

**The University of Chicago**

**Dollars and Diplomacy: A Comparative Analysis  
of the PRC and the ROC's Economic Aid in Latin  
America**

by

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*“Del recuerdo siempre fijo, en aquel cristal de llanto, como quimera en el canto, de un Puerto Rico de ensueño, Y yo soy puertorriqueño sin na... yo seria borincano aunque naciera en la luna.”*

**Abstract** Since the recognition of the People’s Republic of China as the legitimate government of China, the Republic of China has struggled to maintain its international political recognition. This has decreased rapidly, with Costa Rica in 2007, El Salvador in 2018, and most recently Honduras in 2023 ceasing recognition of Taiwan and now recognizing China instead, while Guatemala continues to do so. Latin America has become an area of greater competition for the US and China. The political recognition of Taiwan has become another point of competition, and the Taiwanese must also compete in the region. Latin American states have begun to receive more significant amounts of foreign direct investment and infrastructure development projects and increase their trade networks. Creating economic ties with China now precedes Taiwan's recognition by many Latin American states. Latin America, long seen as the sphere of influence of the United States, has opened its markets to Beijing, with China now being the region's largest trading partner, creating a shift in regional politics. Understanding why these specific countries in Latin America have stopped their long-time recognition of Taiwan in favor of China will allow us to see where Taiwan is positioned internationally and what it has to do and continues to do to maintain the countries that still recognize it interested in continuing to do so. For Latin America, this competition for recognition and increased economic involvement by China and the competition it creates puts Latin America at a geopolitical center in the rising tensions between the US, Taiwan, and China.

**Key Terms:** *Economic Studies, Dollar Diplomacy, Latin America, One China Policy, Political Economy, Diplomatic Recognition, Foreign Investment*

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## Introduction

How does the People's Republic of China (PRC) leverage economic aid as a tool of political recognition compared to the Republic of China-Taiwan (ROC) in Latin America? Why have countries in Latin America rapidly withdrawn recognition from the ROC over the past decade? Analyzing this question will allow us to understand how the more significant geopolitical ROC-PRC conflict manifests in other regions and how regions of the Global South will become areas of competition. Recognition has a social-emotional component as the ROC has created a unique self-image that differentiates it from mainland China<sup>1</sup>. On an official international political level, on the other hand, the PRC claims control of the ROC, which is in direct opposition to the political reality of the ROC's national identity because of the lack of official recognition of the ROC's sovereignty. De-recognizing the ROC for the PRC creates a hierarchical dynamic between the recognized and unrecognized states; there has been a discernible change in regional allegiances during the last ten years, with nations quickly renouncing their recognition of the ROC<sup>2</sup>. Countries in Latin America have reduced their recognition of the ROC over the past 15 years in favor of the PRC.

Critical concerns are raised by this trend regarding the complexity of the ROC-PRC conflict and how it manifests itself in other parts of the world, particularly the Global South. Many United States (US) think tanks, politicians, and academics believe that the reason countries in Latin America have ceased their recognition of the ROC government is due to a US policy

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<sup>1</sup> Tudoroiu, Theodor. "the ROC in the Caribbean: A Case Study in State De-Recognition." Taylor & Francis Online, 6 June 2017, [www.tandfonline.com/doi/full/10.1080/02185377.2017.1334146?scroll=top&needAccess=true](http://www.tandfonline.com/doi/full/10.1080/02185377.2017.1334146?scroll=top&needAccess=true).

<sup>2</sup> Dehart, Monica. "Remodelling the Global Development Landscape: The China Model and South-South Cooperation in Latin America." *Third World Quarterly*, vol. 33, no. 7, 2012, pp. 1359-75. JSTOR, <http://www.jstor.org/stable/41698789>.

failure in the region<sup>3</sup>. However, these countries are different. Individually, these countries have turned away from recognizing the ROC in favor of more significant economic growth rather than security, political, or ideological considerations.

This paper seeks to investigate the impact of these changes seen in the diplomatic recognition of the ROC in Latin America and how the use of economic incentives such as Foreign Direct Investment (FDI), development projects, and other tools of dollar diplomacy played a central role in the region's changing political recognitions. Starting from the case study analysis of countries in Central America specifically, the puzzle I will answer is why countries that ceased recognition of the ROC did so in favor of more significant economic gains in their markets. I argue that the influence of economic incentives used by the People's Republic of China was the primary motivation for countries in Latin America to cease their recognition of the ROC.

The ROC and PRC compete for diplomatic recognition globally, but Latin America has been at the epicenter of this competition. In 2007, Costa Rica became the first Latin American state to switch recognition from the ROC to the PRC government<sup>4</sup>. Since then, Taipei and Beijing have committed to dollar diplomacy to sway Latin American governments to each side. The PRC's involvement worldwide has steadily increased over the past two decades. Fueled by the world's largest population and booming economy, The PRC has been able to capitalize on markets worldwide. It has used its larger economy to enter markets it had yet to reach, including Latin America<sup>5</sup>. Expanding the PRC's market presence in Latin America now pressures smaller

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<sup>3</sup> Kastner, Scott L. "Exploring the Parameters of China's Economic Influence." National Library of Medicine, 5 Mar. 2021, [www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/).

<sup>4</sup>Maggiorelli, Lorenzo. "ROC's Development Aid to Latin America and the Caribbean and the One China Policy." *Revista Razón Crítica*, 1 Jan. 2022, [www.redalyc.org/journal/6458/645869490007/html/#redalyc\\_645869490007\\_ref54](http://www.redalyc.org/journal/6458/645869490007/html/#redalyc_645869490007_ref54).

<sup>5</sup>Denoon, David. "China, The United States, and the Future of Latin America: U.S.-China Relations, Volume III." NYU Press Scholarship Online, 24 Oct. 2017, [academic.oup.com/nyu-press-scholarship-online/book/21319](http://academic.oup.com/nyu-press-scholarship-online/book/21319)

economies in the region that recognize the ROC government. With some countries like Costa Rica and El Salvador deciding to fully recognize Beijing as the PRC's government, the pressure to trade with China now precedes the ROC's political recognition by many countries. This pressure of expanding one's economy in the

Since the ROC's foreign aid policy is closely related to its foreign policy strategy, and because improving the ROC's international standing has always been the primary factor influencing its foreign aid policy, the country stands out among other foreign investors<sup>6</sup>. To be able to maintain its recognition abroad, the ROC's foreign economic policy was meant to invest in developing countries across the Global South, and with the PRC in the past not being the powerhouse of the global economy it is today, the ROC was able to out-invest the PRC's government in many regions of the world. Today, the ROC can no longer out-invest in the PRC's government, and a significant gap between the two governments no longer exists<sup>7</sup>. The PRC is the world's largest economy, and the ROC has to compete with the PRC in places such as Latin America for recognition, where it has been losing. Some in US policy-making would argue that the reason for the decline of the ROC's recognition in Latin America is due to these countries turning away from the US politically and ideologically<sup>8</sup>. However, I am making the case that the decision to cease recognition of the ROC is an economic consideration, separate from security or ideological concerns.

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<sup>6</sup>Morgan, D. E. (2017). Trade Developments in Latin America and the Caribbean. Washington, DC: Monetary Fund: International Monetary Fund. Available at: <https://www.imf.org/~media/Files/Publications/CR/2017/cr1766-ap-5.ashx>

<sup>7</sup>Crodell, Kristen A. "Chinese Development Assistance: A New Approach or More of the Same?" Carnegie Endowment, 23 Mar. 2021, [carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141](https://carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141).

<sup>8</sup>Ellis, Evan. "PRC Engagement in Costa Rica: Centro de Estudios Estratégicos Del Ejército Del Perú." Centro de Estudios Estratégicos Del Ejército del Perú | Think Tank Del Ejército del Perú, 18 May 2023, [cecep.mil.pe/2023/05/18/participacion-de-la-republica-popular-china-en-costa-rica/?lang=en](https://cecep.mil.pe/2023/05/18/participacion-de-la-republica-popular-china-en-costa-rica/?lang=en).

The literature that I will analyze will focus on the political conditions, historical analysis, government statements, and economic data to fill the gap in the literature to consider the reason countries ceased to recognize the ROC was due to PRC economic investment being used as a leverage tool to convince these countries to recognize the PRC over the ROC, and why those that still recognize the ROC government diplomatically continue to do so. I will use three case studies: Costa Rica, El Salvador, and Guatemala. In the case of Costa Rica and El Salvador, reviewing the conditions each country was in before and now after recognizing the PRC will be the critical factor. These countries received large amounts of FDI and development projects when they switched their recognition from Taipei and instead favored building their relationship with the PRC's government. In the case of Guatemala, I will analyze the steps the ROC government has taken to maintain its diplomatic ties with Guatemala, the reasons Guatemala presents why it has yet to change its recognition of the ROC, and how the US itself is involved in the politics of recognition.

This thesis will be divided into six sections, with section two presenting my argument, where I posit that Latin American countries' motivation to cease their recognition of the ROC has been an economic decision to access the PRC's markets. Section three is a comprehensive literature review examining the primary literature on the ROCese and the PRC's foreign economic relations in Latin America, how foreign investments inform this relationship, and the countering arguments I faced in my research. Next, I shall delve into the research design and methodology I employed for this thesis to acquire the evidence needed to back my claims. Section five is my methodological interpretation of this thesis's data and case study presentation. Section six shall focus on the empirical data found during my thesis research, analyze the impact of economic investment serving as a tool of political recognition in Latin America by the ROC



and the PRC's governments, and present my case studies on the three previously mentioned Latin American states. Section six will focus on policy recommendations that the US could adopt to prevent the spread of these economic aid packages with their efforts in the region. Lastly, in my thesis conclusion, I will present all the findings and make the case that the PRC has used economic incentives as a primary tool to reduce the ROC government's political and official diplomatic recognition in Latin America.

## **Argument**

The PRC has used economic incentives as the primary motivator for countries in Latin America to recognize the PRC over the ROC in the past 15 years. The abandonment of recognition of the ROC by Latin American governments is a decision made by these governments to refrain from gaining more political connections with the PRC or to indicate a decline of the US in the region. Costa Rica and El Salvador have changed their recognition of the PRC for financial reasons. Professor Richard Harris argues that given the region's historical recognition of the ROC, the PRC's ties with Central America and the Caribbean are frequently explicitly more political than those with South America, primarily commercial<sup>9</sup>. Nearly the whole area had diplomatic relations with the ROC before the 2008 Global Financial Crisis. However, the PRC started wooing Central America with its "dollar diplomacy" on the cusp of the 2008 financial crisis, starting with Costa Rica. This included supporting Costa Rica in managing its economic hardship throughout the financial crisis. Despite being a moderate National Liberation Party (PLN) member, President Oscar Arias's administration could borrow directly

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<sup>9</sup> Harris, Richard. "China's South-South Cooperation with Latin America and the Caribbean ." California State University, Monterey Bay-Digital Commons, 2016

from the PRC without legal gymnastics<sup>10</sup>. However, it is essential to note that years after recognizing the PRC's government over the ROC, Costa Rica still needs to receive foreign direct investment from Beijing.

The investment received by these countries and its influence on diplomatic recognition is not only limited to the PRC, as the ROC also provides its own economic, political, and diplomatic incentives for a state to recognize it over the PRC. When discussing my hypothesis, I want to clarify that, in this thesis, the countries described as Latin American are specifically Central American states with similar economies of scale, population, and shared history. The larger PRC economy uses its economic capacity and trade influence to attempt diplomatic shifts in the region and continue its One China Policy.

*H1: The economic incentives for the PRC in Latin America have increased as the PRC wishes to reduce the political recognition of the ROC in this region.* My first argument is that the PRC's economic presence in the region reflected through FDI, development projects, and other economic incentives, has seen a rise in the PRC's presence in the area, coinciding with a reduction of the ROC's diplomatic recognition. This is because Latin American countries wish to expand their global market presence, and the PRC aims to reduce the ROC's political recognition globally. The condition of these investments, loans, and development projects is that the PRC would provide them with no strings attached, on the condition that countries cease their recognition of the ROC in favor of the PRC. By cooperating with the PRC, these smaller nations can access another powerful ally to interact and balance their ties with the US. Investigating the complex dynamics between the ROC and the PRC in Latin America reveals a complicated

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<sup>10</sup> An, Shen, 'Reflections on China's strategy in Latin America', *Journal of Latin American Studies* 31: 4, pp. 3-8; Zongze Ruan, 'Yinde xiayige shinian: zhongguo suzao duozhidian waijiao' [To win the next decade: China is creating multi-pivotal diplomacy], *International Studies* 156: 4, 2013, pp. 20-36

patchwork woven with shifting alliances, geopolitical agendas, and economic interests. Therefore, the reason countries still recognize the ROC is because the ROC can provide sufficient incentives to do so, be it economic or political.

*H2: Countries in Latin America are motivated to break off relations to better their economic standing in the world; they are interested in recognizing the state that provides higher levels of foreign investment or from whichever country offers the best incentive, and their choice is reflected in their diplomatic recognition of the PRC or the ROC.* Secondly, I make a case for economic and financial factors being the primary determinant of diplomatic recognition. At the same time, politics is a secondary consideration for whether or not a state will recognize the PRC or the ROC. For Latin America, this competition for recognition and increased economic involvement by the PRC and the competition it creates puts Latin America at a geopolitical center in the rising tensions between the US, the ROC, and the PRC. As the global economy continues to evolve, so will Latin America's position within the market order, and the economic factors that drive investment toward Latin America from the ROC and the PRC will also be crucial to understanding. Providing insight into the issues motivating these countries to reevaluate their diplomatic relations, we find that Latin American states are more concerned with the status of their market structure and attracting foreign investors to motivate local economies rather than geopolitical competition between the PRC and the US. Costa Rica ceased its recognition of the ROC government in 2007, a decade before the modern discourse of the PRC being a near-peer competitor with the US truly began. El Salvador and the ROC broke diplomatic relations over disagreements regarding foreign investment and development projects. There is clear evidence in Costa Rica and El Salvador that economic factors are the primary driver of change in official diplomatic recognition.

The third element in this thesis is the US and its involvement in the region, mainly how it manifests itself in the competition for recognition between the ROC and the PRC. The US, while maintaining the One China Policy domestically and maintaining a position of strategic ambiguity with the ROC, still expresses its displeasure with states recognizing the PRC over the ROC in the region and maintains pressure on states such as Guatemala to maintain their relationship with the ROC.

## **Literature Review**

There has been increasing research and writing on the relationship between Latin America, the ROC, and the PRC. Few scholars focus on this topic; however, the growing focus over the past 15 years has allowed for a more comparative analysis of the state of the PRC and ROC's involvement in Latin America. According to Dr. An Shen, this economic competition is better known as dollar diplomacy, where countries use financial incentives and other monetary factors to create better diplomatic conditions for the target countries<sup>11</sup>. Dollar diplomacy is the name of the competition between the ROC and the PRC, and El Salvador and Costa Rica participated.

The desire for foreign direct investment with no questions asked is high, and the PRC is an active encourager of unrestricted foreign loans<sup>12</sup>. Richard Harris, Professor Emeritus at California State University, argues that these countries in Latin America have turned towards the PRC because of the failure of the US to be as economically involved in the region. Due to the US's lack of involvement, countries in Latin America have now turned to official ties with the

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<sup>11</sup>An, Shen, 'Reflections on China's strategy in Latin America', *Journal of Latin American Studies* 31: 4, pp. 3-8; Zongze Ruan, 'Yinde xiayige shinian: zhongguo suzao duozhidian waijiao' [To win the next decade: China is creating multi-pivotal diplomacy], *International Studies* 156: 4, 2013, pp. 20-36

<sup>12</sup>López, Sergio Ley, and Salvador Suárez Zaizar. "Chinese Investment in Latin America and the Caribbean." *DEALMAKING WITH CHINA AMID GLOBAL ECONOMIC UNCERTAINTY: Opportunities, Risks, and Recommendations for Latin America and the Caribbean*, Atlantic Council, 2020, pp. 9–13

PRC as a way to rebel diplomatically against the US<sup>13</sup>. I disagree with Harris's contention, as the US is not uninvolved in the region. Despite concerns over President Nayib Bukele's approach to law enforcement, the US has been an active assistant, funder, and encourager of his approach to anti-gang law enforcement. The US has provided funding, training, intelligence, and equipment to El Salvador's security forces in their combatting of gangs. Since recognizing the PRC's government as the One China, the ROC government has struggled to maintain its international political recognition.

Of the 12 states that still internationally recognize the ROC, seven are in Latin America; the number has decreased rapidly, with Costa Rica in 2007, El Salvador and the Dominican Republic in 2018, and most recently Honduras in 2023 ceasing recognition of the ROC and now recognizing the PRC instead<sup>14</sup>. Latin America has become an area of greater competition for the US and the PRC. The political recognition of the ROC has become another point of competition, and the ROC must also compete in the region.

In an analysis of the regional economic development, Theodor Tudoroiu makes the case that Latin America and the Caribbean have begun to receive more significant amounts of Belt and Road Initiative (BRI) infrastructure projects and increase their global trade networks<sup>15</sup>. The ROC established the Aid Fund for Central American Development in 1998 to compete with this. In the following years, it deepened its collaboration with Paraguay, South America's most powerful diplomatic ally. In addition, the program "Study in Taiwan" was established in 2006 to

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<sup>13</sup> Harris, Richard. "China's South-South Cooperation with Latin America and the Caribbean ." California State University, Monterey Bay-Digital Commons, 2016

<sup>14</sup> Janetsky, Megan. "the ROC Leader Scrambles for Allies in Central America Visit." AP News, AP News, 1 Apr. 2023

<sup>15</sup>Tudoroiu, Theodor. "the ROC in the Caribbean: A Case Study in State De-Recognition." Taylor & Francis Online, 6 June 2017, [www.tandfonline.com/doi/full/10.1080/02185377.2017.1334146?scroll=top&needAccess=true](http://www.tandfonline.com/doi/full/10.1080/02185377.2017.1334146?scroll=top&needAccess=true).

improve academic and cultural exchanges in the area. As can be seen, the ROC has seized the chance to forge relationships with smaller nations that need aid for growth<sup>16</sup>.

On the other hand, Beijing's commercial and economic links are preferred by larger nations with more international projection. The importance of Latin America in the greater geopolitical struggle between the PRC, the US, and the ROC is also symbolic of a paradigm shift in the region. In the coming decades, as competition with the PRC and the US furthers and their economic and political goals clash, Latin America and the countries in it will see themselves as a new arena of resources, commodities, and market access for both the superpower of the US and the rising power of the PRC<sup>17</sup>. The PRC government uses economic aid as a tool of political leverage for recognition in Latin America; therefore, it is not just a tool for political recognition against the ROC in the ongoing One-China Policy competition, but it also becomes a tool to push countries in Latin America to turn towards the relations expansion of their economic reach further out into states that are outside the “developed” world, mainly being that of the Global South. States that were once at the periphery of the global economy, such as those in Latin America, now find themselves at the center for greater market involvement by large economies such as the PRC.

The PRC's capacity to provide economic aid to other countries will surpass the ROC's in terms of sheer quantity; therefore, the ROC must seek different solutions to leverage its advantages over the PRC's economic aid. Investigating the ROC's ICDF in Latin America is essential to comprehend the broader ramifications of these diplomatic changes. As a critical

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<sup>16</sup>Hu, Shaohua. "Small State Foreign Policy: The Diplomatic Recognition of the ROC." *China: An International Journal* 13, no. 2 (2015): 1-23. <https://doi.org/10.1353/chn.2015.0013>.

<sup>17</sup>Morgan, D. E. (2017). *Trade Developments in Latin America and the Caribbean*. Washington, DC: Monetary Fund: International Monetary Fund. Available at: <https://www.imf.org/~media/Files/Publications/CR/2017/cr1766-ap-5.ashx>

player in the ROC's diplomatic policy, the ICDF offers development aid and promotes collaboration in agriculture, healthcare, and education<sup>18</sup>. This soft power technique program seeks to establish mutually beneficial long-term partnerships. Examining the influence and efficacy of the ICDF in Latin America can shed light on the ROC's attempts to preserve diplomatic relations in the face of the PRC's expanding power. The PRC's growing power through the reduction of the ROC's diplomatic recognition then catches the attention of the US, seeing its main geopolitical rival of the century expanding into a region historically aligned with the US and its global interests.

Latin America is essential for the ROC because it is the epicenter of competition for its place in the world against that of the PRC's government. Being the core of the diplomatic dispute between the PRC and the ROC, the One-China policy is crucial for the Latin American and Caribbean areas. Lorenzo Maggiorelli, a professor of International Relations at Pontifical Javeriana University in Bogota, Colombia, asserts that Latin America—especially Central America—used to be home to the slim majority of nations with ROC recognition, which is kept up by the ROC's heavy maintenance expenditures<sup>19</sup>. In response, the PRC has bolstered its so-called "checkbook diplomacy" since the 1980s by providing the ROC's diplomatic friends with funding, loans, and other financial support. This is akin to a "bidding war," as both parties have increased their offers of foreign aid. Adding to Maggiorelli's claim that a bidding war between the PRC and the ROC is forming in the region, I would also make the case that these Latin American countries would be willing to recognize which country provides the best economic incentives to do so.

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<sup>18</sup> ICDF (2019). International Cooperation and Development Fund. Available at: <http://www.icdf.org.tw/>

<sup>19</sup>Maggiorelli, Lorenzo. "ROC's Development Aid to Latin America and the Caribbean and the One China Policy." *Revista Razón Crítica*, 1 Jan. 2022, [www.redalyc.org/journal/6458/645869490007/html/#redalyc\\_645869490007\\_ref54.4](http://www.redalyc.org/journal/6458/645869490007/html/#redalyc_645869490007_ref54.4).

According to Scott Kastner, when reporting the extent of the PRC's and the ROC's medical investments in the region during the COVID-19 Pandemic in 2020, this tactic has been demonstrated in the “Liaison Area” between the PRC and the ROC, where both countries have invested in expensive projects, occasionally in return for the other party terminating diplomatic relations<sup>20</sup>. Latin America, seen as the epicenter for a sort of “bidding war” between two powers, also positions itself in the eyes of the US as a geopolitical hotspot. The US is also interested in ensuring that countries within Latin America maintain their position on the ROC and do not change it in favor of the PRC's government, as it opens the door for more significant influence of a strategic rival in a region close to the US borders.

Competition with the US has also led the PRC to become more involved in the region, with the PRC now being seen politically as an alternative to the US for many governments. Latin America, long seen as the sphere of influence of the United States, has now opened its markets to Beijing, creating a shift in regional politics, according to David Denoon<sup>21</sup>. Although U.S. authorities have recently given considerable attention to the growing economic and political ties between the PRC and Latin America, it is sometimes forgotten how much Beijing's foreign policy is influenced by its goal of isolating the ROC on the global stage. However, this critical aspect of the PRC's foreign policy is necessary to comprehend the PRC's growing worldwide influence and its implications for US national interests.

There is now a tough competition for diplomatic recognition in some of the world's most isolated locations. However, Denoon's argument does not consider the agency of Latin American countries. When making decisions, these states consider their relationship with that of the US;

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<sup>20</sup> Kastner, Scott L. “Exploring the Parameters of China’s Economic Influence.” National Library of Medicine, 5 Mar. 2021, [www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/).

<sup>21</sup>Denoon, David. “China, The United States, and the Future of Latin America: U.S.-China Relations, Volume III.” NYU Press Scholarship Online, 24 Oct. 2017, [academic.oup.com/nyu-press-scholarship-online/book/21319](http://academic.oup.com/nyu-press-scholarship-online/book/21319).



however, Denoon and Harris place the reduction of the ROC's diplomatic recognition wholly on the US's policy failure, ignoring the market motivations for these countries to recognize the PRC over the ROC. In the case of Guatemala, greater US involvement and ROC changes in diplomacy have allowed the ROC to maintain its Central American ally<sup>22</sup>. Still, I would emphasize that market forces and development incentives are a greater force in pushing Latin American states to recognize the PRC over the ROC.

Given the region's historical recognition of the ROC, the PRC's ties with Central America and the Caribbean are frequently more political than those with South America, which are primarily commercial. Nearly the whole region had diplomatic relations with the ROC before the 2008 Global Financial Crisis<sup>23</sup>. But the PRC started wooing Central America with its "dollar diplomacy" on the cusp of the 2008 Financial Crisis, starting with Costa Rica. Using dollar diplomacy, the PRC's government convinced Central American countries to make a diplomatic switch for political recognition of the ROC.

The ROC and the PRC compete for investment as a tool of political recognition. The ROC needs to gain the ability to convince other countries to recognize it over the PRC's government. Therefore, the ROC must resort to alternative approaches in Latin America to maintain its diplomatic relations in the region.

Yes, the ROC has few allies. Its most populated and significant (in size) ally, Paraguay, has 0.27 percent of the planet's surface area and is ranked 60th globally. The ROC's potential influence on countries may stem from its close ties to Latin American governments and other regional issues. The PRC's officials contend that the removal of Panamanian strongman Manuel

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<sup>22</sup> Rich, T. (2009). Status for Sale: the ROC and the Competition for Diplomatic Recognition, *Issues & Studies*, 45(4), 159-188.

<sup>23</sup> Kaplan, Stephen B. "Globalizing Patient Capital." Cambridge Core, Cambridge University Press, Sept. 2021 pp. 356-401

Noriega disrupted their efforts to transfer recognition from Taipei to Beijing and that the ROC's diplomatic ties with Panama were subject to American influence and covert supervision<sup>24</sup>.

Taipei's extensive links to Central America were cited by a Guatemalan diplomat serving in the UN's permanent mission as the reason for Guatemala's recognition of the ROC<sup>25</sup>. According to the ROC government initiative, the International Cooperation and Development Fund (ICDF), the ROC has invested approximately \$432 million a year as foreign aid in other countries but over US\$154.1 million in international cooperation for Latin America<sup>26</sup>.

The competition between Beijing and Taipei in Latin America combines political and economic factors. Beginning in 2017, El Salvador's government requested significant financial contributions from the ROC to support the construction of Port La Union in the country's east. After sending an engineering team for an overall study, the ROC government concluded that significant debt risks might be associated with the ROC and El Salvador projects. As such, the ROC government stated that it could not grant El Salvador's requests through an official statement from the ROCese Ministry of Foreign Affairs. As a government, the ROC failed to endorse the El Salvadorian government's project, Port La Union. Unwilling or unable to compete with the PRC in dollar diplomacy, the ROC must also take steps to ensure its place in the global order despite the dwindling numbers of allies who officially recognize it.

Using the ICDF as a powerful tool for analyzing the ROC's ability to provide economic incentives to the region's countries, we can see what the ROC has done to maintain its diplomatic ties with countries such as Guatemala. According to them, their operations can be categorized

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<sup>24</sup>Hu, Shaohua. "Small State Foreign Policy: The Diplomatic Recognition of the ROC." *China: An International Journal* 13, no. 2 (2015): 1-23. <https://doi.org/10.1353/chn.2015.0013>.

<sup>25</sup>MOFA-ROC. Ministry of Foreign Affairs, Republic of China (the ROC), Apr. 2023, [en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20the ROC%20provided%20NTD,gross%20national%20 income%20that%20 year](http://en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20the ROC%20provided%20NTD,gross%20national%20 income%20that%20 year).

<sup>26</sup>Yang, Yao-ju. "NT\$4.87bn Aid Mulled for Latin America, Caribbean." *Taipei Times*, 台北時報, 16 Mar. 2024, [www.taipeitimes.com/News/the ROC/archives/2024/03/17/2003815049](http://www.taipeitimes.com/News/the ROC/archives/2024/03/17/2003815049).

into four specific areas of intervention: (1) lending and investment, (2) technical cooperation, (3) humanitarian assistance, and (4) international education and training<sup>27</sup>. In contrast to loans and investment, a more direct type of help, the ROCese awareness of the need to collaborate with and include the recipient in transferring skills is shown in the significant and growing percentage of technical cooperation projects (57% of the total). In contrast to the PRC, which emphasizes infrastructure development, it focuses on technological collaboration<sup>28</sup>.

The ROC's help in Latin America reflects these nations' need for investments in vital national industries, including information technology, health, small and medium-sized business development, agriculture productivity support, and microfinance<sup>29</sup>. The ROC's support is mainly focused on agriculture and tourism in the Caribbean, two sectors more susceptible to climate change than Latin America<sup>30</sup>. In addition to the ROC's trade and investment, the region's shared identity as a democratic nation, Taipei's membership in regional organizations, and the ROC's historical ties to the United States—the region's primary sponsor—all support the ROC aid to Latin American and Caribbean countries as a tool of foreign policy, potentially giving the ROC an advantage over the PRC.

Most recently, during the COVID-19 Pandemic, it was found that regardless of the level of development and severity of the pandemic in each country, the PRC donated more to its

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<sup>27</sup>MOFA-ROC. Ministry of Foreign Affairs, Republic of China (the ROC), Apr. 2023, [en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20the ROC%20provided%20NTD,gross%20national%20income%20that%20year.](https://en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20the%20ROC%20provided%20NTD,gross%20national%20income%20that%20year.)

<sup>28</sup>Maggiorelli, Lorenzo. "ROC's Development Aid to Latin America and the Caribbean and the One China Policy." *Revista Razón Crítica*, 1 Jan. 2022, [www.redalyc.org/journal/6458/645869490007/html/#redalyc\\_645869490007\\_ref54](https://www.redalyc.org/journal/6458/645869490007/html/#redalyc_645869490007_ref54).

<sup>29</sup>Morgan, D. E. (2017). *Trade Developments in Latin America and the Caribbean*. Washington, DC: Monetary Fund: International Monetary Fund. Available at: <https://www.imf.org/~media/Files/Publications/CR/2017/cr1766-ap-5.ashx>

<sup>30</sup>Maggiorelli, Lorenzo. "ROC's Development Aid to Latin America and the Caribbean and the One China Policy." *Revista Razón Crítica*, 1 Jan. 2022, [www.redalyc.org/journal/6458/645869490007/html/#redalyc\\_645869490007\\_ref54](https://www.redalyc.org/journal/6458/645869490007/html/#redalyc_645869490007_ref54).

strategic partners and that the One China Policy strongly affected the ROC's and the PRC's foreign investment<sup>31</sup>. The PRC donating more to countries that recognized it over the ROC meant that countries in Latin America that still recognized the ROC received less humanitarian and medical aid from the PRC. This presents a material outcome created by the political recognition of the ROC and the PRC in Latin America, with countries such as Guatemala being at a higher risk than their regional counterparts who recognized the PRC due to receiving smaller amounts of aid<sup>32</sup>. The PRC, then, uses economic aid as a tool of political leverage in its politics of recognition versus the ROC in Latin America.

In turn, the ROC funded and promoted causes in Central America to assist them in the pandemic recovery. To help their Latin American and Caribbean allied countries in post-pandemic economic recovery and to enhance women's economic empowerment, the ROC ICDF, in eight Latin American and Caribbean countries, promotes the project "Assisting the Economic Empowerment of Women in Latin America and the Caribbean in the Post-Pandemic of COVID-19"<sup>33</sup>. Keeping up ties with the ROC has two advantages beyond how long they last. First, the ROC's friends are positioned higher on the foreign policy hierarchy for the ROC than they are for the PRC in comparison with the PRC and other significant nations.

Latin American nations, frequently overlooked, gain nothing from sporadic involvement, funding, and assistance. Conversely, the ROC has more time with its 12 recognized allies, ensuring more steady participation. For example, the ROC can help people in the face of most

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<sup>31</sup>Telias, Diego, and Francisco Urdinez. "China's Foreign Aid Political Drivers: Lessons from a Novel Dataset of Mask Diplomacy in Latin America during the COVID-19 Pandemic." PubMed Central, 10 Apr. 2022, [www.ncbi.nlm.nih.gov/pmc/articles/PMC9264378/#:~:text=Dreher%20and%20Fuchs%20\(2015\)%20found,at%20the%20expense%20of%20the%20ROC](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC9264378/#:~:text=Dreher%20and%20Fuchs%20(2015)%20found,at%20the%20expense%20of%20the%20ROC).

<sup>32</sup>Kastner, Scott L. "Exploring the Parameters of China's Economic Influence." National Library of Medicine, 5 Mar. 2021, [www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC7934344/).

<sup>33</sup>ICDF. "The the ROCICDF, Together with Three Central American Allied Countries, Holds the 'Regional Forum of the International Initiative for Central American Women.'" June 2022, [www.icdf.org.tw/wSite/ct?xItem=68676&ctNode=31572&mp=2](http://www.icdf.org.tw/wSite/ct?xItem=68676&ctNode=31572&mp=2).

natural catastrophes and economic crises<sup>34</sup>. This is crucial in the Latin American and Caribbean countries, as the area is regarded as the second most disaster-prone, and these nations were disproportionately affected by the COVID-19 epidemic. Being in a territory traditionally regarded as its own, the United States has naturally been cautious of any possible PRC encroachment. Washington is genuinely concerned about how the growing exchanges may eventually lead to military or strategic collaboration, even if, for the most part, it does not view the PRC's economic penetration of Latin America as fundamentally hostile to American interests. There's no denying that the PRC has become a more significant threat in the Americas in the last several years<sup>35</sup>. The PRC and the ROC's increased interest is sometimes good for Central America and the Caribbean, as both will be willing to provide investment in the region as a tool of political recognition.

Smaller Central American economies find integrating successfully into the global economy challenging. Still, they are also keen to find new partners and make the most of their current ones to increase their economic benefits. An archipelago of bridges, roads, tunnels, and stadiums constructed as byproducts of the cross-strait rivalry is beginning to appear throughout Latin America<sup>36</sup>. The PRC and the ROC have expressed interest in sponsoring infrastructure projects that have lost favor with Western donors. Also, maintaining diplomatic ties with one partner does not mean that ongoing economic commerce with the other is prohibited; many countries that recognize the PRC continue to conduct business with the ROC and vice versa.

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<sup>34</sup>Berg, Ryan. "the ROC's Future in Latin America and the Caribbean." – *The Diplomat*, 1 Sept. 2022, [thediplomat.com/2022/09/the-ROCs-future-in-latin-america-and-the-caribbean/](http://thediplomat.com/2022/09/the-ROCs-future-in-latin-america-and-the-caribbean/).

<sup>35</sup>Erikson, Daniel P., and Janice Chen. "China, the ROC, and the Battle for Latin America." *The Fletcher Forum of World Affairs*, vol. 31, no. 2, 2007, pp. 69–89. JSTOR, <http://www.jstor.org/stable/45289690>.

<sup>36</sup>Erikson, Daniel P., and Janice Chen. "China, the ROC, and the Battle for Latin America." *The Fletcher Forum of World Affairs*, vol. 31, no. 2, 2007, pp. 69–89. JSTOR, <http://www.jstor.org/stable/45289690>.

Apart from economic reasons, the PRC's political leaders see their country's engagement in Latin America as a valuable means of strengthening their ties with these nations to win over political support abroad and to challenge the ROC for diplomatic recognition in this area<sup>37</sup>. The PRC needed the diplomatic and political backing of developing countries, especially those in Latin America, during the early years of the new century when it was increasing, even under President Hu Jintao (2003–2013). Latin America is strategically significant as a pivot for the PRC's growth at the systemic level, particularly in the growing strategic conflict between the PRC and the United States, according to a consensus among the PRC's political leaders and academics<sup>38</sup>. With the US shift of strategic focus to the Asia—Pacific region, some IR scholars within and beyond the PRC worry that the competition for regional dominance may escalate and eventually lead to a sharp clash of interest. The ROC and its people do not see themselves as “the PRC”; consequently, the internal identity requires that the ROC’s outward impressions match the ROC’s internal perceptions<sup>39</sup>. Matching internal perceptions is why the ROC goes.

## **Case Selection and Methodology**

To test my hypothesis, I will be required to conduct case studies of economic incentive competition and diplomatic recognition between the ROC and the PRC in Latin America. Countries that recognize the PRC instead of the ROC and that still acknowledge the ROC are Costa Rica and El Salvador, which broke off official diplomatic relations with the ROC in 2007 and 2018, and Guatemala, which continues its recognition of the ROC despite the rapid

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<sup>37</sup>Dreher, Axel, and Andreas Fuchs. "Rogue aid? An empirical analysis of China's aid allocation." *Canadian Journal of Economics/Revue canadienne d'économique* 48.3 (2015): 988-1023.

<sup>38</sup>An, Shen, 'Reflections on China's strategy in Latin America', *Journal of Latin American Studies* 31: 4, pp. 3-8; Zongze Ruan, 'Yinde xiayige shinian: zhongguo suzao duozhidian waijiao' [To win the next decade: China is creating multi-pivotal diplomacy], *International Studies* 156: 4, 2013, pp. 20-36

<sup>39</sup>Rich, T., & Dahmer, A. (2017). the ROC's Central America Dilemma. *The ROC Sentinel*. September 21. Available at: <https://sentinel.tw/the-ROCs-central-america-dilemma/>

diplomatic changes in the region. The type of economic incentives presented during the diplomatic change serves as a good metric for what incentivizes states to prioritize economic growth over diplomatic relations with other governments.

Analyzing the political environment of these states will also be necessary. Kristen Crodell establishes that states will pursue the path of least resistance when acquiring foreign investors to come to their country<sup>40</sup>. This means that states will inevitably choose the easiest route to economic development and would be willing to sacrifice relations with other states to improve their market capacity. The case studies and how each country navigates its diplomatic ties and economic growth provide insight into how and why states are willing to place economic prosperity over diplomatic amicability. The data allows me to make the following case: The PRC wants to reduce the ROC's international recognition, Latin American states desire higher levels of foreign investment, and the PRC provides this foreign investment on the condition that the diplomatic recognition of the ROC is ceased, those who continue to recognize the ROC do so out of more significant diplomatic and economic effort from Taipei.

## **Empirical Data/Case Studies**

The analysis we will do is for the previously mentioned case studies of how dollar diplomacy has informed each country's recognition of the ROC or the PRC. The Guatemalan case study will focus on what the ROC has been able to do to maintain its diplomatic ally and what incentivizes Guatemala to continue recognition of the ROC. Next, the case studies of Costa Rica in 2007 and El Salvador in 2018 will show how the PRC engaged with dollar diplomacy to persuade these countries to cease their recognition of the ROC, meaning I will analyze the steps

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<sup>40</sup>Crodell, Kristen A. "Chinese Development Assistance: A New Approach or More of the Same?" Carnegie Endowment, 23 Mar. 2021, [carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141](https://carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141).

taken by the PRC to incentivize the ending of diplomatic ties with Taiwan economically.

Analyzing these case studies aims to see the effect of the ROC's and the PRC's economic involvement in Latin America to compete for the recognition of countries. Quantifying the ROC and the PRC's aid in the region and how that aids timelines with the status of diplomacy

I will start my empirical research by analyzing government records from the countries mentioned earlier: Costa Rica, El Salvador, and Guatemala. I aim to chart the diplomatic, economic, and political activity the PRC and the ROC conduct to maintain or persuade countries to their respective political camps. A historical analysis of government and financial data regarding the PRC and the ROC's trade in the region is also a good metric, contrasting previous statements and trade that used to justify the ROC versus the statements and trade data now with the recognition of the PRC and those of those countries that still recognize the ROC. Reports and information from the World Bank, the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) in the case of the ROC, and the United Nations Conference on Trade and Development (UNCTAD) have been used in this section, as they provide an objective data source. Additionally, with these sources, I will also be using the central bank information of each case study nation, along with the PRC and ROC.

When acquiring the information needed, such as trade levels, imports and exports, and official development aid, I was constrained by the fact that the ROC is not recognized as an independent entity by most international trade and economic organizations; its trade information was included along with that of the PRC. As an alternative, I have measured the levels of exports sent to the PRC by each country versus that of the US (since the US is the ROC's main backer) economies to gauge the economic influence.



## Costa Rica

Costa Rica was one of the first countries in Central America to switch its recognition from the ROC to the PRC. Focusing on the first change of diplomatic recognition with Costa Rica, In 2007, in a statement by the President of Costa Rica, Oscar Arias, it was clear that his government decided to drop the ROC's recognition because his administration was interested in increasing foreign investment in Costa Rica<sup>41</sup>. The ROC simply could not compete with the PRC's incentives or match the PRC's lending and investment on a material and financial level<sup>42</sup>.

In 2007, the PRC approached the Costa Rican government with a significant increase in FDI, correlating to rescinding the ROC's diplomatic recognition. Previously, the Costa Rican government did not receive large amounts of FDI, projects, or trade agreements with the PRC. Using the power of its massive foreign exchange reserves, the PRC pledged to buy \$300 million in Costa Rican bonds as part of an incentive package to convince Costa Rica to switch its diplomatic recognition from the ROC to the PRC in 2007, according to documents unsealed by the Costa Rican Ministry of Foreign Affairs (CRMF)<sup>43</sup>. President Arias of Costa Rica stated that economic factors influenced the choice. "It is an act of elemental realism," he declared at a San Jose press conference in 2007, shortly after the decision was made<sup>44</sup>. According to the memorandum, the PRC pledged to purchase \$300 million in bonds in exchange for the CRMF closing its embassy in the ROC and evicting ROC diplomats. Additionally, it committed to providing Costa Rica with \$130 million in help and other benefits, such as 20 scholarships

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<sup>41</sup>SADA, MARIA. "The Curious Case of Costa Rica: Can an Outlier Sustain Its Success?" *Harvard International Review*, vol. 36, no. 4, 2015, pp. 11–12. JSTOR, <http://www.jstor.org/stable/43649306>.

<sup>42</sup>Dreher, Axel, and Andreas Fuchs. "Rogue aid? An empirical analysis of China's aid allocation." *Canadian Journal of Economics/Revue canadienne d'économie* 48.3 (2015): 988-1023.

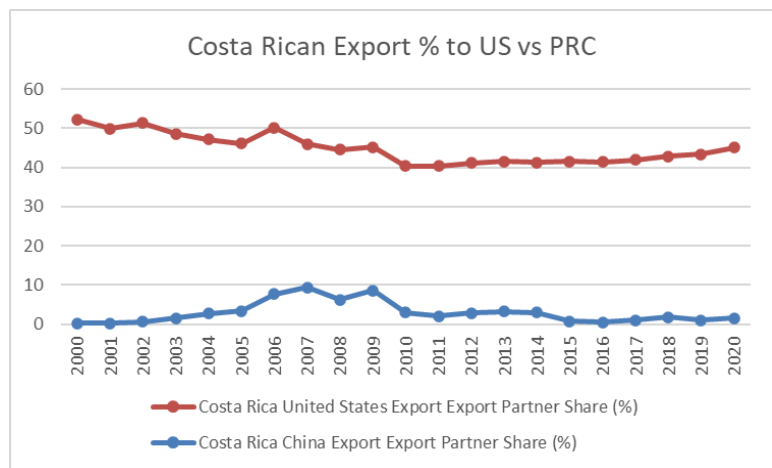
<sup>43</sup>Bowley, Graham. "Cash Helped China Win Costa Rica's Recognition." *The New York Times*, The New York Times, 12 Sept. 2008, [www.nytimes.com/2008/09/13/world/asia/13costa.html](http://www.nytimes.com/2008/09/13/world/asia/13costa.html).

<sup>44</sup>Watts, Jonathan. "Victory for China as Costa Rica Cuts Taiwan Ties." *The Guardian*, Guardian News and Media, 8 June 2007, [www.theguardian.com/world/2007/jun/08/china.jonathanwatts](http://www.theguardian.com/world/2007/jun/08/china.jonathanwatts).

annually for Costa Ricans to study in the PRC<sup>45</sup>. These economic incentives competed with the “Study in Taiwan” initiative that the ROC’s ICDF program was running, along with other ROC and ICDF-funded projects<sup>46</sup>.

According to the documents, in January 2009 and January 2008, the PRC State Administration of Foreign Exchange, the covert entity responsible for managing PRC’s foreign exchange reserves, decided to purchase \$150 million in state bonds. The bonds have a 12-year term and an annual interest rate of

2%<sup>47</sup>. Even though trade between the PRC and Costa Rica has more than quadrupled since 2001, the PRC surpassed trade with the ROC since 2000<sup>48,49</sup>. The PRC denied having provided financial incentives



in return for the expulsion of ROC diplomats in Costa Rica. Additionally, there was a record-high Costa Rican export purchase by the PRC in 2007, a gesture of economic goodwill for the change of recognition.

<sup>45</sup>Banco Central de Costa Rica. “Beneficios de Reconocimiento de La República Popular China.” Banco Central de Costa Rica, Jan. 2017, [www.bccr.fi.cr/sites/centrobusqueda/Paginas/results.aspx?k=CHina#k=China-Costa%20Rica](http://www.bccr.fi.cr/sites/centrobusqueda/Paginas/results.aspx?k=CHina#k=China-Costa%20Rica).

<sup>46</sup>Cheng, Joseph Y.S. “Latin America in China’s Contemporary Foreign Policy.” Taylor & Francis Online, 14 May 2007, [www.tandfonline.com/doi/abs/10.1080/00472330680000311?casa\\_token=4q\\_u03ajt16E7KKsdzte\\_ZIYDDJRYqedXt8GoT7JypA63fzZIRIOErTgTzBfTU\\_koq\\_eARtvq](http://www.tandfonline.com/doi/abs/10.1080/00472330680000311?casa_token=4q_u03ajt16E7KKsdzte_ZIYDDJRYqedXt8GoT7JypA63fzZIRIOErTgTzBfTU_koq_eARtvq).

<sup>47</sup>Ministerio de Comercio Exterior de Costa Rica. “China - Costa Rica BIT (2007).” Electronic Database of Investment Treaties (EDIT), 28 Jan. 2012, [edit.wti.org/document/show/0d62acbb-6a51-49a1-8d91-952984a7fe70](http://edit.wti.org/document/show/0d62acbb-6a51-49a1-8d91-952984a7fe70).

<sup>48</sup>UNCTAD. “Costa Rica Trade Information 2000-2010.” UNCTADstat, 11 Apr. 2011, [unctadstat.unctad.org/CountryProfile/CostaRica/TradeProfile/en-GB/188/index.html](http://unctadstat.unctad.org/CountryProfile/CostaRica/TradeProfile/en-GB/188/index.html).

<sup>49</sup>World Integrated Trade Solutions. “Costa Rica Product Exports and Imports to China.” Costa Rica Product Exports and Imports to China 2004 | WITS Data, 2007, [wits.worldbank.org/CountryProfile/en/Country/CRI/Year/2004/TradeFlow/EXPIMP/Partner/CHN/Product/all-grou](http://wits.worldbank.org/CountryProfile/en/Country/CRI/Year/2004/TradeFlow/EXPIMP/Partner/CHN/Product/all-grou).

From 2001 to 2007, trade with the PRC increased its investment and purchasing of exports from Costa Rica by over 3000%, from a mere \$96 million in bilateral trade in 2001 to over \$2.9 billion by the end of 2007<sup>50</sup>. The net inflow of FDI to Costa Rica as a percentage of the nation's GDP jumped from 3.9% in 2001 to 8.3% in 2007, with FDI investment from the PRC taking up approximately 70% of the FDI increase<sup>51</sup>. The rapid increase in FDI and trade relations between the PRC and Costa Rica in the years leading up to the termination of official diplomatic ties with the ROC correlates with H2; Costa Rica preferred to engage economically with China on a massive scale rather than continue diplomatic relations with the ROC.

However, the ROC government attempted to influence Costa Rican politics in its favor: the ICDF and ROC's MOFA. Although trade with the PRC had surpassed the ROC by 2000, the ROC engaged with the Costa Rican government to provide approximately \$320 million to fund infrastructure projects in Costa Rica over ten years and invest in Costa Rican agriculture and medical sectors by providing new equipment in those sectors as well, amounting to \$50 million in investments<sup>52</sup>. The IMF, ICDF, and ROC MOFA reported in 2005 that the ROC was investing more in Latin America than any other region in the ROC's foreign investment portfolio<sup>53</sup>. However, the PRC made it a foreign policy objective to engage with countries economically in return for their diplomatic recognition, and \$18.7 billion were allocated towards that between 2005-2009, outpacing anything else the ROC could offer<sup>54</sup>.

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<sup>50</sup> UNCTAD. "Costa Rica Trade Information 2000-2010." UNCTADstat, 11 Apr. 2011,

<sup>51</sup> World Bank. "Foreign Direct Investment, Net Inflows (% of GDP) - China, Costa Rica." World Bank Open Data, Nov. 2020, [data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2020&locations=CN-CR&start=2000&view=chart](https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2020&locations=CN-CR&start=2000&view=chart).

<sup>52</sup> ICDF. "ROC-BNCR Fund." TAIWANICDF - about the ROC-BNCR Fund, Aug. 2006,

<sup>53</sup> Colantuoni, Steve. "The Free Trade Agreement between Costa Rica and China." The Central American Group, 17 Jan. 2023, [www.thecentralamericangroup.com/free-trade-agreement-between-costa-rica-and-china/](http://www.thecentralamericangroup.com/free-trade-agreement-between-costa-rica-and-china/).

<sup>54</sup> PRC, MFA. "PRC Policy Paper on Latin America and the Caribbean." USC Anneberg, 20 Apr. 2009, [wits.worldbank.org/CountryProfile/Country/CRI/Year/2009/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups](https://wits.worldbank.org/CountryProfile/Country/CRI/Year/2009/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups).

Along with an increase in exports and imports, projects, academic funding, and bond buying at reasonable rates, along with a \$40 million credit line to the National Costa Rican Bank (BNCR) for infrastructure projects in 2008 and \$395 million for a highway, the PRC and Costa Rica also established a free trade agreement (FTA) in 2009<sup>55</sup>. Meetings began in early 2007 and picked up momentum shortly after President Arias formally recognized the PRC. In the case of Costa Rica, I would argue that H1 and H2 are proven correct, as the evidence indicates that the Costa Rican government preferred to have diplomatic ties with the PRC *because* of economic factors and incentives; Beijing decided that it was a foreign policy objective in the region to use said incentives to persuade Costa Rica, who only stood to benefit economically at the time of the diplomatic switch. The conditions in which economic incentives changed the pattern of ROC-PRC recognition in Costa Rica lay in the realm of internal political realignment spurred by the rapid investment and economic incentives provided by the PRC in Costa Rica.

### **El Salvador**

El Salvador ended its official diplomatic ties with the ROC in 2018, a year when the ROC lost much recognition in the region as a whole. El Salvador's case stood out, as it was one of the ROC's longest allies, beginning official diplomatic ties in 1941. The end of relations between the two countries was highly contentious; both claimed it was a mutual decision. However, there are clear indicators of dollar diplomacy by both the ROC and the PRC. The port of La Union played a central role in this diplomatic switch, as the Salvadoran government sought to expand the port's facilities, repeatedly requesting millions of dollars in FDI to fund the project.

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<sup>55</sup>People's Republic of China, Ministry of Commerce. "2009 China-Costa Rica FTA." China FTA Network, 3 Aug. 2011, [fta.mofcom.gov.cn/topic/encosta.shtml](http://fta.mofcom.gov.cn/topic/encosta.shtml).

The ROC was one of the top investors who requested the project. Until 2018, El Salvador received sizable economic assistance from the ROC through the ICDF and private ROC firms that invested in local markets and conducted projects there. From 2014 to 2017, El Salvador and the ROC carried out the "One Town, One Product" Project. The initiative successfully increased the local ceramics and timber industry's output value by 25%<sup>56</sup>. Bilateral trade with the ROC was valued at \$46 million in 2017, making up a large portion of the Salvadoran export market until 2011, when the PRC surpassed it<sup>57</sup>. In the project to expand La Union port facilities, the ROC offered \$18 million to expand the facilities. Yet, the Salvadoran government deemed it needed more and turned to the PRC<sup>58</sup>.

The PRC had become the second largest destination of Salvadoran exports, with over 24.6% of all Salvadoran exports, and much like Costa Rica, had become a focus on PRC foreign policy in the region via economic expansion<sup>59</sup>. El Salvador cut ties with it under the presidency of Salvador Cerén, and the Salvadoran government had been preparing to grant diplomatic recognition to the PRC for at least a year before doing so in the summer of 2018<sup>60</sup>. The ruling party at the time had drafted a proposed legal framework for a special economic zone (SEZ) to promote increased PRC investments and economic ties between the PRC and El Salvador. A bill to establish an SEZ containing La Union, a crucial seaport of El Salvador, was submitted to the

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<sup>56</sup>ICDF. "ICDF Assists El Salvador to Dtrengthen Local Industry Collaboration ." Taiwan ICDF, Aug. 2017, [www.icdf.org.tw/wSite/ct?xItem=49145&ctNode=31572&mp=2](http://www.icdf.org.tw/wSite/ct?xItem=49145&ctNode=31572&mp=2).

<sup>57</sup>World Bank , WITS. "El Salvador Product Exports and Imports to China." El Salvador Product Exports and Imports to China 2020 | WITS Data, Dec. 2020, [wits.worldbank.org/CountryProfile/en/Country/SLV/Year/2020/TradeFlow/EXPIMP/Partner/CHN/Product/All-Gro](https://wits.worldbank.org/CountryProfile/en/Country/SLV/Year/2020/TradeFlow/EXPIMP/Partner/CHN/Product/All-Gro).

<sup>58</sup>ROC, MOFA. "The R.O.C. Terminates Diplomatic Relations with El Salvador." Ministry of Foreign Affairs, Republic of China (Taiwan), 21 Aug. 2018, [en.mofa.gov.tw/News\\_Content.aspx?n=1330&sms=274&s=34154](http://en.mofa.gov.tw/News_Content.aspx?n=1330&sms=274&s=34154), [en.mofa.gov.tw/News\\_Content.aspx?n=1EADDCFD4C6EC567&s=0DB8435E0E11485D](http://en.mofa.gov.tw/News_Content.aspx?n=1EADDCFD4C6EC567&s=0DB8435E0E11485D).

<sup>59</sup>International Monetary Fund, . "El Salvador and the IMF." IMF, 8 Mar. 2019, [www.imf.org/en/Countries/SLV#countrydata](http://www.imf.org/en/Countries/SLV#countrydata).

<sup>60</sup>Fyodor Wolf and Chris Rodriguez, Boston University. "China-Latin America Economic Bulletin." Brown University, Center for Latin American Studies , Sept. 2019, [www.bu.edu/gdp/files/2019/02/GCI-Bulletin-Final-2019-1-1.pdf](http://www.bu.edu/gdp/files/2019/02/GCI-Bulletin-Final-2019-1-1.pdf).



Legislative Assembly on July 2, 2018, six weeks before the diplomatic shift. This territory is subject to different trade and economic regulations from the rest of the nation. This is especially relevant to PRC state-owned enterprises, as it would allow the PRC to establish a tangible

presence in the regional market<sup>61</sup>. The promise of this expanded port facility funding, increased business opportunities, and FDI would come to El Salvador in return for the ending of official diplomatic ties with the ROC. In 2018, El Salvador did just that, and President Cerén’s successor, Nayib Bukele, continued expanding relations with the PRC.<sup>62</sup>

The incentive of establishing an SEZ in La Unión also brought the promise of foreign investment and business to El Salvador, as foreign businesses, which would overwhelmingly be of PRC origin, would only be allowed to join the SEZ if they could guarantee the hiring of 200 workers or invest at least \$20 million within the first three years of the company's existence. Companies in the SEZ would also have to invest \$5 million right away<sup>63</sup>. With six companies from the PRC committing to establish business quickly, the Salvadoran government would

<sup>61</sup>Fyodor Wolf and Chris Rodriguez, Boston University. “China-Latin America Economic Bulletin.” Brown University, Center for Latin American Studies, Sept. 2019, [www.bu.edu/gdp/files/2019/02/GCI-Bulletin-Final-2019-1-1.pdf](http://www.bu.edu/gdp/files/2019/02/GCI-Bulletin-Final-2019-1-1.pdf).

<sup>62</sup>Image source: Russell, Benjamin. “What a Controversial Deal in El Salvador Says about China’s Bigger Plans.” *Americas Quarterly*, 15 Aug. 2019, [www.americasquarterly.org/article/what-a-controversial-deal-in-el-salvador-says-about-chinas-bigger-plans/](http://www.americasquarterly.org/article/what-a-controversial-deal-in-el-salvador-says-about-chinas-bigger-plans/).

<sup>63</sup>Ellis, Evan. “China and El Salvador: An Update.” Center for Strategic and International Studies, 11 Mar. 2021, [www.csis.org/analysis/china-and-el-salvador-update](http://www.csis.org/analysis/china-and-el-salvador-update).

receive \$30 million upfront, an expected \$120 million in the short term, and millions of dollars after in trade and business in the SEZ. Along with attracting millions of dollars in investment, the PRC also saw a 25.4% increase in exports to El Salvador and a 13.7% increase in imports from 2018-2020<sup>64</sup>. It was economically advantageous for El Salvador to conduct the radical diplomatic change with the PRC, proving my H2 argument. The bulk of the incentives the PRC used to convince countries to recognize it diplomatically came after the diplomatic change occurred.

The increase in trade value was estimated at another \$25.6 million between the two nations. President Bukele also saw the inclusion of El Salvador into the BRI in 2019 after meeting with Xi Jinping, having signed many memorandums of understanding (MoUs) where the PRC promised to invest in El Salvador with \$500 million in development projects<sup>65</sup>. These initiatives include the construction of a new national football stadium, a US\$40 million national library, a \$200 million "Surf City" project (part of the BRI project), and a renovated tourist pier in La Libertad and Ilopango<sup>66</sup>. Known for his social media use, Bukele declared on X (formerly Twitter) in December 2021 that El Salvador will build a new national library worth \$54 million for a collaboration project funded by the PRC<sup>67</sup>. Later that same month, the president of El Salvador declared that, at an additional \$500 million, a 50,000-seat stadium called Estadio Nacional de El Salvador would be constructed in partnership with China<sup>68</sup>. All of these projects, investments, and construction are effectively rewarded for the diplomatic change that El

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<sup>64</sup> OEC, "China (CHN) and El Salvador (SLV) Trade." The Observatory of Economic Complexity, Nov. 2020

<sup>65</sup> Bermúdez, Angel. "Bukele Visita China: El Histórico Acercamiento de El Salvador a Pekín y La 'Gigantesca Cooperación' Que Recibe a Cambio." BBC News Mundo, BBC, 4 Dec. 2019, [www.bbc.com/mundo/noticias-america-latina-50666592](http://www.bbc.com/mundo/noticias-america-latina-50666592).

<sup>66</sup> International Republican Institute, . "Coercion, Capture, and Censorship: Case Studies on the CCP's Quest for Global Influence." International Republican Institute, 8 Aug. 2023, [www.iri.org/resources/coercion-capture-and-censorship-case-studies-on-the-ccps-quest-for-global-influence/](http://www.iri.org/resources/coercion-capture-and-censorship-case-studies-on-the-ccps-quest-for-global-influence/).

<sup>67</sup> Bukele, Nayib. "Esta Es Una Colaboración Otorgada Directamente Por El Presidente Xi y Una Muestra de La Amistad Entre Los Pueblos de China y El Salvador 🇸🇻🇨🇳" Twitter, Twitter, 31 Dec. 2021, [twitter.com/nayibbukele/status/1476739613507170311](https://twitter.com/nayibbukele/status/1476739613507170311).

<sup>68</sup> Piña, Carlos. "China Ties Work to Bukele's Advantage in El Salvador's Upcoming Election." The Diplomat, 24 Jan. 2024, [thediplomat.com/2024/01/china-ties-work-to-bukeles-advantage-in-el-salvadors-upcoming-election/](https://thediplomat.com/2024/01/china-ties-work-to-bukeles-advantage-in-el-salvadors-upcoming-election/).

Salvador made. I would then argue that these incentives fit into my H1 argument, as these incentives exist because the PRC's focus on Latin America is to use economic resources to reduce the recognition of the ROC. The Salvadoran case study also fits into my H2 argument. El Salvador recognized the state that provided the best incentive to do so, and the introduction informed its political situation of significant economic incentives.

## **Guatemala**

Guatemala has remained one of the ROC's staunchest and longest-lasting diplomatic allies, not just regionally but globally, first establishing relations in 1933. The Guatemalan government stands out in the region, as it remains connected to Taipei despite increased PRC recognition. The ROC's approach to maintaining Guatemala as an ally demonstrates a "lessons learned" approach to diplomacy, analyzing where they failed in maintaining other diplomatic relationships. Exploring what the ROC has done to strengthen its solid diplomatic ties with Guatemala is essential. As recently as in February 2024, the Guatemalan foreign minister stated that the two nations had strong relations and that Guatemala had no intention of changing its diplomatic status<sup>69</sup>.

The PRC has offered aid package investment and launched multiple protests when ROC diplomats visit Guatemala, and vice versa. Yet, nothing has moved the Guatemalan government to an official policy change. Rather than competing in equal dollar amounts for investment or development projects, the ROC has instead focused on specialized sectors of the Guatemalan economy where they can leverage their advantages. Still, they were no longer willing or able to compete with the PRC in dollar diplomacy.

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<sup>69</sup>ROC, MOFA. "MOFA Welcomes Guatemala's Position on Maintaining Diplomatic Relations with Taiwan." Ministry of Foreign Affairs, Republic of China (Taiwan), 8 Feb. 2024, [en.mofa.gov.tw/News\\_Content.aspx?n=1328&sms=273&s=116574](https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=116574).



Like Costa Rica, Guatemala was also placed in the "Study in Taiwan" program in 2006. Guatemalan students were regularly hosted at the National Taiwan University and the National Sun Yat-sen University, the top two universities in the ROC<sup>70</sup>. The ROC has also heavily invested in developing the Guatemalan agricultural sector, with new farming equipment, from power tools to heavy machinery, totaling up to \$60 million have been sent to Guatemala from 2012-2019<sup>71</sup>. Along with agriculture, the ROC invested heavily in Guatemala's medical sector, funding a 340-bed hospital, which has 15 departments and was finished in February 2023 after 14 months of construction, being built with \$22 million provided by the ROC<sup>72</sup>. The new building at Hospital San Juan de Dios in Guatemala City meets the demand for specialist post-natal and child care in Guatemala. It demonstrates the ROC's dependable commitment to its ally, leveraging itself as more honest in its commitments than the PRC<sup>73</sup>. During their visit to the hospital, Presidents Tsai Ing-wen of the Republic of the Congo and Alejandro Giammattei of the Republic of Guatemala highlighted the 90 years of diplomatic relations between the two nations<sup>74</sup>. During the previous year's presidential campaign, Arevalo once questioned the necessity of keeping links with Taiwan. However, he later claimed that pursuing trade with China would not jeopardize the current relationship<sup>75</sup>. The ROC also assisted Guatemala more than the PRC in the COVID-19 pandemic.

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<sup>70</sup>Hu, Shaohua. "Small State Foreign Policy: The Diplomatic Recognition of the ROC." *China: An International Journal* 13, no. 2 (2015): 1-23. <https://doi.org/10.1353/chn.2015.0013>.

<sup>71</sup>World Bank. "Foreign Direct Investment, Net Inflows (% of GDP) - Taiwan, Guatemala." World Bank Open Data, Nov. 2020,

[data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2020&locations=TW-GT&start=2000&view=chart](https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2020&locations=TW-GT&start=2000&view=chart).

<sup>72</sup>Menchu, Sofia. "Taiwan Strengthens Ties with Guatemala Following Honduras Rupture." *U.S. News*, 2 Apr. 2023, [www.usnews.com/news/world/articles/2023-04-02/taiwan-strengthens-ties-with-guatemala-following-honduras-rupture](https://www.usnews.com/news/world/articles/2023-04-02/taiwan-strengthens-ties-with-guatemala-following-honduras-rupture).

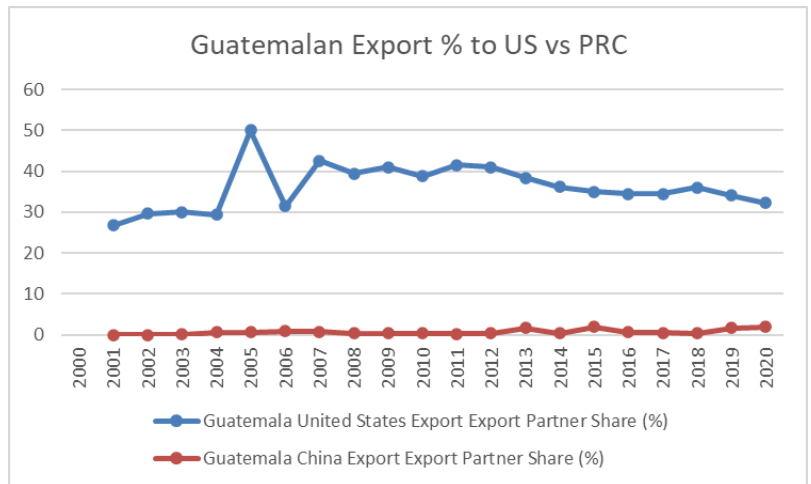
<sup>73</sup>ROC, MOFA. "MOFA Welcomes Guatemala's Position on Maintaining Diplomatic Relations with Taiwan." *Ministry of Foreign Affairs, Republic of China (Taiwan)*, 8 Feb. 2024, 4.

<sup>74</sup>Colville, Alex, "President Tsai Visits National Hospital of Chimaltenango, Attends Donation and Handover Ceremony." [English.president.gov.tw, english.president.gov.tw/NEWS/6479](https://english.president.gov.tw/english.president.gov.tw/NEWS/6479).

<sup>75</sup>Sosby, Hunter. "Guatemala's Decision: Exploring What China and Taiwan Actually Offer." *The Diplomat*, 23 Jan. 2024, [thediplomat.com/2024/01/guatemalas-decision-exploring-what-china-and-taiwan-actually-offer/](https://thediplomat.com/2024/01/guatemalas-decision-exploring-what-china-and-taiwan-actually-offer/).

The ROC started sponsoring food banks and local economies in Guatemala, trained medical professionals, and provided disaster relief during the COVID-19 pandemic. President Giammattei stated in a Financial Times interview that not only had he turned down P.R.C. offers of vaccinations during the epidemic, but that the ROC had provided personal protective equipment (PPE) when no one else could<sup>76</sup>. Despite lacking the P.R.C. expansive infrastructure incentive projects such as the BRI, the ROC has provided \$600 million in grants and loans to restore a crucial route that links Guatemala City, the nation's capital, to its primary Atlantic port.<sup>77</sup>

In addition to reducing tariffs on almost 7,000 items exchanged between the two countries, the ROC-Guatemala Free Trade Agreement established in 2006 also reduced tariffs on ROC exports of industrial and agricultural goods to Guatemala and Guatemalan exports of farm goods to the ROC. Bilateral trade rose to over \$150 million a year after the FTA was implemented, and it



peaked in 2015 at \$241 million<sup>78</sup>. The value of two-way commerce was \$208 million in 2018.

But compared to its bilateral commerce with the ROC, Guatemala's trade with the PRC has

<sup>76</sup>Telias, Diego, and Francisco Urdinez. "China's Foreign Aid Political Drivers: Lessons from a Novel Dataset of Mask Diplomacy in Latin America during the COVID-19 Pandemic." PubMed Central, 10 Apr. 2022, [www.ncbi.nlm.nih.gov/pmc/articles/PMC9264378/#e%20expense%20of%20the%20ROC](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC9264378/#e%20expense%20of%20the%20ROC).

<sup>77</sup>Colville, Alex. "Despite Its Promises, Guatemala May Be Slipping from Taiwan's Grasp." The China Project, 5 Sept. 2023, [thechinaproject.com/2023/09/05/despite-its-promises-guatemala-may-be-slipping-from-taiwans-grasp/](https://thechinaproject.com/2023/09/05/despite-its-promises-guatemala-may-be-slipping-from-taiwans-grasp/).

<sup>78</sup>Rich, T., & Dahmer, A. (2017). the ROC's Central America Dilemma. The ROC Sentinel. September 21. Available at: <https://sentinel.tw/the-ROCs-central-america-dilemma/>

expanded exponentially quicker, reaching approximately \$2.6 billion in 2019<sup>79</sup>. However, most of the trade with Guatemala appears to be with the US, and due to the large percentage of Guatemalan exports, the Guatemalan government prefers to maintain favor with the US through its recognition of the ROC.

Political, moral, and historical factors led Guatemala to continue its relationship with the ROC. Despite the incentives seen in El Salvador and Costa Rica and the pragmatic trade benefits included in PRC recognition, Guatemala has prioritized diplomatic tradition over financial gain in the global market. In the case of Guatemala, it is prioritizing its diplomatic relationship with the ROC, ignoring the incentives laid out by the PRC and presented in other countries. The ROC has not been ethical or legal in its approach to maintaining its ally; however, former Guatemalan President Alfonso Portillo 2014 admitted to taking \$2.5 million in bribes from the ROC in exchange for continuing to recognize the country diplomatically<sup>80</sup>. Controversial decisions taken by the ROC, including bribery and military training of Guatemalan soldiers who participated in the Guatemalan Civil War showed a willingness to engage in dollar diplomacy to influence the Guatemalan government in maintaining its position as the ROC<sup>81</sup>.

For many years, the PRC has pressured Guatemala to cut its connections to the ROC. In a rare case of veto power usage, the PRC vetoed a resolution in the late 1990s that called for sending UN peacekeeping forces to oversee Guatemala's peace accords, which ended the

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<sup>79</sup>World Bank, WITS. "Guatemala Product Exports and Imports to China." Guatemala Product Exports and Imports to China 2020 | WITS Data, Sept. 2020, [wits.worldbank.org/CountryProfile/en/Country/GTM/Year/2020/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups](https://wits.worldbank.org/CountryProfile/en/Country/GTM/Year/2020/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups).

<sup>80</sup>Raymond, Nate. "Ex-Guatemalan Leader Admits Taking Taiwan Bribes in U.S. Court | Reuters." Reuters, 18 Mar. 2014, [www.reuters.com/article/us-guatemala-portillo-idUSBREA2H1QD20140318](https://www.reuters.com/article/us-guatemala-portillo-idUSBREA2H1QD20140318).

<sup>81</sup>Global Taiwan Institute Chang, I-wei Jennifer. "Guatemala's Role in Taiwan's Diplomatic Strategy in Central America." Global Taiwan Institute, 8 Sept. 2022, [globaltaiwan.org/2020/08/guatemalas-role-in-taiwans-diplomatic-strategy-in-central-america/](https://globaltaiwan.org/2020/08/guatemalas-role-in-taiwans-diplomatic-strategy-in-central-america/).

country's 36-year civil war, using its permanent seat on the UN Security Council<sup>82</sup>. It was believed that the PRC made this decision in retaliation towards Guatemala for its continued diplomatic ties with the ROC. Beijing has recently increased its pressure on the Guatemalan government to sever formal ties with the ROC. Yet, Guatemala remains firmly fixed on the ROC, essentially to continue to curry favor with the US<sup>83</sup>.

The case of Guatemala is unique in my case studies. Despite the incentives presented by the PRC, the Guatemalan government has firmly backed its decision to recognize the ROC. This indicates that it is not just economic motivations that can initiate a diplomatic shift; I would then extend my argument following H2 and focus on Guatemala's case. Guatemala does not precisely fit into the theoretical framework of the thesis; however, it works within it. The incentives provided by the ROC within the Guatemalan economy and state outweigh those that would come about from recognizing the PRC. The ROC has placed itself in specific essential sectors of the Guatemalan economy. It invests heavily in those areas, allowing it to maintain an advantage over the significant blanket investments the PRC has made in other countries in the region. The ROC's success in the area may be partially attributed to its ability to integrate into Latin America's political and economic structures instead of individual efforts to form and sustain alliances elsewhere.

## **Policy Recommendations**

Aid and support from Taiwan to Latin America and the Caribbean are critical for regional development, disaster resilience, recovery, and the ROC's capacity to maintain diplomatic

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<sup>82</sup>Global Taiwan Institute Chang, I-wei Jennifer. "Guatemala's Role in Taiwan's Diplomatic Strategy in Central America." Global Taiwan Institute, 8 Sept. 2022, [globaltaiwan.org/2020/08/guatemalas-role-in-taiwans-diplomatic-strategy-in-central-america/](https://globaltaiwan.org/2020/08/guatemalas-role-in-taiwans-diplomatic-strategy-in-central-america/).

<sup>83</sup> Reuters. "Guatemala to Maintain Taiwan Ties despite Seeking Greater China Trade | Reuters." Reuters, 6 Dec. 2021

recognition from its surviving partner states. To guarantee its efficacy, the ROC should likely focus on efforts to highlight its aid as a collaborative effort, integrate its initiatives into a structure that acknowledges them as a single element of more extensive associations, and devise a more comprehensive plan for maintaining its global standing and acknowledgment within the area. By working with the ROC on development and disaster relief projects and making it clear to neighboring states that U.S. policy would be unhappy if they cut diplomatic ties with Taiwan, the United States hopes to support the maintenance of Taiwan's diplomatic partnerships with Latin American and Caribbean countries.

The ROC can interact with the OAS and the US Department of State more readily by going through multilateral bodies. In addition to establishing a multilateral cooperation framework, the ROC and the US discussed forming partnerships with the two Latin American nations in several areas, including commerce, investment, and infrastructure. After that, a statement from the ROC's MOFA declared that the ROC would "continue to boost the prosperity and development of Central America<sup>84</sup>." The 2020 workshop of the Global Cooperation and Training Framework (GCTF) was held in Guatemala by the ROC, the US, and Japan. The ROC's close relations and foreign aid to Guatemala and other Central American nations allow Washington, Taipei, and other like-minded allies to work together to further regional development and cooperation. It must integrate into specific yet critical economic sectors to continue its diplomatic recognition from other regional allied states, such as Paraguay, Belize, and Haiti.

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<sup>84</sup>MOFA-ROC. "Ministry of Foreign Affairs, Republic of China, Official Development Assistance." Ministry of Foreign Affairs, Republic of China (Taiwan), Dec. 2022, [en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20Taiwan%20provided%20NTD,gross%20national%20income%20that%20year](https://en.mofa.gov.tw/cp.aspx?n=1579#:~:text=In%202022%2C%20Taiwan%20provided%20NTD,gross%20national%20income%20that%20year).

The presence of the US in the region has also played a role in the politics of diplomatic recognition, as states in Latin America initially recognized the ROC to be aligned with the US during the Cold War. Despite this, countries have changed their diplomatic status. While this may reflect a change in the standing of the US in the region, it remains the largest trade partner for each country in the countries discussed in the case studies and continues to expand its relationship. To continue a positive relationship with states in Latin America, the US must invest in near-shoring IT and microchip services in Costa Rica, internal security and military training in El Salvador, arms sales, and agriculture in Guatemala<sup>85</sup>. Collaborating in these sectors with the ROC, particularly in the states that continue to be recognized, can ensure its continued recognition and avoid total international isolation.

## **Conclusion**

The use of economic incentives by the PRC's government in Latin America has turned the region into another area of competition for it and the US. The ROCs' reduction of diplomatic recognition coincides with a rise in the PRC's involvement in the region. The US must be prepared to step up in the region to assist the ROC in its continued struggle for diplomatic recognition in the area. The data we reviewed in this thesis indicates that countries in Latin America prioritize the expansion of markets and the opportunity to gain foreign investment over any security concerns they may have concerning the PRC. This does not reflect US policy failure in the region, as many countries still maintain solid diplomatic, economic, and security ties with the US. The evolution of Latin America as a center of global political events coincides with the rapidly changing nature of the worldwide order. With the US no longer being the largest

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<sup>85</sup>Crodell, Kristen A. "Chinese Development Assistance: A New Approach or More of the Same?" Carnegie Endowment, 23 Mar. 2021, [carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141](https://carnegieendowment.org/2021/03/23/Chinese-development-assistance-new-approach-or-more-of-same-pub-84141).

economy in the world, countries who were once inclined to solely follow the US economically and, by extension, diplomatically are now seeking ways to find their place in the global order. Latin American countries focus on creating a more interconnected world, and while they may no longer diplomatically recognize the ROC, informal channels continue to exist, and the trade networks continue to flow.

The Costa Rica, El Salvador, and Guatemala cases symbolize changes in Latin America as an essential center for geopolitical matters. These states must balance their economic interests in working with the PRC while maintaining positive relations with the US. While the US is not as influential as it once was during the Cold War, states in Latin America continue to be close to the US out of proximity and economic need. As we have seen in our case studies, economic factors influence the sway of diplomatic recognition. They can work to sway countries to one side of a geopolitical conflict or another. With economic multipolarity now a reality in the global order, Latin American states will face more significant decisions on who they work with in the future.

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