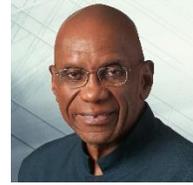




Inaugural Confucius Institute Lecture



How China's Economic Success Contributes to Caribbean Prosperity

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In April last year, my wife Monica and I installed a solar photovoltaic generating system at our home in St Joseph, tied to the Barbados Light & Power grid. We sell all the electricity we generate to BL&P, and we buy all the power we need from them, as we always have. At the end of the month we usually have a small balance in our favour. We have power day and night, whether it's sunny or overcast, and our monthly electricity bill is zero. The price we paid for our system was about the same as the value of our Toyota motor car. In effect, the price of a solar PV system is now lower than the cost of a family car.

That was not the case as recently as 10 years ago. What has made the difference is the entry of Chinese producers of solar PV panels into the international market, which rapidly increased production by several orders of magnitude. As everyone knows, if you produce on a massive scale, the costs of each unit you sell can be lower than for producers that have smaller production capacity. Until Chinese producers entered the market, Germany was the main market for solar PV panels, because the German government, along with some Scandinavian countries, provided generous tax relief and rebates to encourage the purchase of PV panels. With only the relatively small German market to depend on, production facilities were relatively small, and the price for panels was relatively high, putting the cost of a system for domestic use beyond the reach of people like myself. That all changed when the Chinese government made a major commitment to the expansion of solar PV generation as part of China's push to diversify the Chinese economy away from fossil fuels. This immediately created a vastly expanded demand for PV, because of the enormous size of the Chinese market. That in turn was an incentive for Chinese companies to ramp up production on a massive scale, with the resulting fall in the price of each unit.

Here is an example of a virtuous economic cycle. China makes a decision, mainly in the best interests of their own environment and economy, to produce solar PV panels on a large scale. That reduces the selling prices of panels by so much that, not only do Chinese consumers benefit, but many people in the rest of the world, including Barbados, are now able to afford a system which was previously beyond our means. This is a practical illustration of the benefits of trade between nations, and it also demonstrates how China benefits the Caribbean, along with all other countries in the international trading system, by making more affordable products widely available.

The growth of Chinese industrial capacity has been a worldwide benefit

The most important event in the global economy in the 21st century has been the addition of 400 million Chinese industrial workers to the world's labour force. That is the implication of China's

industrial revolution. Surprisingly, Western economies did not see the Chinese juggernaut coming. And economists in the West have been slow to recognise the full implications for the world economy, which are evident from the available economic indicators. Without China's manufacturing output over the last three decades, the world economy would now be very much smaller, with fewer goods and services available to all. That has been of immense benefit to the Chinese workers who produce these goods; they have moved from lives of rural poverty to the security and promise of the middle class. Equally, it has been of great benefit to consumers in China and in the rest of the world, because the goods and services produced have been exported to the rest of the world, as well as consumed in China. The reason China has been so successful at exporting is that they are able to sell products that give better value for money than similar products from other sources. We buy Chinese products because our money goes further when we do. Americans, Europeans and people from other large diversified economies should welcome Chinese exports to their countries for that reason. They can buy local motor cars, cell phones and printing services, but they choose to buy Chinese products instead because that enables them to have a somewhat better lifestyle. Like Germany, Japan and Korea in earlier decades, Chinese products at first had a dubious reputation, but with the maturing of their industrial processes Chinese products can now hold their own on quality with the industrial world.

The concern in the US, Europe and elsewhere about the Chinese trade surplus is entirely misplaced. By importing cheaper Chinese products and services that are nowadays every bit as good as they produce at home, Americans and Europeans are improving their lifestyles. What is more, the money that China earns from its export surplus is mostly invested in the US and Europe, which is an additional potential benefit to these industrial countries. The demise of the "sunset industries" in rich countries, and the attendant loss of jobs, is the result of new technologies and slow growth of labour productivity in these industries, which means that their labour costs are way higher than those in emerging markets which use the same modern technology, but pay much lower wages.

Small countries like those in the Caribbean do not face the dilemma of favouring Chinese imports over local production, because there are no local substitutes for the great majority of products we import from China. For our countries, the benefit of importing products and services of comparable quality from China in preference to more expensive sources is clear.

The point to be made is that the greatest benefit to the Caribbean from Chinese economic growth comes from taking full advantage of the Chinese contribution to the global availability of goods and services. No action on the part of Caribbean governments is necessary. People of the region are availing themselves of the opportunities on their own initiative, by importing from China and other affordable sources in Asia. As a result, there have been real gains in the quality of life and the access to goods and services, throughout the region.

China has been the catalyst in making the sun a practical natural resource

It used to be said that the islands of the Caribbean were poorly endowed with natural resources. Many people still think that to be true. But, on the contrary, the Caribbean is richly endowed with resources which have been made valuable by the advance of technology. Fifty years ago, the beaches, climate, natural beauty and resort facilities of the Caribbean were not as valuable as they

have now become, because in the era before there were commercial jet aircraft, the average middle income earner in North America and Europe could not afford an overseas vacation. Our natural resources were always there, but they could only be monetized on a relatively small scale, because the cost of travel was prohibitive, except for the very wealthy. Barbadians will be aware that tourism was a source of income for Barbados as early as the 18th century. Our earliest visitors, among them the first American President and his older brother, came to Barbados literally for their health. However, up until the 1960s, only the very wealthy could afford a Caribbean vacation. Mr Bill Mallalieu, proprietor of the Mallalieu Motor Museum, tells a marvelous tale from the 1930s of a wealthy English family who brought their automobile with them on the ship from their home in the UK, registered it with Barbadian plates for the three months they remained in Barbados, and then shipped it back when they left.

The Boeing 707 changed the face of travel and tourism, and made the natural qualities of Caribbean resorts the basis for a tourism industry which has become the most important source of growth for the region. In very similar fashion, the affordable PV panel, which has become available thanks to China's entry into the world market as the leading producer, has converted the Caribbean's abundant sunshine into a usable natural resource. Every Caribbean country now has the possibility of replacing fossil fuels for all power needs, using available, affordable technology. The sun, wind, our rivers and thermal springs, have now become of immense value, thanks to a number of new technological developments. These include more efficient wind turbines; computer programmes and communications to permit thousands of small producers to join the national electric grid; cars, buses and other transport run entirely on electricity; and storage systems to supply power when there is no wind or sunlight. China is already a game changer in one of these technologies, by reducing the cost of PV to a level that makes it competitive with fossil fuels, and the Caribbean, along with the rest of the world, stands to reap immense benefit. The costs of wind turbines have moderated as well, thanks to Chinese output. Chinese production may also have a decisive impact on reducing the cost of battery storage systems, an area where Chinese companies, along with Elon Musk, the founder of the Tesla motor company, and others, are making massive investments.

The fact that practical, affordable technologies which are currently on the market can supply 100 percent of the power needs of the Caribbean from wind, the sun and thermal sources, has transformative potential for the Caribbean, which the regions' leaders have yet to discern. Every Caribbean nation can now supply all the power it needs for the electric grid, for cars, cycles, buses, trucks, trains, construction equipment, cooking, and every other requirement, from sources that are entirely free of cost, and infinite in supply. In the words of the late Dr Oliver Headley, the Caribbean's distinguished pioneer of solar photovoltaics, "The sun will still shine when the oil runs out." And you don't have to pay to dig or pump it out of the ground. The Caribbean needs to wake up to the fact that every day our countries receive more free energy from the sun and the wind than we could possibly need; until very recently we lacked the technologies to make practical use of that free energy. We did not have batteries efficient enough to power cars, buses and trucks; we did not have systems to manage complex electricity grids; we were short of suitable storage systems to cope with variable electricity supply; now all these are available and affordable.

The transformative potential of renewable energy for Caribbean economies cannot be overestimated. If the Caribbean had no need to import fossil fuels, the foreign exchange saved could be used to invest in additional capacity to produce goods and services and grow our economies. Since we do produce some fossil fuels in the region, this output could be exported, adding to foreign earnings and growth potential. What is more, these additional resources of foreign exchange would be available each and every year; the rate of growth of every country would rise to a higher level, permanently. Growth rates of the order of 5 percent or more might become the norm. However, progress towards this goal will take place rapidly only if governments in the region catch the vision and develop strategies which provide incentives in the right direction. In the absence of government direction, the enormous potential of renewable energy for the Caribbean may not be realized at all.

The underlying message in this section of my essay is that China has played a pivotal role in creating for the Caribbean – and countries worldwide – the potential for a 100 percent switch from fossil fuels to renewable sources of power. Caribbean governments can take advantage by instituting appropriate policies and incentives for the transformation, entirely without reference to China. China has provided the world with a huge “external economy”, in economic terms. And it is up to Caribbean leaders to take advantage.

The importance of understanding China

My first visit to China, in 1980, remains as one of the turning points of my entire life. China was then an alien country to western eyes, in very obvious ways. Everyone, women and men, high officials and street cleaners, dressed in the same drab olive green uniform of tunic and slacks. Only high officials had the use of motor cars, large, black and old-fashioned. Rush hour in Beijing featured traffic jams of cyclists, maybe a dozen abreast on Beijing’s wide boulevards, following signals of policemen in elevated kiosks. Evidence of western style commerce was nonexistent. Outside of major cities one’s fleeting glimpses were of rural lifestyles that were decidedly third world. What was it that hit me with the force of a life-changing revelation? It was the fact that these people, who have nothing of our culture, who share none of our beliefs and have never been exposed to things we take for granted in our history and culture – are the majority of humankind. I have a National Geographic world map issued about a decade ago which identifies the typical human being, the group which has the greatest number of individuals on the planet. The answer is, and you would never have guessed it, a 30-something year old male Han Chinese.

The point to be made is that the majority of humanity does not share the culture and history that we take for granted. I want to suggest to you that this matters today even more than it did in 1980.

When I first visited China in 1980 that country was a bit player on the global scene. My wake-up call was therefore personally enlightening, revelatory even, but you could have argued that, while it enriched my life, it mattered little to Barbados, the Caribbean or the rest of the world. That is demonstrably not the case today. It is vitally important that we all get to know China better, and absolutely essential that our leaders, in government and politics, society, the economy and business and our intellectual institutions, get to know China intimately.

China has taken its place in the forefront of global activity in every aspect of life. The countries, institutions and individuals who understand China and the Chinese best are those who will do well in a world which is being largely shaped by Chinese economic policy and the reaction of the rest of the world to that policy. The better we understand China and the greater our insight into the dynamic relationship between the new resurgent China and the rest of the world, the better we will appreciate the opportunities that may offer themselves for us to take advantage of the new currents in world affairs.

Let me offer a personal example. A paradox of our interconnected world is that it is very difficult to get reasonably unbiased opinions about any global issue, much less anything that has to do with a major event or issue affecting the interest of a leading industrial country. That is because the sources of global information, both in the formal and on the social media, originate in the West. We see this bias most dramatically whenever the Olympics roll around. Only in very recent times, when the Caribbean set up its own sports network, have we had full coverage of Caribbean athletes' performances in the Olympics. Previously, if you watched British sources you would see Caribbean athletes only on the periphery of coverage that focused on British athletes; similarly, US athletes were the focus of US coverage, Canadians of Canadian coverage, etc. We do not normally think about it, but this same bias is reflected in all the news we receive. In order to better understand the reality, you need to have the benefit of several different points of view.

Arguably the most important development in global journalism in the past few years seems to have gone unnoticed in journalistic circles. It is the establishment of the China Global Television Network, CGTN, a global network with the resources, personnel and systems to offer a truly alternative view. The closest we had previously to an alternative view was Al Jazeera, but they grew out of our familiar Western tradition and, as a result, show some western biases. CGTN can truly live up to its slogan to "see the difference", because its roots are in a different culture altogether.

What makes CGTN especially powerful, in my view, is its global structure, with broadcast studios in Nairobi and Washington DC, as well as in Beijing. As a result, the network offers the most insightful English language coverage of Africa and Latin America that is available to us in the Caribbean. Every morning at 6am Barbados time CGTN airs a programme entitled "Africa Live", which is prepared and presented by the Nairobi studio. I have not found a more comprehensive programme of pan-African news anywhere, covering all aspects of African economy and society. In the evening Barbados time CGTN's coverage shifts to the Washington DC studio, covering North and South America in a balanced way which no other network can match. If you want to know what is really making news in Latin America, the CGTN programme "Americas Now" is unparalleled in its coverage, in the English language.

Understanding China ensures that we are not blindsided by changes in the global economy and international relations. That is very important for small countries like those in the Caribbean, because our economies are very sensitive to currents in the world economies. Dramatic and far-reaching changes are taking place in the global economy and the relationship between nations. It is not at all clear where they will lead, but history may well record the current period as a watershed

in the affairs of nations and peoples. Our countries need to be aware of the immensity of the changes, because of their far-reaching consequences.

I will mention just three examples of policies and events which have occurred in 2017 which it is essential that Caribbean leadership make themselves aware of, if they have not already done so. The first is President Xi Jinping's address to the world-famous Davos Forum in January 2017. The conference came hard on the heels of the inauguration of an unpredictable, isolationist Donald Trump as President of the United States of America. Trump has effectively abdicated American leadership of world affairs. At Davos last year, without saying it in so many words, President Xi took up that mantle. His speech committed China to active engagement with the world economy, and to policies that were the outcome of global agreements in the UN and its organizations. It was a tectonic shift in global perceptions which was immediately recognized by many perceptive commentators. I am not sure how many Caribbean leaders and leaders of opinion locally would have noticed.

My second example is China's Belt and Road Initiative. China has officially embarked on an external programme of investment, infrastructure, transport and communications which is without precedent in recent history. It is loosely based on the idea of a modern re-interpretation of the historic Silk Road that linked Europe and East Asia. President Xi has broadened the concept to include land and sea connections that include rail, road, and marine infrastructure, and it covers countries in Africa and Latin America as well as Europe and Asia. In effect, the silk road goes by sea as well as by land and covers a network of tributaries and associated links. It has been said that if only one-third of the projected activity takes place, China's economic reach would have broadened beyond recognition. What is more, investments that fall within the ambit of the Belt and Road are already underway or are in place. The Single Gauge Railway linking the Kenyan capital of Nairobi to the port of Mombasa began operations in 2017. It is of major economic benefit to Kenya, Uganda and South Sudan, and it has been designated as a project under the Belt and Road Initiative.

The third event which the world needs to take account of is the congress of the Communist Party of China held in Beijing in October last year. At that congress President Xi presented a vision of a new China where the prosperity which the country has achieved is consolidated and shared with all Chinese, and where decisive action is taken to address environmental challenges in China and the world as a whole. President Xi committed China to an active role in world affairs, acting through the UN and its agencies, as well as through institutions and cooperation agreements which China itself has initiated. At the congress the CPC fortified mechanisms for executing this grand strategy.

President Xi's vision for China is breath-takingly ambitious. The risks are equally formidable, as many Western commentators have observed. The difficulties of realizing such a comprehensive programme, requiring full engagement of tens of million of leaders in politics, society and business, at many different levels of the Chinese administration, are enormous. The chances for things to go wrong are multitude. There is, however, an important reason to be optimistic. It is that underlying the entire strategy is a Chinese economy that is set to continue growing at a steady clip. A growing economy offers scope to ensure there are no losers, and there is never a need to

rob Peter to pay Paul. So long as the Chinese economy continues to be driven by investment in new productive capacity, there will always be enough to ensure everyone is better off. The key phrases of President Xi's discourse are the "moderately prosperous economy" and the initiatives to lift the last remaining 40 million Chinese out of poverty.

Commerce and Investment

Tourism is now the Caribbean's biggest export, so naturally interest focuses on the potential demand from China. Here I would advise that we tread cautiously. Year before last I saw in CHINA DAILY, China's leading English language newspaper, a news item on the impact of Chinese visitors on Fiji. The sheer numbers of visitors from China have overwhelmed Fiji's tourist accommodations and attractions, and the visitor experience in Fiji has deteriorated as a result. Truthfully, the Caribbean still has so much untapped demand among middle and upper income groups in the Americas and Europe, that there is no reason to devote resources to the Chinese market. Instead, the Caribbean should focus on discreet marketing to the very top end of the market in China, to attract the discriminating visitor of considerable means.

A similar logic applies to branded Caribbean luxuries such as aged rum and Jamaican Blue Mountain coffee. Caribbean producers should eschew the popular market in favour of a strategy which targets the very wealthy.

Chinese investment in the Caribbean is another topic which has excited much interest. The fact of the matter is that the Caribbean already attracts tremendous investor interest from countries and institutions that have always invested in our region. The region is awash with proposals to invest in new tourist accommodation, infrastructure, telecommunications, business services, construction and other areas that are seen as profitable. Investor interest comes from private international sources as well as from regional and international institutions. What slows and often chokes off investment altogether is the inefficiency of Caribbean bureaucracies. The Caribbean countries are now all in the lower rankings of the *Global Competitiveness Report* and the *Doing Business Report*, and most Caribbean countries' external debt is rated below investment grade. For many international investors, projects in the Caribbean that would otherwise have been profitable are no longer viable, once risk premiums are factored in. Many other projects are hampered by delayed permissions, inconsistent incentive policies, and legal and administrative inefficiencies.

My point is that there is no shortage of international investor interest in the Caribbean, and Chinese companies and official institutions are among the investors who are keen to take advantage of remunerative investments in our region. However, they face the same bureaucratic frustrations and inconsistencies as other investors, and as a result we should not expect them to be any more successful than any other interested parties.

One area with great potential for commerce with China is traded services other than tourism. These include legal, financial, marketing, design, communications and administrative services. Companies that have a global reach make strategic choices as to the location both of their production facilities and of the services that support production and worldwide distribution. Caribbean countries boast regulatory systems that are kept on par with international guidance from the IMF, World Bank, Basel Committee on Bank Supervision and other authorized bodies. The

region's financial systems are fully integrated into global financial markets through international hubs in London, New York and elsewhere. These are key elements in attracting traded services to the Caribbean, to support the activities of firms which produce and sell in many countries. Now that China has become the world's second largest economy, and the world's biggest market for automobiles and other items, there would seem to be a market for providing services to Western companies trading with China. This opportunity seems to be largely untapped.

Another exciting possibility for future Caribbean-Chinese economic linkage is in the area of financial technology. I believe that recent break throughs in financial technology will revolutionise the way the world effects payment and settles transactions, in directions that none of us have yet imagined. I have written a short article on this topic, which you may find on the website of the Bretton Woods Committee (www.brettonwoods.org). Chinese firms and entrepreneurs are world leaders in new payment technologies, and the Caribbean boasts a wealth of tech-savvy young entrepreneurs with an interest in this area. One Barbadian company is doing pioneering work in financial technology. Regional regulators should be pro-active in supporting and promoting these entrepreneurs, as they can provide the Caribbean with a greater presence in the international market of ideas. Inevitably, this will bring us closer to China, and to Chinese approaches to the use of financial technology.

How may the Caribbean maximise benefits from China's economic growth?

The basic message of this essay is that the Caribbean benefits from China's economic success simply by following sound macroeconomic policies. The key elements of a sound macroeconomic strategy are policies to sustain external competitiveness and to maintain a balance of external payments with adequate foreign exchange reserves. The Caribbean, along with the rest of the world, benefits from the reduction in global inflation which has come about as a result of the growth in China's production capacity. Sound policies ensure that countries reap full benefits. The Caribbean has an opportunity to accelerate a programme to switch to renewable sources of power, thanks to Chinese investment in solar PV and the coming surge in production of large-scale battery storage units. Caribbean countries have been slow to embrace the potential of renewable energy. Barbados is the only country to have announced a target of 100 percent renewables, and that vision is not yet reflected in a deliberate and internally consistent strategy. Here is an example of an opportunity that is now open to the Caribbean, in large part due to Chinese commitment to combat climate change; it is up to the Caribbean to institute domestic policies that take advantage.

My third point is that the Caribbean should take full advantage of every avenue for getting to know China better. The establishment of Confucius Institutes in the Caribbean opens a major avenue for Caribbean people to deepen their knowledge of China and the Chinese. The Chinese Global Television Network, CGTN, is highly recommended; for those who do not have cable TV access, CGTN programmes are available online. There are many opportunities for cultural exchanges, education and training, offered by Chinese national, state and municipal authorities. Chinese embassies in the Caribbean are collaborating with Caribbean institutions and Chinese communities to bring Chinese culture to our region. Joint programmes and collaborative research activities between Chinese and Caribbean academic institutions are other vehicles through which we can enlighten ourselves about the lives and world views of the world's most populous nation. Forward-

thinking Caribbean people are already on board, and discovering new realities about our world, from Chinese perspectives. Many who have done so are already benefitting, through access to Chinese products and services, networking, job opportunities, access to new technologies and investment opportunities. Sadly, by and large the region's leadership has not yet caught the vision. This, to my mind, is our most urgent need: visionary leadership that takes a long view, and invests in deepening their understanding of China's growing presence in our changing world.

I have had little to say about trade and investment. There is really no need to. If you think about it, there is no shortage of funding for Caribbean projects that are seen to be profitable, or for projects in infrastructure or renewable energy. So long as Caribbean countries maintain sound policies, Chinese investors will come knocking, along with those from the Americas, Europe and elsewhere. Equally, we can attract all the tourists we can accommodate, and export all the competitive products we produce, so long as we give value for money. Discriminating Chinese consumers will find our products and services, through appropriate networks and high-end global marketing.

Concluding remarks

Small open economies like those of the Caribbean are especially sensitive to the external environment in which they exist, and with which they interact. As many small nations have demonstrated, this does not diminish their chances of prosperity, compared to large countries. What makes the difference, in countries large and small, are policies tailored to the country's circumstances. In the case of small countries, external circumstances loom much larger than in larger countries. The emergence of China as a leading global economic powerhouse is the most significant international development of the 21st century. The Caribbean, along with the rest of the world, already reaps benefits from Chinese production and exports. With sound domestic economic policies and strategies to accelerate the use of renewable energy, we can reap greater benefits. Furthermore, as we get to know China better, and Chinese investors and consumers learn more of the exceptional products, experiences and investment opportunities the Caribbean offers, new opportunities will open up, further enhancing the region's growth potential.

Further reading

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