

## **China and Taiwan: Economic Relations with Latin America**

By

**Daniel P. Erikson**

When longtime Sandinista leader Daniel Ortega triumphed in Nicaragua's presidential election in November, the shockwaves from his historic victory extended all the way to the rival capitals across the Taiwan Strait in East Asia. The top diplomats in both China and Taiwan knew that, in 1985, a much younger Ortega had swept into the presidency and unceremoniously broke relations with Taipei in favor of a stronger relationship with Beijing. Though Nicaragua's formal diplomatic ties to China had abruptly ended when Ortega was voted out of office in 1990, his second coming represented an opportunity for Beijing to once again pick off one of Taiwan's precious remaining allies. And if Nicaragua returned to China's fold, this would serve as a valuable beachhead in Central America and potentially provide inroads into neighboring countries that are close to Taiwan – thereby making Beijing's dream of enforcing global recognition of the "One China" policy one step closer to reality.

While increasing economic and political ties between China and Latin America have attracted significant attention from U.S. policymakers in the past few years, the extent to which Beijing's foreign policy is motivated by its desire to isolate Taiwan internationally is often overlooked. But this crucial dimension of Chinese foreign policy is indispensable to understanding China's rising influence in the global system and its possible repercussions for U.S. national interests. Today, a fierce contest for diplomatic recognition and political influence is being fought between Taiwan and the People's Republic of China, and Latin America has emerged as the crucial battleground. Many of the small, poor countries of Central America and the Caribbean have become ensnared in the cross-strait dispute, with growing pressures on potential "swing states" that may be on the verge of changing official recognition from Taipei to Beijing. Meanwhile, officials in Washington have yet to fully think through the possible implications for U.S. policy of this intensifying competition in our own backyard.

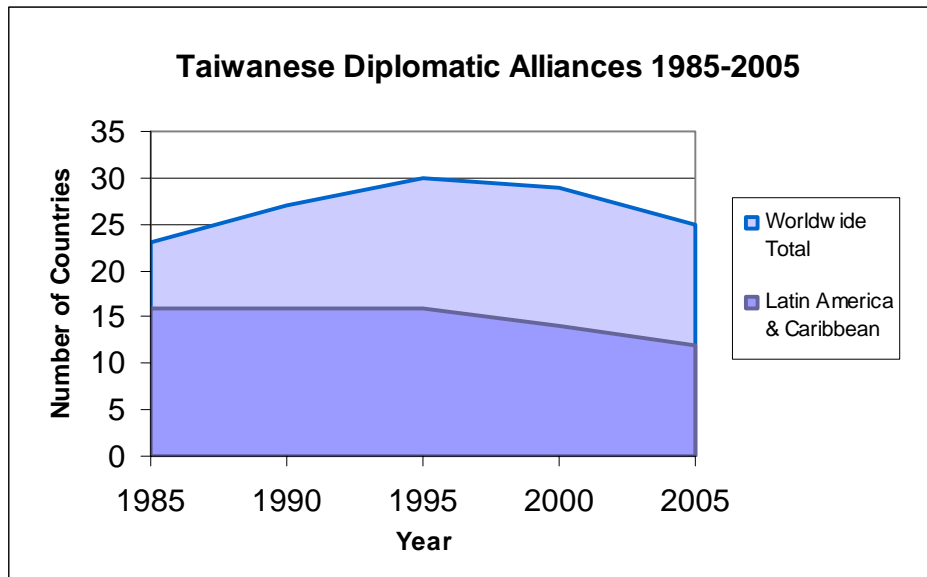
### ***Adios Taipei, Hola Beijing***

At first blush, the diplomatic whims of Latin America would appear to be a world away from such exotic concerns as the conflict brewing in the Taiwan Strait. The dispute over Taiwan's sovereignty stems from China's claim that the island, where the Nationalist government of the Republic of China fled in 1949 after losing a lengthy civil war against the Communist Party, is rightly a province of the PRC that must be "reunited" with the mainland, by force if necessary. As Taiwan transitioned from authoritarian to democratic rule, the U.S. maintained close ties with the Republic of China throughout the Cold War. Though President Jimmy Carter normalized relations with Beijing in 1979 and closed the American embassy in Taipei, the U.S. Congress simultaneously approved the Taiwan Relations Act that requires the U.S. to provide the island with the ability to defend itself against mainland China. The Taiwan Strait is considered by American policymakers from both parties to be a major flashpoint for regional and even global security, a view reinforced by China's military rapid military expansion over the past decade and the 800-plus missiles it has currently deployed in the 100-mile strait separating the island from the mainland.

In addition to its campaign of military intimidation, Beijing has pursued a sustained policy of isolating Taiwan diplomatically, most often by promising large sums of aid to the rapidly dwindling ranks of the latter's allies – which brings us to Latin America. Today there are only 24 countries which officially recognize Taiwan, and fully half of these are located in the Western Hemisphere. Although the 12 Latin American countries involved have little individual clout, together they represent the most significant group of nations caught in the cross-strait tug-of-war. All seven nations of the Central American isthmus recognize Taiwan, a bloc which includes Guatemala, Belize, Nicaragua, El

Salvador, Honduras, Costa Rica, and Panama. Not coincidentally, this group also represents the strongest bulwark of support for the U.S. in this hemisphere. Several of these countries sent troops to Iraq as part of the U.S.-led coalition, and they have partnered with Washington in efforts to contain regional adversaries such as Venezuela's Hugo Chávez. In November 2006, Panama won a two-year term as a Latin American representative on the United Nations Security Council – the first time that a Taiwan-friendly country has held that seat since Costa Rica, nearly a decade earlier. In the Caribbean four countries – the Dominican Republic, Haiti, St. Kitts & Nevis and St. Vincent & The Grenadines – also recognize Taipei instead of Beijing. Meanwhile, in South America, Paraguay is the lone holdout against China's diplomatic overtures.

**Figure 1. Taiwan's Shrinking Pool of Friends**



Of course, even Latin American countries that do not have official ties with Taipei often try to maintain good “non-official” relations, which may include opening reciprocal missions disguised as non-profit foundations or businesses in their respective capitals. The lack of diplomatic links has not prevented Taiwan from undertaking significant trade with Brazil, Chile, or Mexico. However, the Taiwanese government believes that formal recognition by other sovereign states is vital to legitimizing its claims of being itself a sovereign state in the international system. Official allies also speak for the Taiwan (also referred to as the “Republic of China”) when its government seeks to join international fora such as the World Health Organization or even the United Nations. And though Central America may share the famous Mexican lament about being “so close to the United States,” from Taiwan’s point of view this geographical happenstance makes it a particularly valuable region in which to retain a block of allies. The proximity of Central America to the United States serves as a good excuse for Taiwanese officials to make refueling stops in the U.S and to meet “unofficially” with American policymakers en route to official state visits in the south, a practice that has been dubbed “transit diplomacy.”

Taiwan’s alliances with countries of Latin America and the Caribbean are sustained to some extent by values-based affinities, stemming historically from the anti-communism of many Central American governments during the 1970s and 80s but more recently from common experiences of transitioning to democracy from autocratic rule. The Taiwanese government has taken a long-term strategy of “warming the coals before lighting the fire” in cultivating these connections, identifying junior bureaucrats and military officers early on in their public careers that are likely to become influential players in the future. Ties are consolidated through extensive use of both academic and

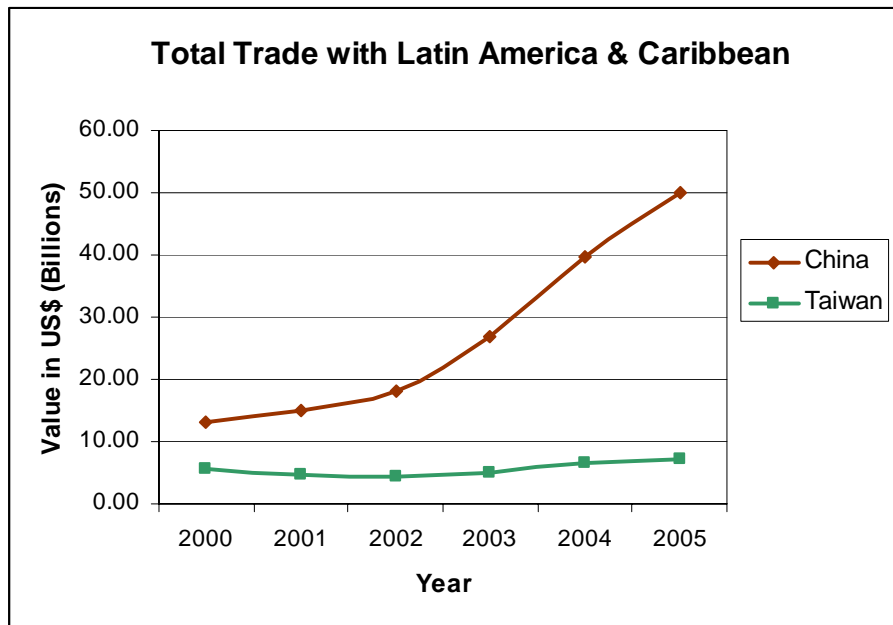
military training exchanges. as there is a particularly heightened awareness of the still far-reaching influence of military institutions and personnel in Latin American polities. Over time this approach has created networks of elites spanning the Central American isthmus whose firsthand experiences and contacts in Taiwan presumably reinforces their political sympathies toward the island.

As one of the so-called “Asian Tigers,” Taiwan is also perceived by many Latin American policymakers as an enviable model for fomenting rapid economic, industrial, and technological development. Speaking in the Taiwanese presidential palace during a recent visit, President Leonel Fernández of the Dominican Republic said that “since the first moment in its history, when the island of Formosa could only barely count on its survival, it has now converted into a great economic miracle that wins tremendous respect, recognition, and applause on a planetary scale.”<sup>1</sup> The island annually deploys dozens of technical assistance teams to provide expertise in fields such as agriculture, fishery management, pest control, and nanotechnology. But perhaps most importantly, Taiwan has long been one of the most consistent aid donors to countries of the region feeling neglected by the international community. It is reportedly the single largest aid donor to Haiti, St. Kitts and Nevis, St. Vincent, and the Grenadines, and also offers significant resources for disaster relief, which follows naturally from the island’s frequent experiences with earthquakes and typhoons.

Meanwhile, China’s galloping entrance into the Latin American market for energy resources and other commodities to fuel its economic development has been accompanied by an accelerating pace of high-level visits by Chinese officials to the region over the past few years. Though China’s foreign policy strategy toward the developing world prioritizes South Asia (and perhaps even Africa) over Latin America, this last relationship has been experiencing explosive growth. In 2001, Chinese president Jiang Zemin’s landmark visit to the region sparked a wave of subsequent visits by senior officials and business leaders between China and Latin America to discuss political, economic, and military concerns. Since then, the volume of trade between China and the region has skyrocketed. President Hu Jintao traveled to Argentina, Brazil, Chile, and Cuba in 2004 and visited Mexico in 2005. The presidents of all those countries (and several others) have paid reciprocal visits to China.

China’s economic engagement in Latin America responds to the requirements of a booming Chinese economy that has been growing at nearly ten percent a year for the past quarter century. The economic figures are impressive: In the past six years, Chinese imports from Latin America have grown more than six fold, at a pace of some 60 percent a year, to an estimated \$50 billion in 2005. China has become a major consumer of food, mineral, and other primary products from Latin America, benefiting principally the commodity-producing countries of South America-particularly Argentina, Brazil, Peru, and Chile. Chinese investment in Latin America remains relatively small at some \$6.5 billion through 2004, but that amount represents half of China’s foreign investment overseas. China has promised to increase its investments in Latin America to \$100 billion by 2014, although there is concern that several investment pledges are already showing signs of falling short in Brazil, Argentina, and elsewhere. China’s Xinhua News agency reported that Chinese trade with the Caribbean exceeded \$2 billion in 2004, a 40% increase from the previous year.<sup>2</sup>

## **Figure 2: China v. Taiwan: Trading with Latin America**



For their part, Latin Americans are intrigued by the idea of China as a potential partner for trade and investment. As a rising superpower without a colonial or “imperialist” history in the hemisphere, China is many ways more politically attractive than either the U.S. or the E.U. Indeed, most analysts recognize that the Latin Americans’ embrace of China – to the extent that this has occurred – has taken place against the backdrop of perceived neglect by the United States. Even as China seeks to reassure the U.S. that its interests in South America are purely economic, Beijing is now enlisting the big Latin American countries like Mexico to aid in its effort to woo Central American states. Pressure is also being placed on Paraguay via the Mercosur (South American Common Market) group of Argentina, Brazil, and Chile. The rumors of secret meetings between Chinese and Central American, Paraguayan, or Dominican officials persist. China’s is using its economic might as a means to achieve the patently political objective of stripping Taiwan of its democratic allies in the hemisphere.

### Checkbook Diplomacy

In order to counter Chinese attempts to lure away its few remaining allies, the government of President Chen Shui-bian has sought to broaden and diversify the avenues for interaction between Taiwan and its Central American and Caribbean partners since taking office in 2000. The administration has utilized frequent and highly publicized exchanges of official visits, accompanied by promises of aid and investment, in order to consolidate ties. Either the president or vice president travels to the region approximately twice a year, while receiving a constant stream of reciprocal visits by Central American heads of state in Taipei. In late June Dominican President Leonel Fernández returned from a four-day trip to Taiwan bearing the promise of a fresh infusion of US\$60 million in aid. In July a similar visit by the Primer Minister of St. Vincent and the Grenadines secured a US\$15 million loan for the construction of an international airport in Kingstown. Less than two weeks later, the Taiwanese ambassador to St. Kitts and Nevis announced another US\$14 million loan for the expansion of the international airport in St. Kitt ahead of the 2007 World Cricket Tournament. Taiwan has given over US\$30 million in grants to Paraguay over past few years for housing projects, \$20 million for a new Congress building, and more money for scholarships. Two Taiwanese banks also offered a US\$400 million loan to Paraguay, transforming Taiwan into the country’s biggest bilateral creditor.

In addition to aid given as grants and loans, Taipei is aggressively pursuing bilateral free-trade agreements with Paraguay and CAFTA member countries. Negotiations were finalized with Panama in 2003 and with Guatemala in 2005; and a similar agreement, signed with Nicaragua in June 2006, has been thrown into doubt following the recent Sandinista election victory. Trade negotiations are underway with El Salvador and Honduras, while preliminary talks with Costa Rica and the Dominican Republic are scheduled to start in late 2006. In the case of Panama, even though the trade balance still heavily favors Taiwan, Panama's exports jumped from \$6 million in 2003 to \$22 million in 2004 and \$24 million in 2005. With CAFTA in place, Taiwanese manufacturers hope to use Central America as a gateway to the U.S. and to reduce dependence on the Chinese market.

From the Taiwanese perspective, Chen's government has also increased diplomatic interactions through multilateral channels. Its foreign service personnel in Washington is in regular contact with the Inter-American Development Bank and has lobbied hard—though so far unsuccessfully—to gain observer status in the Bank, a status which China now holds. In 2005 Vice-President Annette Lu launched the Democratic Pacific Union, a group of states “committed to promoting democracy, peace, and prosperity” constituted by 26 member states from around the Pacific Rim. The role of Taiwanese NGOs are also expanding globally, most notably the Tzu Chi Buddhist Foundation, which does humanitarian aid work all over the developing world and operates offices in Asunción, San Salvador, Santo Domingo, Guatemala City, Tijuana, Mexicali, Sao Paulo, and Buenos Aires.

**Figure 3. China v. Taiwan: Bilateral and Regional Free Trade Agreements**

	<b>Taiwan</b>	<b>China</b>
Finalized	Panama (2003) Guatemala (2005) Nicaragua (2006)	ASEAN Chile (2006) Thailand ( <i>partial</i> )
Under Negotiation	El Salvador Honduras Costa Rica Dominican Republic Paraguay	Australia New Zealand Pakistan Chile Southern Africa Customs Union Gulf Cooperation Council

“Wish List”	United States Japan Singapore New Zealand	Brazil Iceland India Japan South Korea
-------------	--	--

Source: [www.bilaterals.org](http://www.bilaterals.org)

As a result of these diversified avenues of interaction, Taiwan’s political alliances today, at least in Central America, are arguably more robust than they were five years ago. Nevertheless, private-sector investment in the region has been scarce despite generous government incentives. In 2000, Taiwan and Panama cooperated in the establishment of an export processing zone in Colon City, Panama. Similar “Taiwan Parks” have been set up in El Salvador and Nicaragua. During a trip to El Salvador, Guatemala, and Panama in September 2005, President Chen unveiled the so-called “Jung Pang,” or “co-prosperity” initiative, which consists of a fund of US\$250 million set aside to encourage investment by Taiwanese companies in allied countries. The government also established a Central and South America Research Center, several new investment consulting missions abroad, and a central coordinating office to facilitate investment projects by the Taiwanese private sector overseas. But in Paraguay, for example, Taiwanese investment barely extends beyond a sagging industrial park – partly due to shortage in skilled labor. Worse, the Paraguayans have paid little attention to the Taiwanese technical advice on offer, and their lessons were ignored.<sup>3</sup> Similarly, an analysis by the Taiwanese embassy in the Dominican Republic reportedly complained that a “weak industrial base, high electricity costs, unstable power supply, high labor costs, and a deteriorating crime rate [*sic*]” were all factors contributing to an unsound investment environment.<sup>4</sup>

Additionally, Taiwan’s internal political transformation has created new obstacles to its foreign engagements. While domestic politics have generally undermined the state’s ability to pursue a coherent foreign policy, heightened expectations for transparency and budgetary accountability now preclude the use of certain tools of diplomacy which were liberally employed in past decades – such as bribes and payoffs. At the same time the democratic transitions undergone by many of Taipei’s allies since the height of the Cold War created a parallel source of opposition to such practices. Reports of a number of questionable funds transfers have surfaced in the past few years. In October 2004, Costa Rica’s former president Miguel Angel Rodríguez and then-president Abel Pacheco both came under intense judicial scrutiny for allegedly receiving funds totaling millions of US dollars from the government of Taiwan for unexplained purposes. Rodríguez was subsequently forced to abdicate his newly won position as Secretary-General of the Organization of American States, after less than one month in office. This followed on the heels of allegations in September 2004 that US\$1 million was transferred to Panamanian president Mireya Moscoso without a full accounting.

In February 2005 Guatemalan media revealed that president Alfonso Portillo received a personal check for \$500,000 while in office in 2000. “It would be embarrassing for Taiwan to be exposed as a government that corrupts other governments,” said Carmen Aida Ibarra, director of the Mirna Mack Foundation in Guatemala following allegations that Portillo received three checks of \$500,000 each.<sup>5</sup> In light of these revelations, opposition legislators in Taiwan have called repeatedly for an end to “checkbook diplomacy” and the “buying” of alliances.<sup>6</sup> Under the domestic pressures for openness and accountability stemming from both sides of the relationship, the networks of personal connections that held these ties together over decades may begin to strain.

The bulk of Taiwan’s official aid budget is disbursed through the International Cooperation and Development Fund, which had a budget of US\$388 million in 2000. The Deputy Foreign Minister at the time estimated that about 80% of aid goes to diplomatic allies, while the rest was used to assist

developing countries that “have the potential to become allies.” In October of that year the foreign ministry put forward a bill requesting that this budget be expanded gradually on an annual basis until it reaches US\$940 million. However, various other “soft” funds are reported to exist, as in 2003 when the Taiwanese media uncovered a secret \$100 million fund in the intelligence agency intended for “buying influence abroad.”

Meanwhile, China’s ever-expanding economic prowess has enabled it to become competitive in the dollar diplomacy game. The Chinese Communist Party has an advantage over Taipei in this endeavor, to the extent that its foreign ministry operates unconstrained by the scrutiny of either a legislature or independent media. In 2004, Dominica’s Primer Minister Roosevelt Skerrit switched recognition to China after receiving a pledge of \$112 million over a six-year period. In 2005, the government of Prime Minister Keith Mitchell turned its back on its anti-communist legacy to open its arms to communist China. After signing a joint communiqué declaring support for the “one China” policy, Grenada received support for rebuilding and expanding its national stadium for the 2007 Cricket World Cup; the construction of 2,000 housing units; new hospital facilities; agricultural support; a \$6 million grant to complete projects previously financed by Taiwan, and an additional \$1 million scholarship fund.

### **The “Swing States”**

Among Taiwan’s allies in the hemisphere are several countries especially susceptible to the increased pressures to recognize China. While all countries that refuse to recognize China have attracted Beijing’s interest, several stand out, either because they are especially susceptible, or because of their strategic importance. Nicaragua is a clear case in point. In July, Sandinista representative Bayardo Arce declared that if his party’s leader Daniel Ortega wins in the upcoming presidential election in November, Nicaragua will establish formal ties with Beijing and downgrade the Taiwanese embassy to “trade representative” status – a proposal which the Taiwanese envoy in Managua categorically rejected as unacceptable. The fact that Ortega’s government cut off ties with Taiwan when it was last in power during the 1980s predisposes Taipei take this threat at full value. The previous switch in the 1980s was as much an anti-U.S. gesture as anything, but even in the post-Cold War contest, economic realities dictate. As Arce argued, his party “cannot ignore the reality of the economic impact that the PRC has in the world.”<sup>7</sup> Speculation surrounding potential “swing states” also tend to center on Panama, by far the most strategically significant in Central America, where President Martin Torrijos openly signaled an invitation to Beijing to aid in the expansion of the Panama Canal – which was recently approved in a referendum that is sure to create new economic openings for Chinese construction companies.

In the Caribbean, the divided island of Hispaniola remains a key strategic interest for both China and Taiwan. Under the leadership of President Leonel Fernandez, the Dominican Republic appears to be intensifying its contacts with the People’s Republic of China, despite continuing diplomatic exchanges with Taiwan. Loss of recognition by the Dominican Republic, one of the more populous countries in the region with a booming economy, would seriously weaken Taiwan’s foothold in the Caribbean. But the diplomatic importance of the Dominican Republic extends beyond its borders into neighboring Haiti, which is likewise under enormous pressure from China. China has deployed 125 riot police as part of the UN peacekeeping mission in Haiti, and Beijing has quietly threatened that Haiti’s belligerence on the Taiwan question may prompt it to use its veto on the UN Security Council to cut short the mandate for the contingent of UN peacekeepers that is currently the principal force preventing a complete disintegration of the security situation in Haiti. New Haitian President Rene Preval was forced to the Taiwanese president away from his inauguration last spring, and the repeated clashes between Chinese and Haitian officials may risk undermining the mission in the future..

The lone Taiwanese ally in South America, Paraguay is another possible candidate for withdrawal of support, in part because its membership in Mercosur prevents it from signing a free-trade agreement with Taiwan without consent of all other Mercosur members. Even without formal diplomatic ties, China also buys a good proportion of Paraguay's soya crop while supplying about one-fourth of its imports, so normalized relations would undoubtedly bring significant trade benefits.

### **Does Washington Care?**

For its part, the U.S. has been reflexively wary of any potential Chinese incursions into a region that it has long considered its domain – also these concerns have been soothed by China's avowals that its interests are primarily economic and not military or strategic in nature. Still, few can doubt that China's capacity for mischief in the Americas has increased greatly over the past several years. The deployment of Chinese peacekeepers in Haiti – the first in the Western Hemisphere - have particularly inflamed these anxieties.

Against this backdrop, conservative voices in Washington argue that the U.S. has a vital interest in aiding Taiwan to maintain its alliances in Central America and the Caribbean, mostly from the standpoint of checking the expansion of Beijing's geopolitical reach. Then-Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega testified before the House International Relations Subcommittee on the Western Hemisphere in April 2005 that "Rivalry with Taiwan plays into China's courting of Latin American countries... A key Chinese political objective is to isolate Taiwan, and China will actively court those 12 countries in this Hemisphere that recognize Taiwan diplomatically." This line of reasoning advocates, for example, the passing of CAFTA, which would make Central American textiles competitive against Chinese in the U.S. market by lowering tariffs on U.S. cotton exports to the region, thereby reducing U.S. dependence on Chinese imports while strengthening the export sectors of Taiwan's bloc of allies.

Aside from the concerns emanating from the conservative side of the political spectrum, there is also a "moral" dimension to the U.S. support of Taiwan. U.S. credibility would be harmed if it failed to protect a country that became democratic under its protection and support. Yet the U.S. finds itself in an awkward position overall with respect to the cross-strait dispute. The official position of the American government is, understandably, that other governments' decisions whether or not to maintain diplomatic relations with Taiwan are for those governments to make."<sup>8</sup> Since Washington also officially recognizes the People's Republic of China, it has little leverage with which to lobby other governments on Taiwan's behalf.

While Beijing attaches would clearly love to win over its diplomatic holdouts in Central America and the Caribbean, there is some evidence that China views this not as an urgent task but as a long-term goal. Some analysts note that the China does not lack the resources to outbid Taiwan if it came down to a matter of pure money diplomacy. What is certain is that the issue of Taiwan's recognition is never far from the mind of the Chinese leadership. China will not feel its rise to power is complete without returning Taiwan to the Mainland's political control.<sup>9</sup> However, some analysts have suggested that China might be softening its stance toward Taiwan and becoming more willing to accept the status-quo situation in the short term, which perhaps reflects in part the rising confidence in Beijing that time favors their eventual victory in the cross-strait conflict. This may imply that China is less inclined to go fishing for new allies in the Western Hemisphere for the time being.

But if the calculations of the Chinese leadership are correct, it may also mean that Taiwanese diplomats stationed throughout Central America and the Caribbean are fighting a losing battle. The eventual turning of the diplomatic tide in mainland China's favor, and the resulting embrace of Beijing by Latin America's remaining holdouts, would leave Washington even more isolated in its support for Taiwan. At the moment, the U.S. appears to have decided that it does not have a dog in this fight. But as China's growing reach into Central America and the Caribbean continues to undermine Taiwan,



Washington's silence will become ever more puzzling to its closest neighbors – and ever more pleasing to Beijing.

---

<sup>1</sup> “Santiago, en la mira empresas de Taiwán,” *El Diario Libre*, 26 Junio 2006. Original quote in Spanish: “Aunque desde el primer momento de su historia, la isla de Formosa sólo podía plantearse su supervivencia, hoy día se ha convertido en ‘un gran milagro económico mundial que suscita gran respeto, reconocimientos y aplausos a escala planetaria.’”

<sup>2</sup> Luxner

<sup>3</sup> Charity or China? *Economist*, May 22, 2006

<sup>4</sup> “MOFA Confirms Dominican grant stands at US\$50m” *Taipei Times*, July 8, 2006

<sup>5</sup> “Portillo recibió ‘tajada’ de Taiwan,” *El Nuevo Diario*, Feb. 12, 2005

<sup>6</sup> See: Joe Hung, “Time to stop buying foreign friendship” <http://www.npf.org.tw/PUBLICATION/NS/093/NS-C-093-196.htm>, Dec. 6, 2004; Joe Hung, “Dollar Diplomacy Continued,” Feb. 17, 2005, and “Time to stop paying for friendship,” *Taipei Times* editorial, Aug. 10, 2000.

<sup>7</sup> “Ayuda de Taiwan solo ha sido prebendaria,” *El Nuevo Diario*, June 27, 2006.

<sup>8</sup> State Department Spokesperson Q&A, Nov. 4, 2004, <http://www.state.gov/r/pa/prs/ps/2004/37820.htm>

<sup>9</sup> Brookes 2005, p. 2