

Does Illusion Free Ride on the Chinese Economy? A Pattern of Dependency in the CACZ*

¿Viaja la ilusión gratis en la economía china? Un patrón de dependencia en la ZACC

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Recibido: 27/02/2013

Aprobado Evaluador Interno: 16/04/2013

Aprobado Evaluador Externo: 29/07/2013

Abstract

In this paper, the author studies Chinese interactions with four countries of the Central American and the Caribbean Zone (CACZ): Costa Rica, Cuba, Guatemala and Nicaragua. Despite the fact of having dissimilar type of governments and different levels of understanding with Beijing, all of them have a growing bilateral trade deficit relation and expect more than Beijing is willing to give.

Selected countries may have ideological perceptions on that country, but not common ideologies. According to this hypothesis, what really triggers the bilateral relation is a concurrence of interests. The Chinese government is looking for markets, raw materials and defeating Taiwan in

Resumen

En este artículo el autor estudia las interacciones chinas con cuatro países de la Zona de América Central y el Caribe (ZACC): Costa Rica, Cuba, Guatemala y Nicaragua. A pesar de tener distintos tipos de gobiernos y diferentes niveles de entendimiento con Beijing, todos ellos tienen una relación comercial bilateral crecientemente deficitaria y esperan más de lo que Beijing está dispuesto a dar.

Los países seleccionados pueden tener percepciones ideológicas sobre ese país, pero no existen ideologías comunes. De acuerdo con esta hipótesis, lo que realmente alienta la relación bilateral es una coincidencia de intereses. El Gobierno chino está buscando mercados, materias primas

SICI: 0122-4409(201307)18:2<651:VIGEEC>2.0.TX;2-5

* Artículo de Reflexión.

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the diplomatic field. The CACZ countries pursue an illusion: as free riders they assume that their problems will be solved by Chinese policies. Free riding, the core concept of this paper, leads them to economic dependence rather than to interdependence.

Key Words:

China, Central America and the Caribbean, bilateral relations, trade, free rider.

Keywords plus:

Caribbean Region, China, foreign economic relations, foreign economic relations, trade negotiations, trade policy, economic integration.

y derrotar a Taiwan en el campo diplomático. Los países de la ZACC persiguen una ilusión: como gorriones que son, asumen que sus problemas serán resueltos por las políticas chinas. Parasitismo, el concepto central de este trabajo, lleva a estos países a la dependencia económica, no a la interdependencia.

Palabras Clave:

China, América Central y el Caribe, relaciones bilaterales, comercio

Palabras clave descriptor:

Región Caribe, relaciones económicas exteriores, China, negociaciones comerciales, política comercial, integración económica.

Leaning to One Side: International Interests and Domestic Constraints

There are several international actors from the People's Republic of China (PRC, Beijing) with multidimensional interests acting in the Central America Caribbean Zone (CACZ). Their agenda covers almost every important aspect of a normal formal bilateral interaction, even when diplomatic relations do not exist. Among them, those coming from the State are the most relevant and stronger. They not only have their specific interests, but they pave the way to other actors' activities. Chinese interests are economic, political and symbolic. It is about finding markets, building a new political *status quo* and displacing Taiwan in the region.

The relation between the CACZ and China has not been widely studied, but there are important papers about it. It is possible to find a general perspective focusing in the Caribbean (Correa, 2012), or a very specific one centering on Cuba (Hearn, 2012). I will analyze the Chinese presences in the CACZ during the 21st century. In order to have a better picture of the subjects and due to methodological purposes, I have focused my study in four countries: Costa Rica, Cuba, Guatemala and Nicaragua. Two of them, Costa Rica and Guatemala, have conservative governments, the so-called right wing; the other two belong to the left wing, with somehow no less conservative executive powers. Just half of them have diplomatic relations with China, one from the right (Costa Rica) and one from the left (Cuba). However, all of them have a growing bilateral trade relation with a huge deficit. Formal relations or not, the four expect getting something from China.

The four of them share history and many common characteristics. An important one is their interest on China. At the same time, they are specific in many aspects. Selected countries have a growing trade deficit. Some of them, like Castro's brothers Cuba, may have ideological perceptions, but at the end that is not the trigger of the relation. The Chinese government does not care who is in charge, however its CACZ counterparts have domestic constraints that prevent them to fully involve with Zhongnanhai. At the end, all the four pursue an illusion, and they are achieving economic dependence rather than interdependence.

Considering their individual features, a hypothesis is that the bilateral relations are not based on ideological convergences, but on the concurrence of interests. Most actors in the CACZ are free riders and now try to ride the speed wagon of the Chinese economy. The Merriam-Webster Dictionary defines free ride as a "benefit obtained at another's expense or without the usual cost or effort" (Webster, 2013). Although there is not a clear origin or paternity of the term, both as noun and as verb, this word is very useful to understand the behavior patterns of the CACZ actors. In the analytical context of this work, a free rider is an actor that does almost nothing to face its problems. Systematically they depend on other countries to access to important goods: technology, investment,

defense, and training of human resources. Those countries (China, Taiwan, United States) with a large amount of some resources (money, weapons, industrial goods or even the means to build a sports stadium) offer them in exchange of votes at the General Assembly (AG) of the United Nations Organization (UNO), or in exchange of actions to form an alliance to counter all kind of enemies, and/or government policies to help their businesspeople penetrate a domestic market. Leaning to one side or the other is a slow process that depends on how much resources well-off governments provide and also depends on how domestic forces create their alliances defending their interests. Consequently we have not seen the CACZ governments queuing outside Zhongnanhai demanding the same arrangement as the one reached with Óscar Arias, former Costa Rica's president. Therefore this paper is intended to help find behavior patterns, not depict every aspect of the relation between China and countries of the CACZ.

I do not address issues related to Sino-American relations in the context of the CACZ or the implications of China being a regional player in the so-called Western hemisphere. This topic deserves specific studies exploring different options not just as one about conflicts. There is an idea that both powers could coordinate and manage Latin America (Ellis, 2012). Similarly, I do not write anything about the main source of regional instability: drug lords working transnationally, taking by assault both state institutions and enormous parcels of national territories.

Towards a New *Status Quo*: are Bilateral Relations what States Make of Them?

Even gray has shades. Not every actor speaks about material interests so open, but every actor has their own set of ideas that shape an ideological discourse that guide their actions. Following ideas from constructivism (Wendt, 1992), it is possible to state that even when bad habits die hard, international contexts change and behaviors are adjusted to new situations. For instance, Óscar Arias, twice the President of Costa Rica, explaining his decision to establish bilateral relations with Beijing stressed that his actions were not an ideological answer but elemental realism. This politician added that he expected a growing influx of Chinese investment (Herrera, 2017). San José has taken a radical measure, and did what most Latin American countries did 40 years ago: after 60 years of close friendship, it broke diplomatic relations with Taipei. A few years ago, free riding meant, first, supporting Taipei as a permanent member of the UNO Security Council (SC) and getting material and political goods from the United States; once Beijing displaced Taiwan at the SC, some of the CACZ acquired the best from two worlds: protection, markets, and assistance, among many other goods.

Some people have turned red lights on in the CACZ: "China's here to stay, it's unfortunate that the USA Government does not seem to see or care about China's slow take

over Costa Rica, and Central America in general. The US may wake up one day to find China owning not only their debt but their backyard as well” (*The Costa Rica News*, 2012). The impact of Costa Rica’s rupture with Taiwan was a shock. Conservatives see China as a communist power. Instead of finding their own path they pretend to free ride Washington in a perpetual fashion. On the opposite way, because of tactic reasons, some forces in China consider they need to learn from the United States. They claim not only that their country is not a power, but also that it has no “strategic vision and plan” (*Global Times*, 2011). In this paper, I assume that China is a global power already, yet the level of strength of its presence in the CACZ has to be studied.

The CACZ *status quo* has been shaped by the interaction of local oligarchies and different USA actors. Its main characteristics are:

1. Reduced presence of other international actors, mainly from Mexico, Spain, United Kingdom and France. Recently, the presence of Venezuela, and part of the Caribbean, has been strong. Brazil is pretending to have closer relations with this region and Canadian interests are erratic. Actors from Taiwan are relevant in some countries and economic areas.
2. Economy relies on raw materials and low-paid labor force, and it is oriented towards the American market.
3. Dominant oligarchies are small closed systems on their own. Many politicians have family ties with each other. They try to remain in power as long as it is possible, or somehow inherit it or politically grow thanks to family connections. Professional guilds are very important, such as military ones in countries like Guatemala or El Salvador.
4. From a historical perspective, local oligarchies have been unable to create their own path of economic growth and development. They have preferred the apparently easy way: free-riding the powers and get the leftovers of the global economy.

The first years of the 21st century have witnessed changes on distribution of power in Latin America. Generally speaking, it is possible to find three different types of governments: first, “traditional liberal” democracies such as Panama and Costa Rica; second, “left democratic government”, like El Salvador; and third, the so-called “new Latin American left”, where one may find Cuba and Nicaragua (Gerbasí, 2012). As any classification, this one hardly captures every aspect of reality. However it helps us to get a glimpse on how governments construct their interests and international strategies, their ideological likes and dislikes, or their global preferences. While, globally, international policies have become non-doctrinaires, Latin American politicians of almost every political orientation are stagnated in inflammatory discourses. Most of the governments in the CACZ prefer alliances with the United States and some with Taiwan.

With opposite rationales, Costa Rica and Cuba favor China to Washington. And Daniel Ortega, Nicaraguan president, winks at Beijing.

Political changes have been slow and not as deep as they are needed to achieve economic transformations. Costa Rica has a more open oligarchy than that of its neighboring countries, and more actors are part of the decisions-making process. They are conservatives with better distribution of power. Laura Chinchilla Miranda won the presidency on February 7th, 2010, running for the National Liberation Party (PLN in Spanish), the oldest political organization in her country and widely considered as a corruption machine. She is a conservative politician opposed to same-gender marriages and abortion. Her electoral platform looked very academic, every chapter had a “state of the situation” part. She stressed issues related to national security —drug trafficking—, employment and an export-oriented economy, among other topics. With respect to foreign policy, her electoral offers were general, stressing North America, with some mentions on the European Union and Asia (*Archivo electoral*, 2010).

The not yet lost legitimacy of a revolutionary victory, the Soviet implosion, and an almost incredible ability to resist permanent onslaughts produced by the trade blockade imposed by United States, make the Castro brothers a political beacon that attracts politicians from different tendencies in search of support and advice. Some of them do not even feel safe in their own country and go to the island for medical attention, like Hugo Chávez did. This Caribbean oligarchy has made some attempts to reform its political system in order to face aging and a deepest crisis. They call it updating the model. Some updates are institutional changes such as creating new ministries: Industry (formerly it was the Ministry of Basic Industries) and Energy and Mines, with the goal of separating state and business functions (*Cuba Debate*, 2012). The Sixth Congress of the Communist Party of Cuba approved 12 *Economic and Social Policies Guidelines of the Party and the Revolution* on April 2011 (*Cuba Debate*, 2011). The main goal was to reactivate the domestic economy without depending from abroad, allowing some private activities but the overall economy under state control. The government has also approved other minor policies such as loosening the process of getting a passport or letting Yani Sánchez travel abroad. The Cuban oligarchy is devoted to protecting Chávez and making movements to have a Latin America left block: they scratch their own backs among each other without building a road to economic growth.

Guatemala is a prisoner of its own past and it is unable to find a path to its future. In the political realm, the deep wounds do not heal; there is no will to punish military accused of human rights violations. The President, Otto Pérez Molina, himself a retired military man who supported a *coup d'état* against President Efraín Ríos Mont (1983) and opposed to the attempts of President Jorge Serrano of preparing an auto *coup d'état* (1993), linked for many years to the intelligence sector of the state, NGO's have accused

him of genocide (*Europa Press*, 2011). People in Guatemala face poverty and violence, and they lack institutions to surmount national problems: corruption and a very thick opacity in the state administration are the main features in the country. What is worst is that their economy remains very low in the technological ladder. Manufacturers are not competitive enough to tackle with imports from South and South East Asia, both in their domestic and American markets.

One long-term outcome of the Sandinista Revolution (1979) has been its failure to achieve a political system open to more and diverse social groups. Or maybe what happened was that the state built by the binomial Somoza family-Washington was stronger than everybody thought. Ortega was a member of the *Fracción Tercerista* during the guerrilla war against Anastasio Somoza, and coordinator of the Junta de Reconstrucción Nacional (1979-1984) after the dictator was overthrown. He has also been defeated three times in the presidential elections, and has been president twice (1984-1990, 2007-present). Beyond his not so private scandals, Ortega set the environment to enjoy *la piñata*: the mechanisms he and his followers have used to get rich. Corruption and family problems could be exaggerations of political opposition, but what is politically relevant is that he did everything to build a corporate state that has given him control over a lot of political processes. In order to perpetuate himself in office he consents and allows electoral “irregularities” (Peñalba, 2012). Ortega is not alone in the political landscape. He owns his strength, at least partially, to his political opposition that prefers opaque agreements to build an oligarchy’s political bi-party system rather than allowing more social groups to make decisions. Since his main concern is to remain in office, international policies revolve around this goal. Therefore, Ortega tries to be under an umbrella provided by Castro and Chávez, and he also disputes an island to Costa Rica. His foreign policy can be considered erratic and incoherent (Rogers, 2011).

It is not just that China is expanding all over the world, but also many international actors need interaction with various Chinese ones. As I have shown, the selected CACZ countries oligarchies have not been able to make profound political changes and their economies are not much different as they were 100 years ago: products have changed, and perhaps they are just a bit less agriculture oriented. Instead of building interdependency with their economic partners, they are trapped in dependency. Elites are lost in intrigues both domestically and abroad. Under these conditions, with diplomatic relations or not, it is not a surprise that the Chinese have changed regional economies. Local oligarchies have no long-term plan and their traditional patron, USA, does not care much about them, and its policies are occasionally quite the same as they were back in the Cold War (Weld, 2011). Because of several reasons, there is a weak and not enough interested traditional regional hegemon in the CACZ. The main outcome of this context is that China is a power in the region and is growing stronger; local actors have no clear

idea how to deal with it. The countries I study here are the “narrow swathe of vulnerable” (Erikson & Chen, 2007) countries that should choose between China and Taiwan, as Costa Rica has done. They should also reconsider how they interact with Washington.

Costa Rica and Beijing: Birds of a Feather...?

On the realm of diplomacy, Taipei is strong in the CACZ, but Beijing is ready to conquer diplomatic positions and the first territory has been San José, Costa Rica. As I already noted above, President Arias established bilateral relations in 2007 because of Chinese patent world strength, also thanks to its capacity to invest abroad. In a short span of time, both countries have obtained strong institutional achievements, such as the Agreement on Promotion and Protection of Investments in October, 2007 (OAS, 2013), and the Free Trade Agreement in August, 2011 (Mideplan, 2007). This institutional framework does not mean they are birds of a feather. While Costa Rica is stuck on earth, its heavy political partner, China, is flying all over the world selling, buying, investing and changing global power distribution.

This new era of bilateral diplomatic relations between China and Costa Rica began on June 1st, 2007. It was a long process where Beijing spent a lot of money, just as Taipei had done for many years and still does. Moving around the twilight zone, San José acquired USD 20 million, mountain bikes and soccer balls from China. In addition to this, the Chinese government offered to buy USD 300 million in debt bonds. An unknown Chinese institution already bought a non-specified amount of bonds under unspecified conditions (Prensa, 2008). As another “demonstration of solidarity” (Ercolani, 2012) Beijing donated Costa Rica USD 500 thousand to build a gateway arch into a new-brand new “China town” or China street-街国中¹. San José obtained one more gift from China: USD 105 million to build a soccer stadium with Chinese construction workers like they have done in other places. Both with Arias and Chinchilla, the main characteristic of donatives is their opacity. For instance, she has received millions of dollars “for discretionary use” and has given no clear explanations (Arias, 2012).

Neither the government nor local businesspeople have the financial capacity and/or lack the vision to erect big dimension infrastructure works. If nobody fills the void, Chinese step in unlocking old projects. At the end of 2008 (November 17th), *Refinadora Costarricense de Petróleo S.A. (RECOPE)*, the oil domestic monopoly, and *China National Petroleum Corporation International* signed an agreement to build a joint venture, Soresco, “to extend and modernize the Moín Refinery (...), to set up Costa Rica-China joint venture” (Mideplan, 2012). The refinery will cost around USD 1.4 billion. The China Development Bank will lend USD 800-900 million, and Soresco will supply

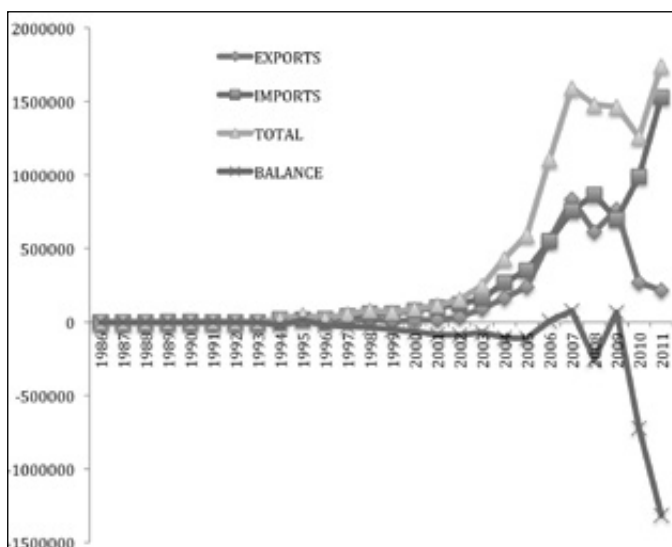
¹ It is written in traditional fashion: from right to left.

USD 300-400 million (*Central America Data*, 2012). In order to pay to the bank, the joint venture will lease the refinery to RECOPE for 15 years. It does not look like a great investment for Costa Rica; it is more like an old dependency pattern.

Even when the single most important institutional achievement is the Free Trade Agreement, is too soon to establish its impact on Costa Rica's economy and on bilateral trade. Evolution of exchanges has depended in the growing capacity of Chinese actors to penetrate abroad markets and even to buy to their own country (wo)men doing business at the East of the Pacific. The interests of local businesspeople are focused on buying products from China. The government and the private sector have been building a pattern of dependency with China in almost every aspect. In trade, this pattern already exists (Graphic 1).

Most of the time, imports from China are almost the same as the total: Costa Rica's deficit is enormous and not beneficial at all. So far, it is not possible to prove that the trade agreement has had a direct impact on trade. It began to grow even before establishing bilateral diplomatic relations and the peak of 2007 was because Chinese exports increased. In any case, it is clear that the subprime crisis (2008) had a negative impact on Costa Rica's exports, taking the deficit to a new lower level.

Graphic 1
Costa Rica's trade with China, 1986-2011
Thousands of USD



Source: With information from www.eclac.org/comercio/ecdata2/index.html. January, 2013.

When we look at the products they exchange we have a better picture of the asymmetric relations that seem to be dependent. The Chinese sell products of more added

values in weak markets without national strong industry and buy products to feed their economy and their people.

Table 1
Most important products exchanged by Costa Rica and China
2011

| IMPORTS | EXPORTS |
|--|--|
| Telecommunication equipment; parts and accessories | Thermionic, microcircuits, transistors, valves |
| Automatic data processing machines and units thereof | Polymerization and copolymerization products |
| Footwear | Electrical apparatus for making and breaking electrical circuits |
| Baby carriages, toys, games and sporting goods | Non-ferrous base metal waste and scrapes |
| Furniture and parts thereof | Fruit, preserved, and fruits preparations |

Source: www.eclac.org/comercio/ecdata2/index.html. January, 2013.

Cuba and China: Brothers in Arms?

Even considering that there is a massive number of Cubans living abroad for different reasons and with unequal perceptions towards it, the Cuban government has more domestic and international legitimacy than many of its neighbors. However, corruption is rampant and economy efficacy is unknown. It is a sort of paradox: because of that it is a very stable country.

For one reason or another, everybody needs to refer to Cuban situation trying to obtain something. Cuba gives legitimacy to opposite discourses. It is one of the main arenas where international actors are testing their policies waiting for the big change to arrive. China is doing exactly the same as other parties do, and even better. It has been taking the place that others left (Mexico), lost (Spain) or is currently competing for it against another country (Venezuela).

Thinking, as media does (Ravsberg, 2012), that Beijing and Havana are brothers in arms, sharing an ideology and some common global/regional long-term goals is misleading and shows that much of what is said about China is merely common sense, not scientific knowledge. It is not just media that has a distorted perception, even Raúl Castro, President of Cuba, considers that his trip to China and Vietnam was meant to “continue the exchange of experiences about the construction of socialism according to every country’s characteristics” (Castro, 2012).

With the naked eye, all of them, Chinese and Cuban politicians, are the same: they are communists and all they want is power. If this is true or partially true (or false) is not relevant. The Chinese use their political background to get closer to the Cubans, but it does

not mean they share an ideology. In the island there are relatively few socio-economic roles and they are not quite differentiated from each other. On the contrary, China is a more complex society and is hard to find components of the extinct Maoist class structure. It is a heterogeneous society. In this country there is no sort of Cuban extended family oligarchy, but a growing undefined number of groups fighting for better access to political and economic goods. Some of them can or cannot be family related. Links are more complex.

There is an aspect that is worth noticing: Havana's relation with Taipei. The Chinese government foreign policy cannot be understood without the cardinal principle that there is only one China. Before APEC (1989), everything was easy. Almost everybody could put aside the island. It could not belong to any international organization and could not participate in any global important sports event, Beijing diplomats did perform whatever they had in hand to prevent the Taiwanese to be part of any event that could be slightly considered an acceptance of the two Chinas. If a country wanted to have relations with Beijing it had to accept that it was the only representative of the Chinese people as a *sine qua non* for bilateral diplomatic interactions. Even with APEC, Chinese officials do everything to put pressure and avoid Taiwanese activities in every field; they spare no effort to block islander's activities. Success has been uneven. While in Costa Rica Taipei has evaporated from media, the Cuban national team plays baseball with Taipei. I have no answers, just questions to ask. Does Cuba have a hidden leverage? Are the Castro's brothers blackmailing Beijing? Is Zhongnanhai encouraging a sort of baseball diplomacy? Are all the involved actors looking for some sort of triangulation?

The bilateral relation Havana-Beijing is the oldest in the CACZ, and began in September 1960 with a *Joint Communiqué*. Most of the time, the relationship went through the Moscow sieve and was marked by mutual distrust. Because of the Soviet implosion, Cuban domestic problems and the internationalization of the Chinese economy, it seemed obvious which one would Cuba's choice be. Back in the 1990s the choices were few. Even when there were signs of Washington and Havana "building confidence" (Klepak, 2012) over their hottest topic —migration—, an alliance with the USA was out of the question. For cultural and even for family links, Spain was very attractive, but those years saw a rise of a political conservatism that took José María Aznar to the presidency from 1996 to 2004. In Mexico, during the Miguel de la Madrid administration (1982-1988), the dogmatism popularly referred to as neoliberalism arrived, and a slow and mutual estrangement began. Hugo Chávez, on the other hand, was not in the political international radar as he was before his death. The only place to find help was Zhongnanhai.

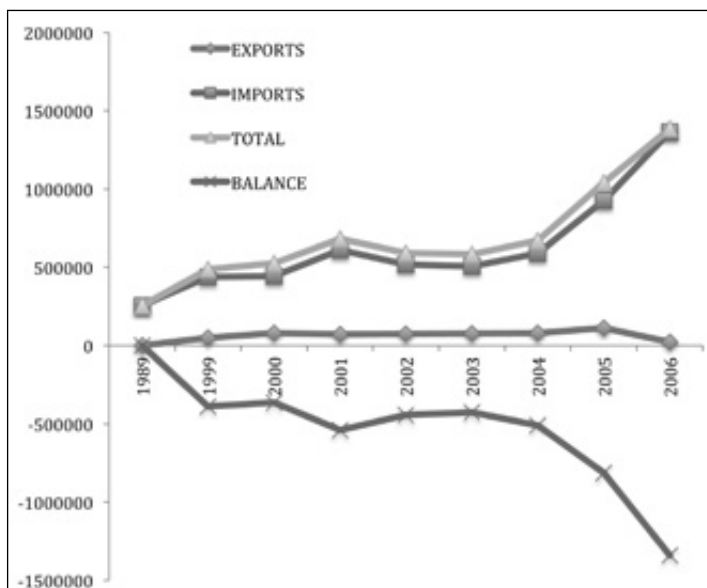
Today this bilateral relation is by far the most institutionalized of the CACZ. Institutionalization means a large corpus of agreements, exchange of notes, memorandums, and every kind of diplomatic documents. It is possible to find that this institutional corpus gives certainty to the parties. There is a legal commitment that they will fulfill their

promises. Cubans can access to soft credits, markets and even some technology. The Chinese, according to everyone's needs in their own society, enter a new market, obtain natural resources, or amplify their power. Accurate examples of this are the visit of the former Chinese President to Cuba, Hu Jintao (2004) and Raúl Castro's trip to Beijing (2012). In the first trip (*Cuba Debate*, 2012), 14 bilateral documents were signed, e.g. a Chinese donation related to technical-economic cooperation, a free-interest credit, a loan to modernize health system facilities, a postponement of the amortization of free-interest credits, an agreement related to steel and nickel, and the financing to acquire two million TV sets. A few years later, in 2012, Raúl Castro went to Beijing and signed eight bilateral documents, most of them related to Chinese financial assistance (*Voz de América*, 2012). This institutional relation is a story about dependency. Beijing provides Havana some means to solve domestic problems and to boost its exports.

Chinese politicians and businesspeople see the embargo imposed by Washington on Cuba as a great opportunity for them. Accordingly, they are doing its best to take advantage of the situation deepening the asymmetry between both economies and competing with Venezuela for the first place as a main economic partner (*CCTV*, 2012). In September 2012, in the 25th Session of the Cuba-China Intergovernmental Commission for Economic and Trade Relations, Beijing and Havana signed more important documents to improve their relationship. There was a letter of intent to promote exports of sea products to China, minutes of delivery and reception of completed projects (the modernization of the General Customs of the Republic), the national rehabilitation of hydraulic networks and of the network of blood banks. They are also developing renewable energy. One of the worst problems that Cuba has is its vehicle fleet: it is old and there are no auto parts. That is why it is now a Cuban "priority" to import "parts and spare parts for the automotive equipment" from China (*Juventud Rebelde*, 2012).

Intergovernmental agreements have responses to the real situation of the exchanges. Documents express official willingness to increase trade exchanges with different purposes: as stated earlier, one has resources while the other one has needs. Cuba's trade picture is as bad as it is in all the CACZ. Graphic 2 depicts an open chopsticks situation: Cuba's deficit almost equals the total bilateral trade. Its exports to the Chinese market are negligible.

Graphic 2
Cuba's trade with China, 1986-2011
Thousands of USD



The source does not provide the same information for every country.

Source: With information from www.eclac.org/comercio/ecdata2/index.html. January, 2013.

The picture of this devastated Cuban economy also shows that a country free rides on Chinese economy. Chinese exports goods with more added value and the Cubans have a main product, non-ferrous base metal waste and scrap. Amounts of the other products are really tiny.

Table 2
Most important products exchanged by Cuba and China
2006

| Household type equipment | Non-ferrous base metal waste and scrap |
|------------------------------------|--|
| Electrical machinery and apparatus | Medical instruments and appliances |
| Footwear | Measuring, checking, analysis, controlling instruments |
| Household equipment of base metal | Electro-medical and radiological equipment |
| Road motor vehicles | Waste and scrap metal of iron or steel |

Source: www.eclac.org/comercio/ecdata2/index.html. January, 2013.

This is only a glimpse of the relations between this Caribbean island and one country-continent of East Asia. Instead of building an interdependency relation to trigger its

economic growth, Havana is free riding on Chinese economy to face its pressing daily problems, hardly thinking about the future.

Diplomatic and Politic Ambivalence: Guatemala and China

If Cubans have diplomatic relations with Beijing and play baseball with Taiwan, Guatemala has its diplomatic heart and pocket with Taipei and is opening its market to Chinese goods and investment. In 2007, beset by lack of money for infrastructure projects, Costa Rica's government finally had to surrender and broke with the Asian island, but Guatemala has expressed a bold political position and the former Foreign Affairs Ministry, Jorge Briz (2006), said that they will continue "to hold the position of diplomatic relations with Taiwan and only trade with mainland China. Naturally, we will continue with the same support, so that Taiwan can access as a member of the UN and other international bodies".

After years of struggling with Beijing's bureaucracy and against all the odds, in October 2012, the Chamber of Cooperation and Commerce China-Guatemala did open an office in Shanghai to increase Guatemalan exports to China (*Prensa Libre*, 2012). In fact, Guatemala is ready to give another step to get closer to China and open in 2013 a trade office in China reaffirming its eagerness to maintain relations with Taipei. While Taipei continues to pour money into different projects and donating helicopters (Reliefweb, 2012), the government will find it irrational to cease relations. If Guatemala gets away with it and maintains relations with both Taipei and Beijing, it will set a global precedent. It is hard to say what is happening, but after Costa Rica, the domino has not fallen yet. Many countries have economic and cultural exchange with Taiwan, but not diplomatic relations. I am not aware of a single situation where at the same time a government has political formal relations with Taiwan and also has formal trade relations of some sort with China.

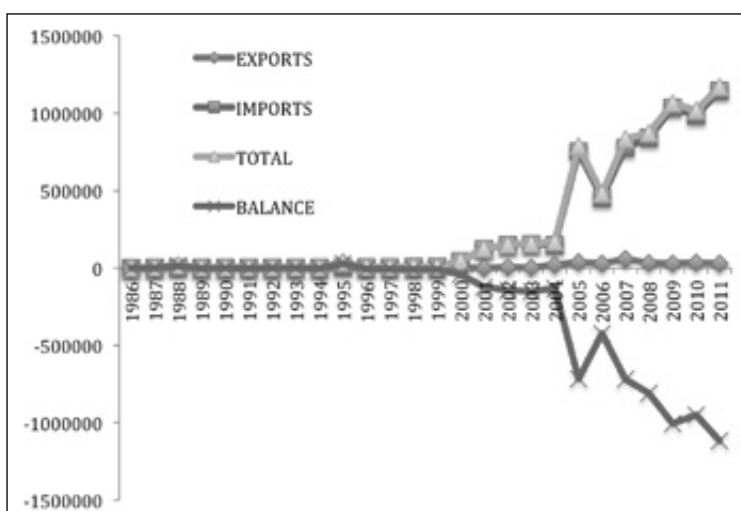
In many countries, like Mexico, bureaucracy, sometimes even at the ministry level, clash over the Taiwan issue and have conflicting points of view. In Guatemala it is possible to find that different socioeconomic groups keep opposing perspectives. Businesspeople have asked the government to establish relations with Beijing, with no success so far. We know about internal disputes through informal off the record conversations or deducting from the way diplomatic speak about Taiwan: some use a belligerent vocabulary, just like Chinese officials do when they talk about what they consider the rebel island; on the opposite side, some have proposals to cooperate with the island. In Guatemala this process has been different. It has been public and it seems to have regional reverberations. At the end of 2012, on December 15th, Pablo Rodas-Martí, chief-economist of the *Banco Centroamericano de Integración Económica* (Central American Bank of Economic Integration) resigned his position at the bank because, for years, he has been saying that his country and his neighbors should embrace Beijing as

his diplomatic partner. According to his reasoning, his country should sign a free trade agreement and open its doors to tourism from China.

It is hard to know what the actual political strategy of the government is, if any. Otto Pérez Molina, trained at the US Army School of the Americas, after one year in office has confirmed diplomatic links with Taiwan (*Ministerio de Relaciones Exteriores de Guatemala*, 2013). Maybe he feels comfortable with his country's seat at the SC since January 2012 to the end of 2013, and feels no urgency to get too involved with Beijing. One could argue that Perez's anticommunism prevents him from establishing relations with Beijing. Maybe it is a factor, but political disputes among domestic groups and links with the Taiwanese lobby are more important. Let's not forget that it was anticommunism that encouraged Richard Nixon to approach Beijing, and to a lesser extent it did the same with other politicians, such as the Mexican Luis Echeverría, president from 1970 to 1976.

Geopolitics and domestic violence made Guatemala dependent of USA. Other international partners were almost absent. Since a few years ago, it has been trying to diversify its trade and pretends to attract investment from abroad. China is a target. Their bilateral trade has not been significant and since 1986 there has been only one year of positive trade balance, 1995. Excluding a fall in 2006, total trade has been skyrocketing with just a small fluctuation in 2010. Bad news is that, like other countries, the total represents almost the amount of Chinese imports. The outcome portrays a perfect pair of open chopsticks: the more they trade, the bigger the Guatemalan deficit is (Graphic 3).

Graphic 3
Guatemala's trade with China, 1986-2011
Thousands of USD



Source: With information from www.eclac.org/comercio/ecdata2/index.html. January, 2013.

The structure of their bilateral trade tells us the same old story of the CACZ countries: main exports are natural resources such as sugar, metals, seafood or wood. The Guatemalan market buys not high-tech goods, but medium value added products like fabrics, bicycles or footwear. Both total amount of exports and type of goods have been harmful to the local economy.

Table 3
Most important products exchanged by Guatemala and China
2011

| Household type equipment | Non-ferrous base metal waste and scrap |
|------------------------------------|--|
| Electrical machinery and apparatus | Medical instruments and appliances |
| Footwear | Measuring, checking, analysis, controlling instruments |
| Household equipment of base metal | Electro-medical and radiological equipment |
| Road motor vehicles | Waste and scrap metal of iron or steel |

Source: www.eclac.org/comercio/ecdata2/index.html. January, 2013.

Nicaragua: A free Rider from the Left

Despite having a leftist government, Nicaragua has no diplomatic relations with China, but it is trying hard to free ride the Chinese economy. Back at end of the 70s, Nicaragua and China could no longer be at far ends. Internationalization meant something different. After the fall of Anastasio Somoza, Nicaragua began a new era that ultimately failed due to the siege of Ronald Reagan on the country and deep ruptures among the local oligarchies. As in the 19th and 20th centuries, survival depended on international recognition, which meant Washington’s approval. Domestic legitimacy was not enough. On the other side, China was beginning to establish some official reforms to the economy and a partial opening of their economy. Internationalization was about attracting investment and technology.

In his first term as president in 1985, Ortega broke with Taiwan and began relations with China. A few years later, he blamed the White House for his actions. Later on, Violeta Chamorro, in 1990, restored the former *status quo* and even defended the island at the UNO (*Noticias*, 1992). In the electoral campaign that took him to his second term, Ortega promised that once president he would break again with Taipei. He did not do that, and he actually invited Chen Shui-bian, the former Taiwanese president, to his opening ceremony, and signed a joint communiqué. In front of the media, Ortega said that he was not against establishing links with Beijing, but that he would not break with Taipei “as a precondition” (Ko. S.L., 2007). The bilateral relation has not been smooth. Ortega has used the idea of breaking relations to obtain more benefits from the island and has shown some insolence with Ma Ying-jeou (Mo, Y. C., 2013).

Looking at the big picture regarding China, the Nicaraguan situation is not so much different from that of the other CACZ countries. However it is not the same. This country has been attractive in important sectors and the Chinese are going further than in any other place in the region. There are illusions and realities. In the first realm, it is supposed that the Chinese are very interested in the construction of an interoceanic channel valued in USD 30 billion (*El Herald de Honduras*, 2012); in the second one, there is the telecommunications business.

At the beginning of 2013 the authorization of a new company, Xinwei, was announced, which is based in Beijing and specialized in wireless communications. It has planned to invest USD 2 billion during the next three years. Xinwei will compete with Claro (América) Móvil from Mexico with 60.78% of clients and Movistar with 39.22% of mobile phone users (*El Economista*, 2013). Regarding internet, Claro Móvil provides 65.74% of the connections, Movistar 8.76% and Yota (Russia) 11.21% (Konrad, Adenauer and Stiftung, 2013).

In the same realm, there was a negotiation to buy a Chinese satellite worth USD 300 million with money borrowed from Chinese banks (*La Nación*, 2009). Finally, the Nicaraguan government paid USD 244 million to be payable in 15 years planning to launch it in 2015. According to the detractors of this project, it is not worth paying for a satellite because the government will still have to be paying for it long after it has stopped working already, and it seems that the great beneficiary of the satellite will be Xinwei (*Nicaragua Dispatch*, 2012), the very same company that would construct a future interoceanic channel as well.

The great international policy strategies of the local oligarchy about China are: transferring monetary resources, deepening dependency and changing patterns. Nevertheless, Ortega's wife, Rosario Murillo, had an illusion: the interoceanic channel "will get us out of poverty and it also will install us on effective routes of complementarity and social justice, from the dignity that will get us out of the agency" (Pérez, 2012).

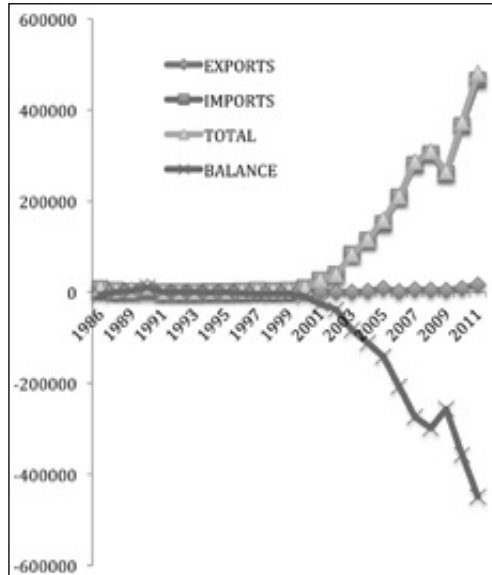
It seems that Ortega tries to take advantage of its two Chinese partners. From Beijing he obtains money for huge projects, and from Taipei he gets cash for daily needs. Taiwan donates, for example, USD 600 thousand for clothing for soldiers of the local army or toys for kids (*La Voz del Sandinismo*, 2012).

I consider that the bilateral main feature is investment, not commerce. Nonetheless, it is an important variable in the Sino-Nicaraguan relation. It is possible to find layers. One, quite palpable, is the assistance that governments provide to their businesspeople to reach new markets, which is why an annual ExpoChina is promoted in Managua (*Tico Times*, 2011). Yet there is another amalgam of tangible situations and illusions: in order to lower tariffs on their products, Nicaraguans are looking to sign a free trade agreement (Aguilera, 2010).

In Nicaragua, it is possible to find an almost perfect open chopsticks pattern: it is possible to distinguish that exports amount to almost zero, and the total fully overlaps imports' variable, mirroring the balance perfectly. Nicaraguans don't sell almost

anything, but buy many goods from China (Graphic 4). Dependency is almost absolute, but relative because of tiny exchange amounts.

Graphic 4
Nicaragua's trade with China, 1986-2011
Thousands of USD



Source: With information from www.eclac.org/comercio/ecdata2/index.html. January, 2013.

In a similar fashion, just like Guatemala does, Nicaragua exports products with very low added value goods, like woods, oils and furs. Nicaraguans buy industrialized goods, phones and computers (Table 4).

Table 4
Most important products exchanged by Nicaragua and China
2011

| IMPORTS | EXPORTS |
|---|---|
| Telecommunication equipment; parts and accessories | Wood, simply worked, and railway sleepers of wood |
| Automatic data processing machines and units thereof | Fixed vegetable oils, soft, crude refined or purified |
| Cycles, scooters, motorized or not; invalid carriages | Polymerization and copolymerization products |
| Footwear | Waste and scrap metal of iron or steel |
| Pesticides, disinfectants | Hides and skins, excluding furs, raw |

Source: www.eclac.org/comercio/ecdata2/index.html. January, 2013.

It Aint 't Over till It's Over: Theoretical Implications and the Future of the CACZ

There are strong links between the CACZ countries and China. The main connection has been people. The Chinese are a very important part of regional history as infrastructure builders, the hard workers called coolies; as artists, the painter Wilfredo Lam; and as freedom fighters, the activist Arlene Siu. Despite these strong centennial connections nobody foresaw what is being witnessed today: China has arisen as a global power and is changing the *status quo* in the CACZ countries.

The Chinese process of its increasing presence in the CACZ is hardly over. It is just beginning to take shape. This paper has captured a specific moment and just a few variables of this social process. These pages are a four-faced incursion: it does not follow traditional rationalities that consider Chinese as destroyers of local economies; it does not support the idea of China as a country that is globally acting at its will; it stresses the idea that, dealing with China, it is possible to negotiate and get more benefits; and finally, the CACZ oligarchies are building the dependency they want and cannot blame anyone for their actions: there is no American imperialism, or military interventions, or Anastasio Somoza or Fulgencio Batista. It is just the oligarchies, their political (in)abilities and their own world conception. They are making their own future of dependency.

Chinese presence is apparent in trade. As you walk around many of the world city downtowns, your eyes are filled with low quality goods from China. Local textile, shoe and toy sectors are presumably weakened by imports from this country. Sooner or later, this situation means loss of jobs and huge trade deficits. Because of their unfair trade practices, public perception is that the Chinese are guilty of CACZ economies' bad situation. Almost nobody thinks that greater problems arise due to the lack of domestic economic policies. In the CACZ, oligarchies are focusing in trade and supporting traditional economic sector. While doing this, they construct dependency and do not trigger economic growth. This is proven with a dominant open chopsticks pattern in all the countries studied here.

There is an economy, the American one, with a huge deficit that is not harmful for at least three reasons. Consumers buy cheap goods, some producers buy cheap products from China for themselves, and they also sell their products from China. Furthermore, recent studies show that in hi-tech products, the role of Chinese economy is small compared to that of Japan, South Korea, Taiwan or the United States (Kraemer, Linden and Dedrick, 2011), which means that profits are not for the Chinese. The problem is with economies that are small and not capital exporters, they sell raw materials and manufacture for foreign companies that keep the bigger share of profits to themselves. In the first case, American economy, even when economic actors are wounded and companies are closed, benefits most part of society actors. Quite the opposite happens

in the CACZ, where benefits are few. Sometimes the only profit is low wages for workers, but not transference of technology.

Processes related to Chinese international actors involvement in the CACZ have practical implications for their future, but my main concern is academic, and finding implications of theoretical approaches is the aim. It is not that I consider social practice insignificant, it is just that, without theoretical approaches, international relations will never be what we really need, and illusions as tickets to free ride a global power economy will continue replacing realities.

This paper's main theoretical implication deals with the causal relation of the triad economic growth-domestic policies-interaction with foreign powers. This is the heart of Latina American history and the center of many intellectual debates. In the CACZ it is possible to stress that local oligarchies have chosen an economic path of dependency. There are no gunboats imposing or overthrowing governments; nobody is pointing a weapon to enforce the signing of a friendship treaty. It is just about shortsighted or corrupt politicians considering that economic growth is possible without sound domestic policies, that it can be completed depending on savings and technology coming from abroad. Subjects should be studied framed inside specific political contexts, considering how they interact and negotiate with each other, analyzing how they strive for their interests and build institutions. Above all, in order to understand behavioral patterns and because they guide the actions of actors, ideas have to be understood.

A second theoretical implication is related to the approach that sees formal bilateral relations and free trade agreements as triggers of goods exchanges. From the evidence collected in my research, there are not facts to support that idea. Trade has relatively skyrocketed from around 2000 to 2003 thanks to three interrelated factors: a more globalized Chinese economy, the CACZ economies in deep crisis because of oligarchies rifts and the fact that Americans have abandoned this region in many ways. Chinese economy is beyond (neo)mercantilism, and its activities cover almost every economic field: form investment to official aid. Above all, I have found concurrence of interests between Chinese actors and local oligarchies.

One more theoretical implication is that for the first time in almost 200 years, a non-regional power is successfully disputing or trying to share the leadership in the CACZ/Latin America to the USA. Quite a few countries (Russia, United Kingdom, Germany, and Spain after American independencies) have failed to become powers in this part of the world. China is trading goods, investing, joining to existing international institutions and building new ones. While Beijing has arisen as a power in the CACZ, Washington seems to be crouching.

From the theoretical perspective, ideological confluences are not significant. Beijing has its own set of ideas on how to be a global power, but it is not Mao Zedong's intellectual background what supports their international activities. They are not thinking

from a sort of Third World perspective, or a South-South cooperation approach. Chinese government thinks as a power that tries to shape a new world order and does what it takes to help its businesspeople, conquer markets and win opportunities to invest. It is accurate to consider that its interpretation of the 19th century history is a foundation of its foreign policy, but Beijing is not pursuing the illusion of a past golden age. At this very moment, China is very far from displacing the United States or even from being Washington's peer in the CACZ, and yet it is already a significant power in the region.

Finally, both the CACZ countries and China have had uneven actions, and bilateral relations have specificities. It is also time to reach a conclusion about Taiwan, the most important symbolic and diplomatic issue here. However, it seems clear that all of them, but Costa Rica, have relations with Taipei on different levels. Even Cuba has meaningful sport links, but Guatemala and Nicaragua, in order to obtain more benefits, have bold policies to maintain relations with both the continent and the island. At investment level, Cuba and Nicaragua are the main receptors of Chinese investment. The difference lies in the fact that investment in Havana is located in traditional sectors (like mining) and in Managua money goes to telecommunications.

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