Prospects & Perspectives No. 4　January 13, 2025

遠景基金會
Prospect Foundation

Prospects & Perspectives

China is making a triple bet in Central America, by: (1) isolating Taiwan; (2) expanding its influence by using (or showing) its economic muscle; and (3) positioning itself within the U.S. zone of influence. Picture source: CPC News, July 18, 2014, *people.com*, <http://cpc.people.com.cn/shipin/BIG5/n/2014/0714/c106071-25279969-72.html>.

China in Central America: A Dual Strategy to Dislodge Taiwan and Gain Geopolitical Influence in the American Zero-Ground Zone

By *Carlos Eduardo Piña*

In the twenty-first century, Taiwan has gradually been supplanted by the People's Republic of China (PRC) in Central America, a region that was one of Taipei's main bastions for maintaining diplomatic relations. To achieve this goal, successive Chinese governments have cultivated various loyalties by networking with political parties, business associations, parliamentary friendship groups, and/or other social ties. Beijing has also made donations to countries that have switched their diplomatic recognition from Taiwan to China, practicing a kind of "gift diplomacy" very similar to the well-publicized "dollar diplomacy" denounced by the PRC over the years, with the obvious political intention of undermining Taiwanese prestige in the region.

China's growing footprint

Chinese contributions have developed infrastructure projects. A few examples include the Patuca III dam in Honduras, the San José-Limón highway in Costa Rica, and the fourth bridge over the Panama Canal. The PRC is also trying to sponsor an interoceanic canal in Nicaragua that will compete with the Panama Canal. Also relevant is the construction of the National Library in El Salvador, which has a modern design and has become a symbol of modernity and development in that country. Before that, the government of Xi Jinping financed a convention center in Panama, paved several highways in Nicaragua, and made a series of cash donations to Honduras and the Dominican Republic.

Beyond loans and investments, the economic engagement between China and Central America, based on trade exchange, has grown dramatically: from US$195 million in 2000 to US$21.7 billion in 2022. The commercial coupling with Central America has led to the signing of two free trade agreements (FTA) with Costa Rica in 2011 and Nicaragua in 2023, as well as a series of negotiations to reach this type of agreement with Panama, El Salvador and Honduras.

Although these negotiations have been promoted by local politicians as a sign of a new era, the reality shows a different situation. Every year, the trade gap between the PRC and Central American countries widens, with astonishing results for the Chinese side and questionable benefits for the Central American countries. The numbers are telling. In 2022, the trade deficit with China will amount to US$17.3 billion; in 2000 the same figure was US$163 million. These figures show both the asymmetry of trade exchanges between China and Central America and who is the real winner in this partnership.

As a direct result of China's involvement in Central America, Chinese products have gained a large share of the regional market. While China sold US$178 million worth of goods to Central America in the early twenty-first century, by 2022 these exports had skyrocketed to US$19.7 billion. Moreover, this Chinese export-led dynamic has not created the same open-market opportunities for Central American countries to increase their exports to China, as evidenced by the only twenty-seven phytosanitary permits that Beijing has granted to its Central American partners over the last twenty-four years.

The geopolitical factor

This trade balance has led 20 Chinese companies to set up their regional headquarters in the region, using it as a commercial hub to export and re-export their products. In this regard, it is important to note that Central America is also strategic because of its location. Not only is it close to the United States, but it also hosts one of the most important transit points in the world, the Panama Canal. In fact, Chinese companies control the major ports on both the Pacific and Atlantic sides of the canal. This management has become worrying for the U.S., especially for the incoming Trump administration. The U.S. has paid close attention in recent years to how the PRC is gaining control in some critical infrastructures in its hemisphere.

Looking at the way China has landed in the region, it is evident that the huge amount of money the country is putting on the table is tempting Central America's economic and political elites. Chinese money and the opportunities it brings in the short term allow some regional governments to promise the illusion of good times and prosperity, and in many cases this money has increased the popularity of governments in their countries, as in the case of Nayib Bukele in El Salvador. Another example shows how Chinese support has been the key for Nicaraguan President Daniel Ortega to strengthen his despotic and authoritarian system.

From Beijing's point of view, all these investments are paying off. Basically, the Xi government has asked Central American countries for their support on two main issues. The first is to isolate Taiwan in the region, promoting a change in the diplomatic recognition stances in Panama, Costa Rica, El Salvador, Nicaragua and Honduras. The second is to contribute to (or at least not to resist) the creation of an ideological and geopolitical environment that supports the rise of China as a great power.

Beijing derives geopolitical benefits from its relations with Central America. It is not only positioning itself in a relevant peripheral region of the world, but is also accommodating or balancing itself close to the American borders. China is trying to pay with the same coin the U.S. military and economic cooperation with South Korea, Japan, Australia and, last but not least, Taiwan.

The arrival of the PRC as a major player in Central America in the 21st century is a potent example of how it can use its power resources to achieve some of its national development goals. China is making a triple bet in Central America, by: (1) isolating Taiwan; (2) expanding its influence by using (or showing) its economic muscle; and (3) positioning itself within the U.S. zone of influence.

Even if Beijing sells the idea of the success of its regional strategy, the real fact is that China is adopting a central-peripheral model with its Central American partners, one in which the local economies of these countries is deteriorating, only favoring the interests of the PRC to flood their markets with second-hand products and allowing the Asian country to use their land as a commercial hub in the hemisphere. Moreover, even though five countries (six if we include the Dominican Republic) in the region have changed their diplomatic positions in favor of Beijing instead of Taiwan, this change has not brought them any real economic development.

Potential pushback

The Chinese positioning in Central America is provoking a political reaction from the United States, which has been considering various ways to avoid a greater Chinese economic and political influence in the region. Facing off against the U.S. in the Western Hemisphere will be a great challenge for the PRC.

Meanwhile, as the PRC plays its cards in Central America, the countries in the region are in the midst of a process in which their economies are not only recycling old central-peripheral practices but also making their economies more and more dependent on Chinese "gifts" and investments. In this regard, the lesson for Central American elites is clear: if they do not define a long-term strategy with the PRC that prioritizes their national interests, bilateral outcomes could be unsatisfactory for them. It will then be up to them to decide which path they prefer: to be a real factor of progress for their people, or simply pawns of Beijing in its geopolitical game against Taiwan and the U.S.

Part of this article was originally published in Spanish here and it is an abridged version of the report entitled "China in Central America: between diplomatic pressure and economic seduction" published by CADAL.

(Carlos Eduardo Piña is contributor to the Análisis Sínico project of the Argentine American think tank CADAL.)

Editor's Note: The views expressed in this publication are those of the authors and do not necessarily reflect the policy or the position of the Prospect Foundation.

Prospect Foundation *is an independent research institution dedicated to the study of cross-Strait relations and international issues.*
The Foundation maintains active exchanges and communications with many think tanks of the world.

Prospect Foundation
No.1, Lane 60, Sec. 3, Tingzhou Rd., Zhongzheng District
Taipei City, 10087, Republic of China (Taiwan)
Tel: 886-2-23654366 Fax: 886-2-23679193
http://www.pf.org.tw