

# THE ROLE OF DOLLAR DIPLOMACY IN CHINA-TAIWAN DIPLOMATIC COMPETITION IN THE CARIBBEAN AND CENTRAL AMERICA

by

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## **ABSTRACT**

China and Taiwan have a significant impact on the nations of the Caribbean and Central America. This study shows that both governments have used dollar diplomacy to rent recognition from economically fragile nations in the region, thus treating sovereignty as a resource to be fought over in their competition for diplomatic ties. To develop this argument, the paper analyzes regional Sino-Taiwanese diplomatic rivalry by first clarifying what the term dollar diplomacy means, setting it in its historical and contemporary foreign policy contexts, and then analyzing motivations, techniques and results of dollar diplomacy in thirteen countries in the region. Dollar diplomacy is the most extreme and competitive form of the economic-based foreign policies of Beijing and Taipei. The paper concludes with an explanation for the current Taiwan-China diplomatic truce in 2009, but shows that pressures still exist for re-intensified rivalry and for dollar diplomacy to resume.

**Keywords:** Dollar diplomacy; Diplomatic competition; Taiwan; China; Caribbean; Central America; Sovereignty; Recognition rental; Diplomatic truce

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# TABLE OF CONTENTS

## Contents

<b>Approval</b> .....	<b>ii</b>
<b>Abstract</b> .....	<b>iii</b>
<b>Acknowledgments</b> .....	<b>iv</b>
<b>Table of Contents</b> .....	<b>v</b>
<b>List of Tables</b> .....	<b>vi</b>
<b>1. Introduction</b> .....	<b>1</b>
<b>2. Background</b> .....	<b>5</b>
2.1 Dollar Diplomacy .....	5
<b>2.1.1 Origins</b> .....	5
<b>2.1.2 Present Day Chinese and Taiwanese Dollar Diplomacy</b> .....	6
<b>2.1.3 Dollar Diplomacy as Related to the Case Studies</b> .....	8
2.2 History of Diplomatic Competition between China and Taiwan for Official Recognition .....	8
2.3 Leadership Sponsored Goals and Foreign Policy Priorities .....	11
2.3.1 <i>The PRC</i> .....	11
2.3.2 <i>The ROC/Taiwan</i> .....	14
<b>3. Examples and Analysis of Dollar Diplomacy in Central America and the Caribbean</b> .....	<b>19</b>
3.1 Taiwan and China’s Dollar Diplomacy in the Region .....	19
3.1.1 <i>Provider and Recipient Initiative and Motivations</i> .....	20
3.1.2 <i>Analysis of Dollar Diplomacy Mechanisms</i> .....	31
3.2 Conclusions about Dollar Diplomacy .....	37
<b>4. Implications</b> .....	<b>40</b>
4.1 Consequences.....	40
4.2 Diplomatic Truce .....	41
<b>5. Conclusions</b> .....	<b>46</b>
<b>Reference List</b> .....	<b>49</b>

## LIST OF TABLES

Table 1	Dates of Official Diplomatic Recognition from Caribbean and Central American Countries .....	19
Table 2	Dollar Diplomacy Methods.....	32

# 1. INTRODUCTION

As the Cold War drew to a close at the beginning of the 1990s, feelings of hope emerged about the possibility of the reunification of nations that had been divided by Cold-War-Era conflicts. In Europe, the reuniting of East and West Germany into one homeland was emblematic of the real potential for reunification, and countries around the world took notice. In East Asia, there was open speculation about the possibility of the merging of North and South Korea. In the Chinese-speaking world, people watched with rapt attention as preparations were made for the re-absorption of Hong Kong and Macao into China. What happened with that process, it was expected, would set the tone for the re-integration of Taiwan with Mainland China. However, as the 1990s proceeded, it became obvious that divisive forces, which were equally or even more powerful than unifying forces, were also at work. The two Koreas remained staunchly divided, and continue to be mutually suspicious and antagonistic. Despite the peaceful return of Hong Kong and Macau to China, Taiwan and China began to pull farther apart. In Taiwan, aspirations to reconnect with the mainland as part of the Republic of China (ROC) dwindled as a long-suppressed independence movement and smouldering ethno-nationalist sentiment emerged while the island underwent a process of rapid democratization. In China, nationalism, fanned by the Chinese Communist Party as a self-legitimizing force, focused on the goal of reuniting all of "Greater China". The resulting mutually incompatible aspirations led to an intractable rivalry that raised the level of tension in relations across the Taiwan Strait.

One significant result of this rivalry is that Taiwan and China became involved in a strong-willed, worldwide competition with each other for official diplomatic recognition. This is



an interesting and important diplomatic struggle because it is the global projection of a highly emotionally charged, regional rivalry, which offers local benefits, but sometimes causes national disturbances and upsets regional balances of power. Sino-Taiwanese rivalry also affects China's decisions in international and regional organizations as it attempts to limit Taiwan's diplomatic effectiveness.<sup>1</sup> As patterns of global influence continue to evolve in the post-Cold War era and especially as China's international influence progressively increases, China-Taiwan diplomatic competition will remain an important feature in the international relations landscape. This is particularly true in Central America and the Caribbean, where Taiwan hopes to maintain its largest relatively solid block of region-wide diplomatic support and China is manoeuvring for stronger influence.<sup>2</sup>

Newnham has noted that official recognition has been bought and sold in the diplomatic competition among several countries worldwide, including China and Taiwan, which indicates that sovereignty can be treated as a resource<sup>3</sup>. Van Fossen advances this concept by positing that the diplomatic battle between China and Taiwan specifically in the South Pacific is a "sovereignty auction".<sup>4</sup> This paper shows that the situation in Central America and particularly in the Windward Islands of the Caribbean is similar. It explains how political-economic conditions in South Pacific nations that are most likely to be precursors to recognition switches are essentially the same in Central American and Caribbean nations. Thus, the most likely states to switch diplomatic ties are those in which governments face serious economic challenges or

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<sup>1</sup> Global Policy Forum, "Subjects of UN Council Votes", [www.globalpolicy.org/security/membership/veto/vetosubj.htm](http://www.globalpolicy.org/security/membership/veto/vetosubj.htm)

<sup>2</sup> H. Li, "Rivalry between Taiwan and the PRC [China] in Latin America," *Journal of Chinese Political Science*, 10 no. 2 (2005): 77-102. Li argues that China is becoming an increasingly significant contestant for influence in the region as Taiwan pursues a very similar foreign policy strategy that it calls economic and trade diplomacy (*jing mao wai jiao*) which involves a mixture of economic power and political contact to achieve diplomatic goals. He also notes that one of Beijing's core objectives is to solidify its current diplomatic connections and establish new official ties in order to cut Taiwan off from formal diplomatic channels.

<sup>3</sup> R.E. Newnham, "Embassies for Sale: The Purchase of Diplomatic Recognition by West Germany, Taiwan and South Korea," *International Politics*, 37 no. 1 (2000): 259-284. He also notes that there was a similar pattern in diplomatic competition between East and West Germany, and between North and South Korea.

<sup>4</sup> A. Van Fossen, "The Struggle for Recognition: Diplomatic Competition between China and Taiwan in Oceania," *Journal of Chinese Political Science*, 12 no. 2 (2007): 125-146.

political defeat, and where there is the likelihood of a substantial enhancement of financial support as the result of the shift in recognition.<sup>5</sup>

In specific, this study seeks to gain more insight into Sino-Taiwanese rivalry and its effects on aid-recipient countries by answering the question: **how and why has dollar diplomacy been used since 1997 in the diplomatic competition between China and Taiwan in Central America and the Caribbean?** The hypothesis of this project is that China and Taiwan use dollar diplomacy to rent recognition from economically fragile nations, thus treating sovereignty as a resource to be fought over in their competition for diplomatic ties. Dollar diplomacy is part of a larger matrix of directed, economic-based foreign policy and it manifests itself when Sino-Taiwanese rivalry for official recognition is direct and intense.

This project begins with a background section to clarify what the term dollar diplomacy means and set it in its historical and contemporary foreign policy contexts. Accordingly, the first sub-section explores the concept of dollar diplomacy and shows why the term has evolved over time. It provides a brief overview of its historical origins in US policy in Latin America in the early 20<sup>th</sup> century, points out some elements that are still part of present-day dollar diplomacy, and then explains how the term can be applied to the current Sino-Taiwanese rivalry. The second sub-section contains an historical overview of the competition in order to explain the contemporary state of Sino-Taiwanese rivalry in Central America and the Caribbean and locate it in its historical and political context. The third sub-section explains how and why dollar diplomacy came to the fore in Sino-Taiwanese rivalry by providing a synopsis of the importance of leadership-sponsored goals and their significance in foreign policy making in China and Taiwan.

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<sup>5</sup> Ibid., 138.

Section three examines the use of dollar diplomacy in Central America and the Caribbean by both China and Taiwan. By investigating representative cases of Sino-Taiwanese competition and tabulating where and when dollar diplomacy activities have been used in the region, instances of direct competition and the variety of techniques that are constituent elements of dollar diplomacy become apparent. Furthermore, readily analyzable patterns emerge which explain how and why China, Taiwan and regional nations have treated sovereignty as a valuable resource and official recognition as an exchangeable commodity. China and Taiwan place a high value on sovereignty recognition and compete both cunningly and fiercely for it, but some nations in the region have recognized how to maximize their financial benefits by temporarily establishing ties with one government and then switching allegiance later.

Section four examines two major implications of employing dollar diplomacy and treating sovereignty as a resource. First, the effects of dollar diplomacy and the consequences for economically needy nations in the region, for China and Taiwan, and for regional stability are explained. Second, dollar diplomacy for sovereignty recognition is proposed as a litmus test that confirms where Taiwan and China have truly reached a diplomatic truce. Beijing and Taipei still pursue economic ties to help to achieve foreign policy goals, but they have halted the use of the intense dollar diplomacy techniques that resulted from direct competition for official recognition.

Section five draws conclusions about how and why dollar diplomacy has been used, what it explains about the larger matrix of Taiwanese and Chinese foreign policy strategies, what its effects have been on the nations of the Caribbean and Central America, and what the prospects are for dollar diplomacy in the region in the future.

## 2. BACKGROUND

### 2.1 Dollar Diplomacy

What, exactly, is dollar diplomacy? What are its origins and how can it be defined for the purposes of this study? This sub-section seeks to answer these questions in order to allow for a clear examination of how and why it has been used in Sino-Taiwanese diplomatic competition for official recognition.

#### 2.1.1 *Origins*

The use of what was later called dollar diplomacy originated in the early 20<sup>th</sup> century as part of American foreign policy in the Caribbean and Central America. As the power of the United States grew to match that of European nations, it began to vie more assertively for influence in Latin America, an area it had already declared in the Monroe Doctrine as being within its sphere of influence. As part of the process of articulating American aspirations for great power status and to protect its interests in the building of the Panama Canal, Theodore Roosevelt developed his corollary to the Monroe Doctrine which formed the basis of the Caribbean Policy of the United States for the first quarter of the 20<sup>th</sup> century.<sup>6</sup> Roosevelt's corollary stated that the US had to help Caribbean republics to eliminate the recurring turmoil and financial mismanagement that invited European intervention in the region. US policy was redesigned to include the goal of forestalling foreign intrusion by any nation that might feel

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<sup>6</sup> Dana G. Munro, *Intervention and Dollar Diplomacy in the Caribbean, 1900-1921* (Princeton, N.J.: Princeton University Press, 1964), 65.

prompted to act for the security of its nationals or interests.<sup>7</sup> The corollary demonstrated that the US felt a need to take some responsibility for the conduct of the states that it protected if it truly wanted to maintain the Monroe Doctrine.

Thus, in practice, the term dollar diplomacy began being used during the Taft presidency (1909-1913) both by the administration itself and by its critics. Taft continued the Roosevelt administration's activities in the Caribbean and felt that dollar diplomacy was a wise policy since it meant using dollars rather than bullets to gain foreign influence, but his critics argued that it was only a ploy to allow American bankers and other private interests to gain inroads into key areas of Latin American economies.<sup>8</sup> In theoretical terms, dollar diplomacy focused on promoting financial reform in two ways: by attempting to elevate American financial involvement to a predominant position in the region and by organizing better domestic control of Caribbean nation economies. In practical terms, engagement in the Dominican Republic, Haiti, Nicaragua, Guatemala and Honduras involved attempts to refinance European-held debt with American bonds or encouragement of American bankers to provide generous loans on moderate terms. It also involved setting up customs receiverships to help state governments to collect revenue for use in national development projects, which was accompanied by some kind of physical American presence – in some cases military intervention – on foreign soil. While these activities were US government directed, many banks and corporations participated in dollar diplomacy, but often only took part when they were asked to do so as a patriotic duty.<sup>9</sup>

### **2.1.2 Present Day Chinese and Taiwanese Dollar Diplomacy**

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<sup>7</sup> Ibid., 7.

<sup>8</sup> The policies may have had this effect, but it is unlikely that Taft intended them to do so since the record of his political and legal career shows that he worked stalwartly for appropriate limitation and regulation of banks and other private corporations. Many bankers were reluctant to participate in government plans because they could only see the prospect of minimal returns. (Munro, *Intervention*, 163-4)

<sup>9</sup> G.T. Weitzel, *Annals of the American Academy of Political and Social Science*, 132 (July 1927): 115.

Many of the basic motivations underlying the use of dollar diplomacy by the US at the beginning of the previous century apply to its use by Taiwan and China today. Just as was true for the US, it is part of a larger strategic foreign policy stance. For the US, it developed as a result of foreign affairs competition with European powers; in China and Taiwan's case, the competition is with each other. US dollar diplomacy was one of the results of Roosevelt's strong leadership goals, which were then continued by his successors. Section 2.3 of this study explains how important an influence Chinese and Taiwanese leadership sponsored goals have been in driving their use of dollar diplomacy. Both in its use by the US and later by Taiwan and China, the stated aims of dollar diplomacy were to help targeted countries while the larger, unstated aims were to achieve broader strategic foreign policy goals.

Some of the specifics of early 20<sup>th</sup> century US dollar diplomacy are also the same as current day Chinese and Taiwanese dollar diplomacy. In its classic US form, dollar diplomacy was government driven and directed, but involved private corporation participation and the same is true for Taiwan and China today. The United States used recipient-favourable loans and debt forgiveness as key parts of dollar diplomacy and so have both Taiwan and China.

Some important differences in modern day dollar diplomacy concern the scope of intervention in targeted countries. The US wanted to establish a dominant presence in the region, which meant that it frequently resorted to military interventions in Caribbean republics in the early 20<sup>th</sup> century and often ended up occupying those nations for several years afterward. The American penchant for using customs receiverships to add to central government treasuries was often carried out under conditions of occupation. Neither China nor Taiwan seeks to be the most dominant power in the region and neither has been as directly or obtrusively involved in

the foreign affairs of any nation in the Caribbean and Central America.<sup>10</sup> Furthermore, unlike in classic US dollar diplomacy, China and Taiwan have not set financial reform of recipient nations as a policy goal. Both Taiwan and China offer financial advice and have provided educational opportunities to their beneficiaries, but neither government has made its aid conditional upon them.

### **2.1.3 Dollar Diplomacy as Related to the Case Studies**

Drawing together the historical elements and present day foreign policy techniques mentioned above, it can be inferred that government-sponsored financial support directed to individuals or organs of a foreign state, usually in order to encourage foreign policy loyalty, suffices as a definition of dollar diplomacy. A closer examination of dollar diplomacy in the region reveals details of the rivalry for recognition from Caribbean and Central American nations. (See Table 2.) In specific, the paper shows that China and Taiwan's dollar diplomacy in the region can be defined as significant financial support that is proffered because of real or perceived competition for official recognition.

## **2.2 History of Diplomatic Competition between China and Taiwan for Official Recognition**

Unofficially, competition between Taiwan and China for official recognition stretches back to the time of foreign support for either the Communists or the Nationalists in the 1946-1949 phase of the Chinese Civil War. While most of the world's nations continued their

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<sup>10</sup> Kweku Ampiah and Sanusha Naidu, *Crouching tiger, hidden dragon? : Africa and China*, ( Scottsville, South Africa: University of KwaZulu-Natal Press, 2008), 7. Such extreme activities run counter to the Five Principles of Peaceful Co-existence, which are fundamental to Chinese foreign policy. The five principles are mutual respect for territorial integrity and sovereignty, non-aggression, non-interference in internal affairs, equality and mutual benefit, and peaceful co-existence.

recognition of the Republic of China (ROC) when its government retreated to Taiwan, many of the countries that supported the Communist side during the war were quick to recognize the People's Republic of China (PRC) after it was proclaimed on October 1, 1949. The official struggle for recognition began in 1950, as the PRC consolidated its hold on most of China's Qing-Dynasty-Era territory and has continued to the present day.<sup>11</sup> The Cold War cleavages which had opened up in the international system in the late 1940s provided natural fault-lines in the pattern of recognition and most nations within the USSR's sphere of influence recognized the PRC while most of those that were allied with the USA continued to recognize the ROC on Taiwan.<sup>12</sup>

This pattern remained quite stable until the late 1950s when the PRC's aspirations as the leader of the newly defined Third World and deteriorating relations with the Soviet Union impelled it to follow its own foreign policy prerogatives in attempting to win diplomatic relations with the freshly emerging, former-colonial nations of Africa and Asia. The ROC struggled to maintain its diplomatic ground, but mostly as a proxy of the US on which it was almost entirely dependent for its continuing existence. The PRC gradually accumulated diplomatic victories in the 1950s and early 1960s, but it was not until the US government under the Nixon administration softened its position towards Communist China that a major shift in recognition began to happen. The transfer of China's seat at the UN from the ROC to the PRC in October of 1971 added to the momentum of shifting diplomatic ties, and between 1970 and 1975 almost 40 nations established formal relations with the PRC. The pace of recognition transfer slowed through the last half of the 1970s, but finished with the major coup of the establishment of formal relations between the USA and the PRC.

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<sup>11</sup> David Scott, *China Stands Up: The PRC and the International System* (London and New York: Routledge, 2007), 167. The PRC established control over Tibet and Xinjiang in 1950, which left only Taiwan, parts of the Russian Far East, Macao and Hong Kong as unrecovered Qing-period territory.

<sup>12</sup> The UK and Scandinavian countries, all of which recognized the PRC in 1950, were important exceptions.



The late 1970s and early 1980s marked the beginning of the current era of diplomatic struggle between Taiwan and China, wherein political and ideological motivations receded as the primary drivers in the recognition battle and economic and trade considerations moved to the fore. The ROC clung to its precarious existence due to the US commitment to protect it against Mainland Chinese attack as spelled out in the Taiwan Relations Act of 1979, and due to the official recognition it still held from two dozen countries. As a pragmatic safety net, in order not to be completely reliant on the US for its existence, the Kuomintang (KMT) government placed a high priority on maintaining its official diplomatic connections as an international relations lever against PRC attempts to isolate and ultimately annex it. Reliance on the anti-Communist stance of most of the governments from which the ROC received recognition was no longer a firm guarantee of continuing loyalty; more emphasis had to be placed on economic benefits. During the last decade, Taiwan has deliberately dropped its aspirations to re-conquer the Chinese mainland and has attempted to make relations even easier for its foreign affairs partners by allowing dual recognition of both China and Taiwan, which China does not.<sup>13</sup>

For its part, the PRC had moved in into a new era of both domestic and foreign policies in which political ideology was de-emphasized and economic development was regarded as a paramount national goal. While economic and material assistance had been, from the PRC's beginnings, part of Chinese efforts to win diplomatic allies, it had been given in the context of promoting worldwide revolution based on Maoist principles. In the 1980s, it became part of a larger plan to extend China's economic contacts and influence around the globe, with a constant eye to diplomatically isolating the ROC by completely eliminating its formal ties with other

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<sup>13</sup> Dennis Van Vranken Hickey, *Foreign Policy Making in Taiwan: From Principle to Pragmatism* (London and New York: Routledge, 2007), 92.

countries. China counters Taiwan's dual recognition flexibility by enforcing its "One China Policy" and severs relations with any nation that has diplomatic ties with Taipei.<sup>14</sup>

By the mid 1990s, the stage was set for dollar diplomacy to become the key feature of the diplomatic struggle between the two governments, but in order to understand why and how it was applied, it is necessary to examine some basic aspects of how foreign policy is made in China and in Taiwan. In particular, it is important to clarify how important leadership sponsored goals are in the setting of foreign policy priorities.

## **2.3 Leadership Sponsored Goals and Foreign Policy Priorities**

### *2.3.1 The PRC*

The Communist Era, which began in 1949, marked a profound change in China's relations with the outside world. Prior to the establishment of the PRC, Chinese foreign policy had sprung from a self-reverential, imperial pride and sense of exceptionalism that was based on confidence in the perceived superiority of Chinese cultural achievements.<sup>15</sup> The gradual erosion of that confidence as the imperial system broke down under foreign attack and internal strife had left the nation feeling humiliated and victimized. The re-establishment of competent central control under the Communist Party meant that China entered a new stage in its external relations. Specifically, this meant that China not only concentrated on its relationships with major powers, but under Mao's guidance began to focus on developing countries. His ideology stressed that there should be equality among nations which, within a decade of the beginning of

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<sup>14</sup> In essence, the policy states that Taiwan is a province of China and that resolution of the Taiwan question is a Chinese domestic policy matter.

<sup>15</sup> Derek Mitchell and Carola McGiffert, "Expanding the 'Strategic Periphery'," in *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, eds. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (New York: M.E. Sharp, 2007), 3-13.

its existence, led the PRC away from communist solidarity and internationalism and onto its own “third road” of international relations.

By the end of 1953, Premier Zhou Enlai had crafted the “Five Principles of Peaceful Co-existence” as the foreign relations framework for the PRC.<sup>16</sup> It has remained a centrepiece of Chinese foreign policy ever since, although it has been supplemented by other theories and has evolved as foreign policy concerns and national interests have shifted. Mao’s radicalism in the 1960s led to a swing away from anti-colonial rhetoric and into the provision of material assistance to guerrilla insurgents in a number of African and Southeast Asian countries, and at the apex of the Cultural Revolution, the PRC halted its engagement with developing nation governments and dealt only with Maoist rebels inside those countries. As the Cultural Revolution wound down and China re-entered the community of nations after taking its seat at the UN, a more moderate phase of foreign relations began and in 1974 Deng Xiaoping introduced Mao’s “Theory of the Three Worlds” which had been developed by Zhou Enlai.<sup>17</sup>

After Mao and Zhou’s deaths in 1976, and especially after economic reforms began to take hold in 1979, ideology declined rapidly as a driver in foreign policy formulation and economic liberalization and openness to investment came to the fore. Much of the reason for this is because of Deng Xiaoping and his coterie of ministers who favoured economic reform and committed China to the rather vaguely defined “independent foreign policy of peace” in 1982 which allowed for a great deal of latitude in the policy-making process. Even though they were not ideologically derived, leadership-sponsored goals continued to be among the most important features in the crafting of foreign policy and were the most salient feature in defining the strategic direction of external affairs. The main thrust of Deng Era foreign policy was the

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<sup>16</sup> The five principles are mutual respect for territorial integrity and sovereignty, non-aggression, non-interference in internal affairs, equality and mutual benefit, and peaceful co-existence.

<sup>17</sup> It represented a significant departure from earlier “three world” theories in that it placed the two superpowers in the first world and called upon the second world powers (non-superpower, developed nations) to unite with the third world (less-developed, non-aligned nations led by China) and oppose imperial domination and its unjust economic order.

overall expansion of China's economic interaction with the rest of the world, but within that, the seeds of modern-day dollar diplomacy were sown. It represented a hybrid of the new emphasis on economic relations and two persistent national goals that related directly to Taiwan: the aforementioned reunification of "Greater China" and resistance against foreign meddling in Chinese affairs.<sup>18</sup> As a result, China's foreign policy began to include more carefully targeted aid, investments and payments whenever it came into diplomatic competition with the ROC.

As Jiang Zemin ascended to the position of "paramount leader" during the 1990s he did so within a clique of "third generation" Chinese Communist Party (CCP) leaders. His foreign policy stance was a reflection of his management of the power elite and most important decisions and deliberations took place in the Leading Small Group for Foreign Affairs. Initially the group was chaired by Premier Li Peng, but was taken over by Jiang himself when Zhu Rongji became premier in 1998. Former foreign minister and then Vice Premier, Qian Qichen, was another prominent member as were top-level officials from the Foreign Affairs, State Security, and Defence Ministries.<sup>19</sup> As a result, while still primarily focused on economic expansion, foreign policy occasionally tended to be belligerent because of strong input from China's military leadership. Of equal importance for China's relations with Taiwan, Jiang made the resolution of the reunification question a top leadership priority by taking it on as a part of his personal political legacy, and headed the Leading Group on Taiwan Affairs to spearhead those efforts. Isolating Taiwan diplomatically was a key feature in the efforts to arrange for the ultimate annexation of the island and the battle for official recognition heated up.

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<sup>18</sup> Robert G. Sutter, *Chinese Foreign Relations* (Toronto: Rowman and Littlefield Publishers, Inc., 2008), 62. Foreign power manipulation beginning in the mid-19<sup>th</sup> century and China's resulting victimhood has been a mainstay of the Chinese Communist Party's (CCP) worldview. It began to be de-emphasized during the Deng era, but was briefly resuscitated in the face of foreign criticism in the aftermath of the June 4, 1989 Tiananmen Incident as the CCP increased its appeal to nationalism in order to maintain its legitimacy.

<sup>19</sup> Lu Ning, "The Central Leadership, Supraministry Coordinating Bodies, State Council Ministries, and Party Departments," in David M. Lampton, *The Making of Chinese Foreign and Security Policy in the Era of Reform* (Stanford: Stanford University Press, 2001), 48.

After becoming the leader of the CCP in 2002, Hu Jintao began to emphasize the role of the complete politburo in all aspects of policy creation and opened up parts of the policy-making process to the media. The leading groups continue to be very important in the foreign policy-making process, but an increase in the power of the politburo as a deliberative body may have begun to allow for more avenues of input. For the most part, the Hu Jintao leadership has not deviated from Jiang-era foreign policy in any major ways. One relevant exception is the leadership's treatment of relations with Taiwan; even in the face of blatant provocation by the independence-minded government in Taiwan, the increasingly calmly managed Chinese government did not respond with bellicose sabre-rattling as the Jiang leadership did in the mid to late 1990s. Instead, Hu and his technocratically savvy, professionally trained fourth-generation leadership cohort (and similarly well-trained bureaucracy and military leaders) adopted a far more patient attitude towards Taiwan, but continued working just as diligently to win over Taiwan's formal allies around the world and isolate it diplomatically.

### *2.3.2 The ROC/Taiwan*

In the ROC (as is true in most nations) a variety of external and internal forces combines in the crafting of foreign policy. Similar to the PRC, leadership sponsored goals are of paramount importance in setting Taiwan's overall foreign affairs stance.

After retreating to and consolidating its defensive position on Taiwan in the late 1940s, the ROC under Generalissimo Chiang Kai-shek began a long period of US-sponsored resistance to the PRC. Chiang was in control of all aspects of the Nationalist (KMT) Party and of the government and used that power to conduct a foreign policy that was consistently militaristic

and antagonistic towards the PRC.<sup>20</sup> During his time in power, the ROC's foreign policy was mostly concentrated on its relations with major powers – especially the USA – and on its activities to strengthen its anti-PRC position at the UN. With the transfer of China's seat at the UN to the PRC, Chiang's Confucian-principle-informed and ideologically based foreign policy foundations began to crumble. In parallel with leadership in the PRC, as Chiang reached the last stages of his life in the mid-1970s, new ideas began to emerge among the power elites.

The Generalissimo's son, Chiang Ching-kuo, began to play a prominent role in ROC foreign relations during the 1960s and established a healthy working relationship with American officials, especially its intelligence community.<sup>21</sup> He became premier in 1972 and then, after Chiang Kai-shek's death in 1975, succeeded his father as president. His pragmatic governing style was a welcome change both domestically and internationally, and he is typically credited with the securing of first unofficial and then, in the Taiwan Relations Act of 1979, official US promises to protect the island of Taiwan. His pragmatism and the ROC's exit from the UN meant that a new emphasis was placed on attention to relations with smaller nations that still officially recognized the ROC and a number of aid and loans programs were launched. This was also the period of time that Taipei used development programs to establish ties with many newly independent small island nations in the South Pacific and in the eastern Caribbean.

The stages of development of leadership influences over foreign affairs in the PRC and the ROC moved roughly in parallel until the 1980s. A shift occurred when Chiang Ching-kuo began to foster a process of "Taiwanization" in order to legitimate the ROC presence on Taiwan and to encourage democratization. His choice of Taiwan-born Lee Deng-hui as his successor was part of that metamorphic process and when Lee became president after Chiang's death in 1988,

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<sup>20</sup> Shia-Ling Liu, "Chiang Ching-kuo and the ROC," *American Journal of Chinese Studies*, 1 (Oct 1992), 261.

<sup>21</sup> Jay Taylor, *The Generalissimo's Son: Chiang Ching-kuo and the Revolutions in China and Taiwan* (Cambridge: Harvard University Press, 2000), 273.

it led to a new emphasis on Taiwanese identity in Taiwan's foreign relations.<sup>22</sup> This emphasis raised fears in the PRC that the island was preparing to announce its independence and tension once again increased across the Taiwan Strait, particularly during the time of important elections, which began in Taiwan in the mid-1990s. Lee's foreign policy stance continued in the pragmatic traditions established by his predecessor, but reflected a change in priorities. He sought the advancement and reinforcement of formal diplomatic ties and the development of substantive relations with countries that did not maintain formal relations with Taiwan as top priorities in foreign relations.<sup>23</sup> Under his leadership, Taipei became even more readily willing to provide grants and loans to its aid-dependent allies, especially because the Jiang administration in Beijing was beginning to use the same tactics. Academic and official government observers soon labelled the practice "dollar diplomacy", and the number of governments recognizing Taiwan grew to 30 countries. On the downside, Taiwan's only remaining major diplomatic partners – Saudi Arabia, South Korea and South Africa – all recognized the PRC during Lee's tenure.<sup>24</sup>

When Chen Shui-bian won the presidential election in 2000, he took over the reins of power of a populace that was deeply divided and in the midst of an identity struggle. The foreign policy implications were that he and his ministers intensified the activities that were initiated by the Lee government. As the Jiang administration in the PRC, unnerved by Chen and his Democratic Progressive Party's (DPP) pro-independence inclinations, stepped up its efforts to isolate Taiwan diplomatically, the Chen administration responded in kind. China's increased use of targeted aid, grants and loans which directly thwarted Taiwanese efforts, combined with

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<sup>22</sup> Hickey, *Foreign Policy Making in Taiwan*, 59-61. During this time, the foreign policy making process became more complex as Taiwan moved away from a centralized, martial-law-era, decision-making style. However, the presidential role in setting foreign policy goals remained a central and stabilizing force even as the process became more pluralistic.

<sup>23</sup> *Ibid.*, 89-90.

<sup>24</sup> It has also intermittently been called "checkbook diplomacy", especially when it is compared to some of Japan's post-WWII diplomatic practices. Kevin D. Stringer, "Pacific Island Microstates: Pawns or Players in Pacific Rim Diplomacy?" *Diplomacy & Statecraft*, 17, no. 3 (2006): 547-577.

the lessons learned from the Lee administration's diplomatic successes with small or fragile nations and failure with larger ones, meant that the DPP government's use of dollar diplomacy (even though it rejected the term) in its foreign relations battle with China continued in earnest.<sup>25</sup> The Chen administration, sensitive to its domestic voting audience was careful to point out that, unlike its KMT rivals who bought recognition by paying bribes,<sup>26</sup> it used a broader and more diverse set of avenues to advance its foreign relations and focused on providing missions to recipient nations that would promote economic development and improve public health.<sup>27</sup> In reality, the strategies of both administrations shared many similar characteristics.

The election of Ma Ying-Jeou as president in 2008 marked not only the latest turning point in the rapidly maturing Taiwanese democracy, it also heralded the promise of more congenial relations with China and a possible turning point in Taiwan's foreign policy stance. Shortly after assuming office in May of 2008, Ma called for a "diplomatic truce" with China and has continued to express hopes that both governments will agree to cease the practice of buying recognition from aid-dependent countries. In the spring of 2009, because of Beijing's observably more relaxed stance toward Taipei, China appeared to have accepted his proposal.<sup>28</sup> To what extent this truce has truly come into effect and how likely it is to continue is examined in section four.

Leadership-sponsored goals in Taiwan and the PRC have had a rudder-like quality, which has steered Taipei and Beijing away from ideology and toward economic-based foreign policies. Nevertheless, the two governments remain strongly opposed to each other and the refined targeting of leadership goals has meant that diplomatic competition between them in recent

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<sup>25</sup> Hickey, *Foreign Policy Making in Taiwan*, p.97.

<sup>26</sup> Jason Dean, "Taiwan: Keep a Secret?" *Far Eastern Economic Review*, Apr.11, 2002, <http://www.feer.com/> (accessed May 9, 2009).

<sup>27</sup> Lin Fang-yan, "Health new diplomatic strategy," *Taiwan Journal*, Sept. 13, 2002, <http://www.taiwanjournal.nat.gov.tw/> (accessed May 7, 2009).

<sup>28</sup> *China Post*, "Diplomatic Truce?" April 28, 2009, <http://www.chinapost.com.tw/> (accessed May 15, 2009).



years has manifested itself as an economic struggle in which dollar diplomacy to obtain official recognition has often been a key component.

### 3. EXAMPLES AND ANALYSIS OF DOLLAR DIPLOMACY IN CENTRAL AMERICA AND THE CARIBBEAN

**Table 1** Dates of Official Diplomatic Recognition from Caribbean and Central American Countries

Regional Countries:	Dates of Recognition:	
	<b>ROC/Taiwan</b>	<b><i>PRC/China</i></b>
Antigua & Barbuda	n/a	<i>1983-present</i>
Bahamas	1989-1997	<i>1973-1989, 1997-present</i>
Barbados	n/a	<i>1977-present</i>
Belize	1989-present	<i>1987-1989</i>
Costa Rica	1944-2007	<i>2007-present</i>
Dominica	1983-2004	<i>1978-1983, 2004-present</i>
Dominican Republic	1940-present	<i>n/a</i>
El Salvador	1954-present	<i>n/a</i>
Grenada	1989-2005	<i>1985-1989, 2005-present</i>
Guatemala	1933-present	<i>n/a</i>
Haiti	1956-present	<i>n/a</i>
Honduras	1944-present	<i>n/a</i>
Nicaragua	1960-1985, 1990-present	<i>1985-1990</i>
Panama	1922-present	<i>n/a</i>
St Kitts & Nevis	1983-present	<i>n/a</i>
St Lucia	1984-1987, 2007-present	<i>1987-2007</i>
St Vincent & the Grenadines	1981-present	<i>n/a</i>
Trinidad & Tobago	n/a	<i>1974-present</i>

Sources: Ministry of Foreign Affairs, People’s Republic of China and Ministry of Foreign Affairs, Republic of China (Taiwan)

#### 3.1 Taiwan and China’s Dollar Diplomacy in the Region

Taiwan and China have each resorted to some form of dollar diplomacy for official recognition in almost every country in the Caribbean and Central America. An exhaustive listing of each instance is both impractical for this study, since it would fill several chapters of a book, and next to impossible to complete, since many of the necessary arrangements were made in secret. Instead, a comprehensive and representative sample of publically accessible instances

from a number of countries in the region offers evidence of the variety of mechanisms that make up dollar diplomacy. That evidence is cross-referenced with information about providers (Taiwan or China) and recipients (nations of the region), and serves as the basis for two categories of analysis. First, cases are examined according to provider and recipient initiatives and motivations – which countries initiated activities that led to dollar diplomacy and why they did. Second, evidence gathered from those case groups is used to examine specific mechanisms that show how dollar diplomacy worked.

### *3.1.1 Provider and Recipient Initiative and Motivations*

#### *Courting Nations for Official Recognition*

In several cases, either China or Taiwan initiated the process of using dollar diplomacy in an attempt to buy official recognition from a country. The first successful attempt was when China began emulating Taiwan's carefully targeted economic assistance techniques to resume relations with the Bahamas in 1997. This case is the first evidence of the dollar diplomacy struggle under examination in this study and was motivated by Jiang-administration-guided goals. Beijing persuaded Hong Kong-based Hutchison Whampoa, a company that is widely acknowledged to be closely connected to the Chinese government because of its links to the People's Liberation Army (PLA), to contribute \$175 million to the construction of a huge trans-shipment facility in Freeport. The Bahaman government promptly switched recognition from the ROC to the PRC. In diplomatic circles, the port upgrades were immediately recognized as a clear inducement to change allegiance and have allowed the Bahamas to compete with Florida ports for the lucrative business of trans-shipping containers onto or off vessels capable of transiting

the Panama Canal.<sup>29</sup> The deal was advantageous for Hutchison too since it allowed the company to relieve chronic congestion at some Eastern Seaboard US ports where it owns cargo terminals.

Another country that China has successfully courted is Costa Rica, which was a crushing blow against the Chen administration's recent Taiwan-independence-inspired struggles to maintain its diplomatic allies. China won recognition from Costa Rica in June 2007, one year after the re-entry of social democrat Oscar Arias into power as president.<sup>30</sup> As an internationally admired nation, a long-standing supporter of the ROC, and one of the founding nations of the Central American Bank for Economic Integration (CABEI) through which Taiwan has usually channelled its development aid for the region, Costa Rica's defection was seen as a major loss of face in Taiwan. Regional observers wondered if it was the beginning of a "domino effect" in the transfer of diplomatic allegiance.

China denied that it had offered any financial inducements to spur on the transfer and instead pointed to the fact that trade between Costa Rica and China had increased by over 1000% between 2001 and 2007.<sup>31</sup> Chinese officials claimed that it was part of an inevitable historical pattern that relations had been established and that other Central American nations such as Nicaragua and Panama should follow suit.<sup>32</sup> Arias claimed that he was basing all of his policies on pragmatism and looked to China to help his, and many other Latin American countries, out of their economic malaise.<sup>33</sup>

However, in September 2008, Costa Rican constitutional-court-opened documents revealed that China had agreed to purchase US\$300 million of Costa Rican bonds in return for

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<sup>29</sup> John Collins, "After Panama, It's Bahamas," *The Washington Times*, November 20, 2001, <http://www.washingtonpost.com/> (accessed May 12, 2009).

<sup>30</sup> The 1987 Nobel Peace Prize winner had previously been president from 1986-1990.

<sup>31</sup> D. P. Erikson and J. Chen, "China, Taiwan, and the Battle for Latin America," *Fletcher Forum of World Affairs*, 31 no. 2 (2007), 5.

<sup>32</sup> Jonathon Watts, "Victory for China as Costa Rica Cuts Taiwan Ties," *The Guardian*, June 8, 2007, <http://www.guardian.co.uk/> (accessed May 15, 2009).

<sup>33</sup> *Ibid.*

the closing of the Costa Rican embassy in Taiwan.<sup>34</sup> In January 2008, the Chinese State Administration of Foreign Exchange (SAFE), an obscure body that is responsible for managing China's massive foreign exchange reserves, bought \$150 million in state bonds with a term of 12 years and bearing an interest rate of 2 % per annum, and planned to buy a further \$150 million in January 2009. The documents also showed that China had agreed to give US\$130 million in aid and to provide 20 scholarships annually to Costa Ricans who wanted to study in China.

In a third case, politicians in the Barbados made accusations of unsuccessful courting attempts by Taiwan during the January 2008 election campaign. Prime Minister Owen Arthur, leader of the ruling Barbados Labour Party (BLP), accused Taiwan of using dollar diplomacy by giving financial support to the opposition party Democratic Labour Party's (DLP) election campaign to secure diplomatic recognition.<sup>35</sup> He warned that a DLP victory would mean a switch in ties from Beijing to Taipei. PM Arthur claimed that his intelligence sources had also discovered a link between individuals in St. Kitts and Nevis (an ally of Taiwan) and the DLP that was being used to channel large amounts of Taiwanese cash into the opposition party's extravagant campaign. He warned that matters were following the same pattern that had presented itself just before a change of government and subsequent diplomatic switch in St. Lucia in 2007. PM Arthur went on to decry Taiwanese arrogance in the region, alleging that it was attempting to "buy countries around the world" and use its regional allies as proxies in its foreign policy machinations.

Both Barbados DLP leader David Thompson and Taiwanese government representatives denied the accusations, pointing out that Barbadian citizens had provided the funding and that nothing illegal had been done. Without access to bank records, it is impossible to scrutinize the

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<sup>34</sup> Graham Bowley, "Cash Helped China Win Costa Rica's Recognition," *New York Times*, September 12, 2008, <http://www.nytimes.com/> (accessed May 16, 2009).

<sup>35</sup> David Williams, "China-Taiwan Tussle in Bim Politics," *BBC*, January 8, 2008, <http://www.bbc.co.uk/> (accessed May 19, 2009).

transactions and discover whether or not they were linked to Taipei, but the fact that the accusations were made points to the identification of a pattern of behaviour employed by the Taiwanese government. The DLP subsequently accused PM Arthur of having access to undeclared bank accounts, which he too denied.<sup>36</sup>

From the time of its independence in 1977 and right up until these elections, the Bahamas had had stable relations with China. In its dying days, Chen's DPP government could very well have been grasping at diplomatic victory straws by reaching out to the fading BLP which was keen to win a fourth term in office. Thompson went on to win the election, but did not transfer diplomatic recognition.<sup>37</sup>

Examination of these three cases reveals that buying recognition does not come cheaply either in monetary or political terms. It also shows that governments of nations in the region are sometimes willing to sell official recognition and, therefore, may be fickle about continuing recognition in the future. The fact that they may resell it means that China and Taiwan are really only renting recognition.

#### *Bartering Sovereignty to Obtain Financial Benefits*

In second category of cases, aid-recipient nations in the Caribbean and Central America have recognized that they can barter their powers of recognition in order to maximize the financial benefits that they receive from either Taiwan or China. These recipient-nation bargaining sessions typically result in a recognition switch.

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<sup>36</sup> "Ruling Party Defeated in Barbados," *BBC*, January 16, 2008, <http://www.bbc.co.uk/> (accessed May 19, 2009).

<sup>37</sup> The demise of Chen's political career days after these accusations were made and DPP defeat in both the legislative and presidential elections may partially explain this. Thompson was also aware of the scale of Chinese foreign investment in Barbados and of favourable tax treaties with the PRC. Furthermore, he was keenly aware that Barbadian citizens were watching his foreign policy decisions closely in the wake of accusations and counter-accusations made during the election campaign.

Dominica provides a clear example of a nation that has played both China and Taiwan against each other in order to gain for itself in the middle. Dollar diplomacy became important in the early 2000s when the Dominican economy began to suffer badly and its requests for foreign assistance increased, but Taiwan and other fellow donors were reluctant to match Roseau's demands. The final straw for the Dominican government came shortly after Prime Minister Roosevelt Skerrit assumed office in January 2004 following Pierre Charles' sudden death. Skerrit requested upgrading Taiwan's representation from consulate to embassy status and US\$58 million in various aid programs including a US\$7 million grant to build a sports stadium. When Taiwanese officials equivocated, Roosevelt visited New York in order to seek investors and when he did not return within a week, it was assumed that he had travelled to China in his quest for donors.<sup>38</sup> Indeed, within a few days, he had signed a joint communiqué on the establishment of ties with Beijing.

In return, Dominica received a promise of grants totalling over US\$120 million over the course of six years.<sup>39</sup> The first payment of over US\$4 million was made within a week and the rest have been arriving in a steady stream ever since. The funds have been used to build roads and upgrade hospitals and, in a move that fits into a dollar diplomacy category that might be called "cricket diplomacy", to construct the Windsor Park Stadium between 2005 and 2007.<sup>40</sup>

Grenada has also pitted China against Taiwan in order to gain benefits by switching recognition. In September 2004, Grenada was hit by Hurricane Ivan and sustained considerable damage. It was estimated that close to 90% of buildings on the island were damaged or destroyed, the country's key export-earning nutmeg industry was devastated, and the international airport was temporarily closed. The Grenadine government solicited assistance

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<sup>38</sup> "Dominica Switches to China," *Caribbean Update*, May 1, 2004, <http://caribbeanupdate.org/> (accessed May 12, 2009).

<sup>39</sup> Thomson Fontaine, "Out with Taiwan In with Mainland China," *The Dominican*, April 5, 2004, <http://www.thedominican.net/> (accessed May 12, 2009).

<sup>40</sup> Pramit Pal Chaudhuri, "China Outplays Taiwan in Cricket Diplomacy," *ABC News International*, March 26, 2007. <http://www.abcnews.go.com/> (accessed May 22, 2009).

from Taiwan, but was not satisfied by Taipei's response. Stating that he felt that Taiwan was not taking its diplomatic relations seriously, in January 2005 Prime Minister Keith Mitchell announced that St. George's was establishing relations with Beijing. China agreed to spend US\$ 40 million to repair and expand the cricket stadium, which had previously been funded by Taiwan, and promised to provide Grenada with a building program totalling US\$100 million of grants and soft loans.<sup>41</sup> A reporter for *Grenada Today* also discovered that a US\$50,000 cash payment, which had supposedly been made between Red Cross China and Red Cross Grenada, actually ended up in the hands of Grenadine government officials.<sup>42</sup> China also provided generous aid after a powerful, but less destructive storm, Hurricane Emily, struck the island in July 2005.

The Taiwanese government was understandably upset, but perhaps has been afforded a certain amount of revenge. They successfully sued the government of Grenada for US\$21 million that had already been provided for their cricket stadium construction project, although the money has yet to be repaid. However, in a moment of rich irony, the national anthem of the ROC was mistakenly played at the stadium's opening ceremonies in 2007, making PRC officials who were present "visibly uncomfortable".<sup>43</sup> In response, the deeply embarrassed Mitchell called an inquiry and fired several organizers.

St. Lucia has successfully bartered its recognition powers twice in the last twelve years. In 1997, the Jiang administration, buoyed up by its success in the Bahamas, agreed to requests for building project grants and education enhancement programs from the newly elected St. Lucia Labour Party (SLP) under Prime Minister Kenny Anthony who promptly switched

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<sup>41</sup> Sam Sheringham, "China Splurges on Caribbean Cricket in Quest to Isolate Taiwan," *Bloomberg Press*, May 7, 2007, <http://www.bloomberg.com/> (accessed May 22, 2009).

<sup>42</sup> Melody Chen, "Taiwan, Grenada Set to Cut Ties," *Taipei Times*, January 27, 2005, <http://taipeitimes.com/> (accessed May 16, 2009).

<sup>43</sup> "Grenada Investigates Anthem Gaffe," *BBC*, February 4, 2007, <http://www.bbc.co.uk/> (accessed May 16, 2009).



recognition to the PRC. Over the course of the next ten years, Beijing provided funds for a variety of building projects including a psychiatric hospital and a national stadium.<sup>44</sup> However, after the conservative United Workers Party (UWP) led by Prime Minister John Compton returned to power in December 2006, Castries once again established relations with Taipei in May 2007. An ROC foreign ministry insider credited crack negotiator Gary Lin, who had been heavily involved in Taiwan's controversial South Pacific diplomatic manoeuvres, with arranging for the switch.<sup>45</sup> Taiwan's foreign minister James Huang eschewed the notion that Taipei was engaging in the "zero-sum game" of "checkbook diplomacy" saying that China would always win that kind of contest, but went on to state that Taiwan would offer the same cooperation pact it has with other diplomatic allies, including agricultural development, information technology, handicrafts, medicine and education.<sup>46</sup>

These three cases confirm that aid-recipient nations have treated their sovereignty as a resource and that it is renewable. Recognition can be rented for a period of time and then transferred if a better recognition bid is offered, which creates a demand for dollar diplomacy gambits from China or Taiwan. The St. Lucia case, like the Barbados case in the previous section, is a reminder that Chinese and Taiwanese collusion with local political parties and resulting interference in domestic politics is an additional dimension in the rental-recognition, dollar-diplomacy process.

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<sup>44</sup> "Chinese Foreign Minister Visits Castries," *Caribbean Net News*, September 27, 2006, <http://www.caribbeannetnews.com/> (accessed May 17, 2009).

<sup>45</sup> Jewel Huang, "Taiwan, St. Lucia Forge Diplomatic Ties," *Taipei Times*, May 2, 2007, <http://www.taipeitimes.com/> (accessed May 20, 2009).

<sup>46</sup> *Ibid.*

### *Paying Rent to Maintain Recognition*

In a third category, many instances of dollar diplomacy are the result of China and Taiwan attempting to maintain diplomatic ties with nations in the region. The use of dollar diplomacy in these cases has been both donor and recipient initiated. To a certain extent, the trigger has been requests for financial assistance or expressions of discontent from a recipient country during times that other nations are being actively courted for recognition or official ties are being bartered in the region. However, the rest of the motivation springs from donor nervousness about losing official recognition. Occasionally this use of dollar diplomacy has involved payments to individuals, but more frequently there is evidence of increases in aid.

In Central America, several countries have been the recipients of dollar diplomacy from Taiwan to maintain friendly ties. One clear instance became apparent in Guatemala when media disclosed that President Alfonso Portillo had received three US\$500,000 payments from Taipei and that one of them was a personal cheque made out to Portillo only four days before he became president in 2000.<sup>47</sup>

Likewise in Costa Rica, Sino-Taiwanese rivalry led to embarrassing disclosures in the halls of power. Former Costa Rican president Miguel Angel Rodríguez was forced to resign as secretary-general of the Organization of American States at the end of October 2004 when both he and Arias' predecessor, President Abel Pacheco, came under investigation for purportedly taking kickbacks from French telecommunications company Alcatel. The ensuing inquest discovered that both had also accepted payments of hundreds of thousands of dollars from the Taiwanese government for undisclosed reasons.<sup>48</sup> The subsequent public outcry in Taiwan and

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<sup>47</sup> D. P. Erikson and J. Chen, "China, Taiwan, and the Battle for Latin America," *Fletcher Forum of World Affairs*, 31 no. 2 (2007), 5.

<sup>48</sup> Erikson and Chen, "Battle..." 6.

in Costa Rica was both domestically and internationally embarrassing for Chen Shui-Bian's government.

Panama has continued to receive close attention from Taiwan not only because of its diplomatic importance, but also because of its geopolitical and commercial importance. Taiwan has huge government and private sector investments in the country, but China's are even larger and are growing at an exponential pace. Both Taipei and Beijing have organized special trade arrangements with Panama and both have offered to help with financing the widening of the canal.<sup>49</sup> Dollar diplomacy presented itself here in allegations made in September 2004 that an incompletely accounted for US\$1 million was transferred by Taipei to Panamanian President Mireya Moscoso before she was voted out of office in August of that year.<sup>50</sup>

During the 2006 Nicaraguan presidential campaign, Daniel Ortega declared that upon election he would re-establish relations with Beijing. Most observers felt that a diplomatic shift was likely because of Ortega's socialist sympathies. However, after his election, Nicaragua became a diplomatic priority for Taiwan and many resources were steered toward Managua. Chen visited in both 2007 to attend Ortega's inauguration ceremony and again in early 2008 pledging US\$30 million for the construction of a thermal fire power plant to help relieve the energy shortage in Nicaragua. Taiwan also provided \$1.1 million to a hunger relief project proposed by the Nicaraguan first lady.<sup>51</sup>

China and Taiwan have also used dollar diplomacy in Caribbean nations to maintain friendly ties. China has made its presence felt in Haiti, which recognizes Taiwan, and maintains a trade mission in Port-au-Prince. Beijing has sent over 600 police officers to participate in

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<sup>49</sup> Taiwan signed a free trade agreement with Panama in 2003 and China became the top exporter to Panama's Colon free trade area in 2005. "China tops list of Panama free trade area's source of imports," *People's Daily*, June 28, 2006, <http://english.peopledaily.com.cn/> (accessed May 21, 2009).

<sup>50</sup> Chen and Erickson, "Battle...", 6.

<sup>51</sup> Iris Liu, "The Big China and Taiwan Tussle: Dollar Diplomacy Returns to Latin America," *The Panama News*, 2008, [http:// www.thepanamanews.com/](http://www.thepanamanews.com/) (accessed May 22, 2009).

MINUSTAH (the UN stabilization mission in Haiti) and continues to support over 100 officers there today.<sup>52</sup> In response, Taiwan has consistently provided aid over the past decade, even during the years when Haiti was considered to be a pariah state and Western assistance all but disappeared. Taipei has provided grants and loans of approximately US\$50 million every two to three years and they have been used for a wide range of infrastructure projects.<sup>53</sup> The most visible donations have been fleets of vehicles bearing the ROC flag including ambulances, police cars and motorcycles, garbage and dump trucks. Partly in response to China's interest in Haiti in recent years and partly in response to rising food prices, Taiwan has been hugely generous with food donations, providing over 10,000 tonnes of rice annually through Food for the Poor from 2005 to 2008.<sup>54</sup> There have been unsubstantiated rumors of Haitian officials lining their pockets with ROC donations, but Taiwanese officials insist that such practices are highly unlikely now due to much more stringent levels of accountability in a fully democratized Taiwan.

Haiti's neighbor on the island of Hispaniola, the Dominican Republic has also been the target of Taiwanese largesse. In 2006, Taiwan was feeling pressure because of its dollar diplomacy skirmishes with China not only in the Caribbean, but also in Africa and Oceania, including a particularly nasty and regionally perplexing tussle in the Solomon Islands.<sup>55</sup> After a short trip to Taiwan in June 2006, Dominican President Leonel Fernández returned home with promises of \$60 million in new aid. In addition, in the aftermath of Costa Rica's switch in

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<sup>52</sup> China also threatened to block the extension of MINUSTAH in 2005, 2006 and twice in 2007 because of its displeasure with Haiti's diplomatic ties with Taiwan, *UN Security Council Report, February and October 2007*, <http://www.securitycouncilreport.org/> (accessed June 5, 2009).

<sup>53</sup> These include housing development, reforestation, agriculture, aquaculture, building construction, garbage collection, school lunch programs, expansion of potable water systems and construction of the major road leading from the international airport to the centre of Port-au-Prince.

<sup>54</sup> "Food for the Poor's CEO and Executive Director Meet with Taiwan's President to Discuss rice Donations for Haiti," *ReliefWeb*, March 26, 2009, <http://www.reliefweb.int/> (accessed June 3, 2009).

<sup>55</sup> Van Fossen, "Struggle..." 134-5.

recognition, Taipei made sure to bolster its ties with Santo Domingo by speedily providing over US\$500,000 in hurricane relief funds in the fall of 2007.<sup>56</sup>

The small island nations of the Caribbean have particularly benefitted from dollar diplomacy activities to maintain friendly ties because of the frequency of recognition bartering activities there. Both St. Vincent & the Grenadines and St. Kitts & Nevis have benefited because of Taiwan's nervousness about China's interest in the East Caribbean. As Chinese activity on neighbouring islands increased during the early and mid 2000s, and especially after Beijing won recognition from Dominica and then Grenada, Taiwan intensified its foreign aid involvement. New soft loans and grants for airport reconstruction totalling US\$25 million and education assistance and scholarships valued at over US\$10 million were announced for St Vincent.<sup>57</sup> Grants and loans of US\$21 million for St Kitts and \$12 million for St Vincent were delivered in order to help build cricket stadiums for the 2007 Cricket World Cup, hosted by the West Indies.<sup>58</sup>

The Bahamas benefited from Chinese generosity during the same time period. In June 2007, just after the switch in recognition from China to Taiwan by St. Lucia, Nassau received a high-level visit from PRC Foreign Minister He Yafie to celebrate the 10<sup>th</sup> Anniversary of the establishment of diplomatic relations. Furthermore, Bahaman Ministry of Finance official Zhivargo Laing returned from the Second China-Caribbean Economic and Trade Cooperation Forum, held in September 2007 in Xiamen, China, with a promise of assistance from the PRC government to build a new sports stadium.<sup>59</sup>

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<sup>56</sup> "Taiwan Donates US\$500,000 to the Dominican Republic," *Dominican Today*, December 16, 2007, <http://www.dominicantoday.com/> (accessed May 13, 2009).

<sup>57</sup> Kenton Chance, "New Focus as St. Vincent and Taiwan Celebrate 25 Years," *Caribbean Net News*, Aug 3, 2006, <http://www.caribbeannetnews.com/> (accessed May 14, 2009).

<sup>58</sup> Pramit Pal Chaudhuri, "China Outplays Taiwan in Cricket Diplomacy," *ABC News International*, March 26, 2007, [www.abcnews.go.com/](http://www.abcnews.go.com/) (accessed May 22, 2009).

<sup>59</sup> Lindsay Thompson, "Significant Potential in Bahamas-China Relationship," *The Government of the Bahamas*, September 21, 2007, <http://www.bahamas.gov.bs/> (accessed May 12, 2009).

Most dollar diplomacy in the region has happened when China and Taiwan are trying to maintain friendly relationships with their allies during times of intense diplomatic competition. This form of dollar diplomacy equates to paying rent in order to continue to hold official ties and has often been initiated by recipient countries in the region. Beijing and Taipei have been very responsive in order to reduce the likelihood of an ally being courted away or initiating a recognition-bartering episode. Courting nations for official recognition happens when Taipei or Beijing see an opening to woo recognition from a target government, and bartering sovereignty occurs when regional nations seize opportunities or feel driven by political and economic circumstances to play Taiwan and China against each other.

### *3.1.2 Analysis of Dollar Diplomacy Mechanisms*

Below, a close inspection of the large number of instances of Chinese and Taiwanese diplomatic rivalry in Central America and the Caribbean leads to two sets of findings. First, it shows that an imaginative variety of several key methods of donor activity, which constitute dollar diplomacy, have been used in similar ways by both Taipei and Beijing. Second, it demonstrates that dollar diplomacy is part of a larger matrix of directed, economic-based foreign policy and that it manifests itself when Sino-Taiwanese rivalry for official recognition is direct and intense.

An examination of the examples provided in the previous section reveals that publically reported dollar diplomacy activities can be divided into six categories of methods that are part

**Table 2 Dollar Diplomacy Methods**

	Grants & Loans	Bond Purchases	Relief Aid	Payments to Individuals	Education- Related Gifts	Selective Trade
Antigua & Barbuda						China ADS
The Bahamas	\$175 million (1997)					China ADS
Barbados				? (Jan/08)		China ADS
Belize						? (2007)
Costa Rica	\$130 million (2007)	\$300 million (2007)		\$100,000+ (2000-2004)	20 annual scholarships (2007)	-China ADS -FTA under negotiation
Dominica	\$122 million (2004)				20 annual scholarships (2004)	China ADS
Dominican Republic	\$60 million (2006)		\$500,000 (2007)			FTA under negotiation
El Salvador						FTA (2007)
Grenada	\$100 million (2005)			\$50,000 (2005)		China ADS
Guatemala				\$500,000 (2000)		FTA (2005)
Haiti	\$50 million (2004-2008)		Rice Shipments (2004-2008)			
Honduras	\$300 million (2007)					FTA (2007)
Nicaragua	\$30 million (January 2008)		\$1.1 million (January 2008)			FTA (2006)
Panama				\$1 million (2004)		FTA (2003)
St Kitts & Nevis	\$21 million (2006)					
St Lucia	\$10 million+ (1997)					China ADS (removed 2007)
St Vincent & the Grenadines	\$37 million (2006)				\$10 million (2006)	

Source: Author's own research

Key: *Recognition of Taiwan and dollar diplomacy by Taiwan*

**Recognition of China and dollar diplomacy by China**

FTA = Free Trade Agreement    China ADS = China Tourism Approved Destination Status

of the broader economic-linkage focus of Chinese and Taiwanese foreign policies. Further scrutiny shows that the six methods fall into three groups for analysis.<sup>60</sup> Grants, loans and bond purchases are forms of credit since they are offered with an expectation of repayment. Relief aid, payments to individuals and educational gifts are donations since they are given with no expectation of repayment. Selective trade involves both giving and receiving, and is significant since it is the category in which ordinary trade and dollar diplomacy for sovereignty recognition overlap. (See Table 2.)

#### *Extending Credit to Rent Recognition*

The most commonly employed technique, and the one that is closest to the classic dollar diplomacy of the US in the early 20<sup>th</sup> century, is the provision of grants or soft loans, or some combination of the two. The funds are delivered in a variety of Chinese or Taiwanese government-directed ways. Chinese funding originates with the Ministry of Commerce (MOFCOM) according to priorities set for foreign aid by the State Council and the Ministry of Finance. The Ministry of Foreign Affairs (MFA) seems to play only an advisory role to MOFCOM regarding the general direction of foreign aid, but is especially active when diplomatic goals are concerned.<sup>61</sup> Pressure or advice from the MFA appears to be the dollar diplomacy trigger in the Chinese policy implementation process. MOFCOM directs funds through the Export-Import Bank (Eximbank) - which was created in 1994 and brought into action in 1995 - to recipient nation financial institutions. Chinese dollar diplomacy activities in the Caribbean began not long

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<sup>60</sup> The methods presented in this study represent those that were most clearly discernible in cases where dollar diplomacy was at work. One method not discussed is through military relations including weapons deals, military training and personnel exchanges, but most such dealings are quite secretive and finding reliable sources is difficult. Another potential technique is to use cultural gifts and exchanges. However, since they are typically small-scale projects, there is no evidence of clearly stated political intentions that accompany such generosity when it has been announced.

<sup>61</sup> M.A. Glosny, *Meeting the Development Challenges in the 21st Century: American and Chinese Perspectives on Foreign Aid*. 1st edn. (Washington, D.C.: National Committee on United States-China Relations, 2006), 19.



afterward in 1997. Chinese embassies or trade missions often help with local coordination of these transactions.

In Taiwan, the Ministry of Foreign Affairs (MOFA) is responsible for foreign aid funding arrangements and, in conjunction with the president's office, has the power to make independent decisions about how to allocate funds granted to it by the Ministry of Finance (MOF) in the annual budget. The organ within MOFA that is responsible for Taiwan's foreign aid is The International Cooperation and Development Fund (ICDF), which was established in 1996.<sup>62</sup> Money is channelled through prominent private-sector Taiwanese banks with backing from the Taiwan Export Import Bank (EXIM Bank) and sent to banks in recipient nations, often via regional institutions like the Central American Bank for Economic Integration (CABEI) or the Inter-American Development Bank (IDB).<sup>63</sup> Local trade missions, embassies and prominent business figures assist in coordinating funding arrangements.

Although they follow somewhat different patterns, both China and Taiwan have put institutional arrangements in place that facilitate dollar diplomacy. The streamlined pathways leading from governmental foreign policy direction to actually putting loan and grant money in aid recipients' bank accounts has made this a tempting avenue for China, Taiwan and recipient nation governments to exploit. These pathways were designed as Sino-Taiwanese diplomatic competition increased and the intensive use of them beginning in the late 1990s was the result of the contest for official recognition.

Loan deferrals are an extension of the technique of granting soft loans and have been used three times by Taiwan as an effective loyalty-buying dollar diplomacy tactic in Paraguay.<sup>64</sup> There has been no evidence of its use in Central American or Caribbean nations yet, but given

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<sup>62</sup> [www.eximbank.com.tw/english](http://www.eximbank.com.tw/english) (accessed June 3, 2009).

<sup>63</sup> In this way, Taiwan's dollar diplomacy is similar to early 20<sup>th</sup> century US practices.

<sup>64</sup> Erikson and Chen, "Battle..." 8.

their heavy indebtedness to either Taiwan or China, a number of countries in the region could be prime candidates.

Bond purchases represent another variation of granting loans and is similar to the classic US dollar diplomacy technique of replacing debt to European banks with debt to US institutions; in this case, it is Chinese institutions that are replacing US and Taiwan-based organizations. Thus far, there is only evidence of its use by China and it represents a useful avenue for Beijing to reduce its massive foreign exchange reserves. The involvement of CSAFE in Costa Rican bond purchases also introduces a new funding channel for China to use in its dollar diplomacy activities and raises the prospect that other state-controlled financial organizations such as the Social Security Fund, which manages public servant pensions, could also become involved. There is no evidence of Taiwan having used this method of dollar diplomacy, but its large annual trade surpluses mean that it could in the future.

#### *Donations to Encourage Loyalty*

Donations in the form of payments to individuals are the most publically reviled and most potentially embarrassing method of dollar diplomacy. Both Beijing and Taipei have been accused of using it, but Taiwan has been the guiltier party. The intensity of worldwide diplomatic competition in the early to mid 2000s and the Chen administration's desperation in the face of China's increasing economic strength explain Taipei's willingness to resort to such an extreme measure. However, the humiliation as well as the domestic and international costs of being found out mean that neither Taiwan nor China is likely to risk using this tactic in any substantial way in the future. Nevertheless, particularly during election campaigns, governments and opposition parties in aid-receiving nations will undoubtedly continue to accuse each other of taking dollar diplomacy bribes.

Aid is frequently offered to affected nations during times of emergency brought on by natural disasters. The cases highlighted in this study stand out as dollar diplomacy gambits because of the speed with which they were offered and the overtly political statements of wishing to maintain friendly ties that accompanied the donations. There were undoubtedly many other instances of disaster relief provided by both China and Taiwan, but, because they were part of larger grant and loan packages, they were not so easily detectable and likely were much slower to arrive.

Just as in the case of relief aid, what characterizes the instances of education-related gifts presented in this study as dollar diplomacy is their scale and the political messages that accompanied them. They also represent the clearest interface of China's and Taiwan's "interpersonal diplomacy" and dollar diplomacy.<sup>65</sup>

#### *Selective Trade to Cement Diplomatic Ties*

Similar to relief aid and education-related gifts, the overt political statements about maintaining friendly ties and the diplomatically competitive environment in which preferential trade arrangements are announced are what distinguish them as being a part of dollar diplomacy. In the case of free trade agreements, although business with both Taiwan and China continues in countries that have FTAs, the exclusionary nature of the treaties sends an especially strong political message of support for one or the other.

Although Latin American countries are not crucial partners in terms of the dollar value of either China's or Taiwan's imports and exports, trade relations are strategically important to both governments in order to maintain official ties or win recognition. In the latest statistics

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<sup>65</sup> According to both Hickey and Sutter, this is part of an emphasis by both Taiwan and China on using sub-state actors to carry out foreign relations.

made publically available, Latin American imports and exports made up 3.5 percent of China's total foreign trade in 2004<sup>66</sup> and 2.5% of Taiwan's total as of March 2009.<sup>67</sup> The continuing growth of that trade reveals the rivalry beneath it. In the 1990s, Taiwan was far ahead until the volume of Chinese trade caught up and then rocketed past Taiwan's in the early 2000s and by 2004, China's trade volume was four times larger than Taiwan's. The FTAs that Taiwan has signed with Central American countries have been in response to that shift in trade volume as well as a gambit to solidify official diplomatic relations and as such, represent an interesting bridge between ordinary trade activities and dollar diplomacy.

Tourism, as the primary engine of development for most island economies in the Caribbean and an important source of employment, is an especially sensitive industry and Beijing has used its Approved Destination Status (ADS) as a dollar diplomacy bargaining chip.<sup>68</sup> China allows millions of tourists to travel abroad every year and becoming an approved destination can prove to be highly lucrative. As was demonstrated in the case of St Lucia, Beijing cancels ADS when a nation establishes ties with Taiwan.

### **3.2 Conclusions about Dollar Diplomacy**

Analysis of China's and Taiwan's dollar diplomacy confirms this study's hypothesis about the resource value of sovereignty. Since sovereignty "gives states their formal legal standing as equal units within the international system", a sovereign country has considerable power to

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<sup>66</sup> China External Economic Statistical Yearbook 2005, <http://www.stats.gov.cn/> (accessed May 28, 2009).

<sup>67</sup> ROC Bureau of Foreign Trade, <http://www.doc.trade.gov.tw/> (accessed May 28, 2009).

<sup>68</sup> L.G. Barberia, "The Glory Days of Tourism in the Caribbean," *Revista: Harvard Review of Latin America* (Winter 2002), [www.drclas.harvard.edu/](http://www.drclas.harvard.edu/) (accessed June 2, 2009).

confer legitimacy within the family of nations.<sup>69</sup> A sovereign state can also vote in the UN and other international decision-making organizations and, therefore, possesses a certain measure of international power; votes in international bodies can have extremely important – and in Taiwan’s case, potentially existential – implications. Furthermore, the recognition of sovereignty has a clear effect on the internal legitimacy of a government, which gives it the power to achieve national stability.<sup>70</sup> When Taiwan and China have engaged in dollar diplomacy, these forms of power are what they have been trying to buy. Sovereignty is not merely symbolic; it is valuable and can be used as a national resource or perhaps as a resource substitute.

Both Taipei and Beijing recognize the value of sovereignty and seek to harness its power wherever it is proffered. Taiwan is doubly interested in the value of nationhood since states enjoying recognition rise in stature on the world stage and it wishes to gain the power of full, widely recognized sovereignty for itself.<sup>71</sup> Sovereignty is also highly prized by the PRC, since the government in Beijing still has clear memories of being treated as an international pariah by more than half of the world’s nations for the first decades of its existence. The needy nations of Central America and the Caribbean, and other such nations around the world, have realized the value that Taiwan and China place on sovereignty and have bartered its powers to one or the other by establishing formal diplomatic ties.

This study has shown that dollar diplomacy gambits are the result of the rental-auction-like nature of the competition. Both Taiwan and China enter the arena with fervent, leadership-established political motivations and the nations that are the objects of their competition are often quite canny in playing them off each other. The resulting bid and counter-bid process that springs from a mixture of rational and irrational drives has often been expensive and

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<sup>69</sup> Donald M. Snow and Eugene Brown, *The Contours of Power: An Introduction to Contemporary International Relations* (New York: St. Martin’s Press, 1996), 44.

<sup>70</sup> Newnham, “Embassies for Sale,” 263.

<sup>71</sup> *Ibid.*, 278.

embarrassing for Taipei and Beijing, and rewarding for recipient nations. However, even when victorious, neither Taiwan nor China has any guarantee that recognition arrangements will be permanent; thus, what they are really bidding for is the rental of diplomatic ties.

Both Taipei and Beijing use artfully targeted forms of economic inducements in attempting to rent recognition from economically fragile nations in the region. Forming diplomatic ties is necessary if China and Taiwan hope to achieve their politically sensitized foreign policy goals. Therefore, dollar diplomacy has become an important offshoot of the economic-based-diplomacy stances of both governments.

Economic needs often motivate the nations of the region to barter their sovereignty between China and Taiwan. The larger countries face stiff competition in selling their natural resources in the global marketplace and some, like Haiti, face serious resource depletion problems. The smaller island nations bear a remarkable resemblance to their South Pacific counterparts in that they do not have much in the way of resources other than tourism, offshore financial centres or tax havens to offer the outside world. For all of these nations, the ability to rent the use of their sovereignty powers provides a welcome source of additional revenue.

## 4. IMPLICATIONS

### 4.1 Consequences

Although there is clearly an important aspect of gamesmanship in dollar diplomacy competition, the contest also has some serious political and economic consequences. China and Taiwan have been the most obvious losers in the process. Diplomatic victories are welcome in the eyes of ordinary citizens in both the PRC and in Taiwan, and they provide both governments with valuable international allies, but Beijing and Taipei have spent exorbitant sums on unreliable access to an important but transferable source of power. They have also deepened their sense of mutual distrust and made it much more difficult to resolve any part of their own cross-Strait contention. Recipient nations, on the other hand, have been the clearest winners. China and Taiwan have provided an additional revenue source for their economies and have stepped in to fill a post-Cold-War funding void as Western and former-Soviet-bloc nations have decreased their donation levels. However, both the documented and alleged interference in the democratic processes of target nations has had a somewhat destabilizing effect on the internal politics of some countries in the region.

On a regional level, dollar diplomacy has had variable effects in Central America and the Caribbean. In the short to medium term, it has been positive and stabilizing in that it has provided injections of cash to buoy up developing nation economies and has provided a welcome source of aid funding for government projects. Conversely, in the long term it may reinforce a pattern of aid dependence and distort regional economic growth. Furthermore, it

has drawn China into making aggressive, politically guided investment moves and contributed to a subtle uneasiness in Washington, which is already wary of increasing Russian and Iranian involvement in an area that the US still considers to be its primary sphere of influence. To a certain extent, Taiwan has been a *de facto* proxy to block Chinese influence in the region and any switch in diplomatic recognition there may amplify Washington's sense of uneasiness. Dollar diplomacy has also had a negative effect on regional tensions in East Asia; it has exacerbated existing discord between Taipei and Beijing, which upsets the status quo balance of power favoured by other nations in the region and the United States.

## 4.2 Diplomatic Truce

The current diplomatic truce represents the most up-to-date state of affairs (as of June 2009) in Taiwan-China rivalry and dollar diplomacy is notable in its almost complete absence. In a move that highlights the importance of leadership-sponsored foreign policy goals, shortly before his inauguration in May 2008, Taiwan's president-elect Ma Ying Jeou called for a diplomatic truce with China in order to create the necessary conditions for cooperative and peaceful relations.<sup>72</sup> In his appeal, he specifically mentioned that Taiwan would halt the practice of dollar diplomacy, which had proven to be costly and embarrassing, and instead would work pragmatically toward win-win diplomatic solutions.<sup>73</sup> While Chinese officials were reportedly pleased by the announcement, there was no official response from Beijing. Ma made a diplomatic tour in August 2008 to attend the inauguration ceremonies of Fernando Lugo in

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<sup>72</sup> "President-elect Ma Calls for 'Diplomatic Truce' with China," *China Post*, May 11, 2008, <http://www.chinapost.com.tw/> (accessed May 14, 2009).

<sup>73</sup> A scandal involving the embezzlement of almost US\$30 million by two intermediaries in a botched 2006 attempt by the previous administration to bribe Papua New Guinean officials in order to gain diplomatic ties was still fresh in the minds of voters in Taiwan and observers elsewhere.



Paraguay and Leonel Fernandez in the Dominican Republic. He practiced some of the “transit diplomacy” of his predecessors, staying for brief meetings on the west coast of the US while his airplane was being serviced and stopping for a short visit in Panama en route to Paraguay, but unlike former-president Chen, did not make any aid announcements. Instead, he used the visit as a platform to continue to appeal to China for a truce and stated that all foreign aid matters would be handled by the appropriate and publically accountable government ministries.<sup>74</sup>

Foreign Minister Francisco Ou followed up Ma’s visit in March 2009 to “cement ties” in the region and engaged in a mild form of dollar diplomacy – a six month deferral of Taiwan’s US\$400 million dollar loan to Paraguay – after President Lugo expressed interest in recognizing China.<sup>75</sup> The far-sighted and technocratically managed Hu administration in Beijing has not responded with any counter-offers and has apparently, at least temporarily, acceded to Taiwan’s truce proposal. It has also shown restraint by not responding to El Salvador’s president-elect Mauricio Funes’ statements that he wished to set up ties with Beijing, and an impromptu visit in April from Ou to remind Funes of the value of Taiwan’s contributions to El Salvador sufficed to reconfirm ties between Taipei and San Salvador.<sup>76</sup> The halting of China’s attempts to woo Honduras and to pressure Belize via fellow members of the Caribbean Community is further evidence that a truce is in effect.<sup>77</sup>

The ramifications of this truce are significant. China and Taiwan stand to benefit the most since it allows them to control foreign relations expenditures more predictably, concentrate on consolidating relations with current diplomatic allies and reduce antagonism

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<sup>74</sup> Ma Ying-Jeou, “The Concept and Strategy of the ‘Flexible Diplomacy’,” *Office of the President, Republic of China*, August 5 2008, <http://www.president.gov.tw/en> (accessed June 6, 2009).

<sup>75</sup> Ou, unlike officials in the DPP administration, was careful to point out that Taiwan insisted that the loan must be repaid and that this was only a short-term deferral. K.C. Huang and Deborah Kuo “Taiwan to Allow Paraguay to Defer Loan Payments: Minister,” *China Post*, March 9, 2009, <http://www.chinapost.com.tw/> (accessed June 5, 2009).

<sup>76</sup> “El Salvador Funes Recognizes Cooperation with Taiwan: Ou,” *China Post*, Apr 6, 2009, <http://www.chinapost.com.tw/> (accessed June 5, 2009).

<sup>77</sup> Daniel Erickson, “China’s Strategy toward Central America: the Costa Rican Nexus,” *China Brief* Volume 9 Issue 11 (May 27, 2009), <http://www.jamestown.org> (accessed June 8, 2009).

across the Taiwan Strait, thus easing one of the major sources of regional tension in East Asia. Likewise, from Washington's point of view, the truce is good news since it means there will be less destabilizing interference in Central America and the Caribbean by forces from outside the region. However, aid-recipient nations, for the most part, stand to suffer because of the lull in diplomatic competition since they will be unable to barter their sovereignty in order to receive financial benefits. Some pressure to provide assistance still exists, but not at the same dollar-diplomacy-producing levels as before.

On the political front, it is unclear whether the truce will have positive or negative effects. Neither Beijing nor Taipei is likely to try to interfere directly with democratic processes in countries in the region, but the ripples that are the legacy of dollar diplomacy will probably continue to be felt as politicians in aid-receiving nations persist in exploiting ongoing Sino-Taiwanese competition as a way to attack their political opponents.

With dollar diplomacy for sovereignty recognition all but gone, what form will the China-Taiwan diplomatic contest take? For its part, Taiwan will continue to deliver aid to the region. Not only is it a good way to solidify its relations with its existing allies, Taiwanese officials point out that they feel a historical obligation to help needy nations since Taiwan has benefited from international generosity in the past. Furthermore, they feel that it is one of the best ways to avert state failure and contribute to international stability. Instead of trying to win new allies, Taipei has begun to use quiet diplomacy and negotiations with China in order to gain entry into more international organizations. Taiwan's participation as an observer at the World Health Assembly (WHA) in May 2009, the first UN meeting that Taiwan has attended in 38 years, was a recent victory in that regard.<sup>78</sup> In the Caribbean and Central America, Taiwan will redouble its efforts to be active in a number of regional multi-lateral organizations including the Central

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<sup>78</sup> Xie Yu, "Taiwan Gets Observer Status at WHA," *China Daily*, May 19, 2009, <http://www.chinadaily.com.cn/> (accessed June 3, 2009).

American Parliament (PARLACEN), of which it is an official observer, and in DR-CAFTA (Dominican Republic and Central American Free Trade Agreement)<sup>79</sup> and the Caribbean Community (CARICOM) where it has vied with China for influence.<sup>80</sup> China will also continue with its policy of offering aid and will continue to work through international and regional organizations to extend its presence.

One area where a form of dollar diplomacy contention may continue is in the ongoing competition to set up free trade agreements. Taiwan is still promising to negotiate an FTA with the Dominican Republic and China is in the process of doing the same in Costa Rica.<sup>81</sup> In fact, Costa Rica has become a test case for the future of China's relations in the region.<sup>82</sup> Since San Jose switched recognition in 2007, Taipei has been very active in shoring up its diplomatic relations in the region while Beijing has been relatively quiet, focusing on creating a model relationship with Costa Rica to highlight the advantages of relations with China.

Leaders in neighbouring countries are watching with keen interest and China seems content to focus on a medium to long-term strategy. Beijing is working to consolidate its relations with Costa Rica and let the benefits apparent in that example and the lure of connection with China's global economic power serve as inducements to switch recognition. Conversely, Taiwan must continue to scramble to maintain the status quo, especially since the KMT wishes to maintain its popular support at home, and the opposition DPP will pounce on any diplomatic defections as a sign of the failure of KMT foreign policy concessions to China. The re-emergence of the competitive application of the dollar diplomacy methods outlined in this study

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<sup>79</sup> Of the six nations that signed this agreement with the US in 2005, Costa Rica is the only member that recognizes China.

<sup>80</sup> "CARICOM Member States," [www.caricom.org](http://www.caricom.org) (accessed June 6, 2009). Ten CARICOM members currently recognize China and five have relations with Taiwan.

<sup>81</sup> "Taiwan Ties with Dominican Republic, Paraguay are Firm," *Dominican Today*, March 15, 2009, <http://www.dominicantoday.com/> (accessed May 13, 2009).

<sup>82</sup> Erikson, "China's Strategy".

will demonstrate that the truce has been called off, and Taiwan is most likely to be the first party to resort to their use in an effort to maintain recognition with a discontented ally.

## 5. CONCLUSIONS

This project analyzed the use of dollar diplomacy by China and Taiwan in their diplomatic struggle for official recognition in the Caribbean and Central America. Although economic diplomacy and, more specifically, aid diplomacy are ongoing aspects of Sino-Taiwanese diplomatic rivalry, dollar diplomacy represents a special manifestation of that political-economic competition. Dollar diplomacy is an extreme form of foreign economic and aid policy that has been used by Taipei and Beijing to rent recognition from economically fragile nations. Taiwan and China treat sovereignty as a resource to be fought over in their competition for diplomatic ties. Both Taipei and Beijing appreciate the legitimizing and international organization vote-garnering value of sovereignty, and on some occasions have indulged in auction-bid-like behaviour in their attempts to draw on its power by renting recognition wherever it is offered.

In this case study, dollar diplomacy's modern use was triggered by China's growing economic presence in Latin America and its increased use of carefully targeted aid to win diplomatic recognition in the Caribbean in the late 1990s, to which Taiwan has responded with its own intensified and specifically aimed economic assistance. This study has shown that, over the past dozen years, dollar diplomacy has revealed itself in the form of six readily detectable and examinable methods: grants and loans, bond purchases, relief aid, payment to individuals, education-related gifts, and selective trade. All of these methods are intensified offshoots of existing economic foreign policy arrangements. They represent the front line battles in China's

and Taiwan's foreign policies, which have economic relations rather than military force or ideological domination as their cornerstones.

China-Taiwan diplomatic rivalry has also had a variety of effects on nations in the Caribbean and Central America. In economic terms, it has allowed regional nations to barter their sovereignty powers and mostly provided benefits by replacing the ideologically based foreign aid competition that took place during the Cold War. It has also provided an additional source of funding during the past decade as donor fatigue, disenchantment with what was perceived as manipulative activities of international financial institutions, and global financial instability has led to the reduction of aid from many developed nations. However, it could be argued that the continuing inflow of donations, especially the generous, hastily arranged and unconditional forms that make up dollar diplomacy, has reinforced a pattern of aid-dependency that will hurt the resource-challenged Caribbean and Central American nations in the long-term.

In political terms, dollar diplomacy has cropped up as a form of interference in domestic politics. Although both Taipei and Beijing both claim that their foreign policies are based on principles of support and non-interference, in practice during intense diplomatic struggles both have used money to attempt to influence target-nation parties and politicians. This has had a negative effect on politics within some nations in the region, distorting the political process and breeding increased cynicism among citizens, and has demeaned China's and Taiwan's diplomatic efforts in the eyes of observers of international affairs.

Dollar diplomacy activities have proven to be a bell-weather of the intensity of diplomatic competition between Taiwan and China. At present (in 2009), the cross-Taiwan-Straits rivals have reached a diplomatic truce and an almost complete elimination of the use of dollar diplomacy activities for sovereignty recognition by either side is one body of evidence which supports that conclusion. Diplomatic rivalry still exists, but at a much reduced intensity. It

is being carried out through other channels, often in the context of multi-lateral organizations where mutually acceptable negotiations can take place. The resurgence of the use of dollar diplomacy techniques for sovereignty recognition as seen in this case study will serve as a strong indicator of the breakdown of the current truce.

Competition for official diplomatic recognition between Taiwan and China will continue until the ultimate resolution of the volatile cross-Taiwan-Straits relationship. Beijing appears to trust that the tide of history is on its side, that Taiwan will ultimately lose all foreign recognition, and that the island will be absorbed by a globally present, economically dominant PRC. Conversely, Taipei hopes that the attractiveness of its example as a small-nation economic success story, the international support for the vigorousness of its rapidly developed and matured democracy, the strength of its informal ties around the world, and the promotion of its distinctiveness from China in the eyes of the international community will be persuasive enough foreign-relations counterbalances to compensate for its diminishing ability (relative to Beijing) to rely on economic forms of influence in its foreign policy. Neither outcome is preordained and there is still a distinct possibility that dollar diplomacy as described in this project will re-emerge.

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