

INSS



INSTITUTE FOR NATIONAL
STRATEGIC STUDIES

STRATEGIC PERSPECTIVES 30

El Salvador's Recognition of the People's Republic of China: A Regional Context

by Douglas Farah and Caitlyn Yates



Center for Strategic Research
Institute for National Strategic Studies
National Defense University

Institute for National Strategic Studies

National Defense University

The Institute for National Strategic Studies (INSS) is National Defense University's (NDU's) dedicated research arm. INSS includes the Center for Strategic Research, Center for the Study of Chinese Military Affairs, and Center for the Study of Weapons of Mass Destruction. The military and civilian analysts and staff who comprise INSS and its subcomponents execute their mission by conducting research and analysis, publishing, and participating in conferences, policy support, and outreach.

The mission of INSS is to conduct strategic studies for the Secretary of Defense, Chairman of the Joint Chiefs of Staff, and the unified combatant commands in support of the academic programs at NDU and to perform outreach to other U.S. Government agencies and the broader national security community.

Cover: El Salvador's President Salvador Sánchez Cerén walks with China's President Xi Jinping during welcome ceremony held in Beijing's Great Hall of the People, November 1, 2018 (Courtesy Presidencia El Salvador)

El Salvador's Recognition of the People's Republic of China

El Salvador's Recognition of the People's Republic of China: A Regional Context

By Douglas Farah and Caitlyn Yates

Institute for National Strategic Studies
Strategic Perspectives, No. 30

Series Editor: Thomas F. Lynch III



National Defense University Press
Washington, D.C.
March 2019

Opinions, conclusions, and recommendations expressed or implied within are solely those of the contributors and do not necessarily represent the views of the Defense Department or any other agency of the Federal Government. Cleared for public release; distribution unlimited.

Portions of this work may be quoted or reprinted without permission, provided that a standard source credit line is included. NDU Press would appreciate a courtesy copy of reprints or reviews.

First printing, March 2019

For current publications of the Institute for National Strategic Studies, please visit inss.ndu.edu/Publications.aspx.

Contents

Executive Summary	1
Introduction	3
Chinese Influence in Latin America	5
Three Strategic Models for Expanding Influence.....	10
Conclusion	18
Recommendations.....	19
Annex: Methodology	21
Notes	22
About the Authors.....	27

Executive Summary

In January 2016, the People's Republic of China (PRC) abandoned an 8-year truce in its war with the Republic of China (ROC) over diplomatic recognition around the world and subsequently moved to aggressively woo traditional Taipei allies. This paper centers on the PRC's recent successful push into Latin America, and particularly in Central America—historically a primary area of influence for the United States. Through a concerted effort—and often in exchange for promises of mega investments and financial aid—the PRC increasingly receives a warm welcome across the Latin American continent.

This paper analyzes recent decisions by several countries in the Western Hemisphere in recognizing PRC and offers an in-depth assessment of El Salvador's recent decision to break historic ties to Taiwan and embrace Beijing—a move that presents a significant strategic challenge to U.S. regional interests. The PRC's activities in Venezuela, Nicaragua, and El Salvador represent a new aggressive policy in the hemisphere aimed directly at supporting the most anti-U.S. governments in the region. This position only furthers the PRC's strategic interest while marginalizing the United States wherever possible. This paper concludes by arguing that the PRC drive into Latin America since 2016 represents a broader strategic threat to U.S. national security interests. It then offers three recommendations.

- Realign U.S. aid and support toward real allies. Even if countries maintain commercial relations with the PRC, the United States should focus on countries that work closely with the United States on a strategic level. These allies include Argentina, Chile, Colombia, and Panama. While each country presents challenges, they are not insurmountable obstacles to partnering with the United States. At the same time, the United States should consider significantly limiting aid to countries that embrace the PRC with the intent of displacing the United States and undermining the rule of law and democratic institutions. These countries now include El Salvador, Suriname, and likely Nicaragua. A realignment would both allow more funding for true allies and avoiding putting money into strategic competitors or opening significant avenues for PRC intelligence and counter-intelligence activities aimed against the United States in these host countries.
- Carry out more high-level and cultural engagement in the region. The United States carries out far fewer high-level official visits than the PRC (or Russia). Moreover, the message of senior U.S. officials, when they do visit, is often centered on the demand to stop migration, which does not address the region's felt needs. This relative absence of senior-

level visits, student exchanges, and other forms of engagement has allowed the PRC to set the terms of debate and engagement in the region, to the detriment of U.S. interests. To rebalance these elements of soft power is imperative. The largest asset that the United States has is the good will of populations in the region, including millions of individuals from Latin American countries who have visited or reside in the United States. In contrast, there is a lack of familiarity Chinese language, culture, and history and limited Latin American travel to the PRC.

- Reevaluate current U.S. engagement ties for potential compromise. Recognize that most U.S. efforts in counternarcotics, vetted units, and intelligence-sharing will be severely compromised by growing Latin America ties to the PRC, especially in Bolivarian states such as El Salvador and Nicaragua. These programs should be reevaluated immediately, and, if U.S. engagement continues, the counter-intelligence possibilities should be fully understood.

Introduction¹

The People's Republic of China (PRC) pays increasing attention to the Latin America region as a whole, and to Central America in particular, as part of the new global competition in which China “seeks to pull the region into its orbit through state-led investments and loans.”² In the last 2 years, the Dominican Republic, Panama, and El Salvador shifted diplomatic recognition from the Republic of China (ROC) to the PRC. Such swift shifts are at least partially made possible by the PRC's ability to offer loans for major infrastructure projects, aid under the Belt and Road Initiative (BRI), and private investment from Chinese companies. Even more enticing, such funds come with few of the conditions regarding human rights, accountability, and transparency that the United States and European Union traditionally require.

Not all Chinese infrastructure projects or shifts in diplomatic recognition should be viewed with alarm, but PRC influence in some countries such as El Salvador presents a cause for concern by opening new strategic opportunities to a power in direct competition with the United States. These new doors opening to the Chinese include access to strategic territory in the region for possible military and cyber bases, the expansion of the non-dollarized banking systems that could facilitate money laundering and opaque government transactions, and a new major power ally for a bloc of nations that espouse a radical populist and anti-U.S. ideology.

The results of Chinese efforts are most visible in Chinese infrastructure projects throughout the continent. For example, Chinese state-owned and private companies control at least 48 ports along with dozens of other key trade nodes—such as airports—and thousands of acres of land throughout Latin America. Most of these projects and initiatives fail to provide transparent information on the tender process or how the money is allocated or spent. Of greater concern is that the projects' scale masks true Chinese strategic and possible military interests in particular zones of the Western Hemisphere where such projects are currently under way.

The case of El Salvador, which recognized the PRC on August 20, 2018, is the most direct challenge to U.S. interests. Concurrent with El Salvador's recognition of the PRC, the Chinese have expressed an interest in acquiring several ports and islands within Salvadoran territory, all of which are in remote, sparsely populated, and difficult to monitor physical sites. Moreover, the PRC's terms were negotiated in secret by a handful of trusted senior Salvadoran government officials with no public debate, congressional approval, or disclosure of terms—obfuscating the intent and extent of the deal. This paper argues that these efforts are part of a concerted effort by the Salvadoran government and allies in the highly criminalized states of

the Bolivarian Alliance to offer the PRC a strategic regional military, business, and cyber hub while protecting and expanding criminal networks tied to the Bolivarian states.³

Chinese influence in El Salvador can only be understood within a larger regional context of the growing confrontation between the Bolivarian bloc and the United States. The decision by El Salvador to recognize the PRC was taken in conjunction with Presidents Nicolás Maduro of Venezuela and Daniel Ortega of Nicaragua as both regimes are currently struggling to hold on to power. While Nicaragua still maintains diplomatic ties with Taiwan, the Ortega regime will likely switch as Nicaraguan ties with China continue to develop.⁴ Improving relations with China greatly increases these regimes' chances of survival by improving their economies. Heavily dependent on criminal activities, Bolivarian aligned countries can now operate outside the dollarized U.S. banking system, thus limiting the effects of sanctions while providing access to new revenue streams from Chinese mega-investments. Ties to the PRC also provide the Bolivarian Alliance members with an ally on the United Nations Security Council to block possible future sanctions against the regimes' growing human rights violations and authoritarian actions.

Finally, in keeping with the overall secrecy surrounding the diplomatic moves, the Salvadoran government officials did not notify the United States—the nation's strongest economic and security partner—of the plans to recognize the PRC until mere hours before publicly announcing the move. In response to the growing concern over the cumulative effect of the switch in diplomatic ties in the region, in September 2018, the Trump administration recalled the chiefs of mission in El Salvador, Panama, and the Dominican Republic to Washington for consultations. After the meetings, the State Department issued a statement announcing that the United States was committed to supporting partners in the region who are “democratic and independent and who promote transparency, rule of law, economic growth, and democratic values.”⁵

The more geopolitical aspects to China's increasing presence in the region are increasingly of concern to the United States. In his 2018 posture statement, Admiral Kurt W. Tidd, then commander of U.S. Southern Command, noted:

China's commercial and diplomatic advances move it closer to its larger strategic goal of reshaping global economic and governance architectures. China has pledged \$500 billion in trade with Latin American countries and \$250 billion in Chinese direct investment over the next 10 years. Increased economic cooperation—such as the extension of the “One Belt, One Road” initiative to Latin America, one of the nodes to support China's vision of a competing global economic initiative—

and the continued provision of financing and loans that appear to have “no strings attached” provide ample opportunity for China to expand its influence over key regional partners and promote unfair business and labor practices. Increased reach to key global access points like Panama create commercial and security vulnerabilities for the United States, as do Chinese telecommunications and space ventures with dual-use potential, which could facilitate intelligence collection, compromise communication networks, and ultimately constrain our ability to work with our partners.⁶

It is in this context that this report addresses Chinese influence broadly in Latin America, and through case studies of Venezuela, Nicaragua, and El Salvador.

Chinese Influence in Latin America

This paper is not intended to review all the PRC's activities and investments in Latin America. However, there is an increase in literature on the presence and influence of PRC economic engagement in Latin America. R. Evan Ellis outlines the mutually beneficial relationship that China and Latin American nations have related to economic interconnectedness.⁷ In addition, a recent study by the Atlantic Council highlights the PRC's increasing desire to look south from the United States, especially as U.S.-China trade tensions continue to rise.⁸

Indeed, these economic shifts are important, but there are other forms of influence or connection between Latin America and China as well. There is less reporting on the more complex forms of influence from China, including the massive Chinese state media presence in the hemisphere and cultural, diplomatic, and military exchanges. This engagement includes providing humanitarian aid, participating in peacekeeping missions, and conducting military exchanges, among others.⁹ To this point, there is a lack of literature on the strategic goals of growing Chinese support for the members of the Bolivarian Alliance, who have publicly declared their enmity toward the United States while undermining democracy, the rule of law, and the effect that this has on geopolitics in the hemisphere.

This paper explores several manifestations of Chinese integration into the hemisphere, with particular attention to the more opaque objectives on the part of Chinese companies and the Chinese government. Such a context provides a broader understanding not only of the PRC's presence in Latin America, but also to the strategic challenge that this influence presents for U.S. interests. The following section addresses three lines of soft power integration: economic through foreign direct investment, regional through the 33-member Community of

Latin American and Caribbean States (CELAC) Organization, and cultural through media and cultural centers.¹⁰

Economic Integration

The PRC's growing Foreign Direct Investment (FDI) and booming exports to Latin America are among the primary drivers of its growing influence. This economic influence should not be ignored. A host of quasi-private Chinese companies with strong ties to the state—usually the military—have signed agreements to carry out infrastructure projects throughout the hemisphere. As Admiral Tidd testified:

The larger strategic challenge posed by China in this region is not yet a military one. It is an economic one, and a new approach may be required to compete effectively against China's coordinated efforts in the Americas. Some of the most critical elements needed in this effort are not ones that USSOUTHCOM can bring to bear.¹¹

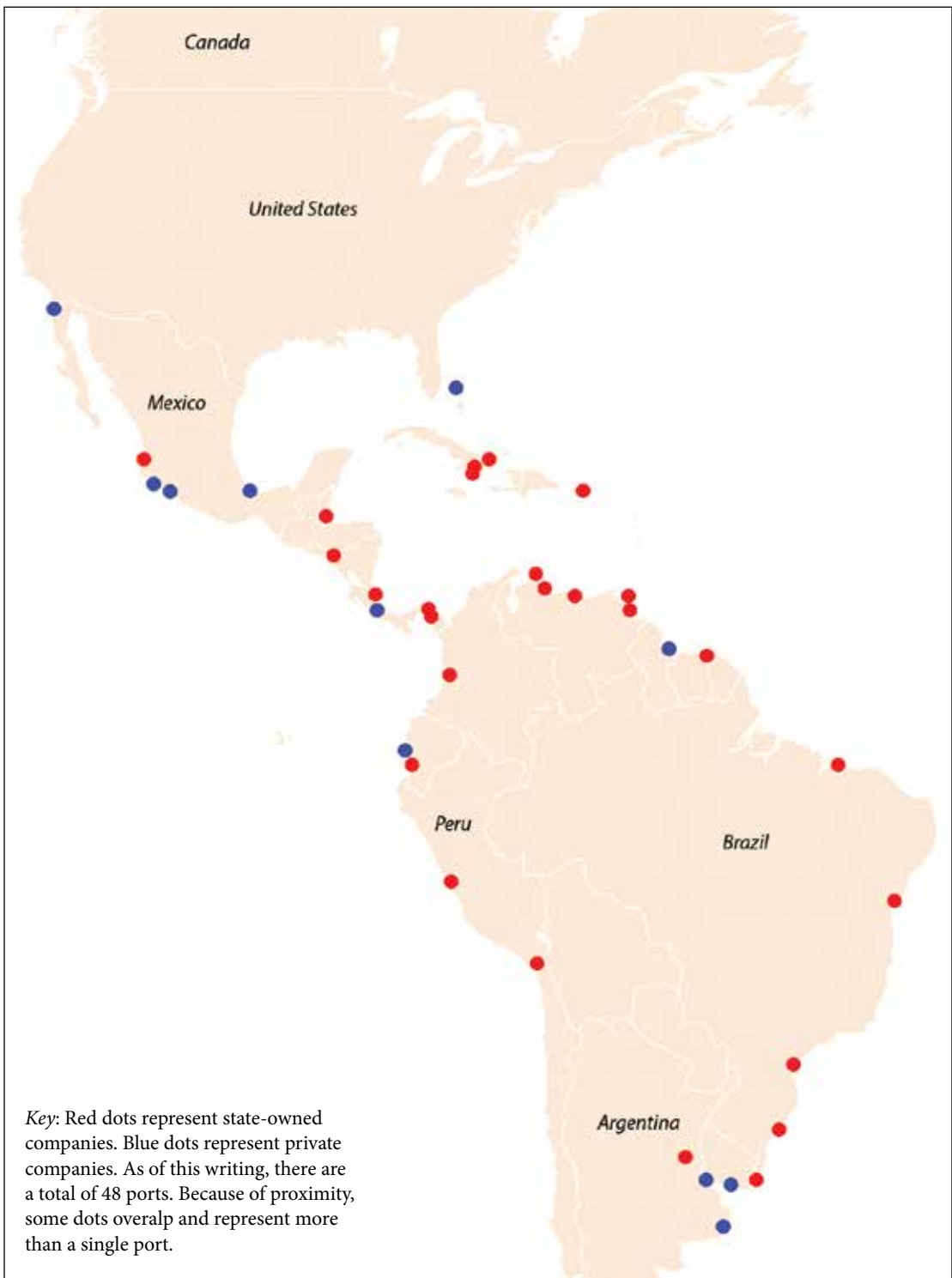
The primary areas of FDI are critical infrastructure projects—including ports, airports, highways, and telecommunications—as well as oil, mining, and other extractive industries. Currently, China is constructing and/or operates in at least 48 ports in Latin America, among them some of the most critical ports in the hemisphere. This includes the main ports on both sides of the Panama Canal, which are of vital strategic interest to the United States.

While China continues to increase FDI into the region, it is still less than that from the United States. Since 2008, the PRC provided approximately \$140 billion in FDI to the Latin American region,¹² while U.S. FDI to Latin America equaled roughly \$904 billion.¹³ However, the vast majority of U.S. investments have been in the Caribbean, while investments in South and Central America have remained relatively constant at about \$23 billion a year since 2011. At the same time, the majority of Chinese FDI has consistently and dramatically increased over the last 5 years.¹⁴

Regional Integration

A second form of PRC soft power influence occurs through regional organizations. The primary regional institutional body through which the PRC engages with Latin America to channel investments, loans, and grants is CELAC.

Figure 1. Ports Operated by the People's Republic of China in Latin America



Venezuela's president Hugo Chávez and Ecuador's president Rafael Correa, two of the strongest anti-U.S. voices in the Bolivarian Alliance, were the driving forces behind the organization. Founded in 2011, the 33-nation CELAC serves as a regional entity to mirror the Organization of American States (OAS), but without the presence of the United States, Canada, or overseas European territories.¹⁵ China's use of CELAC, in lieu of an organization like the OAS, is indicative of a strategic push to isolate the United States.

Over the last 5 years, China has increasingly engaged with CELAC. In 2015, China announced its 2015–2019 CELAC financing package totaling \$35 billion to be invested in infrastructure, cultural exchanges, and communication projects, among others, as part of a cooperation plan.¹⁶ This investment has materialized into projects including a railway in Argentina, a shipping port in Peru, and an underwater fiber-optic cable from Chile to China.¹⁷ The Chinese host annual China-CELAC meetings with member states as ties between these countries continue to develop.

Then, on January 22, 2018, China and CELAC members signed the Special Declaration of Santiago.¹⁸ This declaration formally invited all CELAC members to participate in China's BRI, a significant expansion of the initiative that initially only included the Eurasian continent. So far, only four Latin American nations have signed on officially: Antigua and Barbuda, Bolivia, Panama, Trinidad and Tobago, but other countries have signaled their interest in joining the BRI participation framework.¹⁹

Cultural Integration

An important area of increasing Chinese influence is in shaping the political and cultural climate through a large-scale print, television, radio, and online media presence, as well as expanding the number of Chinese cultural centers and programs. One main tool for shaping the environment is the significant expansion of the Chinese state-owned media company Xinhua. Now one of the largest news organizations in the world, Xinhua boasts more than 15,000 employees and 240 offices worldwide.²⁰

Xinhua first opened a Latin America bureau in Havana, Cuba, in 1961. By 2016, Xinhua had 21 bureaus in 19 Latin American and Caribbean countries and maintained a 24-hour Spanish news channel and state-of-the-art Spanish language Web site.²¹ By comparison, CNN only has five bureaus in Latin America.²² The *Washington Post* has only one bureau in Latin America.²³ Xinhua has 200 media subscribers who get the news feed for free or at greatly discounted prices, unlike U.S. and European news services, which charge for subscriptions. They also have 200 non-media subscribers—including government ministries across the region—to directly

influence policymakers. The purpose of the expansion, according to Cai Mingzhao, the director of Xinhua, is to use the agency's 50 years of experience in the region to "play a larger role in shaping a China–Latin America and Caribbean community of common destiny."²⁴

Xinhua is not the only Chinese media company operating in Latin America. To promote Chinese media expansion, the Chinese government hosts annual meetings between Latin American media leaders and senior Chinese leaders, usually with all-expenses-paid trips to Beijing, resulting in an ongoing flow of positive stories about the PRC and its investments. As noted in one recent report:

In true digital age fashion, Chinese outlets in Latin America have skipped over traditional print media in favour of virtual platforms, which host content tailored to local audiences. Though slightly less up-to-date than their Chinese-language versions, newspapers Xinhua and People's Daily produce daily Spanish and Portuguese-language content, as does China Radio International. China Central Television, meanwhile, boasts a 24-hour channel, CGTN Spanish, which is available online, free of charge. Even the magazine China Today, which remains one of the few examples of Chinese print media in Latin America, maintains not one, but two Spanish-language Web sites, in addition to its two print publications in Mexico and Peru. Nearly all of these outlets have Spanish-language accounts on social media that are banned in China, including Facebook, Twitter, and YouTube.²⁵

Another key element in China's presence in Latin America is the expansion of the Confucius Houses or Confucius Institutes. Zhang Tou, vice president of the official China-CELAC Friendship Association, stated that it was important to "reverse the tendency to give more importance to economic exchanges than cultural exchanges."

The first Chinese cultural center in the region was founded in 2006. There are now 39 centers and 19 Confucius classrooms in 20 Latin American countries.²⁶ The institutes, which also operate across the United States, offer Chinese language courses, cultural information, exchanges, and a wide variety of other classes such as cooking and Chinese history. The regional center for the institutes in Latin America is located in Santiago, Chile. The Confucius Center held a Latin America conference in Chile on September 7, 2018, where the cultural attaché to the Chinese embassy in Chile stated that such cultural exchanges "play a fundamental role in

bringing communities together to deepen mutual knowledge and to establish solid bases for a sustainable development between nations.”²⁷

As China continues to increase cultural exchanges, the United States continues to withdraw from such practices. Cultural centers were traditionally fixtures in U.S. Embassies, though they have largely been abandoned due to budget cuts and increased security following the 9/11 attacks. The spread of the Confucius Centers, in addition to serving as cultural bridges in very foreign environments, offers opportunities for recruitment and training of potential agents and the broad collection of open source intelligence and other intelligence activities. The Confucius Centers routinely offer scholarships and free travel to China to those who appear interested or useful in any number of disciplines, from engineering to business and more specialized fields.

In addition to the Confucius Centers, Zhang noted that there were some 20,000 students taking university-level Spanish classes in China, in addition to the Cervantes Center in Beijing, where an additional 5,000 people were learning Spanish.²⁸ These language-training programs are creating a reserve of Spanish language experts who can fan out over Latin America for business, espionage, and other activities. Consistently, Latin American officials argue that PRC ambassadors and senior diplomats speak fluent Spanish, often in contrast to their U.S. counterparts.

These increased Chinese cultural engagements in Latin America and intense language efforts round out a comprehensive strategy of increased interaction between the PRC and hemisphere, complementing both diplomatic and economic ties.

Three Strategic Models for Expanding Influence

Venezuela: Regime Survival and Oil Sales

There is no doubt that the greatest beneficiary of the PRC’s strategies of economic and regional integration has been Venezuela’s authoritarian regime, which has increasingly lost legitimacy in the hemisphere. The oil-rich but impoverished nation’s economic plight has been unfolding over several years. Despite its economic problems, however, the Maduro regime has not yet fully defaulted on its national debt payments that would otherwise have led to Venezuela’s complete collapse.

The survival of one of the most authoritarian regimes in the hemisphere has been due almost entirely to China’s strategic cash infusions to Venezuela at critical moments, acting both through CELAC and through a series of bilateral agreements. The long-term cost of China’s aid

has been high. To hold onto power, the regime has now sold most of the nation's oil production for the next two decades to China, while continuing to accrue a massive debt.

In purchasing the oil, Beijing has loaned Venezuela approximately \$70 billion.²⁹ As of 2018, China owns around \$23 billion of Venezuela's foreign debt. The most recent Chinese loan to Venezuela occurred on September 13, 2018, when China agreed to provide the Maduro government with an additional \$5 billion just days shy of a critical foreign debt payment deadline.³⁰ Venezuela has not made a sovereign bond payment in a year and is now in default for at least \$1.81 billion. Only Chinese cash infusions at critical junctures have kept Venezuela from complete default and financial collapse.³¹ At the same time, China became Venezuela's largest supplier of weapons and the largest investor for Venezuelan oil productions, surpassing Russia in both cases.³²

Twelve of China's 17 major loans to Venezuela have been dedicated to the energy sector. The most noteworthy of these loans was the 2010 Orinoco Belt loan that presold Venezuelan oil to China for a period of 25 years.³³ This agreement included a \$20 billion Chinese investment for oil projects.³⁴ In return, Venezuela agreed to increase oil exports to China from 460,000 barrels per day in 2010 to 1 million barrels per day. Venezuela's overall oil outputs increased after 2010, with production peaking in 2013 to an average 2.9 million barrels per day. As of June 2018, however, output decreased by more than 50 percent, to just 1.36 million barrels per day, and this trend continues.³⁵ In July of 2018, China announced an additional \$250 million investment to increase Venezuelan oil production, in large part so Venezuela could fulfill its prepaid oil quotas.³⁶

Beijing's repeated bailouts of Venezuela, staving off imminent economic collapse but ensuring the government is constantly cash starved, are largely aimed at locking in supplies of relatively cheap oil for the future. As a result, Venezuela has no ongoing revenue from oil sales. This agreement also ensures that the fate of the Maduro regime is fundamentally tied to the PRC.

Nicaragua: Canal Project for Criminal Gain

China's proposed port and island project in El Salvador is not the first proposed Chinese megaproject investment in Central America. In fact, the model for suspicious Chinese infrastructure projects is the nonexistent Nicaragua Canal project that began approximately in 2013, when President Ortega announced the development of one of the largest infrastructure projects in world history.

The project was to consist of a 178-mile canal from the Pacific Ocean to the Atlantic Ocean.³⁷ Despite hundreds of millions of dollars in declared investments, there are virtually no signs of actual work on the project. Instead, the Ortega family and business associates used the fictitious project to invest in other areas that were either extremely useful for money-laundering activities or of strategic benefit to the Chinese government.³⁸

When the project was announced, President Ortega stated that Chinese national Wang Jing, and his company, the Hong Kong Nicaragua Canal Development Investment Company (HKND), had received the tender to develop the project. The announcement came after President Ortega enacted Laws 840 and 800 specifically to provide Wang Jing with the right to not only construct a canal but also expropriate land and develop subprojects such as free-trade zones and international airports along with other benefits in Nicaragua for a 50-year period.³⁹

Wang had no previous experience with the construction of infrastructure projects. HKND announced that investors would fund the \$50 billion project—approximately four times Nicaragua's GDP—though the identities of the alleged investors were never released.⁴⁰ The official groundbreaking ceremony took place in December of 2014, and HKND announced an anticipated completion date of early 2019.⁴¹ As of late 2016, there had been no work on the project with the exception of widening 5 miles of a dirt road.⁴² By April 2018, HKND abandoned the Nicaragua project and gave up its lease on its luxury offices in Hong Kong. These maneuvers likely demonstrated the demise of the company and signaled that any canal project through HKND would not come to fruition.⁴³

As the project foundered, Nicaraguan investigative journalists were able to directly tie HKND to the Chinese military as at least partial owners of the company. Their research also identified parts of its opaque ownership structure through a web of 15 offshore companies under the HKND banner.⁴⁴ The continued lack of transparency and failure to begin construction led to reports that the project was a front for money laundering between the two countries. Nicaraguan journalist Carlos Fernando Chamorro persuasively argued repeatedly that constitutional guarantees were ignored and that the project served to launder money and enrich the deal's negotiators rather than Nicaragua as a whole.⁴⁵

An example that corroborates claims of criminal behavior is that of Wang Jing, who had previously received a tender from the Nicaraguan government for a telecommunications project, which was likely his true interest in Nicaragua and perhaps the true interest of the PRC itself in the country. Wang made his fortune in the telecommunications industry with the company Xinwei.⁴⁶ In fact, in 2012, Wang received his first contract from Nicaragua for a telecommunications project that would consist of installing 1,000 wireless base stations throughout Nicaragua.

In keeping with the PRC's modus operandi, little progress had been made on the telecommunications project as of late 2017.⁴⁷

Xinwei now appears to be operating under the name CooTel Nicaragua (Xinwei Intelicom, Inc.). CooTel offers both Internet and phone services in Nicaragua⁴⁸ and reportedly has two telecommunications partners: Empresa Nicaraguense de Telecomunicaciones (ENT) and Intelcom.⁴⁹ ENT is a subsidiary of America Movil and Claro, which are owned by Mexican telecommunications magnate Carlos Slim.⁵⁰ The publicity surrounding both of Wang's projects in Nicaragua suggests they are flourishing, yet neither the Nicaragua Canal nor the wireless base stations have been built. Fewer concrete projects have come to fruition in Nicaragua than in Venezuela, and the full intent of HKND's long game play in Nicaragua was never fully made public. But for all the opacity and strategically suspect dynamics surrounding PRC investment activities in Venezuela and Nicaragua, these cases present fewer immediate strategic concerns for the United States than the activities of the PRC in El Salvador.

El Salvador: Laying the Groundwork to Challenge the United States

For at least a year prior to extending diplomatic recognition to the PRC in the summer of 2018, the Farabundo Marti National Liberation Front (FMLN) government of El Salvador had been laying the groundwork to take such an action. Among the largest challenges to switching diplomatic recognition from the ROC to the PRC was animosity from traditionally antagonistic business leaders of the conservative opposition party. To mitigate such opposition, the FMLN government promised Salvadoran business leaders expanded and sometimes monopolistic access to the Chinese markets for products such as sugar and other commodities.

The FMLN also wrote a proposed legal framework for a special economic zone (SEZ) to facilitate huge Chinese investments and China–El Salvador economic interconnectedness. On July 2, 2018 (6 weeks before the diplomatic change), a law was presented to the Legislative Assembly to create an SEZ encompassing La Unión—an area where business and trade laws are distinct from the rest of the country and applicable in particular to Chinese businesses. The stated objectives of this bill included increasing trade, investment, and jobs by limiting tariffs and other barriers for foreign companies.⁵¹ The proposed law lists several activities that would fall under this particular definition for SEZ categories including ports and airports; tourist activities; aerospace, electric, and clean energy generation; agriculture; fishing; international services (as defined in Article 5 of the Law of International Services); and scientific and technological research, innovation, and development.⁵²

This proposal limited SEZ operations to the southern region of the country, spanning some 26 municipalities including the La Unión and Corsáin ports.⁵³ Foreign companies would only be deemed eligible to participate in the SEZ if they could invest a minimum of \$20 million within the first 3 years of operation and immediately invest \$5 million or ensure the hiring of 200 employees. The argument behind these requirements was that only established companies could operate in the Salvadoran SEZ.⁵⁴ This combination of pacifying business leaders and opening a space in El Salvador for Chinese investment sets the stage for the switch in diplomatic ties.

While the Salvadoran government took many preemptive steps to recognize China, these moves appeared outsize to what the two countries could rationally expect to gain in economic terms. El Salvador has little to offer in terms of extractive resources or other traditional Chinese interests. But the underlying mutual desire for a strategic relationship offers an alternative framework for understanding the moves and unusual forcefulness with which the United States has denounced the emerging relationship.

Although the FMLN, as a Marxist guerrilla army, negotiated an end to El Salvador's 12-year civil war in 1992 with the U.S.-backed Salvadoran military, as a political party it remains a Marxist-led entity with roots in the Communist Party. Once the smallest of the five FMLN revolutionary groups, the party's membership now serves at the top of the modern FMLN political party. Therefore, its leaders still view the 1993 end of the war as a historic pause in a revolution vital to rid El Salvador, and the region, of U.S. influence. For this reason, party leadership formed an alliance with the Revolutionary Armed Forces of Colombia (FARC) and other regional armed movements and remains allied steadfastly to the Bolivarian project begun by Hugo Chávez in Venezuela.

The top leadership of the FMLN maintains strong ties to a wide array of revolutionary movements and staunchly anti-U.S. governments. These include the former Soviet Union/Russia, the PRC, Vietnam, Libya, Nicaragua, the FARC, and other Latin American allies. For these reasons, today the PRC is viewed by El Salvador's leadership as the nation's most viable strategic partner.⁵⁵ This is the context that led the Salvadoran FMLN leadership to negotiate its 2018 terms for recognizing the PRC instead of Taiwan.

On August 23, 2018, 3 days after El Salvador announced its diplomatic switch, the Chinese state-owned company Asia-Pacific Xuanhao (APX) announced a proposal to lease 180 acres of land both within and around Puerto de la Unión.⁵⁶ According to a letter sent by APX and presented to El Salvador's Autonomous Port Executive Commission, the lease would include an initial investment of \$50 million into the port and surrounding areas.⁵⁷ Thus officially, the

Chinese have promised investment in Salvadoran ports and airports, with a focus on La Unión Port in southwestern El Salvador.

Control of La Unión Port could provide the PRC with strategically vital transport and supply nodes in the hemisphere. Additionally, the ports are a primary entry point for the majority of precursor chemicals for opioids and methamphetamines manufactured in China and fuel the current opioid crisis in the United States. With the PRC's increasing control of strategic ports, the flow of precursor chemicals is likely to continue and even increase. The PRC's growing presence will likely continue to frustrate opioid interdiction efforts.

Almost immediately after news broke about the PRC's interest in La Unión Port, new reports indicated that APX was looking to lease additional land around Corsáin Port. The Corsáin, located close to La Unión Port, is run by the Salvadoran government and has been declared a strategic state zone with restricted access.⁵⁸ APX development in Corsáin Port would reportedly include 122 acres of space directly outside of the port.⁵⁹ Corsáin Port has also been identified by U.S. law enforcement officials as a likely hub of illicit shipping activity and irrational economic behavior.⁶⁰ The port's board of directors is composed of members of the FMLN party inner circle and other government and nongovernment elite in El Salvador.

Given that the government has allowed no private investment in these ports, with the exception of one Mexican tuna processing plant, the acquisition of 122 acres of land adjacent to the port by a Chinese state enterprise is unusual.⁶¹ This presence is even more alarming given APX's ties to the Chinese military. When Salvadoran media reported APX's military ties, as listed on the APX Web site, the Chinese firm then scrubbed the site of all such references. The company changed its online description from an "integrated high technology military company," with listings for weapons and laser optic scopes, to an "integrated high technology company," and all references related to the sale of weapons were deleted.⁶² APX's ties to the military and attempts to hide those ties were further complicated by the lack of transparency in negotiations for access to the ports.

Promised Chinese investments in El Salvador are of questionable economic rationality, as several other companies previously walked away from investing because the ports were deemed unprofitable.⁶³ For instance, in June 2014, the Japanese ECOH corporation conducted a feasibility study and found that La Unión Port presented significant engineering and economic issues and would never be a profitable enterprise.⁶⁴ This was consistent with its findings during previous feasibility studies beginning as early as 1997. The problem, the company found, was that the port channel is narrow and shallow, needing constant and costly dredging to remain accessible to larger ships. It is also close to other functioning ports and located close to where three currents

Figure 2. Isla Perico and Isla Periquito in Relation to La Unión Port and Corsain Port on El Salvador’s Eastern Coast



join, making it the least viable of the possible ports of interest.⁶⁵ APX’s willingness to arrive and promise a minimum \$50 million investment—with the potential to reach \$100 million—with no known feasibility or environmental studies as required by law, fails to follow rational business practices. Given the lack of transparency in the tender process coupled with APX’s ties to the Chinese military and the lack of economic feasibility, Chinese interest in La Unión and Corsain ports appears particularly suspicious.

Chinese interest in the Gulf of Fonseca also grew during 2018. Local media reported that a Chinese company was attempting to purchase the islands of Isla Perico and Isla Periquito just off the coast of La Unión Port. The two small islands in the Gulf of Fonseca are only accessible by boat and are home to a few dozen families that fish in the surrounding waters. There is no running water or electricity there, and the islands are not known to be rich in mineral resources.

Sources with direct knowledge of events stated China’s efforts to buy the islands are tied to ongoing efforts to build an electronic network to monitor communications and satellite move-

ments in the hemisphere and particularly those of the United States. Therefore, the high priority placed on the acquisition of the islands appears to be tied to strategic interests rather than economic opportunities.⁶⁶

Bo Yang, a little-known Chinese-Salvadoran dual national with deep business ties to the FMLN, was the individual sent to acquire the islands and offered the islanders \$10,000 per family to move to the mainland. He is the owner of Goldwill SA de CV in El Salvador, founded in 2010. His company does extensive infrastructure and transportation contract work with the FMLN. He is also the vice president of the Salvador-China Chamber of Commerce.⁶⁷ The initial overtures by Bo Yang to pay off the residents of Perico Island were made in June 2018, almost 3 months before the El Salvador switch of diplomatic recognition to the PRC.⁶⁸

These timings and activities strengthen the argument for the Chinese strategic interest in unprofitable ports and islands. The importance placed on Chinese access to Perico and Periquito islands was recently underscored in the legislative assembly. In August 2018, following the initial news of the potential sale of the islands to "Asian companies," the legislative assembly voted to forbid the sale of the islands to foreign nationals, citing a threat to El Salvador's sovereignty and independence.⁶⁹ On September 12, 2018, President Salvador Sánchez Cerén vetoed the assembly's decision, one of only two times the president has used that power in the past 4 years.⁷⁰

In return for its access, the PRC has reportedly promised to provide electronic monitoring equipment to the FMLN government. This would greatly enhance the government's ability to intercept almost all email, chats (including WhatsApp), cell phones, landlines, and computer communications and activity, allowing the FMLN to monitor internal dissent and activities in foreign embassies and with expatriates.⁷¹ The access arrangement provides El Salvador a new diplomatic ally at a critical time when tensions with the United States continue to increase.

The Salvadoran political elite also hold an expectation of enhanced access to Chinese financial structures, something explicitly promised by PRC officials during the recognition negotiations. Specific banks of interest to this elite group might include the PRC-based Bank of China, China Construction Bank, and Industrial and Commercial Bank of China. Salvadoran officials stated that access to the Chinese banks was necessary to carry out the promised infrastructure investments. The development of these structures could enable illicit funds to be placed directly into the Chinese banking structure, and thus out of reach of U.S. sanctions or other law enforcement actions. With the proposal of large PRC infrastructure investment projects in El Salvador, repatriating illicit money through any number of laundering mechanisms would be relatively easy. These mechanisms are demonstrated through the already established

money-laundering structures that have moved more than a billion dollars of unexplained origin in the past 6 years.⁷²

It is clear that the PRC's approach to El Salvador, one of the smallest countries in Latin America, and one with the least to offer in terms of extractive industries and trade, is more than a simple goodwill gesture or a number of shrewd business arrangements. The PRC's territorial demands and promises of cyber support combined with the overall lack of transparency in negotiations of these arrangements by both the PRC and the FMLN clearly indicate a much larger geopolitical strategy in play for this newly minted relationship.

Conclusion

Diplomatic recognition of the PRC, rather than the ROC, is both rational and often economically beneficial for many Latin American countries. The strategic challenge to U.S. interests in Latin America occurs when diplomatic recognition of the PRC is undertaken not as a geopolitical decision to balance relationships and further economic development, but as a way of directly pushing the United States out of a region.

The strategic opportunity for the PRC in Latin America is most pronounced in countries that are members of the Bolivarian Alliance, which view the United States as an enemy. These nations view the PRC as an ally with the capacity to provide resources, diplomatic protection, and markets that can replace those of the United States. In addition to the PRC's capacity to supply cyber technology and intelligence-gathering capabilities and to take control of critical infrastructure nodes, there is a strong likelihood that China will gain permanent military access to ports in Central America and throughout the region.

In this context, El Salvador's decision to opt for the PRC as its primary military, economic, and political partner—in conjunction with the criminalized Bolivarian Alliance—is a strategic challenge to the United States. The secrecy of the decision, the lack of clarity in the promises made, and the Chinese desire for control of large tracts of land in strategic areas all point to a decision made outside normal diplomatic channels and traditional practices. PRC officials viewed the successful breakthrough in El Salvador as an enormous strategic victory. Simultaneously, the FMLN and Bolivarian structures viewed the relationship as key to moving El Salvador and the region out of the U.S. sphere of influence, while protecting its state-sponsored criminal enterprises.

The trend across Latin America toward recognition of the PRC will likely continue, presenting Beijing with new openings and new allies in the hemisphere while undermining the traditional leadership role of the United States. Nicaragua and Honduras will likely follow the

course of El Salvador, Panama, and the Dominican Republic and recognize the PRC while breaking relations with the ROC. A strong indicator of the changing tide in Central America is the September 2018 statement by Honduran President Juan Orlando Hernández, once a staunch U.S. ally, of possible alignment with the PRC for “economic reasons.”⁷³

In an era of constrained American resources and limited diplomatic, military, and Intelligence Community engagement in Latin America, the United States does not have a short-term, easy way to rebalance relations in the region. In the short term, U.S. officials should shine a light on the multiple anomalies and drawbacks to Chinese investments compared to U.S. or European Union investment and economic engagement and highlight the negative experiences of Brazil, Ecuador, and other Latin American nations in their financial dealings with the PRC.

U.S. diplomacy should spotlight the history of drawbacks to engagement with the PRC, including a significant shortfall in creating the jobs promised to local employees, a failure to deliver the infrastructure promised, a lack of transparency in business ventures and financial transactions, and the high degree of corruption that often follows. A U.S. narrative emphasis should be placed on the fact that many Chinese companies operating in Latin America are closely linked to the PRC state—and frequently to the PRC military. Moreover, conditions to direct how Chinese investments—from State or privately owned firms—may be spent are lacking. This leads to environmental damage, a lack of human rights training and attention, and a lack of attention given to rule of law.

Recommendations

While framing a counter-PRC narrative is necessary, it is unlikely to be sufficient. There are a few specific additional policy steps that the United States could take to counter increasing Chinese influence in Latin American and specifically in countries attempting to strategically limit U.S. presence:

- Realign U.S. aid and support toward real allies. Even if countries maintain commercial relations with the PRC, the United States should focus on countries that work closely with the United States on a strategic level. These allies include Argentina, Chile, Colombia, and Panama. While each country presents its own unique challenges, they are not insurmountable obstacles to partnering with the United States. At the same time, the United States should consider significantly limiting aid to countries that embrace the PRC with the intent of displacing the United States and undermining the rule of law and democratic institutions. These countries include El Salvador, Suriname, and likely Nicaragua. This

would both allow more funding for allies while avoiding investing money into strategic competitors and open significant avenues for PRC intelligence and counterintelligence activities aimed at the United States.

- Carry out more high-level and cultural engagement in the region. The United States carries out far fewer high-level official visits to Latin America than does the PRC (or Russia). Moreover, the message of senior U.S. officials, when they do visit, is too often centered on the demand to stop migration, which does not address the region's main needs. The relative absence of senior-level visits, student exchanges, and other forms of engagement has allowed the PRC to set the terms of debate and engagement in the region, to the detriment of U.S. interests. It is imperative to rebalance these elements of soft power. The largest asset the United States has is the goodwill of populations in the region, including millions of individuals from Latin American countries who have visited or reside in the United States. In contrast, there is a lack of familiarity about the Chinese language, culture, and history, and a limited number of Latin Americans travel to the PRC.

- Reevaluate U.S. engagement ties for potential compromise. A subsequent step would be to recognize that most U.S. efforts in counternarcotics, vetted units, and intelligence-sharing would be severely compromised by Latin American ties to the PRC, especially in Bolivarian states such as El Salvador and Nicaragua. These programs should be reevaluated immediately, and, if this kind of U.S. engagement continues, the counterintelligence possibilities should be fully understood.

Annex: Methodology

This report draws on qualitative fieldwork, quantitative analysis, and open source data mining in English and Spanish. From the qualitative perspective, researchers conducted interviews with government officials, local business owners, and residents in El Salvador both before and after the announcement of El Salvador's break in diplomatic ties to Taiwan. These interviews were coupled with operational fieldwork at La Unión and Corsain Ports in El Salvador as well as the Cortés Port in Honduras. To better understand the People's Republic of China's (PRC's) reach in Latin America, the authors also created an independent, open source database to track the different port and infrastructure projects throughout Latin America. This database encompasses 48 port projects with Chinese companies owning either a portion of or the entirety of the ports. Other infrastructure projects including airports, telecommunications projects, and highways were not specifically addressed in the database but were analyzed for broader trends in Chinese engagement in Latin America.

Overall, this mixed methods approach facilitates a broader understanding, not only of the context in which the PRC is approaching diplomatic and economic relationship-building in Latin America, but also in identifying potential threats to U.S. interests posed by China's regional expansion. The analysis presented in this study focuses primarily on recent changes in the relationship between El Salvador and the People's Republic of China. This study does not intend to represent the full scale of Chinese influence in the Western Hemisphere.

Notes

¹To inquire on the methodology of this report, see the annex.

²*National Security Strategy of the United States of America* (Washington, DC: The White House, December 2017), 51.

³The Bolivarian Alliance for the Peoples of Our America (ALBA) was founded in 2004 and is made up of Venezuela, Cuba, Bolivia, Nicaragua, El Salvador, and small Caribbean islands. ALBA's objective is to implement socialism for the 21st century and engage in permanent conflict with the United States as an imperialist power. For a broad look at the Bolivarian Alliance, see Joel D. Hirst, "A Guide to ALBA: What Is the Bolivarian Alternative to the Americas and What Does It Do?" *Americas Quarterly*, n.d., available at <www.americasquarterly.org/hirst/article>. For a detailed look at the Bolivarian Alliance and the concept of criminalized states, see Douglas Farah, *Transnational Organized Crime, Terrorism and Criminalized States in Latin America: An Emerging Tier-One National Security Priority* (Carlisle, PA: Strategic Studies Institute, 2012), available at <<https://ssi.armywarcollege.edu/pubs/display.cfm?pubID=1117>>.

⁴El Salvador, Venezuela, and Nicaragua make up the nucleus of the Bolivarian Alliance targeted by the U.S. crackdown on the repressive regimes through diplomatic pressure and economic sanctions.

⁵Press statement by the U.S. Embassy in San Salvador, El Salvador, September 20, 2018.

⁶Senate Armed Services Committee (SASC), *Posture Statement of Admiral Kurt W. Tidd, Commander, U.S. Southern Command, Before the 115th Congress*, February 15, 2018, available at <www.southcom.mil/Portals/7/Documents/Posture%20Statements/SOUTHCOM_2018_Posture_Statement_FINAL.PDF?ver=2018-02-15-090330-243>.

⁷R. Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009).

⁸Anabel González, *Latin America–China Trade and Investment Amid Global Tensions: A Need to Upgrade and Diversify* (Washington, DC: The Atlantic Council, December 2018), available at <www.atlanticcouncil.org/images/publications/Latin-America-China-Trade-and-Investment-Amid-Global-Tensions.pdf>.

⁹Gabriel Marcella, "China's Military Activity in Latin America," *Americas Quarterly*, Winter 2012, available at <www.americasquarterly.org/Marcella>.

¹⁰The Community of Latin American and Caribbean States (Comunidad de Estados Latinoamericanos y Caribeños, CELAC) is a regional organization founded in 2010 that serves as an alternative to the Organization of American States (Organización de Estados Americanos that aims to better integrate countries in the region. The organization was explicitly created to limit external influence, and, as such, countries including the United States, Canada, and European nations have been excluded from the organization.

¹¹SASC, *Posture Statement of Admiral Kurt W. Tidd*.

¹²"China-Latin America Finance Database," *The Dialogue*, 2017, available at <www.thedialogue.org/map_list/>.

¹³"Foreign Direct Investment in the U.S.: Balance of Payments and Direct Investment Posi-

tion Data,” Bureau of Economic Analysis, 2018, available at <www.bea.gov/international/di1fdibal>.

¹⁴ Rolando Avendano, Angel Melguizo, and Sean Miner, *Chinese FDI in Latin America: New Trends with Global Impacts* (Washington, DC: The Atlantic Council, 2017), available at <http://publications.atlanticcouncil.org/china-fdi-latin-america/AC_CHINA_FDI.pdf>.

¹⁵ “Correa confía en la recién creada Comunidad de Estados Latinoamericanos y Caribeños” [Correa Trusts the Newly Created Community of Latin American and Caribbean States], *TeleSUR* (Caracas), February 23, 2010, available at <<https://web.archive.org/web/20111202072924/http://www.telesurtv.net/secciones/noticias/67340-NN/correa-confia-en-la-recien-creada-comunidad-de-estados-latinoamericanos-y-caribenos/>>.

¹⁶ “Basic Information about China-CELAC Forum,” Ministry of Foreign Affairs of China, April 2016, available at <www.chinacelacforum.org/eng/ltjj_1/P020161207421177845816.pdf>.

¹⁷ Ricardo Barrios, “China’s Belt and Road Lands in Latin America,” *China Dialogue*, July 11, 2018, available at <www.chinadialogue.net/article/show/single/en/10728-China-s-Belt-and-Road-lands-in-Latin-America>.

¹⁸ “Special Declaration of Santiago of the II Ministerial Meeting of the CELAC-China Forum on the Belt and Road Initiative,” January 22, 2018, available at <www.itamaraty.gov.br/images/2ForoCelacChina/Special-Declaration-II-CELAC-CHINA-FORUM-FV-22.1.18.pdf>.

¹⁹ Barrios, “China’s Belt and Road Lands in Latin America.”

²⁰ “Xinhua News Agency Ready to Deepen Media Cooperation in LatAm: Xinhua President,” *Xinhua*, November 26, 2016, available at <www.china.org.cn/world/Off_the_Wire/2016-11/26/content_39789959.htm>.

²¹ *Ibid.*

²² Jingwei Dong, “A Comparative Study of Xinhua and CNN’s Overseas News Bureaus” (Master’s thesis, University of Florida, 2012).

²³ “The Washington Post’s Foreign Correspondents,” *Washington Post*, available at <www.washingtonpost.com/graphics/world/washington-post-foreign-correspondents/?utm_term=.82733c6284ff>.

²⁴ “Xinhua News Agency Ready to Deepen Media Cooperation in LatAm.”

²⁵ Ricardo Barrios, “China’s State Media in Latin America: Profile and Prospects,” *Asia Dialogue*, May 28, 2018, available at <<http://theasiadialogue.com/2018/05/28/chinese-state-media-in-latin-america-profile-and-prospects/>>.

²⁶ William Naylor, “Democracies Beware? Is China Working to Expand Its Influence in Latin America?” *Global Americans*, December 7, 2017, available at <<https://theglobalamericans.org/2017/12/democracies-beware-china-working-expand-influence-latin-america/>>.

²⁷ “Congreso Institutos Confucio busca profundizar relaciones China-América Latina” [Confucius Institutes Congress Seeks to Deepen China-Latin America Relations], *Xinhua*, September 8, 2018, available at <http://spanish.xinhuanet.com/2018-09/08/c_137454368.htm>.

²⁸ Gabriela Avila Gómez, “China y América Latina y el Caribe: por una relación mas fuerte y consolidada” [China and Latin America and the Caribbean: For a Stronger and Consolidated Relationship], *Granma* (Havana), September 13, 2018, available at <www.granma.cu/mundo/2018-09-13/china-y-america-latina-y-el-caribe-por-una-relacion-mas-fuerte-y-consolida>.

da-13-09-2018-18-09-21>.

²⁹“China to Lend Venezuela \$5 Billion as Maduro Visits Beijing,” Bloomberg, September 13, 2018, available at <www.bloomberg.com/news/articles/2018-09-13/china-to-give-venezuela-5-billion-loan-as-maduro-visits-beijing>.

³⁰ Ibid.

³¹ These figures reflect loans, payments, and bond deadlines through September 2018, and may not reflect the most updated figures on Venezuelan debt.

³² Joseph M. Humire, “Iran, Russia, and China’s Central Role in the Venezuela Crisis,” Gatestone Institute International Policy Council, February 14, 2018, available at <www.gatestoneinstitute.org/11888/venezuela-iran-russia-china/>.

³³ Moises Rendon and Sarah Baumunk, *When Investment Hurts: Chinese Influence in Venezuela* (Washington, DC: Center for Strategic and International Studies, April 3, 2018), available at <www.csis.org/analysis/when-investment-hurts-chinese-influence-venezuela>.

³⁴ “Firmados con China varios acuerdos que traerán millonarias inversiones a Venezuela” [Signed with China Several Agreements That Will Bring Millions of Dollars to Venezuela], *Noticias24*, April 17, 2018, available at <www.noticias24.com/actualidad/noticia/151661/venezuela-y-china-firman-un-millonario-acuerdo-petrolero-sobre-el-bloque-junin-4/>.

³⁵ Fabiola Zerpa, “Venezuela Says China Investing \$250 million to Boost Oil Output,” Bloomberg, July 3, 2018, available at <www.bloomberg.com/news/articles/2018-07-03/venezuela-says-china-investing-250-million-to-boost-oil-output>.

³⁶ Ibid.

³⁷ Jonathan Watts, “Nicaragua Canal: In a Sleepy Pacific Port, Something Stirs,” *The Guardian*, November 24, 2016, available at <www.theguardian.com/world/2016/nov/24/nicaragua-canal-interoceanic-preparations>.

³⁸ This information was obtained from IBI Consultants information teams in Nicaragua who viewed internal documents on how the land would be distributed and who would benefit, December 2018.

³⁹ Ley 800, República de Nicaragua, Asamblea Legislativa, “Ley del régimen jurídico de El Gran Canal Interoceánico de Nicaragua” [Law of the Legal Regime of the Grand Interoceanic Canal of Nicaragua], July 3, 2012, available at <<http://legislacion.asamblea.gob.ni/Diariodebate.nsf/1e91f0054ac77a85062572e50067fde4/f7fbc363f44227e306257a80005d1c55?OpenDocument>>.

⁴⁰ “Canal de Nicaragua, ¿sueño o pesadilla?” [Canal of Nicaragua: Dream or Nightmare?], *La Nación* (Buenos Aires), November 28, 2014, available at <www.nacion.com/el-mundo/politica/canal-de-nicaragua-sueno-o-pesadilla/IEFRTUXTAJCCNM7PGK7ZZGHMYA/story/>.

⁴¹ “Nicaragua Canal Project Dealt New Blow,” *Havana Times*, April 28, 2018, available at <www.havanatimes.org/?p=132547>.

⁴² Watts, “Nicaragua Canal.”

⁴³ “HKND cierra sus oficinas en Hong Kong” [HKND Closes Its Offices in Hong Kong], *Confidencial* (Managua), April 27, 2018, available at <<https://confidencial.com.ni/hknd-cierra-sus-oficinas-en-hong-kong/>>.

⁴⁴ Octavio Enríquez, “La ‘telearaña’ de Wang Jing y la conexión militar con China” [The “Spi-

der Web” of Wang Jing and the Military Connection with China], *Confidencial*, November 3, 2014, available at <<https://confidencial.atavist.com/la-telaraa-de-wang-jing-y-la-conexin-militar-con-china-clone-4nxgh>>.

⁴⁵ Rico, “The Red Canal: Uncertainties Surround Nicaragua’s New Project,” *Q Costa Rica* (San José), November 5, 2014, available at <<https://qcostarica.com/the-red-canal-uncertainties-surround-nicaraguas-new-project/>>.

⁴⁶ Blake Schmidt, “Ex-Billionaire Abandons Office in Prime Hong Kong Tower,” *Bloomberg*, April 26, 2018, accessed at <www.bloomberg.com/news/articles/2018-04-26/nicaragua-canal-builder-abandons-office-in-prime-hong-kong-tower>.

⁴⁷ “Nicaragua Canal Magnate Wang Jing Linked to Ukraine Scandal,” *Havana Times*, November 30, 2017, available at <www.havanatimes.org/?p=128717>.

⁴⁸ See CooTel Nicaragua, available at <www.cootel.com.ni/>.

⁴⁹ Matilde Córdoba, “Más licencias a Xinwei” [More Licenses to Xinwei], *El Nuevo Diario* (Managua), September 6, 2014, available at <www.elnuevodiario.com.ni/nacionales/329247-mas-licencias-xinwei/>.

⁵⁰ “Company Overview of La Empresa Nicaragüense de Telecomunicaciones, S.A.,” *Bloomberg*, n.d., available at <www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=12424444>.

⁵¹ “Ley de la Zona Económica Especial de la Región Sur Oriental de El Salvador” [Law of the Special Economic Zone of the South Eastern Region of El Salvador], *Asamblea Legislativa*, July 2, 2018, available at <www.asamblea.gob.sv/sites/default/files/documents/correspondencia/8F64748B-E8C9-4C52-8251-CE3BBE28153F.pdf>.

⁵² *Ibid.*, 4.

⁵³ *Ibid.*, 6.

⁵⁴ *Ibid.*, 10, 15.

⁵⁵ IBI Consultants interviews with leading Communist Party members and political analysts in El Salvador, September 2018.

⁵⁶ “Puerto La Unión, El Salvador: CEPA deberá decidir si arrienda zona extraportuaria a empresa china” [Puerto La Unión, El Salvador: CEPA Must Decide Whether to Lease a Non-Port Area to a Chinese Company], *Mundo Marítimo*, August 31, 2018, available at <www.mundomaritimo.cl/noticias/puerto-la-union-el-salvador-cepa-debera-decidir-si-arrienda-zona-extraportuaria-a-empresa-china>.

⁵⁷ *Ibid.*

⁵⁸ “ARENA solicita a CEPA aclarar renta de terrenos en La Unión a corporación china” [ARENA Requests CEPA to Clarify Land Rent in La Union to Chinese Corporation], *Diario1.com* (Puerto de la Libertad, El Salvador), August 29, 2018, available at <<http://diario1.com/politica/2018/08/arena-solicita-a-cepa-aclarar-renta-de-terrenos-en-la-union-a-corporacion-china/>>.

⁵⁹ Karen Molina, “Empresa china quiere arrendar 102 manzanas en La Unión a \$1 el metro cuadrado” [Chinese Company Wants to Rent 102 Manzanas in La Union at \$1 Per Square Meter], *El Diario de Hoy* (San Salvador), August 27, 2018, available at <www.elsalvador.com/noticias/negocios/513362/empresa-china-quiere-arrendar-73-hectareas-en-la-union-a-1-el-metro-cuadrado/>.

⁶⁰ IBI Consultants interviews with U.S. law enforcement and diplomats in El Salvador, January 2018.

⁶¹ IBI Consultants field research findings presented in the Office of the Secretary of Defense, January 2016.

⁶² Karen Molina, “Empresa china se define como ‘militar’ pero Economía defiende interés en La Unión” [Chinese Company Is Defined as “Military,” but Economy Defends Interest in La Unión], *El Diario de Hoy*, August 29, 2018, available at <www.elsalvador.com/noticias/negocios/513954/empresa-china-interesada-en-la-union-se-define-como-militar/>.

⁶³ Karen Molina, “Puerto La Unión, la infraestructura de \$200 millones que nadie quiere” [Puerto La Unión, the \$200 Million Infrastructure That Nobody Wants], *El Diario de Hoy*, November 5, 2017, available at <www.elsalvador.com/noticias/negocios/415809/puerto-la-union-la-infraestructura-de-200-millones-que-nadie-quiere/>.

⁶⁴ ECOH Corporation, *Final Report for Special Technical Assistance for Maintenance Dredging of the Port of La Unión in the Republic of El Salvador*, Japan International Cooperation Agency, June 2014, available at <http://open_jicareport.jica.go.jp/pdf/12153912_01.pdf>.

⁶⁵ Jorge Beltrán Luna, “El desembarco chino del Golfo de Fonseca, poca información y muchas dudas” [The Chinese Landing in the Gulf of Fonseca, Little Information and Many Doubts], *Cuarto Oscuro* (Mexico City), September 26, 2018, available at <<https://cuartooscuro.net/2018/09/26/el-desembarco-chino-en-el-golfo-de-fonseca-poca-informacion-y-muchas-dudas/>>.

⁶⁶ IBI Consultants interviews with U.S. military and intelligence experts and Salvadoran sources involved in the negotiations for the islands, September 2018.

⁶⁷ Roxana Lazo, “El alcalde de Arena que quiere vender la isla Perico a un empresario chino” [The Mayor of Arena Who Wants to Sell Perico Island to a Chinese Businessman], *El Faro* (San Salvador), September 25, 2018, available at <https://elfaro.net/es/201809/el_salvador/22472/El-alcalde-de-Arena-que-quiere-vender-la-isla-Perico-a-un-empresario-chino.htm?st-full_text=all&tpl=11>.

⁶⁸ Idid.

⁶⁹ P. Recinos, “Asamblea prohíbe la venta de isla Perico y Periquito a extranjeros” [Assembly Prohibits the Sale of Perico Island and Periquito to Foreigners], *El Diario de Hoy*, August 24, 2018, available at <www.elsalvador.com/noticias/nacional/512380/asamblea-prohibe-la-venta-de-isla-perico-y-periquito-a-extranjeros/>.

⁷⁰ José Zometa, “Gobierno de El Salvador veta reforma que prohíbe la venta de isla Perico” [Government of El Salvador Vetoes Reform That Prohibits the Sale of Perico Island], *El Diario de Hoy*, September 13, 2018, available at <www.elsalvador.com/noticias/nacional/518519/gobierno-de-el-salvador-veta-reforma-que-prohibe-la-venta-de-isla-perico/>.

⁷¹ IBI Consultants interviews in El Salvador with sources with direct knowledge of discussions, September 2018.

⁷² Robert F. Noriega et al., *Kingpins and Corruption: Targeting Transnational Organized Crime in the Americas* (Washington, DC: American Enterprise Institute, 2017).

⁷³ Dave Graham, “Honduras President Laments U.S. Aid Cuts, Eyes Role of China,” Reuters, September 24, 2018, available at <www.reuters.com/article/us-honduras-politics/honduras-president-laments-u-s-aid-cuts-eyes-role-of-china-idUSKCN1M42R6>.

About the Authors

Douglas Farah is a Visiting Senior Fellow in the Center for Strategic Research, Institute for National Strategic Studies, at the National Defense University. He is also the President of IBI Consultants, a national security consulting firm. Prior to these positions, Mr. Farah worked as a foreign correspondent and investigative reporter to the Washington Post for more than 20 years, covering security in Latin America and West Africa. He is an expert on national security, transnational crime, terrorism, terror finance, and nonstate armed actors. Mr. Farah has given testimony before House and Senate committees, sat as an expert witness in security conferences across the Western Hemisphere, and published two books on these topics. He holds a Bachelor of Arts and Bachelor of Science from the University of Kansas.

Caitlyn Yates is the Research Coordinator at IBI Consultants and in the Center for Strategic Research. Prior to these positions, Ms. Yates worked as a Research Associate at the Mexico Security Initiative and Strauss Center for International Security and Law at the University of Texas at Austin. Her work focuses on human security, organized crime, transit migration, and borders in Latin America. She has presented her work before the United Nations, U.S. Government agencies and departments, and at academic conferences. Ms. Yates holds a Bachelor of Arts from Trinity University and a Master of Public Policy from the LBJ School of Public Affairs at the University of Texas at Austin.

IBI Consultants, LLC, is a national security consulting firm. Researchers in the firm offer a broad range of expertise and access across Latin America on issues of national security, transnational crime, terrorism, terror finance, and nonstate armed actors. IBI Consultants works with a wide range of clients, from U.S. Government entities to private foundations, and provides analysis, information, scenario development, and access to a broad range of on-the-ground experts.

Center for Strategic Research Senior Fellows

DR. R. KIM CRAGIN

Senior Research Fellow

COL ABIGAIL LINNINGTON, USA, PH.D.

Senior Military Fellow

DR. G. ALEXANDER CROWTHER

Senior Research Fellow

MR. BRYCE S. LOIDOLT

Research Fellow

DR. T.X. HAMMES

Distinguished Research Fellow

DR. THOMAS F. LYNCH III

Director

DR. FRANK G. HOFFMAN

Distinguished Research Fellow

DR. JAMES J. PRZYSTUP

Senior Research Fellow

COL ROBERT M. KLEIN, USA

Senior Military Fellow

COL JOSE E. SUMANGIL, USAF

Senior Military Fellow

DR. CHRISTOPHER J. LAMB

Distinguished Research Fellow

BRIGADIER GENERAL PETER B. ZWACK,

USA (RET.)

Senior Research Fellow

For a complete list of INSS researchers and staff, please visit inss.ndu.edu.

