

## Taiwan-China Balancing Act in Latin America

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**Theme:** This ARI reviews the current state of the Taiwan-China relationship in light of the current challenges Taiwan faces in keeping its Latin American allies loyal. More opportunities for shifting alliances now exist, especially given the current global economic meltdown which has had an impact on both China and Taiwan's ability to sustain its assistance to many Latin American states.

**Summary:** Taiwan-China relations in Latin America are at a crossroads. This paper starts with an overview of Taipei's struggle to ensure the support of its Latin American allies, in face of a fast growing and increasingly appealing Beijing. It then focuses on two case studies, St Lucia and Costa Rica, which have recently switched allegiance. St. Lucia has flipped back and forth; while Costa Rica ended a 63-year relationship with Taiwan in June 2007 and recognised the People's Republic of China (PRC). Whether other countries follow suit is unclear. However, the risk of a domino effect favouring Beijing is real, as underscored by recent developments in Panama, Haiti, Nicaragua and Paraguay. It seems that economic concerns are shaping Latin American governments' reactions to Taiwan and China's struggle for sovereignty. As the PRC's trade and investment pull increases and Taiwan's declines, it seems that Taipei is set to lose one of its last strongholds.

**Analysis:** Latin America is the main battleground over state-to-state representation between Taiwan and the People's Republic of China (PRC). For the former, Paraguay and the 11 states of Central America and the Caribbean<sup>1</sup> make up the most significant group of countries supporting its status as an independent state. Were Taiwan to lose their support, it would only have ties with the Holy See and 10 small, impoverished nations in Africa and the South Pacific, dramatically weakening Taipei's claim to sovereignty.

The struggle between China and Taiwan in Latin America intensified in 2004, when the island of Dominica severed its ties with Taipei upon Beijing's pledge of US\$112 million in aid over six years. A year later, Grenada shifted its recognition in favour of Beijing. Against the tide, the Taiwanese government was able to woo the newly-elected government of St Lucia in early 2007. In May, Taiwan was dealt a heavy blow when

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<sup>1</sup> The countries in Central America and the Caribbean are Belize, Guatemala, Honduras, Nicaragua, Panama, El Salvador, Dominican Republic, Haiti, St Kitts and Nevis, St Vincent and the Grenadines and St Lucia.

several of its allies behaved rather ambiguously at the World Health Organization's vote on Taiwan's membership: Nicaragua and Panama were absent, Haiti abstained and Costa Rica voted 'Nay'. Shortly after, in June, Taiwan endured yet another defeat when it lost the allegiance of Costa Rica, the first Central American country to recognise China.

Beijing is keen to reduce Taiwan's international support and has increased diplomatic ties, trade and investment in Latin America in recent years. The priority attached to this region was highlighted this October when the PRC became a full member of the Inter-American Development Bank, after joining the Organisation of American States in 2004. In November 2008, China's Foreign Ministry released its first policy paper on Latin America and the Caribbean, outlining the guiding principles for future cooperation with the region. This announcement preceded Hu Jintao's second official visit to the region in four years, which included stops in Cuba, Peru and Costa Rica.

Faced with growing competition from the PRC, Taiwan has redoubled its efforts to secure support in Latin America. Taipei's most visible instruments are frequent and highly publicised exchanges of high-level official visits: the Taiwanese President Ma Ying-jeou's first overseas trip since his inauguration was to Latin America. The main purpose of Ma's eight-day trip was to attend the inaugurations of the Paraguayan President Fernando Lugo and the Dominican President Leonel Fernández in August 2008. Ma also held talks with the Panamanian President Martín Torrijos, the Salvadorean President Antonio Saca, the Honduran President Manuel Zelaya and the Haitian President Rene Preval.

During the civil wars that raged in Central America in the 1980s, Taiwan played an important role in training soldiers in Taipei as part of its projection of hard power in the hemisphere. After the US Congress cut off military assistance to Guatemala in 1982 on the allegation of human rights abuses committed by its military, the government of Guatemala turned to Taiwan to fill the training gap.

In recent years military assistance is no longer an important part of Taiwan's diplomacy, though military student exchanges are still taking place. Taiwan has used its resources more discretely to pay for travel expenses of visiting military officers. An exception has been the Taiwanese Naval Academy's Fleet of Friendship, which has sailed to Latin American ports, providing future naval officers with practice in navigation and combat skills. In April of 2008, two Taiwan warships carrying 850 military cadets berthed at Puerto Quetzal for a friendship visit and exchanges in military education. Three other ships landed at Acajutla in El Salvador, where members of the local community were invited to tour the vessels.

Taiwan continues to supply much needed technical and medical assistance after humanitarian or natural disasters. Furthermore, the Taiwanese government encourages investment by Taiwanese companies in allied countries through the establishment of a US\$250 million fund and a central coordinating office to facilitate investment projects.

To strengthen economic ties with its allies, Taiwan has signed five Free-Trade Agreements (FTAs) with Panama, Nicaragua, Guatemala, El Salvador and Honduras; all in effect, save Honduras. FTA negotiations with the Dominican Republic are currently under way. In addition, Taiwan is sharing technological expertise through initiatives such as the Central and South America Research Centre, although not very successfully.

Taiwan's most effective tool to secure allies is by far financial assistance: for instance, Paraguay has received from Taipei over US\$30 million in grants for housing projects, US\$20 million for a new congress building and more money for scholarships. Taiwan has also become Paraguay's biggest bilateral creditor after two Taiwanese banks offered that country a US\$400 million loan. In more than one occasion, this 'dollar diplomacy'/'chequebook diplomacy'<sup>2</sup> has stemmed the pressure on Taiwan's allies to switch allegiance to Beijing: Taiwan recently agreed to pay for the construction of the US\$8 million Warner Park Stadium in St Kitts. Reportedly, the local government was considering cutting off diplomatic ties with Taiwan.

Taipei is increasingly under pressure, since Beijing has also adopted 'dollar diplomacy' and is offering trade preferences to pry away Taipei's allies in the region. This pressure has resulted in a number of questionable fund transfers by Taiwan that have surfaced in the past few years: In September 2004 the media alleged that US\$1 million was transferred from Taiwan to the Panamanian President Mireya Moscoso. In February 2005, the Guatemalan media revealed President Alfonso Portillo had received US\$1.5 million from the Taiwanese government. In July 2008 Costa Rican Minister of Housing Fernando Zumbado admitted to misusing the US\$1.5 million he had received from Taiwan to help 600 families living in poverty.

In response to these scandals and to a slowing economy, Taiwan's new President, Ma Ying-jeou, has twice called for a diplomatic truce with China. Under his proposal, Taiwan would strengthen its relationship with its existing 23 allies, but would not actively seek to establish formal ties with other countries. China should also refrain from wooing away Taipei's existing allies in order to build mutual trust towards cross-strait reconciliation.

Beijing has yet to reply but Ma has declared the truce is being negotiated with the PRC. In an interview with Reuters on 15 October 2008, Taiwan Kuomintang's Secretary-General Wu Den-yih stated that China had agreed with the cross-strait diplomatic truce by recently refusing a Latin American country to form an alliance with China. Despite these comments –as Bonnie Glaser points out in a recent interview– any diplomatic truce with China is likely to remain tacit, not formal, since China will not openly acknowledge Taiwan's diplomatic arrangements so as not to implicitly accept Taiwanese sovereignty.

#### *Case Studies: St Lucia and Costa Rica*

St Lucia and Costa Rica have been the most recent venues of the Taiwan-China struggle for sovereignty. St Lucia is a representative case of what can be called flip-flop allegiance. Costa Rica's switch, on the other hand, represents an important shift as it was one of the first instances when China's newfound economic power was invoked to sever a long-standing relationship with Taiwan.

#### *St Lucia: Flip-flop Allegiance*

Some countries have used the Taiwan-China struggle to their advantage, threatening to suspend ties with one side or the other should a demand for money be refused. The Central African Republic, for instance, has switched sides a record six times.

St Lucia has switched sides twice. This small island state established ties with Taiwan in 1984. Thirteen years later, St Lucia switched allegiance to the PRC when the opposition Labour Party finally won the elections in 1997. In addition to a change in leadership, the

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<sup>2</sup> The offer of aid or cheap loans to curry influence around the world.

switch was favoured by a large assistance package offered by Beijing. Ten years later, shortly after the United Workers Party returned to power, St Lucia restored official ties with Taiwan in 2007. Despite China's many contributions, like the 12 Free Trade Zone Storage and Office buildings and the George Odum National Stadium, St Lucians did not incur the benefits they had expected, particularly a strong influx of Chinese tourists. For its part, Taiwan propagated new strains of fruits and vegetables and introduced agricultural techniques between 1984 and 1997. Now, St Lucians are hoping Taiwan will keep its promise and help them diversify agriculture, boost tourism, develop livestock and create information technology learning centres. If promises are not kept, however, St Lucia knows it can always turn to Beijing for a better deal.

#### *Losing Ground to the PRC: Costa Rica*

The switch in Costa Rica came after the election of President Oscar Arias. Arias justified the break of the 63-year old relationship with Taiwan on the more than tenfold increase in bilateral trade since 2001, with the PRC becoming Costa Rica's second trade partner. Arias added the June 2007 move was 'an act of foreign policy realism which promotes our links to Asia. It is my responsibility to recognise a global player as important as the People's Republic of China'.

President Arias' statements make no mention of financial incentives, but there is plenty of evidence of their existence. In September 2007, a memorandum was posted on the Web site of Costa Rica's Foreign Ministry, dated 1 June 2007, which states that in return for Costa Rica's switch of allegiance, the PRC agrees to buy US\$300 million in bonds. Beijing also grants US\$130 million in aid and other incentives, including 20 scholarships each year for Costa Ricans to study in China.

Since the switch, President Arias has made an official visit to China and met with Hu Jintao. In May 2008, China's Vice-premier, Hui Liangyu visited Costa Rica. In total, the trip led to the signing of 11 agreements focusing on economics, culture, trade, technology, tourism, immigration, diplomacy and finance. Among the deals made is a US\$10 million cash donation and Beijing's promise to pay US\$72 million for the construction of a new national stadium, which will reportedly be built by 800 of its own workers imported for the job.<sup>3</sup>

China's firm interest in deepening bilateral relations with Costa Rica and further increasing its impact in Central America was highlighted by President Hu Jintao's decision to make an official visit in November 2008 to Costa Rica rather than say, Brazil, China's largest trading partner in Latin America. This was the President's first official visit to Central America.

While in Costa Rica, Presidents Hu Jintao and Oscar Arias signed several cooperation deals. One of the agreements paves the way for the construction of an oil refinery that would serve the region's demand. The reported US\$1,200 million investment would be disbursed gradually through a joint venture between the Refinería Costarricense de Petróleo and the China National Petroleum Corporation.

China and Costa Rica are also working on an FTA, which would be the third such agreement between China and a Latin American country.<sup>4</sup> Free trade talks will start on 19

<sup>3</sup> In 2007 China helped build five stadiums for the Cricket World Cup in the nearby Caribbean, pouring more than US\$140 million and over 1,000 Chinese workers into the construction.

<sup>4</sup> China has signed an FTA with Chile and is working on one with Peru.

January 2009 and Hu Jintao declared that both countries hope to have an agreement before Arias leaves office in May 2010. Costa Rica's Foreign Trade Minister said a free-trade accord with China means 'there will be many sectors that benefit, especially those tied to agricultural and meat products'.

Costa Ricans were particularly encouraged when Hu and his 100-businessmen delegation declared the Chinese government will continue to encourage Chinese enterprises to invest in Costa Rica in such key areas as infrastructure, agriculture, telecommunications and energy.

The PRC hopes its newly-established relations with Costa Rica will become a showcase for its Central American neighbours. Beijing is betting on a strong potential for further deepening trade relations and Costa Rica's proved track-record of stability to ensure success.

#### *A Latin American Domino Effect?*

The Taiwanese authorities are worried about a possible domino effect triggered by Costa Rica's decision to establish diplomatic ties with the PRC. Taipei is aware that the pressure on its allies to sever ties increases as China's role in the global economy rises.

Panama is a case in point. It is one of the most strategically significant countries in Central America, where the PRC has been making significant inroads. Back in 1996 Beijing opened a trade office in Panama. More recently Panama's President asked Beijing for help in the widening of the canal. Hutchinson-Whampoa, a Hong Kong company with strong links with the People's Liberation Army, was granted a 50-year lease on management of key port facilities of the canal. The PRC is the largest user of the Canal and bilateral trade is booming (US\$1 billion in 2007).

Haiti has been under enormous pressure from China since 2004. The PRC contributed 600 police officers to MINUSTAH, the Brazilian-led UN stabilisation force deployed in the island and leveraged its permanent-member status on the Security Council to prevent the Taiwanese Premier from attending the inauguration of President René Préval in May 2006. China also threatened not to renew the Security Council mandate for MINUSTAH in 2007 because Haiti's UN Ambassador asked the General Assembly to consider Taiwan for permanent UN membership. A desperately poor country, ignored by most of the international community, Haiti is susceptible to attractive offers of aid that Beijing can offer, increasingly with greater ease than those from Taiwan.

Nicaragua is particularly worrying. During his re-election bid in 2006, President Daniel Ortega declared he would be open to 'making friends with all nations, including China'. These remarks generated much concern in Taiwan, since during Ortega's first term in office in 1985 Managua broke ties with Taipei to forge relations with China. These concerns notwithstanding, Ortega's first two years in office were marked by cordial relations with Taipei. Taiwan has nurtured its relations with Nicaragua with continued donations like the July 2008 US\$300,000 donation to the Nicaraguan National Police. Recently, however, rumours have emerged that Nicaragua has made an attempt to switch recognition to Beijing that only failed due to the PRC's unwillingness to jeopardise its rapprochement with Taiwan.

Paraguay, as the only Taiwanese supporter in South America, is a key target for Beijing. It has stuck with Taiwan for 51 years; but the ruling Colorado party has been defeated for the first time in six decades and the newly-elected President Fernando Lugo wants expanded links with the economic powerhouse that is China. Paraguay's membership of Mercosur prevents it from signing an FTA with Taiwan without approval from all other Mercosur members, a serious obstacle to the deepening of bilateral trade. The promise of normalised relations would undoubtedly bring significant trade benefits with China, that already buys a good proportion of Paraguay's soy crop while supplying about a quarter of its imports. For now, at least, doubts over Taiwan-Paraguay ties have been alleviated by the Paraguayan President Fernando Lugo's recent declaration that 'it would be fair to recognise the good relations Taiwan has always had with Paraguay'.

**Conclusions:** The Taiwan-China struggle in Latin America and the Caribbean will be solved either by an improvement in cross-strait relations or by the economy. As China's economy and trade flows expand and Taiwan's decline, the gravitational pull of the mainland grows stronger.

Taiwan's Latin American allies, it seems, are driven by economic imperatives in their dealings with Beijing and Taipei. For small and poor countries, the struggle between China and Taiwan provides an important source of much needed resources, especially when infrastructure projects have fallen out of favour among Western donors. It has become a particularly attractive proposition because diplomatic relations with one partner do not preclude efforts to attract investment and boost economic trade with the other. For larger economies, however, China's growing importance as a source of imports and as a (potential) buyer of products, especially coffee, sugar and soybeans, makes the normalisation of relations with the PRC increasingly irresistible.

How the next year plays out in the Americas will be determined by economic need, given the current state of the global financial meltdown, which is having a serious impact on both China and Taiwan. While many of the remaining governments will be reluctant to immediately end their relationship with Taiwan, they will also be looking to Washington for signals about how the Taiwan-China relationship develops in the context of a renewed approach to the hemisphere. US government officials have maintained important bi-lateral talks with the government in Beijing. These diplomatic engagements are bound to grow, especially in light of the importance of new actors such as Russia, India and Iran in the hemisphere. Moreover, the opening of Cuba, a likely scenario in the next few years, will also increase the importance of the PRC's role in the Caribbean, one of Taiwan's final strongholds. We anticipate change, but the signals will have to come from many directions. For now, however, the importance of the current truce might endure so long as cross-strait relations continue to improve and the global economic crisis reinforces a time-out for unencumbered assistance to the region.

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