

## United States, China, and Latin America a triangular relationship: The Case of Mexico, Ecuador, and Honduras

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## **John Cabot University**

Department of Political Science and International Affairs

Bachelor of Arts in Political Science  
Minor in Creative Writing and Communications

United States, China, and Latin America a triangular relationship: The Case of  
Mexico, Ecuador, and Honduras

Julissa Raquel Castro Ruiz

First Reader  
Pamela Harris

Second Reader  
Enerico Fardella

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## **Abstract**

The present study analyses the development of the interaction between the United States and China in Mexico, Ecuador, and Honduras. As the uncontested regional influence of Latin America, the United States has shaped the region for almost a century. China, on the other hand, has become a more prominent figure in the last decades. The Thesis will go into detail about the three countries, tracing their history with both the United States and China, looking into ideological and political similarities and disparities, and well focusing on the economic and trade relations between the nations. The economic factors have created a dependency on the US however with its growing presence in these countries China has dedicated million to the development of these countries. The Mexico chapter evaluates the benefits of having a relationship with the US given its proximity can have. Mexico's trade with the United States overlaps with that of China, leading to a competitive relationship between them. Ecuador is a country that has been involved in legal battles against the US and its long history of left-leaning president has made them more inclined to China. Ecuador has created a trade and investment framework that protects its national sovereignty and state interest as well as encourages Chinese investment. While it still has relations with the United States, its government doesn't rely solely on it. Honduras a country has just recently switched alliances to China. The Honduras chapter explores the ties between the nationalist party in Honduras with the United States as well as how the current liberal party's left-leaning policies and actions will impact the country in the long run. By having countries that fall in different areas of the spectrum, one end being the United States and the other China we can deduce how these countries will interact with both countries while preserving their national sovereignty and putting their state interest over regional proximity or influence.

## **Dedication**

To my friends who were with me through endless nights and my family who were my pillar of support and believed that I could make it this far. Ebenezer!

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# 1. Introduction

As an unchallenged regional power, the United States has had a long history of political and economic intervention in Latin America. In recent years the region has seen the growing presence of China, with many countries in the region establishing diplomatic relations with it and receiving generous aid and development investment. Through the growing trade and investment, China has reshaped the economy of several countries in the region. The growing intervention has placed the US on high alert. However, this perception that China intends on replacing the United States as the regional power raises concern even though Beijing hasn't expressed any sentiment on taking over the US place in the region nor is there evidence of any threat it can present to US dominance. Chinese economic involvement in Latin America is a product of the pink wave that has once again hit the region. With more left-leaning presidents being elected across the region there is a new trend in many Latin American countries to look east for economic and diplomatic growth instead of north as it has been custom for many years. China also represents the growing decoupling of countries from the United States. While the United States still holds influence in the region the economic growth and the growing opposing ideologies have created a breach between Latin America and the United States. The following chapters will focus on Mexico, Ecuador, and Honduras. Countries who have had a long and prominent presence of both countries in the region and which by analyzing them we can deduce how these countries will interact with both countries while preserving their national sovereignty and putting their state interest over regional proximity or influence.

The chapters focus on trade, direct investment, and finance, as China's role in reshaping the region and the dependency these countries can form or have formed on Chinese investment.

As a region that is in constant sociopolitical unrest the economic expansion will take some time to fully develop. Beijing has also prioritized south-to-south cooperation which is why there is a growing presence of China in Latin America. While south-to-south cooperation was introduced as a way to get developing countries more active in the international system China has emerged as the leading power in this group. The involvement of China presents both Challenges and opportunities for the development of Latin America.

The Mexico Chapter traces Mexico's rise as a leading country in the region. Yet it is the proximity and years of intertwined history with the United States that have led to Mexico being overshadowed by the US thus creating a dependency on the US. For many years Mexico maintained its close alliances with the US, but as new leaders are elected, and the country continues to grow in both population and its economy, there is a growing demand to expand its partners with other countries. However, as we go into the chapter China has become more of a business rival rather than a partner. With similar export materials Mexico and China are racing to maintain their relationship with the US. It is also the lack of institutional support for exports to China that has also become an obstacle to the development of the country.

The Ecuador chapter traces the different lawsuits between indigenous communities in Ecuador against Chevron-Texaco and Ecuador-US lawsuits. The Ecuador chapter states Ecuador's clear position regarding both China and the United States. With long trading relations with the US and the new interest in China, Ecuador is now trying to diversify its economy and, at the same time, gain autonomy from the regional hegemon, the United States. Learning from past events Ecuador has developed a stronger domestic legal framework for its trade and investment. While it may seem that Ecuador has substituted one dependency for another, the main difference is that its Chinese dependency is more consonant with the dominant leftist ideology.



The United States is of great influence in Latin America; however, it is Central America that has seen the dominant and uncontested involvement of the US in its countries. The Honduran chapter focuses on the triangular relationship between the United States, China, and Taiwan. As the latest country that made the switch from Taiwan to China Honduras is following fellow Central American countries that for many years had supported Taiwan but in the last decades because of economic and ideological reasons have switched to China. While these countries have limited strategic importance for both the United States and China, both countries do have serious repercussions in Central American Countries. In this chapter, I will analyze what the recognition of China means for the future of Honduras and what it says about its current government as well the rising sentiment across the region toward intervention by the United States.

The Analyzes of Mexico, Ecuador, and Honduras has led me to hypothesize that as the United States and Latin America continue to move farther from each other in the political spectrum China will continue to grow its presence in the region through investment. The United States will continue to support parties that align with their agenda and reinforce its role in the region, however, as the new pink tide takes over the region economic relations with China offer these countries a more tempting offer than for the case of Honduras and Ecuador are more likely to incline towards it.

## 2. Literature Review

The expansion of China in Latin America is a subject of great interest and importance for both Latin American countries that look for Chinese investment and for the United States which is the regional dominant leader. (Biage & Blasetti, 2022) analyze the new wave of left-leaning presidents that are being elected in the region. This phenomenon was first seen during the cold war as many countries tried a more liberal and left-leaning approach to reboot their economies. Comparing and contrasting the previous wave with the current the authors conclude that the first wave was the product of the need for social reforms while this one is about expanding the economic standing of the countries. Because of its strategic position in the Americas and its growing markets Latin America is a great investment opportunity for many countries. The evolving ties with China are mapped in (Roett et al., 2016) book. When conducting my research I looked for data from the last two decades as these were the times when the shift between right-wing to left-wing governments took place. (Roy, 2022) As well the investment of China became more evident. (Rivera-Matias, 2022) In Central America, it was also the time when most of the countries started switching alliances from Taiwan to China. (Press, 2023) The involvement of the United States in Latin America during the 20th century can be characterized by two things: the containment of the soviet union and the expansion of communism. This led the United States to intervene in many governments by removing presidents or establishing tight control through private companies. In Central America and Caribbean's relations with China and the United States (Denoon & Bernal, 2017) the author states the uncontested dominance the United States has had in the region but also the need for creating an independent identity outside of US dominance for the countries in Latin America. This dependency on the United States is not

feasible in the long run as the country itself goes through constant swings of liberal and conservative (Kirsch, 2022).

Mexico a US neighboring country has seen an influx of immigration and migration. (Miller, 2022). The article elaborates on the effects of United States citizens on Mexico, that while it can be argued that they bring investment to the nation what they are doing is creating gentrification. Chinese investment as well comes with ties. Chinese companies hire only English-speaking workers, limiting the pool of eligible local candidates that are available. (Wintgens, 2023) As argued in the Violent consequences of trade-induced worker displacement in Mexico (Dell et al., 2019) we can see the consequences this type of limitation causes in the region. Many that are unemployed are picked up by gangs or drug trafficking organizations (Felbab-Brown, 2023). This not only puts the safety of the citizens at risk but also disrupts the country's socio-economic development. Mexico has also been caught in the trade war between the United States and China. (Gachúz Maya, 2021) Mexico's competitive relationship with China has become an obstacle to the development of their relationship. Gachúz argues how the similar markets both of these countries offer to have them not at a collaborative stance but rather a competitive one. Yet during the height of the trade war between the US and China, Mexico took the lead benefiting from the sanctions imposed on China. Since then the left-wing government that has been elected has switched its relationship with China to one of investment partnership. (Gonzalez-Vicente, 2017) (Denoon & Peters, 2017)

Because of the lack of literature and up-to-date academic articles, I used statements by the minister of foreign affairs of the countries I was looking at. These statements were used to push forward my argument to have a clear stance on what the countries expected from their bilateral relationship with either the United States or China. The Minister of foreign affairs of

China states that China always views and develops relations with Mexico from a strategic perspective. The nations are cautious about the way they address each other. Mexico still takes a gray stance when talking about China. Product of the concerns their relation can have with the United States. The data from trade and investment for Central America also presented gaps as most of it was from 2013. While Central America is a region that just recently in the last decade has opened up to China the literature shows a very big gap in the field. (Press, 2023) I took primary data from official government statements to compare how both politically and economically these countries were doing with the United States and China. There was more information regarding the United States than it was regarding China. The literature review for Taiwan and Central America not only was extremely limited but it was outdated hence I decided for the Honduras chapter to focus more on the liberal values that have arisen in the last few years. Panama and Costa Rica I found articles and journals about them. (Rivera-Matias, 2022) The literature focused on the region in general given examples here and there (Solís, 2021) but it was very superficially. While this can be due to the low influence these countries have in the international system what happens in the United States and China affects them greatly so I tried to look for scholarship in Spanish but it was mostly regarding the United States. Panama is a country that has been more involved economically worldwide which is why I took examples of the methodology used for the Panama case study in the (Denoon & Bernal, 2017) chapter and tried to replicate it in the Honduras chapter. Tracing back the roots of the US-Honduras relation (Portillo, 2022) and the meaning of the relationship between Taiwan and Honduras. (Herrera, 2019)

Ecuador chapter drew as base the (Chevron, 2022) case with the United States. How the company led Ecuador and the United States ties break. The main issues that the relationship has

in the 21st century (Wordliczek, 1970) regarding health violations for the indigenous communities. The author goes into detail about the measures the government of Ecuador has taken to safeguard the sovereignty of its country and its citizens. (Wintgens, 2023) The election of Correa also marked the shift toward a more leftist approach to their foreign policy. (Santana, 2023) When approaching China Ecuador has implemented more robust measures to ensure what happened with the United States doesn't happen again. While the relationship has been mostly driven by the exportation of oil it tries for the most part to follow the procedure to protect the environment and the livelihood of the indigenous communities in Ecuador. It is also making progress in diversifying its economy by growing other natural resource markets to divert away from an economy that relies solely on petroleum. China helped Ecuador get access to international aid, hence why their relationship came at a time when it had just had issues with the United States. China also aligned with the neoliberal anti-imperialist ideologies that Ecuador was developing. China was presenting south-to-south cooperation. In Gonzalez-Vincent's review on South to south relations under World Market Capitalism states how this relationship promised national development for Ecuador. So far Ecuador has taken an independent approach by going maintaining diplomatic relationships with both countries. While there is more inclination towards China, the United States is still one of the main exporters and importers of the Nation.

Through academic articles, journals, books and articles, and press releases from the different governments I constructed my argument on the path this Latin American countries will take or have taken. Mexico was chosen because of its proximity to the United States and its rapid economic development. Ecuador as a country that has been legally involved with the United States and has gone from a leftist government to a right government presented an

interesting case study on the different emerging perspectives in the region. Honduras just recently established diplomatic relations with China, while it doesn't have Mexico's rapid development nor petroleum like Ecuador Honduras is part of a region that has been under tight US control and was still for most of the decade allied with Taiwan. By analyzing these countries we see different measures and approached the nations have taken to preserve their national sovereignty and decoupling from any major regional or international power. The Analyzes of Mexico, Ecuador, and Honduras has led me to hypothesize that as the United States and Latin America continue to move farther from each other in the political spectrum China will continue to grow its presence in the region through investment. The United States will continue to support parties that align with their agenda and reinforce its role in the region, however, as the new pink tide takes over the region economic relations with China offer these countries a more tempting offer than for the case of Honduras and Ecuador are more likely to incline towards it. Mexico will continue to strengthen its relations with the United States but most of the literature agreed that it must diversify its alliances if it wants to maintain feasible economic growth. Ecuador has already made its stance clear regarding how they approach both countries even with a conservative government in power Ecuador still is heavily influenced by the legacy of President Correa. Honduras on the other hand looks at China with the promise of economic development. The switch was also a signal of the decoupling the country is having from the US. As a nation that has been heavily by the pandemic and two hurricanes it is in desperate need of development aid. China's investment in infrastructure can bring both challenges and opportunities. These countries show the diverse range of ways the triangular relation between these countries has developed.

### **3. Three Nations Perspective**

#### **Chapter I. Mexico**

Mexico has emerged as a promising development of the global south. With an increasingly more active presence the international community and major infrastructural and economic investments in the country. Mexico has presented itself as a country of opportunities for investors and especially for its neighboring countries. Its proximity to the United States also makes it an area of interest for many. Due to this cultural and geographic proximity, Mexico has been a country that has kept close ties with the United States. This has caused a dependency on Mexico's trade policy in the United States, and the lack of institutional support for exports to China is an obstacle to the development of the country. China as a manufacturing company presents itself as a rival to Mexico's business model. Yet, the countries have established closer ties in the last few years with China investing in economic development, culture, energy, and transportation. The analysis of the triangular relationship gives us a better understanding of how Mexico and China could enhance asymmetrical trade terms in the bilateral relationship. In this chapter, I will analyze the triangular relationship between Mexico, China, and the US from three perspectives: Mexico's dependency on the US, the trade relations between China and the United States, and the competitive relationship between Mexico and China.

#### **Neighbors and Investors**

The United States and Mexico have a long history of both rivals and economic partners that dates to the Mexican-US War of 1846. Mexican and American citizens have moved from one country to the other for economic reasons. Mexicans remain the largest group of immigrants

in the United States. They account for 24% of the 45.3 million foreign-born residents in the country as of 2021. (Rosenbloom & Batalova, 2022) They were around 10.7 million Mexican-born individuals living in the United States in 2021. This immigration has led to a cultural impact on American society and the influence of Mexican culture. In recent years, the product of a new business model, remote working, has led 1.6 million Americans to move to Mexico, searching for a cheaper lifestyle. (Miller, 2022) According to the state department report, many of them moved to Mexico during the Coronavirus Pandemic, as Mexico had eased its restrictions much sooner than the US. Mexico City is seeing an increase in gentrification in most of its neighborhoods by the Americans that move in. Convenience stores and Taco places are being turned into minimalistic coffee shops and Pilate studios that cater to their new habitats. The Americans take advantage of the low rents, affordable health care, and the ability to stay in Mexico for six months without a visa.

In terms of the economy, both countries had signed treaties such as the North American Free Trade Agreement, a mutually beneficial treaty that allows the flow of goods and products across the region. More recently, the United States-Mexico-Canada Agreement (USMCA) entered into force on July 1st, 2020, substituting NAFTA. The agreement creates a more balanced, reciprocal trade supporting high-paying jobs for North Americans and growing the North American economy. It benefits North American workers, farmers, ranchers, and businesses.

Because of the close integration of the Mexican economy into the United States, it has had a historical distrust for the structural competition of the People's Republic of China entities. Mexico has responded to the increasing competition by pursuing policies that are expanding its international affairs or trade relations with China but are causing disruption and having strategic



implications for its relationship with the US. Mexico has always had an ambiguous stance concerning its relations with China. Mexico was amongst the first countries in Latin America to recognize and establish relations with the PRC, doing so in February of 1972. Mexico also recognizes China as a strategic partner and has engaged in multilateral groups such as the G20 and the United Nations. Mexico's presence has also been seen in the participation of a large group of Asian forums, such as the Association of Southeast Asian Nations and Asia-Pacific Economic Cooperation. The Chinese government, on the other hand, recognized Mexico as a strategic partner in 2003 and established high-level working groups in both countries in 2004. "Enrique Pena Nieto, the president of Mexico at the time, met with his Chinese counterpart Xi Jinping three times during six months in 2013, including in June 2013, when the two countries elevated their relationship to a comprehensive strategic partnership."<sup>1</sup>

The North American Free Trade Agreement and Mexico's close security ties with the US under the governments of Felipe Calderon and Enrique Pena Nieto have prevented it from fully embracing the PRC, and the government of President Andres Manuel Lopez Obrador seems to follow a similar posture. This is despite the desire of some Mexican businesspeople and politicians to benefit from Chinese investment and exports to the Chinese market. Currently, Mexico is one of the few Latin American nations that has not ratified the 2013 PRC "Belt and Road" project.

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<sup>1</sup> *President Xi Jinping holds talks with his Mexican counterpart Enrique Pena Nieto.* Minister of Foreign Affairs of The People's Republic of China. (n.d.). Retrieved April 25, 2023, from [https://www.fmprc.gov.cn/mfa\\_eng/gjhdq\\_665435/3376\\_665447/3508\\_665108/3510\\_665112/201304/t20130407\\_596195.html](https://www.fmprc.gov.cn/mfa_eng/gjhdq_665435/3376_665447/3508_665108/3510_665112/201304/t20130407_596195.html)

## **Mexico's dependency on the US**

Given its long history as a neighbor, immigration, and cultural exchange, the United States is Mexico's most important partner today. The USMCA gives a clear example of the high integration Mexico's economy has with the US. Mexico policymakers have placed more importance on building institutions, mechanisms, and instruments that relate to the US, than other regions such as Europe or Asia. This has led to Mexico missing out on creating a foundational institution that acknowledges the importance of Asia and, specifically, China as trading and economic partners. Mexico, at present, has weak institutions and treaties with the region and doesn't possess the full capacity to create powerful ones, as most of its policymaking and attention goes to the US and other Latin-American countries.

Mexico's trade with the United States shows both a deep integration but also a marked dependence on Mexican exports to the United States. Based on data from the United States Trade Representative (2020) trade with Mexico reached a total estimated of 614.5 billion in 2019. Since the implementation of the North American Free Trade Agreement, the increase in bilateral trade has grown exponentially, it has also led to a diversification of their export products which has significantly impacted their produce market. Mexican investment in the US has also grown, with much of the investment coming from Mexican multinational companies. (United States Trade Representative, 2020)

## **Mexico-China-US: A triangular relationship**

China has reemerged as an important and influential powerhouse in the last decade of the 20th century, creating new relationships with global south countries like Mexico. Mexico and US relations have substantially shifted both from a political perspective with Mexico diversifying its

exports and having gone through the election of left-leaning president Andres Lopez in 2018 while the US was under Trump's presidency. Mexico, while it has not prioritized China in its international affairs spectrum, it has maintained important political relations with China in several multilateral groups such as the G20 and the United Nations system. It has been developing a group of bilateral institutions since 2004, with the Binational Commission Mexico-China, a cultural and educational commission to carry out functions in connection with the respective countries' programs. It has also engaged with China in general topics of economics and investment, which comprise most of the relevant bilateral issues. China is Mexico's second-largest trading partner in the world and ranks first in the Asia-Pacific region, with an exchange that totaled 110.278 billion dollars in 2021. According to figures from the Ministry of Economy, China's accumulated investment in Mexico from 1999-2022 amounts to over 2 billion dollars. (Exteriores, 2023) Apart from economics, the relationship hasn't diversified much to other areas such as education, tourism, or cultural exchange. China has a more prominent player in the US-Mexico relationship. Making it a new "triangular relationship" for the countries. China has displaced US export to Mexico and impacted Mexico's trade structure regarding its medium and technology products on the trade. This impact has led to a rapid increase in trade between Mexico and China. In 2019 the trade between the countries reached 100 billion USD, this trade balance however is not equitable for both countries. "From total bilateral trade, Mexico recorded exports to the Chinese market worth USD 7.1 billion in 2019, while Chinese exports to the Mexican market were USD 93 billion in the same year". (Gachúz Maya, 2021) These three countries' interactions are interrelated. The most noticeable case is how the trade war between China and the United States impacted Mexico, the result of this triangular scheme made the three countries' economies interrelated.

Mexico is a country that has benefitted from the trade war between the United States and China and the increase in tariffs that the US has imposed on Chinese products. The trade war led to Mexico becoming the main trade partner of the United States in 2019 as it offered both proximity and political advantages for the US. The trade war escalated in 2018 with the introduction of additional tariffs on Chinese imports by the Trump administration to 200 billion USD Chinese imports. China responded by imposing tariffs on a United States import worth 60 billion USD. The tariffs were estimated to rise from 10 percent to 25 percent in January 2019, but the parties agreed on a truce to stop further increases. The truce lasted until June 2019, when the US went ahead with the 25 percent increase. China responded, and the trade war further escalated with a 15 percent rise by the US in Chinese imports with a value of 300 billion USD. Beijing retaliated with a similar increase in tariff that ranged from 5 to 25 percent on US exports. The trade war saw a resolution on December 13, 2019, when president trump announced a trade deal between China and the United States. Both nations signed the deal on January 15, 2020<sup>2</sup>. The trade deal is meant to open Chinese markets to more American companies, increase farm and energy exports and increase the production of intellectual property. Intellectuals argue that the outcome of the trade war will bring a beneficial deal for Mexico as US companies are shifting their import from China to imports from other countries. It is estimated that the economic outcome from the exports diverted from China to Mexico can be around 26 million USD. In 2019 Mexico surpassed China in trade with the US with a historic exchange of 614 billion USD covering both imports and exports. “The amount exceeds by 9.95 percent the

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<sup>2</sup> Cerutti, E., Mohommad, A., & Gopinath, , G. (2019, May 23). *The Impact of US-China Trade Tensions*. IMF. Retrieved April 25, 2023, from <https://www.imf.org/en/Blogs/Articles/2019/05/23/blog-the-impact-of-us-china-trade-tensions>.

commercial flow between China and the United States” (United States Trade Representative, 2020).

While the trade war has become beneficial for Mexico, it can also have negative repercussions on the Nation. One example will be the devaluation of the Mexican Peso and the reduction of income generated by oil imports, “The trade war between the two nations devalued the Mexican peso by 3.7%.” (Gachúz Maya, 2021) USMCA highlighted two structural problems in Mexico's foreign policy. Mexico and China have a competitive relationship more than a complementary which is why, unlike many global south countries, this has also shown the high dependency the nation has on the US. With the newly implemented USMCA comes more dependency for Mexico on US markets, and the new commercial exchange is set to hinder trade relationships with China in the long term. "This could have serious repercussions on the growing Mexican trade deficit with China and may bring more complications to enhance exports to China." (Gachúz Maya, 2021) But given how crucial the Trade relationship with the US is, Mexico can recover from the deficit it has with China because of the trade surplus that it now has with the US.

### **China-Mexico Competitive Market**

China and Mexico have signed a comprehensive strategic partner in... and since 2003 Beijing is the second largest trading partner of Mexico. This exchange however has come with a trade deficit for Mexico. “There is an increasing “Latinoamericanization” of Mexico’s trade with China” which means that there is an “increasing exports in raw materials (oil and copper), while more than 60% of China’s imports have medium- or high-level technological content; (Ray et al., 2017) (d) foreign direct investment (FDI) from China accounted for less than 410 million dollars

or less than 0.1% of Mexico's total FDI.”<sup>3</sup> In November 2014 after the result of a failed Chinese investment, the bilateral relationship between Mexico and China fell into a historical low. Three aspects make the relationship between China and Mexico harder to reinforce than other Latin-American countries. First, we have Mexico and China's lack of complementary trade alongside Mexico's dependency on the US, second the wrong management of Mexico's trade policy with China, and third Mexico's perception of China as a threat to their markets. China has large investments in science, technology, and development, while Mexico is behind in these areas in comparison.

There is also the perception of a “Chinese Threat or Chinese Imperialism” in the China-Latin America relationship. The hegemon of the region, the US, political relations with Latin America often involved leverage, military force, clandestine operations economic pressures to give privilege to our corporations, yet the claims of China as a threat come are associated with issues that have to do with concerns about environmental matters and job losses. There is also the matter that the United States and previous region hegemon were liberal democracies, and China has an authoritarian political system. “According to it is logical to assume that this type of perception exists when there is a growing commercial relationship with a country the size of China.” (Denoon & Peters, 2017) China-Mexico relationship also has impacted the social dynamics in Mexico, there is the perception of a social threat level that affects the bilateral relationship and enhances mistrust. Mexico's manufacturing sector is competing against China's mega manufacturing sector, which is far more technologically advanced and provides cheaper

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<sup>3</sup> Wintgens, S. (n.d.). *China's growing footprint in Latin America*. fDi Intelligence – Your source for foreign direct investment information - fDiIntelligence.com. Retrieved April 25, 2023, from <https://www.fdiintelligence.com/content/feature/chinas-growing-footprint-in-latin-america-82014>

labor than Mexico. But offering cheaper wages than those in China won't help with the development of Mexico. China has far greater production capabilities and is supporting massive strategies to upgrade its production and trade sector. It also has shifted some of its export projects into services which is more advanced and bolder than the primitive and simple technological levels in Mexico. Also, Mexico is not only competing with countries in Southeast and South Asia like Bangladesh, Pakistan, Myanmar, and Vietnam, particularly those who offer cheaper wages than those in Latin America. These countries are near China and serve also as manufacturing spots for Chinese companies.

Many jobs that pertain to the lower and middle class have been affected by the competition, and this region, especially those that have a more drug presence, has seen an increase in violence and drug trafficking. The trade competition between China and Mexico in the US has been an important driver for the Mexican local labor markets. The drug trade is also key to the Mexican market, with more than 90% of cocaine consumed in the U.S. transiting through Mexico (U.S. Drug Enforcement Agency, 2011). While China takes counternarcotics diplomacy in Southeast Asia and the Pacific very seriously, its operational law enforcement cooperation tends to be highly selective and subordinate to its geopolitical interests. Chinese actors have come to play an increasing role in laundering money for Mexican cartels, including the principal distributors of fentanyl to the United States — the Sinaloa Cartel and Cartel Jalisco Nueva Generación (CJNG). (Felbab-Brown, 2023) President Andres Lopez wrote to President Xi Jin Ping to urge him to control shipments of fentanyl as he “fended off criticism in the U.S. that Mexico is not doing enough to stop trafficking of the synthetic opioid.” (Tian & Lee, 2023)

When tracking drugs becomes more lucrative because of changes in local labor markets it lowers the cost of criminal employment, and criminal organizations have an easier path to gain

control. “Drug tracking organization (DTO) labor cannot be easily imported given the importance of localized knowledge, and hence a fall in the local opportunity cost of criminal employment will plausibly increase the probability of operating tracking routes through a location. This in turn may increase the incentives for drug trackers to gain control.” (Dell et al., 2019) There is the probability that if Chinese imports to the U.S. had not changed with the trade war and Mexico competitive with China, the drug-related homicides could have been lower.

### **Mexico Future Relationships/ Policy Recommendations**

China poses new opportunities and Challenges for Latin America with its focus on the South-to-South relationship, “specifically in terms of trade and investment cooperation, infrastructure, competitiveness and innovation, climate change, and policy dialogue on cooperation”. (Roett et al., 2016) While these new opportunities can present short-term solutions, China’s ability to invest in projects can make it harder for local and national companies and suppliers to integrate into their progress. “China offering financing, Chinese firms can manage all parts of the project (design, logistics, construction, and many other segments), technology, and all required goods and services” (Roett et al., 2016) Loans are more recommendable for the development of the nation as they usually provide resources that the country can have total control over where it is spent. In the case of China, its investment is very direct. In the case of Latin America and, in this case, Mexico, it is more recommendable to have a Mexican state-owned enterprise as the mediator rather than a Chinese SOE.

Mexico should use this FDI as a channel of new development and being up to date with new technologies, upgrading its production process and boosting its competitiveness in the market, and having a more fluid knowledge exchange with other countries. But given the wrong management with trade policies towards China, the new opportunities that a strong Chinese trade



partnership may have will instead backfire. “These new opportunities, rather than improving existing trade and OFDI structures, might even worsen development results for LAC in its relationship with China: opportunities for LAC firms to compete and integrate to trade and OFDI from China, from this perspective, are more limited than with US or European firms.” (Roett et al., 2016)

With enormous employment losses because of Latin American imports, especially those of Mexico, gradually migrating from the US to China, the US has emerged affected by the trade rivalry with China in Mexico and Latin American countries. For the past 10 years, 80 percent of all Mexican exports have gone to the United States. The lack of value addition in Mexican exports is another fundamental issue facing the country's economic sector. This issue has been in the nation since the country's industrial sector first emerged. Mexico has failed to become an innovation hub and instead continues to rely on fixed comparative advantages like a low cost of labor and accessibility to the American market. The long-term viability of this industrial growth model is not feasible. Mexico must also take serious measures to guarantee that the advantages of the trade war are reflected in the development of Mexican exports with goods that have more economic benefit and variety. As argued by Montaña (2019), “Mexico should give its products added value, either through technological or price differentiation, so that this growth is sustainable.”

## **Chapter II. Ecuador**

Ecuador is a country rich in primary materials and minerals whose economy relies heavily on the exports of oil, which have been paramount in the economy since its discovery there in the 1970s. Oil quickly displaced bananas as the country's most important export and has

dominated exports ever since. In 2012, petroleum exports represented nearly 60 percent of all exports and over 10 percent of the national GDP. The current government of Ecuador has acknowledged that basing the economy on petroleum is not sustainable environmentally, socially, or economically, and it has made diversification a major long-term policy priority. (Ray et al., 2017) With long trading relations with the US and the new interest in China, Ecuador is now trying to diversify its economy and, at the same time, gain autonomy from the regional hegemon, the United States. With a stronger domestic legal framework for trade and investment, a product of failed US relations, Ecuador has welcomed Chinese investment and cooperation. China's role in the country is growing predominately. While it may seem that Ecuador has substituted one dependency for another, the main difference is that its Chinese dependency is more consonant with the dominant leftist ideology. At the same time, we can see that the measures that Ecuador has enacted are providing a kind of structure for future independent development. In this chapter, I will examine the history of US-Ecuador trading relations, the Chevron-Texaco case that pushed Ecuador away from the US, and the growing economic and sociopolitical influence of China in the Country. This will help us have a better understanding of why Ecuador is better or worse with China than it was with the US, and if the new measures taken by the government in their approach to China do or do not promise to be effective in protecting its sovereignty in the long term.

### **Ecuador's Ideological Shift**

A new wave, the continuation of the Pink Tide of leftist government that swept into power in the 1990s, is seeing a surge across many nations in Latin America. The first wave was the product of the condemnation by the leaders of neoliberal policies, and the results of inequalities, social exclusion, political corruption, and foreign dominance over national

economies. Most of these governments were voted out during the 2010s, but since the election of Mexican president Andrés López in 2018, have seen a comeback. While the first wave was characterized by the condemnation of political corruption and foreign dominance the second wave has a common element of social and economic discontent, accentuated by the COVID-19 pandemic, which put a strain on the region's fragile economies. While the pandemic isn't the main cause for discontent, it did accelerate the process, with the citizens blaming the presidents for the heavy economic consequences the region has had and is still facing. Leftist governments have now made a comeback because the right-wing governments that took over from them, largely supported by the US, failed to appreciate the tides of popular frustration.

Latin American countries are shifting and are increasingly looking east instead of north for aid and trade. China has become South America's top trading partner. "In 2019, Chinese companies invested \$12.8 billion in Latin America, up 16.5% from 2018, concentrating on regional infrastructure such as ports, roads, dams, and railways. Chinese purchases of minerals and agricultural commodities helped South America stave off the worst privations of the 2008 financial crisis." (Nugent & Campell, 2021) This investment is strategic for China as it simultaneously opens diplomatic relations with Latin American countries. Through investment and bilateral relations, countries like El Salvador and Panama that had recognized Taiwan subsequently switched to the People's Republic of China. "Gaining these kinds of alliances in Latin America offers Beijing invaluable votes at the U.N. and backing for Chinese appointees to multinational institutions." (Nugent & Campell, 2021) It also allows Chinese technology from companies like Huawei and ZTE, which are heavily sanctioned by the US, to enter the regional infrastructure, allowing Beijing more flexibility with the rules of commerce between the nations. 19 governments across Latin America and the Caribbean, including Ecuador, have joined the \$1

trillion transcontinental trade and infrastructure Belt and Road initiative of Xi Jinping. Currently, joint trade between Ecuador and China is worth over \$10 billion.

Ecuador is an important player in oil exports in Latin America. It has established bilateral relationships with the US and China, which are some of the major oil importers in the world. The relationship between these two countries goes beyond just an oil exchange. With the US as the traditional regional and world hegemon, Ecuador has a long history of diplomatic relationships with the United States. From regional intervention during the Ecuador-Peru conflict to being involved in political scandals, and indigenous land exploitation. Ecuador-China relations have also seen a tighter alliance in recent years because of a rising leftist ideology in the country and the multiple lawsuits between the US and the Ecuadorean government against each other. Ecuador is shifting away from its dependency on the United States.

Until the first half of 2022, China was Ecuador's main non-oil trade partner. While China seems to be dominating the regional market and Ecuador has had to open its market to China more in recent years, the United States remains Ecuador's principal trading partner overall. Bilateral trade in goods between the countries totaled more than \$13.1 billion in 2021. Ecuador imports machinery and industrial resources and technologies, transportation equipment, chemicals, and fertilizer while it exports mainly raw commodities. "In August 2021, Ecuador re-signed the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, also known as the ICSID Convention. Ecuador and the United States had also signed a new Protocol on Trade Rules and Transparency in December 2020 – a limited-scope, four-chapter update to their 1990 Trade and Investment Council (TIC) Agreement." (Nugent & Campell, 2021) Given its regional location and history, the United States can be considered the

more strategic alliance for Ecuador, but with a history of lawsuits, government interventions, and a more left-wing government, Ecuador is moving towards China.

### **The Rise of Left-Wing Government**

The election of Rafael Correa as President of Ecuador three times in a row has caused a radical change in American – Ecuadorian relations. “Correa’s presidency is characterized by militant anti-American rhetoric, “anti-imperialistic” decisions, and populist but authoritarian internal Provisions.” (Wordliczek, 2023, p. 193) Pre-Correa Ecuador was, for many years, a country whose political system was pro-American. The political and economic relations between Quito and Washington were going on properly as both countries aligned ideologically, but that soon change with the election of President Rafael Correa. President Rafael Correa's political ideology has significantly influenced how the United States and Ecuador currently interact. 2006 was a turning point for the US. Following more than ten years of political unrest and economic collapse, Ecuadorian society's attitudes were radicalized, and as a result, Rafael Vicente Correa Delgado, the leader of the left-wing, was elected president in November 2006. (Wordliczek, 2023, p. 185)

To break from the USA's monopoly, President Correa has continually worked to diversify Quito's partnerships with other nations. (Wordliczek, 2023, p.186) President Correa issued an order in October 2007 to increase taxes on oil trading corporations from 50% to 99% of their earnings. Curiously, the new guidelines included several seemingly advantageous alternative approaches. If investors agreed to transform their current projects into service contracts, they could avoid paying excessive taxes. (Wordliczek, 2023, p. 186) The Correa administration became popular among marginalized groups as he was one of the few candidates who tapped into these groups' necessities and acted as an ally. The 2008 Constitution was made possible

because of the support for his Alianza Pas party and a partnership with environmentalists and indigenous groups. Like his predecessor Lucio Gutierrez, Correa tapped into the power of these groups by adopting their demands for significant changes and justice. (Ray et al., 2017, p. 134)

Gaining more independence from the US has opened a door for the establishment of relationships with China. Relations between the two countries are long-standing and deepened especially during the government of leftist Rafael Correa (in office from 2007-2017), who turned to China after Ecuador defaulted on its international debt and ran out of foreign credit. China thus managed to position itself as Ecuador's main creditor. Most of the Chinese credit has gone to financing six hydroelectric projects worth \$3 billion. Part of the debt was also linked to future oil sales. As part of Ecuador's debt repayment, the government-owned Petro Ecuador has been providing oil at a discount to China's state-owned PetroChina. With Guillermo Lasso in charge in September 2022, Ecuador was able to renegotiate a portion of the \$4.4 billion Chinese debt. The arrangement was immediately signed with China's policy banks, the Export-Import Bank of China, and the China Development Bank, who have jointly loaned Ecuador more than \$18 billion since 2010.

Several technical sessions and four rounds of discussions later, Chinese and Ecuadorian teams successfully closed negotiations on a free trade agreement (FTA) between the two countries at the technical level. (Vasquez, 2023) Guillermo Lasso during his official visit to Beijing in February 2022 established the roadmap focused on reducing tariffs to allow market access and included trade policies such as rules of origin, improvement of customs procedures and trade facilitation, trade defense, the reduction of technical barriers to trade, investment cooperation, promotion of e-commerce, competition, transparency, and economic cooperation. 99 percent of Ecuador's present exports to China which are primarily agricultural and agro-

industrial goods including shrimp, bananas, roses and other flowers, cocoa, and coffee, will be given privileged access once this trade agreement enters into force. “Also, it will make it possible for Ecuador to export non-traditional goods including pitahaya, pineapple, mango, blueberries, processed foods, fresh and canned fruit, as well as a wide range of other agricultural and agro-industrial goods.” (Vasquez, 2023)

### **The Fallout of US Dependency**

The oil trade between the United States and Ecuador dominates bilateral economic relations, with the United States being Quito's largest economic partner. The five main exports from Ecuador that support its economy are petroleum, bananas, shrimp, flowers, and cocoa. Up to 60% of export revenue comes from the petroleum industry, which constitutes 40% of the nation's fiscal resources. The issue is that more financial cooperation would only be advantageous to the US side. For instance, Ecuador purchases from Americans computers, electrical gadgets, processed petroleum products, fertilizers, and mechanical equipment which have a more set value than the primary materials it exports. The Dutch disease is a phenomenon that explains the cons of the Ecuador-USA relations, where “nations that primarily export raw commodities tend to have overvalued currencies because their exports’ prices are determined by the world market rather than by manufacturing costs. (Ray et al., 2017, p. 111) “Ecuador has also been affected because it used the US dollar as its national currency, which means that “in practice, its currency faces long- term pressure to become overvalued. As a result, Ecuador’s exports are more expensive on the world market than they would otherwise be, which hurts the competitiveness of non-petroleum industries.” (Ray et al., 2017, p. 111)

The trade and investment relations with the US faced a turning point in the late 90s early 2000s. There have been numerous lawsuits brought against these ChevronTexaco, seeking

damages in the tens of billions of dollars for the detrimental side effects brought on by US corporations' oil extraction operations. In 1999, Chevron initiated a series of talks with Texaco, and announced on October 16, 2000, that they had reached an agreement to merge. A year later Chevron Texaco Corp. began business. It became the second largest U.S.-based energy company, with more than 11 billion barrels of oil and equivalent gas reserves and 2.4 million barrels per day of refining capacity. (Chevron, 2022)

The lawsuit against then-Texaco was for the contamination of the soil with hazardous waste. Instead of putting the wastewater back underground into the oil wells from which it was taken, as was the customary industry procedure at the time, Texaco instead dumped 1972 and 1992 an estimated 16 billion gallons of it into shallow, unlined pits. (Kirsch, 2022, p. 338) In addition to violating industry norms, excess crude oil and other toxins from these dumps were released into nearby waterways after heavy rains. To enable the overflow, Texaco even installed drainage lines in the biggest pits. Employees at Texaco were directed to destroy any records of the pits in a corporate letter that was issued at the time, demonstrating that the business was aware of the impropriety of its conduct and worried about its potential environmental liabilities. “These decisions were made at Texaco’s corporate headquarters in White Plains, New York. Evidence shows that the people living in the region have higher than expected rates of cancer, miscarriage, birth defects, and other health problems resulting from chronic exposure.” (Kirsch, 2022, p. 338)

The lawsuit was filed in 1993, pre-Correa, by over 30,000 residents of the Ecuadorian portion of the Amazon. Now Chevron was charged with illegally clearing substantial tracts of tropical forest in the country's east for financial gain. The widespread corruption of Ecuadorian government officials at all levels and the lack of accessibility of local court authorities to



politicians were both cited by the attorneys for the business defendants in refusing to recognize their jurisdiction.

Attorneys for the Chevron Texaco Corp contended that per the agreement reached with the government of Ecuador, the US side made multibillion-dollar reparation payments in the early 1990s. Following 20 years of hearings, the Ecuadorian court ordered the American investors to pay a whopping USD 18 billion in damages in 2011. (Wordliczek, 1970, p. 186)

Since the Chevron-Texaco incident, the Ecuadorean government has implemented various environmental protection laws as well as regulations regarding indigenous lands. The 2010 Citizen Participation Law states that if the community expresses resistance to environmentally critical projects then they cannot be undertaken. “The company must also minimize the impact on communities and ecosystems; moreover, it must plan for mitigation, compensation, and damage repair; and where possible, it must include the members of the community in the labor force for the respective projects, in conditions that guarantee human dignity.” (Ray et al., 2017, p. 131) Also, as part of the protection laws implemented by the government, the investments of foreign capital in the Ecuadorian fuel sector decreased by 20%.

To become independent from American investors and compensate for the 20% loss, in August 2009, Ecuador signed an agreement with China for a loan of USD 1 billion for investments in the energy sector. (Wordliczek, 1970, p. 189) The Chinese oil companies CNPC and Sinopec, operate in Ecuador under the names Andes Petroleum and Petro Oriental. (Ray et al., 2017, p. 122) CNPC and Sinopec formed Andes Petroleum to manage Block 62 in the northeastern province of Sucumbíos, and Petro Oriental to manage Blocks 14 and 17 in Orellana and Pastaza, further to the south. Andes Petroleum and Petro Oriental are among the most important oil producers in Ecuador. Taken together, they account for about one-fourth of

Ecuador's total production. Ecuador's attempt to embrace indigenous sensitivities and China's non-interventionist stance in their relationship encapsulates many of the constraints of post-neoliberal models. Both of these countries are limited by global politics of 'deep marketization' and conditioned by enduring 'postcolonial exclusions and environmental challenges. The Chinese-Ecuadorian relationship is marked by the overtly post-neoliberal or antiliberal discourses embraced by both the Chinese and the Ecuadorian governments.

With the investment of Chinese companies came the issue of exported labor with China bringing its workers. Also, the Andes and Petro Oriental have made English the principal working language at their facilities in Ecuador, according to Chinese Embassy attaché Zach Chen, and they exclusively hire employees who are native English speakers. This stipulation severely restricts the pool of possible employees. The main disadvantage of this strategy is that it restricts hiring from areas where schools are unable to provide students with adequate English instruction. The requirement adds to local unemployment and underemployment and will continue to do so until local schools can satisfy it. "The existence of oil fields brings opportunities to generate income [...] However, even with the protective laws in place, the socioenvironmental impacts of this extraction are very high, such as settling protected lands, deforestation, and the resulting habitat degradation, loss of biodiversity, contamination of soils and water sources, and others" (Ray et al., 2017, p. 108-109) First, the oil industry supports significantly fewer employees per \$1 million in exports of extractive goods than the same amount of exports of agricultural or manufactured goods since it is significantly less labor-intensive than other tradable industries. (Ray et al., 2017, p. 109) For every \$1 million in exports, extraction supports less than one direct employment and fewer than 20 indirect jobs. For the same number of exports, agriculture supports over 100 direct employment and over 30 indirect

jobs, whereas manufacturing supports roughly 25 direct jobs and over 20 indirect jobs. (Ray et al., 2017, p. 109) But this issue of local employment has been largely eliminated thanks to the Hydrocarbon Law of 2010, which requires petroleum companies to hire Ecuadorian staff for 95 percent of unskilled positions and 90 percent of administrative and technical positions. (Ray et al., 2017, p. 109)

### **South-to-South Cooperation**

In contrast to classic socialism, which made the error of rejecting markets, President Rafael Correa's government offers "societies that dominate markets" or "societies with markets but not market societies." According to reports, China's "socialist market economy" serves as a vehicle for socialist goals and the improvement of resource distribution. (Gonzalez-Vicente, 2017, p. 186) Nonetheless, it is Ecuador and China's distinctive different modernization ideologies and their support for multipolar geopolitical architectures that set them apart as Southern-based development models.

Over the last decade, China has become an important trading partner and source of investment and finance. However, every aspect of this economic relationship – trade, Finance, and investment – ties Ecuador more tightly to oil and further complicates the goal of diversification. (Ray et al., 2017, p. 113) Part of Correa's strategy has involved moving his country away from the United States and toward China. The Ecuadorian leader explained the shift in a speech delivered in 2011 about the two nations' complementarity: "In 2006, 75 percent of our oil was going to the United States [...] this year, 50 percent has been committed to China, in exchange for billions of dollars" ( El Telegrafo, authors' translation). In another example, when Correa's government refused to extend the controversial lease of an Ecuadorian Air Force

base to the US military, they turned to China as a potential partner for redeveloping the site. (Ray et al., 2017, p. 114)

Ecuador's "China boom" encompasses investment, finance, and trade and is overwhelmingly concentrated in the oil sector. (Ray et al., 2017, p. 107) Ecuador has produced nearly 2 billion barrels of oil, distributing the resulting funds to municipalities (58%), provinces (28%), parishes (5%), and the ECORAE (9%). In 2003, the Fondo para el Ecodesarrollo was established, which dedicates \$1 per barrel of oil for public investment in the Amazon, under the care of the GADs and the Instituto para el Ecodesarrollo Regional Amazónico (ECORAE, 2012).

China has unseated Colombia as the second most important import source, while the United States continues to lose importance. In other words, Ecuador's imports from China are diverse and spread over many sectors. Moreover, Ecuador's top five imports from China are all manufactured goods, in contrast with the top exports, which are dominated by natural resources. (Ray et al., 2017, p. 106) Regarding the diversification of their economy, it is crucial if their trading relationship is to be mutually beneficial to diversify the exports as well. Because when oil prices fluctuate worldwide it affects one side of this trading relationship much more than the other, creating instability in the trade balance between the two countries. China has recently become Ecuador's most important creditor and has seen Ecuador through a prolonged period of limited access to financial markets. (Ray et al., 2017, p. 117) Most loans from China are directed at the extraction and hydroelectric sectors. The loans for the hydroelectric projects have the added benefit of providing power for the large-scale Chinese extraction projects in Ecuador. (Ray et al., 2017, p. 119) Innovations include the conferral of constitutional rights to nature and the incorporation of indigenous thought into development planning. Gonzalez-Vicente, 2017, p. 888) The largest of these reforms is the Constitution of 2008, the first to recognize the rights of

nature itself. In practice, these rights mean that parties can bring legal action on behalf of nature to stop harm to the environment, even if the natural resources at stake are not their private property. Ecuador is a signatory to ILO Convention 169, which calls for nations to consult with groups before developing subterranean mineral deposits below tribal hunting, fishing, or otherwise traditional territory. (Ray et al., 2017, p. 110)

### **Policy Recommendations/Conclusions**

For the past few years, Ecuador's economic relationship with China has been invaluable while its independence from the US has grown more evident. The election of President Correa marked an ideological shift in the once pro-US country, making it pivot its interest towards China. Though Ecuador is currently governed by the center-right President Guillermo Lasso, Correa's influence is still strong, as evidenced by his party's success in the regional elections of February 2023. After its partial bond default, its new collaboration with China has given Ecuador access to global credit markets and served as a significant source of fresh investment and trade income amid the 2009's economic crisis. The relationship's strong emphasis on oil production inevitably challenges Ecuador's declared aim of diversifying away from petroleum, which is a significant contention. Nevertheless, Ecuador has a robust legal framework for the oil industry, including a constitution that upholds the rights of nature and more specific laws that demand that oil projects conduct EIAs, consult with the local community, respect indigenous territory, employ Ecuadorians and share profits with them, and pay significant taxes to fund public investments in impacted communities. (Ray et al., 2017, p. 138-139) This framework, if properly enforced, could be a model for other natural- resource-producing countries worldwide.

### Chapter III. Honduras

The United States is the dominant and unchallenged global power in Central America, but in recent years a region in which alliances lay solely with the United States has started to see the rise of the People's Republic of China in its growing involvement in international affairs. Honduras is the latest country to have made the switch from Taiwan to China, following the path of its neighbors EL Salvador, Panama, and Costa Rica. While these countries have limited strategic importance for both the United States and China, both countries do have serious repercussions in Central American Countries. (Bernal, 2017, p. 233)

At the beginning of the 2010s, Costa Rica was the only Central American country that recognized the People's Republic of China as the sole and legitimate China. During the last ten years, five out of the seven nations that compose the region have switched their alliances with China. Taiwan's independence and international recognition have always been a heated conflict globally. Taiwan has been able to maintain its few alliances through "friendly" aid, but its allies are increasingly tempted by China's larger pool of aid, and the long-term benefits that an alliance with China can bring, such as the increase in trade and infrastructure investment. Costa Rica was a clear example of it.<sup>4</sup> (Bernal, 2017, p. 235) China has become an important trade partner for Central American countries, yet because of its long regional dominance, the U.S. doesn't see this growing involvement of China as a security threat. While the region is a strategic point for China's intervention, the U.S. is still the main trading and investing partner of these countries. "Imports of manufactured goods from China are increasing in all the countries of Central

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<sup>4</sup> Rivera-Matias, N. (2022, November 22). *Did Costa Rica's decision to recognize China pay off?* The Diplomat. Retrieved May 6, 2023, from <https://thediplomat.com/2022/11/did-costa-ricas-decision-to-recognize-china-pay-off/>

America and the Caribbean, although unevenly. Exports from the region have not kept pace with imports, resulting in an expanding trade deficit”. (Bernal, 2017, p. 236)

The US has embassies in all of the Central American countries, which gives it comprehensive coverage of the region. China, on the other hand, still has to achieve this, as Central America was a region that until recently was mostly allied with the Republic of China also known as Taiwan. The United States is also a member of important regional organizations such as the Organization of American States and is one of the largest shareholders in the Inter-American Development Bank. It also counts on the support of these nations in the United Nations, given its long history of aid and involvement in the region. In that sense, Central America is yet to fully support China. (Bernal, 2017, p. 241) In this chapter, I will analyze Honduras's relations with China and Taiwan, US regional dominance in Central America, and the economic and diplomatic factors that may incline Honduras to favor one country over the other.

### **The United States as Regional Power**

Honduras in the 1950s was characterized by a large wealth gap between the few rich and the majority of poor laborers. According to the 1952 agrarian census, wealthy landowners consisted of 4.2% of the population, yet they owned almost half of the arable land in Honduras. In contrast, the farmers made up 65.1% of the population and only owned 15.7% of the arable land. There also existed issues with land management as most of this land went to waste because of poor management. Instead of putting the land to produce or using it for productive means, they were used to maintain the lavish lifestyle of the landowners. “Even the fruit companies that owned land in Honduras kept nearly 75 percent of their holdings in reserve as insurance against plant epidemics, instead of providing fruit and monetary earnings to farmers.” (Musynske, 2009).

With the inequality growing and the working and living conditions of the laborers decreasing, the laborers took to the streets seeking land reformation. “The General Strike of 1954 is an instance where poor laborers fought for reforms by standing up against the powerful and wealthy.” (Musynske, 2009). US intervention in the conflict came through the support of the Standard Fruit Company and the authoritarian regime of President Carías Andino, which governed the nation at that time. The US state department was engaged in military training and counterintelligence for Honduran nationalist combatants. (Villeda, 2021, p. 77) The rise of liberal parties in the nation, threaten the close relationship between the Standard Fruit Company and the Nationalist party, which had been a close ally of the United States government and United States companies. A prominent figure at that time was Carias Andino, whose mandate is characterized as a ruthless dictatorship. The liberal movement intersected with the US State Department state pro-democracy agenda. The late 1940s early 1950s were also a time of were containing the spread of communism was a priority in the US agenda. Hence why the nationalist party was able to stay in power for more than two decades with President Carías Andino, followed by former United Fruit Company attorney Juan Galvez. “The severe repression of workers by the US State Department and the banana companies was legitimized by the Honduran dominant bloc in power.” (Villeda, 2021, p. 77) This cooperation is fundamental to understanding the period of revolution that was unleashed in the country and has since caused sociopolitical unrest. The national elite saw the repression of workers as a necessary evil to create stability, modernization, and prosperity for Honduras, and the United Fruit Company is an example of it. These repressive actions were promoted by the US State Department to fight against communism regardless of the anti-pro-democratic values it violated.



With a weak sociopolitical framework and a growing economic inequality gap, Hondurans have migrated in mass caravans to the United States in search of better living conditions. Between 2012 and 2019, the number of family groups from Honduras apprehended at the southern border of the United States increased dramatically from 513 to 188,368. Although COVID-19 and policies under the Biden administration may influence migrants' decisions, they did not contribute to the substantial rise in apprehensions in 2019. The hurricanes Eta and Iota of 2020 caused severe infrastructure casualties in the country, adding more pressure to the rural areas and forcing more people to leave their houses and go further north.

Part of the migration causes is the socioeconomic state of the country. In 2019 Honduras's GDP was estimated to be \$24.4 billion, with a population of around 10 million. In 2023 the GDP is \$28.49 billion, with a growth of 12.5 percent after its steep decline in 2020. (World Bank, 2022) U.S. goods and services trade with Honduras totaled an estimated \$12.3 billion in 2019. Exports were \$6.7 billion; imports were \$5.6 billion. The U.S. goods and services trade surplus with Honduras was \$1.1 billion in 2019. This makes Honduras the 45th largest goods trading partner for the US with \$10.3 billion bilaterally. Goods exported in 2019 totaled 5.4 billion, and imported goods totaled \$4.8 billion. U.S. goods trade surplus with Honduras was \$616 million in 2019. "Trade in services with Honduras (exports and imports) totaled an estimated \$2.1 billion in 2019. Services exports were \$1.3 billion; services imports were \$765 million. The U.S. services trade surplus with Honduras was \$529 million in 2019." (The Observatory of Economic Complexity, 2021) The export commerce of goods and services generated and supported around 33 thousand jobs in 2015 according to the Department of Commerce.

## **Honduras Taiwan**

Honduras and Taiwan have diplomatic relationships that date back to 1941, with both countries sharing common values, such as the rejection of communism in their region. The relationship between Taipei and Tegucigalpa was also for most of its part governed by a right-wing- military government, until their shift in the late 1980s early 1990s. Their relationship had been structured around trade, Taiwan provided development assistance for Honduras, and in exchange, it received diplomatic recognition as the Republic of China from different international organizations. Taiwan is structured and functions as a country but to most of the international community, the island is trapped between the “One China Principle”, which makes states recognize only one China, which in most cases is the People’s Republic of China. The United States is one of the few who has taken the principle approach a different way by following the One China Policy, allowing them to still maintain diplomatic relations with China, but also economic relations with Taiwan. As of 2023, only 13 countries recognize Taiwan as a legitimate China, and most of these countries are in Central America and the Caribbean. In 2012 President Porfirio Lobo Sosa tried to take a similar approach to the US, but Taiwan strongly objected to the proposals, and China rejected them completely. (Shih Hsiu-Chuan, 2012) When President Juan Orlando Hernandez assumed power in 2014, relations with Taipei seemed stable. During his first year in office, Hernandez and the then Taiwanese President Ma Ying-Jeou strengthen their bilateral cooperation. “Taiwan transferring UH-1H helicopters for Honduras’ military and offering financial support for medical supplies.” (Tuckel; Stucker, 2021)

After his reelection, which faced international condemnation because of electoral fraud, President Tsai Ing-wen still congratulated President Hernandez on his second-term victory. “For Tsai, it appears that retaining diplomatic allies and outmaneuvering Beijing to pressure Honduras

to switch diplomatic allies trumped calling out Hernández's violations" (Tuckel; Stucker, 2021) Still President Hernandez still felt drawn to the opportunities for diplomatic relations with China could have, especially after President Donald Trump cut aid sanctioning the country because of the increase in immigration from Hondurans to the United States. "Congressional aides said the administration told them it would reallocate \$370 million in aid to Central America that lawmakers had approved for fiscal 2018 and suspend an additional \$180 million Congress had approved for fiscal 2017." (Wroughton; Zengerle, 2019) This decision was heavily criticized by members of the US Democratic Party and aid advocates who see the stimulation of economic development through aid and investment as the best way to reduce violence and migration in the region. This decision also worried some that may incline countries towards China. While Hernandez saw an opportunity in the growing presence of China, he reiterated that his alliances with Taiwan were not up for negotiation and that his government was, "For the time being, we're betting on a commercial relationship with Taiwan, a window to enter the Asian market." (Ramos, 2019)

On March 26, 2023, President Xiomara Castro's government severed ties with Taiwan to establish relations with China claiming it was the right choice for the nation. The Taiwan Foreign Minister Joseph Wu responded with a statement that Taiwan had ended its relations with Honduras to safeguard its sovereignty and dignity. "The Castro government dismissed our nation's longstanding assistance and relations and carried out talks to form diplomatic ties with China. Our government feels pained and regretful," (Associated Press, 2023). This severance of ties comes after the renegotiation of aid from the Honduran Government. To which Taiwan signaled it would not succumb to the economic pressure from China. "Taiwanese President Tsai

Ing-wen said her government would not "engage in a meaningless contest of dollar diplomacy with China." (Associated Press, 2023)

### **Honduras's Recognition of China**

“China provides aid to over 123 developing countries, and over 30 international and regional organizations.” (Bernal, 2017, p. 249) Through grants, loans, lines of credit, and others, China provides countries with development assistance. By doing so, they can attract partner countries into setting diplomatic alliances, something they have been doing in Central America to have countries switch alliances. The amount they offer rivals those that Taiwan provides to get their diplomatic recognition. It even gives countries that haven't recognized it aid. “Those countries that have chosen to recognize Taiwan have done so for pecuniary motives rather than ideological reasons.” (Bernal, 2017, p. 249) China prioritized giving aid to its allied nations, yet it still strategically uses aid to strengthen new alliances with countries. Countries see the economic gains a relationship with China can have. “The differentiation in the pattern of economic interaction reflects the fact that some countries recognize the People's Republic of China (China) while others have chosen to maintain diplomatic relations with Taiwan”. (Bernal, 2017, p. 246)

Honduras was one of these nations that saw an economic opportunity in China. In the last decade, the Nationalist Party took control after the 2009 coup d'état against President Xiomara Castro's husband President Manuel Zelaya, a prominent left-wing leader. Because of the close ties the Nationalist Party has with the US, Honduras remained allied to Taiwan. An alliance with Taiwan meant US alignment. Yet, Honduras is a developing country whose needs for development come at a hefty price, and Taiwan couldn't keep up with its requests.

China increasing its development assistance also is a strategic move to reinforce its involvement in the region, as this comes at a time when aid from the United States has been reduced. However, critics were quick to point out that these loans while attractive and beneficial for short-term investment in the countries come with Chinese ties in the form of Chinese workers and different environmental standards. Countries continue to subscribe to the quotas as they are pleased to see the rapid investment and growth in infrastructure in their countries. (Bernal, 2017, p. 251). Taiwan is aware of China's investment capacity, which is why it has kept close ties with Central American governments that still recognize Taipei as a legitimate China. In 2013 across Central America and the countries in the Caribbean, through infrastructure investments, social development, education, and technology loans that summed to \$120 million. "Taiwan provides financial support to the Central American Economic Integration System (SIECA in Spanish), and is a member of the Central American Economic Integration Bank (BCIE in Spanish), contributing over US\$150 million." (Bernal, 2017, p. 252) For Honduras, the establishment of diplomatic relations with China meant having a more active role in the international community and creating a Honduran identity outside of the US influence. This switch in alliance signaled the path Honduras is taking towards more diversified economic and trade relations with the world. "Chinese FDI in Central America is very small, totaling under \$500 million, nearly all of which is in Panama, amounting in 2013 to \$479 million". (Bernal, 2017, p. 253) (latest data available)

Honduras had asked Taiwan for over 1 billion dollars in aid, to pressure Taiwan against China, whose aid and presence in the country had increased over the years. One of the most prominent projects in Honduras was the construction of a hydroelectric dam project built by the Chinese company SINOHYDRO with about \$300 million in Chinese government financing. Honduras had requested \$2.45 billion from Taiwan for the construction of hospitals and a dam,

but the credit was rejected. (Associated Press, 2023) "Over these past few years, China has persistently used various means to suppress Taiwan's international participation, escalate military intrusion, and disrupt peace and stability in the region...relations between Honduras and Taiwan had lasted for more than 80 years." (Associated Press, 2023) Taiwan had always used monetary aid to maintain its ties with Central America. In 1998 it set aside \$240 million in aid to retain its support in the region as well as fostered Taiwanese businesses to invest in Central America. There is limited to almost no information available on current aid and investment from Taiwan and Central American countries which can be the product of the stable relationship it has had with the region and that this research is overshadowed by the US and China.

### **China's Natural Allies**

Central America presents itself as advantageous for China given its proximity to the United States as well because of its emerging market. With the expansion of the Belt and Road initiative, Panama, Honduras, and the other countries with access to both oceans are the best options. "China hopes to turn Panama into another axis of its, "Belt and Road Initiative" for the Americas and gain preferential access to the only real strategic asset in the area: the interoceanic canal." (Solis, 2021)

However, the Trump administration shifted its approach and recognized the Chinese presence in Central America - and Latin America as a whole - as a matter of grave significance following the triple diplomatic defections in 2017 and 2018. Both President Trump and then-Secretary of State Mike Pompeo frequently voiced their opposition to Chinese activity in Latin America. Cautioning the Latin American nations against "too good to be true business transactions and blasted Beijing for engaging in "nefarious" activities in the area. In retaliation, the Chinese referred to the US criticism as "slanderous," "irresponsible," and "despicable."

(Solis, 2021) Secretary Pompeo also voice this opposition to China in his visit to Panama in 2018, warning against the so-called Chinese predatory economic activities. (Solis, 2021)

After the Covid-19 pandemic, Honduras like the other Central American countries needed aid to recover from the economic collapse of the pandemic. The United States proved to be a reliable partner to do so because of its proximity and the few Covid-19 restriction it had with countries in the region. It was also subscribed to regional supranational organizations that made the flow of money and aid more accessible. However, there is a growing desire among the nations to reach out for a more accommodating partner, and Beijing is one that many countries have been eyeing.

### **Policy Recommendations /Conclusions**

On March 27, 2023, President Xiomara Castro officially established ties with China, cutting the 80 years of diplomatic recognition it had with Taiwan. Honduras is one of the many countries in Latin America that has been part of the pink wave of left-leaning presidents that have taken over the region. The United States as the leading power of the region and its long history of military and governmental intervention in Honduras has demonstrated its interest in keeping the country and the region under control, but Honduras like others in Central America have started to develop an identity he is not influenced by the US. Establishing diplomatic relations with China signals Honduras want to interest in growing its economy and its presence in the international system. This new alliance is not one driven by shared ideologies but by economic and diplomatic factors. China continues to grow its presence in developing countries to gather its support and establish a leading position. This relation is also meant to diversify Hondura's economy from relying upon just one country. While the US is still Honduras's main trading partner, Chinese investment in infrastructure is a clear signal of the impact this

relationship can have on the economy of the country. Since the Nationalist party of the country got elected out of office the new government led by President Xiomara Castro has stirred the course of the nation decoupling from purely US dependency towards a more diversified and active role for Honduras.



## 4. Conclusion

Mexico, Ecuador, and Honduras are countries whose relations with the United States and China differ drastically. In Latin America countries continue to move farther left while the United States adopts more conservative views. China's continues growth in the region is a product of the US decoupling from the countries as well because of the need for investment these countries have. There is a growing tendency in many Latin American nations to seek the East for economic and diplomatic development instead of the North, as has long been the practice, as more left-leaning presidents are being elected throughout the region. China is a symbol of the rising decoupling of nations from the US. Although the United States still influences the area, economic development and the rise of divergent ideologies have caused a rift with Latin America. Mexico is a country that will continue to align with the United States however they need to diversify its economy to keep up with its economic growth. Ecuador has learned from past experiences and prepared itself for a relationship with China that doesn't violate its sovereignty. It is also maintaining relations with the United States but to a lesser extent. Honduras still has a brand-new relationship with China however given the aid it has received so far it will continue to tighten their relationship.

80% of all Mexican exports are destined for the United States. The lack of addition in Mexican exports is an issue facing the country's economic sector. Mexico has failed to innovate and diversify its exports and markets. It continues to rely on fixed products, low-cost labor, and its accessibility to the US markets. This is a system that is not feasible to sustain and thus Mexico needs to take serious measures to guarantee that the advantages of the trade war are reflected in the longer growth model. In Ecuador President Correa mark an ideological shift in a once pro-American country. Even under a right-wing party, the Correa influence is still seen in

the way the government interacts with China. China gave Ecuador access to global credit markets and has served as an investment and trade partner. While the relationship's strong emphasis on oil production inevitably challenges Ecuador's declared aim of diversifying away from petroleum, it has a robust legal framework for the oil industry. This framework, if properly enforced, could be a model for other natural- resource-producing countries worldwide.

Honduras is one of the many countries in Latin America that has been part of the pink wave of left-leaning presidents taking over the region. Honduras, like other countries in Central America, has begun to forge its own identity beyond the US. By establishing diplomatic ties with China, Honduras is demonstrating its desire in developing its economy and global influence. This partnership aims to diversify Honduras' economy and reduce its reliance on a single nation. Even if the United States remains Honduras' principal trading partner, Chinese investment in infrastructure is a strong indication of the potential influence this connection can have on the nation's economy. The current administration, headed by President Xiomara Castro, has sparked the country's decoupling from solely US reliance toward a more diverse and active role for Honduras.

Latin America is still a region in development and as new governments come in place the relations with either the United States or China will change drastically. Yet right now there is a clear run for influence in the region by these countries. China will play the economic card while the US will have a big brother approach to these nations. Concluding from the research and data available Mexico is the only country whose alliances to the United States may not weaver like Ecuador or Honduras have. Ecuador will take a more independent approach, choosing at the time the country that is of greater opportunity for them. Honduras on the other hand seems to look at

China with intrigue. These countries show the diverse range of ways the triangular relation between these countries has developed.

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