



Embrace of the dragon

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“Seduction in the Caribbean” was the title of my July/August column in 2012 (Issue 228) when I wrote not of romance, but finance, all coming from China into the community of island countries stretched across the West Indies, arguably seen by the paranoid as Chinese political stepping stones to the nearby shores of the heart of capitalism, the United States of America. Back in 2012 I wrote about Chinese projects in the Bahamas, and since then the pace of investment has not slackened.

In the Caribbean it has been Trinidad and Tobago, with its abundant supply of liquefied natural gas, which has attracted the most attention from the Chinese in the past; in Jamaica there is a proposed USD2 billion investment in a trans-shipment port and manufacturing zone; on the South American Continent in Suriname and Guyana exploratory work has started involving road and port projects. Xi Jinping, the Chinese president, made his first trip to the region last year when he went to Mexico, Trinidad and Tobago and Costa Rica. He met the leaders of eight Caribbean countries and reportedly promised 10 Caribbean countries USD3 billion in loans, making it clear that the Caribbean is of strategic importance, due to its proximity to the US as well as major trade routes, especially the Panama Canal.

In April, China's foreign minister, Wang Yi, paid a week-long visit to Latin America and the Caribbean, visiting Cuba, Venezuela, Argentina and Brazil. Besides a belief in “the historic inevitability” of greater co-operation, the foreign minister described Latin America and his country as “natural partners”. His visit could have been seen as a warm up act ahead of the one to the same countries by President Xi Jinping in July. In Brazil he attended the sixth BRIC summit between Brazil, Russia, India, China and South Africa in Fortaleza out of which (more later) the BRICS New Development Bank has emerged, with all the speculation and publicity this has since generated.

The Caribbean's two major financial services centres, the British Virgin Islands and the Cayman Islands, have, in fact, proven to be key players as investment platforms and both are used for most Chinese investment in the Caribbean. After Hong Kong the BVI has become the second-largest destination for direct investment into China, making companies in that jurisdiction so popular that the term “a BVI” is in common use by Chinese businessmen, just as “a Panama” is used, confusingly, to describe Ecuador's most famous straw hat. Such companies are used extensively for investments both within and without Asia and a 2010 study from Bedell Cristin, a leading offshore law firm, reported that BVI companies accounted for USD111 billion, or 10 per cent, of foreign direct investment in China. USD69 billion was invested overseas by Chinese firms of which 75 per cent was transacted through companies registered in the BVI, Cayman Islands and Hong Kong.

Not unlike Africa or Latin America, however, China's inroads across the Caribbean have not been without their problems. I have often said that cultural differences were important to recognise in business and anyone who sees the Caribbean and Latin America as one society does so at their peril; applying the same cultural criteria doesn't make sense: one has firm roots in a European colonial history whilst the other has a background of diversity that is unique to the Americas, despite a heavy influence from Europe as well.

Both cultures may have a shared experience of slavery and subservience, but it is much nearer the surface, historically, in the Caribbean and so it is not surprising to find comments circulating there referring to China's financial clout as a new form of economic colonialism. People in the Caribbean have also described their islands as a servant of Chinese investment. It has been estimated that USD75 billion in supporting loans has been made during the last two years; usually there is a stipulation that Chinese companies must be used

for projects as a condition of the funding. State-owned Export-Import Bank of China and China Development Bank lent some USD4 billion between 2005 and 2012 to the Bahamas and Jamaica alone. And just as the money pours in, so does the army of Chinese workers supporting the projects which has had social repercussions and has created imbalances and discontent in local labour markets.

In a world breaking away from the age of the single super power, as the governments of emerging economic giants located in Beijing, New Delhi, Brasilia and elsewhere nibble away at the edges of it, different cultures across the globe will have to learn to get along; compromises will have to be made as the rising states in Asia and Latin America expose an ugly truth for many: the global order no longer belongs to the West. Witness its failed attempt, principally by America, to have the Middle East remade in the image of a western democracy, the departure from an unsettled Iraq as a wobbling Afghanistan is handed back, and the catastrophic global financial meltdown – causing its banking system to buckle and bringing on a sovereign debt crisis – all of which have collectively exposed the West's political and economic vulnerability. Some now see the Washington consensus as the Washington nonsense.

Emerging powers have their own economic and political models. The sixth BRICS summit in Fortaleza addressed in particular a desire to dilute the western influence in international finance, questioning the legitimacy and credibility of the International Monetary Fund which they see as badly in need of reform. After five years of talks the BRICS have created the New Development Bank which is supplementary to the World Bank, the Contingent Reserve Arrangement and the Asian Development Bank.

Dilma Rousseff, Brazil's president, believes that the BRICS "are essential to the prosperity of the planet" and that they have been "responsible for mitigating the effects of the global financial crisis and the sustained growth of the world economy since then". The bank's first president will be Indian, its headquarters will be in Shanghai and it will initially have an authorised capital of USD100 billion. It will boost infrastructure and sustainable development

projects through loans, guarantees, credits and equity investments. Significantly, more trade is going to be conducted in local currencies, detouring the US dollar.

China already has swaps with 21 countries, including Russia and Brazil, worth approximately USD420 billion and Brazil has been conducting trade with Argentina in real and pesos. Crucially, a new settlement system will have to be created to accommodate the five currencies. Things have changed since the 1970s when the US convinced the Gulf countries not to launch their own currency and to denominate oil in dollars, investing the money in the US market.

It was 13 years ago to the month that the US experienced an appalling mainland attack by terrorists, the likes of which has not been seen in 200 years since the British sacked the White House in 1814. There was, however, another 9/11 and this was back in 1973 when Chile's Moneda Palace was bombed from the air and President Salvador Allende committed suicide. 200,000 Chileans were sent into exile and the murder and torture of thousands followed. Richard Nixon, the US president at the time, supported the coup which was driven by the fear of the spread of communism. Today, however, like other parts of the globe, the super power's political sway has started to wane as other influences strengthen.

When Wang Yi visited Latin America and the Caribbean earlier this year he said that "Brazil and China are the biggest developing countries in the world..." and so they will have "an increasing global-strategic influence". But just as culture clashes in the Caribbean will continue, we now have a BRIC bank with five different cultures at the helm. Will this bode well for the bank's future success? I certainly can't think of a more disparate group and I predict stormy seas ahead.

The Chinese, of course, can do without the New Development Bank but it sees virtue in partnerships, no matter how one-sided. A sackful of cash, regardless of the currency – as the West can attest to – can compromise the recipients. Winston Churchill once described an appeaser as one who feeds the crocodile hoping it will eat him last. Beware of dragons too.

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ISSN 0954-0628 US PS 002-273.

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US POSTMASTER: Send address changes to Offshore Investment, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA. Subscription records are maintained at European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast BT1 1BW, United Kingdom. Air Business Ltd is acting as our mailing agent.

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