

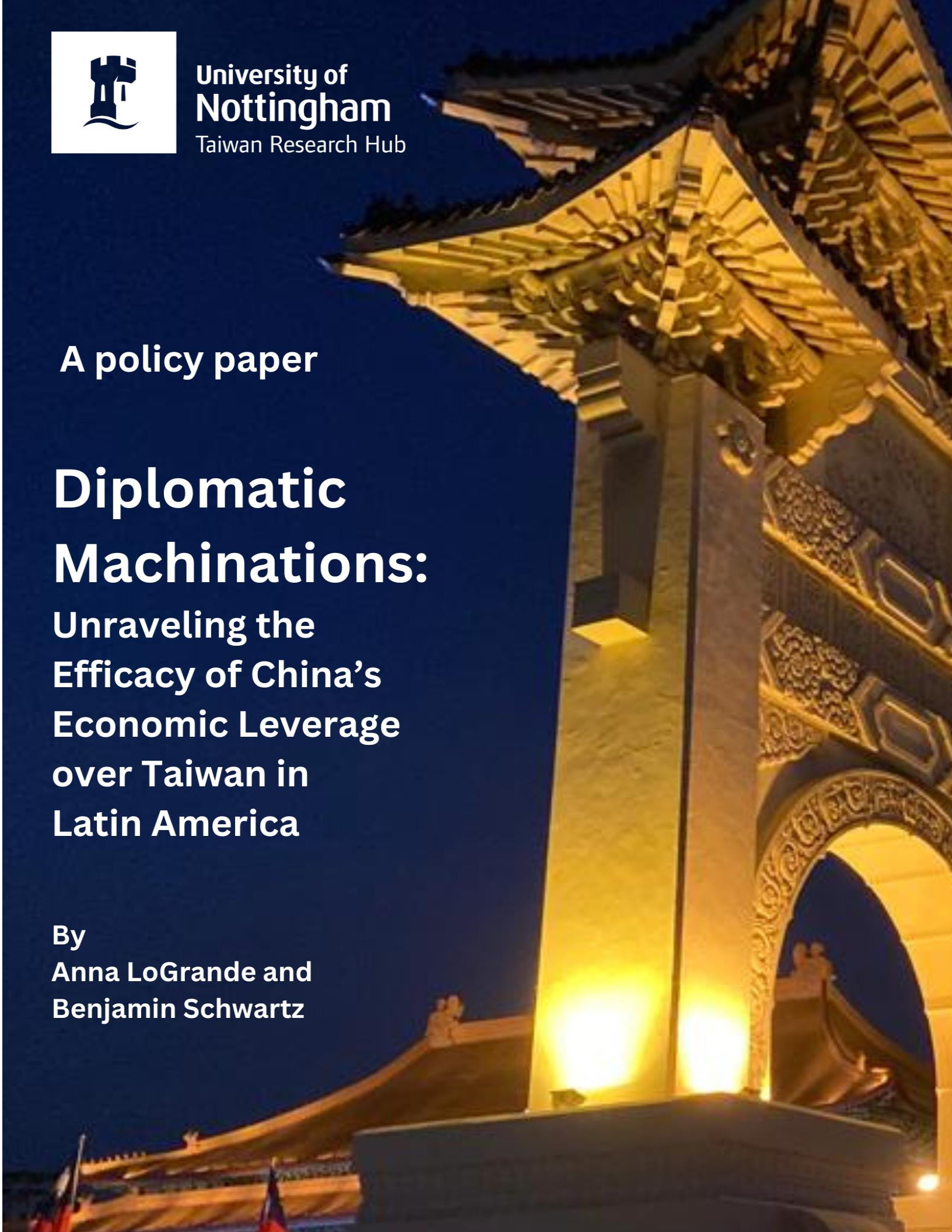


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A policy paper

Diplomatic Machinations: Unraveling the Efficacy of China's Economic Leverage over Taiwan in Latin America

By
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Summary

As the United States faces heightened tensions with peer and near-peer adversaries on the global stage, a specific focus on China's and Taiwan's economic and political dynamics in Latin American and the Caribbean (LAC) countries becomes crucial. Is China's economic diplomacy in the region strategically aimed at undermining Taiwan's petering list of loyal recognisers? Are the ramifications of Latin American partnerships with the People's Republic of China (PRC) triggering policy changes in the United States?

This research re-examines established questions within the context of the contemporary political milieu, utilising analyses from regional specialists and formulating policy recommendations for Washington. The aim is to bolster Taiwan's resistance against China's ongoing regional expansion, which in turn amplifies China's leverage over Taiwan on the global platform.

This study offers new insights into China's alliances with countries such as Panama, Nicaragua, and El Salvador. It examines the declining diplomatic loyalty of Paraguay to Taiwan and assesses the People's Republic of China's impact on altering the political equilibrium in the region. Amidst the rivalry between Taiwan and China for the allegiance of Latin American and Caribbean (LAC) states, this paper outlines the following policy recommendations for the United States:

- **Strengthen** diplomatic efforts by *appointing* culturally competent diplomats to effectively counter China's soft power and political intervention in the region.
- **Support** local efforts by *empowering* a variety of local leaders in LAC countries to address issues exacerbated by external factors like PRC involvement.
- **Invest** in strategic sectors of LAC economies and *encourage* private sector engagement in the region while cautioning against regulatory overreach and



advocating for a review of sanctions and barriers to prevent China's economic dominance in the region.

- **Emphasise** sustainable development by upholding indigenous rights, adopting policies aligned with the UN Sustainable Development Goals, and elevating the voices and opinions of those affected by such policies.
- **Acknowledge** historical intervention by the US in the LAC region, commit to strengthening relations with respect for state autonomy, and promote transparency and liberal ideals through mutually beneficial policies while avoiding polarising ideologies.

Introduction

Beijing intensified its engagement in the LAC region to boost its image and secure support for its expansionist initiatives, which further isolated Taiwan. China actively pursues economic and political strategies in the region to disrupt the loyalty of regional states to Taiwan. The absence of significant economic and geopolitical engagement from the US and its allies allows China to assert its presence, exploiting the needs and vulnerabilities of LAC states.

This paper explores the relationship between China's expanded economic and political presence in Latin America and Latin American states' diplomatic recognition of Taiwan. The paper surveys a series of case studies in Panama, El Salvador, Nicaragua (i.e., countries that switched their recognition from China to Taiwan within the last ten years), and Paraguay (i.e., Taiwan's remaining Latin American ally). The authors analyse the PRC's subtle and effective backdoor tactics that influenced these countries' decisions to sever their diplomatic ties with Taiwan. By identifying possible factors behind these switches, the analysis sheds light on the nuanced diplomatic landscape in which China is gaining traction at Taiwan's expense. The recommendations suggest actionable ways in which the US could combat China's expanding influence in the region.¹

¹ The research is based on a combination of secondary and primary sources, including interviews conducted by the authors with subject matter experts. The interviewees included the Honorable Jaime Alemán, former Panamanian Ambassador to the United States; Felipe Chapman, Managing Partner and Chairman of the Board of Panamanian economic research and analysis firm *INDESA*; Juan Cruz, Senior Director of the Western Hemisphere at the National Security Council; and a former diplomatic official who spoke on the condition of anonymity.

Fruitless Countermoves: Taipei's Lucrative Promises and Washington's Empty Ultimatums

The battle for diplomatic recognition comprises duelling campaigns of buying and selling power. Taipei seeks to maintain rapidly dwindling influence in the region as Beijing wrests it away. The cases of Panama, Nicaragua, El Salvador, and Paraguay demonstrate how Latin American states may leverage diplomatic recognition and capitalise on these tensions.

Despite fewer resources and a much smaller global presence, Taipei continues competing with Beijing. Taiwan's Ministry of Foreign Affairs provides Taiwan's LAC partners with lucrative loans, infrastructure investment, and aid packages.² Paraguay's lucrative partnership with Taiwan reveals a noteworthy motive for sticking with Taipei as Asunción leverages the threat of a diplomatic flip to greater financial gains, capitalising on Taiwan's attempts at sustaining its diminishing position in the region.³

While Taiwan employs financial and infrastructural incentives to combat China's diplomatic arsenal, the US asks Latin American states to hold the PRC accountable and reject unfair market practices without offering compelling incentives or viable alternatives. While the US remains Latin American states' biggest and most important trading partner, the lack of attention paid to the region leaves holes in the market that the PRC fills.⁴

Thus far, Washington's LAC policies have reflected a poor grasp of the PRC's narratives and activities in Latin America. LAC states perceive an economically burdensome ultimatum—choose the US or choose the PRC. Unless Washington amends this

² Scott W. Harold, Lyle J. Morris, Logan Ma, "Countering China's Efforts to Isolate Taiwan Diplomatically in Latin America and the Caribbean: The Role of Development Assistance and Disaster Relief," *RAND Corporation*, 2019, https://www.rand.org/pubs/research_reports/RR2885.html. Binay Prasad, "A Latin American Battle: China vs. Taiwan," *The Diplomat*, August 19, 2017, <https://thediplomat.com/2017/08/a-latin-american-battle-china-vs-taiwan/>.

³ As discussed in the next section, "Vying for Recognition: How the PRC Gains and Where Taiwan Retains" that analyses the individual case studies, LAC countries recognizing Taiwan received lucrative benefits throughout the duration of these partnerships. Given Taiwan's position in the region that increasingly lags behind that of China, it seems unlikely that Taiwan's Ministry of Foreign Affairs was unaware of the role played by such continued aid and investment in sustaining the LAC partnerships. Increasing demands from LAC countries towards Taiwan—many of which Taipei proved receptive to—reflect a growing pattern of "extortion" consistent with the dwindling number of countries recognizing Taiwan diplomatically. These extortive practices are increasingly transparent and impossible to miss, particularly in the case of Paraguay. One interviewee confirmed the awareness of such practices among officials of Taiwan's foreign ministry.

⁴ While not discussed in this paper, the Caribbean states provide other examples of this dynamic. Taiwan and the PRC filled a vacuum of influence left by the retreat of the US and its Western allies from the region. The influence of Taipei and Beijing in the Caribbean is undeniable, with a prevailing perception among the Caribbean states that the West abandoned them, but the PRC and Taiwan did not. (Interview with Juan Cruz, Senior Director of the Western Hemisphere at the National Security Council, 2022)

perception, the continued US retreat from the region and its markets, combined with the PRC's growing influence, threatens US-LAC partnerships. To challenge Beijing's position effectively, the US should form a coalition with Western allies, update and introduce new policies, and propose truly appealing alternatives to the benefits China provides.

Vying for Recognition: How the PRC Gains and Where Taiwan Retains

The following case studies provide concrete examples of the ways in which China's economic diplomacy outcompetes Taiwan's in Latin America. They also provide guidelines illuminating where and how the US should step up and bridge the increasing gap between Taiwan and China with its own strategic policies.

Panama

In June 2017, Panama severed its diplomatic partnership with Taiwan to recognise the PRC. Whilst this is not a new development, the factors behind the switch provide useful insights into China's activities in the LAC region. Panama holds a critical strategic position in international trade, and it also provides a prime example of the way the LAC countries "extort" both the PRC and Taiwan alike. In line with the broader regional trend, Panama's 2017 decision to sever diplomatic ties with Taiwan can be primarily attributed to economic causes.

Prior to the switch in recognition, Taiwan supplied economic support to Panama to increase investment and loans to small fishermen, finance the modernisation of information technologies used in agriculture, and fund scholarships dedicated to social works, totalling \$1.6 billion as of 2017.⁵ Despite these targeted expenditures, the economic benefits offered by the PRC overshadowed those supplied by Taiwan as total trade between Panama and China was \$1.1 billion in 2016 alone, roughly twelve times greater than trade with Taiwan.⁶

In May 2016, President Tsai Ing-wen boasted about Taiwan's stable and friendly partnership with Panama. The following month, the PRC's state-owned Landbridge Group signed a deal worth \$900 million to acquire control of Panama's largest port, Margarita

⁵ Luis Carlos Herrera, et al., "The "Two Chinas" and Panama: An Historical Review of Panamanian Relations with the People's Republic of China and Taiwan, 1903–2017," LSE Research Online, February 2020, http://eprints.lse.ac.uk/110976/1/WorkingPaper02_folder.pdf.

⁶ Elida Moreno, "Panama's Business Chiefs Hope for Big Return from New Ties to Beijing," *Reuters*, Thompson Reuters, 13 June 2017, www.reuters.com/article/us-panama-china-idUSKBN19500P/

Island.⁷ Following China’s acquisition of the port, Panama’s government under then-President Juan Carlos Valera quickly rescinded its recognition of Taiwan and subsequently signed 48 bilateral Memoranda of Understanding (MoUs) with China that focused on “free trade, infrastructure development, tourism, cultural exchange, journalist training, and judicial support” and included multiple agreements with real estate developers, energy and technology companies.⁸ It is important to note that China’s presence in Panama’s private sector is not new, but this presence has not featured diplomatic partnerships before. This suggests that new foreign policy manoeuvres—marked by increased investment and trade, personalistic diplomatic relations, and attempts at creating common socio-cultural grounds—may be employed to serve China’s political (not just economic) interests.

In November 2018, leaked reports revealed Panama’s intention to cede a property on the Amador Causeway to the PRC for the construction of its embassy.⁹ The US objected, citing security concerns as such a move would position PRC officials in close proximity to a section of the Panama Canal that offers clear visibility of the US vessel activity. Washington also opposed the decision as the property formerly housed US admirals, symbolising longstanding US-Panama relations. The PRC and Panama never concluded the agreement. Nonetheless, the PRC’s attempt to position itself at such a strategic section of the canal and Panama’s initial willingness to allow the move are emblematic of a larger regional trend. Ostensibly, Panama swayed diplomatically for economic reasons, while the PRC expanded its political ties with Panama.

Partnership with the PRC thus offered immediate economic gains and significant potential for growth and development of infrastructure and trade. As with other LAC countries, Taiwan could not match these incentives. Moreover, by emphasising diplomacy, the PRC filled the space the US vacated and left Taiwan markedly marginalised.

Besides financial inducements, the factors behind Panama’s switch in recognition to China also point to increasing socio-cultural affinity between the two countries. Beijing has sent its best and brightest to Panama, including Ambassador Wei Qiang, whose charisma, knowledge of Panamanian culture, and fluency in Panamanian Spanish earned him and his country high regard in Panamanian society.¹⁰ This stands in stark contrast to

⁷ “China’s Landbridge Group Purchases Largest Panamanian Port; Intends to Make It a ‘Deep-Water’ Port,” Janes IntelTrak, May 26, 2016, <https://www.rwradvisory.com/chinas-landbridge-group-purchases-largest-panamanian-port-intends-to-make-it-a-deep-water%DB%9D-port/>.

⁸ “Resumen de acuerdos suscritos entre la República de Panamá y la República Popular China,” Gobierno de la República de Panamá, accessed October 25, 2022, https://www.mire.gob.pa/images/PDF/resumen_de_aceurdos.pdf.

⁹ Portada et al., “The Final Frontier.”

¹⁰ Interview with Jaime Alemán, Former Panamanian Ambassador to the United States, July 8, 2022.

the US, which had left its embassy in Panama empty for more than four years following former Ambassador John Feeley's resignation in January 2018.¹¹ Cultural diplomacy thus further aided the PRC's strategy, minimising barriers to bilateral interaction and cementing momentum in Sino-Panamanian relations.

Some socio-cultural affinities are natural byproducts of the PRC's global expansion, including changing the perception of "made in China" goods. Contrary to initial negative perceptions of PRC-made goods by the Panamanian public, Panamanians can now access high-quality goods manufactured in China (like electronics and cars) at affordable costs.¹² Other socio-cultural developments appear more strategic. For example, to overcome linguistic barriers between the two countries, Beijing has been increasing the number of scholarships for Panamanian students to study in China, many of which have been targeting families and children of political elites. The role played by the linguistic and cultural competency of Chinese diplomats and their impact on Panama's decision to switch its recognition to China should thus not be underestimated. Eradicating language barriers and improving understanding between two dissimilar cultures not only builds bridges towards shared socio-cultural grounds but facilitates broader Chinese penetration of Panamanian society. Policy interventions designed to contend with Beijing's "cultural upper hand" are thus essential in countering its expanding presence.

Nicaragua

Nicaragua made the switch from Taiwan to China in December 2021¹³ as a response to both international sanctions led by Washington¹⁴ and trade and infrastructure incentives

¹¹ "U.S. ambassador to Panama resigns, says cannot serve Trump," *Reuters*, January 12, 2018, <https://www.reuters.com/article/us-usa-diplomacy-panama/u-s-ambassador-to-panama-resigns-says-cannot-serve-trump-idUSKBN1F1227>. As discussed in the concluding section "Moving Forward: Policy Recommendations," the US Senate confirmed Biden's nominee for the US Ambassador to Panama, filling the position after nearly five years of Chargés d'Affaires leading the US Embassy in Panama.

¹² Interview with Felipe Chapman, Managing Partner of INDESA, August 10, 2022.

¹³ Joseph Choi, "Nicaragua breaks diplomatic relations with Taiwan, recognizes Chinese sovereignty," *The Hill*, December 9, 2021, <https://thehill.com/policy/international/585253-nicaragua-breaks-diplomatic-relations-with-taiwan-recognizes-chinese/>.

¹⁴ Both Trump and Biden administrations led and continue to lead efforts to hold the Ortega-Murillo administration (Rosario Murillo being the Vice President) accountable for dismantling democratic institutions, violating human rights, and repressing civil society in Nicaragua. Sanctions serve as their primary tool to target and pressure perpetrators. In 2018, Trump issued E.O. 13851, which blocked properties of individuals identified to be involved in the systemic dismantling of Nicaragua's rule of law, prohibiting their dealings with the United States (Federal Register 2018). In November 2021, the Biden administration declared the re-election of the Ortega-Murillo government a sham and introduced new sanctions, declaring nine Nicaraguan officials pursuant to E.O. 13851 (White House 2022). The US was joined by international partners in exerting pressure on Managua, with the UK and Canada introducing targeted measures following the sham election (Blinken 2021).

offered by Beijing.¹⁵ The case of Daniel Ortega, President of the Republic of Nicaragua, and his administration is demonstrative of the political interests behind the switch, with US efforts exacerbated by Managua's poor industrial positioning and PRC incentives amplified by Ortega's authoritarianism and leftist ideology.¹⁶

Until the switch, Taipei poured significant financial and diplomatic resources into its partnership with Nicaragua. Between 2000 and 2006, Taiwan provided both Nicaraguan public and private sectors with \$138.3 million in loans. Nicaraguan exports to Taiwan increased by an average of 180.9 per cent annually, culminating in a free trade agreement (FTA) between the two countries in 2006.¹⁷ Taipei intensified its personalistic diplomatic efforts and collaborated with Nicaraguan civil society to foster a widespread favourable view of Taiwan among Nicaraguans. Despite these efforts, they fell short against China's strategy, which aligned more closely with the Nicaraguan government's objectives.

Four key factors can provide a better understanding of Nicaragua's motivations behind the switch. Similarly to trends observed across other case studies, the economic benefits promised by Beijing surpassed those offered by Taipei. Second, Taiwan's de facto partnership with the US and its democratic system and ideals became incompatible with Ortega's increasingly authoritarian government, with the US sanctions effectively eliminating Washington's leverage over Ortega's administration.¹⁸ Taipei also lacked resources to match Beijing's vaccine diplomacy, with the PRC sending Nicaragua one million Covid-19 vaccines days after Nicaragua severed its diplomatic ties with Taiwan.¹⁹ Last but not least, the PRC has helped to reduce Nicaragua's reliance on trade with the US.

The Beijing-Managua partnership is already seeing some developments, albeit so far largely economic. In August 2022, the two countries announced their own trade

¹⁵ Ned Price, "Holding the Nicaraguan Regime Accountable," U.S. Department of State, press statement, June 17, 2022, <https://www.state.gov/holding-the-nicaraguan-regime-accountable/>.

¹⁶ Taipei's and Beijing's battle for diplomatic recognition in Nicaragua began as early as 1985, when President Daniel Ortega switched recognition to the PRC. These early moves warrant mention, as they complement modern strategies. Beijing offered a \$20 million interest-free aid package without a fixed payment date and \$7 million in non-military aid while the US financed the anti-Sandinista insurgency (Portada et al., 2020). In 1990, following the election of a conservative president, Nicaragua changed course and switched recognition back to Taiwan.

¹⁷ Portada et al., "The Final Frontier."

¹⁸ Yew Lun Tian and Ben Blanchard, "China and Nicaragua re-establish ties in blow to U.S. and Taiwan," *Reuters*, December 10, 2021, <https://www.reuters.com/world/china/china-nicaragua-hold-talks-city-tianjin-following-taiwan-break-2021-12-10/>. Lily Kuo, "Taiwan loses another diplomatic partner as Nicaragua recognizes China," *The Washington Post*, December 10, 2021, https://www.washingtonpost.com/stanford.idm.oclc.org/world/asia_pacific/nicaragua-taiwan-china/2021/12/09/741098d8-5954-11ec-8396-5552bef55c3c_story.html.

¹⁹ "Nicaragua receives China vaccines after cutting ties with Taiwan," *BBC News*, December 13, 2021, <https://www.bbc.com/news/world-asia-59633388>.

agreement to be implemented in two phases. The PRC would first purchase 90 per cent of the Nicaraguan goods previously exported to Taiwan, after which the governments agreed to negotiate a broader FTA that would further strengthen Chinese penetration of the Nicaraguan economy.²⁰ In August 2023, the two countries signed the FTA, immediately exempting around 60 per cent of bilateral trade from tariffs, with further plans to cut tariffs on 95 per cent of the goods traded between the two.²¹ The deal also spans into the space of the digital economy, including agreements on an electronic transaction framework and online data protection.²² In April, the PRC started working on its first major infrastructure project in Managua.²³ Leaders of the two countries also strive to cultivate public support for this developing partnership, as evidenced by a social media post inviting Nicaraguans to submit three-minute videos speaking about the “friendship” between Nicaragua and the PRC in exchange for prizes.²⁴

Despite the switch, scepticism and continuing trade flows with the US demonstrate that this is not a zero-sum game. Though it may seem as if Western democracies are losing, they should not shy away from reinvesting in the region. Many international and Nicaraguan analysts remain sceptical about the Beijing-Managua partnership and its benefits, pointing to asymmetrical gains by the two sides.²⁵ Instead, they view the partnership as an attempt by Ortega to side closer with the PRC and Russia as he increases his authoritarian grip at home, and leadership’s interests may thus not align with those of the broader public. Moreover, even in LAC countries that have made the switch from Taiwan to China, room for interaction with the US remains. Indeed, Nicaragua’s trade continues to skew heavily towards the US. In 2022, total trade in goods and services between the two countries amounted to an estimated \$9.2 billion.²⁶ Roughly

²⁰ “Nicaragua: Dictatorship and Collaboration with Extra-Hemispheric U.S. Rivals,” *Center for Strategic and International Studies*, August 29, 2022, <https://www.csis.org/analysis/nicaragua-dictatorship-and-collaboration-extra-hemispheric-us-rivals>.

²¹ “China, Nicaragua ink free trade deal to boost economic ties,” *Xinhua*, August 31, 2023, http://english.scio.gov.cn/pressroom/2023-08/31/content_110366496.htm#:~:text=China%20and%20Nicaragua%20on%20Thursday,bilateral%20economic%20and%20trade%20cooperation.

²² Edwin N. Montes, “Nicaragua – China: política social en un nuevo orden mundial,” *TeleSur*, June 12, 2023, <https://www.telesurvtv.net/opinion/Nicaragua---China-politica-social-en-un-nuevo-orden-mundial-20230612-0029.html>.

²³ “First China-Nicaragua large project starts construction following resumption of diplomatic ties,” *Global Times*, April 18, 2023, <https://www.globaltimes.cn/page/202304/1289335.shtml>.

²⁴ Embajada de China en Nicaragua, “Querés ganar computadoras, celulares y relojes inteligentes?” Facebook post, July 21, 2023, <https://m.facebook.com/EmbajadaChinaNicaragua/posts/271390358826390/>.

²⁵ Wilfredo Miranda, “Un viaje con ‘gastos pagados a China’ y un tratado comercial: la nueva estrategia internacional de Daniel Ortega,” *El País*, August 9, 2023, <https://elpais.com/internacional/2023-08-09/un-viaje-con-gastos-pagados-a-china-y-un-tratado-comercial-la-nueva-estrategia-internacional-de-daniel-ortega.html>.

²⁶ Office of the United States Trade Representative, “Nicaragua,” accessed October 12, 2023, <https://ustr.gov/countries-regions/western->

two-thirds of Nicaraguan exports go to the US, and about one-quarter of Nicaraguan imports originate from the US.²⁷ The PRC is second to the US on both fronts, with its reported trade volume with Nicaragua amounting to \$760 million in 2022.²⁸

El Salvador

Echoing Panama's decision one year prior, El Salvador announced its decision to switch its recognition from Taiwan to China in August 2018, with years of diplomatic groundwork by the PRC preceding this announcement. Beijing offered El Salvador significant trade benefits and proposed lucrative investment and infrastructure projects, all attuned to the interests of the leftist party in power. El Salvador has thus leveraged the switch of diplomatic recognition to spur investment from China.

By the 2010s, El Salvador's trade with Beijing already far outpaced trade with Taipei, with the country opening its first trade office in China in 2013.²⁹ Preceding the switch, the PRC offered El Salvador several incentives. Besides promising increased trade volumes, the PRC proposed a series of projects, including the construction and operation of port facilities and the establishment of six special economic zones (SEZs),³⁰ the latter of which would cover 14 per cent of the country and favour the leftist party of the then-President Salvador Sánchez Cerén. The SEZ plan is a textbook manoeuvre by the PRC, demonstrative of the way China leverages the concentration of potential benefits within the ruling party to sway diplomatic decisions.

The partnership between China and El Salvador persisted across administrations. President Cerén left office in June 2019, giving way to President Nayib Bukele, who not only oversaw the signing of a series of MoUs between El Salvador and China but who was invited by Xi Jinping to participate in the Belt and Road Initiative (BRI). The PRC further promised \$500 million in development projects (including a sports stadium, a national library, and a new tourist pier), improvements for water treatment facilities, and even several hundred million to support Bukele's Surf City project.³¹

[hemisphere/nicaragua#:~:text=U.S.%20goods%20and%20services%20trade,was%20%243.0%20billion%20in%202022.](#)

²⁷ International Trade Administration, "Nicaragua – Country Commercial Guide," August 12, 2022, <https://www.trade.gov/country-commercial-guides/nicaragua-market-overview>.

²⁸ "China, Nicaragua ink free trade deal."

²⁹ Portada et al., "The Final Frontier."

³⁰ Evan Ellis, "China and El Salvador: An Update," *Center for Security and International Studies*, August 31, 2022, <https://www.csis.org/analysis/china-and-el-salvador-update>. The proposal encountered political and legal opposition and its future remains in flux (Ellis 2021).

³¹ Ellis, "China and El Salvador: An Update."

Nevertheless, the optimism that spurred El Salvador's switch has not been matched by actual developments. Instead of facilitating more Salvadoran exports to the PRC and creating new opportunities for El Salvador, the diplomatic switch has subjected the Salvadoran market and producers to greater competition from the PRC.³² El Salvador's imports from the PRC doubled after the switch, reaching \$1.723 billion in 2019, and they continue to rise. While imports boomed, Salvadoran exports to the PRC fell to \$51.9 million in 2019 despite an initial increase. This downward trend sets El Salvador apart from Panama and Nicaragua.

The Outlier: Paraguay

As of February 2024, Paraguay is the only Latin American country that recognises Taiwan as a sovereign nation. In April 2023, Santiago Peña was elected as the country's next president. He took office in August 2023 and pledged to maintain Paraguay's diplomatic recognition of Taiwan. Throughout his campaign, Peña argued that pursuing close economic ties with Taiwan and aligning Paraguay's foreign policy with the US would be more beneficial in the long term than shifting its economy towards selling commodities to China. His main opposition rival, Efraín Alegre, campaigned on severing relations with Taiwan to gain access to the Chinese market for Paraguayan soy and beef farmers, who form the backbone of Paraguay's economy.³³

Taiwan highly values its relationships with countries that recognise it as a sovereign nation. Paraguay's logic for continuing this recognition, on the other hand, is not immediately obvious. The PRC's economic might and major power status render the opportunity cost of maintaining the official recognition of Taiwan substantial. For example, as a result of its partnership with Taiwan, Paraguay lost out on aid and investment valued at an estimated 1 per cent of its annual GDP from 2005 to 2014.³⁴

There are a number of explanations for Paraguay's decision to stand by Taiwan. Paraguay's position encourages Taiwan to provide significant economic and humanitarian assistance. Indeed, Taiwan has donated more than \$292 million to

³² Ellis, "China and El Salvador: An Update."

³³ Ben Blanchard and Emma Rumney, "Paraguay president-elect arrives in Taiwan pledging closer ties," *Reuters*, July 11, 2023, <https://www.reuters.com/world/paraguay-president-elect-arrives-taiwan-pledging-closer-ties-2023-07-11/>.

³⁴ Tom Long and Francisco Urdinez, "Why Does Paraguay Recognize Taiwan and Shun China?" *The China Story*, Australian National University, June 1, 2021, <https://www.thechinastory.org/why-does-paraguay-recognize-taiwan-and-shun-china/>.

Paraguay since 2008.³⁵ Taiwan also offers four different types of scholarships to Paraguayan students and has facilitated various construction projects over the last 20 years through its International Cooperation and Development Fund.³⁶ Ideological alignment may also play a role. Paraguay views Taiwan as a symbol of resistance against totalitarianism.³⁷ This provides Taiwan with the respect and attention that it values, and in turn, Paraguay views itself as being on the “right” side.³⁸

Paraguay will thus continue using Taiwan in this way for the foreseeable future, at least as long as Beijing does not put more pressure on the relationship, which may well be the case considering Beijing’s animosity towards Taiwan’s Democratic Progressive Party (DPP), which has just secured its third term in the presidential office.

Moving Forward: Policy Recommendations

Washington should recognise the switches in recognition as signals to reevaluate its own policy towards the LAC region. In order to secure its stronghold in the region, the US should revitalise diplomatic relations with amenable Latin American states and rejuvenate strategic policy levers that can foster initiatives able to compete with China’s incentives.

The PRC is operating on personal, ideological, and economic fronts. US policy alone cannot compete with the PRC enticements on all these fronts. However, the US can and should improve its existing LAC partnerships, foster strong bilateral and multilateral institutions and norms of transparency, and push against unfair PRC advantages. The US should not simply instruct partners to forsake relations with the PRC. Instead, it should work to shape the battle space, concentrate efforts in strategic sectors, and strengthen diplomatic efforts to cover these campaigns. Washington cannot win if it approaches the issue as a zero-sum game. Preliminary policy moves should neither focus on nor anticipate the total elimination of the PRC from the LAC region. The US needs to seek a long-term strategy for shaping the competitive environment, pursuing mutually beneficial policies, and emphasising stronger relationships. Where intergovernmental collaboration

³⁵ Cabral López and Maria Antonella, “A Look at Taiwan’s Cooperation With Paraguay (2009 - 2019),” *Austral: Brazilian Journal of Strategy & International Relations*, vol. 9, no. 17, January 2020, pp. 104–126, <https://doi.org/10.22456/2238-6912>.

³⁶ López and Antonella, “A Look at Taiwan’s Cooperation With Paraguay.”

³⁷ “La Nación / Paraguay y Taiwán Celebran 65 Años De Fructífera Cooperación,” *La Nación*, July 12, 2022, <https://www.lanacion.com.py/politica/2022/07/12/paraguay-y-taiwan-celebran-65-anos-de-fructifera-cooperacion/>.

³⁸ Tom Long and Francisco Urdinez, “Status at the Margins: Why Paraguay Recognizes Taiwan and Shuns China,” Research Gate, January 2021, https://www.researchgate.net/publication/338633101_Status_at_the_Margins_Why_Paraguay_Recognizes_Taiwan_and_Shuns_China.

may prove untenable, the US should consider alternative avenues (e.g. through private or academic sectors) for pursuing collaborative opportunities. These recommendations will benefit not just the US but also the LAC countries as they will increase economic opportunities for the region while providing more viable alternatives to Chinese investment.

The following recommendations are provided:

- **Appoint** educated, culturally competent diplomats. Cultivate ongoing conversations with foreign ministries in LAC states. Increase the frequency of the Summit of the Americas and create more multilateral fora for LAC countries to convene.
- **Empower** local leaders and foster community actions. Communities are intimately acquainted with the facts on the ground and may know innovative and targeted remedies for negative outcomes of China’s involvement. Uplift local advocates, highlighting their ideas, voices and initiatives. In many cases, remedial actions may be occurring on small, local scales, with a potential for external aid to magnify the extent and effects of such efforts.
- **Invest** in strategic spaces and leverage economic engagement to foster best practices and norms of transparency. US investment in competitive digital technologies such as 5G, big data, cloud computing, artificial intelligence, Internet+, universal telecommunication services, and radio spectrum management could increase the ability of the US to compete with China’s economic leverage and meet the demands of LAC countries seeking such services.³⁹
- **Encourage** private sector interaction between the US and Latin American entities and foster competitive procurement and contracting in the region. Regulatory mechanisms of the US cannot contain the PRC and should be wary of overreach, especially as Washington does not possess resources to match Beijing’s spending in LAC. Inviting competition can shape norms of fair trade and transparency while preventing the PRC’s economic hegemony in LAC. Conduct a thorough review of existing sanctions, tariffs, and non-tariff barriers. Eliminate barriers where possible to foster trade and interaction between countries of the LAC region.
- **Emphasise** sustainable development and preserve indigenous rights across all policies. Adopt policies in accordance with the UN Sustainable Development Goals and seek out community voices and opinions, particularly those affected by policies of both the PRC and the US.
- **Acknowledge** the legacy of intervention and oppression of LAC states by the US. Publicly declare the intent to invest resources and energy to strengthen the existing

³⁹ Evan R. Ellis, “China’s Digital Advance in Latin America,” *Diálogo Américas*, July 9, 2022, <https://dialogo-americas.com/articles/chinas-digital-advance-in-latin-america/#.YyOGai-B2gQ>.

LAC partnerships. Preserve the autonomy of all states and minimise antagonistic conversations about ideology. Practice strategic empathy on all fronts of the issue. Do not lead with potentially polarising ideological assertions; instead, seek to establish norms of transparency and liberal ideals through mutually beneficial friendships and corresponding policies.

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