the United States of America. In that development, an airstrip, barracks, a power plant, fuel storage facilities and a water treatment system were installed on site. It is also known that 2.8 million cubic yards of material was dredged in creating the jetty for seaplane and naval access. The evidence suggests that the dredged material was stored adjacent to and between the Goat Islands.

The Goat Islands are not pristine and untouched environmentally. The area has been previously dredged and the spoils have contributed to the current land formation observed between the two islands. The Tainos are known to have inhabited the Goat Islands.

**Geological Features**

The more accessible areas on Little Goat Island were characterized by the following:

- Dry limestone forest vegetation such as cashew and log wood
- Mangroves
- Salt adapted dry land coastal vegetation
- Salinas (brackish water devoid of plant forms)

The higher elevations of the Greater Goat Island were dominated by Tall Open Dry Limestone Forest vegetation, which includes the endemic Broom Thatch Palm.

**Biological Features**

During the survey, the sighting of birds was very infrequent on both islands. Shotgun shells remains were found on Little Goat Island suggested that game hunting was occasionally done on the island, although none were seen during the time of the survey.

There is evidence that the Great Goat Island is still occupied by wild goats. It does not appear that there are iguanas on the Goat Islands.

The most commonly observed terrestrial life forms were small (<10cm diameter) gastropods, bivalve molluscs (snails and slugs), lizards and mangrove tree crabs.

An underwater inspection revealed the presence of sea grass with turtle grass being the dominant species of plants. The inspection also revealed scattered heads of massive corals, which suggests that they were damaged by dynamite. Above water, red mangroves grow up to 10 metres high.

The marine conditions around the Goat Islands are degraded and damaged by improper fishing practices.
CONCLUSION

The Portland Bight Protected Area is a Multiple Use National Park which hosts important natural heritage resources along with a number of major industrial, commercial, residential and agricultural activities. It is the home to a number of rare, threatened and endangered animal and plant species and the Portland Ridge and Hellshire Hills are critical conservation zones. The Fisheries in the PBPA are in a degraded condition suffering from a mix of naturally occurring conditions and improper fishing practices including dynamiting and overfishing.

The Environmental Management Scoping study identifies preliminarily the plant and marine life forms that could possibly be impacted by the proposed development. Previous experience with similarly challenging situations suggests that it may be possible to satisfactorily address or compensate for the environmental impact of the proposed project. Strategies to address the potential environmental impacts and to possibly enhance the existing environmental condition could include the creation of an alternative fish sanctuary, relocation and replanting of disturbed areas of mangrove and sea grass and the development of a habitat within the PBPA for the species that may need to be relocated. The project development phase to carefully design these and other compensatory strategies will commence concurrently with the development of the project to facilitate environmental policy and regulatory compliance between the proposed infrastructure development and environmental conservation.

The Scoping Study has recommended that a plan for institutional strengthening of the Protected Area Trust be developed, aimed at improving the management of the natural resources of the declared protected areas of the PBPA. This is expected to be an important feature of the efforts to improve the sustainable development of this Multiple Use Natural Park.

NEXT STEPS

1. PAJ will continue liaising with the Investor, CHEC, to clarify the details of the project, to define the stages in which the project will be implemented and the phases of construction including particulars of the areas to be affected during each phase. These details, along with the legal and regulatory conditions which will apply, are essential for completion of a framework agreement between the PAJ and CHEC. The Framework agreement is expected to be finalized before the expiration date of the amended MOU at the end of April 2014.
2. During the negotiation of the Framework Agreement, issues identified in the environmental scoping will be addressed in the preliminary designs.

3. Upon completion of the Framework Agreement, the project will be submitted for consideration by Cabinet for approval.

4. Assuming that the project meets with the approval of Cabinet, it will be submitted to NEPA for the determination of the Terms of Reference of an Environmental Impact Assessment (EIA). The Terms of Reference of the EIA is expected to include among others the following tasks:

   i. Detailed description of the project (electro-mechanical, structural and civil engineering designs for the pre-construction, construction and operation phase)
   ii. Analyses of alternative approaches and locations
   iii. Voluntary and mandatory on-going public information briefs, consultations and surveys
   iv. Valuation of natural resources
   v. Cost Benefit Analyses, inclusive of estimates of the Economic Rate of Return (ERR) for the proposed project
   vi. Detailed description of the bio-physical and socio-cultural environment
   vii. Detailed oceanographic assessments
   viii. Drainage assessment
   ix. Analysis of the regulatory framework
   x. Identification of potential impacts inclusive of Cumulative Impacts and Regional Impacts
   xi. Development of impact mitigation strategies
   xii. Risk assessment to inform, among other things impact identification and impact mitigation
   xiii. Development of a detailed environmental management & monitoring plan. This plan will include a programme to strengthen the Protected Areas Trust
   xiv. Preparation of an Emergency Response Plan

5. Cabinet and Parliament will be briefed on a timely basis as the process unfolds.