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Master's Thesis

The Impact of Shifting Diplomatic Recognition from ROC to PRC on Latin American Countries' Political and Economic Development: Case Studies of Panama, El Salvador, and Costa Rica

外交承認轉變對政治及經濟發展的影響：巴拿馬、薩爾瓦多和哥斯大黎加三國的個案研究

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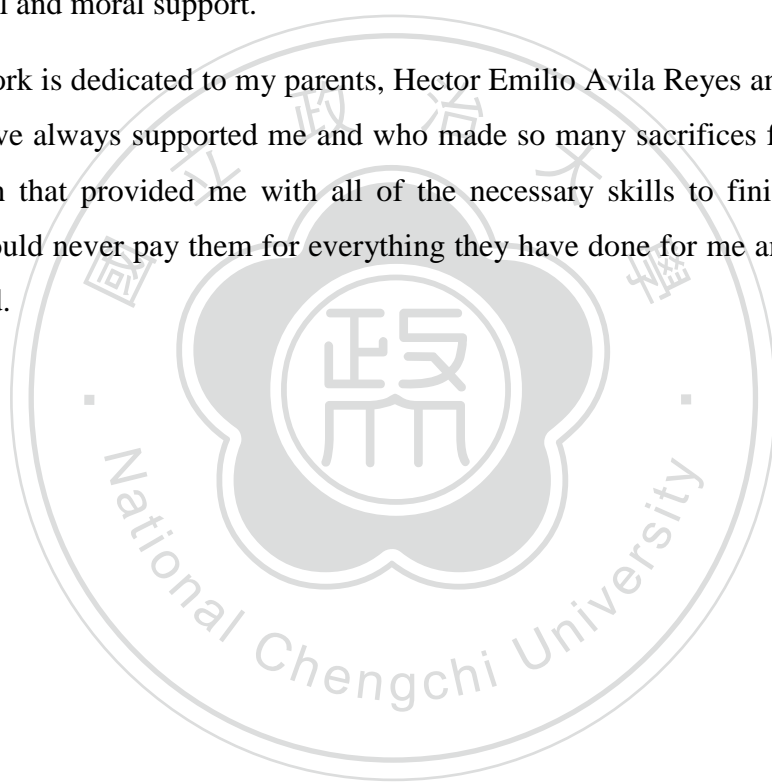
Abstract

China's undeniable growth and its increasing influence around the world has made it very attractive for small developing countries that have diplomatic relations with Taiwan to shift or consider shifting their diplomatic relations from Taiwan to China. There has been increasing studies performed trying to analyze the effect that establishing relations with China has on these countries' development. However, the literature focuses mostly on China's effect on African countries' development. Using a qualitative approach and regression discontinuity as a method, this research demonstrates the impact that shifting diplomatic recognition from Taiwan to China has had on Latin American countries' political and economic development. To do so, the research analyzes the impact in three specific countries, Panama, El Salvador, and Costa Rica. These three countries were selected not only because they needed to be countries that had relations with Taiwan and shifted to China, but also because of their similar conditions. It uses six variables to measure the impact in the political development and four variables to measure the impact in the economic development of these countries. The research shows that the impact of shifting diplomatic recognition to China is different in each country. In Panama, it had a negative impact in the political development, but a positive impact in the economic development. In El Salvador, it also had a negative impact in the political development, but it had no impact at all in the economic development. Lastly, In Costa Rica, there was not an effect at all in the country's political development, and there was a negative impact in its economic development.

Keywords: China, Taiwan, diplomatic relations, regression discontinuity, political development, economic development, Panama, El Salvador, Costa Rica

摘要

中國毋庸置疑的茁壯及其在世界上與日俱增的影響力，使得與臺灣有邦交關係的發展中國家轉移甚或考慮將外交關係由臺灣轉向至中國一事具備十足的吸引力。愈來愈多的研究試圖分析與中國建立外交關係對這些國家發展之影響，而文獻多著重於中國對非洲國家發展的影響。本文採取質性研究方法與不連續回歸設計，展示外交承認從臺灣移轉至中國對拉丁美洲國家政治及經濟發展的影響。為此，本研究分析了對巴拿馬、薩爾瓦多以及哥斯大黎加特定三國的影響；這三個國家所以中選，不僅因過往必須同臺灣具外交關係爾後轉向中國，同時也因三國間相似的條件。文中分別使用六項變數衡量對政治發展的影響和四項變數衡量對經濟發展的影響，研究發現外交承認轉移至中國對各國的結果是大相逕庭。就巴拿馬而言，對政治發展產生負面影響，但對經濟發展則有正面影響；薩爾瓦多方面，雖同樣對政治發展有著負面影響，經濟發展卻毫無影響；最後是哥斯大黎加，該國政治發展完全沒有影響，對其經濟發展則是負面影響。

關鍵詞：中國、臺灣、外交關係、不連續回歸設計、政治發展、經濟發展、巴拿馬、薩爾瓦多、哥斯大黎加

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Chapter 1 Introduction

1.1 Introduction

Tensions between nations and battle over recognition by other states is not a new phenomenon within international relations. A similar situation happened between the United States and the Soviet Union during the cold war. Although in that case they were not fighting for diplomatic recognition by other states, the two nations were trying to impose their economic and political ideals over the rest of the world; the USSR was promoting communist ideals while the US was promoting its liberal and capitalist ideals. The end result of such a friction was the dismantling of the USSR at the end of the cold war in 1989 leading to the independence of several nations. In the present day, a similar situation, at a different scale and with different variables, is taking place between the People's Republic of China (PRC) and the Republic of China Taiwan (ROC). The end of the Chinese civil war in 1949 resulted in the defeat of the Kuomingtan (KMT) led government by the Chinese Communist Party. The defeated party fled to an island located 100 miles to the eastern coast of China and proclaimed themselves as the Republic of China Taiwan. After this event, the Republic of China Taiwan held a seat in the UN. Nonetheless, Taiwan lost its seat in the UN and it was given to China in 1971.

Ever since that moment, Taiwan has been seeking international recognition for it to be considered a de facto independent nation. However, China has proclaimed that there is only one China and that Taiwan should be annexed to it. Even though Taiwan is a small island, it has been able to develop a strong democracy and economy, and it has used its economic power to try to persuade other nations to provide it with diplomatic recognition. Nonetheless, China has grown to be an important player in the international arena with a stronger economy. China has been taking Taiwan's allies leaving it with few diplomatic allies. The majority of Taiwan's allies are still located in Latin America and the Caribbean. However, in recent years, several Latin American countries have decided to break their relations with Taiwan and establish relations with China. The important question here is not what makes these countries decide to change their relations to China because that can easily be answered by the vast amount of capital offered by China to these countries. The important question here is whether the countries that shifted to China experienced any political or economic development growth after doing so.

This research aims to answer this question and looks specifically to the cases of Panama, El Salvador, and Costa Rica. It will make a comprehensive analysis of several variables related to political and economic development and do a comparison of the

development levels before and after switching to China by using regression discontinuity as the research method. The study is organized in different chapters, starting with an introductory chapter, followed by a chapter dedicated to literature review, then each country's case has its own chapter, and ending with a concluding chapter

1.2 Research Motivation

In its effort to keep diplomatic allies, Taiwan has provided considerable sums of money in foreign aid and cooperation to its allied nations in Latin America. Unfortunately, more and more Latin American countries are deciding to establish diplomatic relations with China leaving Taiwan with few diplomatic allies. As it can be appreciated in table 1 on the next page, Taiwan has only four remaining allies in Latin America and four in the Caribbean, which means that out of the thirty-three countries in Latin America and the Caribbean, China has established diplomatic relations with twenty-five of these countries compared to eight that remained with Taiwan. The strong presence of China in the region is undeniable and the effects of it deserve to be studied to have an idea of how the political and economic development of Latin American countries would be shaped.

China offers these countries deals in foreign aid and cooperation that are difficult to resist, especially due to the need of these countries for some capital. However, how beneficial can it be for these countries to start relations with China? Is there a real boost in these countries development? Or is there no difference in these countries realities after changing their relations to China? Could it be actually detrimental for these countries' development to depend so much on China? The literature shows a debate upon how having close ties and having strong Chinese foreign aid can affect the development of countries. Scholars agree that China can offer more aid and investment, but they are uncertain upon what other effects close diplomatic relations with China can have.

Table 1 ROC's and PRC's Diplomatic Recognition in Latin America and the Caribbean

	Countries Recognizing the PRC (China)	Countries Recognizing the ROC (Taiwan)
Central America	México (1971) Costa Rica (2007) El Salvador (2018) Panamá (2017) Nicaragua (1985-1990; 2021)	Honduras (1941) Guatemala (1993) Belize (1989)
The Caribbean	Antigua and Barbuda Bahamas (1983) Barbados (1977) Cuba (1960) Dominica (2004) Dominican Republic (1941) Grenada (1985) Guyana (1994) Jamaica (1972) Suriname (1976) Trinidad and Tobago (1974)	Haiti (1956) St. Kitts and Nevis (1983) St. Lucia (1984-1997; 2007) St. Vincent and the Grenadines (1981)
South America	Argentina (1972) Bolivia (1985) Brazil (1974) Chile (1970) Colombia (1980) Ecuador (1980) Peru (1971) Uruguay (1988) Venezuela (1974)	Paraguay (1957)

Source: Maggiorelli, L., (2019). Taiwan's development aid to Latin America and the Caribbean and the One China Policy. Razon Critica, 7, 177-208

The main discussions of the literature will be briefly presented here. Deborah Brautigam (2011) uses the case of two African countries to show that Chinese foreign aid does

not meet the characteristics of the ODAC. Michael Asante (2018) conducts a study to show how Chinese engagement in Africa is influencing other countries to change their aid approach to become more close to trade. There are other studies like the ones by Tobias Broich (2017) and Inna Melnykovska, Hedwig Plamper, and Rainer Schweickert (2012) that have tried to prove the negative impact that Chinese aid can have in Africa and Central Asia, but the results demonstrated that there was not a strong negative relation between Chinese aid and democracy or autocratic regimes. Several research has been made mostly focusing on Africa, but most of the research fails to prove a negative relationship between having relations with China and its impact on the countries' development. However, Julia Bader (2015) and Denis Tull (2006) make important contributions to the literature upon the issue. Julia Bader (2015) shows how China supports autocratic governments more and therefore fosters autocracy. Denis Tull (2006) shows that China's influence in Africa can have positive and negative effects in the economic development, but he shows that it has a clear negative effect on the political development of the region. Although this debate can be found within the literature, the results are still inconclusive and there is a clear gap in the literature when it comes to research applied to Latin America. That is why there is a need to fill this gap and this research aims to do so.

Table 2 provides a summary of the literature that discusses this topic and some of the studies that have been done so far. After giving a look to the table, the reader can see that few of these studies have investigated the impact that China's foreign aid and close relations have in Latin America. More surprisingly, none of these studies have investigated how does the shifting of diplomatic recognition from a democratic state to a non-democratic state can affect the economic and political development of the countries that undergo the shifting. Therefore, this study can fill the current gap in the literature. The results of this study will contribute to the literature by providing clear data of how Latin American countries' political and economic development is affected by their decision of shifting diplomatic recognition from Taiwan to China.

Table 2 Literature on the Impact of China's Foreign Aid on Recipient Countries

Year	Author(s)	Main Findings	Research Scope	Time Series
2006	Dennis Tull	The economic effects that China has on Africa are mixed, because there are positive and negative effects. However, the political development of the continent has been negatively impact by China's involvement in the region.	Africa as a whole	1989-2004
2011	Deborah Brautigam	China's aid might be developmental but it does not fall into the standards of official development aid by ODAC. It does not promote the recipient countries' development.	Angola and Nigeria	Angola (2003-2010) Nigeria (2007)
2012	Inna Melnykovska, Hedwig Plamper, and Rainer Schweickert	China has a positive impact on countries that are net importers from China. Chinese financing for investment seems to reduce relevant bottlenecks for economic and, indirectly, institutional development. Having a positive impact on development.	24 post-communist countries in Central Asia.	1986-2007
2014	Julia Bader	She finds evidence that China is more likely to target autocracies with economic cooperation. It was easier for China to obtained its interest from Burma and Cambodia in comparison to Mongolia. China was more willing to target political elites in Burma	Burma, Cambodia, and Mongolia.	1990-2008

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		and Cambodia, showing that it prefers to target small autocracies.		
2016	Mario Lootz	Foreign assistance from China does not affect recipient countries' regime types, but he concludes that China does favor autocracies to provide aid.	80 countries that received ODA from China	2000-2012
2017	Tobias Broich	There is not a strong negative and highly statistically significant relationship between the democracy level of a recipient country and Chinese development finance. Autocratic regimes in Africa do not get more aid flow from China compared to democratic regimes.	Entire Africa	2000-2011
2018	Michael Oduro Asante	Norway's aid and relations in Africa have changed from an altruistic approach to a trade and interest-driven approach as a consequence of China's engagement in Africa.	Africa as a whole	1990-2017

1.3 Research Question and Hypothesis

Research Question

The research conducted tries to answer the following question: How is the political and economic development of Latin American countries affected after shifting diplomatic relations from Taiwan to China?

Hypothesis

After going over the literature, the following hypothesis can be established: the economic development of these Latin American countries is affected positively when establishing diplomatic relations with China; however, they suffer a negative effect in their political development. Therefore, this research will try to prove this hypothesis in the three

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selected countries. Nonetheless, it is important to keep in mind that this might not be the only outcome that can come as a result of analyzing the impact that establishing diplomatic relations with China has on these countries' political and economic development. It can be possible that they experience a positive impact in their economic development as well as a positive impact in their political development. Alternatively, they can have a negative impact in their economic development as well as in their political development. It is also possible that these countries experience a negative impact in their economic development, but a positive impact in their political development. Lastly, it can be that the shifting of diplomatic recognition does not have an impact in any of the factors, or just in one of them.

1.4 Research Method, Research Scope, and Limitations

Research Method

The research mainly uses a qualitative approach. This research's purpose is to compare the levels of political and economic development of countries that have shifted their diplomatic relations from Taiwan to China. It will compare the levels of development before the date they changed diplomatic relations with the levels of development obtained by these countries after the shifting of relations. Since there is an important event that is believed to have created a change in the development growth of these countries, the best method to be applied would be that of regression discontinuity. Regression discontinuity tries to prove the impact that an event has on a given outcome. For the purpose of this study, that event will be the year that the country shifted its diplomatic relations to China. The Independent variable would then be date or the specific years before and after the shift. The time frame will be determine according to the date that the country broke diplomatic relations with Taiwan and started Relations with China. This means that if the country shifted relations in 2015, which is 6 years ago, the comparison will be made 6 years before 2015 and until the present. Therefore, the dependent variable will be the levels of development during the selected years.

There will be several dependent variables to be able to measure the levels of development in the countries. The variables included will be categorized in two factors, political factors and economic factors. The following variables will be used to measure the economic development of these countries: Gross Domestic Product, Gross National Income, Infrastructure, and Unemployment Rates. The following variables will be used to measure the political development of these countries: Political Perception, Human Development Index, Corruption Perception Index, Democracy Index, Gini Coefficient, and Education (Net enrollment rates). Table 3 shows these variables in a more organized way.

Table 3 Variables

Variables Measuring Economic Development	Variables Measuring Political Development
Gross Domestic Product	Political Perception
Gross National Income	Human Development Index
Infrastructure	Corruption Perception Index
Unemployment Rates	Democracy Index
	Gini Coefficient
	Education (enrollment percentage)

The reason why these variables were chosen is because the literature points towards them as an option to measure political and economic development. All of the literature on economic development point on GDP and GNI as a way to measure economic development. Some of the other indexes that some studies used are being used here as a way to measure political development. The literature on political development is not much and it is not clear upon what is the best way to measure political development. Initially, the variables that were going to be used were number of registered political parties and voter turnout. However, because of the time being studied in El Salvador and Panama is not long enough, it would have been possible to get the data for two elections at most and a change would not have been visible. That is why it was decided to use indexes that were available on a yearly basis so that a change could be better appreciated. In the following paragraphs, the definition of each variable and the way that they will be measured will be presented.

The International Monetary Fund (IMF) states that GDP measures the monetary value of final goods and services produced in a country in a given period of time. It counts all of the output generated within the borders of a country. GDP is mostly composed of goods and services that are produced for sale in the market, but it also includes some nonmarket services, such as defense or education generally provided by the government. However, not all productive activity is included within GDP. Unpaid work, like that performed at home or by volunteering, and black market activities are not included because it is difficult to measure and value them accurately. The GDP of a country is usually calculated by their national statistical

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agency, and they compile the information from numerous numbers of sources. Notwithstanding, countries need to follow established international standards when making the calculations. The GDP will be presented in billion US dollars and the data will be obtained from the World Bank.

The OECD defines Gross National Income as gross domestic product plus net receipts from abroad of compensation of employees, property income and net taxes. Compensation of employees that are received from abroad are those that are earned by those citizens that work abroad for short periods or that work abroad but their center of economic interests remains in their home country. Property income includes interests, dividends, and all earnings of foreign enterprises owned fully or in part by resident enterprises and the other way around too. GNI per capita based on purchasing power parity (PPP) is gross national income (GNI) converted to international dollars using purchasing power parity rates, where an international dollar has the same purchasing power over GNI as a U.S. dollar has in the United States. The GNI that will be used is per capita because it is the total gross national income divided by the total population; therefore, it tells us the amount of GNI could be available per person in the country. The data will be obtained from the World Bank.

The World Bank states that countries are competing now not because of their natural resources or location, but because of the availability they have for enterprises to set their businesses there. Quality infrastructure is important because it enhance market access, facilitate product diversification, and increase investment opportunities. To measure infrastructure, this research will use data from the Global Innovation Index (GII). The GII relies on two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index, and each is built around pillars. The innovation input sub-Index is composed of five input pillars that capture elements of the economy that enable and facilitate innovative activities. The Innovation Output Sub-Index includes two pillars only, but it carries the same weight as the Input Sub-Index in calculating the overall GII scores. Each of the pillars is then divided into three sub-pillars, and each sub pillar is composed of individual indicators. Sub-pillars are calculated using the weighted average of its individual indicators and are normalized to take the form of scores between 0 and 100. The pillars' score is the calculated using the weighted average of the sub pillar scores. Infrastructure is a pillar of the GII and only the scores for that pillar will be used here. This index will be used for Panama and El Salvador and it will present their score in infrastructure on a scale of 0 to 100 being 100 the highest score. The data for Costa Rica will be retrieved from a different index and it will be explain on chapter 5.

According to the World Bank, the standard definition of unemployed people are those individuals without work, currently seeking work or that were seeking work in a recent past period, and currently available for work. People that have lost their job or that have voluntarily left their jobs are included as unemployed individuals. Some degree of unemployment is unavoidable because workers can be temporarily unemployed at any time as they look for better jobs and employers look for the right workers. It is important to highlight that for this indicator it is the labor force or the economically active population and not the total population that serve as a base for the indicator. The indicator is not perfect and can mislead people using it. There can be low unemployment rates but still have substantial poverty in a country and there can be high unemployment rates in countries with a high level of economic development and low poverty rates. The criteria for unemployment varies across countries so not all countries use the same criteria to measure unemployment. The data to measure this variable will be obtained from the World Bank.

The political perception variable will be analyzed using data obtained from the World Bank, specifically the Worldwide Governance Indicator (WGI). The WGI are governance indicators that are based on over thirty essential data sources. The data sources are rescaled and combined to create six indicators; they do so by using a statistical methodology known as an unobserved components model. The six indicators within WGI are voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. For the purpose of this research and to measure political perception, only voice and accountability, political stability, and government effectiveness are going to be used. Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Lastly, Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

The Human Development Index (HDI) was created with the purpose of emphasizing that people and their standard of living should be the ultimate criteria to determine the development of a country. The HDI is often used as a way to question governments and their national policy choices by comparing how two countries with the same GDP or GNP per capita

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can end up having different human development outcomes. The HDI assesses long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. A healthy life is measure by the people's life expectancy. The access to knowledge dimension is measured by the years of schooling of people aged 25 and older and by the number of children enroll in school. Finally, the standard of living dimension is measured by Gross National Income (GNP) per capita. The HDI scores go from 0 to 1, 0 being the lowest score meaning that there is no human development and 1 being the highest score meaning that human development is totally fulfilled. The data for this variable will be retrieved from the United Nations Development Program (UNDP).

The Corruption Perception Index (CPI) is the most used global corruption ranking in the world; it measures how corrupt each country's public sector is perceived to be. The score of each country is a combination of at least three data sources that are drawn from 13 different corruption surveys and assessments. What makes the CPI the leading measurement for public corruption worldwide is the fact that it combines different manifestations of corruption into a single globally comparable indicator. The methodology used to obtain the CPI scores follows four basic steps: selection of source data, rescaling source data, aggregating the rescaled data, and reporting a measure for uncertainty. The calculation process incorporates a rigid quality control mechanism that consists of parallel independent calculations conducted by two in house researchers and two academic advisors without any affiliation to Transparency International (Transparency International, 2022). A country's score is the perceived level of public sector corruption on a scale of 0-100, where 0 means highly corrupt and 100 means very clean.

The Democracy Index is compiled by the Economist Intelligence Unit, which is the research division of the Economist Group a UK based private company. The index concerns about political institutions and freedoms and it attempts to measure the state of democracy in 167 countries and territories. The index is based on 60 indicators that are grouped in five different categories and that measure pluralism, civil liberties, and political culture. Aside of assigning a numeric value, the index categorizes each country into one of four regime types: full democracies, flawed democracies, hybrid regimes, and authoritarian regimes. There are a total of 60 questions that are asked to obtained the index; the questions are grouped into five categories being: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture. The final score ranges from 0 to 10, where 0 to 4 are authoritarian regimes with few or none democratic practices and 8 to 10 are full democracies.

The Gini coefficient is a measure of statistical dispersion that intends to represent the income inequality or the wealth inequality within a nation. There could be some debates upon whether income inequality should be included as a variable for economic development rather than for political development. However, there is plenty of literature in section 5 of the literature review to back up the decision of including it as a variable for political development. The coefficient measures the inequality among values of a frequency distribution, like levels of income. It is used to estimate how far a country's wealth or income distribution deviates from a perfect equal distribution. A Gini coefficient of 0 expresses perfect equality, where all values are the same or where everyone has the same income. A Gini coefficient of 1, or 100%, expresses maximal inequality among values where for a large number of people only one person has all the income or consumption and the rest of the population have none; in this case, the Gini coefficient will be nearly one. This data will be obtained from the World Bank.

Lastly, the education variable will be measured by data obtained from UNESCO, it will consider participation in primary and secondary education. The indexes and tables are created by the UNESCO Institute of Statistics (UIS); the institute produces internationally recognized methodologies that measure and monitor trends at national and global levels. It delivers comparative data for all countries disregarding their development levels to provide a cross-national perspective on education, science and technology, culture, and communication. The institute of statistics collects the education data every year from official national statistics' authorities. Each UN member state designates their statistical authorities, which have to respond to UIS questionnaires. Generally, the ministry of education or the national statistics office are the one who submit education data to the UIS. "The information collected includes data on education programmes, access, participation, progression, completion, internal efficiency, and human and financial resources by all levels of education" (UNESCO, 2015).

It is important to highlight at this point that there are some causal variables that need to be presented before analyzing the impact of shifting diplomatic recognition has on these countries political and economic development. The shifting of recognition per se will not have an effect on the countries' development, but they influence some aspects that in fact affect their development. The data that needs to be presented before analyzing the variables for political and economic development are foreign direct investment and official development assistance. All of these going from China and Taiwan to the three selected countries.

The OECD defines foreign direct investment (FDI) as a type of cross-border investment where an investor that resides in one economy establishes a lasting interest and a significant degree of influence over an enterprise that is established in a different economy. There is a required percentage of ownership for an investment to be classified as FDI. The foreign investor residing on a different economy needs to have the ownership of 10 percent or more of the voting power in an enterprise located in a different economy. The OECD argues that FDI is a key element in international economic integration because it helps create stable and long lasting relations between economies. It is also an important channel for the transfer of technology between countries, it promotes international trade by giving access to foreign markets, and it is an important driver of development. FDI is composed of inward and outward values for stocks, flows and income.

The OECD defines Official Development Assistance (ODA) as government aid that promotes and specifically targets the economic development and welfare of developing countries. The Development Assistance Committee (DAC) is the entity responsible for tracking and controlling aid destined to developing countries. In 1969, the Development Assistance Committee adopted Official Development Assistance as the golden standard of foreign aid and it remains the main source of measurement for development aid. ODA data is collected, verified and made publicly available by the OECD. Even though the OECD is the main institution in charge of keeping track of the ODA from one country to another, the data that will be presented here was not extracted from the OECD database. The OECD's database only had Taiwan's ODA to other countries from 1990 to 1998, no data was found after 1998.

Research Scope

The research is measuring the effect that establishing diplomatic relations with China has on Latin American countries. Therefore, the focus is in Latin American countries that have shifted their diplomatic relations from Taiwan to China. Due to a time constraint, this research cannot include all Latin American countries that have shifted their diplomatic relations. Hence, the study will focus on three specific countries Costa Rica (held relations with Taiwan 1941-2007), El Salvador (1941-2018), and Panama (1910-2017). The reasons why these three countries were selected is because of their geographical proximity, their similar development rates, similar historical background, similar political reality, and because the three countries shifted their diplomatic relations from Taiwan to China after the 2000s. The similarities between these countries make it easier to execute the research while still providing variation when it comes to time. Table 4 provides the reader with specific information regarding each of

the selected countries' important aspects and aims to show why it is viable to select these countries based on how similar they are.

Table 4 Similar Characteristics of the Selected Countries

	Costa Rica	El Salvador	Panama
Regime Type	Presidential Democracy	Presidential Democracy	Presidential Democracy
GDP pc	12,077 USD	3,799 USD	12,269 USD
Population	5.094 million	6.486 million	4.315 million
Race	83.4% White and Mestizo, 7% are black people, 2.4% Amerindians, 0.2% Chinese and 7% other	88% Mestizos, 12% European descendent, 1% Indigenous	65% Mestizos, 2.3% Native Panamanians, 9.2% black, 6.8% mulattoes, and 6.7% white.
Official Language	Spanish	Spanish	Spanish
Religion	Roman Catholic	Roman Catholic	Roman Catholic
Location	Central America	Central America	Central America
Climate	Tropical Climate	Tropical Climate	Tropical Climate
Main Industries	Food processing, beverages, chemicals	Food Processing, fertilizers, and textiles	Construction, cement, and other construction materials

Data collected from the World Bank and World Population Review

Limitations

Fortunately, most of the data for the variables being used in this research are of public access and can be easily gotten. However, there can still be some limitations for the execution of this research. First, even though the data for most of the variable can be access easily, some of the data could still be troublesome to get. Second, there is also a limitation when it comes to time because the time frame to conduct this study is not as long as desired. Third, the biggest limitation for this research is regarding its research design. Although regression discontinuity

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has been proven an excellent method to measure the effect of a specific event on the measured variable, it is yet not able to prove causality. There can be an endogeneity problem because the level of development of these countries can be influenced by other factors. Therefore, it is hard to prove a direct relationship between the shift of diplomatic relations to China and the development of these countries. Nonetheless, that is the reason that many variables are being studied and that causal variables, especially FDI and ODA, are included to show the impact that they can have on the countries' development. However, if a statistical model could be created to include control variables to prove causality and determine if the change in each in the variables is significant and not cause by some random errors, the research would be more binding.

1.5 Research Framework

Figure 1 will show the research structure that will be implemented in order to be able to analyze the impact that shifting diplomatic relations had on the countries' political and economic development.

Figure 1 Research Framework
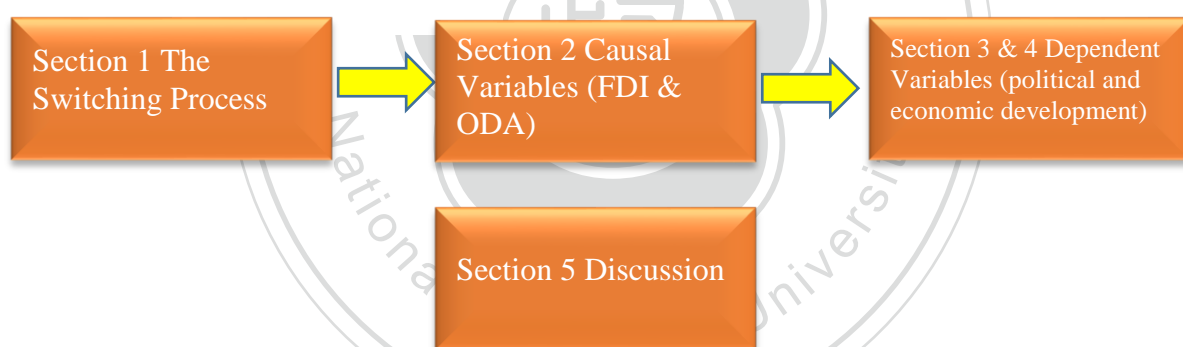
The first section will present literature, mostly from Latin American scholars, that describe the switching process and what made these countries shift to China. It basically describes the history of the relations between the countries and China until the date of the shifting, and what were some of the major events that lead to the decision of shifting diplomatic recognition. The second section will present the economic relations with ROC and PRC before and after shifting diplomatic recognition. In this section, not only literature upon the beginning of economic relations between China and the countries is presented, but also some variables like FDI and ODA are presented. These variables are causal variables because these are what in fact influence the political and economic development in the selected countries. Section 1 of the literature review presents abundant literature discussing how FDI and aid affects a country's

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economic development. Li and Liu (2004) argue that foreign direct investment increases economic growth by generating technological diffusion from the advanced companies coming from development countries to the small companies in host countries. On the other hand, foreign aid funds billion dollars reconstruction projects in war-torn countries like Iraq and Afghanistan, it also funds research to find more productive crops, provides scholarships for PhD economists at world class universities, and it also funds the expansion of primary education in Uganda, among thousands of other projects funded around different countries (Lancaster, 2007).

FDI and aid also have an impact on a country's political development. FDI creates more job and increases the country's economy, which in turn improves the population's leaving conditions making it easier for them to get a better education. Having a better education gives the population knowledge about their political rights and makes them more active. As mentioned before, ODA funds several educational programs in developing countries, which allows the younger population to have more access to education, and makes them more active in politics. These arguments are more than valid to prove that FDI and aid have an impact on a country's development. However, in this research, this argument will backed up by the studies performed by Mario Lootz (2016) and Tobias Broich (2017) the argues that the fact that China sets no conditions to grant development assistance pose a threat to democracy. This because China does not demand structural reform of governance in the recipient countries and it has a nonintervention policy. Therefore, the fact that China provides an alternative option for funding in developing countries decreases or eliminates incentives for democratization. In addition, many of the studies presented in the literature review used FDI and ODA as causal variables to analyze the economic and political development of their selected countries.

Section 3 and section 4 will execute the actual study and will analyze the change in each individual variable before and after the year of the shifting of diplomatic recognition. In the case of Panama, it will analyze the change in each variable from 2013 to 2021 because the shifting was in 2017. In the case of El Salvador, it will analyze the change in each variable from 2014 to 2021 because the shifting was in 2018. Finally, in the case of Costa Rica, it will try to analyze the change in each variable from 1995 to 2021 because the shifting was in 2007. It is important to point out that not all of the variables have available data up to 2021 for some the most recent data is 2019. The last section will provide an analysis of the results of the data in each individual variable and will determine whether the impact in the country's political and economic development has been positive, negative, or there has not been an effect. The way

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that this will be determined is by the amount of variables/indexes that were affected in either way. If at least half of them or more were affected negatively then the impact is negative and if half of them or more were affected positively then the impact is positive. In case that in half or more of the variables there was no change, then it can be stated that there has not been an impact.

1.6 Structure of the Thesis

The whole thesis will be composed of six chapters. The first chapter will be entitled "Introduction" and it will prepare the reader with all the necessary background to understand the purpose of this research/thesis. It will begging with a brief introduction in the first page that aims to introduce the main goal of the thesis. Then, it will move to present el motivation of this research, which in summary aims to fill the gap in the literature. After presenting the motivation to the reader, it will show what the research question that this research aims to answer is as well as the hypothesis that it aims to prove. Lastly, it will present the research method implemented in this research to find the best results to prove the hypothesis. In this same section, the reader can find the variables that will be used to measure the levels of political and economic development as well as the research scope and limitations of this research.

The second chapter is entitled "Literature Review" and it shows the current literature regarding the topic of discussion as well as the debates that can be found in the literature. This chapter is composed of three sections. The first section is diplomatic relations and its influence on a country's development. This section shows what diplomatic relations are, how they can came to life, and how they can affect the economic development of a country mostly through foreign direct investment and direct foreign aid and the political development through different mechanisms. The second section is Taiwan as an ally and it shows the literature available that shows how Taiwan manages its diplomatic relations and how it is losing its allies to China due to China's greater economic assistance. The third and las section of this chapter is entitled China as an ally and it presents the available literature showing the way that China manages its relations as well as the debates that exist regarding effect that having diplomatic relations have on poor developing countries.

The third, Fourth, and Fifth chapter will present each study case and they will have the same structure. Chapter 3 is entitled "Case 1: Panama", chapter 4 "Case 2: El Salvador", and Chapter 5 "Case 3: Costa Rica" and they are divided in five sections that will carry out the research aspect of this thesis. The first section is the switching process and it will show the

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causes that lead for Panama to switch their relations from Taiwan to China, the important events that took place during that time, the important dates, and the domestic and international situation at that moment. The second section will show the economic relations with Taiwan and China before and after the shifting of relations. The third section will implement the chosen research method, regression discontinuity, to analyze the chosen variables and run a test to show how the country's political development was affected. The fourth section will do the same as the previous section, but with the variables that were chosen to evaluate the impact of the diplomatic shift in the country's development. The fifth and last section will provide a discussion analyzing the results obtained from running of both tests.

The sixth and last chapter is entitled "Conclusion" and it is basically a debrief of the whole thesis. It will tell the reader what the main findings of the research were and will provide some policy suggestions for Taiwan officials to implement in order to avoid losing the few remaining allies they have in Latin America. It will also provide some suggestions for future research what they can do to make the research better, some of the struggles they could have, and how it can be implemented in different regions and with different actors.
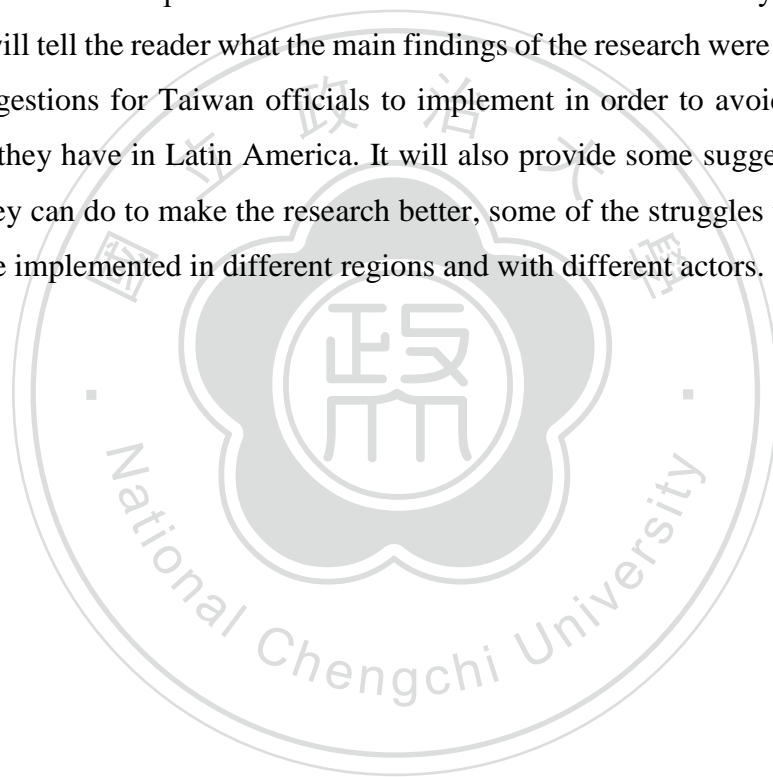
Chapter 2 Literature Review

The goal of this research is to find out how the development of Latin American countries that shift their diplomatic relations from Taiwan to China is affected by such action. Hence, it will compare the levels of development of the selected countries from when they had diplomatic relations with Taiwan to their current development levels, now having diplomatic relations with China. When talking about development, this research refers specifically to political and economic development. The research aims to prove the hypothesis that having diplomatic relations with china fosters economic development, but is detrimental for the political development of the chosen Latin American countries. It is easy to assume that the economy of these countries will improve after changing their diplomatic recognition to China because China offers more aid and investment than Taiwan. However, that is not certain and it is worth studying; as well as how is the political development of these countries affected.

Therefore, it is important to look at the current literature discussing how having diplomatic relations with China can affect the development of a country. Before we jump into the debates of whether it is positive or negative to have diplomatic relations with China, it is important to review what diplomacy is in general and how it affects a country's development. Therefore, this literature review is organized in three sections. The first section describes in the first two paragraphs how diplomacy became a field of study and what it entails. It then moves to explain how foreign direct investment and foreign aid can positively and negatively affect a country's development. It ends up by briefly discussing the effect that diplomacy has on a country's political and human rights development. The second section is Taiwan as an ally and it shows what Taiwan's diplomatic strategies are and how they have manage their diplomatic relations in Latin America. The third section is China as an ally and it shows the diplomatic strategies that China practices as well as the current debate on how China affects the development of countries it offers assistance to through diplomatic relations. The fourth section will discuss some of the literature on economic development. The fifth section will present some literature on political development, and the last section will present the concluding remarks of the whole chapter.

2.1 Diplomatic Relations and Its Influence on a Country's Development

The field of diplomacy and the concept in general has been troublesome to be defined or set clear boundaries upon what it does. G.R. Berridge (2015), professor of International Politics at the University of Leicester, states that diplomacy is an essential political activity and a major ingredient of power, which main purpose is to enable states to secure their foreign

policy goals without recurring to force, propaganda, or the law. The way this is achieved is mainly by communication between professional diplomatic agents and other officials who are expected to secure agreements. In his book The Dynamics of Diplomacy, Jean-Robert Leguey-Feilleux (2009) argues that the term diplomacy is often used loosely. Some books about the diplomacy of certain countries are generally about their foreign policy or the course of their foreign relations. Other works focus on the history of foreign relations only, and some others focus on the practice of diplomacy and the techniques used to carry out political interactions across international borders. However, he believes that at the core of the concept of diplomacy is the idea of communicating, interacting, maintaining contact, and negotiating with states and other international actors (Leguey-Feilleux, 2009).

Many of the diplomatic practices, "perhaps initially the result of expediency or simple practicality, were institutionalized over the years, and became part of customary international law. They were codified in the 1961 Vienna Convention on Diplomatic Relations and in the 1963 Vienna Convention on Consular Relations" (Young, 1964). The Vienna Convention on Diplomatic Relations codifies rules and norms of international law on the areas of diplomatic intercourse, privileges, and immunities. It was discussed and adopted by the United Nations in the Conference on Diplomatic Intercourse and Immunities on April 18, 1961, but entered into force on April 24, 1964 (Denza, 2009). States along with the International Law Commission decided early on to limit the scope of the convention and cover other issues separately. Therefore, numerous International Law Commission discussions have resulted in treaties that are closely related to the Vienna Convention on Diplomatic Relations. The Convention deals with the diplomatic law concerning permanent missions in other states. However, special missions are subject to a separate convention and the permanent missions lead by international organizations are regulated by the headquarter agreements of those organizations. Diplomatic relations and missions are legally binding by inter alia provisions, which entails that states establish diplomatic relations and permanent missions by consent of the sending and receiving state (Hestermeyer, 2009).

Bayne and Woolcock (2013) state that diplomacy has change its course and focus through time and it can now be defined as the execution of relations not only between states themselves, but between states and institutions with standing in world politics. These relations are executed by official agents and they must be conducted by peaceful means (Bayne & Woolcock, 2017). Furthermore, diplomacy encompasses various forms of diplomatic activities, such as economic diplomacy, cultural diplomacy, digital diplomacy, public diplomacy, military

diplomacy, environmental diplomacy, sports diplomacy, science diplomacy, among many others (Constantinou, Kerr, & Sharp, 2016). In fact, as the Cold War ended in 1991, economic diplomacy has emerged as the most dominant form of diplomacy (Farto, Nunes, & Morais, 2007). Economic diplomacy is not a new phenomenon, but it has been experiencing significant increase due to the growth in importance of economics within foreign affairs, globalization continues to expand promoting the spreading of a capitalist economy, and the increase of national affairs that are decided abroad (Sousa, 2019).

Economic diplomacy plays an important role in establishing a country's foreign direct investment and direct foreign aid. The first empirical researches analyzing the impact of economic diplomacy on trade and on foreign direct investments were run in the 1980's. During this period all the way to the 2000s, the studies performed on the subject showed a positive relation between trade and friendly cooperation between nations (Moons, 2017). Cezar and Escobar (2015) find a positive relation showing the heterogeneous effects of economic diplomacy in foreign direct investment between host and home countries, which also depends on the cultural proximity between them. One of economic diplomacy's main goals is to deal with the establishment of foreign direct investment and foreign aid. It is in this way that diplomacy, specifically economic diplomacy, can have an effect on the home country's development, usually poor countries highly dependent on foreign aid and foreign direct investment.

There is a vast amount of literature discussing the effect of foreign direct investment and foreign aid on host countries' development. Some of the debates discussed on those literatures will be presented here starting with how foreign direct investment affects a country's well being followed by the existing debates on foreign aid's impact on receiving countries' development and well-being. Li and Liu (2004) argue that theoretically, foreign direct investment promotes economic growth by increasing the investment level and its efficiency. Taking into account the endogenous growth model, FDI increases economic growth by generating technological diffusion from the advanced companies coming from developed countries to the small companies in the host country. Due to the better technology used by investing firms, higher quality goods and services can be offer resulting in a higher consumer welfare.

Nonetheless, there can also be a not so positive impact in host countries, for example, foreign companies might have higher wages and this can have a spillover effect in local firms,

increasing the national wage. Foreign firms can also attract skilled workers with higher salaries leaving local firms with unskilled labor (Lipsey & Sjojolm). Multiple country studies have been carried out providing us with differing results on the impact that FDI spillovers have on economic growth. These diverging results highlight the importance of host countries' characteristics and how these characteristics are needed for FDI to contribute positively to the host countries' economic development through spillovers (Niels Hermes & Robert Lensink, 2003). There are different variables that can affect the relationship between FDI and development. Reiter and Steensma (2010) conduct a study that shows how corruption can affect the impact that foreign direct investment can have on the countries development. They found that FDI inflows have a strong positive relationship with the improvement of human development when there is policy that restricts foreign investors to enter certain economic sectors and when the policy is more favorable with domestic investors. They also found that the relationship between FDI and improvement in human development is strongly positive when corruption levels are low (Lipsey & Sjoholm, 2005).

Foreign aid is one of the newest additions to the field of foreign policy. Even after the end of the World War II, foreign aid as is known today did not exist. In the nineteenth and first half of the twentieth century, there were a few temporary programs for humanitarian relief. However, the gift of public resources from one government to another, measurable and sustained over time with the purpose of improving the human conditions of the countries receiving it, was unheard of (Lancaster, 2007). Nowadays, activities and projects funded with aid from foreign governments are common and familiar in the world's poorest countries. Foreign aid funds billion dollars reconstruction projects in war-torn countries like Iraq and Afghanistan, it also funds research to find more productive crops, provides scholarships for PhD economists at world class universities, and it also funds the expansion of primary education in Uganda, among thousands of other projects funded around different countries (Lancaster, 2007).

Satish Lohani (2004) conducted a study aiming to examine whether foreign aid has a positive impact on development. She used the Human Development Index to measure development and she also incorporated indexes for knowledge, health, and standard of living. To capture the effect of foreign aid towards development she used social aid. She used ordinary least squares regression to test her hypothesis stating that foreign aid has a positive effect on human development. The results show that there is a negative relationship between foreign aid and development. However, she found that foreign direct investment as well as domestic

investment play an important role in a country's development. Mohammadou Nourou (2014) states that there are inconclusive and contradictory findings when trying to answer the question of whether aid stimulates GDP growth. He conducted a study that analyzes the direct effect of aid on other non-monetary dimensions of development. He constructed an index for social and human development and using both parametric and non-parametric methods, he found a negative relationship between aid and social development. The study shows that higher dependence on foreign aid worsens social and human development (Nourou, 2014).

Diplomacy not only influences economic development but also other types of development such as political, social, human rights, and democratization. Michael Reinprecht and Heniretta Levin (2015) made an analysis on how the European Union through the European Parliament influenced the outcome of the Arab Springs and helped these countries' democratization process. They state that in order to influenced the outcomes of the Arab Springs, the European Parliament utilized several public diplomacy mechanisms including diplomatic legislating, listening, advocacy, international exchange, cultural diplomacy, and international broadcasting. Together, these methods intended to strengthen their relationship with the civil society, enhance political dialogue, enhance rule of law in these countries, establish free elections, and improve human rights and freedoms. In his book *Human Rights Diplomacy*, Rein Mullerson (1997) examines the way in which foreign policy instruments are used to promote human rights abroad. He also argued that usually regimes that are hostile to human rights cause instability in the international community. In her article *Public Security and Diplomacy*, Pauline Kerr (2009) argues that diplomacy plays an important role in advancing the practice of human security. Human security fosters the Responsibility to Protect (R2P) principle that is composed of three components, prevent, react and rebuild. Diplomacy is involve in the execution of the three components of the R2P agenda.

Insights from the Literature

After presenting some of the literature about diplomacy and its impact on a country's development, it can be seen that diplomacy has changed significantly in order to meet the current needs of globalization and the more complicated international system. It can be learnt that there are different forms of diplomacy and that economic diplomacy has a significant impact on countries' development through foreign direct investment and direct foreign aid. It could also be appreciated that both foreign direct investment and direct foreign aid can have positive as well as negative impacts on a country, and there was a study that showed that there is a negative relationship between foreign aid and social development. Diplomacy can

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influence the political development of a country in several ways. Several examples of democratization could have been shown, but the one provided was on the European Union's intervention in the Arab Springs and its influenced on the democratization of those countries. Now that we know how diplomacy works and how it can affect the development of a nation, we can move forward to the next section that will explain how Taiwan manages its diplomatic relations and later we can see how China deals with diplomatic relations and what are some of the debates upon China's approach.

2.2 Taiwan as an Ally

Taiwan alleges that it has legal and social justifications to provide foreign aid to less fortunate countries. Gerald Chan (1997) stated that there are legal and social justifications for Taiwan to give aid. The legal justifications come from the country's constitution and foreign policy guidelines that were laid down by the Executive Yuan. Article 141 of Taiwan's Constitution stipulates that the country is in favor of the promotion of international cooperation. The social justifications are composed of a combination of political, economic, and moral reasons. Taiwan's Ministry of Foreign Affairs strongly recommended ICDF that aid should be given to countries that are friendly to Taiwan, countries that have a record of loan repayment and with a GNP per capita below $2,500. They defined friendly countries as, those who have diplomatic relations with Taiwan; those that do not have diplomatic relations but that allow Taiwanese representative offices to operate under the name of Republic of China; those who have important trade and cultural links to Taiwan; those countries that are working on improving its relations with it; and those who are not hostile to Taiwan (Chan, 1997).

Czeslaw Tubikewicz and Alain Guilloux (2011) argued that foreign aid given by Taiwan failed to prevent the country's loss of its United Nations membership, as well as, the rapid desertion of allies after this event in 1971. Nonetheless, they also argue that at least it saved Taiwan from complete diplomatic isolation. The constant use of aid diplomacy and the amount of money assigned to aid became controversial within Taiwan's politicians. Foreign Minister Chien Fu claimed that between 1984 and 1993 the loans extended by MOFA amounted to US$654.41 million. From 1999 to 2008, MOFA's budget for foreign aid took around one third of its total budget. In 2004, MOFA's budget for international cooperation of US$265.94 million was mostly spent on technical cooperation with Latin American and African allies. Even after some diplomatic losses after 2004 and budget cuts for MOFA, MOFA's budget for international kept increasing steadily (Tubilewicz & Guilloux, 2011).

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Gary Rawnsley (2014) published an article where he tries to analyze how Taiwan exercises soft power activities and uses public diplomacy to be able to engage with the international community, and to certain extent, to compensate for the absence of formal diplomatic relations with major powers. However, Taiwan's strategies for international engagement are constrained by both internal and external political environments. Taiwan has been locked by the international system into a set of challenging arrangements from which it has little control. The methods that the country is implementing to try to deal with these diplomatic challenges reveal that there is a misunderstanding of how Taiwan's soft power could be exercised effectively. A very important variable determining Taiwan's public diplomacy is related to the party that is in power. For the majority of the time, the KMT has been the party to be in power and it has chosen to represent Taiwan as the preserver of Chinese culture. They also restrain themselves from referring to political issues, such as Taiwan's long lasting democracy; they do so in order to avoid possible tensions with the PRC. This ideology has made Taiwan's soft power weaker (Rawnsley, 2014).

Daniel P. Erikson and Janice Chen (2007) published an article analyzing China's and Taiwan's battle over diplomatic relations in Latin America. At the time the article was published, Taiwan had a total of 25 countries worldwide officially recognizing it, and more than half were located in the western hemisphere. At the time, the 13 Latin American countries might had little individual influence, but together they made up the most significant states recognizing Taiwan. During this period, Taiwan was recognized by the seven Central American countries. In the Caribbean, Taiwan's alliances had been shrink down to four countries only. However, Latin American countries without official relationships with Taiwan tried to maintain good non-official relations. These relations may include opening reciprocal missions like nonprofit foundations or businesses in their respective capitals. Even though Taiwan did not have diplomatic links with many Latin American countries, it did not prevented Taiwan for undertaking significant trade with Brazil, Chile, and Mexico. Nonetheless, Taiwan believes that conducting relations with sovereign states on an equal basis is vital for the legitimacy of its own claim to sovereignty (Erikson & Chen, 2007).

Taiwan's diplomatic relations have become precarious and almost inexistent in Africa. In their article, Timothy S. Rich and Vasabjit Banerjee (2015) highlight the precarious nature of Taiwan's diplomatic relations in Africa. The post-Cold War era benefited Taiwan, but economic interests are now incentivizing African countries to stablish relations with China. Their analysis argues that economic factors have overcome political rationales when it comes

to Taiwan-Africa relations (Rich & Banerjee, 2015). Taiwan supplies needed technical and medical assistance after humanitarian or natural disasters. The Taiwanese government encourages its companies to invest in allied countries by establishing a $250 million fund to facilitate investment projects. Taiwan's most successful way to secure the support of its allies has been by financial assistance. Paraguay individually has received from Taiwan more than $30 million in grants for housing projects and it also got $20 million to build a new congress. Taiwan became Paraguay's biggest bilateral creditor when two Taiwanese banks provided the country with a $400 million loan. However, president Ma Ying-Jeou established a diplomatic truce with China reducing expenditures in foreign aid (Forman & Moreira, 2009).

Tsai Ing-wen election as the president of the Republic of China, Taiwan, in 2016 has reignited the PRC's desire to take away the remaining of Taiwan's allies. Between her election in January 2016 and her reelection in January 2020, Taiwan has lost the diplomatic support of seven countries that shifted their relations to China. After eight years of a such called diplomatic truce under President Ma Ying-jeou, China has re-started its to work on a strategy to accomplish its desire of pressuring Taiwan to unification. One of China's biggest strategies is to take away the few 14 remaining diplomatic allies to eliminate completely its international legitimacy (Shattuck, 2020). Is it worth it for Taiwan to work so hard to keep its remaining diplomatic allies? In addition, what they provide in return to Taiwan? Thomas Shattuck (2020) answers these questions in his article The Race to Zero?: China's Poaching of Taiwan's Diplomatic allies. He states that the value of these countries to Taiwan include three elements, trade relations, advocacy for Taiwan in the international arena, and provide Taiwan with some legitimacy level as a state with formal diplomatic relations. An important measure of bilateral relations is the volume of trade perform between two nations. In the case of Taiwan and the trade with their diplomatic allies, the trade levels are modest (Shattuck, 2020).

Insights from the Literature

This literature illustrates how much Taiwan works to keep its diplomatic relations with its allied countries. It shows how much aid it has given to its diplomatic allies and how it manages its aid. At the same time, it shows how it is losing more and more allies as time goes on and as China builds relations with these countries. Taiwan lost presence in Africa and was not able to counterbalance China's strong influence over the continent. The main finding of the literature shows that even though Taiwan's way of keeping its allies is by offering aid, the aid that Taiwan can offer is not comparable to the aid offer by China. Countries care less about politics and are motivated more by the economic benefit they can obtain from their diplomatic

relations with China. It can understood now how Taiwan manages its diplomatic relations and what the current situation is, it is possible to now move to China's diplomatic relations and the debate upon their effects on the development of the countries they engage in relations with.

2.3 China as an Ally

Kristian Kjollesdal (2010) analyzes the Chinese approach to foreign aid and he realized that three characteristics stand out. The first one is that Chinese foreign aid is closely tied to commercial interests and they like to say that it is mutually beneficial. This contrasts with the common understanding of foreign aid coming from western countries that aims to help the recipient county. The second characteristic is that China offers a policy of non-interference in the recipient country's foreign affairs. This allows China to build relations with any country because it does not exclude countries from its aid programs and grants due to lack of democratic values or human rights violations. The third and perhaps the most interesting one is that Chinese foreign aid is attractive because is a cooperation between south to south, catching other developing countries attention and they trying to follow China's steps (Kjollesdal, 2010). In the article written by Feng Zhingping and Huang Jing (2014), it can be seen that China has developed a strategic partnership network as a way to strengthen relations with some countries and improve trade. China established its first strategic partnership with Brazil in 1993. Few years after, China established partnerships with Russia, South Korea and India (Zhongping & Jing, 2014).

Charles Wolf, Xiao Wang, and Eric Warner (2013) believe that China's Foreign Aid and Government Sponsored Investment Activities (FAGIA) are broader than the development assistance programs executed by the US and other nations. They state that Chinese sources officially distinguish three categories of FAGIA, which are grants, interest-free loans, and concessional loans. China's state finances fund grants and interest-free loans, while concessional loans are funded by the Export-Import Bank of China. Before 2000, China's FAGIA was limited in scale and content as was China's role in the global economy in general. Due to China's remarkable and sustained economic growth, its shares of global trade increased as well as the resources available for foreign aid. Since China's continuous growth is dependent on increasing supplies of natural resources, most of China's assistance is directed to help countries develop such resources. Foreign aid going out of China was $124.8 billion in 2009, $168.6 billion in 2010, and $189.3 billion in 2011. Latin America was the region that received the most aid out of any other region between 2001 and 2011. Most of this aid was for a multi-country natural resource program that included different projects around Argentina, Ecuador,

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Brazil, Chile, and Venezuela. Nonetheless, there were also other projects focusing on power plants, transportation, housing, and telecommunications development (Wolf, Wang, & Warner, 2013).

Relations between Latin America and China have been growing rapidly over the last decades. In addition to the campaigns of military intimidation hosted by China, China has pursued a strong policy of diplomatically isolating Taiwan. This is mostly done by promising large sums of aid to the remaining allies of the island. The People's Republic of China rigorously promotes its one China policy; this means that non-recognition of the Taiwanese government is a prerequisite for establishing formal diplomatic relations with the People's Republic of China (Erikson & Chen, 2007). The Latin American and Caribbean states that are currently at the center of the diplomatic rivalry between China and Taiwan have small populations, weak economies, and are located in regions close to the United States. All of the major Latin American countries with significant economies and abundant resources, including Mexico, Brazil, Argentina, and Chile, established ties with China several years ago. This article concludes by stating that the choice between China and Taiwan will remain a highly charged foreign policy decision for small vulnerable countries in the region for years to come. However, most of the region has already settle the matter with China being the victor by far (Erikson & Chen, 2007).

China's share in Latin American exports was stable during the 1990s, but it increased by almost seven fold between 2000 and 2010. In 1990, Cuba was the only country out of the 19 Latin American countries included in the study that had a significant share of total exports going to China. By 2000, Chile, Peru and Uruguay increased their percentage of exports to China over 5%, but China was still a small market even for these small economies (Jenkins, 2012). However, by 2009, China was the top export market for Brazil, Chile, and Cuba and the second most important for Colombia, Costa Rica and Peru. The share of imports coming from China to Latin America had a similar increased as the exports. The share of imports coming from China to Latin America was steady during the 1990s, but then increased more the five-fold between 2000 and 2010. Chinese foreign direct investment in Latin America has grown rapidly in recent years, but the information and data available on FDI flows was limited and problematic (Jenkins, 2012).

There have been many controversies upon the way that China manages its foreign aid and cooperation. Deborah Brautigam (2011) made a comparative analysis on the differences

between China's definition of development assistance and the definition of development assistance provided by the Development Assistance Committee. The DAC establishes that development assistance should be as follows, "flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective and which are concessional in character with a grant element of at least 25 per cent (using a fixed 10 percent rate of discount)....Lending by export credit agencies—with the pure purpose of export promotion—is excluded" (Brautigam, 2011). China's external assistance is also defined by its concessionality and it includes grants, zero-interest loans and concessional loans. The biggest difference is that China's assistance is highly link with trade and does not have the development and welfare of the recipient country as the main priority (Brautigam, 2011).

The way in which China is promoting and managing foreign assistance is creating an impact on the recipient countries because it is influencing other donor countries to follow the same practices. Michael Oduro Asante (2018) researched the indirect effects that China's foreign aid has on third countries. His articles explores how the Norwegian has changed and how that change is related to the engagements of new development actors in Africa, focusing on China as the largest new development actor in the region. China has been highly criticized for mixing aid with trade driven by its interest in Africa's natural resources, at the expense of the region's interest in development and human rights. On the other hand, Norway's development engagement in the region have been altruistic and human rights driven. Nonetheless, in recent years, Norwegian aid has been increasingly linked to economic and business interests influenced indirectly by China. Because China has been engaging actively in Africa's development with the offering of their development assistance, it is changing the way that aid is manage in the region (Asante, 2018).

There are scholars in the field of international relations that have been interested in studying how does having strong ties with China or receiving aid from China can pose a threat to democracy. Mario Lootz (2016) states that China has become a strong donor worldwide becoming the sixth biggest donor country in the world. China sets no conditions to grant development assistance, except for the One China policy. It does not demand structural reform of governance in the recipient's country in order to supply aid. In his research, he tries to answer the question of whether China by providing an alternative option for funding to developing countries decreases or eliminates incentives for democratization. However, the results show that China does not affect regime types of the recipient countries. Inna Melnykovska, Hedwig

Plamper, and Rainer Schweickert (2012) conducted a research to find out if Russia and China promote autocracy in Central Asia. Nonetheless, the results were surprising because in contrast to Russia, China's business approach to these countries may have unintentionally had positive effects in improving governance.

Tobias Broich (2017) states that a vast amount of literature suggest that development aid from non-democratic donors, such as China, to developing countries could promote autocracy. He conducted a study using various econometric estimation techniques, but he did not find a strong negative significant relationship between the democracy level of a recipient country and Chinese development aid. Julia Bader (2014) on the other hand shows how China targets specific groups of actors in autocracies vs non-autocracies. She made an analysis of China's relations in Burma, Cambodia, and Mongolia and found out how China's noninterference policy translates into support for incumbent leaders in autocratic countries. She also shows how China has benefitted from exploiting non-transparent decision making processes to achieve its interest of gaining natural resources (Bader, 2014).

Denis Tull (2006) wrote an article trying to explain the consequences of China's engagement in Africa and the arguments he made are similar to the hypothesis that is being tested in this research. He argues that increased aid, debt cancellation, and a boom in Chinese-African trade, with a strategic Chinese focus on oil, have proven mutually beneficial for China and African state elites. Nonetheless, he concludes that the asymmetrical relationship alongside the support of authoritarian governments at the expense of human rights make the economic consequences of Chinese involvement in Africa both positive and negative, but the political consequences are proved to be deleterious. A clear example is given upon the negative economic consequences of Chinese engagement in Angola. China was sending numerous amounts of workers to work in Chinese companies in Angola and these workers were finance by a loan that China granted to Angola. They were planning to send over 30,000 Chinese workers. The transfer of personnel will clearly have a negative effect on the country's job market. When it comes to the political impact, many of the African countries were still transitioning to democracies and depending on China for aid did not help the transition because many of the processes were stop (Tull, 2006). The arguments made by Tull could help prove the hypothesis being tested in this research, if it would have been done in Latin America. However, he did not implement any method to measure the impact on development and he did not work with data. He did a literature review and got his insights from there.

Insights from the Literature

The literature presented in the section helps understand how China's diplomatic relations work and how they have change the approach they give to their relations with poor developing countries when offering aid. Most importantly, it shows the debate about what could be the impact of Chinese aid and whether it could be called foreign aid. The one in favor of Chinese aid support so because of the economic benefits that it could have on developing countries. However, many scholars criticized the transparency of this aid and how by its not intervention policies it could be fostering autocratic regimes. There is literature that tries to describe the impact that having diplomatic relations with China can have on a country's economic and political development. Even though there have been some scholars who have tried to measure the relationship between Chinese aid/relations and its impact on countries' development, the results are inconclusive and none of these studies have been applied in Latin America. There is a clear gap in the literature and this research aims to fill that gap by analyzing the impact that stablishing diplomatic relations with China have on the political and economic development of Latin American countries.

2.4 Economic Development

In his book entitled Economic Development, Gareth Rees (1998) stated that economic development could be referred to as a process of growth and change that aims to raise people's living standards. It involves growth and per capita income, but it has to be accompanied by fundamental changes in the structure of an economy. Development economics emerged as a separate discipline after the World War, and the main region of its application was Western Europe, and to a much lesser degree Japan. Economic policy demonstrated to have tremendous success in both areas after the Marshall Plan and US military assistance funds were pumped into Europe. The economies receiving these funds responded rapidly to the stimulus; they quickly regained and overtook their past development levels. In the early 1950s, after this experience, the task of promoting development in newly independent and less developed nations became more attractive to policy makers (Rees, 1998).

The move from feudal production and social organization to the establishment of capitalist forms of production in Europe was a crucial 'turning point' for world economic progress. In the Middle Ages, feudalism, an agricultural-based and hierarchical system of production organized around manors and based on the labor of serfs bound to the land, began to fall apart, particularly in England, where the Industrial Revolution heralded the arrival of the capitalist factory system as a new means of social and economic organization. With the

emergence of capitalism, the goal of production shifted from survival and stability to ever-increasing profit. Capitalist production was founded on the application of new knowledge and ever-larger amounts of physical capital that could produce more, for less money, using the same or fewer inputs (Cypher & Dietz, 1997).

For the first time in history, industrial capitalism laid the groundwork for intense production processes, which allowed for higher levels of output and wealth per person without increasing population or other resources. With intensive production and industrial capitalism, output and income were not primarily determined by the availability of resources, as they were in pre-capitalist systems of production, such as feudalism. After 1750 or thereabouts, when the capitalist system, with its factories and machines, began to triumph in several Western European countries, the trend line of income per person began to rise. The trend line of income per person did not show the sharp upward trend that characterized income growth in the developed capitalist world in those countries where capitalism did not become firmly planted, and that were not able to displace traditional pre-capitalist methods of production, referring to the less developed countries (Cypher & Dietz, 1997).

It is crucial to remember that persistent gains in per capita income, i.e., economic growth and development, is a comparatively new historical occurrence, spanning only for about 250 years. Furthermore, high levels of economic success have been significantly correlated with the growth of capitalism production methods and the displacement of pre-capitalist ways in both agriculture and industry, at least to this point. The real question that should be asked is why have some regions of the world, the developed nations, evolved such methods of production and the ways of thinking and doing that are linked with such production so powerfully, while others, the less developed countries, appear to have progressed so weakly? (Szirmai, 2015).

Economic development or growth is a major priority for underdeveloped countries. The two terms are not interchangeable. Growth is important, but it is not sufficient for progress. Increases in a country's production or income per capita are referred to as economic growth. The overall output of goods and services in an economy is usually quantified by gross national product (GNP). Economic development is defined as growth that is accompanied by changes in the distribution of output and the structure of the economy. These changes could include an increase in the material well-being of the poorer half of the population, a decrease in agriculture's share of GNP and an increase in services and industry's share of GNP, an increase

in labor force education and skills, and significant technological advances made within the country. Growth, like children, emphasizes quantitative measures, whereas development emphasizes changes in capacities, such as the economy's ability to adapt to changes. The pendulum has swung back and forth between development and growth. Near the end of the United Nations' first development decade, 1960-1970, a major shift occurred, emphasizing economic growth in poor countries. Disillusionment with the decade's development was prevalent, despite exceeding the UN target, because the benefits of prosperity did not always reach the lower half of the population (Nafziger, 2012).

Several studies analyze and measure economic development in different ways. Claudia Matthes (2016) analyzed the linkage between economic development and political participation in Poland after 2007. To measure economic development she used unemployment rate, female employment rate, and employment in the agricultural sector. In a different study, John Wilson and Catherine Mann (2003) analyzed the relationship between trade facilitation and economic development. The research is conducted using the member states of the Asia Pacific Economic Cooperation (APEC) and the economic development is measured using the Gross Domestic Product per capita in the Asia Pacific region for the goods sector. Roukanas Spyros (2020) aimed to measure economic development and the impact of economic globalization under global political economy. She measures economic development by using GDP, Human Development Index, and Gini coefficient. Lastly, Vernon Henderson, Adam Storeygard, and David N. Weil (2011) made a research where they explored the usefulness of the change in visible light as a measure of economic growth. They measured economic growth by using GDP growth.

2.5 Political Development

The social sciences were unprepared to supply the knowledge required to guide national development policies. From the standpoint of intellectual history, it is interesting that the subject of development, in its various economic, social, and political manifestations, arose to confront social scientists just as it was thought that the ostensibly outdated and innocent concept of progress had been buried. Modern social scientists have generally been embarrassed by this popular Western and uniquely American article of faith, despite the fact that older social theorists had clearly supported the notion of human development and social evolution. With the emergence of dictators and the Holocaust of World War II, social science was at best skeptical of any claims about the inevitability or even desirability of development. Given this context, the social sciences were hesitant to embrace the concept of development as it applied

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to the non-Western world. In addition, people have had to go through a period of adjustment during which they have suspected that the supposedly discredited concept of progress was reappearing through a back door. The issue has caused some intellectual confusion and has diverted resources to minor and ineffective battles (Pye, 1965).

The definitions are numerous and varied; yet, with a few exceptions, the features that they associate with political development are all aspects of modernization processes. In the definitions, four sets of categories appear repeatedly. One set, which focuses on Parsonian pattern variables, is likely best summarized as rationalization. This entails a shift from particularism to universalism, specificity to diffuseness, attribution to achievement, and affectivity to emotional neutrality. Functional distinction and accomplishment requirements are particularly highlighted in terms of political development. Nationalism and national integration are the second set of characteristics associated with development. Almost all writers acknowledge the challenge of national identity crisis and the need for a clearly defined ethnic basis for the political community. With rare exceptions, it is commonly assumed that a developed polity must be a nation-state (Huntington, 1965). The process of nation building is an important part of political development. A third approach focuses on democratization, including pluralism, competitiveness, power equality, and other characteristics. The Anglo-American polities most closely resemble the model of a contemporary political system since competitiveness is an essential feature of political modernity. According to Frey, the most widely held view of political evolution in intellectual circles in the United States is that of progress toward democracy. He offers his own definition of political development as changes in the direction of greater distribution and reciprocity of power (Huntington, 1965).

There has been increasing interest in studying the effect that income inequality has on the political development of a nation. Yanfeng Gu and Zhongyuan Wang (2021) conducted a study to find out the correlation between income inequality and political polarization. The research uses repeated cross-sectional data from six waves of the World Values Survey from 1990 to 2020, to investigate whether and how widened income inequality and growing political polarization are linked globally. Their research concludes that there is a positive and statistically significant cross-country association between levels of income inequality and political polarization. Furthermore, Frederick Solt (2008) executed a study to show the effect that economic inequality in a country has on the political engagement of its citizens. The study uses data from multiple cross-national surveys of the advanced industrial democracies. It tests the theory that greater inequality increases the relative power of the wealthy to shape politics

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in their own favor. The findings show that larger levels of income inequality lower political interest, the frequency of political debate, and election participation among all but the wealthiest citizens, demonstrating that greater economic inequality leads to greater political inequality. Finally, Matias Lopez and Joshua Dubrow (2020) argue that economic inequality leads to political inequality and that democracy's normative foundation should be political equality.

Education also plays an important role in the political development of a country. There are several researches that study the relationship between education and political development and they are able to prove that education does have an impact on the political development of a country. John Meyer and Richard Rubinson (1975) state that educational credentials are the foundation of modern societies: people's status in society is determined not only by what they have learnt and can perform, but also by their possession of appropriate diplomas. Education plays a role in influencing a person's ability to participate in the economy, the civil service, volunteer organizations, and every facet of political organization. Wilfred Rios, Virgilio Lumayno, Teresa Barola, and Joel Estorosos (2013) conducted a research that studies the impact of education on the socioeconomic and political development of a nation. They argue that education is a fundamental tool for reducing poverty in any country. All other fields are directly or indirectly affected by improved education. As a result, educational achievement is a critical component that causes other aspects of human growth to flourish. Using a multivariate clustering method to derive the association between the variables, the study intends to investigate the impact of a country's educational attainment on its income, health, demography, and political instability. The results show that better educational achievements mean higher earnings, healthier individuals, and a more politically stable country. As a result, improving the educational system of a country is theoretically syllogistic to socioeconomic and political advancement.

2.6 Concluding Remarks

The literature has been very useful by helping the reader understand how diplomacy works, what is Taiwan's approach for diplomatic relation, what is China's approach for keeping diplomatic relations, what is economic development and how to measure it, and what is political development. The first section highlights how there are different types of diplomacy and how economic diplomacy has a significant impact on a country's development through foreign direct investment and foreign aid. The political development of a country can also be influenced by diplomacy and the literature presents an example of how the EU influenced

democratization processes in Arab countries. The second section shows how Taiwan has been losing allies and what their diplomatic strategies are. The main finding of the literature shows that even though Taiwan's way of keeping its allies is by offering aid, the aid that Taiwan can offer is not comparable to the aid offer by China. The third section shows the debate about what could be the impact of Chinese aid and whether it could be called foreign aid. The one in favor of Chinese aid support so because of the economic benefits that it could have on developing countries. However, many scholars criticized the transparency of this aid and how by its not intervention policies it could be fostering autocratic regimes. The fourth section presents the history of economic development and some studies that have been performed measuring economic development, where GDP and GNI came as the main indices to measure it. The last section shows how it is hard to define political development and to establish a cleat way to measure it.

Having an understanding of how diplomatic relations work and what it is the approach taken by China and Taiwan, as well as studies analyzing the impact of China's aid and relations with other countries is vital to run this research. Having this is in mind, it is now possible to hypothesize that having diplomatic relations with China will have a positive impact on the selected countries' development, but it will negatively affect their political development. In addition, now that literature on economic and political development have been studied, it is possible to know the indicators that should be included to measure them. Thus, it is possible now to move to the main research and analyze the impact that shifting diplomatic relations to China has had on these countries political and economic development.

Chapter 3 Case 1: Panama

It is now time to start analyzing the impact that shifting diplomatic recognition had on each country. It is important to remember that this research is trying to answer the following question: how is the political and economic development of Latin American countries affected after shifting diplomatic relations from Taiwan to China? This chapter focuses exclusively on the impact that shifting diplomatic recognition to China had on Panama's political and economic development.

The chapter will be divided in five sections. The first section is the switching process and it will show the evolution of the relations between Panama and China, as well as some literature pointing out what led to the shifting of diplomatic recognition. The second section is economic relations with ROC and PRC before and after shifting diplomatic relations. In here, the data regarding foreign direct investment and official development assistance from Taiwan and China before and after the shifting of diplomatic recognition will be presented. The third section will be political development before and after shifting recognition, where the data for each variable will be presented and briefly discussed. The fourth section will be economic development before and after shifting diplomatic recognition; here, the data for the variables for economic development will be presented. The last section is discussion, an analysis of the results of all of the variables will be presented and it will be stated what was the impact in the country's political and economic development.

3.1 The Switching Process

The relationships between Panama and China go back to the Qing dynasty period, and they were consolidated in 1909 with the establishment of the first General Chinese Consulate in Panama. This consulate was primarily established to deal with the migratory problems in the Isthmus, designating Ouyand King as the first consul. The presence of Chinese authorities in Panama are recorded with the designation of the consul in 1909 during the empire. In 1912, a different consul was designated with the foundation of the Republic of China. A legation was stablished on December 31, 1921; and in 1954, Kiding Wang was designated as the first ambassador of the Republic of China in Panama after the establishment of the Republic of China (Taiwan). On the other hand, the Republic of Panama founded a diplomatic legation in China in 1933, and established relations with the ROC Taiwan in 1949 (Herrera, Montenegro, Torres-Lista, 2021).

Even though Panama was one of Taiwan's most important allies, the relationship started to deteriorate and China started to have a stronger presence in the country leading to Panama's decision of ending diplomatic relations with Taiwan and starting official relations with China on June 13, 2017. The commercial relations between China and Panama were constantly growing to the point of surpassing by far the commerce between Taiwan and Panama. China is the second major user of the Panama Canal and the main provider of goods to the Free Zone of Colon. In fact, the first ship to cross the canal after the expansion project ended in 2016 was a fleet from the PRC. Although Taiwan signed a free trade agreement with Panama in 2003, the business opportunities offered by China were constant incentives for Panama to recognize the PRC (Galvez Roldan, 2019).

The relationship between Taiwan and Panama suffered its first strikes in 2000 during Moscoso government. This period was mark by scandals associated with the fraudulent use of Taiwanese donations. Later on, under Torrijos' government, the relationship between the two countries got even more distant when he proposed to Beijing to help with the expansion of the canal. During this time, Taiwan's president Chen Shui-Bien was doing a presidential trip to Latin America and when he requested to visit Panama his petition was denied by Torrijo (Galvez Roldan, 2019). There were speculations of the possible shifting of diplomatic relations since 2004 when the Chinese vice-minister of Foreign Affairs visited Panama. When Juan Carlos Varela got to power in 2014, Taiwan announced a series of aid for development that were destined to improve the social wellbeing and education in Panama. However, Varela's past was align towards China and he announced that the only reason why they were keeping their relation with Taiwan was because of the diplomatic truce. Varela was really close to Panama's Association of Friendship with China as well as other public officials and this association put a lot of pressure for the shifting of recognition. Finally, in 2017 the relation with Taiwan was very distant while the relations with China were flourishing exponentially leaving no other option but to shift recognition from Taiwan to China (Galvez Roldan, 2019).

After officially recognizing China in 2017, the government of Panama's president Varela signed 47 agreements with the People's Republic of China. In 2019, the government of newly elected president Laurentino Cortizo closed negotiations with the signing of three new agreements, making a total of 50 agreements signed by the two nations. Some of these agreements are very broad, for example, within the objectives of the economic agreement there is the goal to formalize the bilateral assistance politics with the argument that it will bring Chinese investment to Panama and it will open the Chinese market to Panama's exports. The

agreements signed by both nations cover many areas and affects all industries in Panama, they cover commerce, maritime transportation, energy, environment, tourism, infrastructure, science, technology and innovation, agriculture, diplomacy, and many others. However, it is very uncertain whether these agreements benefit Panama and align to their national agenda or if they just please China's agenda. Luis Herrera, Markelda Montenegro, and Virginia Torres-Lista (2021) argue that the agreements favor Chinese agenda only and that the biggest problem is that these agreements affect every citizen in Panama; nonetheless, the people was not consulted regarding their opinion on such agreements.

3.2 Economic relations with ROC and PRC before and after shifting diplomatic recognition

Since the beginning of the current century, Panama was already one of the Central American countries with more commercial exchange with China. Although, initially it had a commercial deficit due to the massive importation of Chinese textiles (Malamud, 2006). Jenkins (2012) shows that Panama's exports to China and Hong Kong increased from a 0.2% in 1990 to a 1.2% in 2000, but had a significant growth in 2010 to a 5.2%. The imports from China had progressively increased too; in the same respective years, they increased from a 1% to a 1.4% and to a 5.8%. It is important to mention that this growth was produced without having formal diplomatic relations with China, which might indicate a preferential treatment from China to Panama. This shows a very different situation when compared to other Central American countries that did not have diplomatic relations with China. This is the case of Nicaragua, Guatemala, El Salvador and Honduras, whose exports to China did not grow much (Jenkins, 2012).

The data provided by Roldan, Castro Perez, Echavarria, and Ellis (2016) show that Panama's exports to China had an average growth of 72% while importation of Chinese products had an increase of more than 100% between 2002 and 2014. The proportion of imports from China to Panama overpass the percentage of all countries in Latin American and the Caribbean that import from China. Panama increased its dependence level on exports placing 8th in the ranking of dependence of exports to China between 2008 and 2014, especially in products like wood, propane, wheat, food and fish (Casanova, Xia, & Ferreira, 2016). Panama has a privileged position when it comes to foreign direct investment from China receiving the largest amount of FDI designated to Central America. From 2009 to 2012, Chinese investment in Central America registered close to 128 million dollars, from which Panama received 71%, Guatemala 19%, and Costa Rica 8%. It is important to highlight that during this time Taiwan

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had strong investments in the country too. Actually, 95% of 285 million dollars of Taiwanese investment destined for Central America was concentrated in Panama. Therefore, Taiwan was investing more than China at the time (CLACDS, 2014).

Now, the FDI from Taiwan and China to Panama will be presented. The FDI that will be analyzed here will be inward FDI for Panama and outward FDI for China and Taiwan. Table 5 and Figure 1 will show Taiwan and China's FDI in Panama from 2013 to 2020. The data showing Taiwan's FDI was gathered from the Ministry of Economic Affairs Investment Commission's (MOEAIC) statistical reports. The data for China's FDI was gathered from the National Bureau of Statistics of China's reports. It is important to highlight that the measurement unit is different for Chinese FDI and for Taiwanese FDI. Chinese FDI is in 10,000 USD units and Taiwanese FDI is in 1,000 USD unit. This means that to see the real amount that was invested you need to multiply the number in the specific year by 10,000 in the case of China and by 1,000 in the case of Taiwan. To make a real comparison China's data per year was multiplied by 10 in order for it to have the same unit as Taiwan's data. Therefore, all the data is in 1,000 USD.

Table 5 Foreign Direct Investment

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
China	25,940	6,000	20,640	24,270	21,370	21,150	15,280	…
Taiwan	220	2,377	4,683	9,293	1,978	5,929	38,766	1,559

Created with data retrieved from MOEAIC and National Bureau of Statistics of China

Figure 2 Foreign Direct Investment
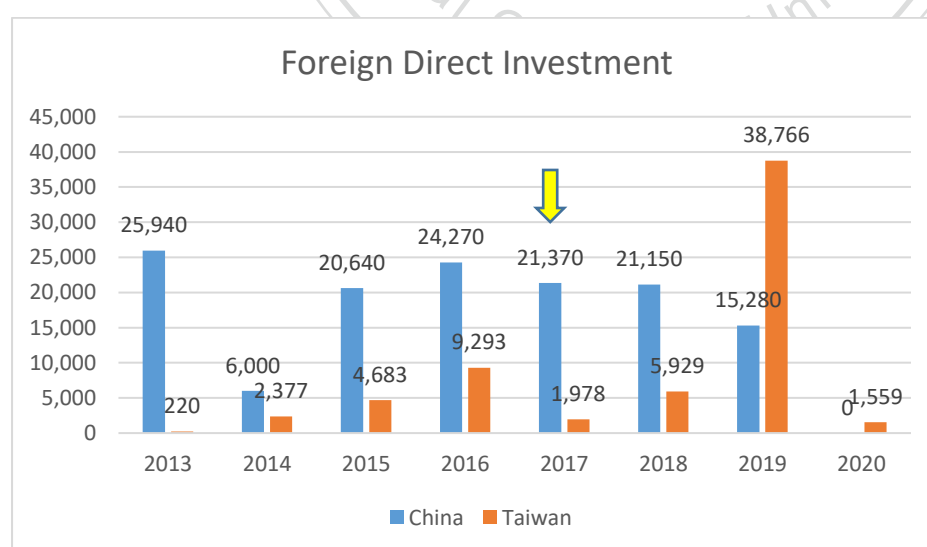
Created with data retrieved from MOEAIC and National Bureau of Statistics of China

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The data provided by the table and figure above demonstrates China and Taiwan's FDI in Panama from 2013 to 2020. The data is actually somehow surprising because it is different from what one would have expected. China's FDI has always been higher than Taiwan's by far, but the interesting aspect is that it would have been expected for China's FDI to increase after the shifting of diplomatic recognition in 2017. Nonetheless, China's FDI in Panama has actually been decreasing after 2017. When it comes to Taiwan, the opposite is happening; Taiwan's FDI has increased after 2017, especially in 2019. In 2019, Taiwan's FDI was more than double that of China even though Panama has already shifted diplomatic recognition to China by that time. It did went down dramatically in 2020 and sadly the data was not available for China's FDI in Panama for 2020, so it is unknown if China's FDI was higher than Taiwan's in 2020. What is evident is that the data shows something a little different from what one would have imagined.

After looking at the FDI, it is important to also present the Official Development Assistance assigned by China and Taiwan to Panama. Unfortunately, Taiwan's ODA was not possible to be found in any source. Taiwan's International Cooperation and Development Fund (ICDF) is in charge of dealing with the country's cooperation with other countries and it publishes a yearly report stating the projects that it has and how it is working with other countries, but no amounts are provided. Therefore, no data for Taiwan will be presented here because it was not available. China's ODA to Panama was retrieved from the reports found in the National Bureau of Statistics of China. The figures showing Chinese assistance is in a unit of 10,000 USD. This means that to see the real amount that was given you need to multiply the number in the specific year by 10,000. Table 6 and figure 2 below will present China's aid to Panama from the year 2013 to the year 2020.

Table 6 Official Development Assistance

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
China	8744	6994	11141	9343	29929	31781	34510	10469

Figure 3 Official Development Assistance
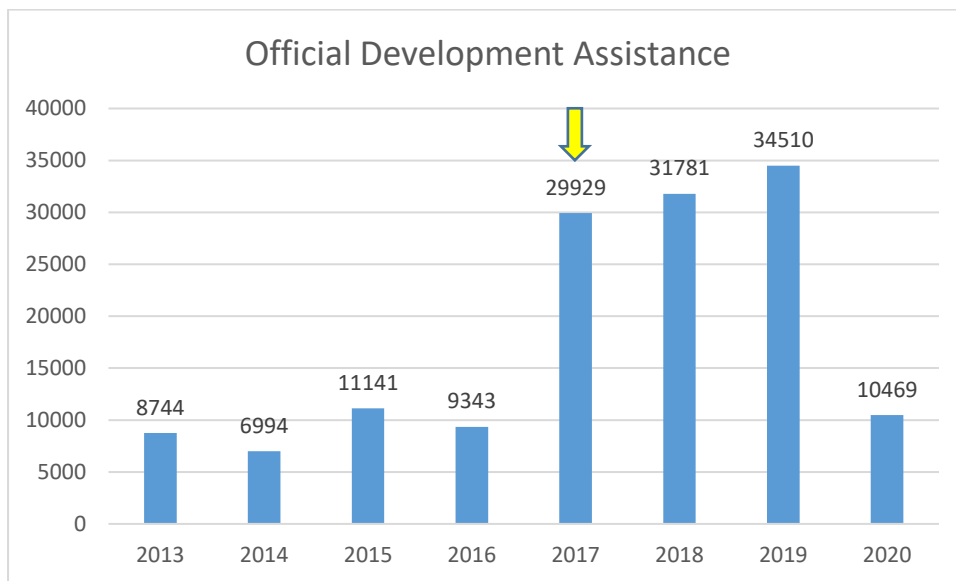
Created with data retrieved from the National Bureau of Statistics of China

The data within the table and figure presented above shows China's official development assistance towards Panama from 2013 to 2020. As the data shows, China's development assistance designated to panama has always been high, but it did grow exponentially since 2017. In 2013, China's ODA to Panama was of 87.44 million US dollars. It dropped to 69.94 million US dollars in 2014, then it increased to 111.41 million US dollars in 2015, it was of 93.43 million US dollars in 2016, and it increased exponentially to 299.29 million US dollars in 2017. It continued to increase after 2017 to 317.81 million US dollars in 2018, to 345.10 million US dollars in 2019, but it significantly dropped to 104.69 million US dollars in 2020. It is evident that China's development assistance to panama increased substantially after the switching of diplomatic relations from Taiwan to China in 2017.

To fully understand the economic relations between Panama and China, it is necessary to look at the trade between the two countries. Table 7 will show Panama's exports to China and Panama's imports from China from 2013 to 2021. The data was obtained from the trade statistics section of the United Nations' Department of Economic and Social Affairs. The data that will be presented will be in million US dollars and some will be in billion US dollars. The ones with the * will be in billion US dollars.

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Table 7 Trade between Panama and China

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Exports	43.94	127.5	315.21	37.65	62.03	81.76	452.01	469.42	1.17*
Imports	10.99*	9.31*	8.52*	6.34*	6.63*	6.94*	7.94*	8.79*	10.18*

Created with data retrieved from UN Comtrade Database

The data in table 7 shows Panama's exports to China and Panama's imports from China from the year 2013 to the year 2021. As the data shows, both exports and imports have changed considerably. When it comes to exports, it was experiencing an increase from 2013 to 2015, but it dropped significantly in 2016. It dropped from 315.21 million US dollars in 2015 to only 37.65 million US dollars in 2016. It started to increase again in 2017 to 62.03 million, to 81.76 million in 2018, and since 2019, it has increased dramatically to 452.01 million all the way to 1.17 billion in 2021. The imports on the other hand, they dropped steadily year-by-year sin 2013 until 2017. They started to increase steadily after 2017, but even the latest year 2021 is lower than 2013. In 2013, the imports were of 10.99 billion US dollars and they were of 10.18 billion US dollars in 2021. It is evident that Panama's exports to China have increased exponentially after the shifting of relation in 2017.

The exports and imports between Panama and China were presented before. Nonetheless, it is important to see how much they represent of Panama's GDP in order to see the importance of China as a trade partner to the country. Table 8 will show the percentage of the imports and exports between Panama and China regarding Panama's overall GDP. Therefore, to obtain the numbers below, the imports and exports were divided by the country's GDP of each year and then multiply by 100. The data presented below is in percentage from 0 to 100.

Table 8 Percentage of Exports and Imports with China Compared to Panama's GDP

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Exports	0.1	0.25	0.58	0.07	0.1	0.13	0.67	0.87
Imports	24.1	18.65	15.75	10.95	10.66	10.69	11.85	16.28

The data on the table above show the percentage that the exports and imports with China represent to Panama compared to Panama's GDP. As it can be seen, the exports that Panama send to China are not really that representative to the country's GDP. On the other hand, the

imports coming from China to Panama are highly representative to Panama's GDP. This means that Panama is highly dependent on imports from China.

3.3 Political development before and after shifting recognition

3.3.1 Political Perception

The table and figure below show the percentage in each indicator from 2013 to 2020. The Worldwide Governance Indicator present its results on a scale from -2.5 to 2.5, where 2.5 is the highest score and -2.5 is the lowest. However, it also present the results in a percentage scale, where 100 is the highest score and 0 is the lowest. Here, only the percentage scale will be shown to make it easier for the reader to appreciate the changes in each indicator.

Table 9 Panama's Political Perception

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Voice and Accountability	61.0	63.5	66.0	64.5	64.0	66.2	65.7	63.8
Political Stability and Absence of Violence	41.2	54.3	59.0	60.0	61.0	55.7	57.5	54.2
Government Effectiveness	62.6	63.0	65.4	61.5	53.8	51.4	55.3	56.7

Created with data retrieved from the World Bank

Figure 4 Panama's Political Perception
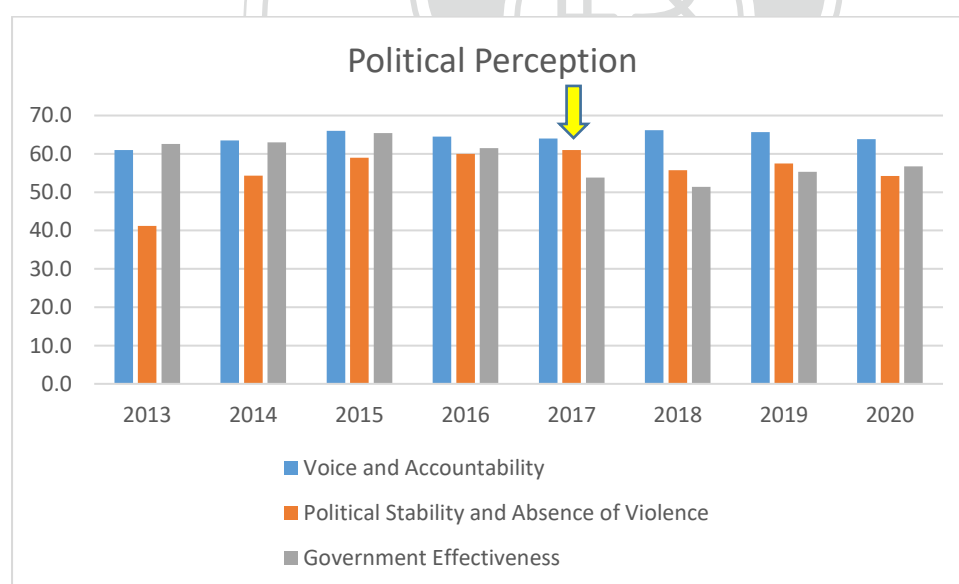
Created with data retrieved from the World Bank

As it can be appreciated in the table above, there was no mayor change in the voice and accountability indicator. There are some fluctuations year by year but there is not a significant change before and after 2017 meaning that people feel they have access to choose their representatives and that they still have a voice. When it comes to political stability and absence of violence, the story is very different because the scores considerably changed from 2013 to

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2020. As it can be seen, in 2013 the score was 41.2% and it improve every year until 2017, but it began to decline in 2018 dropping from 61% in 2017 to 54.2% in 2020. This means that there was some political instability after Panama shifted their recognition from ROC to PRC. The degree upon which the shifting of recognition affected these changes is still unknown and cannot be answer by this research. The Government Effectiveness indicator has also changed year by year. In 2013, it had a score of 62.6% and it was improving in the following two years, but it dropped to a 61.5% in 2016 and had a drastic decline in 2017 to 53.8%. The reason of this decline could be link to the shifting of recognition because it continue to decline until 2018 and started showing some improvements until 2019. What can be certain is that governmental institutions were failing to provide good quality public services.

Originally, this variable was going to be measured using data from the Freedom in the World indicator run by Freedom House. This indicator measures the freedom that people have in a country by measuring their political rights and their civil liberties. In the 2022 results, Panama scored a total of 83, 35 out of 40 for political rights and 48 out of 60 for civil liberties. Unfortunately, this indicator cannot be used for this research because the earliest indicators they have are from 2017, which is not viable for this study because we need to look to indicators at least from 2014 so that we can see if there has been a change since the change of diplomatic recognition. That is why the Worldwide Governance Indicator was used at the end, allowing us to measure this variable.

3.3.2 Human Development Index

The HDI scores go from 0 to 1, 0 being the lowest score meaning that there is no human development and 1 being the highest score meaning that human development is totally fulfilled. The table and figure below show Panama's HDI from 2013 to 2019. Unfortunately, the indexes for 2020 and 2021 are not yet available.

Table 10 Panama's Human Development Index

2013	2014	2015	2016	2017	2018	2019
0.791	0.795	0.799	0.805	0.811	0.812	0.815

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Figure 5 Panama's Human Development Index
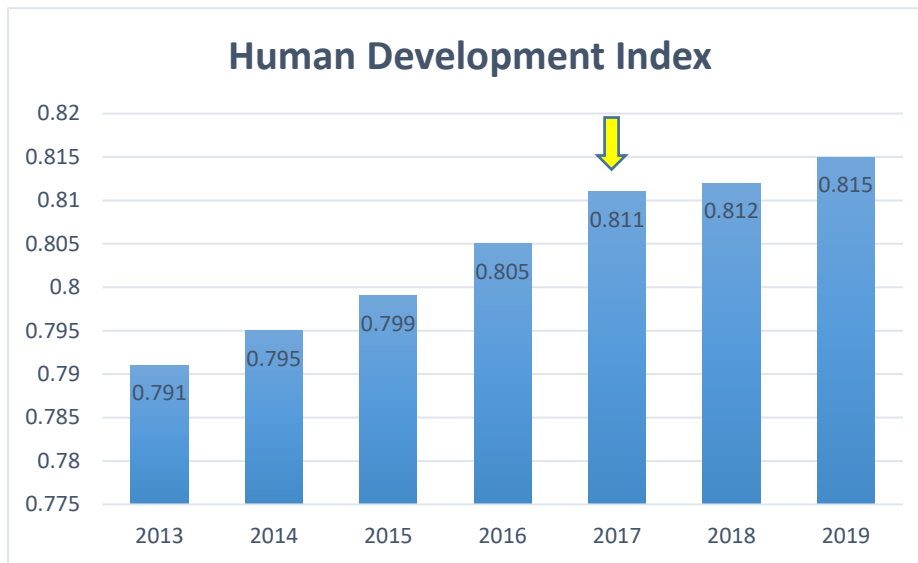
The table above shows that Panama's human development has persistently increased year by year meaning that the shifting of recognition might have not had an impact on the country's human development. However, it is hard to see if there has been a change or not because the indexes for 2020 and 2021 are not available and this only allows us to compare the years before the transition with two years after the transition in 2017. There might be a change in the long term but until not having the indexes of more recent years it is hard to tell. What can be certain is that in the short term after the transition, there was no negative impact in the country's human development and that it continued to improve.

3.3.3 Corruption Perception Index

A country's score is the perceived level of public sector corruption on a scale of 0-100, where 0 means highly corrupt and 100 means very clean. The table and figure below show the scores that Panama received from 2013 to 2021.

Table 11 Panama's Corruption Perception Index

2013	2014	2015	2016	2017	2018	2019	2020	2021
35	37	39	38	37	37	36	35	36

Figure 6 Panama's Corruption Perception Index
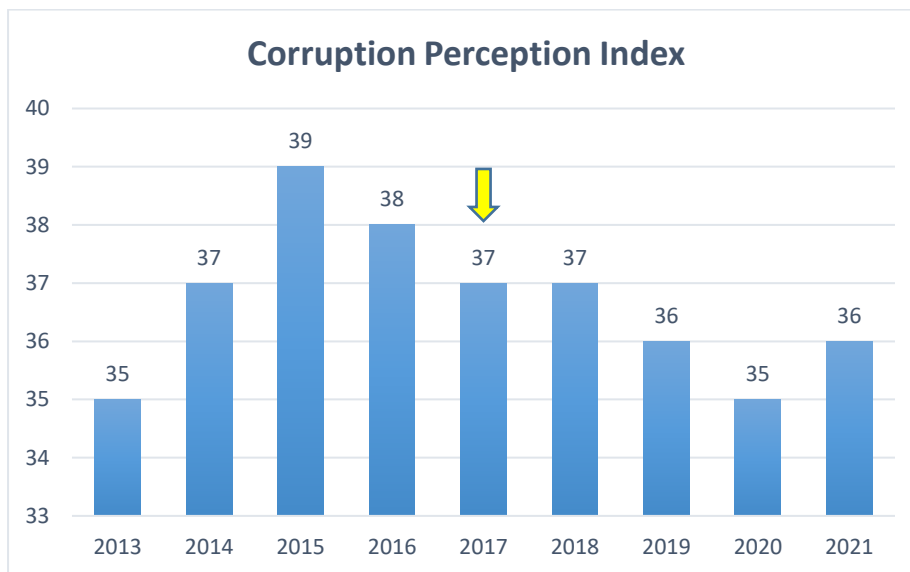
Created with data retrieved from Transparency International

The data obtained from Transparency International shows that Panama's scores have fluctuated considerably specially after 2016. In 2013, Panama had a score of 35 and it increased in 2014 and reaching 39 in 2015. However, it started to go down in 2016 to 38 and 37 in 2017 and continue to go down until 2020 just presenting a small increase in 2021. It is evident that corruption in the country has worsen in recent years and the shifting of recognition might have contributed to this. As it is of your knowledge by now, the way in which China provides foreign aid without asking for transparency or democratic practices can lead to the increase of corruption. Aside from the fact that corruption has been increasing in the country, it can be seen that overall the country's score is very low meaning that it is a highly corrupted country, being number 101 in the index.

3.3.4 Democracy Index

The final score ranges from 0 to 10, where 0 to 4 are authoritarian regimes with few or none democratic practices and 8 to 10 are full democracies. The table and figure below present Panama's scores in the Democracy Index from 2013 to 2021.

Table 12 Panama's Democracy Index

2013	2014	2015	2016	2017	2018	2019	2020	2021
7.08	7.08	7.19	7.13	7.08	7.05	7.05	7.18	6.85

Created with data retrieved from Economist Intelligence

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Figure 7 Panama's Democracy Index
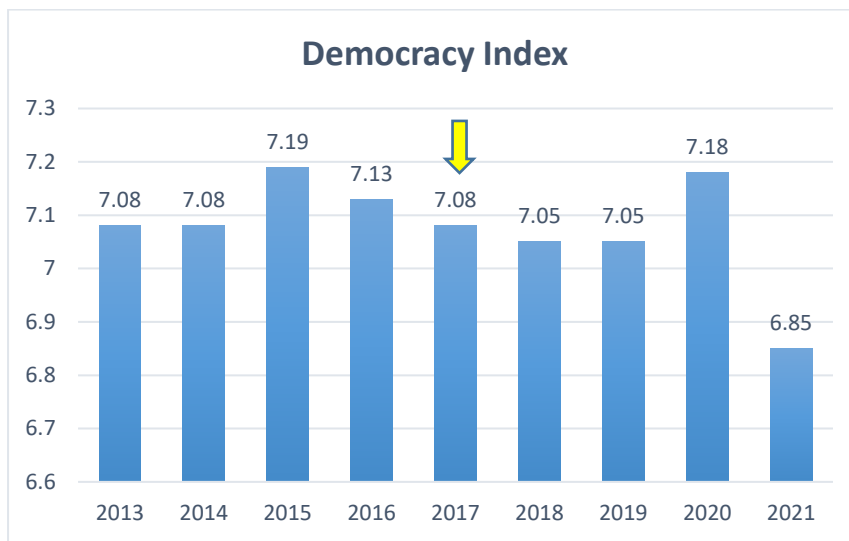
Created with data retrieved from Economist Intelligence

The table and figure above allow us to see that the democracy levels in Panama have been slightly changing year by year. It was slightly improving from 2013 to 2015, but it started declining in 2016 just showing some improvement in 2020 but decreasing again in 2021. It had a major drop in 2021 going from 7.18 in 2020 to 6.85 in 2021. The current score categorizes Panama as a flawed democracy meaning that the people can still freely elect its representatives, but that there are undemocratic practices in governmental institutions. If the shifting of recognition had some effect in the country's democracy, it is very hard to tell, but based on the data, there is no clear change before and after 2017. The scores started to drop in 2016 and have been dropping since then. However, it is evident that the democracy levels were more stable before 2017; they have in fact become more unstable since 2017 meaning that there might have been some impact from the shifting of recognition.

3.3.5 Gini Coefficient

The table and figure below will demonstrate Panama's Gini coefficient from the years 2013 to 2019. Unfortunately, the results for 2020 and 2021 are not yet available. When reading the scores, it is important for the reader to keep in mind that the highest the score the more inequality there is in the country and the lowest the score the less inequality present.

Table 13 Panama's Gini Coefficient

2013	2014	2015	2016	2017	2018	2019
51.5	50.5	50.8	50.4	49.9	49.2	49.8

Created with data retrieved from the World Bank

Figure 8 Panama's Gini Coefficient
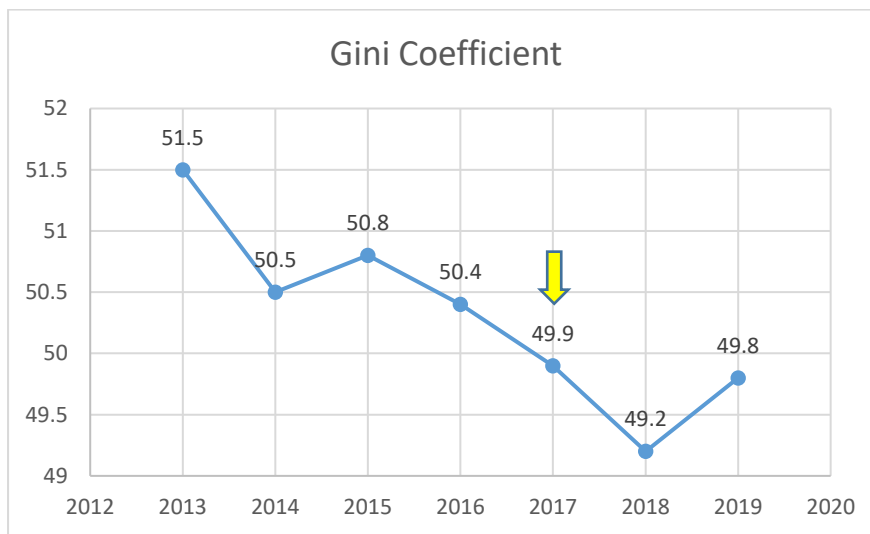
Created with data retrieved from the World Bank

Looking at the data from the table and figure above, it can be seen that the inequality rates in the country were slowly decreasing since 2013. Nonetheless, it did experience an increase in 2019 from 49.2 to 49.8. It is very unfortunate that the data for the years 2020 and 2021 are not available yet so that we can see if inequality has continue to increase or if it was a specific event that happened that specific year only. The shifting of recognition might have had some impact in the increase of inequality in 2019, but it is hard to determine the level of influenced it had. What can be certain is that Panama has somehow high levels of inequality and that the country should work to reduce those inequalities and grant equal opportunities to all of its citizens.

3.3.6 Education

The table and figure below show the net enrollment rates in primary and secondary education in Panama from 2013 until 2020.

Table 14 Panama's Education

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Primary Education	93.1	90.6	87.3	…	86.2	…	…	88.1
Secondary Education	70.4	69.0	69.7	…	63.8	…	…	67.6

Created with data retrieved from UNESCO

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Figure 9 Panama's Education
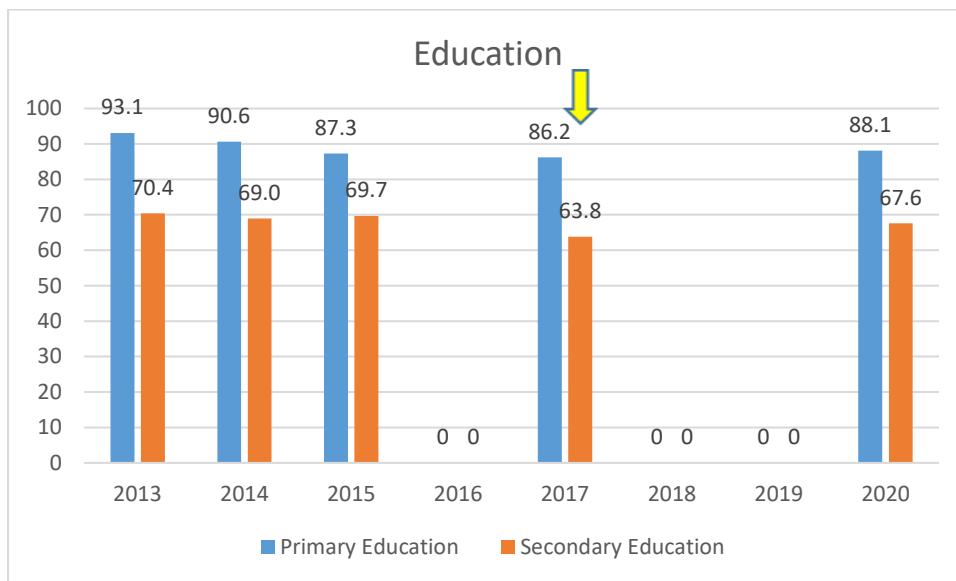
Created with data retrieved from UNESCO

As you can see in the table and figure above, the education participation in the country is actually not that high. The majority of the population in Panama is under the age of 20 meaning that the school enrollment should be higher. This data is somehow confusing because the country's literacy rate is very high being over 90%, but the participation in education among teenagers is somehow low. Sadly, the data for the years 2016, 2018 and 2019 is not available for the participation in either primary or secondary education. Looking at the data shown above, the participation in primary education has been slowly decreasing each year. It dropped from 93.1% in 2013 to 88.1% in 2020. The participation in secondary education show a very similar behavior; it decreased from 70.4% in 2013 to 67.6% in 2020. It is sad that data for so many years is missing because it makes it hard to see if there was a clear change before and after 2017. Therefore, it can be assumed that the participation in education was slightly affected or not affected at all after the shifting if diplomatic recognition in 2017.

3.4 Economic development before and after shifting recognition

3.4.1 Gross Domestic Product

The table and figure below show Panama's GDP from the year 2013 to the year 2020, the GDP is presented in billions US dollars.

Table 15 Panama's Gross Domestic Product

2013	2014	2015	2016	2017	2018	2019	2020
45.6	49.92	54.09	57.91	62.2	64.93	66.98	53.98

Created with data retrieved from the World Bank

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Figure 10 Panama's Gross Domestic Product
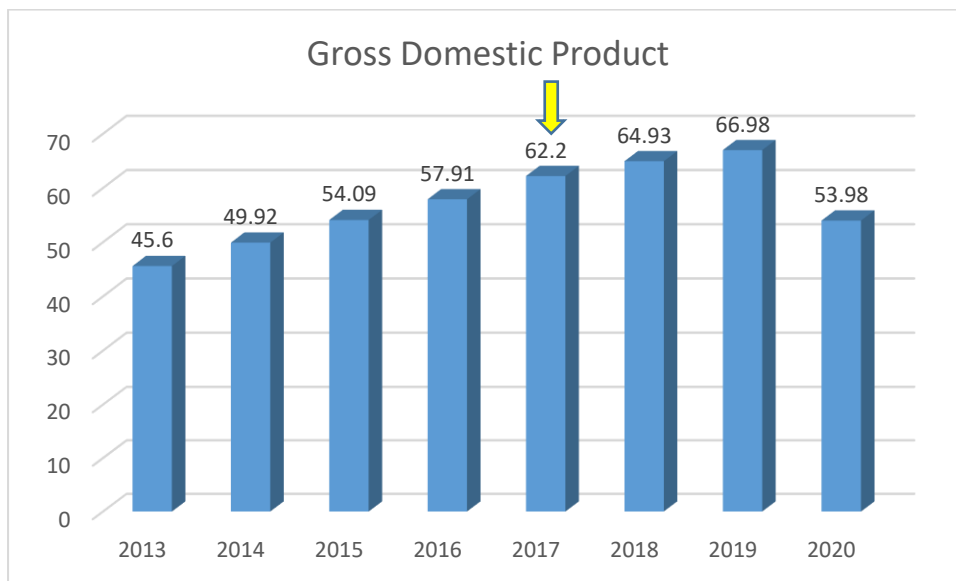
Created with data retrieved from the World Bank

After looking at the data presented in the table and looking at figure above, it is evident that Panama's GDP was increasing year by year. We can see a big drop in the country's GDP in 2020 but we have to keep in mind that this drop is probably due to the pandemic and the effect it had on most countries' economies. Although the country's GDP continued to grow after 2017, it can be seen that the rate of growth was lower after 2017. From 2013 to 2014 the GDP grew for a little over 4 billion US dollars and from 2014 to 2015 it grew by almost 5 billion US dollars. The GDP grew by almost 4 billion in 2016 and by almost 5 billion in 2017. However, the growth rate was lower after 2017 increasing by 2 billion only in 2018 and 2019. Hence, it could be inferred that maintaining diplomatic relations with Taiwan was helping the country's GDP to grow more than having diplomatic relations with China. Nonetheless, this assumption is not proper because China has in fact more investments in the country than Taiwan, so the GDP should be higher now that there are formal diplomatic relations. However, the reality is totally different and uncertain upon why the growth rate is lower.

3.4.2 Gross National Income

Table 16 and figure 11 will present the GNI per capita based on PPP of Panama from 2013 to 2020. It is per capita because it is the total gross national income divided by the total population; therefore, it tells us the amount of GNI could be available per person in the country. The data is in US dollars.

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Table 16 Panama's Gross National Income Per Capita

2013	2014	2015	2016	2017	2018	2019	2020
19,480	20,900	23,700	25,840	28,610	29,560	30,570	25,950

Created with data retrieved from the World Bank

Figure 11 Panama's Gross National Income Per Capita
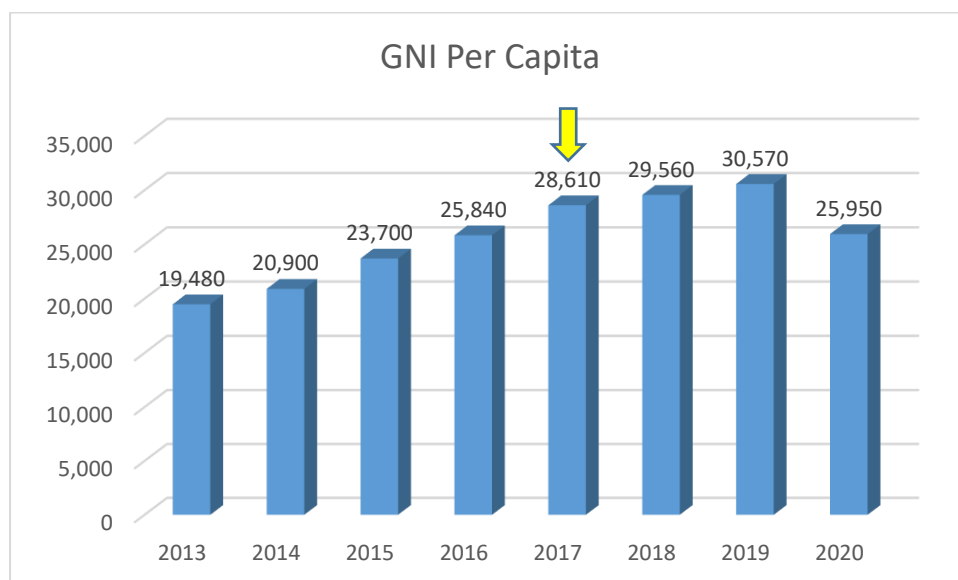
Created with data retrieved from the World Bank

The table and figure above shows Panama's Gross National Income before and after the shifting of diplomatic relations from Taiwan to China. The GNI is per capita so it shows the GNI available per citizen in the country. It shows a very similar trend as the country's GDP where it was constantly growing, showing a higher growth before 2018 and a lesser growth in 2018 and 2019. Just like the GDP, the GNI per capita had a major drop in 2020, presumably, due to the pandemic's outbreak worldwide. Even though the GNI per capita in Panama is considerably high, it can be seen in the Gini coefficient variable presented before that the inequality in the country is high. It is in fact surprising to see that both the general GDP and the GNI per capita have been increasing at a slower pace after the shifting of diplomatic recognition. Later, the amount of investment and development assistance coming from China and Taiwan will be shown and we will be able to see if Chinese investment and aid is in fact higher than the Taiwanese one.

3.4.3 Infrastructure

The table and figure below will show Panama's score in infrastructure on a scale of 0 to 100 being 100 the highest score.

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Table 17 Panama's Infrastructure

2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
31.8	38.3	36.8	33.5	34.8	32.4	31.5	46.8	46.8

Created with data retrieved from the Global Innovation Index

Figure 12 Panama's Infrastructure
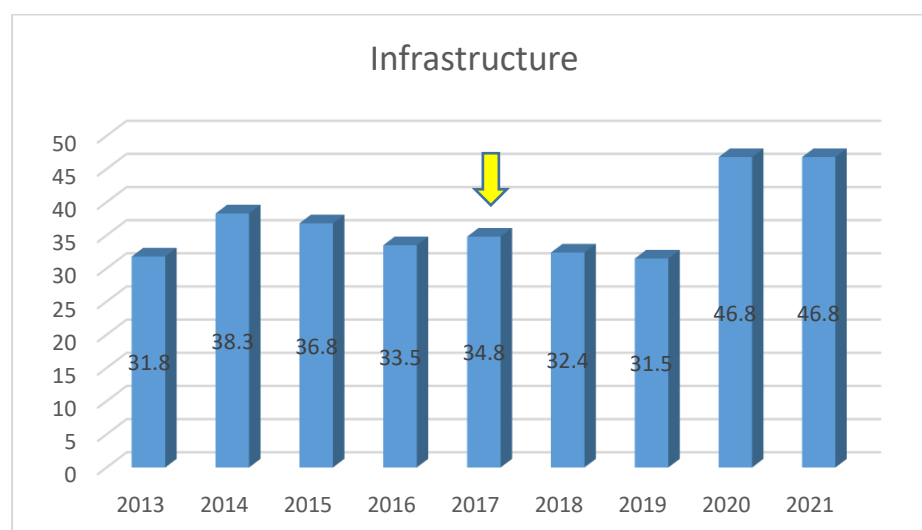
Created with data retrieved from the Global Innovation Index

The data shown in the table and figure above reflects that Panama's infrastructure has fluctuated over the years. It had a significant improvement from 2013 to 2014 increasing from 31.8 to 38.3. However, it decreased in 2015 to 36.8 and continue to decrease in 2016 to 33.5. It increased again in 2017 to 34.8, but went down again in 2018 to 32.4 and to 31.5 in 2019. However, there was a big improvement in 2020 increasing from 31.5 to 46.8 and it kept the same score in 2021. There is no doubt that Panama's infrastructure is improving significantly in the last years and this can in fact be related to the shifting of diplomatic recognition. Later, the FDI and development assistance coming from China and Taiwan to Panama will be analyzed and it would be possible to analyzed if the infrastructure in the country has improved because of a higher FDI and development assistance coming from China.

3.4.4 Unemployment Rate

The table and figure below present the unemployment rates in Panama from 2013 to 2021.

Table 18 Panama's Unemployment Rates

2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
3.7	4.4	4.4	4.8	5.5	5.3	6.4	18.5	10.3

Created with data retrieved from the World Bank

Figure 13 Panama's Unemployment Rates
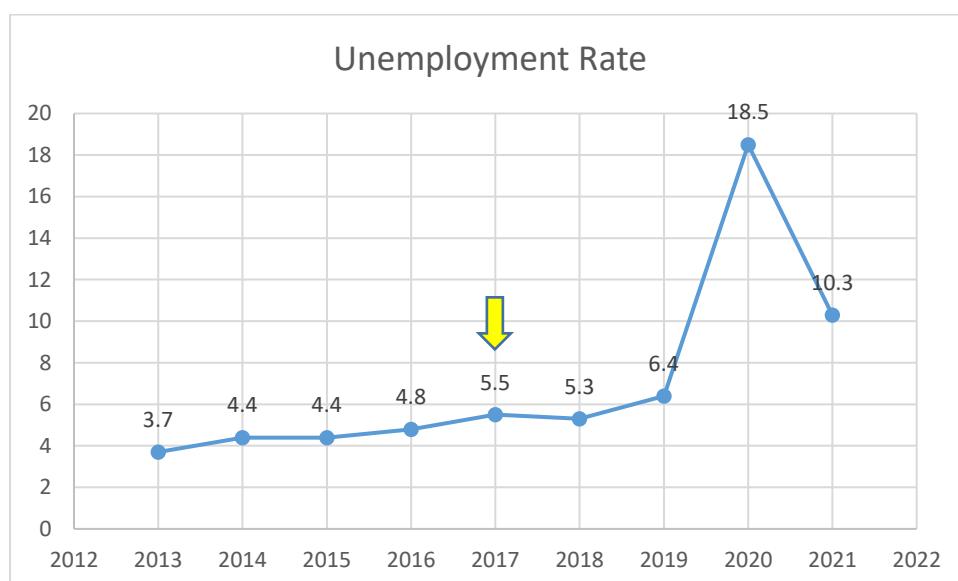
Created with data retrieved from the World Bank

The data shown before presents the unemployment rates in Panama. As it can be appreciated, the unemployment rates in panama had been moderately increasing since 2013. There was not a major change in the unemployment rates before and after the shifting of diplomatic recognition from Taiwan to China in 2017. The unemployment rate slightly grew from 4.4% in 2.15 to 4.8% in 2016 and 5.5% in 2017. In 2008, it had a slight decrease to 5.3% but it notably increased to 6.4% in 2019. It grew exponentially in 2020 to 18.5%, but this could be link to the outbreak of the COVID 19 pandemic. The good thing is that it went down to 10.3% in 2021 meaning that people are recovering their jobs after the atrocious effects of the pandemic. In general, it can be appreciated that the shifting of diplomatic recognition from ROC to PRC did not have a major impact in the unemployment rates of the country.

3.5 Discussion

Now that each indicator has been individually analyzed and studied, it is possible now to see what have been the effects of switching diplomatic recognition from Taiwan to China on Panama's political and economic development. According to the literature and this research's hypothesis, establishing relations with China will positively impact the country's economic development, but it will have a negative effect on its political development. Let's begin analyzing the effect on Panama's political development. Looking at the results obtained from the data for each indicator it can be stated that establishing diplomatic relations with China has had an effect on the country's development. For the political perception indicator, the voice and accountability shows some fluctuation but there is not a considerable change. However,

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there was an increase in political instability and violence within the country after the change, and the government effectiveness has slightly decreased. Hence, the political sphere has been negatively affected in the country.

The country's human development has improved but it is not related to China because it is an improvement that was taking place since before establishing relations with China. Corruption in the country has seen a slight increase after the change of diplomatic recognition. The country's democracy has also been struggling having the scores decreasing a little after the change. The changes in inequality rated have been very small and are not representative. Therefore, there was not an effect on the country's inequality rates. Lastly, the data for education was unfortunately not complete and it cannot be appreciated if the education improved after the establishment of relations or if it was something that was already happening. In conclusion, three out of the six indicators have worsen after establishing relations with China, political perception, corruption, and democracy. Two other indicators, Gini coefficient and education, are not representative either because the change is not significant or because the data was not completely available, and the only indicator that has improved, human development, has not improved due to China's increasing involvement. Therefore, it can be concluded that shifting diplomatic recognition from Taiwan to China has negatively affected, until certain extent, Panama's political development.

The effect of shifting diplomatic recognition on Panama's political development has been shown now it is possible to see what the effect on the country's economic development was. The country's GDP has in fact increased, but looking at the data it can be seen that the country was having a steady GDP growth already before shifting to China. In fact, the country's GDP growth rate has decreased after establishing relations with China. This is very surprising because one would have expected the GDP to increase after having closer relations with China. The GNI per capita shows the same exact trend where its growth rate decreased after shifting diplomatic recognition. The country's infrastructure scores have fluctuated, but in the last years it has shown a significant grow, so the infrastructure in the country has in fact improved. The unemployment rates have slightly increased after the shifting, but it has increase at the same rate it was doing before the shifting of relations.

The most surprising indicator was FDI because it showed that China's FDI to Panama has not change much after the shifting, but Taiwan's FDI has actually increased being higher than China's in 2019. This means that China is not actively investing in Panama's enterprises.

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China's development assistance has increased exponentially after the switching of relations. Unfortunately, Taiwan's data was not available. Overall, it is hard to distinguish if the country's economic development has improved after establishing relations with China because there have been improvements in infrastructure and this is related to the increase in development assistance that China has given Panama, showing that the high increase in aid has been used. Nonetheless, the GDP and GNI per capita growth rates had decreased after shifting recognition, but unemployment has not increased significantly. Therefore, it can be concluded that there has been some improvement in the economic development because infrastructure has improved and unemployment rates have not increased, but the improvement is not reflected on the country's GDP and GNI per capita.

The table 19 on the following page summarizes the results by showing if the indicators improved or worsen after the change. The + sign means that there has been a positive change in the variable after the year of the shifting, 2017 for this specific case. The – sign states that the variable has experience a negative impact after the year of the shifting of relations. The = sign means that there has not been a change in the variable after the year were the shifting of relations took place. Lastly, the ≠ sign means that the change was not considerable or that the data is not complete.

Table 19 Change in the Indicators

	ROC (before)	**PRC (after)**
Political Development		
Political Perception	+	-
Human Development Index	=	=
Corruption Perception Index	+ (lower levels of corruption)	- (higher levels of corruption)
Democracy Index	+	-
Gini Coefficient	≠	≠
Education	≠	≠
Economic Development		
GDP	+	+ (it has grown but at a slower pace)
GNI per capita	+	+ (it has grown but at a slower pace)
Infrastructure	-	+
Unemployment Rates	=	=

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Chapter 4 Case 2: El Salvador

The previous chapter presented and analyzed the data for Panama, and it was possible to make a conclusion upon how the shifting of diplomatic relations affected the country's political and economic development. Now, it is time to run the analysis for El Salvador. It is important to remember that this research is trying to answer the following question: how is the political and economic development of Latin American countries affected after shifting diplomatic relations from Taiwan to China? This chapter focuses exclusively on the impact that shifting diplomatic recognition to China had on El Salvador's political and economic development. It will be interesting to see if El Salvador show the same results as Panama.

The chapter will be divided in five sections. The first section is the switching process and it will show the evolution of the relations between El Salvador and China, as well as some literature pointing out what led to the shifting of diplomatic recognition. The second section is economic relations with ROC and PRC before and after shifting diplomatic relations. In here, the data regarding foreign direct investment and official development assistance from Taiwan and China before and after the shifting of diplomatic recognition will be presented. The third section will be political development before and after shifting recognition, where the data for each variable will be presented and briefly discussed. The fourth section will be economic development before and after shifting diplomatic recognition; here, the data for the variables for economic development will be presented. The last section is discussion, an analysis of the results of all of the variables will be presented and the impact in the country's political and economic development will be stated.

4.1 The Switching Process

Economic relations between El Salvador and China have existed since the 1990s' decade being strengthen at the end of 2001 when China became part of the World Trade Organization (WTO) (Ellis, 2017). Some of the first contacts made by El Salvador can be traced to October 1952 when it sent a delegation of three to the Asian and Pacific Regions Peace Conference that took place in Beijing. The conference was a clear example of early attempts of cultural diplomacy by the PRC to promote its agenda and ideas. In 1954, China created the Chinese People Association for Friendship with Foreign Countries (CPAFFC), which was and unofficial agency, to carry out foreign relations and serve as a link between China and the world. Six years after being created on March 1960 the CPAFFC sponsored the creation of the China and Latin America and the Caribbean Friendship Association (CHILAC). At the time the association was created, there was not a single LAC country that recognized the PRC, this

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changed on September 1960 when Cuba became the first country to officially stablish relations with China (Mendez, 2021).

Chapters of CHILAC were open all over Latin America and the Caribbean in the following years including El Salvador. These Friendship Associations played an important role in driving private and public sector interest towards China, and therefore, they helped China to win diplomatic recognition with many countries in the region. In 2007, CHILAC along with CPAFFC and the Chinese government joined forces to host the first China – Latin American People to People Friendship Forum in Chongqing, China. A second Friendship Forum was celebrated in Havana in 2009 and a third one in 2011 in Fuzhou. At the third Friendship Forum, Juan Manuel Flores from El Salvador was appointed Vice-President of CHILAC (Mendez, 2021). In September 2010, the Expo-Shanghai was an opportunity for China to have a closer approach with El Salvador. Expo-Shanghai was a trade fair that allowed businessmen and policy makers from El Salvador to meet with representatives of the Chinese Chamber of Commerce and the Friendship Association. It was reported that this was the first time that the Salvadoran flag had waved alongside the Chinese flag. In 2015, El Salvador opened an official commercial office in Shanghai, which was moved to Beijing in 2017 (Mendez, 2021).

Before 2009 when Mauricio Funes was elected as president of El Salvador, he expressed his interest in changing diplomatic relations from Taiwan to China. However, after being elected and after being heavily questioned by Taiwan, he did not make any proposal as to make such a change. There were many speculations regarding a possible change in relations in the following governments. A key player lobbying towards stablishing relationships with China was the Salvadoran Friendship Association with Chinese People (ASACHI in Spanish), which has several congressional representatives as members. It is estimated that there are around four thousand people with Chinese heritage in the country out of which one thousand are Taiwanese. There has been little migration from continental China to El Salvador in recent years. There were three waves of Chinese migrants that arrived to El Salvador. The first one was at beginning of the XX century from Canton, the second one was in the 1950s when the Chinese colony was stablished, and the last one was in the 1970s, but in this wave most of the migrants were from Taiwan and not from continental China (Ellis, 2017).

Lastly, El Salvador announced on August 20, 2018 that it was officially breaking diplomatic relations with Taiwan and stablishing them with China. The president at that moment, Sanchez Ceren, said that this decision was an answer to this epoch's unavoidable

tendencies where China has demonstrated development in several fields, which allows it to position itself between the most successful countries. On June 1, 2019, there was a change of government in El Salvador, where the current president Nayib Bukele took possession under the Gran Alianza por la Unidad Nacional political party substituting the opposite party FMLN, which was in power for 10 years and was the party under which the change of diplomatic relations was made. After the change of government, there was initial uncertainty regarding the continuity of the relations, but in June 2019, the Chinese ambassador Ou Jianhong stated that president Bukele assured that the relations between the two nations were plenty. In December 2019, Salvadoran President Nayib Bukele made a six-day state visit to China (LopezRogel, 2020). On this visit, President Bukele announced the approval of a giant non-reimbursable cooperation from China to El Salvador, for projects to modernize a stadium, a new National Library, a water treatment plant, as well as investments in infrastructure in tourist areas such as in the beaches of Surf City (LopezRogel, 2020).

4.2 Economic relations with ROC and PRC before and after shifting diplomatic recognition

In 2014, El Salvador imported 763.12 million USD in products from China and exported 5.75 million USD to China. The bilateral commerce with El Salvador represented only 0.05% out of the 285.7 thousand million USD of commercial exchange between China and Latin America in that same year. It ranked 133 in its range of imports/exports with China. The bilateral commerce between China and El Salvador has indeed increase being four times bigger in 2014 than what it was in 2000 of 33.56 million USD. Notwithstanding, this growth rate is extremely low when compared to the entire region, which commerce with China grew by 24% on the same period. One of the obstacles for having a larger amount of exports of goods to China is El Salvador's infrastructure. Although El Salvador has better road infrastructure than most of the other countries in Central America, it only has one port, Acajutla, operated by the state and it has many labor related difficulties as well as other impediments in efficiency (Lazo, 2018).

It is important to look at the Foreign Direct Investment from Taiwan and China in El Salvador. The FDI that will be analyzed here will be inward FDI for El Salvador and outward FDI for China and Taiwan. The table inserted below will show Taiwan's FDI in El Salvador from 2015 to 2020. The National Bureau of Statistics of China has no data for China's investment in El Salvador because it says that there are no official investments or the quantity is not representative. Therefore, no data for China will be analyze here only the data regarding

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Taiwan's FDI to El Salvador will be presented. The data for Taiwan's FDI was gathered from the Ministry of Economic Affairs Investment Commission's (MOEAIC) of Taiwan. The numbers presented will be in 1,000 US dollars.

Table 20 Foreign Direct Investment

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Taiwan	0	20	0	8	14	0

Created with data retrieved from MOEAIC

Figure 14 Foreign Direct Investment
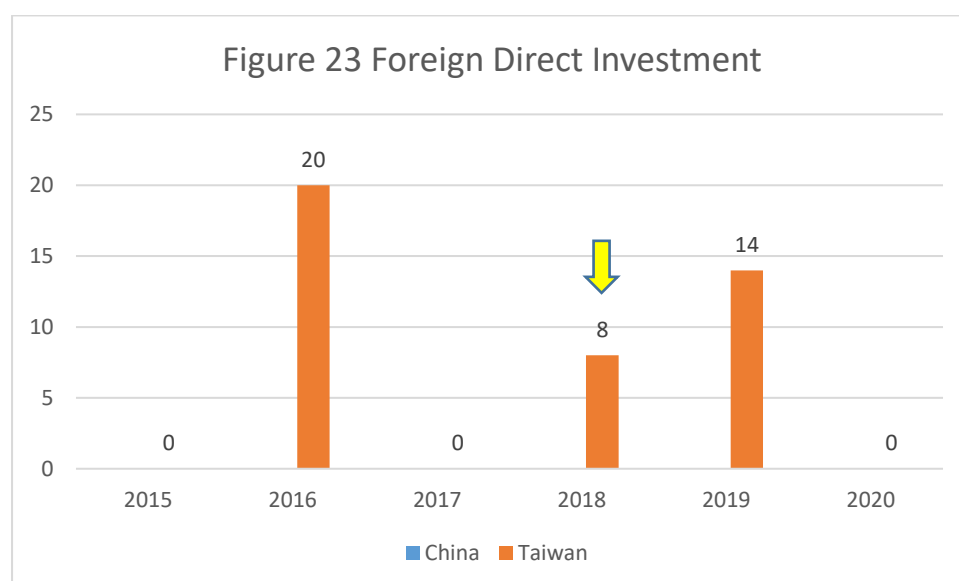
Created with data retrieved from MOEAIC

The table and figure above present Taiwan's direct investment in El Salvador from the year 2015 to the year 2020. As the data show, Taiwan's foreign direct investment in El Salvador is extremely low. In 2016, it was of 20,000 US dollar; there was investment in 2017, the investment for 2018 was of 8,000 US dollars only, and the investment for 2019 was of 14,000 US dollars. Taiwan's investment is not significant, but it is important to highlight that even after the shifting of diplomatic recognition in 2018 Taiwan continued to invest the next year. China on the other hand has not invested in the country not even after formalizing their relations. It is just surprising to realized that China is not investing directly in the country even after El Salvador shifted its recognition to it, and even though El Salvador shifted recognition, Taiwan continues to invest in the country, even if it is a small investment.

It is also important to present the Official Development Assistance assigned to El Salvador by Taiwan and China before and after the shifting of relations. Unfortunately, Taiwan's ODA was not possible to be found in any source. Taiwan's International Cooperation

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and Development Fund (ICDF) is in charge of dealing with the country's cooperation with other countries and it publishes a yearly report stating the projects that it has and how it is working with other countries, but no amounts are provided. Therefore, no data for Taiwan will be presented here because it was not available. China's ODA to El Salvador was retrieved from the reports found in the National Bureau of Statistics of China. The figures showing Chinese assistance are in a unit of 10,000 USD. This means that to see the real amount that that China gave to the country you need to multiply the number in the specific year by 10,000. The table and figure below will present China's aid to El Salvador from the year 2015 to the year 2020.

Table 21 Official Development Assistance

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
China's ODA	0	47	229	27	108	0

Created with data retrieved from the National Bureau of Statistics of China

Figure 15 Official Development Assistance
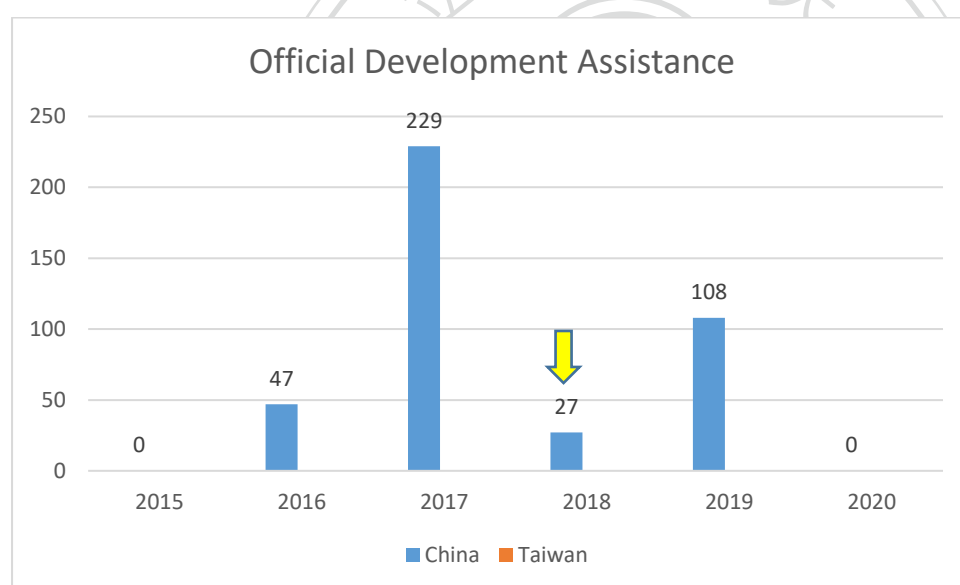
Created with data retrieved from the National Bureau of Statistics of China

The table and figure above show China's development assistance to El Salvador from the year 2015 to the year 2020. As the data shows, China's assistance to El Salvador is incredibly low even after El Salvador switched its diplomatic recognition from Taiwan to China. There was no ODA given in 2015, in 2016, the Chinese ODA was of 470 thousand US dollars, it increased to 2.29 million US dollars in 2017, decreased to 270 thousand in 2018, and it increased again to 1.08 million US dollars in 2019. There was no ODA registered in 2020. There has not been a real increase in China's ODA to El Salvador, which is extremely

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surprising. Sadly, the Taiwan's ODA was impossible to get, but it would have been interesting to see if Taiwan's ODA was higher than China's because China's is very low.

To fully understand the economic relations between El Salvador and China, it is necessary to look at the trade between the two countries. Table 22 will show El Salvador's exports to China and El Salvador's imports from China from 2015 to 2021. The data was obtained from the trade statistics section of the United Nations' Department of Economic and Social Affairs. The data that will be presented will be in million US dollars and some will be in billion US dollars. The ones with the * will be in billion US dollars.

Table 22 Trade between El Salvador and China

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Exports to China	53.76	45.83	116.37	164.39	113.31	171.78	218.85
Imports from China	726.69	772	772.55	927.22	1.01*	938.24	1.51*

Created with data retrieved from UN Comtrade Database

The data in table 22 shows El Salvador's exports to China and El Salvador's imports from China from the year 2015 to the year 2021. As the data shows, both exports and imports have experienced fluctuations. When it comes to exports, it experienced many fluctuations. It went from 53.76 million in 2015 to 45.83 million in 2016, then it went up to 116.37 million in 2017, to 164.39 million in 2018. It dropped to 113.31 million in 2019, but increased again in 2020 to 171.78 million and to 218.85 million in 2021. The imports, on the other hand, have been steadier and have continuously increased with the exception of 2019 where it slightly dropped. It can be established that both exports and imports with China have increased after 2018 when El Salvador shifted diplomatic recognition to China.

The exports and imports between El Salvador and China were presented before. Nonetheless, it is important to see how much they represent of El Salvador's GDP in order to see the importance of China as a trade partner to the country. Table 23 will show the percentage of the imports and exports between El Salvador and China regarding El Salvador's overall GDP. Therefore, to obtain the numbers below, the imports and exports were divided by the country's GDP of each year and then multiply by 100. The data presented below is in percentage from 0 to 100.

Table 23 Percentage of Exports and Imports with China Compared to El Salvador's GDP

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Exports to China	0.23	0.19	0.47	0.63	0.42	0.70

Imports from China	3.10	3.19	3.09	3.56	3.75	3.81

The data on the table above show the percentage that the exports and imports with China represent to El Salvador compared to El Salvador's GDP. As it can be seen, the exports that El Salvador send to China are not representative to the country's GDP. On the other hand, the imports coming from China to El Salvador are a little more representative to El Salvador's GDP. However, the imports are not really that high meaning that El Salvador does not depend at all on imports from China. The trade exchange between the two countries is not that big.

4.3 Political development before and after switching recognition

4.3.1 Political Perception

Table 24 and figure 16 show the percentage in each indicator from 2015 to 2020 in El Salvador. The Worldwide Governance Indicator present its results on a scale from -2.5 to 2.5, where 2.5 is the highest score and -2.5 is the lowest. However, it also present the results in a percentage scale, where 100 is the highest score and 0 is the lowest. Here, only the percentage scale will be shown to make it easier for the reader to appreciate the changes in each indicator.

Table 24 El Salvador's Political Perception

	2015	2016	2017	2018	2019	2020
Voice and Accountability	51.7	53.2	52.2	47.8	50.7	47.8
Political Stability and Absence of Violence	44.8	42.9	35.7	32.5	43.4	45.8
Government Effectiveness	45.7	42.3	39.9	37	35.6	38.5

Created with data retrieved from the World Bank

Figure 16 El Salvador's Political Perception
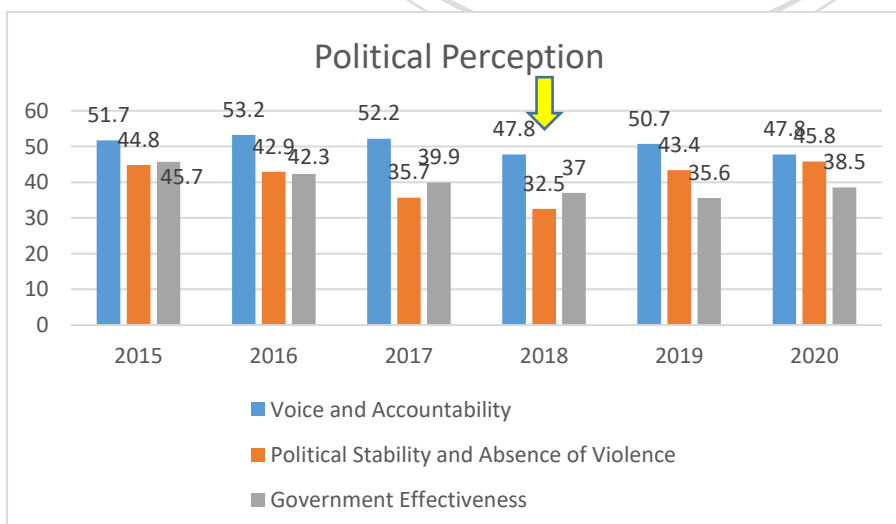
Created with data retrieved from the World Bank

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Looking at the data presented in the table and figure above, it can be appreciated that two of three indicators have had variations from year to year and the other has clearly worsen since 2015. The voice and accountability indicator has continuously varied each year. It show an improvement from 2015 to 2016 going from 517% to 53.2%, but it then decreased to 52.2% in 2017 and continued to decrease to 47.8% in 2018. It then increased to 50.7% in 2019, but decreased again in 2020 to 47.8%. It can be said that people's voice and accountability has worsen after the shifting of diplomatic recognition in 2018.

The political stability and absence of violence indicator shows a different behavioral patron. It decreased in 2016 from a 44.8% to a 42.9% and continued to decrease in 2017 to 35.7% and in 2018 to 32.5%. However, it began to improve in 2019 increasing to a 43.4% and to a 45.8% in 2020. This shows that there was political instability in the country from 2016 to 2018, but the reality is improving although the scores are still very low. Hence, this indicator was not affected by the transition of diplomatic relations in 2018. Finally, the government effectiveness indicator has clearly decreased since 2015. It went down from 45.7% to 42.3% in 2016, to 39.9% in 2017, to 37% in 2018, to 35.6% in 2019, and just increasing a little in 2020 to 38.5%. It is evident that the government effectiveness has worsen in the country and it could have in fact been affected by the shifting of diplomatic recognition.

4.3.2 Human Development Index

The HDI scores go from 0 to 1, 0 being the lowest score meaning that there is no human development and 1 being the highest score meaning that human development is totally fulfilled. Table 25 and figure 17 show El Salvador's HDI from 2015 to 2020. Unfortunately, the indexes for 2021 are not yet available.

Table 25 El Salvador's Human Development Index

2015	2016	2017	2018	2019	2020
0.668	0.671	0.671	0.671	0.670	0.673

Created with data retrieved from UNDP

Figure 17 El Salvador's Human Development Index
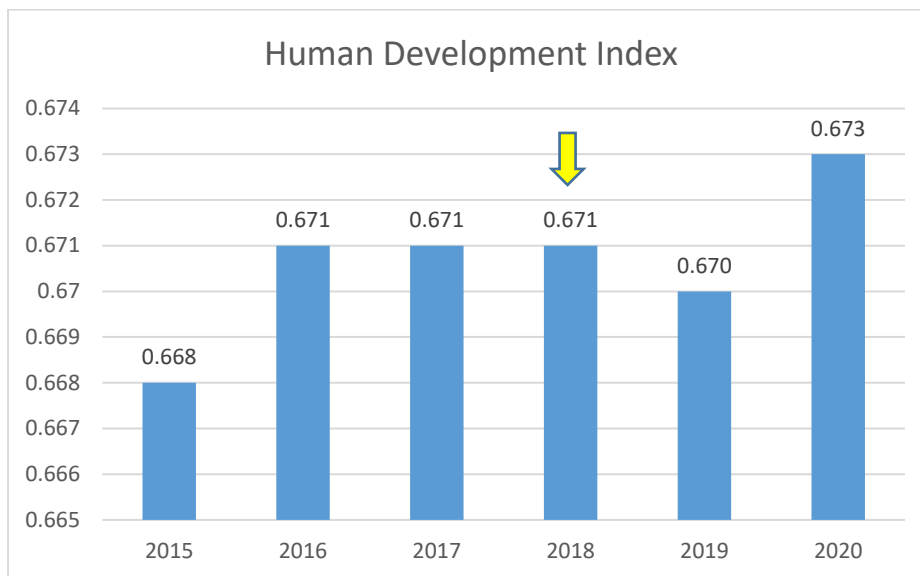
Created with data retrieved from UNDP

The data presented above shows El Salvador's Human Development Index from 2015 to 2020. As it can be appreciated, El Salvador's HDI has remained steady and has not varied much since 2015; in fact, it has slightly improved since then. It went from a 0.668 in 2015 to a 0.671 in 2016 and it remained with the same score until 2018. It slightly dropped in 2019 to 0.670 and then improved in 2020 to 0.673. Basically, there has been no change in the HDI of the country since 2015 and it can be tell from the data that the shifting of diplomatic recognition in 2018 has no effect at all on the country's human development. What can be highlighted from the data is that El Salvador's human development is not as low as one could have thought. There is clearly a lot to be improve but the index score itself is not that low taking into consideration all of the struggles that the country faces.

4.3.3 Corruption Perception Index

A country's score is the perceived level of public sector corruption on a scale of 0 to 100, where 0 means highly corrupt and 100 means very transparent institutions. Table 26 and figure 18 show the scores that El Salvador received from 2015 to 2021.

Table 26 El Salvador's Corruption Perception Index

2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
39	36	33	35	34	36	34

Created with data retrieved from Transparency International

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Figure 18 El Salvador's Corruption Perception Index
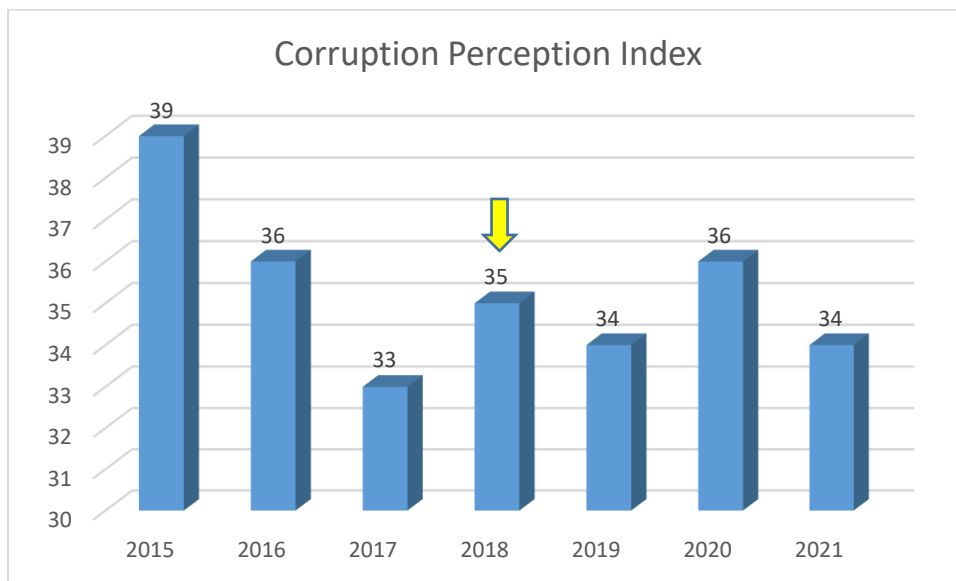
Created with data retrieved from Transparency International

The table and figure above show El Salvador's corruption indexes from 2015 to 2021. As it can be seen in the figure above, El Salvador's corruption perception has increased since 2015, but the scores have fluctuated year by year. In 2016, it went down from a score of 39 to a 36, to a 33 in 2017, then went a little up to a 35 in 2018, then down to a 34 in 2019, then up to a 36 in 2020, and back to a 34 in 2021. Since the scores fluctuate so much year by year, it is hard to tell if there has been a clear change in corruption before and after the shifting of diplomatic recognition in 2018. Regardless of whether the shifting from Taiwan to China affected corruption in the country, it is evident that the country has high corruption levels and that it is hard to trust public officials. Although some of the literature that has been presented argues that establishing close relations with China will foster corruption in the country, it is hard to prove in this case not only because of the fact that not enough time has passed since the shifting of diplomatic recognition, but also because El Salvador was already a highly corrupted country. A more clear change would be able to be appreciated after a couple of years from now.

4.3.4 Democracy Index

The Democracy Index final score ranges from 0 to 10, where 0 to 4 are authoritarian regimes with few or none democratic practices and 8.01 to 10 are full democracies. Table 27 and figure 19 present El Salvador's scores in the Democracy Index from 2015 to 2021.

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Table 27 El Salvador's Democracy Index

2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
6.64	6.64	6.43	5.96	6.15	5.9	5.72

Created with data retrieved from Economist Intelligence

Figure 19 El Salvador's Democracy Index
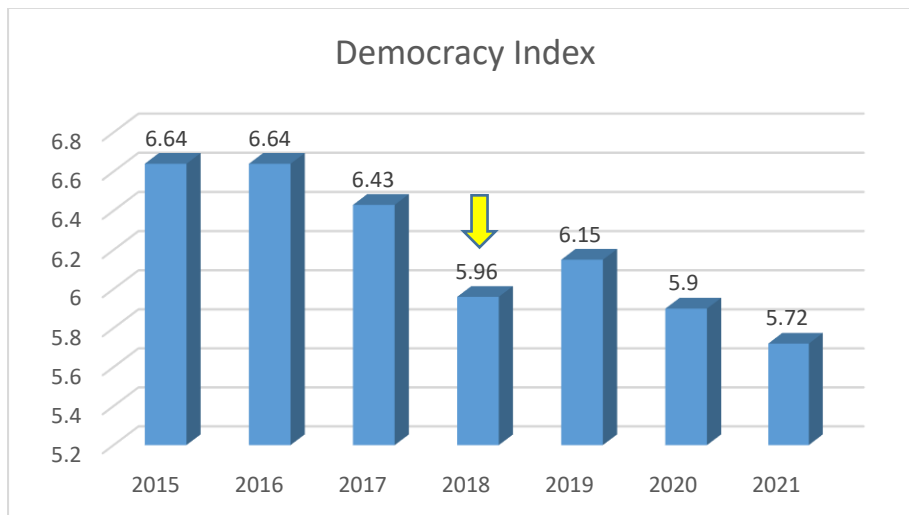
Created with data retrieved from Economist Intelligence

The table and graph above show El Salvador's democracy development from to 2015 to 2021. As it can be observed in the data, the country's democracy has decreased and it has in fact moved from a flawed democracy to a hybrid regime. El Salvador's democracy score was of 6.64 in 2015 and it kept the same score in 2016. However, it went down to 6.43 in 2017, to 5.96 in 2018 having quite a big drop in this year, but then going up a little in 2019 to 6.15, going down again in 2020 to 5.9, and finally scoring 5.72 in 2021. According to the index if a country scores between 4.01 to 6 it is considered a hybrid regimes and if it scores between 6.01 to 8 it is considered a flawed democracy. Sadly, El Salvador is consider a hybrid regime meaning that its democracy is very weak but it is not yet an authoritarian regime. It is evident that the country's democracy has been affected after the shift of diplomatic recognition from Taiwan to China in 2018.

4.3.5 Gini Coefficient

Table 28 and figure 20 will demonstrate El Salvador's Gini coefficient from the years 2015 to 2019. Unfortunately, the results for 2020 and 2021 are not yet available. When reading the scores, it is important for the reader to keep in mind that the highest the score the more inequality there is in the country and the lowest the score the less inequality present.

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Table 28 El Salvador's Gini Coefficient

	2015	**2016**	**2017**	**2018**	**2019**
	40.6	40	38	38.6	38.8

Created with data retrieved from the World Bank

Figure 20 El Salvador's Gini Coefficient
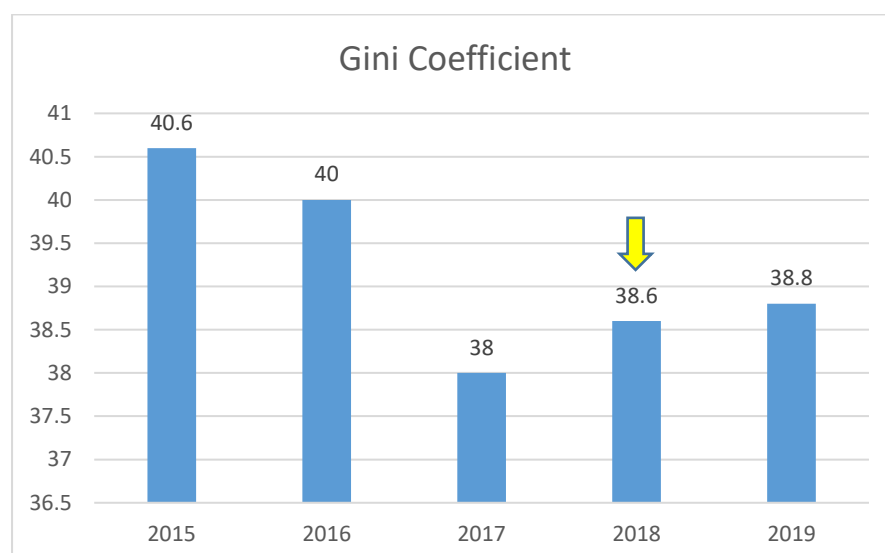
Created with data retrieved from the World Bank

The table and figure above show El Salvador's Gini coefficient from 2015 to 2019. As it can be observed, the change in inequality has not been that much, but there has been some. The Inequality slightly decreased from 40.6 to 40 in 2016 and continue to decrease to 38 in 2017. However, it began to increase in 2018 to 38.6 and increased a little more to 38.8 in 2019. It is very sad that the scores for 2020 and 2021 are not yet available because the change cannot be appreciated concretely. Inequality has slightly increased since 2018 the year where the change of diplomatic recognition took place. Therefore, it can be said that since the establishment of relations with China the inequality in the country has increase, but it would have been better if the data for 2020 and 2021 is available to see if the inequality continues to increase or not.

4.3.6 Education

Table 29 and figure 21 below show the education attainment in El Salvador from 2013 until 2019. The data presented is the net percentage enrollment rate, which means that it shows the percentage of school age children that are enroll in primary and secondary school. Sadly, there was no data available for 2020.

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Table 29 El Salvador's Education

	2015	2016	2017	2018	2019	2020
Primary Education	85.8	84.5	80.2	81.0	79.1	…
Secondary Education	65.2	64.0	60.2	61.8	59.1	…

Created with data retrieved from UNESCO

Figure 21 El Salvador's Education
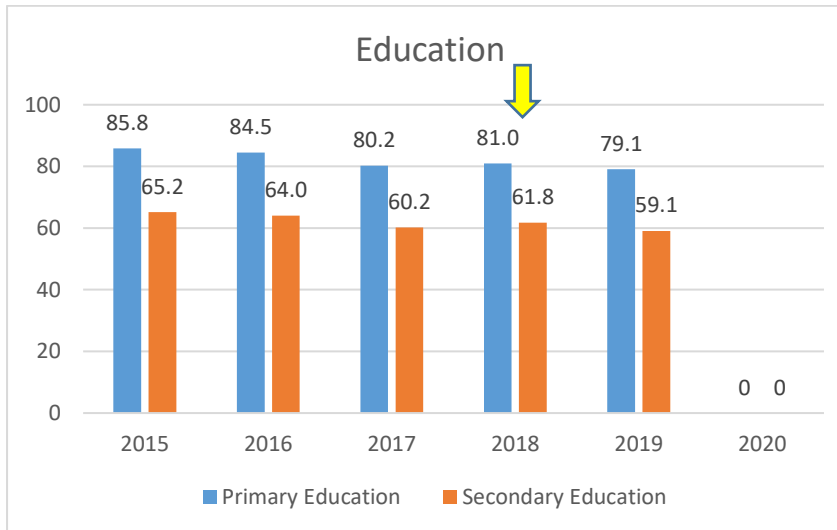
Created with data retrieved from UNESCO

The data presented in the table and figure above show the enrollment rates in primary and secondary education in El Salvador. It can be appreciated that enrollment rates have decreased significantly from 2015 to 2019. In 2015, 85.8% of the children having standard age to be enrolled in primary education were enrolled. However, the enrollment went the down the following year to 84.5%, to 80.2% in 2017, increasing a little in 2018 to 81%, but decreasing to 79.1% in 2019. This means that in 2019 20.9% of the children in El Salvador that should have been enrolled in school were not enroll and were not having an education. The enrollment rate for secondary education follow a similar pattern. 65.2% of the teens aged to be in school were enrolled in 2015. The number went down to 64% in 2016, continued to lower to 60.2% in 2017, increased a little to 61.8% in 2018, and decreased to 59.1% in 2019. That is a massive 40.9% of the teenagers that should have been enrolled in secondary school were not. Enrollment in education has definitely decreased in the country, and measures should be taken by the government to provide education opportunities to every child in the country. It can be said that education could have been affected by the shifting of diplomatic recognition.

4.4 Economic development before and after switching recognition

      4.4.1 Gross Domestic Product

      Table 30 and figure 22 show El Salvador's GDP from the year 2015 to the year 2020, the GDP is presented in billion US dollars.

Table 30 El Salvador's Gross Domestic Product

2015	**2016**	**2017**	**2018**	**2019**	**2020**
23.44	24.19	24.98	26.02	26.9	24.64

Created with data retrieved from the World Bank

Figure 22 El Salvador's Gross Domestic Product
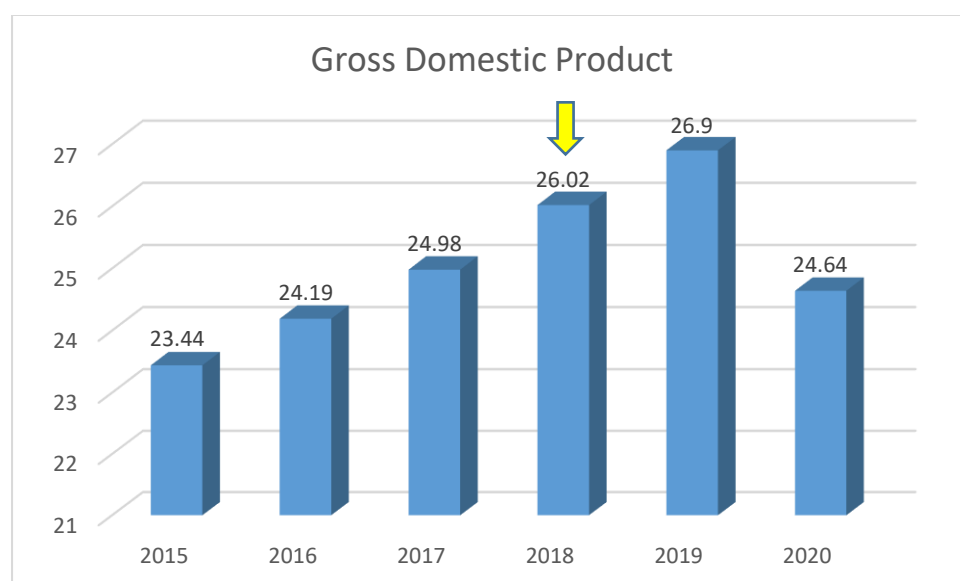
Created with data retrieved from the World Bank

      The data found in the table and figure above present the El Salvador's GDP from the year 2015 to the year 2020. As the data shows, the country's GDP was slowly increasing year-by-year not showing variation except for 2020. The country's GDP was of 23.44 billion USD in 2015, it increased to 24.19 billion USD in 2016, to 24.98 billion USD in 2017, to 26.02 billion USD in 2018, to 26.9 billion USD in 2019, and dropping to 24.64 billion USD in 2020. Just as most countries in the world, the big GDP drop in 2020 was due to the COVID 19 pandemic that affected, and continuous to affect, everyone. What can be highlighted is that the GDP trend was exactly the same before and after the sifting of diplomatic recognition in 2018. This means that shifting diplomatic recognition to China did not contribute to the country's economic growth and its economy remains the same as when it had relations with Taiwan.

4.4.2 Gross National Income

Table 31 and figure 23 will present the GNI per capita based on PPP of El Salvador from 2015 to 2020. It is per capita because it is the total gross national income divided by the total population; therefore, it tells us the amount of GNI could be available per person in the country.

Table 31 El Salvador's Gross National Income

2015	**2016**	**2017**	**2018**	**2019**	**2020**
7,240	7,620	7,980	8,320	8,690	7,970

Created with data retrieved from the World Bank

Figure 23 El Salvador's Gross National Income
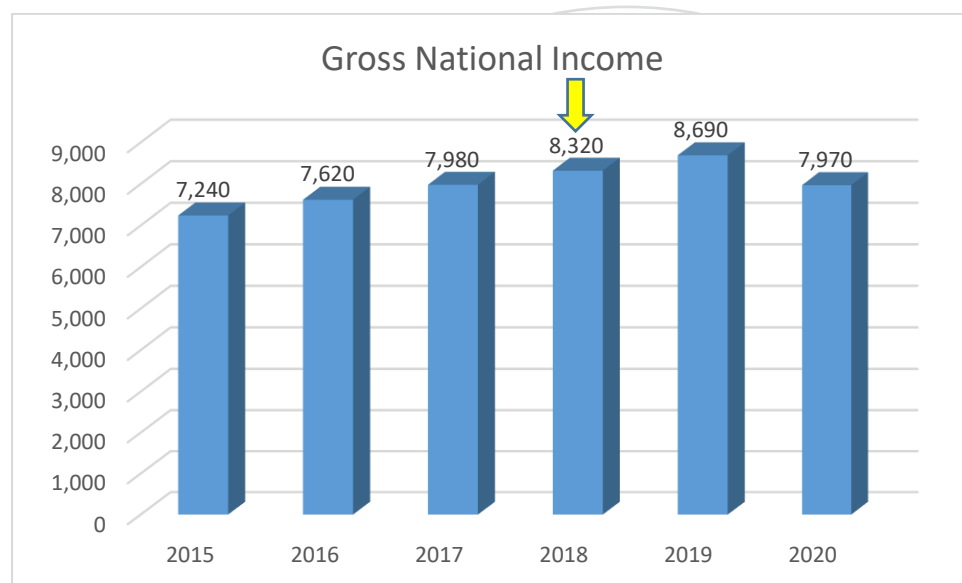
Created with data retrieved from the World Bank

The data in the table 31 and figure 23 present El Salvador's Gross National Income per capita from the year 2015 to the year 2020. The GNI per capita has almost the same trend as the country's GDP changes during these years. The GNI per capita had a slow but steady growth from 2015 until 2019, and had a big drop in 2020. The GNI per capita in 2015 was of 7,240 USD, it grew to 7,620 USD in 2016, to 7,980 USD in 2017, to 8,320 USD in 2018, to 8,690 USD in 2019, but dropped to 7,970 USD in 2020. Just as the GDP, the GNI in 2020 was affected by the global pandemic being faced. The same conclusion as the one obtained from the GDP data can be made from the GNI data. The GNI per capita had no variation after the change of diplomatic recognition from Taiwan to China in 2018. Therefore, it can be assumed that establishing diplomatic relations with China has not contributed to El Salvador's GNI per capita growth.

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4.4.3 Infrastructure

Table 32 and figure 24 will show El Salvador's score in infrastructure on a scale of 0 to 100 being 100 the highest score.

Table 32 El Salvador's Infrastructure

2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
32.4	37	36.2	33.9	35.7	31.4	30.5

Created with data retrieved from the Global Innovation Index

Figure 24 El Salvador's Infrastructure
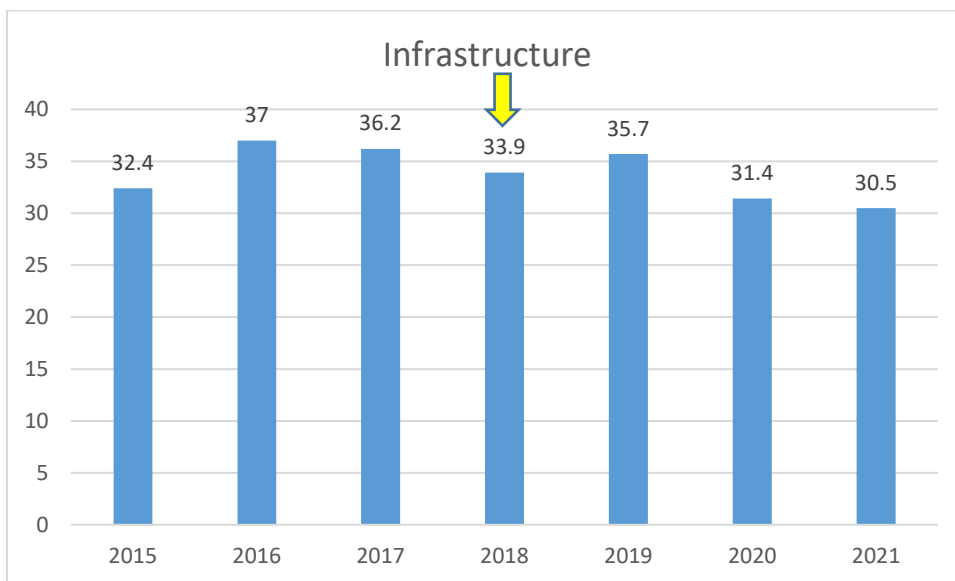
Created with data retrieved from the Global Innovation Index

The table and figure above show El Salvador's score for infrastructure within the Global Innovation Index from the year 2015 to the year 2020. The country's infrastructure score has fluctuated, it experienced some growth but it has been decreasing after 2019. The country had a score of 32.4 in 2015, it increased to a 37 in 2016, and then it had a little decreased to 36.2 in 2017, it decreased even more in 2018 to 33.9, it increased to 35.7 in 2019, but decreased again in 2020 to 31.4 and to 30.5 in 2021. As the data shows, the country's infrastructure scores are constantly changing from year to year not allowing to see if the shifting of diplomatic recognition from Taiwan to China had an effect on the country's infrastructure development. Although a clear change in infrastructure cannot be seen, what is evident is that so far shifting diplomatic recognition to China has not improve the country's infrastructure as one would have thought.

4.4.4 Unemployment Rate

Table 33 and figure 25 below present the unemployment rates in El Salvador from 2015 to 2021.

Table 33 El Salvador's Unemployment Rates

2015	**2016**	**2017**	**2018**	**2019**	**2020**
4%	4.4%	4.4%	4.0%	4.2%	5.0%

Created with data retrieved from the World Bank

Figure 25 El Salvador's Unemployment Rates
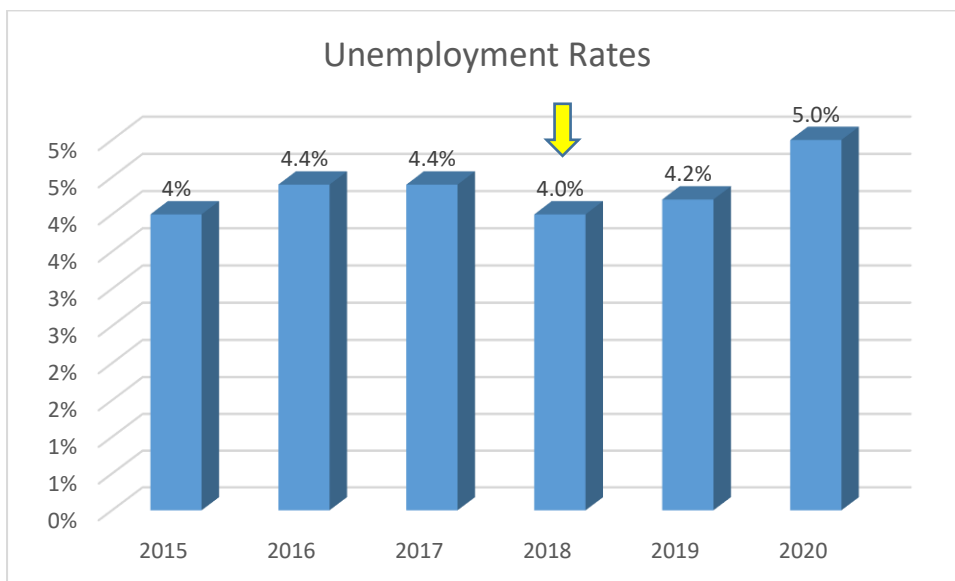
Created with data retrieved from the World Bank

Table 33 and figure 22 above show the unemployment rates in El Salvador from the year 2015 to the year 2020. As it can be appreciated in the data presented, there has not been that much of a variation when it comes to unemployment rates within the country. Actually, if a comparison before and after the shifting of diplomatic recognition is made, it can be concluded that unemployment rates were higher while having diplomatic relations with Taiwan and they slightly improved after the shifting to China. The Unemployment rate in 2015 was 4%, it raised to 4.4% in 2016 keeping the same score in 2017, it came down to 4.0% in 2018, it slightly increased to 4.2% in 2019, and it had a large increase in 2020 to 5.0%. As mentioned before, the rates increased in 2020 due to the COVID 19 pandemic where many people lost their jobs due to the closing of many businesses. In summary, what can be deducted from the data is that the shifting of diplomatic recognition from Taiwan to China did not have an effect on El Salvador's unemployment rates.

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4.4 Discussion

The data for each individual indicator has been presented and discussed in the previous sections. Now, the impact of shifting diplomatic recognition from Taiwan to China on El Salvador's political and economic development can be seen and discussed. The impact on the country's political development will be discussed first. The first indicator of the political perception indicator is voice and accountability and the data shows that it has worsen after the shifting of diplomatic recognition to China. There was some political instability and violence from 2016 to 2018 but the scores actually improved after the shifting of relations. The government effectiveness has clearly decreased after the shifting of diplomatic recognition. Therefore, since two of the three components were negatively affected, the political perception has been negatively affected to a low degree after shifting.

The country's human development had basically no change during the years studied. Corruption had a high variation before and after 2018, so it cannot be assumed that it has worsen or improved because the data does not show any clear change. Democracy on the other hand has suffered and it has decreased since the shifting of diplomatic recognition to China. It can be stated that inequality rates were not affected after the switching because the changes were minimum and not significant. Enrollment rates in primary and secondary education have both decreased after 2018. Therefore, enrollment in education has in fact been affected after establishing relations with China. In conclusion, three out of the six indicators had been negatively impact after the shifting of diplomatic relations. Thus, it can be stated that the shifting of diplomatic recognition from Taiwan to China has had a slightly negative impact on El Salvador's political development.

It has been showed that the switching of diplomatic relations to China had a somehow negative impact on El Salvador's political development. Now, the impact that the shifting of relations had on the country's economic development will be presented and discussed. The first indicator, GDP, has in fact increased but it has done so with the same rate that it was increasing before establishing recognition. Thus, the shifting of diplomatic relations had no effect at all on the country's GDP. The second indicator, GNI per capita, shows exactly the same behavior as the first indicator. Hence, the GNI per capita was also not affected by the shifting of diplomatic recognition. The country's infrastructure has definitely not improved after shifting diplomatic recognition to China; the scores had in fact slightly go down. The fourth indicator, unemployment rate, had no significant change meaning that it was not affected at all after shifting relations to China.

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It is also important to consider the two indicators presented in section 4.2 FDI and ODA. There is not reported Chinese investment in the country even after establishing formal relations, and Taiwan's investment, although small, continues to be present and is increasing. The Official Development Assistance has not seen a clear increase from Chinese ODA and the ODA that China provides to El Salvador is arguably low. In conclusion, none of the indicators have in fact improve after the shifting of diplomatic relations from Taiwan to China. Therefore, El Salvador's economic development has not seen any improvement after establishing relations with China. The big question is, did El Salvador decide to shift their diplomatic relations from Taiwan to China if they are not getting any benefit from it?

Table 34 summarizes the results by showing if the indicators improved or worsen after the change. The + sign means that there has been a positive change in the variable after the year of the shifting, 2018 for this specific case. The – sign states that the variable has experience a negative impact after the year of the shifting of relations. The = sign means that there has not been a change in the variable after the year were the shifting of relations took place. The ≠ sign in this case means that the variations in corruption were high before and after the shifting and a clear change cannot be perceived.

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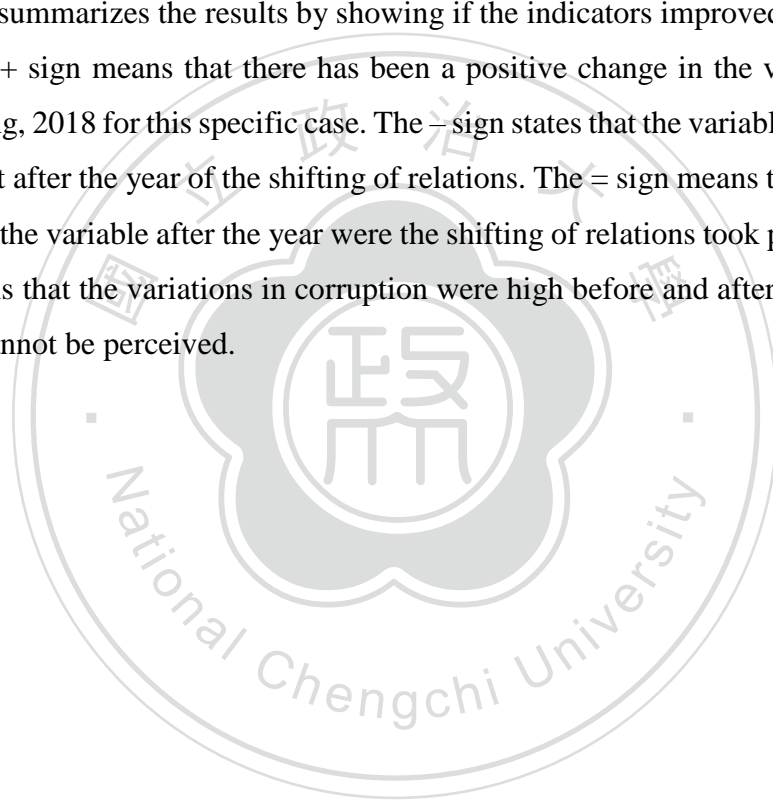
Table 34 Change in Indicators El Salvador

	ROC (before)	PRC (after)
Political Development		
Political Perception	+	-
Human Development Index	=	=
Corruption Perception Index	≠	≠
Democracy Index	+	-
Gini Coefficient	=	=
Education	+	-
Economic Development		
GDP	=	= (it has increased but at the same rate it was doing already.)
GNI per capita	=	= (it has increased but at the same rate it was doing already.)
Infrastructure	+	-
Unemployment Rates	=	=

Chapter 5 Case 3: Costa Rica

The previous chapters presented and analyzed the data for Panama and El Salvador; it was possible to make a conclusion upon how the shifting of diplomatic relations affected the countries' political and economic development. It was interesting to see that both countries experienced a different effect. Now, it is time to run the analysis for Costa Rica. It is important to remember that this research is trying to answer the following question: how is the political and economic development of Latin American countries affected after shifting diplomatic relations from Taiwan to China? This chapter focuses exclusively on the impact that shifting diplomatic recognition to China had on Costa Rica's political and economic development. It will be interesting to see if Costa Rica will have the same impact as El Salvador or as Panama, or if it will have a different impact from them.

The chapter will be divided in five sections. The first section is the switching process and it will show the evolution of the relations between Costa Rica and China, as well as some literature pointing out what led to the shifting of diplomatic recognition. The second section is economic relations with ROC and PRC before and after shifting diplomatic relations. In here, the data regarding foreign direct investment and official development assistance from Taiwan and China before and after the shifting of diplomatic recognition will be presented. The third section will be political development before and after shifting recognition, where the data for each variable will be presented and briefly discussed. The fourth section will be economic development before and after shifting diplomatic recognition; here, the data for the variables for economic development will be presented. The last section is discussion, an analysis of the results of all of the variables will be presented and the impact in the country's political and economic development will be stated.

5.1 The Switching Process

As a method to get closer and influence Central American countries, China's strategy was to establish semiofficial relations with political parties from the opposition. In this way, the Chinese Communist Party (CCP) and the National Liberation Party of Costa Rica, party ruled by Oscar Arias, established political relations. Hence, the approach and political negotiations to recognize the Chinese government started in 2004 between Arias, as he visited Pekin when he was a pre-candidate to the presidency, and Jia Quinglin who was the president of the Political Consultation Conference of Chinese People (Rodriguez, 2013). Afterwards, Arias and the Chinese chancellor Li Zhaoxing met in the United Nations' headquarters. Arias asked the Chinese chancellor that as a condition for Costa Rica to recognize China, they could

not negotiate any agreement of diplomatic recognition with other Central American countries. There are some theories that said that Costa Rica decided to change because they wanted to be the first Central American country to have diplomatic relations with China because they were afraid that Nicaragua was thinking of shifting to China. Two years later when Arias won Costa Rica's presidency, China was publically expression their intentions of establishing formal diplomatic relations with Costa Rica (Boeglin, 2017).

In this way, on June 1, 2007, the ministers of Foreign Affairs from both countries signed the diplomatic recognition in China's capital city, Beijing. As it is stated under the one China policy, Costa Rican government recognized the existence of a single China, the People's Republic of China as the legitimate representative of the Chinese people and of the Taiwanese territory. Therefore, Costa Rica ended diplomatic relations with Taiwan and withdrew its diplomatic mission from the country. At the same time, Arias demanded the exit of the Taiwanese diplomatic mission in San Jose. Costa Rica not only stop relations with Taiwan but it opposed Taiwan's entrance to international organizations like the World Health Organization (WHO) (Connelly, 2012).

At the beginning, the terms of the shifting of diplomatic recognition were negotiated in secret. However, due to pressures from the Costa Rican press and Taiwan's intelligence, the Costa Rica's Constitutional Court ordered the executive power to reveal the memorandum that included the details of the diplomatic recognition. Notwithstanding, it became of public knowledge that in exchange of rejecting Taiwan and diplomatically recognizing China, China compromised to buy government bonuses for 300 million US dollars in two parts with a 2% interest and an extension period of 12 years; destine 130 million US dollars in non-reimbursable financing; increase the commercial exchange between both countries, where China should increase their imports coming from Costa Rica; grant 20 annual scholarships to Costa Ricans to study in China, among others. The Chinese government would also help Costa Rica to enter the Asia Pacific Economic Cooperation Forum (APEC) and it will nominate it to hold a permanent seat at the Security Council in the UN (Bowley, 2008). Another factor worth mentioning that influenced Costa Rica's diplomatic recognition of China is the change of the elites in power. During the second half of the XX century, the close bond between the business elites and US policies, Taiwan and Costa Rica influenced the recognition of Taiwan. However, in 2006 with the arrival of Oscar Arias to the presidency, it provoked a change in the political elites that minimized Taiwanese influence (Rodriguez, 2013).

5.2 Economic relations with ROC and PRC before and after shifting diplomatic recognition

The commercial exchange between China and Costa Rica before the establishment of official relations was also an attractive incentive for Arias' decision to shift. The economic relations with Taiwan were precarious; Costa Rica's exports to Taiwan were not even 1% of their total exports. On the other hand, China was occupying a primordial position when talking about commerce because China was Costa Rica's second biggest commercial partner. The access to the largest market in the world and diversifying the country's exports was a good justification given to the shifting of diplomatic relations (Chen Sui, 2016). In the year 2000, the percentage of imports coming from China to Costa Rica were of 1.3%, in 2008 it increased to 5.7%, and the following year to 6.1%. Regarding the exports to China, only 0.2% of the exports were sent to China in 2000. However, in 2008 they increased to 6.3% and to 8.8% in 2009 (Rosales & Kuwayama, 2012).

Although Costa Rica did not reach a gigantic percentage in the total imports from China within the Latin American region, at least it excelled within the countries that send products to China as number seven being the only country from Central America included on the list. In this way, two years after establishing diplomatic relations China was already a strong commercial partner for Costa Rica, especially in the exportation of industrial products that motivated both governments to implement a Free Trade Agreement (Barbosa, 2012). When the Chinese president visited Costa Rica in 2008, he mentioned his intention in establishing a free trade zone. The first out of six negotiation rounds started the following year, which ended with the signing of Free Trade Agreement between China and Costa Rica in April 2010 (Connelly, 2012).

The Chinese Foreign Direct Investment (FDI) has been precarious in Costa Rica before and after the establishment of diplomatic relations and the signing of the FTA. Between 2004 and 2016, China's participation in the total FDI registered in Costa Rica do not reach even 0.5%. In 2009, China's FDI destined to the country was of 2.2 million dollars, which was not even 0.5% of the total percentage assigned to Latin America. Costa Rica is not the main recipient of Chinese FDI, since from 2009 to 2012 out of the 128 million dollars of Chinese investment to Central America 71% was concentrated in Panama, 19% in Guatemala and only 8% in Costa Rica (CLACDS, 2014).

The foreign direct investment from Taiwan and China in Costa Rica will be presented now. The FDI that will be analyzed here will be inward FDI for Costa Rica and outward FDI for China and Taiwan. The table inserted below will show China's FDI in Costa Rica from 2004 to 2018. Unfortunately, the Ministry of Economic Affairs Investment Commission's (MOEAIC) statistical reports do not have any data regarding Taiwan's FDI to Costa Rica. Therefore, no data for Taiwan will be analyze here only the data regarding China's FDI to Costa Rica. The data for China's FDI was gathered from the Ministry of Exterior Commerce from Costa Rica. Table 35 presents China's FDI in Costa Rica from 2004 to 2018. The numbers presented will be in million US dollars.

Table 35 Foreign Direct Investment

	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	2.4	1.1	0.4	3.1	1.9	3.6	0.8	1.0	4.7

	2013	2014	2015	2016	2017	2018
China	7.1	11.0	1.9	0.5	1.8	4.8

Created with data retrieved from Ministerio de Comercio Exterior de Costa Rica

The table above presented China's foreign direct investment in Costa Rica from the year 2004 to the year 2018. As the data shows, China's FDI has not been constant and the amount changes year by year. In 2006, China's FDI was of 0.4 million dollars, it increased to 3.1 million dollars in 2007, but in 2008 it declined to 1.9 million dollars. China's FDI to Costa Rica is very low; the largest amount of FDI was in 2014 with 11 million dollars and then in 2013 with 7.1 million dollars, but for most of the years China's FDI has been very precarious. After the shifting of diplomatic recognition, China's FDI increased but in specific years only, but in general there was not an evident increase in Chinese investment in the country. Therefore, the shifting of diplomatic recognition has not shown much benefit for Costa Rica's local investment.

Taiwan's ODA was not possible to be found in any source. Taiwan's International Cooperation and Development Fund (ICDF) is in charge of dealing with the country's cooperation with other countries and it publishes a yearly report stating the projects that it has and how it is working with other countries, but no amounts are provided. Therefore, no data for Taiwan will be presented here because it was not available. China's ODA to Costa Rica was retrieved from the reports found in the National Bureau of Statistics of China. The figures showing Chinese assistance are in a unit of 10,000 USD. This means that to see the real amount

that was given you need to multiply the number in the specific year by 10,000. The table below will present China's aid to Costa Rica from the year 2004 to the year 2020.

Table 36 Official Development Assistance

	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	43	8	21	2	…	3283	5330	2479	1641

	2013	2014	2015	2016	2017	2018	2019	2020
China	2745	5447	7070	7575	3560	14944	13983	11656

Created with data retrieved from the National Bureau of Statistics of China

The data in the table above shows China's foreign assistance to Costa Rica from the year 2004 to the year 2020. Unfortunately, it was not possible to obtain data from previous years, but at least there was data available for some years before 2007 when the switching of diplomatic recognition took place. As the data shows, China's development assistance to Costa Rica did increase exponentially after 2007 when both countries established formal diplomatic relations. In 2007, China's development assistance to Costa Rica was of only 20,000 US dollars. Sadly, there is no data for 2008 the year after signing the diplomatic recognition, but in 2009, the ODA was of 32.83 million US dollars, which is a dramatic increase. China's ODA fluctuated the following years but it kept a significant figure, but its greatest ODA to Costa Rica was in 2018 when it gave 149.49 million US dollars to it. In 2020, China's assistance to Costa Rica was of 116.56 million US dollars. It is impossible to deny the incredible amounts of assistance that China has given to the country after they signed the diplomatic recognition.

To fully understand the economic relations between Costa Rica and China, it is necessary to look at the trade between the two countries. Table 37 will show Costa Rica's exports to China and Costa Rica's imports from China from 1995 to 2020. The data was obtained from the trade statistics section of the United Nations' Department of Economic and Social Affairs. The data that will be presented will be in million US dollars and some will be in billion US dollars. The ones with the * will be in billion US dollars.

Table 37 Trade between Costa Rica and China

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	29.18	0.91	1.36	16.84	7.15	10.31	26.51	184.49	560.9
Imports	22.06	18.79	22.74	46.45	63.26	65.18	63.1	81.65	98.52

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	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Exports	641.29	240.7	556.92	835.08	612.97	765.51	268.83	214.94	326.67
Imports	154.41	350.22	550.65	758.44	865.44	699.56	990.68	1.53*	1.45*

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Exports	377.8	339.14	80.17	45.5	119.12	198.69	122.06	182.57
Imports	1.75*	1.72*	1.95*	2.08*	2.14*	2.27*	2.12*	2.09*

Created with data retrieved from UN Comtrade Database

The data in table 37 shows Costa Rica's exports to China and Costa Rica's imports from China from the year 1995 to the year 2020. As the data shows, both exports and imports have experienced variations. When it comes to exports, it can be seen that they were having the largest amount of exports between 2003 and 2007. The exports actually declined after the shifting of relations in 2007. In 2003, the exports to China were of 560.9 million, it increased to 641.29 million in 2004, decreased to 240.7 million in 2005, but increased again to 556.92 million in 2006 and to 835.08 million in 2007. However, the exports dropped significantly after 2007 being the latest exports of only 182.57 million in 2020. The imports on the other hand have increased steadily since 1995 just experiencing a slight drop in 2001 and in 2009. What can be seen is that there was a period when Costa Rica was exporting a lot to China, but the exports actually decreased after the shifting of relations.

The exports and imports between Costa Rica and China were presented before. Nonetheless, it is important to see how much they represent of Costa Rica's GDP in order to see the importance of China as a trade partner to the country. Table 38 will show the percentage of the imports and exports between Costa Rica and China regarding Costa Rica's overall GDP. Therefore, to obtain the numbers below, the imports and exports were divided by the country's GDP of each year and then multiply by 100. The data presented below is in percentage from 0 to 100.

Table 38 Percentage of Exports and Imports with China Compared to Costa Rica's GDP

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Exports to China	0.25	0.01	0.01	0.12	0.05	0.07	0.17	1.11	3.25
Imports from China	0.19	0.16	0.18	0.34	0.44	0.43	0.39	0.49	0.57

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Exports to China	3.45	1.20	2.45	3.11	1.99	2.49	0.71	0.50	0.69

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Imports from China	0.83	1.75	2.42	**2.82**	2.81	2.28	2.63	3.58	3.07

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Exports to China	0.74	0.65	0.14	0.08	0.20	0.32	0.19	0.29
Imports from China	3.43	3.31	3.45	3.53	3.54	3.64	3.29	3.36

The data on the table above show the percentage that the exports and imports with China represent to Costa Rica compared to Costa Rica's GDP. As it can be seen, Costa Rica's exports to China are the highest when compared to its GDP out of the three countries. It is the only country whose exports to China represent over 1% of its GDP. From 2003 to 2009, the exports were between two and three percent of the country's GDP. However, the exports decreased and the exports to China are not representative to the country's GDP. On the other hand, the imports coming from China to Costa Rica have continued to increase. However, the imports are not really that high meaning that Costa Rica does not depend on imports from China. Costa Rica continues to have diversity of trade partners and China is not the main trade partner of the country.

5.3 Political development before and after switching recognition

5.3.1 Political Perception

Table 39 below shows the percentage in each indicator from 1996 to 2020 in Costa Rica. The Worldwide Governance Indicator present its results on a scale from -2.5 to 2.5, where 2.5 is the highest score and -2.5 is the lowest. However, it also present the results in a percentage scale, where 100 is the highest score and 0 is the lowest. Here, only the percentage scale will be shown to make it easier for the reader to appreciate the changes in each indicator.

Table 39 Costa Rica's Political Perception

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Voice and Accountability		81.5	…	84.6	…	82.6	…	83.6	76.6
Political Stability and Absence of Violence		72.3	…	77.7	…	76.7	…	83.6	65.8
Government Effectiveness		66.7	…	65.8	…	64.6	…	65.3	65.3

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	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	80.8	72.6	75.5	75.0	76.9	77.7	80.6	81.2	83.6
Political Stability and Absence of Violence	67	67.5	69.1	66.7	55.8	65.9	70.1	63	67.8
Government Effectiveness	65	59.3	56.1	60.7	64.1	64.6	64.6	64.5	68.7

	2013	2014	2015	2016	2017	2018	2019	2020
Voice and Accountability	83.1	85.2	86.2	84.7	84.7	83.6	83.6	87.4
Political Stability and Absence of Violence	67.8	65.2	67.6	67.6	66.2	62.3	60.4	71.7
Government Effectiveness	67.8	68.8	66.8	67.3	66.3	67.8	67.3	64.9

Created with data retrieved from the World Bank

The table above presents Costa Rica's score in three of the components of the World Governance Indicator from the year 1996 to the year 2020. Looking at the data for the Voice and Accountability indicator, it can be seen that there were some variations throughout the years. The country's score went down significantly in 2003 from an 83.6 to a 76.6. It then increased to 80.8 in 2004, but went down to 72.6 in 2005, increasing to 75.5 in 2006, slightly decreasing in 2007 to 75 and then it began to continuously increase in 2008 to 76.9, then 77.7, to 80.6 in 2010 and continue to increase the following years. Hence, the voice and accountability actually improved after the shifting of diplomatic recognition back in 2007.

The Political Stability and Absence of Violence indicator shows a very different variation from the previous indicator. It show some improvement from 1996 to 1998 going from 72.3 to 77.7; it slightly dropped in 2000 to 76.7, but increased again in 2002 to 83.6. Nonetheless, it started dropping and fluctuating in 2003 dropping drastically to a 65.8 and moving slightly up to a 67 the next year. It is important to highlight that the score dropped drastically in 2008, from a 66.7 to a 55.8, but then it improve the following years but the score kept fluctuating constantly. It can be stated from the data that Costa Rica faced some political instability after the shifting of diplomatic recognition, but just for a short period. The last indicator, Government Effectiveness, show more stable scores from year to year. It just had some slight drops in 2005 and in 2006, but for the rest of the years it has not had a major variation. The scores actually improve a little after 2007. Overall, it can be concluded that the political sphere was somehow affected by the shifting of diplomatic relations, but the effect is not drastic and it did not had a major impact on the country's political sphere.

5.3.2 Human Development Index

The HDI scores go from 0 to 1, 0 being the lowest score meaning that there is no human development and 1 being the highest score meaning that human development is totally fulfilled. The table below shows Costa Rica's HDI from 1995 to 2019. Unfortunately, the indexes for 2020 and 2021 are not yet available.

Table 40 Costa Rica's Human Development Index

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
0.697	0.701	0.707	0.713	0.717	0.721	0.725	0.728	0.731	0.735

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0.738	0.745	0.753	0.761	0.762	0.765	0.778	0.783	0.788	0.796

2015	2016	2017	2018	2019	2020
0.797	0.801	0.804	0.808	0.810	…

Created with data retrieved from UNDP

The table above allows us to see Costa Rica's HDI from the year 1995 until the year 2019. As the data shows, the country's human development has been improving year by year. It has had a steady growth since 1995 not decreasing in any year. The country's human development is surprisingly high compare to its neighboring countries and it can be compared to the one of highly developed countries. That does not mean that there is no room for improvement because there definitely is. Going back to this research's main focus, it is evident that Costa Rica's human development was not affected at all by the shifting of diplomatic recognition from Taiwan to China in 2007.

5.3.3 Corruption Perception Index

A country's score is the perceived level of public sector corruption on a scale of 0-100, where 0 means highly corrupted and 100 means very transparent institutions. The table below shows the scores that Costa Rica received from the year 1997 to the year 2021.

Table 41 Costa Rica's Corruption Perception Index

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
…	…	64.5	56	51	54	45	45	43	49

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
42	41	50	51	53	53	48	54	53	54

2015	2016	2017	2018	2019	2020	2021
55	58	59	56	56	57	58

Created with data retrieved from Transparency International

The table presented above shows Costa Rica's Corruption Perception Index scores from 1997 to 2021. As it is appreciated in the data within the table, the corruption perception increased in the country from 1997 to 2021. The score for 1997 was of 64.5 and the last year's score was of 58, meaning that the country has become more corrupt. The score has had fluctuations over the years, but it had its biggest drops from 2001 to 2006. The lowest score was in 2006 with 41, it then improve to a 50 in 2007, to a 51 in 2008, and to a 53 in 2009 and 2010. The score did improve slightly after 2007, the year that the country shifted its diplomatic recognition from Taiwan to China. However, the change was not that significant and it can be concluded that the shifting of recognition had little or no effect on the country's Corruption Perception Index.

5.3.4 Democracy Index

The Democracy Index final score ranges from 0 to 10, where 0 to 4 are authoritarian regimes with few or none democratic practices and 8.01 to 10 are full democracies. The table below will present Costa Rica's scores in the Democracy Index from 2006 to 2021.

Table 42 Costa Rica's Democracy Index

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
8.04	…	8.04	…	8.04	8.10	8.10	8.03	8.03	7.96

2016	2017	2018	2019	2020	2021
7.88	7.88	8.07	8.13	8.16	8.07

Created with data retrieved from Economist Intelligence

It is unfortunate that the earliest score registered in the Democracy Index is for the year 2006. There is no way to obtain scores for earlier years and there is not a score for 2007 either because at the beginning the index was published every two years. As it can be seen in the data presented above, Costa Rica has maintained very high democracy scores keeping it in the category of countries consider as full democracies. It did went under 8.01, which is the necessary score for a country to be consider a full democracy, a couple of times. In 2015, it got a score of 7.96, and 7.88 in 2016 and in 2017, but it went up again 2018 to 8.07. It can stated that there were not major alterations to the country's Democracy Index after the shifting of diplomatic recognition in 2007 meaning that establishing diplomatic relations with China did not affected Costa Rica's democracy.

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5.3.5 Gini Coefficient

The table below will demonstrate Costa Rica's Gini coefficient from the years 1995 to 2020. Unfortunately, the results for 2021 are not yet available. When reading the scores, it is important for the reader to keep in mind that the highest the score the more inequality there is in the country and the lowest the score the less inequality present.

Table 43 Costa Rica's Gini Coefficient

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
45.7	46.5	45.6	45.7	47.7	47.4	51.5	51.8	49.3	48.4

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
47.5	49.3	49.3	48.6	50.6	48.0	48.8	48.4	49.2	48.6

2015	2016	2017	2018	2019	2020
48.4	48.7	48.3	48.0	48.2	49.3

Created with data retrieved from the World Bank

The data provided in the table above shows that Costa Rica's inequality rates have fluctuated over the years. If you look at the score obtained in the year 1995 and the scored obtained in the year 2020, you can see that inequality was lower in 1995 with a score of 45.7 and that it has increased in 2020 to 49.3. The highest scores were registered in 2001 and 2002 with 51.5 and 51.8 respectively. It can be seen that in 2006 and in 2007 the scores were of 49.3; it slightly decreased to 48.6 in 2008, but it increased again to 50.6 in 2009. As the data shows, the scores are constantly changing each year and it makes it impossible to determine whether there was any impact by the shifting of diplomatic recognition. Therefore, it can be concluded that the shifting of diplomatic relations from Taiwan to China did not have any impact on the country's inequality rates. What is evident though is that the inequality rates in Costa Rica are considerably high almost of 50%. Therefore, measurements to combat such an injustice should be taken by the government in order to have a more equal society.

5.3.6 Education

Table 44 below shows the education attainment in Costa Rica from 1995 until 2020. The data presented is the net percentage enrollment rate, which means that it shows the percentage of school age children that are enroll in primary and secondary school. Sadly, the data jumps from 1996 all the way to 2011.

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Table 44 Costa Rica's Education

	1995	1996	2011	2012	2013	2014	2015	2016	2017
Primary Education	90.0	91.0	98.4	98.5	97.8	97.0	97.6	98.2	96.3
Secondary Education	43.0	42.0	75.3	75.6	77.0	78.0	80.3	82.6	81.9

	2018	2019	2020
Primary Education	97.3	99.3	99.4
Secondary Education	82.4	85.3	83.5

Created with data retrieved from UNESCO

The table seen above shows Costa Rica's net enrollment rates in primary and secondary education from 1995 to 2020. It is very unfortunate that the data is not available for all of the years being study; the data is available for 1995 and 1996, but it then jumps all the way to the year 2011. It therefore does not allow us to see what the rates were in 2007, which was the most important year because it is the year where the change of diplomatic recognition took place. Even though a clear appreciation of the enrollment rates before and after 2007 cannot be made, the overall improvement that the enrollment rates have had in both primary and secondary education from 1995 to 2020 can be appreciated. The net enrollment ratio for primary school in 1995 was of 90% and in 2020 it was of 99.4%. The secondary school enrollment rate was of 43% in 1995 and of 83.5% in 2020. The secondary school enrollment rate did come down from 2019 to 2020 having a total net enrollment of 85.3 in 8019 dropping for almost 2% in 2020. In summary, it can be stated that the shifting of diplomatic recognition did not have a major effect on the country's education.

5.4 Economic development before and after switching recognition

5.4.1 Gross Domestic Product

The table presented below shows Costa Rica's GDP from the year 1995 to the year 2020, the GDP is presented in billion US dollars.

Table 45 Costa Rica's Gross Domestic Product

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
11.578	11.683	12.618	13.688	14.259	15.016	15.979	16.584	17.277	18.615

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
20.049	22.717	26.885	30.802	30.746	37.656	42.762	47.231	50.949	52.017

2015	2016	2017	2018	2019	2020
56.442	58.847	60.517	62.422	64.412	62.144

Created with data retrieved from the World Bank

As the data in the table above shows, Costa Rica's GDP has had a steady growth year by year since 1995 until 2019. The country's GDP grew each year and went from 11.578 billion USD in 1995 to 62.144 billion USD in 2020. It had a drop in its GDP in 2020 from 64.412 billion USD in 2019 to 62.144 billion USD. As it has been mentioned when analyzing the GDP and GNI of Panama and El Salvador, this drop in GDP is due to the global pandemic being faced by the world. It is interesting to see that actually the GDP drop that Costa Rica had was not as big as the one of the other two countries. Going back to the concerns of this research, Costa Rica's GDP was not affected by the shifting of diplomatic recognition in 2017. Yes it has increased, but it is a gradual increased that was already going on. It is evident that establishing diplomatic relations with China has not boosted the country's GDP it continues with the same growth trend as before establishing relations with China.

5.4.2 Gross National Income

The table included below will present the GNI per capita based on PPP of Costa Rica from 1995 to 2020. It is per capita because it is the total gross national income divided by the total population; therefore, it tells us the amount of GNI that should be available per person in the country.

Table 46 Costa Rica's Gross National Income

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
6,410	6,490	6,800	7,130	7,250	7,480	7,770	8,030	8,400	8,910

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
9,470	10,410	11,460	12,150	11,820	12,450	13,090	13,870	14,460	15,400

2015	2016	2017	2018	2019	2020
16,360	18,270	19,280	20,170	21,150	20,860

Created with data retrieved from the World Bank

The data in the table above shows Costa Rica's GNI per capita from the year 1995 to the year 2020. The GNI per capita of the country has almost the same trend as the country's GDP; it grew steadily each year with the exception of 2009 and 2020 where it fell instead of increasing. In 2020 it fell because of the hardships that the COVID pandemic provoked on most economies. In 2009, the GNI per capita fell from a 12,150 US dollars to 11,820 US

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dollars. Overall, the country's GNI has grown dramatically since 1995. In 1995, the GNI per capita was of 6,410 US dollars and in 2020 the GNI per capita was of 20,860 US dollars, almost four times more. Just as it was concluded for the country's GDP, it is concluded here that Costa Rica's GNI per capita was not affected by the switching of diplomatic recognition from Taiwan to China. The belief that the country's economy was going to grow faster after establishing relations with China is not sustained.

5.4.3 Infrastructure

To measure infrastructure for Costa Rica, this research will use data from the Global Competitiveness Index (GCI). Infrastructure is a pillar of the GCI and only the scores for that pillar will be used here. The table and figure below will show Costa Rica's ranking in quality infrastructure compared to the rest of the countries in the world.

Table 47 Costa Rica's Infrastructure

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
110	103	85	77	101	95	97	103	103	106	110

Created with data retrieved from the World Bank

The table above presents Costa Rica's ranking, compared to other countries, in quality infrastructure from the year 2007 to the year 2017. Unfortunately, there are not many indexes that measure infrastructure and the one used to measure Panama's and El Salvador's infrastructure is too knew to obtain data for Costa Rica. That is why the data presented here is from the World Bank, but the earliest year is 2007, so the state of the country's infrastructure before the shifting of diplomatic recognition cannot be known. What can be appreciated by the data is that the Country's ranking has varied significantly, but the ranking for 2007 is actually the same for 2017, where the country ranked 110. Costa Rica had the highest rankings in 2009 ranking number 85 and in 2010 when it ranked number 77. After 2010, it just starting to go down until it got to number 110. It cannot be known if the country's infrastructure suffered any impact after the switching of diplomatic recognition because there is no data available to show the country's ranking before 2007. What is evident is that the country's infrastructure needs to be improve because it is ranked very low in quality infrastructure, and having relations with China has not helped the country to develop better infrastructure.

5.4.4 Unemployment Rates

The table below presents the unemployment rates in Costa Rica from 1995 to 2020.

Table 48 Costa Rica's Unemployment Rates

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
5.2	6.2	5.7	5.3	5.9	5.1	5.9	6.3	6.6	6.4

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
6.6	5.7	4.5	4.8	7.7	7.2	10.1	9.8	8.8	9.1

2015	2016	2017	2018	2019	2020
9.0	8.6	8.1	9.6	11.5	17.4

Created with data retrieved from the World Bank

The data presented above shows the unemployment rates in Costa Rica from the year 1995 to the year 2020. Costa Rica's unemployment rate has definitely varied from year to year and it has been increasing since 1995 going down for some years but mostly increasing. The unemployment rate in 2000 was of 5.1%, it increase to 5.9% in 2001, to 6.3% in 2002, to 6.3% the next year, slightly going down to 6.4% in 2004, increasing to 6.6% again in 2005, but going down in 2006 to 5.7% and to 4.5% in 2007. The unemployment rate started to increase significantly after 2007 going to 4.8% in 2008, but increasing significantly to 7.7% in 2009. It continue to increase the years after finally reaching 11.5% in 2019, and of course increasing significantly in 2020 to 17.4% due to the health crisis being faced by the world. Overall, the data shows that Costa Rica's unemployment rates were highly affected by the shifting of diplomatic recognition in 2007. There is a clear increase in unemployment after 2007; something quite surprising because it is typically assume that establishing diplomatic relations with China will create more jobs and therefore reduce unemployment, but it does not seem to be the case here.

5.4 Discussion

The plenty of data analyzed before make it possible to answer the question of whether establishing diplomatic relations with China has any effect on a country's political and economic development. Let start by discussing if Costa Rica's political development was negatively affected by stablishing diplomatic relations with China. After looking at the data for each indicator, it can be stated that the shifting of diplomatic recognition from Taiwan to China did not have a negative effect on the country's political development. This is because if we look at the first indicator, which is political perception, the voice and accountability was improved, but there was increase in political instability and violence, and the government effectiveness did not show a major change. Therefore, the political perception was not affected.

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The country's human development did improve but it was not because of the establishment of diplomatic relations with China, but because it followed a trend that it was experiencing since before. The results of the corruption indicator show that corruption has slightly decrease, but it was not a major change and it has no relation with China. The democracy scores were not affected at all, so the country's democracy is the same after switching recognition. The country's inequality rates were relatively the same before and after shifting recognition. The last indicator, education, did not have enough data to see a change; the enrollment was evidently higher but there was no data from 1997 to 2010, so it can be a trend that was happening before the establishment of relations. Overall, the data for the six indicators shows that the switching of recognition had no effect on the country's political development.

It can be discuss now if the shifting of relations to China had any positive impacts on the country's economic development. It is necessary to remember the results that the data had on each of the four indicators measuring economic development. The first indicator is Gross Domestic Product and as the data showed, the GDP did grow and improved, but it can be concluded that it had nothing to do with the establishment of relations with China because the GDP was already growing before at the same rate. The second indicator is Gross National Income per capita and the results are exactly the same as the GDP indicator; it has grown but it is a grow that was going on since before the establishment of diplomatic relations. The third indicator is infrastructure and it shows that the country's infrastructure has not improved. The unemployment rates, the fourth indicator, have actually increased since the establishment of diplomatic relations with China meaning that jobs are not increasing.

It is also important to mention the two indicators presented in section 5.2, FDI and ODA. China's foreign direct investment in Costa Rica has not increased as expected and it is precarious showing how China is not actively investing in enterprises in the country. The other indicator is Official Development Assistance and this is the only indicator that has evidently grow since the establishment of diplomatic relations between the two nations. China's ODA to Costa Rica has increase exponentially, but that is not reflected in the country's economic development. Hence, where is this money going to because the infrastructure of the country is not improving and the unemployment keeps increasing. It can be concluded that establishing diplomatic relations with China has not positively affected the country's economic development; it has in fact been the other way around.

Table 49 summarizes the results by showing if the indicators improved or worsen after the change. The + sign means that there has been a positive change in the variable after the year of the shifting, 2007 for this specific case. The – sign states that the variable has experience a negative impact after the year of the shifting of relations. The = sign means that there has not been a change in the variable after the year were the shifting of relations took place. The ≠ sign in this case means that the data for education was not complete and a clear change cannot be seen.

Table 49 Change in Indicators Costa Rica

	ROC (before)	PRC (after)
Political Development		
Political Perception	=	=
Human Development Index	=	=
Corruption Perception Index	-	+ (Corruption decreased)
Democracy Index	=	=
Gini Coefficient	=	=
Education	≠	≠
Economic Development		
GDP	=	= (it has increased but at the same rate it was doing already.)
GNI per capita	=	= (it has increased but at the same rate it was doing already.)
Infrastructure	+	-
Unemployment Rates	+	-

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Chapter 6 Conclusion

6.1 Main Findings

After an intensive analysis of the different indicators in each specific country, several findings can be pulled out from this research. First, there are the results of each specific country's data analysis showing how shifting diplomatic recognition to China affected each country individually. In the case of Panama, the country's political development has slightly been affected negatively and the economic development has had some improvement. The economic improvement is reflected in the country's infrastructure, but it is not reflected in the country's GDP or the GNI per capita. In the case of El Salvador, the results are somehow different. El Salvador's political development has also slightly been affected by the shifting of diplomatic recognition, especially in the democracy rates. However, the results of the effect that the shifting of diplomatic recognition to China has had on the country's economic development are different. El Salvador's economic development has not been affected at all by establishing diplomatic relations with China. The country is not even receiving investment or a larger amount of ODA from China, so the country has not received a single benefit after shifting recognition.

The last country, Costa Rica, also present different results from Panama and El Salvador. The shifting of diplomatic recognition from Taiwan to China had no effect on the country's political development; it has been very constant. Costa Rica's economic development has clearly not been positively affected by the shifting of recognition; it has actually been the other way around. China's investments in the country have no increased much and even though its development assistance has increased exponentially, Costa Rica's infrastructure or GDP have not improved. The GDP and GNI growth rate has actually decreased after shifting recognition. It is evident that each of the three countries' political and economic development have been affected differently.

Going back to this research's hypothesis that states that the economic development of these Latin American countries is affected positively when establishing diplomatic relations with China, but they suffer a negative effect in their political development, it can be seen that this hypothesis applies to Panama only but not to El Salvador or Costa Rica. There could be different reasons upon why this was the case. However, it can be inferred from the research that there has not been an economic improvement in El Salvador because it has not received increases in FDI or ODA from China. It could also be inferred that do to the political conditions in the country it has been harder for it to develop economically. Nonetheless, this cannot be

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assumed because it can be seen that Panama also has a low political development but has been able to have an economic growth. Notwithstanding, it cannot be denied that there could be other factors that make it harder for the country to have a faster development. Unfortunately, it is not within the scope of this research to study those other factors. The case of Costa Rica brings an interesting finding and it is that for countries that already have a strong and solid political development establishing close relations with China will not affect their political development. That is why in the case of Costa Rica the political development was not affected negatively. On the other hand, the reason upon why the country's economic development remains the same cannot be answered by this research's findings.

A very important finding that deserves to be mentioned is the fact that establishing diplomatic relations with China does not guarantee that China will give larger amounts of ODA or that it will invest more in the country. In other words, if China is interested in a country and in a country's development, it will invest and assign development assistance to that country even if there are not formal diplomatic relations. This was clearly the case of Panama; China's investment and aid to the country was already high even though they had diplomatic relations with Taiwan. It is true that China's aid to Panama increased exponentially after the establishment of diplomatic relations, but it cannot be denied that Panama was already receiving large amounts of aid before it. It is evident that China had an interest in Panama maybe due to the Panama Canal, which china needs access to if it wants to increase its trade with Latin America. Costa Rica was also receiving some Chinese aid before establishing relations with China, but it is not comparable to that of Panama. The case of El Salvador is a total pity because even after it switched its diplomatic relations from Taiwan to China, Chinese investment in the country is not existent and the aid that it is giving to El Salvador is extremely low. Clearly, China has no interest in El Salvador at all, so maybe it would have been better for El Salvador to keep its diplomatic relations with Taiwan. Table 44 provides an easy way to see what the impact was of shifting diplomatic relations on the countries' political and economic development.

Table 50 Summary of the Impact in the Countries' Political and Economic Development after Shifting Relations

	Panama	El Salvador	Costa Rica
Political Development	- (slightly)	- (slightly)	=
Economic Development	+ (slightly)	=	-

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6.2 Policy Suggestions

The results of this research can be use to influence some policy suggestions in Taiwan and in countries that are thinking of changing their diplomatic relations from Taiwan to China. The results of this research can be use by Taiwan's authorities to keep its diplomatic relations with small countries, especially small countries that China has no interest. They can present El Salvador's case as a clear example of how establishing diplomatic relations with China will have no benefit at all with them. The results of this research can also be use by decision makers of countries that are thinking to change their relations to China. They can used the results to see what the consequences of establishing relations with China could be and be aware of them and take actions ahead of time so that their political development is not negatively affected.

6.3 Recommendations for Future Research

Lastly, recommendations for future researches can be given as for these researches to be more binding and to avoid some mistakes that could have been performed while executing this research. It would be recommended for future researchers to implement a quantitative method because it might be faster and might require less work. If a regression formula is found to input the data for each country and obtain the results at once, it will make help the researcher to obtain the results faster. Another suggestion is to find a method that would be able to prove a direct causality between establishing diplomatic relations with China and its impact on a country's political and economic development and that will show if the change in the in each index is statistically significant. Lastly, the researcher should make sure that he/she is able to reach officials at institutions that might have better data that is not publicly available.

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