INTRODUCTION

The People’s Republic of China (PRC) has become a growing presence in Latin America in the past several years, especially in Brazil, Peru, Chile, Venezuela, and Mexico. The PRC is interested in raw materials, food, and energy sources; conversely, Latin America finds in the PRC a vast market for its oil, minerals, and agricultural products, as well as an important source of loans and capital investment.

This issue brief will explore the bases for China’s investment decisions and commercial relationships in Central America and, to some extent, South America. We will first analyze the PRC’s deepening relationship with Costa Rica, which severed diplomatic relations with Taiwan in 2007 to strengthen its economic ties with the PRC. China’s relationship with Costa Rica has opened the possibility for the PRC to reach out to other countries in the region.

Second, we will examine China’s interest in the privileged geography of the Central American isthmus. Situated between the Atlantic and Pacific oceans, Central America represents a significant opportunity for China to establish commercial routes between the oceans and to build refineries and pipelines.

Finally, we will analyze the economic aspects of the commercial relationship between China and South and Central America.

CHINA IN CENTRAL AMERICA: THE COSTA RICAN TRAMPOLINE

The relationship between the PRC and Costa Rica is both intense and deep. China’s growing presence in Costa Rica can be seen through cultural exchanges, refinery modernizations, highway construction, bond purchases, projects to create special economic zones (SEZ), and gifts of tens of millions of dollars to pay for a stadium and a new police academy.

The Internal Dimension

China’s presence in Central America is launched from the platform of Costa Rica—the only country in the region to have diplomatic relations with the PRC. The relationship between China and Costa Rica is not just based on commerce, however; it has been strengthened by significant cultural exchanges, such as the opening of the Confucius Institute at the University of Costa Rica and visits by Costa Rican academics to the PRC.

China has also reached out to the Costa Rica’s Chinese community in an effort to create internal support for the PRC. The PRC promoted the creation of a Chinatown in the capital of Costa Rica and has promoted the Sister Cities program between both countries.

One of the first instances of Chinese soft power in Costa Rica was China’s purchase of Costa Rican debt in 2008 and the construction of an $80 million national stadium, the Estadio Nacional. These moves were followed by the ambitious modernization of the national...
refinery, Refinadora Costarricense de Petroleo (RECOPE), and the expansion of a highway in the Caribbean. Both projects faced strong internal resistance by the government and citizens.

China’s reading of the formulation and execution of public policies in Costa Rica has been unfortunate. Since the PRC’s political system is centralized, China approached top–level officials of Costa Rica’s political hierarchy to gain project approval, believing such channels were sufficient. The PRC did not account for Costa Rica’s dense and convoluted bureaucracy and the importance of civil society.²

A project currently under development is the creation of a special economic zone to process Chinese exports to various markets. This project will be similar to an “industrial park” but on a larger scale.

Furthermore, the Chinese government donated $50 million to build a new police academy.

The International Dimension

International politics have changed since 2007, when China and Costa Rica established diplomatic ties—especially between the United States and PRC, given the frictions in China’s southern and eastern seas. These tensions could affect the relationship between Costa Rica and the PRC.

For China, Costa Rica is a good international partner that improves the PRC’s standing with international organizations; the relationship balances China’s reputation for human rights violations with Costa Rica’s impeccable reputation for protecting human rights and democracy.

For China, Costa Rica is a good international partner that improves the PRC’s standing with international organizations; the relationship balances China’s reputation for human rights violations with Costa Rica’s impeccable reputation for protecting human rights and democracy. For Costa Rica, a relationship with a superpower is appealing. For instance, Costa Rica became a member of the UN Security Council in 2008–2009 thanks to the PRC’s support and its influence with the voting bloc of African countries.

From a broader geopolitical perspective, China sees in Costa Rica a way to access other Central American countries, as Chen Fengxiang of the International Department of the Central Committee of the Communist Party of China observed years ago. China’s initial generosity in Costa Rica has given it a toe–hold in Central America—and the opportunity to operate from Costa Rica with the possibility of reaching out to the other countries in the region. The Costa Rica–China relationship could serve as an example of a beneficial relationship, tempting other Central American countries to also break with Taiwan and open themselves up to new forms of cooperation with the PRC.

THE IMPORTANCE OF CENTRAL AMERICA

Central America’s importance to China does not reside in the economic arena, since it is not a large market. China’s real interest lies in the geography of Central America—in other words, the ease of access to two great oceans and the option of directly shipping its products to the US East Coast. Additionally, there is a growing possibility of establishing SEZs that manufacture goods for the Chinese market. In this sense, Central America is appealing as both an economic and transit platform.

This interest replaces China’s former objective in the region: to diplomatically displace Taiwan. The geostrategic issue is very important—especially considering the possibility of moving petroleum from the Atlantic Ocean to the Pacific Ocean, and of processing heavy crude oil in refineries constructed by China in El Salvador, Nicaragua, or Costa Rica.

An Active Regional Presence

The PRC has shown interest in hydroelectric projects such as Patuca III in Honduras. Chinese businesses have also obtained concessions to construct an interoceanic canal in Nicaragua. One must ask if this is only a business venture or if it has broader geopolitical implications. The Nicaraguan canal will be almost 171 miles long, beginning at the mouth of the Brito River in the Pacific Ocean, passing through the Lake of Nicaragua, and concluding in Nicaragua’s southern Caribbean coast. New hotels, airports, commercial zones, and roadway infrastructure will complement the construction of the canal.
Central America is very interested in canals, given the rise of maritime traffic between the US and Asia. Central American countries see with canals the opportunity to provide low-cost services to ships smaller than those that will cross the expanded Panama Canal.

The idea of “dry canals” that incorporate railways for the rapid transport of merchandise between the Pacific and Atlantic oceans has set root in Guatemala, Honduras, El Salvador, Costa Rica, and Colombia. These projects do not require costly excavations to facilitate the connection between the oceans.

Despite maintaining relations with Taiwan, Panama is nevertheless important to China due to the presence of the investment holding company Hutchinson–Whampoa. This company, based in Hong Kong, has operated the ports at both ends of the Panama Canal since 2000 through its subsidiary, Panama Ports Company. Given its ties with the Chinese government, some have observed that “Hutchinson Whampoa [could] potentially act as a political agent of Beijing and that its ownership of Panamanian ports at both extremes of the Panama Canal is a serious issue for U.S. national security.”

China’s presence in Central America should be carefully considered. It is clear that the PRC does not currently have security or military motivations. However, its activities in Central America reflect the growing influence of an ascending superpower that seeks to project its clout on a global scale. In the event of a future conflict with the United States, China’s presence could be important in a more threatening context.

**Strategic Implications**

It is not possible to understand the relationship between China and Central America without acknowledging the presence of the hegemonic power of the Western Hemisphere. As China analyst Robert Evan Ellis has noted:

If the global strategic competition between the United States and the PRC degenerates into a new geopolitical conflict, Latin America will be one of the battlefields in which that competition plays out. Reciprocally, the outcome of US–PRC interaction in Latin America has ramifications for the interaction between the two powers globally; if the US and China come to “square off” over an issue in Latin America such as Chinese support for ALBA or the activities of Chinese telecommunications companies, it could propel the global PRC–US relationship toward conflict. On the other hand, if the US and the PRC find a path to cooperate and build confidence in Latin America, it could define the path for the two powers to avoid conflict as they necessarily co–exist and interact globally.

The debate in the US oscillates between those who perceive that Washington is losing Latin America to China and those who see in this new transpacific triangle an opportunity to strengthen the three relationships.

**ECONOMIC RELATIONS BETWEEN CENTRAL AMERICA AND CHINA**

Bilateral trade and investment between China and Central America has grown rapidly in recent years. In Costa Rica, for example, exports to China jumped from 0.2 percent in 2000 to 8.8 percent in 2009, while in Guatemala, imports from China grew from 0.1 percent in 2000 to 6.4 percent in 2009.

China’s investments in Central America vary by country. In Costa Rica, investments have been diverse; many were bolstered by the start of diplomatic relations in 2007 and by the signing of a free trade agreement that took effect in July 2011. Investment examples include an agreement with the state enterprise China National Petroleum Corporation to modernize RECOPE and the China Harbour Engineering Company’s loan agreement, pending approval by the Legislative Assembly in Costa Rica, for the extension of the route between Guápiles and Limón.

China’s real interest lies in the geography of Central America—in other words, the ease of access to two great oceans and the option of directly shipping its products to the US East Coast.

The Costa Rica–China relationship could serve as an example of a beneficial relationship, tempting other Latin American countries to also break with Taiwan and open themselves up to new forms of cooperation with the PRC.
In El Salvador, Chinese investors are studying the possibility of extracting volcanic material for the production of construction materials. In Guatemala, China’s Tebian Electric Apparatus Stock Company has shown interest in selling its products through the Guatemalan business Provelec S.A. China’s investments in Honduras are primarily focused on energy. As such, the company China Machine New Energy Corporation is examining the possibility of investing in a coal-based electricity generation plant. In addition, the Industrial and Commercial Bank of China loaned Honduras $297.7 million for the construction of a hydroelectric dam in the basin of the Patuca River.

In Nicaragua, a canal construction project was awarded to the Chinese company Hong Kong Nicaragua Canal Development Investment Co. This project also includes the construction of highways, ports, airports, a dry canal, a hydrocarbons pipeline and an SZE. The entire project is estimated to cost $40 billion with a 100-year concession to manage and operate the canal. Additionally, the Chinese business CAMC Engineering has invested in the construction of a petroleum refinery.

In Panama, no other investments beyond commercial interests have taken place, since China uses this country as a platform for distributing its products in the region. However, China is interested in establishing Panama as a financial investment center.

The lack of diplomatic relations is one of the biggest economic challenges China faces in Central America. Nevertheless, commercial relations between all Central American countries and the PRC have increased over the years.

The debate in the US oscillates between those who perceive that Washington is losing Latin America to China and those who see in this new transpacific triangle an opportunity to strengthen the three relationships.

CONCLUSIONS

- China’s focus in Central America differs from that in South America. China’s presence in Central America is largely due to the geographic importance of the isthmus; South America’s draw is its potential to be a source for trade and raw materials.
- China has no immediate military interests in Latin America. Military cooperation programs do not exist with the region, although the Chinese Navy’s hospital ship, Peace Ark, visited Costa Rica in November 2011.
- The diplomatic battle over Taiwan has subsided. However, the PRC continues to require nations to recognize the principle of a single China in order to establish diplomatic relations. This condition has so far kept the rest of Central America from establishing stronger ties with the PRC.
- Commercial trade with China has increased in Central America. However, Chinese exports to the region have not increased at a pace on par with exports to South America.
- China has capitalized on its relationship with Costa Rica to access the rest of the isthmus. Chinese companies have been able to move independently of this relationship, as shown by their presence in other countries in the region, regardless of diplomatic ties.
- China’s initially smooth relationship with Costa Rica was marred during the execution of certain high-dollar projects. China’s generosity, part of the so-called worldwide “Charm Offensive,” was confronted with the complex internal dynamics of Costa Rican politics. This led to the resignations of key officials tied to negotiations with the Asian giant, including the president of the state refinery.
- The relationship between China and Central America should be understood in the context of a strategic triangle that includes Latin America, the PRC, and the US. China’s interaction with Latin America raises concerns in Washington, which have been allayed through continued dialogue between the two countries since...
2006. It is not possible to interpret China’s presence without recognizing the PRC’s cautious efforts to avoid conflicts with the regional “hegemon” (the United States) regarding the current political situation in Venezuela.¹⁰

ENDNOTES


2. Disputes over Chinese projects in Latin America are not just a Costa Rican phenomenon. Conflicts with Chinese companies over environmental and labor concerns have been particularly important in Peru. See Barbara Kotschwar, Theodore Moran, and Julia Muir, “Do Chinese Mining Companies Exploit More?” Americas Quarterly (2011), http://www.americasquarterly.org/do-chinese-mining-companies-exploit-more.¹³


AUTHORS

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