
China, Taiwan, and the Battle for Latin America

DANIEL P. ERIKSON AND JANICE CHEN

When longtime Sandinista leader Daniel Ortega triumphed in Nicaragua's presidential election in November 2006, the shockwaves from his historic victory extended to China and Taiwan. Leaders in the two rival East Asian capitals knew that, in 1985, a much younger Ortega had swept into the presidency and unceremoniously broke relations with Taipei in favor of an alliance with the People's Republic of China (PRC). Though Nicaragua's formal diplomatic ties to China ended abruptly when Ortega was voted out of office in 1990, his return to power now represents a fresh opportunity for Beijing to usurp one of Taiwan's precious remaining allies. The re-establishment of a Chinese embassy in Managua could potentially serve as a valuable beachhead for China to facilitate diplomatic inroads into Central American countries that are friendly to Taiwan, thereby making Beijing's dream of enforcing global recognition of the "One China" policy one step closer to reality.

While increasing economic and political ties between China and Latin America have attracted significant attention from U.S. policymakers in the past few years, the extent to which Beijing's foreign policy is shaped by its desire to isolate Taiwan internationally is often overlooked. Yet, this crucial dimension of Chinese foreign policy is indispensable to a full understanding of China's rising influence in the global system, and its possible repercussions for U.S. national interests. Today, in some of the most remote corners of the world, a fierce contest for diplomatic recognition and political influence is being fought between Taiwan and the PRC.

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In particular, Latin America has emerged as the crucial battleground where a dozen struggling nations, mainly in Central America and the Caribbean, have become ensnared in the cross-strait dispute. The strategically significant “swing states” among them face growing pressures to abandon their longstanding relationships with Taiwan in favor of cementing diplomatic ties with China. Meanwhile, officials in Washington have yet to fully consider the possible implications for U.S. policy of this intensifying competition in their own backyard.

ADIOS TAIPEI, HOLA BEIJING

At first blush, the diplomatic whims of Latin America appear to be a world away from such exotic concerns as the decades-long conflict simmering in the Taiwan Strait. The dispute over Taiwan’s sovereignty stems from China’s claim that the island, where the nationalist government of the Republic of China (ROC) fled in 1949 after losing a lengthy civil war against the Communist Party, is rightly a province of the PRC that must be “reunited” with the mainland, by force if necessary. During the Cold War the Republic of China on Taiwan was viewed as a satellite of the United States and a key link in the chain of islands stretching from South Korea to Singapore, which was central to the American containment strategy against the spread of communist influence in the Pacific. The United States thus

American officials and military analysts consider the Taiwan Strait a major flashpoint for regional and global security.

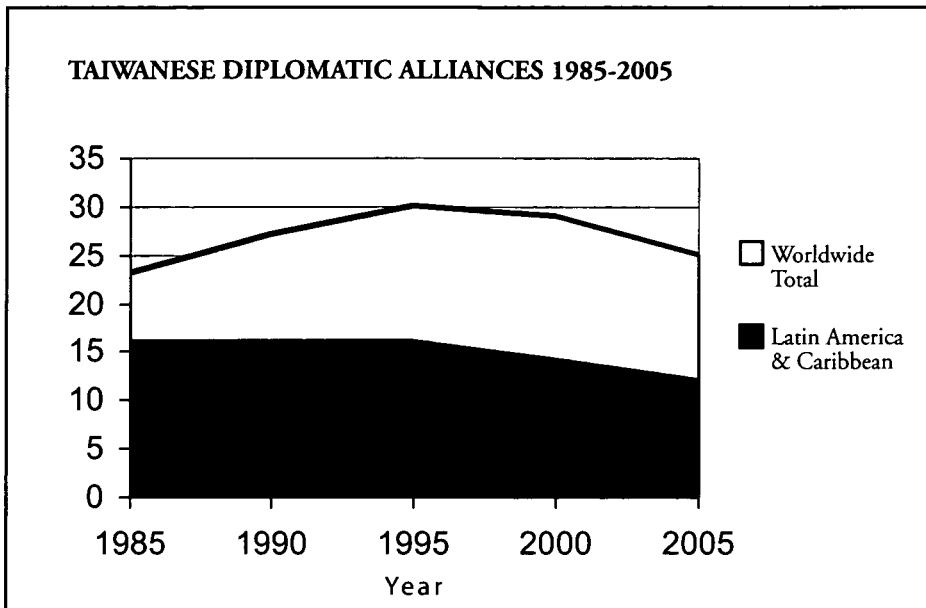
..... contributed substantial infusions of capital and technology that proved instrumental to Taiwan’s successful economic development. Though President Jimmy Carter normalized relations with Beijing in 1979 and closed the American embassy in Taipei, the U.S. Congress simultaneously approved the Taiwan Relations Act requiring the

United States to provide the island with the ability to defend itself against mainland China. In the post-Cold War context, American officials and military analysts consider the Taiwan Strait a major flashpoint for regional and global security, a view reinforced by China’s rapid military expansion over the past decade and the more than 800 missiles that it has deployed in the 100-mile strait separating Taiwan from the mainland.

In addition to its campaign of military intimidation, Beijing has pursued a sustained policy of isolating Taiwan diplomatically, most often by

promising large sums of aid to the rapidly dwindling ranks of the latter's allies. Beijing rigorously promotes its "One China" policy, which means that non-recognition of the Taiwanese government is a prerequisite for conducting formal diplomatic relations with the PRC—in effect forcing other governments to choose between Beijing and Taipei. Currently there are only 25 countries in the world that officially recognize Taiwan; more than half of these are located in the Western Hemisphere.¹ Although each of the 13 Latin American countries involved in this geopolitical chess match have little individual clout, together they make up the most significant group of states caught in the cross-strait tug-of-war. Taiwan is recognized by all seven nations of the Central American isthmus, a prized contiguous bloc that includes Guatemala, Belize, Nicaragua, El Salvador, Honduras, Costa Rica, and Panama. Not coincidentally, this group also represents the strongest bulwark of support for the United States in the Western Hemisphere. Several of these countries sent troops to Iraq as part of the U.S.-led coalition, and they have dutifully partnered with Washington in efforts to contain regional adversaries such as Cuba's Fidel Castro and Venezuela's Hugo Chávez. In November 2006, Panama won a two-year term as the Latin American representative on the United Nations Security Council, breaking a lengthy impasse between Chávez, who campaigned aggressively for Venezuela to assume the post, and the United States, which backed Guatemala—an ally of Taiwan—for the vacant seat.

Taiwan's alliances in the Caribbean have been whittled down to just four countries—the Dominican Republic, Haiti, St. Kitts & Nevis, and St. Vincent & the Grenadines—plus St. Lucia which switched back to Taiwan, for the moment at least, in May 2007, after a decade-long hiatus. St. Lucia and the Bahamas had both defected in 1997, and the island nation of Dominica severed ties with Taipei in 2004. Not long after that, Grenada—still grappling with the legacy of the communist takeover that prompted U.S. military intervention in 1983—turned its back on the staunch anti-communism of the Reagan era to open its arms to China in 2005. Meanwhile, beginning when Chile's socialist president Salvador Allende formally recognized the PRC in 1970, the other South American powers switched over one by one throughout the 1970s and 1980s. Today Paraguay is the lone holdout on that continent against China's diplomatic overtures.

FIGURE 1. TAIWAN'S SHRINKING POOL OF FRIENDS²

Of course, even Latin American countries without official relationships with Taipei often try to maintain good “non-official” relations, which may include opening reciprocal missions, often disguised as nonprofit foundations or businesses, in their respective capitals. The lack of diplomatic links has not prevented Taiwan from undertaking significant trade with Brazil, Chile, and Mexico. However, the Taiwanese government believes that the ability to conduct relations with sovereign states on an equal basis is vital to the legitimacy of its own claim to sovereignty. Official allies also support Taiwan’s repeated petitions to join international forums such as the World Health Organization and the UN, which are perennially squelched by China. And though Central America may share the famous Mexican lament about being “so far from God, so close to the United States,” from Taiwan’s point of view, this geographical happenstance makes the isthmus a particularly valuable region in which to retain a bloc of allies. Central America’s proximity to the United States justifies Taiwanese officials’ use of refueling stops in America to meet “unofficially” with U.S. policymakers while en route to official state visits in the south, a practice that has been dubbed “transit diplomacy.”³

Taiwanese influence in Latin American and Caribbean is sustained to some extent by values-based affinities stemming from the anti-communist orientation of most Central American governments during the 1970s and 1980s. In more recent years, these ties have been bolstered by the shared

experience of political and economic liberalization.⁴ After several decades under the authoritarian rule of the Nationalist Party (*Kuomintang*, or KMT), the island embarked on a path of political opening to become one of the most vibrant, if sometimes unruly, democracies in East Asia, paralleling Latin America's contemporaneous wave of democratic transitions. As one of the so-called "Asian Tigers," Taiwan is also perceived by many Latin American policymakers as an enviable model for fomenting rapid economic, industrial, and technological development. Speaking in the Taiwanese presidential palace during a recent visit, President Leonel Fernández of the Dominican Republic drew attention to the country's transformation from a society fighting for mere survival to "an economic miracle drawing respect, recognition, and admiration on a global scale."⁵ Latin American officials openly advocate emulating Taiwan's path to prosperity, and Taiwan in turn makes itself readily available as a tutor to other

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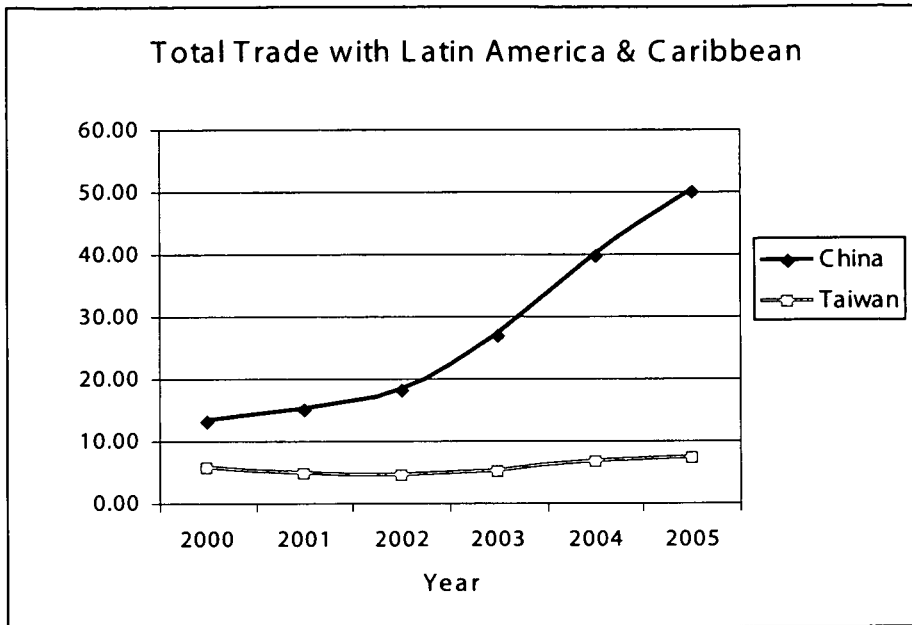
developing economies, annually deploying dozens of technical assistance teams to provide expertise in fields ranging from agriculture, fishery management, and pest control, to nanotechnology. Perhaps most important, Taiwan has long been one of the most consistent aid donors to countries in Latin America that have been largely neglected by the international community. It is reportedly the single largest aid donor to St. Kitts & Nevis and St. Vincent & the Grenadines.⁶ Taiwan stood virtually alone among the international community in continuing to support the government of President Jean-Bertrand Aristide in Haiti when most Western donors imposed a devastating bilateral aid cut-off from 2000 to 2004. When Aristide was forced from power in 2004, Taiwan maintained smooth relations with the interim government and is especially close to Haiti's current president, René Préval, who was elected in 2006. In the wider Caribbean, Taiwan also offers significant resources for disaster relief, which follows naturally from the island's own frequent experiences with earthquakes and typhoons.⁷

Over the decades, the use of aid funds as a diplomatic tool has been interwoven with a purposeful cultivation of personal connections between Taiwanese diplomats and local officials. In the words of one observer paraphrasing a Chinese expression, the Taiwanese government is conscious of the need to "warm the coals before starting the fire," and carefully identifies young bureaucrats and military officers early on in their public careers who

are likely to become influential players in the future.⁸ Ties are consolidated through extensive use of both academic and military training exchanges, as Taiwanese officials remain particularly aware of the still far-reaching influence of military institutions and personnel in Latin America. Over time this approach has created networks of elites spanning the Central American isthmus whose firsthand experiences and contacts in Taiwan presumably reinforce their political sympathies toward the island. Of course, for all the talk of mutual respect and cooperation, experience has also shown that nothing is quite as effective at making and keeping friends as straight cash payments funneled surreptitiously into private accounts—another staple tactic of the KMT era that seems to have survived the death of the regime.

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

China's economic engagement with Latin America responds to the requirements of a booming Chinese economy that has been growing at nearly 10 percent per year for the past quarter century. The economic figures are impressive: in the past six years, Chinese imports from Latin America have grown more than six-fold, at a pace of some 60 percent a year, to an estimated \$60 billion in 2006. China has become a major consumer of food, mineral, and other primary products from Latin America, benefiting principally the commodity-producing countries of South America—particularly Argentina, Brazil, Peru, and Chile. Chinese investment in Latin America remains relatively small at some \$6.5 billion through 2004, but that amount represents half of China's foreign investment overseas.⁹ China's Xinhua News agency reported that Chinese trade with the Caribbean exceeded \$2 billion in 2004, a 40 percent increase from the previous year.¹⁰ China has promised to increase its investments in Latin America to \$100 billion by 2014, although government officials have since backed away from that pledge and several proposed investments are already showing signs of falling short in Brazil, Argentina, and elsewhere.

FIGURE 2. CHINA V. TAIWAN: TRADING WITH LATIN AMERICA¹¹

For their part, Latin Americans are intrigued by the idea of China as a potential partner for trade and investment. As a rising superpower without a colonial or “imperialist” history in the Western Hemisphere, China is in many ways more politically attractive than either the United States or the European Union, especially for politicians confronted with constituencies that are increasingly anti-American and skeptical of Western intentions.¹² Nevertheless, most analysts recognize that Latin America’s embrace of China—to the extent that this has actually occurred—is intimately linked to its perception of neglect and disinterest from the United States. Nervousness about China’s rise runs deeper among the smaller economies such as those of Central America, which do not enjoy Brazil’s or Argentina’s abundance in export commodities and are inclined to view the competition posed by the endless supply of cheap Chinese labor as a menace to their nascent manufacturing sectors.

But even as China seeks to reassure the United States that its interests in South America are purely economic, Beijing has begun enlisting regional powers like Mexico to aid its effort to woo Central American diplomats. Pressure is also being placed on Paraguay by Argentina, Brazil, and Chile, its partners in the South American Common Market (Mercosur), which places certain constraints on member states’ bilateral foreign policy prerogatives. Despite its avowals to Washington, China appears to be using

its economic might as a means to achieve the patently political objective of stripping Taiwan of its democratic allies in the Western Hemisphere.

BEYOND CHECKBOOK DIPLOMACY?

In order to counter Chinese attempts to lure away its few remaining allies, the government of President Chen Shui-bian has sought to broaden and diversify the avenues for interaction between Taiwan and its Central American and Caribbean partners since taking office in 2000. The most visible instrument utilized by the Chen administration is the frequent and highly publicized exchanges of official visits, with either the president or vice president traveling to the region approximately twice per year while a core roster of Central American and Caribbean heads of state stream steadily through Taipei. Taiwan is also aggressively pursuing bilateral free-trade agreements with Paraguay and member countries of the Central American Free Trade Agreement (CAFTA). Negotiations were finalized with Panama in 2003 and with Guatemala in 2005; a similar agreement signed with Nicaragua in June 2006 was thrown into doubt following the recent Sandinista election victory in November, but it was ultimately ratified by the Nicaraguan legislature in December. Trade negotiations with El Salvador and Honduras were completed in May 2007, while preliminary talks with the Dominican Republic began in October. Negotiations with Costa Rica are in the works. Since the free-trade agreement with Panama went into effect in January 2004, trade between the two countries has grown from around \$130 million to \$250 million annually.¹³ Even though most of this growth is made up of exports to Panama, and the trade balance still heavily favors Taiwan, imports from Panama jumped from \$6 million in 2003 to \$22 million in 2004 and \$24 million in 2005—an impressive increase by any measure. With CAFTA in place, Taiwanese manufacturers hope to reduce their dependence on the Chinese market by using Central America as a gateway to the United States.

The Chen administration has also increased diplomatic interactions through multilateral channels. Taiwan holds observer status in the Central American Integration System and the Forum of Central American Presidents and Legislators. Its foreign service personnel in Washington are in regular contact with the Inter-American Development Bank and have lobbied hard—though so far unsuccessfully—to gain the same observer status that China now holds. Similar efforts to become an observer at the Organization of American States have not borne fruit, although China won this status three years ago. In 2005, Vice President Annette Lu

launched the Democratic Pacific Union, a group of states “committed to promoting democracy, peace, and prosperity,” constituted by 26 member states from around the Pacific Rim. The role of Taiwanese nongovernmental organizations is also expanding globally. Perhaps most notable is the Tzu Chi Buddhist Foundation, which performs humanitarian aid work throughout the developing world and operates offices in Asunción, San Salvador, Santo Domingo, Guatemala City, Tijuana, Mexicali, Sao Paulo, and Buenos Aires. While not a state agency, Taiwanese officials are well aware that Nongovernmental Organizations (NGOs) effectively augment the diplomatic footprint by making Taiwan globally visible to populations beyond foreign capitals.¹⁴

FIGURE 3. CHINA V. TAIWAN: BILATERAL AND REGIONAL FREE TRADE AGREEMENTS¹⁵

	TAIWAN	CHINA
Finalized	Panama (2003) Guatemala (2005) Nicaragua (2006) El Salvador Honduras	ASEAN Chile (2006) Thailand (<i>partial</i>)
Under Negotiation	Costa Rica Dominican Republic Paraguay	Australia New Zealand Pakistan Chile Southern Africa Customs Union Gulf Cooperation Council
“Wish List”	United States Japan Singapore New Zealand	Brazil Iceland India Japan South Korea

As a result of these diversified avenues of interaction, Taiwan’s political alliances today—at least in Central America—are arguably more robust than they were five years ago. There are nevertheless some disappointments,

the most painfully obvious of these being the paucity of private-sector investment in spite of repeated declarations of official commitment to the cause. It is certainly not for lack of government initiative that Central America has not been flooded by Taiwanese capital as everybody had hoped. In 2000, Taiwan and Panama cooperated in the establishment of an export-processing zone in Colon City, Panama, and similar "Taiwan Parks" have been set up in El Salvador and Nicaragua. During a trip to El Salvador, Guatemala, and Panama in September 2005, President Chen unveiled the so-called "Jung Pang," or "co-prosperity" initiative, consisting of a \$250 million fund set aside to encourage investment by Taiwanese companies in allied countries.¹⁶ The government also established a Central and South America Research Center, several new investment consulting missions abroad, and a central coordinating office to facilitate investment projects by the Taiwanese private sector overseas.¹⁷ But the ambitious programs have yet to translate into tangible results. In Paraguay, for example, the shortage of skilled labor keeps an ailing industrial park largely vacant.¹⁸ An analysis by the Taiwanese embassy in the Dominican Republic reportedly cited a weak industrial base, high electricity costs, unstable power supply, high labor costs, and a deteriorating crime rate as factors contributing to an unsound investment environment.¹⁹

It seems, in short, that good old-fashioned cash, in the form of development aid, is still indispensable to the maintenance of these ties. The bulk of Taiwan's official aid budget is disbursed through the International Cooperation and Development Fund (ICDF), established within the Ministry of Foreign Affairs in 1996, which had a budget of \$388 million by 2000. The deputy foreign minister at the time estimated that about 80 percent of aid went to diplomatic allies, while the rest was used to assist developing countries that "have the potential to become allies."²⁰ The frequent reciprocal official visits are tellingly almost always accompanied by promises of aid in the form of grants and loans. In late June 2006, Dominican President Leonel Fernández returned from a four-day trip to Taiwan bearing the promise of a fresh infusion of \$60 million in aid. In July, a visit by the Prime Minister Ralph Gonsalves of St. Vincent & the Grenadines secured a \$15 million loan for the construction of an international airport in Kingstown.²¹ Less than two weeks later, the Taiwanese ambassador to St. Kitts & Nevis announced another \$14 million loan for the expansion of the international airport in St. Kitts ahead of the 2007 Cricket World Cup.²² Over the past few years, Paraguay has received from Taipei over \$30 million in grants for housing projects, \$20 million for a

new congress building, and more money for scholarships. Taiwan also became Paraguay's biggest bilateral creditor after two Taiwanese banks offered that country a \$400 million loan.²³ In October 2000, the foreign ministry put forward a bill requesting a gradual annual expansion of the ICDF's budget up to \$940 million.²⁴ In addition, various other "soft" funds are reported to exist, as in 2003, when the Taiwanese media uncovered a secret \$100 million fund in the intelligence agency earmarked for "buying influence abroad."²⁵

Taiwan's internal political transformation has created new obstacles to its foreign engagements. While a divisively partisan domestic political arena has generally undermined the state's ability to pursue a coherent foreign policy, heightened expectations for transparency and budgetary accountability now preclude the use of certain tools of diplomacy that were liberally employed in past decades, such as bribes and payoffs. At the same time, the democratic transitions undergone by many of Taipei's allies since the height of the Cold War created a parallel source of opposition to such practices. Reports of a number of questionable fund transfers have surfaced in the past few years. In October 2004, former Costa Rican President Miguel Angel Rodríguez was forced to resign as secretary-general of the Organization of American States after less than one month in office when both he and then-President Abel Pacheco came under intense judicial scrutiny for allegedly receiving kickbacks from French telecommunications company Alcatel. The widening investigation subsequently found that both also received funds totaling hundreds of thousands of dollars from the Taiwanese government for unexplained purposes, unleashing a firestorm of domestic criticism for Chen's government, to say nothing of considerable international embarrassment.²⁶

News of the Costa Rican scandal followed closely on the heels of allegations in September 2004 that \$1 million was transferred to Panamanian President Mireya Moscoso without a full accounting.²⁷ In February 2005, Guatemalan media revealed that President Alfonso Portillo received three fund transfers of \$500,000 each from the Taiwanese government, one of them in the form of a check made out personally to Portillo four days before he assumed office in 2000.²⁸ Opposition legislators in Taiwan called repeatedly for an end to "checkbook diplomacy" and the "buying" of alliances in light of these revelations, while civil society groups in Guatemala similarly registered their outrage. "It would be embarrassing for Taiwan to be exposed as a government that corrupts other governments," declared Carmen Aida Ibarra, director of the Mirna Mack Foundation in Guatemala, as the

results of the investigation were unfolding in the press.²⁹ Under domestic pressures for openness and accountability stemming from both sides of the relationship, the networks of personal connections that held these ties together over decades may begin to strain.

Meanwhile, China's ever-expanding economic prowess has enabled it to become competitive in the dollar diplomacy game. The Chinese Communist Party has an advantage over Taipei in this endeavor, to the extent that its foreign ministry operates unconstrained by the scrutiny of either a legislature or an independent media, and the Party's willingness to dig into its deep pockets has already paid some dividends. Dominica's Prime Minister Roosevelt Skerrit switched recognition to China in 2004 after receiving a pledge of \$112 million over a six-year period from Beijing. And though in 2003 Grenadian Prime Minister Keith Mitchell said that maintaining ties with Taiwan is "practical,"³⁰ by 2005 he had changed his tune, signing a joint communiqué declaring support for the "One China" policy. In exchange for ending this 15-year relationship with Taiwan, Grenada received support from China for rebuilding and expanding its national stadium for the 2007 Cricket World Cup; the construction of 2,000 housing units; new hospital facilities; agricultural support; a \$6 million grant to complete projects previously financed by Taiwan; and an additional \$1 million scholarship fund.³¹

THE "SWING STATES"

Given the increasing weight of the Chinese economy in the global system overall, all of Taiwan's allies in the Western Hemisphere are under

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continually building pressures to formalize their budding ties with Beijing. However, several among them stand out either as being especially susceptible to Beijing's overtures, or for their heightened strategic importance. At this juncture, the loss of even one of these key allies would represent a damaging reversal for Taiwan. The frequent use of the phrase "domino effect" vividly conveys the dread of a chain reaction

that could severely cripple Taiwan's claim to sovereignty.³² Nicaragua is a clear case in point. In July 2006, representatives of the left-wing Sandinista

Front of National Liberation (FSLN) declared in the midst of a heated presidential election campaign that Sandinista frontrunner Daniel Ortega planned to establish formal ties with Beijing and downgrade the Taiwanese embassy to "trade representative" status if he triumphed at the polls. The Taiwanese envoy in Managua at the time categorically rejected the proposal as unacceptable. Since Ortega's victory in November, Nicaraguan officials have been careful to assure Taipei that cooperation between the two countries will continue, and President Chen attended Ortega's inauguration in January 2007. Still, it appears that Taipei may have to be prepared to make major concessions to maintain its increasingly tenuous links to Managua. Ortega's presumably anti-American streak, coupled with the reality of the PRC's economic weight in the post-Cold War world,³³ point to some rocky times ahead for the bilateral relationship.

Speculation surrounding potential "swing states" also tends to center on Panama, one of the most strategically significant countries in Central America, where President Martín Torrijos invited Beijing to aid in the expansion of the Panama Canal. Panama's voters approved a referendum on this massive infrastructure project last October, which will surely create new economic openings for Chinese construction companies. Relations between Taipei and Panama had cooled visibly when Torrijos assumed office; Torrijos turned down Chen's request to visit Panama during a trip to Latin America in 2005.³⁴ Much has also been made of the fact that Hutchinson-Whampoa, a Hong Kong-based Chinese shipping company with historically close affiliations with the China's People's Liberation Army, already holds a 50-year lease on management of key port facilities at both ends of the canal. Panama is a significant leader in the region, so if the Torrijos government arrives at the conclusion that the benefits of a relationship with Beijing are just too overwhelming to ignore, the rest of the isthmus may well follow suit.³⁵

In the Caribbean, the divided island of Hispaniola is fast becoming the locus of the competition for influence. Under the leadership of President Leonel Fernandez, the Dominican Republic appears to be intensifying its contacts with the PRC, despite continuing diplomatic exchanges with Taiwan.³⁶ Loss of recognition by the Dominican Republic, one of the most populous countries in the region with a booming economy, would seriously weaken Taiwan's foothold in the Caribbean. But the diplomatic wrangling extends to the western side of Hispaniola where neighboring Haiti is likewise under enormous pressure from China. The PRC contributed 125 riot police to MINUSTAH, the Brazilian-led UN stabilization

force deployed in Haiti, and then subsequently leveraged its permanent member status on the Security Council to prevent Taiwanese Premier Su Tseng-chang from attending the inauguration of Rene Préal in May 2006.³⁷ Since MINUSTAH is currently the principal force preventing a complete disintegration of the security situation in Port-au-Prince, the Haitian government had no choice but to bend to Beijing's will. Haiti, the poorest and most vulnerable nation in the Western Hemisphere, is thus caught in a war of attrition between China and Taiwan that threatens to undermine international efforts to bring the country back from the brink of state failure.

As the sole Taiwanese ally in South America, Paraguay is another possible candidate for withdrawal of support. Paraguay's membership in Mercosur prevents it from signing a free-trade agreement with Taiwan without approval from all other Mercosur members, which presents a serious obstacle to the deepening of bilateral trade. Even without formal diplomatic ties, China already buys a good proportion of Paraguay's soy crop while supplying about one-fourth of its imports,³⁸ so normalized relations would undoubtedly bring significant trade benefits. Paraguayan recognition of Taiwan is in many respects a "holdover from the rabidly anti-communist Stroessner regime."³⁹ Given that Stroessner's dictatorship has been out of office since 1989, officials in Asunción may just decide at some point that the time has come to eliminate this relic of a policy.

DOES WASHINGTON CARE?

The United States has been reflexively wary of any potential Chinese incursions into a region that it has long considered its domain. While for the most part Washington does not see Chinese economic penetration of Latin America as inherently antithetical to American interests, there is genuine concern over how the accelerating interactions might lead to military or strategic cooperation at a later stage. Few can doubt that China's capacity for mischief in the Americas has greatly increased over the past several years. The deployment of Chinese peacekeepers in Haiti—the first in the Western Hemisphere—has particularly inflamed these anxieties. Beijing has already attempted to sell arms to Venezuela;⁴⁰ the Chinese government also reportedly conducts intelligence activities in Latin America through visitors, students, and front companies, and there are concerns about the PRC using Cuba as a listening post to monitor developments in the United States.⁴¹

In April 2005, then-Assistant Secretary of State for Western

Hemisphere Affairs Roger Noriega testified before the House International Relations Subcommittee on the Western Hemisphere that “[r]ivalry with Taiwan plays into China’s courting of Latin American countries. . . . A key Chinese political objective is to isolate Taiwan, and China will actively court those 12 countries in this Hemisphere that recognize Taiwan diplomatically.”⁴² Against this backdrop, conservative voices in Washington argue that the United States has a vital interest in aiding Taiwan in maintaining its alliances in Central America and the Caribbean, if only to check the expansion of Beijing’s geopolitical reach. In the spring of 2006, U.S. assistant secretary Tom Shannon traveled to Beijing to discuss China’s activities in Latin America, marking the first such visit by a U.S. official for this purpose. Some analysts advocate taking measured but proactive steps in reaction to widening Chinese influence in Latin America, for example by lowering tariffs on U.S. cotton exports to the region through the passage of CAFTA. Making Central American textiles more competitive in the American market reduces U.S. dependence on Chinese imports while strengthening the export sectors of Central American economies.⁴³

Aside from the strategic concerns articulated by the conservative side of the political spectrum, there is also arguably a normative dimension to U.S. support of Taiwan. Failure to protect a country that achieved economic prosperity and political stability under its tutelage would undermine American credibility. Yet, on the whole, the United States finds itself in an awkward position with respect to the cross-strait dispute. The U.S.’s official position is, understandably, that other governments’ decisions to maintain or sever diplomatic relations with Taiwan are for those governments to make.⁴⁴ Moreover, since Washington also officially recognizes the PRC, it has little moral authority with which to lobby other governments on Taiwan’s behalf, and little apparent motivation to do so.

While Beijing clearly hopes to win over diplomatic holdouts in Central America and the Caribbean, there are some indications that China does not view this as an urgent task, but rather as a long-term goal. The issue of Taiwan’s recognition is certainly never absent from the calculations of the Chinese leadership, and China will not feel its rise to power is complete without returning Taiwan to the mainland’s political control.⁴⁵ As a matter of pure financial leverage, the PRC undoubtedly has the capacity to outbid Taiwan if it so desired. Yet observers have noted a recent softening in Beijing’s stance toward Taiwan.⁴⁶ The apparent willingness to accept the status quo in the short term may reflect, in part, the rising confidence of Chinese officials that time will favor their ultimate triumph in the cross-strait conflict—and

perhaps, consequently, that the project of pursuing new allies in the Western Hemisphere can move to the backburner for the time being.⁴⁷ Indeed, despite China's stunning economic growth and newfound global influence, more than two years have passed since it gained a new ally in Latin America, which last occurred when Grenada threw its support to the PRC in January 2005. By contrast, in May 2007, the newly elected administration of conservative Sir John Compton in St. Lucia reversed the prior government's 1997 decision and resumed ties with Taiwan.⁴⁸

But if the estimation of Chinese officials is correct, Taiwanese diplomats stationed throughout Central America and the Caribbean are fighting a losing battle. The eventual turning of the diplomatic tide in the PRC's favor, and the resulting embrace of Beijing by Latin America's remaining holdouts, would leave Washington even more isolated in its support for Taiwan while giving China greater influence over a crucial part of the defensive perimeter of the United States. At present, the United States has publicly reacted with nonchalance towards the prospect that Taiwan's hemispheric alliances will continue to unravel. But as China's growing reach into Central America and the Caribbean continues to undermine Taiwan, Washington's silence will become ever more puzzling to its closest neighbors—and ever more pleasing to Beijing.

A DOUBLE-EDGED SWORD

The Latin American and Caribbean nations at the center of the diplomatic rivalry between China and Taiwan differ significantly from many of their neighbors who have already recognized Beijing. In general, they have smaller populations, weaker economies, and are disproportionately represented in regions closer to the United States. Today, not a single major Latin American country maintains diplomatic ties with Taiwan; most with significant economies and abundant natural resources—including Mexico, Brazil, Argentina, Chile, and the Andean nations—established ties with China many years ago. The nations that most recently dropped their allegiances to Taiwan consist mainly of small island states, including the Bahamas and St. Lucia in 1997, Dominica in 2004, and Grenada in 2005. Only St. Lucia has since recanted that decision. The pressure on the remaining Caribbean countries outside of China's fold will only continue to build in the coming years, while Taiwan's unbroken string of allies in Central America will emerge as the next focus of the PRC's diplomatic offensive. Paraguay, the last holdout in South America, will likewise find its

position to be increasingly incompatible with the desires of its Mercosur partners, especially Brazil, to strengthen ties with China.

This intensifying attention from China and Taiwan is not necessarily unwelcome for Central America and the Caribbean. Indeed, most of these countries are struggling to achieve successful integration into the global economy, and they are only too eager to both seek out new partners and maximize the economic gains from existing relationships. Both China and Taiwan have shown interest in funding infrastructure projects that have fallen out of favor among Western donors, and the Latin American landscape is becoming host to an archipelago of bridges, roads, tunnels, and stadiums built as by-products of the cross-strait competition. Moreover, diplomatic relations with one partner does not preclude sustained economic trade with the other; many nations that recognize China still do business with Taiwan, and the reverse is also true.

Still, the diplomatic competition between China and Taiwan in Latin America and the Caribbean is rife with unintended consequences that have proven to be a double-edged sword for many countries. Since 2004, the UN peacekeeping mission in Haiti has come to the brink of losing its mandate each time the renewal date approaches, because China seeks to use its troop contribution and UN Security Council veto as an instrument to pry Haiti away from Taiwan's grasp. Paraguay, as the weakest member of the Mercosur trade group, may be forced to revoke its recognition of Taiwan, thus losing its most enduring trade relationship outside of the hemisphere. Taiwan's financial gifts have been at the center of several major corruption scandals throughout Central America, and communist China is hardly a force for greater transparency and good governance. Even countries that switch their allegiance to China often find that the diplomatic pressure remains intense. In Dominica, when opposition leaders flew Taiwanese flags at their political rallies, the Chinese government formally protested, raising concerns about freedom of speech. In February 2007, Grenada committed one of its most grievous errors in recent memory when officials accidentally played the Taiwanese national anthem at the inauguration of a new national stadium built by China at a cost of \$40 million. Prime Minister Keith Mitchell watched in horror as the planned moment of triumph descended into an unmitigated diplomatic fiasco, and he quickly ordered an investigation into the matter, saying that "it has saddened and ached my heart."⁴⁹ Other Caribbean countries were both amused and troubled by the incident, which they viewed as a cautionary tale that reflected the region's delicate balancing act.

In the final analysis, the choice between China and Taiwan will remain a highly charged foreign policy decision for a narrow swathe of vulnerable Latin American countries for many years to come. For most of the region, however, it is largely a settled matter, with China by far the victor. External factors, including China's future growth trajectory, the evolving nature of the China-Taiwan relationship, and the dynamism of Taiwan's foreign policy, will all shape how individual countries in the region respond to the range of economic incentives and coercive tactics that they will face. The United States may become a more vigorous voice in advising the Central American and Caribbean countries how to address this issue, but for the moment, it has opted to refrain from clearly choosing sides. Setting aside several notable exceptions, however, the fact remains that most small countries in Latin America and the Caribbean have never been particularly good at manipulating larger powers to get the best possible deal for their own interests. In confronting the competing crosswinds from China and Taiwan, the nations at the center of this diplomatic endgame will almost certainly face choppy waters ahead. ■

ENDNOTES

- 1 Countries with formal diplomatic relations with Taiwan: Paraguay, Guatemala, El Salvador, Nicaragua, Honduras, Costa Rica, Panama, Belize, the Dominican Republic, Haiti, St. Vincent & the Grenadines, St. Kitts & Nevis, Gambia, Burkina Faso, Malawi, Swaziland, Sao Tome and Principe, Tuvalu, the Solomon Islands, Nauru, Kiribati, Palau, the Marshall Islands, St. Lucia and the Vatican.
- 2 Figure 1 was assembled by the authors based on official government statements and news wire reports.
- 3 The locations within the United States where Taiwanese officials are permitted to refuel are seen as a barometer for the current status of the Taiwan-U.S. relationship. In May 2006, the United States refused Taipei's request to allow President Chen Shui-bian to refuel in either San Francisco or New York on his way to Paraguay, offering only a transit stop in Alaska or Hawaii. This snub was interpreted as a rebuke for Chen's recent pro-independence rhetoric. See Minxin Pei, "Crash Landing for Transit Diplomacy," *Strait Times*, May 9, 2006, <www.carnegieendowment.org/publications/index.cfm?fa=view&id=18337&prog=zch> (accessed March 13, 2007).
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