

“Taiwan’s Diplomatic Relations in Central America:
A Historical Legacy or Enduring Partnership?”

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Abstract

What explains Taiwan’s ability to hold onto formal diplomatic recognition in Central America compared to most other regions? While the PRC long courted Panama and other countries in Central America, the region still stands out in terms of Taiwan’s ability to maintain formal diplomatic relations. We contend that three factors contribute to Taiwan’s success in the region—trade, aid and investment, and Taiwanese involvement in regional international organizations. However, Chinese efforts to isolate Taiwan’s diplomatic space limits the future impact of each of these factors.

Introduction

What explains Taiwan’s ability to hold onto formal diplomatic recognition in Central America compared to most other regions and can this pattern continue with the losses of Panama and El Salvador? China precludes dual recognition, so countries are forced to choose between recognizing China or Taiwan.¹ In June of 2017, Panama switched recognition from Taiwan to China after more than a century of relations. Since that time, two more diplomatic partners have switched recognition to the PRC, leaving Taiwan with 17 allies in total. Panama was Taiwan’s most significant partner in Central America due to its eponymous canal and the size of its economy, an estimated 59.3 billion USD in 2017, second in the region only to Guatemala. Panama’s change in recognition came after a decade of Taiwanese stability since Costa Rica de-recognized Taiwan in 2007. While China long courted Panama, Panama’s interest in changing

¹ In this paper, the term Taiwan refers to the Republic of China (ROC) and the term China references the People’s Republic of China (PRC).

sides was rejected in 2009 by a China intent on maintaining warmer relations with Taiwan (e.g. Beech 2011; Keating 2011). Fourteen months later, in August of 2018, a third Central American country, El Salvador, also switched recognition to the PRC (Ingber 2018).

Conventional wisdom expected that the informal diplomatic truce started under the Ma Ying-jeou administration in 2008 would collapse with the Kuomintang’s (KMT) loss of the presidency to the Democratic Progressive Party’s (DPP) Tsai Ing-wen in 2016 (e.g. Hsu 2015). Panama’s switch is one of five countries that have turned to China since 2016. The Gambia unilaterally broke with Taiwan in 2013, but not until March 17, 2016 did China formalize diplomatic relations with China by committing 50 million USD for an international conference center (Jollof News 2017). Sao Tome and Principe broke with Taiwan on December 20, 2016, while Taiwan claimed that this followed their rejection of a request of 210 million USD in aid (Focus Taiwan 2016). Three additional countries followed Panama in 2018: the Dominican Republic, Burkina Faso and El Salvador. Now the bulk of Taiwan’s seventeen diplomatic partners are in three regions: Oceania, the Caribbean, and Central America. Even among these regions, Central America stands out in terms of Taiwan’s ability to maintain formal diplomatic relations (see Table 1).

Table 1: Central American Countries and Timeline of Relations

Country	Year Relations Established	Year Relations Broken
Belize	1989	--
Costa Rica	1944	2007
El Salvador	1961	2018
Guatemala	1933	--
Honduras	1941	--
Nicaragua	1962-1985, 1990	1985-1990
Panama	1912	2017

Similarities within Central America often lead to the adoption of similar foreign policies, including those regarding diplomatic recognition. For example, in 1907, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua declared their refusal to extend recognition to governments that came to power without democratic support.² Whether Central American holdouts similarly will switch to China en masse with the end of the diplomatic truce, remains to be seen. Several observers viewed Panama as the linchpin to Taiwan's diplomatic success in the region (e.g. China Radio International-Espanol 2017; El Universo 2017). Others, like Jennings (2017), predicted that Nicaragua might be more prone to switching recognition due to increased incentives by China; however, just as previous claims that the region would shift to China following Costa Rica's switch in 2007, this failed to materialize. Why has Taiwan been so successful at maintaining formal relations with the five remaining diplomatic partners in the region?

We focus on three factors that have aided Taiwan's diplomatic efforts in the region: trade, aid and investment, and Taiwan's involvement in regional intergovernmental organizations. However, as ideological incentives evaporate, and China's economic interests increase, the maintenance of Taiwan's historical advantages in Central America will require greater efforts. This paper is organized as follows. First, we present existing insights on the diplomatic recognition of Taiwan as it relates to Central America through cross-national data. Second, we analyze the three factors traditionally underpinning Taiwan-Central American relations: trade, aid, and investment. Next, we assess the predicted influence of changes in these factors on Taiwan's continued diplomatic partnerships in the region. Finally, the conclusion

² See Peterson (1983: 38). Outside of Central America, Paraguay, too, remained with Taiwan despite the decline in the mutual importance of anti-communism and a growing number of Chinese investments (e.g. Shen 2017).

presents options for Taiwan to counteract China's efforts to limit Taiwan's diplomatic efforts in Central America.

Diplomatic Recognition and Central America

Sovereign states remain the primary actors in international relations (e.g. Waltz 1979; Mearsheimer 2001; Toje 2010) and diplomatic recognition reflects this sovereignty (see Newham 2000; Krasner 2009). Taiwan's government, especially post-democratization, clearly meets the criteria for internal sovereignty as presented in the Montevideo Convention of 1933: a permanent population, defined territory, and a government—even if the Republic of China's constitution still includes claims to territories which have not been under their control, nominally or otherwise, for over a half-century. However, the fourth criteria—the capacity to enter into relations with other states—is less clear cut, not because of Taiwan's actions but China's actions to limit Taiwan's diplomatic efforts. Only seventeen countries, none of them major economic or political powers, currently maintain formal relations with Taiwan.³ This lack of broader diplomatic recognition undermines Taiwan's external sovereignty claims.

Historically, the withholding of recognition remained largely a tool of powerful states to influence the behavior of those which lacked recognition. Similarly, withholding recognition traditionally signified an attempt to alter the other state's behavior (Peterson 1997:3), often on ideological grounds or due to territorial disputes. However, the primary players in Taiwan's quest for diplomatic relations, at least since the switch of diplomatic recognition from Taipei to Beijing by the United States in 1979, have been comparatively minor countries in terms of political and economic clout. Those withholding recognition in the case of Taiwan, largely do so

⁴ In Europe, only the Holy See (the Vatican) recognizes Taiwan, leaving Taiwan with less formal recognition on the continent than the Japanese puppet government of Manchukuo (1932-1945). See Rich and Banerjee (2015).

due to the constraints of a “One China” policy in which countries must choose to recognize only the ROC or the PRC. Few are willing to forego relations with the PRC, and those willing to switch in either direction largely determine such decisions on economic rationales.

Additionally, whereas diplomatic recognition is traditionally rarely revoked once established, in this case, several countries have switched recognition back and forth between Taiwan and China (e.g. Rich 2009: 170)⁴, often because of aid packages. Taiwan was at one point the largest donor to two Caribbean countries, St. Kitts and Nevis as well as St. Vincent and the Grenadines (Caribbean Net News 2003), and the largest bilateral creditor to Paraguay (Economist 2006; Huang and Kuo 2009). Taiwan’s motivations to comply with aid requests appear a rather transparent means to maintain diplomatic partners and prevent further diplomatic isolation (e.g. Lin 1990; Cheng 1992; Hsieh 1995), even if such transactional views on recognition are denied by Taiwanese administrations, while aid is commonly cut if a country drops recognition of Taiwan.⁵

Such aid is often derisively labeled dollar or checkbook diplomacy, in large part due to the lack of transparency in the amount given and for what explicit purposes. The success of dollar diplomacy was most evident under the Lee Teng-hui administration where, from 1988 to 2000, Taiwan’s formal relations increased by seven countries to total twenty-nine diplomatic partners. In contrast, Taiwan witnessed a net loss of six diplomatic partners under Chen Shui-bian’s administration which was determined to distinguish itself from KMT-style dollar diplomacy (e.g. Dean 2002; Lin 2002). Tubilewicz and Guilloux (2011) argue that this loss was

⁴ Despite the fluidity of some diplomatic partnerships, it should be noted that most of Taiwan’s diplomatic partners have been the same since 1989 (Atkinson 2017).

⁵ For example, Taiwan closed a funded AIDS clinic after Malawi switched recognition to China (Rollet 2008).

largely due to offering too little aid.⁶ Following the Chen administration, Atkinson (2017:258) described aid as a “free-fall after the inauguration of Ma Ying-jeou and the establishment of the diplomatic truce with China in 2008” (258). Taiwan is not alone in exchanging aid for diplomatic representation, as China increasingly engages in similar efforts as a means to isolate Taiwan. For example, the Bahamas switched in 1997 to China shortly after a 175 million USD construction investment by Hong Kong’s Hutchison Whampoa in upgrading a transshipment facility in Freeport (Olson 2009: 20).

A subset of countries appears amenable to temporary exchange of diplomatic recognition for short-term economic incentives. Van Fossen (2007) likened diplomatic battles in the South Pacific to a “sovereignty auction”, suggesting that some states could see sovereignty as a rentable commodity. For example, China offered Nauru 60 million USD in development assistance in 2002 to switch recognition, only for Nauru to return to Taiwan in 2005 after claiming that Chinese assistance never fully materialized (DeVoss 2005). Similarly, in 1999, Papua New Guinea recognized Taiwan for a week before switching back, with a larger scandal in 2008 involving the loss of nearly 30 million USD designated for Papua New Guinea if they switched recognition.

Most countries have clearly chosen China, at least until dual recognition is a possibility, yet Central American countries by and large have stayed with Taiwan. The influence of the Cold War is often cited as providing this foundation. For example, Taiwan provided weapons to Guatemala after a 1977 US congressional ban (Dunkerly and Sieder 1996: 85),⁷ and Salvadoran and Panamanian officers received training in Taipei, often at the Political Warfare Cadres

⁶ Atkinson (2014) claims that the consistency in aid despite changes in Taiwanese aid practices largely intended to avoid antagonizing recipients who could switch to China.

⁷ Also see Forman and Moriera 2008.

Academy (PWCA or 政治作戰學校) (Betancour et al. 1993; Marks 2014: 228-229). Other than Nicaragua for a brief period (1985-1990), six of the seven countries all recognized Taiwan until 2007. Belize, independent in 1981, recognized the PRC briefly, from 1987 to 1989, until switching to and staying with Taiwan.

However, Cold War affinities do not explain why much of the region would stay with Taiwan after the ideological context no longer existed. We argue that Taiwanese support for Central America transitioned from ideological solidarity to that of the pragmatic rationales built upon existing relations. Such shifting rationales are exemplified not only the defense cooperation agreement that Taiwan signed with Nicaragua in 2016, but also appeals to the shared experiences of political and economic liberalization in the 1980s and 1990s (Exposito 2004). For example, Nicaragua switched to China with the election of Daniel Ortega in 1985 and switched back with his defeat in 1990. Yet when Ortega returned in 2006, despite concerns that he would recognize China (Erikson and Chen 2007), Nicaragua maintained diplomatic ties with Taiwan and President Ortega actively supported Taiwan's entrance into international organizations (Graham 2017).

Central America's divergence is clearer when embedded in a cross-national analysis over time. Expanding upon data from Rich (2009) to cover diplomatic recognition from 1950-2017,⁸ we find that Central American countries disproportionately comprise the number of years in which countries recognized Taiwan. For the entire dataset, Central American countries total nearly a fifth (18.2%) of recognizing country-years, up to 25.3% in the post-Cold War era. In 2017, despite comprising of only 3.6% of countries, Central America comprised of 30% of recognizing countries.

⁸ A country was labeled as recognizing Taiwan in a given year if they maintained diplomatic relations for more than half of the year.

Nor can Central America's support of Taiwan simply be explained by the main variables in the related literature. A common factor credited for Taiwanese recognition is Cold War bipolarity, wherein the US supported Taiwan and provided structural constraints for those who recognized the PRC (Boon and Ardy 2012: 10). However, in 1979 the United States itself switched recognition to China and even countries characterized as more anti-communist followed suit.⁹ Post-Cold War, Taiwan's status as a democracy could also have appealed to fellow democracies, as a symbol of solidarity (Larus 2008). For example, the Prime Minister of the Solomon Islands, claims to solely recognize democracies (Kabutaulaka 2010) and thus recognizes Taiwan. Although Freedom House labels all but one of Taiwan's current diplomatic partners as free or partially free, Freedom House scores of Taiwan's recognizing countries have not dramatically increased over time as Taiwan democratized. The most notable counter example of solidarity among democracies is eSwatini¹⁰, an absolute monarchy which continues to recognize Taiwan despite decades of authoritarianism (BBC 2018). Some of Taiwan's other diplomatic partners currently labeled as democracies also have histories of "strong authoritarian traditions" (Ker-Lindsay 2015: 19). Overall, there does not seem to be a relation between similar regime type and Taiwan's diplomatic recognition in either the pre- or post- democratization eras.

It is also important to consider geographic factors which influence recognition and the impact of recognizing states' size. Considering both economic ties and security concerns, a country closer to Beijing would be more likely to recognize the PRC than Taiwan (Hu 2015). Furthermore, a country farther from the PRC would perceptibly receive less overt economic and political pressure (Hu 2015). States that are smaller in area size may also be more likely to

⁹ Taiwan outnumbered China 68 to 53 in recognition in 1971 but by 1979 China maintained 117 relations as compared to 53 for Taiwan. Rawnsley, Garry D. 2000. *Taiwan's Informal Diplomacy and Propaganda*. New York: Palgrave Macmillan. P. 16

¹⁰ <https://freedomhouse.org/country/swaziland>

recognize Taiwan. According to traditional measures of small states (Baehner 1975) all countries currently recognizing Taiwan are considered small states. These states are often ignored in foreign policy literature (Keohane 1969) and limited by the international system (Handel 1981). Taiwan, as compared to China, offers small states an opportunity to be viewed as “important” and is receptive to state concerns. For example, Honduran Ambassador to Taiwan Sierra Quesada stated in a 2018 interview, “[China] doesn’t need us or care about us. With Taiwan we are needed and important.”

Small states may also be concerned with the large influx of Chinese goods and tourists which could saturate their countries should they choose to recognize the PRC. For example, from 2014 to 2015, Chinese tourists to Palau, a small island nation in Oceania, skyrocketed from 16 percent to 62 percent of overall visitors and has continued to grow since then (South China Morning Post 2015). Leaders in Palau expressed apprehension about scarcity of resources and environmental degradation as a result of this rapid increase, especially because Palau’s overall economic growth rate did not match the rate of increase for tourists. In 2018, when China limited tourists due to discontentment over Palau’s continued recognition of Taiwan, many in the microstate were relieved (Master 2018). Ultimately, many small countries fear being too reliant on China which may affect their diplomatic recognition decisions.

Economic factors also contribute to these countries’ decision to recognize Taiwan. Oftentimes, this aid is derided as dollar diplomacy (Radelet 2006); however, it is difficult to accurately measure the amount of aid Taiwan gives as the Ministry of Foreign Affairs (MOFA) discloses neither amount of aid nor the recipient countries’ projects which are ultimately funded. Thus, we have found most data about Taiwanese aid not from Taiwanese sources but rather the disclosure of recipient countries. Chinese and Taiwanese data can be piecemealed from AidData,

a database from the College of William and Mary, and a limited number of Taiwanese-funded projects can be found on the ICDF website, though this list is far from exhaustive. However, economic ties can be examined more thoroughly at the macro level, especially through analysis of GDP growth and exports as a percentage of GDP. Additionally, this information is readily available through the ICDF. Debt as a percentage of GDP might also impact recognition due to China's ability to fund aid projects on a larger scale than Taiwan. Whereas previously, small countries could have started a "bidding war" between the ROC and PRC, China may now be the best option for indebted states.

Lastly, Taiwanese diplomatic recognition is largely concentrated in three primary regions: the Caribbean, Oceania, and Central America. Thus, it was important to code for these variables in any cross-national statistical analysis. Historically, Taiwan had also been successful in Africa, with a peak recognition of 20 countries, though only one African country, eSwatini, remains with Taiwan today. In Central America, by contrast, four of the seven countries recognize Taiwan while all seven recognized until Costa Rica switched in 2007. More recent switches include Panama in 2017 and El Salvador in August 2018. Taiwan's two other strongholds include the Caribbean, though the Dominican Republic switched in 2018 and there is increasingly great pressure on Haiti, which previously maintained one-fifth of its national budget through donations of aid (VOA News Report 2003). Oceania, additionally, has become a battle of dollar diplomacy between Taiwan and China as Pacific countries maintain some of the highest per capita aid rates worldwide. (Gani 2006).

To further assess factors impacting Taiwanese diplomatic recognition, we employ a probit regression building on Rich (2009) where the diplomatic recognition of Taiwan is the

binary dependent variable (1=recognizes Taiwan)¹¹ and the data from Rich's original models are expanded to encompass all countries from 1960 through 2017 with the addition of Central America as a dummy variable. To represent level of democracy, we used Polity scores, a score which gauges a country from -10 to 10 on a scale of authoritarian regime to democracy. It is important to note, however, that Polity scores are not measured for countries with a population size smaller than 500,000, which has the potential to statistically bias the results and underestimate the effect of the countries which continue to recognize Taiwan, many of which have relatively small population sizes. A second measure, Polity difference, captures the difference between Taiwan's own Polity score and the country recognizing it. In this way, one could determine whether a country is more likely to recognize Taiwan due to the similar democratic or authoritarian values espoused in one's own state.

We also included four economic variables: exports as a percentage of GDP¹², GDP in billions, and GDP growth (all three of which are available from the World Bank), as well as debt as a percentage of GDP (available from the International Monetary Fund's Global Debt Database)¹³. Additionally, we include two control variables: the distance between a country's capital city and Beijing (available on Kristian Gleditsch's dataset regarding distance from capital cities)¹⁴ and a country's size in square kilometers (measured in thousands, available at the CIA Factbook)¹⁵ as well as four dummy variables: whether the year in reference took place during the

¹¹ In this case, 0 does not necessarily denote that a country recognizes China as some countries recognized neither the ROC nor PRC in any given time frame. Bhutan currently recognizes neither.

¹² World Bank website, "WDI, GDF & ADI Online Databases," <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0> , contentMDK:2039 898 6~menuPK:64133163~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html

¹³ IMF <http://www.imf.org/external/datamapper/datasets/GDD>

¹⁴ "Distance Between Capital Cities," <http://privatewww.essex.ac.uk/~ksg/data-5.html>

¹⁵ "CIA-The World Factbook," <https://www.cia.gov/library/publications/the-world-factbook/>

Cold War (through 1991), and whether a country was located in one of three major regions, the Caribbean, Oceania, or Africa. The three regions in reference have traditionally been diplomatic strongholds for Taipei. By coding their locations as individual dummy variables, it is easier to determine whether this willingness to recognize is due to underlying economic and political factors or other factors overlooked.

We test three models which include a dummy variable for Central America (Model 1), the addition of political and economic controls (Model 2), and additional dummy variables for each of the other regional strongholds (Model 3). With this, Central America's unique relationship with Taiwan and divergence from other regions is clear. Even when controlling for all other variables, Central America is still statistically significant. The models demonstrate that the strongest predictor of recognizing Taiwan is being a Central American country. While the results also show that the Cold War era correlates with the recognition of Taiwan, anti-communist affinities during this time period are not enough to explain the significance of Central America's deviation from global norms. Exports as a percentage of GDP negatively correlates with recognition, consistent with the original Rich (2009) dataset, while the additional economic variables (total GDP, GDP growth, and central government debt as a percent of GDP)¹⁶, all were significant. Furthermore, the results show only one other region—the Caribbean—reaches statistical significance.

¹⁶ IMF Global Debt Database: <https://www.imf.org/en/Publications/WP/Issues/2018/05/14/Global-Debt-Database-Methodology-and-Sources-45838>

Table 2: Probit Regression on Diplomatic Recognition of Taiwan (1950-2017)

	Model 1		Model 2		Model 3	
	Coeff	SE	Coeff	SE	Coeff	SE
Central American	3.919****	0.885	11.238****	1.494	11.234****	1.479
Polity			-0.058****	0.011	-0.058****	0.011
Polity Difference			0.022**	0.010	0.022**	0.010
Area (sq. km 1000)			0.001****	0.000	0.001****	0.000
Cold War			0.052	0.118	0.062	0.118
Distance From Beijing			0.000***	0.000	0.000****	0.000
GDP in Billions			-0.014****	0.002	-0.014****	0.002
Exports as Percentage of GDP			-0.019****	0.005	-0.019****	0.005
GDP Growth			0.030****	0.008	0.030****	0.008
Debt as a Percent of GDP			-0.003**	0.001	-0.003**	0.001
Caribbean					7.721****	2.177
Oceania					0.620	0.778
Africa					0.601	0.619
Constant	-2.835****	0.137	-7.767****	0.838	-7.952****	0.726
N	10639		5426		5426	

****p < 0.001, ***p < 0.01, **p < 0.05, * < .10

The extent to which Central America deviates is clearer after generating predicted probabilities from the last model. For example, during the Cold War period, the predicted probability for recognizing Taiwan is much higher in Central America than all other world regions (.95 compared to .10); however, even after the conclusion of the Cold War, recognition remains high in Central America as compared to all other regions (.88 vs .04). As evidenced by Table X below, Central America is an outlier even when compared to Taiwan's other strongholds for diplomatic recognition, the Caribbean and Oceania, which measure only .26 and .36 before the Cold War and a mere .20 and .13 after its conclusion.

Table 3: Predicted Probability of Recognizing Taiwan in the Cold War and Post Cold War

	Cold War	Post Cold War
Central America	0.95	0.88
Caribbean	0.26	0.20
Africa	0.17	0.08
Oceania	0.36	0.13
Other	0.10	0.04

Ultimately, controlling for all other variables, Central America is still an outlier. If neither democratic regime type, nor similarity to Taiwan, nor any other factors in the models can explain Central America's historical deviation, then other factors must explain Taiwan's influence on recognition in this region.

Adding additional controls (omitted for brevity) produce findings consistent with the original models, especially in regards to Central America.¹⁷ The results are also consistent with yet unspecified Taiwanese efforts targeting the region that we attribute to Taiwanese trade, aid and investment, and activity in regional international organizations. The broader results also identify the additional constraints on Taiwan's recognition. Perceptions of Taiwanese aid and investment range from altruistic to self-serving. The results here suggest that if aid and investments promote export-oriented development, such growth in exports undermines maintaining formal diplomatic relations with Taiwan.

In the following sections we elaborate on the three factors that have historically underpinned relations—trade, aid and investment, and involvement in international organizations—and the extent to which these relations can endure with competition from China.

¹⁷ Including a measure for state fragility using the Fragile State Index also led to no substantive change. Replacing Polity scores with combined Freedom House measures were also tested, as the former does not score many small countries, precisely those believed to be more willing to recognize Taiwan. This too produced no substantive change in the results.

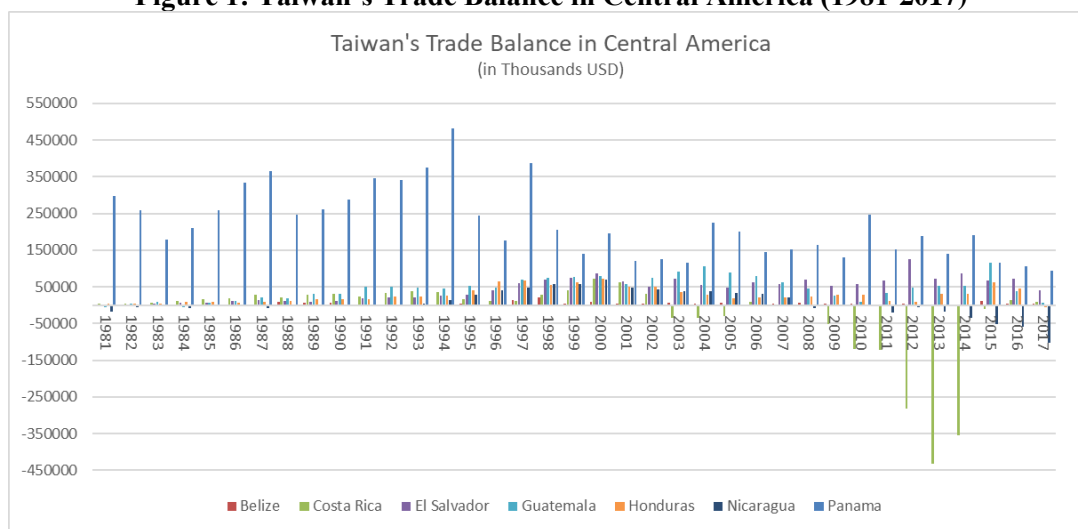
Furthermore, building off insights from the post-Cold War era, we argue that Taiwan benefits most from efforts that embed Taiwan within domestic and international institutions.

Trade

Regarding trade to Central America, Taiwan primarily exports finished goods, from petro-chemicals and auto-parts to textiles and steel, while importing a variety of raw materials, specifically sugarcane, coffee, sea-food and beef (Luxner 2014). Such trade ties are cemented by bilateral free trade agreements (FTAs) with El Salvador, Guatemala, Honduras, Nicaragua, and Panama, although the future of the Panama-Taiwan FTA remains unclear (Smoley 2017). As of July 9, 2018, Panama had begun negotiating an FTA with the PRC (Foreign Brief 2018), though the Taiwanese Ministry of Foreign Affairs maintains that their FTA is still intact. President Tsai expanded on both trade and arms deals to the same countries, excluding Panama, during her visit to Central America in January of 2017 (Prasad 2017).

Data from Taiwan's Ministry of Finance outlines that Taiwan generally maintained a favorable trade balance with all seven Central American countries between 1981 and 2017 (see Figure 1). During this timeframe, Taiwan's trade with Panama dwarfed all other Central American partners, sometimes exceeding more than 400 million dollars. Excluding a brief trade deficit between 2003 and 2005, Costa Rica also maintained a favorable trade balance with Taiwan until the country switched recognition to the PRC in 2007. Beginning in 2008, Taiwan and Costa Rica developed trade deficit which lasted until 2017. Taiwan also maintains a trade deficit with Nicaragua which began in 2008. It has yet to be determined how Panama's switch will impact Taiwan's trade balance or whether Nicaragua's balance of trade may impact a future decision to switch.

Figure 1: Taiwan's Trade Balance in Central America (1981-2017)



However, one should not overstate the size of Taiwanese-Central American trade.

According to trade data from Taiwan's Ministry of Finance, from 1981 to 2017, Central America constituted only 0.5% of Taiwan's exports and 0.1% of imports when excluding trade from China. Furthermore, despite long-standing efforts during and after the Cold War, the immense attraction of trade possibilities with China poses a central obstacle to Taiwan's continued diplomatic recognition. For example, a 2013 snapshot of six Central American countries (excluding Belize) finds that the Taiwanese trade volume is less than a third of that of China's with the region (Shortell and Welch 2014). From 2004-2013, Guatemala's trade with China grew nine times faster than trade with Taiwan despite the presence of a free trade agreement (Shortell and Welch 2014). Aguilar notes that trade between China and Costa Rica increased six-fold since 2000, from 91 million dollars, to reach 1.2 billion dollars in 2011 (Aguilar 2014: 257), an amount that increased to 1.92 billion dollars in 2015 (The Observatory of Economic Complexity, Costa Rica, 2016; Erickson and Chen, 2007: 5). Part of this growth is admittedly a function of capacity, as China is better equipped to absorb Central American exports and to produce for a Central American market but suggests a growing Chinese interest in the region.

Analyzing trade data during the approximate time of the so-called “diplomatic truce” (2008-2015) (see Table 3) shows the extent that Chinese trade with Taiwan’s Central American diplomatic partners already dwarfs that of Taiwan, as well as the comparative importance of Panama. Within Central America, excluding Costa Rica, Panama constituted 18.5% of Taiwan’s Central American imports and 39.5% of exports, compared to China’s 25.2% and 78.8% respectively. Similarly, by the time Panama switched recognition to China, it had become the second highest user of the Panama Canal and the biggest supplier of products to Panama’s Free Trade Zone of Colón (Encuentra 24, Dec. 16, 2017). Furthermore, few of the recognizing countries imported more from Taiwan than from China during the time frame. El Salvador and Nicaragua were the main outliers, respectively trading 140.6 million dollars and 106.6 million dollars more from the ROC. In contrast, Panama emerges as the Central American country with the largest gap in both imports and exports to China relative to trade with Taiwan. With increased Chinese trade incentives in the region, Taiwan cannot expect historical trade relations to overcome the allure of the Chinese markets and the availability of Chinese goods.

Table 3:
Taiwanese and Chinese Trade to
Taiwan’s Diplomatic Allies in Central America (2008-2015)
(Millions of Dollars)

Country	Taiwan	Taiwan	China	China	China -Taiwan	China -Taiwan
	Imports	Exports	Imports	Exports	Imports	Exports
Belize	22.81	49.76	28.43	514.53	5.62	464.77
<i>El Salvador</i>	244.49	845.89	103.89	3788.15	-140.6	2942.26
Guatemala	469.01	857.55	589.18	10544.64	120.17	9687.09
Honduras	256.12	480.88	988.92	4675.82	732.8	4194.94
Nicaragua	430.59	289.47	323.97	3394.6	-106.62	3105.13
<i>Panama</i>	323.71	1648.01	686.38	85064.05	362.67	83416.04

Sources: Bureau of Foreign Trade (Republic of China), UN Comtrade Database
 Italics denotes countries no longer recognizing Taiwan

Aid and Investments

Just as influential as trade in cultivating diplomatic partners, have been aid and economic investment. In terms of aid, Taiwan is a generous donor to infrastructure projects from road building to modernizing agriculture and providing technical training (Rodriguez 2008: 209-231), while rarely tying their aid to procuring Taiwanese goods and services. In addition, Taiwan usually does not extend large aid loans to diplomatic partners due to recipient countries' inability to absorb the loans (e.g. Atkinson 2017: 265). For example, the Free Trade Zone of Colon centered on the Isla Margarita port, in which China is currently investing 700 million USD to construct a 2.5-million-dollar container handling facility (Ruttenberg, June 23, 2017), was started by Taiwanese funds in 2000 (Erikson and Chen 2007).

One of the challenges in assessing Taiwanese aid is that the country does not disclose how much or what kind of aid it gives to individual recipients in a consistent manner (Atkinson 2017: 255). Thus, most estimates are supplemented by sources in the recipient countries. Also, because Taiwan is not a member of most international organizations in which statehood is a requirement (e.g. United Nations), Taiwan cannot contribute. China has managed to exclude Taiwan from most multi-lateral economic organizations except the Asian Development Bank, to which Taiwan contributed 65.18 million USD in 2015-2016 via Loans, Grants, and Technical Assistant Projects (Asian Development Bank: Taipei, China, 2016). The remainder of Taiwanese funding is directed toward minor intergovernmental organizations, such as the Republic of China Central American Economic Development Fund, The Asian Productivity Organization (APO), the Food and Fertilizer Technology Center (FFTC) and the Asia Pacific Association of Agricultural Research Institutions (APAARI) (Atkinson, 2017: 259). This creates a paradox

where decreases in the numbers of organizations to which Taiwan is allowed to contribute increases contributions to the remaining organizations.

Individual examples of Taiwanese and Chinese aid in Central America are plentiful. Nicaragua resumed diplomatic relations with Taiwan in 1990 after switching to China in 1985. This switch brought 100 million dollars in low-interest loans (Mann 2002). Guatemala's president, Alfonso Portillo, received 1.5 million dollars in 2000 from Taiwan, in part to deter considerations of diplomatic ties with Beijing (Erikson and Chen 2007). Taiwanese assistance to Costa Rica included a bridge in 2003 and aid to rebuild a hospital in 2004. Yet, after 50 million dollars in Taiwanese assistance in 2003-2004 (Lynch 2003), Costa Rica switched to China in 2007 after promises of greater investment post recognition. This led to Taipei's increased assistance to Nicaragua to prevent another switch (Liu 2008).¹⁸

More problematic are the less transparent efforts of dollar diplomacy, which have resulted in several scandals in the region. For example, the former president of El Salvador, Francisco Flores, was accused of stealing over 5 million USD in aid from Taiwan. Guatemala's former president, Alfonso Portillo, pled guilty in a US court of accepting 2.5 million USD in bribes from Taiwan for maintaining diplomatic relations (Hootsen 2014). Evidence in 2004 suggested that Costa Rican presidents Miguel Angel Rodriguez and Abel Pacheco had both accepted hundreds of thousands of dollars from Taiwan for undisclosed reasons (Erikson and Chen 2007: 5).

Identifying all aid and investment directed towards Central America is difficult; however, through multiple sources, we can glean a more accurate image of Taiwanese commitments and growing Chinese interests. Data from Taiwan's International Cooperation and Development

¹⁸ Documents from a 2008 Costa Rican court showed that despite denials, China agreed to purchase 300 million USD in bonds from Costa Rica in exchange for their breaking relations with Taiwan (Bowley 2008).

Fund (ICDF) shows that, as of July 10, 2018, Taiwan funds 53 active bilateral projects in Central America (Belize 9, El Salvador 13, Guatemala 8, Honduras 11, Nicaragua 12), with an additional 7 regional projects (ICDF ND). Atkinson (2017: 260) claimed that Taiwan shied away from multilateral aid before the diplomatic truce due to its ineffectiveness regarding maintaining diplomatic allies, although the concentration of Central American partners likely incentivizes multilateral efforts.

According to AIDdata, a research lab at William and Mary, between 1991 and 2008, Taiwan provided aid to all seven Central American countries which amounted to over 1.35 billion constant USD in total (AidData ND)¹⁹. Aid projects included 11 multilateral initiatives, which were recorded as North and Central American regional projects, as well as projects which were distributed individually by country— Belize 3, Costa Rica 5, El Salvador 3, Guatemala 2, Honduras 6, Nicaragua 5, Panama 4. The majority of aid could be categorized into four subsections: agriculture, business development, natural disaster recovery, and infrastructure. Most agricultural aid was devoted to crop cultivation techniques to increase yield or specific agribusiness projects and was concentrated in Belize, El Salvador, Honduras, and Nicaragua. Business development primarily comprised microloans, the development of Small and Medium Enterprises (SMEs), and the strengthening of NGOs and was concentrated in Panama. Some loans, also dedicated to business development, were given directly to the Central American Bank for Economic Integration (CABEI) and the Inter-American Development Bank (IADB) and were then distributed to individual countries throughout the region. Natural disaster recovery, which was concentrated in years 1998 to 2000, was dedicated to “reconstruction, relief, and recovery” in El Salvador, Honduras, Nicaragua, and Guatemala to aid the millions of Central Americans

¹⁹ <http://aiddata.org/>

impacted by Hurricane Mitch. Finally, infrastructure, the broadest category, comprised projects as varied as dam building, road construction and water sanitation. These widespread projects took place in Haiti, Costa Rica, Panama, Belize and Honduras, among others. Panamanian aid specifically, spanned from 1996 to 2004 and totaled over 36 million in constant USD. This aid was dedicated to four specific projects: technical education in secondary schools, SMEs, a small fisherman financing scheme, and the development of an export processing zone.

The United Nations Conference on Trade and Development (UNCTAD) from 2001-2012 shows that China has been slow to match foreign direct investment among Taiwan's diplomatic allies (UNCTAD 2014). In that time frame, Chinese outflows totaled 387 million USD in three countries (Ecuador, Honduras, and Panama), compared to 737 million USD by Taiwan (El Salvador, Nicaragua, and Panama). Taiwanese outstock also dwarfed that of China, accounting for 15.91 billion USD and 2.01 billion USD, respectively. Narrowing in on Panama, Taiwanese outflows and outstock outmatch Chinese counterparts nearly ten to one. However, Chinese interest clearly centered on Panama, particularly the Colon Free Trade Zone, where China became the top exporter by 2005 (People's Daily 2006). In 2016, the Chinese company, Landbridge Group, purchased the country's largest port (Cole 2017) with a separate billion-dollar investment project to expand access to the Panama Canal (Global Construction Review 2017). Meanwhile, in 2013, Nicaragua granted a 50-year contract to a Hong Kong-based company, with strong ties to the Chinese government, to develop an alternate shipping route to the Panama Canal (Hootsen 2014; Graham 2017).

The China Global Investment Tracker, published by the American Enterprise Institute and the Heritage Foundation, gives further insight into growing China's economic interests in Central America (American Enterprise Institute 2017). Covering 2005 through June of 2017,

Chinese investments and construction contracts in Central America constitute a pittance of Chinese interests globally (see Table 4); however, the lack of formal diplomatic relations does not seem to impede Chinese interests or Central American receptiveness. The majority of investments and construction contracts were to Ecuador (7.72 billion USD and 7.01 billion USD respectively), while Belize and El Salvador were the only countries in the region not to receive Chinese assistance during the time period. Costa Rica received 710 million dollars in investment and contracts in the years following their switch to China in 2007. Additionally, Costa Rica was the only Central American country with the denotation of a “troubled transaction²⁰” in the dataset. In 2013, the country received a 650-million-dollar investment by the China National Petroleum Corporation (CNPC). Regarding Panama, investments began in August of 2015, while three transactions amounted to 510 million USD total in construction in the Panama Canal. China Communications Construction invested an additional 900 million in Panamanian shipping in May of 2016, the same time that the previous construction investments ended.

**Table 4: Chinese Investments and Construction Contracts (2005-June 2017)
(in billions USD)**

	Global	Central America
Investments	961.20	8.92
Construction Contracts	691.57	9.51

Source: China Global Investment Tracker

Despite increased challenges in combating Chinese investments and political influence in the region, especially in light of Panama’s switch, President Tsai in September reaffirmed Taiwan’s commitment to increase investment in Central America, citing the success of the One Town, One Product Project in Honduras, the bolstering of manufacturing in Nicaragua, and the

²⁰ “Troubled transactions” are defined by Derek Scissors as inaccuracies in the data reporting due to “Chinese firms making mistakes and host country governments intervening to block deals” (Scissors 2015).

restoring of heritage buildings in Guatemala (Taiwan Today, Sept. 18, 2017). Aid and investment, however, do not necessarily keep countries from switching, as is evident with Costa Rica. After receiving 50 million USD in infrastructure assistance in 2003-2004 from Taiwan (Council on Hemispheric Affairs 2008), Costa Rica was lured to switch, in part by Chinese promises of more aid, and as later revealed in court documents, a Chinese promise to purchase 300 million dollars in Costa Rican bonds (Bowley 2008). Additional aid and scholarships to study in China followed (Forman and Moriera 2008). Diplomatic relations, fueled by financial assistance or other factors, do not always mean that the countries consistently act in Taiwan's favor. For example, recognizing states have not always played the role of conduit in international organizations as well as Taiwan would have liked. Such states have consistently failed to back a petition for Taiwan to re-enter the United Nations (see Rich 2009) with at least one former diplomatic partner, Costa Rica, claiming that defending Taiwan made their country out to be fools (La Nación (Costa Rica), June 10, 2007). Likewise, in 2007, several allies were absent on a World Health Organization vote on Taiwan's membership, while others, including Costa Rica, voted no (Forman and Moriera 2008).

Furthermore, Taiwanese public opinion perceives allocating foreign assistance unfavorably. In the long run, this could negatively impact Taiwanese relations with Central America as these ties are dependent, to some degree, on aid and investments. Although not limited to Central America, experimental survey research finds that simply mentioning that maintaining formal recognition may lead to countries asking for more money leads to a sharp decrease in public support for efforts to maintain these formal relations (Rich and Dahmer 2018). While the Tsai administration may feel pressured to respond to the end of the diplomatic truce and China's ever-increasing aid packages with increased Taiwanese aid, especially in historical

regional strongholds like Central America, it would best suit the administration to downplay the role of assistance or emphasize that Taiwan's limited formal diplomatic relations are a result of China's actions. In the long run, Taiwan cannot match or exceed China's efforts and relationships based on aid not only risks leading to countries increasing demands over time but also straining domestic support.

Regional Organizations

Despite Taiwan's notable absence in international organizations such as the UN, Taiwan has been able to offset some insurmountable economic imbalances because of its position within regional political and economic organizations. Taiwan has helped broader political and economic integration projects centered on the *Sistema de Integración Centroamericano* (SICA) by becoming the primary donor for its economic wing, the *Secretaría de Integración Económica Centroamericana* (SIECA). This involvement contributed to the construction of the building in which the secretariat is housed (Aguiliar 2014: 261). It is important to note here that Taiwan's aid to the region—from loans and technical assistance to humanitarian help and higher education scholarships—has been directed through Taiwan's International Cooperation and Development Fund (ICDF) in cooperation with SICA (ICDF 2010). By collaborating with SICA, Taiwan has created and funded a bottom-up program aimed at small and medium sized businesses (CENPROMYPE, May 20, 2014), the “Estrategia SICA EMPRENDE.” This program has helped establish 290 private businesses in the region that can generate wealth and employment (Hoy Digital, June 29, 2017).

Taiwan entered the Central American Bank for Economic Integration (*Banco Centroamericana de Integración Económica*, CABEI) in 1992, upon the amendment of the

original agreement to allow extra-regional partner countries. Taiwan's effort to join CABEI was part of a broader effort by the Lee Teng-Hui administration, with bipartisan support, to use the country's economic and financial strength to make diplomatic gains (Li 2006: 607). Upon entry, Taiwan contributed 150 million dollars to the bank's funds and, to date, has signed multiple co-financing agreements with CABEI and allied regional developmental banks, such as the *Banco Interamericano de Desarrollo* (BID) (Rodriguez, 2008: 216-217). Furthermore, Taiwanese funds through the ICDF are commonly coordinated through CABEI. Additional direct assistance to CABEI beyond the original 150 million in 1992 remains less transparent, although evidence from the ICDF's website identifies the ongoing "CABEI-Taiwan ICDF Fund for Consulting Service" which appears to be paid entirely by Taiwan. In addition, Taiwan created a special committee and provided incentives for direct investments to the Caribbean and Central America through the 1990s, which culminated in the 2006 Subsidy to Entrepreneurs Regulation that provided 240 million USD worth of subsidies to encourage business investments in the region (Rodriguez 2008: 220-221).

Taiwan is also a permanent observer to the *Parlamento Centroamericano* (PARLACEN), the Central American Parliament, a regional organization dedicated to political and economic integration between its member states, which include Guatemala, El Salvador, Honduras, Nicaragua, the Dominican Republic and Panama. In March 2016, then-President of Taiwan, Ma Ying-jeou, visited PARLACEN in Guatemala City to deliver a speech that thanked the SICA region for its support for Taiwan as a strategic ally and highlighted his administration's achievements (Parlamento Centroamericana, March 15, 2016). PARLACEN has also passed resolutions supporting Taiwan's participation as an observer in other international organizations, such as the International Civil Aviation Organization, the World Health Assembly, and the

United Nations Framework Convention on Climate Change (Parlamento Centroamericana, December 10, 2016).

By joining the above regional organizations, Taiwan has managed to embed itself within the regional political economy. This is a major achievement because it anchors Taiwanese relations not just at the bilateral level between individual countries, but also at the multilateral level. Thus, creating multiple arenas of cooperation and possibilities of payoffs that Taiwan can use to maintain a strong regional presence. China has also followed a similar strategy via the Forum on China-Africa Cooperation (FOCAC), which had its first inter-ministerial conference in 2000. Via FOCAC and the China- Africa Joint Business Council, China provided billions of dollars in export credits and preferential loans to member countries. It has also waived or extended more than a billion dollars of loans, lowered tariff rates for members, offered scholarships, sent medical personnel and teachers, and contributed to peace keeping missions conducted by the UN (Naidu 2007: 287-288). However, analysts point out that these organizations are not truly multilateral, in that negotiations between member countries are on an equal footing, but work as fora centered on China's largesse and desire for resources and markets in Africa (Gill and Reilly 2007). Thus, the agenda is set by China, which also determines the overall policy outcomes of these organizations (Taylor 2011: 100-103). In contrast, as shown in the broader analysis above, Taiwan's involvement is truly multilateral because it plays a supporting role, even as an observer, which allows true consensus to evolve between the region's countries on issues that are of actual importance to them.

Admittedly, Taiwan's involvement in these regional organizations should not be seen as definitively preventing countries from leaving for China; however, we claim these organizations help Taiwan stave off diplomatic losses if and when China pursues recognition. Using CABI as

an example, Taiwan may have lost Costa Rica as well as observers Panama and the Dominican Republic but maintains formal relations with four of five members and an additional observer (Belize), a rate of regional representation Taiwan lacks in most other regions.

Predicted Influence and Concluding Remarks

The losses of Panama and El Salvador are unlikely to create a domino effect in the region, just as the loss of Costa Rica did not generate a mass exodus in 2007. However, these losses have already increased concern that others will turn to China if aid requests are not filled. An August report in *Amandala* (2017) claimed that Taiwan planned a 600-million-dollar aid and loan package to Guatemala, in part to fund the Jacobo Arbenz highway. This aid package, if funded, would be the largest to any of its diplomatic partners, although MOFA stated that there was no guarantee of aid of that size (also see Focus Taiwan 2017). Taiwan also appropriated 60 million USD to Belize without clear purpose beyond bilateral cooperation (Ramos 2017), with reports that Belize officials considered switching after hearing about the rumors of aid to their neighbor, Guatemala.

The three factors presented in this analysis shed light into how Taiwan maintained relations with Central America historically, but also suggest how Taiwan may respond to growing pressures from China. While the literature focuses on Taiwanese aid and investments, we argue that these areas are the most vulnerable to Chinese efforts in large part due to China's economic capacity and willingness to outspend Taiwan. Meanwhile, Taiwan's work in generating and supporting regional organizations creates additional barriers for China. Taiwan can respond to its inherent disadvantages by further embedding itself in regional institutions. In terms of trade, Taiwan can focus on broad free trade agreements that exclude China, such as the

Trans Pacific Partnership (TPP). These FTAs incentivize long-term trade relations while raising the cost for a country to recognize China, especially in recognition is a requirement for the FTA. Aid and investments risk domestic backlash²¹ within Taiwan and a general ratcheting up of demands by recognizing countries. Instead, Taiwan can target efforts of aid and investment upon specific areas of Taiwanese technical expertise. Regional intergovernmental organizations allow Taiwan to reinforce its economic efforts and have benefited from the lack of a similar Chinese response. Coupling these efforts with expansion of intergovernmental organizations to Taiwan's Caribbean partners and observer options for non-diplomatic partners potentially incentivizes Central American countries to expand substantive relations.

Despite Taiwanese concerns regarding diplomatic relations, both in Central America and globally, it is unlikely that Taiwanese diplomatic partners will desert Taipei en masse. China, realistically, could have attracted all of Taiwan's diplomatic partners at any point during the truce if desired, save perhaps the Holy See, but such isolation would potentially encourage Taiwan to take additional steps towards formal independence (Jen 2015). Furthermore, the loss of one diplomatic partner simply allows resources already earmarked for international aid to be reallocated towards a country that could potentially switch to China or for a disgruntled diplomatic partner of China willing to recognize Taiwan for the right amount. For example, Taiwan allocated more aid to the Dominican Republic after Costa Rica switched recognition in 2007 (Dominican Today 2007). Perhaps, the switches by Panama and El Salvador will allow Taiwan to reallocate aid to other countries in Central America which might have otherwise been tempted to switch recognition in the future.

²¹ Surprisingly, the role of public perceptions of Taiwan's diplomacy efforts receives limited attention (e.g. Focus Taiwan 2017a).

More broadly, Taiwan's efforts at formal diplomatic relations are unlikely to improve as China maintains a One China policy and is increasingly willing to offer economic assistance to those open to abandoning Taiwan. Painting formal diplomatic relations as "diplomatic allies," a common practice by the Ministry of Foreign Affairs as well as both Taiwanese and Western media, does little to help Taiwan's cause as it overestimates the substantive relations with these countries and perpetuates a victim narrative when these countries shift to Beijing. Li (2016) for example, suggests that the image of these countries as 'allies' is a "Taiwanese delusion." Returning to "dollar diplomacy" to maintain Taiwan's formal relations, or possibly woo one of the few countries still willing to switch, further relinquishes power to states that may have little long-term interest in Taiwan's political and economic goals. Rather, informal relations remain Taiwan's primary lifeline. Creative ways to expand these connections, including city-to-city economic agreements and cultural exchanges, can pave a road more advantageous to Taiwanese interests. These paths have resulted in Taiwanese citizens' ability to enter 166 countries without a visa, compared to only 21 for Chinese citizens (Voice of America 2017), with visa waivers extended to additional Latin American and Caribbean countries after the Panama switch (Prasad 2017).

The losses of Panama and El Salvador are unlikely to emerge as the decisive blows that leads the rest of Taiwan's diplomatic partners to leave, but it does signal China's growing interest in the region and its multiple means to entice diplomatic switches. Rather than assume the worst-case scenario, Taiwan should adapt existing efforts in the region while combining these efforts with unofficial avenues that further embed Taiwan within the politics and economics of the region.

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