

*The diplomatic rivalry
between Taiwan and
China in Central
America
2000 - 2010*

Thesis for the Master's Degree in Taiwan Studies

Advisor: Dr. Tse-Kang Leng

Student: Alberto Lorenzo Aleman Aguirre

ID 97924014

Date: October 11, 2010

INTERNATIONAL MASTER'S PROGRAM IN ASIA-PACIFIC STUDIES

COLLEGE OF SOCIAL SCIENCES

NATIONAL CHENGCHI UNIVERSITY
TAIPEI, REPUBLIC OF CHINA

DEDICATORIA

A mi madre, Doña Ana Luz Aguirre Quintanilla, un ejemplo de trabajo duro, honestidad, sencillez e integridad moral. Ella es un ejemplo de amor y ternura y de desprendimiento total por sus hijos.

A la memoria de mi padre, Lorenzo Alemán Umaña, a 23 años de su muerte. Fue él un hombre honesto, ético e idealista. Su carácter y ejemplo constituyen un inapreciable legado.

THANKS

I want to thank Dr. Tse-Kang Leng, my advisor, for his advice, friendliness, support and extraordinary patience. Thanks to the committee members. Dr. Roberto Chyou and Dr. Eugene Kuan, for their valuable suggestions and comments. In particular, I must thank Dr. Roberto Chyou for his critical and severe encouragement to hard work.

I must thank the Taiwanese people and Taiwan's ICDF for giving me the opportunity to study in this amazing country and for giving me the extraordinary chance to live in Asia.

I must also thank my sister, Ana Alejandra, for her superb proofreading, critical remarks and suggestions.

TABLE OF CONTENTS

- Abstract
- I. Introduction
- II. Theoretical framework and methodology
- III. Taiwan and Latin America
 - 1. A strategic region: Political, diplomatic ties
 - 2. A historic review
 - 3. Development cooperation
 - 4. Trade
- IV. China and Latin America
 - 1. The Mao years
 - 2. Pragmatism reigns
 - 3. Growing economic interests, business and a new political alliances in the new world order
- V. China's growing presence in Central America and Mexico
 - 1. Introduction
 - 2. Mexico
 - 3. Trade with CA and economic issues
 - 4. Panama
 - 5. Costa Rica
 - 6. Guatemala
 - 7. El Salvador
 - 8. Honduras
 - 9. Belize

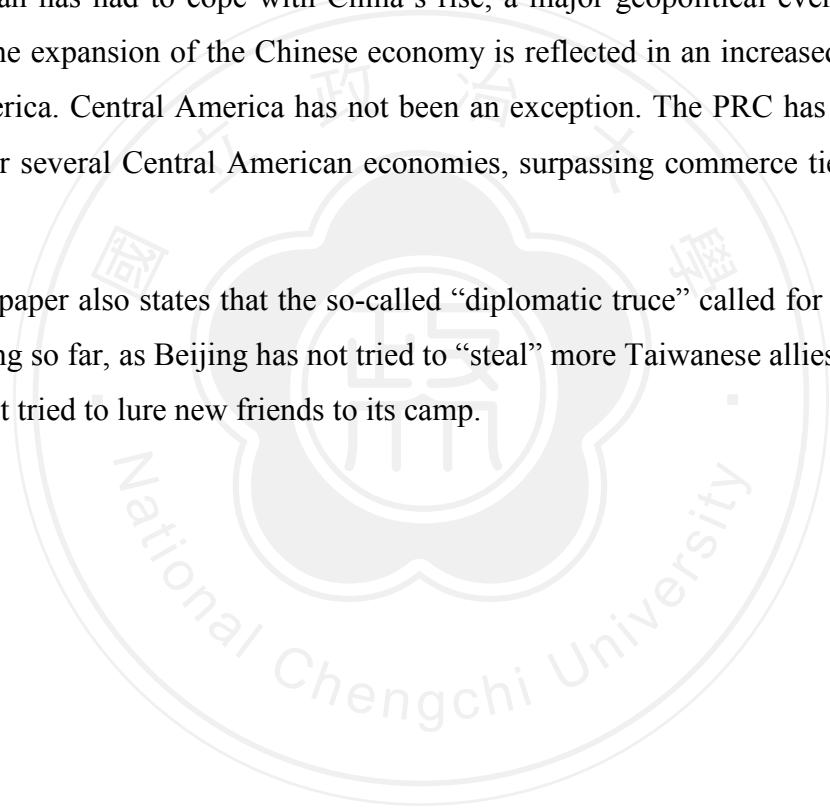
- VI. Taiwan in Central America
 - 1. Guatemala
 - 2. Honduras
 - 3. El Salvador
 - 4. Panama
 - 5. Costa Rica
 - 6. Belize
- VII. Taiwan, China and Nicaragua
- VIII. President Ma Ying-jeou's "Viable diplomacy" 2008-2010. Is the "diplomatic truce" working?
 - 1. The legacy of Lee Teng-hui
 - 2. The Chen Sui-bian period and diplomatic allies
 - 3. 'Diplomatic truce'
 - 4. Is the 'diplomatic truce' holding?
- IX. Conclusions
- X. Bibliography and references

ABSTRACT

This thesis aims to understand and analyze trade, economic and political aspects of the Taiwanese relationship with Central America, and compare them with the growing Chinese presence and influence in that geographic area. It also attempts to make a comparison between the diplomacy toward allied countries pursued by presidents Chen Shui-bian and Ma Ying-jeou.

Taiwan has had to cope with China's rise, a major geopolitical event of the twenty-first century. The expansion of the Chinese economy is reflected in an increased trade exchange with Latin America. Central America has not been an exception. The PRC has become a major trade partner for several Central American economies, surpassing commerce ties between them and Taiwan.

This paper also states that the so-called "diplomatic truce" called for by President Ma has been working so far, as Beijing has not tried to "steal" more Taiwanese allies since 2008, and the ROC has not tried to lure new friends to its camp.



I. INTRODUCTION

Until 2007, the tiny isthmus of Central America had been an inexpugnable stronghold of the diplomacy of the Republic of China on Taiwan. It was a prized, continuous geographical bloc formed by 7 countries that happened to be all ROC's allies. The chain was broken when Costa Rica switched to recognition of the People's Republic of China in June 2007.

At present, 6 countries are still Taiwan's allies. In accordance with global trends and with what is going on in other parts of Latin America, their trade ties with China have been increasing. The Red Dragon has also flirted with them. Informal contacts have happened, too. These facts pose some questions on the future.

In 2008, the new administration of President Ma Ying-jeou came to power and started to pursue a very different policy in comparison with his predecessor.

President Ma promoted direct dialogue with the PRC authorities, established direct commerce and communication links, allowed the visit of Chinese tourists, and negotiated a major economic accord, the Economic Cooperation Framework Agreement (ECFA, which has already gained parliamentary approval); it will open the door for Chinese investment on the island. As a result, tensions have eased across the Taiwan Strait, the atmosphere has improved to the satisfaction of the three parts directly involved in cross-strait relations (China, Taiwan and the United States). However, many crucial issues remain unresolved like the Chinese missiles aiming at targets in Taiwan, the PLA buildup or the possibility of Taipei signing FTAs with other trade partners in Asia.

A major move of the new Ma government was to call for and establish a tacit, informal "diplomatic truce" with Beijing. In practice, it means that both parts 'freeze' their number of current allies, preserving the ties with those countries with which they already exist, and not trying to lure the other side's friends to the own camp.

Judging from public information available and from the opinion of academic experts, Taiwanese government and Central American officials, the 'truce' is holding so far. The call was a sort of a condition for the negotiation of the ECFA, a major breakthrough in the historic rivalry between Taiwan and China since 1949. Both sides have their own goals and expectations from

this accord, though it is quite clear that in their cost-benefit analyses, both judge that keeping this “cease-fire” is more beneficial than continuing the competition. And that’s why the ‘truce’ is being observed.

This thesis attempts to address and analyze diverse aspects of the Taiwanese relationship with Central America, and compare it with the growing Chinese presence and influence there. It has two main research focuses.

In the first place, I will try to make a comparison between Taiwan’s diplomatic policies toward allied countries of Central America during the Chen Shui-bian period and the Ma Ying-jeou period, looking to establish some similarities and the main differences. I will attempt to answer such questions as: Is the present ‘diplomatic truce’ with the PRC working? Does it effectively constitute a major departure from the policies of the Chen Shui-bian government? If yes, where those fundamental differences lie? Are there any similarities?

The second major purpose of this research is to make an analytical comparison between the current positions of both Taiwan and China in Central America, taking into account trade, economic and political factors.

To make this analysis, I will proceed as follows:

First, I will summarize the ties of Taiwan with Latin America: historical aspects, trade, cooperation and diplomatic aspects (Chapter III). Next, for making comparisons, I will provide the context of China’s historical, political and trade relations with Latin America and the Caribbean (Chapter IV).

Secondly, for making comparisons based on the most recent data available, I will review and describe the growing commercial and political presence of China in Central America, putting it within the context of an increasingly important relationship between China and Latin America and the Caribbean (Chapter V). Next, I will review and describe the current state of Taiwan’s developmental cooperation, political ties and trade exchanges with seven Central American countries (Chapter VI). There is a special chapter on Nicaragua (Chapter VII).

Thirdly, we’ll study, analyze and compare the diplomacy toward Central America pursued by Presidents Chen Shui-bian and Ma Ying-jeou (I’ll also include a brief summary of

the Lee Teng-hui period): main tenets, actions and results. Special emphasis will be put on the question of the ‘diplomatic truce’. (Chapter VIII). Conclusions and the bibliography are presented in the end.

II. THEORETICAL FRAMEWORK AND METHODOLOGY

For the purposes of this thesis and its topic, I would like to refer to realist theories and concepts of international relations. In particular, I find the balance of power theory as an appropriate theoretical approach to the issues and events studied here.

In practice, the diplomatic war for recognition waged by Taiwan and China in the world arena has been for long decades a zero-sum game. Though the ROC dropped its policy of exclusive recognition in the 1980s to give way to a more pragmatic approach, the PRC has never admitted dual recognition as a workable alternative for those wanting to establish ties with Beijing. It continues to hold the “one China” principle as an indispensable condition for having diplomatic ties. Both parts competed for other countries’ recognition and one side’s “gains” in the form of a state’s recognition as the legitimate representative of China, was a “loss” for the other.

This situation lasted until 2008. Following President Ma’s arrival in power, he promptly called for and agreed on a ‘diplomatic truce’ with the mainland Chinese authorities, a tacit, informal, non-written, tactical pact that has stopped the competition for allies since then. So far, this ‘cease-fire’ has been respected, giving room to dialogue, direct communication links, and strengthened economic cooperation and exchanges. The most emblematic result of this historical rapprochement is the signing of ECFA.

This thesis is developed following some assumptions. The main assumption is that after the little effective diplomacy followed by the Chen Shui-bian government, Taiwan has had to reassess and reorient his overall diplomatic policies, strategies and goals given the changing balance of forces that results from the strengthening of China as a regional and world power, and the increase of its global influence. China has become stronger economically and militarily, and this has brought some consequences for the whole region and the world.

Economic dependence of Taiwan vis-à-vis China has grown and keeps growing, a process that Taipei governments haven't been able to avoid or contain, as it is dictated by the mighty forces of the market. This is a process that is both an expression and consequence of globalization. Mainland China and Hong Kong constitute the destination of 41% of Taiwanese exports, a percent much larger than the one represented by exports to the United States and Japan. Hundreds of thousands of Taiwanese companies have poured over US\$ 100 billion in the PRC market.

China has become stronger both as a regional and world power. Its influence on Asian and world trade, economic affairs, big power diplomacy and security matters has been enlarged over the past two decades, as its GDP has grown almost 10% annually, becoming the world's third economy, the second largest exporter and the second (first, according to new reports) energy consumer. Its geopolitical position has improved: China has solved territorial disputes with its neighbors and nowadays, it does not confront any real or hypothetical threats from resentful regional powers; it has fostered regional institutionalization and cooperation, and it has acted smartly to assuage its neighbors' concerns over its rise.

The People's Liberation Army (PLA) has steadfastly continued its modernization and buildup, which is guided under the premise of a hypothetical war with the Taiwanese army and the US military over Taiwan. The Taiwan Strait is the only point where China, with high probability, could be involved in a major armed conflict. Security and military experts agree that the PLA enjoys now superiority thanks to purchases of modern Russian weapons, technology advances, missile deployment and manpower. A blue-water navy is being built progressively.

More and more often, any major developments, policies or actions by any actors in Asia, including the dominant regional power, the US, must take Chinese interests into account.

Both in Asia and in the world, the Chinese have worked hard to try to ease fears about a future China threat, fostering the idea that their nation is following the path of a "peaceful rise", that it is not seeking hegemony nor world domination, but that it is pursuing a peaceful international environment that will serve its domestic economic and social progress. But around the issue of Taiwan, the Chinese show their most uncompromising attitude, adamantly excluding

any possibility of Taiwanese independence, and committing themselves by law to resorting to the use of force to prevent it at any cost.

These developments, especially those occurred in the last decade, have influenced Taiwan's perception of the world and regional balance of power, forcing upon it a change of its diplomacy, strategies and tactics to cope with China's rise. In my opinion, the current government seeks to formalize, institutionalize and manage the economic interdependence with China as a way to foster Taiwan's economic performance and prosperity, despite the risks. By taking advantages of the opportunities offered by the Chinese market and closer economic integration – not political -, Taiwan seems to hope to be able to confront the challenges of globalization in better conditions.

The change affects Taiwan's relationships with diplomatic allies. Given the high stakes surrounding the Taiwan issue and the strategic character it has, the PRC leadership seems to have acquiesced to the 'diplomatic truce' because of long-term calculations: China has not renounced to its strategic goal of achieving unification. As it has happened with previous leaders, there are tactical and style changes regarding Taiwan, but not a strategic one. Taiwan is the "big prize," and given recognition by most states of the international community, including all the great powers, recognition by the tiny Central American states does not have the same importance it may have had, say, twenty years ago or earlier. A second big assumption is that the 'truce' is holding, effectively influencing the relationship between Taiwan and its allies in Central America (not only); this is what the information available to this research suggests.

The balance of power is one of the most ambiguous and confusing concepts in international relations.

For Hans Morgenthau, one the most outstanding exponents of the balance of power theory, the concept may mean: (1) a policy aimed at bringing about a certain power distribution; (2) a description of any actual state of affairs in international politics; (3) an approximately equal distribution of power internationally; and (4) a term describing any distribution of political power in international relations.¹

¹ Morgenthau, Hans J., Thompson, Kenneth W. 1985. "Politics among Nations." Sixth edition. Alfred A. Knopf Inc., New York.

Joseph S. Nye says that the term can have three senses.² In the first sense, a balance of power is any distribution of power, especially in reference to the status quo, the existing distribution of power. In a second sense, it refers to the policy of balancing: states will act to prevent any one state from developing a preponderance of power. In the third use of the concept, Nye says, serves to describe multipolar historical cases, and here Europe is the traditional model, be it the nineteenth-century or the eighteenth-century European system of states.

The unprecedented dialogue, negotiations and recent accords signed by Taiwan with China have focused on economic issues, not on political ones, and ultimate reunification is not viable in the immediate future or in the mid-term, according to Taiwanese, Asian and American scholars and observers. It is an open question for a distant future. Any Taiwanese leader or party that would openly support unification with the PRC would commit political suicide. Besides, the ROC remains firmly an American ally despite the lack of official ties, and the United States has strong bonds with the island because of the Taiwan Relations Act. Washington is still Taiwan's main security guarantor, though this commitment is informal and ambiguous as it emanates from certain provisions in the Taiwan Relation Act.

These last considerations make us refer to a second theoretical approach can be useful for our present analysis. It has been found that the theory of the two-level game, emphasizing the strong links between domestic politics and foreign policy or international relations, could be a second, valuable pillar for this thesis' theoretical framework.

Robert Putnam says,

“The politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.”³

² Nye, Joseph S. 2007. Pp. 64-67. “Understanding International Conflicts – An introduction to theory and history.” Pearson Longman. Sixth edition.

³ Putnam, Robert D. P. 434. “Diplomacy and Domestic Politics – The Logic of Two-Level Games.” International Organization, Vol. 42, No. 3, Summer 1988.

For him, “each national leader appears at both game boards.” He is right when he adds that

“The political complexities for the players in this two-level game are staggering. Any key player at the international table who is dissatisfied with the outcome may upset the game board, and conversely, any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat”.

The last sentence is especially true in democracies. And it may be painfully true in democratic Taiwan where, as I said before, any leader -- and surely President Ma knows it very well -- who would openly advocate or seek reunification with the present PRC ruled by the Chinese Communist Party, risks losing his office in the next elections. In the same way, Chinese leaders could not appear soft on the issue of Taiwan as it provokes strong nationalist sentiments and it has to do with territorial integrity and CCP rule’s domestic legitimacy.

Thus, for the strict purposes of the present research, it has been developed on a double-pillar theoretical basis. The data and information discussed here have been gathered in two ways. First, I undertook a wide literature review including books, journal articles and print press stories mainly from Taiwanese and Central American press. In the second place, 16 different interviews with Taiwanese and Central American officials, and with Taiwanese, Chinese and foreign scholars (US, UK, Nicaragua) were conducted in person, by telephone or by e-mail.

III. TAIWAN AND LATIN AMERICA

III.1. A STRATEGIC REGION POLITICALLY

Geographically, Latin America is a distant region. It is neither important in terms of trade or investment for Taiwan, if we take into account the size of its economy and trade with the largest partners. But it is sensitive in terms of diplomacy.

Politically, the region is key for the Republic of China's (ROC) claims to be a state. In international public law, one of the criteria for defining an entity as a state is its capacity to enter into relations with other states. Taiwan has a diplomatic bastion in the Western Hemisphere: 12 among its remaining 23 full diplomatic allies worldwide are in the area; 11 of them are in Central America and the Caribbean. Besides, though Taipei does not have official ties with the United States, the dominant hemispheric power, Washington remains the most important of the island's allies and an ultimate security guarantor.

The Central American and Caribbean allies are: Belize, Guatemala, El Salvador, Honduras, Nicaragua, Panama, The Dominican Republic, Haiti, St. Christopher and Nevis, St. Vincent and the Grenadines, and Saint Lucia (it re-established relations in 2007, 10 years after breaking with Taipei and recognizing Beijing). Costa Rica severed its 63-year-old ties with the ROC in 2007 and established diplomatic relations with the People's Republic of China (PRC). In South America, the only remaining Taiwanese ally is Paraguay.

The government of President Lee Teng-hui inaugurated a policy called "pragmatic diplomacy" which aimed at reaffirming Taiwan's sovereignty and gaining larger international space. The government of President Chen Shui-bian continued the general guidelines of his predecessor. Central American and the Caribbean were one of the regions where the diplomatic war with the People's Republic of China was fiercely fought in those periods.

He Li, a professor of political science at Merrimack College in the United States, quotes Yu Shyi-kun, a former Taiwanese premier, saying that the allies in Latin America and the

Caribbean, “have helped us a lot and therefore we consider this an area of maximum diplomatic importance.”⁴

According to Li, Taiwan has 3 strategic objectives in Latin America:

“(1) To consolidate diplomatic relationships with Central American countries and reduce diplomatic isolation; (2) to garner Central American countries' support for Taiwanese membership in the UN; (3) to diversify markets for Taiwanese products while securing reliable sources of raw materials through increased trade and investment.”⁵

A geopolitical fact should not be overlooked as it is related to the rivalry with China. Central American and Caribbean nations have traditionally been an area of American influence. The US remains Taiwan’s key ally. In recent years, American influence has decreased, due to such factors as the growing presence of Venezuela, ruled by anti-American Hugo Chavez; a more assertive and independent foreign policy of Latin American countries, especially of those ruled by leftist governments; the diminishing interest of Washington in the region; and in my opinion, the consolidation of Brazil as a regional power with global aspirations.

Despite absent diplomatic ties, Taiwan keeps substantive unofficial ties – trade, cultural exchanges, education, technical cooperation, etc. -- with large Latin American countries such as Mexico, Brazil, Argentina and others. It runs trade and cultural representative offices in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru, according to the website of the ROC’s Foreign Ministry. Offices in Venezuela and Bolivia have been closed recently; they are not listed on the official website, though they were listed before, according to a literature review.

According to Erikson and Chen,

“Even Latin American countries without official relationships with Taipei often try to maintain good ‘non-official’ relations, which may include opening reciprocal missions, often disguised as nonprofit foundations or

⁴ Li, He. 2005. P. 77. “Rivalry between Taiwan and the PRC in Latin America.” *Journal of Chinese Political Science*, vol. 10., no.2, fall 2005.

⁵ Item, p. 79.

businesses, in their respective capitals. The lack of diplomatic links has not prevented Taiwan from undertaking significant trade with Brazil, Chile, and Mexico.”⁶

TABLE 1 -- TAIWAN’S REPRESENTATIVE OFFICES IN LATIN AMERICA AND THE CARIBBEAN

A. EMBASSIES

Belize, El Salvador, Haiti, Honduras, Guatemala, Nicaragua, Panama, Paraguay, St. Christopher & Nevis, St. Lucia, St. Vincent & the Grenadines

B. TRADE AND CULTURAL OFFICES

Argentina	Oficina Comercial y Cultural de Taipei en la República Argentina
Brazil	Escritorio Economico e Cultural de Taipei no Brasil Escritorio Economico e Cultural de Taipei no Brasil em Sao Paulo
Chile	Oficina Económica y Cultural de Taipei en Chile
Colombia	Oficina Comercial de Taipei
Ecuador	Oficina Comercial de la República de China, Quito, Ecuador
Mexico	Oficina Económica y Cultural de Taipei en México
Peru	Oficina Económica y Cultural de Taipei en Lima, República del Perú

Source: Ministry of Foreign Affairs website: <http://www.mofa.gov.tw>. July 2010.

Taiwan is often looked at with admiration, respect and as a model of rapid economic and social development by many Latin American leaders.

⁶ Erikson, Daniel P. and Chen, Janice. 2007. P. 72. “China, Taiwan and the battle for Latin America.” The Fletcher Forum of World Affairs”. Vol. 31:2, Summer 2007.

III. 2. A HISTORIC REVIEW

From a political and diplomatic point of view, Latin America has been a battleground between the ROC and the PRC since the 1950s.

In its relationships with Latin America, China applies in an inflexible way the “one China” principle for establishing and maintaining diplomatic ties with regional states, considering dual recognition inadmissible and breaking ties with any nation that would recognize Taipei. Though the practice is not new, it was formally sanctioned in China’s first Policy Paper on Latin America published on November 5, 2008.

“The one China principle is the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organizations,” we read in the document.⁷

Until 1971, the ROC had a good relationship with almost all Latin American countries; Cuba was the exception with Fidel Castro quickly recognizing the PRC one year after its arrival in power in 1959. There was a Cold War political affinity between the ROC and their Latin American counterparts. Yu San Wang, a professor of political science in the USA, wrote,

“The ROC’s relations with Latin America prior to 1971 were in the main successful because a large number of nations were anticommunist and because they always followed Washington’s lead in conducting their policies toward Taipei and Peking.” “[...] A large number of governments in the region, under the control of military juntas, conservatives, and anticommunists, demonstrated their deep sympathy with the ROC on Taiwan in its struggle with the Chinese Communists during the civil war.”⁸

Daniel P. Erikson and Janice Chen seem to agree and point out the role of value-sharing before and now.

“Taiwanese influence in Latin American and Caribbean is sustained to some extent by values-based affinities stemming from the anti-communist orientation of most Central American governments during the 1970s and 1980s. In more recent years, these ties have been bolstered by the shared experience of political and economic liberalization. After several decades under the authoritarian rule of the Nationalist Party (*Kuomintang*, or KMT), the

⁷ China’s Policy Paper on Latin America and the Caribbean. November 5, 2008. Xinhua.

⁸ Wang, Yu Shan.1990, Pp. 155-156. “Foreign Policy of the Republic of China on Taiwan – An Unorthodox Approach.” Wang, Yu Shan (Editor). Praeger.

island embarked on a path of political opening to become one of the most vibrant, if sometimes unruly, democracies in East Asia, paralleling Latin America's contemporaneous wave of democratic transitions."⁹

Besides, Washington strongly opposed their establishing ties with communist states. In China's case, it was so until 1971, and the US exerted considerable pressure on Latin American governments many times.

In January 1950, the US strongly lobbied against a Soviet resolution proposal at the UN Security Council that would replace the ROC seat with the PRC. When Washington learned that Ecuador was considering to cut ties with the ROC, it pressed the Ecuadorian representative Homero Viteri-Lafronte to change his government's standing. The next month, fearing that other regional states could change sides, the Truman administration issued a letter to Latin American embassies in Washington urging those nations to follow a common policy under the aegis of the US.¹⁰

One example of early support is the joint statement of 11 Latin American foreign ministers of October 5, 1949, issued just 4 days after the proclamation of the PRC by Chairman Mao Zedong in Beijing. The statement said that "their Governments would continue their recognition of the Government of the Republic of China on Taiwan as the sole legal government representing the whole China." The signing ministers were from Argentina, Bolivia, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras and Panama.¹¹

Earlier, Latin America had already showed its support of the Chiang Kai-shek government. In September 1949, all the regional countries voted for a draft resolution sponsored by the ROC condemning the Soviet Union for its aid to the Chinese Communist forces as an "aggression" to the ROC.¹²

After 1971, the ROC position in Latin America deteriorated due to several factors. The factors were: the strategic rapprochement US-China, symbolized first by Henry Kissinger's secret trip to Beijing in July 1971 and later by Richard Nixon's visit in 1972; the PRC's entry as

⁹ Erikson and Chen, 2007, p. 72-73.

¹⁰ Jiang, Shixue. 2008. Pp. 28-29. "The Chinese Foreign Policy Perspective." In "China's Expansion into the Western Hemisphere – Implications for Latin America and the US." Roett, Riordan and Diaz, Guadalupe (editors). 2008. Brookings Institution Press, Washington D.C.

¹¹ Wang, 1990, p.156.

¹² Item., p. 156.

the legal representative of China into the United Nations and the unseating of the ROC; and the diplomatic offensive launched by the PRC, whose diplomacy toward the Third World turned less ideological and more pragmatic after the end of the disastrous Cultural Revolution.

“Due to its profound political influence in Latin America, the United States policy toward Taipei clearly directed many Latin American countries’ attitude toward the ROC.”¹³ The new strategic Sino-American entente against the Soviet Union proved to be fatal for the interests of Taiwan.

When resolution 2758 -- Albania and Algeria proposed to give the China seat to the PRC -- was voted in the UN General Assembly on October 25, 1971, only 4 Latin American countries, one Caribbean and a Commonwealth one voted in favor of the passing of the resolution: Chile, Ecuador, Guyana, Mexico, Peru, and Trinidad and Tobago.¹⁴

Five Central American countries voted against it: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Panama abstained.¹⁵

Between 1950 and 1970, all Latin American countries maintained relationships with the ROC. Cuba was the exception (it recognized Beijing in 1960). But after 1971, during the following 17 years, 16 more nations recognized the PRC.¹⁶ Chile was the first former ROC ally to break ranks since 1960, becoming the first South American country to recognize the PRC. The two states established diplomatic relations on December 15, 1970.

Taipei’s position became more pragmatic and realistic after 1971 in the Western Hemisphere, especially in the 1980s, though it took several hard blows to understand lack of flexibility was leading nowhere. Until then, it had excluded dual recognition and used to break ties with any country that recognized Beijing.

¹³ Item., p. 156.

¹⁴ Wang, John Kuo-Chang., 1984, Pp. 101-103. “United Nations Voting on Chinese Representation – An Analysis of General Assembly Roll-Calls 1950-1971.” Institute of American Culture, Academia Sinica, Taipei.

¹⁵ Item.

¹⁶ Wang, 1990, p. 159

“Not until some 120 nations switched sides from the ROC to the PRC, did Taipei conclude it had no other course of action but to begin to formulate a more realistic diplomacy, an unorthodox diplomacy,” says Yu San Wang.¹⁷

III.3. DEVELOPMENT COOPERATION

Taiwan’s economic and social progress allowed it to develop a relationship with Latin America that made use of its financial resources, agricultural and technical expertise, trade opportunities and other possibilities.

The ROC’s technical cooperation with Latin America has occupied an important place in its contacts with the region. It has spanned many areas. Taiwan’s governmental information traditionally defines its cooperation efforts like this: a contribution to the developing world as a way to repay the generous help it received at the early stages of its development after World War II.

Taipei has also been a constant and consistent aid donor, even during the post-Cold War era, when donor aid levels dropped for Latin America as well as for the developing world in general.

“It [Taiwan] is reportedly the single largest aid donor to St. Kitts & Nevis and St. Vincent & the Grenadines. Taiwan stood virtually alone among the international community in continuing to support the government of President Jean-Bertrand Aristide in Haiti when most Western donors imposed a devastating bilateral aid cut-off from 2000 to 2004. When Aristide was forced from power in 2004, Taiwan maintained smooth relations with the interim government and is especially close to Haiti’s current president, René Préval, who was elected in 2006. In the wider Caribbean, Taiwan also offers significant resources for disaster relief, which follows naturally from the island’s own frequent experiences with earthquakes and typhoons.”¹⁸

As a very recent example, Taiwan continues its developmental aid to the present Nicaraguan government, despite the fact that Washington and European Union donors have stopped or greatly reduced its cooperation because of fraud allegations in the 2008 local elections, and because of charges of worsening democratic governance standards, according to the Nicaraguan press.

¹⁷ Wang, 1990, p. 160.

¹⁸ Erikson and Chen, 2007, p. 73.

Between 1960 and 1990, Taiwan sent to many Central and South American states high level experts in agriculture, forestry, fisheries, mining, electronics, ceramics, textiles, investment promotion and food processing.

The first type of aid provided by Taipei to Latin American countries (and one of the most important types of aid), was agricultural assistance, an area where the Taiwanese have a rich experience. It made sense, too, as Latin American nations have usually had large rural populations, with large numbers of farmers and farm families. Besides, it was politically less sensitive. Nevertheless, some states requested over time cooperation and assistance in industrial development.¹⁹

At least until the late 1980s, agricultural cooperation took the form of agricultural demonstration projects; agricultural extension projects; fisheries; handicrafts, animal husbandry and veterinary projects.

There were also training programs such as seminars on agriculture techniques, land reform, ceramics, acupuncture, cancer prevention, fisheries, hog breeding, export processing zone management, etc. There were also short training courses and observation tours. From 1974 to 1987 for example, shortened training sessions involved some 300 participants from 23 Latin American and Caribbean countries.

The death of President Chiang Ching-kuo allowed more flexibility and pragmatism in the provision of technical assistance as a tool of diplomacy. Until 1987, the ROC suspended its technical cooperation accords and called back its missions from one country if it broke off diplomatic ties, but since 1988, it decided to continue the work of the missions as far as the host countries were willing to keep them.²⁰

At present, the International Development and Cooperation Fund (ICDF), Taiwan's cooperation agency, keeps technical missions in the allied countries of Latin America. There are six missions in Central America, one for each ally. In South America, it keeps a technical mission in Paraguay and Ecuador, though the latter is not a diplomatic ally.

¹⁹ Wang, 1990, Pp. 162-173.

²⁰ Item., p. 168.

ICDF organizes workshops and seminars; citizens from non-allied countries can also participate. It has a large program of scholarships for graduate and undergraduate studies at Taiwanese universities. Sometimes, citizens from countries not recognizing Taiwan can apply (Peru is one example). This information can be verified by accessing the ICDF website <http://www.icdf.org.tw>. The information was last retrieved in mid-July 2010.

Besides, candidates from many non-allied Latin American states are eligible to apply for scholarships offered by the Taiwan Scholarship Program, in which institutions such as the Ministry of Foreign Affairs, the Ministry of Education and the National Science Council of the Executive Yuan participate.

There is also an ICDF a program of credit and banking from which some non-allied Latin American countries benefit (Chile, Peru).

III. 4. TRADE

The trade with Latin America was not significant in the early decades of the existence of the ROC on Taiwan. The years after Japan's surrender and the island's retrocession to China in 1945 were a time of great economic hardship, scarcity and uncertainty. The trade exchanges grew gradually after 1970, when Taiwan turned into a newly industrialized country, one of the amazing Asian Tigers.

Prior to the 1970s, Taiwan's trade with Latin America was greatly limited because of two factors, according to Yu San Wang.

First, the ROC was an underdeveloped country for the first decades after the government seat was moved to Taipei. It needed a lot of capital, especially foreign capitals and technological skills, for which it competed with other Third World nations. Taiwan had little to offer in exchange for commodities. In other words, neither Taiwan nor Latin America had much demand for the other's products.²¹

The situation of the ROC changed radically since the 1970s. The island became an industrial power. Until 1989, Taiwan exported to Latin America mainly textiles, electronic

²¹ Wang, 1990, p.161.

equipment, electrical appliances and machinery, iron, steel, and metal products. Other exports were basic metals, transportation equipment, paper and products, plastic products, footwear, and chemicals. Its imports from Latin America were mainly raw materials: food and agricultural products, copper and other metals, timber, and other primary stuff. (Item)

In 1975, Taiwan-Latin America trade amounted to US\$ 185 million. In 1985, total trade was US\$1.2 billion (see Table 2). Taiwan enjoyed a surplus for most of the time in a decade, except for two years (1983, 1984).

In comparison, the PRC-Latin America trade was US\$ million 145.8 in 1970, with the PRC exporting US\$ 75.2 million and importing US\$ 70.6 million. In 1980, those figures had jumped to US\$ 1.33 billion in total trade, US\$488 million in PRC exports and US\$ 843 in imports.²²

In 1980, the ROC exported US\$836.4 million to Latin America and imported US\$ 215.5 million. Since the 1980s, Chinese trade has steadily increased and it saw a fabulous “great leap forward” in the 1990s. Until then, the ROC was a way ahead.

A curious finding is that due to Taiwan’s evolution from an industrial economy to a service-oriented one, the structure of Taiwan’s trade with Latin America has changed since the 1990s. At present, the trade patterns of the growing commerce between China and the region resemble those of Taiwanese trade in the 1970s and 1980s. The Chinese exports will be discussed in detail later.

²² Li, He. 2005, p.89

TABLE 2 -- ROC'S TRADE WITH LATIN AMERICA 1975-1985

Unit: US\$ Million

Year	Exports (Amount)	% of Total Export	Imports (Amount)	% of Total Import	Total Trade	% of Total Trade	Surplus (+) or Deficit (-)
1975	124.5	2.3	60.7	1.0	185.2	1.6	(+) 63.8
1976	203.0	2.5	113.7	1.5	316.7	2.0	(+) 89.3
1977	302.8	3.2	176.5	2.1	479.3	2.7	(+) 126.3
1979	587.1	3.6	228.2	1.5	815.3	2.6	(+) 358.9
1980	836.4	4.2	215.5	1.1	1,051.9	2.7	(+) 620.9
1981	990.1	4.4	512.6	2.4	1,502.7	3.4	(+) 477.5
1982	755.7	3.4	576.3	3.0	1,332.0	3.2	(+) 179.4
1983	502.1	2.0	512.2	2.5	1,014.3	2.2	(-) 10.1
1984	586.8	1.9	643.8	2.9	1,230.6	2.4	(-) 57.0
1985	657.7	2.1	546.7	2.7	1,204.4	2.4	(+) 14.0

Source: Data of the Council for Economic Planning and Development, ROC, Taiwan Statistical Book on International Trade, 1987. In: Wang, Yu San (editor), "Foreign Policy of the Republic of China on Taiwan – An Unorthodox Approach." 1990, Praeger.

EXPORTING POWERHOUSE

Taiwan occupied the 19th place in the world ranking of exporters in 2009. Exports, led by electronics and machinery, generate about 70% of Taiwan's GDP growth, and have provided the primary impetus for economic development. This heavy dependence on exports makes the economy vulnerable to downturns in world demand. In 2009, Taiwan's GDP fell by 2.5%, due primarily to a 20% year-on-year decline in exports.²³ The decline concerned all the geographic regions, the Western Hemisphere included.

The Bureau of Foreign Trade reports that the island's exports totaled US\$ 203.6 billion last year, a sensitive downturn from 2008, when they totaled US\$ 255.6 billion. This is an

²³ CIA World Factbook 2010. Website: <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html>.

evident effect of the world economic recession and the fall of the demand. Last year's imports were US\$174.36 billion; in 2008 they totaled US \$240.4 billion.

Taiwan's main export destinations are: China 26.6%, Hong Kong 14.4%, US 11.6%, Japan 7.2%, Singapore 4.2%, according to the CIA World Factbook (2009 data). Their main imports originated from Japan 20.7%, China 14%, US 10.3%, South Korea 6%, Saudi Arabia 4.8%.

The most important export items are electronics, flat panels, machinery; metals; textiles, plastics, chemicals; optical, photographic, measuring, and medical instruments. The most important imports items are electronics, machinery, crude petroleum, precision instruments, organic chemicals and metals.

LA'S PERCENTAGE OF TAIWAN'S TOTAL TRADE IN THE LAST DECADE

It is interesting to examine the ROC's Bureau of Foreign Trade data concerning Latin America and the Caribbean and compare them with Taiwan's overall trade figures.

In 1990, trade amounted to around US\$ 2.7 billion (a figure lower than the US\$ 2.9 billion from the previous year), according to data from Taiwan's Bureau of Foreign Trade. The Western Hemisphere (excluding the US and Canada) exported US\$ 1.33 billion in goods to Taiwan and imported US\$ 1.35 billion.

Ten years later, the regional trade with the Asian island had more than doubled, reaching US\$ 6.02 billion, an increase of over 100% in comparison with 1990. In 2005, total trade with Mexico, Central America, South America and the Caribbean was US\$ 7.58 billion. It represented roughly a 25% increase since 2000.

In 2009, the ROC's trade with the world was some US\$ 378 billion. Total trade with Latin American and Caribbean (LAC) countries reached US\$ 8.4 billion. It represents 2.2% of overall Taiwan trade. Taiwanese exports totaled US\$ 4.43 billion; meanwhile imports amounted to US\$ 4 billion approximately. As stated before, as with the rest of the world, the global economic slowdown had an effect on Taiwan's commercial activities with the region, too.

The year 2008 represents a historical peak in Taiwan-LAC trade: US\$ 13.6 billion, the highest figure of all times. Even so, that was less than 3% of the Asian tiger's total commerce, approximately 2.7% of the total. The year 2000 saw a 2.15% (US\$ 6.02 billion) as the percentage of Latin America in the total trade of the Asian country (US\$ 288.3 billion).

In 2005, LAC trade with Taipei reached US\$ 7.58 billion, which represented approximately 1.98% of the total Taiwanese export-import activities (US\$ 381 billion).

Historically, trade exchanges with Latin America and the Caribbean have never reached the threshold of 5% of total Taiwanese figures, or even a 4%. The highest percentage is 3.4% in 1981, according to data discussed here (see Table 2). In the last decade, it has not even reached 3% of the total. A historical peak in trade volume was reached in 2008, US\$ 13.6 billion, which represented roughly 2.7% of total Taiwan trade of the period (see Table 4).

For most of the time, Taiwan has enjoyed a surplus. Sometimes it has been larger, sometimes smaller. In the last decade, 2004 was the only year in which Taiwan experienced a small deficit: total trade was US\$ 7 billion, with exports reaching US\$ 3.41 billion and imports totaling US\$ 3.59 billion.

At present, Taiwan's has 5 major Latin American trade partners, according to official statistics from the years 2008 and 2009. They are: Brazil, Chile, Mexico, Peru and Argentina. The number one partner is Brazil. Trade with the South American giant, which happens to be also China's main trade partner in Latin America, was US\$ 2.7 billion last year. Taipei enjoyed a small surplus (see Table 3). The previous year, bilateral trade had amounted to nearly the double: US\$ 4.9 billion.

These figures are not contemptible, though Latin America and the Caribbean can hardly be called a significant or strategic trade partner for Taiwan. Nevertheless, trade has traditionally showed a tendency to grow, which is of course a positive event from any point of view. But these figures are low when compared with the spectacular increase of trade between China and Latin America after China's economic reforms, which will be discussed later.

TABLE 3 -- ROC'S MAIN LATIN AMERICAN PARTNERS 2008-2009

Unit: US\$

Year	Country	Total trade	Exports	Imports
2009	Brazil	2,707,706,635	1,406,511,207	1,301,195,428
	Chile	1,605,667,420	261,874,825	1,343,792,595
	Mexico	1,440,294,821	1,097,099,599	343,195,222
	Peru	524,672,882	200,672,156	324,000,726
	Argentina	297,607,357	223,041,673	74,565,684
2008	Brazil	4,936,752,599	2,744,650,092	2,192,102,507
	Mexico	2,444,601,145	1,855,039,121	589,562,024
	Chile	2,326,200,002	304,418,455	2,021,781,547
	Peru	830,576,971	246,120,611	584,456,360
	Argentina	439,158,147	306,060,079	133,098,068

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 4 -- TRADE WITH LAC 2000-2010 (*) Unit: US\$

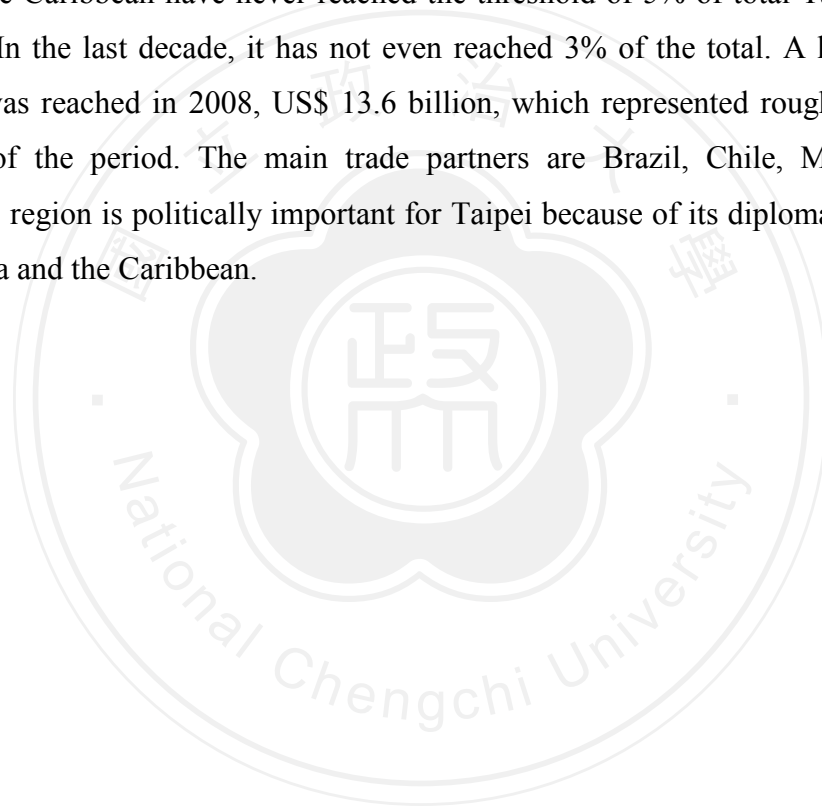
Year	Exports	Imports	Total
2000	3,921,458,214	2,103,119,668	6,024,577,882
2001	3,241,543,113	1,545,561,399	4,787,104,512
2002	2,936,094,834	1,917,015,670	4,853,110,504
2003	2,891,341,878	2,413,218,367	5,304,560,245
2004	3,415,017,096	3,597,662,611	7,012,679,680
2005	3,974,335,569	3,614,585,437	7,588,921,006
2006	4,290,023,422	4,304,043,052	8,594,066,474
2007	5,531,051,176	5,007,289,087	10,538,340,263
2008	7,195,038,441	6,424,400,820	13,619,439,261
2009	4,434,979,689	3,974,086,092	8,409,065,781
2010 (*)	1,735,027,963	1,721,464,587	---

(*) Data until April 2010. Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

CONCLUDING REMARKS

Taiwan has a long political and trade relationship. Latin American countries supported the ROC in Taiwan in the early years of the Cold War, but since 1970, most countries switched their recognition to the PRC. The ROC maintains diplomatic relationships with 12 countries in the LAC region, but it also keeps or tries to keep substantial ties with nations that do not have a diplomatic relationship with it.

LAC is not a major trade partner for Taiwan; historically, trade exchanges with Latin America and the Caribbean have never reached the threshold of 5% of total Taiwanese figures, or even a 4%. In the last decade, it has not even reached 3% of the total. A historical peak in trade volume was reached in 2008, US\$ 13.6 billion, which represented roughly 2.7% of total Taiwan trade of the period. The main trade partners are Brazil, Chile, Mexico, Peru and Argentina. The region is politically important for Taipei because of its diplomatic stronghold in Central America and the Caribbean.



IV. CHINA AND LATIN AMERICA

In the twenty-first century, the primary interest of China in Latin America is economic. It pursues to secure a flow of raw materials and agricultural products required to meet the needs of its fast-growing economy and to feed its population, and to open markets for Chinese goods.

At the same time, the PRC has had a major strategic goal related to its highest national interest: isolate Taiwan in that part of the world, where Taipei has its last stronghold, the most important bloc of allies. In the political-diplomatic field, it also struggles to set the foundations for alliances in world issues that are of mutual concern as developing world's partners, counterbalancing U.S. and Western influence. Nowadays, Beijing is an advocate of multilateralism and ties with the region serve that purpose. Nevertheless, China has always been very careful not to openly challenge US hegemony in the Western Hemisphere.

Eisenman, Heginbotham and Mitchell state,

“While China viewed the Third World largely through an ideological prism during the Cold War (...), today China is reengaging these regions for highly practical reasons – primarily to find new markets for its goods and to fuel its growing economy’s thirst for natural resources and energy supplies to power its industries and promote its growth.”²⁴

Let’s first review the historical ties of China with LA and the Caribbean.

IV.1. THE MAO YEARS

Latin America has never been a top priority in Chinese diplomacy for a variety of reasons: geographic distance, lack of mutual knowledge about culture and language, scarce people-to-people contacts, little economic weight, and its position in the world order.

This is what Dr. Jiang Shixue, a leading Chinese scholar on Latin America, said in May 2006 on the mutual lack of knowledge of both sides:

²⁴ Eisenman, Joshua; Heginbotham, Eric; Mitchell, Derek (Editors). 2007. P. XV. “China and the Developing World – Beijing Strategy for the Twenty-First Century.” M.E. Sharpe, New York, London.

“Due to geographical distance, cultural differences, language barriers, etc., lack of understanding between peoples in China and Latin America constitutes another problem. Needless to say, lack of understanding hinders further development of the bilateral relations. It is a pity that Latin Americans do not know much about China, and Chinese do not know much about Latin America either.”²⁵

Historically, Asia was the region of greatest concern for China. As its natural geographic environment, it's here where its “political and cultural influence has been strongest”, and the bulk of its trade has been conducted with neighbors. Even though in the post-Mao period China grew into a major global economic and political actor, “its foreign policy was still concerned predominantly with Asia,” says Robert Sutter.²⁶

In the 1950s and 1960s, under the revolutionary leadership of Chairman Mao Zedong, the People's Republic of China supported movements of ‘national liberation’ in different parts of the world. Chinese diplomacy was very ideology-driven. As we said before, China has always loved to portray itself as a champion of Third World causes.

It often supported Communist insurgent groups in the Western Hemisphere. Beijing coordinated its foreign policy moves with the Soviet Union in Latin America until the Sino-Soviet split in the early 1960s. In the initial decades of the PRC's existence, Latin America was seen as a tool in the fight against American “imperialism.” Later, it also served to attempt to weaken the Soviet superpower, too.

Mao's thinking guided foreign policy moves. Mao saw the world in terms of numerous contradictions. There were fundamentally three contradictions: the first the contradiction between two opposed camps, capitalism and communism; the second one takes place between the proletariat and the bourgeoisie in capitalist countries; and the third one is the contradiction between oppressed nations and imperialist states. Thus, in Mao's logic, Sino-Latin American policy was based on the idea that the United States and the Soviet Union would contend over spheres of influence from Europe to Latin America, Asia and Africa.²⁷

²⁵ Jiang, Shixue. 2006. “Latin America: China's Perspective.” Interview published in Latin American Business Chronicle on May 8, 2006. Found in Jiang's blog: <http://blog.china.com.cn/jiangshixue/art/862362.html>.

²⁶ Sutter, Robert. “China's Regional Strategy and why it may not be good for America”. P. 289. In the book “Power Shift – China and Asia's new Dynamics.” 2005. Shambaugh, David (editor). University of California Press.

²⁷ Xiang, Lanxin. “An Alternative Chinese View”. In Roett and Paz, 2008, p. 46.

The revolutionary regime of Havana established diplomatic relations with the PRC in 1960. Cuba was then the only country that had diplomatic ties with Beijing. The PRC had showed its early support for Cuba after Fidel Castro's 1959 victory, and it continued to do so until the split between Moscow and Beijing forced Castro to distance himself from the Chinese. When the American Marines disembarked and occupied the Dominican Republic in 1965 following an internal political crisis, Mao condemned the action in strong terms.²⁸

When the failed, US-sponsored Bay of Pigs invasion took place in April 1961 in Cuba, the Beijing authorities denounced it with a strongly-worded statement. In 1964, Mao angrily condemned the US actions in the Panama Canal Zone (then guarded by American Marines) during the riots following an incident involving the flag and American citizens, and which ended with 20 deaths, most of them Panamanian. The Chairman also expressed his solidarity with the Panamanian people's struggle.²⁹

In December 1970, Chile, ruled then by a leftist president, socialist Salvador Allende, established diplomatic ties with the PRC, becoming the first South American country to break with the ROC and recognize the PRC.

Nevertheless, it could be said that Mao's revolutionary policy toward Latin America was a failure. Most Latin American governments were conservative; they were often military dictatorships, and close US allies. Regional elites are traditionally very conservative, strongly anticommunist, and they were (and continue to be) very pro-American, conscious of the fact this has been the US traditional "backyard." Most guerrilla movements were either defeated or neutralized. Chile's Allende was overthrown in 1973 by a military, CIA-inspired coup and even Fidel Castro had to choose Moscow's side when the Sino-Soviet split became firm.

²⁸ He, Li. 2009. "Latin America and China's Growing Interest." Pp.195-196. In the book "Managing the China Challenge – Global perspectives." Zhao, Quansheng and Liu, Guoli (editors). 2009. Routledge, Taylor & Francis Group, London and New York.

²⁹ Jiang, Shixue, 2008. "The Chinese Foreign Policy Perspective." P. 29. In Roett, Riordan and Paz, Guadalupe (editors), 2008. "China's Expansion into the Western Hemisphere – Implications for Latin America and the United States." Brookings Institution Press, Washington D.C.

Australian author Joseph Camilleri says that “by the mid-1960s, the Chinese objective of promoting the broadest possible united front against US imperialism and Soviet revisionism had suffered several notable reverses [in different regions]”. He adds,

“Apart from these disappointments, China’s leverage and degree of involvement remained extremely limited in many parts of the Third World, notably in Latin America where most communist parties tended to be weak, ineffective and pro-Soviet. In spite of China’s skillful propaganda campaign aimed at discrediting Soviet actions in Cuba, in particular [Nikita] Khrushchev’s retreat under during the crisis of October 1962, Castro continued to depend on Soviet aid and to resist Chinese attempts to create an anti-Soviet faction within Cuba. For the most part, Peking was content to highlight the revolutionary sparks that surfaced from time to time in response to the oppressive to the political and economic conditions characteristic of most Latin American nations. But, aside from the benefit of her advice, there was little that China could contribute to the struggle of these diverse but scattered elements striving to undermine the status quo.”³⁰

IV.2. PRAGMATISM REIGNS

After 1971, with the beginning of the Sino-Soviet rapprochement and after the end of the tumultuous Cultural Revolution that spread chaos in China, the PRC pursued a more pragmatic diplomacy in Latin America and elsewhere.

In October 1971, Beijing was given the China seat in the UN and the ROC was expelled. This fact plus the new American strategic policies toward the Asian giant accelerated the recognition of the PRC by many countries. In the next 17 years, 16 more Latin American countries broke with Taipei and established relations with the Communist republic.

As one example of pragmatism, we can point to the case of Chile. Despite the fact of the bloody military coup of General Augusto Pinochet that overthrew socialist President Allende on September 11, 1973, China continued to have diplomatic relationships with the military junta’s regime. Both governments found common ground.

“They [the relations] cooled but neither side broke them. Political interests sustained them. Chile’s relations with China improved as the Pinochet government became ideologically

³⁰ Camilleri, Joseph. 1980. Pp. 105-106. “Chinese Foreign Policy – The Maoist Era and its Aftermath.” University of Washington Press, Seattle.

and politically isolated internationally for its human rights record. Pinochet's Chile faced hostile governments in the United States and Europe for most years from the mid-1970s forward. China welcomed the weakened Soviet position in Chile, opposed international interference in the domestic affairs of countries on human rights grounds, and sought to forestall the restoration of Chilean relations with Taiwan.”³¹

The PRC also traded and kept good political relations with the Brazilian and Argentinian dictatorships in the 1970s and 1980s, especially after both states' contacts with Washington worsened over President Jimmy Carter's human rights policy since 1977. Brazil and the PRC established ties in 1974. Argentina's leader, Gen. Jorge Videla, became the first head of state of his country to visit China in 1980. In the UN Beijing supported Argentina's sovereignty claims to the Malvinas or Falkland Islands, and in return, Buenos Aires endorsed the one China policy. Neither condemned or discussed each other's human rights policies. In November 1990, Argentinian President Carlos Menem became the first head of state from a foreign nation to pay a visit after the Tiananmen massacre.³²

Relationships with Mexico developed very positively with the administration of President Luis Echeverria (1970-1976). Mexico recognized the PRC following Kissinger's trip in 1971. The two states established relationships on February 15, 1972. In this period, that country became China's closest partner among Latin Americans, sharing positions in a broad array of issues.³³

Right-wing governments were not afraid of China. They did not see it as part of the problem. An enhanced relationship with Beijing served them also as counterbalance to US pressures, though Beijing has never tried to challenge directly American influence in the Western Hemisphere.

Another pragmatic example is Nicaragua. In 1985, the Sandinista government of President Daniel Ortega severed ties with Taiwan and established them with the PRC. The Sandinistas were close allies of Castro and the Soviet Union, which provided a lot of aid to the revolutionary regime fighting a war against the US-backed Contras. It is not known Beijing ever provided significant cooperation to the Sandinistas. I see two reasons for this: in the first place,

³¹ Dominguez, Jorge I. "China's Relations with Latin America: Shared Gains, Asymmetric Hopes." 2006. Pp. 4-5. Working paper for the Inter-American Dialogue, a Washington-based think tank.

³² Item., p. 5.

³³ Item.

Managua was seen as a Soviet client-state by the Chinese; and secondly, Beijing was cautious not to provoke the US by engaging in any kind of suspicious commitment in the US 'backyard'.

Chairman Mao died in 1976. His death led to a brutal power struggle, but in the aftermath, a historic opportunity opened under a new leadership just a few years later.

IV.3. GROWING ECONOMIC INTERESTS, BUSINESS AND POLITICAL ALLIANCES IN THE NEW WORLD ORDER

The economic reforms undertaken by China under the leadership of Deng Xiaoping since 1978 led to the modernization of the Chinese economy and to a real "Great Leap Forward" in trade and business ties with the world. Latin America has not been the exception. Since the 1990s, we have witnessed an unprecedented rise in business and political exchanges between Beijing and Latin America. These bonds have become stronger in the last decades.

China has evolved in the course of a quarter of a century from one of the world's most isolated communist states to one of its economic powerhouses. In 60 years since the foundation of the PRC, that country has been through an extraordinary and shaky development process, going from revolution, socialism, radical Maoism to gradual market economic reforms and rapid economic growth.

From 1979 to 2005, China's GDP increased from less than US\$150 billion to US\$ 1.65 trillion, according to official statistics. Foreign trade climbed from US\$ 20.6 billion to US\$ 1.15 trillion; per capita income rose from US\$ 190 to US\$ 1,200; and its share of the global economy jumped from 1% to 4%.³⁴

There is much talk about China becoming the next superpower, one that at some moment of this century will surpass the United States. Much scholarly attention is dedicated to the "rise", the "emergence" or "re-emergence" of China – the controversy goes on --, and many experts wonder whether China will fully integrate into the international system, or as an ascending great power, it will seek to challenge it.

³⁴ Eisenman, Joshua; Heginbotham, Eric; Mitchell, Derek (Editors). 2007. P. XIV. "China and the Developing World – Beijing Strategy for the Twenty-First Century." M.E. Sharpe, New York, London.

The Chinese leaders like to position China as a developing country, as a leader of the Third World. Undoubtedly, its strength, size, and the impact and influence of Chinese policies and actions have made it one of the major international players discussing the most important issues, either bilaterally or multilaterally, with the US and other great powers. However, regional disparities, social indicators, the scale and the scope of many internal problems China faces, make it rather a developing nation.

The leading American scholar on the Chinese economy Barry Naughton says,

“Since the beginning of the twenty-first century, though, it has perhaps been more common to overestimate China. Overestimation often involves seeing China as an economic competitor, and perhaps as a potential strategic rival, to the United States. China’s economic success has paradoxically convinced many that China is some kind of economic superpower instead of a struggling developing country. This view reflects a major misunderstanding both of the nature of the economic links between China and the United States and of the magnitude of the challenges facing China.”³⁵

WHY ARE THE CHINESE INTERESTED IN LATIN AMERICA?

Latin America is rich in natural resources, especially in mineral and agricultural products that are demanded by the PRC. China’s interest in Latin America as a source of primary products is based in the rapid and sustained growth of the former’s economy and the industrial character of that growth.³⁶

The Chinese economy is heavily export-oriented. This factor and the concentration of the manufacturing sector on goods that use large quantities of primary-product factor inputs, determine the Chinese drive for raw materials. The rate of industrial expansion and the volume of goods required exceed the country’s own capacity to satisfy its needs with domestic inputs or from Asian neighbors. So, its companies must venture abroad to secure necessary inputs.

See this example. Oil consumption is expected to jump from 4.8 million barrels a day in 2000 to 12.8 million barrels a day in 2025. Domestic production can’t satisfy that demand. If

³⁵ Naughton, Barry. 2007. “The Chinese Economy – Transitions and Growth.” The MIT Press, Cambridge, Massachusetts; London. P. 11.

³⁶ Ellis, R. Evan. 2009. “China in Latin America – The Whats and Wherefores.” Lynne Rienner Publishers, Inc., Boulder, Colorado, and London. Pp. 9-22.

the country imports approximately 48% of the oil it consumes at present, that percentage is expected to grow up to 60% in 2020, and perhaps to 70% in 2030.³⁷

As it grows and its population becomes more affluent, China's food demand constantly rises, forcing more food imports. At the same time, agriculture is facing enormous challenges such as increasing arable land scarcity, low usable water availability and environmental degradation. Brazil and Argentina are today China's current main soya and vegetal oil providers. One-third of all soy exported by both countries goes to the PRC.³⁸

Latin America is also a good market for Chinese goods. In 2007, China exported US\$ 51 billion to the region, barely US\$ 100 million more than it imported, according to UN Comtrade data (See Table 8). Many regional countries are middle-income economies in international rankings, and for large masses of low-income and middle-income people, Chinese products have very attractive prices. The huge informal sectors of Latin American economies are the final destination of many Chinese cheap products or counterfeit ones. Gaining market share also serves the goal of exporting diversification to maintain high growth rates and reducing dependence on developed countries.

China has named four countries as "strategic partners," a decision that translates into a very special trade relationship. It got recognition as a "market economy" from Argentina, Brazil, Venezuela and Peru; this means that those countries can't easily impose sanctions on Chinese goods for dumping practices.

In the diplomatic and political fields, China has the strategic goal of containing and isolating Taiwan. It advances the 'one China' principle as the guiding criterion for its diplomatic relations with regional countries. It has worked hard to confine Taiwan's influence only to its bastion in Central America and the Caribbean, and Paraguay. Beijing has encouraged trade and economic pressures from neighboring states on Taiwan's allies (Brazil and Argentina, Mercosur giants, have exerted pressure on Paraguay; Mexico has sometimes tried to persuade Central American countries to switch allegiance). Jiang Shixue puts it this way:

³⁷ Item., p. 11.

³⁸ Item., p. 12.

“Regarding Taiwan, China stands firm on its position that its independence cannot be tolerated, a point of friction with countries such as the United States. In this context, Latin America plays an important role in China’s campaign to convince other countries to withdraw diplomatic recognition of Taiwan as part of its high-priority goal to achieve peaceful unification.”³⁹

At least, it was so until 2008, when a tacit “diplomatic truce” called for by Taiwanese President Ma Ying-jeou began to be respected in practice. Since May 2008, neither side has “stolen” allies from the other.

Closer ties with Latin America are also helpful to build alliances at the South-South level in international forums directed at the North. For example, China has sided with Brazil, India and other emerging countries in demanding the rich world to cut agricultural subsidies that suppose disloyal competition for Third World farmers. China participates in the G-77 and G-20 groups, too.

Human rights issues are another area where Latin American support has proved fundamental for Beijing to avoid condemning resolutions in the UN system. As an advocate of multipolarity and multilateralism, China uses its relations with Latin America and other developing world nations to offset American global hegemony and Western influence.

Some authors speak of a “strategic positioning”:

“While it is doubtful that China wishes to establish client states in Latin America in the near term, as the Soviet Union did with Nicaragua and Cuba during the Cold War, supporting states in the region that verbally and materially oppose the US presence there ultimately serve the interests of the PRC because it prevents the United States from establishing unquestioned control over the region’s financial and political institutions.”⁴⁰

China gives much importance to its collaboration with the regional institutions. It formally joined the Inter-American Development Bank, a Western Hemisphere’s major financial institution, in 2009. It provided US\$ 350 million for different funds of the IDB.⁴¹

³⁹ Jiang, Shixue, 2008. In Roett and Paz. P. 36.

⁴⁰ Ellis, R. Evan. 2009. “China in Latin America – The Whats and Wherefores.” Lynne Rienner Publishers, Inc., Boulder, Colorado, and London, p. 17.

⁴¹ IDB. “China joins IDB in ceremony at Bank headquarters.” January 12, 2009. Link: <http://www.iadb.org/news-releases/2009-01/english/china-joins-idb-in-ceremony-at-bank-headquarters-5095.html>.

Besides, the PRC is an observer in the Organization of American States (OAS), the Association for Latin American Integration and the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean.⁴²

Some experts don't fully agree with the idea that "going global" for economic reasons is the only key rationale for Chinese greater engagement with Latin America. Xian Lanxin, professor of international politics and director of the Center for China Policy Analysis at the Graduate Institute of International Studies (HEI) in Geneva, says that "from a historical perspective, it is clear that China's foreign policy toward Latin America has been primarily driven by a one-dimensional concern: global geopolitics."⁴³ So, looking for and achieving some balance against the US seems to be one of the reasons for China. At least in the early decades of the PRC existence, it explains the clear anti-American tone of its diplomacy, but at present, it would still be a valid criterion for action.

THE "ONE CHINA" PRINCIPLE, TAIWAN, WHITE PAPER

In the early 1980s, with Deng Xiaoping as paramount leader, the Chinese Communist Party (CCP) enshrined a "peace and development" strategic thinking in foreign policy. Those guiding principles have been continued by and large, with some personal contributions from Deng's successors, Jiang Zemin and Hu Jintao.

Under the leadership of President Hu Jintao, the concepts of "peaceful rise" and "peaceful development" were developed and used in official language and documents.

They are supposed to mean that the rise of China as an economic power does not challenge American hegemony nor it is a threat to any other country; China does not seek hegemony, but it rather focuses on promoting a peaceful, harmonious world environment that is favorable to its economic and social development. The concepts have met wide criticism and resistance within different Chinese Communist Party, state and military circles; some alternative views have been put forward. The idea of "peaceful rise" was conceived by Zheng Bijian, an

⁴² Teng, Chung-tian. "Hegemony or Partnership: China's Strategy and Diplomacy toward Latin America." In Eisenman, Heginbotham and Mitchell (editors). 2007. P. 98.

⁴³ Xian, Lanxin. "An Alternative Chinese View". In Roett and Paz, 2008, p. 46.

important party ideologue and Hu's close confidant and advisor. It has also stirred a serious academic debate in the West. These concepts will not be discussed in detail in this paper.

In its dealings with Latin America, China follows rigidly the "one China" principle to enter into full diplomatic relations. It does not accept or practice dual recognition. In 2007, for example, Beijing severed ties with St. Lucia after the tiny Caribbean island switched again its allegiance to Taipei (it had broken off with Taiwan ten years earlier). The principle has been enshrined in China's first white paper on policy toward Latin America, published in November 2008. This document provides a framework for bilateral and inter-regional relationships.

"The one China principle is the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organizations. The overwhelming majority of countries in the region are committed to the one China policy and the position of supporting China's reunification and not having official ties or contacts with Taiwan. The Chinese Government appreciates such a stance. China is ready to establish and develop state-to-state relations with all Latin American and Caribbean countries based on the one China principle".⁴⁴

In consonance with the overall foreign policy goals, the concepts of 'peace and development' were inscribed in the document and are called 'the trend of times'. The paper also underlines that "the move toward multi-polarity is irreversible and economic globalization is gaining momentum."

In the classical fashion of its diplomatic language, the paper defines the PRC as "the largest developing country" and refers to Latin America and Caribbean countries as "an important part of the developing world and a major force in the international arena."

The policy paper discusses and sets the guidelines for political, economic and trade exchanges; investment, military and security contacts; educational, cultural and cooperation exchanges, etc., between the two parts. As we can see above, it emphasizes the promotion of peaceful development and the construction of a multipolar world.

⁴⁴ China's Policy Paper on Latin America and the Caribbean, November 5, 2008, Xinhua News Agency.

Experts are fully aware of the utmost importance attached by the PRC to the Taiwan issue and the one China principle in Chinese foreign relations.

CHINA'S ENERGY NEEDS BEHIND CLOSER TIES WITH LA

The need to diversify sources and secure energy supplies is one of the main motives of Chinese policy toward Latin America. The Asian giant's energy picture will be briefly examined here.

For a very long period, energy had been a marginal (if not negligible) factor in China's foreign policy process because its energy policy was based on the principle of self-reliance. However, the export of energy was used at times to support friendly countries or to secure friendship. Since the late 1970s, China has gradually reduced its exports of oil at 'friendly' prices. After China became a net oil importer in 1993, energy supply concerns – more concisely crude oil supply concerns – have been firmly incorporated into China's foreign and security policy process.⁴⁵

It has become common-sight to see the presidents of CNPC or SINOPEC, the two main energy companies, accompanying the Chinese president or a prime minister in their foreign visits to the Middle East, the ASEAN countries, and Latin America. They also attend major economic forums together.

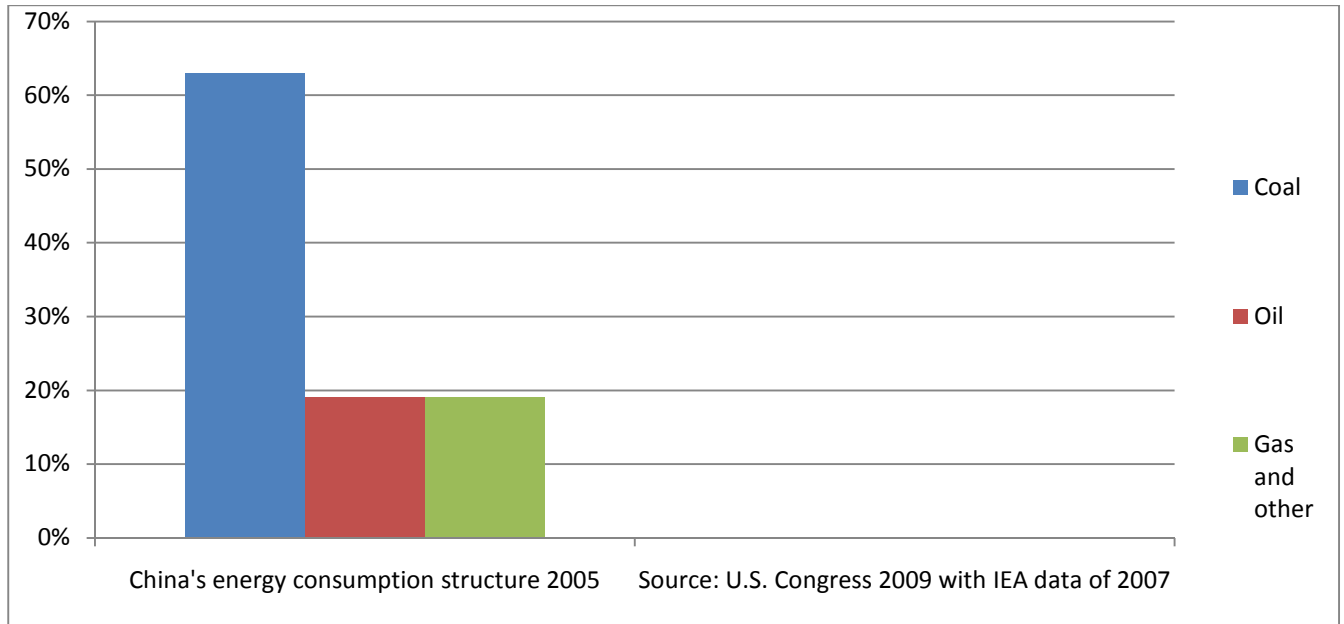
China has become the world's "fastest-growing energy consumer and a major player in the global energy market," according to the International Energy Agency (IEA). China is now the second largest consumer of oil after the United States, with 7.5 million barrels per day consumed in 2007, according to a 2009 annual report of the US Congress. Manufacturing consumes 60% of the energy China uses, with the bulk of that attributable to production of aluminum, steel, chemicals, paper and cement.

"China quadrupled its gross domestic product (GDP) between 1980 and 2000 while only doubling the amount of energy it consumed—a notable accomplishment. However, with its adoption of policies promoting energy-intensive industries such as steel and cement, this trend

⁴⁵ Ogutcu, Mehmet. "China's energy future and global implications." P. 128. In the book "China's Economic Security." 1999. Draguhn, Werner and Ash, Robert (editors). St. Martin Press, New York.

reversed between 2002 and 2005, and energy consumption has increased dramatically. This growth in energy consumption reflects how economic priorities have affected consumption patterns. Government-supported industrial production raised demand for coal-fired electricity generation, and increased car ownership that was enabled by rising incomes in the increasingly prosperous economy fueled demand for oil”.⁴⁶

TABLE 5 – CHINA’S ENERGY CONSUMPTION STRUCTURE

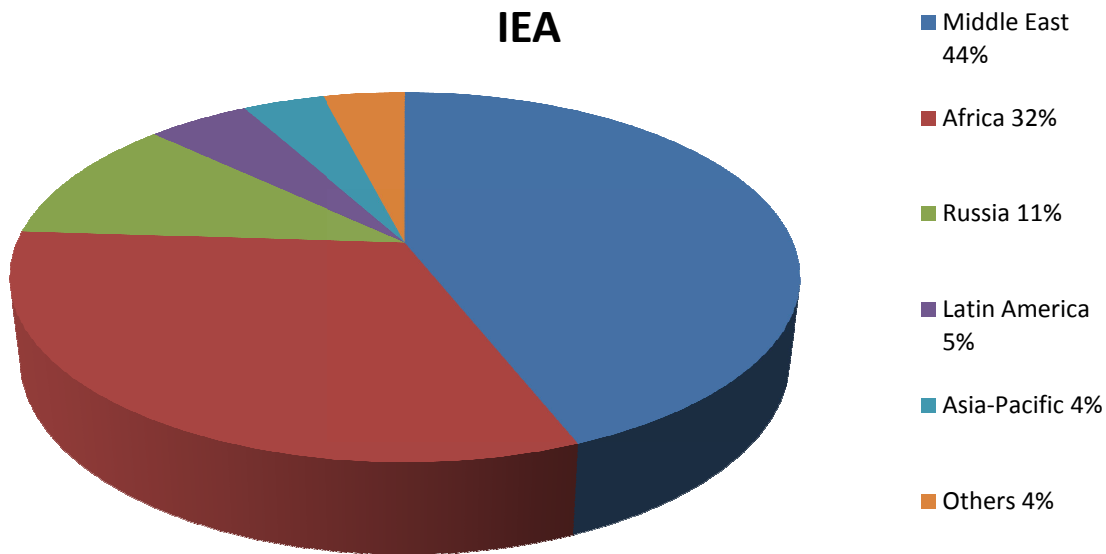


Coal supplies approximately 63 percent of China’s energy consumption, and China is the largest coal consumer in the world. Coal-burning power plants supply 80 percent of China’s electricity. Nearly 19 percent of China’s energy demand is met with petroleum products, and China’s consumption of 7.5 million barrels per day in 2007 ranks second in the world behind US consumption. In addition to consuming coal and oil, China uses natural gas, renewable energy, and nuclear energy. Collectively they supply the remaining 19 percent of China’s energy demand.⁴⁷

⁴⁶ China Economic Security and Review Commission, US Congress, Annual Report 2008. P. 184. http://www.uscc.gov/annual_report/2008/08report_chapters.php.

⁴⁷ Item.

**Table 6 - Chinese oil imports per origin 2007,
IEA**



Source: *China Economic Security and Review Commission, US Congress, Annual Report 2008*. http://www.uscc.gov/annual_report/2008/08report_chapters.php

China produced 3.9 million barrels per day (mb/d) in 2007, according to the IEA. To meet its demand of 7.5 mb/d, the country had to import approximately 3.7 mb/d every day. 80% of them are in the form of crude oil. In 2010, China is expected to take over Japan as the second largest oil importer after the US

China is largely reliant on the international market for obtaining oil imports. It purchases the majority of its imports from Middle East and African production. In 2006, Angola became the single nation supplying the largest amount of crude oil to China, with Saudi Arabia as the second largest supplier. In Latin America (5% of imports), China imports oil from Argentina, Brazil, Venezuela and Ecuador. Per region, the oil import structure can be seen in Table 6.

TRADE BOOM

Since the 1990s, China-LA-Caribbean trade has been constantly growing. In the present decade, it has skyrocketed due to the remarkable Chinese economy's expansion.

In 2007, commerce surpassed the figure of US\$ 100 billion. China exported US\$ 51.07 billion in goods to Latin America and the Caribbean (LAC); it imported almost the same amount, US\$ 50.97 billion, according to UN data (see Table 8).

These figures are more amazing if you compare them with the regional trade with China in the 1970s and until 1990. In 1970, trade amounted to only US\$ 145.8 million. The PRC exports were a mere US\$ 75 million, a ridiculous number given China's immense potential.

As we can see in Table 7, in 1980, China was still lagging behind in the commercial balance, with US\$ 843 million in imports and less than US\$ 500 million in exports.

In 1990, trade reached US\$ 2.29 billion. Ten years later, it soared to US\$12.6 billion, a five-fold increase. Between 2000 and 2006, Chinese-Latin American and Caribbean trade grew more than 500%. In 2006, trade was US\$ 69.7 billion. In 2007, the last year of UN Comtrade reports detailed by-region data on Chinese trade, it was some US\$102 billion, a rise of 68%.

TABLE 7

CHINA'S TRADE WITH LATIN AMERICA-THE CARIBBEAN 2000-2009 (*)

Units: US\$ millions (For the year 2000 in US\$ billions directly)

Year	Imports	Exports	Total
2000 (**)	7.2	5.5	12.6
2001	6,684.9	8,155.6	14,840.5
2002	8,312.7	9,379.9	17,692.6
2003	14,851.3	11,712.0	26,563.3
2004	21,671.0	18,023.1	39,694.1
2005	26,665.6	23,378.5	50,044.1
2006	34,071.9	35,657.0	69,728.9
2007	50,974.7	51,079.1	102,053.8
2008 (***)	N.A.	N.A.	N.A.
2009	N.A.	N.A.	N.A.

Source: UN Comtrade, <http://comtrade.un.org>

(*) It doesn't include China's SAR Hong Kong and Macao, which are separate entities in the World Trade Organization. (**) For the year 2000, the figures are taken from Li, He, 2009, p. 201. (***) Though global data are available, China's data by region have not been detailed yet on this UN database (July 2010).

TABLE 8 -- HISTORICAL LATIN AMERICAN-CARIBBEAN TRADE WITH CHINA

Values in US\$ million

Year	Total	Exports to PRC	Imports from PRC	Balance
1950	1.96	1.91	-0.05	- 1.86
1960	31.3	21.0	10.3	- 10.7
1970	145.8	70.6	75.2	4.6
1980	1,331	843	488	-355
1990	2,294	1,513	781	-732

Source: Li, He. 2005. Li quotes the following sources:

Almanac of China's Foreign Economic Relations and Trade, 1984, Hong Kong: China Resources Trade Consultancy Co. Ltd.; figures from 1981 to 2003 are from National Bureau of Statistics of China, China Statistical Yearbook, Beijing: China Statistics Press, various issues.

Nevertheless, trade with Latin America-the Caribbean represents “only a small share of its total global trade.” In 2005, for example, China’s trade with the region was US\$ 50 billion, or 3.55% of its total trade (US\$ 1.4 trillion). Despite this fact, the growth is very rapid and the volume of good flows has been increasing; LAC-China trade expanded faster than the global trade of the Asian dragon: between 2001 and 2005, the average annual growth of China-LAC trade was 32.7%, while global Chinese trade grew by 25.1 % annually in the same period.⁴⁸

The year 2007 saw US\$ 102.05 billion in the two-way commerce. Despite the sheer size of those exchanges, the LAC-China trade ratio was quite low, a mere 2.13% if we analyze UN Comtrade data. That year, China’s global trade amounted to US\$ 2.17 trillion.

⁴⁸ Teng, Chung-chian. “Hegemony or Partnership: China’s Strategy and Diplomacy toward Latin America.” In Eisenman, Heginbothan, Mitchell, 2007. P. 86.

TABLE 9 -- LAC RATIO OF CHINA'S TOTAL TRADE 2007

Values in US\$ million

Exports to LAC	Imports from LAC	Total trade with LA	World total	LAC trade Ratio
51,079.1	50,974.7	102,053.8	2,173,731.6	2.13%

Source: UN Comtrade, <http://comtrade.un.org>

China looks to Latin America for a steady supply of oil, copper, iron ore, bauxite, nickel and other minerals and raw materials. It also purchases soybeans, grains, fishmeal, meat and other food products.

Latin America is a major source of food, especially wheat and beef from Argentina, and soybeans from Argentina and Brazil. These two countries produce 42 percent of the world's soybeans and accounted for 45% of global sales of soybeans in 2004.⁴⁹

In 2007, Latin American imports from China totaled US\$ 51 billion. The main markets of PRC goods were, in this order: 1) Mexico, 2) Brazil, 3) Chile, 4) Panama, and 5) Argentina. China has designated 4 countries in Latin America as "strategic partners": Argentina, Brazil, Mexico and Venezuela.

Brazil is the largest trade partner. It's the region's largest exporter to China and the second-largest consumer of Chinese goods. In 2007, it accounted for 36% of all Latin American exports to China. The majority of them are primary products: soy, iron and petroleum. China is currently Brazil's third-largest trading partner, though Brazil is aiming at making the Asian giant its first export destination.⁵⁰

The South American country -- a middle-income one -- is also a major market for Chinese goods, importing US\$ 11.37 billion in 2007, only behind Mexico. Besides, the two countries are developing an important technical cooperation in biofuels, satellite communications and aeronautics. Brazil hosts the largest Chinese community in the region: some 300,000 people in 2005.

⁴⁹ Item., p. 93.

⁵⁰ Ellis, R. Evan. 2009. "China in Latin America – The Whats and Wherefores." Lynne Rienner Publishers, Inc., Boulder, Colorado, and London. P. 49.

Soy products and sunflower oil dominate Argentina's economic relationship with the PRC. That Southern Cone's country represents 12.4% of all Latin American exports to China. It also sells a modest quantity of oil to its Asian partner; the country is economically diverse but it is not seen as a major oil producer. In 2007, Argentina was the fifth regional market in terms of imports of Chinese goods (US\$ 3.6 billion). The Chinese are also collaborating or exploring collaboration in the satellite and nuclear fields and biotechnology, among others. Argentina does not boast a large Chinese community, which counts some 70,000 people living mainly in urban areas.⁵¹

Though the trade volume between Venezuela and China is not as large as with other nations, this relationship is determined by Venezuela's possession of a strategic asset: the world's fifth largest reserves of crude oil. It's a crucial commodity for the Chinese voracity. The fact that Venezuela is a major oil producer prompted Beijing to name Caracas a "strategic partner."⁵²

The United States and Latin America continue to be Venezuela's largest export markets, with China not being even among of its 10 partners. However, Venezuela is aiming at increasing its annual oils sales to China, in an effort to diversity its destinations and to reduce dependence on the US.

Some sources say that Venezuela has become China's largest energy source provider in the Western Hemisphere. Oil exports to China grew from 12,000 barrels per day (a ridiculous number) in 2004 to 130,000 barrels per day in 2005 (crude oil, fuel oil and other products).⁵³

In 2008, it is estimated that Venezuela exported 300,000 barrels per day (b/d) to China. In a visit to Beijing in September 2008, President Hugo Chavez announced his country would boost sales levels to 500,000 barrels per day in 2009, a 25% rise, and he intended to heighten that figures to one million b/d in a period of three to four years.⁵⁴

⁵¹ Item., pp. 62-75.

⁵² Item., pp. 107-122.

⁵³ Teng, Chung-chian. In Eisenman, Heginbotham, Mitchell. 2007. P. 93.

⁵⁴ Bloomberg. "Venezuela to Boost Crude Oil Exports to China by 25%." September 25, 2009. http://www.bloomberg.com/apps/news?pid=newsarchive&refer=latin_america&sid=aK6fesrIsPC4

The open anti-US policy and rhetoric of Hugo Chavez has prompted wide coverage of his relationship with Beijing in the world press. Nonetheless, the Chinese have avoided to be embroiled in the anti-American and anti-capitalist crusades of Chavez.

In 2007, China invested some US\$ 2 billion in Venezuela, mainly in oil reserve exploration and in the industry's infrastructure. Both countries created a Heavy Investment Fund, supplied with some US\$ 12 billion; the Chinese side controls and manages the fund, Venezuela is the ultimate guarantor of loans. This scheme guarantees that contracts are awarded to Chinese companies if they compete for infrastructure projects.⁵⁵

The Asian country has also provided satellite, telecommunication and computer technology to the Andean nation, and it has installed truck factories and is building railways. Venezuela hosts one of the largest Chinese communities in the area: some 130,000 individuals; a majority of them comes from Guangzhou.

Many South American countries are strengthening military contacts and cooperation with Beijing, but the latter has not been engaged in selling lethal weapons to any state in Latin America. Countries like, Chile, Argentina and Venezuela have established close contacts with the PLA, have bought a lot of matériel from China, and even training aircraft and radar systems (Caracas), but so far, China has not sold offensive weapons such as fighters, warships or other major arms systems to them.

Dr. Teng Chung-Chian, a NCCU professor, says that “there is little evidence, however, that present Chinese efforts to promote its relations with Latin America have been mainly based upon their military cooperation or alliances against other nations, except for more frequent military exchanges.”⁵⁶

⁵⁵ Ellis, R. Evan. 2009. “China in Latin America – The Whats and Wherefores.” Lynne Rienner Publishers, Inc., Boulder, Colorado, and London. Pp. 107-122.

⁵⁶ Teng, Chung-chian. In Eisenman, Heginbotham, Mitchell. 2007. P. 92.

V. CHINA'S GROWING PRESENCE IN CA AND MEXICO

V.1. INTRODUCTION

The PRC's approaches and policy toward Central America (CA) have traditionally been dominated by the Taiwan issue and the factor of American influence.

During the Cold War, and until very recently, Central American states have remained close allies to the Republic of China on Taiwan, with two exceptions: one historical and a recent one.

First, Nicaragua broke off ties with the ROC in 1985 during the revolutionary years, and established them with Beijing. The relationship lasted until 1990, when the Sandinista revolution itself ended, and Managua reestablished ties with Taipei. The second case is Costa Rica, a country that until June 2007 was one of the ROC's oldest allies. Spurred by a growing trade relationship with China and Hong Kong due to technology giant Intel's exports -- China's most important trade exchanges with a Central American nation --, the government of President Oscar Arias abruptly terminated 60 years of friendship and ran into Beijing's arms.

Historically, the ideological affinities of anticommunism, the pro-American stance, and the authoritarian nature of regimes in Taipei and in the majority of Central American nations nurtured a good relationship.

When the ROC was expelled from the United Nations, almost all of the Central American countries voted against the Albanian-Algerian resolution proposal that ceded the China seat to the PRC. Only Panama abstained. Except for Nicaragua and Costa Rica, no other countries have had diplomatic relationships with the PRC in 60 years of Communist China's existence.

Despite an absence of diplomatic recognition, the Chinese Communist Party (CCP) has maintained party-to-party contacts with many Latin American leftist parties or movements, including movements or parties such as the Sandinistas (FSLN) in Nicaragua or the FMLN, the old Salvadoran guerrilla; both are ruling parties now. In the subcontinent, more than ninety political parties of varied ideological origins have established relations with the CCP. In 10

countries out of 12 Taiwan's regional diplomatic allies, the CCP has ties with more than 20 political parties.⁵⁷

As the leading Chinese scholar Jiang Shixue puts it,

“The CPC [sic]’s relations with political parties throughout Latin America have resulted in a greater awareness of the current realities and have contributed to the establishment of diplomatic ties in some countries. Good working relationships between the CPC and the major political parties in Bolivia, Nicaragua and Uruguay played an important role in establishing diplomatic relations with those countries in the 1980s.”⁵⁸

Central America has not escaped world trends and its trade with China has boomed in the last decade, just as Latin American and Caribbean trade with the PRC has. Central America is importing huge amounts of Chinese products and it currently runs a giant trade deficit.

Though commerce with the tiny isthmus’ countries represents a very low percentage of China’s overall commerce with the world, the political significance of CA overruns its low economic importance. This subregion is a traditional bastion of Taiwanese diplomacy. Six of Taipei’s 12 Latin American and Caribbean allies are situated here.

“Beijing is determined to contain Taiwan in every corner of the world, especially in Central America and the Caribbean, the stronghold of Taiwan,” professor He Li wrote.⁵⁹

At least it was so until May 2008, the date of Ma Ying-jeou’s accession to power and the beginning of a tacit “diplomatic truce,” by which Beijing and Taipei have frozen their fight to lure the other side’s allies.

Another major factor that influences Chinese policies in this area is its strategic proximity to the United States.

If the whole of Latin America and the Caribbean has been comprehended by the application of the Monroe doctrine, and in a broad sense the subcontinent has been under

⁵⁷ Jiang, Shixue. 2008. P. 35-36. In Roett and Paz.

⁵⁸ Item.

⁵⁹ Li, He. 2009. “Latin America and China’s growing interest.” In the book “Managing the China Challenge – Global Perspectives.” Zhao, Quansheng and Liu, Guoli (editors). Routledge Taylor & Francis Group, London and New York. P. 199.

prevailing American hegemony, it is Central America and the Caribbean what we could call the American ‘backyard’ sensu stricto. Because of economic dominance and outright military interventions and occupations in the first half of the 20th century, the Caribbean turned into a sort of a US ‘mare nostrum,’ where the Marines had imposed a ‘Pax Americana’ on a group of weak banana republics.

The American security analyst R. Evan Ellis says,

“From Panama to the north, China’s relationship with the countries of the subregion is dominated by two factors: their strategic geographic position vis-à-vis the United States, and the issue of Taiwan”.⁶⁰

Ellis states that from his point of view, the strategic position of the subregional countries has “a commercial and a military component.” From a commercial perspective, the proximity to the U.S. market is “a powerful competitive advantage in terms of logistics and costs and service responsiveness.” Ellis’ analysis involves Mexico and Central America. On the other hand, he believes that geographical proximity is a potential military asset because “(it) gives rise to the possibility that Chinese facilities there could be used in time of conflict to collect intelligence data on or as a launching point for operations against the United States.” (Item.)

I think this argument is very weak concerning the military perspective, judging from today’s status quo. In the first place, there are no diplomatic ties between most Central American nations and China at present. Though Mexico has them, it is very unlikely that it ever would allow military bases of a foreign power due to strong nationalistic sentiments, especially if they are aimed against its powerful neighbor. It could be expected that the US would never allow something like that to happen because of national security concerns.

In the second place, to speak about the Chinese using bases military bases in Central America sounds like science fiction at this moment. There have been concerns in the US over the administration of Panama Canal ports by a Hong Kong company linked to the PLA, though to say that the Chinese could block passing of US vessels in case of conflict sounds very remote

⁶⁰ Ellis, R. Evan. 2009. “China in Latin America – The Whats and Wherefores.” Lynne Rienner Publishers, Boulder and London. P. 199.

right now. In any case, given the US hegemonic position and history of military interventions (for instance, American troops invaded and occupied Panama in 1989 to overthrow dictator and drug trafficker Gen. Manuel Noriega), it isn't outlandish to expect the superpower would seize control of the vital maritime way by a military operation if its national security was imperiled.

The only important Chinese military facilities in the area are electronic surveillance facilities in Cuba: a former Soviet espionage center in Lourdes; a signal intelligence site in Bejucal, south of Havana; and it is believed the Chinese are intercepting American satellite military communications from a facility northeast of Santiago de Cuba. (Item., p. 242) But the present work is concerned neither with Cuba nor with security issues.

The PLA continues a significant buildup and the modernization of its weapons systems. It is known China is developing a powerful blue-water navy to protect sea lanes vital to its economy and to project power globally, but those are plans for the future. Military experts say that China's capabilities in all fields lag far behind those of the American superpower.

In the isthmus, Beijing's two more important relationships are Panama and Costa Rica. China's policy toward Panama is dominated by two factors: the canal and its recognition of Taiwan. Ties with Costa Rica are heavily influenced by the exports of chipmaker Intel, which makes this country the only Central American nation to enjoy a trade surplus with the Asian dragon. Moreover, San Jose recognizes the PRC diplomatically.

However, before discussing the Chinese relations with Central American countries, let's briefly review the contacts with Mexico.

This chapter will deal only with economic and trade aspects of China-CA ties.

V.2. MEXICO

While analyzing the subregion, it is necessary to include some considerations on Mexico. This is a regional power, one of the largest Latin American economies, and a major historical, political, economic and cultural presence in Central America. Mexico is one of Beijing's 'strategic partners' in the region. Mexico has signed FTAs with all of Central American countries, except Belize.

Mexican relationships with the Asian giant are a mix of cooperation, competition, resentment and apprehension. Together with Central American industries (especially textiles and garment), Mexican industries have heavily suffered from the Chinese competition and inroads in third markets, mainly in the United States, which remains Mexico's and CA's main export destination. Economic survival for Mexico is linked to keeping competitiveness in the American market, as 85 percent of its exports go there; meanwhile, Chinese exports to the US represent 22% of its total exports, and they are more diversified.⁶¹

Francisco E. Gonzalez puts it this way,

“Given the economic revolution in China, and its concomitant high demand for raw materials and energy, natural resource exporters in Latin America should benefit from China's rise (...). In contrast, countries whose production structure and exports resemble China's, that is, countries dominated by unskilled, labor-intensive manufacturing, will compete for markets and incur losses due to strong Chinese competitiveness. Competition should be particularly fierce over U.S. market share, the world's largest market for the light manufactures produced by China, Mexico and the Central American republics.”⁶²

Among Latin American major economies, Mexico has the most similar export structure to China's.

The PRC has usually had a balance-of-trade surplus with Mexico. In 2007, according to the PRC Ministry of Commerce's statistics, Mexico exported goods for US\$ 3.3 billion, a 25% annual rise compared to 2006, and it imported US\$ 11.7 billion from China, a 32.7 percent increase from the previous year. The Latin American country rather consumes the raw materials its produces and cannot benefit from the surge in the Chinese demand of primary products.⁶³

Mexico has become China's second largest trading partner in Latin America, and China is now Mexico's largest partner in Asia, well ahead of Japan.⁶⁴

⁶¹ Gonzalez, Francisco E. 2008. “Latin America in the Economic Equation – Winners and losers, What losers can do?”. In the book “China's Expansion into the Western Hemisphere – Implications for Latin America and the Western Hemisphere.” Roett and Paz (editors). P. 150.

⁶² Item., p. 151.

⁶³ Ellis, R. Evan, 2009. Pp. 200-214.

⁶⁴ Teng, Chung-Chian. 2007. P. 96. In Eisenman, Heginbotham and Mitchell.

In 2004 the three top Mexican exports to the PRC were: office machines (44.4%); nonferrous base metal ore, conc. (11.9%); and power machinery, nonelectric (7.1%). The three top Chinese exports to Mexico were: clothing not of fur (12.5%); office machines (11.2%); and telecommunications equipment (9.7%).⁶⁵

The level of imports, only behind that of Brazil, also makes Mexico a major market for Chinese products. Low-end products like Chinese textiles and footwear have gained important market share, but there are other more sophisticated products entering the local marketplace: motorcycles, cars, computers, electrical appliances.

Despite intense competition in third markets, there is also partnership. Chinese companies are taking advantage of Mexico's know-how in some high-value-added manufacturing sectors, proximity to the USA and tariff-free access to the American market through NAFTA rules. Chinese companies have sought to integrate Mexican counterparts in global chains, assembling final parts in Mexico for export to the US and Latin America. (Ellis, R. Evan, 2009, p. 200-214)

Although Mexico is an oil producer, it faces the problem of declining reserves. It exports large quantities of oil to the United States, but it can't export to China due to that fact. Besides, no business partnership with Chinese companies is possible for the state-owned Pemex oil company because of constitutional constraints. Strong labor and political opposition to private ventures and lack of technological renovation are also important barriers. Nationalism inspires strong feelings regarding state ownership of oil richness, the issue is politically sensitive.

Mexican governments have usually supported China's positions in the United Nations and other international organizations. The government of President Luis Echeverria established diplomatic ties with Beijing in February 1972. The Mexicans have backed Chinese bids to join the Inter-American Development Bank and the Organization of American States. It is known that in the past, China has used Mexico to exert pressure on Taiwan's allies in the subregion of Central America to abandon their allegiance to the island.

⁶⁵ Devlin, Robert. 2008. P. 117. "China's Economic Rise." In the book "China's Expansion into the Western Hemisphere – Implications for Latin America and the Western Hemisphere." Roett and Paz (editors).

There is a small Chinese community in Mexico; some 31,000 people. That's a quite low number for a country with a population of more than 112 million inhabitants.

V.3. TRADE WITH CA AND ECONOMIC ISSUES

Figures are facts and facts do not mislead. Today, the sum of seven national markets of Central America makes the subregion a promising destination with growth potential for exports from the People's Republic of China.

Central America has become a non-negligible market for Chinese goods, and the amounts of Chinese products being imported rise every year. In 2007, China traded US\$ 3.7 billion with seven Central American countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) , according to UN Comtrade statistics (in the case of Costa Rica I have used data from the Costa Rican Ministry of Commerce).

This is approximately one-fourth of Chinese total trade with Brazil and Mexico in the same year. Let's remember that Brazil and Mexico became China's first and second largest trading partner in LAC in 2007, respectively. The data quoted above for CA do not include Hong Kong, a WTO entity with which Costa Rica had a US\$ 498.8 million trade exchange in the year mentioned.

TABLE 10 - CENTRAL AMERICAN TRADE WITH CHINA 2004-2007

Unit: US\$ millions

Year	2004	2005	2006	2007	Total/period
Imports	721.2	1,667.4	1,810.9	2,726.1	
Exports	208.2	320.8	623.3	1,001.7	
Totals	929.4	1,988.2	2,434.2	3,727.8	9,079.6
Surplus or deficit	- 513	- 1,346.6	- 1,187.6	- 1,724.4	

Source: UN Comtrade, <http://comtrade.un.org>, and Ministerio de Comercio Exterior de Costa Rica. Data on seven countries' trade: (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama).

In 2007, China exported products for US\$ 2.7 billion to seven countries of CA and imported from them products with a value of some US\$ 1 billion, for a total of some US\$ 3.7 billion. This represents a 65% annual increase in comparison with 2006. In 2006, total CA-China trade reached US\$ 2.4 billion.

TABLE 11 - CA TRADE WITH CHINA 1990-2004, % OF TOTAL TRADE

Country	Export 1990	Import 1990	Export 2004	Import 2004
Costa Rica	n.a.	0.2	2.7	1.9
El Salvador	0.0	0.4	0.2	4.0
Guatemala	n.a.	0.3	0.7	5.0
Honduras	n.a.	0.6	n.a.	n.a.
Nicaragua	3.5	0.1	0.4	4.6
Panama	n.a.	6.4	1.2	n.a.

Source: Devlin, Robert. 2009. In Roett and Paz, p.114. n.a. = not available.

TABLE 12 – CHINA’S TRADE WITH CA 1990-2004, % OF TOTAL TRADE

Country	Export 1990	Import 1990	Export 2004	Import 2004
Costa Rica	0.0	n.a.	0.0	0.0
El Salvador	0.0	0.0	0.0	0.0
Guatemala	0.0	n.a.	0.1	0.0
Honduras	0.0	n.a.	0.0	n.a.
Nicaragua	0.0	0.0	0.0	0.0
Panama	0.2	n.a.	0.4	0.0

Source: Devlin, Robert. 2009. In Roett and Paz, p.115. n.a. = not available.

SOME RELEVANTS FACTS

By looking at the data in tables 10, 11 and 12, several facts can be stated. In the first place, China-CA trade is still modest in the big picture of both parts, but it is growing fast. Trade with the subregion is less significant for China as percentage of its global trade.

Secondly, the year 2005 represents an explosion in trade between the two parts in the last decade: commerce more than doubled that year compared to the previous year. Since then, by contrasting the available data, we observe that the growth rates have been really high.

Thirdly, the PRC has the upper hand in the balance of trade, running huge surpluses in its business with the isthmus.

Although the economies of Central America are relatively small, with low per capita incomes, R. Evan Ellis points that “these nations collectively represent a respectable-sized market for Chinese goods.” Quoting data from the PRC’s Ministry of Commerce, he finds that 5 countries (excluding Costa Rica and Panama) imported US\$ 1.66 billion in Chinese goods in 2007.⁶⁶

Panama and Costa Rica are two special cases in the whole Chinese equation in this part of the globe. China, just as Taiwan and the United States do, view the strategic significance of the Panama Canal for its overall trade, particularly with the developed regions, or for the import of Venezuela and Brazilian oil (Ecuador has a coast in the Pacific).

On its part, Costa Rica is the only exporter of high added-value, high-tech items in the isthmus, as the bulk of its exports to the PRC and Hong Kong is made by the deliveries of Intel to computer makers in mainland China. The presence of Intel totally transformed Costa Rican trade with China, and has made this tiny country of less than five million people the only one having a trade surplus with the Asian giant. Other exports, mainly agricultural (Costa Rica is a major banana producer), are a minor percentage of exports to the Chinese and Hong Kong market. This relationship is unique even in the whole Latin American-Caribbean context.

Central America’s trade is mainly oriented toward the United States. The US market is the main export destination for the Mexico-CA subregion, and except for Belize and Panama, each country has a free-trade agreement with the US, known as DR-CAFTA (the Dominican Republic has also one; the agreement with Panama is awaiting congressional ratification in Washington). As all economists concerned with Latin America emphasize, the geographical proximity to the American market is one of the competitive advantages of Central America.

⁶⁶ Ellis, R. Evan. 2009. Pp. 231-232.

OBSTACLES FOR LARGE-SCALE BUSINESS

Contrary to the case of South America, Central America does not have the raw materials in which the Chinese are more interested: iron, copper, nickel, oil, metals, etc., or the agricultural products they need more (soy, soybeans, wheat, sunflower oil, others). However, large amounts of sugar, for example, are imported from Guatemala and smaller quantities from Nicaragua.

The isthmus is a major producer of fruits, vegetables and other agricultural produce. It has an enormous potential for exports to third markets. DR-CAFTA has contributed to a huge rise in exports to the US, and an association treaty with the European Union that includes a FTA was signed in the first half of 2010. Nonetheless, important barriers stay in the way to large-scale trade with China.

Undoubtedly, the inexistence of diplomatic relationships is a key barrier for cultivating larger business ties, because it becomes more difficult to arrange transactions without a proper legal and support structure. Some economists argue that the lack of a diplomatic relationship is a negative factor in expanding trade with China and Hong Kong.

“Several of the smaller Latin American countries still maintain diplomatic relations with Taiwan. [...] There is some evidence to suggest that this tends to reduce their exports to the mainland,” says a 2008 study published in the journal *World Development*.⁶⁷

But is it a decisive factor? Taiwan has diplomatic relationships with 6 countries, and Taiwan-CA trade represents a very low percent of total Taiwanese total trade and foreign direct investment (FDI) abroad.

Despite DR-CAFTA, proximity to the US and other attractive features, Central America is not a noticeable destination for Chinese FDI or as a place to set up factories that will integrate into global chains, just as in the case of Mexico, in order to export to the US or Latin America.

Though CA has an enormous agricultural potential, as stated before, it is not competitive in the Chinese market in comparison with Chinese producers, or ASEAN foodstuff

⁶⁷ Jenkins, Dussel, Mesquita. 2008. *World Development*, Vol. 36, No. 2. Pp. 235- 253.

exporters like Philippines. Besides, there are no phytosanitary agreements in most cases. As I pointed out before, the two exceptions in the isthmus are Panama and Costa Rica.

R. Evan Ellis lists some serious obstacles for Central American in order to develop a larger trade partnership: a lack of governmental and commercial infrastructures adequate for trade with the PRC; the regions does not export the primary products most sought for by China; there are no well-developed physical infrastructures or commercial mechanisms for collecting, inspecting and packaging the production of their small and middle farmers and exporting it to the PRC in large amounts on a sustained basis; the subregion usually lacks large companies with an internationally recognized brand identity with the resources, experience and products to set up sales and distribution networks in the PRC.

Other factors mentioned by Ellis are: national governments do not have yet well-resourced trade promotion organizations with representative offices beyond Beijing to facilitate major deals; and there is not a number large enough of Mandarin speakers in CA to support businesses and governments to realize commercial opportunities.⁶⁸

The Chinese state openly that in economic exchanges, they have more advantages in trade with South America than with Central America because of its abundant primary products, and that the absence of diplomatic ties poses a serious obstacle in enlarging business operations.

In an interview for the July 2007 edition of the business magazine *Economia & Negocios* (before the beginning of the tacit ‘diplomatic truce’), professor Jiang Shixue said,

“We pay more attention to countries that possess large amount of natural resources. South America will come up first because they have more natural resources. Central America would be in an unfavorable position in terms of natural resources. In addition, the lack of diplomatic ties between China and Central America is a disadvantage. But Central America produces lots of agricultural products. So cooperation between China and Central America can generate mutual benefits and complementarities. [...] Once diplomatic relations are established with Central America we could have more trade opportunities, more foreign aid, more tourism, more cultural exchanges, more academic contacts, more scientific cooperation and so on. China would buy more bananas and more coffee and at the same time sell more products. Today it is difficult for Chinese people to get a visa to go to

⁶⁸ Ellis, R. Evan. 2009. P. 230-231.

Central America. If things get easier there could be a lot of Chinese tourists traveling to your region. If one Chinese person eats one banana a day or one cup of coffee a day, what would that mean for Central America? Can you imagine? China is a big market for Central America”.⁶⁹

The Beijing-based academic went further. He blasted Central American leaders for what he calls their “shortsightedness”, for failing to “see the fact that China is an important player on the international stage. They ignore the resolutions passed by the United Nation on the Taiwan issue, belittle themselves by keeping ties with a province of a sovereign nation, and hurt the feelings of the Chinese people.”

CHINA AS COMPETITOR

Economic studies show that of all LAC economies, it is the Mexican and the CA economies that have suffered most from ruthless Chinese competition in third markets, particularly in the United States, their main market. At the same time, the export structure of both CA and Mexico resembles that of the PRC in the highest degree among LAC nations.

CA and Mexican maquiladoras industry have felt most of the heat. The situation worsened after 2005, when quotas to enter the American market were suppressed, following WTO and MFN rules, and tariffs got reduced. Until then, Mexican and Central American ‘maquilas’ were competitive vis-à-vis Chinese exports thanks to those restrictions and NAFTA. In later years, it has been thanks to CAFTA that Central America is still an attractive destination for mainly East Asian investment in the textile/garment industries, the bulk of industrial plants installed in the area’s Export Processing Zones (EPZ, called ‘zonas francas’ in Spanish).

In her study for the American Enterprise Institute, Megan Davy says that the coastal regions of China, which are the most affluent in the mainland, are the real competitors of Mexico and CA.

“However, it is only by comparing Chinese regions with Latin America that the true nature of the competition becomes visible. National per-capita GDP in China was around \$1,700 in 2005—about the same as

⁶⁹ Jiang, Shixue. July 2007. Interview for the Central American business magazine *Economia & Negocios*. Link in Jiang’s blog: <http://blog.china.com.cn/jiangshixue/art/878345.html>

that in Bolivia, Haiti, and Nicaragua. But per-capita GDP on the coast and in the cities, where almost all Chinese exports are produced, is more than three times the national average, making these areas comparable to Venezuela, Chile, and Mexico. [...] Those areas of China that look like Latin America in terms of capital and skills are the same ones that produce the bulk of China's exports. As a result, these regions in China are equipped with a similar toolbox of labor, skill, and capital and may therefore be able to produce a similar basket of goods—comparable even in terms of quality and sophistication. This is most significant for Mexico and much of Central America because they have focused so heavily on low-skill, labor-intensive industries as a motor for growth and employment. Many of these businesses import components for electronics and apparel for assembly and subsequently reexport them to the United States, thereby avoiding the regular tariffs structure. In other words, Mexico and Central America have built a substantial portion of their productive economies on the same stage of the production process that China excels in—but without the global comparative advantage.”⁷⁰

Lower wages and higher productivity are not the only China's advantages, but also CA is affected by inadequately developed infrastructure, problems with the efficiency of port facilities and increasing business costs (electricity costs two to three times as much as it does in China), argues Davy.

At least until recent years, textile and apparel production was responsible for 700,000 jobs in Mexico alone, and this sector comprises 20-30 percent of total manufacturing employment in El Salvador, Honduras and Nicaragua.⁷¹

Researchers estimate that the numbers of labor force employed by 'maquiladoras' in Central America in the end of the 1990s were from 300,000-350,000 people in five republics (50,000 in Costa Rica, 50,000 in El Salvador, 80,000 in Guatemala, 120,000 in Honduras and 30,000 in Nicaragua). Other estimates that include subcontractors put the figures in approximately half a million jobs. In 1996, the subregion's 'maquilas' exported US\$ 1 billion, out of total exports of US\$7.7 billion or 13% of the total. The exports of the 'maquila' sector replaced then agricultural products as the main CA export items to the US market.⁷²

⁷⁰ Davy, Megan. 2008. "What does China's Growth portend for Latin America?" Paper for Development Policy Outlook, American Enterprise Institute.

⁷¹ Item.

⁷² Robinson, William I. 2008. P. 114. "Latin America and Global Capitalism – A critical globalization perspective." The Johns Hopkins University Press.

In 2000-2002, some 300,000 jobs were lost in the Mexican ‘maquiladora’ sector, as firms such as Phillips, Black and Decker, and Sanyo relocated factories to China. Employment in the electronics industry also declined as a result of Chinese competition in the US market.⁷³

So far, there are no systematic academic studies on the loss of jobs in Central American ‘maquilas’, though many companies have shut down production facilities to move to China and South East Asia, cutting dozens of thousands of jobs, the local press reports. The sector is socially sensitive, as many among ‘maquila’ employees are poor women who are rural migrants.

Besides, the EPZ are out of the national accountancy system. The companies installed in them enjoy tax breaks, no currency flow controls, favorable land leases and other legal incentives. This make more difficult to provide exact figures on many aspects of their business.

V.4. PANAMA

Panama is a tiny country in the southern part of the Central American isthmus, bordering Colombia and Costa Rica. It has more than the double of Taiwan’s area, some 75,240 sq km, with a population of 3.4 million people.

For both Taiwan and China, Panama has a strategic importance due to the existence of the canal connecting the Atlantic and the Pacific oceans. Politically, the continuous diplomatic recognition of Taiwan has supposed a major diplomatic challenge for Beijing, at least until 2008.

Chinese exports to the eastern coast of the US; ships directed to Atlantic ports in South America; oil tankers from Venezuela and Brazil; Brazilian and Argentinian soy cargos; all of them pass through the maritime way. Thus, Panama plays a key role in China’s commerce in the Western Hemisphere.

Panama’s exports to the PRC are not large. Ellis says that the Panama’s exports to China in 2006 amounted to only 1.43% of the Central American nation’s total, a “minuscule” figure, “with fifteen other countries importing more from Panama than the PRC did.”⁷⁴

⁷³ Jenkins, Dussel, Mesquita. 2008. World Development, Vol. 36, No. 2 Pp. 235- 253.

TRICKY FIGURES

Nevertheless, we must warn that the official figures reflected in the UN databases did not include the famous Colon Free Zone, a major trade hub and a real black hole in terms of commerce: a monster-like warehouse paradise, a heaven of contraband and dark business transactions, a point from which immense amounts of Chinese products are bought and then taken to third countries by middlemen. On its part, the website of the Panamanian Ministry of Commerce does not offer complete and well-organized statistics.

According to UN Comtrade statistics, as shown in Table 13, Panama exported US\$ 63 million in goods to the Chinese market in 2007, and it imported products for US\$ 358.7 million (not including Hong Kong). These numbers represent a big hike in comparison with 2006, when Panama imported US\$ 166.8 million and exported only US\$ 13.4 million.

TABLE 13 - PANAMA'S TRADE WITH CHINA 2001-2007

Unit: US\$ millions

Year	2001	2002	2003	2004	2005	2006	2007	Total trade/period
Imports	24.7	40.8	48.3	n.a.	99.1	166.8	358.7	
Exports	3.2	2.0	12.2	10.9	10.2	13.4	62.9	
Totals	27.9	42.8	60.5	10.9	109.3	180.2	421.6	853.2

Source: UN Comtrade, <http://comtrade.un.org>

However, the PRC Ministry of Commerce statistics report US\$ 5.58 billion in Chinese exports to Panama in 2007.⁷⁵

How such an abysmal difference can be possible? R. Evan Ellis does not explain how these figures were calculated. But one can safely assume that the PRC data include exports to

⁷⁴ Ellis, R. Evan, 2009. P. 224.

⁷⁵ Item., p. 226.

the Colon Free-Trade Zone. Such amount would make Panama an even larger importer than Chile in 2007. That year, Chile imported a value of US\$ 4.42 billion in Chinese goods.⁷⁶

Among the main Panamanian exports are fish, fruits, scrap metal, coffee, wood and other animal products. The country faces similar problems to those dealt with by other Central American countries to export agricultural products to the PRC; they are not competitive in that market, usually.

In the year 2004, the three top Chinese imports into Panama were clothing not of fur (30.4%), footwear (11.5%), and petroleum products (11.5%). On the other hand, the three top exports to the PRC were animal feeding stuff (35.8%), nonferrous metal scrap (33.9%), and iron and steel scrap (26%).⁷⁷

At least, we can safely conclude that China has not been a major market for Panama's products.

The US\$ 5.58 billion in goods imported from the PRC by the Central American state would make it in principle an attractive market for Chinese products. GDP is US\$ 23.08 billion (2008 estimate from the World Bank, WB); the workforce is 1.4 million people; GNI per capita (Atlas method) is US\$ 6,690, an upper middle-income country according to the World Bank rankings. The population under the poverty line is 36.8% and unemployment reaches approximately 7%. It ranks 60th in the 2009 UN Human Development Report.

One must remember, though, that a gross percentage of Chinese items primarily sent to the Colon Free-Trade Zone end up in third markets in Latin America; they are not all sold in Panamanian soil. For example, the Chinese manufacturer Kitomi Corp. assembles here motorcycles for sales in other Latin American markets.⁷⁸

China maintains a trade representative office in Panama, called 'Office of Commercial Development in Panama'. It's listed as such in the PRC's Ministry of Foreign

⁷⁶ Item.

⁷⁷ Devlin, Robert. 2008. In Rioett and Paz. P. 117.

⁷⁸ Kitomi Corp. Website: <http://www.kitomicorp.com>

Affairs website. Together with an embassy in San Jose, Costa Rica, these are the only representative Chinese offices in Central America.

Through the administration of the canal, the Panamanian authorities have learned valuable experience in dealing with Chinese and Asian companies and business practices, building a sophisticated structure for that purpose. The only branch of the Bank of China in Latin America in LAC is situated in Panama. The China Trade Exposition, a major promotion event, is held every year in Panama, featuring hundreds of mainland Chinese companies.

A Hong Kong-based company, Hutchinson-Whampoa, won in the 1990s a 50-year-long lease to administrate the port at the entrances of the canal. It belongs to businessman Li Ka-shing, a man with alleged business ties to the People's Liberation Army (PLA). The fact of a Chinese administration of key canal facilities has prompted fears in the US COSCO, the second-largest shipping company in the world and the second-largest user of the canal, operates facilities in the area, too. COSCO was a bidder for the construction of a mega port as part of the ongoing works to enlarge the canal until 2014, a series of projects with an estimated cost of US\$ 5.25 billion.⁷⁹

Panama boasts one of the largest Chinese communities in Latin America: some 150,000 people. There two large concentrations of these people, one in Panama City, the capital, where there is a commercial Chinatown or "barrio chino"; the other is in the city of Colon. There are older immigrants' generations and recent arrivals from Taiwan, Hong Kong and many parts of mainland China. The 'Asociacion China' or China Association is their main social organization.

In 2007, more than one hundred people died after using contaminated Chinese toothpastes distributed by the Social Security health centers. Panama was one of the most serious victims of criminal sales of contaminated toothpastes worldwide by unscrupulous Chinese managers.⁸⁰

⁷⁹ Ellis, R. Evan, 2009, Pp. 227-228.

⁸⁰ La Prensa daily, Nicaragua. "Incautan mas pasta dental contaminada". May 31, 2007. <http://archivo.laprensa.com.ni/archivo/2007/mayo/31/noticias/nacionales/194430.shtml>

V.5. COSTA RICA

Breaking with 60 years of friendship with the ROC, Costa Rica became the last Chinese “trophy” in the long war with Taiwan over diplomatic recognition in LAC. The two countries established relations on June 1, 2007, when Costa Rica had not yet broken off ties with Taiwan, something that took place a few days later.

Though one of the smallest regional countries with an area of only 51,100 sq km and a population of 4.5 million, it has the second largest economy in the isthmus and the highest living standards. It is situated between Panama and Nicaragua.

Its GDP was nearly US\$ 30 billion in 2008, and its GNI per capita is US\$ 6,060, which makes the country an upper middle-income one, according to World Bank rankings. 22 percent of the population lives under the poverty line and life expectancy is 79 years, the highest in Central America and quite a high indicator in the whole LAC region. Costa Rica occupied the place 54 in the 2009 U.N. Human Development Report, not far behind the other two Latin American nations in the first 60 countries listed (Argentina and Chile) and 6 places higher than Panama.

Historically, Costa Rica is a country with a different political tradition from that of its neighbors. Dictatorships have been short-lived, and it has been mainly a peaceful country. It's the oldest democracy in LAC. It abolished the conventional army in 1948, but it has a considerable number of security forces.

BIG PARTNERSHIPS, INTEL

Costa Rica is China's largest trade partner in Central America and the only one that has enjoyed surpluses with the Asian powerhouse in the present decade. The country exported US\$ 8.6 billion to the world last year, according to government records. Its main markets are the United States (33.67 %), China-HK (12.73 %) and the Netherlands (6.76%). These are 2009 estimates with Costa Rican official figures. So, China is now the second export destination for Costa Rica. The country's main products are integrated circuits, medical equipment, bananas, pineapples, coffee, melons, ornamental plants, sugar, textiles, electronic components, and medical equipment.

The bilateral trade with China is totally atypical for LAC, as the bulk of Costa Rica's exports are high-tech items such as micro-processors and chips, namely, the exports to the PRC and Hong Kong by the giant chip maker Intel. The multinational has two plants and a distribution center situated 20 km from San Jose, the capital, employing several thousands of engineers, workers, technicians and other staff. No other country in Latin America and the Caribbean can boast such a special economic bond. Computer makers like Lenovo, Dell, Compaq, etc., that have facilities in China are Intel's clients.

Intel represents 20% of all Costa Rican exports. At the plant at La Ribera, it produces several types of modern and fast processors. Operations started in March 1998.⁸¹

Increasing trade volumes were one of the main factors for the government of Oscar Arias to switch sides and abandon Taiwan. Though Taiwan-Costa Rican trade is not negligible in terms of the island's overall trade with CA, the figures are very low in comparison with those of commerce with China.

TRADE FIGURES AND COMPOSITION

In 2009, Costa Rica exported US\$ 767.1 million to the PRC and US\$ 337.5 million to Hong Kong, for a total of US\$ 1,104.6 million. Imports from both the PRC and HK amounted to US\$ 773.2 million. Total trade accounted for US\$ 1,877.8 million in 2009.

Contrary to modest exports by other neighbors, Costa Rica sells significant amounts of products to the HK SAR, a separate WTO entity. That's why I decided to include date of trade with HK in the Costa Rican case. The data come from the Ministry of Foreign Trade of the Republic of Costa Rica.⁸²

The year 2007 saw a historical peak. As shown in Table 14, Costa Rica exported US\$ 848.2 million to the Chinese market and US\$ 561.1 to HK, totaling US\$ 1,409.3 million. The following year, the effects of the world economic crisis are visible: the exports of Costa Rica to

⁸¹ Intel en Costa Rica. Website: <http://www.intel.com/costarica/index.htm>

⁸² Ministry of Foreign Trade of Costa Rica. Website: <http://www.comex.go.cr>

the PRC and HK descended to US\$ 680 million and US\$ 392.3 million, respectively. The total reported was US\$ 1,072.3 million.

The five top Costa Rican exports to China in 2009, were: 1) processors, memory chips, integrated circuits, amplifiers, clocks and synchronization circuits (73.4%); 2) parts and accessories for data-processing automated machines (22.6%); 3) copper scrap (0.6%); 4) animal leather (0.4%); and 5) lamp holders, plugs (0.3%).

The 5 top items imported from China by the small Central American nation (2009) were: 1) electronic appliances, equipment and machinery (2.4%); 2) cotton fabric (2.1%); 3) footwear (2.1%); 4) motorcycles, motor-propelled tricycles and sidecars (1.5%); and 5) automated machines for digital data processing (PC and laptops, 1.4%).

TABLE 14 - COSTA RICA'S TRADE WITH CHINA, HK AND TAIWAN 2000-2009

Values in US\$ millions

Country or WTO entity	Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China	Imports	78.4	100.5	121.6	160.2	272.5	409.2	554.0	763.2	887.8	711.6
HK		37.5	41.8	45.0	49.9	57.7	62.4	64.0	65.6	106.5	61.6
Taiwan		65.4	68.3	66.2	66.4	71.1	101.3	174.6	162.3	143.8	89.4
	Exports										
China		12.7	13.8	33.7	88.9	163.3	244.7	558.3	848.2	680.0	767.1
HK		17.4	27.3	51.6	132.8	136.8	485.1	524.5	561.1	392.3	337.5
Taiwan		9.9	11.3	22.9	38.4	34.8	83.7	95.5	84.1	65.0	36.9
	Totals per year										
China		91.1	114.3	187.8	249.1	435.8	653.9	1,112.3	1,611.4	1,567.8	1,478.7
HK		54.9	69.1	96.6	182.7	194.5	547.5	588.5	626.7	498.8	399.1
Taiwan		75.3	79.6	89.1	104.8	105.9	185	174.6	246.4	208.8	126.3

Source: *Ministerio de Comercio Exterior de Costa Rica. Website: <http://www.comex.go.cr/Paginas/inicio.aspx>*

Data on Costa Rican trade with Taiwan are included in Table 14 in order to compare the volumes with those of China-HK-Costa Rica trade. Though the Central America country is a major partner for the island in the isthmus, its commerce with the PRC is incomparably bigger.

In 2009, for example, total bilateral trade reached US\$ 125.4 million; Taiwan exported US\$ 89.4 million in goods to Costa Rica, and imported US\$ 36 million.

PROSPECTS FOR THE FUTURE

As a middle income country and with the highest living standards in the isthmus, Costa Rica is a good market. Through local retail outlets like Casa Blanca and Importadora Monge, Chinese cars, motorcycles, electronic home appliances, toys, cloth, footwear, etc., are easily available. Car brands like Geely and Great Wall are now being sold by dealers. Telecomm companies Huawei and ZTE are exploring business opportunities to invest in cell phone networks or building internet infrastructure, following the opening up of the local telecommunications sector to private operators by a new law approved in 2008, complimentary to the passing of CAFTA the year before.⁸³

San Jose and Beijing concluded negotiations and signed a FTA in April 2010. The PRC agreed to immediate access to 99.6% of Costa Rican products, including agricultural items such as orange juice, decorative plants and flowers; on its part, the Central American nation would allow immediate access to the 58% of the Chinese list of products; tariffs for 25% of them will be eliminated within 10 years after the coming into force of the accord. The FTA with China, and one with Singapore, has still to get approved by the two parliaments.⁸⁴

Last May, in her takeover ceremony, the new President Laura Chinchilla asked the Legislative Assembly to give quick approval of the FTA. As a signal of the interest in increasing trade contacts, the new ambassador-designate to Beijing is Marco Vinicio Ruiz, a former trade minister.

⁸³ Ellis, R. Evan. 2009. P. 220-221.

⁸⁴ Associated Press story published in La Prensa Grafica, El Salvador. "Costa Rica firma tratado comercial con China." April 08, 2010. <http://www.laprensagrafica.com/lo-del-dia-edi/108487-costa-rica-firma-tratado-comercial-con-china.html>

Costa Rica enjoys a good institutional and intellectual infrastructure to do business with China. The trade promotion agency PROCOMER, subordinated to the Ministry of Foreign Trade, is very active, supportive. It provides information and organizes numerous events with the participation of Chinese companies or trips to China. It does not only serve Costa Rican entrepreneurs in their dealings with the Chinese, but sometimes, it acts as sort of regional leader and guide for business delegations from other Central American countries. In October 2007, the Banco Nacional de Costa Rica and China Development Bank signed a cooperative agreement to facilitate imports of Costa Rican goods into China.⁸⁵

Think tanks and business schools have developed Asia-focused business programs. The Centro de Investigacion de Mercados Sostenibles, attached to the prestigious business school INCAE, is one example; it does offer China-oriented programs and has participated in trips and exchanges with China. Different universities and educational institutions, both public and private, now offer Mandarin courses, too.⁸⁶

A community of some 60,000 people of Chinese origin exists. They mainly run small and medium-size shops ('pulperias') or are restaurant owners. The earliest wave of immigrants arrived in the 19th century, escaping chaos and misery. Many were hired to work in the construction of the first national railroad network. There has been a good degree of integration and harmonious coexistence with other social groups on the part of the Chinese.

DEVELOPMENTAL COOPERATION AND AID

After the establishment of diplomatic ties on June 1, 2007, the People's Republic of China gave aid to Costa Rica with a value of around US\$ 500 million: US\$ 300 million through the purchase of treasury debt bonds (considered a loan in preferential conditions: a 12-year period, 2% interest rate), a donation of US\$ 130 million for social projects and the construction of a new soccer stadium for US\$83 million.⁸⁷

⁸⁵ Ellis, R. Evan. 2009. P. 222-223.

⁸⁶ Item.

⁸⁷ La Nacion daily, Costa Rica. September 13, 2008. "Arias: La Inteligencia de Taipei nos pilla en la mentira." http://www.nacion.com/ln_ee/2008/noviembre/05/pais1763317.html

The Chinese state company Chinafecc Central America, S.A. is building a new national soccer stadium in the capital, a friendship gift from China for the beginning of relations. As it is the practice in other LAC countries, the construction workers are Chinese, not local labor force. Its original cost is estimated in US\$ 73 million, though the government announced recently it was going to spend an additional US\$ 10 million from unused Chinese funds to finish some works, elevating the final cost to some US\$ 83 million. The new sport facility is scheduled to be inaugurated in February 2011.⁸⁸

Chinafecc Central America S.A. is also building private condominiums in the capital together with a local company, Palacio Oriental. A few months ago, a diplomatic row over a request to approve 100 additional visas for Chinese workers took place. The men would work at the soccer stadium site, and then would reinforce works at the condominium site. An official from the Chinese embassy purportedly exerted pressure on local officials to get the visas promptly. The foreign minister, Rene Castro, summoned Beijing's ambassador and expressed his 'displeasure'.⁸⁹

During his last, very recent trip to Latin America, the Chinese foreign minister Yang Jiechi visited Costa Rica and met President Chinchilla on August 1, 2010. According to press reports, the new Costa Rican government is interested in cooperation for new infrastructure projects, particularly for the construction of a 'canal seco' ('dry canal'), a railway line uniting the Pacific and the Atlantic coasts.⁹⁰

San Jose is also interested in security issues like training for the national police by Chinese experts. One of Chinchilla's priorities – she was former president Arias' interior minister – is to strengthen the National Police Academy and improve citizens' safety.

⁸⁸ La Nación daily. "Gobierno pedirá dinero a China para carreteras y seguridad." July 15, 2010.

<http://www.nacion.com/2010-07-16/ElPais/FotoVideoDestacado/ElPais2449253.aspx>

⁸⁹ La Nación daily. "Cancillería expresa molestias por presiones." June 26, 2010. <http://www.nacion.com/2010-06-27/ElPais/NotasSecundarias/ElPais2425283.aspx>

⁹⁰ La Nación daily. "Presidenta recibe a canciller de China." August 1, 2010. <http://www.nacion.com/2010-08-01/ElPais/UltimaHora/ElPais2469191.aspx>

V.6. GUATEMALA

With a population of 13.5 million, Guatemala is the most populated country of Central America. It's also one of the largest ones, with an area of 108,889 km sq (three times the size of Taiwan). Its GDP of US\$ 38.9 billion (2008, World Bank) makes it the largest Central American economy. It occupies a good geographical position, bordering with Mexico, El Salvador, Honduras and Belize; it has coasts on two oceans.

This beautiful and colorful country boasts one of the most important ethnic and cultural diversities of Latin America and probably of the world, but social inequalities are enormous. Population under the poverty line is 51% of the total, according to the World Bank. Illiteracy nears 30%. The ethnic composition is as follows⁹¹: Mestizo (mixed Amerindian-Spanish - in local Spanish called Ladino) and European 59.4%; K'iche 9.1%; Kaqchikel 8.4%; Mam 7.9%; Q'eqchi 6.3%; other Mayan 8.6%; indigenous non-Mayan 0.2%; other 0.1%. There 23 Amerindian languages spoken, Spanish is the official language.

Life expectancy at birth is 70 years, the lowest rate in the whole subregion. The country occupies the place 122 in the ranking of the UN Human Development Report 2009. With a GNI of US\$ 2,680, Guatemala is a lower middle income country in World Bank's rankings.

Guatemala keeps diplomatic relationships with the Republic of China in Taiwan. Nevertheless, as it's the case with other states, trade with the People's Republic of China has soared over the last years, and it is increasingly important for the local economy.

PRC AMONG MAIN TRADE PARTNERS

The United States is the main export market with a 41.67 % share of Guatemalan exports, according to Ministry of Economy of Guatemala (2009 estimate). The other major markets are El Salvador (11.10 %); Honduras (8.24 %); Mexico (5.79 %); Costa Rica and Nicaragua (3.86 % and 3.83 %), respectively. ⁹²

⁹¹ CIA World Factbook.

⁹² Ministerio de Economía de Guatemala. Website: <http://www.mineco.gob.gt>

China is not an important destination; it ranks 25th in the list of export destinations (0.41% of the total). However, China has become the third country of origin of Guatemala's imports. 36.51 % of imports come from the United States, 10.29 % from Mexico, 5.28 % from China, and El Salvador is the four country of import origin with 5.12 %. The principal item China is purchasing from the Central American country is sugar.

TABLE 15 - GUATEMALAN TRADE WITH CHINA 2001-2007

Unit: US\$ millions

Year	2001	2002	2003	2004	2005	2006	2007	Total trade/ period
Imports	232.2	286.7	154.4	149.4	752.1	453.2	729.5	
Exports	0.4	4.8	3.7	19.4	36.7	29.9	58.2	
Totals	232.6	291.5	158.1	168.8	788.8	483.1	787.7	2,910.6

Source: UN Comtrade, <http://comtrade.un.org>

TABLE 16 - GUATEMALAN TRADE WITH CHINA 2008-2009

Unit: US\$ millions

Year	2008	2009	% of total Guatemalan trade in 2009
Imports	839.43	607.77	5.28%
Exports	31.92	30.24	0.41%
Totals	871.35	638.01	

Source: Ministerio de Economía de Guatemala, <http://www.mineco.gob.gt>

According to the US Department of State website, the main items (2009) exported by Guatemala are: coffee, bananas, sugar, crude oil, chemical products, clothing and textiles,

vegetables. Its main imports are: machinery and equipment, fuels, mineral products, chemical products, vehicles and transport materials, plastic materials and products.⁹³

Like other Central American neighbors, Guatemala has a free trade agreement with the United States.

In 2004, as Robert Devlin shows in a study, the three top items Guatemala exported to the PRC were: sugar and honey (93.8%); cotton fabric, woven (1.4%); and plastic materials (1.4%). On its part, the PRC's three top products sold to Guatemalan partners were woven textiles, non-cotton (30.7%); cotton fabrics, woven (11.4%); and clothing not of fur (10.6%).⁹⁴

A peak in Guatemala-Chinese trade was reached in 2008, with the Guatemalan side buying the Asian giant's products for US\$ 839.43 million, and selling to it goods for US\$ 31.92 million; total trade amounted to US\$ 871.35 million.

Last year, the effect of the world economic downturn could be felt in those exchanges: lower demand led to a total trade figure of US\$ 638.01 million, a 27% decrease. China sold goods for US\$ 607.77 million and imported US\$ 30.24 in goods from Guatemala. Data shown here do not include trade with China's Hong Kong SAR.

Toys, plastics, cloths, footwear and other products have been entering the market. Chinese car brands and motorcycles are also starting to gain market share and acceptance.

In the opinion of car dealers' chief executives quoted by the local press, there has been 'an explosion' in the purchase of Chinese cars in Guatemala between 2004 and 2009. Only in 2009, according to statistics by the Association of Vehicle Importers (Aidva), 747 units of different Chinese brands were sold. They usually offer comfort and some performance features that are as good as those of other brands, and their price could be one-third lower, the executives said. They pointed at improvements in quality – there were earlier reports of poor performance --

⁹³ US Department of State. Website <http://www.state.gov>

⁹⁴ Devlin, Robert. 2008. P.117. In Rioett and Paz.

over the past years, but admitted that the recent economic crisis and the revaluation of the yuan will make prices rise.⁹⁵

Guatemala did not escape the consequences of the massive exports of altered, toxic Chinese toothpastes and toxic toys.

Mr. Cool and Genial, two toothpaste brands containing diethylene glycol, a substance with industrial uses, were found to be sold in some of Guatemala's popular markets and in small neighborhood grocery stores. The authorities issued warnings, confiscated an amount of these products. The local press reported on the places where those toothpastes could be purchased.⁹⁶

In August 2007, Guatemalan authorities ordered the withdrawal of toxic plastic toys from local stores following the US government's and producer Mattel's warnings on the discovery of high concentration of lead in products being sold.

BUSINES TIES PROMOTION

In April 2008, the new Sino-Guatemalan Chamber of Commerce, Cámara de Cooperación y Comercio China-Guatemala in Spanish, was created with the purpose to foster trade ties between Guatemala and the PRC. Linda Chen, executive secretary of the chamber, told the press that the selection of members would be "strict", because "we want Guatemalan businessmen to be sure that the product they will purchase will be of good quality."⁹⁷

The chamber offers to Guatemalan middle and small-businesses information on products, legal requirements to invest in China and help in finding partners; it organizes trade exhibitions and fairs in Guatemala and China, trips and visits, seminars, etc.; it also aims at attracting Chinese investment in the Central American country, among many other services.⁹⁸

⁹⁵ Prensa Libre daily, Guatemala. "Oferta de autos chinos aumenta en el país." June 28, 2010. http://www.prensalibre.com/economia/Oferta-autos-chinos-aumenta-pais_0_288571153.html

⁹⁶ Prensa Libre daily. "Dentifrico toxico, a la venta en mercado." June 1, 2007. http://www.prensalibre.com/noticias/Dentifrico-toxico-venta-mercado_0_148186934.html

⁹⁷ AFP. "Crean Cámara de Comercio Guatemala-China." April 2, 2008. <http://www.radiolaprimerisima.com/noticias/resumen/27161>

⁹⁸ Cámara de Comercio y Cooperación China-Guatemala. Website: <http://www.camarachinoguatemalteca.org>

In October 2008, for example, the chamber helped associates to reach deals to sell coffee and sugar to China for US\$ 20 million.⁹⁹

V.7. EL SALVADOR

Tiny El Salvador is the smallest country in Latin America, with an area of only 20,742 sq km. Population is 7.2 million, making it highly overcrowded. It borders Guatemala and Honduras, and has coasts only in the Pacific.

Despite a decade of civil war in the 1980s, this is one of the most dynamic and industrialized economies of Central America, but social inequalities are striking. El Salvador is the isthmus' third largest economy, with a per capita income roughly two thirds that of Costa Rica and Panama.

There are no exact estimates, but some sources put the numbers of Salvadoran emigrants between 2 and 3 million people, most of them living and working in the United States, either legally or illegally. Annual remittances are approximately US\$ 4 billion, almost equaling export incomes (US\$ 3.86 billion in 2009) and about one third of households receive these financial aids, thus helping the economy and precarious social stability. The country suffers from high crime rates, alarming street violence indicators and young gangs' (the 'maras') activities, what makes El Salvador a very unsafe place to live.

Around 31% of the people live under the poverty line; life expectancy at birth is 71 years and the literacy rate is 84%. With US\$ 3,640 of GNI per capita, El Salvador is ranked by the World Bank as a lower middle income country. It occupies the place 106 in the U.N. Human Development Report country list.

The GDP in 2009 amounted to US\$ 22.43 billion, according to the CIA World Factbook (exports US\$ 3.861 billion, imports US\$ 6.706 billion). As with other Central American countries, this nation's trade is heavily US-oriented. The US remains the most important trade partner, both as main export destination and import origin. El Salvador is also a part to DR-CAFTA.

⁹⁹ CentralAmericaData.com. October 9, 2008. Website: http://www.centralamericadata.com/es/article/home/China_comprara_cafe_y_azucar_a_Centroamerica

The five top El Salvador's export markets are (2009): US 43.86% of exports; Guatemala 13.92%; Honduras 13.22%; Nicaragua 5.65%.

China is not a major destination, but as it's the case with Guatemala, business with China is growing and it has turned into an important source of imports. The PRC has become the fourth country of import origin. El Salvador's mainly import partners are (2009): US 29.79%, Mexico 10.26%, Guatemala 9.7%, China 4.5%, Honduras 4.4%.

Salvadoran principal exports are offshore assembly exports, coffee, sugar, textiles and apparel, gold, ethanol, chemicals, electricity, iron and steel manufactures. The top imported items are raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, and electricity.

TABLE 17 -- EL SALVADOR'S TRADE WITH CHINA 2001-2007

Unit: US\$ millions

Year	2001	2002	2003	2004	2005	2006	2007	Total trade/ period
Imports	88.1	70.3	147.6	113.5	145.4	265.4	294.7	
Exports	0.5	1.1	7.1	3.6	2.9	6.4	6.8	
Totals	88.6	71.4	154.7	117.1	148.3	271.8	301.5	1,153.4

Source: U.N. Comtrade, <http://comtrade.un.org>

TABLE 18 – EL SALVADOR'S TRADE WITH THE PRC 2008-2009

Units: US\$ millions

Year	2008	2009
Imports	360.30	250.05
Exports	5.95	2.27
Total trade	366.25	252.32

Source: Banco Central de Reserva de El Salvador. Website: www.bcr.gob.sv

As mentioned before, El Salvador has a greatly diversified economy and it is one of the most industrialized states of the area. Agriculture represents only 10% of the GDP; industry corresponds to 29% and services, 60.5%.

In Tables 17 and 18, we can observe that bilateral trade, though still very modest in sheer size, has a tendency to grow. It is absolutely evident the hugely disproportionate balance-of-trade in China's favor. In 2008, the year with the highest numbers, total trade amounted to US\$ 366.25 million. El Salvador imported goods for US\$ 360 million, and it exported only less than US\$6 million. The world slump can be seen in 2009 statistics, when total trade reached US\$ 252.32 million, nearly US\$ 114 million less in comparison with the previous year, a reduction of 45%.

According to the head of the Department of Balance of Payments of the Banco Central de Reserva (BCR), Salvadoran imports from China have grown annually 30%.¹⁰⁰

TRADE COMPOSTION

In 2004, according to Devlin's study, the three top items China exported to El Salvador were woven, non-cotton textiles (26%); cotton fabric, woven (16.7%); and clothing not of fur (12.7%). The tree top Chinese imports were nonferrous metal scrap (70.3%); fish, fresh or simply preserved (15.4%); and other crude minerals (6%).¹⁰¹

Nevertheless, as imports grow, the trade composition has apparently varied, according to last year's local press reports quoting government officials. The first category is now iron and steel products; the second one are textiles and woven for the 'maquiladora' industry; a third category are home electric appliances such as TV sets, stereos, and cell phones; a fourth category are plastics and fertilizers. Other minor quantities of footwear, artificial flowers and toys are

¹⁰⁰ El Diario de Hoy daily, El Salvador. "China es ahora el quinto proveedor de El Salvador." December 20, 2009. http://www.elsalvador.com/mwedh/nota/nota_completa.asp?idCat=6374&idArt=4357475.

¹⁰¹ Devlin, Robert. 2008. P. 116. In Roett and Paz.

entering the Salvadoran marketplace, too. China is the fifth import provider, according to a press report.¹⁰²

On the other hand, El Salvador is exporting metal scrap (aluminum, iron, steel scrap) and plastics for recycling. Those items “comprehend about 80% of what we are exporting to China,” said the head of the Department of Balance of Payments of the BCR.¹⁰³

CHINESE PRESSURE ON LOCAL INDUSTRY

The Salvadoran industrialists are feeling the Red Dragon’s breathe closer and closer to their necks. As it is common elsewhere, cries for adopting protectionist measures were heard.

Jorge Arriaza, executive director of the Asociación Salvadoreña de la Industria (ASI, Salvadoran Industrial Association), last year asked to impose tariffs on some Chinese products that could be produced in El Salvador as a mechanism of defense for the local industry.

“There are no studies of how much it has been lost, but in the beginning of this decade, China sold US\$ 400 million in Central America, now it sells US\$ 4 billion. From that amount, at least half of it is made of products that can be bought in the region,” Arriaza told the newspaper La Prensa Grafica.¹⁰⁴

Arriaza mentioned in particular plastics, iron, steel and textile/garments, as the hardest hit sectors facing Chinese “disloyal” competition in the local market, according to the news story. At present, those products are charged with a 13% added-value tax, but they enter tax-free if they come from countries with which El Salvador has FTAs.

ON CHINESE WHEELS

Chinese vehicles – sedans, minivans, pickups, motorcycles -- have been imported since recent years in El Salvador. The large Salvadoran business groups like Grupo Q, Poma and

¹⁰² El Diario de Hoy daily. “China es ahora el quinto proveedor de El Salvador.” December 20, 2009.

http://www.elsalvador.com/mwedh/nota/nota_completa.asp?idCat=6374&idArt=4357475

¹⁰³ Item.

¹⁰⁴ La Prensa Grafica daily, El Salvador. “ASI quiere barreras a productos chinos.” January 30, 2009.

<http://www.laprensagrafica.com/economia/nacional/15362--asi-quiere-barreras-a-productos-chinos.html>

Excel, each active in the vehicle import trade, have brought hundreds of several Chinese brands – Great Wall, Jimbei, JMC, Geely, Dongfeng, Chery -- into the local and the Central American markets, as some of them are top regional car importers. For example, Grupo Q sells Nissan cars in Nicaragua.

The Excel group, for example, introduced the Chery cars in 2007. A first order of 150 cars from the Chery Automobile Co. was placed in 2007. 50 of the cars would be sold in El Salvador, and the rest would go to other Central American countries, according to company executives. Excel aimed to target the middle-income segments of the population, with cars priced between US\$ 8,500 and US\$ 23,000 per unit.¹⁰⁵

Excel sells 14 brands and owns 50 showrooms, 30 accessory parts stores and 34 repair shops throughout Central America.

V.8. HONDURAS

Honduras is the second largest country of Central America with 112,090 sq km, and the second poorest. The population is 7.3 million. It borders Nicaragua, Guatemala and El Salvador, has a long coast in the Caribbean Sea and a narrow coast in the Fonseca Gulf.

Honduras ranks 112th in the 2009 UN Human Development Report. Life expectancy at birth is 71 years. 50.7% percent of the population lives under the poverty line, according to World Bank estimates, though other data indicate 60% of the population lives in poverty. It is characterized by a very unequal income distribution, high unemployment and underemployment (around 36%, according to the CIA World Factbook). Its GNI per capita is US\$ 1,740, a lower middle income country in WB classification.

In 2009, the GDP was US\$ 14.75 billion. Honduras is a part to DR-CAFTA and its foreign trade is heavily US-oriented. The main exports items are: apparel, coffee, shrimp, wire

¹⁰⁵ El Diario de Hoy daily. "Excel vendera autos chinos en la region." August 15, 2007.

http://www.elsalvador.com/mwedh/nota/nota_completa.asp?idCat=6342&idArt=1628708

harnessing, cigars, bananas, gold, palm oil, fruit, lobster, lumber. The top five export destinations are: US 59.6%, El Salvador 5.61%, Guatemala 5.28%, Mexico 4.19%, Germany 4.04%.¹⁰⁶

Honduras' main import commodities are: machinery and transport equipment, industrial raw materials, chemical products, fuels, foodstuffs. The top five countries of origin (2009) are: US 46.81%, Guatemala 8.92%, El Salvador 7.13%, Mexico 5.54%, Costa Rica 4.91%.

The evident conclusion here is that China has not become a major trade partner for this Central American country, neither as an import source nor as an export destination.

However, PRC-Honduran trade has been growing. In 2007, total trade between the two parts amounted to US\$ 274.2 (see Table 19). Imports of Chinese goods into Honduras reached US\$ 254.8 million, and exports of goods to the Asian nation were only US\$ 19.4 million. A growth trend is observable since 2005; that year commerce grew 65% in comparison with the previous year.

TABLE 19 -- HONDURAS' TRADE WITH CHINA 2001-2007

Unit: US\$ millions

Years	2001	2002	2003	2004	2005	2006	2007	Total trade/ period
Imports	16.0	19.0	36.8	66.2	101.9	134.5	254.8	
Exports	0.5	1.6	2.6	8.4	18.1	13.6	19.4	
Totals	16.5	20.6	39.4	74.6	120	148.1	274.2	693.4

Source: U.N. Comtrade, <http://comtrade.un.org> 2007 data

¹⁰⁶ CIA World Factbook 2009.

The Devlin's study lists the three top Chinese export items to Honduras (2004): Woven textiles, non-cotton (23.5%); clothing not of fur (10.6%); and cotton fabrics, woven (9.1%). Devlin does not offer any data on Honduran export items to China.¹⁰⁷

Until 2006, Honduras had exported mainly coffee, fruits (bananas) and some raw materials, according to the local press.¹⁰⁸

In June 2006, Honduran and Chinese entrepreneurs created the Chinese-Honduran Chamber of Commerce and Investment, or Cámara de Comercio e Inversiones China-Honduras (CCHCH), aimed "at developing bilateral trade and sustainable development," according to the new chamber's members of the board.¹⁰⁹

Banana exporters were among the most enthusiastic with the new body, whose opening represent the official launch of commercial ties with the PRC, despite the continued lack of diplomatic ties. The president of the association of banana exporters and vice president of the CCHCH, Arturo Castillo, said they expected to allocate some 50,000 boxes per week in the Chinese market. A first international business meeting was scheduled for August 2006 in San Pedro Sula.¹¹⁰

The best Honduran port is Puerto Cortes, a port on the Caribbean Sea. It's modern and functional, and it has a US certification. Honduras does not have important, modern port facilities in the Pacific Ocean; its access to it is a narrow passage in the Gulf of Fonseca constrained by Nicaraguan and Salvadoran maritime territories. This fact could be another severe limitation to large-scale trade with China. Just as elsewhere in Latin America, the Honduran market has been flooded with cheap Chinese toys, cloths, footwear, plastics and other products. The local press also reports on the import of Chinese cars and motorcycles.

¹⁰⁷ Devlin, Robert. 2008. P. 117. In Roett and Paz.

¹⁰⁸ La Tribuna daily, Honduras. "China Comunista abre relaciones comerciales." June 7, 2006. <http://www.periodicos-de-honduras.com/2006/06/07/china-comunista-abre-relaciones-comerciales/>

¹⁰⁹ La Prensa daily, Nicaragua. "Honduras y China por mas comercio." June 7, 2006. <http://archivo.laprensa.com.ni/archivo/2006/junio/07/noticias/internacionales/122203.shtml>

¹¹⁰Item.

V.9. BELIZE

Belize is the second smallest country of Central America with an area of 22,966 sq km, only slightly larger than El Salvador. In terms of the number of inhabitants, it's the less populated in CA: only 314,522 people. It borders Guatemala and Mexico.

The peaceful character of this beautiful and young country has helped to achieve some moderate living standards as for regional parameters. There no data available on poverty, though. Life expectancy is 76 years, according to the World Bank (2008 estimate). GNI per capita is US\$ 3,740, much higher than that of Honduras and Nicaragua, for example. Illiteracy is 30%, unemployment rate is 8%.

The GDP in 2009 was US\$ 1.424 billion. Belize's main exports are sugar, bananas, citrus, clothing, fish products, molasses, wood, crude oil. The tiny country's main export destination are: US 30.7%, UK 29.77%, Nigeria 4.9%, Cote d'Ivoire 4.45%, according to the CIA World Factbook (2009). That Belize is a country not looking at Central America is probably explained by economic and historical factors; many of its exports are similar to those of other neighbors, and as British colony until 1981, it is member of the British Commonwealth. Culturally, Belize is closer to the Anglophone islands of the Caribbean than to predominantly-Mestizo Central American neighbors. English, not Spanish, is the official language. Despite this, Belize is a member of the regional integration structures like SICA and Parlacen.

As we can see, China is not a destination for Belizean exports, but when it comes to import business, the PRC is now its fifth source of origin. The five top sources are (2008): US 38%, Mexico 13.1%, Cuba 7.9%, Guatemala 6.2%, China 4.3%. In general, the country imports large amounts of machinery and transport equipment, manufactured goods; fuels, chemicals, pharmaceuticals; food, beverages and tobacco.

We see this reflected in Table 20. Data on Chinese imports are available, contrasting with the lack of reports on exports in the UN world trade databases. This probably suggests there are no important or statistically relevant figures of Belizean exports to the PRC.

TABLE 20 -- BELIZE'S TRADE WITH CHINA 2001-2007

Unit: US\$ millions

Year	2001	2002	2003	2004	2005	2006	2007	Total trade/period
Imports	4.4	3.9	4.8	6.7	9.8	28	44.9	102.5
Exports	- (*)	-	-	-	-	-	-	
Totals								

(*) UN Comtrade only registers import figures from China, what suggests there are not Belizean exports to China statistically relevant. Source: UN Comtrade, <http://comtrade.un.org>

An official source from the Belizean government said that his country, though firmly remaining a Taiwan's ally, is open to trade with the PRC and the whole world.¹¹¹

¹¹¹ Interview with an official source from the Foreign Ministry of Belize.

VI. TAIWAN IN CENTRAL AMERICA

Central America has usually been a stronghold of the diplomacy of the Republic of China on Taiwan. It was a prized, continuous geographical bloc formed by 7 countries that happened to be all ROC's allies until 2007. The chain was broken when Costa Rica switched to recognition of the People's Republic of China that year.

In the official terminology of the Central American republics, Taiwan is called "China (Taiwán)" or "República de China en Taiwán". The diplomatic relationship dates several decades in most cases. Taiwan has developed an extended network of contacts, both official and unofficial, with governments, political parties, the civil society, the academia and the economic elites in each allied country. It is also a member or an observer in important regional institutions.

Taiwan is a non-regional member of the CABEI (Central American Bank for Economic Integration. In Spanish: Banco Centroamericano de Integración Económica, BCIE), a major regional financial institution. Other non-regional members are: Mexico, Colombia, Dominican Republic, Spain, Panama (it's listed as such), Argentina. Belize has a special status. On the bank's website, the name of "Taiwan" is used in the list of members.

Taipei is an aid donor for the CABEI. On May 4, 2010, the bank and the ICDF signed a MOU on the financing of small and medium enterprises (PYMES) with a US\$10 million fund.

The CABEI-Taiwan cooperation in the program for small and medium enterprises started in 1994 with a US\$10 million loan. In 1997, Taiwan granted a US\$ 50 million loan and US\$ 10 million more in 2006.¹¹²

For 2010-2014, the bank will dispose of a total US\$ 5 billion in funds for development projects in 5 countries (Guatemala, El Salvador, Costa Rica, Nicaragua, and Honduras).

The Central American Parliament (Parlacen) and the Central American Integration System (SICA) are other major regional institutions in which Taipei is an observer. This participation in key regional intergovernmental institutions reinforces the ROC's legitimacy.

¹¹² Estrategia y Negocios magazine. May 4, 2010. "BCIE y Taiwán ICDF apoyan a mypymes." Website: <http://estrategiaynegocios.net>

During regional emergencies and in the aftermath of natural disasters, Taipei has promptly come with assistance and aid for Central America.

Trade exchanges have increased since the coming into force of FTAs signed by Taiwan with Nicaragua, El Salvador, Honduras and Guatemala. At present, 6 countries are still Taiwan's allies. In accordance with global trends and with what is going on in other parts of Latin America, their trade ties with China have been increasing. The Red Dragon has also flirted with them. Informal contacts have, too. These facts pose some questions on the future.

VI. 1. GUATEMALA

Guatemala and the ROC established embassies in their respective capitals in October 1960. According to the ROC embassy's website in Guatemala City, it is known that before 1935, the Republic of China and Guatemala communicated with each other, though there are no records. That year, an ROC Consulate General was opened in the Guatemalan capital. In 1954, the consulate was upgraded to the rank of diplomatic representation and in 1960, both sides opened embassies.

The Chiang Kai-shek government and the successive military dictatorships kept good and cordial relationships. This is not surprising, given their strong anti-Communist and pro-American stance, their military and authoritarian character.

In the late 1970s, US President Jimmy Carter stopped military aid to Guatemala because of the terrible human rights record of the army. Nevertheless, this did not impede countries like Israel and the ROC from selling weapons and ammunitions to the Central American country. Taiwan continued this support even during the bloody regime of General Efraim Rios Montt (1982-1983), when the worst massacres and scorched-earth campaigns against the guerrillas and the Indians of the 36-year Guatemalan civil war took place, according to author Virginia Garrard-Burnett.¹¹³

The current Guatemalan ambassador to Taipei is Mr. Ivan Espinoza, and Taiwan's ambassador is Mr. Adolfo Ta-Chen Sun.

¹¹³ Garrard-Burnett, Virginia. 2009. "Terror in the Land of the Holy Spirit – Guatemala under Efraim Rios Montt 1982-1983." Oxford Scholarship Online, National Chengchi University Library.

DEVELOPMENTAL COOPERATION

In Guatemala, the ICDF presently has one technical mission with eight members working on three projects. There is also an Investment and Trade Service Mission with two members conducting two projects. One technical assistance project and one investment and lending projects are also being implemented.¹¹⁴

The technical mission concentrates in agricultural issues. Its three projects are: Peten Agriculture Production Project, Bamboo Construction Development Project and Aquaculture Technology Improvement Project.

The Investment and Trade Services Mission develops two projects:

1) The Investment Assistance and Promotion Project. Research and surveys have uncovered industries and projects that are attractive to foreign investment and these have been made available to industrial associations from Taiwan. The Investment and Trade Services Mission helps companies in the region to draft investment proposals that seek investment from international organizations. The project researches Guatemalan market information and analyzes the current market conditions.

2) The Export Assistance and Promotion Project. This project assists importers from Taiwan in understanding business conditions in Guatemala and also provides procurement services for them. It also helps traditional industry exporters from Taiwan in opening factories in Guatemala and developing export markets to regions outside of Central America. Furthermore, the project is helping Guatemalan companies in designing export strategies

On its part, the Technical Assistance mission supports the Wood Furniture Industry Technical Assistance Project. The ICDF is sending senior carpenters and furniture experts to Guatemala to train seed instructors and strengthen the local furniture industry.

In the area of Investment and Lending, the ICDF sponsors a Technical Education Project aimed at promoting economic development and raise education levels in Guatemala; this

¹¹⁴ International Cooperation and Development Fund, ICDF. Website: <http://www.icdf.org.tw/english/index.asp>

project will raise standards of technical human resources needed for industry development. Six departments will be established in the new technical school: electronics, electro mechanics, metal mechanics, automobile maintenance, refrigeration and air conditioning, and food processing.¹¹⁵

Taiwan will aide Guatemala to improve its e-commerce capabilities and to make online transactions easier as a way to foster tourism.

No figures on the costs and funds are provided. Taiwanese authorities are usually very cautious regarding developmental aid and spending in allied countries. The formal justification provided is that this is done to avoid competition or jealousy among recipient countries.

OTHER EXCHANGES

The ROC government has often donated patrol cars, motorcycles, equipment and other items to the National Civil Police; medical missions visit poor areas in the countryside or the cities; young students go as volunteers and explain Taiwan culture and achievements to the local populations; cultural spectacles are also offered by Taiwanese artists. Scholarships are offered to Guatemalan students.

TRADE AND INVESTMENT

In 2009, trade between Guatemala and Taiwan surpassed again the US\$ 100 million, reaching US\$ 106.4 million. The yearly balance of trade has been favorable to Taiwan, running usually high surpluses. The island exported goods for US\$65.8 million, and it imported goods for US\$ 40.5 from the Central American country.

Apparently, the global economic recession did not have much impact on the two countries' commerce; because the 2009 figure represents an increase compared to 2008 (see Table 21). The total trade in 2008 was US\$ US\$ 103.4 million, with US\$ US\$ 74.6 million in ROC exports and US\$ 28.8 million in imports. One explanation here could be the huge rise in the sugar demand from Taiwan.

¹¹⁵ Item.

Nevertheless, the year 2006 represents the peak in the present decade: US\$ 167 million in total bilateral commerce. Guatemala imported US\$ 123.47 million from the ROC and it exported US\$ 44.41 million. Taiwan enjoyed a US\$ 79 million surplus that year.

TABLE 21 – TAIWAN’S TRADE WITH GUATEMALA 1990, 2000-2009

Units in US\$

Year	Total trade	Exports	Imports	Surplus, Deficit
1990	39,709,260	35,617,815	4,091,445	+31,526,370
2000	111,237,688	95,204,983	16,032,705	+79,172,278
2001	101,753,687	79,072,446	22,681,241	+56,391,205
2002	86,934,452	81,309,659	5,624,793	+75,684,866
2003	93,479,706	92,216,644	1,263,062	+90,953,582
2004	115,521,602	111,429,340	4,092,262	+107,337,078
2005	133,872,233	111,775,705	22,096,528	+89,679,177
2006	167,890,901	123,473,605	44,417,296	+79,056,309
2007	127,494,278	94,713,368	32,780,910	+61,932,458
2008	103,418,914	74,619,569	28,799,345	+45,820,224
2009	106,391,848	65,889,941	40,501,907	+25,388,034

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 22 -- TOP 5 PRODUCTS EXPORTED BY TAIWAN TO GUATEMALA 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Miscellaneous chemical products	8,697,277	9,382,651	1
Plastics and articles thereof	10,691,645	9,281,748	2
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	7,394,624	8,943,363	3
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	10,819,788	8,932,591	4
Boilers machinery and mechanical appliances; parts thereof	7,486,367	6,286,521	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 23 -- TOP 5 PRODUCTS TAIWAN IMPORTS
FROM GUATEMALA 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Sugars and sugar confectionery	8,902,754	33,147,246	1
Coffee	5,791,729	2,605,992	2
Tobacco and manufactured tobacco substitutes	1,845,738	1,487,414	3
Fish and crustaceans, molluscs and other aquatic invertebrates	4,401	763,000	4
Iron and steel	7,932,073	699,811	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

What's the trade composition? Chemicals, plastics, electrical machinery and equipment, vehicles and mechanical appliances are the 5 top products Guatemala imported from Taiwan in 2009. On the other hand, sugar, coffee, tobacco, fish and sea food, and iron and steel (probably scrap metal) are the top 5 Guatemalan exports to the Asian island.

There are not Guatemalan companies investing in the territory of the ROC, according to the website of the ROC embassy in Guatemala. 53 Taiwanese companies are doing business in Guatemala.

A CNA story dated August 12, 2010 quotes Javier Ho, the Taiwanese deputy Foreign Minister, saying that the total value of current Taiwanese investment in 54 different projects is US\$ 350 million.¹¹⁶

Business delegations from both countries have traveled to Taipei and Guatemala City recently to explore business opportunities.

¹¹⁶ CNA news agency. "Gobierno de Taiwán apoya cooperación económica con Guatemala." August 12, 2010. Quoted by the website of the ROC embassy in Guatemala. <http://www.taiwanembassy.org/GT>.

POLITICAL ASPECTS

The government of President Alvaro Colom continues the relationship with Taiwan. Both sides officially say that the relationship is “cordial.” The official posture is to continue the diplomatic ties with Taiwan but develop trade with the PRC. The Guatemalan business sector fully agrees with this approach. My requests to interview a Guatemalan Foreign Ministry source were not answered.

Given the huge size of Guatemalan economy and its relatively important industry and manufacturing sector, trade with China has enormously increased in the present decade – this is also a factor for the Taiwanese presence --. According to the Guatemalan Ministry of Economy, Taiwan is only the 25th origin of the country’s imports, while China has become the third one (5.28 %), despite the inexistence of diplomatic ties.

The local media and some analysts usually speculate whether this will lead or not to a political relationship with the PRC. Due to the existence of the tacit truce, this is not a foreseeable event at the moment.

In recent years (before 2008), Beijing has flirted with Guatemala and sometimes, Chinese officials have not only called for more commerce and business ties, but have also called for the establishment of diplomatic relations.

In February 2005, Zhixan Wang, a counselor of the Chinese embassy in Mexico, said that his country “was interested” in official ties with Guatemala. Wang stated that it was not necessary to break off with Taiwan to develop trade ties, but he warned that the Chinese businesses would “not feel so attracted to invest, ” according to reports by the local press. For establishing diplomatic ties, it was necessary to sever relations with the island, he pointed out.¹¹⁷

President Ma went on a two-day official visit to Guatemala in June 2009. He met President Colom before going to El Salvador, where he participated in the takeover ceremony of President Mauricio Funes.

¹¹⁷ Prensa Libre daily, February 14, 2005. “China se acerca al país.” http://www.prensalibre.com/noticias/China-acerca-pais_0_109189537.html

VI. 2. HONDURAS

The two countries established diplomatic relationships in 1965. The embassy of the ROC is situated in Tegucigalpa, and there is a Consulate General in San Pedro Sula. Taiwan's ambassador is Lai Chieng-chung. Honduras has appointed a new ambassador after its previous top diplomat in Taipei finished her mission.

DEVELOPMENT COOPERATION

The Taiwan's ICDF presently has one technical mission with 12 members working on three projects dealing with agriculture improvement, animal husbandry, aquaculture and fisheries in Honduras, according to ICDF website. It also has two technical assistance projects dealing with SME development. There are three investment and lending projects dealing with small farmer credit and irrigation.¹¹⁸

1. Technical Mission. It develops the following projects:

a) Crop Production Project. The technical mission is assisting in establishing a seed rice propagation system while carrying out rice cultivation extension through farm loans and technical assistance. It is also extending the production of high quality fruits and vegetables and is training DICTA technicians and farmers in various seedling propagation and cultivation techniques;

b) Hog Breeding Project. The technical mission is producing superior breeder hogs and piglets while organizing production and marketing teams. The mission is also assisting small hog raisers in improving breeding and technology practices;

c) Aquaculture Project. This project is assisting in the development of aquaculture activities, is raising technology levels, and is gradually transferring fish fry propagation to the breeders. The project will train 100 technicians and fish farmers annually, which will help increase tilapia fry stocks. The program is also helping to improve the living standards of fishermen and boost the country's export competitiveness.

¹¹⁸ ICDF website. <http://www.icdf.org.tw/english/>

2. Technical Assistance. There are two projects:

a) Food Processing Technical Assistance Project. This project has been focusing on syrup, dehydrated fruit processing technology and food marketing. Training courses in manufacturing techniques, management and marketing were conducted to train seed instructors and food industry specialists;

b) Shoe Manufacturing Technical Assistance Project. The ICDF is providing training courses in shoe manufacturing technology, design, administration, and management. This project is also strengthening the Honduran shoe industry association to integrate industry efforts and expand the exports market.¹¹⁹

3. Investment and Lending. 3 projects are being developed:

a) Small Farmholders' Financing Scheme -- Rice Production Program. This scheme is complementing the technical mission's rice cultivation extension project by providing revolving funds for extension farmers to purchase raw materials;

b) Small Farmholders' Financing Scheme -- Tilapia Raising Program. To support the technical mission's tilapia raising project, the ICDF is providing fishermen with revolving capital for raw materials and loans for cage equipment;

c) Quimistan Valley Irrigation Project. To improve water distribution, the Taiwan ICDF is providing the funding to establish irrigation and farming systems in the Quimistan Valley. A 50-ha demonstration farm is also being established as a training center for local farmers. The project will improve food security, boost local incomes, and help save foreign exchange through export increment and import substitution.¹²⁰

Though no exact figures were made available to me, a Honduran official source interviewed said that the value of Taiwanese cooperation with Honduras nears some US\$ 20 million (more or less) per year.

¹¹⁹ Item.

¹²⁰ Item.

TRADE AND INVESTMENT

The bilateral trade reached US\$ 54.8 million in 2009. Honduras imported US\$ 41.6 million from the ROC and exported to it US\$ 13.2 million. These statistics represent a significant annual decrease (near 50%) in comparison with 2008, when total commerce was US\$ 96.6 million (US\$ 59.5 million in Taiwan's exports and US\$ 37.1 million in Honduras exports). The year 2008 is the peak in bilateral trade in this decade: some US\$ 96.6 million.

The top 5 products Taiwan exported to Honduras in 2009 were vehicles other than railway or tramway rolling stock, knitted or crocheted fabrics, iron and steel items, machinery and mechanical appliances, and tanning or dyeing extracts, tannins and their derivatives. On its part, the top 5 Honduran exports to Taiwan (2009) are iron and steel (probably scrap metal), fish and seafood, coffee, chemicals and articles of apparel and clothing accessories.

TABLE 24 --TAIWAN'S TRADE WITH HONDURAS 1990, 2000-2001

Units in US\$

Year	Total trade	Exports	Imports	Surplus, Deficit
1990	15,437,721	15,429,243	8,478	+15,420,765
2000	75,735,724	74,183,716	1,552,008	+72,631,708
2001	52,262,037	50,957,464	1,304,573	+49,652,891
2002	52,683,593	51,919,088	764,505	+51,154,583
2003	38,160,253	37,147,118	1,013,135	+36,133,983
2004	38,364,925	33,217,866	5,147,059	+28,070,807
2005	48,227,079	33,164,704	15,062,375	+18,102,329
2006	50,392,075	35,992,081	14,399,994	+21,592,087
2007	65,955,703	43,130,211	22,825,492	+20,304,719
2008	96,638,772	59,498,596	37,140,176	+22,358,420
2009	54,862,140	41,613,057	13,249,083	+28,363,974

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 25 -- TOP 5 PRODUCTS EXPORTED BY TAIWAN TO HONDURAS 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	8,519,632	6,174,344	1
Knitted or crocheted fabrics	2,714,523	6,134,408	2
Iron and steel	10,383,422	4,794,677	3
Boilers machinery and mechanical appliances; parts thereof	6,927,737	4,382,010	4
Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes	5,874,506	3,735,440	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 26 --TOP 5 PRODUCTS IMPORTED BY TAIWAN FROM HONDURAS 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking
Iron and steel	31,638,561	8,283,954	1
Fish and crustaceans, molluscs and other aquatic invertebrates	1,043,534	1,681,986	2
Coffee	1,179,158	1,504,186	3
Miscellaneous chemical products	---	751,663	4
Articles of apparel and clothing accessories, knitted or crocheted	960,996	611,819	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

China has not become a major trade partner for this Central American country, neither as an import source or an export destination. Total trade in 2007 was US\$ 274.2 million (Honduran-Taiwanese trade was nearly US\$ 66 million that year).

Honduras and El Salvador signed a FTA with Taiwan in 2008, and it was ratified a year later. Until 2000, 14 Taiwanese companies had invested some US\$40 million.

POLITICAL AND PERSPECTIVES OF ENHANCED COLLABORATION

Honduras, just as the rest of Central America, has been quickly increasing its trade with the PRC. However, Tegucigalpa keeps the diplomatic relationship with the ROC.

“The relationships are strong, they are in good condition. We have been friends for 60 years,” said an official Honduran source during an interview. “We share the same values with Taiwan: democracy, human rights. There is also aid, cooperation, and we have been supporting Taiwan’s position.”¹²¹

“We are one of the few countries still that recognize Taiwan, that’s why this relationship is important for them. Our recognition is important, because recognition is a requirement to be a state, and it also important for China, the US and Japan; it helps to maintain the status quo and peace in the Taiwan Strait,” the source emphasized. “For [several decades] we have been the voice of Taiwan in the world, without the allies that voice would not have been heard.”

The official estimates there is a lot of room for increasing trade and investment, and cooperation. Taiwanese businessmen may not be fully aware of many opportunities offered by Honduras. “There is a reluctance to go to the region (CA); language is not a barrier as many Honduran businessmen speak English [just as the Taiwanese do], and distance is not that important nowadays. But they prefer to go to China or Vietnam, etc., because of the language, culture, the food, it’s easier for them.”

Promotion efforts of investment by Taiwan’s agencies could be improved, and their results could be maximized “if they targeted the right people,” another official said. Sometimes, it’s rather local government officials who are the audience invited to business promotion events,

¹²¹ Interview with two Honduran official sources by the author.

instead of inviting more entrepreneurs. “Through bureaucratic channels, they don’t do it in the right way. We need direct contact among business people, they speak the same language. The challenge is to put together the private companies.”

An additional problem is how to address the differentiated needs of an Asian market like Taiwan. One example: the type of cuts of beef. Honduran meat exporters are better acquainted with the preferences of the American and European markets.

On the ‘diplomatic truce’, the sources acknowledged that “they (the two sides) are respecting each other, they are in permanent economic negotiation, I think the truce is working. It is not worth for any of them to ruin this for one country.”

However, President Ma “sometimes does not speak in the most accurate terms. He sometimes speaks of ‘dollar diplomacy’. I think this does not exist. Developed countries should help developing countries,” complained the source.

“President Ma said that clearly: They will not go on with the ‘dollar diplomacy’, that is, they will not look more friends for money. These are unpleasant words. In the Taiwanese press there are fixed prejudices: they say we are small countries that are here for the money,” one source added.

“There is a lot of room for improvement,” one official said, though the source did not elaborate.

Regarding trade ties with China, the officials said that “the three of us are members of the WTO and President Ma has said he does not object that the allies do business with China. It was admitted that in Honduras there has been a debate on the dilemma of keeping the relationships with Taiwan or establishing them with China, but “it has taken place primarily within business sectors and since the opening of the Chinese-Honduran Chamber of Commerce and Investment (in 2006), it has calmed down.”

Mr. Alexander Yui, an advisor for the Department of Latin America and the Caribbean of the ROC’s Ministry of Foreign Affairs said, speaking on Taiwanese investment in CA in general, that many private companies (particularly in the textile sector) left the region because they prefer to invest in China or Southeast Asia due to comparative advantages (lower salaries),

some more advantageous characteristics of the business environment, problems with labor unions and also because a lack of good understanding of local culture. He said that CA could promote a better legal framework, and he also called the CA countries “to make a better promotion, you have to convince us why we have to invest there.”¹²²

He also underlined that most Central American businesses are mainly US-oriented, have little interest in Asia and know very little about the preferences of Taiwanese consumers, or of Asian consumers in general. Yui is a diplomat with many years of experience in Central America and Latin America, in general.

VI. 3. EL SALVADOR

The ROC opened a consulate in El Salvador in 1922. A formal diplomatic relationship was established in June 1961 between El Salvador and the ROC with the opening of embassies in San Salvador and Taipei, according to the website of the embassy of the ROC in San Salvador.

The current ambassador in El Salvador is Mr. Carlos S.C. Liao. Since last year, there has not been an ambassador in Taipei after the end of the mission of the previous top diplomat.

The historical relationship between the rightist and authoritarian government of the KMT with the different conservative and military governments of El Salvador before the 1980s was good. The ROC military trained Salvadoran officials in military and counterinsurgent tactics. Probably, the most famous pupil of the ROC training courses was late major Roberto D’Aubuisson, an extremist and ardent anticommunist who later founded the infamous ‘death squads’. He is also the founder of Arena, the party who ruled El Salvador since 1989 until June 2009, a rightist party that is the political arm of the business elites. D’Aubuisson is also considered the intellectual assassin of progressive bishop Oscar Arnulfo Romero, shot during a mass in March 1980.

Throughout the years of Arena rule, the Salvadoran governments always declared their commitment to a relationship with Taiwan.

¹²² Author’s interview with Alexander Yui, advisor to the Ministry of Foreign Affairs, ROC.

DEVELOPMENT COOPERATION

According to the ICDF website, the fund presently has a nine-member technical mission in El Salvador working on vegetable, tropical fruit and aquaculture development projects. Two investment and lending projects and one technical assistance project are also being implemented.¹²³

Technical Mission Projects:

1) Vegetable Production Extension Project. In conjunction with the El Salvador Department of Agriculture, this project is propagating high value vegetable seeds for future extension. The technical mission is organizing production and marketing teams and is establishing model family vegetable gardens at elementary schools in the countryside.

2) Fruit Tree Production Improvement Project. For this project, the technical mission is conducting fruit tree field trials, performing seedling propagation, and extending overall fruit production.

3) Fish Breeding and Aquaculture Extension Project. This project is demonstrating and teaching tilapia and saltwater shrimp breeding techniques and is also propagating tilapia fry to boost output. It is also providing training for aquaculture specialists.

Technical Assistance:

Wood Furniture Industry Technical Assistance Project. The ICDF is sending senior carpenters and furniture experts to El Salvador to provide instruction and train local instructors.

Investment and Lending:

1) Modernization of Technical Education Project. This project will help upgrade the quality of technical education and vocational training in El Salvador by improving both the learning environment and capacity, in order to meet industry needs for technical human resources. This project is organized into six major components: 1) curriculum and professional course revision; 2) laboratory installation; 3) teacher training; 4) technical reference book selection; 5) laboratory construction and renovation; 6) consulting services.

¹²³ ICDF website. <http://www.icdf.org.tw/english/>

2) Program for Environmental Pollution Control in Critical Areas. This project will assist the Republic of El Salvador in devising strategies for environmental pollution prevention and control programs in the country. The project will establish environmental management systems in three critical areas: air quality management, water quality management and integrated management of solid waste. This includes support for environmental regulatory frameworks, support for integrated management of municipal solid waste through separation, treatment, recollection and final disposal programs environmentally adequate for small and medium-sized municipalities. There is no easily available information on the exact amounts of Taiwan's aid developmental cooperation with El Salvador.¹²⁴

TRADE AND INVESTMENT

Total commerce amounted to US\$90 million in 2009. Taiwan's exports reached US\$ 71.57 million, while Salvadoran exports amounted to US\$ 18.47 million. Those figures are lower than in the previous year; in 2008, total trade was US\$ 109.8 million. El Salvador exported US\$ 20 million to Taiwan, and imported goods for almost US\$ 90 million. The year 2008 is also a peak in bilateral trade.

The trade composition is as follows: The 5 top products Taiwan exports to El Salvador (2009) are plastics, machinery and mechanical appliances, electrical machinery and parts, vehicles other than railway, and man-made filaments. The 5 top products it imports from El Salvador are sugar, iron and steel (surely metal scrap), coffee, residues and waste from the food industries, and pulp of wood or of other fibrous cellulosic material.

¹²⁴ Item.

TABLE 27 -- TAIWAN'S TRADE WITH EL SALVADOR 1990, 2000-2009

Units in US\$

Year	Total trade	Exports	Imports	Surplus, Deficit
1990	12,693,114	12,436,458	256,656	+12,179,802
2000	87,662,547	87,130,563	531,984	+86,598,579
2001	67,156,112	65,929,799	1,226,313	+64,703,486
2002	69,633,481	60,544,598	9,088,883	+51,455,715
2003	77,045,048	74,599,313	2,445,735	+72,153,578
2004	61,613,243	58,721,574	2,891,669	+55,829,905
2005	64,898,056	56,100,859	8,797,197	+47,303,662
2006	80,600,202	71,606,580	8,993,622	+62,612,958
2007	83,859,035	71,020,818	12,838,217	+58,182,601
2008	109,801,548	89,706,542	20,095,006	+69,611,536
2009	90,049,924	71,576,745	18,473,179	+53,103,566

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 28 -- TOP 5 PRODUCTS EXPORTED BY TAIWAN TO EL SALVADOR 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Plastics and articles thereof	44,041,797	36,481,704	1
Boilers machinery and mechanical appliances; parts thereof	7,130,761	5,389,181	2
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and	4,191,344	4,301,774	3

parts and accessories of such articles			
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	4,799,096	4,185,818	4
Man-made filaments	8,204,549	3,885,161	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 29 -- TOP 5 PRODUCTS ROC IMPORTED FROM EL SALVADOR 2008-2009

Product	Value US\$ (2008)	Value (2009)	Ranking (2009)
Sugar	---	12,320,176	1
Iron and steel	18,012,085	3,411,978	2
Coffee	495,682	563,034	3
Residues and waste from the food industries; prepared animal fodder	201,888	558,373	4
Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	81,459	510,991	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

The two countries signed a FTA on May 7, 2007, and it came into force on March 1, 2008. The sensitive rise of trade in 2009 is a result of the better business environment created by the FTA. Honduras and El Salvador signed this agreement with Taiwan together.

In 2008, the Salvadoran government calculated Taiwanese total investment in US\$ 58 million. More than 30 Taiwanese companies have settled in El Salvador in the manufacturing

sector, commerce and in the financial sector, according to the former Minister of Economy, Ricardo Esmahan.¹²⁵

In 1999, 14 Taiwanese companies were registered as investors in the tiny Central American country. The Taiwanese investment amounted to some US\$45 million.¹²⁶

The Chen Shui-bian administration conceived plans to build a Taiwan Industrial Park in 2005, though the ambitious project never materialized.

POLITICAL ASPECTS

The 5 successive governments of the rightist party Arena (Alianza Republicana Nacionalista) between 1989 and 2009 remained allies of the ROC.

China is not a major destination for Salvadoran exports, but as it's the case with the rest of Central America, business with China is growing and it has turned into an important source of imports. The PRC has become the fourth country of import origin for El Salvador.

In 2007, trade with the PRC more than tripled trade with Taiwan: US\$ 301.5 million, compared with the US\$ 84 million of Salvadoran-Taiwanese commerce.

For the first time in history, a leftist party is ruling the smallest Central American nation. The candidate of the former guerrilla, the FMLN, Mauricio Funes, is the President. The FMLN has a history of long ties with the CCP, and its leaders have always declared openly their preferences for formal ties with China. During the campaign, Funes said he was going to break off with Taiwan.

Nevertheless, El Salvador continues to recognize Taiwan continue while developing more business ties with the PRC, which is not objected by Taipei. FMLN leaders who travel to China meet Chinese officials and declare the party would like to have a diplomatic relationship with China. Beijing has remained silent on the Salvadoran appeals so far.

It was absolutely impossible to arrange an interview with a Salvadoran official to talk about the relationship with Taiwan.

¹²⁵ Ministerio de Economía de la República de El Salvador. <http://servicios.minec.gob.sv>

¹²⁶ Taiwán Hoy, March 1, 1999. <http://taiwanhoy.nat.gov.tw/ct.asp?xItem=42350&CtNode=1521>).

VI. 4. PANAMA

Economically, Panama is Taiwan's most important ally in Central America and among its 23 allies in the world.

The contacts between Chinese and Panamanian people started in the second half of the 19th century. A new railway was being built in Panama and many Chinese were hired as labor force. In the beginning of the 20th century, China opened a consulate to assist the Chinese emigrants. In 1922, the ROC opened a representative office with diplomatic character, and in 1954 both countries exchanged ambassadors, according to the website of the ROC's embassy in Panama City. Taiwan's ambassador is Mr. Shean Yeaw. The Panamanian ambassador is Mr. Mario Cucalon.

DEVELOPMENTAL COOPERATION

The ICDF presently has one technical mission with eight members working on three projects dealing with agriculture diversification and fisheries development in Panama, according to the fund's website. It also has one technical assistance project in the metal machine industry and two investment and lending projects dealing with financing and technical education.¹²⁷

Technical Mission:

1) Fruit and Vegetable Project. The technical mission is producing and propagating fruit and vegetable seedlings and training local technicians and farmers. Mission members are also creating production and marketing teams and extending cultivation of superior varieties of produce.

2) Food Processing Project. The technical mission is establishing a food processing research, training and extension center. The project is developing processing techniques for dehydrated fruits, fruit pulp, jam, fruit juice, and fried foods.

3) Fishing Village Development Project. The project is providing guidance and new fishing technologies to fishermen. A small fishermen's fund has also been provided for procuring production materials and for replacing old equipment in the boats. In 2004, a total of 10,973 kg

¹²⁷ ICDF website. <http://www.icdf.org.tw/english/>

of seafood was caught from 11 different fishing committees in the Pacific. Six farmers benefited from the US\$13,535 provided by the "Fisherman Micro-business Loan Project."

Technical Assistance:

1) Metal Machine Industry Technical Assistance Project. This project is providing technical assistance on surface hardening and heat treatment welding technology, machinery failure analysis and repairs technology. It has introduced small scale welding equipment to the marine industry in the canal zone.

Investment and Lending:

1) Small Fishermens' Financing Scheme. This project has established a fisheries fund, provided loans for fishermen, and assisted them in obtaining materials and equipment. It also provides loans to fishermens' cooperative organizations, assists them in procuring equipment, and strengthens the overall function of the cooperatives.

2) Technical and Vocational Education Project. This project aims to upgrade the quality and expand the scope of technical education in selected public industrial high schools. The main component of the project will establish teacher-training centers in existing schools. Other project areas will include a teacher training program, equipment renewal, curriculum adjustment, textbooks procurement and computerization in the professional areas of electronics, electricity, mechanics, automobile maintenance and food processing.¹²⁸

TRADE AND INVESTMENT

Among its regional allies, Panama is the most important trade relationship for Taiwan. In the first place, the existence of the canal makes Panama a strategic country for both China and Taiwan given the volume of their trade of goods that passes through the maritime way; it is through the canal that Taiwanese products reach the eastern coast of the United States. On the other hand, bilateral trade with Panama is the largest with any remaining ally. The other significant trade relationship is with Costa Rica, a country that is not an ally anymore.

¹²⁸ Item.

In 2009, bilateral commerce amounted to US\$ 177 million. Taiwan enjoyed, as usual, a huge surplus, with a value of US\$ 153.4 million in exports; Panama's exports to the island were only US\$ 23.5 million. Nevertheless, here we can see the effects of the global economic downturn, too. The previous year, Panamanian-Taiwanese commerce reached US\$ 303 million, a peak in the present decade. Panama imported US\$ 234 million in Taiwanese goods and services, and it exported US\$ 69 million to the Asian country. Since 2005, we observe a growing trend.

In comparison, China-Panama trade in 2007 reached US\$421.6 million; Panama's exports totaled some US\$62.9. However, as we saw in the previous chapter, these U.N. data do not include the figures belonging to the activities in the Free Trade Zone of Colon. In 2007, Panama actually imported more than US\$ 5 billion in Chinese goods.

Panama and Taiwan signed a FTA in 2003. It came into force on December 4, 2003. Some 4,200 Taiwanese products and services were immediately exempted from tariffs, while 6,200 Panamanian items were given immediate tariff-free access to the Taiwanese market. 43% of Panamanian agricultural products gained immediate access. There is a 10-year period for the suppression of other tariffs. It was the first FTA signed by Taiwan after its entry into the WTO.

What's the trade composition? The 5 top products Taiwan exported to Panama in 2009 were electrical machinery and equipment and parts thereof; boilers machinery and mechanical appliances; rubber articles; vehicles other than railway; and man-made filaments.

The top 5 products Panama exported to Taiwan in 2009 were iron of steel (scrap metal); fish and seafood; meat and edible meat offal; copper and articles thereof; and raw hides and skins.

TABLE 30 -- TAIWAN'S TRADE WITH PANAMA 1990, 2000-2009

Units in US\$

Year	Total trade	Exports	Imports	Surplus, deficit
1990	297,083,599	291,950,806	5,132,793	+286,818,013
2000	198,909,018	197,289,115	1,619,903	+195,669,212
2001	128,388,789	123,975,748	4,413,041	+119,562,707
2002	135,484,892	129,280,644	6,204,248	+123,076,396
2003	127,572,560	121,197,094	6,375,466	+114,821,628
2004	269,920,365	246,976,769	22,943,596	+224,033,173
2005	250,113,154	225,477,827	24,635,327	+200,842,500
2006	217,701,274	181,407,557	36,293,717	+145,113,840
2007	259,049,260	205,270,723	53,778,537	+151,492,186
2008	303,009,322	233,997,317	69,012,005	+164,985,312
2009	176,948,597	153,406,857	23,541,740	+129,865,117

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 31 -- TOP 5 PRODUCTS EXPORTED BY TAIWAN TO PANAMA 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and	67,244,084	64,441,531	1

accessories of such articles			
Boilers machinery and mechanical appliances; parts thereof	28,536,061	28,274,609	2
Rubber and articles thereof	2,452,322	8,616,449	3
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	10,802,046	7,526,049	4
Man-made filaments	8,623,439	6,633,235	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 32 -- TOP 5 PRODUCTS IMPORTED BY TAIWAN FROM PANAMA 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Iron and steel	56,043,901	13,640,795	1
Fish and crustaceans, molluscs and other aquatic invertebrates	3,071,998	3,319,027	2
Meat and edible meat offal	4,153,320	3,087,270	3
Copper and articles thereof	814,127	1,236,213	4
Raw hides and skins (other than furskins) and leather	3,372,601	971,896	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

The government and Taiwanese companies invested in the canal's country some US\$ 450 million between 1996 and 2001, according to press reports.¹²⁹

¹²⁹ (Latin Trade magazine, August 2002. "Dos Chinas, un Panama: Evergreen, de Taiwan, y Hutchison Whampoa, de China, libran una batalla diplomática - Rutas De Comercio.")

Taiwan built or helped to build hospitals, paved roads, and donated aircraft (helicopters). One good example is Evergreen Marine Corp, which built a US\$ 100 million cargo terminal in the Caribbean coast of Panama that was opened in 1999.

The same report of August 2002 by the magazine Latin Trade says that the Chinese investment in the same period was US\$ 200 million, and quotes a Beijing official complaining about the inexistence of diplomatic relations as an obstacle for developing more trade.

In 1996, Taiwanese investment was estimated in US\$ 180 million, according to official Taiwanese media.¹³⁰

Major investors include the United States, the United Kingdom, Mexico, and Taiwan. The majority of foreign investments in Panama are in the transport, storage, services, and communication sectors.

POLITICAL ASPECTS

In the spaces for public opinion in Panama, there is a longtime debate on the benefits and sense of continuing the relationship with Taiwan or changing to ties with the PRC.

So far, Panamanian governments have publicly declared that they will continue the diplomatic relationship with Taipei, but that the country will seek for increased trade exchanges with China. During his campaign, the current head of state, businessman Ricardo Martinelli, called for establishing ties with China. Nevertheless, he has kept the relationship with Taipei; he even asked his colleague Ma Ying-jeou to donate a new jet and to help Panama to build an MRT system in the capital. This topics will be discussed in the chapter dealing with Ma's diplomacy.

Just as Panama, together with Costa Rica, is an object of special attention from Beijing, the country is sort of Taiwan's "jewel of the crown" for Taiwan in Central America.

VI. 5. BELIZE

Belize established diplomatic relations with Taiwan in 1989. Belize, formerly known as British Honduras, is one of the youngest independent nations of the Americas, having being granted its independence by Great Britain in 1981.

The current head of the Belizean mission in Taipei is Mr. Efrain Novelo, a chargé d'affaires. The Taiwanese head of mission in Belize is Mr. David C.K. Wu, the ambassador.

¹³⁰ Taiwán Hoy. March 3, 2001. "La inversión y la cooperación en Latinoamérica." <http://taiwanhoy.nat.gov.tw>

DEVELOPMENTAL COOPERATION

The ICDF presently has one technical mission in Belize with six members working on three agricultural industry and crop diversification and improvement projects, according to the fund's website. Additionally, one technical assistance project and two investment and lending projects are being conducted.¹³¹

Technical Mission:

1) Seed Rice Production and Technology Transfer Project. The technical mission is transferring rice seed production technology, establishing production systems, and providing guidance to outstanding farmers and local technicians.

2) Vegetable and Crop Production Improvement and Extension Project. This project is providing farmers with vegetable production techniques for planting market-oriented crops, decreasing the amount of vegetable imports, and boosting the local economy at the same time. It is also creating production and marketing teams to provide fruits and vegetables to supermarkets, restaurants, and cruise ships. In 2004, onion, passion fruit, wax apple, guava and red beans were acquired and screened.

3) Food Processing Project. This project is contributing to the diversification of Belize's agricultural industry by developing value-added products through food processing. The project is researching and developing processed food products with market potential, training food processing technicians, transferring know-how in building food factories to local enterprises, and upgrading the level of existing small and middle food manufacturers..

Technical Assistance:

1) Food Processing Technical Assistance Project. The Taiwan's ICDF is carrying out training courses in baking, in fruit processing technology, and bee and soybean products. Local seed instructors and food specialists are also being trained to guide industry development.

¹³¹ ICDF website. <http://www.icdf.org.tw/english/>

TABLE 33 -- TAIWAN TRADE WITH BELIZE 1990, 2000-2010

Units in US\$

Year	Total trade	Exports	Imports	Surplus, deficit
1990	5,995,004	5,995,004	---	+5,995,004
2000	13,013,915	11,633,751	1,380,164	+10,253,587
2001	5,674,021	5,219,447	454,574	+4,764,873
2002	17,768,465	10,247,000	7,521,465	+2,725,535
2003	6,689,557	6,031,031	658,526	+5,372,505
2004	8,246,907	6,235,779	2,011,128	+4,224,651
2005	10,870,362	8,100,013	2,770,349	+5,329,664
2006	6,811,956	4,092,918	2,719,038	+1,373,880
2007	7,882,593	6,049,115	1,833,478	+4,215,637
2008	8,556,593	7,283,950	1,272,643	+6,011,307
2009	7,782,821	5,148,073	2,634,748	+2,513,325

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

Investment and Lending:

1) Tourism Development Project. The ICDF is assisting in the development of tourism and in promoting Mayan cultural artifacts in an environmentally sustainable manner.

2) Small Farmholders' Financing Scheme. The technical mission, in conjunction with the Belize Enterprise for Sustainable Technology, is implementing this project. A small farmers' fund has been created in line with horticulture and crop extension projects.¹³²

TRADE

Taiwan-Belize trade totaled US\$7.7 million in 2009, the lowest figure in the isthmus. Taiwan's exports were US\$ 5.1 million, and imports amounted to US\$ 2.6 million. In 2008,

¹³² Item.

commerce totaled US\$ 8.5 million. Belize imported good for US\$ 5.1 million, and exported only US\$ 2.6 million.

The peak in the present decade was reached in 2005, when bilateral commerce amounted to US\$ 10.87 million. Taiwan has usually run huge surpluses.

Belize' imports from Taiwan (2009) are mainly mechanical machinery and appliances, iron and steel, vehicles other than railways and parts, electrical machines and equipment, and plastics. Its exports are electrical and mechanical machinery parts, man-made filaments, iron and steel (scrap metal).

TABLE 34 -- TOP 5 PRODUCTS EXPORTED BY TAIWAN TO BELIZE 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Boilers machinery and mechanical appliances; parts thereof	2,092,810	1,653,258	1
Iron and steel	1,758,364	1,162,303	2
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	864,629	646,364	3
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	1,007,671	603,990	4
Plastics and articles thereof	216,398	287,955	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

TABLE 35 -- TOP 5 PRODUCTS IMPORTED BY TAIWAN FROM BELIZE 2008-2009

Product	Value US\$ (2008)	Value US\$ (2009)	Ranking (2009)
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	112,058	1,703,293	1
Boilers machinery and mechanical appliances; parts thereof	401,495	438,057	2
Man-made filaments	1,930	89,736	3
Iron and steel	80,926	50,561	4
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	3,179	46,361	5

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

Belize's trade with China totaled US\$ 44.9 in 2007. China is not a destination for Belizean exports, but when it comes to import business, the PRC is now its fifth source of origin. So, even in the case of this tiny and scarcely populated country, commerce with China has become more important than commerce with Taiwan.

POLITICAL ASPECTS

“The relationship with Taiwan is very solid, respectful and very cordial.” An official Belizean source characterized the ties in this way.¹³³

According to the source, value-sharing is an important basis for the bilateral relationship. For Belize, democracy and human rights are important shared values with the ROC.

¹³³ Interview with a Belizean official source by the author.

“Belize, as one of the youngest democracies, believes strongly in the rights of the individual, and because of that, that’s what we value in our relationships with all allies,” one official said. Though highly valuing developmental aid, he added that “Belize is not looking for monetary compensation.”

Asked about the ceasing of Taiwan’s bid to enter the U.N. and other IGOs, the source pointed out that “the very fact that we maintain relationships with Taiwan means we support its inclusion in the United Nations as an independent state, we believe in self-determination. If it doesn’t want to go to the U.N., it’s up to them.”

The official admitted that voices calling for having ties with China are also heard in Belize (“we are a democratic country”), but ties with Taiwan are continued and trade with China should be fostered and increased. “If somebody wants to import from the PRC, there’s no problem with that.”

VI. 6. COSTA RICA

Costa Rica had diplomatic ties with the ROC until early June 2007. When the Arias government announced the rupture, it put an end to six decades of diplomatic friendship. The ROC established diplomatic ties with the Costa Rican state in 1944.

The Central American country has enjoyed a large, special trade relationship with the PRC thanks to the production of chipmaker Intel. The trade flows between Costa Rica and Hong Kong are incomparably larger than those with Taiwan (see the respective tables in the previous chapter). China has become Costa Rica’s second trade partner.

This disproportion in the importance and volumes of trade, as well as its short-term and long-term benefits, was one the decisive factors in the decision taken by President Oscar Arias to break off with Taipei and establish official ties with the PRC.

Until 2007, the million of aid from Taiwan had helped build roads, ports, schools, etc. One of the largest works built with Taiwanese money was a major engineering work, the Bridge of Friendship ROC- Costa Rica, whose cost was US\$27 million; it is 780 meters long and 14 m wide. Technical, agricultural and other missions provided valuable assistance. Until 2000, some

35 Taiwanese companies had poured US\$ 35 million in investment in sectors such as services, agriculture and EPZ manufacturing. Nevertheless, Arias accused Taiwan of being “stingy”.

In 2008, a decision by the Supreme Court forced the Executive to disclose the conditions of the deal agreed on with China. The Costa Rican press reported that the US\$ 300 million used to purchase debt bonds were negotiated with a clause of confidentiality.¹³⁴

The press also disclosed that the first Costa Rican ambassador to Beijing, Antonio Burgues, has links with the BCT Bank S.A., where the money was deposited. Burgues is the vice chairman of the BCT board.

The price the PRC paid for breaking off ties with archrival Taipei was high: around US\$ 500 million (US\$ 300 million in the purchase of Costa Rican debt, donations for US\$ 130 million, and the construction of a new national soccer stadium with US\$ 83 million).

ROC ASKED FOR US PRESSURE TO STOP SAN JOSE; REGIONAL EFFECTS

The ROC government attempted to get the United States involved, asking to exert pressure on San Jose not to establish the relations with Beijing and breaking with Taiwan. Dr. Jaushieh Joseph Wu, then the director of TECRO in Washington (the Taiwanese unofficial, quasi-embassy, representative office in Washington), acknowledged that he met State Department officials and asked them to stop the Costa Ricans.

“The response of the US was that they are in no position of helping Taiwan in cases like that. The reason is very simple; they said Washington D.C. doesn’t have diplomatic relations with Taiwan, so they are not in any position to persuade those countries to maintain diplomatic relations with Taiwan. That was their simple response.”¹³⁵

The Costa Rican “defection” prompted fears of a domino effect in Central America. Taipei reacted very quickly to reassure the allegiance of its Central American allies.

¹³⁴ La Nación daily, November 5, 2008. “Los US\$ 150 millones chinos están seguros.” http://www.nacion.com/In_e/2008/noviembre/05/pais1763317.html

¹³⁵ Interview with Dr. Jaushieh Joseph Wu by the author.

The week previous to the rupture, there were some signals. Costa Rica had voted against the discussion on Taiwan's inclusion within the WHO. Panama and Nicaragua abstained. The other CA allies supported Taiwan's bid.

In August 2007, Chen Shui-bian went on a last tour of Central America. He held a summit with his fellow presidents in Honduras. He promised millions of dollars in environmental, energy and other projects, more funds for social purposes, and promised to encourage more Taiwanese investments. Chen managed to get the commitment of the regional leaders to keep support for Taiwan.

As Chen rightly pointed at, Taiwan's ties with Central America got closer after Costa Rica broke off. The Central American countries took advantage of this opportunity to get more aid from Taiwan.

Beijing's scholar Jiang Shixue said in a comment sent by e-mail,

“On June 1, 2007, China made a historical breakthrough in its relations with Central America. [...] Costa Rica recognized that there is only one China in the world and the government of the People's Republic of China is the sole legitimate government representing the whole China. Taiwan is an inalienable part of the Chinese territory.”¹³⁶

On the FTA and increased trade between the two sides, he added that

“Economically speaking, Costa Rica is also important insofar as it can be a market for China's manufactured products. As a matter of fact, Costa Rica has become China's second largest trade partner in Central America, and potentials for future growth in bilateral trade and investment are great. For China, Costa Rica is the first Central American country to have diplomatic relations. Therefore, the political dimension of a FTA is conspicuous. It is calculated that, with a FTA, China's exports to Costa Rica would grow by 17.88% and Costa Rica's exports to China would increase by 15.87%. In addition, opportunities of cooperation in service and other areas can also be expected to emerge.”¹³⁷

CONCLUDING REMARKS

Taiwan has a long diplomatic friendship with most Central American countries. During the authoritarian era of the ROC on Taiwan, the relationships with the military or

¹³⁶ Interview with Dr. Jiang Shixue. He answered by e-mail some questions sent to him by the author.

¹³⁷ Item.

conservative regimes of the isthmus were cordial and good. In the democratic era, as Taiwan and allies became new democracies, value-sharing continues to be a basis for developing ties.

Taiwan is not a major trade partner for Central America, nor does the isthmus occupy a high place in the island's global trade. The balance of trade has usually been favorable to Taiwan. The FTAs signed with Nicaragua, Guatemala, Panama, Honduras and El Salvador have led to increased exports and business ties.

It clear that for Taiwan, the relationships with Central American countries are primarily important from a political-diplomatic point of view; these countries maintain their recognition, providing Taipei with a breathing space in the international arena and legitimizing its claims of statehood. For Central America, these trade exchanges represent market opportunities, no matter their size, but Taiwan is also an important aid provider, its agricultural and technical projects are a valuable contribution to developmental efforts, especially in the communities where they are developed. Taipei is also a donor and extra regional member of regional institutions like CABEI and the SICA.

The most "dangerous" situation from Taipei's point of view in the present decade was the severance of relations with Costa Rica in 2007; it stirred fears of a domino effect among allies, but a quick Taiwanese reaction reassured their commitment. Besides, Chinese interest in CA was moderate 3 years ago, and it is still so, because the isthmus is not a producer of the raw materials the Chinese economy's expansion demands.

In terms of trade, China has become a more important presence for all the countries in the region. They will continue to develop those ties. Given the 'diplomatic truce', this will not bring any change in the diplomatic status quo in the area, though a new deterioration of cross-strait ties would surely re-launch competition; China has never renounced to the "one China" policy and to its pretensions to control Taiwan. The trade factor though may not be the only one, maybe decisive for future political ties between China and CA countries. Costa Rica is the example.

Next, we will analyze in detail the relationship with Nicaragua.

VII. TAIWAN, CHINA AND NICARAGUA

VII.1. TAIWAN

Nicaragua is a special case in Central America and Latin America. The social, political and historical experience of the Sandinista Revolution makes it unique in the whole continent, not only in an isthmus considered the unquestionable American ‘backyard’. Though it ended in 1990 – despite the rhetoric of the second Sandinista government now back in power -, it radically altered politics, social norms and customs and society’s many ways of thinking.

Nicaragua is one of Taiwan’s allies in Central America. The historical origin of these ties goes back to the 1960s, though they were interrupted for 5 years in the 1980s, exactly during the revolutionary years. Curiously, ideology had little or nothing to do with that, but cold-blooded pragmatism. Between 1985 and 1990, Managua had diplomatic relationships with Beijing. The new centre-of-the right government broke off with the PRC and reestablished diplomatic relationships with Taipei.

THE SOMOZA YEARS

The family of Nicaraguan dictators, the Somozas, had a good relationship with the Republic of China on Taiwan under Chiang Kai-shek. Both regimes were authoritarian, military governments, staunch anti-communist American allies; the natural affinities served well the relationship.

There is some confusion about the date of the establishment of diplomatic relationships for the first time. In 1930, a General Consulate of the Republic of China was established in Managua; in 1967 it was elevated to the rank of embassy, according to the website of the Embassy of the Republic of China in Nicaragua. (<http://www.taiwanembassy.org/NI/mp.asp?mp=337>).

Nevertheless, some academic literature puts the year 1962 as the initial date of diplomatic ties.

In the book “The significance of Costa Rica in Taiwan’s Diplomacy and the Competition from Beijing,” Costa Rican professor Thais M. Cordoba states,

“The relationship between the two countries was excellent while Somoza was the president of Nicaragua. He reciprocated by appointing a consul to represent Nicaragua in Taipei. Both countries appointed their own ambassadors [...] in 1962”.¹³⁸

Cordoba does not indicate where she got this information.

Jorge Dominguez also provides the date of 1962.¹³⁹

It should be noticed that the Nicaraguan ruler of the early 1960s was General Anastasio Somoza Debayle. The president of Nicaragua was then his brother, Luis Somoza Debayle, who was not a military man, unlike Anastasio -- who already headed the army, the National Guard. Luis Somoza was formally Nicaragua’s president from 1956 to 1963, assuming after his father’s assassination in 1956, and dying from a heart attack in 1963.

General Somoza Debayle always was a faithful ROC’s ally. Even as the US under Richard Nixon abandoned Taiwan and switched to the strategic rapprochement with the PRC, Somoza, a furious anticommunist, US-educated dictator who loved to call himself “the last US Marine in Nicaragua” in the presence of visiting American generals (he spoke better English than Spanish, by the way), did not break off with the ROC. In October 1971, Nicaragua voted against the Albanian-Algerian-inspired resolution that ceded the China seat to the PRC in the UN.

THE SANDINISTAS COME TO POWER

The leftist guerrilla of the Sandinista National Liberation Front (FSLN) ousted Gen. Anastasio Somoza Debayle in July 1979, putting an end to 43 years of a corrupt family’s rule.

On July 19, 1979, the Nicaraguan people initiated a new era, euphoric for witnessing something that a few years ago had been deemed as impossible and full of hope for a better future. Tragically, a decade of revolution and war opened in Nicaragua. One of the most beautiful revolutionary processes of the world turned into an authoritarian socialist experiment in

¹³⁸ Cordoba, Thais M. 2005. “The Significance of Costa Rica in Taiwan’s Diplomacy and the Competition from Beijing.” P. 99. Printed by GENESIS de la Lima, San José, Costa Rica).

¹³⁹ Dominguez, Jorge. “China’s Relations with Latin America: Shared Gains, Asymmetric Hopes.” June 2006. Working paper for the Inter-American Dialogue, a Washington-based think tank.

the tropics, and into another low-intensity conflict of the Cold War with the superpowers putting the bullets, and Nicaraguans, just like Guatemalans and Salvadorans did in those times, putting the dead. The phrase belongs to former Guatemala's President Vinicio Cerezo, the original intellectual father of the idea of peace talks among Central American presidents (a merit usually attributed, unjustly, only to Costa Rican Oscar Arias).

U.S. President Ronald Reagan's administration adopted a totally hostile policy toward the Sandinistas, aimed at bringing regime change by force to stop what it saw as the spread of Communism in the Western Hemisphere. Nicaragua was deemed as a Soviet proxy in Central America, a second Cuba that was trying to export revolution to El Salvador and other neighboring countries. In 1980, the US started to reunite and train the remnants of the extinct National Guard in Honduras. In 1981, the Contras, a counter-revolutionary guerrilla army financed and equipped by Washington, began military actions in Nicaraguan territory.

The Sandinista-controlled Junta de Gobierno de Reconstrucción Nacional (JGRN), a collective executive power, a five-man committee built under the conception of a popular united front (it formally included non-Sandinista members), continued the relationship with the ROC for a few more years, though as Nicaragua was then an enemy of the United States, it was not possible to expect close contacts between the two parts. Besides, Taiwan sympathized with the Contra movement and even financed it.

THE RUPTURE WITH THE ROC: THE CONTRAS-PRC-ROC CONNECTION

In 1985, comandante Daniel Ortega Saavedra – until then the JGRN coordinator – won the first presidential elections of the revolutionary era. He ruled under a presidential system with a parliament controlled by the Sandinistas who also controlled the judiciary, the police and the armed forces.

In December 1985, Sandinista Nicaragua finally severed ties with the ROC and recognized the PRC as the sole and legitimate representative of China. At first sight, ideology could seem to us a tempting easy explanation. But actually, the most absolute pragmatism was behind the move.

It can be assumed that Beijing looked at the FSLN government as a Soviet client state, though Nicaragua never became a Soviet-like Communist state. Always careful about not challenging U.S. interests in the Americas, China always favored anything that would diminish Moscow's influence in any part of the world. The Sandinistas were close allies of Cuba, the USSR and the Communist bloc. Soviet weapons and generous "brotherly socialist" aid kept the revolution alive despite the U.S. policy.

When the Iran-Contra scandal erupted in the United States in the 1980s, it became known that the PRC was one of the third parties providing weapons to the Contras ("Country 4"), Reagan's "freedom fighters," after the US Congress had refused to continue their financing. Taiwan had donated US\$ 2 million to the Contras "in humanitarian aid" between late 1985 and early 1986. Taiwan was called "Country 3" in the papers concerning the Iran-Contras scandal.¹⁴⁰

So, paradoxically, Taiwan was providing money that was likely used for purchasing Chinese weapons for the Contras. At least, it supported their war effort.

In late 1985, the war was nearing its fifth year. Although the Contras were never close to their goal of toppling the government by decisively defeating the Sandinista army, they succeeded in damaging infrastructure, agricultural production and farming facilities, and impeding economic development. The war ruined the Nicaraguan economy. The conflict, together with disastrous management and policies by the revolutionary government, wiped off all the major material and economic achievements of the Somoza decades.

It is now clear to me that the main reason behind Managua's decision to break ties with Taipei was an attempt to cut one source of support and weapons for the enemy. Besides, it is reasonable to expect that the Sandinistas regarded the pro-American ROC as a non-friendly government, though I don't have any information here that would confirm they were aware of ROC's support for their enemies. It is probable they did, as both the USSR and Cuba shared intelligence information with Nicaragua. Besides, the gesture was aimed at winning diplomatic support or sympathy from one of the permanent members of the UN Security Council.

¹⁴⁰ Sobel, Richard. 1995. P. 290. "Contra Aid Fundamentals: Exploring the Intricacies and the Issues". Political Science Quarterly, Volume 110, No. 2, 1995, pp. 287-306.

In the mid-1980s, Beijing had made efforts “to build bridges” and improve ties with “the region’s two pro-Soviet regimes -- Cuba and Nicaragua,” wrote the American expert in US-China-Taiwan issues, Dennis Hickey.¹⁴¹

Hickey comments,

“Relations between Peking and the pro-Soviet Nicaraguan regime of Daniel Ortega Saavedra have likewise improved. Shortly after the normalization of relations in December 1985, Nicaragua received an interest-free loan of roughly US\$ 10 million from Peking. Following Ortega’s 1986 visit to Peking, his government received another loan of approximately US\$ 19 million. Although Peking has terminated its covert military assistance to the Nicaraguan Contras, it has no plans at present to provide military assistance to the Sandinistas.”¹⁴²

Beijing, according to Hickey’s article, also reminded the Sandinistas that it opposed all hegemonism “whether practiced by big powers or small.” (Item.). In my view, this was a not only an allusion to American dominance but also to Soviet presence and to the backing of the Salvadoran guerrilla (with weapons) by the Sandinistas themselves. According to Alfredo Alaniz, Nicaragua’s ambassador to Peking, “The Chinese do not believe military aid is necessary.”

By abandoning Taiwan and embracing the “one China” principle, the sine qua non condition of the PRC to establish ties, the FSLN regime sought to cut a source of support for the Contras. Besides, as an American ally, the ROC sympathized with the Contra cause, just as Washington and Saudi Arabia did, according to Hickey.¹⁴³

Hickey believes that both economic and political considerations had apparently played a role in China’s decision to support the Contras.

Information revealed by the US Congress investigation on the Iran-Contras affair points at a “Country number four” among arms and aid providers. It was mainland China. A Canadian arms dealer was used to disguise the Chinese transfers. Between the end of 1984 and

¹⁴¹ Hickey, Dennis. 1989. “Peking’s Growing Political, Economic and Military Ties with Latin America.” P. 398. In the book “Peking’s Foreign Policy in the 1980s.” Chou, David S., editor. Institute of International Relations, National Chengchi University, Taipei, ROC.

¹⁴² Item.

¹⁴³ Item., p. 403.

autumn 1985, China sold US\$ 7 million worth of surface-to-air missiles and small arms to the Nicaraguan resistance forces.¹⁴⁴

“[Until 1985] Peking profited handsomely from its support. Nicaraguan resistance leaders privately complained that Peking charged US\$ 42,000 for each of the ten SA-7 heat-seeking missiles it provided in its first arms transfer – almost twice its regular price. Political considerations also played a role as Peking would agree to the arms transfer only after Lieutenant Colonel Oliver North assured Peking officials that a new Nicaraguan government would switch diplomatic recognition from Taipei to Peking. During conversations with one high-ranking Peking official, North promised that “Adolfo Calero, the head of the FDN [Fuerza Democratica Nicaraguense, the main Contra group], was willing to commit to a recognition [deleted] once the Resistance forces had succeeded.”¹⁴⁵

Nevertheless, when the Sandinistas switched sides and recognized the PRC, the Chinese “abruptly terminated” weapons sales to the Contras, Hickey says.

THE DEMOCRATIC TRANSITION, REESTABLISHING TIES

The Sandinistas were thrown out of power in 1990, defeated in open elections by a coalition of 14 opposition parties and movements that had accepted the candidacy of Mrs. Violeta Barrios de Chamorro, a mother-like character that enjoyed great respect and moral authority among the Nicaraguan people.

Barrios de Chamorro is the widow of the famous journalist and former director of La Prensa daily, Pedro Joaquin Chamorro Cardenal. A civic hero who always criticized and opposed the Somoza rule, he had been assassinated in January 1978. His death ignited riots and the anger of Nicaraguans against the Somoza dictatorship, and it served to create the pre-revolutionary atmosphere that led to the final uprising against the Somozas. While looking at Mrs. Barrios de Chamorro, the people associated her with the image of her late husband. She had been an early member of the collective government directorate (JGRN) of the first period of the revolution, but in 1980, she quit in disagreement with the radicalization of local politics and the authoritarian course it was taking. She also became the first woman to reach the highest office in a Latin American country.

Nicaragua was in ruins and the new government had a very hard time trying to take charge of so many urgent issues. The first great step was to get the demobilization of the

¹⁴⁴ Item.

¹⁴⁵ Item.

Resistencia Nicaragüense (the official name of the Contras) and bring peace. The mandate of the people had been clear in the polls: the war and the bloodshed must end. That's why they sacked the Sandinistas. The other most important task was the reconstruction of the economy and the normalization of life.

At the dawn of what political scientists call the "Nicaraguan democratic transition," the new government welcomed any kind of help and assistance wherever it came from.

Meanwhile the new non-Sandinista government was trying to consolidate its grip on power, President Lee Teng-hui was fighting to consolidate his own by confronting the Kuomintang's old guard, maneuvering to increase the constitutional powers of the president's office and widening its support basis in the KMT and in the country. One of Lee's goals was to gain more international space for Taiwan.

In this way, the needs of the two parts met in time: the new, weak democratic government of Nicaragua was in desperate need of aid, and the ROC had a new, also democratic leadership that was determined to achieve a different place for Taiwan in the international arena, had funds for that purpose and was eager to use them in exchange for recognition.

Promises of badly needed cooperation aid and soft loans made the Chamorro government take the decision to break off ties with China and re-establish them with Taipei. This finally occurred on November 5, 1990. Thus, Beijing-Managua diplomatic relationships lasted only five years. There is no information available to me on whether the Chinese tried to retain Nicaragua's recognition or not, or whether Managua authorities made special aid requests. It would be reasonable to believe that they did, given the country's situation, but it may be probable that Beijing did not responded positively, was unwilling, or it did not concede enough importance to severing relations.

Soon afterwards, the Taiwanese government approved a three-year low-interest loan of US\$ 100 million for Nicaragua. In 1991, Vice president Lien Chan paid a visit to Nicaragua. In 1994, President Lee himself went on a tour of 4 Central American states that included Nicaragua, the first time a Taiwanese head of state arrived in Nicaragua. During his visit, he

agreed to give to Nicaragua a new US\$ 30 million-credit and write off US\$ 17 million in past debts.¹⁴⁶

In his memories, President Barrios de Chamorro's chief of staff, Antonio Lacayo, evokes those first new contacts and Mrs. Chamorro's first visit to Taiwan in March 1991.

"The reception they gave her was incredible. The Chinese [sic] were happy with the establishment of diplomatic relations, just as we were," Lacayo says. The first Nicaraguan ambassador of the new period was Pedro Joaquin Chamorro, President Chamorro's oldest son. Lacayo himself is her son-in-law.¹⁴⁷

Mrs. Chamorro and Lacayo met several Taiwanese officials and businessmen, in particular of the textile/garment sector, encouraging them to invest in Nicaragua. In his meeting with Taiwan's prime minister, Lacayo recalls that the PM emphasized political stability as an important condition to develop the economy, exemplifying with the stability the KMT had given to Taiwan for 50 years.¹⁴⁸

Regarding the investors, the visit apparently brought results. "Some of them ended up believing in Nicaragua," Lacayo celebrated. A business group bought the Intercontinental Hotel in Managua (a few years later, it even built one of Managua's shopping malls, Plaza Inter, in front of the hotel) and many other installed factories in a newly-opened EPZ ('zona franca').

In his book, the former presidential chief of staff, also comments some details of Lee's visit in 1994.

"On May 4 [1994], the President of the Republic of China (Taiwan), Lee Teng Hui came to the country, the first time a president from that country visited us. (...) During his visit, President Lee emphasized all of the time that he saw in Nicaragua a friendly country, and he reiterated his support for Nicaragua. Doña Violeta expressed him our thankfulness for his interest

¹⁴⁶ Wang, T.Y. 2003. "Taiwan's Foreign Relations under Lee Teng-hui Rule, 1988-2000." Pp. 254-256. In Lee, Wei-chin and Wang, T.Y. (editors), "Sayonara to the Lee Teng-hui Era." University Press of America @Inc., Lanham, Maryland, USA.

¹⁴⁷ Lacayo, Antonio. 2006. Pp. 375-376. "La Difícil Transición Nicaragüense – En el Gobierno con doña Violeta." Fundación Uno, Managua.

¹⁴⁸ Item.

in our country and she also asked him to persuade Taiwanese businessmen to invest in Nicaragua, to foster the ‘zonas francas’ (EPZs), to develop the tourism infrastructure, etc.”¹⁴⁹

“Doña Violeta” is a popular, colloquial way of calling the former president. It means Mrs. Violeta, using her first name instead of her surname. President Chamorro paid another visit to the island in May 1996.

COOPERATION AND AID

In 2000, President Chen Shui-bian visited Nicaragua for the first time, when the leader of Nicaragua was Arnaldo Aleman. Between 1991 and 2000, the ROC provided substantial aid to the Central American ally: some US\$ 288.4 million.

This cooperation took different forms such as donations, low-interest loans, technical (mainly agricultural) assistance, others. It financed agro industrial programs, social welfare plans, disaster relief (for the post-hurricane Mitch relief, for example, in 1998-1999), and payments of interest of external debt.¹⁵⁰

The newspaper La Prensa reported that between 1991 and 2000, total Taiwanese donations (non-reimbursable financial aid) reached US\$ 36.4 million.¹⁵¹

For post-hurricane Mitch relief, Taiwan provided US\$ 63.5 million in donations and other financial aid, according to the local press.¹⁵²

The Chen’s visited received much attention in the local media. It was not exempted from persistent rumors on a supposed Nicaraguan demand that the ROC approve new funds for US\$ 100 million (the press reports did not specified the character of the disbursement) in exchange for continued recognition. The claim was denied officially and the Taiwanese foreign

¹⁴⁹ Item., p. 612.

¹⁵⁰ Cordoba, Thais M. 2005. “The Significance of Costa Rica in Taiwan’s Diplomacy and the Competition from Beijing.” P. 100. Printed by GENESIS de la Lima, San José, Costa Rica.

¹⁵¹ La Prensa daily. “Diplomacia del dolar replantea relaciones Taiwan-Nicaragua.” August 17, 2000. <http://archivo.laprensa.com.ni/archivo/2000/agosto/17/politica/politica-20000817-07.html>

¹⁵² El Observador Economico magazine. “Disminuye Ayuda Externa para Nicaragua.” June-July 2001. http://www.elobservadoreconomico.com/archivo_anterior/113/index.html

minister Tien Hung-mao rejected any kind of pressure. (Item.). It should be said that similar rumors have been commonplace along the years.

FUNDS FOR “EL PALACIO MAMON”

On April 5, 2002, the Washington Post daily published a first-page story on a secret fund of US\$ 100 million created by the government of Lee Teng-hui to win support and influence among governments, politicians and institutions in the United States, in South Africa and in allied countries, including Nicaragua and Panama. It includes statements from Taiwanese officials who confirmed many claims.

The story said,

“In interviews, officials acknowledged multimillion-dollar payoffs to a variety of countries, much of it through the slush fund. In 1997, they said, Panama's government received \$11 million for hosting Lee. Nicaragua received \$10 million to build a pink-and-yellow presidential palace for its president, Arnaldo Aleman, and at least \$6 million to build a Foreign Ministry building, they said.”¹⁵³

This article refers to the new presidential palace that was used by Aleman and his successor, Enrique Bolanos. It is idle now, as Ortega attends daily business in his party's headquarters in Managua (which happens to be his own house, too). Colloquially, the people calls the building “el palacio mamon,” referring to its color, the color of a common seasonal fruit, “mamon.” The story also mentions the building of the Foreign Ministry, which was at least partially built with Taiwanese funds.

AID IN THE 2000-2006 PERIOD

Shortly after his inauguration, President Enrique Bolanos paid a state visit to Taiwan in May 2002. During his stay, he signed a memorandum of understanding (MOU) on financial aid for Nicaragua in the period 2002-2006, according to official records. The assistance foreseen for that period was US\$ 25 million in non-refundable funds (US\$ 5 million per year) and US\$ 46.8 million in refundable financial aid.¹⁵⁴

¹⁵³ The Washington Post. “Secret Taiwan Fund Sought Friends, Influence Abroad.” April 5, 2002. P. A1.

¹⁵⁴ Memoria del Ministerio de Relaciones Exteriores de la República de Nicaragua, 2002. P. 243.

Between 1996 and 2002, Taiwanese funds were disbursed to support the “institutional development” of the Foreign Ministry (seminars, training, conferences, continued education, studies, consulting). These funds also complemented the salaries of Foreign Ministry officials, a practice common in Central America. The regional press has often reported on this fact and it has been confirmed by some officials.

COOPERATION DEVELOPMENT AID AT PRESENT

Taiwan provides technical assistance to Nicaragua through a series of projects in different areas. As a very poor country, Nicaragua is not self-reliant. It’s dependent on foreign aid to balance the budget and meet many urgent social and developmental needs.

ICDF has a 10-person technical mission in Nicaragua that is considered the best among 27 Taiwanese technical missions scattered all over the world for its high efficiency and results, and it is presented as a model by the agency’s central authorities. It has received that honorific mention for three years in a row: 2007, 2008 and 2009.¹⁵⁵

The mission works on agricultural improvement and animal husbandry development projects; they also develop projects with food processing and shoe manufacturing; there are 3 investment and lending projects for small farmers, and for post-disaster housing and farming reconstruction, according to the ICDF website.¹⁵⁶

The ICDF websites does not explain in detail the amounts of developmental aid being given to Nicaragua at present (August 20, 2010).

In 2010, according to the Nicaraguan press, Taiwan will disburse around \$4 million for agricultural and technical assistance projects.¹⁵⁷

¹⁵⁵ La Prensa daily. “Misión Técnica de Taiwán en Nicaragua sobresale.” January 19, 2010. Link: <http://www.laprensa.com.ni/2010/01/19/economia/13562>

¹⁵⁶ ICDF website. <http://www.icdf.org.tw/english/>

¹⁵⁷ (La Prensa daily. “Mision Tecnica de Taiwan en Nicaragua sobresale.” January 19, 2010. Link: <http://www.laprensa.com.ni/2010/01/19/economia/13562>

As a rule, Taiwanese embassies do not regularly disclose the amounts of cooperation aid, purportedly to avoid jealousies among recipient countries, Taiwanese officials acknowledge in private.

TECHNICAL MISSION

Oilseed and Rice Production Improvement Project. This project is breeding superior rice varieties, carrying out extension work, and is organizing upland rice production and marketing teams. It assists in creating paddy rice production cooperatives to increase sales and marketing opportunities. The project also purifies soybean seeds, registers new varieties, and extends cultivation.

Horticultural Crop Production Improvement Project. The technical mission is breeding disease-resistant tomatoes for extension farms. Other work includes vegetable planting, the breeding of tomatoes, and relevant field trial demonstrations. The Sebaco Surco Muerto vegetable production and marketing team cultivated tomato, sweet pepper, pumpkin, cucumber, passion fruit, mints and corn on 10 ha with the help of 12 farmers.

Superior Hog Breeding Extension Project. This project is raising technology levels in the hog farming industry and is utilizing a revolving fund to carry out other livestock experimental programs. In 2004, the mission provided 610 hogs for farmers and 763 piglets were propagated during the season. The Rivas station has 955 hogs in-house. Technical training was conducted for 17 extension officers and 30 students.¹⁵⁸

TECHNICAL ASSISTANCE

Food Processing Technical Assistance Project. This project is providing advanced baking technology and is also providing courses in fruit processing technology and soybean and bee product utilization.

Shoe Manufacturing Technical Assistance Project. The Taiwan ICDF is providing training courses in shoe manufacturing technology, design, administration, and management.

¹⁵⁸ ICDF website. <http://www.icdf.org.tw/english/>

INVESTMENT AND LENDING

Small Farmholders' Financing Scheme. This scheme is assisting in rice crop production and technology and is improving rice seed varieties to raise output.

Housing Solidarity Reconstruction Program -- Phase II. This project is assisting underprivileged Nicaraguans in the construction of homes.

Agricultural Production Reactivation -- Phase II. This project aims to improve production and management technology for small and medium sized farms and farming organizations.¹⁵⁹

POLITICALLY USEFUL COOPERATION AND OTHER AID

Taiwan also finances local special projects that are politically important or sensitive for the government in charge. This helps to strengthen ties. The total amounts of Taiwanese cooperation are rather kept confidently, though partial information is sometimes disclosed to the media during public events or in press releases by the ambassador or embassy's spokesmen.

Dr. Arturo Cruz, an academic from the prestigious INCAE business school, an analyst and the first Nicaraguan ambassador to the US during the present Ortega administration (2007-2009), says that Taiwan excels in identifying the programs that are politically important for all governments and then financing them.

“They (the Taiwanese) are extremely skillful in identifying the important, sensitive programs for the governments in charge in each country and in getting to finance them. They respond to immediate needs, especially those of governments. It's a relationship of short-term things,” he told the author of this thesis during a telephone interview.¹⁶⁰

The ROC ambassador is Mr. Wu Chin-mu, also known as Jaime Wu, a longtime diplomat who graduated from Diplomacy at NCCU in Taipei. The Nicaraguan ambassador is Mr. William Tapia.

¹⁵⁹ Item.

¹⁶⁰ Telephone interview with Dr. Arturo Cruz, former Nicaraguan ambassador to the US.

Press reports say the Taiwanese finance the following programs of President Daniel Ortega's administration: Hambre Cero (Zero Hunger), Usura Cero (Zero Usury) and Amor (Love). All of them are social programs aimed at poverty alleviation; the main targets are very poor people. These programs are also politically important; opposition critics say mainly Sandinista families (thus, Ortega voters) are benefited. This year, the Taiwanese embassy has a budget of US\$ 2.5 million for these projects, the local daily La Prensa reported, quoting ambassador Wu Chin-mu.¹⁶¹

Some US\$ 4 million will be allocated for agricultural projects; US\$ 5 million will be spent to build three cold storage facilities near Managua's airport.

Taiwan has also budgeted US\$ 800,000 in cash donations for the Army and the Police. That money is reserved for the purchase of uniforms.

Ambassador Wu also informed about half a million dollars given to the Institute of the Youth in order to award higher education scholarships. The top official also said 120 young Nicaraguan people would get scholarships to study in Taiwan this year.

Medical brigades formed by specialists arrive every year and provide services to the population in many cities, particularly among the poor.

Other types of aid. Taiwanese aid is provided for a variety of purposes. In 2007, for example, Taiwan donated US\$30 million to the Nicaraguan government to buy a fuel oil-operated Hyundai electrical plant to generate 30 megawatts and cover an energy deficit that caused many blackouts.¹⁶²

The Taiwanese embassy also keeps a formal, cordial relationship with the Nicaraguan Army (Ejercito de Nicaragua). Despite their Sandinista origins, the armed forces have turned into a highly professional and apolitical body. Military attachés are appointed in Taipei and Managua, there are mutual visits by top and middle-rank officials; Taiwanese military ships dock sometimes in Nicaraguan ports and their doctors provide free medical assistance to local

¹⁶¹ La Prensa daily. "Misión Técnica de Taiwán en Nicaragua sobresale." January 19, 2010. Link: <http://www.laprensa.com.ni/2010/01/19/economia/13562>.

¹⁶² EFE story published by El Nuevo Diario daily. "Taiwán dona US\$ 30 millones para comprar planta de energía." July 12, 2007. <http://impreso.elnuevodiario.com.ni/2007/07/12/nacionales/53618>

inhabitants. The Nicaraguan side has offered places for Taiwanese cadets at the Nicaraguan Military Academy.

Apparently, the Nicaraguan military are satisfied with the level of existing contacts. So far, no weapons sales have taken place, though the Nicaraguan army is open “to all forms of mutually beneficial ties and exchanges,” the Nicaraguan military attaché in Taipei, Colonel Deglys Tinoco told the author.¹⁶³

TRADE

As it's the case with the rest of Central America, Nicaragua's trade is US-oriented. The United States is the country's main trade partner. It is the destination for 62% of its exports (CIA World Factbook, 2009 estimate). Both countries have a FTA, DR-CAFTA. The other two top markets for Nicaraguan goods are El Salvador (7.74%) and Costa Rica (3.67%).

The top five countries of import origins are the US (22.63%), Venezuela (12.27%), Mexico (9%), Costa Rica (8.66%), China (7.16%).

Nicaragua is geographically the largest Central American country with 130,370 sq km, but it's the poorest one, and the second poorest country of the Western Hemisphere. The GDP in 2009 was only US\$ 6.37 billion. Total exports are US\$ 2.38 billion. The population is 5.9 million (2010 estimate, CIA World Factbook). In 2005, the percentage of people living under the poverty line was 48% and may not have varied significantly over the last years.

According to World Bank statistics, the GNI per capita is only US\$ 1,080, a lower middle income country. Life expectancy at birth is 73 years, not the lowest indicator in Central America. Nicaragua ranks 124th in the U.N. Human Development Report 2009, only two places behind Guatemala which is CA's largest economy, an example of the abysmal social and economic inequalities of Latin America.

¹⁶³ Author's interview with Colonel Deglys Tinoco, Nicaraguan military attaché in Taiwan.

Nicaragua and Taiwan signed a Free Trade Agreement in 2006. It came into force as of January 1, 2008. After one year, it led to a huge increase in business, especially for the Nicaraguan part, though the year 2009 saw a cooling down due to the global recession.

The FTA provides that Nicaragua will allow tariff-free entry of 3,374 Taiwanese products, about 51.1 percent of Taiwanese exports to Nicaragua, and Taiwan will also lift tariffs on the entry of 5,797 Nicaraguan products, or about 65.6 percent of Nicaraguan exports, including sugar, beef and coffee, according to official Taiwanese information. Since 2018, 97.3 percent of Nicaraguan products will enter tariff-free to Taiwan, and 95.1 percent of Taiwanese products will enter to the Nicaraguan market tariff-free.

Scrap metal, beef meat, sugar, shrimps and crustaceans, and coffee are the top products Taiwan imports from Nicaragua (2008-2009). The latter's imports from the Asian island are mainly man-made filaments, machinery and parts, paper and paperboard, knitted or crocheted fabrics, and plastics (2008-2009), according to the ROC's Bureau of Foreign Trade.

In 2007, the year previous to the enforcement of the FTA, bilateral trade reached nearly US\$ 52 million. Taiwanese exports amounted to US\$ 36.63 million, and Nicaraguan exported goods for a value of US\$ 15.34 million; this represented a US\$ 21.29 million surplus for Taiwan. Historically, Taiwan has run large trade surpluses.

In 1990, total bilateral trade was only US\$ 1.59 million. Ten years later, it had increased to more than US\$ 70 million, with Nicaragua exporting a mere US\$ 1 million, which indicates a balance totally tilted toward the other side.

2008 saw an "explosion" in Nicaraguan exports, a visible effect of the FTA. For the first time, the Central American country exported more than Taiwan did. Nicaraguan exports totaled US\$ 31.1 million and it imported from Taiwan US\$ 22.35 million in goods; this represented a US\$ 8 million deficit for the ROC.

TABLE 36 – TAIWAN’S TRADE WITH NICARAGUA

Unit US\$

Year	Totals	Exports	Imports	Balance	Total trade ranking
1990	1,595,737	806,233	789,504	+ 16,729	145
2000	70,592,193	69,542,583	1,049,610	+ 68,492,973	82
2001	49,423,213	48,647,056	776,157	+ 47,870,899	89
2002	43,610,086	43,176,641	433,445	+ 42,743,196	88
2003	39,965,578	39,297,895	667,683	+ 38,630,212	94
2004	44,094,228	41,268,043	2,826,185	+ 38,441,858	96
2005	46,293,459	39,681,227	6,612,232	+ 33,068,995	98
2006	47,435,524	38,811,561	8,623,963	+30,187,868	103
2007	51,978,704	36,636,073	15,342,631	+ 21,293,442	99
2008	53,456,433	22,356,027	31,100,406	- 8,744,379	108
2009	39,294,528	18,281,568	21,012,960	- 2,731,392	104

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC

2009 saw a fall in bilateral commerce, reflecting the global demand’s reduction. Commerce totaled US\$ 39.3 million last year, while in 2008 it had reached the amount of some US\$ 53.4 million. This means trade figures were some US\$ 14 million less in the year-to-year comparison. Nicaragua once again had a balance-of-trade surplus in 2009.

Table 36 shows the evolution of trade between Nicaragua and Taiwan from 1990, the top products and each economy sells to the other.

Though it has increased, Taiwan-Nicaragua trade is incomparably smaller than Nicaragua’s trade with the PRC. In 2007, the Central American nation imported Chinese goods with a value of US\$ 280.3 million, and it only exported US\$ 6.2 million to the PRC, for a total trade figure of US\$ 286.5 million. That year Taiwan and its ally traded goods for US\$ 52 million, a difference of US\$ 234.5 million.

Neither Taiwan nor China are major export destinations for Nicaragua. The Central American country's position in Taiwan's overall trade is almost irrelevant. Nonetheless, China was the fifth country of origin of imports in 2009. We'll discuss trade ties with China later in this chapter.

TABLE 37 – TOP 5 TAIWAN'S IMPORTS FROM NICARAGUA 2008-2009

Values in US\$

Products	2008	2009
1. Metal scrap (iron, steel)	19,881,599	8,090,866
2. Meat (mainly beef) and edible meat offal	7,007,503	4,494,382
3. Sugar and sugar confectionery	n.a.	3,521,349
4. Fish, crustaceans, molluscs	2,071,734	3,344,428
5. Coffee, spices	376,737	601,212

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

n.a. = not available

TABLE 38 – TOP 5 TAIWAN'S EXPORTS TO NICARAGUA 2008-2009

Values in US\$

Products	2008	Ranking	2009	Ranking
Man-made filaments	5,007,416	1	4,569,384	1
Machinery and mechanical appliances plus parts	2,008,647	2	1,436,139	4
Paper and paperboard	1,903,053	3		
Knitted or crocheted fabrics	1,874,401	4	2,463,412	2
Plastic and articles thereof	1,763,076	5	1,302,061	5
Miscellaneous manufactured articles			1,662,873	3

Source: Bureau of Foreign Trade, Ministry of Economic Affairs, ROC.

In recent statement for the local press, Anita Wang, economic counselor of the ROC embassy in Managua encouraged Nicaragua farmers to export larger amounts of their products to the island, saying that the economic opportunities opened are not being fully exploited.

“There are good perspectives for agricultural products and meat there. These days there are more orders coming, orders for more coffee, peanuts, shrimp, sugar, but we can’t find (enough) exporters,” Wang told the La Prensa newspaper recently. “Demand is doubling and even tripling,” but the Nicaraguan offer is “very limited.”¹⁶⁴

An official from the Centro de Exportaciones e Inversiones (CEI), an export promotion agency, said this not a problem of a production deficit, but this is an issue of market diversification and “it makes our offer to look for the place with better price,” and that if Taiwan and Venezuela offer the same price for beef, it is exported to Venezuela because of lower shipping costs, she argued.¹⁶⁵

POLITICAL TIES

Fears about Nicaragua switching sides again under a new government of Daniel Ortega, the president of the 1980s, proved to be unjustified and exaggerated. Even more: many analysts and scholars on the China-Taiwan rivalry in Latin America that said that Nicaragua could run into Beijing arms one more time are out of touch with real Nicaraguan politics, and they show a wrong reading of the pragmatism and calculation of Ortega’s personality.

Among the FSLN top nine-member directorate who exercised real power in the 1980s, Ortega never shine as an ideologue; in the guerrilla fight he was never a leading military commander. However, he, together with his old faction “terceristas” (‘third way’; there were three Sandinista factions until 1978, the year they united to increase the chances to topple Anastasio Somoza; it is known Fidel Castro persuaded them to put aside their differences), managed to get some of the key leadership posts both in the party and in the state after the victory. For example, his brother, Gen. Humberto Ortega, became the Sandinista People’s Army (EPS) commander, a job he retained until 1995.

Having passed 16 years in the political opposition, Ortega, a natural populist leader and a typical Latin America “caudillo” (strong leader), turned into a very pragmatic man.

¹⁶⁴ La Prensa daily. “Nicaragua se queda corta ante demanda de mercado taiwanés.” July 27, 2010. <http://www.laprensa.com.ni/2010/07/27/nacionales/32754>

¹⁶⁵ Item.

He has run in all the presidential elections since 1985, being defeated three times (1990, 1996, 2001). For the 2006 campaign, he adopted a new image and speech of ‘peace and reconciliation’; he co-opted for his side Cardinal Miguel Obando -- an old formidable foe --; took as his running mate for vice president a former Contra leader in whose old, confiscated house Ortega continues to live; and managed to divide the rightist Liberal Party and the predominant anti-Sandinista vote. Years before, he had made a political pact with his fellow “caudillo”, rightist former president Arnoldo Aleman; their parties reformed the Constitution (making an Ortega victory more probable thanks to the softening of some requirements) and divided among their followers the top posts in the legislative, judicial and electoral branches.

As for a leftist and revolutionary leader, Ortega and his party took the amazing step of promoting the abolition of the preventive abortion for health reasons (“aborto terapeutico”) -- a social progress milestone of 100 years in the country -- during the 2006 campaign, an opportunistic move backed by other parties in order to win the Catholic Church’s support or sympathy, at least.

“Paris veut bien une messe” -- Paris is well worth a mass. Out of hunger for power, the old revolutionary *comandante* has been persistent in his quest for it. Wherever he goes, feminists, leftist and pro-abortion activists protest against his presence because of the suppression of the preventive abortion. Such a policy can be dramatic in a country with high rates of domestic violence, teen pregnancy and rapes. It imperils the life of women whose pregnancy poses a risk health.

So, given his pragmatism, it was baseless to assume that just because the Sandinista regime had broken with Taipei in the 1980s, Ortega would quickly hug the Chinese dragon again. 25 years ago, it was pure cold-blooded pragmatism that drove the Sandinistas to break off with the ROC, as we have seen. Even more than then, they continue to be pragmatic today.

The official position is that Nicaragua continues the diplomatic relationship with the ROC, though it would like to have diplomatic ties “with both Chinas,” a source from the Foreign Ministry says. Managua is clear that that is not possible due to Beijing’s refusal. “Even if there were ties with the PRC, Nicaragua will never establish ties with China (PRC) to the detriment of our relationship with Taiwan,” the source said recently.¹⁶⁶

¹⁶⁶ Interview with two Nicaraguan Foreign Ministry officials.

This stance was expressed by Ortega in August 2007 during the last visit of President Chen Shui-bian to Central America, a trip that sought to reassure ties with allies after the “defection” of Costa Rica in June.

On January 2007, Chen had assisted to the inauguration ceremony of Ortega in Managua. In those days, the two foreign ministers signed a MOU about the continuation of ties, Taiwan’s cooperation aid and investment. Even, a new investment of US\$ 108 million, a new Taiwanese ‘maquila’, would come soon, it was reported.¹⁶⁷

Some critical voices are heard, too. Dr. Arturo Cruz, a former ambassador in Washington and a professor at the INCAE business school, calls for a “serious reflection on the value of the relationships with Taiwan and a relationship with China.”

He is very critical of Taiwan’s aid levels, strategies and what he sees as an attitude of “condescension.”¹⁶⁸ He says,

“I think the relationship with Taiwan is more beneficial for them, because with few resources they get a lot in exchange. Their diplomacy is effective, because it is cheap for them. I think they don’t disclose those figures [cooperation aid] because they are shameful, very low. They are scandalously low for the great benefits they obtain.

“The benefit for our countries from the relationship with Taiwan have is very little in comparison with we are losing for not having official ties with China. It’s time for us to make a serious reflection on the value of the relationships with Taiwan and a relationship with China. I am a supporter of ties with mainland China [because of trade advantages].”

Other voices disagree. Dr. Norman Caldera, a former Nicaraguan foreign minister in President Enrique Bolanos’ tenure, believes both Taiwan and Nicaragua need each other politically (diplomatic recognition) and economically (assistance, technology, investment).

In his answers to a questionnaire sent by e-mail, Caldera emphasized the sharing of democratic values with the ROC – an argument seemingly less relevant to the present administration -- and made an allusion to the Chen case. He believes that “For Nicaragua Taiwan is important as an ally also because of its democracy and evolving transparency. Wrongdoers are

¹⁶⁷ El Nuevo Diario daily. “Nicaragua y Taiwán confirma relaciones diplomáticas.” January 11, 2007. <http://impreso.elnuevodiario.com.ni/2007/01/11/nacionales/38495>.

¹⁶⁸ (Telephone interview with Dr. Arturo Cruz, former Nicaraguan ambassador to the US).

being prosecuted without regards to politics and democratic values are important to Nicaraguans outside of the ruling party.”¹⁶⁹

Caldera suggests that in terms of investment, it could be “in areas other than textiles, (it) could be directed to electronic components. (Taiwan) could benefit from Nicaragua’s membership in DR-CAFTA and its trade agreement with Taiwan. I feel Taiwanese industry has unduly concentrated on Free Trade Zones (EPZ). (...) The movement across the strait is profitable for [Taiwanese] investors and short-term greed may cloud their strategic thinking”.

He also suggested more sports exchanges to improve mutual understanding.

In my opinion, it is clear that as far as Taiwan continues developmental aid and financing of ruling FSLN’s politically important programs, the relationship will continue. Taiwanese technical assistance is making a difference in rural zones for farmers and small businesses and for the beneficiaries of their projects. It is possible that increased economic and trade ties may serve as a launching pad for future diplomatic relations with the PRC. Top Sandinista leaders are now among the entrepreneurs who do business with and profit the most from the import of Chinese goods into Nicaragua, a fact that could feed suspicions and fears..

A rupture does not look feasible or possible right now, if we consider available public information. It is so because of the ‘diplomatic truce’ that is being observed as some Sandinista officials themselves acknowledge, too. Beijing is not trying to lure Central American allies of Taiwan for the time being.

VII.2. CHINA

TRADE

China is becoming an increasingly important partner for Nicaragua. Though still far from the importance that trade with the US and regional partners has, trade with China has been constantly growing since the second half of the present decade. The PRC is now Nicaragua’s fifth country of origin of imports.

¹⁶⁹ Interview with Dr. Norman Caldera, Nicaragua’s former foreign minister. He answered a questionnaire sent by the thesis’ author by email.

In 2001, bilateral commerce reached a mere US\$ 27 million, according to the UN Comtrade database. In 2007, China-Nicaragua commerce totaled US\$ 286.5 million. China dominates the exchanges, as its exports amounted to US\$ 280.3 million, whereas Nicaragua barely exported 6.2 million. Though the whole decade represents huge increases, it was not until 2004 that commerce surpassed US\$ 100 million.

Contrary to the cases of Honduras, Guatemala and El Salvador, we have not been able to rely on official websites to provide data on trade after 2008. The UN databases include detailed, long trade partners lists until 2007. Nicaraguan government's websites, mysteriously, stopped reporting yearly statistics since 2007, the first year of the Ortega administration. The Ministry of Industry, Development and Trade is no exception.

The main Nicaraguan export to the Chinese market is sugar, as the Devlin study published in 2008 shows. The main import is cotton fabrics and woven.

According to Devlin's study, the three top Chinese products imported by Nicaragua in 2004 were 1) cotton fabrics and woven (42.5%), 2) woven textiles, noncotton (23.7%), and 3) clothing not of fur (6.3%).

On the other hand, the three top Nicaraguan imports into China (2004) were 1) sugar and honey (56.5%), 2) leather (32.5%), and 3) coffee (2.5%).¹⁷⁰

TABLE 40 -- NICARAGUA'S TRADE WITH CHINA 2001-2007

Unit: US\$ Millions

Category	2001	2002	2003	2004	2005	2006	2007	Total trade/ period
Imports	26.5	38.6	83.3	112.9	149.9	209.0	280.3	
Exports	0.4	0.2	0.1	2.6	8.2	1.7	6.2	
Totals	26.9	38.8	83.4	115.5	158.1	210.7	286.5	919.9

Source: UN Comtrade, <http://comtrade.un.org>

¹⁷⁰ Devlin, Robert. 2008. P. 117. "China's Economic Rise." In "China's Expansion into the Western Hemisphere – Implications for Latin America and the United States." Roett, Riordan and Paz, Guadalupe (editors), Brookings Institution Press, Washington D.C.

The total figures of bilateral commerce are really low for the Chinese economy, though important for the small Nicaraguan economy. The trend is toward progressive growth, reflecting mainly the Chinese global economic expansion.

Though exact figures were not available, Nicaraguan officials acknowledge that a large percentage of products enter the local market through third countries. I safely assume that important amounts of merchandises are introduced by middlemen who buy wholesale in Panama's Colon Free-Trade Zone. In chain stores or other outlets, salespeople comment sometimes that a new cargo including Chinese home appliances is being expected from Panama soon.

As Ellis correctly points out (see Chapter VI) while generalizing about the subregion, Nicaragua lacks adequate infrastructure for doing large-scale business with China.

The country has not a large, deep-water modern port in the Pacific able to handle huge volumes of merchandises; Nicaraguan exports to the US and Europe are shipped from Puerto Cortes (Honduras) and Puerto Limon (Costa Rica), not from Corinto, the main local maritime port; the country does not possess mineral resources or raw materials China needs; its agricultural products are not competitive in the distant Chinese market; there is little knowledge about the Chinese market's particularities and specific conditions, and the Centro de Exportaciones e Inversiones (CEI) is not well suited for promoting business in the Asian giant or in any other Asian country, focusing mainly in the US, Europe and Central America. Besides, there is a low number of Mandarin speakers in the country, mainly people who have studied in Taiwan and learned some Mandarin. And the impoverished nation barely exports more than US\$ 2 billion per year and only very recently (though these figures from the CIA World Factbook include EPZ exports, which are tax-free, that is, they are out of the national accounting system).

For 2010, the CEI forecasts some US\$ 1.9 billion in exports (without EPZ).¹⁷¹

An important development is the creation of the Nicaraguan-Chinese Chamber of Industry and Commerce. Some prominent local businessmen belong to it, especially members of

¹⁷¹ La Prensa daily. "Exportaciones apuntan a los US\$ 1,900 millones. August 11, 2010. <http://www.laprensa.com.ni/2010/08/11/economia/34255>

the ruling Sandinista party. It aims at increasing and strengthening business ties with the PRC and promoting Chinese investment in Nicaragua.

As with other regional countries, the local market has been flooded with Chinese low-priced products: toys, clothes, footwear, electrical home appliances, etc.

In 2007, Nicaragua did not escape the threat of chemically altered toothpastes and toxic toys. The Health Ministry had confiscated 46,000 tubes of Mr. Cool, Genial and Dentamin brands by the end of May, and ordered the withdrawal of those products throughout the country. They were sold mainly in popular markets and a large percentage of them entered Nicaragua as contraband from Costa Rica.¹⁷²

Motorcycles and Chinese cars are being sold by dealers in Managua and other cities. Geely cars, Great Wall pickups, JVC and other vehicle brands are seen now running in Nicaraguan streets and rural zones. In the case of motorcycles, owning a Chinese motorcycle is like getting closer to a dream for many: they are affordable for the low segment of the population; to get one is easier than buying, say, a Japanese Kawasaki, a superb machine but an expensive one.

Some ruling Sandinista party's businessmen are among the key associates of diverse ventures with Chinese companies in Nicaragua. This has prompted political and media speculation about the possibility of breaking ties with Taiwan over the past years, though it has always been officially denied.

A friendship association was created, the 'Asociación Nicaragüense de Amistad con la República Popular China y su Pueblo' (Pronica-China, Nicaraguan Association of Friendship with the People's Republic of China and its People).

One name mentioned with insistence is Bayardo Arce Castano, a top Ortega's economic advisor and a former revolutionary *comandante*. Arce Castano is now a prominent entrepreneur and bank stockholder.

¹⁷² La Prensa daily. "Incautan mas pasta dental contaminada". May 31, 2007.
<http://archivo.laprensa.com.ni/archivo/2007/mayo/31/noticias/nacionales/194430.shtml>

For example, Golden Will Industrial Limited, a Beijing-based import-export company, opened a subsidiary in Nicaragua known as CHINA MOTORS. It sells vehicles and construction machinery (Futian brand) in El Salvador, Honduras and Nicaragua.¹⁷³

CHINA MOTORS general manager is Ajax Delgado, the son of a Sandinista hero. In 2007, he was the secretary general of the non-profit association Casa de Amistad Nicaragua-China Continental (House of Friendship Nicaragua-Mainland China). He said the company was selling construction machinery and luxury cars.¹⁷⁴

Another car importer and dealer, Mitsubishi Motors, which has traditionally brought Mitsubishi and Subaru vehicles for sales, is also importing and selling Chinese vehicles (Great Wall pickups, for example) in its showrooms.

CONSENSUS ON ENLARGED TRADE TIES

Politicians and business people alike agree that increased trade ties with China should be fostered as positive for the country's economy.

The first commercial exposition PRC-Nicaragua took place in Managua in August 2009. Some 60 companies from China took part, exhibiting their products.

Arce Castano, Ortega's top economic advisor, met a commercial delegation from the PRC during the fair and said that the president would donate a parcel for the construction of a park to PRONICA-CHINA. Chinese delegates stated that in 2008, bilateral trade amounted to US\$ 257 million. Arce Castano expressed hope the fair would open the door to direct imports and not through triangular operations, as a means to reduce costs and prices.¹⁷⁵

The chairman of the leading patrons' organization, the Consejo Superior de la Empresa Privada (Cosep), José Adán Aguerri, commented that "the fair is a first step to deepen a

¹⁷³ www.cheaponsale.com. Link: http://www.cheaponsale.com/d-p1119987820877324100-wheel_loader_tire_protective_chain

¹⁷⁴ El Nuevo Diario daily. "Amplían negocios con China continental." March 22, 2007. <http://impreso.elnuevodiario.com.ni/2007/03/22/economia/44412>.

¹⁷⁵ Radio La Primerísima. "Abre feria comercial con China." August 27, 2009. <http://www.radiolaprimerisima.com/noticias/general/59449>

fruitful commercial relationship, and China has become the third export destination in Asia, behind Taiwan and Japan,” a media report said.¹⁷⁶

In 2006, under the previous rightist Bolanos administration, Dean Garcia, a top official from the Ministry of Industry, said that “trade with China is on the move”, because “the PRC is a WTO member and we can’t obviate those relations.” However, he called for “separating” political ties from economic ties.¹⁷⁷

“Nicaragua should buy from whoever sells the cheapest and sell to whoever pays the best price,” estimates Dr. Norman Caldera, a former foreign minister.

On closer business ties, former minister Caldera commented,

“The ruling parties in Nicaragua and El Salvador believe there is a ‘rapprochement’ taking place across the Taiwan Strait that could leave friends of Taiwan stranded, (‘hanging by the skin of their teeth’ – ‘colgados de la brocha’), once Taiwan and the mainland mend their fences. That view is beginning to permeate to other parties also. The Sandinistas are pursuing the establishment of strong commercial and investment ties with Mainland China as a hedge. Central Americans need to feel Taiwan’s ties go beyond political support until the fence-mending with the mainland is achieved.”¹⁷⁸

We asked Caldera what he does think about a probability that those exchanges with the PRC may translate someday into an official political relationship. His answer was this:

“I think it depends on R.O.C. diplomacy. Right now they have embraced the Sandinistas to the extent that I have been erased from their guest list. I have not been approached by my friends in the embassy for at least one year. Either they forget too fast or they feel that Ortega will be in power forever. The Sandinistas, for the time being are having political recognition of one and commercial ties with the other. I do not see in the short run, political reasons for the Sandinistas to sever ties with the R.O.C., (seeing their own conversations with the mainland). In the long run, it will depend on Chinese trade and particularly, investment in Nicaragua.”

¹⁷⁶ Item.

¹⁷⁷ La Prensa daily. “China continental esta en agenda.” July 19, 2006. <http://archivo.laprensa.com.ni/archivo/2006/julio/19/suplementos/negocios/131667.shtml>

¹⁷⁸ Interview with Dr. Norman Caldera, Nicaragua’s former foreign minister.

THE OLD DREAM OF A CANAL

Since the colonial times, there has existed the desire and the possibility to build a maritime canal that would unite the Caribbean and the Pacific through Nicaraguan territory. The natural geographical conditions feed the imagination: the San Juan River connects the Caribbean with the Lake of Nicaragua, a body water of 8,000 sq km, the largest in CA. Some 20 km in the narrowest part of the Rivas isthmus separate the lake and the Pacific Ocean.

The ‘Canal Interoceanico’, as the hypothetical project is called, would be rather complementary to the Panama Canal. The huge costs and the traditional, real or potential, political instability of Nicaragua are severe obstacles in the road to making this dream come true. Different estimates put diverse projects’ total costs in US\$ 10 to 15 billion approximately, a major investment. There are also doubts about its viability and if the volume of trade could be enough to justify its construction and profitability. Basically, two ideas are seen as the possible alternatives: one is to drag the San Juan River, build two deep-water ports on the terminals, one in each side, and a short railway line from the Lake of Nicaragua shore to the Pacific. The other vision is to build a ‘canal seco’ (dry canal), a railway between the Caribbean and the Pacific, build deep-water ports, or improve some of the existing ones.

The strategic geographic position of the country has been both a blessing and a curse. Great powers have contended over the control of the way. After building the Panama Canal, the United States equally assured the control of the Nicaraguan alternative, imposing the offensive and humiliating treaty Chamorro-Bryan on the tiny republic occupied by US troops in 1914 (it was abrogated 60 years later). The Marines had arrived following a revolt against President Jose S. Zelaya in 1909, who dared to invite German and other investors to explore building the canal without the US consent and participation. A diplomatic note of US Secretary of State Philander Knox withdrawing American recognition of Zelaya’s government precipitated his fall. It was the epoch of the strongest US imperialistic domination in Latin America.

Such a gargantuan enterprise could totally alter the economy and the future of Nicaragua. And as R. Evan Ellis says, it can completely alter China’s approach to Nicaragua.

Recently, Ortega has explored the possibilities of engaging Russia and Russian capital in this adventure, but so far, Moscow has not made any firms commitments. Honduras and El

Salvador have similar plans to build a railway between Puerto Cortes in the Atlantic coast and El Salvador.

THE RED DRAGON'S FLIRTATION

Nicaragua has also been a target of the big dragon's flirtation. The PRC has played with the possibility of financing the canal. In years previous to the current 'diplomatic truce', the Chinese used to flirt with Nicaraguan by offering investment and better trade deals in exchange for recognition and severing relationships with Taiwan. The CCP keeps a relationship with the ruling FSLN party.

From time to time, businessmen and officials from the PRC arrive and promise investments. For example, in July 2002, a group of Chinese entrepreneurs met with local businessmen and said they could invest US\$ 100 million in the agricultural and light manufacturing sectors through joint ventures with small and medium-size firms.

The delegation was headed by Wan Jifei, vice president of China International Trade Promotion Committee and vice president of the China International Commerce Chamber. During their stay, Wan signed a memorandum of understanding with the (then) president of the Nicaraguan-Chinese Chamber of Industry and Commerce, Francisco Lopez. Lopez is the ruling party's treasurer and a man trusted by Ortega to handle his family financial issues; he is currently the vice chairman of Albanisa, a joint venture that imports Venezuelan petroleum to Nicaragua. Wan agreed to make available US\$ 100 million for business initiatives.¹⁷⁹

One year later, another Chinese delegation arrived in Nicaragua. The Beijing emissaries were on a tour of Central America. They expressed their country's interest in financing a US\$ 20 billion canal project, according to press reports quoting Samuel Santos, then secretary of International Relations of the Nicaraguan-Chinese Chamber of Industry and Commerce (Santos is today Ortega's foreign minister). Santos even said that the designer of the Three Gorges Dam, Yuan Goulin, could design the way. The Beijing envoys met President Enrique Bolanos, local businessmen, Sandinista party officials and parliament leaders. They

¹⁷⁹ La Prensa daily. "China Continental planea inversiones en Nicaragua." July 16, 2002. <http://archivo.laprensa.com.ni/archivo/2002/julio/16/economia>

came to Managua invited by the Nicaraguan-Chinese chamber. The purported Chinese intentions caused a positive reaction in political and business circles.¹⁸⁰

Despite all the noise, the canal remains an opium dream nowadays.

Trade with the PRC has been increasing yearly, though there is no possibility of diplomatic ties for the time being, at least as far as the “diplomatic truce” is in force. In my opinion, the question of a future establishment of diplomatic relations is open regarding the state of cross-strait affairs, as bilateral contacts may deteriorate again if a new DPP government or any leader with a stronger pro-independence stance takes power in Taiwan.



¹⁸⁰ La Prensa daily. “China Continental quiere canal nica.” September 3, 2003.
<http://archivo.laprensa.com.ni/archivo/2003/septiembre/02/nacionales/nacionales-20030902-17.html>

VIII. PRESIDENT MA YING-JEOU'S "VIABLE DIPLOMACY" 2008-2010. IS THE "DIPLOMATIC TRUCE" WORKING?

VIII.1. THE LEGACY OF LEE TENG-HUI

Lee Teng-hui was the first Taiwanese-born politician who reached the position of President of the Republic of China on Taiwan after succeeding Chiang Ching-kuo in January 1988, thus making history.

In the beginning of his rule, his main goal was to consolidate his grip on power, overcoming the resistance of the conservative KMT old guard and other rivals. Though many saw him as a temporary ruler, they were proved wrong. His first significant political victory was to secure the chairmanship of the KMT, a key step that allowed him to outmaneuver the old guard – formed by influential mainlanders -- and consolidate his power.

In the foreign policy realm, Lee initially held the traditional views and positions kept during the Chiang era, vowing to continue the "one China" policy and defending the notion that the ROC's government was the legitimate government of all China.

That was only in the beginning. Over time, Lee radically changed the diplomacy of the ROC, its goals, strategies and policies. Lee was determined to carve out a new, special place for Taiwan in the international arena, gaining more space and moving away from the possibility of unification with China, at least in the terms conceived by its Communist leaders. When he assumed, his daunting challenge was to relieve Taiwan from its international isolation.

'PRAGMATIC DIPLOMACY'

Lee promoted the so-called "pragmatic diplomacy (*wu shi wai jiao*). Its essence is to seek a new framework in which the island can be treated as a distinct and separate state from the People's Republic of China.¹⁸¹

¹⁸¹ Wang, T.Y. 2003. P. 245. "Taiwan Foreign Relations under Lee Teng-hui's Rule 1998-2000." In "Sayonara to the Lee Teng-hui era – Politics in Taiwan 1988-2000," Lee, Wei-chin and Wang, T.Y. (editors). University Press of America ® Inc., Lanham, Maryland, USA.

Taipei's 'pragmatic diplomacy' has its origins in Lee's determination to break the international isolation imposed on Taiwan by the Beijing government. Internal and external factors served Lee's purposes at the time (1988-2000). Taiwan had become a democracy and this helped the island to win support and sympathy in the world, particularly in the US.

Wang summarized the main elements of Lee's diplomacy:

"The core idea of 'pragmatic diplomacy' is to develop all possible contacts including diplomatic, economic, or cultural relations, with any country, even if it has diplomatic ties with the PRC. Specifically, 'pragmatic diplomacy' calls for: 1) the advancement of formal diplomatic ties, 2) the establishment and promotion of substantive relations with nonhostile nations, and active participation in international organizations and activities."¹⁸²

The strategies used by the Lee's government were several.

The first one was the pursuit of dual recognition; it meant dropping the long-held official principle of "one China", taken as given in the Chiang era. The ROC recognized the Communist rule over the mainland and reasserted its own sovereignty over Taiwan and the smaller islands. Taipei began to admit the possibility of having diplomatic ties with nations that had diplomatic ties with Beijing, though Beijing itself has never accepted dual recognition.

The other approach is the use of informal diplomacy. The best models are the unofficial relationships with Japan and the United States. Taipei tried to increase the number of representative or trade offices in the world, looking to keep and upgrade substantive relations – trade, educational, cultural exchanges --with other nations. Chinese stiff opposition and isolating efforts have particularly targeted state-to-state relations and membership in international organizations. "Private visits" and "vacation trips" by Lee and other Taiwanese high officials also played a role in this policy strategy.

A third strategy was to use Taiwan's economic strength and economic incentives to gain friendship and expand its international visibility. Under Lee, it had two major components. One element is the foreign aid program; this meant the use of traditional technical and agricultural missions plus bilateral soft loans, grants and contributions to multilateral organizations. The establishment of the ICDF (International Fund of Cooperation and

¹⁸² Item. Pp. 248-249.

Development), Taiwan's cooperation agency, is a major step in the use of developmental aid to gain clout and diplomatic allies.¹⁸³

The other component is trade and investment, which became important weapons in the Taiwanese diplomatic arsenal.

“Through the expansion of trade and investment, Taipei consolidated existing official ties with its diplomatic allies. Taiwan's business presence in Latin American and the Caribbean countries was a typical example in this respect, as many governments in the region wanted investment dollars in return for their diplomatic loyalty.”¹⁸⁴

A fourth component of ‘pragmatic diplomacy’ was the defensive strengthening of national security through the purchase of weapons.

A fifth element was participation in international organizations. Lee considered that substantive participation was more important than the formal name, and flexibility was adopted regarding the names used by Taiwan in international organizations (‘Chinese Taipei’ in sport associations, etc.).

THE BID TO ENTER THE UNITED NATIONS

One of the boldest initiatives of the Lee period was the bid to enter the United Nations, which started in 1993. Diplomatic allies were asked to call for the ROC's admission and to reiterate it at every suitable event, and to call for recognizing the ROC as a sovereign and independent state. This “ritual” was continued by Taiwan and its allies even until 2008. Actually, the idea of launching a bid to re-enter the UN was an original DPP idea that was appropriated by the KMT and Lee. Due to the adamant opposition of Beijing and its pressures, it has never been successful.

On August 6, 1993, Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama jointly requested that the upcoming session of the UN General Assembly, scheduled to start a month and a half later, shall include in its agenda a “consideration of the exceptional

¹⁸³ Item., pp. 253-255.

¹⁸⁴ Baum, Julian. 1997. P. 29. “Let's tango: Taipei asks its investors to back its diplomatic goals.” *Far Eastern Economic Review*, October 9, 1997. Quoted by Wang.

situation of the Republic of China in Taiwan in the international context, based on the principle of universality.”

In the note for Secretary-General Boutros Boutros-Ghali, the Central American countries state that Taiwan is “a dynamic and progressive member of the international community and a peace-loving country.” It deserves UN membership, the Taiwan’s allies affirmed, and they also propose a draft resolution establishing a committee to study and then recommend an “equitable, rational and practical solution which will enable the Republic of China in Taiwan to become a full member of the U.N.

As it happened successively since 1993 until 2008, such proposals were not discussed by the General Assembly because of the stiff opposition from the People’s Republic of China.

A senior official from a Central American country whom I interviewed says that “we have always supported Taiwan in its bids to enter the United Nations; they have always counted on us.”

THE PRC POSITION

What did “more international space” mean for the PRC? Chu Shulong, a senior Beijing scholar from the China Institute of Contemporary International Relations, wrote in 2000 that “Beijing suspects that Taiwan’s international bid is for independence; Beijing thus cannot tolerate Taiwan’s efforts to expand its international space.”¹⁸⁵

Chu maintained,

“Beijing worries that Taiwan wants to go beyond its international boundary. In the past 10 years under Lee Teng-hui, Taipei has tried hard to go beyond the boundary. This forces Beijing to consider what Taipei really wants. [...] Lee Teng-hui’s two-state-theory statement on July 9, 1999, clearly showed that Beijing’s concerns are correct. Taipei’s bid for greater international space is not only for doing business abroad and tourism but also for advancing a two-state relationship between the mainland and Taiwan.”¹⁸⁶

¹⁸⁵ Chu, Shulong. 2000. P. 58. “International space for what? Beijing’s concerns and position regarding Taiwan’s participation in international organizations.” In “Taiwan Strait Dilemmas – China-Taiwan-U.S. Policies in the New Century.” Gong, Gerrit W. (editor), The CSIS Press, Washington D.C.

¹⁸⁶ Item., p. 59.

The Lee Teng-Hui era was a turning point in the overall foreign policy's orientation. This change was not only reflected in the media, in the public language; it also fostered some academic thinking. For example, during an academic conference organized by the DPP in 1993 - in a paper later turned into a book chapter --, New York Law School professor Lung-Chu Chen listed some theoretical arguments in favor of Taiwan's independence from the point of view of international law .

“Taiwan has existed as a sovereign, independent state for more than 40 years. The question today is to acknowledge Taiwan as an independent state in name as well as in fact. The fact of Taiwan's independent existence is well known in the world community; what is increasingly at issue is whether to call this sovereign, independent entity ‘the Republic of China’, ‘the Republic of Taiwan’, or simply ‘Taiwan’.”¹⁸⁷

He added that

“In other words, the conditions for admission of a new member are: (1) the applicant must be a state (country); (2) it must be peace-loving; (3) it must accept obligations of the U.N. Charter; and (4) it must be able and willing to carry out the charter obligations in the judgment of the United Nations. Judged by these conditions, Taiwan is of course amply qualified to be a new member of the United Nations. [...] Taiwan has in fact existed as a sovereign, independent state for quite some time. It will be deemed peace-loving insofar as it discontinues the lingering KMT claim to represent China, to “unify” China, or to retake the mainland.”¹⁸⁸

Lee's 1995 trip to his alma mater in the US, Cornell University, was a major diplomatic victory in the fight to break China's encirclement, boosting his prestige and Taiwan's image of a struggling, vibrant democracy. China's response was the 1995 missile crisis, repeated in 1996 as an attempt to impede Lee's election by popular vote. The US Clinton administration sent two carriers to the Taiwan Strait as a strong warning signal for the Chinese. Nevertheless, some in the US saw in Lee a ‘troublemaker’.

Professor Shelley Rigger defines China's logic behind its Taiwan policy as follows:

1. For the PRC leadership, preserving and protecting China's national sovereignty and territorial integrity are matters of national and regime survival. Therefore, maintaining the viability of unification between Taiwan and the Chinese mainland is a top priority of China's foreign and domestic policy at all times.

¹⁸⁷ Chen, Lung-chu. 1997. P. 4. “Prospects for Taiwan's Membership in the United Nations.” In the book “Taiwan's Expanding Role in the International Arena.” Yang, Maysing H. (Editor). M.E. Sharpe, New York, USA.

¹⁸⁸ Item., p.5.

2. Unification will become unviable if Taiwan changes its international status in such a way as to sever permanently its connection to the Chinese nation; this is the meaning of the ‘Taiwan independence.’ Therefore, ‘Taiwan independence’ must be prevented at all cost.

3. Taiwan’s international isolation makes Taiwan independence infeasible. Therefore, Beijing should maximize Taiwan’s isolation, both by preventing it from gaining membership in international organizations and by requiring China’s diplomatic partners to accept Beijing’s view of Taiwan’s status (there is but one China, Taiwan is part of China, and the sole legal government of China is the PRC).

4. A primary obstacle to the achievement of unification (and the eradication of the Taiwan independence threat) lies in the United States’ policy of enabling effective deterrent and defense capabilities for Taiwan. Therefore, to eliminate the danger of Taiwan independence and secure unification, China must increase its power relative to both Taiwan and the United States.¹⁸⁹

THE ‘STATE-TO-STATE’ STATEMENT

The highest point of Lee Teng-hui’s quest for broader space was his statement on “special state-to-state relationships”, delivered during an interview with Deutsche Welle, a German TV channel, in July 1999. Such a formulation ran against four decades of official “one China” policies by the KMT regime and against more recent formulas. Cross-strait relationships hit one of their lowest points.

The scholarly literature calls Lee’s formulation the “two states theory.” Sheng Lijun, a senior fellow of Singapore’s Institute of Southeast Asian Studies, says,

“With this definition, he abandoned Taiwan’s previous position on China and Taiwan being ‘two equal political entities’, which according to him, were actually equal to ‘two countries’. He also noted that there was no need for Taiwan to declare independence again since it (ROC) had always been an independent country since 1912.”¹⁹⁰

¹⁸⁹ Rigger, Shelley. “China, Russia and the Taiwan issue.” In the book “The Future of China-Russia Relations.” 2010. Bellacqua, James (editor). University Press of Kentucky, Lexington, Ky. P. 313.

¹⁹⁰ (Sheng, Lijun. 2002. P. 11. “China and Taiwan – Cross-Strait Relations under Chen Shui-bian.” Zed Books, Londond and NY; Institute of Southeast Asian Studies, Singapore).

Soon after the statement, Taiwan announced it would launch, together with its diplomatic allies, a campaign to promote the “two states” policy among the international community. The bid to re-enter the United Nations had consisted in appealing for a repealing of the resolution 2758 of 1971, which gave the PRC the China seat in the organization; this time, the new formal request would be permission to join the UN as a new and separate state, using the German model as reference and precedent; embassies and representatives offices were to explain the notion and point at the ‘Grundlaueruertrag’ or Fundamental Treaty of 1972 between the two Germanys.¹⁹¹

The official Taiwan’s positions on the relationship with China and unification had undergone evolution during the Lee Teng-hui’s period. At the beginning, he continued to adhere to the “one China” principle of the Chiang era. After 1991, Taiwan began to state that Taiwan and the mainland are both parts of China, the “PRC is not equivalent to China” and both parts of China have the right to participate alongside each other in the international community as equals. In 1993, the Lee government started to advocate one China with shared sovereignty, the PRC in the mainland and the ROC over Taiwan and the smaller islands. In 1994, a white paper on cross-strait ties stated that “each side has jurisdiction over its respective territory and that they should coexist as two legal identities in the international arena.” After 1994, Taipei only spoke about “two equal political identities” across the strait without mentioning “one China.”¹⁹²

As it could be expected, Beijing’s reaction was furious. A barrage of propaganda blasted Lee mercilessly. The Chinese canceled a new scheduled meeting of Taiwanese and Chinese special envoys that was going to take place in Taiwan in October 1999, and intensified its blockage of Taipei’s initiatives and pressure on other countries. The PRC even demanded a retraction and a return to the ‘one China’ principle.

Fearing the outburst of a conflict, Washington was also upset at Lee because he did not warn the Americans in advance about his intentions to use this new concept.

“The Clinton administration worried about the risk of conflict erupting through accident or miscalculation and was annoyed that Lee had not informed Washington in advance that he would offer that formulation, which was new in that it was at least a more explicit

¹⁹¹ Item. P. 12.

¹⁹² Item., pp.16-17.

statement of the relationship between the two sides,” says Richard Bush, a former director of the American Institute in Taiwan and a leading expert.¹⁹³

As the 2000 presidential elections neared, the US sent several delegations to Taipei to make its point clear that Lee should not make more controversial statements.

The domestic considerations were always very important in Lee’s foreign policy. His 1995 trip took place during (de facto) campaign ahead of the 1996 presidential election, which Lee himself won; the trip, the publicity and strong reactions it generated and the harsh Chinese military response in the form of missile launching and exercises all turned to be highly favorable to shrewd Taiwan’s leader. Besides, polls conducted in the mid 1990s showed a high degree of support among the Taiwanese public for a larger international space.

The Lee years were characterized by a deepening, evolving feeling of a Taiwanese identity as different from a strictly Chinese identity, according to political scientists. The 1999 two-state declaration came months before the presidential elections, and some observers estimate the leader was trying to influence them in that way, among other moves. Since polls have been conducted in the democratic era, they have reflected that a majority of the public supports the status quo and rejects unification with China under the “one country, two systems” formula advocated by the PRC leadership.

How effective was Lee’s pragmatic diplomacy?

For most of the time, competition for recognition was a typical zero-sum game. When Lee Teng-hui became president for the first time in 1988, 22 countries recognized the PRC. The number had risen to 31 in 1996, and when Lee quit the presidential office in 2000, the figure had fallen to 28 diplomatic allies. That means 6 countries more than in 1988, but at the same time, three important partners had defected to the PRC camp: Saudi Arabia, South Africa and South Korea. The rest were small countries with little clout in international relations, but even so, their recognition provided a basis of legitimacy to the ROC claims of being a state – and it continues to provide it at times when China is becoming stronger in the global balance of power.

As Wang puts it,

¹⁹³ Bush, Richard. 2005. P. 55 “Untying the knot – Making Peace in the Taiwan Strait.” Brookings Institution Press, Washington D.C.

“Because a capacity of entering into relations with other states is one of the essential qualifications of statehood, in addition to a permanent population, a defined territory, and a government, the size of this number has become an indicator of the island country’s international as well as domestic legitimacy.”¹⁹⁴

In my opinion, the balance is mixed, though it’s more positive than negative. More countries recognized the ROC in 2000 than it was the case in 1988, though 3 important allies were lost. Taiwan’s annual bids for UN membership, increasing trade and investment in allied countries, Lee’s trips – especially that to the US in 1995 – and statements, the agitated cross strait political interactions, the missile crisis of 1995-1996; all of this made the Taiwan issue more visible to the eyes of the world and helped fostered the image of people and a new, beleaguered dynamic democracy fighting for their survival.

VIII.2. THE CHEN SHUI-BIAN PERIOD AND DIPLOMATIC ALLIES

Chen Shui-bian made history in 2000, winning a presidential election and becoming the first president that was not a member of the KMT party. A prominent opposition politician and lawyer, he was Taiwanese, just like Lee. The worst for Beijing was his credentials as a staunch pro-independence supporter.

As Lee, he was determined to strengthen Taiwan’s international status and opportunities, but once in office, he moved quickly to assuage Beijing’s and Washington’s concerns about radical departures.

In his first inaugural address, he formulated his “Five No’s”: no declaration of independence, no revision of the Republic of China name, no intent to insert Lee’s “two states theory” into the Constitution, no abandonment of the National Unification Guidelines, and no referendum on the question of independence or unification.¹⁹⁵

Such declaration disappointed many among his DDP party base, but Chen showed his pragmatism and the ability to distance himself from his political background and ideological roots. It was the first of a series of goodwill gestures that fell in “deaf ears”, as Beijing never really trusted him and wanted to engage, say Rigger and Stevinson.

¹⁹⁴ Wang, T.Y. 2003, p. 265

¹⁹⁵ Rigger, Shelley and Stevinson, Bryan. 2005. P. 102. “A perfect storm: U.S.-Taiwan relations in the era of Chen Shui-bian and George W. Bush.” In “Rethinking New International Order in East Asia: U.S., China and Taiwan.” (Yuan, I., editor). Institute of International Relations and Center for China Studies, National Chengchi University.

Other authors agree. “Chen hoped this approach would reduce Chinese pressure on Taiwan but it did not work. Rather, China held Chen to the five no’s and continued to refuse to return to a dialogue to Taiwan’s government” (suspended after the famous Lee’s remarks).¹⁹⁶

Toward the end of his first period, frustrated with the unresponsive attitude from the PRC, and facing plummeting rates of approval, he changed course. He adopted a sharper, provocative discourse. In August 2002, he made public his concept of “one country on each side” of the strait. China remained committed to its “one country, two systems” policy, and that “Taiwan is part of China.”

Analyzing the policies of the two presidents, Richard Bush states that neither Lee nor Chen did have “a separatist agenda that would rule out all formulas for unification”. They opposed the “one country, two systems” principle and the idea of Taiwan being part of the PRC.

“At the core of their opposition was their fundamental view of the legal character of the government in Taipei – that is, that is possessed sovereignty and that its status would have to be recognized if unification was to occur. Taipei’s goal has not been to avoid being part of China, as Beijing sought to frame it. Rather the issue was *how* Taiwan might be part of China ...”¹⁹⁷

PARTY CONSENSUS ON FOREIGN RELATIONS

American professor Shelley Rigger affirms that regarding foreign relations and China policies “with the partial exception of the Taiwan Solidarity Union (TSU), Taiwan’s political parties all subscribe to five common principles, differing only over what tactics will best serve these ideals.”

Those principles are, according to Rigger¹⁹⁸:

1. Avoid entrapment by the PRC. Taiwan’s political community is in broad agreement that Beijing aspires to bring Taiwan under its control. Although some Chinese leaders have made statements suggesting that the goal of “peaceful reunification” could be accomplished in a way that would not subordinate Taiwan to the PRC, the great majority of Taiwanese—politicians and ordinary citizens alike—believe Beijing’s real goal is to incorporate Taiwan into the PRC and

¹⁹⁶ Sutter, Robert G. 2005. P. 219. “China’s Rise in Asia – Promises and Perils.” Rowman and Littlefield Publishers, Inc.

¹⁹⁷ Bush, Richard. 2005, p. 81.

¹⁹⁸ Rigger, Shelley. 2004, Pp. 414-417. “Party politics and Taiwan’s external relations”. Foreign Policy Research Institute. <http://www.fpri.org/orbis/4903/rigger.taiwanpartiesrelations.pdf>

subject it to either direct or indirect rule by the Chinese Communist Party. Therefore, no political party can afford to appear weak in its determination to resist the PRC's pressure for unification.

2. *Avoid provoking the PRC.* All of Taiwan's parties agree that Beijing's ambitions threaten Taiwan's autonomy, differing only in their assessments of its intentions and capabilities and therefore the actual threat it poses. They also agree that provoking Beijing is unwise and that war with the PRC is to be avoided. None, however, suggest that war should be avoided at all cost: as the first principle suggests, unconditional surrender to Beijing's unification scheme would be unacceptable unless there was a concrete advantage to be gained.

3. *Maintain good relations with the United States.* Another point of consensus among Taiwan's political parties is that amicable and close relations with the United States are crucial to the island's security. Given Beijing's hostility and Taiwan's tenuous international position and small size, the island's survival requires the support of a powerful patron.

4. *Affirm the ROC's sovereignty by maintaining formal diplomatic ties with internationally recognized states.* Taiwan's political elites continually debate how many diplomatic partners Taiwan needs, how those relationships should be strengthened, and what cost Taiwan should be willing to pay to maintain them, but few have seriously broached the idea of giving up on formal ties altogether. The belief is widespread in Taiwan that diplomatic recognition from UN member countries—no matter how few and small—keeps alive the idea of the ROC as a sovereign state. If no countries recognized the ROC, the logic goes, the PRC would have a much stronger case for claiming that it lacked sovereignty.

5. *Strive for international sympathy and strengthen substantive ties with states and non-governmental organizations.* Taiwan's political elites agree that formal diplomatic ties are important, but they also recognize that having diplomatic relations with a handful of small countries is insufficient to secure Taiwan's place in the international community. Continually appealing to the international community for its support, having a presence at any international event that permits its representatives to appear, and maximizing economic and people-to-people ties with foreign governments are strategies on which all Taiwan's political parties agree.

Other scholars agree. Dr. Dafydd Fell, another leading Western expert in Taiwanese domestic politics, believes that “both main parties agree on expanding Taiwan's international

space. There are some differences and one way to examine these (ones) empirically would be to compare the UN referendum question wording the KMT and DPP used in 2008 or the pre-Ma and Ma U.N. applications.”¹⁹⁹

Nevertheless, he sees that “if we compare now with the 1990s there is much less optimism about expanding international space following the setbacks since the mid 1990s.”

In my opinion, there is no policy thinking or broad discussion on issues related to allied countries. (*The emphasis is mine*).

There is very scarce (almost inexistent) academic research in comparison to the study of China-Taiwan and Taiwan-US relations. Articles on the English-language media – reports, editorials, op-ed pieces -- are sporadic and temporary, often related to a concrete visit by the incumbent president to foreign nations (I did not include the Chinese-language press as I don't speak Mandarin nor the Taiwanese dialect). This is an evident contrast with the overall discussion on foreign relations in general, especially on cross-strait issues or unofficial relationships with the United States and other major world powers.

AGAINST ‘CHECKBOOK DIPLOMACY’

As an opposition party without ruling experience before 2000, Chen's Democratic Progressive Party (DPP) had criticized the so-called “dollar diplomacy” or “checkbook diplomacy” practiced by the KMT government. However, once they came to power, they realized better the constant need and the importance of having friends and allies. In general, the DPP administration continued the ‘pragmatic diplomacy’ of Lee Teng-hui, with some additions of its own.

Regarding allies, the same policies of using extensive economic aid in exchange for support continued under the Chen administration. “Checkbook diplomacy” went on. It is in Chen's period that the noisiest corruption scandals erupted in Central America.

I can mention the cases of former presidents Alfonso Portillo (Guatemala), Mireya Moscoso (Panama), Miguel Ángel Rodríguez and Rafael Ángel Calderón (Costa Rica), and Arnoldo Alemán (Nicaragua). There are more officials. Millions of dollars may have been paid

¹⁹⁹ Author's interview with Dr. Dafydd Fell. Answers to a questionnaire sent by email.

to them in bribes, or through suspicious funds, according to press reports. These allegations have never been investigated in Taiwan, and if some of those politicians have been jailed or indicted, bias and political influence on the weak judicial systems of Central America have not guaranteed a reliable investigation or a just sentence in those cases.

POWER CHANGES A PARTY AND POLITICIANS

Among politicians, one can observe that while they're in the opposition, they criticize the government for "wasting taxpayers' money," for allowing money scandals to tarnish Taiwan's reputation, and the like. But once in government, they follow the same policies.

In November 1999, a DPP White Book said, "In order to break through Taiwan's diplomatic stagnation, we must . . . seek creative strategies that can both exploit Taiwan's advantages and expand the international space." In particular, it questioned the wisdom of the KMT-led government's "reactive pattern" and "meaningless competition over the number of formal diplomatic partners."²⁰⁰

Once in power, the DPP position changed. The transfer of power from the KMT to the DPP made little difference. DPP politicians had underestimated the importance of bilateral ties, according to professor Rigger. Here is one example.

"What's the use of spending money on these smaller countries when it only promotes scandal and rumors of money diplomacy? This is harmful to our national image and also a waste of taxpayers' money," said Annette Lu, DPP's Vice President-elect, capturing her party's frustration in March 2000.

In March 2005, Vice President Lu traveled to Latin America to identify a site for a "Taiwan Industrial Park". "Costa Rica, to which Taiwan (was) providing \$15 million in grants and \$35 million in loans for the construction of a highway, (was) a likely site."²⁰¹ As we know, Costa Rica broke ties three years ago.

ACTIONS OF CHEN'S DIPLOMACY

Taiwanese diplomacy has gone through three phases since 1949: the golden era (1950-1971), diplomatic isolation (1971-1988) and pragmatic diplomacy. The last phase has lasted since 1988 up to the present, according to Dennis Hickey.²⁰²

²⁰⁰ Rigger, 2004, p. 425.

²⁰¹ Item., p. 426.

²⁰² Van Vranken Hickey, Dennis. 2007. Pp.8-14. "Foreign Policy Making in Taiwan – From principle to pragmatism." Routledge, Taylor and Francis Group, London and New York.

The pragmatic diplomacy of Taiwan is a reflection of the radical, fundamental changes that have taken place in Taiwan's society, economy, culture and politics.

Hickey makes it clear that in his opinion, Chen's diplomacy continued many of the same policies and pursued the same goals as Lee's. One of those practices, he argued in a book published in 2007, is that of the 'dollar diplomacy', that is, providing money and assistance in exchange for diplomatic friendship.

He says,

"Furthermore, despite Taiwanese government protestations to the contrary, there is evidence that Taipei still engages in some forms of 'dollar diplomacy' to retain diplomatic allies and the practice has become a divisive issue in the island's domestic politics."²⁰³

In his works, Hickey usually refers to Taiwan's allies as its "small friends" or a "small coterie" and gives them little relevance if any at all.

Just as Lee did, Chen discovered the high public image and publicity value of "transit diplomacy", "vacation diplomacy". Chen, Lu and other top officials used their trips to Central America to make noisy stops in the United States, meeting American politicians and drawing the media's attention in order to project the image of the ROC.

The Chen administration continued the bid to rejoin the UN and enter the WHO, but in both cases, the efforts were fruitless due to China's blockage. In both cases, allied nations were instrumental in the effort to draw attention. Actually, the idea of launching a bid to re-enter the UN was an original DPP idea that was appropriated by the KMT and Lee in the early 1990s.

Sometimes, the methods used to coordinate an ally's support with ways to convey Taiwan's message, stirred controversy and criticism in some countries. Critics blasted the way a given state's position was adopted because there was the impression that Taiwan was imposing the wording and the tone of official declarations calling for the ROC's inclusion in the WHO or the UN.

On the first day of the first visit by President Chen Shui-bian to Nicaragua in August 2000, the local daily La Prensa disclosed official correspondence between Taiwanese diplomats and top Nicaragua's Foreign Ministry and Health Ministry officials. The Taiwanese officials requested to know in advance the contents of the Nicaraguan delegation's speech in the 53rd

²⁰³ Item. P. 15.

World Health Assembly to be celebrated in Geneva in May, as well as the delegation's member list.

Though formally respectful, a letter from Ambassador Antonio Tsai to Foreign Minister Eduardo Montealegre, dated April 24th, 2002, was abundant in requests and details the Taiwanese wanted to know. At the same time, the letter says that even a “draft of the (speech) text” would be submitted “soon.” Special emphasis was put on the wording of support for Taiwan's acceptance in the forum. A second letter from the embassy thanked the Nicaraguan government for its cooperation.²⁰⁴

In the 8 years of Chen's rule, Taipei continued to strengthen relationships with diplomatic allies and pursue significant unofficial ties and exchanges with other friendly countries. He tried to promote and cultivate Taiwan's image as a new democracy and the Taiwanese people's right to self-determination and human rights.²⁰⁵

Great efforts were made to achieve participation in IGOs and in INGOs. Also, “people-to-people” diplomacy was pursued by the use of informal channels, volunteerism, party-to-party contacts, parliamentary exchanges, military exchanges and other kinds of interactions.

Under Chen Shui-bian, the number of diplomatic allies fell from 28 to 23. Today, these 23 states continue to recognize the ROC on Taiwan. One of the most sensitive losses occurred in Central America by the end of the Chen era: Costa Rica, country with a long democratic tradition and the largest trade partner in the isthmus, broke off ties in June 2007. It happened a few months after the ROC diplomacy had taken St. Lucia from Beijing's grip again, which fosters the impression of a sweet vengeance by the PRC.

Lee managed to increase to 12 from 16 the number of IGOs in which Taiwan became a member; under Chen, the figure rose to 26, including the WTO, APEC, and the Asian Development Bank (ADB). In 2006, Taiwan was an observer or an associate in 17 other IGOs; in 2004, Taipei became an ad hoc observer of the OECD Trade Committee, a major step in developing contacts with the developed economies.²⁰⁶

²⁰⁴ La Prensa daily, August 18, 2000. “Taiwán ordena y Nicaragua cumple.” <http://archivo.laprensa.com.ni/archivo/2000/agosto/18/nacionales/nacionales-20000818-19.html>)

²⁰⁵ Rigger, Shelley. 2001. Pp. 119-153 “From opposition to power – Taiwan's Democratic Progressive Party.” Lynne Rienner Publishers, Boulder, London.

²⁰⁶ Freund Larus, Elizabeth. 2006. P. 32. “Taiwan's Quest for International Recognition.” Issues and Studies 42, No. 2, June 2006.

Chen's used new strategies but he also assumed many of the practices inherited from Lee.

Chen was often provocative. His administration tried to change the name of "Republic of China" to "Taiwan" in certain public places and in official documents; Chen often insisted on referendums on the independence issue which failed due to the pragmatism of a majority of the Taiwanese people, who are supporters of the status quo.

RELATIONS WITH THE US

The most important relationship Taiwan has with any country is that with the United States. Washington continues to be the island's patron and ultimate security guarantor. Though there are not diplomatic official ties and the US adheres to the "one China" policy, the level and intensity of bilateral contacts and the existence of the American Institute in Taiwan (a de facto embassy), make the unofficial ties very substantial.

For the first time in recent history, an American president congratulated a Taiwanese president-elect in 2000; Bill Clinton sent his congratulations to Chen Shui-bian after his victory. Chen's triumph stunned everybody, including the US. In 2001, President George W. Bush even said that America would do "whatever it took to help Taiwan defend itself."

Nevertheless, the constant provocative statements aimed at Beijing and Chen's political games in order to foster domestic support and his poll ratings by using the independence issue deteriorated the bilateral relationship with the Americans. He was seen as a 'troublemaker', a 'provocateur', and Washington expressed his disapproval by limiting the time and activities of his stops in the U.S. when he went to Latin America on official trips. If there was a practitioner of "transit diplomacy" *par excellence*, it was him.

The lowest point of the Taiwan-US relationship was hit maybe in December 2003, when Bush, standing in the White House with the Chinese Premier Wen Jiabao by his side, strongly rebuked Chen. Without using his name, Bush called him not 'president' but 'the leader of Taiwan', adamantly opposed any "unilateral" change of the status quo in the Taiwan Strait, and reaffirmed the US commitment to the "one China" policy.

By the end of Chen's second tenure in May 2008, the bilateral ties were in a deteriorated condition.

THE BALANCE OF CHEN'S DIPLOMACY – A SUMMARY

The balance of Chen' diplomacy is a mixed one, but I think the balance is rather negative.

One of the most tense moments of his tenure was when he coined a theory of its own, that of the “one country on each side”, prompting Beijing's anger. The ROC never managed to reestablish some form of regular dialogue with the Chinese authorities as it existed in the Lee years. His frequent games with the independence issues, his attempts to change the official name of the ROC in state documents and places, his noisy foreign trips; all of this was provocative and made Beijing furious. Nevertheless, it should be said that the PRC leaders did not react positively to his initial overtures; they fell in deaf ears, pushing him to adopt a more radical rhetoric and policy, especially after his poll ratings were coming down at some moments.

The relationships with the United States severely deteriorated during the Chen years because of his controversial statements on cross-strait policies and China, his provocative actions. He was seen as a ‘troublemaker’ by Washington.

Diplomatic rivalry with China went on. ‘Dollar diplomacy’ was continued; the tenets of ‘pragmatic diplomacy’ of providing aid and investment in exchange for recognition were upheld. The number of allies reduced sensibly (from 28 to 23). The bids to join the UN and some organizations (key to Taiwan's interests) like the WHO with allied help, failed completely. However, the ROC could win membership in the WTO, APEC, the ADB (the three are very important intergovernmental organizations), observer's status in others, and membership in many other INGOs. In the case of the WTO, Taiwan's inclusion was a long process and a lot of merit also goes to the Lee government.

The atmosphere in the strait had seriously deteriorated, even though it must be said it was not only Chen's fault; Chinese unresponsiveness and stiffness also played a role.

One factor should be pointed at too: the China's rise, a geopolitical factor that has affected Taiwan's position, is a complex and powerful phenomenon with global consequences that is beyond the power of any Taiwanese leader. It constraints Taipei's options and weakens its current position in the world.

As a conclusion, the international space of the ROC on Taiwan was seriously reduced and limited under Chen. Taiwan lost more allies to the PRC, it failed to achieve its goal of

entering the U.N. and the WHO, the cross-strait atmosphere got poisoned, and the relationships with the U.S. had hit its lowest point in the last two decades.

VIII.3. MA'S 'DIPLOMATIC TRUCE'

Ma Ying-jeou, presidential candidate of the KMT, won a categorical victory in the presidential election of March 2008. He assumed his office in May that year. The KMT leader counts as one of his main policy goals to improve ties with China, fostering dialogue and détente across the Taiwan Strait.

Another of Ma's main goals was to reach an economic agreement with the PRC. It is hoped it will not only improve the business environment for Taiwanese companies in the mainland, but it should also allow avoiding exclusion from regional economic integration and trade openings in the ASEAN area. He has established 3 direct links and opened the door to mainland tourists and students.

GROWING ECONOMIC INTERDEPENDENCE

Growing economic interdependence between the two sides have provided a basis for the rapprochement. Since 1988, the accumulated Taiwanese investment surpasses the US\$ 100 billion, though some estimates put it at over US\$ 250 billion; 1.5 million Taiwanese entrepreneurs have installed their factories or do business in the provinces of mainland China and they may employ 10 million workers or more (the TIEs or Taiwan Invested Enterprises); Hong Kong and mainland China are the destination of 40% of Taiwanese exports, the PRC is the largest trade partner for Taiwan. Besides, Taiwan is one of the top investors in China together with the U.S. and Japan. It is difficult to know how much money the Taiwanese have injected into the Chinese economy in 20 years; it's well known that a large percentage of investment coming from the Virgin Islands, a fiscal paradise, are actually Taiwanese capitals that evade Taipei control of flows of capital to the PRC.

Investment in mainland China has become an imperative for Taiwanese companies in order to stay competitive globally by integrating into global chains, benefitting from China's cheap labor, skilled workforce and low-costs. In a first wave of investment, the traditional industries like shoes, textiles and basic consumer electronics moved to the PRC. Then a second wave included the food processing and petrochemical industry, and a third wave, a recent one, is the migration of the IT industry.

In the case of the strategic IT industry, Taiwanese businesses are “the backbone” of the Chinese IT sector, producing 60 to 80 percent of all Chinese IT hardware and electronic exports, according to some sources. In some provinces and small towns, TIEs are absolutely indispensable as source of employment.

The PRC and Taiwan reached their goal of signing the Economic Cooperation Framework Agreement (ECFA) last June, and the accord won legislative approval in Taiwan in the second week of August. The historical agreement, unprecedented since 1949, has been welcome by the United States as another step to diminishing tensions across the strait, assuaging security concerns in East Asia.

Economists agree that in the international division of labor, both sides are complementing each other. China provides cheap qualified labor, lower costs, market access and some research capabilities. Taiwan provides capitals, R & D, management skills and technology.

It is evident that Taiwan has become very dependent on the mainland. But some experts believe that without Taiwanese investors, many of China’s wealthiest provinces and cities would lose the crown jewels of their local economies, and China’s exports, especially IT exports, would decline sharply.

So, a large degree of economic interdependence has been achieved, and any disruption in the process could have dire consequences for both sides, not only for the smaller fish. This is the context of the ongoing rapprochement across the Taiwan Strait.

In a news conference with the foreign correspondents in Taiwan on April 24, 2010 (the author attended that conference as a member of the Taiwan Foreign Correspondents’ Club), Ma said, “40% of our exports go to the mainland, we need a mechanism to administrate that.” In his opinion, Taiwan can survive or “can handle diplomatic isolation, but economic isolation is fatal.”

MA’S 3 NO’S AND DEPARTURE FROM PREVIOUS POLICIES

Ma’s foreign policy has come to be known as “viable diplomacy” or “flexible diplomacy”. Ma defined a cross-strait strategy based on 3 principles or “Three No’s”: No unification with mainland China, no independence de jure of Taiwan, and no use of force.

The Ma Ying-jeou's "Three No's" suppose an important departure from the previous diplomatic practices of the Chen-shui Bian's and Lee Teng-hui's eras. Why?

In the first place, the search for a more space for Taiwan in the international arena has now a different approach and scope. A less strained relationship with China should allow significant Taiwanese participation in international organizations like the WHA (World Health Assembly, the body governing the World Health Organization, WHO) and others. It was possible for the first time in 2009, after more than a decade of unsuccessful attempts. Taiwan participated again in the WHA assembly this year.

Nevertheless, for the first time in more than a decade, too, Taiwan dropped its formal request of membership in the U.N. in 2009, signaling a decision to moderate the search for a more independent and assertive position in the world. It did not prevent some allies from speaking on the island's behalf at the U.N. General Assembly. Taiwan is not going to renew its appeal in 2010, too, according to public announcements.

In the second place, the present government advocates the "maintenance of the status quo" and a comeback to the "1992 Consensus" with each side having its own interpretation of what the "one China" principle means. This is a serious reversal from the "special state-to-state relationships" statement by Lee Teng-hui in 1999, and from Chen Shui-bian's phrase "one country on each side" of the strait pronounced in August 2002.

In an interview with the Mexican daily El Sol de Mexico – it caused great controversy in Taiwan --, Ma rejected to define the relationship with China as one between two states.

He said,

"Essentially, we would not define the relationship across the Taiwan Strait as a relationship of two countries or two Chinas, because our Constitution doesn't allow it. We would define this relationship as a very special one, because our Constitution, just as the Constitution of Mainland China, doesn't allow the existence of another country within the territory."²⁰⁷

The translation is mine. The original Spanish version reads like this:

²⁰⁷ Vazquez Rana, Mario. September 2, 2008. "Impulsa Taiwán la reconciliación." El Sol de México.

“Esencialmente, no definiríamos la relación a través del estrecho de Taiwán como una relación de dos países o dos Chinas, porque nuestra Constitución no lo permite. Nosotros definiríamos esta relación como una relación muy especial, ya que la Constitución nuestra, igual que la Constitución de China continental, no permite la existencia de otro país dentro del territorio”.

Ma added that Taiwan would not look for dual recognition.

Thirdly, the Ma government has adjusted the guiding principles of Taiwan’s relations with its allies, calling for what he termed a “diplomatic truce”. What does it mean? Both Beijing and Taipei should stop courting and luring the other side’s allies; such renunciation to competing for allies is a condition for talks and bilateral improvement.

The “diplomatic truce” purportedly intends to give breathing space to Taiwan, allowing it a better use of resources and their relocation, according to Dr. Harry Tseng, director of the North America Department in the Foreign Ministry. He gave a lecture on Ma’s diplomacy to a group of NCCU students in April 2009.²⁰⁸

“A diplomatic cease-fire is a necessary step for cross-strait rapprochement,” Dr. Tseng underlined.

A fundamental element of the new kind of relation with allies is a halt to “aid with political purposes,” though developmental cooperation and aid programs are continued. This policy should allow Taipei to enhance its unofficial contacts and interaction with countries like the United States, Japan, the European Union members, and Asian nations that are important.

In my opinion, a truly important element of this new Taiwan’s policy is an open admission that the existing relationship with the allies in Central America -- and elsewhere -- is, in the end, a projection of the state of affairs in cross-strait relations. Ma calls it “the root of the problem” of the Beijing-Taipei fight over diplomatic recognition. Besides, the loss of allies has always been a political setback for the government in charge; it has always caused criticism and posed an opportunity for the opposition to attack the ruling party and its policies. This is evidence of the so-called theory of two-level game spoken about by Robert Putnam (in the theoretical framework).

²⁰⁸ Tseng, Harry. April 27, 2009. “Foreign Policy under President Ma – Viable diplomacy.” Lecture and power point presentation for the class of International Relations of Taiwan, IMTS, NCCU.

President Ma explained his rationales for a “diplomatic truce” in an interview with Time magazine in 2008. These are excerpts from the interview published on the Time website on August 11, 2008.²⁰⁹

“TIME: You've said you want to end "checkbook diplomacy". But by stopping it you run the risk that some countries will switch their recognition to China. How do you walk that line?”

“MA: Mainland China and Taiwan should not court and win over recognition of the other sides' allies. But we should certainly strengthen the existing relationships with our allies. That is totally justified. It is our international duty to help countries that need our support. But we have to do it according to international standards. You have to distinguish between purely giving money to somebody and developmental aid.

“TIME: The term "checkbook diplomacy" implies a bribe in return for diplomatic recognition. Are you saying that you want to move Taiwan away from that to a more mainstream conventional program of aid?”

“MA: The so-called "checkbook diplomacy" was prompted primarily by the vicious circle created by the almost unlimited contest between mainland China and Taiwan in the international arena. We shouldn't give [allies] cash only for political purposes. The most important thing is that we attack the problem at its root: cross-strait relations. That's why we want to use the current improvement of relations with the mainland to extend that to the international arena. If we are able to have a truce in the diplomatic area, both of us will not try to court and solicit and then win over the recognition of our allies.”

“A WIN-WIN SITUATION”

On September 25, 2008, Francisco Ou, then the Foreign Minister, delivered a report on the ROC's diplomatic activities to the Legislative Yuan.

In his report, Ou called the new government's strategy “flexible diplomacy” and emphasized that in this new approach, an improved relationship with China was a top priority as a means to ensure Taiwan's national interests. He acknowledged that “China's long-term suppression remains the crux of Taiwan's diplomatic problems. Therefore, for our flexible diplomacy to succeed, we need to improve our relations with mainland

²⁰⁹ Time magazine. “Talking to Taiwan's New President.” August 11, 2008. <http://www.time.com/time/world/article/0,8599,1831748,00.html>

China. The two sides should start by discussing issues of common interest so that mutual trust can be fostered over time.”²¹⁰

Ou states that better understanding should allow “Taiwan’s participation in international organizations.”

The (then) minister said ‘flexible diplomacy’ has two ingredients, diplomatic truce and proactive diplomacy.

“1) Diplomatic truce: The call for diplomatic truce aims to bring to an end the counterproductive competition between the two sides of the Taiwan Strait so that they can pursue co-existence and co-prosperity in the international arena. During a diplomatic truce, conduct detrimental or harmful to the national interests of Taiwan should be discontinued. A diplomatic truce is a means to an end, letting us more easily reach our ultimate goal: peace and prosperity in the Taiwan Strait. In the end we can create a win-win situation for both Taiwan and mainland China in the international community.

2) Proactive diplomacy: Taiwan’s diplomatic efforts need to be infused with professionalism. Taiwan is refocusing its resources to strengthen relations with its diplomatic allies, upgrade the level of contact with major countries in each region and integrate itself into the Asia-Pacific regional economy. In the meantime, Taiwan hopes to expand its participation in functional and specialized international organizations. In addition, it strives to create a climate that benefits its economic development, while combining forces with the private sector to promote exchange and interaction with other civil societies around the globe.”²¹¹

VIII.4. IS THE ‘DIPLOMATIC TRUCE’ HOLDING?

There is much controversy and acrimony in the media and the political circles about Ma’s “diplomatic truce”. As with other issues, there is no middle ground, just as there is no center in Taiwanese politics.

It has been working so far. I conclude that by judging from the available public information and from the opinions of some diplomats and scholars. It seems that China has not been actively trying to steal Taiwanese allies in Central America and the Caribbean since the

²¹⁰ Global Investment & Business Center, USA. “Taiwan – Foreign Policy and Government Guide.” 2009. P. 45. International Business Publications, Washington D.C. , 4th edition).

²¹¹ Item.

current administration got installed. No ally has turned its back to Taipei since Ma assumed his post.

When Chen was inaugurated in 2000, Taiwan maintained diplomatic relations with 28 countries. There were only 23 when he stepped down on May 20, 2008. Costa Rica was one of lost countries.

3 TEST-CASES

I propose to take three test-cases since President Ma took over in May 2008: Paraguay, El Salvador and Panama.

Paraguay. During the campaign and in the first months of his tenure, ex bishop Fernando Lugo, the new Paraguayan President, declared publicly his intention to cut ties with Taiwan in favor of a full relationship with Beijing. Nevertheless, China has not hurried up to grasp the opportunity to seize the last South American ally of Taiwan, and there is no public evidence of a Chinese answer, according to press reports.

Paraguay is not in Central America, but I think this case is worth mentioning.

El Salvador. The tiny country is a longtime ROC ally with a historical record of close collaboration with the Chiang Kai-shek regime in anti-Communist crusades of the Cold War.

For the first time in history, a leftist party is ruling El Salvador. Mauricio Funes, a journalist, became the new head of state in June 2009. He had been the candidate of the former Marxist, Orthodox-dominated guerrilla, the FMLN. However, he is a moderate and has pointed at Luiz Inacio Lula da Silva, the Brazilian president, as the leftist model he wants to follow, not the model of populist Hugo Chavez, well-known for his strident anti-American tirades.

It's hard to know how sincere Funes was when he said during his campaign that he would sever ties with Taiwan, or whether it was just a purely rhetorical statement to please his own party's radicals or its base.

President Ma flew to San Salvador for the official takeover ceremony and had a cordial meeting with Funes in July 2009. The latter assured Ma that his country would continue

the relationship, and the former told his Salvadoran colleague Taiwan would keep its cooperation.

Beijing sent no official delegation to San Salvador, though the local press reported that some delegates of the Chinese Communist Party, which has ties with the FMLN, attended the ceremony. Anyway, it is evident the low-profile Chinese participation, as it had a political character only.

Salvadoran Foreign Minister Hugo Martinez visited Taipei last January. After a meeting with Martinez, President Ma said Taiwan did not question Salvadoran trade exchanges with the PRC.

“As we have engaged in reconciliation with mainland China in various areas, we are not against seeing El Salvador develop an unofficial trade relationship with mainland China because it has always been our policy.”²¹²

Despite the official continuation of ties, the hard liners of the ruling FMLN party voice openly their dissatisfaction with the continuation of relationships with the ROC. They publicly advocate ties with China. A few weeks ago, Sigfrido Reyes, deputy speaker of the Salvadoran Legislative Assembly, traveled to Shanghai. During a meeting with Wang Jinzhen, a top official of the China International Trade Promotion Committee, he called ties with Taiwan an “anachronism.”

“Me, personally, and my party, the Frente Farabundo Martí FMLN, maintain that keeping relationships with Taiwan is an anachronism; besides, it is a violation of international law, because the only legitimate representative of the Chinese nation is the People’s Republic of China,” the EFE news agency quoted him.²¹³

Panama. The country hosting the famous canal has the most important economic relationship with Taiwan among its allies in Central America. Besides, this is probably the only country that represents a strategic interest for both China and Taiwan because of its maritime

²¹² Taipei Times. Jan. 14, 2010. “Ma not opposed to ally’s unofficial ties with China.” <http://www.taipeitimes.com/News/taiwan/archives/2010/01/14/2003463440>).

²¹³ EFE story in La Prensa Grafica. “Reyes promueve relaciones con China.” July 22, 2010. <http://www.laprensagrafica.com/el-salvador/politica/133178-reyes-promueve-relaciones-con-china.html>

way in the Central American isthmus. Today, Hong Kong-based Watchinson-Whampoa, a company with links to Beijing – some sources say that the People Liberation’s Army (PLA) has a major stake --, enjoys a 50-year lease for the administration of the terminal ports at both entries of the canal.

Panama has a new president, a banker and entrepreneur, Ricardo Martinelli. During his campaign in 2009, he openly called for ties with Beijing and for ending the relation with Taipei. As in the case of El Salvador and Paraguay, China keeps silent.

As Ma met Martinelli before his official takeover ceremony last July, both leaders cordially vowed to continue the relationship, with Ma promising more investment; Martinelli even asked his Taiwanese counterpart to aid Panamanian plans to build a subway system in Panama City, according to Taipei press reports.²¹⁴

And recently, press reports informed about an important donation for the Panamanian president: A jet for official use. The Taiwanese Foreign Ministry denied this was an example of “checkbook diplomacy,” as some complained. This is the excerpt from the Taipei Times story:

“The report said the Ma administration donated an Embraer Legacy 600 jet to Panamanian President Ricardo Martinelli after his plan to replace his presidential jet was rejected by the public. The report also said the deal was struck when Ma attended the inauguration of Martinelli on July 1 this year”.²¹⁵

The cost of the aircraft is US\$ 22 million, according to the leading Panamanian daily La Prensa.²¹⁶ The story published by the Panamanian daily has the following lead:

“During the campaign, the head of state Ricardo Martinelli deemed necessary to establish diplomatic relationships with China in the long run. Nonetheless, Taiwan launched a diplomatic offensive that includes visits to the country and millions of dollars in donations.”

The newspaper said Taiwanese donations to Panama amounted to US\$ 40 million only in 2009.²¹⁷

²¹⁴ Taipei Times. “Ma lauds close ties with Panama.” July 2, 2009.

<http://www.taipeitimes.com/News/taiwan/archives/2009/07/02/2003447620>

²¹⁵ Taipei Times. “Ma not opposed to ally’s unofficial ties with China.” December 29, 2009,

<http://www.taipeitimes.com/News/taiwan/archives/2010/01/14/2003463440>

²¹⁶ La Prensa daily, Panama. “Taiwan corteja a Martinelli.” December 27, 2009. <http://www.prensa.com/t.asp?d=091227p2043317>.

OPINIONS

Alexander Yui, an advisor for the Department of Latin America and the Caribbean in the ROC's Ministry of Foreign Affairs, admitted that "the truce is being respected."²¹⁸

"This diplomatic truce, I think it has been working. Nothing has been signed, but basically both sides have corresponded and have enforced this truce that, in our opinion, is not only beneficial for us but also for mainland China, and for all countries. It doesn't work only for the benefit of regional stability, but it benefits all countries, and Taiwan's friends. So far, it has worked well. (...) Now we can concentrate our diplomatic sources in those countries (allies). Earlier, we had to distribute them to face the threat from mainland China but today, this doesn't exist anymore. The resources will be kept and we'll be able to make better use of them."²¹⁹

In a recent interview with another Taiwanese diplomat for this academic thesis, he expressed his agreement with the notion that the "truce" is working, though he refused to elaborate. "Yes, it's holding," he said to me.

One can have the impression that there is acceptance of the idea that Taiwan has to find some type of accommodation with China, due to the inevitable fact of its rise; not only from the point of Taiwanese interests, but also as a response to other powers' interests, especially the U.S.

"Yes. It's holding." It's the opinion of diplomats, academics and scholars.

"Diplomatic truce is working. The military in China is not too happy with it. Chen supporters in Taiwan don't like it. U.S. likes it." That's the opinion of Dr. John Copper, a well known academic expert in China-US-Taiwan ties, author of the book 'Taiwan – Nation State or Province?' and many other works.

Copper says,

"The Chen administration pursued a policy of getting recognition from foreign countries of Taiwan, not ROC. That failed badly. (The) DPP took view that US would protect Taiwan no matter what and this angered US as did its weakening of Taiwan's military and intelligence services that had good contacts in the US, which happened

²¹⁷ Item.

²¹⁸ Author's interview with Alexander Yui, advisor of the Department of Latin America and the Caribbean of Taiwan's Foreign Ministry.

²¹⁹ Item.

because of ethnic politics and discrimination against non-Fukien Taiwanese. Taiwan's relationship (official) with US is very different now compared to pre-2008 because of a switch in ruling parties.

“China does not want to weaken Ma. Like most governments, China's does not want to deal with someone new or they do not know and understand. It is generally thought that China hated Chen and loves Ma. It is not so simple. Some Chinese officials have said in private that they liked Chen very much. [They say], ‘We caused a recession in Taiwan and increased China's leverage and made its economic overtures toward Taiwan work so much better. He alienated the US, which worked to China's benefit. He ruined Taiwan's relations with the Overseas Chinese by pursuing Taiwanization and thus hurt its diplomacy and has helped China in a number of places. He pandered to the business community in Taiwan, which is pro-China. He discredited Taiwan's democratization in China and throughout most of Asia by feeding on chaos, ethnic ill will, etc. Taiwan model of democracy is no longer taken seriously in China or in most Asian countries because of Chen’.”²²⁰

For Copper, Ma's main achievement is that

“The Taiwan Strait is no longer considered the No. 1 flashpoint (place where war using WMD might happen) in the world.”

Central American officials also agree that the tacit understanding between Taiwan and China is in place.

“Yes, it works. China is respecting the agreements. Even if some countries want to change, they don't do anything (the Chinese); they are in permanent economic negotiation (Taiwan and China),” a source told in an interview. Another official said, “It seems it is working, that's what the newspapers say.”

Dr. Jiang Shixue, a leading Beijing scholar on Latin America, says that the PRC “has never openly acknowledged this suggestion [a diplomatic truce], but “according to the observation of the international media, the mainland has taken actions to avoid more diplomatic wars with Taiwan.” Answering questions by email, Jiang wrote,

“After Taiwan leader Ma Ying-jeou came to power in 2008, relations between Taiwan and the mainland started to change. Taiwan proposes that there should be a “diplomatic truce” between the two sides. It is interesting to note that the Chinese mainland has never openly acknowledged this suggestion. But according to the observation of the international media, the mainland has taken actions to avoid more diplomatic wars with Taiwan. People in Taiwan also agree that the “diplomatic truce” is starting to pay off. One example is Paraguay. President Lugo said in the election campaign that he would shift diplomatic stance to Beijing if he could win the presidency. According

²²⁰ Interview with Dr. John Copper. Copper answered a questionnaire prepared by the author by email.

to Chiang H. John, the son of the former Taiwan leader Chiang Ching-kuo, Paraguay is the first successful example showing the effectiveness of the ‘diplomatic truce’.”²²¹

A Shanghai-based Chinese scholar interviewed in person for this thesis, also agreed that the ‘truce’ is being respected. “It’s been working since 2008,” said the scholar from Jiao Tong University who had a brief stay in Taipei. “At some point they had to stop the competition (China and Taiwan). Taiwan is not in a good position to compete with Beijing (now).” However, he also stated that “compared with 20 years ago, diplomatic relations are less important. China has growing trade exchanges [with the world], that’s important.”²²²

The academic pointed out factors related to domestic politics.

“The thing is that if Taiwan loses all its allies, it would strengthen pro-independence people, these forces could do something more radical and there would be growing frustration of the people,” he said. He acknowledged that the KMT is more cooperative with the mainland than the DPP and “if Taiwan loses 3 allies, for example, Ma would have more chances to lose the election with the DPP.”²²³

Nevertheless, “if the DPP recognized the ‘one China’ consensus, there would be a different situation,” pointed out the Chinese professor. In the end, he made it clear this point:

“No matter China is strong or weak; it will insist that Taiwan is part of China. (Its) leaders are in no political position to make concessions (regarding the Taiwan issue).” And if the “tacit agreement” of today would be broken, the fight for allies would resume.”

A Taiwanese diplomat who has served in Central America said that there are internal divisions on how to handle the Taiwan issue within the CCP top leadership. As a condition for participation in my research, he was granted anonymity, for obvious reasons. Answering some questions in written form, the diplomat stated some of his own ideas,

“In Mainland China’s politburo, there is a constant discussion on how to properly deal with the Taiwan issue, there are hawks who promote a suffocation of Taiwan on all fronts, including its diplomatic space, and there are doves who think that pushing the issue too hard will help the Taiwan “pro-independence” movement gain more sympathy. This trend sways to each side according to the developing conditions across the Taiwan Strait. For

²²¹ Author’s interview with Dr. Jiang Shixue. Jiang sent some comments by email.

²²² Author’s interview with a Shanghai-based scholar.

²²³ Item.

Taiwan, its people are fortunate to be able to fully enjoy freedom of speech, and its government is democratically elected according to its people's political will, and therefore allow for different thoughts and ideologies to co-exist. Democracy and freedom are valuable assets that we possess and hold dear, and will do our best to make sure they continue to flourish on the island."²²⁴

A mutually beneficial distended atmosphere seems to have given confidence inside the diplomatic headquarters. "The need for the PRC to try to get Central American countries to switch recognition from the ROC to the PRC is no longer a priority," the experienced diplomat said. He estimated that the odds for a scenario of the ROC's total diplomatic isolation "are very slim" now.

"But if it happened, Taiwan's international recognition would most certainly be reduced, and it will be a blow to the ROC in its ongoing conflict with the PRC, but as long as there are other countries recognizing the Republic of China on Taiwan as a sovereign country, it's not the end of the world. When the ROC was forced out of the United Nations in 1971 and the subsequent hemorrhage of countries switching recognition from the ROC (Taiwan) to the PRC [occurred], Taiwan not only did not disintegrate as many predicted it would, but instead it eventually became a world economic powerhouse. We know our way around in terms of survival."²²⁵

A Central American diplomat did not agree with that notion. "What Taiwan would be without allies? Allies allow Taiwan to be what it is," the official said.

A CRITICAL VIEW FROM DPP'S POSITIONS

Even critics of the 'diplomatic truce' admit that it seems to be in place, that Taiwan has made some gains in international participation and that China is not trying to deprive Taipei of more allies nor it is looking to lure some of Beijing's friends. However, they point at what they consider are dubious aspects of the 'truce'.

Dr. Jaushieh Joseph Wu, former chairman of the Mainland Affairs Council and former Taiwan's representative in Washington, said that though Taiwan has become an observer in the WHA, this participation "is not substantive," and that despite the tacit agreement, the Chinese diplomacy continues to build important, unofficial ties with Taiwan's allies.

Wu's views are close to those of the DPP views. Here are his comments:

²²⁴ Interview with a Taiwanese diplomat. He sent his comments in written form.

²²⁵ Item.

“In some sense, it seems to be working (the ‘truce’). For instance, on Taiwan’s international participation, we’d been fighting for participation in the WHO for quite a few years, but we never got a chance to become an observer. But beginning since 2009, we were able to become an observer. Many people, especially government officials, take this as evidence of the results of the ‘diplomatic truce’. Another important element is that China doesn’t steal our diplomatic allies and we don’t try to get more diplomatic allies. Beginning from President Ma’s inauguration, we don’t see any of those Taiwan’s diplomatic allies switching diplomatic recognition. But people studying this also find some problems.

In international participation, yes, last year we became an observer of the WHA, but the process is not transparent. We keep asking the government: Who went to China to speak to Chinese officials to allow Taiwan to become an observer? The government simply won’t tell us. [There is] ample room to speculate what we might have promised China, things like ‘Taiwan is part of China’, or we accepted the 2005 memorandum of understanding that Taiwan is part of China for Taiwan to participate in the WHO.

[Besides] participating in the WHA as an observer, we are not able to participate in another international organization where we have not become an observer or a member yet. (...) the Chinese attitude is still ‘no’.”²²⁶

Even in the WHO, “substantive participation has been reduced,” says Wu. He argues that under the DPP administration, Taiwan was able to send his experts to some technical meetings of the WHO, but now Taiwanese experts are not taking part in such meetings.

He added,

“Regarding diplomatic allies, the government has issued orders to our diplomats around the world that we are not going to pursue more relations with those countries that do not have diplomatic ties with Taiwan. In other words, the Taiwan government has stopped its efforts in building more connections with those smaller countries that do not have diplomatic ties with Taiwan but have diplomatic ties with China.

At the same time, we don’t see Chinese officials stopping their activities, they are unofficial but they are substantive relations with our diplomatic allies. Their relations continue (to be) built. In the long run, we are limited to those diplomatic allies, and we are not able to stop China from building more leverage. In 2012 the DPP is able to make a comeback. China can punish Taiwan by taking away a few of those diplomatic allies.”²²⁷

Talking about the perspectives of future Central American-Taiwanese relations, Dr. Wu says that the ties are “O.K. so far,” but he criticized public statements by Ma that he views as disrespectful to allies.

²²⁶ Personal interview with Dr. Jaushieh Joseph Wu.

²²⁷ Item.

“It’s still good at this moment, but it seems that some among our allies don’t seem to be happy with the way President Ma handles relations with those countries. We already heard lots of complaints from our diplomatic allies whenever the president says, ‘We need to abandon money diplomacy.’ It sounds like a humiliation to our diplomatic allies when they receive aid. That’s one element I see that might not be good in the [relationship] with our diplomatic allies in Central America. But other than that, I see the relations are O.K so far, it’s not terribly good but it’s OK, it should not be a problem to maintain diplomatic relations while the truce is in place.”



VIII. CONCLUSIONS

Taiwan and China have long fought a fierce war over recognition in all continents. It is in the Western Hemisphere where Taiwan has been more successful: out of its 23 remaining allies, 12 of them in Latin America, and despite the loss of Costa Rica in 2007, Central America continues to be the last stronghold of its diplomacy. Six among the seven countries of the Central American isthmus recognize the Republic of China in Taiwan.

These relationships have mainly a political strategic value for the ROC. This recognition confers legitimacy to the beleaguered and isolated island as a state, as entering into relationships with other states is one of the requirements of being a state under international law. Those friends have allowed Taiwan to make the world hear its voice in international forums. They provide a minimum of breathing space to Taipei.

Taiwan is a country that lives from trade with the world. It is highly dependent on world's demand and exports. From an economic and trade point of view, no Latin American nation, no Central American nation, is a major trade partner. Latin America as a whole represents less than 3% of global Taiwan's trade. This fact underlines the predominant political character of Taiwan's diplomatic ties with Central America, the area that is the object of this research.

For Central America the island is a singular friend. The developmental aid and its highly regarded, necessary technical and agricultural expertise, know-how, make very positive contributions to the improvement of local communities, for small and medium-sized businesses and for all those directly benefited. Besides, investment by Taiwanese companies provides jobs and capital influx to the local economies.

Keeping allegiances has been a costly fight for both sides of the Taiwan Strait. It is more difficult and challenging for Taiwan with a much smaller economy and fewer financial resources available.

The rise of China is an inevitable and uncontrollable geopolitical fact of the early 21st century. The requirements of globalization have forced Taiwanese companies to go en masse to mainland China in order to stay competitive globally, and invest heavily there.

China has more power and influence today than in the beginning of the decade, when Chen Shui-bian became ROC's President. Its rising weight in the world economy and trade; its growing diplomatic importance; its fast military modernization has tilted the balance of forces in the Taiwan Strait to its side; its larger soft and hard power: all of these factors have made more precarious Taiwan's position, reinforced its isolation and limited the options available to any Taipei government. Besides, the United States remains the ROC's most important ally and patron, but this powerful benefactor does not want a war with China over Taiwan, and does not want tensions or possible miscalculations.

Under Lee Teng-hui and Chen Shui-bian, Taiwan went to the world in search of more space and to enhance its international status. The supreme goal was to rejoin the United Nations, a situation that would consecrate the "normalization" of Taiwan as a new and independent state. Diplomatic ties, substantive relations with economic powers and participations in international organizations were high on the agenda. Unfortunately for Taiwan, the efforts to gain larger, significant space in the international arena have been fruitless. One after another, Taiwanese attempts to join the U.N. or other relevant IGOs (besides the WTO and some organizations) have failed because of China's stiff opposition. Beijing has successfully isolated Taiwan from regional integration, too. Except allies, nobody dares provoke China's anger by advocating the Taiwan's cause. If there were 28 allies in 2000, now only 23 remain.

Given the significant change in the balance of power both in Asia and the world due to the rise of China, it was absolutely necessary for Taiwan to change its strategies and moderate its expectations and policies. Instead of confronting China, Taiwan has opted for dialogue, cooperation and increased economic exchanges, whose best expression is the ECFA. Nonetheless, Taiwan has had to take a bitter pill: it has suspended (dropped?) its formal efforts to join the U.N. or another international organizations.

Losing allies was always an embarrassing happening for any of the two sides, as it represents a terribly shameful "loss of face." But any won or lost battle in the long war went far beyond. For both sides, the results of the diplomatic competition had important domestic consequences. In Taiwan, any diplomatic setback fed the opposition's blasting of "dollar diplomacy" and weakened the cabinet in charge. In a China where nationalism has become a major mobilizing ideology instead of communism, no top leader can compromise on territorial

integrity and sovereignty issues, as they are strategic and related to the legitimacy of the CCP continuous grip on power. Moreover, some fear that total isolation may lead to a radicalization and strengthening of the pro-independence forces on the island: a declaration of independence could be an outcome with likely dangerous consequences for all the parts involved.

In Central America, we have seen only two cases of breaking off ties with Taiwan. First, in the 1980s, Cold War circumstances led the Sandinista government of Nicaragua to establish ties with Beijing. In 2007, Costa Rica severed its ties with the ROC for a variety of reasons: the main reason was a special trade relationship between Costa Rica and China and Hong Kong, dominated by the business and needs of chipmaker Intel; besides, the Chinese offer of aid for diplomatic allegiance was very high, and probably Taiwan could not equal it. Sadly, allied countries have played the Beijing card and the Taipei card to their convenience, a real-life conditions the Taiwanese diplomacy and its Beijing rival have had to face for decades. Keeping their support has often meant significant resources for both sides, and particularly for the smaller contender, Taiwan.

Diplomatic recognition is not as important to the PRC as it is to Taiwan. “Trade is more important now,” a Chinese expert said. He may be quite right. Despite the inexistence of diplomatic ties and some structural and institutional obstacles, China has increased its trade with Central America, a region that has become a respectable market for its goods, and which in the future may have a larger business relationship with the PRC, given its enormous agricultural potential. So far, the main Chinese interest in Latin America has been to assure a flow of raw materials for its economic growth, the diversification of its supplies. Central America does not have the raw materials China needs.

Helplessly, Taiwan has seen how commerce with China has become more important and much larger for all its allies in Central America; in some cases, the PRC is now a major trade partner, a major source of imports. Trade volumes and profits might be a factor (not the only one) in a country’s decision to switch sides, as the Costa Rican example shows. And some major political parties – some of them are in power now -- keep contacts with the CCP, an important bond that could prove useful in the future as it has proved to be in the past. This means that Beijing is slowly and silently gaining more leverage on the economies of Taipei’s allies in

Central America. This is an inevitable phenomenon for a double reason: it's a product of globalization and of the rise of China.

Though Central America is not an important trade relationship in China's global picture, it is politically sensitive due to its diplomatic ties with Taiwan. And the Taiwan issue is of national interest in Beijing's eyes because it is related to regime legitimacy and survival.

Thus, we clearly see that the diplomatic competition for recognition and the current 'truce' are closely associated with the domain of domestic politics.

So, I believe that a consideration of all of these factors led President Ma Ying-jeou to call for a tacit 'diplomatic truce.' The increasing disadvantageous situation had made Taiwan ask for a stopping the contest over allies. Taiwan needed to stop the drainage of resources. According to scholars, diplomats and public information in the media, the so-called 'diplomatic truce', this renunciation to luring the other side's allies is being observed by both sides.

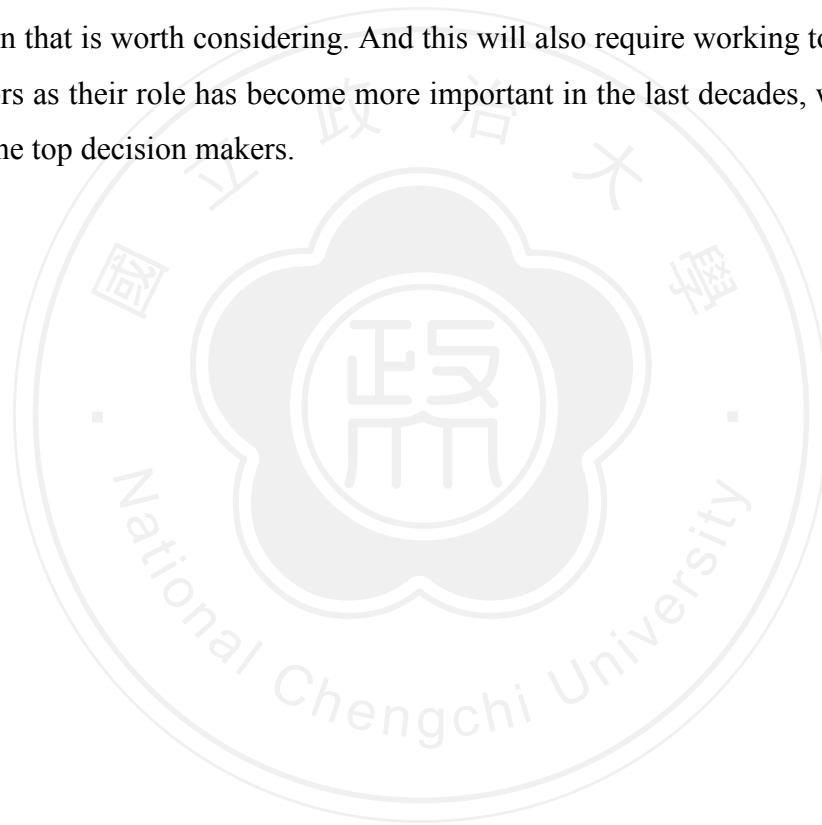
The Ma diplomacy means a significant departure from previous tenets. Taiwan and China have gone back to the so-called '1992 consensus', that is, each side admits the "one China" principle but has its own interpretation of what it means; this is clearly a reversal from the 'state-to-state special relationship' position formulated by Lee, and from Chen's 'one country on each side'. Besides, Taiwan is more selective and focused with the IGOs in which it wants to have "meaningful participation." And it has frozen its bid to join the U.N., although Taipei requests its allies to do so.

In my opinion, Ma's policies and new strategy are a form of bandwagoning, that is, in the sense that the current government has chosen not to antagonize China. It is simply the pursuing of Taiwan's goals and national interests in a more pragmatic, realistic way, taking into considerations the new realities of the balance of power in Asia, the China's rise and the position of the United States. At least, as they are conceived by a group of the political elites.

There is no way to see unification in the foreseeable future. How long will the 'diplomatic truce' hold? We don't know. Will competition for allies be renewed if cross-strait worsen again? Probably yes, especially if a new leader or new forces that want to push again for

a more important role in the world come to power in Taiwan. Those are questions open for the future. There are no easy or absolutely clear answers available now.

If Taiwan wants to retain a number of diplomatic friends, a debate should be opened on new forms of cooperation and relationships for the future. Cooperation, aid and developmental efforts for those nations should go beyond immediate political needs of local governments, but could also target strategic needs and necessary policies that will make those countries face in better shape the challenges of the 21st century. Naturally, it also requires that the potential beneficiaries do their part, which it's easy to say but more difficult to do, but that's maybe a solution that is worth considering. And this will also require working together with non-state social actors as their role has become more important in the last decades, while keeping the vital link with the top decision makers.



IX. BIBLIOGRAPHY AND REFERENCES

Books

1. Bellacqua, James (editor). 2010. "The Future of China-Russia Relations." University Press of Kentucky, Lexington, Ky., USA.
2. Bush, Richard C. 2005. "Untying the knot – Making Peace in the Taiwan Strait." Brookings Institution Press, Washington D.C.
3. Cordoba, Thais M. 2005. "The significance of Costa Rica in Taiwan's Diplomacy and the competition from Beijing." Genesis de la Lima, San Jose, Costa Rica.
4. Chang, Julia and Goldstein, Steve (editors). 2007. "Economic Reform and Cross-Strait Relations – Taiwan and China in the WTO." World Scientific Publishing Co.
5. Eisenman, Joshua; Heginbotham, Eric; Mitchell, Derek (Editors). 2007. "China and the Developing World – Beijing Strategy for the Twenty-First Century." M.E. Sharpe, New York, London.
6. Draguhn, Werner and Ash, Robert (editors). 1999. "China's Economic Security." St. Martin Press, NY.
7. Ellis, R. Evan. 2005. "U.S. National Security Implications of Chinese Involvement in Latin America." Strategic Studies Institute (SSI), U.S. Army War College and the Latin American and Caribbean Center (LACC).
8. Ellis, R. Evan. 2009. "China in Latin America –The Whats and Wherefores." Lynne Rienner Publishers, Boulder, Colorado, U.S.
9. Gong, Gerrit W. (editor). 2000. "Taiwan Strait Dilemmas – China-Taiwan-U.S. Policies in the New Century." The CSIS Press, Washington D.C.
10. Lacayo, Antonio. 2006. "La Difícil Transición Nicaragüense – En el Gobierno con doña Violeta." Fundación Uno, Managua.
11. Lee, Wei-chin and Wang, T.Y. (editors). 2003. "Sayonara to the Lee Teng-hui Era – Politics in Taiwan 1988-2000." University Press of America.
12. Lei, Chun Kwok and Yao, Shujie. 2009. "Economic convergence in Greater China – Mainland China, Hong Kong and Taiwan." Routledge, Taylor and Francis Group, London and NY.
13. Memoria del Ministerio de Relaciones Exteriores de la República de Nicaragua, 2002. Minex, Managua.
14. Morgenthau, Hans J. , Thompson, Kenneth W. 1985. "Politics among Nations." Sixth edition. Alfred A. Knopf Inc., New York.
15. Nye, Joseph S. 2007. "Understanding International Conflicts – An introduction to theory and history." Pearson Longman. Sixth edition.
16. Nye, Joseph S. and Keohane, Robert O. 2001. "Power and Interdependence." Longman, 3rd edition.
17. Rigger, Shelley. 2001. "From opposition to power – Taiwan's Democratic Progressive Party." Lynne Rienner Publishers, Boulder, London.

18. Robinson, William I. 2008. "Latin America and Global Capitalism – A critical globalization perspective." The Johns Hopkins University Press.
19. Roett, Riordan and Paz, Guadalupe (editors), 2008. "China's Expansion into the Western Hemisphere – Implications for Latin America and the United States." Brookings Institution Press, Washington D.C.
20. Ross, Robert S. and Feng, Zhu (Editors). 2008. "China's Ascent – Power, Security and the Future of International Politics". Cornell University Press, Ithaca and London.
21. Sheng, Lijun. 2002. "China and Taiwan – Cross-Strait Relations Under Chen Shui-bian." Zed Books, Londond and NY; Institute of Southeast Asia Studies, Singapore.
22. Sutter, Robert G. 2008. "Chinese Foreign Relations -- Power and Policy since the Cold War". Rowman and Littlefield Publishers Inc., U.S.A.
23. Sutter, Robert G. 2005. "China's Rise in Asia – Promises and Perils." Rowman and Littlefield Publishers, Inc. U.S.A.
24. Tsai, Shin-Yuan. 2007. "Globalization Effects on China's Influence on Taiwan Economy." Peter Lang GmbH Europaischer Verlag der Wissenschaften, Frankfurt am Main 2007.
25. Van Vranken Hickey, Dennis. 2007. "Foreign Policy Making in Taiwan – From principle to pragmatism." Routledge, Taylor and Francis Group.
26. Wang, John Kuo-Chang. 1984. "United Nations Voting on Chinese Representation – An Analysis of General Assembly Roll-Calls 1950-1971." Institute of American Culture, Academia Sinica, Taipei.
27. Wang, Yu Shan (Editor). 1990. "Foreign Policy of the Republic of China on Taiwan – An Unorthodox Approach." Praeger.
28. Wong, John and Lu, Ding. 2002. "China's Economy into the New Century – Structural Issues and Problems." Singapore University Press, East Asian Institute, National University of Singapore.
29. Yang, Maysing H. (editor). 1997. "Taiwan's expanding role in the international arena." M.E. Sharpe Inc.
30. Yuan, I (editor). 2008. "Cross-Strait at the turning point: Institutions, Identity and Democracy." 2008. Institute of International Relations and Center for China Studies, National Chengchi University, Taipei, ROC.
31. Yuan, I (editor). 2005. "Rethinking New International Order in East Asia: U.S., China and Taiwan." Institute of International Relations and Center for China Studies, National Chengchi University, ROC.
32. Zhao, Quansheng and Liu, Guoli (editors). 2009. "Managing the China Challenge – Global Perspectives". Routledge, Taylor & Francis Group, London, New York.

Academic Journal Articles, Reports

33. Christoffersen, Gaye. 1996. "China and the Asia-Pacific: Need for a Grand Strategy." *Asian Survey*, Vol. 36, No. 11 (Nov. 1996), pp. 1067-1085.
34. Davy, Megan. July 2008. "What does China's Growth portend for Latin America?" Paper for Development Policy Outlook, American Enterprise Institute.
35. Dominguez, Jorge I. "China's Relations with Latin America: Shared Gains, Asymmetric Hopes." June 2006. Working paper for the Inter-American Dialogue, a Washington-based think tank.
36. Dumbaugh, Kerry and Sullivan, Mark P. 2005. "China's Growing Interest in Latin America." CRS Report for U.S. Congress, April 20, 2005. Order code RS 22119.
37. Erikson, Daniel P. and Chen, Janice. 2007. "China, Taiwan and the battle for Latin America." *The Fletcher Forum of World Affairs*. Vol. 31:2, Summer 2007.
38. Freund Larus, Elizabeth. "Taiwan's Quest for International Recognition." *Issues and Studies* 42, No. 2, June 2006, IIR, NCCU.
39. Gallagher, Kevin P. and Porzecanski, Roberto. 2008. "China Matters – China's Economic Impact in Latin America." *Latin America Research Review*, Vol. 43 No. 1. Pp. 185-200.
40. Jenkins, Rhys; Dussel Peters, Enrique; Mesquita Moreira, Mauricio. "The impact of China on Latin America and the Caribbean". *World Development*, Vol. 36, No. 2 2008. Pp. 235- 253.
41. Johnson, Stephen. 2005. "Balancing China's Growing influence in Latin America." Backgrounder No. 1888, Heritage Foundation, Washington D.C., Oct. 24, 2005.
42. Li, He. "Rivalry between Taiwan and the PRC in Latin America." *Journal of Chinese Political Science*, vol. 10., no.2, fall 2005.
43. Nathan, Andrew. 1996. "China's goals in the Taiwan Strait." *The China Journal*, No. 36 (July 1996), pp. 87-93.
44. Mora, Frank O. 1999. "Sino-Latin America Relations: Sources and Consequences, 1977-1997". *Journal of Interamerican Studies and World Affairs*, Vol. 41, No. 2, Summer 1999. Published by the Center for Latin America Studies at the University of Miami.
45. Sobel, Richard. 1995. P. 290. "Contra Aid Fundamentals: Exploring the Intricacies and the Issues". *Political Science Quarterly*, Volume 110, No. 2, 1995, pp. 287-306.
46. Sutter, Karen M. 2002. "Business Dynamism across the Taiwan Strait: The Implications for Cross-Strait Relations". *Asian Survey*, Vol. 42, No. 3 (May-June 2002), pp. 522-540.
47. Tung, Chen-yuan. 2005. "An Assessment of China's Taiwan Policy under the Third Generation Leadership". *Asian Survey*, Vol. 45, No. 3 (May-June 2005), pp. 343-361.
48. Tseng, Harry. April 27, 2009. "Foreign Policy under President Ma – Viable diplomacy." Lecture and power point presentation for the class of International Relations of Taiwan, IMTS, NCCU.

49. Yahuda, Michael. 1996. "The International Standing of the Republic of China on Taiwan." *The China Quarterly*, No. 148, Special Issue: Contemporary Taiwan (Dec. 1996), pp. 1319-1339.
50. Wang T.Y. 2001. "Cross-Strait Relations after the 2000 election in Taiwan: Changing tactics in a new reality." *Asian Survey*, Vol. 41, No.5 Sept.-Oct. 2001, pp. 716-736.

Websites and links

51. AFP (Agence France Press). "Crean Cámara de Comercio Guatemala-China." April 2, 2008. Story published by Radio La Primerisima website. <http://www.radiolaprimerisima.com/noticias/resumen/27161>)
52. Banco Central de Reserva de la República de El Salvador. Website: <http://www.bcr.gob.sv>
53. Bloomberg. "Venezuela to Boost Crude Oil Exports to China by 25%." September 25, 2009. http://www.bloomberg.com/apps/news?pid=newsarchive&refer=latin_america&sid=aK6fesrIsPC4)
54. Bureau of Foreign Trade, Ministry of Economic Affairs, ROC. Website: <http://eweb.trade.gov.tw/mp.asp?mp=2>
55. Cámara de Comercio y Cooperación China-Guatemala. Website: <http://www.camarachinoguatemalteca.org>)
56. CentralAmericaData.com. Website: <http://www.centralamericadata.com>
57. China Post daily. <http://www.chinapost.com.tw>
58. CIA World Fact Book. <https://www.cia.gov/library/publications/the-world-factbook/>
59. EFE news agency. Story published in La Prensa Grafica. "Reyes promueve relaciones con China." July 22, 2010. <http://www.laprensagrafica.com/el-salvador/politica/133178-reyes-promueve-relaciones-con-china.html>
60. El Diario de Hoy daily, El Salvador. <http://www.elsalvador.com>
61. El Nuevo Diario daily, Nicaragua. <http://www.elnuevodiario.com.ni>
62. El Sol de México daily. Interview with Taiwan's President Ma Ying-jeou by Mario Vazquez Rana. "Impulsa Taiwan la reconciliacion." September 2, 2008. <http://www.oem.com.mx/elsoldemexico/notas/n836891.htm>
63. Estrategia y Negocios magazine. <http://estrategiaynegocios.net>
64. Inter-American Development Bank (IDB). ("China joins IDB in ceremony at Bank headquarters." January 12, 2009. IDB website. Link: <http://www.iadb.org/news-releases/2009-01/english/china-joins-idb-in-ceremony-at-bank-headquarters-5095.html>).
65. International Cooperation and Development Fund (ICDF). Website: <http://www.icdf.org.tw>.
66. Jiang, Shixue. Blog: <http://blog.china.com.cn/jiangshixue/art/862362.html>

67. Kitomi Corp. Website: <http://www.kitomicorp.com>
68. Latin Trade magazine. <http://latintrade.com/>
69. La Nacion, Costa Rica. <http://www.nacion.com>
70. La Prensa Grafica, El Salvador. <http://www.laprensagrafica.com>
71. La Prensa daily, Nicaragua. <http://www.laprensa.com.ni>
72. La Prensa daily, Panama. <http://www.prensa.com>
73. La Tribuna daily, Honduras. <http://www.latribuna.hn>
74. Ministerio de Comercio Exterior de Costa Rica. Website: <http://www.comex.go.cr>
75. Ministerio de Economía de la República de El Salvador. Website: <http://servicios.minec.gob.sv>
76. Ministerio de Economía de la República de Guatemala. Website: <http://www.mineco.gob.gt>
77. Ministry of Foreign Affairs, People's Republic of China. Website: <http://www.mfa.gov.cn>
78. Ministry of Foreign Affairs, Republic of China. <http://www.mofa.gov.tw>
79. Prensa Libre daily, Guatemala. <http://www.prensalibre.com>
80. Taipei Times daily. <http://www.taipeitimes.com>
81. Taiwan Statistical Book 2009, Council for Economic Planning and Development, Executive Yuan, R.O.C. (Taiwan); Department of Investment Services, MOEA, "Invest in Taiwan" website: <http://investintaiwan.nat.gov.tw/en/>
82. Time magazine: <http://www.time.com>
83. Taiwán Hoy. <http://taiwanhoy.nat.gov.tw>
84. United Nations Commodity Trade Statistics Database, U.N. Comtrade website: <http://comtrade.un.org>
85. US State Department. Website: <http://www.state.gov>
86. World Bank. Website: <http://www.worldbank.org>
87. Xinhua news agency. "China's Policy Paper on Latin America and the Caribbean", November 5, 2008. (http://news.xinhuanet.com/english/2008-11/05/content_10308117.htm). Checked on July 05, 2010.

Interviews

1. Interview with a Chinese scholar from Jiao Tong University (under anonymity).
2. Interview with Colonel Deglyns Tinoco, Nicaraguan military attaché in Taiwan.
3. Interview with Dr. Jiang Shixue, vice president of the Chinese Association of Latin American Studies, deputy director-general of the Chinese Center for Third World Studies (written comments sent by email).
4. Interview with Dr. John Copper from Rhodes College, USA (answers to questionnaire sent by email).
5. Interview with Dr. Norman Caldera, Nicaragua's former foreign minister (answers to questionnaire sent by email).

6. Interview with Dr. Arturo Cruz, former Nicaraguan ambassador in Washington, lecturer at INCAE business school in Nicaragua (telephone interview).
7. Interview with Dr. Jaushieh Joseph Wu, former chairman of the Mainland Affairs Council and former head of TECRO in the US, NCCU IRR Research Fellow (personal interview).
8. Interview with Dr. Alexander Yui, Advisor, Department of Latin America and the Caribbean, Ministry of Foreign Affairs, ROC (personal interview).
9. Interview with a Taiwanese diplomat with experience in Central America (answers to questionnaire sent by email).
10. Interviews (2) with sources from Nicaragua's Foreign Ministry (under anonymity).
11. Interviews (2) with sources from Honduras' Foreign Ministry (under anonymity).
12. Interview with a source of Belize's Foreign Ministry (under anonymity).
13. Interview with Dr. Dafydd Fell, deputy director of the Centre of Taiwan Studies, University of London (answers to questionnaire sent by email).

