Overview

Latin America is the main battleground over state-to-state representation between Taiwan and the People's Republic of China (PRC). For Taiwan, Paraguay and 11 states of Central America and the Caribbean1 make up the most significant group of states supporting its status as an independent state. Were Taiwan to lose their support, it would have ties with only the Holy See and 10 small, impoverished nations in Africa and the South Pacific, dramatically weakening Taipei's claim to sovereignty.2

The struggle between China and Taiwan in Latin America intensified in 2004, when the island of Dominica severed its ties with Taipei after a pledge from Beijing of $112 million3 in aid over six years. A year later, Grenada shifted its recognition in favor of Beijing. Fighting against the tide, the Taiwanese government was able to woo the newly elected government of St. Lucia in early 2007. In May of that year, Taiwan was dealt a heavy blow when 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.4 Shortly after, in June, Taiwan endured yet another defeat when it lost the allegiance of Costa Rica, the first Central American country to recognize China.5

Faced with growing competition from the PRC, Taiwan has redoubled its efforts to secure the support of its allies in Latin America. The most visible instruments utilized by Taipei are frequent and highly publicized exchanges of high-level official visits: the first overseas trip of President Ma Ying-jeou of Taiwan after his inauguration was to Latin America. The main purpose of Ma's eight-day trip was to attend the inaugurations of Paraguay's president, Fernando Lugo, on August 15, 2008, and the Dominican Republic's president, Leonel Fernandez, on August 16, 2008. Ma also

---

3. All dollars cited in this chapter are U.S. dollars.
held talks with the president of Panama, Martin Torrijos; the president of El Salvador, Antonio Saca; the president of Honduras, Manuel Zelaya; and the president of Haiti, Rene Préval.6

During the Cold War, and especially during the civil wars that raged in Central America, Taiwan played an important role in training soldiers in Taipei as part of its projection of hard power in the hemisphere. When the U.S. Congress cut off military assistance to Guatemala in 1982 because of the allegation of human rights abuses committed by Guatemala’s military, the government of Guatemala turned to Taiwan to fill the training gap. Taiwan also sends military attachés to its embassies in the region.

In recent years military assistance is no longer an important part of Taiwan’s diplomacy although military student exchanges are still taking place. Taiwan has used its resources more discreetly to pay for travel or expenses of visiting military officers. A more recent exception has been the ROC’s 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 the port of Acajutla in El Salvador where members of the local community were invited to tour the vessels.

Taiwan also 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 $250 million fund and a central coordinating office to facilitate investment projects.

To strengthen economic ties with its allies, Taiwan has signed free-trade agreements (FTAs) with Panama, Nicaragua, Guatemala, El Salvador, and Honduras; all are in effect, save for the one with Honduras. FTA negotiations with the Dominican Republic are currently under way.7 In addition, Taiwan is sharing its technological expertise through initiatives such as the Central and South America Research Center, although not very successfully.8

Taiwan’s most successful tool by far in securing the support of its allies is financial assistance: for example, Paraguay has received from Taipei more than $30 million in grants for housing projects, $20 million for a new congress building, and still more money for scholarships. Taiwan has also become Paraguay’s biggest bilateral creditor after two Taiwanese banks offered that country a $400 million loan. On more than one occasion, this “dollar diplomacy,” sometimes called “checkbook diplomacy,”9 has stemmed the pressure on Taiwan’s allies to switch allegiance to Beijing.10 After it was reported the government of St. Kitts was considering cutting off its diplomatic ties with Taiwan, Taiwan agreed to pay for the construction of the $8 million Warner Park Stadium there.

Taipei is increasingly under pressure because 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

---

9. “Dollar diplomacy” or “checkbook diplomacy” is the offer of aid or cheap loans to curry influence around the world.
St. Lucia and Costa Rica

Johanna Mendelson Forman and Susana Moreira

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 a phenomenon—flip-flop allegiance—that has accompanied the struggle between Taipei and Beijing. Costa Rica’s case, in contrast, 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.

Flip-Flop Allegiance: The Case of St. Lucia

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, and friendship emerged between the country’s leader and Taiwan’s government. Thirteen years later, St. Lucia switched allegiance to the People’s Republic of China when the opposition Labor Party finally won the elections in 1997. In addition to a change in leadership, the switch was encouraged by a large assistance package offered by Beijing. Ten years later, in 2007, shortly after the United Workers Party returned to power, St. Lucia restored official ties with Taiwan. Despite China’s many contributions—for example, the free trade zone storage and office buildings (12 buildings) and the George Odlum 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 centers. If promises are not kept, St. Lucia hopes it can turn to Beijing for a better deal.

Losing Ground to the PRC: The Case of Costa Rica

The switch in Costa Rica came after the election of President Oscar Arias, and diplomatic ties were formalized in June 2007. The president justified the break of the 63-year-old relationship with Taiwan on the more than 10-fold increase in trade since 2001 between Costa Rica and the PRC, Costa Rica’s second trade partner. Arias added that the switch was “an act of foreign policy realism which promotes our links to Asia. It is my responsibility to recognize a global player as important as the People’s Republic of China.”

Since the switch, President Arias has made an official visit to China and has met with Hu Jintao. In May 2008, China’s vice premier, Hui Liangyu, visited Costa Rica. In total, the whirlwind trip led to the signing of 11 agreements focusing on economics, culture, trade, technology, tourism, immigration, diplomacy, and finance. Among the deals is a $10 million cash donation and Beijing’s promise to pay $72 million for the construction of a new national stadium, which will reportedly be built by 800 Chinese workers imported for the job. China and Costa Rica are also working on a free-trade agreement, which would be the second such agreement between China and a Latin American country.

(continued next page)
The PRC hopes that its newly established relations with Costa Rica can become a showcase for its Central American neighbors. The PRC is betting on the strong potential for further deepening of trade relations and Costa Rica’s proven track record of stability to ensure success.

Note


A Latin American Domino Effect?

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. Hutchison-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 ($1 billion in 2007).

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

Paraguay, as the only Taiwanese supporter in South America, is a key target for Beijing. Paraguay 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 economic powerhouse China. Moreover, Paraguay’s membership in 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 normalized relations would undoubtedly bring significant trade benefits with China, which already buys a good proportion of Paraguay’s soy crop while supplying about one-fourth of its imports. For now, at least, doubts over ROC-Paraguay ties have been alleviated by President Fernando Lugo’s recent declaration that Paraguay will “improve and consolidate relations with Taiwan.”

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 has grown 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 favor 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 normalization of relations with the PRC increasingly irresistible.

21. Tso, “Ma’s Visit Cements Stronger Ties with Latin America.”
22. Erikson and Chen, “China, Taiwan and the Battle for Latin America.”