
PRC Engagement with Central America – An Update

R. Evan Ellis¹

<https://orcid.org/0000-0003-2646-9571>

robert.e.ellis78.civ@army.mil

Abstract

Central America has become a strategic area for China's activities both because of its proximity to the United States and because of the economic, commercial and logistical momentum developed in recent years. Likewise, this region is important to expand Chinese geopolitical influence on the case of Taiwan, due to the interest of President Xi Jinping who wants to politically put this country under his control before the end of his third term in 2027. The Asian nation is taking advantage of the leftist governments in Central America to accentuate its international political position, achieving changes in the diplomatic recognition of Taiwan to the People's Republic of China by nations such as Panama, El Salvador and Nicaragua, a situation that is increasing tensions with the United States, the same that defends the sovereignty of Taiwan.

Keywords: China, Central America, Taiwan, governments, influence.

Introduction

The Chinese spy balloon that overflowed Costa Rica² at the beginning of February 2023, among others, was a reminder of engagement by the People's Republic of China (PRC) with Central America, strategically in the proximity of the United States.

From the perspective of trade and investment volume,³ expanding PRC activities in the Western Hemisphere over the past 20 years have concentrated in South America. Nonetheless, Central America is arguably also important strategic terrain for the PRC in the region, both because of the enduring relationships of its member states with Taiwan, and because of its geography. Central America is important not only because of its proximity to the United States, but also due to features important to both commercial and wartime logistics, such as the Panama Canal.

With respect to Taiwan, three of the 14 states in the world that continue to diplomatically recognize the Republic of China (ROC) are located in the region, and all of the rest have changed relations only in recent years. Although Central America as a potential market for PRC goods in itself is modest, access by companies operating in the region to expedited, largely tariff-free access to the nearby US market through the Central America and Dominican Republic (CAFTA-DR) free trade agreement. In addition, the Central American nation of Panama plays a key role as

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a global commercial logistics and finance hub, adding to the region's strategic importance for PRC-based companies.

In the past five years, the PRC has made significant advances in the Central America, including changes in diplomatic recognition from Taiwan to the PRC by Panama (June 2017),⁴ El Salvador (August 2018),⁵ and Nicaragua (December 2021),⁶ building on Costa Rica's flip in June 2007.⁷ Honduras' current president, Xiomara Castro, as candidate, pledged to recognize the PRC,⁸ and although she has postponed doing so. Nonetheless, the increasing radicalization of her regime, reflected in her January 2023 speech to the CELAC summit,⁹ indicate that more changes could be in the way. Guatemala's June 2023 presidential election, also raises the prospect of a political change, leading to the recognition of the PRC by that long Taiwan-aligned country.

Changes in diplomatic recognition, such as those possible in Central America, have strategic effects going beyond mere diplomacy.¹⁰ Historically such changes have been accompanied by the signing of multiple nontransparent MOU's¹¹ that open up the local market to the PRC, the establishment of Confucius institutes¹² and training programs with the newly recognized governments, and business deals for the politically connected elites¹³ who accompany the government delegation in the initial visits to the PRC following the establishment of diplomatic recognition.

Chinese President Xi Jinping's desire to incorporate Taiwan politically under PRC control before the end of his unprecedented third term¹⁴ in 2027, complemented by expanding US-PRC tensions¹⁵ increases the probability that the PRC will move aggressively in the hemisphere¹⁶ in the coming years. Reciprocally, the regions move toward an increasing number of populist governments on both the left and the right, and away from the United States, increases its potential receptivity for Chinese advances.¹⁷ The August 2022 visit¹⁸ by former US speaker of the house Nancy Pelosi, and the anticipated visit by present House Speaker Michael McCarthy, among others, as well as the current dispute over Chinese spy balloons,¹⁹ will likely further encourage PRC action.

The balance of this work examines the current state of PRC engagement and prospects for the near to mid-term in each of the countries of the region.

Guatemala

In recent years, the PRC advance in Guatemala has been limited by deep distrust among conservative elites in that country for the PRC and the Chinese Communist party. The Giammattei administration in Guatemala, despite significantly deteriorated relations with the United States over the Biden administration's displeasure with indications of significant corruption²⁰ in the country, has thus far refused to turn to the PRC as an alternative. Although the outcome of Guatemala's June 2023 elections²¹ are highly uncertain, a victory by either a center-left-oriented

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candidate more open to working with the PRC such as Sandra Torres,²² or a right-oriented candidate such as Zury Rios,²³ whose Presidency deepened the policy conflict with the Biden Administration, could present a small but not insignificant risk of Guatemalan diplomatic recognition of the PRC.

PRC-based companies have had some success penetrating Guatemala's markets, although Guatemalan businesses have had very little success in placing its exports in the PRC. Guatemala exported \$334 million in goods²⁴ to the PRC in 2021, less than a 10th of the \$3.7 billion it imported from the PRC that year. Similarly, in the absence of diplomatic relations, PRC investment in Guatemala has historically been very limited. The few examples include a Chinese role in the Jaguar thermoelectric plant.²⁵ The presence of PRC-based companies in Guatemala would likely expand significantly if a future Guatemalan administration diplomatically recognizes the PRC.

El Salvador

PRC engagement with El Salvador has proceeded in an irregular fashion since the previous government of Salvador Sanchez Ceren abandoned Taiwan to recognize the PRC in August 2018.²⁶ Major initiatives initially discussed by that government, such as a multi-billion dollar development of the port of La Union and surrounding areas, were slow to materialize.²⁷

The progress of projects by PRC-based companies under the current regime of Nayib Bukele were delayed both by its restructuring of priorities with China, as well as the effect of the COVID-19 pandemic. Nonetheless, a range of significant PRC projects with the country are now proceeding forward at an accelerating rate. At the same time, major projects from the previous administration such as the development of the port of La Union appear to be still on the table.

Current high profile, albeit limited, projects negotiated by the Bukele regime that are now going forward include opening a Confucius Institute²⁸ at the University of El Salvador (UES), the developments of the La Libertad pier²⁹ into a recreation and tourist site, water treatment plants in Ilopango and La Libertad,³⁰ construction of a large national library,³¹ and a sports stadium.³² In addition, at the beginning of 2023, news emerged of Chinese negotiations with the Bukele government to buy up El Salvador's substantial debt,³³ as well as a commitment to negotiate a new free trade agreement³⁴ that would open up El Salvador to PRC-based companies and broader PRC influence.

As in other countries in the region, El Salvador's recognition of the PRC has not meaningfully expanded that nation's exports to the PRC, but has opened up the nation's markets to Chinese goods. Indeed, El Salvador's exports to the PRC actually fell from \$85.8 million in 2018, the year it established relations with the PRC, to \$74.9

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million in 2021.³⁵ On the other hand, imports of Chinese goods expanded during the same period from \$1.64 billion to \$2.53 billion,³⁶ more than triple exports to the PRC.

The acceleration of Chinese projects in El Salvador was arguably enabled by the achievement of a 2/3 majority³⁷ in the Salvadoran legislature by Bukele's New Ideas party, and the passage of a law on the first day the new legislature was seated in May 2021, providing for security protection and logistics support³⁸ to Chinese companies by the Salvadoran government.

Bukele's souring relationship with the United States over his anti-democratic practices and concerns over his security policies encroaching on the rights of Salvadorans, coupled with his needs for economic victory as his signature national Bitcoin program has suffered from the collapse of cryptocurrencies,³⁹ which he aggressively bought and promoted⁴⁰ for use in the Salvador economy, arguably has increased his incentives to turn to the PRC for big and symbolic economic wins. Bukele's strong approval ratings, currently over 90%,⁴¹ based largely on his short-term successes in bringing insecurity in El Salvador down,⁴² arguably reinforces his youthful self-confidence in driving him to also double down on his turn to the PRC.

In this context, the move by Chinese Salvadoran investor Bo Yang to acquire Isla Perico,⁴³ and possibly other moves, suggests that PRC interest in developing a megaport at La Union is still on the table. The previously noted flip of the Ortega regime in Nicaragua December 2021 to recognize China,⁴⁴ and the possible future recognition of the PRC by the Libre regime in Honduras, whose territory includes a strategic highway corridor from the Atlantic to the Pacific ocean in the same Gulf of Fonseca, would arguably add to the strategic value of the Gulf of Fonseca, which with a combination of complimentary strategic logistics projects and domination by three China-friendly countries.

Honduras

Despite Honduras continuing relations with Taiwan, PRC based companies have had some success operating there in major construction projects. These include the \$349 million 104 megawatt Patuca III dam,⁴⁵ built in Olancho by the Chinese firm Sinohydro, as well as participation for a time in the Aqua Zarca hydroelectric project.⁴⁶

The Chinese firm Yuanchi Rubber, in 2011,⁴⁷ made a modern modest investment in Cortez. In 2014, PRC based companies also explored acquisition of the Honduran telecommunications company Hondutel,⁴⁸ but could not come to a satisfactory agreement.

Despite such engagement, however, as in other countries of the region, Honduras has had little success in exporting its products to the Chinese market, by comparison

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to success by PRC-based companies in penetrating Honduras. In 2021, Honduras exported a mere \$8.5 million⁴⁹ in goods to the PRC, by contrast to \$2.1 billion in imports from the country.⁵⁰

The current president of Honduras, Xiomara Castro, as candidate, pledged to abandon Taiwan⁵¹ to recognize the PRC, although since attaining the presidency, she has not yet done so.⁵² Nonetheless, Honduras Foreign Minister Eduardo Reina met with PRC emissary Xie Feng⁵³ in Brazil during the inauguration of Luiz Inácio Lula da Silva in Brazil. Their talk reportedly included a \$300 million PRC commitment⁵⁴ to finance and build a new dam in Honduras, Patuca II, suggesting that a change in recognition could be in the works.

Although the Castro regime and the Biden administration in the US have worked to maintain positive relations, the increasingly left-oriented posture expressed by Castro in her January 2023 CELAC speech,⁵⁵ as well as more radical voices⁵⁶ within her Libre movement (including her husband Mel Zelaya),⁵⁷ raises the prospect of a common divergence of Honduran interests with those of the US, and the President fulfilling her campaign pledge to recognize the PRC.

With the likely recognition of the PRC, if an expanded PRC business presence in the transport corridor connecting the gulf of Fonseca through San Pedro Sula to the Atlantic Coast could ultimately lead to a Libre government's expulsion of the US from its Honduras forward operating location (FOL) Joint Task Force Bravo (JTF-B), just as radical populist Ecuadorian President Rafael Correa expelled the US from the FOL at Manta Ecuador in 2008,⁵⁸ complementing ultimately unsuccessful Ecuadorian plans to transform the port into a Chinese-operated Pacific Coast logistics hub.⁵⁹ A Libre government recognition of the PRC would also substantially increase the likelihood of the development of the Gulf of Fonseca by PRC-based companies as a strategic logistics area, linking a Chinese-operated Port of La Union in El Salvador, to a Chinese dominated Honduras Atlantic-to-Pacific transport corridor, to Nicaragua.

Nicaragua

The populist authoritarian government of Daniel Ortega and Rosario Murillo has received remarkably little from the PRC for its December 2021 abandonment of Taiwan⁶⁰ to recognize the PRC, by contrast to other such recent "flips" in Central America.

Following secret negotiations in Tianjin, led by Ortega's son Laureano,⁶¹ in December 2021, Nicaragua's Sandinista government established relations with the PRC and declared its adherence to the PRC Belt and Road Initiative,⁶² the 21st country in the hemisphere to do so since Panama's adherence to BRI in 2018. Initially, the PRC donated a modest quantity of Chinese Covid-19 vaccines⁶³ to the Ortega regime as a reward for its recognition. Nonetheless, in the slightly more than a year since

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recognition, Nicaraguan exports to the PRC have not expanded sufficiently⁶⁴ to cover the country's lost exports to Taiwan. Nonetheless, in July 2022, the Ortega regime and the PRC announced a symbolic "Early harvest" agreement⁶⁵ to expand that trade, working toward a free trade agreement that will farther open up the Nicaraguan markets to Chinese companies. Nor has Nicaragua secured substantial PRC investments or loan-backed projects⁶⁶ in exchange for its flip. The PRC did loan Nicaragua money for a 920-unit public housing project,⁶⁷ to be built by a PRC-based company with Chinese workers.

Despite such modest advances, major projects previously contemplated between China and Nicaragua such as the \$40 billion Nicaragua canal,⁶⁸ have not gone forward. Indeed, Wang Jing, the Chinese promoter of the canal project and the head of the defense technology company Xinwei,⁶⁹ has maintained a very low profile since his brief public reemergence in November 2021.⁷⁰ Xinwei has made, however, a \$200 million investment⁷¹ to establish a low-cost cell phone service company, CooTel, in the country.

The PRC's notably limited generosity towards the Ortegas in Nicaragua, by contrast to its behavior following diplomatic flips elsewhere, arguably owes to multiple factors, including vindictiveness in punishing the Ortegas for having waited 14 years from resuming power in 2007, until 2021, to recognize the PRC, only after having exhausted possibilities to extort Taiwan in order not to do so, and ultimately finding itself increasingly isolated⁷² from The US, Europe, and other western democratic actors. That same international isolation of the Ortega regime, and associated juridical insecurity in Nicaragua, as well as the lack of economic opportunities in Nicaragua's business environment, has arguably also contributed to PRC caution in advancing projects in the country.

Nonetheless, the Ortegas' strong anti US orientation, including their close work with and support for Russians, arguably makes Nicaragua a strategically valuable and willing partner for the PRC, if it wishes to explore options for military or other highly provocative activities close to the United States in the future, particularly in the context of a possible future war with the US over Taiwan.⁷³

Costa Rica

Although Costa Rica was the first country in the region to abandon Taiwan⁷⁴ and establish relations with the PRC, under the presidency of Oscar Arias, it's experience with the PRC has been notably mixed, leading to a relatively limited relationship with the country today, further tempered by the posture of center right government⁷⁵ of current president Rodrigo Chaves. Indeed Chaves, by contrast to left-oriented Gustavo Petro in Colombia, was the only president in the region to complain about the PRC spy balloon overflight⁷⁶ of its national territory, obliging an apology from the PRC.⁷⁷

Even prior to the current Chaves regime, China's advance in Costa Rica repeatedly was limited⁷⁸ by the nation's insistence on applying a framework of transparency and the rule of law. Of the gifts originally offered to Costa Rica for its May 2007 diplomatic recognition, the Route 32⁷⁹ highway, backed by Chinese loans, and a road worked by Chinese companies, ran into multiple problems over what the project included, as well as performance delays⁸⁰ by the Chinese contractor.

The stadium that was built for Costa Rica by the Chinese company AF ECC, also became problematic when the company was caught using its authorized presence in San Jose to moonlight, contributing to work on other Costa Rican projects.⁸¹ The promised Soresco refinery,⁸² to be built for the Costa Rican petroleum organization Recope, funded in part by loans from the Chinese government, was cancelled after the Chinese company that would have benefited, CNPC, repeatedly tried to use one of its own subsidiaries⁸³ to do the studies justifying the work. A Chinatown built in the capital San Jose in 2012,⁸⁴ including the gift of a symbolic arch⁸⁵ by the Chinese government, also became a boondoggle⁸⁶ and contributed to the end of the political career of San Jose mayor Johnny Araya, when the location of the Chinatown contributed to rush-hour congestion by blocking major thoroughfares in San Jose, while failing to attract actual Chinese businesses into the area.

Following the initial difficult start, Costa Rica's benefit from its relationship with the PRC was further undermined when, in 2014, the manufacturing of Intel computer chips was moved from the San Jose facility⁸⁷ which the Costa Rican government had negotiated with the chipmaker in the 1990s,⁸⁸ to Asia, substantially decreasing the value of Costa Rican exports to the PRC, whose companies had previously bought the Intel chips, although Intel later transferred other manufacturing operations to the country.⁸⁹ The loss of high value-added chip exports from the Intel factory to the PRC exposed the fact that Costa Rican coffee and fruit exporters during the period had been almost entirely ineffective in expanding the country's traditional exports in that area to the PRC, even while PRC penetration of the Costa Rican market had expanded significantly since recognition. In terms of numbers, Costa Rican exports to the PRC fell from \$848 million in 2007,⁹⁰ just before recognition, to a low of \$47 million in 2016,⁹¹ ultimately rebounding to \$364 million by 2021,⁹² while penetration by Chinese exports of the Costa Rican market expanded from \$703 million in 2007,⁹³ to \$2.95 billion in 2021.⁹⁴

In 2012, the PRC also attempted to secure authorization for special economic zones⁹⁵ (SEZs), which would have allowed PRC-based firms to operate under labor and other regulations different from those applying to other companies in the country. Costa Rica and the PRC ultimately signed an agreement for one SEZ⁹⁶ under the government of Luis Guillermo Solis.

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Overall, given Costa Rica's relative security and good governance and strategic location, PRC-based companies have continued to invest to some degree in the country, including an electronics facility established by Sylvania in 2016,⁹⁷ and expansion into Costa Rica in 2019 by the Chinese rideshare company Didi Chuxing.⁹⁸

Panama

In Panama, China's commercial presence expanded rapidly after the government of Martin Varela recognized the PRC in June 2017,⁹⁹ although that expansion slowed significantly under the successor government of Laurentino Cortizo,¹⁰⁰ with scrutiny given to Chinese projects by the new government compounded by the effects of the COVID-19 pandemic. As in El Salvador, the PRC presence in Panama continues to be substantial, with the business ties and projects that took root under the Varela regime beginning to flourish again.¹⁰¹

China's presence in Panama has received particular attention due to the strategic importance of the Panama Canal to international logistics in both peacetime and wartime. Even prior to Panama's recognition, China's presence has been substantial. Panama was the site of a significant Chinese diaspora, from the turn of the 20th century when Chinese workers immigrated to worked on the Panama Canal, then continue to make their lives in the country. In 1999, Panama attracted US and other international attention, when it responded to the US turnover of the canal to Panamanian control (per the Carter Torrijos agreement of 1977),¹⁰² by immediately giving concessions for the operation of ports on both the Pacific and Atlantic sides of the canal to the Hong Kong based company Hutchison Whampoa.¹⁰³ with the expansion of trans-Pacific commerce over the past two decades, China Shipping and other PRC-based logistics companies made the PRC the second or third largest user¹⁰⁴ of the Panama Canal. In 2015, a PRC-based consortium announced construction of a¹⁰⁵ new \$1 billion port facility¹⁰⁶ in Colon Panama. The Chinese electronics company Huawei, among others, also made Colon a distribution hub¹⁰⁷ for its products throughout the region.

Recognition of the PRC by the Varela government in June 2017 was followed by a flurry of Chinese projects which included a proposed high speed bullet train¹⁰⁸ from Panama City to David, construction of a cruise ship terminal on the Amador Peninsula¹⁰⁹ on the Pacific side of the country, a bridge¹¹⁰ over the Panama Canal, electricity transmission lines¹¹¹ and LNG fired electricity plant, among others. During this time, the Canadian mining company First Quantum, in which the PRC-based Jiangxi had a 18% interest, began a significant operation, Cobre Panama,¹¹² which came to account for 5% of the country's GDP.¹¹³

The election of Laurentino Cortizo, which reflected in part the discomfort among Panamanians with the distance created between Panama and the United States by the policies of the Varela administration, led to a temporary pause and some

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restructuring in Chinese investments,¹¹⁴ this included the ultimate cancelling of the bullet train, restructuring of the bridge project, and the collapse of the Panama Colon Container Port project,¹¹⁵ among others. In July 2020, Jiangxi sold¹¹⁶ its stake in First Quantum.

As Panama has moved through COVID, As the Cortizo government has run into difficulties, and as Panama's 2024 elections approach, the prospects for a significant PRC advance appear to be opening up once again. The Chinese operated cruise ship terminal has nearing completion and moving to use. The restructured Chinese bridge project over the Panama Canal is proceeding forward, although the associated metro rail project going under the canal has not yet started.

In the mining sector, Cobre Panama¹¹⁷ in its negotiating with the Panamanian government, forcing it to shut down ore processing operations in February 2023.¹¹⁸ Some analysts in Panama believe that Jiangxi, with its previous stake in First Quantum,¹¹⁹ could be seeking an opportunity to purchase the troubled operation.

Beyond mining, the PRC-based telecommunications company Huawei has greatly expanded its investments in the country including in the Colon free trade zone.¹²⁰ Chinese companies also continue to pursue interests in logistics parks in other facilities in the Panama Canal zone. PRC-based companies are also pursuing a role in the operation of the Panama Canal's water management system,¹²¹ whose control could in principal give the PRC the potential to disrupt the operation of the canal in time of conflict.

As Panama approaches 2024 elections, the front runner is currently Ricardo Martinelli,¹²² who's prior pro US orientation has arguably been dampened by his June 2018 arrest in Miami and extradition to Panama,¹²³ as well as subsequent US legal action against two of his sons.¹²⁴ In addition, Martinelli, whose wealth comes from his chain of Supermarket 99 facilities,¹²⁵ arguably appreciates the potential contributions of the PRC well, suggesting that a Martinelli presidency could position the PRC to expand its presence in Panama.

Conclusion

The geographic proximity of Central America, and its connectedness to the United States through bonds of commerce and family makes it imperative for U.S. policymakers to pay attention to PRC engagement with the region. China's economic revitalization, accelerated by its December 2022 abandonment of its zero-Covid policy, Central America's own move beyond the paralyzing effects of the pandemic, and the interest by Chinese President Xi Jinping in incorporating Taiwan into the PRC before the end of his third term,¹²⁶ all suggest the likelihood of expanded efforts by the PRC in the region, among others, in the near to mid-term.

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In preparing for expanded PRC engagement in Central America, the U.S. must prepare for scenarios in both peacetime, and in the context of a possible military conflict over Taiwan.¹²⁷ In both scenarios, the nations of Central America are not likely to be as willing of security partners as they once were, although the U.S. need not accept that outcome as inevitable.

To address the challenges of PRC engagement in the region, the U.S. must do a better job of presenting viable alternatives to the region to economic and other dependence on the PRC. Even more importantly, recognizing that an economic “bidding war” for the affection of Central America is probably not a viable strategy, the U.S. must also be more effective in communicating to the region why it is in its own interest to engage with the PRC, like all partners, through strong, democratic institutions, in the framework of transparent interactions, a level playing field and rule of law.

The nations of Central America, like others, will ultimately choose a path based on their own perceived interests. Still, the U.S. can do far more to help the region perceive that a continued deepened partnership with the U.S. and a commitment to real democracy, a market-based economy and the protection of rights for all of its people, lies at the core of those self-interests.

About the author:

Dr. Evan Ellis is a research professor of Latin American Studies at the U.S. Army War College Strategic Studies Institute, with a focus on the region's relationships with China and other non-Western Hemisphere actors, as well as transnational organized crime and populism in the region. Dr. Ellis has published over 300 works, including the 2009 book *China in Latin America: The Whats and Wherefores*, the 2013 book *The Strategic Dimension of Chinese Engagement with Latin America*, the 2014 book *China on the Ground in Latin America*, and the 2018 book *Transnational Organized Crime in Latin America and the Caribbean*. Recently, he published his fifth book, *China Engages Latin America: Distorting Development and Democracy?*

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