

Nicaragua's Flip to China: What Does It Mean for the Region?

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Nicaragua's diplomatic flip from Taiwan to the People's Republic of China (PRC), announced on December 9, was almost inevitable, but it will accelerate a worrisome trend in parts of the Western Hemisphere closest to the U.S. to a China-funded form of authoritarian populism. That growing threat, in a part of the hemisphere once considered politically allied or at least compliant with the U.S., will also include secondary risks from an expanded presence by other U.S. rivals such as Russia and Iran, expanded drug and other organized crime flows through the region, and decreased security cooperation. That combination will have grave strategic consequences for the United States.

The U.S. has received many wake-up calls on the mounting strategic challenges in its own near abroad, with which its security and prosperity are intimately connected through ties of commerce, geography, and family. Every time, it has hit the snooze button.

The timing of the announcement of Nicaragua's diplomatic flip to the PRC, coinciding with the Biden administration's Summit for Democracy, was likely no accident. It is a harsh reminder that Central American governments and others have very real options to ally themselves with extra-hemispheric actors threatening the United States, if the U.S. treats them with contempt or disinterest. The days in which the U.S. had the luxury of strong-arming compliant Central American partners, whether over corruption, democracy, or immigration, are over. Washington no longer has the luxury to not act strategically.

Daniel Ortega's revolutionary Sandinista movement switched relations from Taiwan to the PRC in December 1985, six years after their seizure of power in Managua. It was the government of Violeta Chamorro that re-established relations with Taiwan following her 1990 election and the restoration of Nicaraguan democracy. The world may never know

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how much the Ortegas extorted from Taiwan for their personal benefit, in addition to what Taiwan gave Nicaragua as a country, in exchange for not resuming relations with the PRC after the Sandinistas returned to power in 2007. It is highly unlikely that Taiwan would abandon one of its few remaining global allies, however undemocratic and abusive of the rights of Nicaraguans the Ortegas have shown themselves to be. Thus it is likely that the PRC offered the Ortegas a much better deal, and that the details will emerge in the coming weeks.

Consequences for Nicaragua

Based on the past diplomatic flips to the PRC by Costa Rica (2007)², Panama (2017)³, the Dominican Republic⁴ and El Salvador⁵ (2018), it is likely that the Ortegas and businesspeople connected with them will travel to the PRC to sign a series of non-transparent Memoranda of Understanding (MOU). These MOUs will probably include references to expedited approval of phytosanitary agreements and other measures to facilitate the importation of a symbolic amount of Nicaraguan coffee and fruit, benefitting select Ortega cronies in the export sector, as happened in other Central American countries.

In the educational sphere, Chinese and Nicaraguan officials will likely announce a new Confucius Institute in Managua, along with Hanban scholarships for well-connected Nicaraguan students, and perhaps Chinese support to the Nicaraguan foreign ministry to set up their operations in the PRC.

Beyond such symbolic gestures, the non-transparent MOUs will likely open the way for significant infrastructure projects in sectors from ports and highways to electricity, designed by Chinese companies, built by Chinese laborers, and funded by Chinese policy bank loans.

It is not clear that the diplomatic flip will revive the Nicaraguan Canal⁶, a proposed alternative to the Panama Canal that received interest from Chinese billionaire Wang Jing and approval from the Ortega government in 2013, but has since languished. Nonetheless, it will be a topic of much speculation, particularly if Wang and his company Xinwei return to the spotlight with Paul Oquist, a Nicaraguan official who played a key role in the project's development⁷. The fact that Daniel Ortega's son Laureano, who played the key role in the canal project, also led the secret negotiation in Tianjin⁸, China that led to Nicaragua's flip, suggests that the resurrection of the canal project could be on the table at some point. Moreover, the surprise reappearance of Wang Jing in November 2021 to advocate for the continuation of the canal project, after having been out of the public spotlight since March 2020⁹, suggests that he may have had insider knowledge of the secret negotiations between his friend Laureano and the PRC at that point, and saw it as an opportunity to put his Canal project back on the table. At the very least, diplomatic relations with the PRC will make the canal much more feasible, even if not an immediate reality. Whatever projects and loans the Ortega's new Chinese patrons promise, there will be plenty of PRC money to keep Ortega, Vice

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President Rosario Murillo, and their cronies in power, even if Nicaragua is ultimately sanctioned by the United States and kicked out of the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). As in Venezuela, Nicaragua's corruption and lack of transparency will allow the ruling elite to siphon off much of the new Chinese funding for personal use, with some spread around to convince key actors in the Nicaraguan military and other parts of the power structure to stay with the Ortegas.

It is reasonable to expect that the populist anti-US Sandinista regime may take military cooperation with its new Chinese patrons much further, much faster than more pro-US governments which have recently changed such as Panama, El Salvador, and the Dominican Republic. Historically, it has been the leftist populist governments in the region, including Venezuela, Ecuador under Rafael Correa, Bolivia under Evo Morales, and Argentina under the Peronists, who have purchased the most Chinese military equipment, including K-8 fighters and armored vehicles by Venezuela, over 700 military trucks and armored vehicles by Ecuador, helicopters and armored vehicles by Bolivia, and the possibility of Argentina's purchase of China's FC-1 fighter. Moreover, such leftist populist regimes have implemented the most troubling Chinese security architectures such as the Fatherland Identity Card in Venezuela, ECU-911 in Ecuador, and BOL-110 in Bolivia. Thus, while it is premature to anticipate Chinese establishment of a military facility in Nicaragua, it is likely that the new relationship will involve some form of military cooperation that will cause deep discomfort in Washington.

Regional Implications

The most grave consequences of Nicaragua's flip go beyond the Nicaragua-China relationship. Given that Nicaragua is also one of Russia's closest partners in the region, the influx of Chinese money may give the Ortegas new resources and boldness to expand security cooperation and other provocative activities with Russia. That, in turn, will raise concern across the region, particularly in Colombia and Costa Rica. Indeed, Russia's current posturing toward an invasion of Ukraine may increase its interest in closer ties with Nicaragua. Building relations with U.S. adversaries in the Western Hemisphere would complicate the strategic chessboard for Washington, just as Russia reached out to Nicaragua and other allies in Latin America in the context of the Russian-backed succession crisis in Georgia in 2008, and with the escalation of tensions with Russian-backed separatists in the Donbass region of Ukraine in 2013.

Nicaragua's flip to the PRC will also shift the regional balance further from Taiwan. To Nicaragua's north, the recently elected government of Xiomara Castro in Honduras is likely to fulfill its own campaign promise to switch that nation's relations to the PRC, although recently Vice-President Salvador Nasrallah has suggested that Honduras would stay with Taiwan for now. The visit to Honduras by U.S. Assistant Secretary of State Brian Nichols probably reinforced the hope of the new Castro government to stay on Washington's good side, and work with the US on issues such as corruption. Castro will know that in the wake of Nicaragua's flip, a change by Honduras now would poison the new regime's relationship with Washington at a delicate moment, thus potentially

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leading Honduras to postpone its own change. Nonetheless, in the short term, Nicaragua's change probably means that the price Honduras will be trying to extract from its Taiwanese patrons not to recognize the PRC probably just went up significantly.

In economic terms, having all three countries on the Gulf of Fonseca recognizing China will create synergies for PRC-driven logistics projects, improving the chances for a new port at La Unión, the improved dry canal corridor from Tigre Island to the Atlantic Coast of Honduras, and a connection to Nicaragua.

From a political standpoint, the flips by Nicaragua and possibly Honduras will leave Guatemala and Belize as the only governments in Central America that do not recognize the PRC¹⁰. It will create a cluster of regimes (El Salvador, Honduras, and Nicaragua) empowered by Chinese money with the latitude and motivation to thumb their noses at U.S. censure regarding democracy, corruption, immigration, and counterdrug cooperation. Although the Castro government may play nice with Washington for a while, in the long run, the new configuration will leave the Biden Administration uncomfortably looking to Alejandro Giammattei in Guatemala, whom it just shunned by not inviting to its democracy summit and not giving an executive branch level reception during his visit to the United States.

In Mexico, the new configuration will likely embolden the government of Andrés Manuel López Obrador (AMLO) to continue to radicalize his country's foreign policy in a way that is simultaneously less cooperative with the U.S., and more attentive to Mexico's Central American neighbors, to which Mexico has historically devoted special attention when not focused on Washington. Indeed, in Mexico, Chinese firms are already positioned in the Perdido Basin and the Dos Bocas refinery in the petroleum sector, the Bacanora lithium fields in the Sonora desert, Zuma energy, and the Maya tourist train, among others. In that context, the sudden opening of Honduras and Nicaragua to China-funded infrastructure projects may raise the prospect of Chinese leadership on regional integration projects once discussed by the U.S., but structured very differently by the Chinese, promising the development and economic integration of southern Mexico with Central America.

Beyond Mexico and Central America, Nicaragua's revival as an economic and political actor despite U.S. attempts to isolate it will reinforce the growing current of leftists and other anti-U.S. populists in other parts of the hemisphere. This growing list now includes Venezuela, Cuba, Bolivia, Argentina, Peru, and possibly Chile if Gabriel Boric's lead in the polls for Chile's December 19 presidential runoff election holds¹¹. All of the new leftist and populist governments will be looking to Chinese markets, loans, and investment, and possibly willing to cooperate with the PRC and other U.S. extra-hemispheric rivals in ways that their democratic predecessors did not. Within months, elections in Costa Rica (February 2022), Colombia (May 2022) and Brazil (October 2022) could further complicate the situation, leaving the United States confronting a region opposed to it or uncooperative with its agenda to varying degrees.

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U.S. Response

The US needs to get back in the game. This includes, but is not necessarily limited to:

- The U.S. must provide an order of magnitude increase in funding devoted to the region, centered on ensuring that democratic U.S. allies and free markets succeed, but not limited just to the funding of green projects, or those that specifically benefit women, indigenous, or other disadvantaged groups.
- While the United States should continue to press for democracy and the fight against corruption, it must do a better job at supporting, and openly standing up for its allies, and not seeking to castigate them for their imperfections in the context of a threat as significant as China, Russia, and other extra-hemispheric actors. The US needs to show more respect to Colombia, Guatemala, and Brazil, among its other allies in the region.
- The U.S. needs to immediately expel Nicaragua from DR-CAFTA, and step up actions in other areas against the Ortega regime, including U.S. Treasury sanctions, and Department of Justice investigations where possible. This includes steps against other authoritarians beyond Nicaragua, including the Maduro regime in Venezuela, to send a message about U.S. resolve, not weakness. The U.S. can enlist its European and likeminded Asian allies in that stepped-up campaign.
- The U.S. must actively coordinate with its friends in Taiwan, to design a strategy to work openly and closely with it, to strongly discourage further diplomatic flips through economic incentives, diplomatic pressure, intelligence sharing, and other forms of coordination.
- At the same time, the U.S. must expand its security support and public commitment to Taiwan in Asia, given that the PRC advance in Nicaragua, and the likely coming flip in Honduras, may embolden the PRC to act with increasing aggression against Taiwan in its own neighborhood, including military action.
- Finally, the U.S. must urgently rethink its strategic concept for relating to the states of the Western Hemisphere¹². The United States no longer has the luxury to bully or scold its partners in the region. The U.S. has never faced a hemisphere so politically disposed to resist or work against the U.S., or so fully enabled by an adversary's money to do so.

Endnotes

¹ The author is Latin America Research Professor with the U.S. Army War College. The views expressed herein are strictly his own.

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³ Elida Moreno y Philip Wen, "Panama establishes ties with China, ditches Taiwan in win for Beijing", *reuters.com*, June 12, 2017, <https://www.reuters.com/article/us-panama->

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⁴ Austin Ramzy, "Taiwan's Diplomatic Isolation Increases as Dominican Republic Recognizes China", *nytimes.com*, May 1, 2018, <https://www.nytimes.com/2018/05/01/world/asia/taiwan-dominican-republic-recognize.html>

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⁶ Nicholas Muller, "Nicaragua's Chinese-Financed Canal Project Still in Limbo", *thediplomat.com*, August 20, 2019, <https://thediplomat.com/2019/08/nicaraguas-chinese-financed-canal-project-still-in-limbo/>

⁷ Ibid.

⁸ Helen Davidson, "Nicaragua cuts ties with Taiwan and pivots to China", *theguardian.com*, December 10, 2021, <https://amp.theguardian.com/world/2021/dec/10/nicaragua-cuts-ties-with-taiwan-and-pivots-to-china>

⁹ "Wang Jing reaparece e insiste con el canal interoceánico por Nicaragua", *confidencial.com*, November 11, 2021, <https://www.confidencial.com.ni/politica/wang-jing-reaparece-e-insiste-con-el-canal-interoceanico-por-nicaragua/>

¹⁰ Republic of China – Taiwan, "Allies Index", *Ministry of Foreign Affairs*, <https://en.mofa.gov.tw/AlliesIndex.aspx?n=1294&sms=1007>

¹¹ Atlas Intel, "Encuesta Atlas: Chile, Elección Presidencial 2021 – Segunda Vuelta", *atlasintel.org*, December 1 -4, 2021, <https://cdn.atlasintel.org/16a81493-d71b-4aaa-872a-112294e7af5f.pdf>

¹² Evan Ellis, "The Defense Department's Role in Addressing Extra-Hemispheric State Rivals in Latin America and the Caribbean", *theglobalamericans.org*, December 8, 2021, <https://theglobalamericans.org/2021/12/the-defense-departments-role-in-addressing-extra-hemispheric-state-rivals/>